المعهد المصري للدراسات
EGYPTIAN INSTITUTE FOR STUDIES

ECONOMIC ASSESSMENTS

29 AUGUST 2017

A Reading in Egypt's Development Plan 2018/2017

Abdel-Hafez Al-Sawi

TURKEY- ISTANBUL
Bahçelievler, Yenibosna Mh 29 Ekim Cad. No: 7 A2 Blok 3. Plaza D: 64
Tel/Fax: +90 212 227 2262 E-Mail: info@eis-eg.org

WWW.EIPSS-EG.ORG
Eipss.EG Eipss_EG

A Reading in Egypt's Development Plan 2017/2018

Abdel-Hafez Al-Sawi*

Planning is not a dream in the void. However, one of the initial steps of proper planning is to know the correct data about resources and needs. Egypt's Ministry of Planning, as well as the National Planning Institute had been a source of reliable economic data for long periods before Ahmed Nazif became prime minister during Mubarak's era (from 14 July 2004 to 29 January 2011). Then, researchers began questioning the accuracy of data, which began to be politicized. For example, Dr. Mohamed Othman, the former minister of economic development in Ahmed Nazif's government, has recently declared that only LE 150 per month is sufficient for meeting the needs of an individual citizen in Egypt, amid price hikes and decline in the standard of living of a large segment of the Egyptian society.

Even during Mubarak's reign of corruption, data was available. The general plan for social and economic development used to be available on the official sites of ministries simultaneously with the general budget. However, when the junta assumed power in Egypt after the 25 January revolution in 2011, Ambassador Fayza Abu al-Naga, who became Minister of Planning and International Cooperation, started a policy of hiding the general plan of the state, a policy that was followed by all planning ministers after the 2013 military coup in Egypt. It is noteworthy that up to now, the Ministry of Planning has not published the general plan of 2017/2018 on its website although some journalists were able to obtain the plan, but on a personal basis.

If access to the state's general plan is blocked for researchers, specialists, and even investors who want to know where the Egyptian economy is heading, then, there is absence of community participation (of both the business community and the civil community) which the Ministry of Planning used to stress within the plan principles.

As the general budget was given due consideration and observation while it was discussed by the House of Representatives at the end of June 2017, so, we find it necessary to discuss the general plan of the state, because it is the source according to which the general budget should be discussed, not vice versa. The general budget is defined as the financial program of the general plan. How could we discuss the financial program and neglect the plan itself?

Following are some remarks on the general plan for the fiscal year 2017/2018, of which about two months have already passed:

1- Stop blaming others for your faults

Economists in Egypt used to monitor the negative behavior of the government by blaming the outside (foreign world) for the consequences of its economic problems. This is what we see in the first chapter of the general plan 2017/208 under the title: "Development of the global economy and its impact on the Egyptian economy". Referring to the slow global growth rates in the general plan is a pretext for justifying the low growth rates of the Egyptian economy. It is strange and illogical to say that the low growth rates of Egypt's key partners represent a ‘challenge’ to the Egyptian economy, and at the same time consider it an ‘opportunity’ in attracting foreign investment from these countries in the fields of energy, industry, logistics, and transport, thanks to the important reforms in Egypt, as stated in the general plan. If Egypt’s key partners are suffering from a slowdown in economic growth rates, will they prefer to go for investment in Egypt, or would they rather pump this money in their countries for stimulating their own economy?

In fact, the economists who prepared Egypt’s general plan are completely satisfied with dependency on the outside instead of attempting to create proper circumstances for the Egyptian economy to rebuild itself. We expected that the general plan would contribute to layig the foundation stones for changing the structure of Egypt’s GDP and building a solid production base, that could stand firm against the volatility of the global economy.

Also, the rise in global unemployment rates and the Gulf countries’ adoption of policy for nationalizing employment represented a challenge to Egypt’s labor market for absorbing the returning workers.

While this chapter of the plan dealt with the impact of international and regional variables on Egypt in the growth and employment indices, the plan ignored addressing the situation of inflation, interest rate and exchange rate. Also, the international situation was discussed without referring its impact on Egypt, which is undoubtedly negative because of the Egyptian economy's dependency on the foreign dollar-oriented economies, which leads to imposing movement restrictions on the monetary and financial policies.

2- Misleading information

In the framework of the plan's handling of the employment and unemployment situation of at the global and regional level, it was noted that the expected unemployment rate in the Arab region was 10.7% in 2016, and that in 2017/ 2018 it will decrease to 10.6% and 1.05%, respectively. Although the authors of the plan quoted these numbers from the ILO, and explained this in the margin, however, planners should have relied on more accurate and realistic forecasts. The Unified Arab Economic Report 2016 showed that the unemployment rate in the Arab region was 16.5%, and that it was expected to increase at a higher rate in light of the political and security instability in the region, as well as the repercussions of the Gulf crisis, which took place one month before the plan was approved, but unfortunately was not taken into account.

While the plan addresses the Egyptian economy's performance indices during 2015/ 2016 and the first half of 2016/2017, it indicates on page 37 that the rate of GDP growth in the first half of 2016/2017 reached 3.6% against 4-5% during the same period in 2015/2016, which means that the growth rate declined by 0.9%. However, on page 50, the plan states that the unemployment rate fell to 12.4% by the end of the first half of 2016/2017 against 12.5% at the end of 2015/2016. What a paradox! This, of course, is misleading information and a clear violation of fixed economic rules. The decline in growth rate cannot be accompanied by a decrease in the unemployment rate. The natural result is that with the decline in economic growth rates, unemployment rates should necessarily increase.

3- Consecration of dictatorship

The second chapter of the plan addressed the principles of the medium-term plan covering the period 2017/2018-2019/2020. The first of these principles was the presidential mandates, and then the constitutional entitlements. This order is flawed in terms of placing presidential mandates prior to constitutional entitlements. According to the constitution which organizes the relationships among the three authorities, including the executive authority, the logical order should be to refer to the constitutional entitlements first, because violation of the Constitution is a crime that requires trial, and could lead to political and legal problems, while the violation of presidential mandates is a relative issue, that could be skipped.

But because the plan authors operate under a government that represents a military coup, putting the presidential mandates prior to the Constitution is inevitable. Although this is a formality, but, it reflects the government's willingness to violate the rule of law, in general.

4- Failure indicators

The presidential mandates include eight axes, including economic and social aspects, such as improving the standard of living of the Egyptian people and meeting their aspirations for a more prosperous future, social justice and the rights of the poorest and marginalized groups, and restructuring the Egyptian government to improve efficiency and performance and achieve more mechanisms of transparency and integrity.

In fact, the plan is not related to reality; how to reconcile these presidential mandates with the citizens' suffering from the high cost of living amid inflation that reached 34.2% by the end of the first month of the plan, raising the prices of fuel one day before starting implementation of plan by about 50% on average for all of oil products, increasing electricity fees by about 33% on average, and butane gas cylinders by almost 100%. Amid these price hikes, civil servants' pay increased between 7% and 10% at best, which does not reflect the fair relationship between prices and wages.

In light of this, how would the standard of living of the Egyptian people improve? And how would they meet their aspirations under this difficult equation? As for social justice, equality in access to opportunities for the Egyptian people remains unfulfilled, and there are discrimination against certain categories. The Egyptian people are divided into two sections: the army, the police, the judiciary, some media workers, and leaders of the banking system on one hand, and the rest of the Egyptian people on the other.

5- Inaccurate growth calculations

The plan refers to an expected rise in the economic growth rate from 4% by the end of June 2017 to 4.6% by the end of June 2018, that is, the growth rate will increase by 0.6%, which requires according to economic calculations that investments, as part of the GDP, should increase by about 2.5% whereas the plan expects that investments will increase by 1.2% to achieve the desired growth rate by the end of June 2018.

Moving from computational fallacy to economic realities, we are faced with the same conditions that led to a decline in the growth rate in 2015/2016 and 2016/2017, including devaluation of the Egyptian pound, the rising production costs due to the high energy prices, in addition to the rising financing costs, and the prevailing recession in the Egyptian market. How will this targeted growth be achieved under the circumstances that led to its decline?

The targets of economic sectors' total investments, shown by the plan, indicate that plan authors pay little attention to the manufacturing and agriculture sectors. The manufacturing sector accounts for 10.5% of the LE 646 billion-total investments while the agriculture sector accounts for only 5.2%. These low rates could not meet the needs of a population of 100 million, where 60% of their needs of food relies on import from abroad.

The problem of economic growth in Egypt remains as it has always been, where growth depends on service activities and low value-added productive sectors. The contribution of the manufacturing sector to the growth target for 2017/2018 reached 3.7%, the agriculture sector 3.2%, which are among the most important strategic sectors that should have topped the list of growth. However, the construction and restaurants and hotels sectors came on top of the growth list with 11% and 10% respectively.

Continuation of this low growth rate of GDP in this way will not be in favor of a great part of the Egyptian people. However, it will remain, as it has always been since the era of Mubarak, in favor of specific categories of society, accumulating wealth in the hands of the upper class, while the middle and lower classes keep suffering.

6- Lower saving rates

It is natural that the saving rate remains low in a country, whose GDP is low. The plan targets a saving rate of about 7.1% of the GDP in 2017/2018 up to 10.5% in 2019/2020. The plan also aims to achieve a growth rate of about 6% in 2019/2020, which requires a saving rate of 30% of the GDP. So, the Egyptian economy will continue to require a lot more of direct foreign investment, or access to loans from abroad, otherwise its chronic problems will continue, including: the worsening unemployment and inflation rates, the increasing budget deficit, the trade balance deficit and other social problems such as housing deficit, poor educational and health services, and increasing poverty rates.

Even these modest targets for saving rates are difficult to achieve under current fiscal and monetary policies - resulting in poor incomes and high inflation rates, continued taxation, and increased public debt burdens - which prevent achievement of higher saving rates.

7- Limited solutions to inflation

Egypt's general plan authors still look at the inflation problem from the angle of 'demand', focusing on monetary policy and withdrawal of liquidity from the market. In fact, there is another important aspect of the problem related to the causes of inflation, i.e. the 'supply' factor. However, the causes of inflation are expected to continue in light of the current monetary and financial policies. How could the

production costs as well as inflation rates in Egypt decrease under the policy of reducing fuel subsidies and increasing government fees and taxes?
The plan aims to reduce the inflation rate by 15% during 2017/2018 and then to 7.7% in 2019/2020, while at the beginning of 2017/2018, inflation rate was 34.2% on an annual basis at the end of June 2017. It is difficult for the government to succeed in achieving its inflation target, due to the conflicting economic policies, the country's financial situation, or the political and economic events experienced by the region and have negative effects on the Egyptian economy.

8- Reducing unemployment rates

It seems that Egypt's general plan is edited by more than one person who are not keen on coordination among each other on the figures they include in the plan. As we mentioned at the beginning of this analysis, the budget is the financial program of the plan, and there should be complete correlation between them.
Also on page 81 of the plan, it was stated that the LE646-billion total investments will provide 572 thousand jobs, and that the unemployment rate will decrease by the end of June 2018 to 11.8% compared to 12.3 in June 2017. After reviewing the financial statement of the public budget for the year 2017/2018, the same fiscal year of the plan, the statement stated on page 17 that "The achievement of the unemployment target for the fiscal year 2017/2018 requires the creation of about 750 thousand jobs to reduce the unemployment rate from 12.4% in the fourth quarter of 2016 to about 11.5% during the fiscal year 2017/2018 ".
The plan speaks about 572 thousand jobs, while the budget states that they are 750 thousand jobs. Also, the two sources show different figures on rates of unemployment reduction; the plan says the unemployment rate will reach 11.8% by the end of June 2018, while the budget tells us that the unemployment rate will be 11.5 % during the same period.
I think that Egypt's general plan needs to be reviewed carefully. Unfortunately, the plan has turned into a mere procedural matter for satisfying constitutional

requirements. Lacking accuracy and coordination, the plan authors are, in fact, wasting public money and misleading public opinion.

*Abdel-Hafez Al-Sawi is an Egyptian economist. He has many economic writings, including: The Post-Revolution Balance, the Employment of Zakat Funds in the Muslim World, A Development Vision, and the Egyptian Economy between the Taxes and the Zakat.