

# Egypt's Growing Economic Crisis

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## ABOUT THE AUTHORS



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## Egypt's liberals should be focused on the economic long game, because whichever party delivers prosperity to Egyptians will rule.

**T**he staggering Islamist victories in the initial rounds of parliamentary voting and the spasms of violence which regularly grip Cairo have raised grave worries about Egypt's political future. Less visible, however, is a deepening economic crisis that may be just as dangerous. And the prescriptions proposed by the ascendant Islamist parties will only make matters worse. Egypt's liberals can distinguish themselves both from the transitional government and from their Islamist rivals by offering sensible policies to stem Egypt's economic bleeding.

The Egyptian economy, which grew at a healthy clip in recent years even if the fruits of that growth were unequally shared, has entered a downward spiral. The tumult of 2011 has resulted in a sharp drop in tourism and business activity, leading to forecasts that Egypt's GDP will grow only one percent this year. This slowdown has exacerbated the country's unemployment woes, which were one of the chief causes of the February revolution.

Despite the slowdown, inflation is soaring -- the dreaded combination known as stagflation. Capital flight and other factors have depressed the Egyptian pound to its lowest level in years and driven up prices, despite desperate efforts by the Egyptian Central Bank to defend the currency's value, which have in turn left the country with alarmingly low foreign currency reserves.

The rise in prices and unemployment, combined with the economic slowdown, will only serve to deepen Egypt's already massive poverty and concomitant socioeconomic discontent, which will fuel further instability at a fragile political moment.

The policies of Egypt's transitional military rulers who themselves are heavily invested in the economy and thus have a strong incentive to restore order have not helped. Wary of exacerbating popular unrest, the interim government has followed a loose fiscal and monetary policy, incurring a budget deficit and leaving interest rates unchanged.

This approach has exacerbated Egypt's economic difficulties by further fueling inflation and crowding out private sector borrowing in the domestic debt market. Given this less-than-impressive performance, it is small wonder that a recent [Gallup poll \(http://www.gallup.com/poll/147938/egyptians-optimistic-post-revolution.aspx\)](http://www.gallup.com/poll/147938/egyptians-optimistic-post-revolution.aspx) showed that Egyptian citizens' primary concerns going into the election were overwhelmingly economic rather than political or ideological.

The outcome of those elections, however, is unlikely to address voters' economic concerns. The two best-performing parties, the Muslim Brotherhood and the more radical Islamist Nour party, advocate policies that would not cure, and in some instances would dramatically worsen the country's economic plight.

The Muslim Brotherhood's economic approach appears influenced by Turkey's Islamist, pro-business AK party, and stresses the importance of a market economy and even appears to support some measure of privatization. Nour, on the other hand, advances a far more explicitly populist platform. Nevertheless, both favor government redistribution of wealth and share damaging economic ideas, and just as Nour is likely to drag the Brotherhood in a more radical direction on political issues, it can be expected to do the same in the economic arena.

Both parties' platforms criticize foreign imports, and stress the need to explicitly favor domestic goods. Both criticize lending with interest, and promote various forms of Islamic finance. Nour in particular criticizes foreign labor and foreign investment, and proposes what amounts to statism in its advocacy of a heavy-handed government role in industrial planning and economic activity. And critically for Egypt's tourism-dependent economy, both would impose strict moral curbs on visitors, with Nour's platform observing that it is possible to have fun without taboo.

Whatever lip service the Muslim Brotherhood pays to free-market capitalism, the combined effects of these policies would be to further deter foreign investment and tourism and decrease the vitality of Egypt's ailing private sector.

Liberal politicians largely failed to present an appealing political alternative to Islamist parties whose ideology and history of opposition resonate with Egypt's conservative electorate, and may feel tempted to follow the Islamist's populist economic lead. However, they should instead seize the opportunity to distinguish themselves on economic matters from a transitional government whose approach has foundered and Islamist parties whose policies are misguided.

The right approach for Egypt is to reduce spending and accept external financing proffered by the IMF but rejected by the transitional government -- to ease the crowding-out of domestic capital and provide a boost to private enterprise. Furthermore, foreign trade and foreign investment should be encouraged, and investors should be reassured that their interests will be safeguarded, not expropriated. Tourists and the money they bring should be welcomed rather than deterred.

With the right policy signals, and by stemming the rise in prices and flight of foreign capital, Egypt can restore a measure of stability, encourage foreign and domestic private-sector investment and a return of tourism, and turn its downward spiral into a virtuous circle. Rather than be deflated by their disappointing election performance, Egypt's liberals should be focused on the economic long game, because whichever party delivers prosperity to Egyptians will rule.

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