Egypt within the Framework of the Global Financial Crisis: Impact, Response and Way Forward

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IN THE SECOND HALF OF 2008, the world economy went through a serious financial upheaval that sparked off in the United States and spread to Europe and the rest of the world. The negative consequences of this financial crisis had bitten the Egyptian economy in many fields. Egypt's growth rate witnessed setbacks and may have posted its slowest annual growth in half a decade in 2008–2009 as the global crisis hit revenue from tourism, migrant labor remittances, the Suez Canal, export revenues, and investment. The severity of the crisis and its uncertainties demonstrated the need for urgent action to restore financial stability, lead the economic recovery and secure a sustainable future for the country. This paper therefore critically discusses the current global financial crisis and its impact on Egypt. It presents an overview of the Egyptian economy prior to the crisis, followed by an assessment of the depth and impact of the crisis on sectors of the Egyptian economy. Additionally, the paper highlights the actions taken by the Egyptian government to weather the effects of the crisis and concludes with some policy recommendations for the Egyptian economy to cope with this crisis.

INTRODUCTION & BACKGROUND TO THE SITUATION OF THE EGYPTIAN ECONOMY PRIOR TO THE GLOBAL FINANCIAL CRISIS

The intensification of the global financial crisis GFC, which sparked off in the United States and has spread to Europe and the rest of the world, including Egypt, has made the current economic and financial environment a very difficult one for the world economy and central banks. The fall out of the current GFC could be an epoch-changing one for the world economy and financial systems. It is, therefore, very important for Egypt to investigate the current crisis accurately and to identify its causes and impact on economy, so that we can then find, first, appropriate crisis resolution measures and mechanisms; second, understand its subsequences and impact and, finally, think of the longer term implications for the economy and for monetary policy and financial regulatory mechanisms. However, an attempt to examine the repercussions of GFC on the Egyptian economy should begin with a presentation of the economic situation of the country prior to the crisis in order to obtain a better understanding of that impact.

Egyptian economic performance since 2004 has, generally, been impressive, underpinned by a supportive external environment and the structural reform program that has included the liberalization of foreign trade, investment, the exchange market, the privatization of state entities, tax reform, management of public finance, monetary policy, and measures to strengthen bank balance sheets and banking supervision.

As a result of these reform programmes, annual GDP growth in the post-reform period was more than double the average of the previous decade, driven by large-scale foreign and domestic investment. During FY 2007/2008, the Egyptian economy achieved real growth of 7.2 percent, up from the 4.1 percent achieved just half a decade earlier in 2003/2004. Real GDP per capita income also increased by 5.2 percent in 2007/2008, compared to just 1.2 percent half a decade earlier. Signs of increased productivity in the Egyptian economy are also noted.

Unemployment continued declining to less than 8.4 percent in the last quarter of 2007/2008 from 8.9 percent in 2006/2007, and down from 11.1 percent in 2003/2004. The accumulation of a strong and advanced capital base, as reflected in the breakdown of FDI and structure of commodity imports and exports, reflected a major structural change in the drivers of economic growth in Egypt.

Results of fiscal balances for FY 2007/2008 reflected continued improvements in the main fiscal indicators. The overall deficit for 2007/2008 dropped further to 6.8 percent of GDP, down from 7.5 percent of GDP in 2006/2007, and compared to 6.9 percent as targeted in that year's original budget. The deficit was estimated at 1.0 percent of GDP, but down from 3.5 percent just three years earlier. This improvement occurred despite increased social-related outlays which took place in 2007/2008, and also in spite of larger exceptional revenues windfalls realized during 2006/2007 compared to 2007/2008.[1]

Meanwhile, debt indicators improved significantly. Total gross debt of the budget sector entities was reported at 82 percent of GDP as of end June 2008; some 38 percentage points below its ratio in 2004/2005. The net debt also declined by some 12 percent to 68 percent of GDP, and down from 92 percent of GDP in 2004/2005.

Building on such advancing economic performance, total revenues increased by more than 21 percent in 2007/2008 over the previous year's receipts to EGP 219 billion. Total tax revenues increased by one-fifth to EGP 137 billion (15.8 percent of GDP). Taxes on goods and services increased by 27 percent to some EGP 50 billion (5.7 percent of GDP), due to higher economic activity and recent reforms in the stamp duties area. Further, taxes on international trade increased by 35 percent to some LE 14 billion (1.6 percent of GDP).

With stable macroeconomic policies, a liberalized foreign exchange system, increasingly active and deepening inter-bank market, declining budget deficit, and advancing financial sector, monetary policy had gained greater flexibility. Credit growth to the private sector during the year ending June 2008 increased by 12.6 percent, up from 4.5 percent in June 2004. Meanwhile, net foreign assets of the banking sector increased by 39 percent for the twelve-month period ending June 2008 to USD 57 billion (35 percent of GDP), whereas dollarization in broad money continued declining to 20.8 percent in June 2008, down from 23 percent a year earlier and 28.4 percent in June 2004.

Average annual inflation for FY 2007/2008 recorded 11.7 percent, in comparison to 11 percent a year earlier. Actually, the inflationary episode was mostly imported and was of cost-push origins, where it is mostly reflected in domestic price increases of energy, basic food items, and primary goods.

Egypt's external position was rousted, as indicated by a healthy and strong growth of exports of goods and services as well as large foreign direct investments (FDI) inflows. The overall balance of payments maintained a surplus of some 3.4 percent of GDP during FY 2007/2008, with net FDI recording USD 13.2 billion, more than double its level in 2005/2006. The current account remained in a small surplus of 0.6 percent of GDP, despite the increasing of import volumes and fueled by higher international prices. Non-oil exports increased by 25 percent to slightly less than USD 15 billion, and remained the country's largest source of foreign exchange current flows, recording some 23 percent of total current account receipts.

Meanwhile, total external debt as percent of GDP continued declining to less than 22 percent of GDP in March 2008, whereas net international reserves increased by more than one-fifth to USD 34.6 billion in June 2008 (21 percent of GDP); covering 7.9 months of commodity imports. Last but not least, total external debt service stands at only slightly higher than 4 percent of the country's current accounts receipts in 2007/2008, down from some 10 percent of receipts half a decade earlier.

Unfortunately, GFC has occurred at a time when the Egyptian economy has been enjoying years of good growth. After the second half of 2008, the negative consequences of the financial crisis began to bite the Egyptian economy in many fields, particularly the revenue of tourism, exports, Suez Canal receipts and other contributing sectors to the country's GDP. The crisis was striking in its sheer magnitude, the speed of its contagion to the global financial sphere, as well as in its persistence. These factors made it one of the most impressive and unprecedented events in recent financial history. Therefore, what this paper attempts to do is to provide an interpretation of the impact of GFC on Egyptian economic sectors; to analyze Egypt's policy response to weathering the crisis; and, finally, identify the remaining challenges and provide some policy recommendations for the way forward.

It is worth noting that because of the common difficulty in data collection in Egypt, as in other developing countries, and also because the study was conducted just few months after the emergence of the GFC, which made it more difficult to find a trusted source of dependable data, the study could not apply a proper qualitative analysis to measure the impact of the crisis on sectors of the Egyptian economy. We employed the available data to depict how the GFC, in this early stage, had influenced the Egyptian economic sectors, so as to draw the attention of the policymakers and economists to the expected repercussions and in turn to take adequate actions to mitigate its negative impacts on the country's economy.

The paper includes four sections. In the next section, an analysis of the impact of GFC on the Egyptian economic sectors is provided. Section 3 addresses the actions taken by the Egyptian government to cope with the effects of the crisis. The fourth section summarizes the challenges and the way ahead and concludes with some policy implications for the Egyptian economy to cope with this crisis.

REPERCUSSIONS OF THE GLOBAL FINANCIAL CRISIS ON THE EGYPTIAN ECONOMY

Although the epicenter of the crisis was the US sub-prime mortgage market, the shockwaves of the crisis are still being felt in all over the world. The shock has been felt in Egypt's economy as well, since we are far more exposed to international markets after our macro-economic reforms of 1991. As the financial sector is fully integrated with the real economy, the burgeoning crisis in the financial sector poses a threat to the real economy. Macro-economic fundamentals like growth, investment, exports, tourism, employment and other segments are bound to be affected. The present section focuses on the impact and analysis of GFC on Egypt's economic sectors, including the macro-economy's indicators, real economy, capital market and some major social impacts.

Macroeconomic Impact

The impact of the crisis has been mainly reflected in the decline in almost all the macroeconomic indicators, representing almost a reversal of the impressive performance of the previous four years. In the following, a portrait of this impact will be outlined.

Setback in Real GDP *Growth Rates.* During the 4 years prior to the crisis, the Egyptian economy maintained its robust real GDP growth, at around 7 percent. In the second half of last year, Egypt's economy growth rate witnessed setbacks due to negative impacts of the prolonged GFC on the economy. The Egyptian economy may post its slowest annual growth in half a decade during this fiscal year, as GFC hits revenue from tourism, export, remittances from expatriate workers, the Suez Canal and investment.

Therefore, it is expected that real GDP growth would likely fall to about 5–5.5 percent in 2008/2009 and further to about 4.5–5 percent

in 2009/2010. This decline will pose challenges for the government, mainly concerning providing jobs to fresh graduates, offering services or increasing the living standards of average citizens. The repacking up of the growth rate will be to some extent dependent on the recovery of the international economy.

Decline in Foreign Direct Investment. This strong economic growth has enabled Egypt to be an attractive FDI destination, rising by 19.4 percent in FY 2007/2008, reaching USD 13.2 billion. But, in the shadow of GFC, the FDI has already dropped to USD 9.56 billion in 2008/2009. The flow of FDI which had amounted to almost 9 percent of GDP in 2007/2008, declining by 60 percent during the first half of 2008/2009 compared to the first half of 2007/2008. It is expected to continue its decline between 1.5 percent to 2 percent because of the investors' need for liquidity and also due to the high interest rates. The crisis is likely to further undermine FDI flows and make investors more cautious. What makes the situation more serious is that two-thirds of foreign investments in Egypt comes from US and European countries, while a number of them are either already in – or are entering into – recession.

Sharp Decline in Remittances from Expatriate Workers. Remittances from Egyptians abroad are ranked third as a source of foreign exchange, after tourism and the Suez Canal. In the fiscal year of 2007/2008, remittances from expatriate workers reached USD 8.56 billion, up 99.0 percent in comparison to 2004/2005 and a certain 6.5 percent of GDP. The Egyptian emigrant workers are mainly concentrated in the Gulf countries 95 percent, Europe 3.4 percent, North and South America 0.05 percent and, lastly, 0.17 percent in Asia and non-Arab African countries.[2] The largest proportion of these remittances comes from USA, which amounts to 37.4 percent of the total value of remittances. Remittances of Egyptian workers in Saudi Arabia, where there is the largest number of permanent Egyptian migrants, rank second by a proportion of 16.8 percent, whereas remittances from Western Europe, Switzerland, Britain, Germany, France and Italy, contribute 14.9 percent to the total value of remittances.[3]

Due to two aspects, GFC would definitely affect the remittances of emigrant workers. First, the largest proportion of remittances comes from the USA. Second, the largest percentage, 95 percent, of workers is in the Gulf countries. Since these two main destinations are struggling to get rid of the negative impacts of the financial crisis, it is expected that numerous factories, companies and institutions would lay off part of the employees and reduce the size of their labor force to avoid the specter of bankruptcy. This would lead to the return of a large number of Egyptian workers during the next few months. European, America and some Gulf states estimate the reduction in the size of their labor force in different proportions, ranging from 15 percent to 40 percent. Some Egyptian workers in Gulf countries have been already laid off due to shrinking investments. It is reported that some 30,000[4] Egyptian workers in Gulf countries are expected to return home. Furthermore, economists have predicted that the number of returnees may be calculated at more than a quarter of a million workers (El Ahwany 2009), out of the five million people working abroad. This number will join the jobless, which exceeds 10 million unemployed.

Increased Deficit in Balance of Payments. Egypt has experienced a surge in non-oil exports, thus contributing to growth and employment during the recent years. However, the economic slowdown in the US and EU is likely to have a significant impact on the Egyptian economy as a whole, especially for formal enterprises of the larger size in key export sectors. Taking into account that two-thirds of Egyptian exports enter into and are imported by the US and the EU, that have suffered the most harm from the financial crisis, the volume of Egyptian exports will definitely decline. Clients in these countries are expected to cut their needs. Moreover, the fact that Egypt has a low value-added structure of exports with very little processing makes Egypt more vulnerable, because these exports are likely to drop in quantity and price, and are likely to drop even more sharply, because of being closer to the end of the value chain. Thus, Egyptian authorities expected that exports could slide by between 10 percent and 20 percent.[5]

The decline in demand for Egyptian goods (exports) and services (Suez Canal, tourism, workers abroad) has been negatively reflected on the external balance of the country, thus ending the short-lived surplus of the pre-crisis period. Exports have been severely hit. The

growth rate of exports is expected to slow down by more than a third of its current pace, from 25.5 percent in 2008 to 5.9 percent in 2009. Although imports are also slowing down from 27.9 percent growth to 14 percent, they will not be hit as hard as exports. According to the Egyptian Central Bank, the current account deficit for Q1 2007/2008 has increased 7-fold in Q1 2008/2009, when it jumped from USD 131 million to USD 966 million.[6]

The impact of all these factors on Egypt's balance of payments is quite severe, where the 2008 surplus has been converted into a deficit in the first half of 2009. Furthermore, the strain on Egypt's international reserves has been amplified. International reserves currently cover only half of the year's imports, while last June they used to cover at least 9 months.

Impact on Capital Market

A number of factors have combined to exacerbate the performance of the Egyptian Stock Exchange, which began its decline long before the crisis. By late 2007, there was a rush by foreigners to liquidate their assets in order to bail out their enterprises in their home countries in the wake of the mortgage crisis. This was followed by a second shock caused by the so-called May economic decrees which were interpreted by investors as a sign of rolling back reforms, especially those related to investment incentives. Added to that, was the unprecedented inflation wave resulting from the increase in food prices which negatively affected investors' expectations about the performance of the stock exchange and the Egyptian economy as a whole. As a result of these factors, the EGX 30 index dropped by 20 percent at the beginning of August 2008. The situation was made worse by the onset of the global crisis which led to the continued drop estimated at 43 percent up to the end of 2008. The total decline is thus estimated at 56 percent in one year, which suggests that the Egyptian Stock Exchange was one of the worst hit.

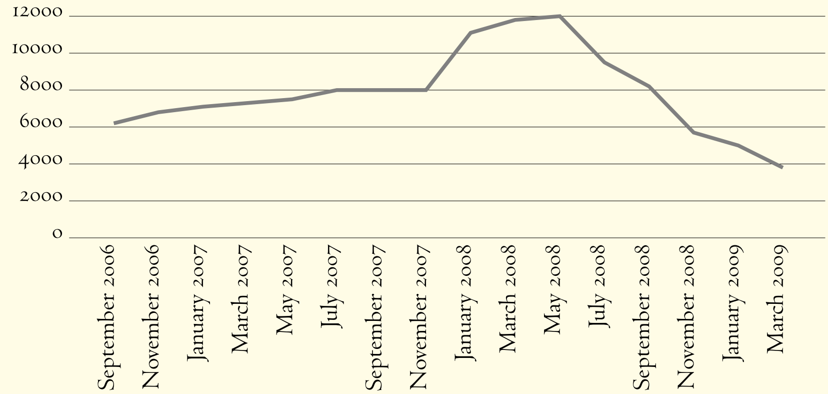

FIGURE 1 Performance of EGX 30 index (adapted from *Egypt Weekly Market Review*, 1 March 2009)

Impact on the Real Economy. Almost all sectors of the real economy had been affected by GFC by the middle of 2008. These sectors recorded declines in growth starting with tourism, which declined to a negative growth of –7.8 percent, followed by the Suez Canal –2.5 percent as well as manufacturing, where growth was halved and building and construction which dropped from 15.4 percent to 9.3 percent. Communications and petroleum presented the only two sectors that escaped this fate. In other words, the growth of employment-intensive sectors declined, thus aggravating an already serious unemployment situation. The following provides a more detailed picture of the impact of GFC on some key sectors of the Egyptian real economy.

Drop in Tourism Revenues. The tourism industry has always been one of the major industries in Egypt. The country occupies the 23rd position among 50 best international tourist hubs and ranks as the number one tourist destination in North Africa. During the period 2003–2008, the tourism sector witnessed an increase in the number of tourists, which reached 12.8 million people and brought some USD 11 billion to the country's revenue, or some 8.5 percent of the Egyptian GDP. Moreover, the tourist sector attracts a huge number of man power resources and has created job opportunities for the youth, which increased to reach 2.5 million workmen in 2007/2008.

Statistics indicate that the overall tourist arrivals in Egypt declined

TABLE 1 Performance change of Suez Canal

Item	2.2007	2.2008	% change*	2.2009	% change*
No. of transits	1511	1676	+ 10.9	1272	−24.2
Net tonnage**	63366	72937	+15.1	53085	−37.2
Revenue***	354.9	399	+12.4	327	−22.0

NOTES * Over the corresponding month of previous year; ** million *t*; *** million USD. Source: Suez Canal Authority (see http://www.suezcanal.gov.eg/scnewsdetails.aspx?show=5).

by 12 percent from September 2008 until March 2009.[7] December, which was the peak of the winter tourism season in Egypt, had the lowest rate of tourist arrivals after many foreign tourist operators cancelled their reservations. According to the Egyptian Travel Agencies' Association, the increase of foreign tourists in the next four years is predicted at only 6 percent, compared to some 16.6 percent in the past four years.[8] The decline is attributable to the slowdown in arrivals from European countries, affected by GFC, which represent more than 70 percent of tourist arrivals in Egypt.

Decline in Suez Canal Revenues. The Suez Canal, which represents a vital shortcut between East and West, is considered one of the main sources of Egypt's revenue. Egypt has been heavily dependent on the fees it charges ships to go through the Canal. In FY 2006/2007, Suez Canal revenue represented 3.3 percent of GDP and 11 percent of government revenue. However, statistics revealed by the Suez Canal Authority reveal that GFC has shed its negative impact on the canal revenues. A look at table 1 can reflect the picture.

The slowdown of the international trade flows can be seen in the decline of the net tonnage, which fell by 37 percent over the period February 2008 to February 2009. Revenues of the canal have also dropped from some USD 355 million in February 2008 to USD 327 million in last February, or about 22 percent lower than in the same month of 2008.

Manufacturing Sector. The economic and social development plan for the fiscal year 2009/2010 reported that the fast-growing sectors are most affected by GFC, as it is expected that growth in the manufacturing sector will drop from 8 percent in 2007/2008 to 3.8 percent in 2009/2010, whereas, growth in the transportation sector will decrease from 8.1 percent to 5.3 percent. Furthermore, in the light of the uncertainty in the dimensions of GFC, the sectors will be affected to varying degrees during the next fiscal year; the ICT sector will be reduced from 11 percent to 10 percent and the wholesale and retail trade sector will decrease from 6.3 percent to 5.8 percent. In March 2009, the industry development authority[9] estimated the decline in industrial production, including oil, at 4.1 percent, and it also expected that it will drop to 5.4 percent in 2008/2009 and 5.1 percent in 2009/2010.[10]

Major Social Sequences

Rise in Unemployment. Unemployment, which has been a chronic problem even with the rapid growth of the pre-crisis period, represented the quickest shown impact of GFC. Job opportunities during the second quarter of 2008–2009 dropped to 128,000 jobs compared to 181,000 in the same quarter of the previous year, i. e. by 30 percent. Similarly, the unemployment ratio registered 9.4 percent during the first quarter of 2009, against 9.0 percent in the same quarter of 2008.[11] As per the economic and social development plan for the fiscal year 2009/2010,[12] it is reported that the unemployment rate will grow to 10 percent in 2009/2010. The plan had built its hypothesis on the expected decline in the rate of growth, since a drop of 1 percent in growth rate, led to an increase of approximately 150 thousand in the number of unemployed. Additionally, the Center for industry modernization expects that the plants will tend in the coming period towards demobilization, which is likely to reach 45 percent of the current employment.[13]

In its report on the impact of GFC on the employment lay-offs, the Centre for Trade Union and Workers' Services (CTUWS) revealed that the number of workers have been laid off was about 6100 workers during April 2009, and the report also expected lay-offs to increase over the next few months (*Kalam Sanaieiaa,* 22 December 2009).

Growth in Poverty. Thanks to the strong growth over the last five years prior to GFC, poverty – which has always been a key socio-economic challenge to Egyptian policy makers – declined from 23.4 percent in

TABLE 2 Estimates of the GFC impact on employment at the national and sectoral levels

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agriculture	0.34	3.4	3.1	2.6	1.6	–1
Industry	0.56	7.8	4.5	4.4	2.8	–1.6
Petroleum & Electricity	0.42	3.8	6.8	1.6	2.2	0.6
Building & Construction	0.48	15.6	9.4	7.5	5.0	–2.5
Productive Services	0.73	11.5	5.3	8.4	2.5	–5.9
Social Services	0.79	3.3	3.5	2.6	2.0	–0.6
Total	0.62	7.5	5.0	2.1	1.6	–5.0

NOTES Column headings are as follows: (1) sector, (2) employment intensity to GDP, (3) GDP growth during the first half 2007/2008 (%), (4) employment growth during first half 2008/2009 (%), (5) = (2) × (3) employment growth during first half 2007/2008 (%), (6) = (2) × (4) change in employment after crisis 2008/2009 (%), (7) = (6) – (5) change in employment after crisis. Source: Metwaly and El Megharbel 2009, 34.

2005 to around 18.9 percent in 2008 (World Bank 2008). But it has also been noted that the dynamics of poverty are such that as certain groups get out of poverty, while others fall into the poverty trap. The impact of the crisis on poverty can be assessed. First, large numbers of households are just above the poverty line, some 20 percent so called 'near poor,' who are likely to fall into poverty as a result of external shocks. Secondly, the position of the poor is fragile as they suffer disproportionately from unemployment (12 percent for the poor compared to 7 percent for the non-poor). Moreover, the poor are concentrated in agriculture, construction, and manufacturing – particularly in the informal activities of those sectors, while these are the sectors most affected by the GFC. All this points to the importance of social protection, and the role of economic and social safety nets in coping with the repercussions of the present crisis.

MAIN AXES OF EGYPT'S GOVERNMENT RESPONSE TO GFC

In a response to the adverse effects and consequences of GFC, presented in deteriorating figures of export levels, stock prices, inflows of worker's remittances, and foreign direct investment, Egypt has responded effectively to these macroeconomic and social impacts of the GFC. The state has introduced its 'first' fiscal stimulus package of some LE 15.5 billion, or 1.5 percent of GDP, in 2008/2009, mostly to finance accelerated investments in public utilities and to sustain economic performance. Though the additional outlays were formally ratified by Parliament in March of 2009, several projects under the package were already off the ground in September 2008 financed through budgeted contingencies.[14]

The provision of such a package helped serve a dual purpose; on one hand, it helped stimulate domestic demand and precluded a sharp decline in economic activity, and on the other, it accelerated the execution of several crucial infrastructure projects with high social value such as drinking water, sewage and roads. These projects will also help the recovery of the domestic economy once global demand rebounds.

It is worth mentioning that the 2009/2010 budget includes some LE 5.5–6 billion that can be marked as part of a 'second stimulus package.' Those funds include some 2.5–3 billion in accelerated or additional investment expenditures that go beyond the normal increases in the annual investments budget. Most of those extra outlays are directed to financing investment projects, in addition to allocations for exports promotion and internal markets development programs, besides the completion of the one-year sales tax rebate on capital goods that was launched as part of the first stimulus package. Preliminary sustainability indicators also suggest the possibility of injecting further stimulus should the global outlook remain to be grim, without impacting medium-term fiscal and debt sustainability.

In addition to this rescue package, the state adopted monetary stimulus measures. At the onset of the crisis, the CBE has affirmed that it continues to guarantee all deposits in the banking sector. Though formally promulgated by law, this move was introduced to prevent possible panics or runs on deposits. In addition to this step, a monetary stimulus package was designed to supplement the abovementioned fiscal stimulus.

Meanwhile, the rapidly changing global economic landscape has painted a mixed picture about the required policy action. As inflationary pressures subsided, and as pressures from the current global

TABLE 3 Breakdown of the fiscal stimulus package

Overall stimulus package	15.53
I. Investment expenditure	10.83
I.I For general budget sector	
Potable water and sewage projects	7.03
Building roads and bridges	1.00
Domestic development projects in various governorates	1.00
Building basic health care centers	400
Building schools	150
Others	652
Total investment in the budget sector	10.23
I.II For Economic Authorities	
Improving the efficiency of railways	400
Executing infr. projects for the development of East Port-Saed sea port	50
Improving the capacity of Red Sea ports	150
Total investment in economic authorities	600
II. Current expenditure (transfers/subsidies)	2.70
Increasing competitiveness of Egyptian exports	2100
Supporting industrial zones in the Delta	400
Supporting logistic areas for internal trade	200
III. Reductions in Customs Duties and Sales Tax	2.00
Reducing custom duties on some industrial inputs and capital goods	1.50
Temporary lift of sales tax on capital goods	500*

NOTES * Another 500 of foregone sales tax on capital goods are estimated to take place during FY 2009/2010. Source: Ministry of Finance 2006.

financial turmoil filtered into the domestic economy, CBE resorted to cutting the corridor spread rates by 250 basis points over three consecutive Monitory Policy Committee (MPC) meetings from February to May 2009, narrowing down the corridor by 50 basis points during the last meeting.[15] CBE cited the decline in inflation on the back of a sharp decline in international commodity prices, softening in growth momentum as external demand dwindles, and the grim outlook shed by the global financial turmoil as the drivers behind its recent policy rates cuts. The CBE also reiterated that it will continue to take the necessary measures to cushion the effect of the global crises on the domestic economy provided that this does not conflict with its primary objective of price stability. Further, the CBE board decided to exempt banks' deposits, equivalent to the size of the loans extended to finance Small and Medium Enterprises (SME) from the 14 percent legal reserve requirements. Facilitating finance to SMEs, known for their labor-intensive nature, is intended to help economic activity and employment. The package also included banning corporate sector investment in financial instruments of more than 3-year maturity, in order to encourage the private sector to reinvest their residuals. It is worth noting that, in addition to the measures taken by the CBE, Egypt's two largest state-owned banks are set to launch a LE 10 billion initiative of retail banking to stimulate private household consumption. Such funds will be allocated to the financing of personal loans, car loans, and purchase of durable goods.

CHALLENGES AND THE WAY AHEAD

Albeit the Egyptian economy demonstrates relative resilience to the global crises as compared to other developing and emerging economies, the prolonged slowdown in global demand and volatility in some basic commodity prices continues to constitute a threat to economic growth and employment. According to recent IMF World Economic Outlook figures, world output and trade are forecasted to shrink in 2009 by 1.3 percent and 11 percent, respectively. Having external demand and foreign investment playing an important role in spurring domestic growth in the past few years, this grim outlook for the global economy does not come without its own challenges to the domestic economy. Weakening exports of goods and services and foreign direct investment are likely to hold back economic growth, and interrupt record rates achieved in the past four years. Meanwhile, Government stimulus policies are anticipated to prevent sharp drawbacks in economic activity. The government is nevertheless committed to carrying ahead its reform program set in motion since 2004. The rapidly deteriorating global economic conditions are expected to affect the pace of reform; however, this does not undermine the commitment to the reform program.

Therefore, even with the crisis far from over, it is already evident that a number of lessons and questions for the Egyptian economic policy management and crisis response should be placed on the table for discussion. Unlike the policies discussed in the previous section, which focus on the immediate crisis response, these are lessons concerning economic management that can help in mitigating this financial crisis and avoiding future crises:

1. The significant uncertainty about whether the shock is temporary or long-lasting argues for systematic, comprehensive, decisive, coordinated and cautious policy responses, as government revenues in the years ahead may remain weaker than in the recent past.
2. The slowdown in growth in the Egyptian economy, along with the world financial disorder, are expected to partially affect many business segments in Egypt, and may cause various companies to default on their loans, which represents a prospective risk that must be faced the banking sector. Therefore, this raises the need for of credit and risk-management institutions to stimulate economic growth, and to ensure the correct functioning of the financial sector.
3. Strengthening public financial management systems would contribute to improving expenditure rationalization and increasing spending efficiency, by ensuring that resources reach their intended users. This is important in light of the difficulty of raising revenues through quality measures in the short run. Reducing unproductive expenditures should be the first option.
4. It is critically important that Egypt keeps an adequate level of infrastructure investment to support private sector activity in general and enhance competitiveness and diversification in particular.
5. Supporting the financial sector:
   - In the short term, it will be critical to monitor the risks and take actions that focus on reducing uncertainty and engender confidence.
   - Raising the financial culture and the development of information infrastructure of the financial sectors so that citizens

will have access to direct and free advice on how to deal with the financial sector institutions, obtain financial services and take sound investment and finance decisions.

- Expanding acquisition of shares by the government or its agencies to shore up the stock market.

6 Coordination between the government, the central bank, and supervisory agencies is also important. This will facilitate anticipation of liquidity and solvency problems. The central bank of Egypt must have reliable access to financial information from all regulated financial institutions.

7 Treating the decline in foreign investments through encouraging funding the industrial sector, by presenting good interest rates during the period of the crisis.

8 Diversifying the Egyptian export map, as an economic diversification tool, especially of exports, must be given high priority as it always provides safe havens, by:

- Attracting new trade partners and additional support for exporting to non-traditional markets, especially in Africa and Asia.
- Increasing allocations for supporting exporters by increasing export funds and supporting the export insurance mechanism through the Egyptian Company for Exports Insurance. Along with this, the government should develop a special interest in programs for the promotion and marketing of Egyptian exports.

9 Employment and incomes should be a central focus of the government's fiscal stimulus packages:

- Priority should be given to public spending programmes that have a high multiplier effect on employment.
- Labor-intensive infrastructure projects can be effective in providing income support to the poor while simultaneously delivering fiscal stimulus.

10 Protecting the poor and the vulnerable by building effective social safety net programmes and supporting the poor.

11 Last but not least, GFC has also shown how important the international cooperation is, as global problems may require a global approach in dealing with such issues. This cooperation is required simply in order to limit the potential devastating effects such a crisis could have in the future both on the financial system and the real economy.

NOTES

1 2006/2007 witnessed large exceptional receipts from the sales of the third mobile licenses. Those stand at nearly double the one-off receipts recorded in 2007/2008 from the sales of cement and steel licenses and permits to use 3G technologies in mobile phones. Meanwhile, both years' budgets were burdened with necessary exceptional outlays, mostly related to the restructuring of main public entities, including Egypt Railways.

2 Central Agency for Public Mobilization and Statistics (CAPMAS), see http://www.capmas.gov.eg.

3 Cabinet's Information Center Information and Decision Support Center, see http://www.idsc.gov.eg.

4 Central Agency for Public Mobilization and Statistics (CAPMAS), see http://www.capmas.gov.eg.

5 Egypt's minister of trade and industry, Rachid Mohamed Rachid, in an interview with Dow Jones Newswires at the World Economic Forum, January 30, 2009.

6 Central Bank of Egypt, quoted in Economist Intelligence Unit 2009, 15.

7 Egyptian tourism minister, Zoheir Garana, during a press conference, January 1st, 2009.

8 First deputy of Egyptian minister of tourism, Hisham Zazouaa, Interview with Al Mal newspaper, April 11th, 2009.

9 See the official website of Industrial development Authority at http://www.ida.gov.eg/ida/ehsa2eyaat_en.html.

10 Ministry of Trade and Industry, Statistics bulletin, March 2009.

11 Ibid.

12 Egyptian minister for economic development, Osman Mohamed Osman, during a press conference for announcement of the 2009/2010 economic and social development plan, March 23rd, 2009.

13 Executive director of the Center for the modernization of the industry, Adham Nadim. Speech at a symposium held by the Businessmen's Association, March 24th, 2008.

14 Prime Minister of Egypt, Ahmed Nazeef. Speech, at the Egyptian parliament, on the government actions plan towards global financial crisis, December 15th, 2008. Http://www.ndp.org.eg/ar/News/ViewNewsDetails.aspx?NewsID=45013.

15 During the last MPC meeting the overnight deposit rate was cut by 50 bps to 9.5 percent, while the overnight lending rate was cut by 100 bps to 11 percent. Accordingly, the width of the corridor has been narrowed from 2 percent to 1.5 percent.

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