Egypt Financial Crisis

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Table of Contents

Abstract

Financial crisis that occurred in August 2008 was unforeseen, sudden, sharp, and had a great impact on the global financial market.

Egypt is one of the countries was affected by this financial crisis as a market economy country, and WTO member.

in this paper I will try to study the implication of such crisis on the Egyptian economy in the fields of tourism, Suez canal, oil field, and GDP, not only the economy factor were effected, but also the Egyptian market represented in its components such as stock market, employment, housing market and etc…).

What were measures taken by Egypt for the crisis intervention?, this what will we conclude from this paper and examine the fiscal stimulus package taken by Egyptian Government.

Introduction:

An efficient and effective financial services sector promotes economic growth through the optimum allocation of financial capital.
It is 7 years since GAO (Government Accountability Office) in U.S.A has prepared its report on American financial regulation "Industry Changes Prompt Need to Reconsider U.S. Regulatory Structure" after Congress had passed the landmark Gramm-Leach-Bliley Act (GLBA) expecting a financial crisis in US market. Unfortunately Americans didn't recognize what is concluded from this report, and the greatest financial crisis occurred in September 2008 due to crucial economic reasons, the most important factor of them is regulatory policy in the US Financial market[1].

This global financial crisis that blew up in the US and went beyond to affect the rest of the world is expected to have a major impact on the Egyptian economy. Indeed, the Egyptian bourse was the first to suffer due to the collapse in foreign stock markets. Foreign investors hastened to sell the shares they own in Egypt's stock market to cover their vulnerable financial position, especially following their losses elsewhere. Moreover, most Egyptian giant corporations are listed in foreign markets particularly those of London and New York - thus their shares declined with the collapse that hit these markets. The fact that 70 per cent of investors in the Egyptian bourse are small shareholders -who always live in fear of losing their investments, compounds the crisis. This is because they hurried to sell their shares even when prices fell to the level of 20 per cent[2]

There are many other economical fields other than bourse, and investment also suffered from this global financial crisis such as Sector of tourism, Navigation in Suez Canal, oil sector, Foreign direct investments, and Growth rate slowdown, etc… , consequently all of those factor shared in the Egyptian Economy performance during and after such crisis.

The Egyptian government was in unexpected position, and obliged for such crisis intervention by undertaking some measures and polices such as fiscal stimulus. In order to verify this goal the applied some economical tool where monetary, or fiscal tool.

In my research I will try to go quickly through this financial crisis, try to find the aftermath of the global financial crisis on the Egyptian Economy, clarify to what extent has the crisis affected the Egyptian markets, try to find which policy measures have been undertaken by the Egyptian government, and finally which economic tools could be used to measure the crisis implications on Egypt.

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[1]GAO (Government Accountability Office) in U.S.A 2004
2The global financial crisis: effects on the Egyptian economy, Akram Hanna Khalil

Chapter 1
Egyptian Economy after the Crisis

Although the global crisis was triggered by events in the United States housing market, it has spread to all regions of the world with dire consequences for global trade, investment and growth. The crisis represents a serious setback for the tourism industry, Suez canal, oil field, business and GDP, because it is taking place at a time when such fields is making progress in economic performance.

1.1 Implication on Tourism Industry:

As tourism sector is very sensitive to economic uncertainty, we will summarize the findings of *Information and Decision Support Center (*IDSC*), Economic Issues Program (EIP), Egyptian cabinet* in its paper "Impact of Global Economic Crisis on Tourism Sector in Egypt: A System Dynamics Approach" that published in November 2009.

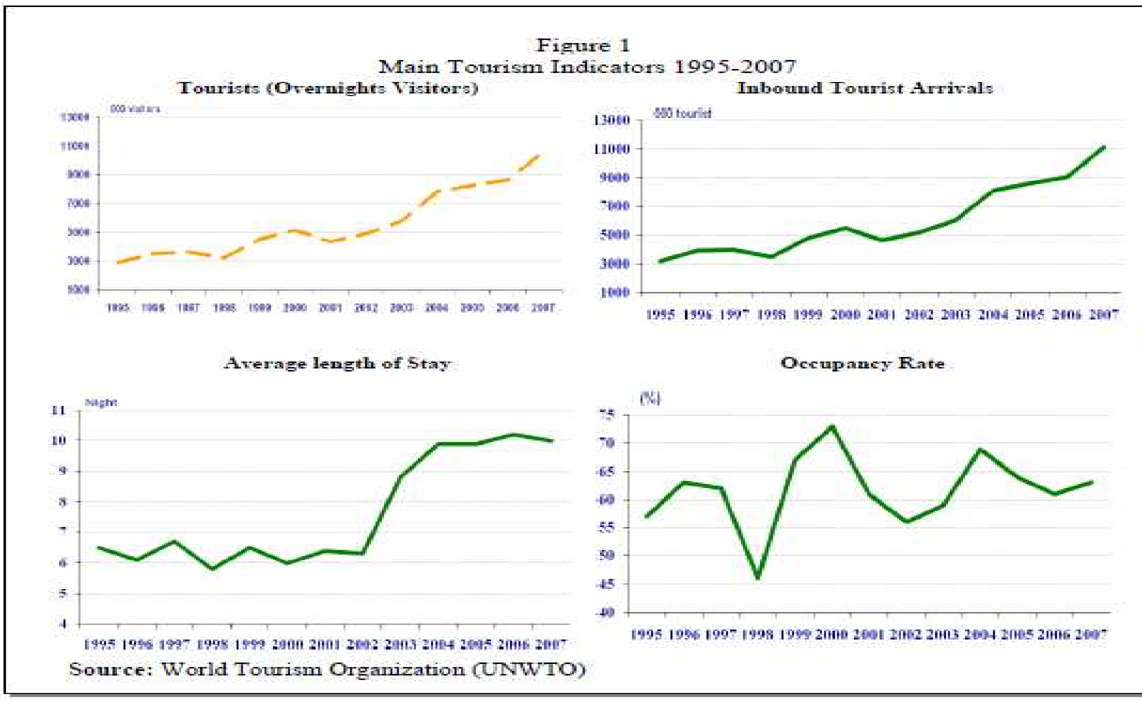


Figure 1
Main Tourism Indicators 1995-2007

EIP and *IDSC* examined the internal structure of the tourism sector in Egypt and the relationship between key variables based on The Travel and Tourism Competitiveness Index (TTCI), 2009 published by the World Economic Forum that determines the competitiveness position of the Egyptian tourism among different countries in the world.

The Tourism sector in Egypt has witnessed significant developments in the last decade. A review of the evolution of the tourism sector since 1995 provides a background of such evolution as illustrated in Figure1.

In the last thirteen years, tourism arrivals increased more than three-fold from 3.1million in 1995 to 11.1 million in 2007 recording an average annual growth about12.3%. The average duration of stay of visitors increased from 6 nights to 10 nights over the same period. Tourism nights grew from 20.5 million to about 111.5 million nights in 2007 at an annual rate about 17.9% on average. Concerning average room occupancy rate, it increased from 57% in 1995 to 63% in 2007. It is worth mentioning that the tourist arrivals that Egypt could potentially attract accounted for 20-28% more tourists over the period 1995-2007 (Sakr*et al.,* 2009)[3].

From the above-mentioned information, we concluded the tourism field was in its right way, but the global financial crisis had another opinion as a negative impact on the tourism field and consequently on sub-fields such as employments, wages, tourism infrastructure, hotels, and healthy tourism, etc.

Statistics indicate that the overall tourist arrivals in Egypt declined by 12 percent from September 2008 until March 2009.

December 2009, 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. The decline is attributable to the slowdown in arrivals from European countries - that suffer itself nowadays from euro zone financial crisis -, affected by the crisis, which represent more than 70 percent of tourist arrivals in Egypt[4].

In determining the impact of global financial crisis on tourism in Egypt, the economists used some of models to help them to follow such impact, from these model related to the tourism filed are: *Tourism Infrastructure Index, Air Transport Infrastructure Index, Ground Transport Infrastructure Index, Health Care Index, and Security and Safety index.*

1.2 Implication on Suez Canal:

Suez canal considers one of the major factor of Egyptian Economy for its great importance to the Egyptian themselves, and because it is one of the sources of foreign currency in Egypt.

Due to the global financial crisis in September 2008, the volume of the global trade decreased consequently and oil transmission too. Suez Canal was not far from the impact of such crisis and on its sub-factor as showed below share in the canal revenue. All of the following information comes from Suez Canal:

[3]Impact of Global Economic Crisis on Tourism Sector in Egypt: A System Dynamics Approach
[4]*Assem Reda Abu Hatab*, Egypt within the Frameworkof the Global Financial Crisis:Impact, Response and WayForward

NUMBER OF VESSELS:

17228 ships in 2009 made full transits through the Suez Canal two directions , against 1415 ships in 2008, registering a decreased of 4187 ships , equal to 19.6 % . The daily average of transits was 47 ships in 2009 against 59 ships in 2008.

In 2010 number of vessels registered 17993 ships which show an increase of 765 ships, equal to 4.4 %. When compared to 2009. The daily average of transits was 49 ships in 2010 against 47 ships in 2009.

NET TONNAGE:

Transiting net tonnage registered a decrease of 175.6 million tons (19.3 %) in 2009, from 910.1 million tons in 2008 to 734.5 million tons in 2009. This decrease resulted from the decreasing tonnage of Tankers by 39.2 million tons (26.7 %), Bulk Carriers by 35.9 million tons (28.9 %), Combined Carr. by 0.4 million tons (19.9 %), General Cargo Ships by 0.8 million tons (3.8 %), Container Ships by 80.3 million tons (16.6 %), Ro/Ro by 1.8 million tons (23.0 %) .Car Carriers by 31.2 million tons (39.2 %) and Others Ships by 0.5 million tons (9.6 %).While the other types registered an increase in net ton; LNG by 13.9 million tons (35.7 %) and Passenger Ships by 0.5 million tons (25.1 %).

In 2010 Transiting net tonnage registered an increase of 111.9 million tons (15.2 %), the increase come from the increasing in above factors.

FLAGS:

87 different ship flags were represented in the Suez Canal traffic in 2009, against 99 ship flags in 2008 also, then 105 different ship flags represented in 2010. On the top of these flags were Panama, Liberia, Marshal II, and United Kingdom.

CARGO TRAFFIC:

Transiting goods traffic showed a decrease of 163.7 million tons (22.6 %) in 2009 then increased to 86.8 million tons (15.5 %).

South bound goods registered a decrease of 14.2 million tons (4.6 %) and the northbound goods decreased by 149.5 million tons (36.2 %). The most important areas in goods traffic north the Canal were North West Europe shared (32.9 %) from the total goods transit SCA and North Mediterranean shared (17.3 %) and of south the Canal were South East Asia shared (27.8 %) and Red Sea shared (21.7 %).

Southbound Oil & Products quantities increased by 0.5 million tons (1.3 %), while Northbound quantities increased by 30.4 million tons (39.6 %).

1- TRAFFIC EVOLUTION

Table (1)

NO & Net Ton Evolution (2005 - 2010)

Year	NO (Vessel)		Net Ton (1000)	
	Total	**Daily avg**	**Total**	**Daily avg**
2005	18224	50	671951	1841.0
2006	18664	51	742708	2034.8
2007	20384	56	848163	2323.7
2008	21415	59	910059	2486.5
2009	17228	47	734450	2012.2
2010	17993	49	846,391	2318.9

Source: Suez canal report 2010

(*): Normal transit days = 210.

2- MONTHLY TRAFFIC

Table (2)

Monthly NO & Net Ton (2009, 2010)

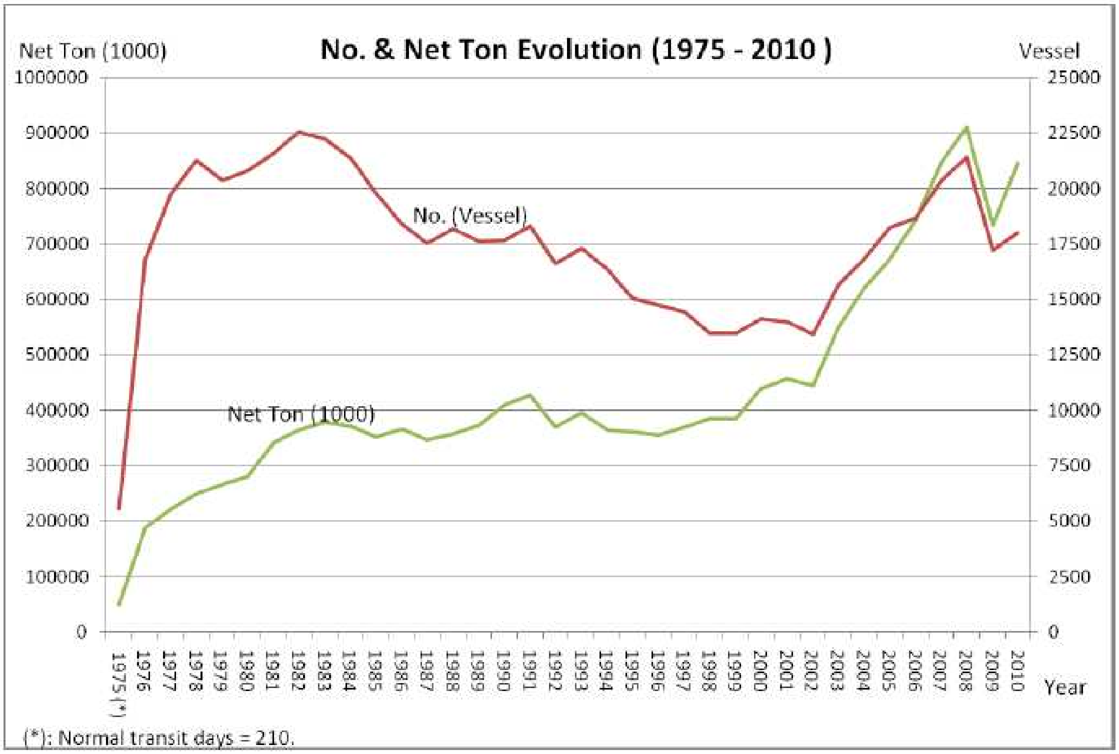
Month	NO (Vessel)		Net Ton (1000)	
	2009	2010	2009	2010
Jan.	1,313	1,418	57,217	66,442
Feb.	1,272	1,256	53,086	58,736
Mar.	1,439	1,467	57,248	67,528
Apr.	1,482	1,466	60,722	65,744
May	1,468	1,562	58,883	71,089
Jun.	1,401	1,482	59,533	70,233
Jul.	1,521	1,554	64,857	71,868
Aug.	1,453	1,659	62,573	78,314
Sep.	1,454	1,513	64,392	72,810
Oct.	1,555	1,572	66,811	74,601
Nov.	1,418	1,500	61,611	72,463
Dec.	1,452	1,544	67,520	76,563
Total	17,228	17,993	734,453	846,391

Source: Suez canal report 2010

(*): Normal transit days = 210.

Figure 2

NO & Net Ton Evolution (1975 - 2010)



Source: Suez Canal 2010

The above tables 1, 2 and figure 2 illustrate in explicit way the impact of financial crisis on Suez canal performance and its consequence impact on Egyptian Economy, where the course of the crisis and resulting directly from declining world trade, income dropped from US$ 5,155 million in 2007/08 to US$ 4,721 million in 2008/09.

1.3 Implication on Oil:

Crude oil prices reached a record high of US$ 147 per barrel (US$/b) in July 2008 on the back of a six-year commodity boom cycle driven mostly by demand from developing countries.1 However, as of August 2008, oil prices plunged rapidly as demand from the Organization for Economic Co-operation and Development (OECD) countries came to a sudden halt and recession loomed as the financial crisis severely impacted the global economy (IDS, 2008, p. 5). In an attempt to curb falling prices, the Organization of Petroleum Exporting Countries (OPEC) introduced a series of cuts in output. At the time of writing, oil prices have begun to stabilize at levels ranging in the mid US$ 40 per barrel[5].

[5] The impact of the global financial crisis on the world oil market and its implications for the GCC countries, paper was prepared within the framework of the ESCWA Initiative on Responding to the International Financial Crisis.

Table (3)

TABLE 2. WORLD OIL SUPPLY, 2008-2010

(*Million of barrels per day*)

Oil production	2008	2009	2010
EIU estimates			
OPEC	37.18	34.87	36.12
Non-OPEC	48.98	50.29	51.23
World total	86.16	85.17	87.36
US Department of Energy estimates			
OPEC	35.71	33.78	35.44
Non-OPEC	49.75	49.76	49.95
World total	85.46	83.53	85.39

Source: The Arab Petroleum Research Center, 2009; EIU, 2008.

The table (3) shows that OPEC countries introduced large-scale cuts in output as the sharp fall in oil prices began to bite into the revenues of major oil-exporting countries. These cuts were made in two stages: (a) first, the production target was cut by 1.5 million barrels per day (b/d), effective from November 2008; and (b) a further cut of 2.7 million b/d became effective on January 2009, amounting for a cumulated cut of 4.2 million b/d.

Also the prices of oil were affected by the global financial crisis through the effect of demand and supply of the oil. As a result, oil prices are expected to decrease by nearly 64 per cent in 2009, with an expected average annual price of US$ 35 per barrel, However, the EIU expects prices to recover in 2010, registering an increase of almost 43 per cent in 2009.

As usual Egypt is not far from the impact; Egypt's Crude oil is found primarily in the Gulf of Suez and in the Western Desert. Natural gas is found mainly in the Nile Delta, off the Mediterranean shore, and in the Western Desert. Oil and gas accounted for approximately 7% of GDP in fiscal year 2000/01[6].

Egyptian Oil also is considered one of the economic factors affected by the global financial crisis as the following:

- Decrease in oil prices in Egypt 50 percent in 2009 when compared to 2008.
- Decrease in number of oil cargo in Suez canal in 2009 when compared to 2008 as shown in table (4).
- Decrease of production and prices of the product oil's derivatives, due to Recessionary trends of oil.
- Increasing rates of inflation rate of 16.2% during the fiscal year 2008/2009 when compared to fiscal year 07/2008, which reached 11.7%.

[6] CIA World Fact Book - Egypt's Economy (https:/ / www. cia. gov/ library/ publications/ the-world-factbook/ geos/ eg. html)

Table (4)

Southbound Cargo Ton by Cargo Type (2008, 2009)

(1000Ton)

Cargo Type	2008	2009	%
Oil & Products:			
Crude Oil	10595	13574	28.1
Motor Spirit	7,099	7401	4.3
Gas oil & Diesel oil	1,066	2435	128.4
Fuel oil	15,981	10289	-35.6
Naphtha	2783	4,563	64.0
L.P.G.	861	1200	39.4
L.N.G.	1779	1213	-31.8
Others	40,164	40,675	-1.3

Source: Suez Canal 2009

1.4 Implication on FDI:

Net Foreign direct investment (FD) was the main proof that the reform measures undertaken by the government of Egypt were on the right track. FDI showed unprecedented growth in the last six years.

Figure (3) shows that global financial crisis has affected FDI flows across the globe. Egypt managed to attract FDI worth of US$ 6.8 billion in FY 2009/10. It is worthy to mention that net FDI peaked in FY 2007/08 at US$ 13.2 billion.

Also figure (3) illustrates the sectors compose the FDI (on average, 42.5% of FDI was channeled to establish new companies in addition to capital expansions, 1.87% of FDI during the same period went to the real estate sector.) Were affected by the global financial crisis as following:

- New establishment and expansion decreased from 6368 million US$ in 2007/08 to 2315 million US$ in 2008/09.
- Sale of assets to non-residences decreased from 2337 million US$ in 2007/08 to 303.5 million US$ in 2008/09.
- Real estate decreased from 394.9 million US$ to 138.4 million US$ 2008/09.
- Net FDI flows decreased from 13236.5 million US$ in 2007/08 to 8113.4 million US$ in 2008/09.

Figure 3

Sectoral Distribution of Net FDI Inflows (USD million)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	6 Year Average
New establishments & expansions	925.6	3,347.8	5,227.2	6,368.4	2,314.9	2,690.4	3,479.1
Sale of assets to non-residents	390.8	905.7	2,772.2	2,337.0	303.5	173.1	1,147.1
Real estate	16.5	25.7	39.0	394.9	138.4	305.3	153.3
Inflows in the petroleum sector	2,540.2	1,832.2	3,014.8	4,136.2	5356.6	3,589.4	3,411.6
Net FDI inflows	3,873.1	6,111.4	11,053.2	13,236.5	8,113.4	6,758.2	8,191.0

Source: central bank of Egypt, September 2010

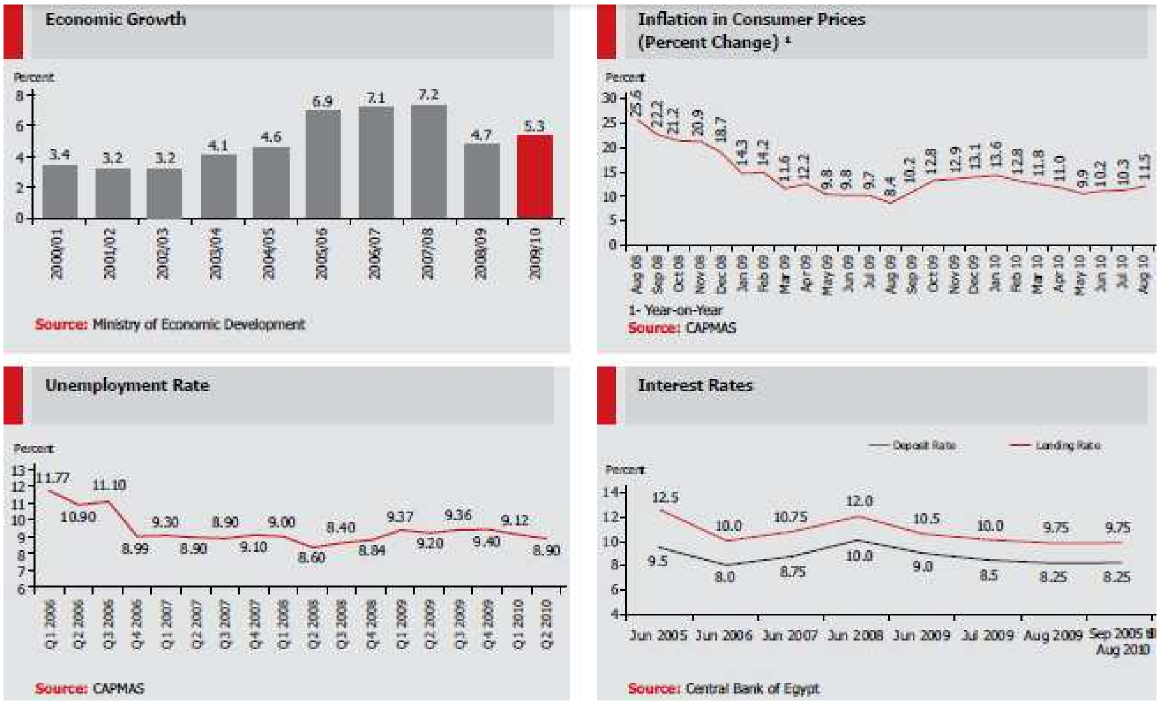
1.5 Implication on GDP:

Egypt has been amongst the Top 10 Reformers in the annual “Doing Business” report 2010, which is jointly produced by the World Bank and IFC, for the fourth time in five years; and one of the most open and dynamic economies among emerging markets with real GDP growth averaging 7% between FY 2005/06 and FY 2007/08[7].

EGYPT is one of the few countries that have managed to post respectable GDP growth in 2009 & 2010. Figure (4) shows that although the global financial crisis continues to interrupt the domestic growth momentum; making it far beyond the average steep growth of the last three years, which averaged around 6%. Economic performance was better than expected, although headline inflation remains elevated. Growth fell to only 4.7 percent in FY2008/09 on the strength of consumption spending, and production in the construction, communications, and trade sectors.

[7] Ministry of investment of Egypt 2011.

Figure 4



Finally, it is clear from the above mentioned analysis that , the global financial crisis has an impact on Egyptian Economy, such impact is clear in the Egyptian economic keys such as , Suez canal, tourism industry, and less effect on oil and GDP, as Egypt is considered one of the few countries that have managed to post respectable GDP growth in 2009 & 2010.

Chapter 2
Impact of Financial Crisis on Egyptian Market

In chapter 1 we discussed the impact of the global financial crisis on the main factors control in the Egyptian economy, such as tourism industry, Suez Canal, FDI, and GDP and we assess this impact on such factors. Chapter 2 will go through the expansion effect of the global financial crisis on Egyptian market, which constitute from employment market, stock market, housing market and business market.

2.1 impact on employment market.

The Egyptian people rely on their wages, pension or assets in their surviving. Most of Egyptian workers have their jobs either in government, private sectors, private business, or farmers.

The employees in the Egyptian government guarantee that their salaries will be paid by the government and the owners of the private sector may rely on their saving, or assets in circumstances of the crisis. The big problem faces any government in such crisis is the people whom rely on their wages, the number of farmers in Egypt will not be included in our assessment because their database for us will be difficult for determining. In Egypt we find that most of Egyptian workers have their jobs in the fields of spinning and textile, tourism, building and wood industries, food industries or chemicals.

Figure (5) shows the increased workers laid off in March, April and May 2009 in the above mentioned fields which indicate clearly the quick impact of the crisis on the worker in Egypt.

The Minister for Economic Development of Egypt confirmed that growth rates plummeted from 7.2% to 4.2% after six months of the global financial crisis (from October 2008 to the end of March 2009). In a press conference held on 14th May 2009 the Minister disclosed that the unemployment crisis during the past six months was the worst. According to the Minister: about 100 thousand workers were laid off and unemployment rate jumped to 9.37% during the first quarter of 2009 due to the slacken private investments and economic growth rates. In addition, the budget deficit rose from 11.8 billion to 20.2 billion Egyptian Pounds during the period from January to March 2009[8].

[8] Center for Trade Union and Workers Services (CTUWS), Impacts of the Global Financial Crisis on Egyptian Workers The Third Report – May 2009

Figure 5

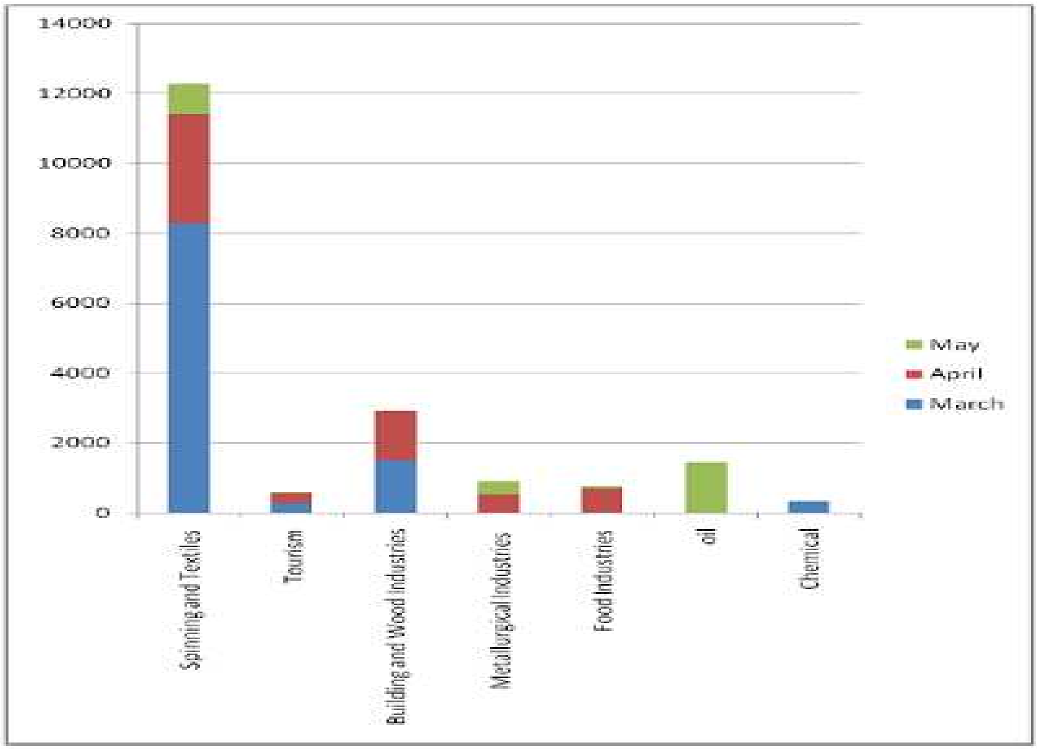


Table (5) shows the unemployment rates[9] increased constantly to peak at 9.43% in June 2009. Since then, unemployment has remained at this level. It is interesting to note that the unemployment rate increased between June 2008 and June 2009 although the total number of employed went up during the same period by over 110,000. Indeed, due to lower growth rates the labor market was not in a position to absorb the majority of new entrants during this period, although at just over 400,000, their number was low in comparison to previous years. This indicates that large numbers of people were discouraged from seeking employment or opted to stay in education. During the same period, the total number of unemployed grew by nearly 300,000, from 2.063 million to 2.369 million.

A gender-specific view on the Egyptian labour market during the crisis reveals that women were hit particularly hard. From June 2008 to June 2009, the female unemployment rate increased from 18.8% to 23.2%, while unemployment among men even decreased, from 5.4% to 5.2%.

[9] ILO, and American chamber of commerce in Egypt, impact of economic crisis on trade, foreign investment, and employment in Egypt, February 2010.

Table (5)

Labour force, employment, and unemployment in Egypt, 2007-09

	1.Q	2.Q	3.Q	4.Q	1.Q	2.Q	3.Q	4.Q	1.Q	2.Q	3.Q
	31/3/07	30/6/07	30/9/07	31/12/07	31/3/08	30/6/08	30/09/08	31/12/08	31/03/09	30/06/09	30/09/09
Labour force ('000)											
M	17,812	18,075	17,902	18,210	18,639.7	19,173	19,370	19,296	19,123	19,156	19,322
F	5,525	5,350	5,635	6,120	5,549.6	5,461	5,437	5,699	5,908	5,888	5,882
T	23,337	23,424.9	23,537.2	24,330	24,189.3	24,635	24,807	24,995	25,031	25,044	25,204
Working ('000)											
M	16,724	17,002	16,828	17,125	17,589	18,135	18,243	18,209	18,130	18,160	18,305
F	4,506	4,332	4,614	4,981	4,412	4,437	4,444	4,577	4,555	4,524	4,541
T	21,230	21,334	21,442	22,106	22,002	22,572	22,687	22,786	22,685	22,684	22,846
Not working ('000)											
M	1,088	1,073	1,074	1,085	1,050	1,038	1,128	1,087	993	995	1,017
F	1,019	1,019	1,021	1,139	1,137	1,024	993	1,122	1,353	1,364	1,341
T	2,107	2,092	2,095	2,224	2,188	2,063	2,121	2,209	2,346	2,359	2,358
Unemployed rate (%)											
M	6.11	5.93	6.00	6.00	6.63	5.42	5.82	5.63	5.19	5.20	5.30
F	18.45	19.04	18.12	18.60	20.50	18.76	18.27	19.69	22.90	23.16	22.80
T	9.03	8.93	8.90	9.10	9.00	8.40	8.6	8.8	9.37	9.42	9.40

* Preliminary Data.

Note: Figures may not add up to totals because of rounding. Figures do not include those working outside the country.

Source: CAPMAS Quarterly Labour Force Sample Survey.

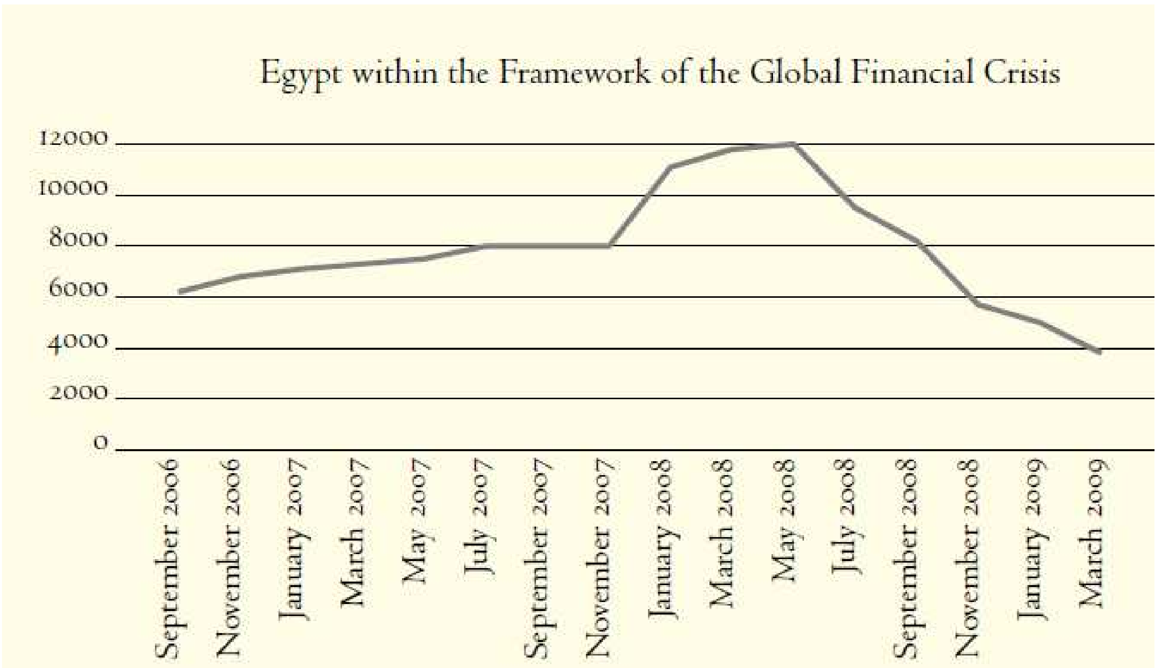
The employment-impact of the crisis also heavily depends on the number of migrant workers that returns from abroad, in particular from the Gulf States where an estimated 2 million Egyptians are working. According to estimates of the Center for Trade Union and Workers Services, more than 75,000 Egyptians returned from the Gulf countries between October 2008 and August 2009. Thus, economic prospects and labour market policies in the GCC countries have a direct impact on Egypt's labour market situation[10].

2.2 impact on Egyptian stock market:

Egyptian capital market indicators said that the stock market had a downward trend since the beginning of the financial crisis from September to December 2008. EGX 30 showed the highest decline by 63.9% as compared with the same period in 2008. The ability of the Egyptian economy to confront the crisis goes back in particular to the government policies and procedures to increase investment expenditures and to the confrontation of the crisis repercussions on unemployment through a social program that encourages maintaining employment levels and putting a plan to support farmers and the agricultural sector.

[10] Center for trade union and workers services 2009.

Figure 6



Source: Egypt Weekly Market Review, 1 March 2009

Figure (6) shows that as a result of the above mentioned 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[11].

2.3 impact on Egyptian housing, and construction market:

Egypt construction industry is one of its fastest-growing sectors. The construction sector employs an estimated 7.7% of Egypt's labour force and contributed 4.3% of GDP in 2007/08, after growing strongly by 14.8% in 2007/08 and 15.8% in 2006/07.45 The 2008/09 growth rate slowed to 11.4%. While the growth of the sector has been spurred in part by the housing demands of an ever-increasing population, it has largely been fuelled by the state's continued investment in large infrastructure projects[12].

[11] Assem Reda abu Hatab "Egypt within the Framework of the Global Financial Crisis: Impact, Response and Way Forward"

[12] ILO, and American chamber of commerce in Egypt, impact of economic crisis on trade, foreign investment, and employment in Egypt, February 2010.

The construction industry has benefited from the government's support of existing large-scale infrastructure projects as well as the support of new projects in the wake of the financial crisis. Of the total LE 15 billion stimulus package issued in March 2009, over half of the budget was directed to stimulate or sustain the construction of infrastructure for public utilities such as water and sewage facilities, roads and bridges, health centers, and schools. Still, while the construction industry continues to be supported by government spending, this does not a priori translate into increased or sustained levels of employment. In monitoring the response to the global financial crisis, from March to September 2009 the Centre for Trade Union and Workers Services documented lay-offs of 2,667 workers from 29 companies in the construction sector[13].

The impact on housing market was clear in the form of[14] :

- Decline in activity of banks in retail banking (personal loans - loans auto finance - Mortgage finance, etc. ..) due to the expected fall in aggregate demand for consumer goods or real estate purposes.
- Some banks have also imposed new controls on the granting of loans.
- Number of companies declared in December 2008 to postpone the dates of delivery of housing units for periods of up to 15 years, because of its losses.
- Withdrawal of some companies from the housing market has led to affected by this market significantly.
- The global financial impacted negatively on the sector of marble and granite for example, where profits fell by 30%.
- Decreasing in the labour numbers working in housing market and construction field.

2.4 impact on Egyptian Business, and Investment:

The impact of financial crisis and credit crush has a debate between whom work in business fields, where some of them saw that such crisis has no impact on their business and most of them are small business size, on other hand the Medium sized organizations reported the most impact on business continuity activities, and large organizations also reported a negative impact.

In Egypt the private business sector considers a key development driver, and investments of this sector represented over 70 percent and 60 percent of total investments and GDP respectively.

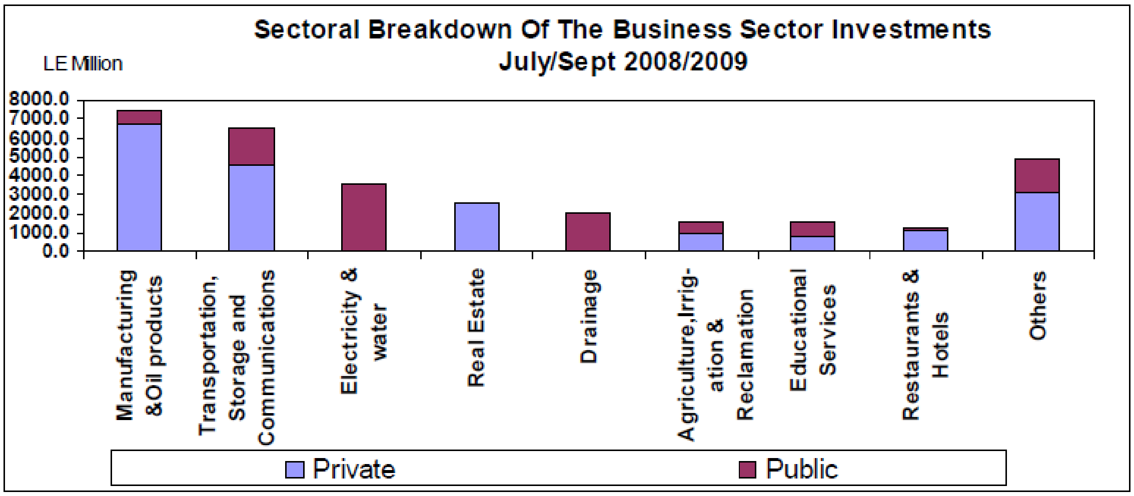
In 2008/2009 the public business sector contributed some 0.5 percentage points to the growth rate of LE time and Egyptian saving deposits. On the other hand, deposits of the private business sector showed a negative contribution of 2.3 points. This was a result

[13] Centre for Trade Union and Workers Services (2009)

[14] http://globalarabnetwork.com/economics-and-development/property/4344-2011-05-29-15-39-45

of the drop in the sector's deposits by LE 9.9 billion or 11.6 percent mainly because of the decline in the deposits of mutual funds at banks[15].

Figure 7



Source: central bank of Egypt.

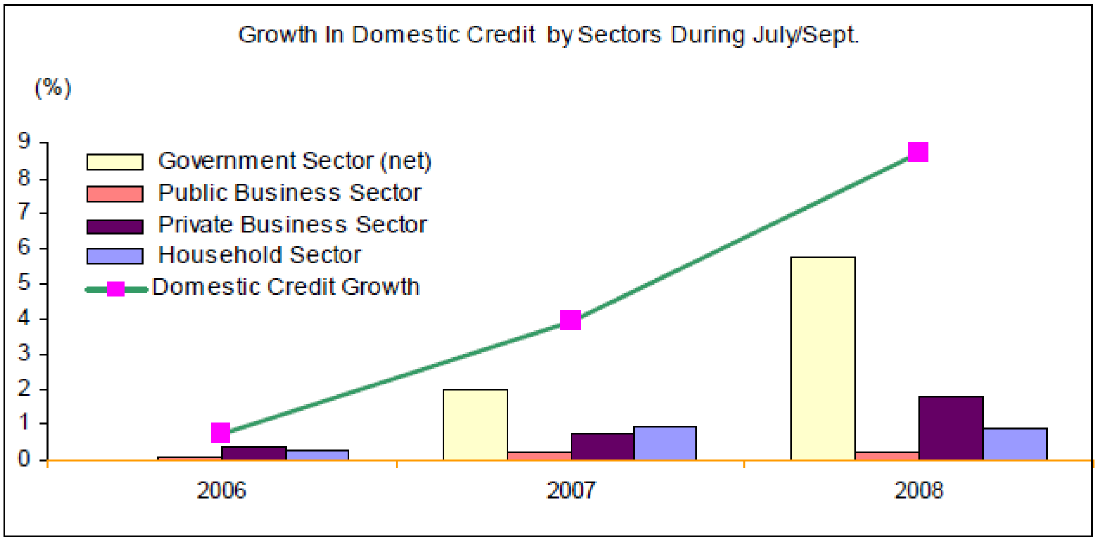
Figure 7 shows Breakdown of total implemented investments by economic sector (at current prices) reveals that oil, natural gas and other extractions accounted for 27.7 percent; manufacturing 17 percent; electricity and water 8.4 percent; agriculture and irrigation 3.6 percent; construction and building 1.9 percent; productive services 20.9 percent; and other services 20.5 percent.

Figure 8 shows that the private business sector received about 20.7 percent of the increase in credit during the reporting period. As such, credit to this sector rose by LE 10.5 billion or 3.6 percent, against LE 4.1 billion or 1.5 percent, bringing its indebtedness to LE 302.2 billion or 48.6 percent of total credit. Around 70 percent of the credit increase went to the units of this sector (in the field of trade and manufacturing).

The public business sector received only LE 1.3 billion or 5.0 percent of the increase in domestic credit during the period. This brought its loans up to LE 28.2 billion or 4.6 percent of total domestic credit at the end of September 2008.

[15] Central bank of Egypt, ECONOMIC REVIEW,Vol. 49 No. 1, 2008/2009

Figure 8



Source: central bank of Egypt.

From the above mentioned information, we conclude that business market was affected in a notable way by the global financial crisis either in public business sector or private public sector.

Chapter 3
Egypt intervene the financial crisis

Chapter 1 showed us the impact of financial crisis occurred in September 2008, on the Egyptian economy, and how the macroeconomic keys that contribute significantly in this economy affected by this crisis. In that chapter also we saw the great impact on Egyptian tourism industry in the year follow the crisis, Sues Canal, oil, FDI, and Egyptian GDP.

In chapter 2 we examined the effects of the global financial crisis on the Egyptian market and its contents, and we saw how employment market affected by the crisis, also we review the status of Egyptian stock market, housing and construction market and finally we saw how the central bank of Egypt assessed the impact on business and investment market.

Now in chapter 3 we will review some if the theoretical visions about the financial crisis in general, then we examine how Egypt intervene the global financial crisis, and what tools used to face the impact of such crisis , especially after considering Egypt one of the country's succeeded to walk smoothly beside the crisis without falling in its darkness.

3.1 theoretical reviews:

Marx vision[16]:

The basis of a credit crisis lie in the unplanned nature of capitalism which leads to periodic over-production, Marx had emphasized the role of speculation in precipitating such crisis as following:

In a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur — a tremendous rush for means of payment — when credit suddenly ceases and only cash payments have validity. At first glance, therefore, the whole crisis seems to be merely a credit and money crisis. And in fact it is only a question of the convertibility of bills of exchange into money. But the majority of these bills represent actual sales and purchases, whose extension far beyond the needs of society is, after all, the basis of the whole crisis. At the same time, an enormous quantity of these bills of exchange represents plain swindle, which now reaches the light of day and collapses; furthermore, unsuccessful speculation with the capital of other people; finally, commodity capital which has depreciated or is completely unsalable, or returns that can never more be realized again. The entire artificial system of forced expansion of the reproduction process cannot, of course, be remedied by having

[16] Karl Marx, *Capital Vol. III*, Part V, Chapter 30, Money-Capital and Real Capital. I, http://www.marxists.org/.

some bank, like the Bank of England, give to all the swindlers the deficient capital by means of its paper and having it buy up all the depreciated commodities at their old nominal values.

Keynes vision[17]:

In his General Theory, Keynes had located the basic problem of contemporary capitalism in the increasing predominance of "speculation" over "enterprise" along with the development of the financial markets, Keynes mentioned in his book:

"If I may be allowed to appropriate the term speculation for the activity of forecasting the psychology of the market, and the term enterprise for the activity of forecasting the prospective yield of assets over their whole life, it is by no means always the case that speculation predominates over enterprise. As the organization of investment markets improves, the risk of the predominance of speculation does, however, increase. In one of the greatest investment markets in the world, namely, New York, the influence of speculation is enormous. Even outside the field of finance, Americans are apt to be unduly interested in discovering what average opinion believes average opinion to be; and this national weakness finds its nemesis in the stock market . . . when he purchases an investment, the American is attaching his hopes, not so much to its prospective yield, as to a favorable change in the conventional basis of valuation, i.e. that he is, in the above sense, a speculator. Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a byproduct of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism—which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object."

The financial crisis afflicting the US and other advanced capitalist countries today is an outcome of these structural contradictions underlying capitalism, which were underlined by Marx and Keynes. Following the Great Depression of the 1930s, which was precipitated by a collapse of asset prices leading to a deep recession and burgeoning unemployment, the ideas of Marx and Keynes had gained currency. It was also noted widely that the socialist countries where the state played the predominant role in economic activity and finance was strictly under state control, had remained immune

[17] John Maynard Keynes, *The General Theory of Employment, Interest and Money*, Chapter 12, The State of Long-Term Expectation. http://www.marxists.org/.

from the Depression. While the Depression had initially led to inter-imperialist conflicts and the rise of fascism culminating in the Second World War, the post-War period saw.

the adoption of the Keynesian policy prescriptions in the capitalist world: "comprehensive socialization of investment," implying state intervention in demand management to ensure full employment and "euthanasia of the rentier" meaning low interest rates, strict regulation of finance and control over capital flows.

Milton Friedman vision[18]

The theoretical backlash came in the form of Milton Friedman's monetarist counter-revolution, which basically argued that a market economy has a "natural rate of unemployment" to which it would always settle and any intervention by the state to reduce unemployment below this "natural rate" would only result in accelerating inflation. This reincarnation of the flawed classical theory, which was so decisively challenged by Keynes, nonetheless set the stage for the adoption of neoliberal policies, entailing withdrawal of state from economic activity and abandonment of demand management. Full employment as a policy objective was replaced by an obsession to control inflation, mainly by creating unemployment through deflationary policies and attacking the trade unions and workers' rights, in order to weaken their bargaining power and suppress wages.

3.2 Egypt's Intervention to financial crisis:

Egyptian Government has a number of precautionary measures to get out the global financial minimum losses, especially in the financial sectors and economic sectors driving growth such as tourism, construction and manufacturing industries and the Suez Canal, which helped to alleviate the reduction of the effects of the financial crisis, bringing the rate of economic growth during the year 2008/2009 about 4.7% at a time when the economic growth in some major countries to the rate of zero percent. Those measures came in two forms of stimulus which are fiscal, and monetary. We will look at those interventions below.

Fiscal stimulus package:

The first of these measures of government is the fiscal stimulus package to support the economic sectors, about 15.5 billion pounds that equal to 1.5 percent of GDP as shows in table (6) - mostly to finance accelerated investments in public utilities and to sustain economic performance. - were awarded to the sectors with retroactive effect since December 2008, as well as take action to control prices in the market procedure,

[18] Global Financial Crisis: Lessons in Theory and Policy, The Marxist , Volume XXIV, No. 3 July-September 2008, PRASENJIT BOSE ROHIT

especially for strategic commodities, as the Government has developed strategic plans to promote tourism and stimulate investment, especially with Arab and foreign countries[19].

Table 6

Overall Stimulus Package	15,532
I. Investment Expenditure	**10,832**
I.I For General Budget Sector	
- Potable Water and Sewage projects	7,030
- Building roads and bridges	1,000
- Domestic development projects in various governorates	1,000
- Building basic health care centers	400
- Building schools	150
- others	652
Total investment in the budget sector	10,232
I.II For Economic Authorities	
-Improving the efficiency of railways	400
- Executing infrastructure 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)	**2,700**
- 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	**2,000**
- Reducing custom duties on some industrial inputs and capital goods	1,500
- Temporary lift of sales tax on capital goods	500*

*Another 500 of foregone sales tax on capital goods are estimated to take place during FY 2009/10.

Source: ministry of finance.

Table 6 shows that the Egyptian government focused on some field affected by the financial crisis such as building basic health care centers (400 million bound, 2100 million bound to export sector , 400 million bound to support industrial zone in Dela, and 200 million bound supporting the logistic areas for internal trade).

Now we will deal with the most fields affected by the global financial crisis and how the Egyptian government intervenes to save such fields from bankrupt.

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19 www.sis.gov.eg

Helping Textile and clothing field:

Egypt's Textile and clothing sector is important in terms of contribution to employment, GDP, and foreign exchange generation. This field one of the most industries affected by the financial crisis because the huge number of employments work in, and the investment either domestic or FDI.

In the assessment of the impact of financial crisis on the textile and clothing industry we saw a dramatic decline in both productions by some 25 percent and exports by some 22 percent, those decline translated into a striking 70,000 job losses.

The government in its stimulus package introduced new import tariffs for several products such as cocoa, cigarettes, chemicals, steel products, and machineries, while at the same time eliminating import tariffs on yarn, tin, and textiles. Moreover, in January 2009 it imposed 25 percent — precautionary fees on imports of cotton yarn, fabric, which was later eliminated, the government also reduced import tariffs on specific capital goods not produced domestically to stimulate investment[20].

Also the government support the industrial factories work in Delta either fiscally or by supporting the export by the program of export subsidiary (2100 million bound) and in 2009 the Egyptian authority imposed safeguard measures on cotton yarn, and textile from all origin of the world.

Helping Tourism field:

In chapter 1, we discussed the impact of the financial crisis on tourism industry as shown in table (7), and now we examine the response of Egypt to help this factor from such impact in form of rescheduling of outstanding debt for tourism projects, the provision of loans for new projects, and an increase of the public marketing budget for tourism.

Table 7

Tourism industry: 2003/04 to 2008/09

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Number of tourists arrivals (‹000)	7,512	8,651	8,693	9,788	10,706	..
Tourist nights (‹000)	73,002	85,730	85,113	96,270	110,968	..
Tourist revenues (US$ million)	5,475	6,430	7,235	8,183	10,827	10,488

Source: CAPMAS

[20] World Trade Indicators 2009/10

Reducing tariffs and measure:

Egypt considers one of the active countries in the global trade, where foreign trade has played an increasingly important role in Egypt's economy. Fuelled by Egypt's policy of unilateral and regional trade liberalization, foreign trade grew at unprecedented rates - between 2004 and 2008, merchandise exports more than tripled and merchandise imports more than quadrupled at 96% for imports and 62% for exports, growth rates were particularly impressive in 2008, the pre-crisis year. Egypt's openness ratio increased impressively, from 23.2% in 2004 to 48.6% in 2008.

Trade data for the first five months of 2009 indicates that trade has been a major transmission channel of the crisis: Exports fell by over 25%, while imports decreased by more than 17%. A positive side effect of the downturn was that it also put a damper on import demand, helping to bring down the trade deficit.

The response by the Egyptian government in this issue was explicit in its stimulus package, where there 2100 million bound was assigned to supports the exports especially after the non-petroleum product are declined significantly after the crisis. Not only are this action taken by the government, but also there reduction on all imports not considered as a final product.

Moreover, in 2009 the Egyptian authority impose some safeguard measure on the cotton yarn , textile (25% of CIF), , white sugar (500 LE/ ton) [21], hot and cold rolled steel in order to protect the Egyptian domestic industry .

Helping manufacturing field[22]:

The Egyptian government in its stimulus package assigned some of actions taken to help the manufactured field in financial crisis intervention as following:

- Waving sales tax on machinery, equipment and capital goods for one year starting January 2009.
- Postponing the payment of 75% of industrial land installments due to the government for one year.
- Fixing natural gas and energy prices for all operating plants till the end of 2009, and rescheduling of energy connection fees over three years.
- Enhancing services provided by the Industrial Training Council, the Industrial Technology Centers and the Industrial Modernization Center by reducing contributions by benefiting companies to 50%, so as to better serve 11,500 companies staffed with around one million insured workers.
- Increasing subsidies to services provided by technological centers to various industries.

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[21] Egyptian gazette. 15 January 2009, vol no, 12.

[22] Egypt Response to the Global Crises, Egyptian Ministry of Finance, Macro Fiscal Policy Unit , June 009

- Decentralizing the process of issuing industrial and operating licenses to the boards of the Industrial Zones at governorate level, and streamlining the required procedures for the renewal of industrial registration.
- Providing the required approvals for all new non-energy-intensive industrial projects in one day.

Monetary Stimulus[23]

In the financial crisis, the government should not take only fiscal stimulus package, but it also in such circumstances obliged to intervene in monetary stimulus too.

In Egypt the CBE has affirmed that it continues to guarantee all deposits in the banking sector. Though this is formally promulgated by law, this move came 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. First, the global inflationary wave during 2007/08 signaled that monetary policy would maintain a non-expansionary stance to avoid pressures stemming from possible demand driven inflation. As such, the Central Bank increased the overnight deposit and lending rates for its corridor system by 275 basis points over six successive times. Later, as inflationary pressures subsided, and as pressures from the current global 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. 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 grim outlook shed by the global financial turmoil as the drivers behind it 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. It is worth noting that annual headline CPI inflation continued to decline in May 2009, reaching 10.2% and recording a cumulative drop of 13.4 percentage points since its peak in August 2008.

Further, 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% 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

[23] Egypt Response to the Global Crises, Egyptian Ministry of Finance, Macro Fiscal Policy Unit , June 009

corporate sector investment in financial instruments of more than 3-year maturity to encourage 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 LE10 billion initiative of retail banking to stimulate private household consumption. Such funds will be allocated to the finance of personal loans, car loans, and purchase of durable goods.