How are people’s lives affected by political transition?

Special Focus: Egypt

Since January 2011, macro-economic instability is being fuelled by a volatile socio-political situation in Egypt. Rising unemployment and poverty are worsening food insecurity at a time when the subsidy system is under pressure.

A sluggish macroeconomic performance along with political instability

Since the beginning of 2011, Egypt is facing political instability. President Mubarak stepped down in February 2011 after massive demonstrations. A new constitution was drafted and President Morsi was elected in June 2012. Continued economic disruption and civil unrest led to another regime change on July 3, 2013.

The overall economic situation is undermined by poorly performing macro-economic indicators. Real GDP growth is forecasted to remain low at 2.2% in 2013, similar to the previous three years. Current fiscal deficit is estimated at 11.8%, up from 8.8% in 2011/12. Public debt is projected to reach 92% of GDP, an increase of 11.9% from 2010. The balance of trade has been deteriorating since 2003/04, with a deficit of USD 31.7 billion in 2011/12 (-17% from 2010/11). Since 2010, foreign-exchange reserves have shrunk severely from USD 32.5 billion to USD 11.2 billion (-65.7%) and net direct investment flows have almost collapsed (-80%).

Timeline of Egyptian Crisis

Source: http://news.uk.msn.com/world/egypt-crisis-timeline-of-key-events

1. Economic Intelligence Unit.
2. Egypt Ministry of Finance. Actual budget data for first 11 months, fiscal year July-June.
3. Economic Intelligence Unit.
5. Excluding SDR and Gold.
7. Economic Intelligence Unit; based on calendar year.
Poor economic performance and plummeting foreign reserves are fuelling the depreciation of the Egyptian Pound and inflation. In January 2013 the exchange rate (against US Dollar) depreciated by 5.9% following the partial foreign currency auction. Comparing the recent exchange rates against the 2008/10 average, the local currency depreciated by 5.6% in February 2011 when the regime changed, and by 20.6% in July 2013, when political uncertainties escalated. Currently, Egypt is undertaking bilateral and multilateral loan negotiations to relieve its tightening foreign reserves. Since last fall, the declining trend of year-on-year inflation has reversed, with both headline and food inflation up above 8% or 9% respectively in April/May 2013.

The steep decline in foreign reserves by almost 2/3 is a clear indication of a reduced import capacity. Egypt is currently world largest wheat importer, with an estimate of 8.5 billion metric tons, about 6% of world wheat imports in 2012/13. The share of imported wheat is estimated at about 46% of domestic consumption in 2012/13. Wheat supplies mainly the public distribution system to provide subsidized baladi bread. The current wheat stock-to-useratio is almost half the 2011/12 level, down from 36% in 2011/12 to 20% forecasted in 2013/14. Besides food, energy (electricity, gas and fuel) is also subsidised. Energy needs are expected to peak in summer, causing power cuts and fuel shortages at a time of limited import capacity.

The sluggish economic performance has slowed down domestic demand. Both private and public consumption (as a share of GDP) declined by 35% and 26% respectively from 2011. Meanwhile, real wage rates remained almost unchanged during the last two years (-1% in 2011, and +1.8% in 2012)\textsuperscript{10}.

In the first quarter of 2013, about 3.6 million persons were estimated unemployed (i.e. 13.2% of the labour force), with a higher rate in urban areas (15.7% vs. 11.3% in rural areas). Compared to Q1-2010, there is an additional 1.2 million unemployed. Youth unemployment (15-29 years) is currently at 81.9%\textsuperscript{11}.

A recent WFP study\textsuperscript{12} shows that 25.2% of the population lived below the poverty line in 2011, an increase from 21.6% in 2009. The Egyptian Food Observatory also reports an increasing monthly price burden for basic food commodities since January 2011\textsuperscript{13}, with close to 77% of the poorest households monitored not having enough income to cover monthly food needs in March 2013.

With a worsening economic situation and continued political uncertainties, poverty and food insecurity are likely to rise further.

\begin{figure}[h]
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\includegraphics[width=\textwidth]{Exchange_Rate_and_Foreign_Reserves.png}
\caption{Exchange Rate and Foreign Reserves}
\end{figure}

\begin{figure}[h]
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\includegraphics[width=\textwidth]{Inflation.png}
\caption{Inflation}
\end{figure}

\textbf{Drawbacks for food security}

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8. United States Department of Agriculture, Foreign Agricultural Service.
10. Economic Intelligence Unit.