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## Labor in Egypt

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After a period of unprecedented economic growth between 1975 and 1985, the situation in Egypt changed dramatically in 1984-85. The boom in the Egyptian economy –mainly, due to large foreign exchange inflows, supported by higher petroleum prices and export proceeds, higher Suez Canal revenues, accelerating worker’s remittances, and enhanced tourism earnings– ended in 1986. The drop in foreign inflows came because of unfavourable external developments, principally the decline in petroleum prices as well as in other related sources of foreign exchange, recession in the world economy, and the sharp decline in the flow of aid. Unable to respond to these external shocks due to structural weakness of the Egyptian economy, Egypt experienced a dramatic fall in growth and severe macroeconomic imbalances (Kheir –El-Din & El-Shawarby, 2003).

It became obvious that the Egyptian economy could not meet the needs of the society without external assistance. In the meantime, Egypt faced a problem with its creditors, as it was not able to maintain debt-service payments. The following key indicators show the extent of the crisis facing Egypt in the beginning of 1990 (CBE, 1992-1998):

- a) Total external debt of about US \$ 49 billion,
- b) Total external debt-to-GDP ratio of 150%,
- c) Budget deficit equal to about 20% of GDP,
- d) Inflation above 20% per year,
- e) Negative real interest rates of about 6%, and,
- f) Total foreign reserves equal to just over three weeks of imports.

This situation provided the background to the stabilization package with the International Monetary Fund (IMF), formally concluded in May 1987 (Stand-by Agreement), after a long period of protracted negotiations.

The main objectives of the Stand-by agreement were: (1) preparing the ground for sustained economic growth, (2) reducing the rate of inflation, and (3) stabilizing the current account deficit of the balance of payment. To achieve these objectives, various measures were stipulated, covering exchange rate, monetary and fiscal policy (Abdel-Khalek, 2001, p 25).

The first agreement (Stand-by Agreement) with IMF was cancelled after only three months because of the failure of the Egyptian government to meet the International Monetary Fund (IMF)’s requirements. According to the Fund’s officials, the Egyptian government adopted a lukewarm attitude and failed to meet performance criteria (IMF, 1991).

However, Egypt was obliged to turn once again to the IMF for help, and go for another round of negotiations, which concluded in an economic reform program by the end of 1990. In April 1991, the Government of Egypt (GOE) launched a comprehensive stabilization and reform program (Economic Reform and Structural Adjustment Program ERSAP) with both the IMF and World Bank. The basic goal of the economic reform program was to generate sufficient growth rates that would help buoy employment opportunities for the growing population –

The program consisted of four overlapping phases (MOFT, 2003):

1. **The first phase** of the stabilization program, involved fiscal and monetary tightening, exchange rate liberalization, and price deregulation.
2. **Phase two** of the program has also seen further deregulation of prices, opening of markets, promoting investment, boosting and structuring of the financial sector, and granting a greater role to the private sector.
3. **The third phase** of the economic reform program has been commended by the IMF “as an achievement that has few parallels”. A fundamental policy challenge that was

facing Egypt was to consolidate and extend the ongoing recovery, particularly in view of increased global challenges. This required continued strong macroeconomic policies, accelerated structural reforms, and the promotion and diversification of exports.

4. The goals of **phase four** included continued fiscal reform, enhancing the instruments of monetary policy available to the CBE, increasing the pace of structural reform and enhancing transparency in the regulatory and institutional frameworks.

The key goals of this program were: (Ash, 1993; Youssef, 1996; and Road, 1997):

- a) Reduce the size of the public sector through privatization;
- b) End controls over investment and eliminate most tariffs on imports;
- c) Liberalize the prices of the manufactured products;
- d) Raise energy and transport prices to realistic levels;
- e) Reduce consumer subsidies and target them towards the poorest groups;
- f) Deregulate and simplify laws and regulations; and
- g) Encourage private sector activity in all sectors including financial services.

In the meantime, the new agreement with the World Bank and the IMF expected the GOE to introduce several measures immediately, including (Middle East Executive Report, 1992):

- (1) Removing ceilings on interest rates,
- (2) Liberalizing exchange rates, and,
- (3) Introducing a new sales tax.

The success achieved by Egypt's economic reform program between the fiscal years 1991/92 to 1997/98 can be summarized in the following points:

- the Egyptian external debt has been decreased significantly from US \$ 49 billion in 1990/91 to only US \$ 26.6 billion in 1997/98.
- The debt ratio as a percentage of GDP has decreased significantly from 151 per cent in 1990/91 to only 37.7 per cent in 1997/98.
- The real interest rates became positive at 5 per cent in 1997/98 compared with a negative rate of interest at 6 per cent in 1990/91.
- The rate of inflation has declined sharply from 23.6 per cent in 1990/91 to only 4.1 per cent in 1997/98.
- With regard to the exchange rate, Egypt, like many other developing countries, had a multiple exchange rate system (MER). After the adoption of the economic reform program, the former multiple exchange rate system was replaced by a single-rate, market-oriented system with a managed floating of the Egyptian Pound for all public and private transactions. Although the Egyptian Pound (LE) depreciated during 1991, the exchange rate stabilized in the range between L.E. 3.35-3.41 to US \$1 from the third quarter of 1991 until the fourth quarter of 1998).
- The foreign reserves increased significantly from only US\$ 3.6 billion in 1990/91 to US\$ 21.8 billion in 1997/98, which meant an increase of more than 500 per cent was achieved.
- The real GDP growth rate declined sharply in the first two years of the economic reform program period to 1.9 per cent and 2.5 per cent, respectively. However, since 1993, the real GDP

growth rate has grown steadily, reaching 5.7 per cent in 1997/98 (CBE, 1998). However, the growth rate has declined since the beginning of 2000.

- In terms of the budget deficit, there has been a significant decrease through the period from 1990/91-1997/98, with the overall deficit as a percentage of GDP declining from about 18.2 per cent in 90/91 to only 0.06 per cent in 1997/98. In fact, the reduction in the overall deficit was obtained through both increasing the revenues and reduction in the expenditure. (CBE, 1998).
- With regard to the privatization program, the first stage in the privatization process, which started in May 1991, was to cut off subsidies to the state-owned enterprises, followed by the removal of public enterprises from direct ministerial control (Field, 1995). The three hundred and fourteen public sector companies, were grouped in 1991 under twenty-seven holding companies (now reduced to sixteen), responsible for all the affiliates in a particular sector (Road, 1997, and Timewell, 1991). A wide-scale privatization program started eventually. The process came almost to a halt in 1997. The Egyptian economy has suffered, since 1997 three well-known shocks.
  - The first shock was Luxor massacre November 1997, which negatively affected tourism;
  - the second shock was Far East crisis of June 1997, which boosted imports from the affected far eastern countries and;
  - the third shock was the sharp decline in the oil prices.

The Egyptian economy endured several additional problems such as the decrease in the level of saving, the decline in the level of foreign direct and indirect investment, the balance of payment deficit, the inequitable income distribution, and the increase in the public debt and budget deficit. These repercussions were coupled with a continuous lack of confidence that was associated with the serious twin crises, namely recession and foreign exchange (El-Said, Mustapha, 2003). The beginning of the new millennium witnessed a series of developments that cast their dark shadows on the labor market in several ways.

Firstly, the gross domestic investment started to decline as percentage to GDP from 21% in 1999 to 17.6% in 2002. This change came because of the growth of non-performing loans, which started to pose a threat to both the banking system and other investors, and which were triggered by the on-going recession and the weakening real demand.

**Table 1 Selected Macroeconomic Variables**

Year	1995	1996	1997	1998	1999	2000	2001	2002
GDP at factor Cost (LE) Bill, Current Prices			240.3	259.7	282.3	316.4	338.6	363.1
Real GDP Growth Rate		5	5.3	4.6	6.3	5.1	3.3	3.1
Inflation Rate		7.3	6.2	3.8	3.8	2.8	2.4	2.4
Export (US\$ millions)*	4957	4609	5345	5128	4445	6388	7078	6643
Import (US\$ millions)*	12811	14107	15565	16899	17008	17860	16441	14644
Trade Balance*	-7854	-9498	-10220	-11771	-12563	-11472	-9363	-8001
Export/Import*	32.67	32.67	34.34	30.34	26.13	35.77	43.05	45.36
Foreign Direct Investment (US\$ millions)*	783	627	770	1104	711	1656	509	428
Portfolio Investment (US\$ millions)*	4	258	1463	-248	174	473	261	45
National Saving/GDP(%)**			11.5	10.9	11.9	11.6	12.2	11.4
National Investment/GDP(%)**			20.9	21.3	20.8	18.9	17.7	17.6

\*Source: Central Bank of Egypt.

\*\*Source: Ministry of Planning and Central Bank of Egypt

Secondly, the inflow of the FDI dropped sharply in 2001 and afterward. The portfolio investment went through a similar process of decline.

Thirdly, the GDP's growth rate declined from almost 6% in 2000 to 3% in 2002.

Fourthly, the recession was reflected on the trade balance deficit, which declined from US\$ 12.6 billion in 1999 to US\$ 8.0 billion in 2002. This decline was basically a result of decreasing imports more than an increase in exports in the years 2000 and the subsequent years.

The current account balance started to show a growing deficit at end of the nineties relative to the mid nineties, and the international reserves diminished from US\$ 20.3 Bill in 1997 to US\$14 Bill in 2001.

These developments affected the labour market in several ways:

- 1- The ability of both the public and private sector to hire or employ workers was weakened by the unfavourable investment climate. The **official unemployment rate** started to increase from a modest 7% in 1996 to exceed 10% in 2001. The unofficial **estimate** of the unemployment rate indicated even higher rates, ranging from 11% to 17% from 1998 and onward.
- 2- **Real wages** have gone through a steady spiral of decline since the end of the eighties. The decline has been accentuated since the end of the nineties due to the rise in unemployment. In addition, ever since the end of the eighties, Egypt has not revised of the level of its minimum wage.
- 3- **The unemployment rate of females** was almost four times higher than that of males. This phenomenon is the outcome of diminishing government and public sector jobs. Government was the major job provider for women. As to the private sector, whether formal or informal, there seems to be an unwritten bias against hiring females for several reasons that have to do with marriage, bearing children and the need for maternity rest and other related rights. In addition, the educational levels of the female workforce is well below that of males, further hampering women's prospects in the labor market.
- 4- **The rural workforce** suffered from higher unemployment rates than does urban labour. This phenomenon is particularly visible in Lower Egypt and Greater Cairo. One possible explanation of the high unemployment rate in Lower Egypt is the emphasis of the government and NGOs and the international organizations on injecting most investment in Upper Egypt, which led to the new trend of growing unemployment in Lower Egypt. As to the high unemployment rate in Greater Cairo, one could only say that it is an extension of the situation in rural Lower and Upper Egypt, as the peripheries of Cairo are villages belonging to Kalioubia ( a governorate in Lower Egypt) or to Giza ( a governorate in Upper Egypt).
- 5- **The unemployment rate is higher amongst the youth** in the age bracket 15-29 years old. Almost 84 % of the unemployed in 1998 are in the young age bracket. This is due to the ongoing recession which led to a situation where hiring of inexperienced, first time job seekers became scarce except in the case of informal or small enterprises.
- 6- The unemployment rate is higher among **labour with intermediate education** (55% of the unemployed were individuals with intermediate education). This could be explained by two factors: the first factor is that government hiring of the university and secondary schools graduates declined rapidly during the last decade; and the second factor is the low skill levels of those groups of labour market entrants, which limits their chances of finding work in the modern private sector companies.
- 7- **The unionization rate** is largely limited to workers in the State Owned Enterprises, who do not represent more than 7% of total employment. However, the active role of the trade unions in negotiating or setting wages is almost non-existent. Union membership in private sector companies is minimal and of no economic or social or political consequences. The falling real wages reflect the missing contribution of the trade unions in defending the worker's right for a decent wage and living.

The insufficient demand for workers by the private sector and the growing numbers of unemployed put substantial economic and social pressures on the GOE. In its attempt to deal with the problem, the Prime Minister declared- in his presentation of the "Government Program" (Dec. 1999) - that all efforts will be paid to create maximum employment opportunities. To realize this goal, around

650,000 work opportunities were to be created through the public sector, the private sector, the SFD, the Information and Communication Sector and the Service Sector<sup>1</sup>. The launching of the "National Employment Program" (mid 2000) followed this statement. The NEP consisted of five main components:

- The Emergency Employment Scheme
- The Creation of a National Training Fund
- Reforming the labor market institutions especially the service providers
- Implementation of an informal sector strategy
- Strengthening the labor market information system

The launch of the new program was not followed by serious implementation efforts. One year later, the state budget 2001/2002 reiterated the necessity of providing 700,000 jobs annually at the cost of LE 1.7billion. In July 2001, the GOE introduced "the government employment scheme", which intended to provide 800,000 work opportunities per year.

In 2003, the recession still persists; however, it is now coupled with a growing inflation, partially due to the liberalization of the exchange rate. This move led a devaluation of the domestic currency (the Egyptian Pound) by 35% during the period February 2003-September 2003. The devaluation caused a series of price increases especially with regard to the consumer goods.

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<sup>1</sup> El Ehwany, N. and El Laithy, Poverty, Employment and Policy Making in Egypt, ILO, Cairo, p.18.

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