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## Egypt's tough economic measures

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According to statements by Subir Lall, head of International Monetary Fund (IMF) mission for Egypt, at the end of January, Egypt will take a number of tough economic measures during 2018 and 2019, within the framework of what he called the reform program and restructuring the country's economic situation, including:

### First: New mechanism to control fuel prices

A new mechanism to control fuel prices periodically will be applied, taking into account the changes of exchange rates as well as the fluctuations in the global oil markets, which will lead not only to a new increase in fuel prices by December at the latest, but also to a radical restructuring of the Egyptian fuel market. Perhaps the issue of raising fuel prices is most relevant to the daily life of Egyptians who have suffered so much from the rising costs of living throughout 2017 with an inflation rate of more than 35%, surpassing the most pessimistic scenarios of the IMF.

The government has pledged to find and adopt a new mechanism to control fuel prices periodically, taking into account changes in the exchange rate as well as the volatility of world oil markets. This would entail - if it is adopted - a new increase in fuel prices by December at the latest, as well as radically restructuring the Egyptian fuel market, which will then take a completely different form from what we have ever known before, regardless of the prices of oil products. This is viewed as a "flotation of fuel prices" similar to what has been happening in Europe and North America for several years, where the prices of fuel could vary from morning to evening, and even from company to another, according to market conditions. This will have severe negative impacts on markets due to instability and lack of discipline of the Egyptian economy



and its inability to withstand such fluctuations. Accordingly, suppliers of goods would be unable to provide their products at fixed prices for more than two or three days. Such a move needs to be put off until markets absorb the shocks of 2017 and gain more flexibility and areas of movement, and until there is a clearer view of the foreign exchange market, which, in my opinion, should not in any way exceed 12.75% to 13.75% on deposits and loans respectively before proceeding with this procedure.

Previously, the government made an undeclared decision to increase fuel prices in March 2018, in coincidence with receiving the fourth tranche of the IMF loan, but the decision was postponed to allow passing Al-Sisi's presidential elections.

The next increase will be the fourth on fuel prices since Sisi came to power four years ago: the first increase was in July 2014, which almost doubled prices, and the second was in November 2016 at rates ranging from 30% to 47%. The last increase was in June, 2017, at rates up to 55 per cent. However, the new increase will include all fuel products by 30 to 40 percent.

Two months ago, Egyptian Minister of Petroleum Tariq Al-Mulla said that the fair price of a liter of petrol-92 is estimated at six and a half pounds, while the fair price of the butane gas cylinder is 115 pounds (currently 30 pounds), pointing out that the recent increase of fuel prices does not mean that it reached cost prices, but it came a little closer.

On July 2, the Ministry of Finance issued an official statement in which Deputy Minister of Finance for Monetary Policies Ahmed Kojak said - two days after the previous fuel price increase - that "The Egyptian government is currently working on a plan to lift fuel subsidy completely within eight months." This extremely angered citizens, and prompted the Minister of Finance to release another statement denying any increase in fuel prices in February.

In its first review of Egypt's economic program, the IMF report said that the Egyptian economic reform was moving forward, but warned the Sisi government of any delay of the new increase in fuel prices. The IMF report said that Egypt has carried out important and decisive steps in energy subsidies, but it is still “lagging behind”, calling on the Egyptian government to commit to eliminating fuel subsidies by June 2019. The IMF mission warned that delay of any new increase until the fiscal year (2018/2019) involves significant risks related to the rise in the world oil prices, and the exchange rate against the local currency.

The IMF continued, saying: “The Fund prefers an early increase in fuel prices, and it welcomes the government's planned move to set up a mechanism to automatically adjust fuel prices, or any other measures to counteract any increase in the cost of petroleum production, adding that the increase in fuel prices twice since the loan agreement was not enough to achieve the target of the plan to reduce fuel subsidies.

## Second: Organizing the transport system and prices

Subir Lall, head of the IMF mission for Egypt, also asked for separation of the public transport authority from the Ministry of Transport and the establishment of an Independent Transport Authority in June 2018. This may be an introduction to the privatization of parts of the public transport, especially that some Egyptian and foreign private sector companies have recently entered the field of mass transport, and complain of administrative complications against the backdrop of the multiplicity of authorities and their conflicting jurisdictions.

One of the State's obligations within this framework is to separate the public transport authority from the Ministry of Transport and to establish an independent transport body in June 2018. This may be an introduction to the privatization of at least parts of public transport, if not all.

There is no doubt that there is a real need to improve the quality of public transport services, which have become a real obstacle to the effectiveness of various production and service sectors, having a very negative impact on the number of productive working hours, and wasting millions of them each month in the traffic jam.

But if the purpose of establishing an independent transport authority is to raise the efficiency of operation and management and avoid the government bureaucracy, this is certainly a commendable step. However, privatization of the public transport will put more burdens on citizens through applying more hikes on transport fees.

The Egyptian Parliament has finally approved amendments to some provisions of Law No. 152 of 1980 on the establishment of Egyptian National Railways (ENR), which stipulates the involvement of the private sector in the management, operation and maintenance of ENR infrastructure projects and networks all over the country, in preparation for liberating train ticket prices.

The amendment focused on two parts:

The first is to “rely on the law of bids and tenders, for investors who will be assigned some obligations, in accordance with law articles.”

The second is that the Egyptian National Railways may “establish joint stock companies alone or with other partners. The shares may be traded as soon as they are established on the stock exchange, and the ENR employees shall have the right to buy up to 10% of these shares.”

The amendment granted the government body the right to conclude contracts of commitment to works of construction, management, operation and maintenance of all railway facilities, which were exclusive to the ENR, creating opportunities to attract foreign and domestic investments that could contribute to the development of rail services.

Transport Minister Hisham Arafat said in a press release on February 13, 2018 that the decision to raise the prices of train tickets was postponed to provide opportunity for citizens, especially students to apply for subscription cards, pointing out that the decision to apply the increase of ticket prices must be carried out to save the railway facility from collapse.

The Egyptian National Railways announced on 16 January 2018 that it has finished a study to raise the prices of train tickets, due to the daily losses incurred by the ENR after the increase in fuel prices, which amounted to one million pounds annually, as well as debts accumulated on the railway facility for 20 years, amounting to about 40 billion pounds at the end of the last fiscal year.

At the end of 2017, Cairo Governorate decided to raise the price of public transport bus tickets by half a pound on each ticket.

Also, the government has recently announced that it will raise the price of the subway ticket starting next July, which will three times increase the current price. The maximum ticket price will be 6 pounds per full line. Arafat said that this step was part of the government's efforts to cover the additional costs of operation. However, “the subscriptions will remain at low fees for state employees, university and school students,” he added.

### Third: Privatization of the public sector

#### a) Government IPOs Plan

Last January, Head of the IMF mission to Egypt, Subir Lall, called on Egypt to speed up its planned initial public offerings (IPOs) for a number of state-owned companies - for increasing the capital of public companies through on the stock market or other means that may include the sale of shares to investors, also leading to some forms of privatization.

The government had pledged to prepare for Initial Public Offerings (IPO) for a number of government-owned corporations as part of the government's plan to increase public revenues from asset sales and hence improve public finances in line with the current economic reform program. However, privatization of companies could come at the expense of workers, a social dimension that must be taken into account even if it does not top the list of priorities of the IMF.

Therefore, I believe that the planned government initial public offerings (IPOs) program, which includes major service and industrial companies with highly sensitive strategic characteristics, must be carefully reviewed in terms of its impact on broad sectors of the Egyptian people.

#### b) Review of state-owned enterprises

Lall also asked for concluding review of the state-owned enterprises, improve competitiveness, and provide accounting tools for public sector companies, which is a necessary step if we really want to stop the continuous bleeding of public funds. In fact, the government should find ways to reform the public sector without necessarily privatizing it. The issue of providing "accounting tools" without "development tools", and seeking "improvement of competitiveness" without achieving "improvement of productivity" is a narrow vision that could not achieve the desired goals. The real crisis lies in the lack of an integrated vision of how to reform the public sector without depriving the state of its ability to control the performance and rhythm of the national economy.

State-owned enterprises are not only companies and factories, but there are also giant service entities such as Egyptian Postal Authority and Egyptian National Railways. So, the House of Representatives has already started to make amendments to relative laws to allow the private sector to access these enterprises. This will lead to privatizing

the entire public sector in the long run, as some fear, or at least will create a new wave of expensive services.

## Summary

I think there is a serious attempt to re-establish the Egyptian economy, away from assessment of the approach to that attempt or the philosophy behind it. However, I think that the biggest problem in this issue is the involvement of the IMF as an actor in the process even more than what happened in other countries.

I am not talking here about the “independence of the national decision” which some view as a meaningless slogan. However, the developments since the beginning of talking about the IMF \$ 12 billion loan, have not taken into account the social dimension and the interests of the lower classes, including the new measures to be taken within the coming fiscal year.

The IMF completely ignores the social dimension in the proposed reform measures. It is only concerned with application of its neoliberal policies to serve broader objectives related to the global economy as a whole.

However, I do not ask for stopping cooperation with the IMF. In my opinion, the relationship between the Egyptian government and the IMF should be based on equal partnership that allows constructive exchange of views to take measures that could be more consistent with the Egyptian economy which is still very shaky. The keyword here is to establish a pure Egyptian vision that should be capable of reaching a compromise that would be satisfactory to all parties.