Bloomberg Businessweek

Global Economics

The Scary Economic News Behind Egypt's Bloodbath

By Carol Matlack on August 15, 2013
http://origin-www.businessweek.com/articles/2013-08-15/the-scary-economic-news-behind-egypts-bloodbath

Egypt's economy was sputtering even before a government crackdown on protesters killed more than 500 people. Now, it's come to a screeching halt.

The country's stock market and banks are closed today, and yields on government bonds have spiked. Foreign investors are rushing for the exits, though many can't get out because Egypt's currency can't readily be converted into dollars. Growth, earlier forecast to reach 1.2 percent this year, "is in freefall," and unemployment could rise to 15 percent from its current 13 percent by yearend, predicts Ishaq Siddiqi, a market strategist at ETX Capital in London.

Egypt does have a lifeline—but in some ways, that's the scariest news of all. Saudi Arabia and other Persian Gulf states have promised some $12 billion in aid to the military-backed interim government that's carrying out the bloody crackdown. Other potential foreign donors, including the International Monetary Fund and the European Union, have backed away. The U.S. has said it hasn't decided whether to continue military and economic aid totaling about $1.5 billion.

That leaves Egypt increasingly dependent on its rich neighbors, who are eager to support the military in keeping a lid on insurgency in the region. The pledged $12 billion "should be enough to get Egypt through a year or so," compensating for a dearth of foreign currency and investment, says Emad Mostaque, a strategist at Noah Capital Markets in London.

But the aid greatly diminishes the prospects for Egypt to restore its economic health, Mostaque says. The military-backed government has no interest in implementing reforms that would make Egypt more competitive and attract foreign investment, he says. "The economy will not be able to create the jobs it requires, and external debt will run up massively."

What's more, the crackdown makes it more probable that Egypt will be the target of terrorist attacks that would decimate the country's already crippled tourist industry, Mostaque says. Tourism revenue, which the government says accounts for more than 11 percent of Egypt's economy, has shriveled since the 2011 ouster of former President Hosni Mubarak.

The likely outcome: more economic misery for a country that has already suffered plenty. "Reconnecting the Egyptian economy with the global economy," international economic law scholar Efraim Chalamish wrote in a recent post on the Roubini Global Economics EconoMonitor blog, "is the only way to encourage growth and build a long-term sustainable recovery."