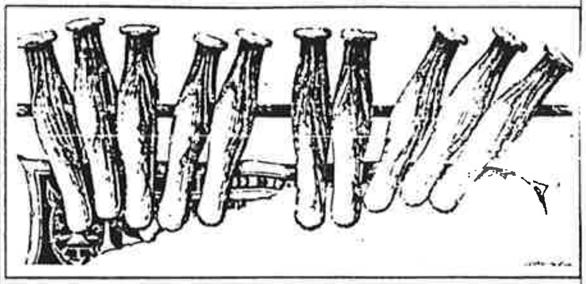
Khaled Fouad Sherif 13 Jan. 90

Egyptians Face a More Expensive Decade



In the 1990s, Egypt will face a whole range of challenges fundamentally different from those of the 1980s. Most Egyptians will find the new decade much more expensive than the last because the government, hard pressed by economic necessity, will have to raise prices and utility fees and cut subsidies.

Already the government is deeply in debt and its domestic revenues cannot cover its expenditures. The budget deficit has reached a high of E£7 billion, equalling about one-third of its total foreign exchange revenues.

To lessen this deficit, a very clear trend is evolving that will force state industrial enterprises, utilities and services to cover their own expenditures and minimize their reliance on the state. This will mean that state organizations across the board will have to raise revenues and curtail unwarranted expenditures.

Many public industrial enterprises have now been given the freedom to set their own prices based on costs, and the government wants to reduce subsidies. Public utilities and other key government services have also been asked to lower their sizeable deficits.

In addition, Egypt is coming under pressure from various international donors, such as the World Bank, who are asking the government to pursue a policy that will make state enterprises, utilities and services more financially viable. Cost recovery requirements are now fundamentally linked to most donor-supported projects to ensure their sustainability once foreign assistance ends.

As the government pursues a strategy of cost recovery in various state-run operations, most Egyptians will find their expenditures rising. As public industrial enterprises, state utilities and services such as schools, universities and hospitals, raise prices for their public-sector products and user and enrollment fees, many Egyptians will feel the pinch.

Let us take one major utility and its cost recovery program as an example. The Egyptian Electricity Authority (EEA) is entrusted with selling electricity to industrial, residential, commercial and government consumers. Currently, the price EEA charges for electricity is 3 piasters per kilowatt hour. If EEA were to become financially viable, it would have to charge consumers on average about 17.2 piasters per kilowatt hour. EEA now aims to become financially viable, which implies that over the next several years it will move its prices progressively upward.

As a result, industry will be paying progressively more for electricity. Such increases will have an obvious impact on the final prices of both public- and private-sector products. In addition, home electricity bills will rise.

The prices of an array of other utilities, such as water and telephone service, will also surge over the coming few years, along with the prices of many goods and services, such as public schools and hospitals, as the government attempts to curb the deficit.

The government does plan to keep a basket of commodities highly subsidized to ensure that the poorest of the poor are not affected, but the scope of the subsidies is limited: it includes bread, beans, limited free hospital care and schooling. The government also plans to compensate civil servants by adjusting their salaries to cushion the drop in purchasing power. Farmers, too, may be partially compensated if the government continues to liberalize the prices of major winter and summer crops.

However, a large number of private-sector employees cannot expect compensation from the state. As the prices charged by state-run industries, utilities and services rise, costs for private-sector companies will also rise. Then they, too, will have to adjust their prices upward. For example, doctors with private practices, plumbers, electricians and carpenters will also increase their prices.

But what about those Egyptians who cannot force their employers to adjust their salaries, such as employees of private educational institutions or small and medium-sized businesses? What will this mean for them? Primarily, it means the beginning of their fall from the ranks of the middle class.

The unprotected, employer-dependent middle class has already begun to feel the bite. Their purchasing power is already beginning to fall as state enterprises, utilities and services pursue additional revenues. Eventually, many middle-class people will have to do without a range of commodities that they once could easily afford.

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