Foreword

The author of this book is a well-known Egyptian economist who belongs to a highly respected opposition party with strong leftist leanings. His study does not however necessarily argue against Egypt's last Reform and Structural Adjustment Programme (ERSAP) that was supported by the IMF and the World Bank. It only attempts to show that some of the adverse effects attributed to that programme could have been avoided or minimized. Trade liberalization, lowering credit limits as well as raising interest rates and adjusting energy prices could have been better sequenced, the exchange rate regime could have been reworked to avoid the effective appreciation of the dollar-pegged Egyptian pound, fiscal retrenchment could have been modestly relaxed and capital mobility should have remained subject to some controls. The author's arguments are well presented, even though they run counter to a widely-held view that Egypt's ERSAP greatly improved its macro-economic conditions and would have even fared better if its implementation had gone faster, especially when it came to privatization and wage and price rationalization.

The author admits that the effect of ERSAP on the public sector-dominated Egyptian industry has been mixed. He argues, however, that deeper restructuring of major industries should have preceded or accompanied the introduction of reform measures. By way of example, he points to the iron and steel factory in Helwan (HADIDSOLB). It is doubtful however, that any restructuring could have saved that overstaffed enterprise and it continues to inflict huge losses on the economy. The author's ideological orientation seems to have prevented him from considering measures that, despite their socially undesirable effects in the short term, may present the only cure for a heavily subsidized and highly inefficient industry.

The author is right in pointing out to the misalignment of some fundamentals in the Egyptian economy after ERSAP – a local currency that kept appreciating (until recently), a rapidly rising domestic debt that is being serviced at the expense of vital social expenditures, a widening trade gap, and low saving and investment rates. One need not share the author's ideology to agree with this conclusion. Although the Egyptian economy after ERSAP seems, on the whole, to be in a much better shape, it still has a long way to go on the road of reform.

There are many lessons to be drawn by Egypt and other developing countries from the author's analysis of what went wrong in the implementation of Egypt's economic reform. The staff of the IMF and the World Bank may also have a hard look at the findings of this well-written study to make sure that similar pitfalls may be tackled in a timely manner in future reform programs.

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