



THE PULSE OF THE MIDDLE EAST

To Morsi's Allies: It's the Economy, Stupid

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Egypt will fail soon. With the Muslim Brotherhood at the helm, the collapse is both inevitable and imminent.

“It’s the economy, stupid,” as someone famously said, and I’m not even going to talk about the other aspects of the Brotherhood’s ineptitude. Running an economy requires a knowledge set that is substantially different from the skills needed to run a business, and it seems that the Brotherhood has no one knowledgeable enough in modern economics, much less the whole team that is needed for this.

Every working day, Egypt has an additional 2,500 unemployed. Youth unemployment is the highest in the world, at a staggering 77.5%. (Think where these frustrated youth will go.) The net foreign-currency reserves are negative, net of short-term liabilities. In fact, much of the headline gross figure consists of illiquid assets like gold, the latter evaluated at much higher levels than today’s market price. And I’m not even deducting the huge debts of the public-sector Egyptian General Petroleum Corporation when calculating net reserves.

As a result, the Egyptian pound is crashing, making life unbearably expensive for the vast majority of Egyptians because of the economy’s excessive dependence on importing most commodities. All the current regime does now is spend any foreign currency it gets to buy the essentials that Egypt desperately needs, importing wheat, fuel and other necessities. To make matters worse, the government has been raising taxes, both indirect (which hits the poor disproportionately) and direct, deepening the recession while prices keep going up. The loan discussed with the International Monetary Fund is a mere \$4.8 billion (though possibly a bit more), which will only finance a couple of months and is nothing compared to the \$13 billion loan obtained by Cyprus to contribute toward the rescue of its small economy.

All of this would not be cause to worry if there were a credible economic plan. The current regime does not even know the difference between an economic program and an economic-rescue package. It has neither.

Investors have no idea which rules will apply tomorrow — if rules apply, that is. They are not safe from arbitrary money grabs by the government, including new taxes applied retroactively and selectively, as the Sawiris case has demonstrated. The first rule of investment is that higher risks must be compensated with higher returns, and such profitable opportunities are few and far between in today’s Egypt. In other words, forget about legitimate investments being sufficiently profitable and undertaken on a reasonable scale, which is needed for an impact on the economy to be felt.

No one, Egyptian or otherwise, would invest in Egypt today unless given exceptionally preferential terms, such as those afforded by the regime’s new questionable Sukuk law, a desperate attempt to generate cash by relinquishing control over some of Egypt’s national heritage and strategic assets. A

leading liberal party, despite being the most business-friendly in Egypt, has already pledged to reverse such deals and to use all the means at the state's disposal to make such investments worthless and to recover these assets, including but not limited to imposing exceptional taxes and nationalization. Other parties will inevitably follow suit.

The Egyptian economy cannot be restarted under the status quo, and the end is nigh. If no rational investor would be willing to throw money down this bottomless pit, why should a country do so? Why would any foreign government continue to support the Muslim Brotherhood's failing regime? The populace will ask why capital was wasted propping up a regime that had no chance of surviving. What is worse, why was the money spent antagonizing Egypt's large population, which is suffering daily at the hands of this regime?

There has been a subtle evolution in the US position since Secretary of State John Kerry's arrival. It is not too late for the allies of the Muslim Brotherhood to realign themselves, too, for their own good.

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