

The Extent of Price Inflation Effects on the Egyptians' Lifestyle

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Introduction

It is broadly believed that currency floatations have direct and indirect effects that play a significant role in establishing the macroeconomic performance of a country. Handling exchange rate complications is among the vital issues that legislators face in most evolving countries. The International Monetary Fund has regularly endorsed currency devaluations as the solution to Structural Adjustment Packages for countries striving for payment deficits and international reserve shortages. The government of Egypt decided to float its currency. Prior to this period, Egypt was experiencing tough economic hurdles. It performed very poorly in the foreign exchange market. The country's stock market was swiftly depreciating. The objective of this paper is to analyze to what extent price inflation has affected Egyptians' lifestyles after the currency's floatation in 2017.

Imports, exports, and subsidies

Currency devaluation can result in higher export rates when the goods become more economically competitive in the global markets. On the other hand, the purchasing power regularly diminishes as international goods tend to become more expensive. The floatation of the currency was not a good move for Egypt since it is a net importer that is largely dependent on substantial food imports to sustain the growing population.

An increase in the purchasing cost of imported goods has resulted in a huge impact on the price of the subsidies (Assaad & Krafft, 2015). Further deregulation of energy subsidies in the near future, for instance, will result in a shift in Egyptian savings to other sectors, such as food and shelter. The floating of the currency makes imports greatly competitive and makes them appear appealing and cheap to foreigners. This will highly increase the demand for exports. Imports have become more expensive since raw materials, food and envy products such as petrol have become more expensive. This largely decreased the demand for imports in Egypt.

Diminished standards of living

High inflation rates force people to opt for buying food of lower quality as compared to what they are used to consuming and consume smaller amounts of it. This has greatly contributed to the increased cases of child malnutrition in Egypt (Abotaleb, Ashraf, & Salah, 2017). In addition to food and nutrition,

the high cost of living also extends to other aspects of life, such as healthcare and education. Some people end up denying themselves necessary treatment due to the high medication prices. Some of the people were forced to transfer their children to different schools that were less costly despite the low-quality levels of education.

This greatly contributes to lower standards of living and minimal valuable human capital in the long run as the health and education of the people continue to deteriorate. The rate of demand and production has significantly decreased as a result of the impacts of inflation on consumption. The high number of unwaged citizens, more so the youth and women who occupy a large portion of the population, has led to low standards of living.

Increase in Inflation

Currency Floatation has increased the inflation rates due to various factors. Imports become more expensive with devaluation due to the increased price of imported goods and raw materials (Abdou, Salman, & Zaazou., 2013). The Aggregate demand increases, resulting in Demand-pull Inflation due to low aggregate supply. Firms and exporters have fewer incentives to decrease costs because they can depend on devaluation to advance competition. In the long run, devaluation leads to lower productivity because of the decrease in enticements. Inflation should decrease as the impact of the government's reform measures lessens. The Central Bank should increase the rates in order to counter the soaring prices as a result of the floatation.

Real Estate sector

The real estate market in Egypt is facing a new disaster due to the rising currency rates and the Unpredictability of the Egyptian pound's exchange proportion prior to it. This issue will have negative effects on investors and the proprietors of real estate companies. Building and construction material prices will rise, especially those imported from other countries. This will consequently lead to an increase in the price of residential units in Egypt. The rise in the currency rate will largely affect the values of the raw materials and the workers since they will also demand an increase in wages once the currency is raised.

The rise in raw materials results from the fact that most of them are imported; thus, it will impose an effect on raising real estate prices. The lifestyle of the Egyptians will be affected since some of the residents will have to move out of the expensive houses to more affordable ones as per the prevailing circumstances (Abdou, Ashraf, & Salah, 2017). Investors in this sector will also have to wait for the price of the construction materials to be relatively lower in order to facilitate the construction of new facilities. This will largely slow down development in the Real Estate sector. Residents have to live by the prevailing conditions and settle for what is available, even if it lowers their standards of living to a greater extent.

Tourism sector

The decline of tourism revenue is the key reason for the desertion of the supplementary equilibrium of services trade. Restoration of this surplus is closely associated with re-establishing the stream of tourists to Egypt (Abotaleb, Ashraf, & Salah, 2017). Egypt has a remarkable impending trend in ethnic and archaeological tourism, diving and safari, therapeutic tourism, and resort tourism. It has a large and different main tourist form and adores exceptional effectiveness towards the benefits of tourism.

Raising the currency rate has largely affected the tourism sector since it has hugely raised the prices for Hajj and Umrah. This creates succeeding catastrophes that front the sector and lead to severe damages. A large number of workers have been laid off within the entire tourism sector. Some companies in the sector have ended up closing their facilities due to the hard economic times. The government should suspend levies, social welfare and all other compulsions in the sector until the crisis is over. The poor conditions have led to a decrease in the number of tourists visiting the country, forcing the companies to find other ways to help them compensate for the low revenues.

It is expected that the free float will lead to increased market confidence and a broad new wave of foreign investment in the economy. The devaluation of the currency has made investments in Egypt more financially affordable and promising, mostly due to the growth-friendly investment climate (Assaad & Kraft., 2015)

According to Ball, Lopez, & Reyes on Remittances, inflation and exchange rate regimes in small open economies, Egyptian goods and services will grow to be more competitive at the international level, and the gains on Egyptian assets will be more friendly and attractive. There is a strong opportunity for the country to largely increase its exports to several diverse, fast-growing markets courtesy of the existing trade agreements (2013). Investors can explore new investment opportunities in Egypt as the market continues to settle down and conform to the clear picture of how the float is evolving. Potential deal parties will get an opportunity to obtain a stronger sense of the valuation adjustments due to flotation.

Despite the challenges posed by the floatation of the Egyptian pound, the government believes that there has been a slight improvement in the overall balance of payments. As much as a deficit still exists, it is gradually improving, with imports decreasing slightly and exports slightly increasing. There has been a positive development in foreign investment since the stock has become relatively cheaper for foreign investors. Inflation may, however, continue to increase in the future years.

Conclusion

The choice to degrade a currency is essential and demands a government to be sufficiently strong to effectively implement it. It is a risky decision that can also result in a paradigm shift in the economy of

a nation. Proper due diligence should be properly conducted before engaging in the whole matter. If well structured, currency floatation can act as a great saver when it comes to jumpstarting a falling economy. Lack of appropriate forecasting and effective appraisal of currency floating can result in expensive consequences to an entire economy. The Central Bank should start applicable necessary sterilization procedures and open market trading to limit the economy from negative inflationary influences. The devaluation of the pound has resulted in negative consequences for customers and producers in Egypt (El Agroudy, Shafiq, & Mokhtar, 2015). The positive effects will be felt gradually in a more significant manner. The challenges that the Egyptian economy faces in the short run will be restrained when the equilibrium point of relations between the two forces is achieved.

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