

# The Slippery Slope of the Egyptian Middle Class

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**RESEARCH PAPER**

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How is the Egyptian middle class faring in its plight? A question inevitably raised in the face of the culminating economic challenges faced by the Egyptian economy nowadays. Considered as the backbone of the market economy, the middle class is ascertained to be the most affected when it comes to states undergoing economic reform. Since 2016, Egypt embarked on a vital reform program to boost economic growth, reduce unemployment, increase foreign exchange reserves and reduce public debt. Supported by a \$12 billion loan from the IMF, the objective was aimed at achieving more sustainable private sector-led growth to improve the living standards of Egyptians (IMF, 2019). According to the International Monetary Fund, Egypt was one of the few emerging market countries that experienced a positive growth rate in 2020 (IMF, 2021). Alongside IMF support, this is consequential of the government's abrupt and prudent policy response to the tough economic terms levied upon the state, which even showed resilience in the face of the pandemic. Nonetheless, as the state undertakes the conceivable measures to surmount the pervasive financial constraints and to improve the living standards of its citizens, it is only critical to fathom that the Egyptian middle class is suffering a fatal blow. The changes in the political and economic patterns in the past decade, the rise of oil prices as well as high inflation rates have ensued a large number of middle-class members to slide down the social ladder. Thus, understanding the implications of Egypt's recent transformational reforms requires taking a closer look at the living conditions of its population, especially the middle class.

Estimating the size and borders of the Egyptian middle class has posed a challenge for experts, and while official government statistical institutions such as CAPMAS imparted concrete official estimates for the size of the lower class and the range of their income, exact estimates for the middle class are lacking (Shukrallah, 2016). Yet, it has been identified that those who are considered as middle-class income earn more than LE 5,000 a month. Based on the available data, this means the middle class has shrunk to less than 35% of the population, which is a serious threat to social cohesion and political resilience (Nassar, 2018).

Even if the role and rhetoric of the government is to protect limited income families, the middle class remains the primary measure of reform success. The

primary measure of any economic reform plan is its middle class, if the enacted reforms preserve this class, it is an indicator of a successful trajectory. To test this hypothesis, we aim to assess not only the implications of the socio economic reforms on the Egyptian middle class, but also the implications of a contracted middle class on the economic development of the state.

The middle class witnessed a significant chronological decline throughout Muhammad Ali's reforms, Nasser's revolution, Sadat's *Infitah* policy and up to Mubarak's privatization reforms. Economic reforms have continuously played a role in shaping and defining the border of the Egyptian middle class. For instance, during Muhammed Ali's era, the social structure consisted of a top level of landowners, a middle level of rich peasants and a bottom level of poor peasants and workers. During Nasser's era in the 1960s, a significant upsurge in the middle class has been witnessed, as it made up between 20 to 25% of the population, and consisted of a trapezoidal social structure divided among state-owned enterprises and rich peasants on one side and poor peasants and farmers on the other.

Nonetheless, the middle class suffered a fatal blow during the Sadat/Mubarak period as national strategies relied mainly on the nascent capitalist class. By 2006, the upper class accounted for 18.4%, the middle class 12.4% and the lower class 69.1%. Prior to the economic reform program adopted by the government in 2016, the size of the middle class was estimated to account for 5% of the population, a percentage that indicates a 48.2% drop between the years 2000 and 2015 (Shukrallah, 2016).

By 2016, the Egyptian government, in cooperation with the IMF, took on a significant economic reform program which aimed at reducing the budget deficit, reforming energy subsidies, increasing the employment rate, boosting the labor force (women and youth), and bolstering social protection measures to shield the most affected. It also anchored the flotation of the Egyptian pound to improve external competitiveness, support exports and tourism and attract investments. The state dedicated efforts in launching a number of social protection programs to alleviate the consequences of the newly imposed economic weight. Efforts include staple subsidies, the Takaful and Karama plan as well as the Hayat Karima program

(El-Leithy, 2019). Yet, even if Egypt currently has one of the most comprehensive social welfare programs in the Middle East (El-Sayed, 2018), this welfare system has proved unable to alleviate poverty or save the middle class as they solely target low-income families.

Still, the cost of subsidized fuel has doubled, electricity prices amplified and newly imposed taxation pushed inflation to more than 30% (Galal, 2018). It is no surprise that the newly imposed regressive tax structure interceded by shifting the tax burden to the shoulders of the lower and middle class. In 2017, 44% of tax revenue was derived from value added taxes (VAT) and taxes on goods and services (Mandour, 2020) - and since both heavily rely on consumption, they are thereby, regressive.

A sudden reduction in social spending and public subsidies also paved the way for a declining middle class. Bearing the repercussions of the pandemic, the government introduced reduced bread subsidies in August 2020, and increased the price of metro tickets for the second consecutive year. The cheapest ticket costing 3 EGP was eliminated while prices of the two remaining tickets jumped from 5 EGP to 7 EGP and from 7 EGP to 10 EGP (Mandour, 2020). Over and above, fuel and electricity prices unraveled an insurmountable hike again as part of the state gambit to cut down subsidies. Fuel prices witnessed a 208% increase from 2016 to 2022, where gasoline prices recorded 2.35 EGP per liter in 2016 up to 7.25 EGP per liter in 2022. As for electricity, the government applied a 19% increase for household consumption, the seventh consecutive increase since 2014 (Mandour, 2020).

Subsidy cuts, currency flotation, high inflation, progressive income tax and rise in VAT have all left a middle class in sorrow. It is important to highlight that middle-income individuals are not beneficiaries of the social protection programs initiated by the state, as most of them take part in the informal sector of the economy to make ends meet. The general decline of the middle class has led to the creation of a huge informal sector, the labor force of which is as many as 5 to 6 million, making it Egypt's most significant sector of employment. Since this sector is neither taxed or monitored by the economy, they are deprived from any social protection programs legislated by the government. In that case, and in the face of crippling

economic conditions, the middle class only has two trajectories to undertake, either to fall into the lower class or to rigorously get more enterprising.

"Middle Class" means more than just a social group that is broadly in the middle of the income distribution ladder. It rather implies individuals with enough financial security to make ends meet. When the size of the middle class increases, social policy on health and education becomes more active, and the quality of governance improves. There is a strong association between a solid middle class and higher income, more education, better health outcomes and faster upward mobility. This leaves a middle class facing major socio-economic struggles in basic services such as employment, housing, marriage, healthcare and education. Employment difficulties inevitably exclude them from accessing insured social security. They also face housing difficulties as they find it hard to afford the rapidly rising housing prices and real estate. Subsequently, employment and housing difficulties have led to a problematic struggle in marriage. Additionally, low quality education in government-run schools and the inability to afford private schools have led to their academic inaccessibility. Equivalent to education, the middle class cannot afford private and better-quality healthcare.

The importance of the middle class in achieving social and economic cohesion cannot be stressed enough. There is strong empirically grounded evidence that income distribution affects the efficient functioning and growth potential of the economy. A strong middle class is a prerequisite for robust entrepreneurship as it promotes the development of human capital and a well-educated population, not to mention that it also creates a stable source of demand for goods and services (Madland, 2011). When middle class families can no longer afford to buy goods and services, it drags down the entire economy from top to bottom (Madland, 2020).

Just this month, core inflation has risen to its highest levels since mid-2019 and projections for the rest of the year suggest that prices will continue to rise with increasing inflation, as the global market faces a supply shock stemming from the Ukrainian crisis. Egyptians have not fully absorbed the massive impact of the 2016 subsidy reform plan, only to find that because of its vulnerability to external shocks, the Egyptian economy is yet to face another economic slowdown. The middle class

has been squeezed to its limits and the economic pressure on the public is unremittingly aggregating.

According to Alborsa newspaper, undisclosed official sources claim that roughly 57% of Egyptians need subsidies and financial support from the state. Today and after the recent devaluation of the Egyptian pound, the parliament approved on four new laws aiming to ease the economic burdens inflicted upon limited income citizens, which includes granting state employees a periodical bonus ranging from EGP 175 to EGP 400, and raising pensions to be provided earlier in April rather than June 2022. Although the state is perpetrating social protection efforts, the country's development indicators suggest that such programs fall short of what is needed to help millions of citizens that require state aid (Halawa, 2022). Not to mention that the middle class is excluded from accessing social safety nets, even as reform plans take a growing economic toll. The only means to save the already non-existent middle class is to focus on increasing the real incomes of individuals to help them from sliding down the social ladder. Extending the social protection umbrella to preserve what remains as the middle class is of utmost importance.

It is safe to say that priority shall be placed on policies targeting the middle class in Egypt, as the protection of this class is at the core of any socio-economic development. The shrinking of this class only hurts us all by stifling the overall economic growth (Madland, 2011) and will have long-term structural impacts on the economy that will be difficult to reverse (Mandour, 2020). Since social justice is associated with income, the government should lay hold of strategies to incubate the development of the middle class and ensure their parallel growth with the economy. This could entail career development plans, reduced and less regressive taxation as well as more employment opportunities.

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