



Center for Trade Union and Workers Services (CTUWS)

# Impacts of the Global Financial Crisis on Egyptian Workers

March 2009

## **Introduction**

It was over five months ago that governments of most of the world countries in general and of the big countries in particular admitted the impacts of the current global financial crisis. Meanwhile, the government of Egypt, forgetting that we are an integral part of the global economic system, continued during the same months its denial of any impacts of this financial crisis on the Egyptian economy alleging that we are completely far from such impacts. Then when the impacts became apparently clear it started cautiously during the past few weeks to negate its previous declarations and admitted that we are not going to be far from the crisis. The government admitted that it has not introduced any actual solutions vis-à-vis the crisis whose repercussions will mainly fall upon the workers. Further, the impacts of the crisis on workers were totally disregarded to the extent that official statements to newspapers were limited to how businessmen would be supported. As for the workers, they should back businessmen and bear the cost of their retrenchment and reduced wages as if they attribute the crisis to the workers rather than the wrong policies. Employers raised their voices calling for a free and to lay off the workers in order to reduce the cost and reduce the losses resulting from the crisis. They, in turn, forget that what they lose is just a portion of their profits, whereas the workers will lose their sole sustenance and livelihood.

The Center for Trade Union and Workers Services (CTUWS) is of the opinion that it is high time to activate the Workers Emergency Assistance Fund which was established on June 18, 2002 by virtue of law No. 156/2002 as an entity with legal public personality under the jurisdiction of the Minister of Manpower. The purpose of the Fund according to its founding law is to help the workers whose wage disbursement stops due to total or partial closure of their enterprises or to the reduction of the number of the workers of workers of these departments who are registered as covered by social insurances. It is necessary to review the Fund statutes which stipulate the disbursement of 75% of a worker's basic wages in case a worker is laid off. This provision should be amended so as to make this percentage of the overall wages rather than the basic wages. Moreover, it is necessary to activate the Unemployment Fund stipulated by the Social Insurance Law so as to provide unemployment compensation for all the laid off workers similar to the practice throughout the world. It is equally important to design actual (not just on paper) retraining programs on activities which will not be affected or may be slightly affected by the global financial crisis instead of the activities which are under its direct impact.

While the Center for Trade Union and Workers Services (CTUWS) started to issue its periodical report on monitoring the impact of the global financial crisis on the workers based upon field data rather than solid figures, the CTUWS does not claim that this effort reflects the overall size of the disaster. It is a mere participation to shed light on the situation according to the resources available for the work teams formed in several work sites.

The CTUWS expresses sincere thanks to Mr. Ahmed El Sayed El Naggari, chief editor of the Strategic Report of Al Ahram Newspaper for his directions which helped produce this report in its present form. He volunteered to review the report, validate the figures contained therein and directed the work teams to the main sectors that started to groan under the burden of the financial crisis.

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**March 31, 2009**

## **Impacts of the Global Financial Crisis on Egyptian Workers**

The negative aspects of the current global financial crisis on the Egyptian economy started to appear clearly during the last three months. While officials used to announce that we are far from being affected by the crisis, the government started publishing actual figures about its repercussions. Official statements indicated that the growth rate of the gross domestic production (GDP) scored 6.8%, 7.1% and 7.2% in 2005/2006, 2006/2007 and 2007/2008 successively. The GDP of 2007/2008 is estimated at about LE 856.3 billion by the current prices (1\$ = LE 5.6). But the global financial crisis will cause a slowdown of the Egyptian economy as a result of the global economic stagnancy. It is estimated that the growth rate of the GDP will decline between 3.5% and 4.1% during the current fiscal year due to the interlinks with the global economy. About 75% of the GDP is represented in trade exchanges. About 32% of our exports are directed to the USA and 32.5% of our imports come from the USA and the European Union. Two thirds of the direct foreign investments during the past two years came from America and Europe.

The Ministry of Economic Development estimates the net loss resulting from the crisis at more than US\$ 4 billion during the current year. The most affected sector is expected to be the manufactures sector. Exported goods will decline by about US\$ 2.2 billion. In shade of the global contraction, demand on the products will drop in general. Priority will be to the local products of the countries which used to be recipients of Egyptian products. On the other hand, there will be strong competition on exportation. As the demand declines, factories will reduce their production. Workers will get less compensations and consequently their purchasing power will decline and this will lead to market stagnation.

The Ministry of Economic Development estimates the drop in the oil balance at about US\$ 1 billion. Oil process dropped from US\$ 147 to US\$ 39.5 per barrel. Foreign transfers from Egyptian expatriates dropped by about US\$ 600 million. Revenues from tourism dropped by more than US\$ 2 billion during the first quarter of 2009, and this is reflected on all the economic activities linked with tourism such as contracting, furniture, food industries, handicrafts, etc. Revenues from the Suez Canal dropped by about US\$ 400 due to the slowdown of the global trade movement. Regarding the positive impact on the trade balance, the value of imports is expected to decrease by about US\$ 4 billion (due to the decrease of the volume and prices of the imported goods). Such losses are expected to reduce the value of the Egyptian Pound (LE) which moved from LE 5.30 to LE 5.5 against the US dollar. The revenues side of the state budget will be subject to negative impacts due to the expected decrease in tax, customs and privatizations receivables. Public expenditure will increase in spite of the expected decrease in supporting the goods bill (reduction of oil process and foodstuffs prices). The government announced that it will inject about LE 15 billion to confront the repercussions of the global financial crisis. Consequently, the budget deficit will increase.

All the above confirm that there are negative impacts for the crisis and that they are more serious on the marginalized categories especially the workers. This is the point which was not sufficiently discussed at the local level. Dr. Osman Mohamed Osman Minister of Economic Planning announced that about 83 000 workers will lose their jobs during 2009. On the other hand, according to a report of the International Labour Organization (ILO) issued last February, about 300 000 Egyptian workers will lose their jobs during the same year. The Central Authority for Public Mobilization and Statistics (CAPMAS) declared that 88 000 more citizens have joined the unemployed population during the last three months. They raised the unemployment rate to 8.8% with 0.2% increase compared with the same period of last year. According to CAPMAS, the total number of unemployed people in Egypt is 2.2 million. But according to

non governmental statistics, the actual number is double the officially published number. A recent study on the labour market in Egypt conducted by the Industry Modernization Centre in March 1, 2009 expected that 0.5 million workers will be laid off during the current year due to the repercussions of the global financial crisis on investment and production sectors in Egypt. They will cost LE 2 billion which the government is supposed to provide from the Unemployment Assistance Fund. According to Adham Nadim the director of the Industry Modernization Centre disclosed that ten companies applied to the Fund but only three of the ten applications were approved. He also indicated that private companies refrain from hiring new employees. This means the loss of about 270 000 new job opportunities which the private sector had provided during 2008. In addition, there were 220 000 workers who retired on pension (according to the director of the Centre). He added that there 2 million workers in the industrial sector including 2.3 million workers in the formal private sector, that the private sector cannot determine how long it can retain its employees and that the sales of a company producing house appliances dropped by 90% last month. Mr. Adham asked the government to amend the Labour Law to give companies more flexibility to lay off workers during the global financial crisis. He also referred to a shortcoming of the government because the Unemployment Assistance Fund may be activated only after a company is bankrupt, liquidated and its employees are laid off by a court sentence.

This became apparent during the last three months (January, February and March) when the impact of the crisis on Egyptian workers took several forms starting from lay offs and passing by reducing incentives, increasing work hours and reducing shifts combined with increasing work hours. The statistics of the Ministry of Manpower confirm that only two of the enterprises affected by the crisis (employing 42 workers) have applied to the local committee to get a (permission) for closure. Approval was issued to one of the two enterprises for complete shutoff and to the second for partial shutoff. Nevertheless, eight enterprises employing 656 workers were shut off without applying to the local committee for approval (i.e. without permission). The workers filed complaints to the concerned Labour offices. It appears that in the private sector there are tens of similar cases in different locations which were affected by the crisis one way or another.

Regarding the impact of the crisis on the public business sector, experts expect a blurred financial year for the holding companies of this sector due to the financial crisis which will have its negative impacts on the holding companies and their 153 subsidiaries. In spite of the absence of formal documents to measure the size of the expected recession, several companies started to experience reduction of exports or of the product prices. The latest data from the public business sector indicate that in 2008 the total annual revenues of these companies rose to LE 60 billion, the number of the loser companies dropped from 63 in 30/6/2003 to 41 companies in 30/6/2008 and that the total profits recorded LE 5.5 billion in the financial year 2007 – 2008. Projections indicate a reduction of these revenues due to the regression of activities and the envisaged losses in some sectors.

- In the textiles and garments sector factories subject to the Qualified Industrial Zones agreement (QIZ) were affected by the crisis. Their exports dropped by 12.5% of the volume of Egyptian exports to the US and European markets according to Eng. Mahmoud Abboud Chairman of the Investors Association of the Public Free Zone. Some private factories laid off many workers and forced many of them to resign by refusing to disburse the financial arrears due for them. Other factories were sequestered after failure to repay their accumulated debts. The crisis affected small enterprises in the textile sector such as embroidery and tricot plants.
- Holding companies of the pharmaceuticals sector are expected to show notable regression. Even though pharmaceutical products are indispensable, a considerable decrease is expected in products directed to the African markets in shade of the European Union assistance programs due to lack of liquidity abroad and to the expected crowding-out from international pharmaceutical companies which may find an alternative market in Egypt after the declining demand for their products in European markets.

Egyptian pharmaceutical companies are subject to greater competition at a time when their development plans proceed very slowly in a pace incompatible with the size of the expected competition. Moreover, plans to inject new investments in this sector may be affected by lack of liquidity. This situation made officials of the government pharmaceutical sector seek the amounts of LE 0.5 billion due from the government against medicine provisions from public companies to the hospitals of the Ministry of Health. The situation of the subsidiary companies of metallurgical industries seems to be similar. Revenues from the exports of Misr Aluminium Company are expected to decrease considerably due to the decrease of aluminium prices from US\$ 2800 to US\$ 1400 per ton in addition to the low domestic demand. The same problem applied to steel. Steel companies had to reduce their prices pursuant to the decrease of the domestic and international prices. The Egyptian Iron and Steel Company had to reduce its production by more than 45%.

- The tourism sector which belongs to the Ministry of Tourism – similar to the other tourism sectors in Egypt - faces the regression of demand on tourism and the reduction of the number of tourists coming to Egypt. The expected stagnation will certainly hit the holding tourism companies. If the reduction in the number of tourist nights does not affect the right of the subsidiary companies to obtain their share from foreign management companies, other companies such as Misr Travel and its transportation fleet and the Sound and Light companies will be affected.
- Revenues from the maritime transport sector are also liable to decrease due to the decrease of the turnover and regression of the world trade movement. The realized profits of the subsidiaries of the Holding Company of Maritime Transport reached LE 497 million during the last financial year. At the same time, containers handling companies face another crisis as they are still under development. The main remarks of the Central Authority for Accountancy on the performance of the Holding Company for Maritime and Land Transport emphasized the need to develop container handling companies to cope with the successive developments in this field in platform depths and lengths particularly that the efficiency of the assets and transport lines is below the required level. In spite of the official recognition that the Holding Company for Maritime and Land Transport will face a very serious year, no confrontation plans were made so far.
- The holding construction companies which used to have the largest turnovers were considerably affected by the regression of the projects assigned to them particularly in the Arab countries which experience a decline in building and constructions accompanied by inadequate liquidity. The finance crisis is one of the main problems which confront these companies abroad especially that the finance required for some projects reaches billions of Egyptian pounds. In spite of the strong position of some construction companies such as the Egyptian Contracting Company and Hassan Allaam, the growth rate of this sector which reached 17% is expected to drop by 50% according to the decline in the assigned projects. At the local level, the government is trying to support the building and construction sector by injecting investments estimated at LE 15 billion. A portion of these investments will be directed to infrastructure and housing projects.

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WORK SITE					CRISIS IMPACT ON WORKERS			WORKERS RESPONSE
Company Name	Industrial Zone / Governorate	Sector	Investment Sector/Employer	Workers Total No.	Layoffs/ Retrenchment	Wage Reduction	Stringent Work Conditions	
Mahmoud Gaballa Group		Tourism	Private Sector Mahmoud Gaballa	4000	200 layoffs (dripping i.e. 3-4 workers daily)			This method is used to avoid collective reaction.
Accor Hotel Management Co.	Sharm el Sheikh	Tourism	Private Sector	Undefined	60 layoffs from Novotel and Sofitel Hotels			No responses were observed
Happy Dolphin Co.	Hurghada	Tourism (Maritime voyages)	Private Sector	100	25 layoffs		Work hours increased from 8 to 12 hours to compensate for laid off workers	No responses were observed. There is no trade union committee. Workers do not know how to file complaints.
Al Salaam Trading and Foodstuffs Co.	Hurghada	Foodstuffs related to Tourism	Private Sector		7 layoffs	20% wage reduction	Deprivation from overtime hours and payment	No responses were observed. There is no trade union committee. Workers do not know how to file complaints.
Al Kawthar for Real Estate Marekting	Hurghada	Real estate marketing related to Tourism	Private Sector		5 layoffs			
One Thousand Nights Village	Hurghada	Tourism	Private Sector	2000		Cancellation of all allowances, incentives and overtime pay		
48 Miscella-neous companies	Port Said Free Zone	Textile and Garments Companies from QIZ	Private Sector Free Zone	Undefined	1500 layoffs without legal justification			

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Mega Textile for Ready Made Clothes	Sadat City	Textile and Garments Companies	Private Sector		143 layoffs according to forced settlement and 250 layoffs from temporary workers			Protests including one-week strike and sit-in. The Labour Office interfered to settle the dispute.
Dakahltex Spinning and Weaving Co.	Dakarnis City, Dakahlia	Spinning and Weaving	Public Business Sector	365			Workers transferred to Mansoura City without providing transportation	Sit-in in the Company premises.
Dubai Ready Made Clothes Co.	Ismailia	Garments	Private Sector Free Zone Indian Employer (Ramy Dof)	2000	500 layoffs at once			Sit-in and complaints to administrative bodies. Support from other workers in the Industrial Zone.
Empi Ready Made Clothes	Ismailia	Garments	Private Sector Free Zone Indian Employer (Ramy Dof)	About 8000	About 5000 layoffs of temporary workers of the second and third shifts. They were laid off after the crisis and the regular shift was maintained.			The company intends to employ new workers with lower wages.
Al Sharifia Clothing Co.	Industrial City, Manshiyat al Nozha, Alexandria	Spinning and Weaving	Private Sector Egyptian Employer (Samy Sherif)		About 100 layoffs. After the crisis he closed the Preparation Section, reduced shifts from three to two, increased work hours to 12 hours, reduced incentives and finally stopped to pay salaries.			The workers demonstrated in front of the Governorate premises last January.

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Egyptian Co. for Sewing and Dying (Dytex)	Mansour City, Dakahliya	Garments and Dying	Private Sector Egyptian Employer (Basim Sultan)		The employer refused to pay the periodical increment under the pretext of losses resulting from the crisis.			Workers went in strike for two days
Embroidery Pants	Mehalla City, Gharbiya	Embroidery	Private Sector	About 5000 workers in 600 embroideries	About 800 layoffs due to closing 200 plants			
Endorama Shebin el Kom Spinning and Weaving	Shebin el Kom City, Menoufiya	Spinning and Weaving	Joint	4000		The Indian management refused to disburse incentives at 228 days salary according to the Company's deal of sale.		Two-week strike
Al Ganoub Clay Bricks Factory	Albelleena City, Suhag	Building and Wood	Private Sector by 70% Indian Investor	240	45 layoffs last January	Reduced shifts from 2 to 1, increased work hours from 8 to 10 hours, without overtime pay.	Workers daily wages were reduced from LE 25 to LE 20 and skilled workers from LE 75 to LE 50	
The Pharaos Ceramics	Fayoum	Building and Wood	Private Sector	7000	45 layoffs last January	Cancelled incentives and overtime pay and cancelled overtime hours		More than 3000 workers went in strike on 24 Dec. 2008

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Ceramica Cleopatra	Ain el Sokhna, Suez	Building and Wood	Private Sector Egyptian Investor (Mohamed Abu el Eneen)	4000	72 layoffs	Refused periodical increment and cancelled overtime work	Increased work hours from 8 to 10 hours and reduced shifts from 3 to 2.	About 200 workers demonstrated before the Suez Governorate premises last February
Sadat Water Co.	Sadat City, Menoufiya		Private Sector Egyptian Investor (Mohamed Abu el Eneen)			Cancelled incentives for operation and maintenance workers since March		One week strike
Alabaster and Granite Factories	Shak El Tebaan, Helwan	Building and Wood	Government	70 000	Manpower reduced by 20%	Wages reduced by 30% and overtime work cancelled		
Glass Manufacturing Group GMG	Cairo Alexandria Desert Road, Cairo	Chemical	Private Sector	300	Wages unpaid since January 2009. Wages reduced since November 2008	300 layoffs after factory closure		One-week sit-in started 8 February 2009
HU Gas Refilling Plant	Kalaheen Industrial Zone, Qena	Chemical	Private Sector Egyptian Investor (Mohsen Atiya)	270	35 loading and unloading workers laid off	Lunch subsidy was reduced from LE 3 to LE 2.5	Severe penalties up to 50% salary cutoff every month.	
Leather Factory	Qesna City, Menoufiya		Private Sector Egyptian Investor (Usama Mohamed Abdalla)	350	Monthly incentives cancelled, so monthly wages dropped by LE 100			
Hepi Pharm	Qaft Industrial Zone, Qena	Chemical	Private Sector	400	Production stopped last January and workers are susceptible to layoff.	Before production stoppage production incentives dropped by LE 15 and distribution allowance dropped from 15% to 10%	Heavy penalties effected before production stoppage	Sit-in. Some workers went in hunger strike for one week

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Petro Trade Co.	Ismailia	Petroleum industries	Private Sector Egyptian Investor	200		Management reduced workers salaries and forced them to sign new work contracts for LE 113. The overall salary before this action was LE 600		Workers sat-in before the Ministry of Petroleum for two days and demonstrated before the People's Assembly
Toshiba El Arabi Co.	Qesna, Menoufia	Engineering and Metallurgical Industries	Investment Sector	4600 in 8 factories		Reduced monthly wages by 50%. The management gives the workers forced vacation for 2 weeks every monthly rotated in the 8 factories.	stopped disbursement of meals allowance since January	
Dandara Macaroni Factory	Qena	Food Industries	Private Sector	52		Incentives reduced by 50%. Holidays pay discounted	Some workers transferred from production line supervisors to distribution supervisors	
Egypt Foods Co.	Qesna, Menoufiya	Food Industries	Private Sector	1200 in 3 factories		Incentives totally stopped. This means that wages were reduced between LE 30 to LE 50.		