

The housing problem in Egypt and the effectiveness of growth economics on it

Course: Construction economics

MSc Project Management

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Introduction

Egypt is a country from the third world, the position of Egypt is very unique; mainly in North Africa, with the Sinai Peninsula forming a land bridge in Western Asia, Egypt is bordered by the Mediterranean Sea to the north, the Red Sea to the east, the great majority of its estimated 82.9 million people, the majority of them living near the banks of the Nile River. Egypt possesses one of the most developed economies in the Middle East, with sectors such as tourism, agriculture, industry and service at almost equal rates in national production. Consequently, the Egyptian economy is rapidly developing, due in part to legislation aimed at luring investments.

The main reason of housing problem is the un-studying of the rate of radical increasing of population setting in the narrow ratio for the whole land of Egypt (5.5%) which effects on the economic very hard. In the other hand, we can obtain that, the financial crisis is in the light of the problems that resulted from the mortgage problem in the United States, which was to grant loans to housing sector too, and without necessarily based on credit rating sound and reassuring, the crisis had revealed the importance of government intervention, to help treat and prevent the collapse of the global economic system.

Before speaking on the effective of global recession on housing problem in Egypt, how it caused and the strategy taken from government to solve it, we have to recognize and understanding economic issue, obtaining the benefits from economic theories and policies of macroeconomic, we have to spot on needs of economists and how rolls of GDP controls and supervised construction economics which have great effect on the incomes and in the same direction, reduce the gap in between working market and employees.

The importance of macroeconomics

Making economic policy and how the economy as a whole works falls to world leaders and macroeconomists, they (macroeconomists) must work to collecting data on incomes, prices, unemployment, and many other variables from different time periods and different countries. After that, they try to obtain general theories and ideas to explain the meaning of these data, and those are useful both for explaining economic events and for formulating economic policy¹. To understand policies and economics phenomena, macroeconomists study many facets of the economy, some of them are; the influence of national saving on economic growth, the impact of labor unions on the unemployment rate, and the effect on inflation on interest rates.

Measuring the Value of Economic Activity: Gross Domestic Product

gross domestic product (GDP) is the most important macroeconomic variable, some definition for GDP of production is the total income, including the sum of wages and profit, GDP measures are the relation between both a nation's total output of goods and services and its total income.² Computing GDP measures the flow of any pounds in the economy can be done by two ways, we must understand some of rules that economists follow in constructing this statistics such as: Adding Apples and Oranges, Using Goods, The Treatment of Inventories, Intermediate Goods and Value Added, Housing

¹ N.Gregory Mankiw- Macroeconomics, fourth edition, 2000 - page 12

² N.Gregory Mankiw- Macroeconomics, fourth edition, 2000 - page 16

Services and Other Imputations. Economists define the value of goods and services measured at current prices (**nominal GDP**³). (**real GDP**⁴) is using in measuring economic well-being that would tally the economy's output of goods and services and would not be influenced by changes in prices. Thus using a constant set of prices by the value of goods and services measured, so, if quantities had changed but prices had not, then the real GDP shows what would have happened to expenditure on output. Form nominal GDP and real GDP we can compute a third statistic, which reflects what's happening to the overall and defined as the ratio of nominal GDP to real GDP, this is called (**GDP deflator**⁵).

Forecasting and forecasts of demand and output

Forecasting is how to use data and information about the past and present to predict the future. To choose any types of decision, some future assumptions are necessary and basic; some assumptions may be based on a 'hunch' or using relevant data, these assumptions are clearly stated, then it should be relatively easy to determine when and for which reasons the updating of forecasts. It is very important to consider for long-term forecasts, the factors that influence the actions of the participants in the process of demand creation, especially need and the extent turning into economic demand, in the other hand, short-term forecasts of an earlier stage in the construction process, for example new construction must be based partly on; very few relevant indicators and an interpretation of the longer-term demand in the short term, and in short run contractors; output is dependents on orders received⁶.

Construction and Economic Development

In construction sector you can realize that the relationship between a country's state of development and the level of activity is one, this level is the macroeconomic level for a number of years. The great problem in studying this level is lack of fitted information on the sector, particularly in developing countries which have low income and construction output is low. As industrialization proceeds, factories, offices, infrastructure and houses are required, and construction as a percentage of gross domestic product (GDP) reaches a peak in middle income countries⁷.

Construction industry activity

gross value added (GVA) in construction, is the indicator of construction industry activity used for this analysis, which includes only the activities of the construction activity proper, but it excludes the building materials industry which is accounted in the manufacturing sector, and GDP per capita is the main indicator of general economic activity and it changes the growth in the economy with the growth in population. It is a better indicator of a country's welfare particularly in **developing nations**⁸, where the growth rate of population has been since the Second World War roughly twice as high as in **developed economies**⁹.

³ Nominal GDP measures the current Pound value of the output of the economy

⁴ Real GDP measures output valued at constant prices

⁵ The GDP deflator measures the price of output relative to its price in the base year

⁶ PATRICIA M. HILLEBRANDT, ANALYSIS OF THE BRITISH CONSTRUCTION INDUSTRY, 1984, page 105-106

⁷ *Construction Management and Economics*, Publisher: Routledge, pages 717-723

⁸ *The classification of countries according to their development status does not have a definitive basis, and according to (United Nations 2004a); countries like Yugoslavia are treated as developing countries.*

⁹ *In common practice, Japan in Asia, Canada and the United States in northern America, and Australia and New Zealand in Oceania are considered 'developed' regions or areas.*

The Influence of the Construction Industry

Because of the long time lags in construction, developed nations have the greatest signal influence, and the construction industry have more influence over the demand for its products, that's because influence these countries acting directly or indirectly will affect the level of instruction demand. Since the boom of 1973 happened in USA, there were a number of meetings between governments and parts of the industry, later, a connection between government and the industry obtained more information of government spending plans for construction. More recently there were instrumental in persuading of public-sector allocations. The industry marketing has not been very impressive, but the totality of marketing by construction companies may well be more fruitful because they are better able to reach the individual decision-maker.

Policy for housing in Egypt

Egyptian cities have witnessed starting in the 70th of the last century an increasing urban growth and unprecedented. There was a great attention to big cities to solve housing problem represented in dramatic construction boom which had a great effect for transition from an agricultural rural population accounts for more than 90% of the total population 'living in their own land in villages' at the beginning of the twentieth century came to a country where the urban population with the same end of the century to 45% of the total population, taking into account the enormous growth of increase in the population census¹⁰. The early start of the problem housing and reconstruction faced by Egypt, since the early sixties of the last century and the economics of the country was very impressive that was led to the decline in the contribution of the private sector and thus lower the rate of supply of residential units. Other reason was continuing migration from the countryside to the city to curb the growth of slums, with all the consequent negative effects on the status of the city, state of peace and security and social stability like changing in cultures and People's habits. In the other hand, the second priority in the Egyptian economic at 1999/2000 was expenditure on housing, compared to the rest of the items of expenditure, we can find it in numbers; a 18.7 billion Egyptian pounds spent in housing compared to 56.1 billion Egyptian pounds spent on main issues like food and drink. In the next year 2000/2001, the ratio of fixed investment in this sector to total fixed investment was 21.4%. according to the expansion of housing policy and business diversification which is the cause of labor-intensive in this sectors, consequently increasing the quantity of employees, leaving their main jobs like farmer, although the bulk of whom work on an irregular basis without collateral. There is some studies have estimated about housing and construction sector have linked to 97 deferent industries involved or not involved, and that is why we find; any change in this sector will be reflected and effected on the economy of the country as a whole, as a prove for that, a study of the "World Bank that every dollar invested in the housing sector resulting in additional two dollars in other economic activities"¹¹.

According to economic reports¹² of Egyptian central Bank and Egyptian Stock Exchange, the Egyptian market had been effected, and the functions of the Egyptians were the most adversely affected by the full consequences of the current global recession. Many studies appeared and spoke about the

¹⁰ <http://www.sis.gov.eg/Ar/Story.aspx?sid=3342>

¹¹ http://www.parcegypt.org/arabic/link.php?cat_id=32&Id=557

¹² <http://www.amcham.org.eg/Publications/BusinessMonthly/January%2009/Corporate.asp>

opportunities for Egyptian economic and it need to start acting immediately to find the most convenient solutions to overcome this downturn, not just with the least possible casualties in the short term, but also with long-term benefits. Many analysts speaking about fiscal measures such as tax cuts, unfortunately, it's not suitable to work in Egypt or in rich countries today which is a very short effect solution on persons not on whole income aspects. The ideal recipe is; government direct expenditure on investments - especially in infrastructure - and try to find ways to encourage and maintain the shrink of private investment to compensate for job losses and make effort in reducing the unemployed sector, Egypt have absorptive capacities and enormous for extending projects such as infrastructure; roads, bridges, electricity grids and waterworks and sewage networks.

Conclusion:

- The construction industry, in any country all over the world, have huge impact on economic and it is of vital importance, because its output and effectiveness on the built environment.
- The construction supply chain encompasses an extremely wide range of activities, It is a highly fragmented industry, which has profound implications for the way the industry operates.
- The power hand of government can influence the construction sector in many ways, that is the way as client, regulator and provider of funding, but as an industry construction clearly needs a cultural change. Some of the major drivers of this change are recognized as being dependent on training, research, collaboration and working as a team.
- Building economics and construction economics are commonly used titles to embrace the various areas of focus falling into this field of study.
- Housing in Egypt has been associated with civilizations of ancient Egypt since the dawn of Egyptian history, it was showed on the walls of temples in whale ancient places in Egypt, instead of that, there is a great problem about how to control the increasable growth of immigration from villages toward civilian cities against the narrow and unplanned cities running for better opportunities, that was the great effect on economics income and macroeconomic among the enormous challenge of development for country from the third world like Egypt.

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