

## The Economic Impact of Tourism in Egypt

*Policy Viewpoint is intended to contribute to the discussion of ideas and policy options for enhancing economic development in Egypt. The series is based on research conducted by ECES. The content and recommendations are endorsed by the Center's Board of Directors.*

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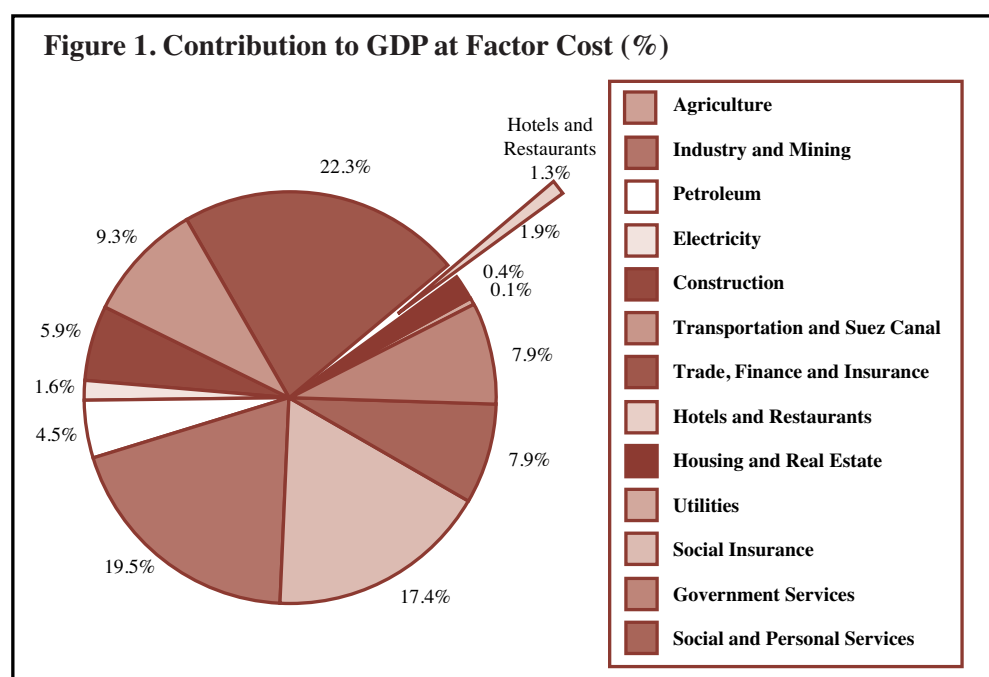
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Although there is consensus that tourism plays an important role in Egypt's economy, evidence to support this intuition is not readily available. Despite the country's ample supply of fairly detailed information on tourists' arrivals, nationalities, and their average expenditures, there is only limited and sometimes misleading information on the contribution of this sector to variables such as aggregate demand, employment and income.

This *Policy Viewpoint* aims to address this weakness in tourism data by highlighting some of the major limitations of the information currently available and offering an alternative measurement of the impact of tourism on the Egyptian economy. The study will quantitatively assess the contribution of foreign tourists' expenditures to aggregate demand, value-added, employment and income in Egypt.<sup>1</sup>

### Limitations of Current Tourism Data

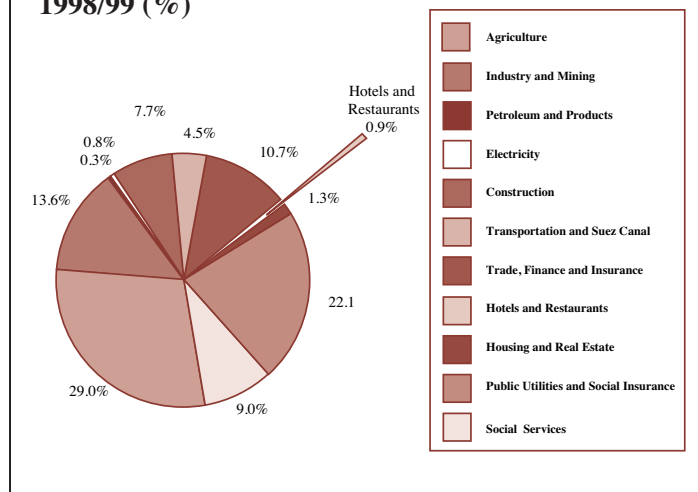
In **National Accounts data**, the role of tourism in the economy is reflected to the extent of the contribution of hotels and restaurants to the services sector. Designated as such, 'tourism' accounts for only 1.1-1.8 percent of GDP (value-added), and for no more than 0.9 percent of total employment in the economy (Figures 1 and 2). While this definition is reasonably based on the notion that tourism revenues include hotel and restaurant services, it is problematic because it completely disregards tourists'



Source: The Ministry of Economy and Foreign Trade, *Monthly Review*, February 2000.

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**Figure 2. Distribution of Workers by Sector 1998/99 (%)**



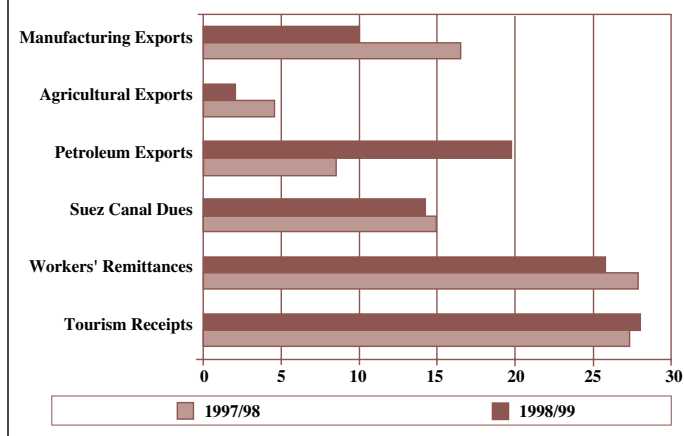
Source: Ministry of Planning.

expenditures on a wide range of other goods and services such as, transportation, recreational and cultural activities, and shopping.

Information on **tourist arrivals and their average expenditures** comes from two sources: (1) the Passport and Immigration Authority, which documents numbers, nationalities, and tourist nights; and (2) The Central Agency for Capital Mobilization and Statistics (CAPMAS), which provides estimates of tourists' expenditure patterns. The latter relies on a sample survey to estimate average tourist expenditures, the distribution of their expenditures on different groups of goods and services, and the distribution of these expenditure patterns by nationality, age group, purpose of visit, and so forth. The Central Bank uses data from these two sources to calculate tourism receipts for the Balance of Payments.

Although these statistics are important, their perspective is limited and, therefore, underestimates the vital role tourism plays in the national economy. To overcome this limitation, this study attempts to assess the economic impact of tourism from the stance that the designation of a good or service as 'touristic' depends on who *purchases* the good or service rather than who *produces* it. This approach leads to results that differ significantly from the conclusion supported by the National Accounts data that tourism – a main source of foreign currency in Egypt's BOP – makes only a meager contribution to the Egyptian economy. (Figure 3)

**Figure 3. Principal Sources of Foreign Exchange Earnings (%)**



Source: The Ministry of Economy and Foreign Trade, *Monthly Review*, February 2000.

### Alternative Techniques to Assess the Impact of Tourism

Two alternative methods to evaluate the economic impact of tourism have been developed in recent years. The first relies on developing *Tourism Satellite Accounts* (TSA), while the second depends on using input-output tables to conduct what is called an '*Economic Impact Analysis*' (EIA).

Under the TSA method, primary data on a particular activity are collected with the aim of determining the size of an activity that is not explicitly listed under standard National Accounts entries. Generally, this is only feasible for developed countries with large databases and extensive human and material resources. Among those countries that have already devised TSAs are Canada, France, and the United States, in addition to a few developing countries, such as the Dominican Republic.

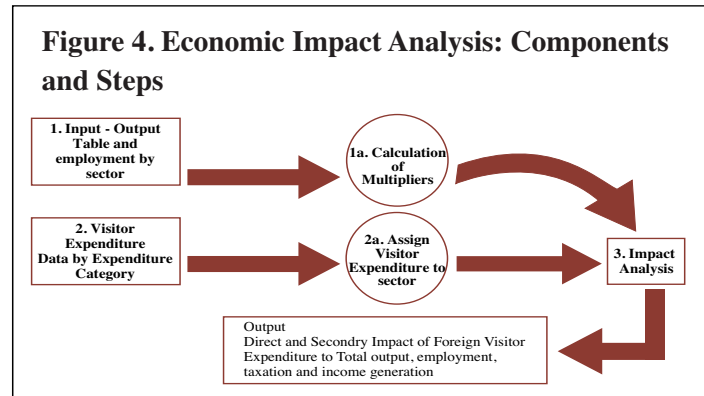
Since the method was devised, TSA assessment has received a great deal of support from international institutions. In addition to being recognized as an important source of data on tourism in the conference on the Measurement of The Economic Impact of Tourism held in Nice, France in June 1999, both the United Nations and the World Tourism Organization have endorsed the approach. As a result, all countries, including Egypt, are encouraged to consider taking effective steps to introduce TSAs at least in the medium term.

The second method – the EIA – traces tourists’ expenditure flows into different economic sectors in a country or region. The analysis studies both direct and indirect effects of expenditures on the following economic variables: output of other sectors, tourism income, employment opportunities, and tax revenues.

Because it is not possible to conduct a TSA assessment for Egypt at this time, this *Policy Viewpoint* adopts the EIA methodology. In particular, it measures:<sup>2</sup>

1. **Direct effects:** which are the immediate changes associated with changes in tourist expenditures; and
2. **Secondary effects:** which include the following:
  - *Indirect Effects*, which are the changes resulting from various rounds of re-spending of tourism receipts in industries supplying products and services to the tourism industry; and
  - *Induced effects*, which are the changes in economic activity resulting from household spending of income earned directly or indirectly as a result of tourism spending.

To estimate these effects for Egypt, the study relies primarily on assigning different categories of tourists’ expenditures in years 1996 and 1999 to various economic sectors. Then, using Egypt’s 1991/92 input-output tables to calculate multipliers, the study estimates the impact of tourist expenditures on demand for other sectors’ output (intermediates) used in producing goods consumed by tourists. In addition, it accounts for consumer demand generated by workers’ and business owners’ income from tourism activity. Figure 4 and the equation below summarize the steps followed for the analysis.



### The Contribution of Tourism Far Exceeds Commonly Held Perceptions

Quantitative analysis conducted in this study shows that the impact of foreign tourists’ spending far exceeds the commonly held 1 percent of GDP. According to our calculations, the direct impact of foreign tourist expenditures on **aggregate demand** reached around US\$ 3.6 billion in 1999, representing 4.4 percent of GDP.<sup>3</sup> Other data that focus only on hotels and restaurants exclude between 60 to 70 percent of tourists’ total expenditures going directly to other sectors in the economy.

In addition to direct effects, the study estimates total effects (direct + secondary) of tourists’ spending in 1999 to be US\$ 9.6 billion dollars, the equivalent of 11.6 percent of GDP. Using the share of value-added/output in the Egyptian economy, which is around 65 percent, the net contribution of tourists’ expenditures to total **value-added** in the economy is estimated to be around 7.5 percent of GDP. Thus, the results seem to be indicating that, whether measured in terms of output or value added, the strong linkages of tourism to the rest of the economy add a sizable additional contribution to the direct effects of this activity.

In terms of **employment**, the study estimates that foreign tourists’ spending in 1999 directly contributed an estimated 1.2 million jobs in various economic sectors. The total contribution to employment increases to 2.7 million jobs if we account for secondary effects. These estimates of direct and total effects on employment represent 7 and 15 percent of total employment, respectively.

From these estimates, we conclude that the contribution

**The Economic Impact of Tourist Spending =**

The number of tourists \* average spending per tourist \*  
the multiplier

Or

The number of tourist nights \* Average spending per  
tourist per night \* the multiplier

*Note:* Multipliers are calculated from input-output tables.

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of foreign tourists' expenditures to total employment cannot at all be comparable to the 0.9 percent share in total employment in the hotels and restaurants sector over the past few years. Moreover, foreign tourists' spending generates more than US\$ 670 million of direct **labor income** in different sectors affected by tourists' spending. When adding secondary effects, the total impact of tourist spending on labor income exceeds US\$ 1.4 billion.

The study's estimation of the contribution of tourist expenditures to **tax revenue** is based on an average of 10 percent sales tax on total output and an average of 20 percent income tax on wages and profits generated from tourism. Using these averages, the tax revenue directly associated with this activity reached LE 3.6 billion in 1998/99, which corresponds to 5.1 percent of total direct and indirect taxes for that year.

Finally, it should be pointed out that because foreign tourists' spending results in a direct injection of foreign currencies into the economy (a feature that may not be readily available to other activities), the impact of this spending is comparable to that of exporting Egyptian goods and services to be consumed in other countries. This point is usually of crucial importance to developing countries with growing Balance of Trade deficits, as it draws attention to the benefits of attaching a premium to value-added created in export-oriented sectors, especially when pressures mount on local currency and Trade Balance.

### Study Implications: Developing Tourism Must Become a National Priority

Statistics suggest that Egypt's tourism activity has been growing rapidly. In the past ten years, the number of tourists has doubled to reach 5 million in 1999, with revenues estimated at US\$ 4 billion. This growth in tourist flows and tourism revenue is the result of diligent efforts of private and public entities involved in operating and promoting this industry. Yet in spite of these efforts, Egypt's share in international tourism remains limited and significantly smaller than its potential.

One reason behind this discrepancy may be that interest to encourage and develop any sector is usually influenced

by how policymakers evaluate its size. As such, one of the main goals of this study is to draw more attention to the real size of tourism's contribution to the Egyptian economy in an attempt to develop the sector's potential.

The study also attempts to emphasize the implications of the unique character of this sector. Because of the extensive linkages tourism has with other sectors in the economy, it can make significant contributions to growth and job creation in Egypt, and, therefore, must be given top priority as a key source of the country's overall economic growth. Furthermore, in the wider perspective, these linkages suggest that any attempt to develop tourism activity should entail the coordination of efforts of all parties, both public and private.

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\* This *Policy Viewpoint* was first published in Arabic in June 2000.

- <sup>1</sup> This topic is covered in greater detail in Tohamy, Sahar and Adrian Swinscoe (2000), "The Economic Impact of Tourism on the Egyptian Economy", ECES, Working Paper No. 40. ECES, the Ministry of Tourism, The Egyptian Federation of Tourist Chambers, and the Development Economic Policy Reform Analysis (DEPRA) project provided financial support for the study.
- <sup>2</sup> The study focuses on the impact of foreign tourists' spending, excluding Egyptians' expenditure on domestic tourism or the spending of Egyptians working abroad during their annual vacations in Egypt.
- <sup>3</sup> The estimated direct effects of foreign tourists' expenditures are US\$ 2.8 billion in 1996, which corresponds to 4.3 percent of GDP for that year. The estimated total effects are US\$ 7.6 billion, or 11.3 percent of GDP.
- <sup>4</sup> Direct and total effects on employment are estimated to be 5.7 and 12.6 percent of total employment in 1996, respectively.

*This Policy Viewpoint was written by Sahar Tohamy, ECES.*

***For more information about the Center and its publications contact:***

*The Egyptian Center for Economic Studies  
World Trade Center - 1191 Corniche El Nil,  
14 th Floor - Cairo 11221 - Egypt.*

*Tel.: (202) 578 1202 Fax : (202) 578 1205  
E-mail: [ecses@ecses.org.eg](mailto:ecses@ecses.org.eg) URL: [www.ecses.org.eg](http://www.ecses.org.eg)*