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The Egyptian Center for Economic Studies (ECES) is an independent, non-profit think tank. The mission of the Center is to promote economic development in Egypt by conducting and disseminating applied policy research. The aim is to develop viable policy options for Egypt in light of international experience. The Center's activities are carried out in the spirit of public interest.

Policy Viewpoint reflects the stance of ECES on key policy issues in Egypt.

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The Egyptian Economy in Retrospect and Future Prospects

Egypt is at a crossroads. A new government has been formed following the first presidential election post the January 25 revolution. The government's priority has been focused on positioning Egypt back on the road to recovery following significant losses the economy has suffered during the transition period. To that end, it has become necessary to articulate an economic vision to help fulfill the growing expectations for a better future post political transformation.

Looking back, it is clear that many years of flawed economic policies helped catalyze the January 25 Revolution. This edition of the *policy viewpoint* takes stock of opportunities as well as the challenges facing an economy that has grown substantially in the last two decades, but at a high price in terms of perceived inequality and injustice. It concludes by laying out the main pillars of sustaining inclusive growth going forward. These pillars build on previous ECES research to address distortions that have built over the past six decades, adversely impacting economic management and performance. More specifically, it aims to articulate priorities for the economic reform agenda and help guide policies in the future.

BACKGROUND

To lay the foundations for the economic agenda at this critical juncture of the country's history, it is important to flash back on the composite policies that existed over the past several decades to take stock of the ideology and accompanying policies. The extent to which these policies have helped or hindered economic progress will inform the vision of the reform agenda.

Egypt's economic course since the 1952 Revolution has been problematic, to say the least. The period 1956-1970 was a mixed bag in economic terms. Egypt's experiment with nationalization of industry, central planning and the mobilization of foreign assistance did produce some growth, but left the economy hobbled by regulation and inefficiency, ill-prepared to attract investment or to grow on its own resources. The open-door policy thereafter relaxed the government's grip on productive capacity, and like many other developing countries in this era, Egypt was able to borrow abroad heavily to support both investment and consumption. But the mountain of foreign debt that accumulated in the boom proved unmanageable, and the hangover yielded stagnation throughout much of the 1980s.

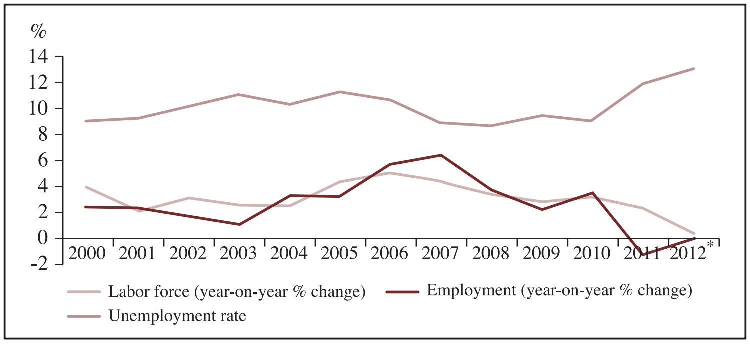
Fortune favored the economy thereafter. Much of Egypt's external debt to governments was forgiven in the wake of the Gulf War. And much of the rest was restructured through the International Monetary Fund (IMF) as part of an agreement to contain budget deficits and to use monetary policy to restrain inflation. During what might be called the stabilization period (1991-2001), per capita GDP calculated in terms of purchasing power rose from $3,200 to $4,200 (in 2005 prices). That latter figure is not very high compared to some non-oil producing states in the region: real per capita income in Turkey and Tunisia were $9,100 and $6,300, respectively. But it does suggest how much the Egyptian economy could improve simply on the strength of macroeconomic stability.

In the following decade, serious market-based reforms were introduced, mainly steps toward privatization and deregulation that permitted growth to accelerate to the seven percent range. This may seem modest compared to the double-digit performances of China in most years, but bear in mind that Egyptians save and, therefore, invest a far smaller proportion of their income compared to Asians,[1] and thus Egypt depends more on foreign investors to meet the demand for capital.

The policies followed during the global financial crisis also deserve some credit for steering the economy relatively smoothly through the risks of slowdown in the world economy and lingering recession at home. Policy priorities were established to respond in timely fashion with domestic stimulus packages (mostly in the form of accelerated public infrastructure investment) that largely offset declines in private investment and exports. Indeed, in the two years before the Arab Spring, the economy seemed to be back on the rapid growth track of the previous decade. In the second half of 2010, it grew at an annualized rate of 5.6 percent, led by strong performances in tourism (15 percent growth), construction (13 percent) and information/communications technology (up to 10 percent).

However, the gains did not trickle down to all. The stimulus packages, in the form of higher public investment, created relatively few jobs despite high youth unemployment hovering around 25 percent, and increasing numbers of new entrants to the labor market (Figure 1). Moreover, the stimulus investment barely touched smaller enterprises, which continued to struggle to access credit and grow in the context of a growing economy. Indeed, living standards deteriorated for many Egyptians during the global financial crisis.

Figure 1. Labor Force and Unemployment



Source: International Labour Organization (ILO) and Central Agency for Public Mobilization and Statistics.
* 2nd quarter of 2012.

As the economy started to regain some momentum on the road to recovery, the January 25 Revolution broke out. The revolution and lingering uncertainty during the following transition period have exacted a huge toll on economic performance. In the first quarter of 2011, GDP was 4.2 percent lower than the corresponding quarter in 2010.[2] Tourism, a particularly important sector to the Egyptian economy both because it is a key source of foreign exchange earnings and an employer of countless unskilled and semi-skilled workers, was hit hard. It had managed to hold its own through the global recession. But revolutions and tourism don't mix well: the sector income fell by 16 percent in 2011 with no signs of full recovery thus far.

The economy has since been creeping back, but at a pace far below the average of the past decade and far below the seven percent pace needed to absorb new entrants to the labor force or, for that matter, the even more rapid growth that would be needed to remove the overhang of existing unemployment that continues to exacerbate post the Revolution.

The Central Bank of Egypt has been at least nominally independent of the government for a decade. Not surprisingly, however, it followed a parallel course of stimulus during the global financial crisis, reducing interest rates to increase private investment to complement public spending on infrastructure.

[1] World Development Indicators, World Bank. In 2010, gross savings as a share of GDP is 17.8 percent for Egypt, compared to 29.1 percent for East Asia and Pacific. In 2011, owing to continued deterioration of public savings on account of less fiscal revenues and higher current spending by the government, gross savings as a share of GDP is only 16.9 percent in Egypt, compared to 28.1 percent for East Asia and Pacific.

[2] For more details, see ECES Policy Viewpoint Series, no. 27 entitled: "The Egyptian Economy Post January 25th: Implications and Looking Forward."

However, independence of monetary policy has been undermined by excessive accommodation of increasing domestic borrowing by the government post the revolution.

Since the revolution, Egypt's balance of international payments has dramatically worsened owing to the sharp decline in foreign direct investment and tourism receipts, along with flight of capital. By no coincidence, the EGX30, a price index of 30 of Egypt's largest and most liquid companies fell almost by half in 2011 before staging a partial recovery. Among major sources of foreign exchange, only remittances from Egyptians working abroad have held strong. Continued depletion of international reserves have forced excessive intervention by the central bank to stem the risk of depreciation of the Egyptian pound that could have been significantly larger, although at a very high cost amounting to a loss of nearly $20 billion of international reserves.

Where Did the Development Strategy Go Wrong?

To better formulate the reform agenda post the revolution, it is important to reflect back on the years leading to the revolution and answer relevant questions such as why many Egyptians did not share the fruits of growth. Probably the question is what never got better to make high growth more inclusive and who was left behind in the two decades of growth and reform that preceded the revolution.

Start with the business climate. While Egypt's private sector enjoyed greater prosperity in 2010 as the global economy recovered, it was still left to deal with a legacy of institutional burdens that distorted its markets. The list of impediments to free enterprise is long: cumbersome government bureaucracy, scarcity of skilled labor, pervasive corruption (public and private), rigidity in the labor market, considerable uncertainty and cost in enforcing contracts. Accordingly, Egypt ranks 110th on the World Bank's Ease of Doing Business index—just ahead of Ethiopia, El Salvador, Kenya and the Dominican Republic.

On average, it takes 218 days to obtain a construction permit (compared to 46 days in the United Arab Emirates (UAE), the regional leader). It takes seven procedures and 72 days to register property (compared to one procedure and two days in the UAE). Getting an electricity hookup averages 7 procedures and 54 days, and costs four-and-a-half times the annual income of an average Egyptian. The economic reform agenda should establish priorities to address these structural impediments and swiftly in order to revive private activity and attract foreign investment.

Rather than focusing on structural reforms and necessary policies to support private activity, fiscal priorities have made it more challenging for the private sector to grow, or even survive, amidst a complex environment in which problems have grown post the revolution. Moreover, as will be discussed below, the government's increased reliance on domestic borrowing to finance the widening fiscal deficit threatens to crowd out private borrowers—specially those lacking connections and a blue-ribbon credit history.

In the absence of a vibrant private sector that creates jobs and opportunities to increase income, it is difficult for growth to prove inclusive. Despite substantial growth over the past two decades, which has made Egypt's industrial base globally competitive in key areas and raised average incomes to what the World Bank calls "lower-middle-income" levels, a widespread sense of economic injustice helped to fuel the revolution. The source of this growing discontent is not easy to identify from summary statistics. Most indirect measures of the living standards of the low end of the income spectrum—infant mortality, life expectancy, the percentage of the population with access to clean water and improved sanitation—show dramatic improvement since the early 1990s. And while the percentage of income going to the bottom 10 percent of Egyptians is down slightly from that earlier period, the economist's favorite aggregate measure of income inequality—the Gini index—actually suggests a slight *narrowing* of inequality.

But the perception of inequity is another matter. In part, discontent is probably related to the sometimes stark divide between urban and rural households. The government's failure to invest in agriculture or in rural infrastructure accelerated migration to already crowded slums, where the culturally dislocated new residents are last in line for scarce jobs in the formal economy.

To be sure, at 0.32, the aforementioned Gini index is relatively low by any reasonable standard—lower than in the United States, the United Kingdom or New Zealand. But it must be remembered that the number reflects income inequality rather than wealth inequality, which has ballooned in very visible ways—notably, in the extremes of housing quality. There is also evidence that the increase of food and fuel prices worldwide in the last decade—price changes that were inadequately buffered by government subsidies—has increased the number of Egyptians living in hardship.

Ironically, reforms designed to accelerate growth have also torn the social fabric of the middle-class. Young, college-educated Egyptians can no longer be sure of getting make-work civil service jobs in an era of privatization and greater budget discipline, and are alienated by the need for family connections (or technical skills not adequately taught in universities) to get white-collar work in private enterprises. Meanwhile, it remains exceptionally hard to start a business in Egypt—and even harder to start one without the cash (small and medium enterprises struggle for access to credit) or the connections to cut through the tangle of red tape and some corrupt regulators.

Whatever the reasons for anger over economic inequality, deteriorating conditions since the revolution have surely worsened the situation. The unemployment rate, below nine percent in 2008, certainly exceeds 12 percent today. Going forward, the economic reform agenda should embrace priorities to address chronic problems that challenged inclusive growth before the revolution and mounting problems of economic mismanagement post the revolution that blocked the road towards recovery.

The Hard Road Ahead

Despite an array of structural problems and increased uncertainty, good economic management, coupled with strong political will, should be able to deliver on the right reform strategy. The main economic challenge to be faced in the short term is to reduce uncertainty about political and economic stability. The best economic vision and the most sophisticated reform strategy will not bear fruit in an environment that continues to be challenged by growing uncertainty regarding the stability of the underlying fundamentals. And lest anyone forget, international financial markets have been quick to remind policymakers. During the first days of protests, several agencies downgraded the rating of Egypt's sovereign debt, raising the cost of borrowing and signaling future difficulties in refinancing existing debt if the government's financial position deteriorated. Moreover, lingering episodes of protests and political instability have delivered serious setbacks to the small steps gained towards recovery.

Assuming political stability is restored and security improved, what are the main pillars of the economic reform agenda that Egypt should embrace? The economic reform agenda should articulate a vision for economic reform post the revolution and the specific measures and policies that should be in place over the near and medium-term. Details of the reform strategy would help the country to reach out to the international community to secure necessary financial support and solidify investor confidence regarding the direction of economic policies and the outlook for the economy. Several pillars should be clearly spelled out in the country's economic strategy, and specific measures to secure reforms should be well-defined as follows.

Budget Reform

Reform of public finances is a key driver of Egypt's economic reform strategy. However, securing the necessary reforms has been challenged amidst growing expectations post the revolution. The revolutionary environment in which Egyptians expect the government to address their grievances about education, housing, jobs and the high cost of food and fuel is a difficult time to confront the necessity of cutting total spending and raising revenue. And not surprisingly, the interim governments' initial reaction was to ignore this necessity. Government wages and pensions were raised by 15 percent, as of April 2011. And all government workers who had been employed for more than three years were given permanent status. By the same token, plans to phase out subsidies for food and fuel (discussed below) were put on hold during the transition period.

Before the revolution, the Ministry of Finance had targeted a gradual reduction in the overall fiscal deficit from 8.1 percent in fiscal year 2009/10 to 3.5 percent of GDP by 2015—and thereby to decrease the public debt from 77 percent in FY

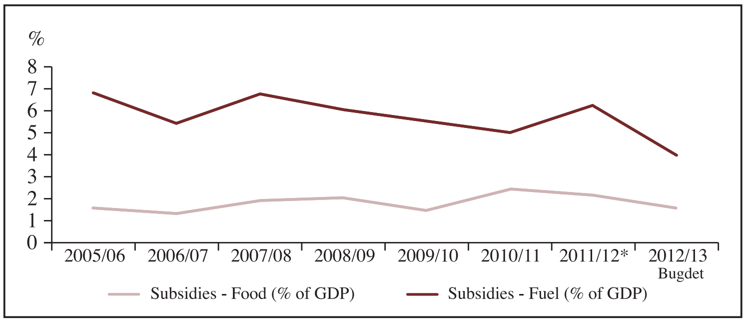
2009/10 to 60 percent of GDP by the latter date. In the wake of deteriorating public finances post the revolution, it is not clear whether this target could (or should) be met.

Note that the government debt creates no immediate threat of a crisis since relatively little of it is owed in currencies other than the Egyptian pound. But deficit reduction will almost certainly be a condition for the ongoing drive to mobilize support from the IMF and other lenders of badly needed foreign exchange. In any event, the recent surge in deficits would undermine the prospects for economic recovery in the near term as it chokes off resources that could be made available to support private activity, and increases the cost of credit.

Hence, there is a need for fiscal consolidation as a top priority for the reform agenda in the period ahead. First, the ongoing public funding requirement absorbs much of Egypt's relatively meager domestic savings—private savings are only about 20 percent of GDP,[3] which is low compared to counterparts in Asia; and this crowds out private investment. Further, the loan to deposit ratio has been declining in the banking system and credit has been increasingly skewed towards sovereign lending, away from financing private activity and particularly lending to small and medium enterprises. Second, the composition of government spending reflects patronage and interest-group influence more than social priorities. Fuel and food subsidies alone absorb 10 percent of GDP (Figure 2); much of the money allocated to them could be better spent on programs ranging from infrastructure development to more targeted support for the poor to job-creation incentives.[4]

Related to the vision of reforming public finances is the state of deteriorating performance in public enterprises. There have been efforts to improve the performance of the public sector, notably those pertaining to state-owned enterprises. Following a peak of activity in 2005/06, the privatization process slowed down. But the fact remains that Egypt's state-owned enterprises are no model for efficiency. More privatization is needed, but this time around, ensuring transparency and enforcement of the rule of law complemented with a vigorous agenda to mobilize employment opportunities in the private sector.

Figure 2. Food and Fuel Subsidies



Source: Ministry of Finance.
* Preliminary.

The other side of the budget ledger also matters. Tax revenues declined sharply in the past year, largely because of the slowdown in economic activity after the revolution. But as the economy recovers, there will be scope for mobilizing additional revenues by widening the tax base, and fighting corruption and tax evasion.[5] Further, a high priority target is to increase fiscal revenues: the revision of export contracts, particularly for gas, could bring in billions of dollars more.

Moreover, not too far down the road, Egypt needs to consider tax reforms that reduce distortions in private incentives without reducing revenues or further skewing income distribution toward the wealthy. Among the possibilities is a more equitable version of the real estate tax to increase revenues in the budget and help mobilize economic returns from the stock of underutilized capital in property ownership that has been sought by many Egyptians as a store of wealth.

Price Stability and Exchange Rate Policy

The scope for pursuing an independent monetary policy should be reinforced in the period ahead, which has been severely undermined by excessive accommodation of increased government spending and heavy management of the exchange

[3] Ministry of Planning, Follow-up Report, 2011/12. The data over time reveal that private savings exceed private investment and the remainder is registered as surplus in the private resource gap (private savings minus private investment). On average over time, adding up the surplus and private investment, private savings represent a share of about 20 percent of GDP, which is a higher ratio relative to personal income. However, public savings (fiscal revenues minus current spending) have been negative lately, further eroding domestic savings, upon combining both private and public savings.

[4] For more details, see ECES Policy Viewpoint, no. 25, entitled: "The Subsidy System in Egypt: Alternatives for Reform."

[5] For more details, see ECES Policy Viewpoint, no. 31, entitled: "Towards Mobilizing Fiscal Revenues and Boosting Economic Activity in Egypt."

rate. All relatively small open economies must reconcile overlapping, and sometimes conflicting goals, in managing monetary and exchange rate policies. And Egypt certainly fits the description.[6] It needs a currency exchange rate that makes the country an attractive venue for foreign direct investment and a competitive source of goods and services in global trade. But the country is also a big importer of food and liquid fuels, so both domestic inflation and government spending can be quite sensitive to the exchange rate.[7]

That explains why the Central Bank of Egypt has been using foreign currency reserves to buy Egyptian pounds since the revolution. Currency market intervention has, to a great extent, stemmed the risk of what would have been a sharper depreciation of the exchange rate, as the Egyptian pound has become in the grip of declining foreign investment, foreign tourism income and Suez Canal receipts. But it also explains why the central bank has been hedging its bets on monetary policy that has been challenged by inability to contain food and fuel inflation.

In March 2012, with the economy in recession—or, at best, scarcely growing—the central bank reduced the unremunerated reserve requirement to help ease constraints on domestic liquidity in the face of a continued surge in government borrowing. However, to the time of this writing, the central bank has been reluctant to lower its benchmark interest rate. To the contrary, it did raise the interest rate in November 2011, reversing a long-lasting neutral stance since September 2009, to help stem the risk of depreciation presumably for fear of encouraging capital flight or creating expectations of higher inflation.

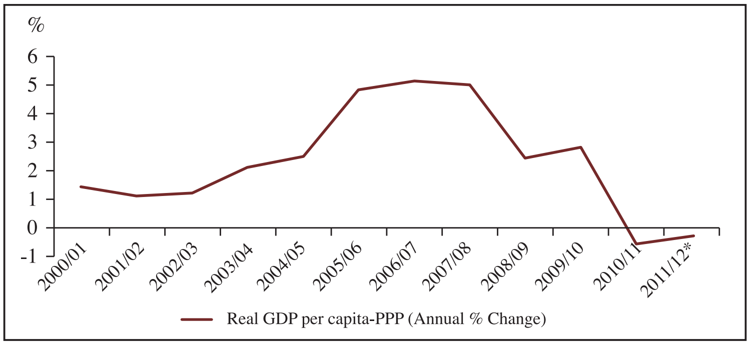
The newly-appointed government will have little choice to continue this juggling act, using foreign exchange reserves. The stock of reserves has been depleted to what is barely adequate to cover three months of imports. Hence, there is little room to maneuver by the central bank and priorities should be focused on managing the exchange rate more flexibly while resuming negotiations to secure lines of credit from the IMF and other international lenders to stabilize the exchange rate and contain inflation until Egypt regains the confidence of investors (foreign and domestic) and the economy recovers from the current slump.

Market Liberalization

Priorities in the period ahead should be focused on pressing ahead on the road towards greater integration in the global economy to increase trade and foreign investment potentials. Egypt has achieved significant strides along this path, but more potential is yet to be tapped.

Since the early 1990s, Egypt has been rapidly integrating into the world economy, reducing barriers to trade and encouraging foreign investment. While the strategy paid off in terms of growth (Figure 3), the absence of a solid regulatory framework and sound market institutions allowed corruption to increase. Egypt had a troubling 112th among 183 countries on Transparency International's Corruption Perception Index in 2011, and fell to the 118th position out of 176 countries in 2012.[8]

Figure 3. Real GDP Per Capita



Source: Ministry of Finance.
* July - March 2011/12.

Failure to provide equal protection of economic rights reduces social and economic mobility by making it more difficult for small and medium-sized enterprises to compete. It is no coincidence that Egypt ranks low on the World Bank's Ease of Doing Business Index (see above).

Market reforms are thus key to fixing what ails the Egyptian economy—increasing the potential rate of growth while opening the door to new enterprises and creating jobs to absorb the rapid increase in the workforce. Hence, the challenge is to reinforce the pillars of political stability to focus economic debates on urgent priorities and press ahead with the structural reform agenda to support the growth of small and medium enterprises and reap the benefits of larger integration into the global economy.

6 For more details, see ECES Policy Viewpoint, no. 28, entitled: "Monetary Policy in Egypt: Recent Challenges and Policy Implications."
7 For more details, see ECES Policy Viewpoint, no. 26, entitled: "Competitive Devaluation and Egypt's Export Potential."
8 Report on Cost of Doing Business, Transperancy International.

Reducing Poverty and Economic Inequality

The mainstay of Egypt's efforts to deal with poverty is the array of food and fuel subsidies discussed earlier. One problem with this approach is that it distorts household behavior, effectively producing a smaller increase in living standards for a given transfer to the poor. For example, very cheap cooking gas may lead consumers to use it profligately when they would be better off using less gas and spending the sums saved on, say, clothing. But the most troubling aspect of the subsidies as now constituted is their scatter-shot delivery; most of the benefit goes to households and businesses that do not qualify as eligible.

Two-thirds of the cost of the subsidy system is linked to fuel—natural gas, liquefied petroleum gas (for cooking) and other petroleum products, notably gasoline and diesel fuel. Yet less than five percent of the fuel subsidies aid the bottom quintile of the income distribution, based on household expenditure surveys.[9] And in urban areas, a large share of one-third of the benefits goes to the top quintile. Most insidious, businesses have access to subsidized diesel fuel.

Much the same can be said for food subsidies. Virtually all Egyptians, poor and rich, buy heavily subsidized "baladi" bread, a staple of the Egyptian diet. Other foods are subsidized through rationing. But two-thirds of all households now have ration cards, and the bulk of the benefit goes to the middle-class.

Hence, there is an urgent need to reform the current subsidy system that chokes off limited government resources and is unfairly skewed to the benefit of those who do not need the subsidy at the expense of less available resources for the most vulnerable groups. Eliminating subsidies overnight and replacing them with cash grants to the poor would not be politically practical. Nor would it necessarily be good policy, since it would create a spike in consumer prices that would ripple through the economy. The more sensible approach is to press ahead with gradual replacement, focusing first on the fuel subsidies, which are immensely costly and matter less to consumers at the low end of the distribution. But to escape the wrath of the public (Nigeria offers an example in this respect), it would be critical to link the phase-out to cash transfers and/or targeted in-kind support to the vulnerable groups to fully offset the impact on the living standards of the poor. It should be noted, however, that such a change would take considerable political will to carry out, even if it were planned carefully, since both big businesses and middle-income consumers would be adversely affected and certain services should be adequately sheltered (e.g., public transportation) from the envisaged price adjustment to contain inflationary expectations.

Job Creation

While cash transfers or in-kind subsidies must be part of any realistic plan to cope with poverty, they should not be viewed as a substitute for job creation. Indeed, a great tragedy of the last two decades of reform-driven growth in Egypt has been its failure to create jobs faster than the growth of the labor force.[10] Restoration of Egypt's once-booming tourism industry, which is more labor-intensive than most modern industries, should thus be a top priority. But the key to job creation in the long run lies in small and medium-sized businesses, which can make productive use of low-cost unskilled labor as well as aid mobility for middle-class entrepreneurs in general and young ones in particular.

To that end, Egypt desperately needs market reforms (discussed above) that reduce corruption and cut through red tape. In addition, small and medium-sized firms need better access to credit. While subsidizing credit can be a slippery slope—the costs to the government (direct, or indirect through credit guarantees) are hard to contain and the target group has a way of expanding—some preferred access makes sense to offset the capital market's bias toward large-scale enterprises.

To help support small businesses, the reform strategy should embrace specific measures to ease accessibility to credit. This might take the form of small concessional loans by the government or various incentives that reduce the risk to private banks of making these loans. Any loan program should be part of broader institutional support for small and medium-sized businesses that reduces business start-up costs, helps them to network with suppliers and wholesalers, and improves their access to export

[9] For more details, see Abouleinein, El-Laithy, and Kheir-El-Din. *The Impact of Phasing out Subsidies of Petroleum Energy Products in Egypt* . April, 2009. ECES Working Paper, No. 145. Proposals for reform are outlined in ECES Policy Viewpoint, no. 25.

[10] For more details, see ECES Policy Viewpoint, no. 29, entitled: "Job Creation in Egypt: A Short and Medium Term Outlook."

markets. The government affords to pay attention to rural areas in this regard, where poverty is prevalent and the exit to cities is creating social dislocation.

Consider, too, in this regard, the importance of bringing the "informal" sector—the large numbers of small businesses that find it too expensive to operate legally—into the open. The astonishing size of this informal sector (by one estimate, it accounts for 48 percent of all employment)[11] is a reflection of the general difficulty of doing business in a climate of corruption and bureaucratic indifference. High informality has increased vulnerability despite demands to establish an adequate minimum wage policy and expand the umbrella of social protection to the most vulnerable groups.[12] Until informal enterprises become part of the formal economy, they will not directly benefit from capital market reforms and other measures taken to make it easier to challenge entrenched producers. The reform agenda should embrace specific measures to reduce the cost and increase incentives for formalization. The targeted measures should aim at increasing support for small and micro enterprises where most of labor informality exists. Access to micro financing, tax incentives, co-sharing the burden of social insurance, more flexible labor laws, and more incentives to upgrade the quality of formal employment, would help reduce the vulnerability associated with informality and increase the capacity of small and micro business to cope with formality.

Education and Unemployment

Addressing unemployment requires a comprehensive strategy to reform the education system and address serious imbalances between supply and demand in the labor market. While unemployment is a chronic problem for Egypt, its nature has changed considerably in the last few decades of economic growth. It is no surprise that unemployment is exceptionally high (around 25 percent) among the youth—the legacy of high birth rates and declining childhood mortality in the 1990s is rapid labor force growth today. What is surprising is that young college graduates are faring no better than their less educated peers.

There are a number of reasons for this seeming anomaly. As the government shed state-owned enterprises in the last decade, it ceased to be a guaranteed employer of last resort for college graduates. But arguably most important is the skills mismatch: universities do not provide the quality of technical and managerial skills that the rapidly evolving Egyptian private sector needs.

Like many of Egypt's problems, though, this one is more easily identified than solved. The main issue is not under-investment—roughly one-third of high school graduates go to university—but the system's failure to direct resources where they are truly needed. The government thus faces the difficult task of changing an educational establishment built for a different era.

Concluding Remarks

Several years of economic mismanagement helped fuel the outbreak of the revolution. Since the early 1990s, the economy has gradually opened to the transforming forces of globalization and relatively high growth rates were achieved. However, the fruits of growth were not distributed equitably, leaving millions of citizens under the poverty line. The new government's task is to restore the economic momentum that has, in many ways, changed Egypt for the better, but to make sure this time that the poor are not marginalized in the process. No easy task, indeed.

In a nutshell, the economic reform agenda in the period ahead should embrace specific priorities to reform public finances, increase the scope for independent monetary policy, mobilize private activity, support small and medium enterprises, address structural distortions in the labor market, reform institutions, improve the business environment, and reform the educational system. The goal is to achieve inclusive growth that creates jobs and increases social justice. Articulating this vision and complementing the vision with a specific reform strategy will solidify investor confidence in the economy post the revolution and position Egypt on the path to attaining its high potential, as is widely shared by many international observers and analysts.

[11] CAPMAS, Quarterly Bulletin of Labor Survey, the third quarter, 2010. The data estimate labor force in Egypt at 27.9 million, of which 18.7 million are in private establishments, including 12.2 million are out of establishments, and 2.5 millions are unemployed. As out of establishment workers are informal, the share of informality attributed to this group is 48 percent of total employment. However, informality is likely to be a larger share of total employment, upon accounting for the share of informal labor in formal establishments for which data are not available.

[12] For more details, see ECES Policy Viewpoint, no. 30, entitled: "Minimum Wage in Egypt: Striking a Balance between Productivity and Social Justice."

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