

Challenges for Egypt in the Post Crisis World



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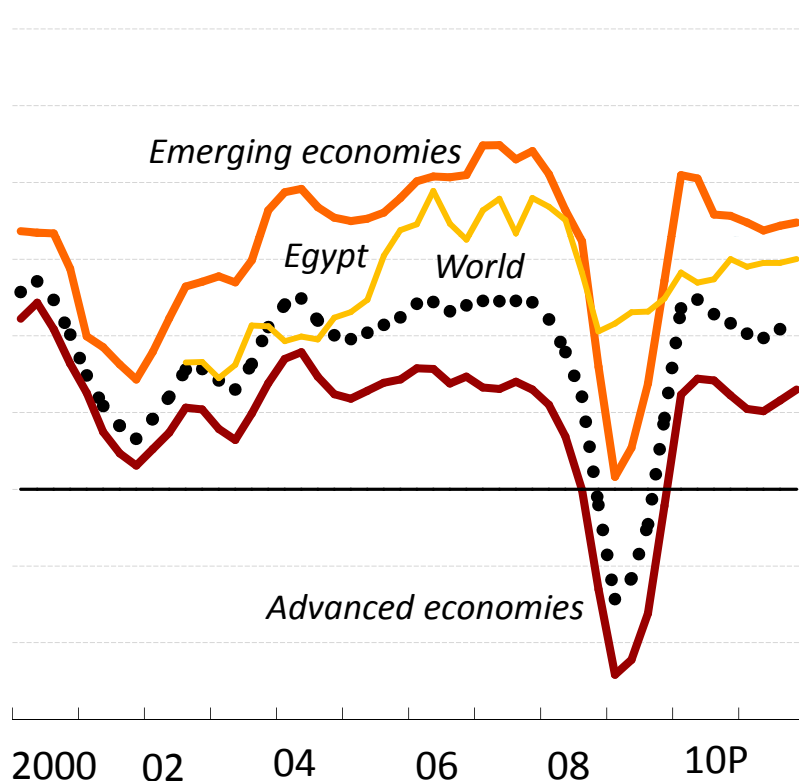
IMF Middle East and Central Asia Department

**at the Egyptian Center for Economic Studies
January 23, 2011**



Global outlook: Two-speed recovery in motion

Real GDP Growth
(percent change from a year earlier)



		Projection	
	2009	2010	2011
(Percent change, unless otherwise indicated)			
World	-0.6	4.8	4.2
Advanced economies	-3.2	2.7	2.2
Emerging economies	2.5	7.1	6.4
MENA	2.0	4.1	5.1
Egypt	4.7	5.1	5.8
Oil price (in US\$)	61.8	76.2	78.8

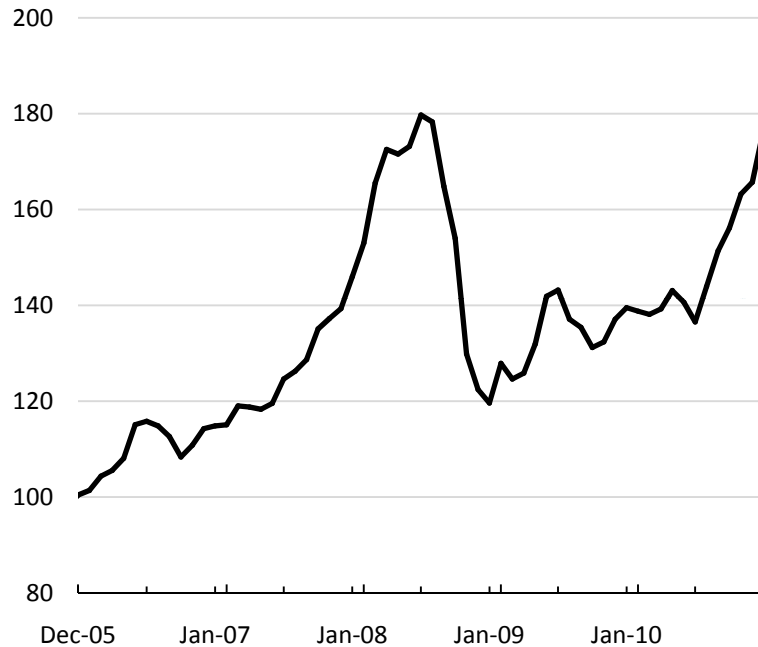
1/ Egypt data refers to financial year.

Sources: IMF, World Economic Outlook, Fall 2010.

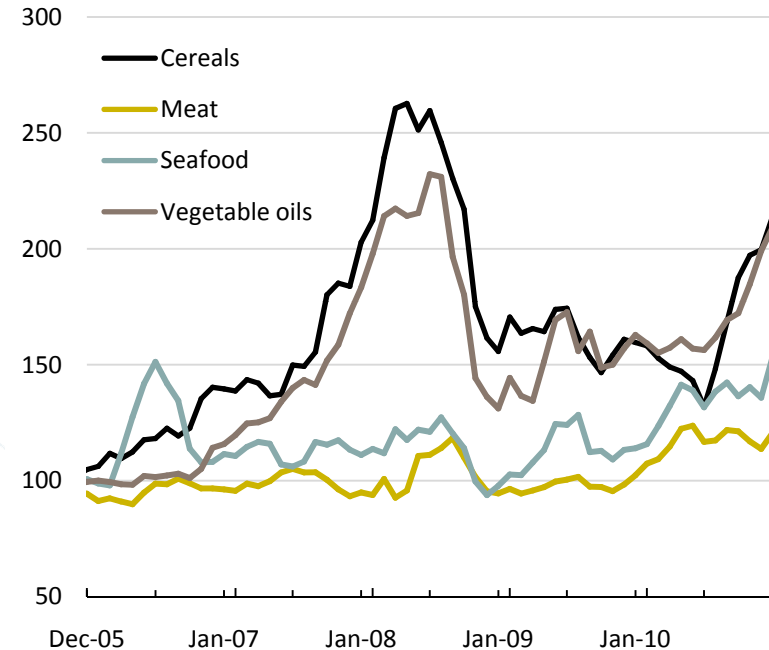


Global food prices are rising rapidly

IMF Food Price Index (2005-10)¹



IMF Food Price Index Groups (2005-10)¹



Source: IMF, Commodity Price System.

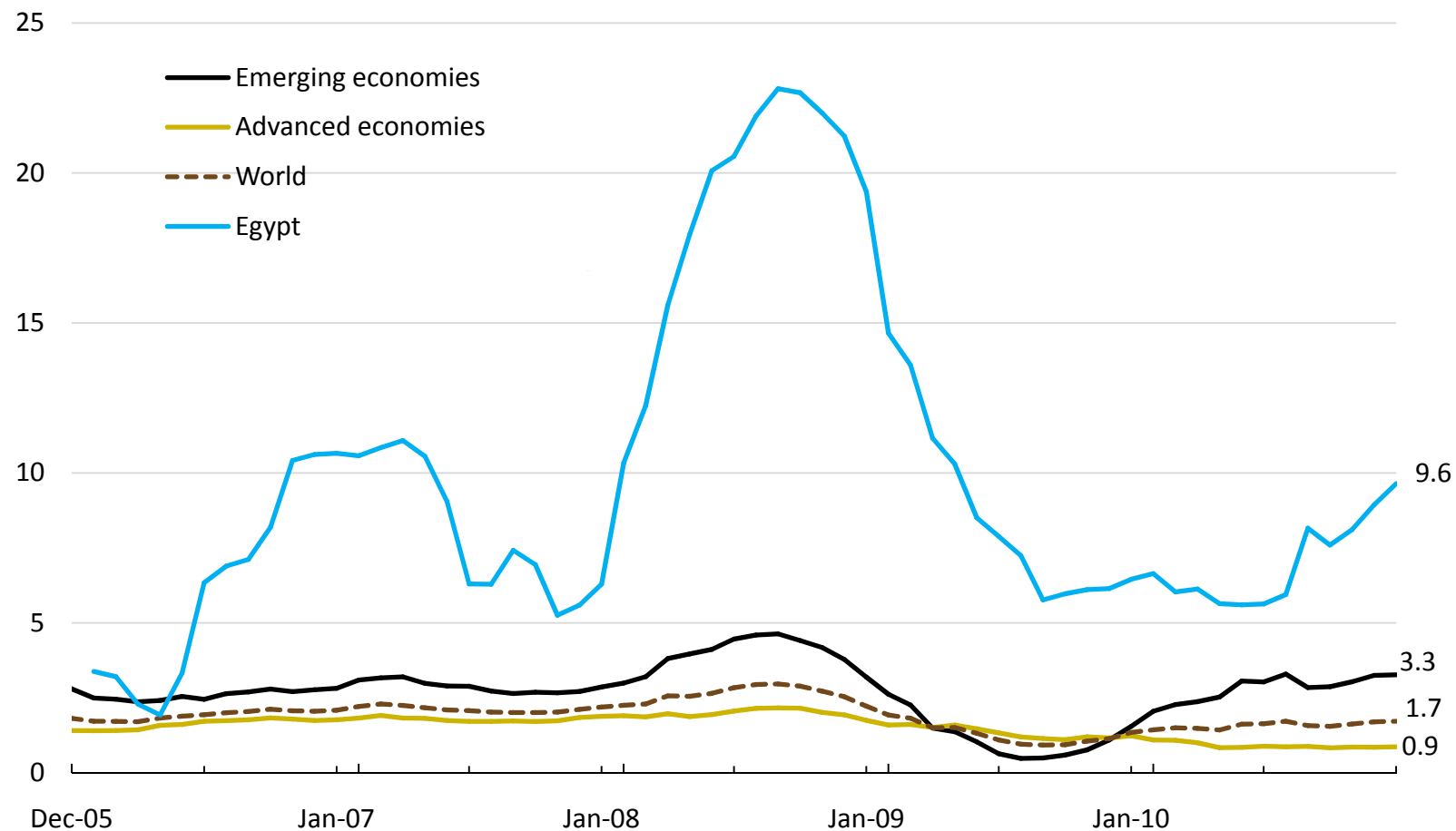
¹ U.S. dollar price index rebased at 2005=100



Global inflation has picked up from low levels

Core Inflation

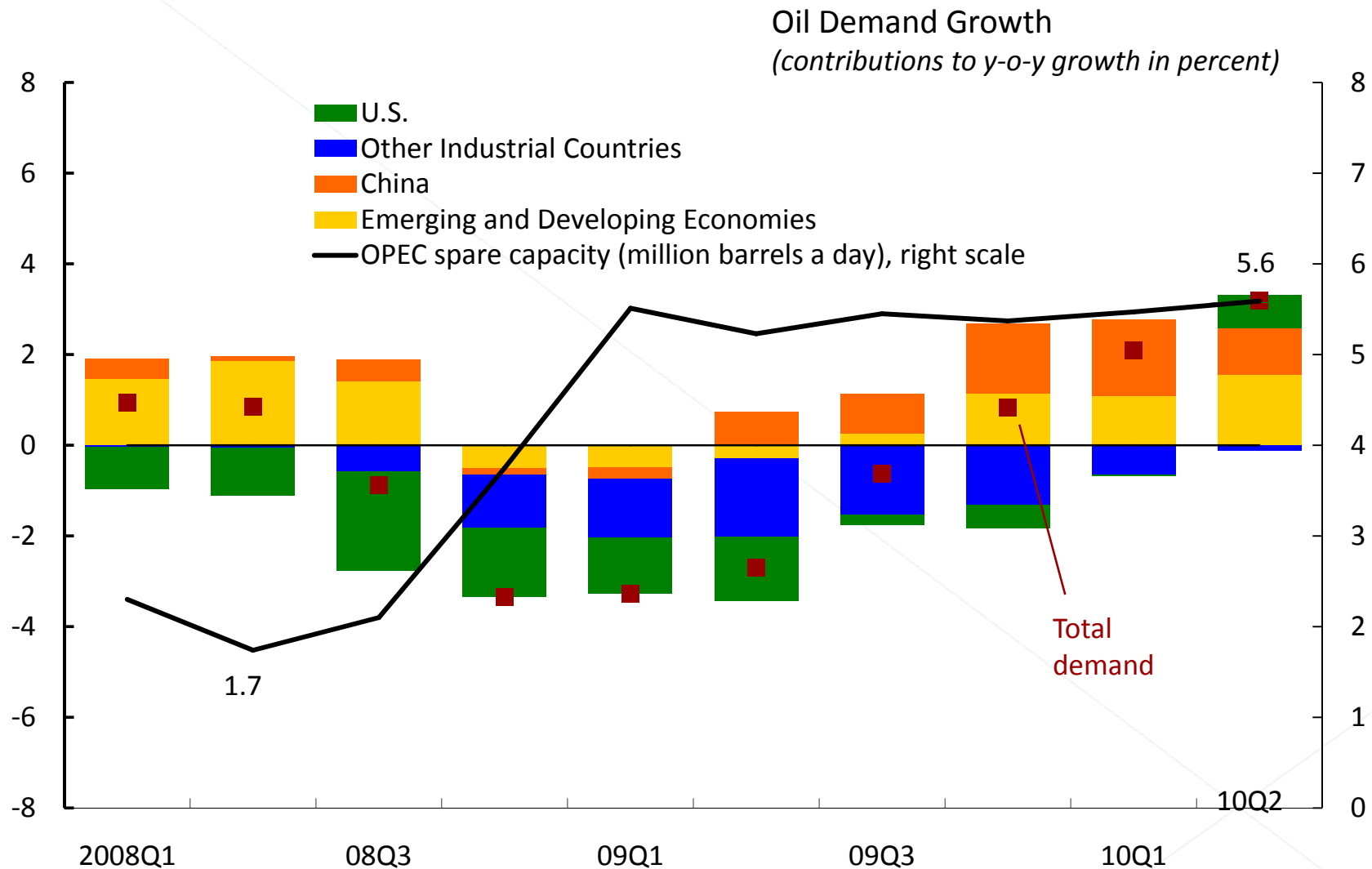
12-month growth, percent



Sources: Haver Analytics; and IMF, World Economic Outlook.



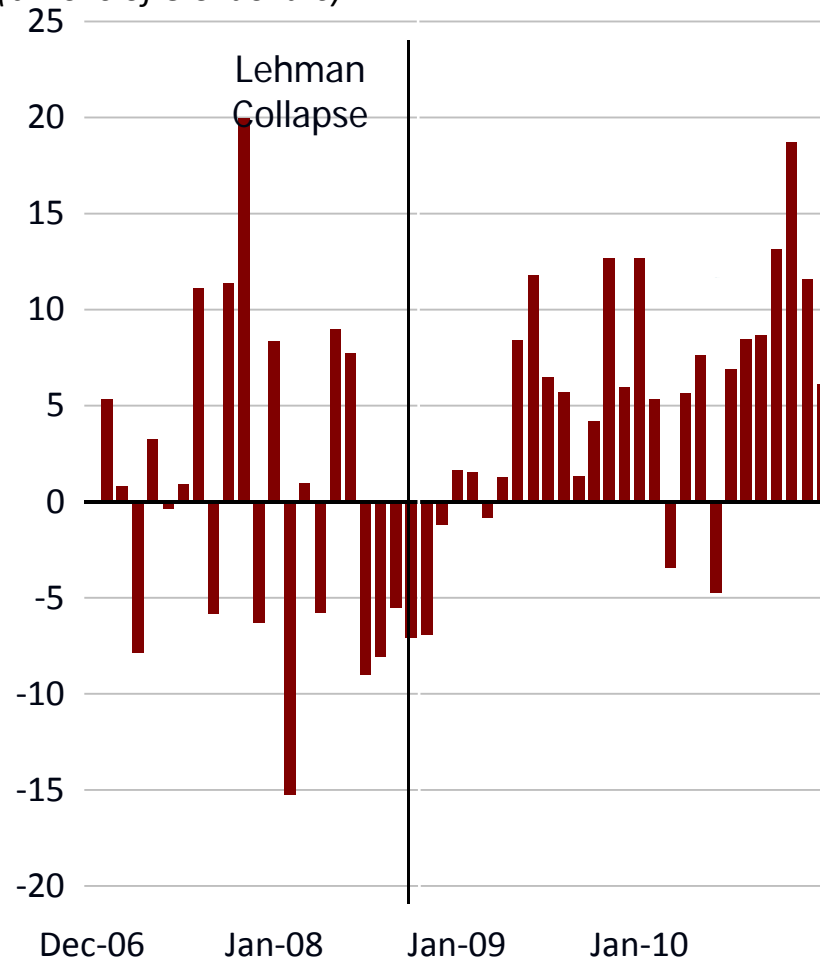
Oil demand is accelerating, but supply buffers remain substantial



Capital flows are recovering

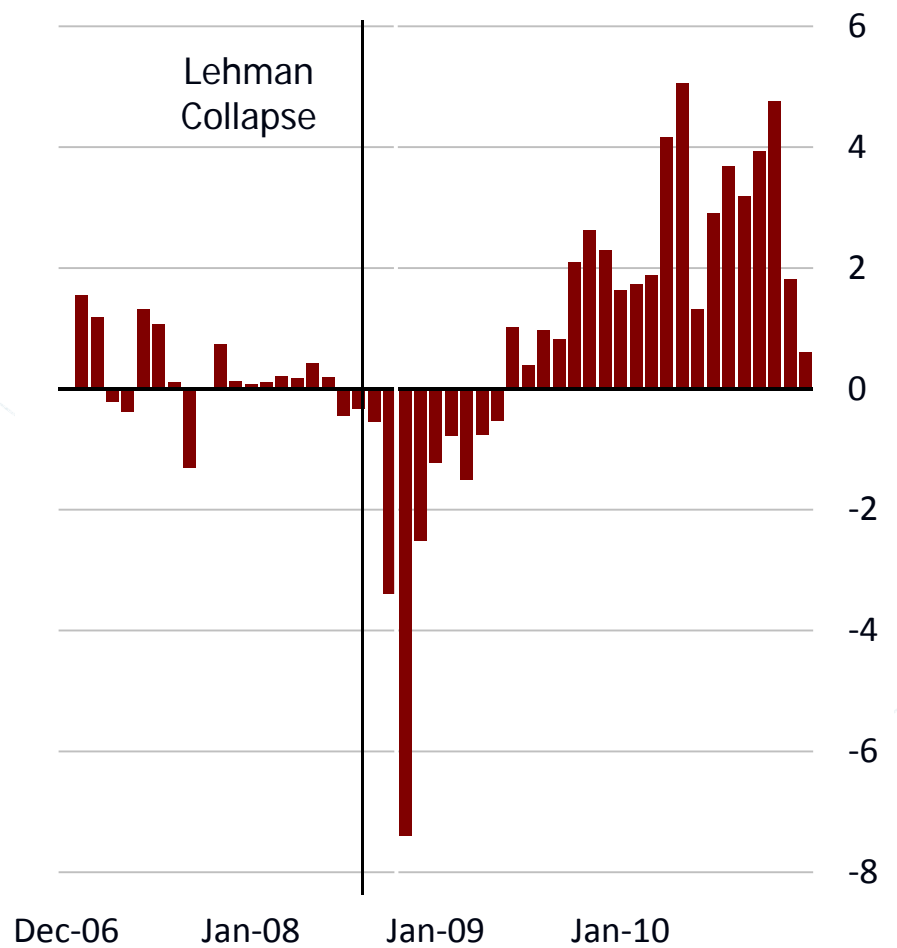
Net Monthly Flows to Emerging Market Equity Funds

(billions of U.S. dollars)



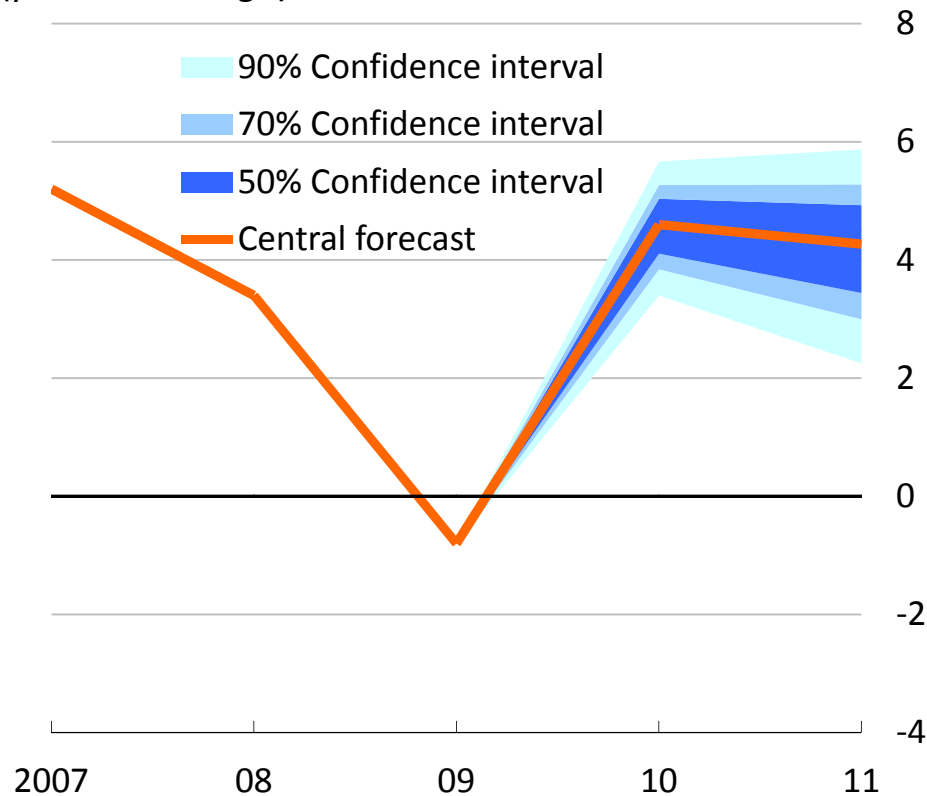
Net Monthly Flows to Emerging Market Bond Funds

(billions of U.S. dollars)



Risks to the global recovery

World GDP Growth
(percent change)



- Risks tilted to downside— but double-dip unlikely
- Advanced country banking systems still vulnerable
- Internal and external rebalancing needed

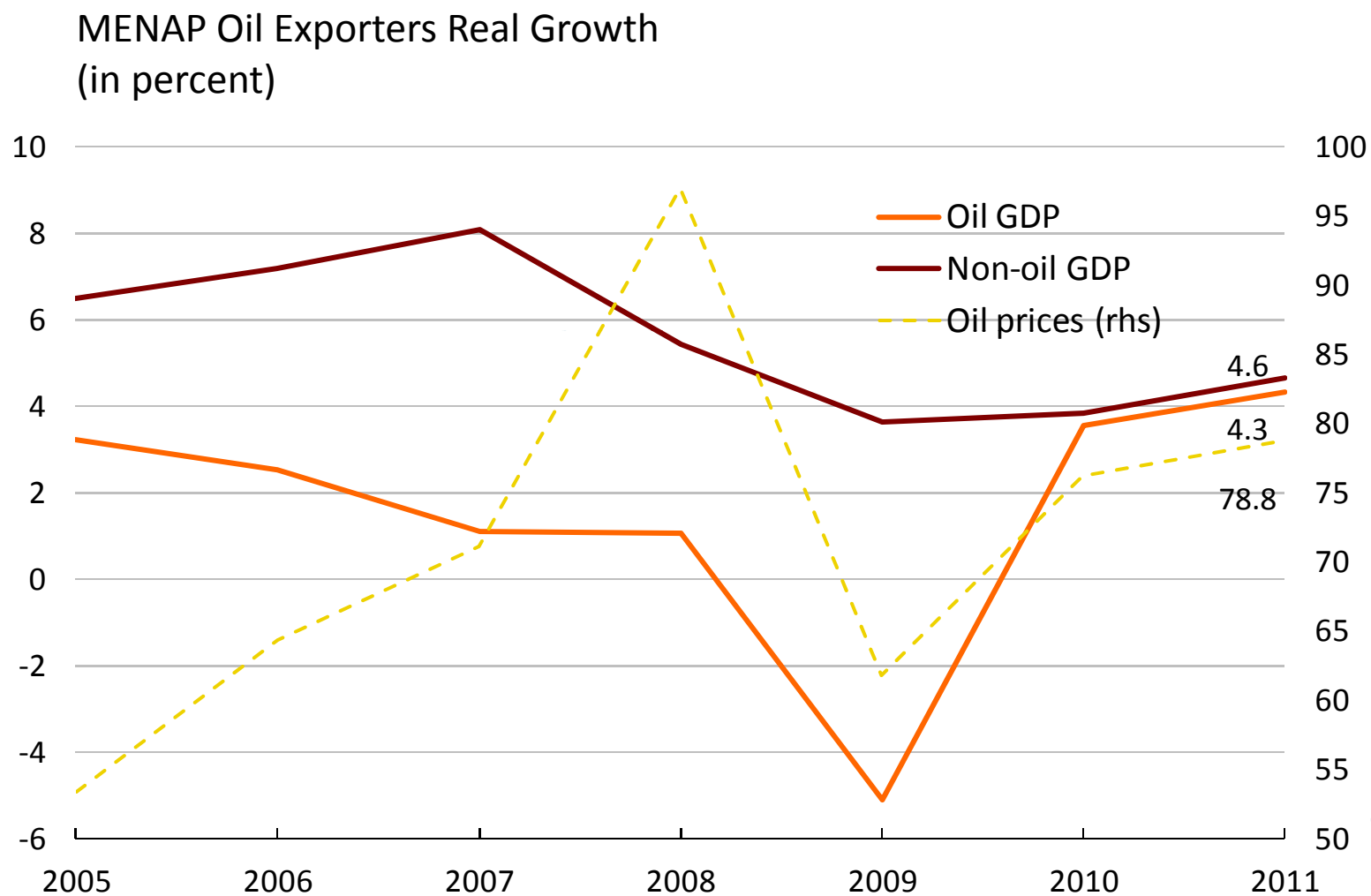
Sources: IMF, World Economic Outlook.



Oil Exporters



Global demand recovers, boosts activity in MENA oil exporters

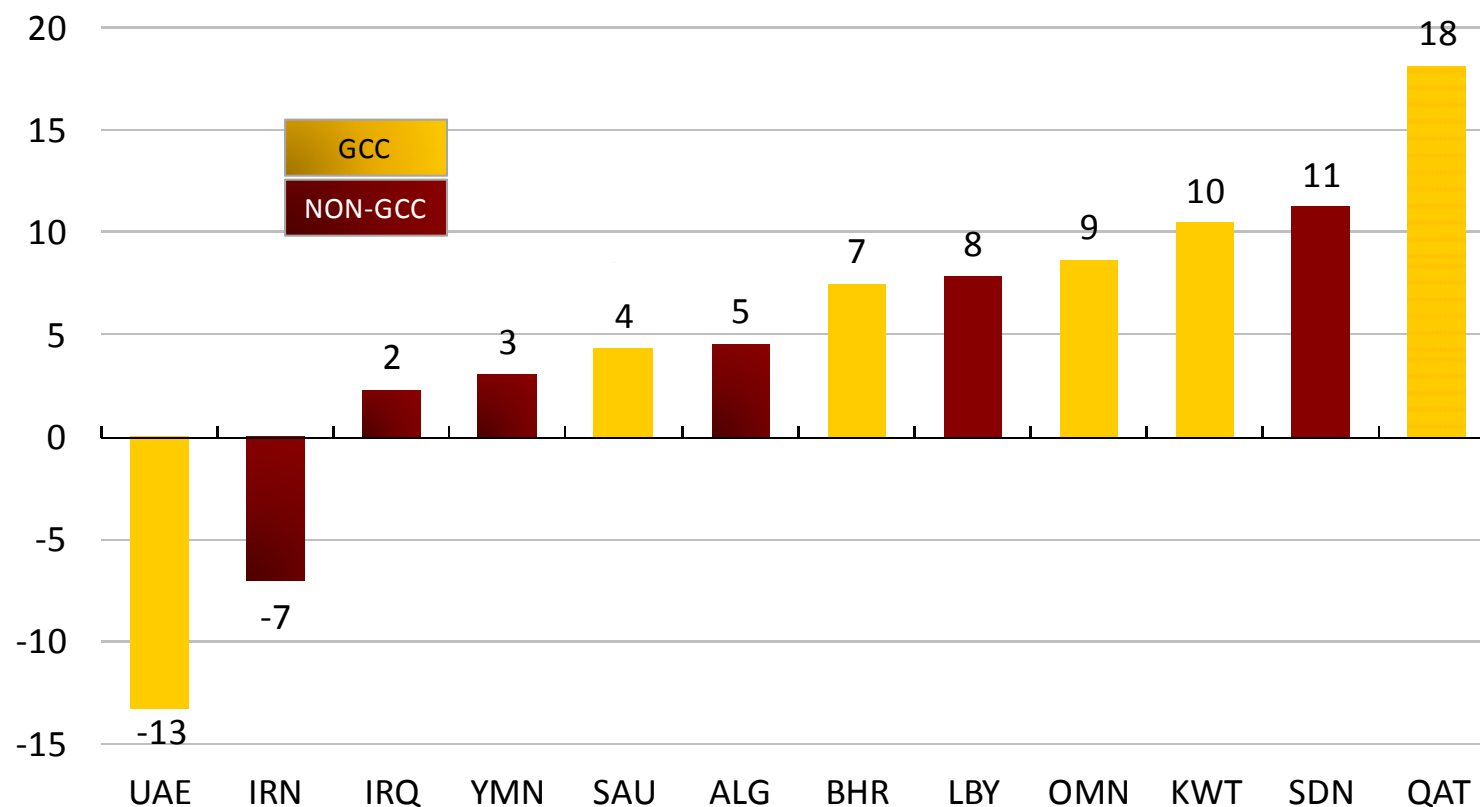


Sources: National authorities; and IMF staff estimates.



Fiscal stimulus in GCC supports MENA oil-importers

Total Government Expenditures (from 2010 to 2011)
(percent change)



Sources: National authorities; and IMF staff estimates.

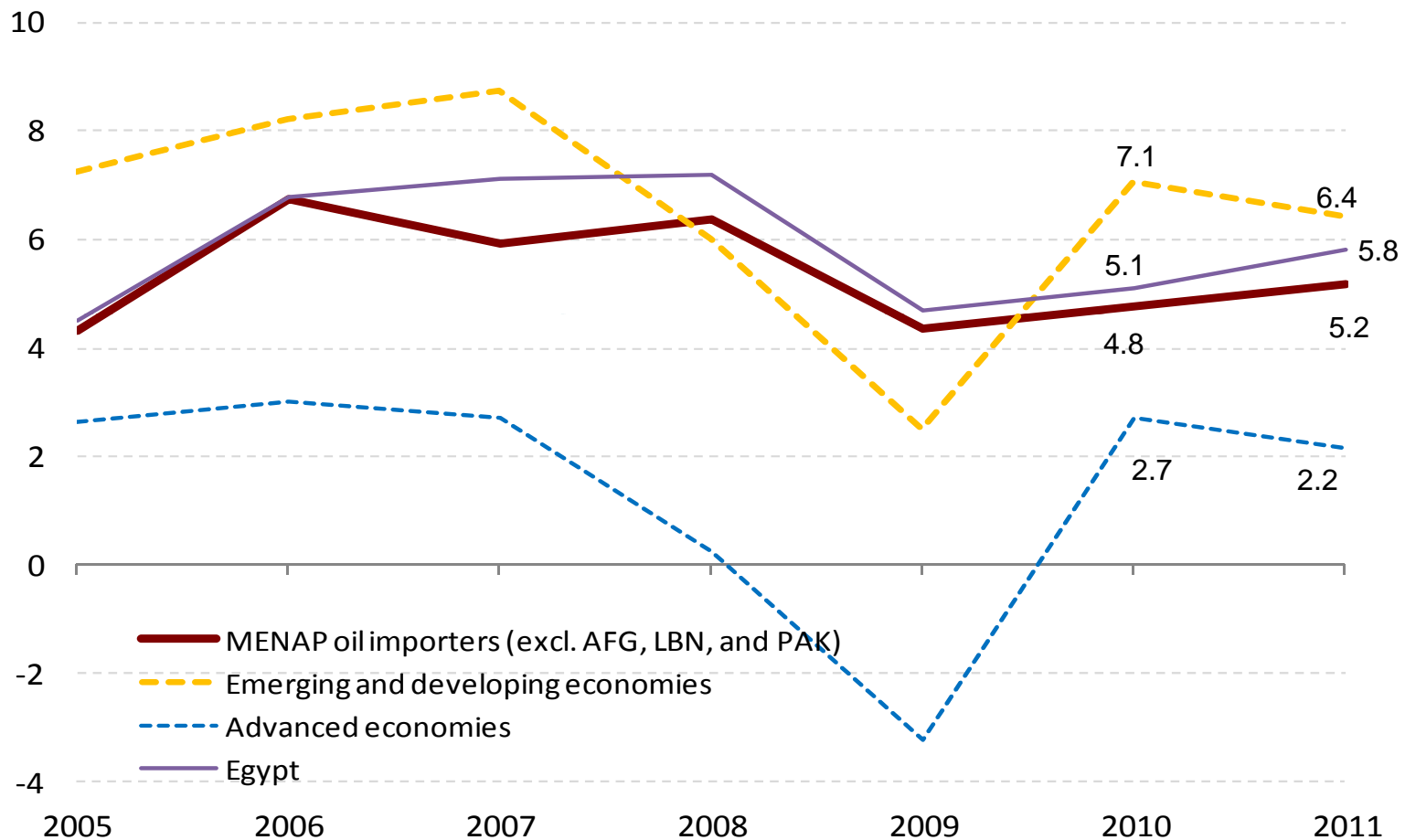


Oil Importers



Real GDP growth picking up across the region

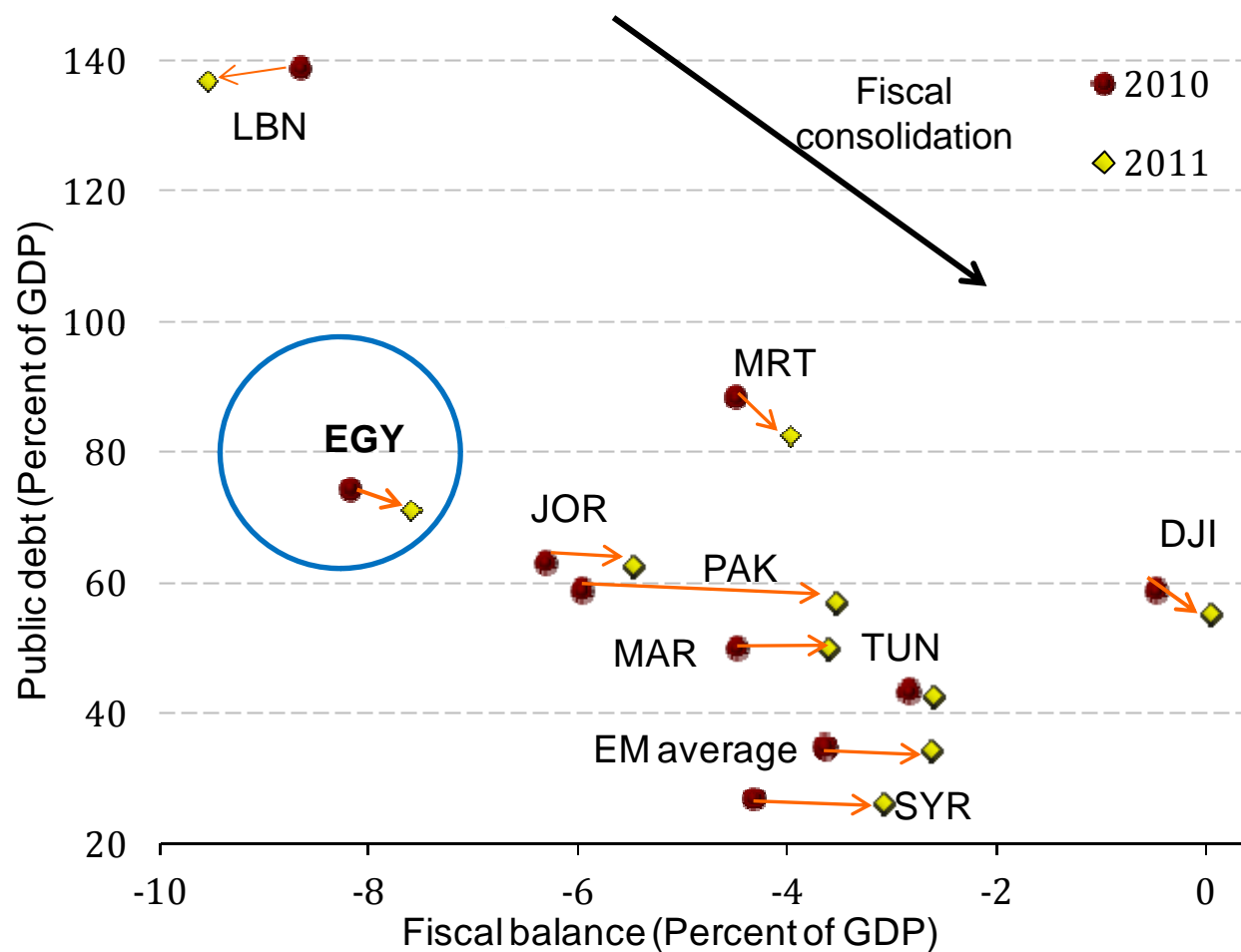
(Annual percentage change)



Source: National Authorities; and IMF staff estimates. Egypt number is financial year basis.



Fiscal consolidation in train, but may come under stress



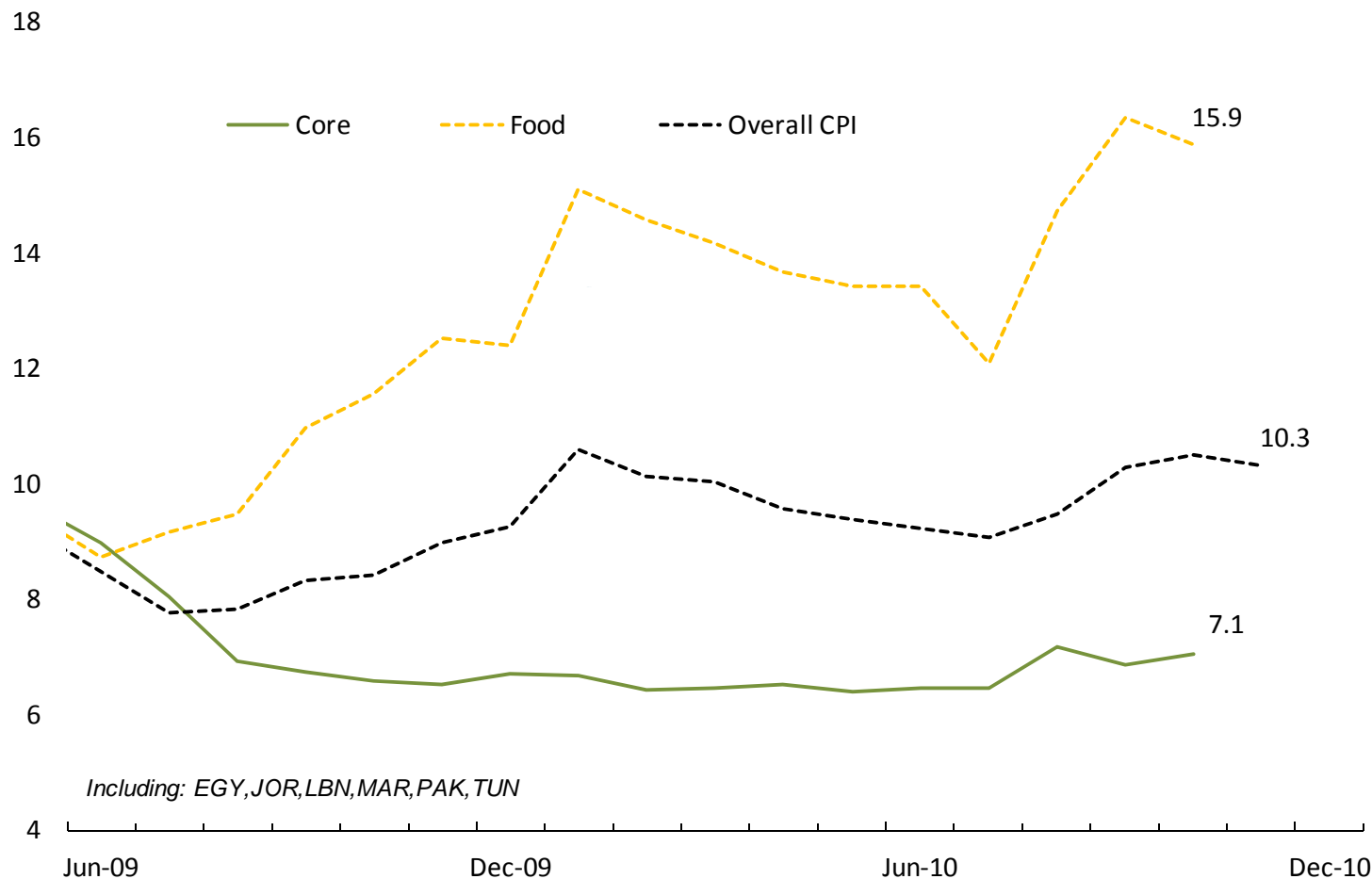
Source: National Authorities; and IMF staff estimates and projections.



Rising inflation reflects sharp increase in food prices

Oil Importers: Consumer Prices

(annual percentage change)



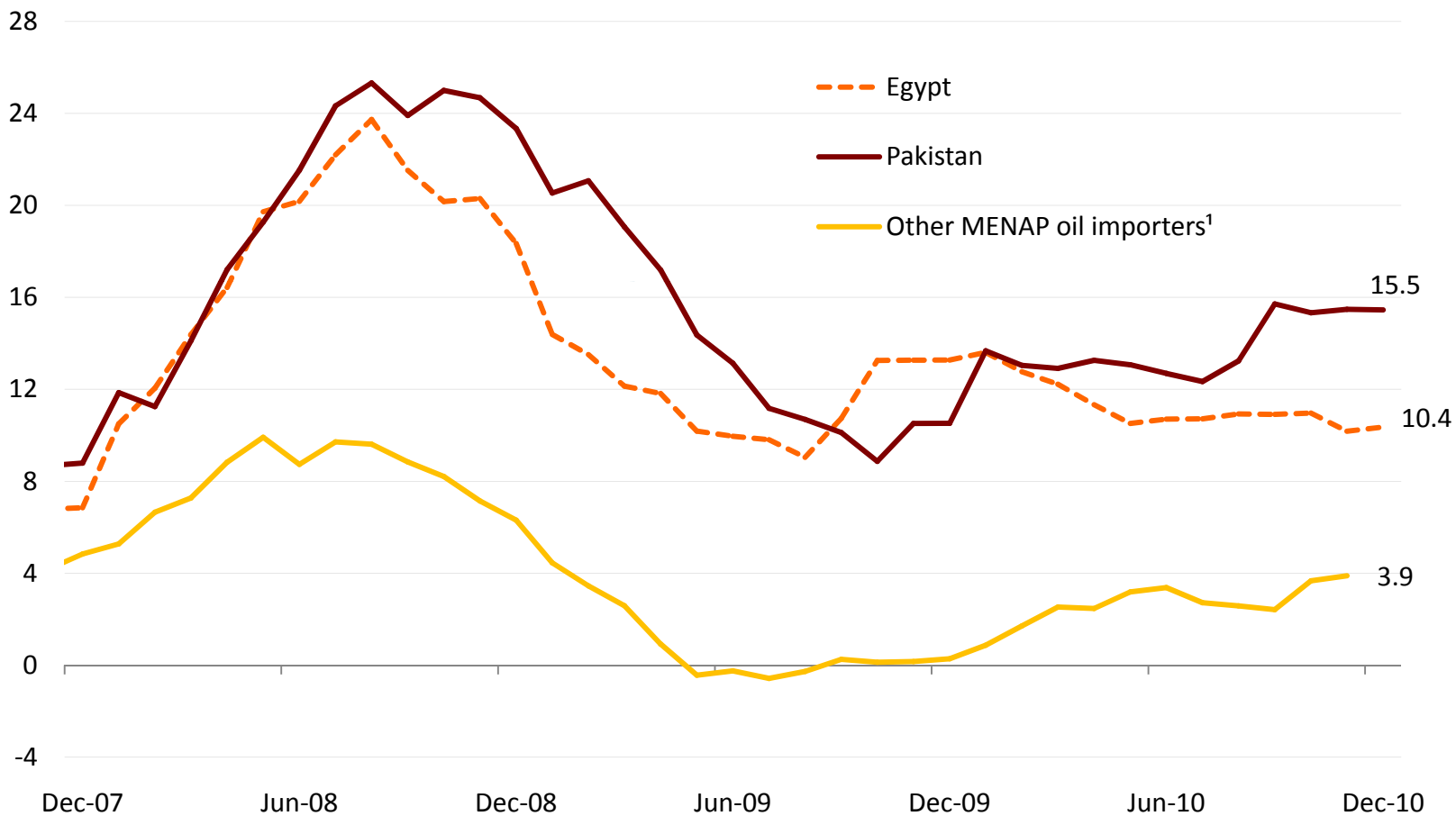
Source: Haver Analytics; and national authorities.



Monetary policy dilemma, as inflation picks up

Consumer Prices

(annual percentage change)

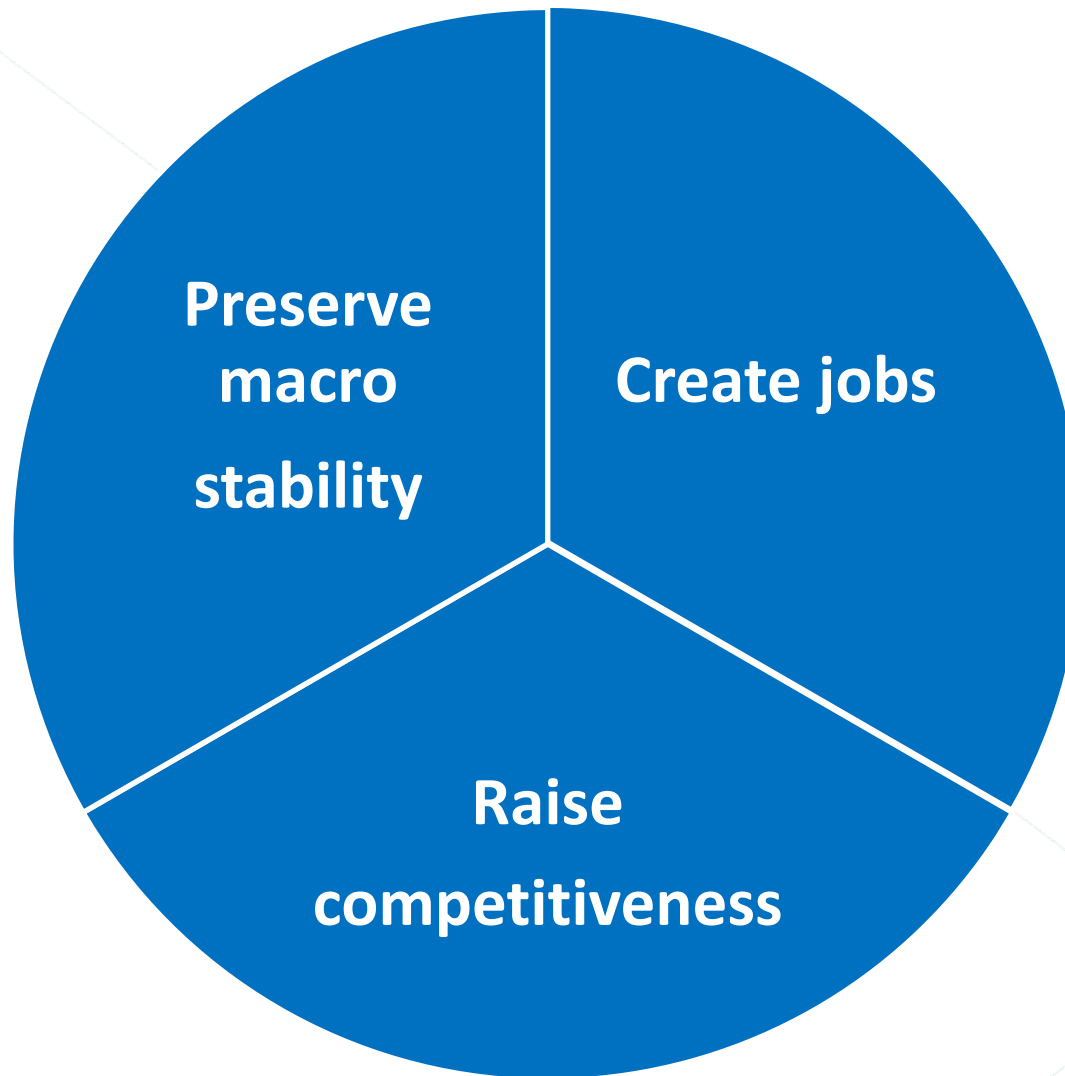


Sources: Haver Analytics; and national authorities.

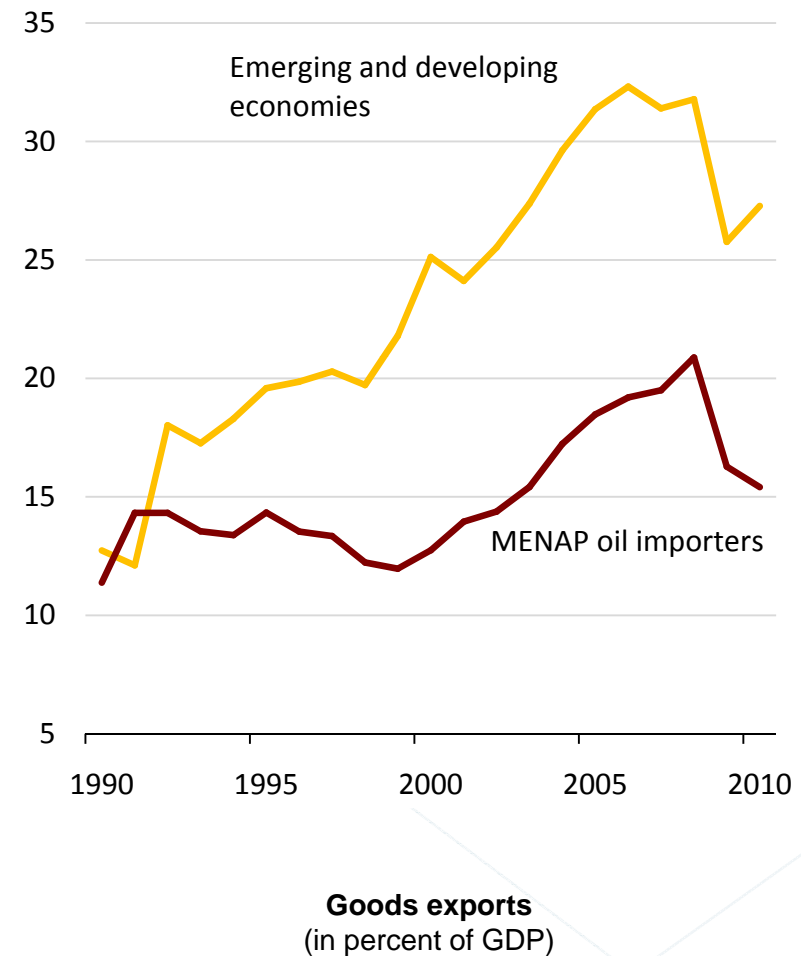
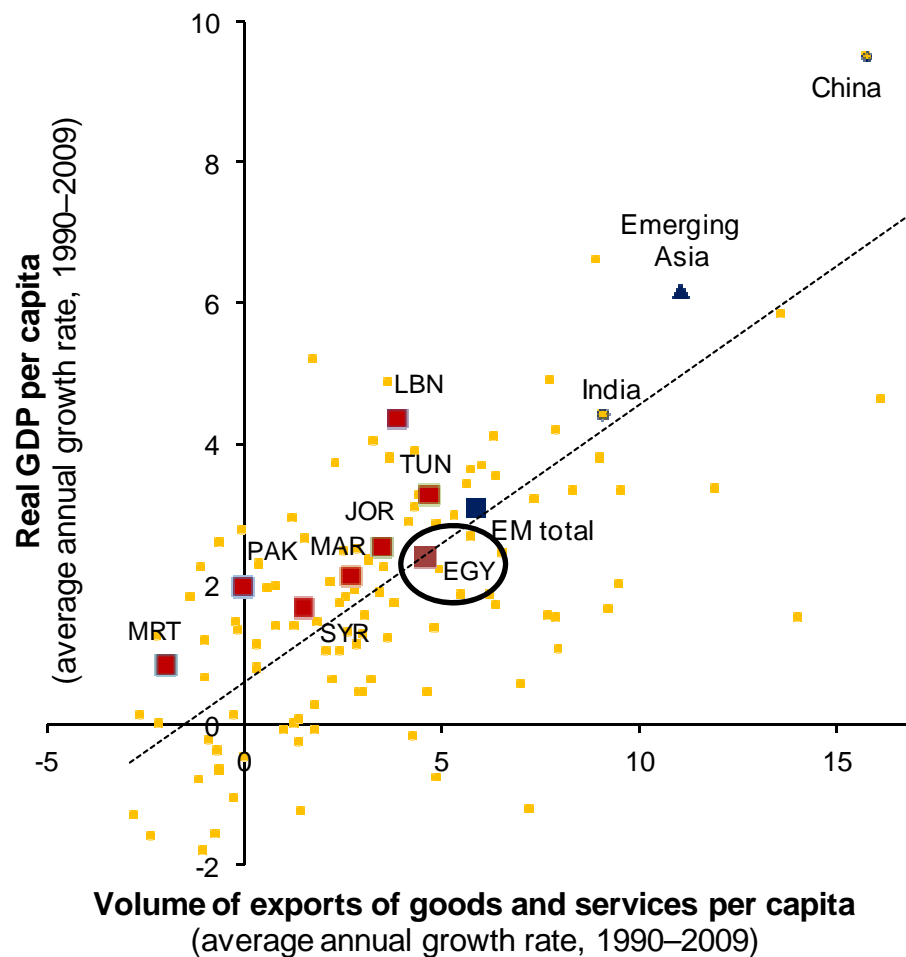
¹Excludes Mauritania and Syria.



Challenges going forward



Growth and export gaps are getting bigger

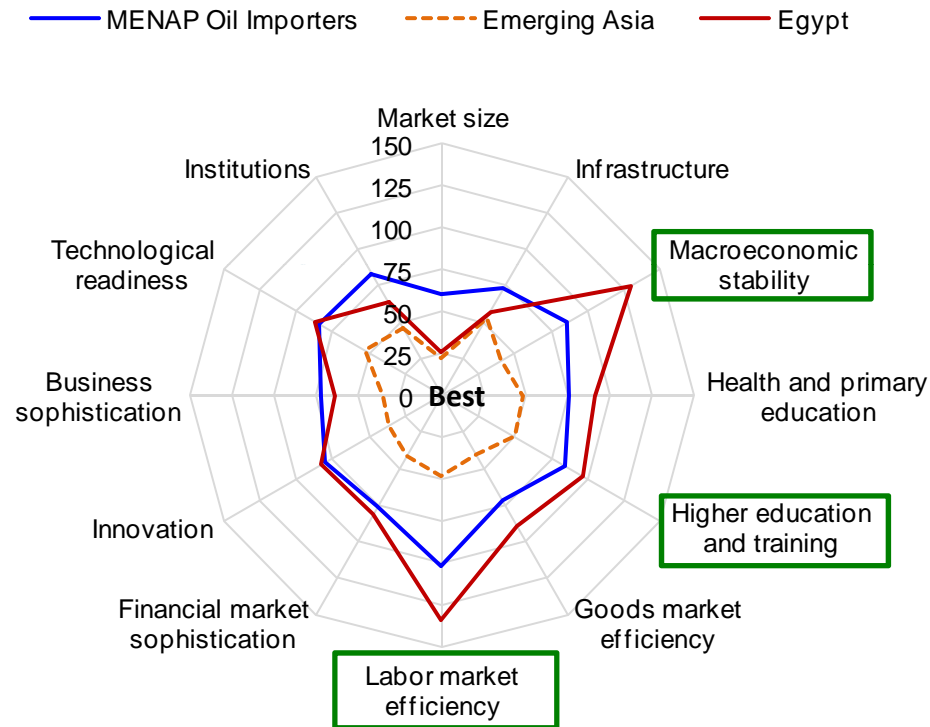


Source: IMF, World Economic Outlook.



Competitiveness will need to improve

Competitiveness Rankings, 2010–11¹



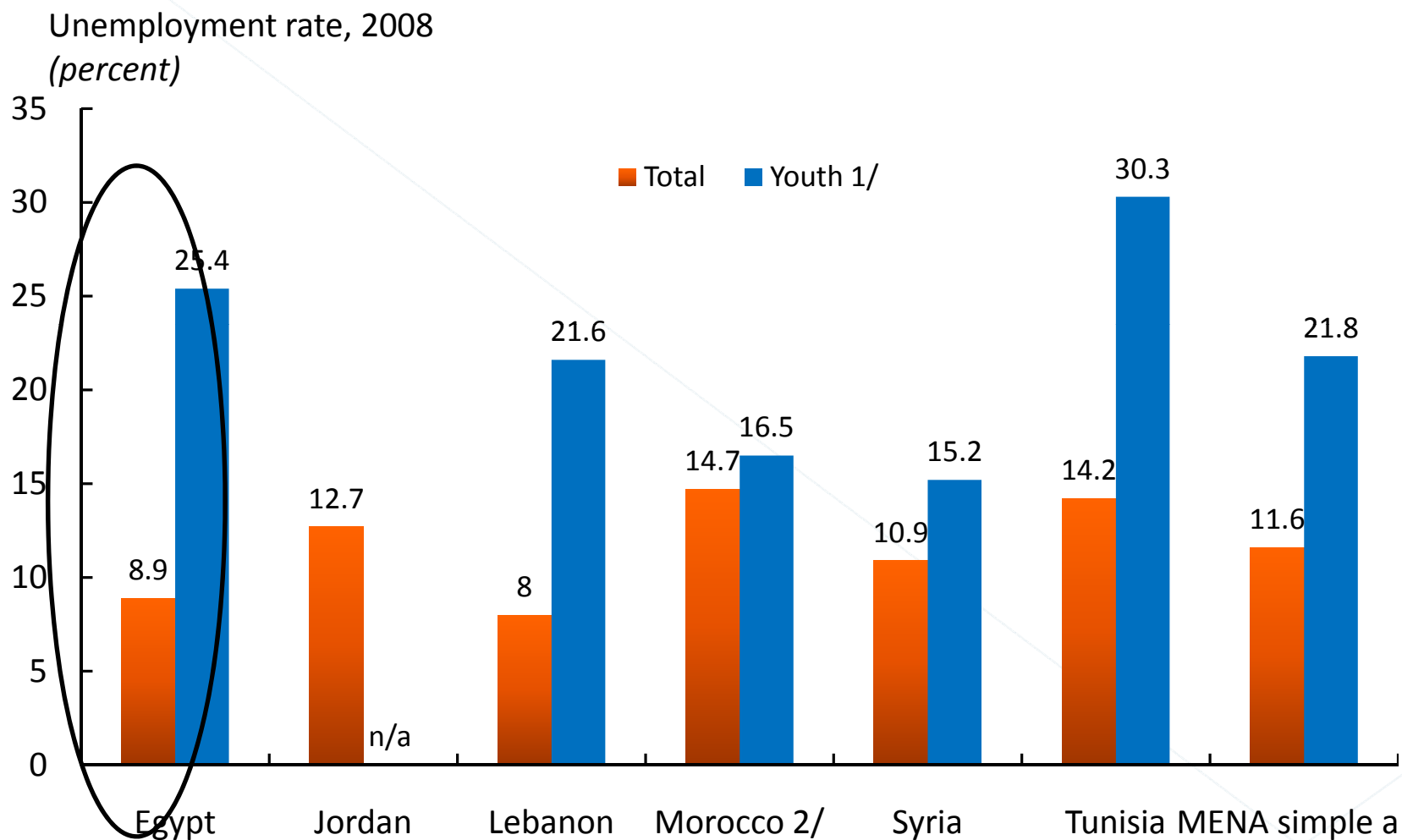
Source: World Economic Forum, Global Competitiveness Report, 2010–11.

¹Economies are ranked from 1 to 139, with first place being the best.

MENAP oil importers is a simple average of Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia. Emerging Asia is simple average of China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan Province of China, Thailand, and Vietnam.



High unemployment: even higher for youth



Sources: National authorities; IMF, World Economic Outlook; staff estimates; and International Labor Organization.

1/ 2008, or most recent year for which data are available.

2/ Unemployment rate reflects data from Urban Labor Force survey.



Over 18 Million Jobs Needed in MENA6

Labor Force: Unemployed and New Entrants		
MENA6 Countries	Unemployed in 2008 (millions)	New Entrants (2008–2020) (millions)
Egypt	2.3	7.1
Jordan	0.2	0.7
Lebanon	0.1	0.1
Morocco	1.7	2.3
Syria	0.8	2.0
Tunisia	0.5	0.5
Total	5.6	12.7

Source: Abdih,Yasser and Anjali Garg (2010), IMF.

Egypt

- 9.4 million jobs need to be created
- GDP growth rate needs to rise to 7 percent per annum to absorb only the new entrants
- GDP growth rate needs to rise to nearly 10 percent per annum to absorb the unemployed and new entrants

=> **focus on labor-intensive growth**



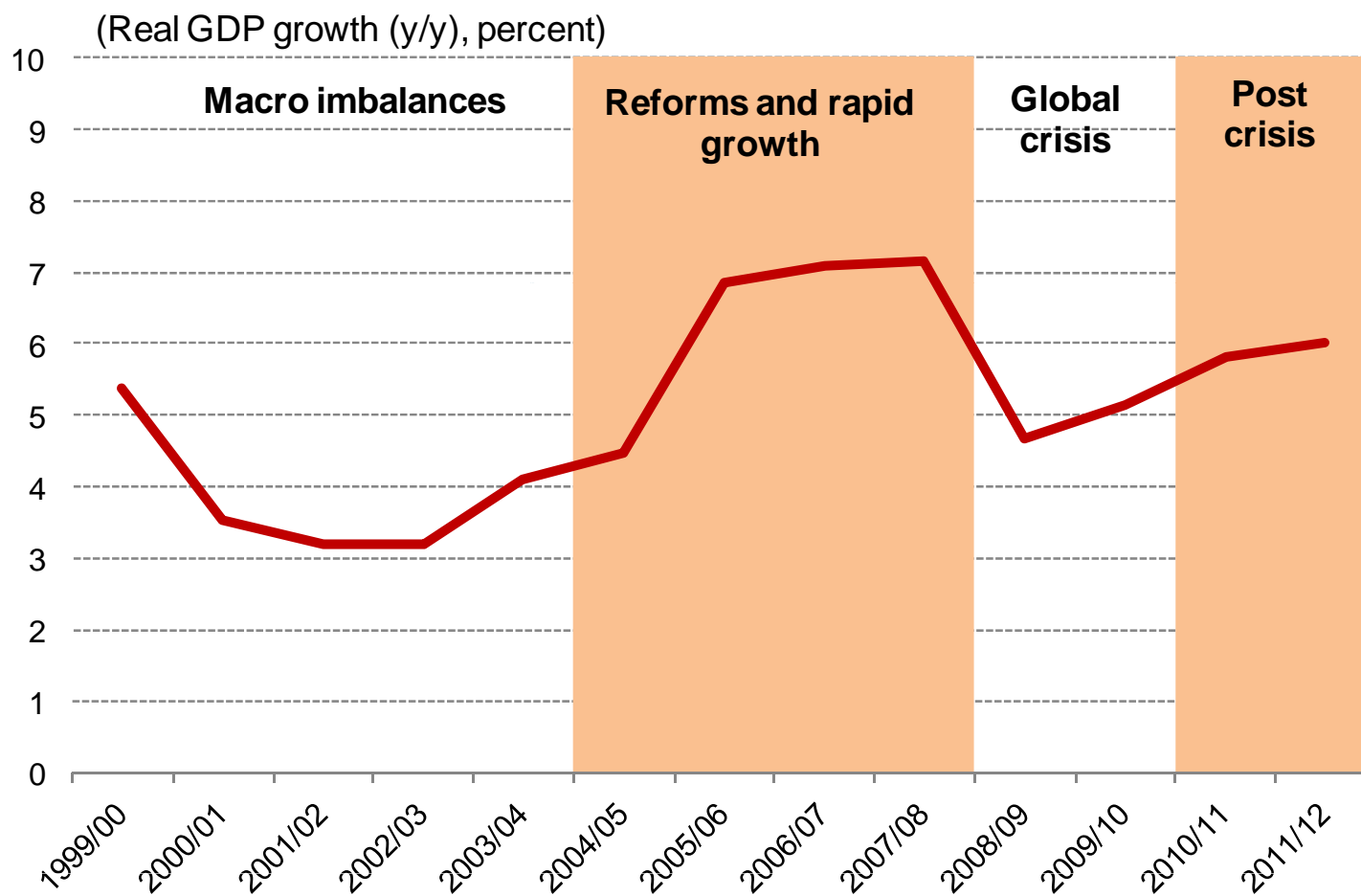
Overview of Egypt's economy

Four main periods since 2000:

- ⊙ Early 2000s
- ⊙ The rapid growth period (2004/05-2007/08)
- ⊙ The global crisis (2008/09 – 2009/10)
- ⊙ Post-crisis



Output growth: reforms and global crisis



Key economic reforms

- › Exchange rate
- › Financial sector
- › Business climate (CIT, trade, and custom reforms)
- › Privatization
- › Monetary policy framework



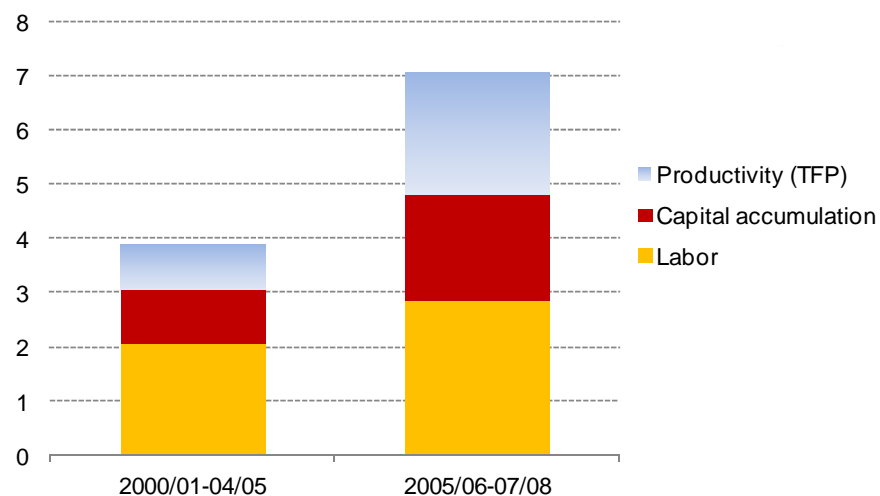
The benefits

- ◎ Egypt has reaped the benefits of the reforms both before and since
 - > Greater economic resilience, and policy space to undertake a prompt an appropriate loosening of monetary and fiscal policy when the crisis emerged

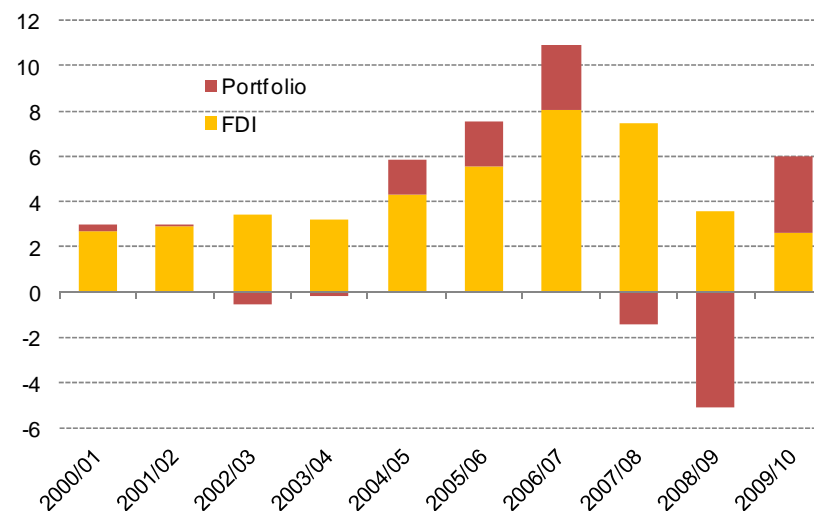


Productivity gains and capital inflows

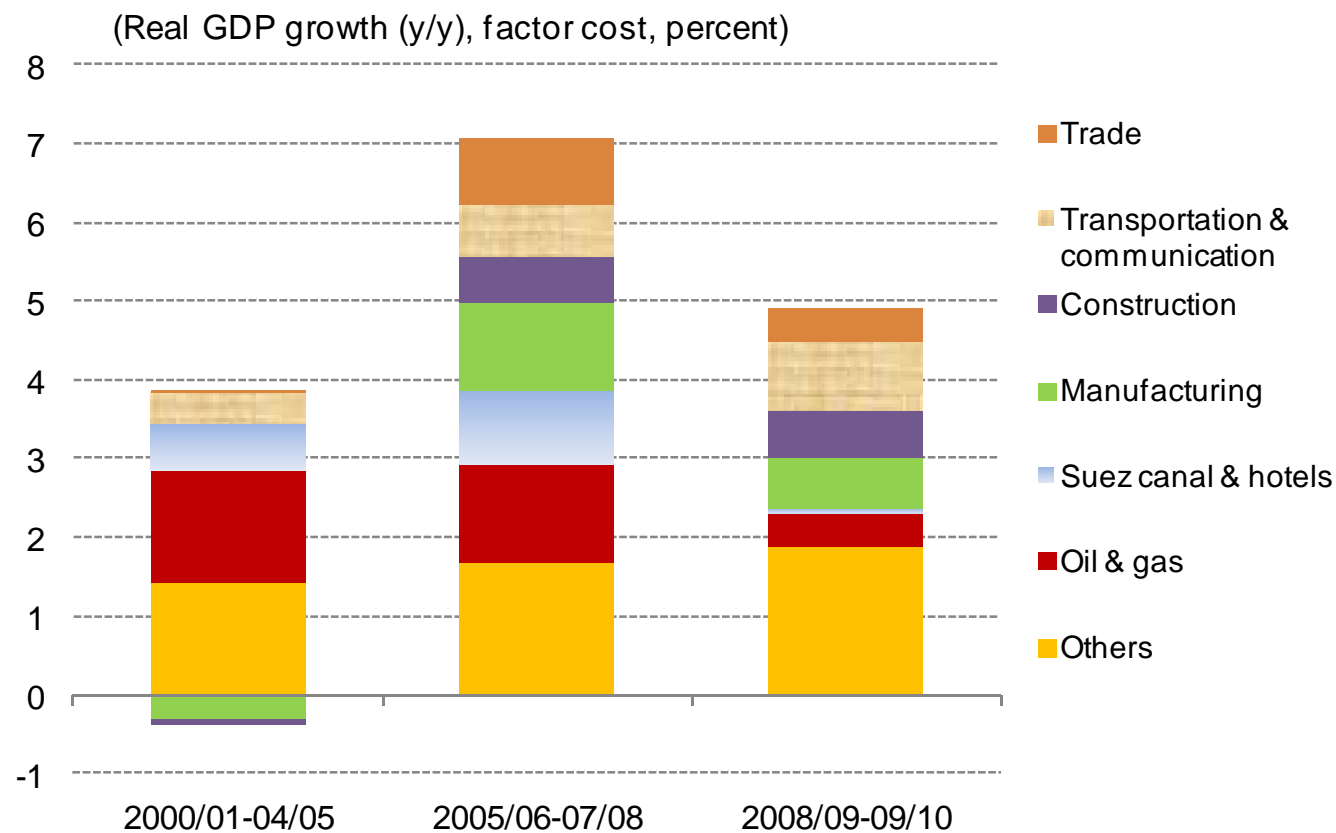
Egypt: Growth Accounting, 2000/01-07/08
(Yoy growth, percent, factor cost base)



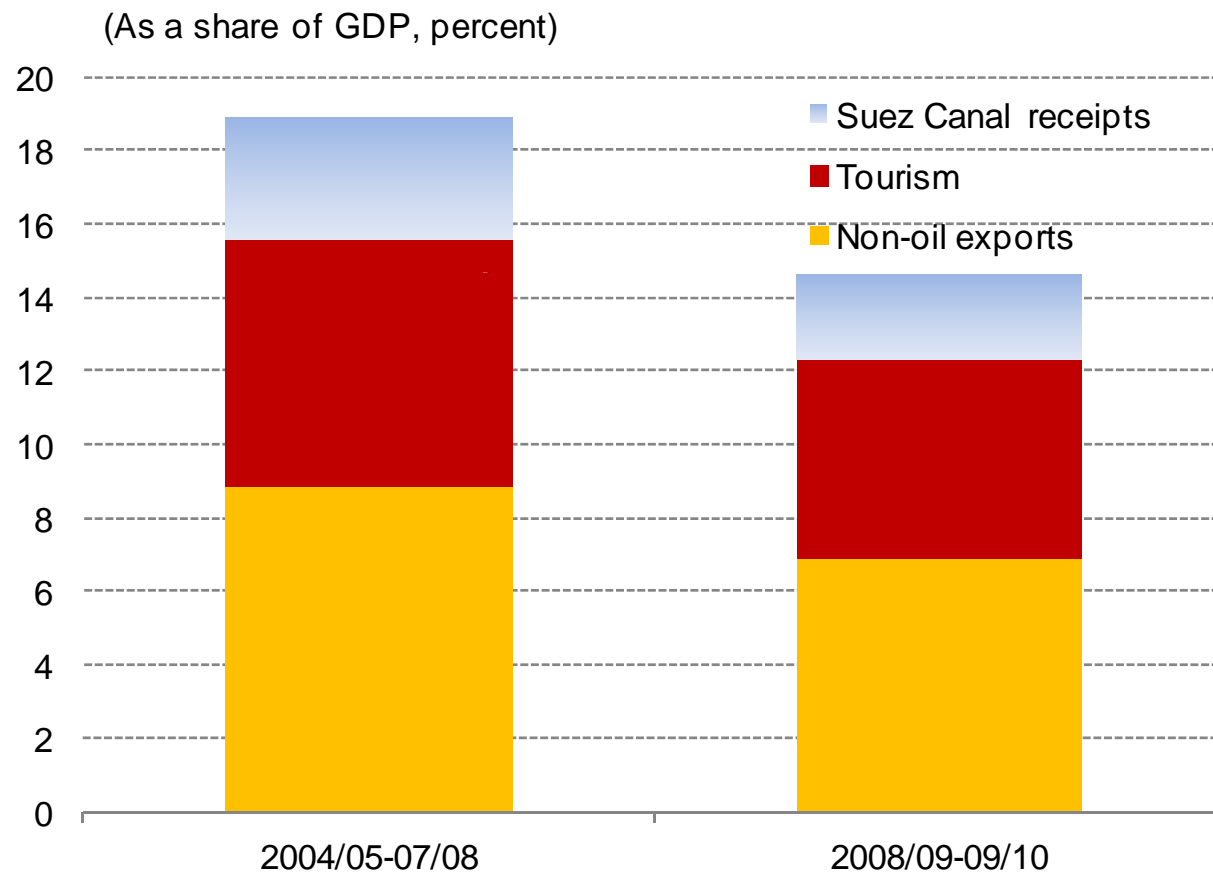
Egypt: FDI and Portfolio Inflows, 2000/01-2009/10
(As a share of GDP, percent, net)



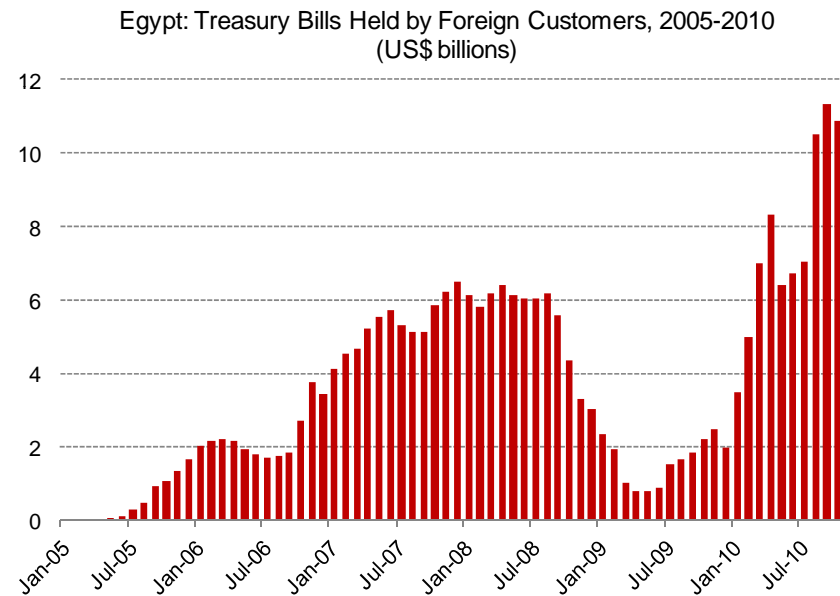
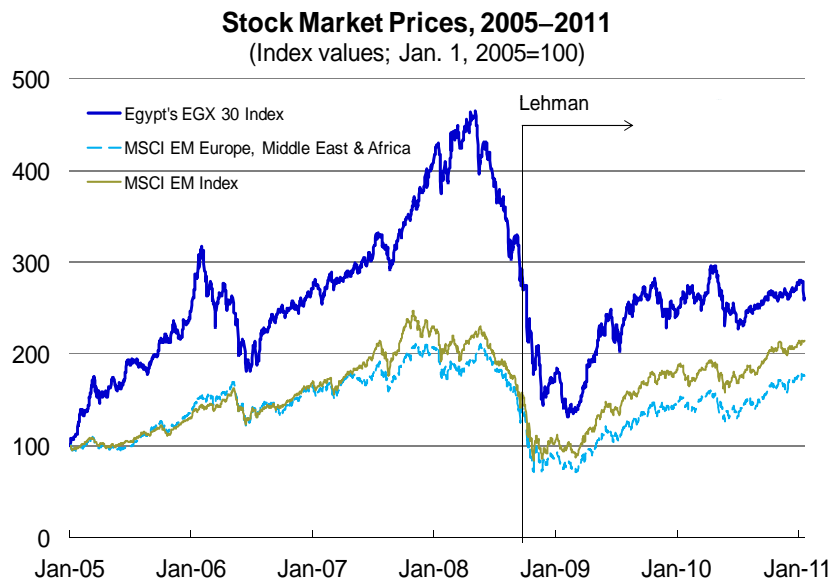
Resilient and diversified growth



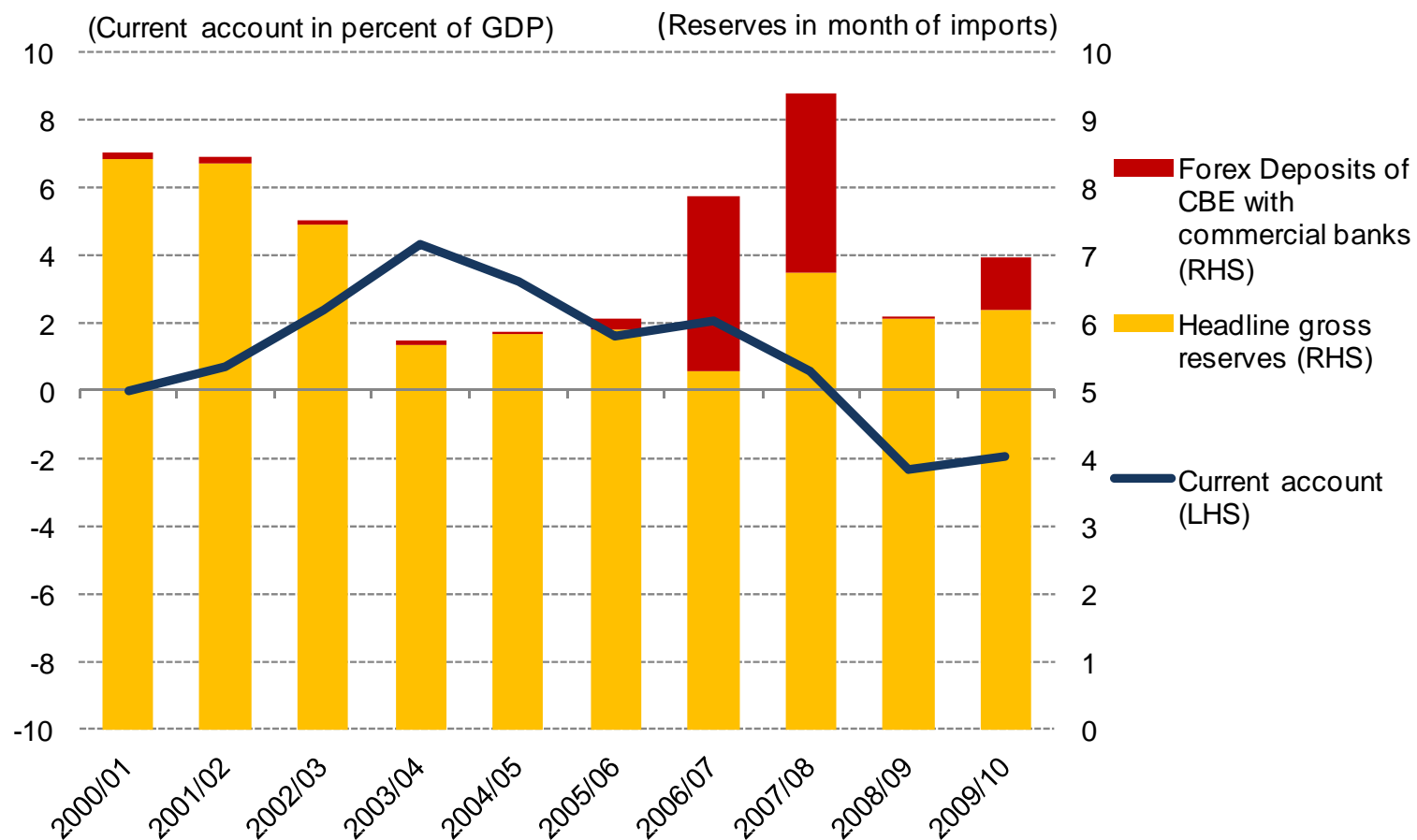
Resilient to a sharp fall in external demand



...and swings in financial markets.



External position has remained comfortable

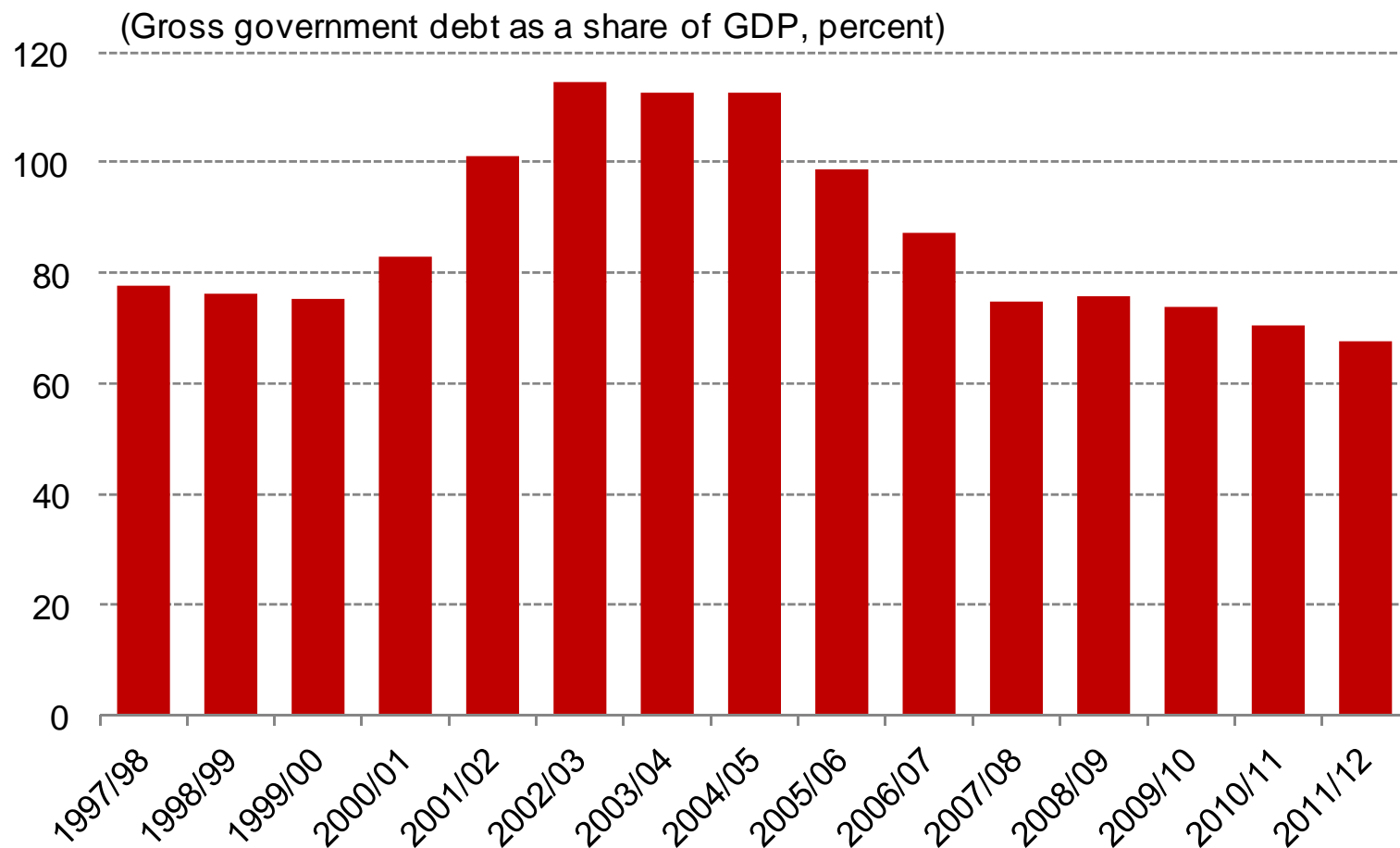


Financial system remains sound

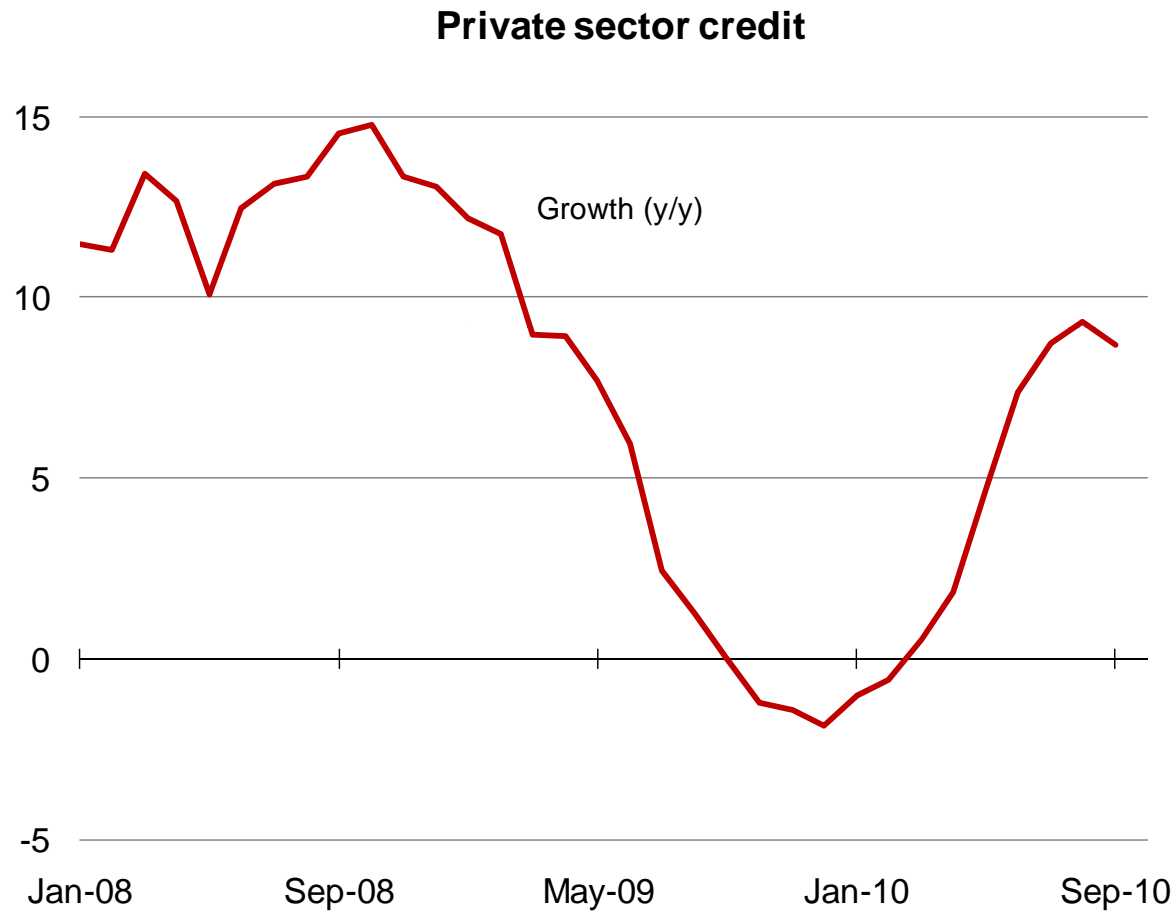
Egypt: Banking Sector Financial Soundness Indicators <i>(end of fiscal year¹ - 2004-2009)</i>					
In percent	FYE 2004	FYE 2007	FYE 2008	As of Sep-09	As of Dec. 09
1. Regulatory Capital to Risk-Weighted Assets	11.4	14.8	14.7	15.3	15.1
2. Equity to Assets	5.4	5.5	6.2	6.3	6.4
3. Bank Nonperforming Loans to Total Loans	23.6	19.3	14.8	14.7	13.4
4. Bank Provisions to Nonperforming Loans	60	74.6	92.1	94.5	100.4
5. Bank Return on Average Assets	0.5	0.9	0.8	n/a	0.8
6. Bank Return on Average Equity	9.1	15.6	14.1	n/a	13.0
¹ Fiscal year ends at June 30 for public banks and at Dec. 31st for other banks.					



and public debt ratios continue to fall

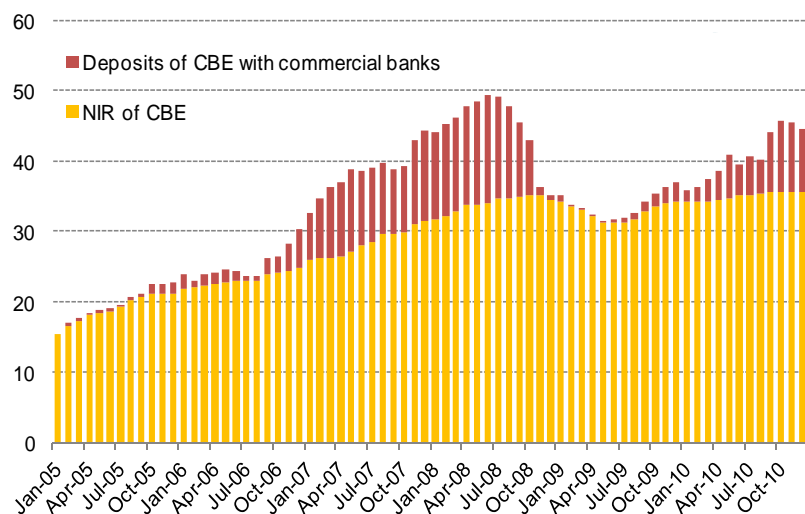


Financial market conditions have eased...

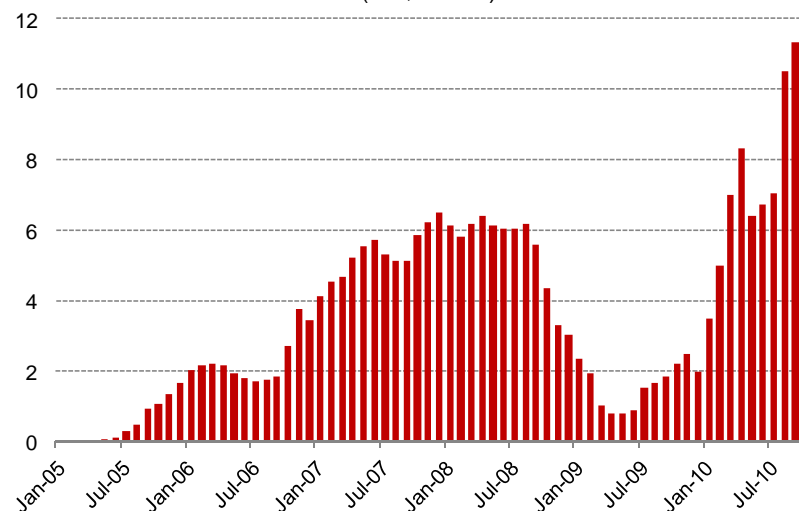


...and capital inflows have rebounded

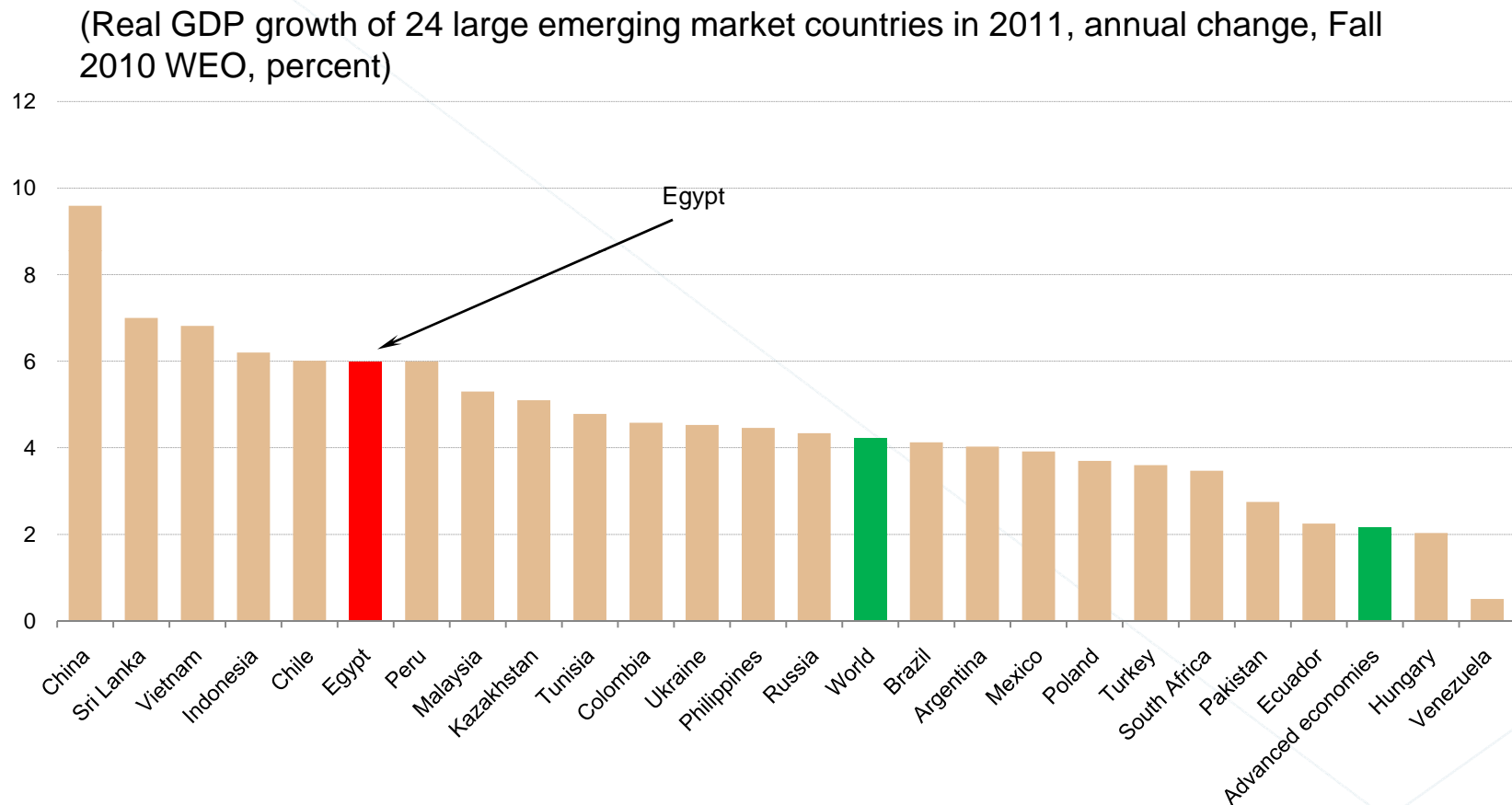
Egypt: International Reserves of CBE
(US\$ billions)



Egypt: Treasury Bills Held by Foreign Customers, 2005-2010
(US\$ billions)

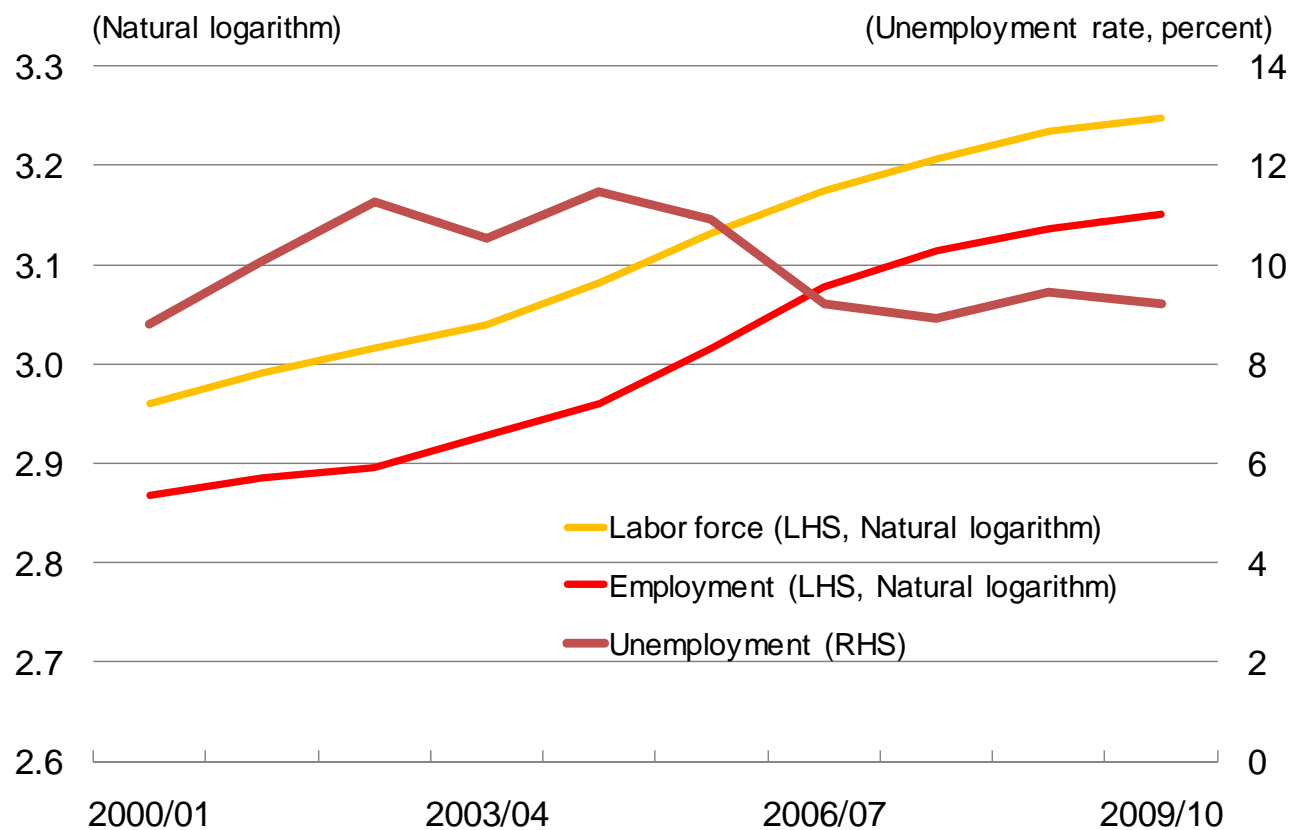


Growth is high by world standards

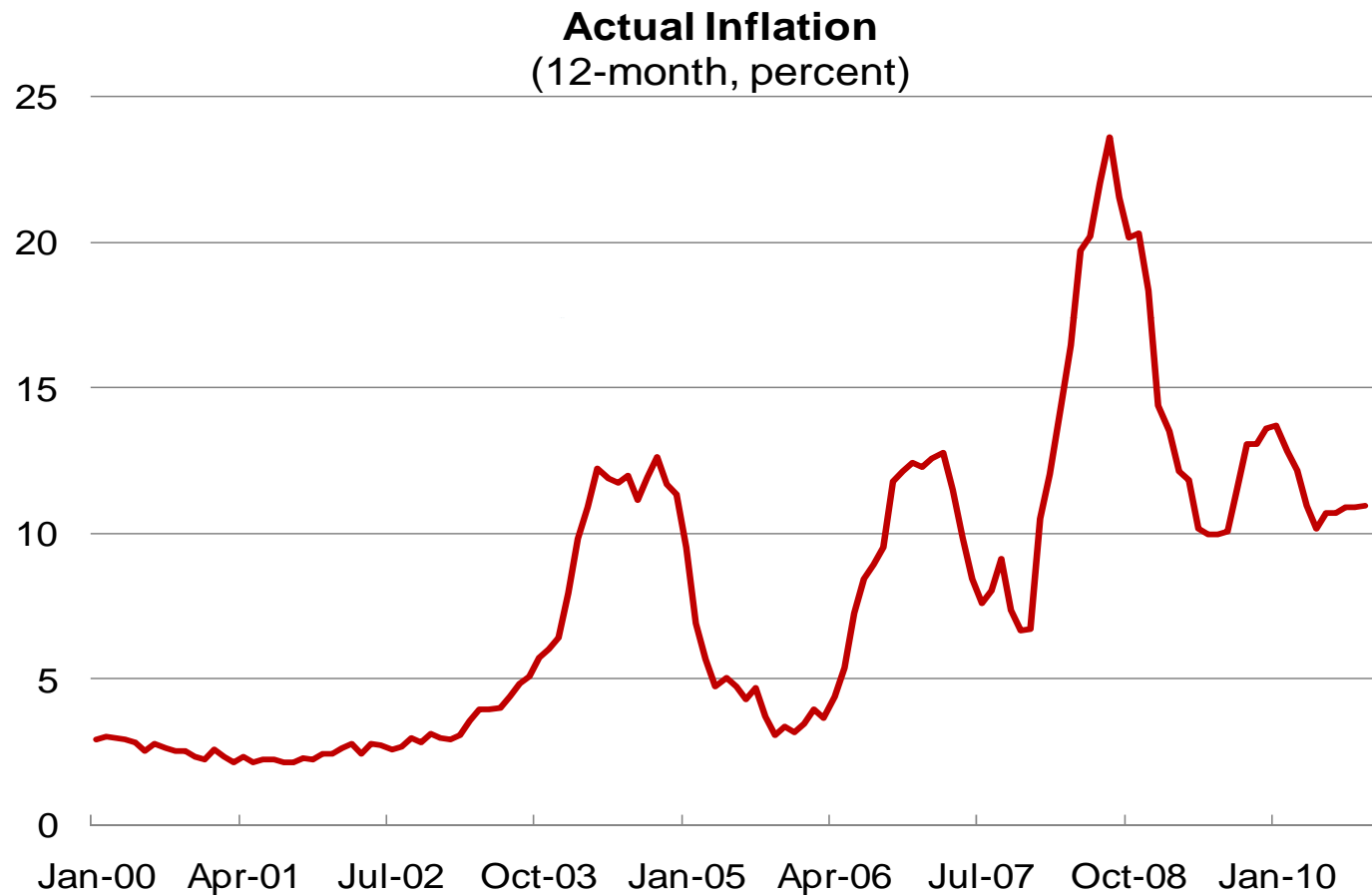


But unemployment remains too high

Labor Force, Employment and Unemployment Rate, 2000/01-2009/10



... and inflation remains elevated



Post-crisis challenges

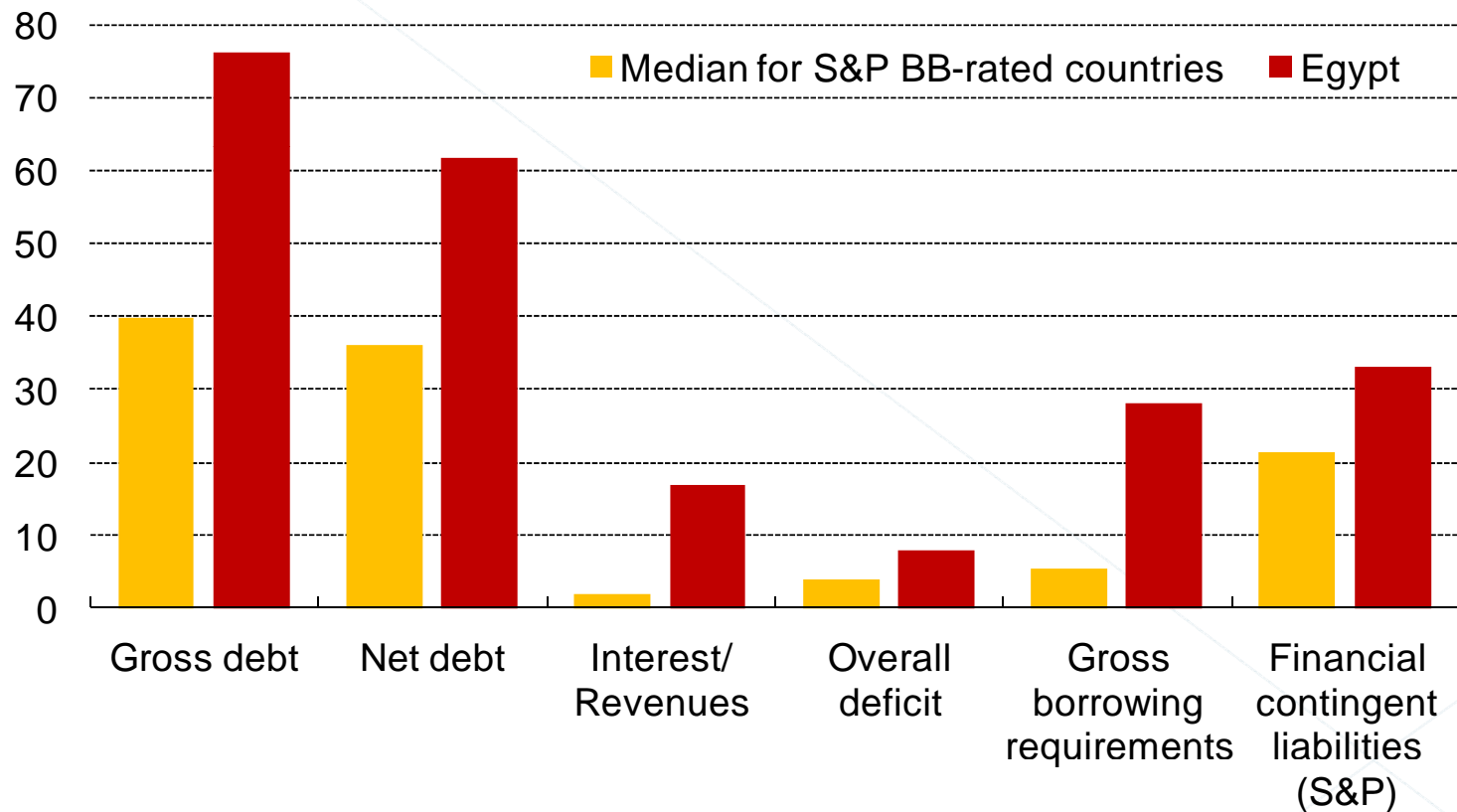


*Sustaining rapid private sector-led
growth and lower macroeconomic
vulnerability, for rapid employment
growth and increases in living
standards*



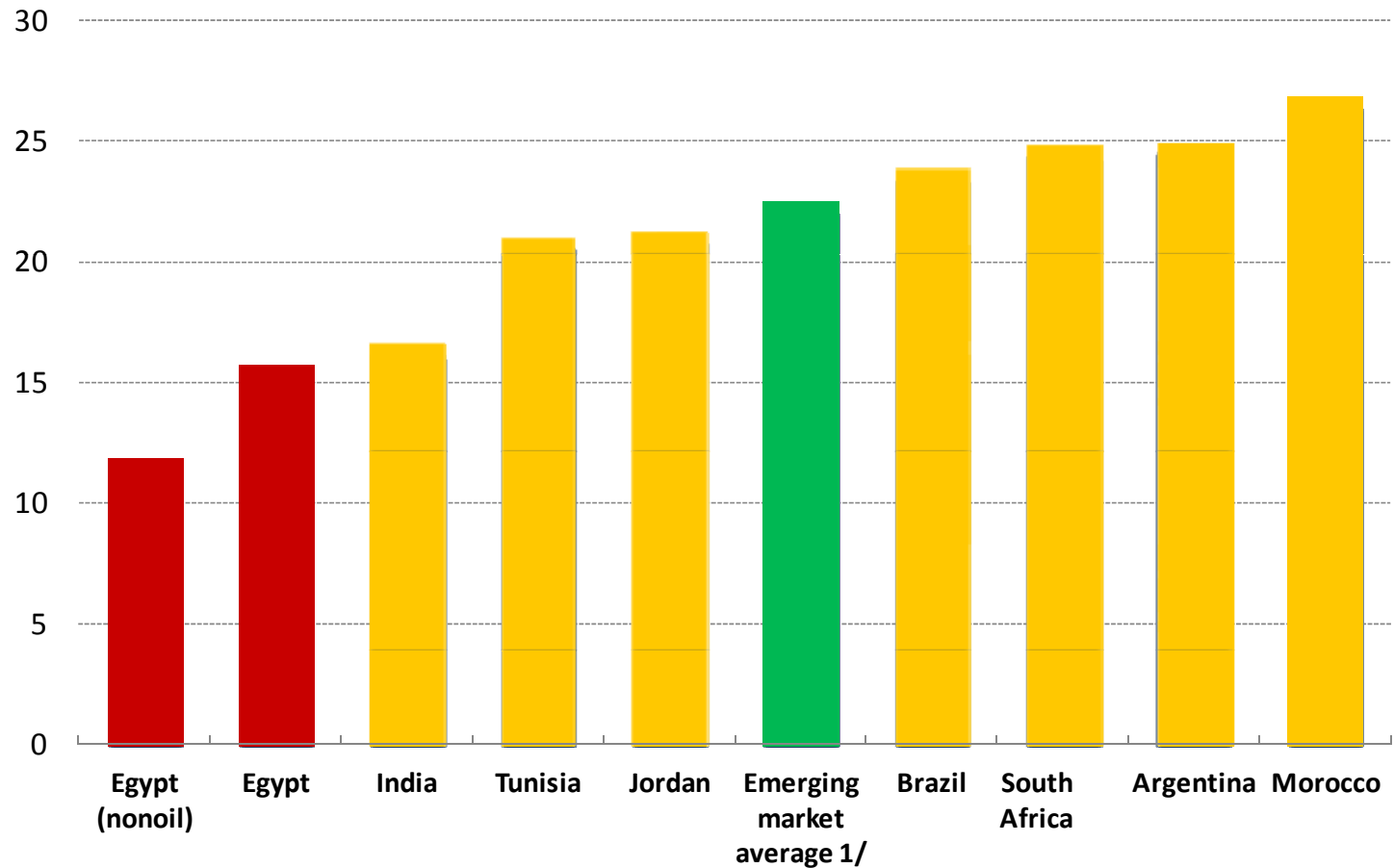
Challenge 1. Reduce public debt

Debt Burden Indicators, 2009
(Percent of GDP)



...by mobilizing tax revenue and...

Average Tax Revenue Ratio, 2008–09
(Percent of GDP)

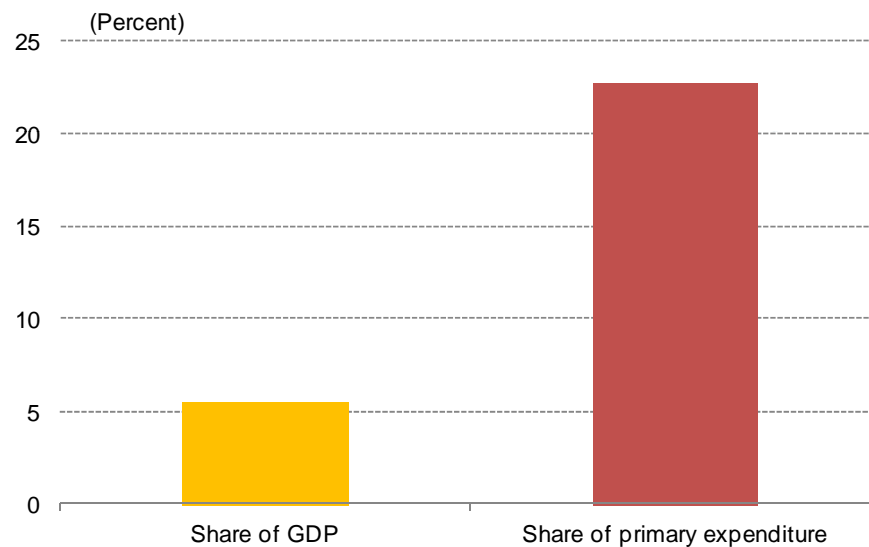


1/ Average of 2003-07.



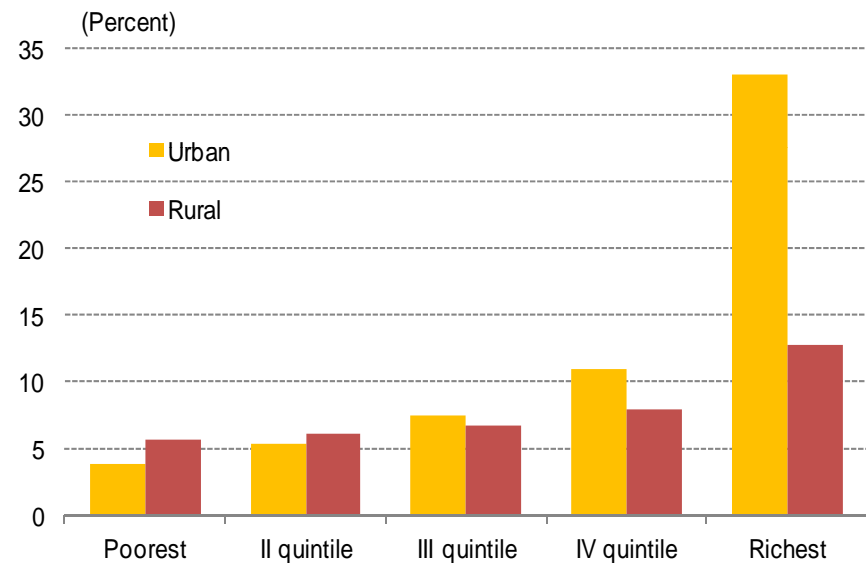
...tackling spending inefficiencies

Fuel Subsidies, 2009/10



Source: Ministry of Finance

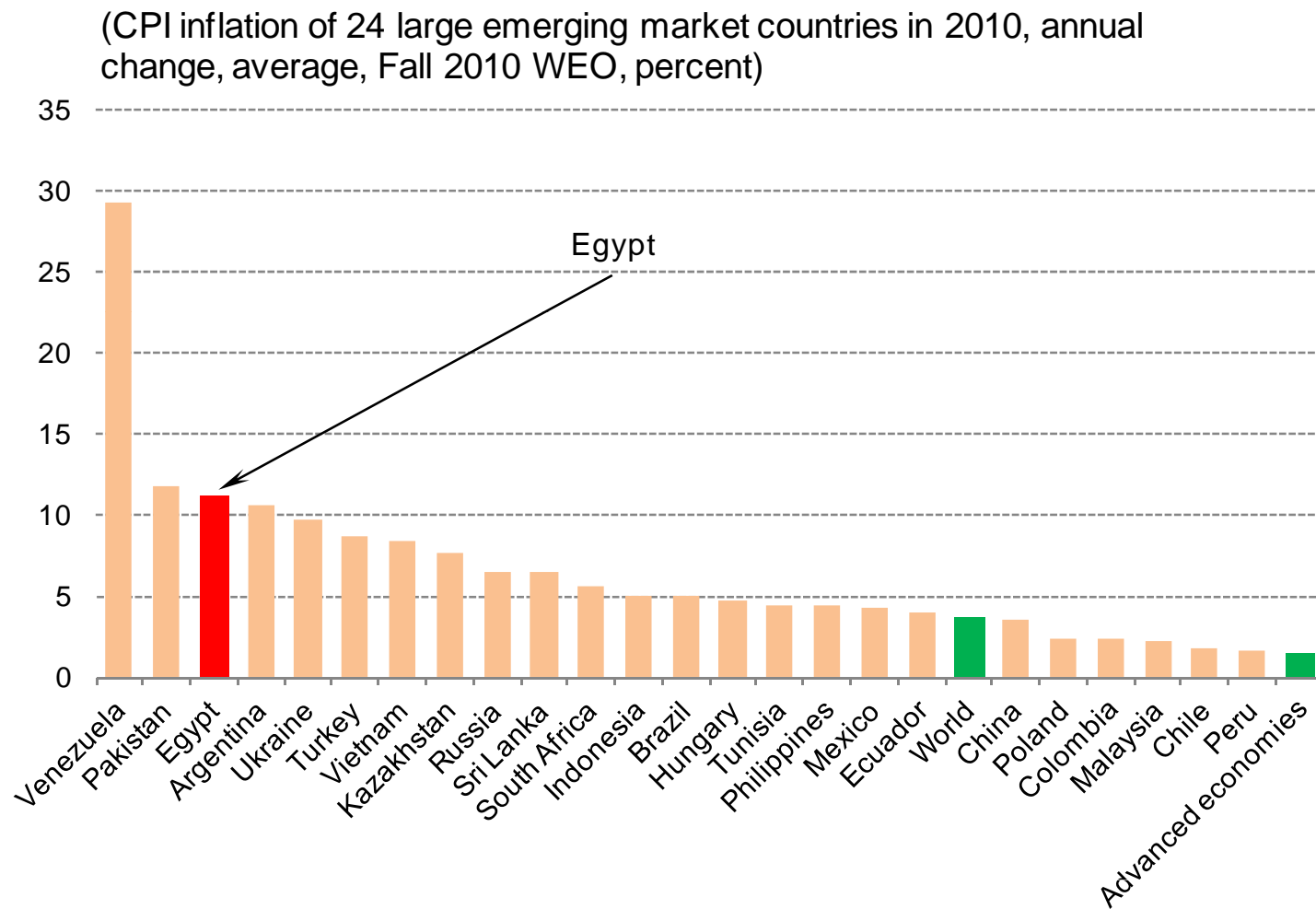
Distribution of Petroleum Subsidies



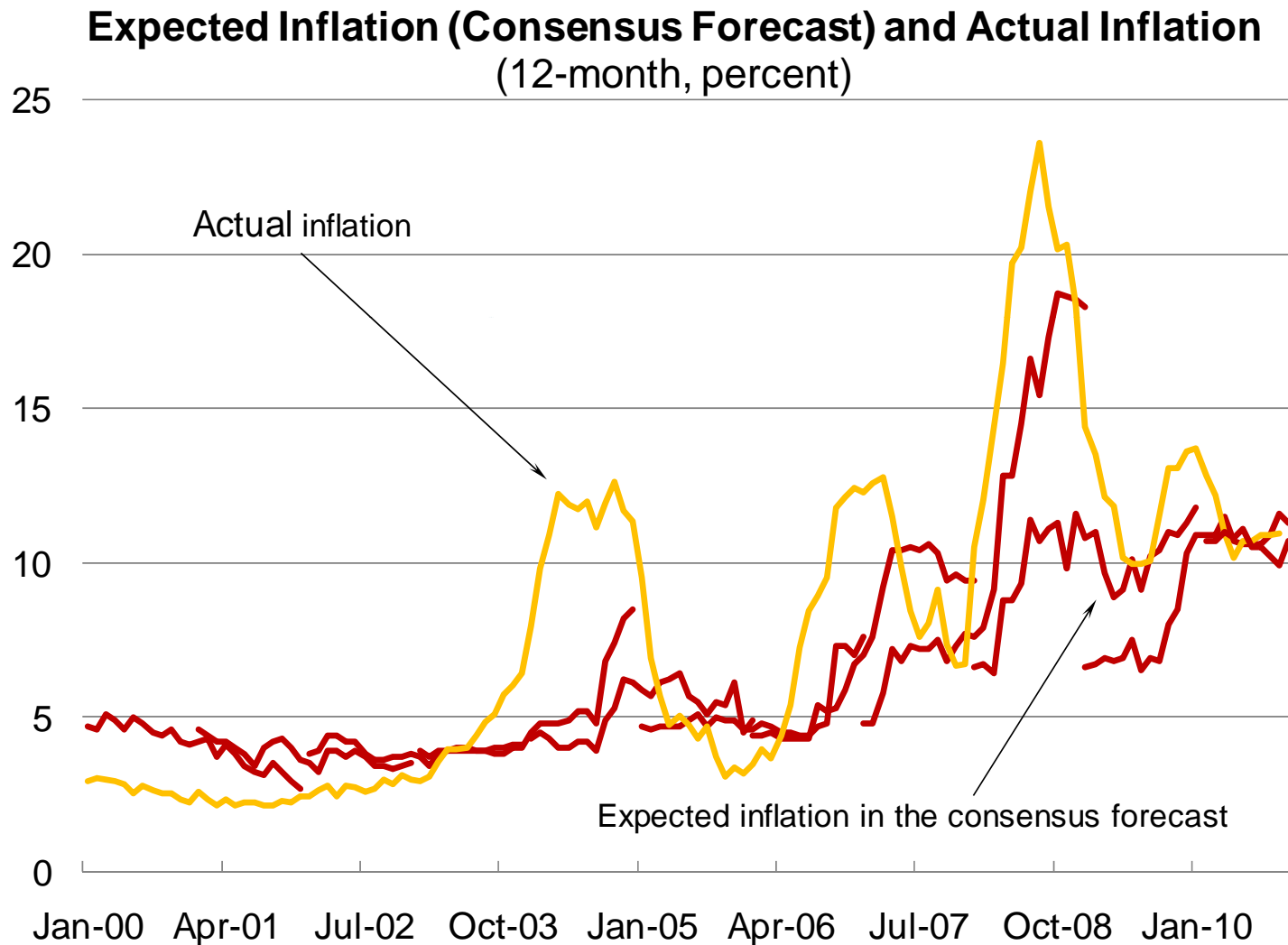
Source: ECES



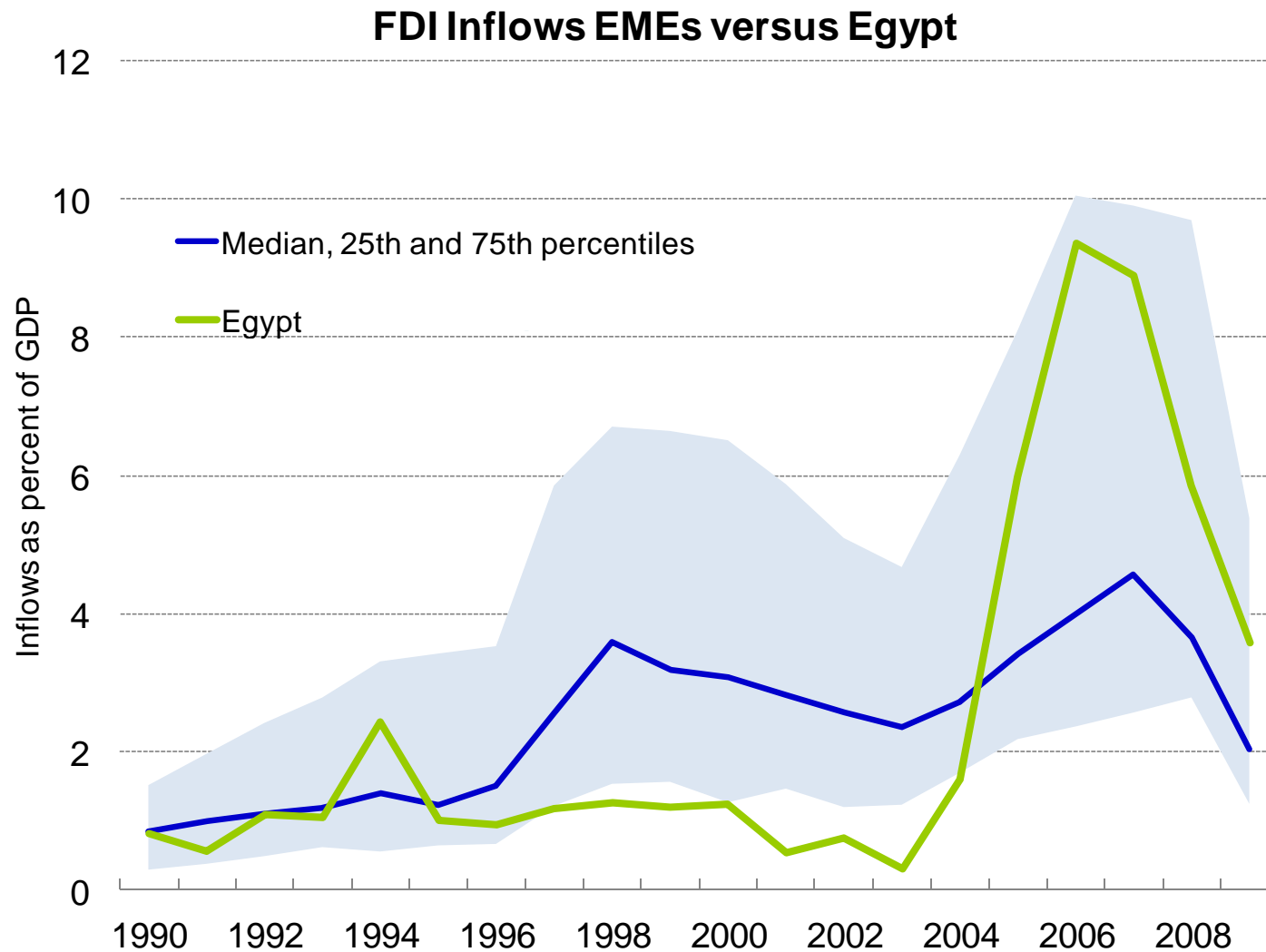
Challenge 2. Combat inflation ...



...by better anchoring expectations

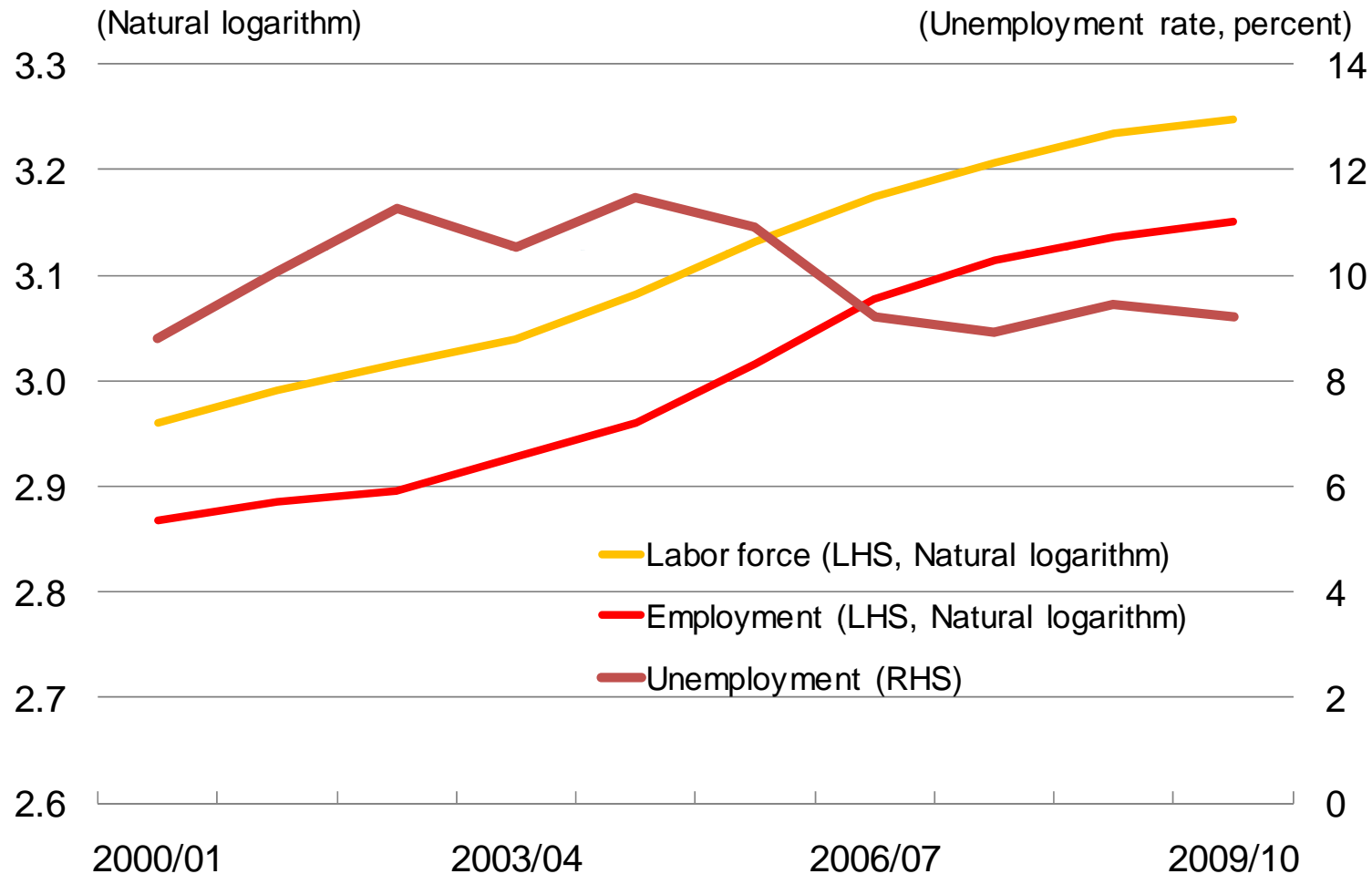


Challenge 3. Encourage private investment



Challenge 4. Reduce unemployment

Labor Force, Employment and Unemployment Rate, 2000/01-2009/10



Key takeaways

- ⊙ Egypt is growing well in the post crisis world
- ⊙ Further macroeconomic and structural reforms are needed to sustain rapid expansion
- ⊙ High inflation is costly
- ⊙ To make major inroads into unemployment will require tackling labor market inefficiencies



Thank you

