

# Egypt: A Year on from the Start of the Economic Reform Program

The Egyptian Center for Economic Studies  
28 November 2017



# Contents

1. Important preliminary considerations regarding the methodology
2. Main pillars of a successful economic reform plan
3. The main economic and social measures taken within the economic reform program over the past year
4. Evaluating economic and social measures through a set of criteria
5. Overall assessment of the economic program by specific institutions (IMF - World Bank - Gallup Center - A previous study of the Egyptian Center for Economic Studies)
6. What is needed to complement reforms?

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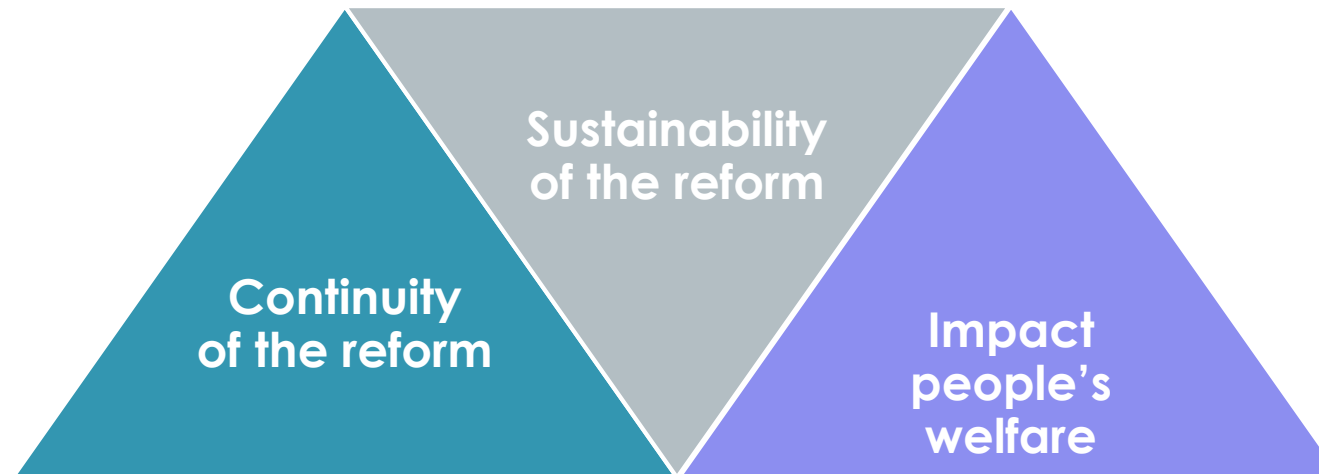
## 1. Important preliminary considerations regarding the methodology

- It is difficult to assess the real impact of the economic reform program in just one year
- Evaluation is a "preliminary assessment" aimed at:
  - Tracking reforms at the macro, real and business community levels
  - Identifying the impact of reforms on the poor and social justice
- Assessment relies on both quantitative and qualitative analysis
- The latest available data have been used

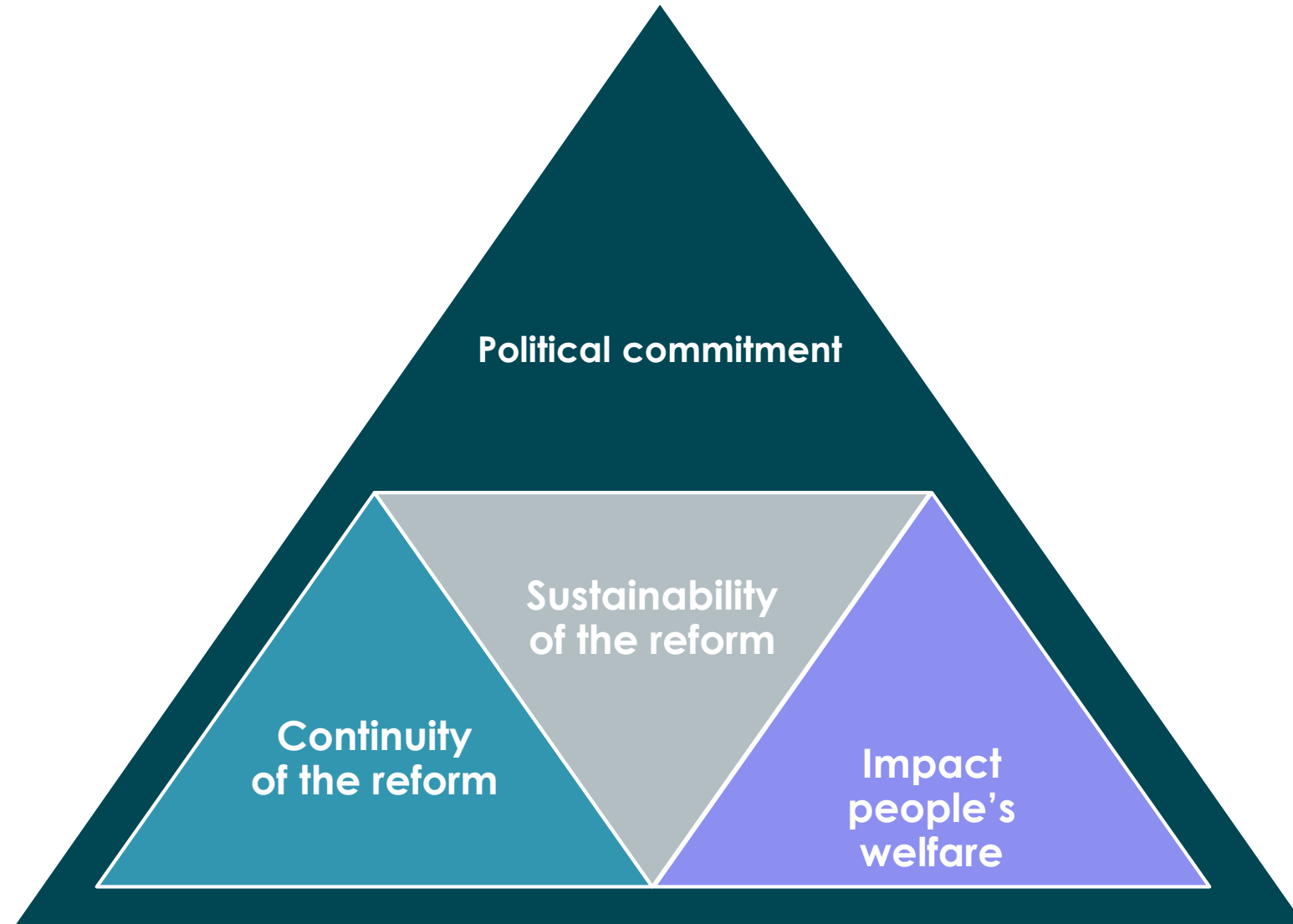
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## 2. Main pillars of a successful economic reform plan



... along with **political commitment** to ensure the three pillars are achieved



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## a. Main economic measures over the past year

Economic Measure	Date
Issuing and applying the VAT law at 13 percent	September 7, 2016
Issuing the new civil service law	1 November 2016
Liberalization of the exchange rate, and raising the policy rate by 300 basis points	3 November 2016
Reducing subsidies on fuel (1)	4 November 2016
The government adopts the economic reform program and the IMF Executive Board approves a \$12 billion loan to support the program	11 November 2016
Formation of the Supreme Council for Payments	21 February 2017
Amending the provisions of the Importers Register law	7 March 2017
Raising the price of the metro ticket	23 March 2017
The Central Bank of Egypt amends the definition of small and medium enterprises	5 March 2017
Formation of the Small and Medium Enterprises Development Authority	24 April 2017
Issuing the law facilitating the procedures of granting licenses to industrial establishments	3 May 2017
Raising the interest rate by 200 basis points	21 May 2017
The Central Bank of Egypt announced the adoption of inflation targeting, aiming to reduce inflation to 13 percent by the end of 2018	21 May 2017
Issuing the new investment law	31 May 2017
Cancellation of the ceiling on foreign exchange transfers	14 June 2017
Amending the stamp tax law to include the buying and selling of securities of all kinds	19 June 2017

## a. Main economic measures over the past year – cont'd

Economic Measure	Date
Renewal of the capital gains tax freeze for three years	19 June 2017
Modifying the mortgage finance initiative by raising the maximum monthly income of the middle income segment	22 June 2017
Reducing subsidies on fuels (2)	29 June 2017
Reducing subsidies on electricity (domestic, industrial and commercial)	1 July 2017
Raising the VAT to 14 percent	1 July 2017
Raising the interest rate by 200 basis points	6 July 2017
Real time linking of the CAPMAS population clock to the database of births and deaths	16 August 2017
Issuing the executive regulations of the law facilitating the procedures of granting licenses to industrial establishments	17 August 2017
Increasing the percentage of statutory reserves that banks are obliged to keep with the Central Bank from 10 to 14 percent	3 October 2017
Increasing the amount allocated to the mortgage initiative for the low and middle income segments to reach EGP 20 billion	8 October 2017
Issuing the executive regulations of the new investment law	28 October 2017
The decision to stop dealing with paper checks as of December 2017	31 October 2017
Increase the lump-sum tax on cigarettes by about 25 percent	21 November 2017
Removal of the ceilings on the deposit and withdrawal of cash for legal persons engaged in the import of non-essential goods	28 November 2017

## Main economic measures



Issuance and  
applying the VAT  
at 13 percent



## Main economic measures



**Liberalizing the  
exchange rate**





**Raising the  
interest rate  
(1)**





**Reducing  
subsidies on  
fuels (1)**





## Main economic measures



**The government adopts the economic reform program and the IMF Executive Board approves a \$12 billion loan to support the program**



## Main economic measures



**Raising the interest rate (2) +  
Central Bank announcement to  
adopt inflation targeting with  
the aim of reducing Inflation to  
13 percent by the end of 2018**







**Issuance of the  
new investment  
law**





**Reducing  
subsidies on  
fuels (2)**



## Main economic measures



**Raising the  
VAT to 14  
percent**





**Raising the  
interest rate  
(3)**



## Main economic measures



**Issuing the executive regulations of the new investment law**



## Main economic measures



**Removal of the ceilings on  
the deposit and  
withdrawal of cash for  
legal persons engaged in  
the import of non-essential  
goods**



## b. Social protection measures

- Increasing cash subsidies on food commodities by more than double through smart ration cards - from 21 to 50 pounds per citizen - and increasing subsidies on infant formulas and pediatric medicines
- Expanding social solidarity pensions to include medical care
- Expanding the coverage of the Takaful and Karama program to include 1.7 million additional families and increasing the amounts provided
- Raising pension benefits, especially for low-income pensioners
- Payment of an exceptional bonus to government employees to help them cope with high inflation
- Providing poor areas with free school meals and new gas connections

*Source: IMF Country Report No. 17/290, September 2017, citing the Ministry of Social Solidarity.*

## b. Social protection measures – cont'd

- Increasing tax exemption limit on wages
- The Government is implementing programs to increase jobs for young people, such as specialized youth training programs and job search assistance programs.
- The Egyptian government is taking measures to encourage female employment. The 2016/2017 budget included an allocation of EGP 250 million pounds for increasing public nursery schools, to increase to LE 500 million in the 2017/2018 budget. The Government will also allocate resources to improve the safety of public transport.

*Source: IMF Country Report No. 17/290, September 2017, citing the Ministry of Social Solidarity.*



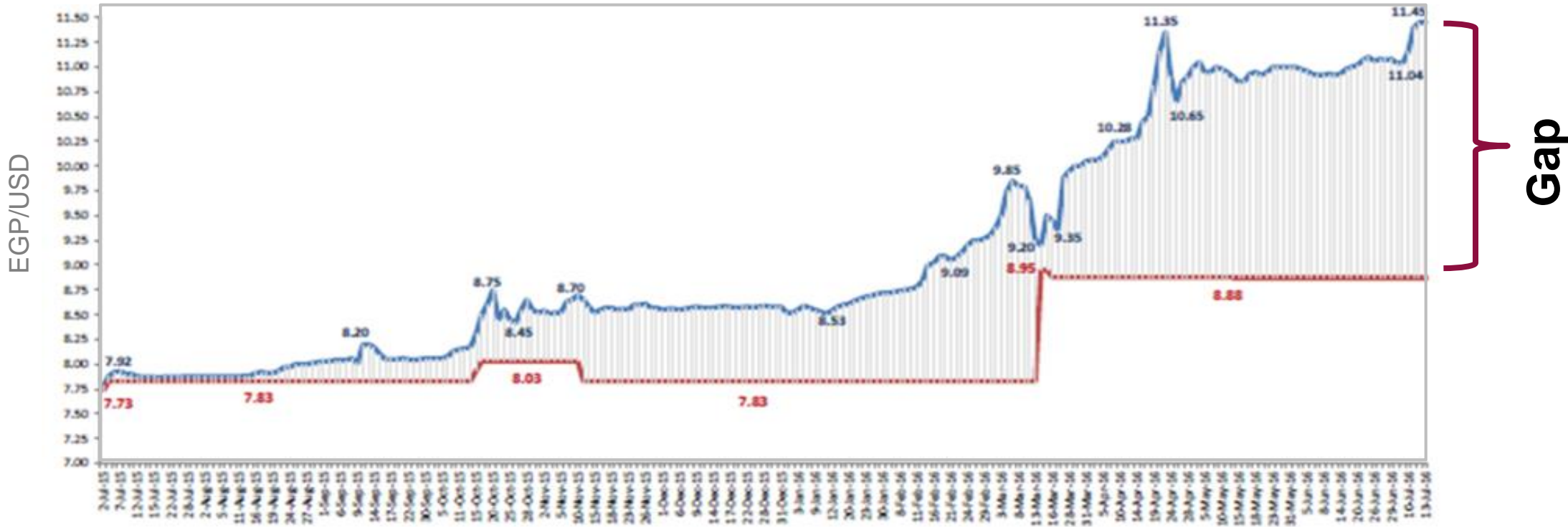
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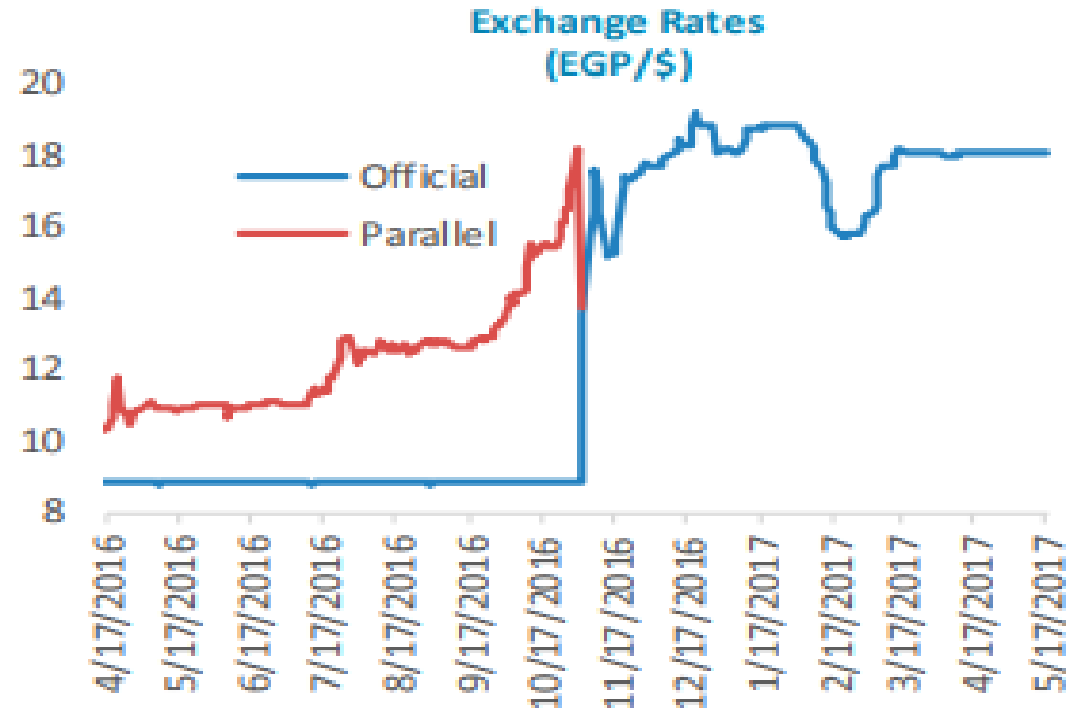
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# The gap between the official and parallel exchange rates widens to its maximum level in October 2016



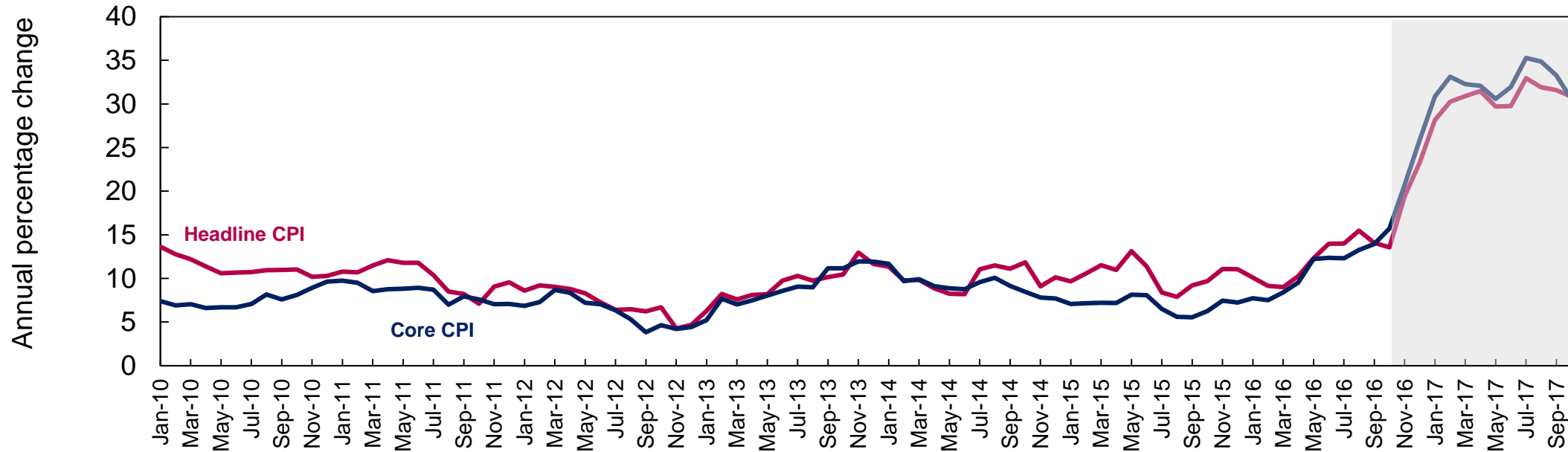
Source: National Bank of Egypt.

# With the decision to liberalize the exchange rate, the rate was unified



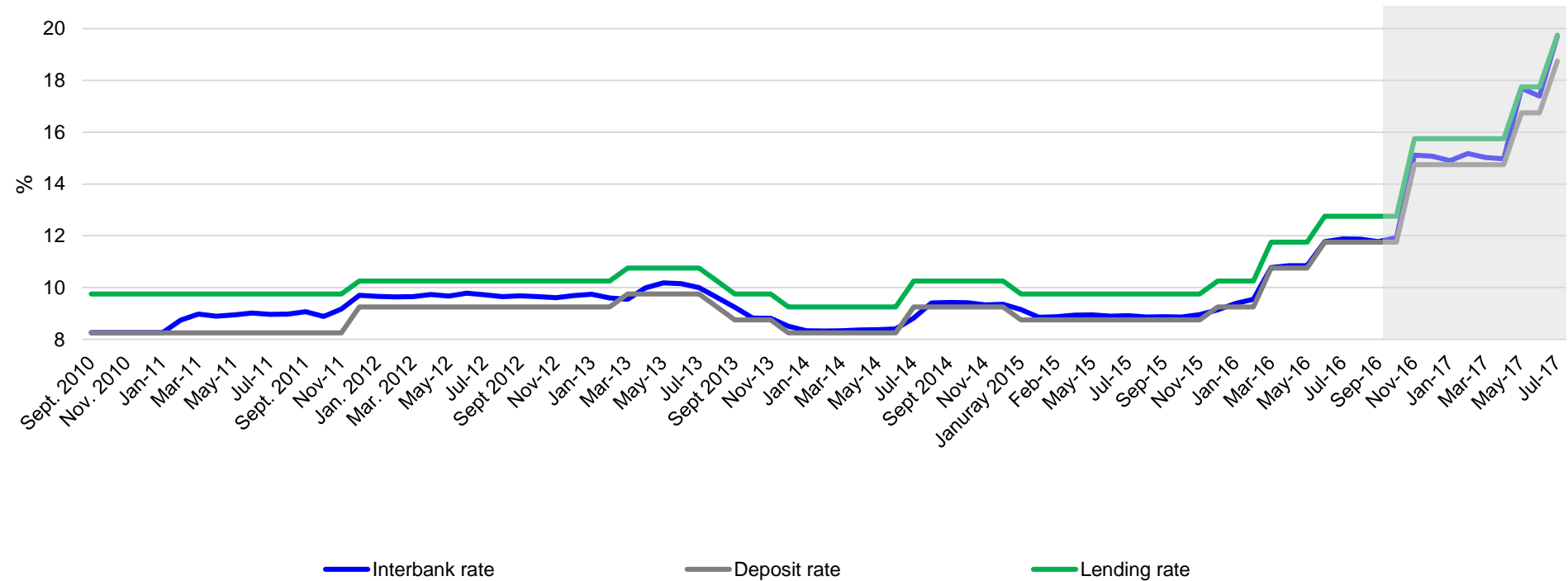
Source: IMF Country Report No. 17/290, September 2017.

This was followed by an inflationary wave, with overall inflation reaching its highest level of 33 percent in July 2017



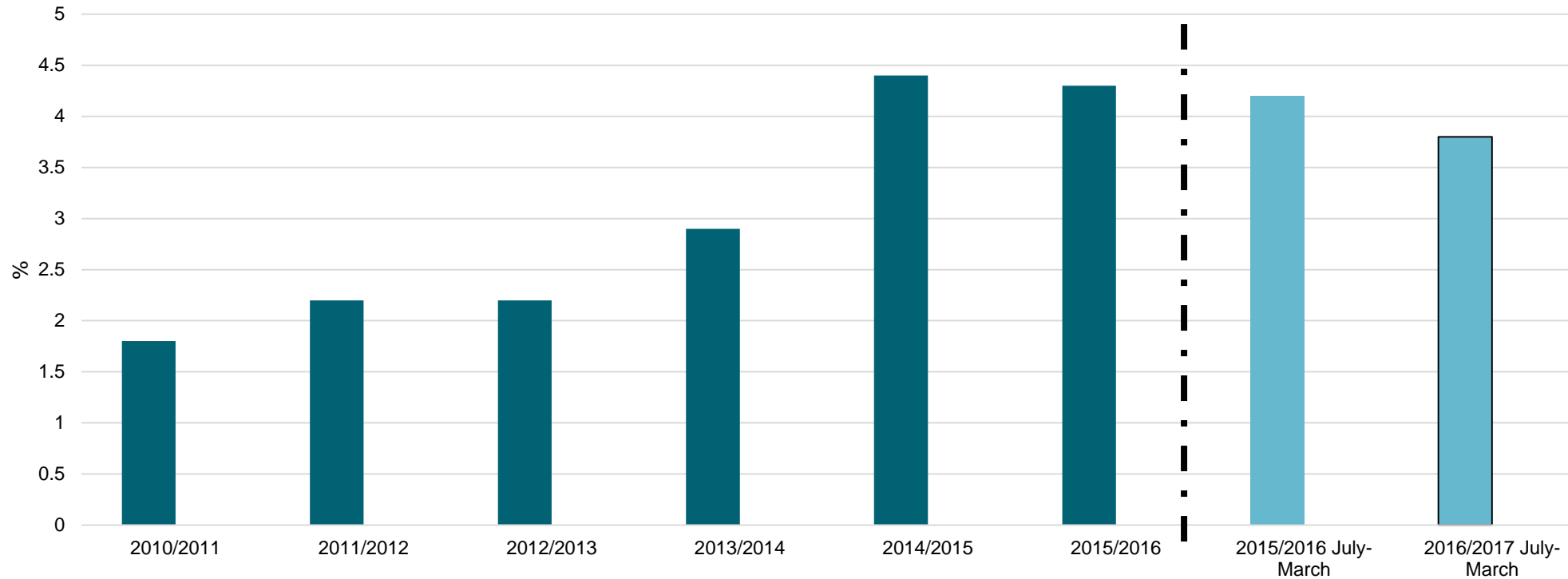
Source: Central Bank of Egypt.

In an attempt to control inflation, the central bank raised interest rates by 7 percentage points since October 2016 to date, settling at 18.75 percent and 19.75 percent for the deposit and lending rates, respectively, compared to 10 percent on average in previous years



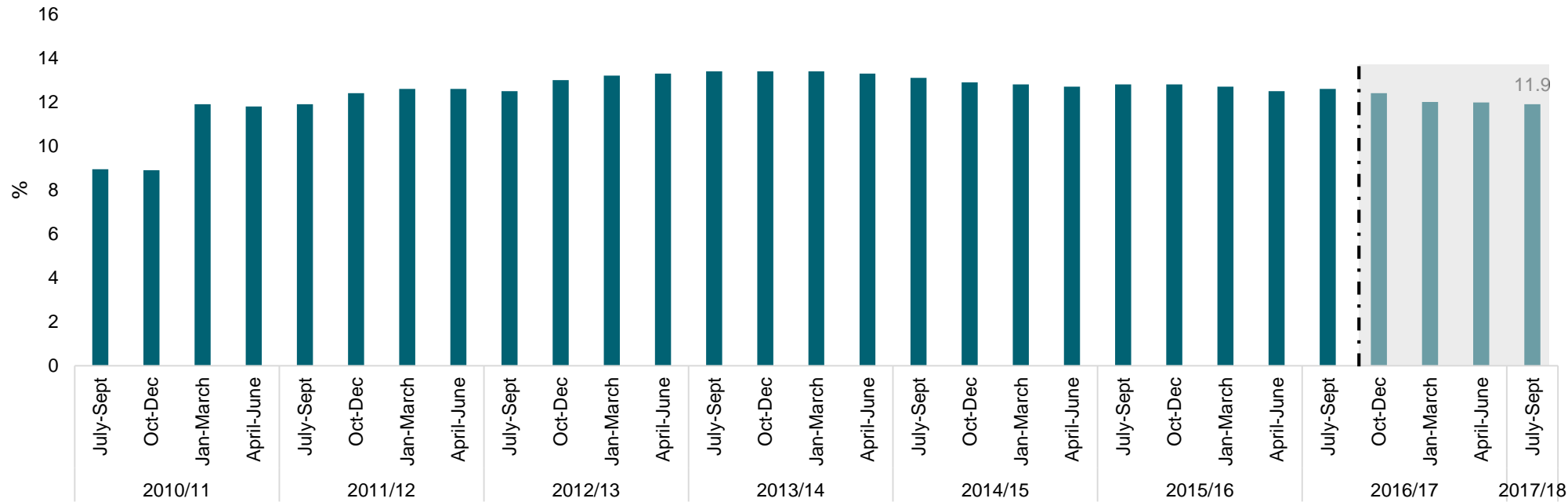
Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues; Ministry of Finance, financial monthly, various issues.

# Real GDP growth rate in July-March 2016/2017 was 3.8 percent compared to 4.2 percent in the corresponding period last year



Source: Ministry of Planning, Monitoring and Administrative Reform.

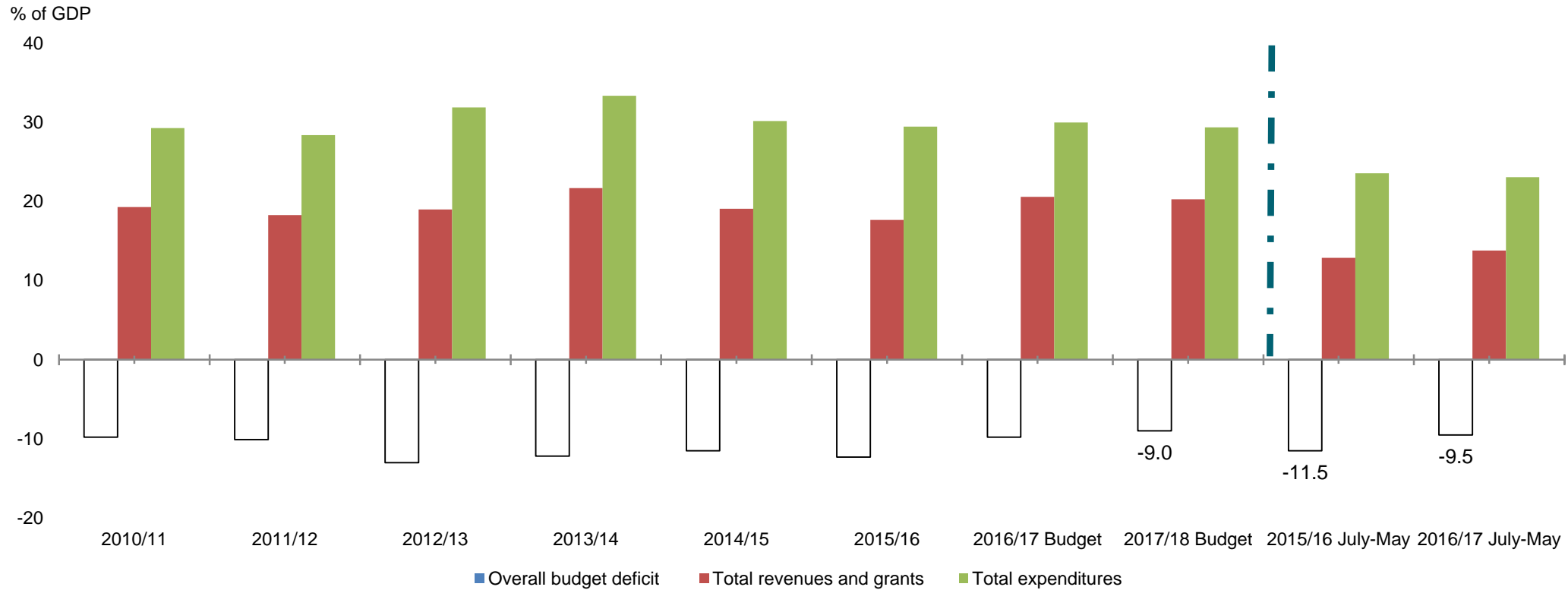
Unemployment rose since 2011 to its highest level in Q3 of 2013/2014 at 13.4 percent, then declined to 11.9 percent in Q1 of the current fiscal year, similar to 2011.



Source: Central Agency for Public Mobilization and Statistics.

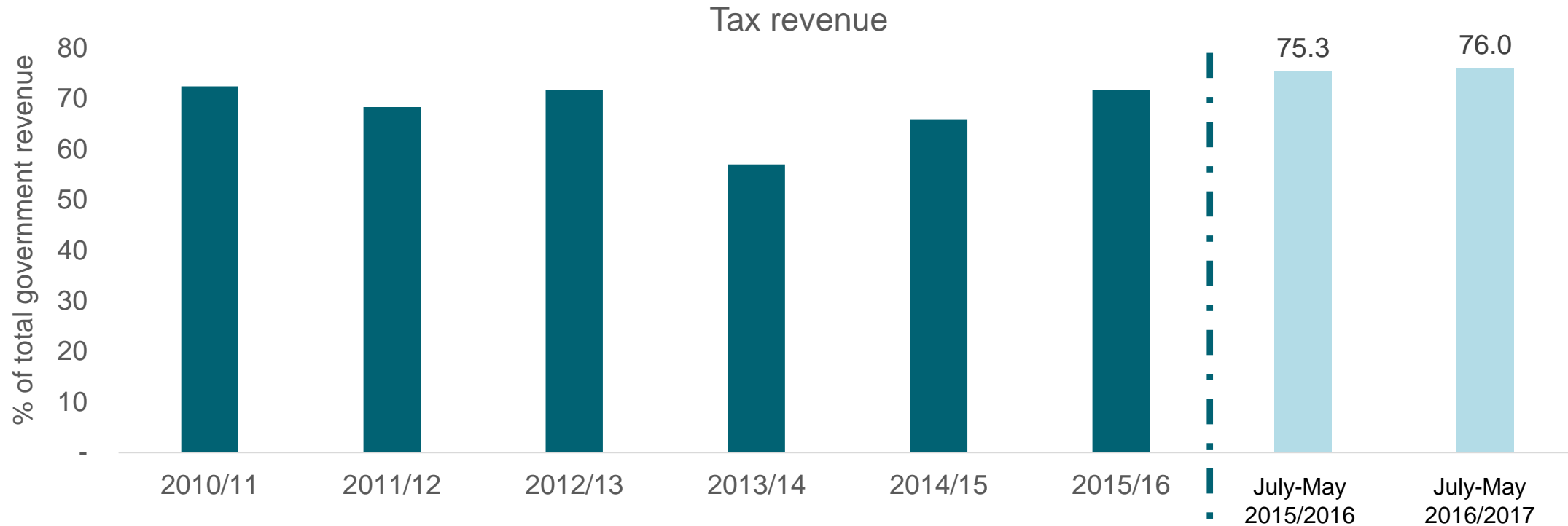


# The budget deficit as a percentage of GDP declined from 11.5 percent in July-May 2015/2016 to 9.5 percent in the corresponding period of July-May FY2016/2017



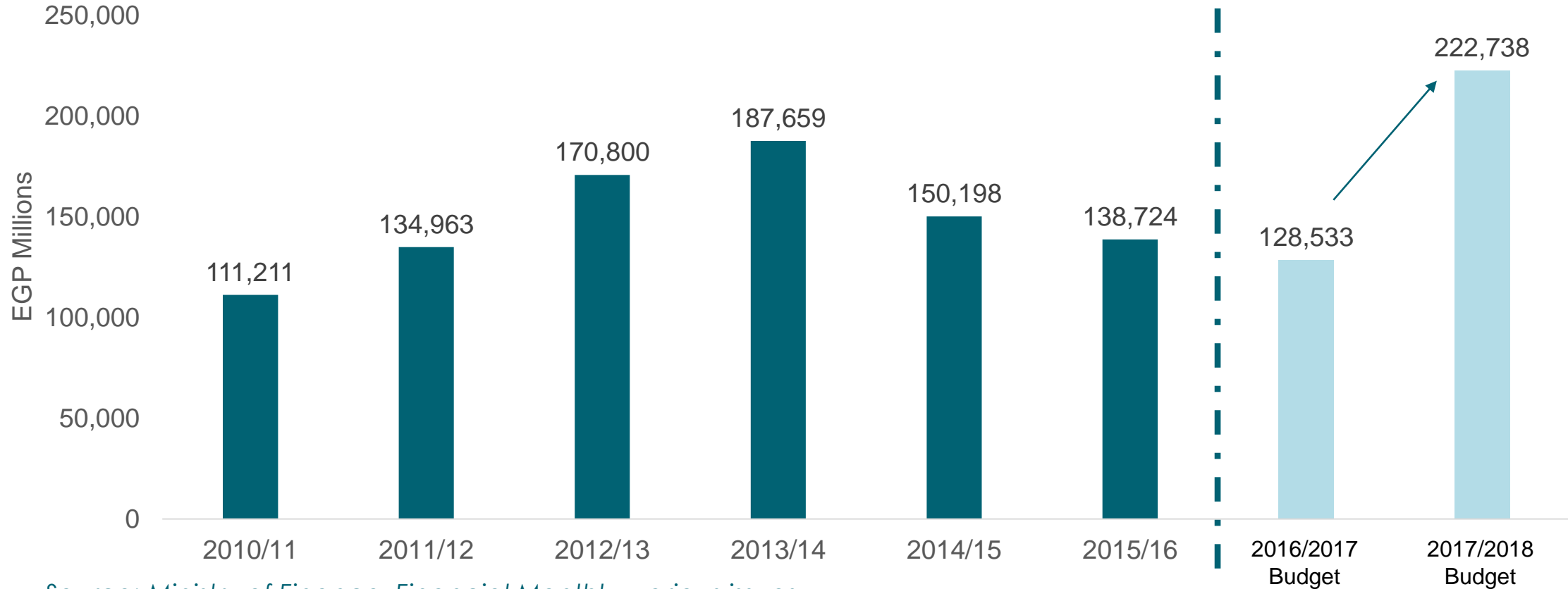
Source: Ministry of Finance, Financial Monthly, various issues.

# A slight increase in tax revenue as a percentage of total government revenue during July-May of FY 2016/2017



Source: Ministry of Finance, Financial Monthly, various issues.

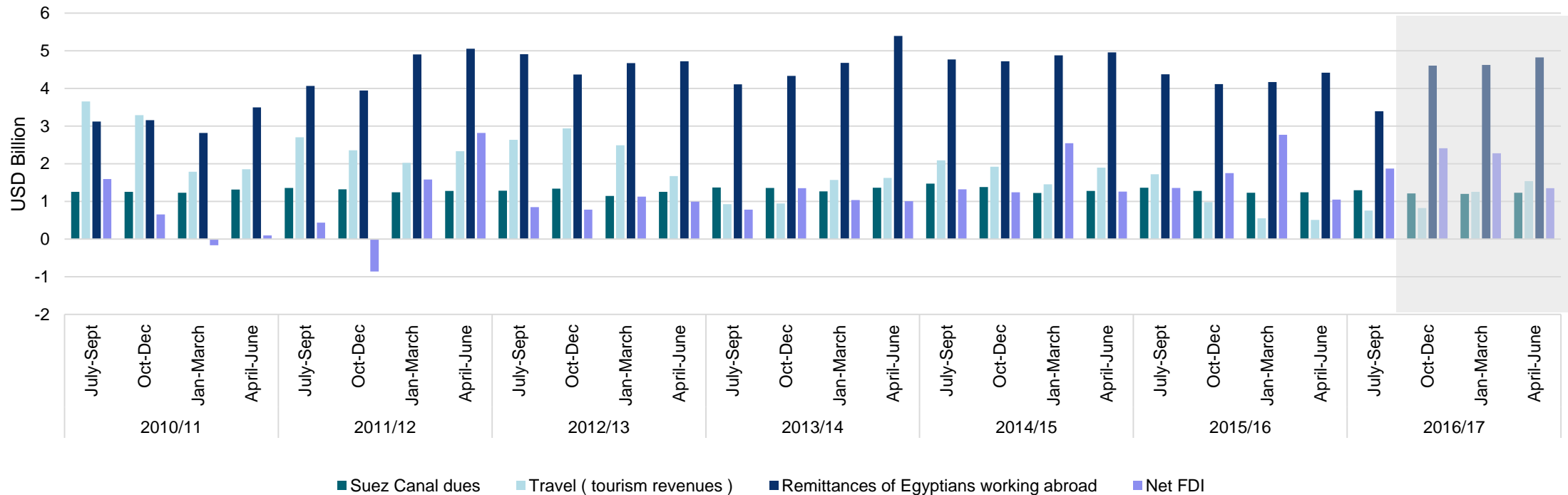
Subsidy allocations increased since 2010/2011 to peak in 2013/2014, but fell again until 2016/2017. An unavoidable and unprecedented increase in subsidy allocations in the fiscal year budget 2017/2018 as a result of exchange rate liberalization.



Source: Ministry of Finance, Financial Monthly, various issues.

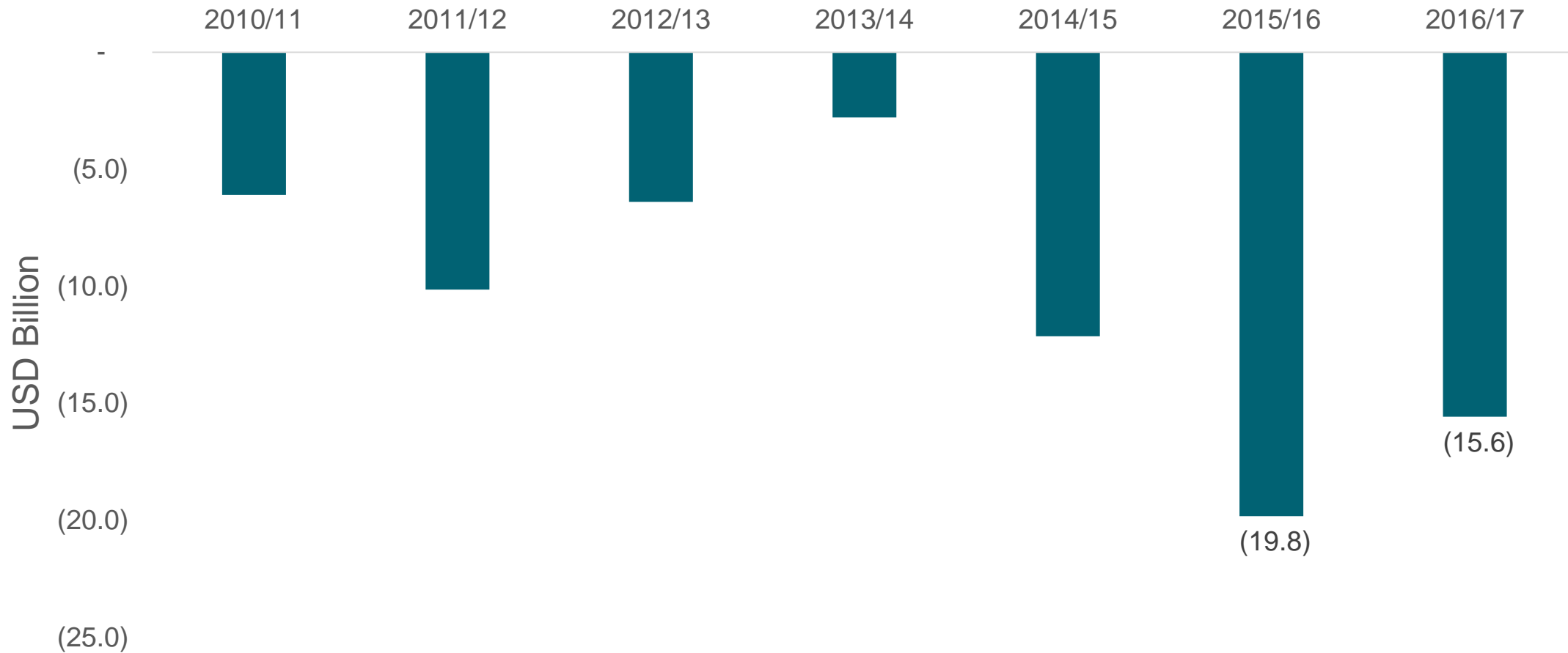
Workers' remittances rose since October 2016, but they have not reached the level of June 2014. Tourism started to improve since October 2016 after falling steadily since 2011.

Net foreign direct investment witnessed a rise during Q2 of 2016/2017 only to begin falling again in Q3 and Q4. Suez Canal revenue was not significantly different from previous years.



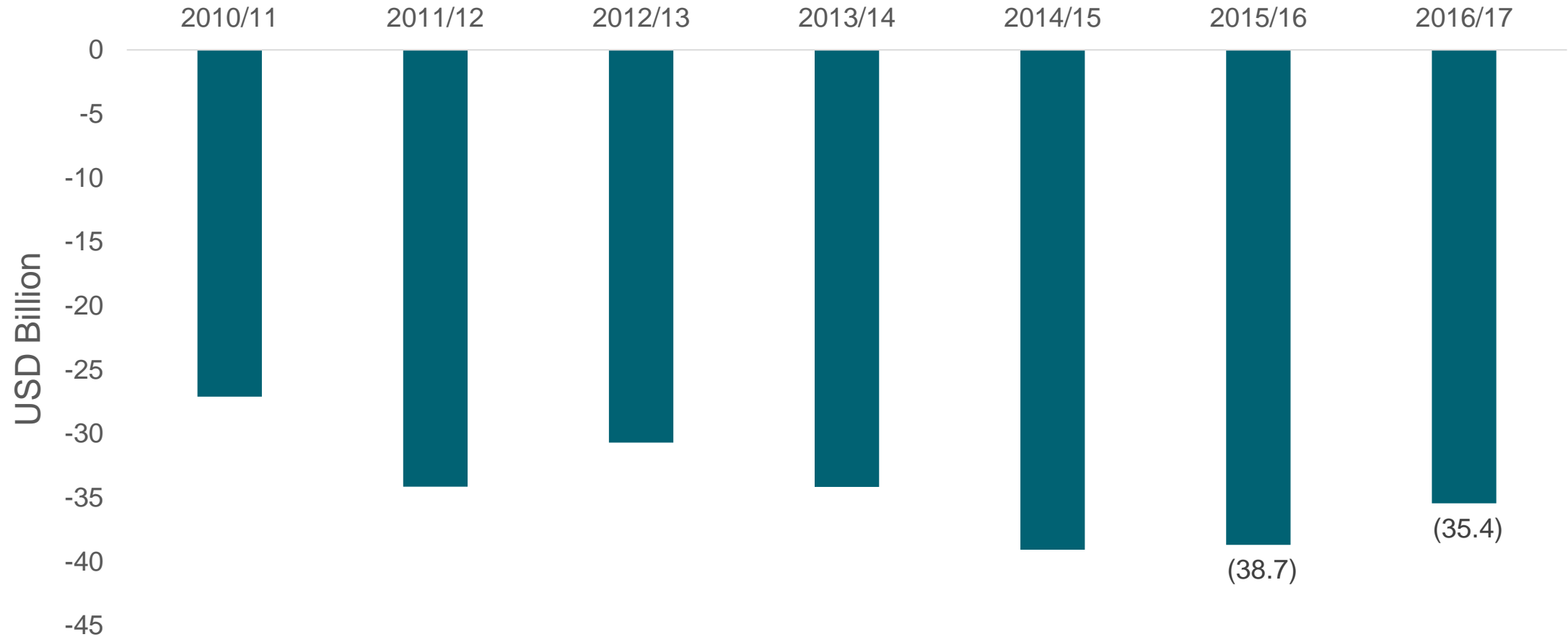
Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

# The current account deficit fell to \$15.6 billion in FY2016/2017 compared to a deficit of \$19.8 billion in the previous year



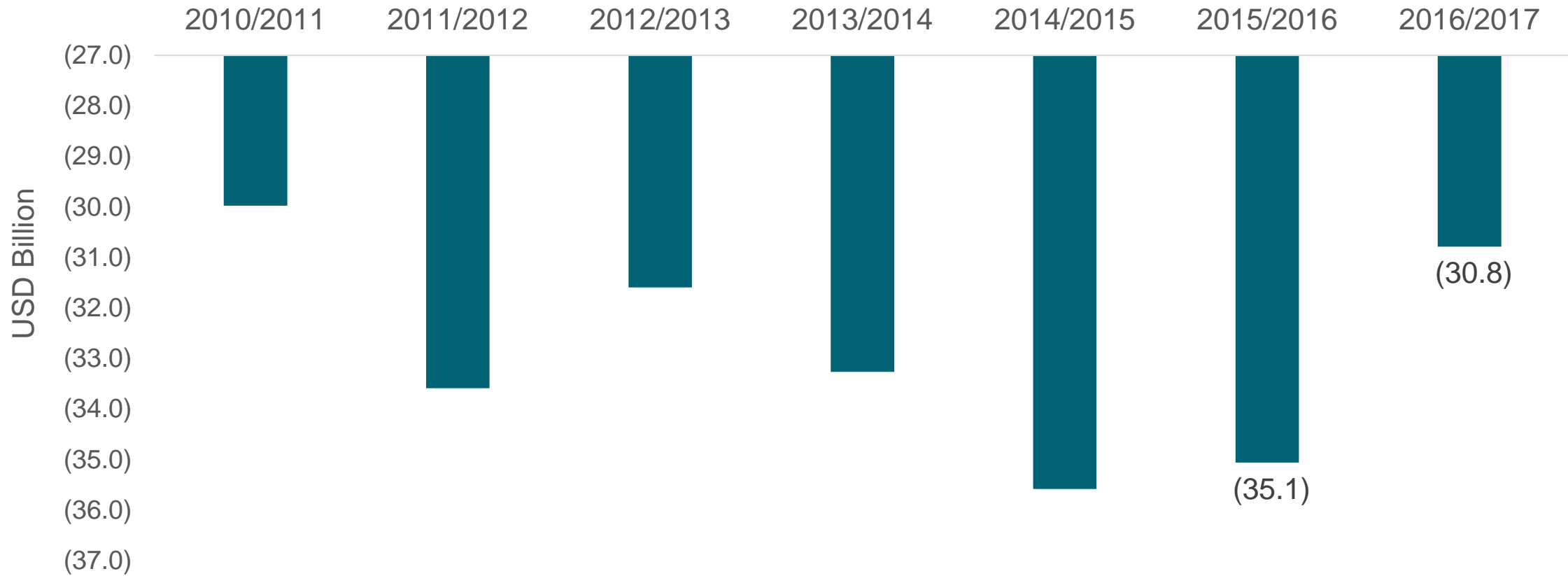
Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

# The trade deficit fell to \$35.4 billion in FY2016/2017 compared to \$38.7 billion in the previous year, down by 8.4 percent



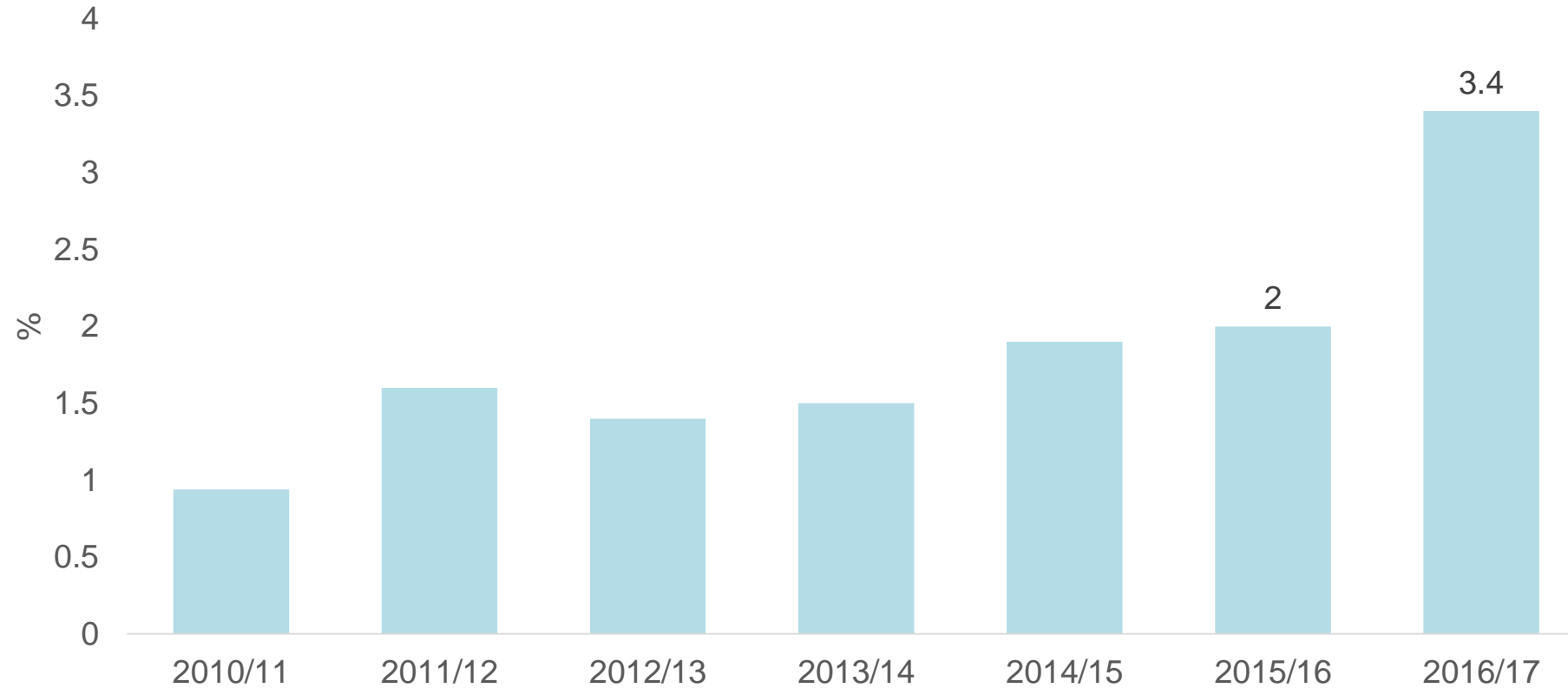
Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

# The non-oil trade deficit fell to \$30.8 billion in FY2016/2017 from \$35.1 billion a year earlier



Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

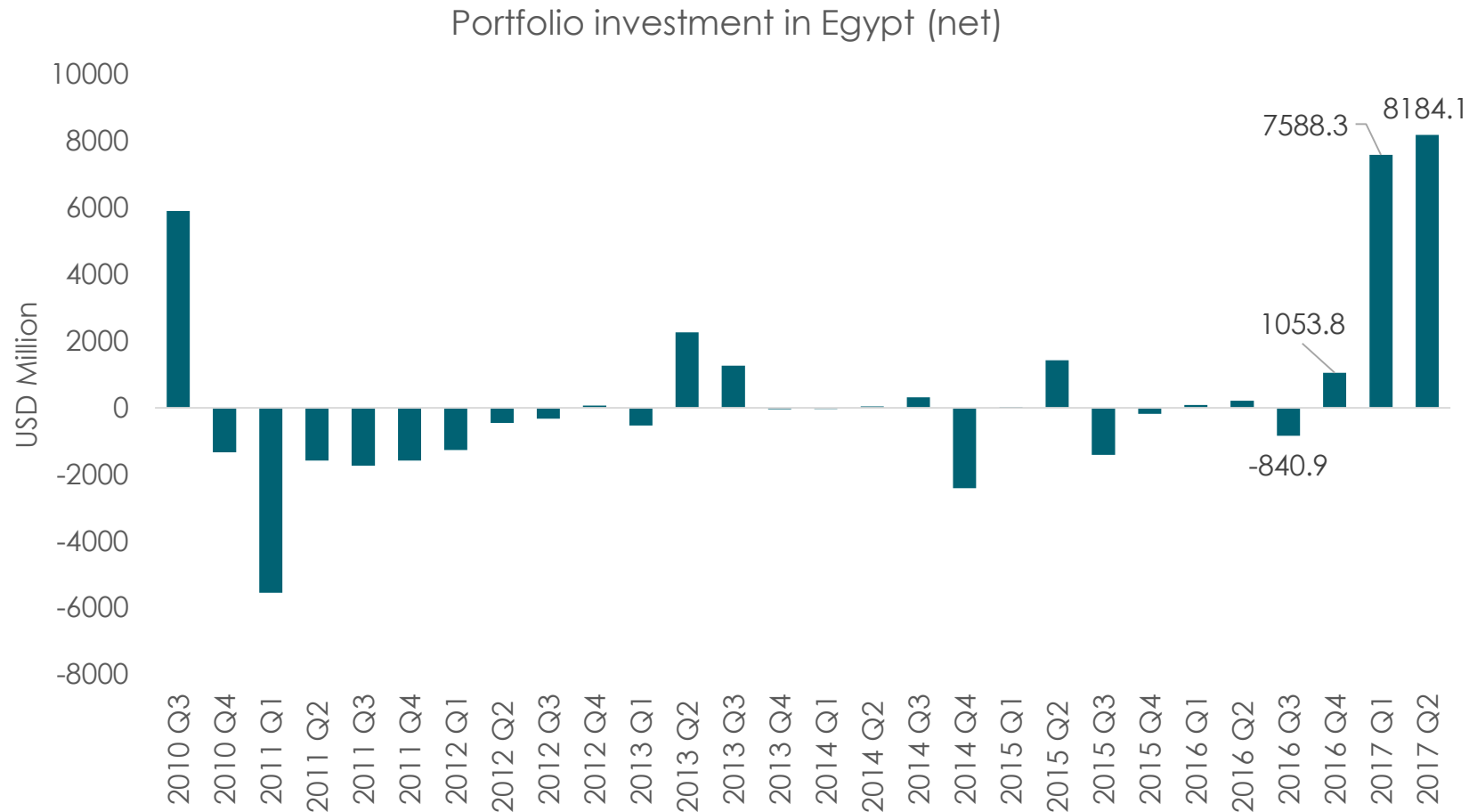
## Net foreign direct investment increased to reach 3.4% of GDP in FY2016/2017 compared with 2% of GDP in the previous year



Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

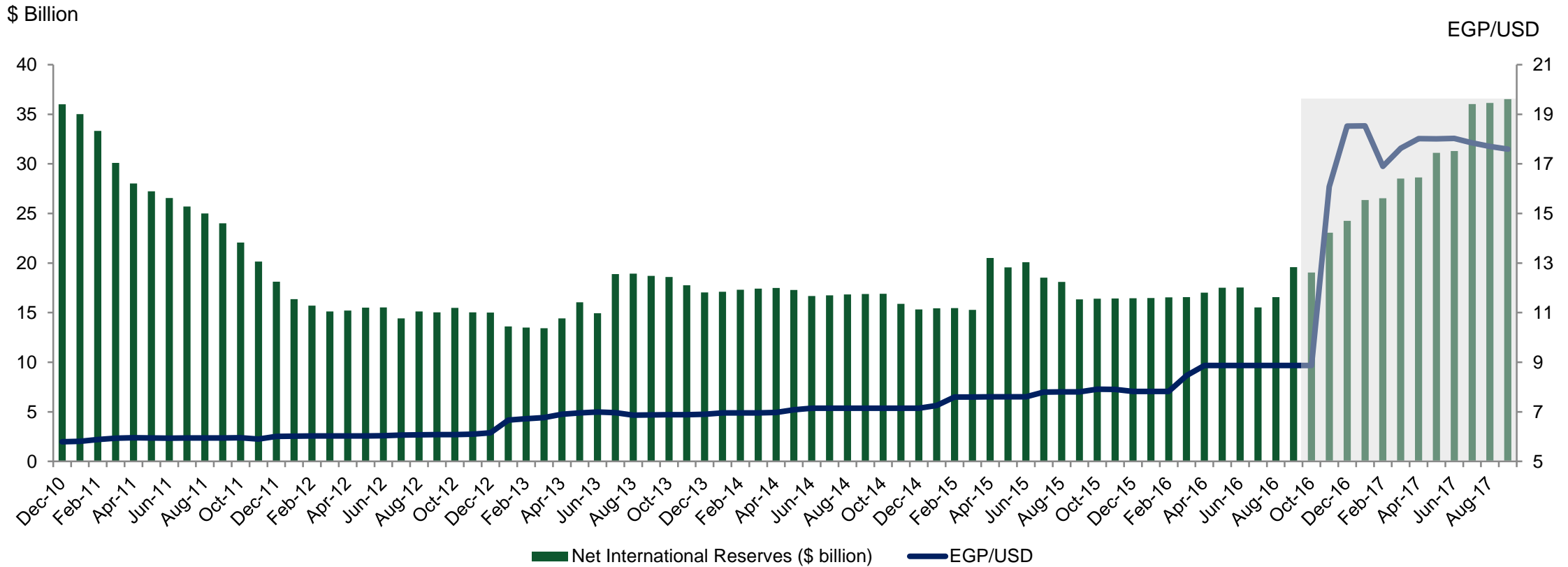


# Portfolio investment inflows reached \$16.0 billion in FY2016/2017



Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

# Net international reserves rose significantly since October 2016, recording a seven-year high of \$36.7 billion in October 2017



Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

# An increase in the volume of external debt due to liberalization of the exchange rate

External debt stock at end of September 2016 = \$60.15 billion

	Before floatation	After floatation
Exchange rate	8.89	15.45
Stock of external debt in billion EGP	535	929



**An increase of around  
EGP 400 billion**




# External debt rose to \$79 billion (34% of GDP) in June 2017 from \$55.8 billion (17% of GDP) in June 2016 as a result of the country's policy of borrowing to finance the deficit and greenfield investments



Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

# Projections of annual external debt service payments up to 2020

Indicator (USD Million)	2017	2018	2019	2020	Total
External debt service payments (medium and long-term)	5,235	12,800	5,957	6,040	30,032
External debt service payments (short-term)	2,798	-	-	-	2,798
Total external debt service payments	8,033	12,800	5,957	6,040	32,830


  
**\$4 billion in international bonds**
  
**A \$12 billion loan from the IMF**
  
**A billion dollar from the World Bank**



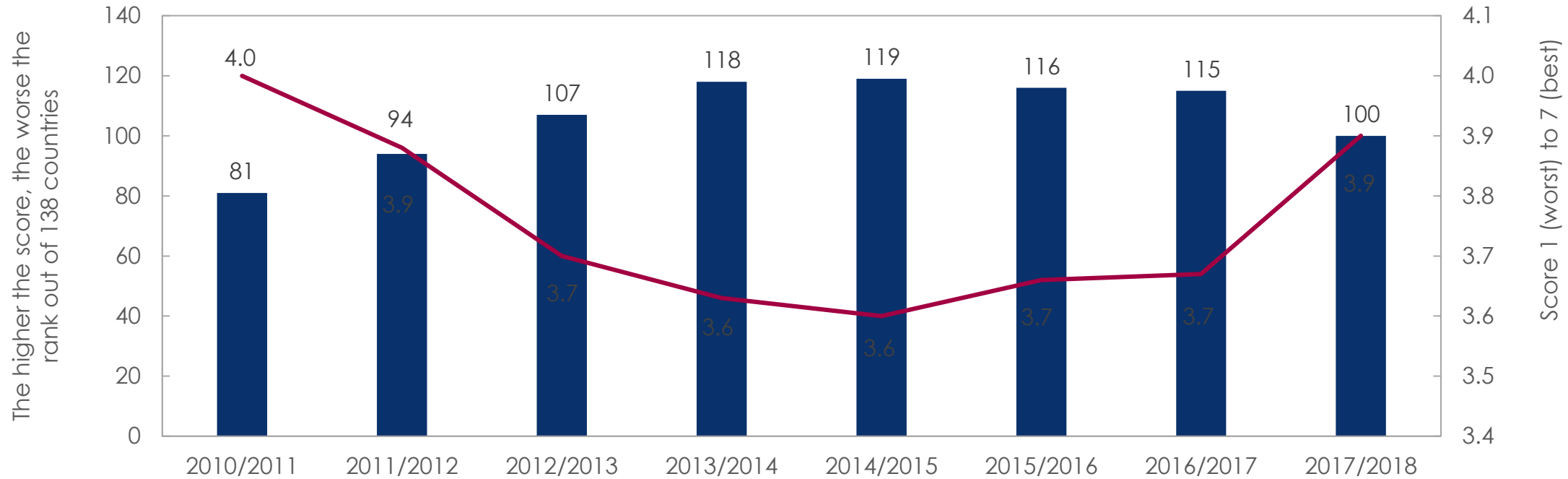
## We conclude from the previous slides:

- Improvement in external sector indicators
- Modest improvement in indicators reflecting the real economy
- The high percentage of government debt poses a danger
  - Egypt's future debt burden (increased debt obligations relative to return)
- The rise in net international reserves is not from sustainable sources

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# Egypt's rank in the Global Competitiveness Index improved by 14 positions

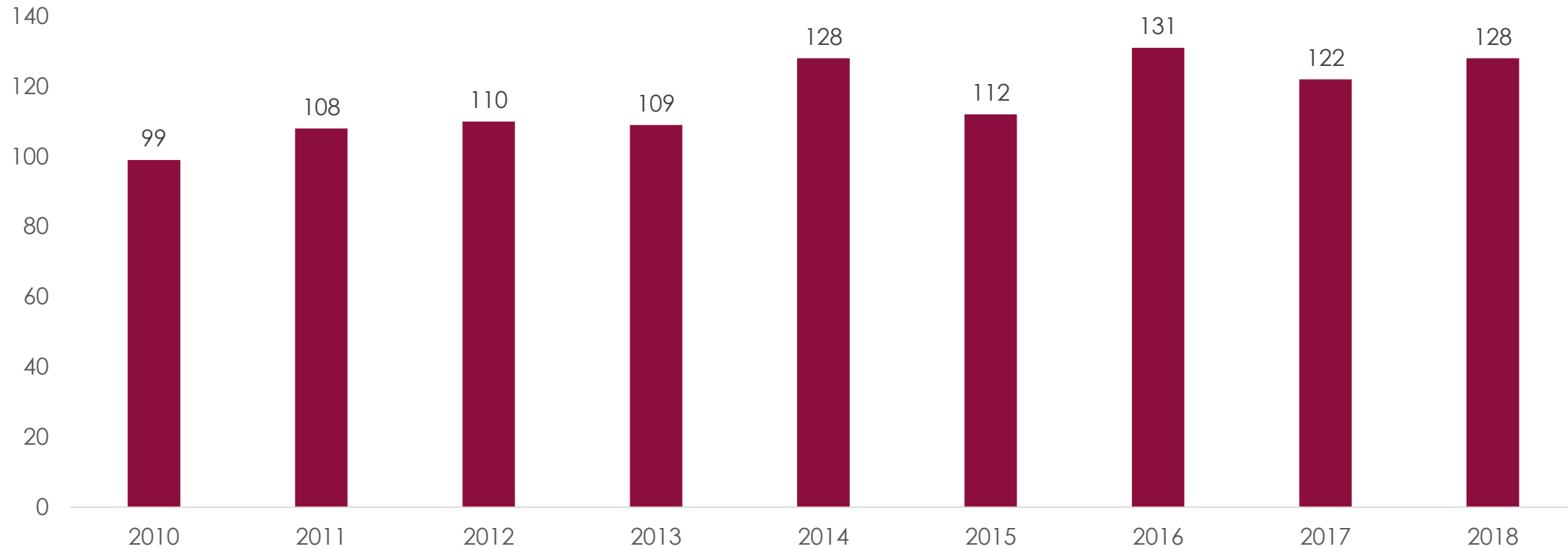


Source: World Economic Forum, Global Competitiveness Report 2010/2011, 2011/2012 and 2017/2018.

Note: Scores range from 1 (worst) to 7 (best).




## Egypt's performance in the doing business index 2018 declined compared to all previous years except 2014 (steady) and 2016 (worse)



Source: Doing Business Reports.

# Standard & Poor's raised its outlook for Egypt's credit rating from stable to positive due to increased reserves and improved economic growth

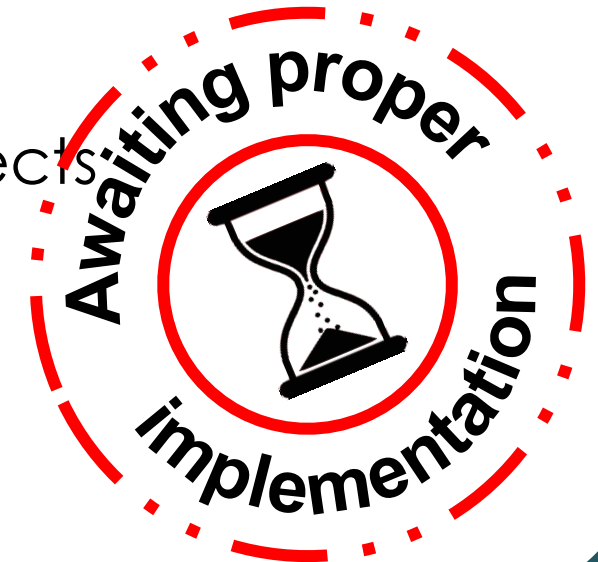
Organization	Before economic reform	After economic reform	Change
Moody's	B3 Outlook stable 19 August 2016	B3 Outlook stable 18 August 2016	Steady
Standard & Poor's	B- Outlook negative 13 May 2016	B- Outlook Positive 10 November 2017	
Fitch	B Outlook stable 30 May 2016	B Outlook stable 22 June 2017	Steady

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## Positive measures towards real reform:

- Issuing the new civil service law
- Forming the Supreme Council for Payments
- The efforts of the Central Bank of Egypt in the area of small and medium enterprises
- Issuing a law to facilitate procedures for granting licenses to industrial establishments
- Issuing the new investment law
- Continuing to implement a number of mega projects (infrastructure, fish farms, etc.)
- .....



## But institutional weakness clearly continues:

- Administrative and bureaucratic failure leading to increased informal transactions of the formal sector
- A massive and continuous increase in the size of the informal sector
- The need to retract decisions taken, which affects the credibility of the state internally and externally
- The slow pace of issuance of laws due to weak coordination and lack of transparency in Parliament
- Absence of integrated law packages, resulting in limited positive impact on performance (investment law)
- Continuously applying parallel solutions to circumvent institutional weakness rather than resolve it
- Waste of subsidies of all types and failure to reach targeted groups (due to incomplete databases)
- Weak coordination within the government apparatus and absence of a sound institutional mechanism for allocating land for various activities

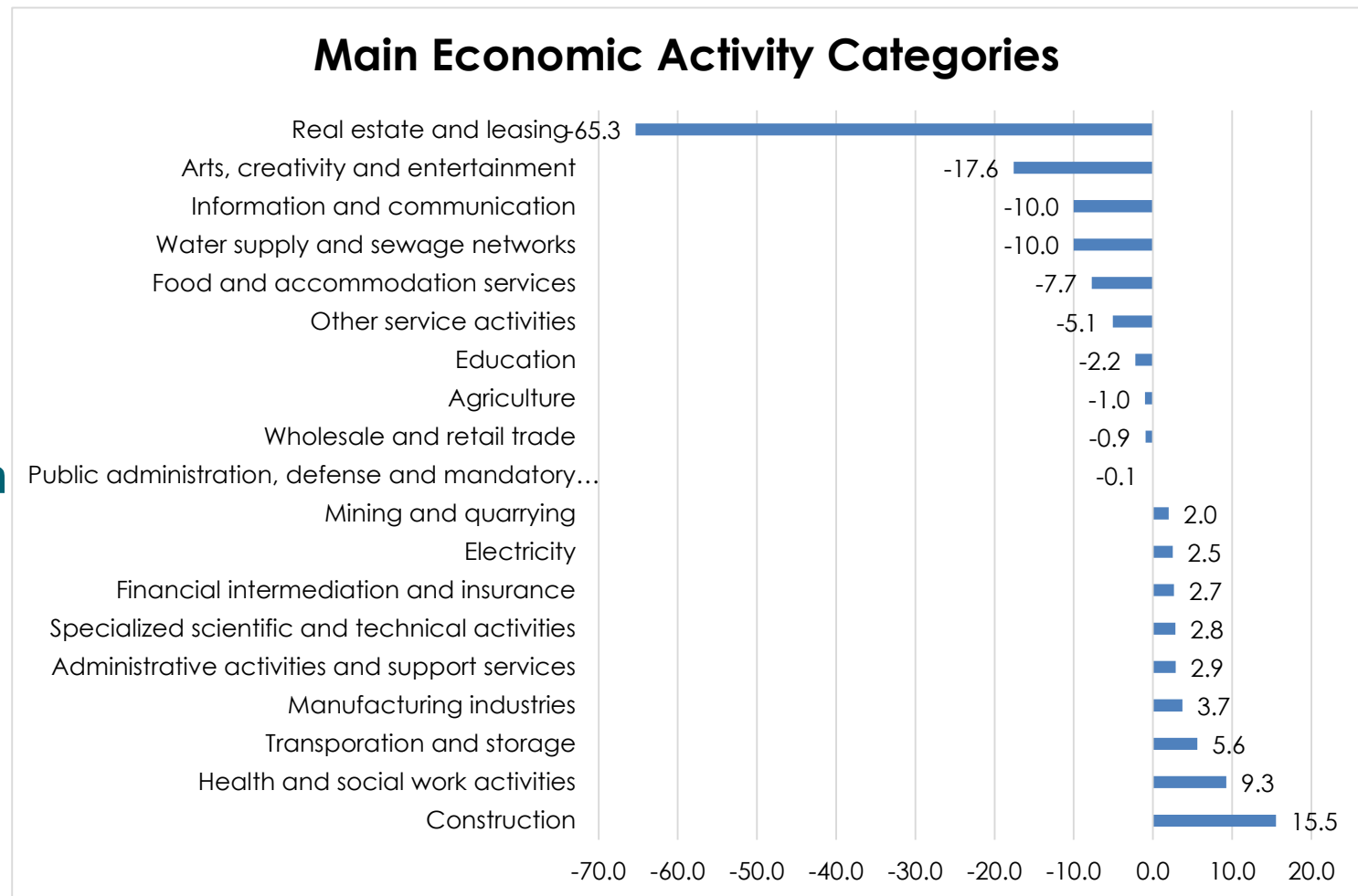
Overall, four activities witnessed a relative improvement during the period under review, while the rest either remained stable or declined. It should be noted that the growth sectors are not industrial value added sectors but ones that rely on raw materials (extractions and manufacturing) in addition to the tourism and communications sectors. Within the scope of measurement, manufacturing includes petroleum refining. Caution, however, should be observed when analyzing these data as they include months that precede the floatation decision.

Sector	Growth (%) July-March 2015/2016	Growth (%) July-March 2016/2017	Change (Percentage Point)	
Restaurants and hotels (tourism)	-22.5	-6.7	15.7	↑
Extractions	-4.8	-1.0	3.7	↑
Manufacturing (petroleum refining and other)	0.6	2.7	2.1	↑
Telecommunications	7.8	9.3	1.5	↑
Real estate activities	4.0	4.3	0.4	▬
Social insurance and insurance	3.6	3.6	0.1	▬
Agriculture, forestry and hunting	3.1	3.1	-0.1	▬
Water, sewage and recycling	3.4	3.4	-0.1	▬
Information	4.0	3.9	-0.1	▬
Wholesale and retail trade	4.9	4.7	-0.2	↓
Financial Intermediation and support activities	4.0	3.7	-0.3	↓
Education, health and personal services	4.0	3.4	-0.6	↓
Transport and storage	5.4	4.7	-0.7	↓
Construction	11.7	8.5	-3.2	↓
Electricity	6.8	2.4	-4.4	↓
Suez Canal	3.2	-1.3	-4.5	↓

Source: Ministry of Planning, Follow-up and Administrative Reform.

Increase in the number of employed in the **construction, health, transport, storage and manufacturing sectors, with a decline in the real estate sector, arts and creative activities, information and communications, water supply and sewage networks.**

**Estimate of employees according to economic activity (rate of change from Q2 of 2016 to Q2 of 2017)**

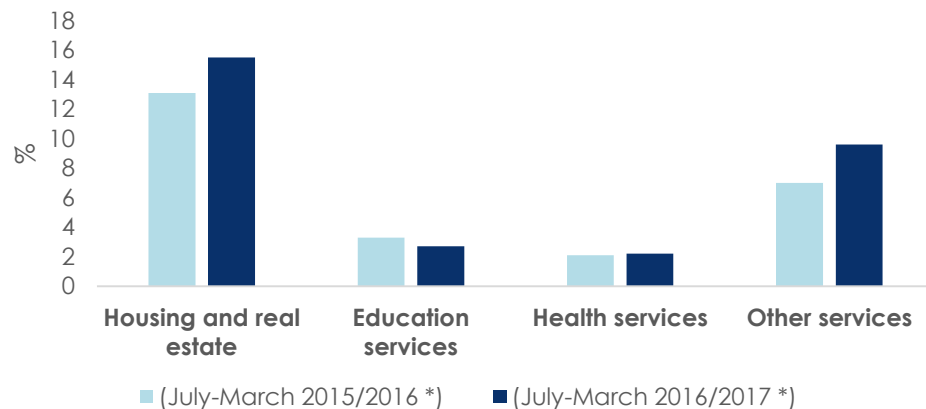


Source: Labor Force Survey, Central Agency for Public Mobilization and Statistics.

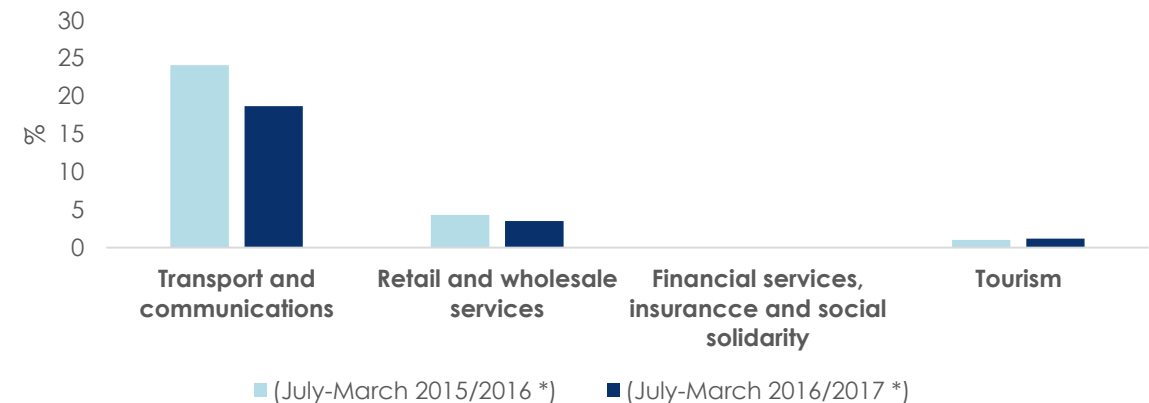
During the period under comparison, sectoral investments witnessed a decline in all sectors studied, except for housing, real estate, power and water. The above may indicate that the growth improvement witnessed by these sectors may be a result of individual decisions of the relevant ministries or the nature of the sectors themselves and their recovery following the 2011 Revolution (such as the tourism and communications sectors).

## Sectoral distribution of investments

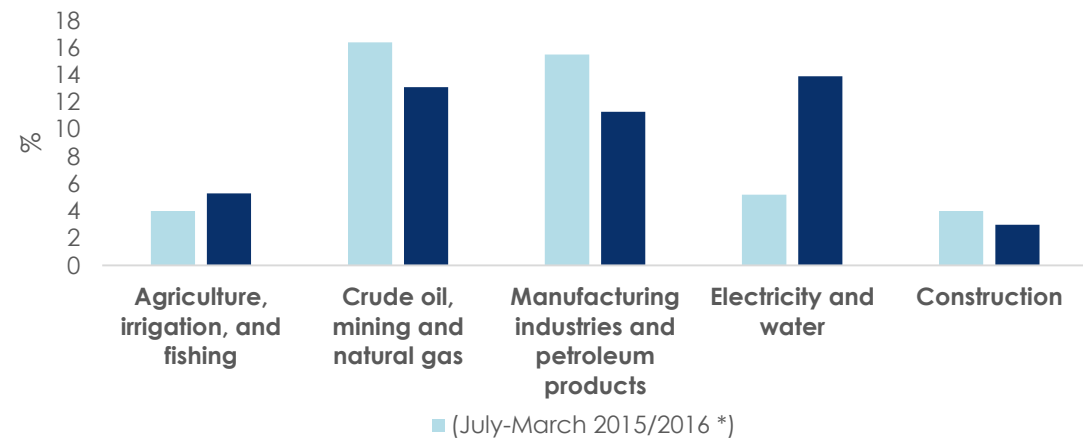
### Investments in social services



### Investment in production services



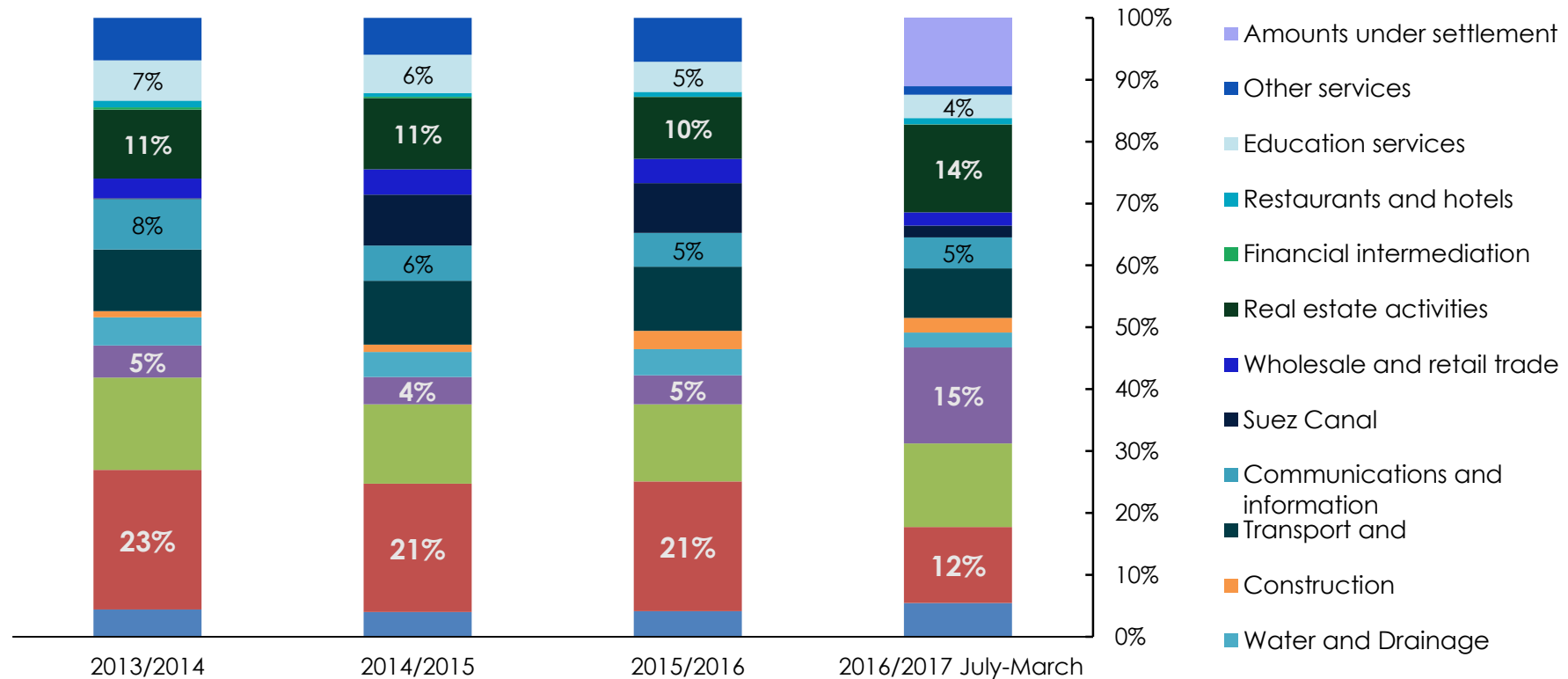
### Investments in the commodity sector



Source: Ministry of Finance, Financial Monthly.

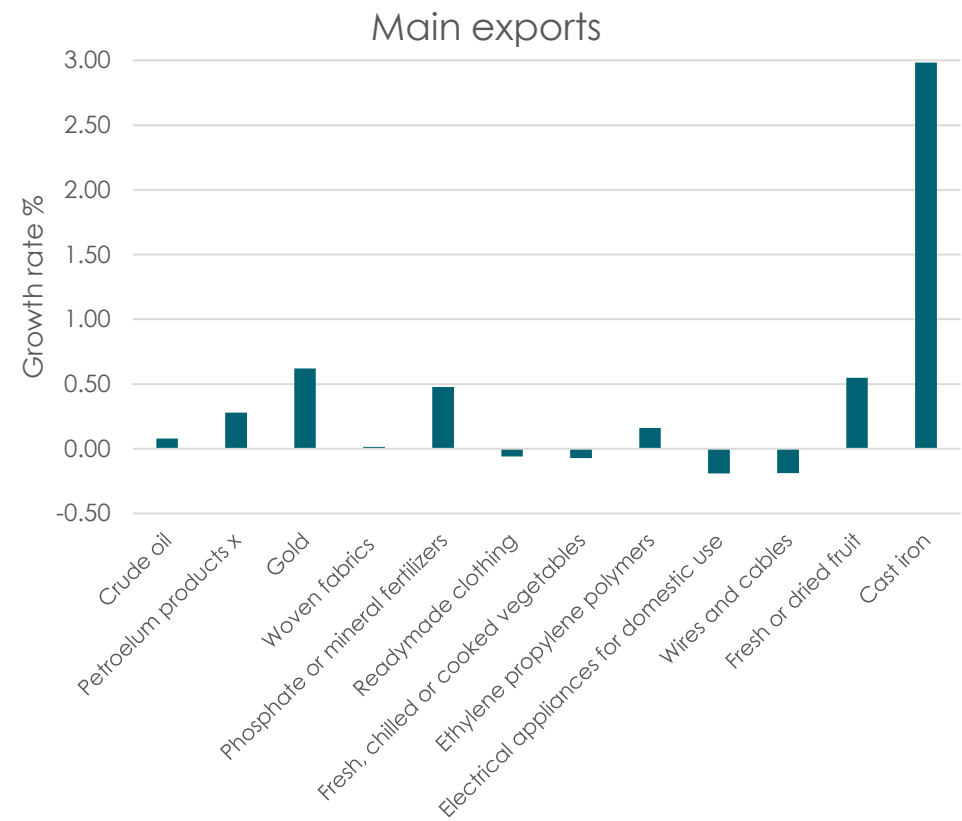
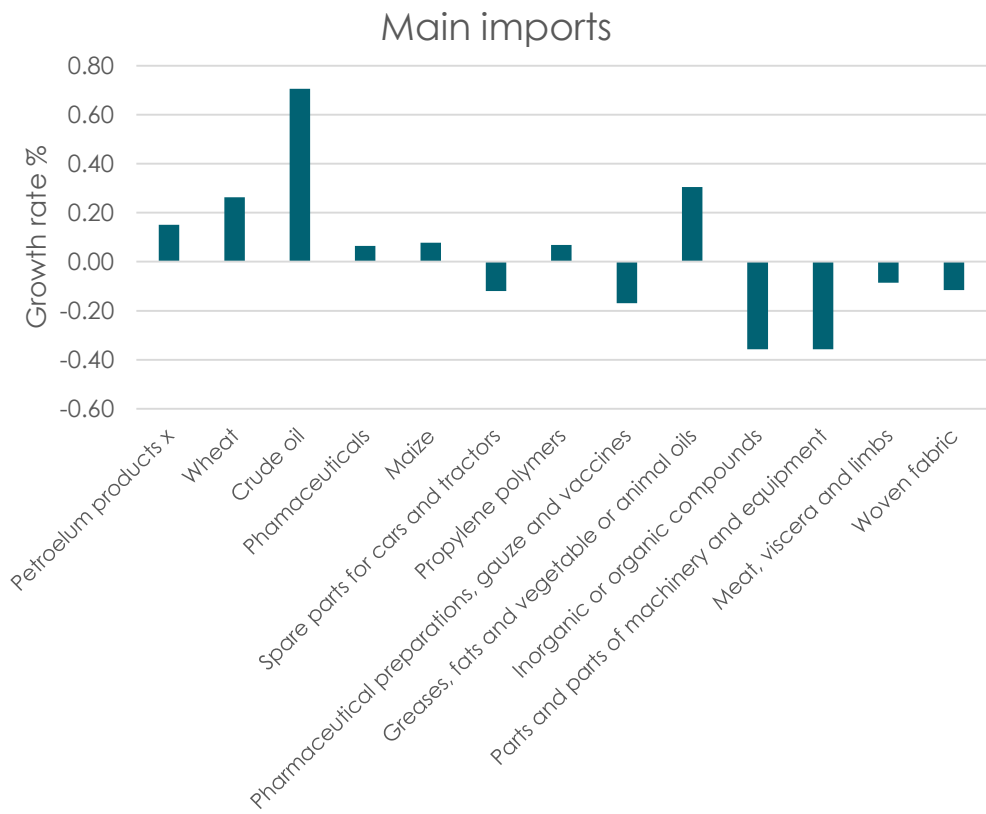


- Investment in the extractive sector has been declining since 2012.
- Interest in the electricity sector increased significantly during July-March 2016/2017 compared to previous years
- Investment in the communications and information sector declined since 2010.
- Investment in real estate activities recovered in 2016/2017 after declining since 2011
- Weak investment in education, health, water and sanitation since 2010, which is inconsistent with the challenges facing these sectors.



Source: Ministry of Planning.

# Growth of Egypt's main exports and imports: Comparison between 2015/2016 and 2016/2017



The main imports that witnessed an increase are crude oil, petroleum products, lubricants, fats and wheat. The other imports were slightly lower, including organic and inorganic compounds, spare parts, machine parts and pharmaceutical formulas.

Overall, exports did not see a significant difference in terms of growth, which ranged between 0.1 percent and 3 percent (exports of cast iron), and mostly were not high value-added products (gold, petroleum products and fruits).

Source: Central Bank of Egypt, Monthly Statistical Bulletin.

## It is clear from the previous slides:

- Despite improvement in growth rates, the activities as a whole are not high value added, but mostly rental.
- The measures taken have not yet had the desirable impact, particularly in terms of attracting investments in growth driving sectors such as manufacturing and education.

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# Poverty line

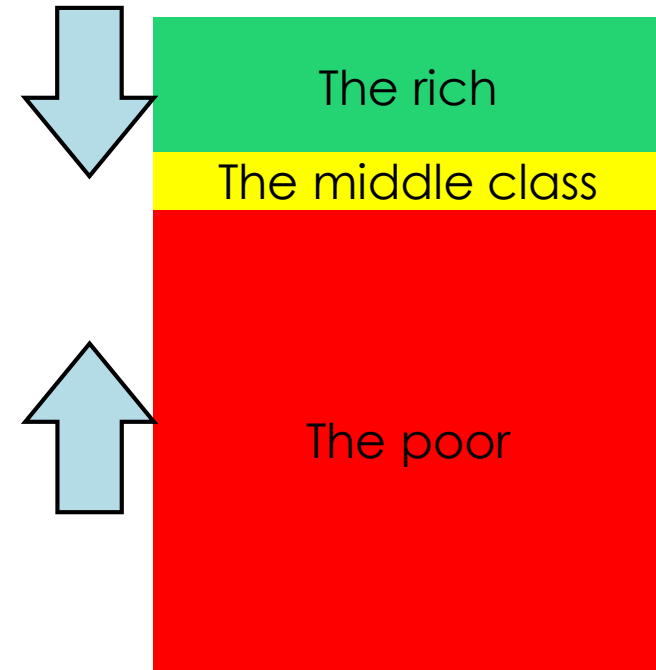


While the poverty line according to the 2015 Income and Expenditure Survey was **EGP 482** per capita and **EGP 2410** per household,\* this amount lost half of its purchasing power after recent developments. This means that the household\* needs **EGP 4820** per month to meet its basic needs.

\* Assuming the household consists of five members.

# Poverty line

Estimates indicate that **1.3 million** have fallen below the poverty line over the past two years. More are on their way ...



# Takaful and Karama

... while beneficiaries from the Takaful and Karama program during the period March 2015 to May 2017 represent **only 7 percent** of the total population ...

- ❖ 1.7 million households with nearly 8 million individuals
- ❖ EGP 7.5 billion is the total spent on beneficiary households
- ❖ Average per capita is EGP 170 per month
- ❖ Each household has a monthly share of EGP 620 to EGP 1000, depending on the size and characteristics of the household

# Takaful and Karama

... a small percentage compared with the coverage of cash transfer programs for households with children in some other developing countries

Country	Cash transfer program	Start Date	Beneficiaries	Amount of Subsidy	Conditional
Argentina	Universal Child Allowance (UCA) and Universal Family Allowance (UFA)	2009	10.5 million children = 85% of all children	\$46 per month	√
Bolivia	Bono Juancito Pinto	2006	400 thousand household = 19% of the total population	\$29 per year	√
Brazil	Bolsa Familia	2003	14 million households = 29% of the total population	\$35-284 per month according to the size and characteristics of the household	√
Ecuador	Bono de Desarrollo Humano	2003	1.2 million households = 41% of the total population	\$50 per month	√
Mexico	Oportunidades/ Prospera	1997	6.6 million households = 27% of the total population	\$25-219 per month according to the size and characteristics of the household	√
South Africa	Child Support Grant	1998	11.3 million children = 55% of all children	\$35 per month	√ (Since 2011)
Egypt*	Takaful and Karama	2015	1.7 million households = 7% of the total population	\$18-57 per month according to the size and characteristics of the household	√

Sources: Making Social Protection Work for Women: Lessons from International Experience, Shahra Razafi, ECES distinguished lectures series, January 2017. \*CAPMAS.

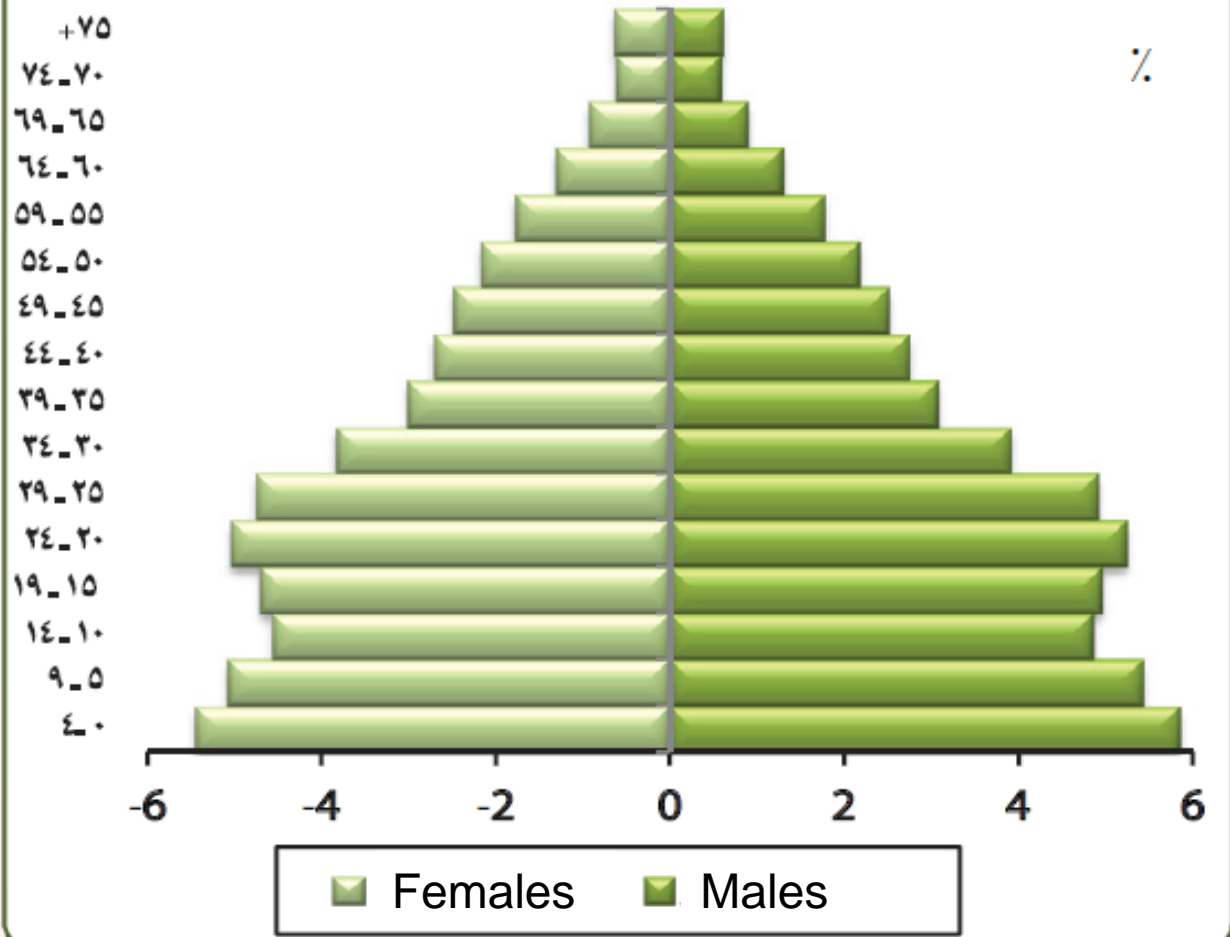


But how **sustainable** is this cash transfer and what is the plan for these households to exit the program, especially after the rise of the dependency rate to 61.5% in 2017 and the increase in the percentage of those under the age of 15?



# Population pyramid

Egypt's population pyramid in 2017/2018



The youth represents a large proportion of the total population, while those under the age of 15 is **34%** of the total population in 2017.

**It is worth noting that the population problem is the product of poverty, and the solution thereof lies in real and sustainable development**

Source: The 2017 Population, Housing and Establishments Census.

# Has sectoral growth been reflected in increased employment and wages and hence the well-being of citizens?



Sector	Growth rate (%) July-March 2015/2016	Growth rate (%) July-March 2016/2017	Change	Employment (Growth rate %)	Average wages (Growth rate %)
Restaurants and hotels (Tourism)	-22.5	-6.7	↑	-7.7 ↓	31.9 ↑
Extractions	-4.8	-1.0	↑	2.0 ↑	-6.4 ↓
Manufacturing industries	0.6	2.7	↑	3.7 ↑	34.6 ↑
Telecommunications	7.8	9.3	↑	-10.0 ↓	13.1 ↑

Sources: ECES' calculations based on data from CAPMAS and Ministry of Planning.

# Contents

1. Important preliminary considerations regarding the methodology
2. Main pillars of a successful economic reform plan
3. The main economic and social measures taken within the economic reform program over the past year
4. Evaluating economic and social measures through a set of criteria
  - 4.1 Macro indicators
  - 4.2 Egypt's international rank
  - 4.3 Real reforms
  - 4.4 People welfare
  - 4.5 International and regional developments**
5. Overall assessment of the economic program by specific institutions (IMF - World Bank - Gallup Center - A previous study of the Egyptian Center for Economic Studies)
6. What is needed to complement reforms?

# In light of regional and global developments

## Impact on Egypt



**Egypt's permanent partners**

- Rising commodity prices
- A trend to raise interest rates

**Global**

- The unrest in Saudi Arabia and its impact on investments in Egypt
- Continued war in Yemen
- The deteriorating situation in Syria and Iraq
- The situation in Lebanon

**Regional**

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# IMF Assessment

## People welfare

The Government has committed to continuing efforts to expand the provision of child-care services to promote women's participation in the labor market, as well as to strengthen social action by expanding the Takaful and Karama cash transfer programs, which now cover 2 million beneficiary households, as well as efforts to improve data collection to better target subsidies and ensure they reach the most vulnerable groups.

**The IMF assessment focuses on macroeconomic indicators and their improvement, and gives less weight to social indicators**

## Macro level

- Growth improved at a rate higher than the rate projected by the Fund
- The current account deficit in US dollars was reduced, supported by increased non-oil exports, tourism revenues and a decline in non-oil imports
- Reflecting increased investor confidence, portfolio investment inflows reached \$16 billion this year and FDI increased by 13 percent.
- Overall inflation peaked in July and has since been easing supported by cautious monetary policy.
- Overall deficit exceeded the Fund's expectations by 0.4 percent of GDP due to higher interest payments than expected
- Foreign exchange reserves reached historical levels reflecting the strength and credibility of the program developed by the authorities and the policies implemented

Source: IMF Country Report No. 17/290, September 2017.



# World Bank Assessment

# The World Bank underscored a number of risks and challenges facing the Egyptian economy at the macro level in its October 2017 report

- The delay of real sectoral reforms may adversely affect the restoration of macroeconomic balance.
- The ratio of government debt to GDP is expected to increase in light of the sharp decline in the exchange rate and the increase in external borrowing. Therefore, any slowdown in fiscal reform efforts or growth may undermine debt sustainability.
- If inflation continues to rise, this could lead to tightening monetary policy and hinder economic growth.
- Regional and local security risks negatively affect the recovery of foreign and tourist investments and workers' remittances, which are important sources of government revenue and foreign exchange.

Source: Egypt's Economic Outlook, the World Bank Report, October 2017.

# Assessment of the Gallup Polling Center

**The report examines the relationship between countries' GDP and an indicator of individuals' well-being. This indicator is calculated through a survey conducted by the Center in 150 countries around the world.**

120 countries around the world

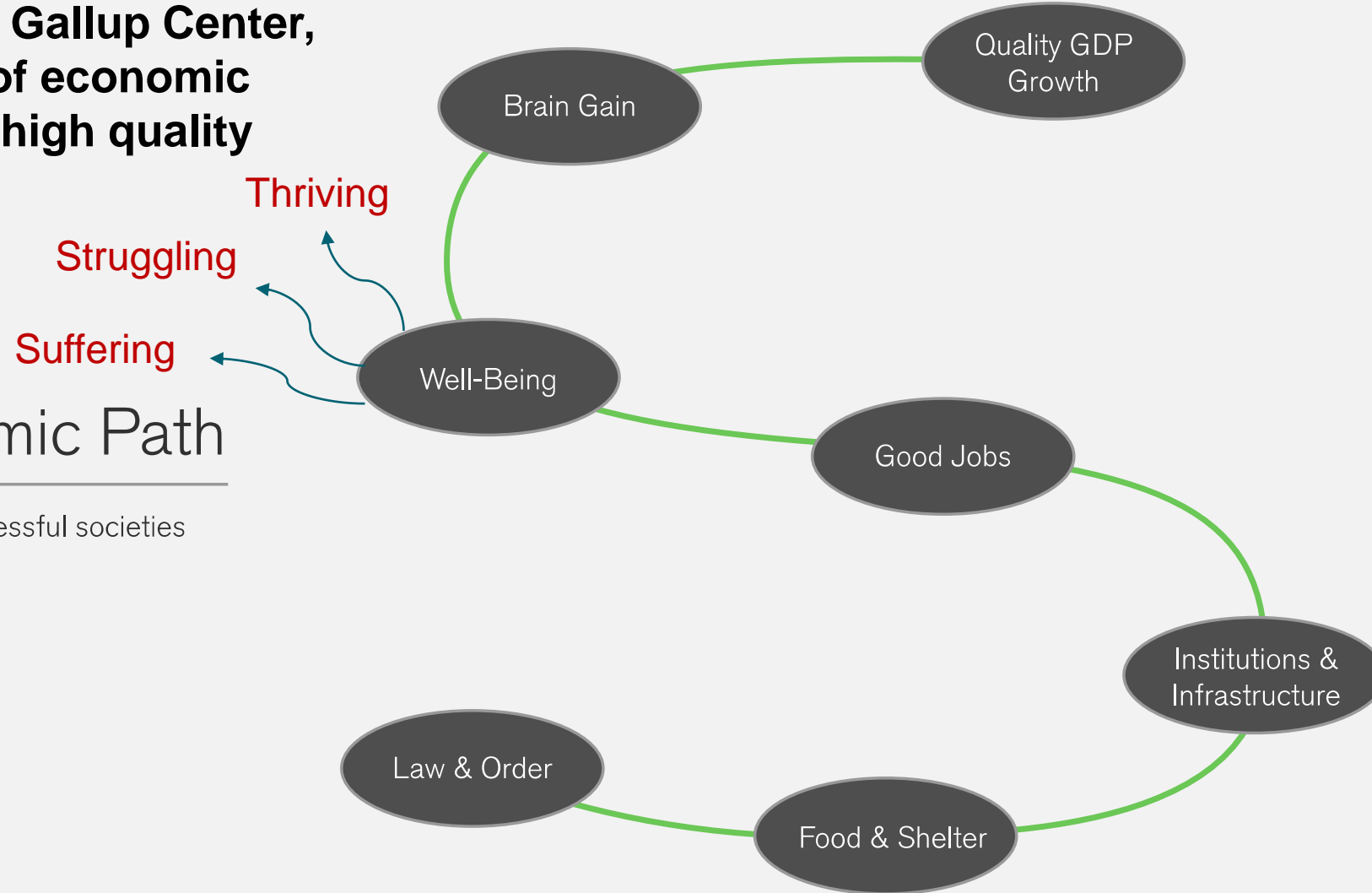
# Gallup Standard Global Indicators

According to the Gallup Center,  
components of economic  
growth are of high quality

GALLUP®

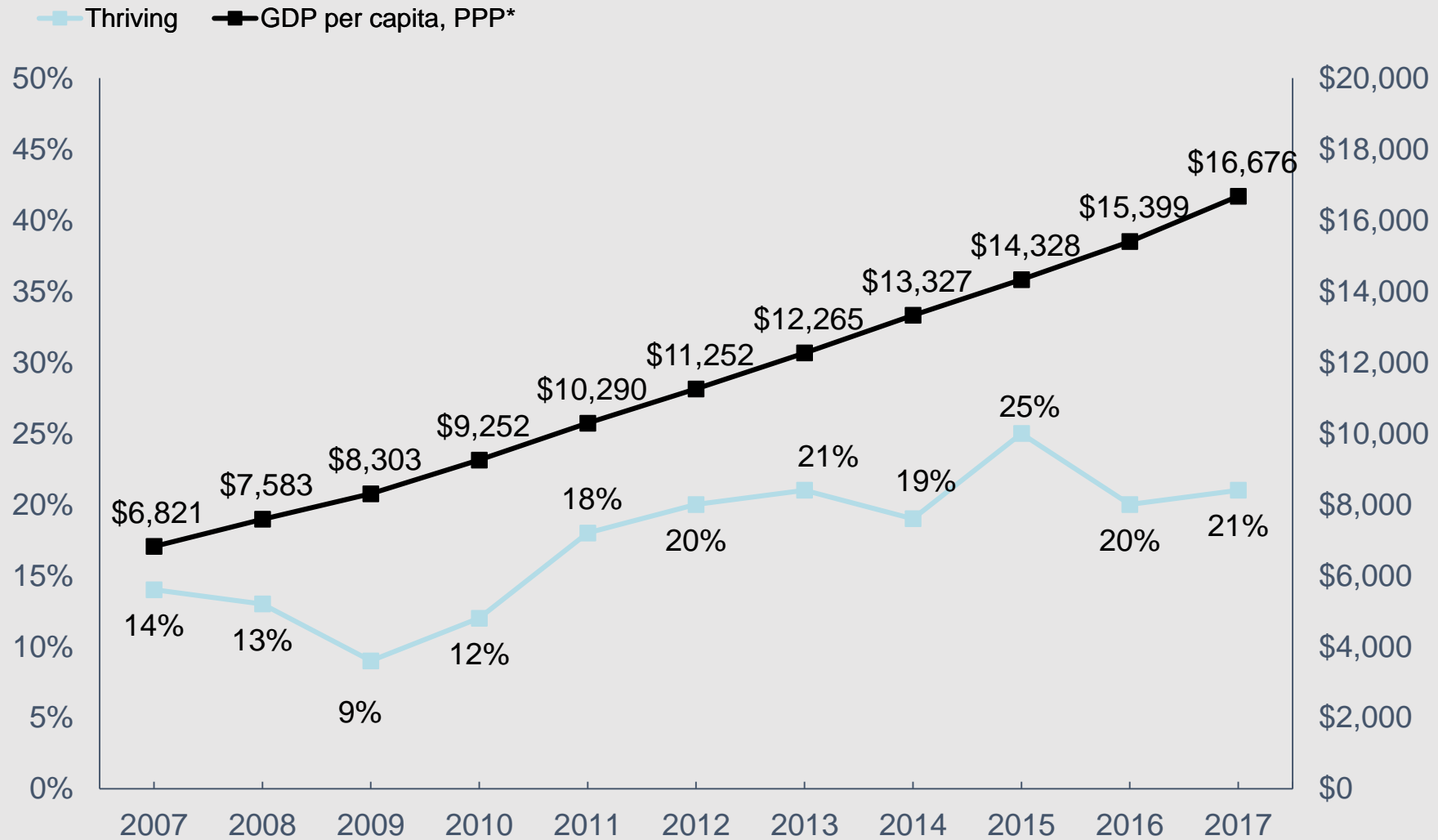
## Macroeconomic Path

A leadership model for successful societies





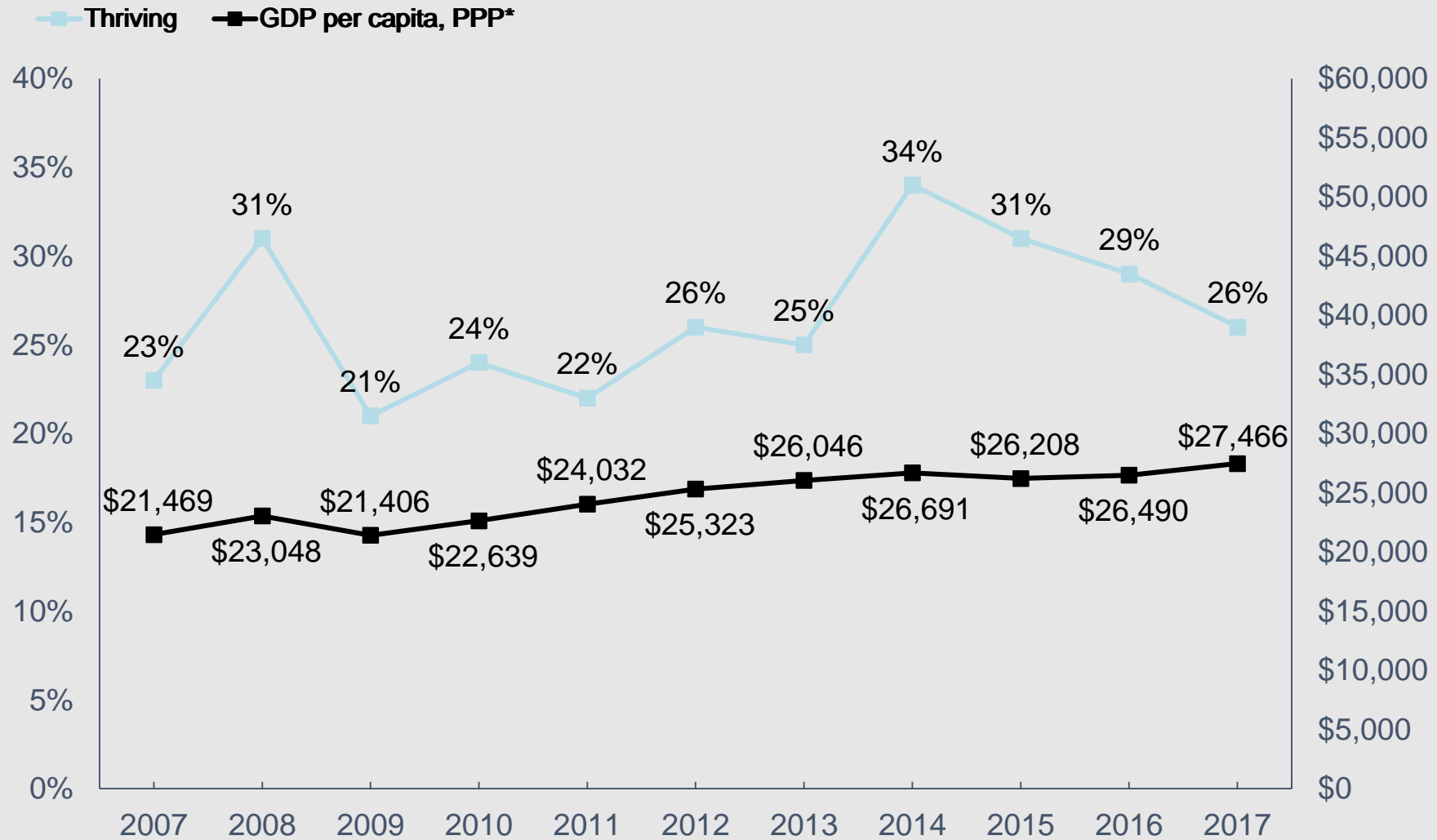
# China GDP and Wellbeing



\*In current international dollars, estimates from IMF



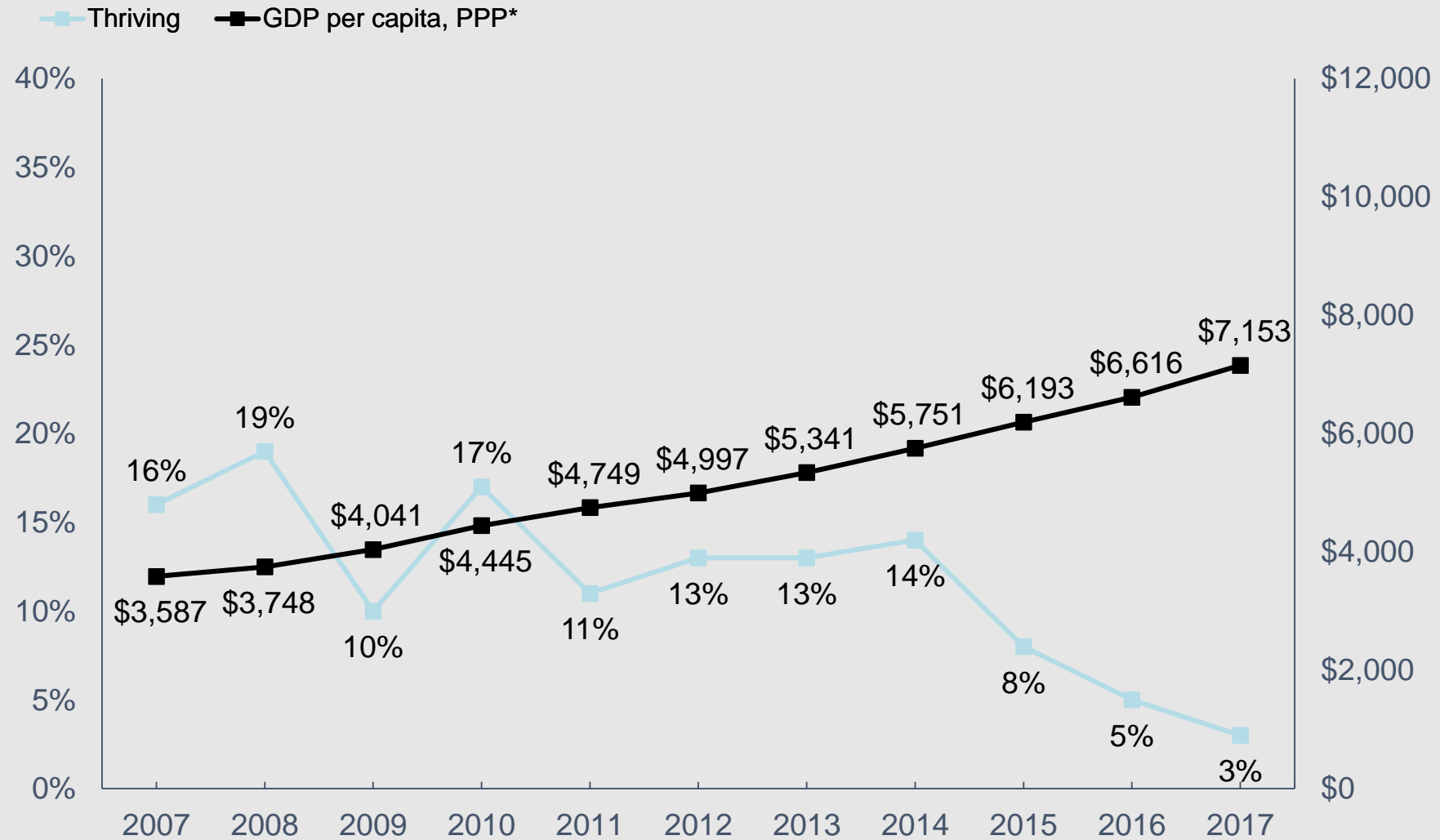
# Russia GDP and Wellbeing



\*In current international dollars, estimates from IMF



# India GDP and Wellbeing

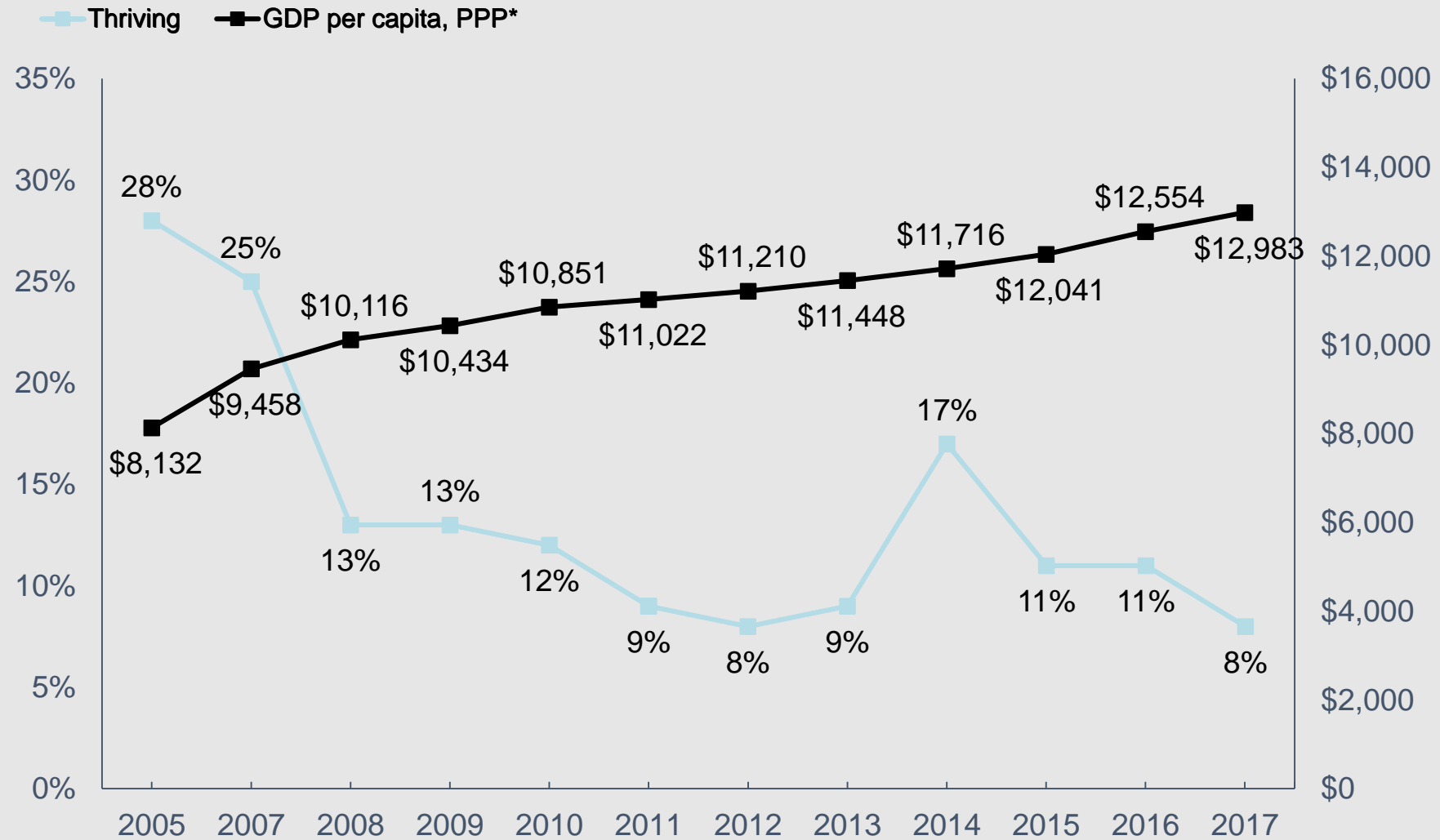


\*In current international dollars, estimates from IMF





# Egypt GDP and Wellbeing



\*In current international dollars, estimates from IMF

# Through a study conducted by ECES in September 2016\*

\* In consultation with the Presidential Specialized Council for Economic Development, the Federation of Egyptian Industries, the Federation of Chambers of Commerce and the World Bank.

# Fundamental Objectives

**1**  
Remove obstacles that currently cripple the economy

**2**  
Take serious steps on the ground to protect low-income segments

**3**  
Adopt an export promotion program, incentivize SMEs immediately, and adopt both as priority national targets

**4**  
Attract a portion of migrant foreign investment

**5**  
Adopt a short-term strategy to rationalize government spending and increase revenues

**6**  
Announcement of the three-year development program

# Prerequisites of the economic reform program

- Adopting the right mix of demand management, supply promotion and social protection measures

1

- Immediately embark on the required institutional and structural reforms in the right sequence and using simultaneous packages

2

- Relying on these reforms rather than arbitrary measures, except to a minimum

3

- Communicating the strategy to the people through clear measures to protect their livelihoods, and more importantly, there should be evidence of a better future for citizens (light at the end of the tunnel).

4

# Prerequisites of the economic reform program – cont'd

• Assign an entity the task of monitoring the implementation of the rescue plan, and submit weekly reports to the President and Parliament.

5

• Not to introduce more than one change at a time in the policies that adversely affect citizens.

6

• Not to take any steps toward lifting subsidies before modifying the database to properly target low-income groups and those deserving to be subsidized.

7

• A clear timetable and performance indicators for each step.

8

• Cooperation between the Government and private sector in implementation.

9

# To what extent did the measures achieve these objectives?

**1**  
Remove obstacles  
that currently  
cripple the  
economy



**2**  
Take serious steps  
on the ground to  
protect low-income  
segments



**3**  
Adopt an export  
promotion program,  
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immediately, and  
adopt both as priority  
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**4**  
Attract a portion  
of the migrant  
foreign  
investment



**5**  
Adopt a short-term  
strategy to rationalize  
government spending  
and increase  
revenues



**6**  
Announcement  
of the three-year  
development  
program

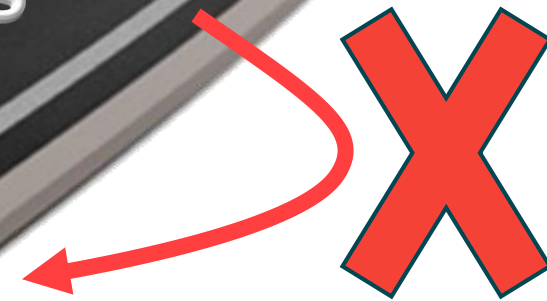




The Government was supposed to provide an integrated program with a timetable, and to express responsibility toward protecting low-income segments before the announcement of economic decisions

2. Decisions to protect  
low-income segments

1. Economic decisions



The Government was supposed to provide an integrated program with a timetable, and to express responsibility toward protecting low-income segments **before** the announcement of economic decisions

**But decisions have already been made**

**2. Economic decisions**

**1. Decisions to protect  
low-income segments**



# The clear positive impact of the economic reform program









- Getting the economy moving after a period of paralysis due to shortage of the US dollar
- Improving the public investment environment, and hence opportunities to attract foreign investment, especially in the field of import substitution
- Recovery of the Egyptian Stock Exchange
- Improved competitiveness of Egyptian exports that do not rely heavily on imported inputs
- Revising expectations about Egypt's ranking upward by international institutions
- Improved access to international loans from various sources thanks to reform credibility with testimony of the IMF



- Improved access to international loans from various sources thanks to reform credibility with testimony of the IMF
- Revising expectations about Egypt's ranking upward by international institutions

# But ...

## To what extent reform measures achieve the cornerstones of sustainability and social welfare?

Measure	Political commitment	Continuity	Sustainability	Social welfare	Remarks
Social measures					The political commitment is clear but the positive social impact is limited, particularly the “Takaful and Karama” program
Economic measures					There is political commitment to remove obstacles that paralyze the economy, but without structural and institutional reforms that ensure the sustainability of reform and the well-being of people

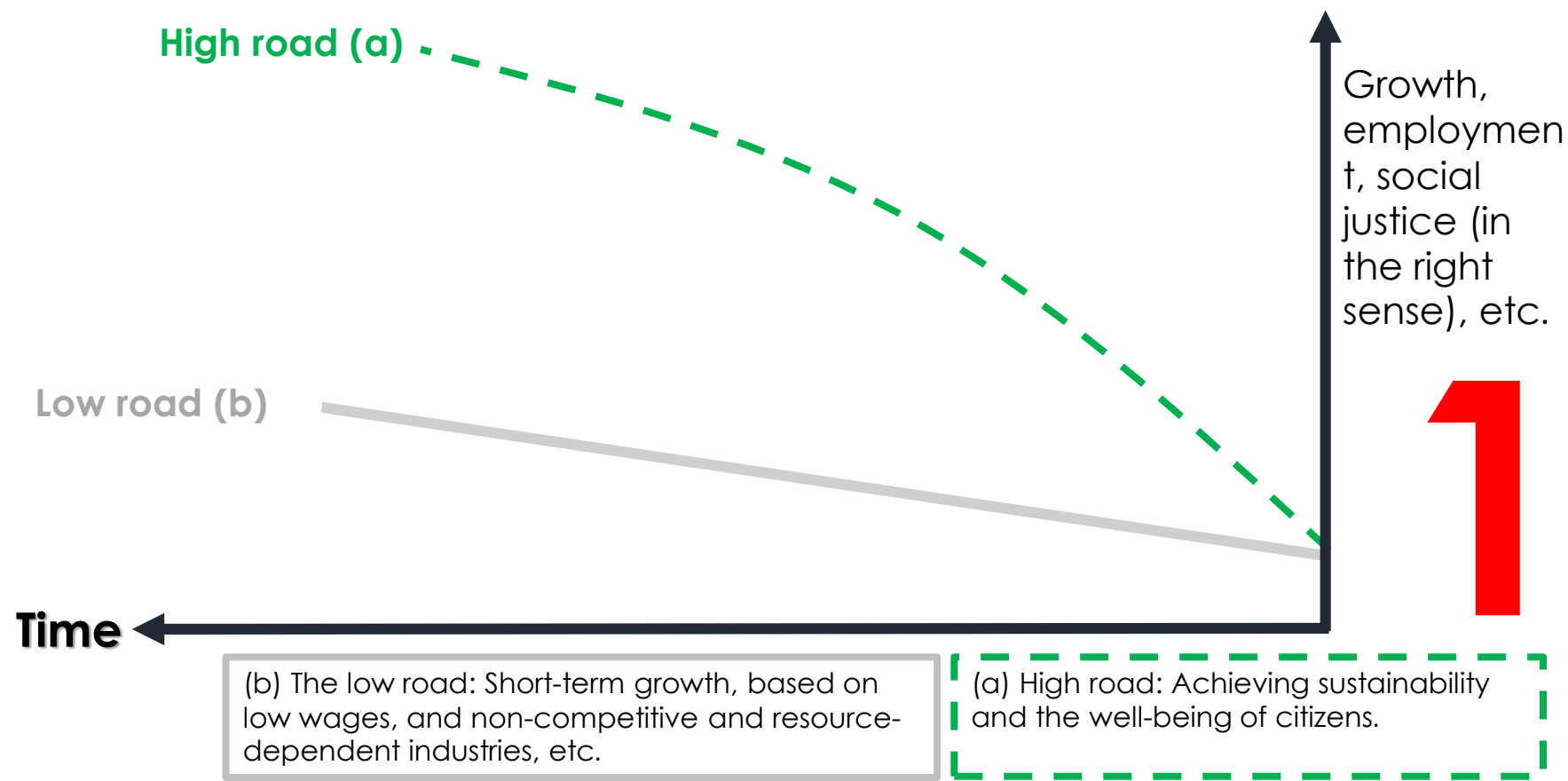
## The future direction of real reform

It is important to rearrange investment priorities by directing investment to sectors with high added value that create jobs

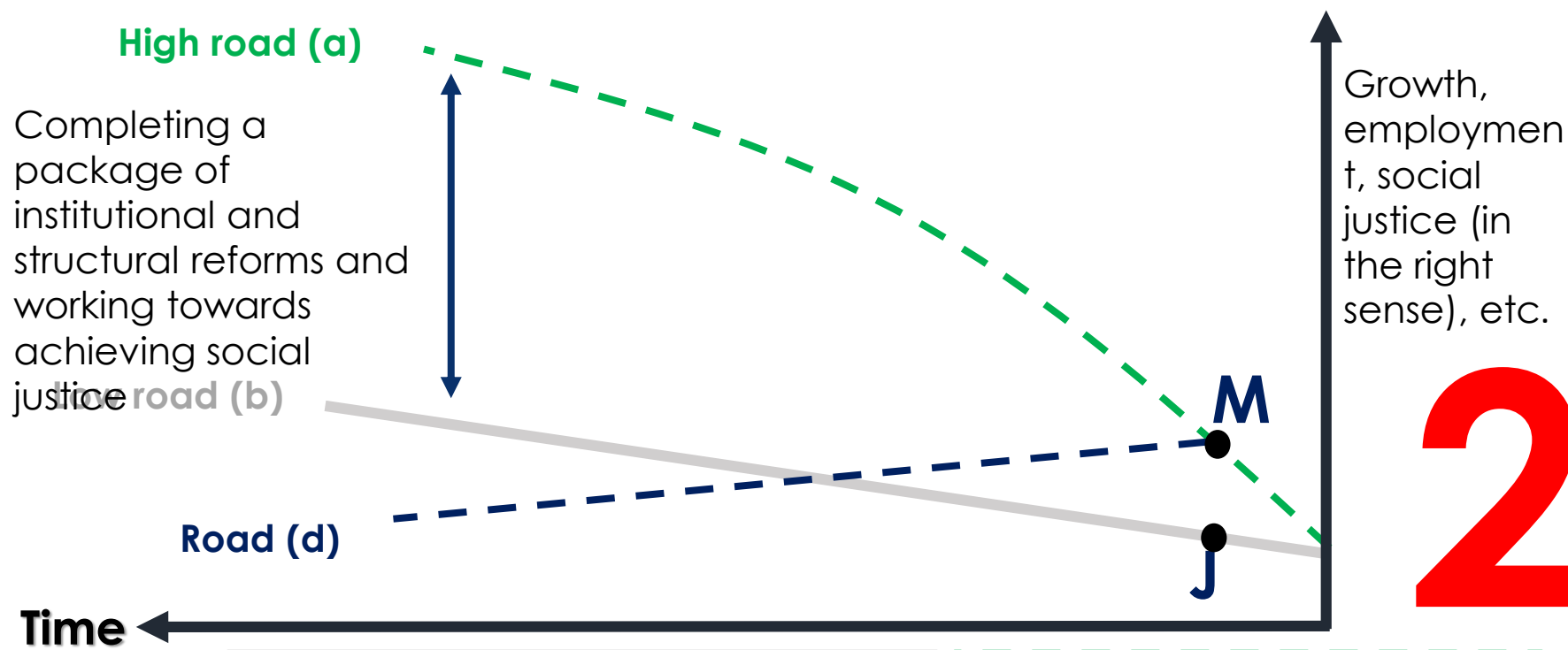
Sector	Growth Change (percentage point)	Employment Growth rate (%)	Average wages Growth rate (%)	Percentage of total domestic investment  Change (percentage point)	Percentage of total foreign direct investment  Change (percentage point)
Restaurants and hotels (tourism)	15.7	-7.7 ↓	31.9 ↑	0.2 ↑	-
Extractions	3.7	2.0 ↑	-6.4 ↓	-3.3 ↓	10.3 ↑
Manufacturing industries	2.1	3.7 ↑	34.6 ↑	-4.2 ↓	1 ↑
Communications	1.5	-10.0 ↓	13.1 ↑	-1 ↓	-

Sources: ECES' calculations based on data from CAPMAS and Ministry of Planning.

# Before the economic reform program, Egypt was at the beginning of one of two paths



# The physical infrastructure needs a policy change or else it will turn into a sunken cost



(b) The low road: Short-term growth, based on low wages, and non-competitive and resource-dependent industries, etc.

(a) High road: Achieving sustainability and the well-being of citizens

J: represents the original situation before major national projects.

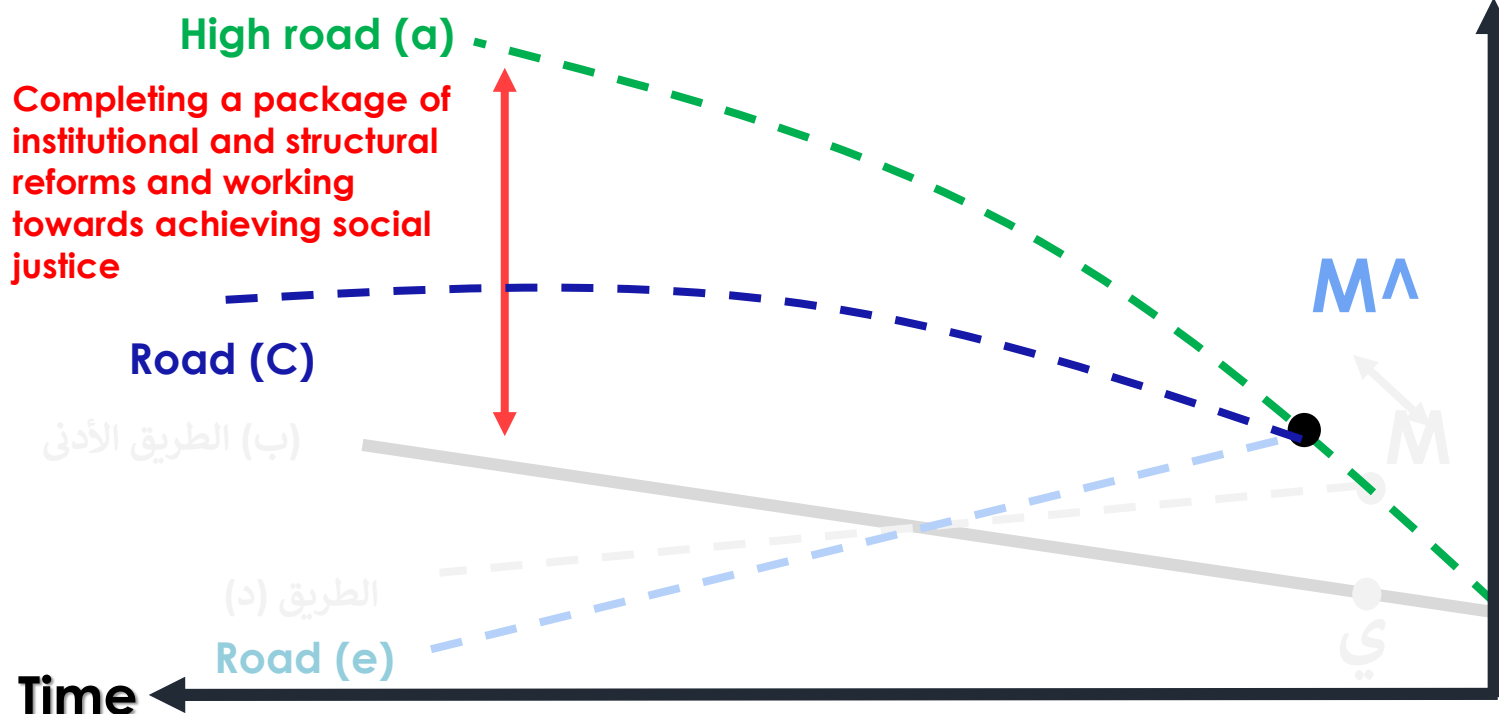
D: Worst scenario: High spending on physical infrastructure with little or no improvement in efficiency, and a huge burden of major national projects, which could lead to even a lower road than the original low road.

M: Represents investment in physical infrastructure (major national projects) in the past two years.

2

# The economic reform program puts Egypt before three different paths

**The situation after the adoption of the economic reform program**



Growth, employment, social justice (in the right sense), etc.

3

Road C: If reforms continue without the social dimension.

M: Represents the state of the economy after the adoption of the economic reform program.

Road (e): In the absence of reforms and lack of attention to the social dimension.

ب: الطريق الأدنى: نمو قصير الأجل، مبني على الأجور المنخفضة، وعدم تنافسية وصناعات تعتمد على الموارد، إلخ.

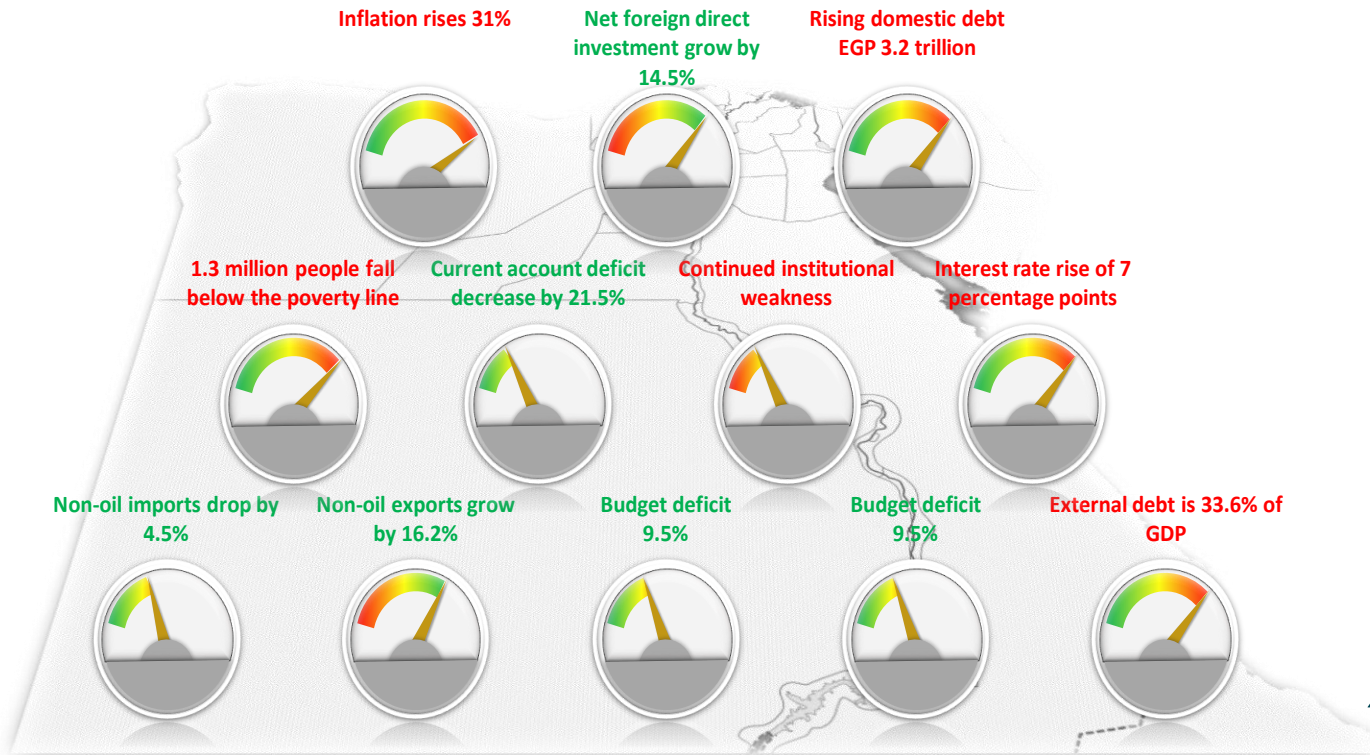
Road (a): Achieving sustainability and the well-being of citizens.

ي: يمثل الوضع الأصلي قبل المشروعات القومية الكبرى.

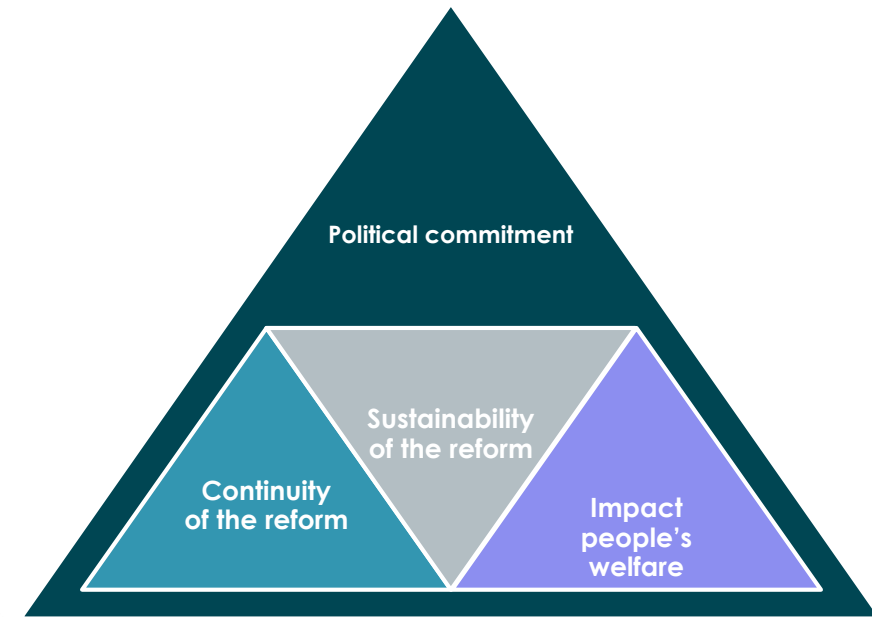
د: السيناريو الأسوأ: إنفاق مرتفع على البنية التحتية المادية مع تحسن ضئيل أو لا تحسن في الكفاءة، وعبء كبير للمشروعات القومية الكبرى، مما قد يؤدي إلى طريق أكثر دنوا حتى من الطريق الأدنى الأصلي.

م: تمثل الاستثمار في البنية التحتية المادية (المشروعات القومية الكبرى) خلال العامين الأخيرين.

## To what extent has the economic reform program succeeded in its first year?



## To what extent have the economic reform measures achieved the following key pillars?



# What we need to complement the reforms?



# In the area of the economy

IMF  
reform  
Program

Complementing the program with a package of structural and institutional reforms that address the root causes of the problem such as:

Labor Law, Bankruptcy Law ...

Education

Agriculture

Health

Regulation of the domestic market

Coordination between ministries and authorities

Restructuring of supervisory bodies to reduce the phenomenon of "trembling hands"

Be satisfied with the IMF reform program, which focuses mainly on fiscal reform and macroeconomic balance

Pay attention to the risks of the macroeconomic balance approach



# In the area of social justice

Dealing with the social dimension as an integral part of the economic system rather than as a separate system, and working towards real social justice and sustainable development



Education

Jobs

Health

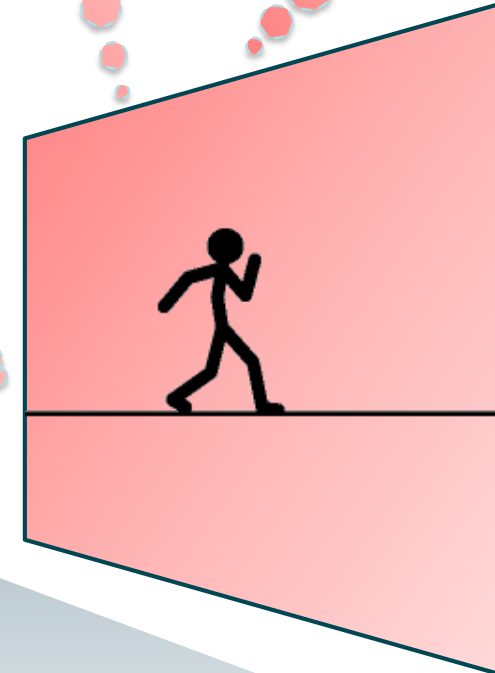
Standardized databases



Social security nets keep the poor as they are

Takaful and Karama

Deficient concept of social justice



# Practical steps towards gradual institutional reform

## Change Drivers

- Completion of the databases - a sound institutional framework for small and medium enterprises - reform of the tax system
- A real review of priorities of the state
- Political reform and respect for the Constitution
- A real role for Parliament
- Adopting a performance budget leading to institutional reform
- Review of government spending items, especially with the move to the new administrative capital in 2018
- Review and update specific laws (tenders and auctions, labor and bankruptcy, trembling hands and land allocation mechanism)



**Surely, there will be no sustainable development and we will not reap any positive fruits from economic decisions unless priority is given to the well-being of citizens**

well-being of citizens

# Thank you

