Chapter 2

Economic reform in Egypt:

Paving the way for a development shift

This chapter presents an assessment of Egypt's development experience since the beginning of 2014, focusing on the economic and financial reform programme it implemented, and the output that resulted. In addition, the new reality imposed by the COVID-19 pandemic revealed a number of facts that must be reflected in development priorities of the period ahead, especially in light of the new challenges, the shortage of resources available to the State, individuals, and companies, as well as the global repercussions of the pandemic and their expected effects on external financing opportunities and foreign investment flows. All of these factors require appropriate consideration, whether in evaluating past experiences or in monitoring Egypt's direction and policies for the upcoming period, while also hedging against all kinds of potential risks.

In 2014, Egypt began working on two parallel tracks. The first track involved the elimination of terrorism and the re-establishment and strengthening of the foundations of the State. The second track represented a strong start to all aspects of the development process, with a special focus on launching a number of major state projects that would establish and support a strong infrastructure on which all economic and social activities would be based on.

Regarding the second track, which is the development track, and in particular the economic development that this chapter focuses on, we can talk about a number of features that characterized the Egyptian development experience, starting in 2014. The most important feature may be the balance and comprehensiveness of economic activities, with a particular focus on energy and transportation activities, as well as on social housing, agriculture, and, to a lesser extent, industry. The decision-making process in this period was also characterized by a radical approach to the main imbalances in the economy. As such, the national economic and social reform programme included several components that previous Egyptian governments had largely avoided. In 2016, the exchange rate was completely liberalized, and decisive measures were approved to deal with energy subsidies and Egypt's general budget deficit.

The economic and social reform programme and a number of major state projects formed the basis for development during this period. The Sustainable Development Strategy: Egypt Vision 2030, also outlined a vision for the path ahead,[1] while incorporating international commitments related to sustainable development. The Government's Action Programme (2018/2019-2021/2022) focuses on human development and investment in people as a whole, with education, health, culture and sports being the main targets of all development policies and programmes for this period and beyond.[2]

Egypt's development vision during this period was the continuation of its orientation towards a free economy and the primary role of the private sector, alongside a greater role for the State. The State's role is particularly important in establishing and developing a strong infrastructure that advances development, providing more and better services to citizens, as well as prioritizing the poor. This approach is demonstrated by the construction of social housing projects and a reduction in the number of informal settlements, the strengthening of social protection programmes, the launching of health initiatives and campaigns, and the development of the education sector. These measures attempt to balance considerations of comprehensive development in the long term with urgent problems and improving the conditions of citizens in the short term.

The role of the State in the economy and development became evident in the aftermath of the June 2013 revolution. During this period, it was difficult to convince the local or international private sector to invest in Egypt and to take risks in an unstable and insecure environment, resulting in foreign and local capital flight to more stable economies. As a result, Egypt had to rely on public institutions such as government bodies, economic institutions, and public sector companies, in addition to the economic and engineering departments of the Egyptian Armed Forces, to accelerate growth and construction, especially in the various areas of infrastructure.

As stability has improved over time, Egypt has been able to repay debt owed to the local and international private sector. The private sector has slowly begun to play its role in investing and participating in economic growth, both through independent projects and through entering into partnerships with various state institutions. Between 2015 and 2020, Egypt's performance improved in terms of the main international indicators: on the Global Competitiveness Index, issued by the World Economic Forum, Egypt moved from 116th position to 93rd; on the Quality of Overall Infrastructure Index, also issued by the World Economic Forum, the country moved from 114th to 52nd; and on the World Bank's Ease of Doing Business Index, Egypt moved from 131st to 114th.

Egypt's national economic and social reform programme, alongside other efforts, has yielded positive results that have been reflected in the country's economic performance. Egypt's GDP growth increased from 2.2 percent in the fiscal year 2011/2012 to 5.6 percent in 2018/2019, before it was negatively affected by the COVID-19 pandemic. Growth predictions for 2023/2024 are around 6-7 percent, according to the Ministry of Planning and Economic Development. In addition, the unemployment rate has decreased, down from 12.8 percent in 2015 to 7.3 percent in 2020. The budget deficit decreased from 10 percent of GDP in 2011/2012 to around 7.8 percent in 2020/2021. As a percentage of GDP, the total debt of the State's general budget agencies decreased from 108 percent in 2016/2017 to 89.8 percent in 2020/2021. International reserves increased from $15.3 billion in 2011/2012 to $40.6 billion in 2020/2021. On the other hand, some vulnerable groups faced difficulties due to high inflation rates, which peaked in 2016 and 2017, reaching 23.3 percent in 2017, before decreasing to around 5.4 percent in 2020. These difficulties were addressed with a package of social protection programmes, as detailed in Chapter 3 of this report. However, some challenges remain, and Egypt is attempting to address these effectively and with the same commitment shown during the earlier reform period.

Following the completion of the short-term requirements of the national economic and social reform programme and the implementation of a large number of state projects, a new phase began in order to assess the appropriate direction for the next stage of development and how it will address existing challenges. There was consensus on the need to start a phase of structural reform based on advancing production activities (especially industry), effectively encouraging the private sector and local and foreign investment, making strong moves towards financial inclusion and the digital economy, adopting modern technologies, continuing to advance education and health, and forging a greater connection with the SDGs.

In this context, a new challenge has emerged that has caused a violent earthquake in the whole world, namely the COVID-19 pandemic. The pandemic has caused upheaval and unprecedented shock to economic activity all over the world. Countries worldwide, including Egypt, have shifted their focus to addressing the new pandemic that continues to drain state resources. Decision makers must assess the critical balance between safeguarding citizens' health and not putting a halt to economic activity. Limiting economic activity affects the livelihoods of millions of people and can move many into poverty. In this context, Egypt's ability to respond to the crisis has been significantly strengthened by its national economic and social reform programme over recent years.

2.1 The economic situation in Egypt before the National Economic and Social Reform Programme

In the period prior to 2010, the Egyptian economy witnessed its highest GDP growth rates in 2006, at 7 percent. Growth subsequently declined to 5.1 percent in 2009/2010. Societal debates at the time revolved around the fair distribution of growth between the different segments of society. Inflation rates were at their lowest in 2009/2010, at 5.5 percent. In addition, the gross domestic savings rate was around 14.3 percent and the gross domestic investment rate was 17.1 percent. In 2009/2010, the average per capita GDP growth rate was 3.1 percent.

Table 2.1
Egypt's key macroeconomic indicators, 2009/2010 to 2013/2014 (%)

Year	GDP growth rate	GDP per capita growth rate	Inflation rate	Unemployment rate	Gross domestic savings rate	Gross domestic investment rate
2009/2010	5.1	3.1	5.5	9.0	14.3	17.1
2010/2011	1.9	-0.3	5.8	12.0	13.0	16.4
2011/2012	2.2	0.0	8.6	12.7	8.1	14.2
2012/2013	2.2	-0.1	6.9	13.2	7.9	10.5
2013/2014	2.2	0.7	10.1	13.0	5.2	14.3

Source: Ministry of Finance: Monthly financial report, various issues.

In fiscal year 2010/2011, the ratio of the budget deficit to GDP was 10 percent, and the public debt-to-GDP ratio was 73.6 percent. With regard to foreign trade, the trade balance deficit was $27.1 billion, the current balance deficit was $6.1 billion, and foreign exchange reserves stood at $26.6 billion.

Table 2.2
Egypt's scores on selected economic and financial variables, 2009/2010 to 2013/2014 ($ billion)

Fiscal year	Foreign direct investment	Net international reserves	Current balance deficit	Trade balance deficit	Debt-to-GDP ratio (%)	Deficit-to-GDP ratio (%)
2009/2010	6.7	35.2	-4.3	-25.1	72.5	-8.1
2010/2011	2.2	26.6	-6.1	-27.1	73.6	-10
2011/2012	4	15.3	-10.1	-34.1	80.3	-10.1
2012/2013	3.8	14.9	-6.4	-30.7	82.1	-12.9
2013/2014	4.2	16.7	-2.8	-34.159	85.3	-11.5

Source: Ministry of Finance: Monthly financial report, various issues.

Despite the improvements in economic performance prior to the 2011 revolution, there were major challenges facing the development process. One of the most important of these challenges was the high rate of population growth, which had reached 2.5 percent annually, and included a high dependency ratio. This put pressure on state resources in terms of the provision of health and education services, the allocation of sufficient resources for investment in infrastructure and scientific research, as well as the improvement of services and their geographical distribution. The poverty rate increased from 21.6 percent in 2008/2009 to 25.2 percent in 2010/2011 and further increased to 26.3 percent in 2012/2013.[3]

Table 2.3 Egypt's poverty rates, 2008/2009 to 2012/2013 (%)					
Fiscal year	Poverty rate	Fiscal year	Poverty rate	Fiscal year	Poverty rate
2008/2009	21.6	2010/2011	25.2	2012/2013	26.3

Source: Heba El-Leithy, Analysis of Poverty Indicators from Income, Expenditure and Consumption Surveys (2019).

The unemployment rate also increased from 9 percent in 2009/2010 to 12 percent in 2010/2011, and Egypt was unable to reduce unemployment to reasonable rates that would accommodate the new entrants to the labour market every year, especially young people.

Another important challenge was the inequality in distribution of income, wealth, and the proceeds of development between the different sections of society and between different regions, and the increasing disparities seen as a result. These disparities were a key reason behind the revolution in January 2011, alongside increasing rates of corruption, the weak performance of the public administration, the poor investment climate in general, and the weak competitiveness of the Egyptian economy.

Table 2.4 Regional contributions to value added GDP, 2012/2013 (%)			
Region	Contribution to value added GDP	Region	Contribution to value added GDP
Greater Cairo	44.5	Southern Upper Egypt	8.2
Alexandria	14.2	Northern Upper Egypt	5.7
Delta	12.8	Central Upper Egypt	2.0
Suez Canal	12.6		

Source: Central Agency for Public Mobilization and Statistics.

With the outbreak of the January 2011 revolution and the resulting upheaval, suspension of economic activity and successive acts of economic sabotage, all indicators of economic performance declined. The growth rate fell to approximately 2 percent in 2010/2011, down from 6.7 percent in 2009/2010. The growth rate in the average per capita GDP declined to a negative rate, the unemployment rate rose, the inflation rate increased, and the savings and investment rates declined. International reserves decreased from $35.2 billion in 2009/2010 to $26 billion in 2010/2011 and further decreased to $15 billion in 2012/2013. The trade and current balance deficits rose, and the ratios of public budget deficit and public debt to GDP increased (Table 2.2). At the same time, the number of tourists visiting Egypt declined from 14.7 million in 2010 to 9.8 million in 2011.

2.2 Egypt's national economic and social reform programme

In the wake of internal and external political pressures on the political system after the June 2013 revolution, and despite the terrorist operations that, along with the Egyptian Armed Forces and the police, targeted civilian sectors (particularly electricity, transportation, and sanitation), the priority of the new Egyptian administration was to strengthen the foundations of the State and its institutions, and pave a way for the launch of the development process.

To start accomplishing this task, a new Constitution was drafted to fit the country's new phase. The new Constitution was issued in January 2014, establishing a new social contract for Egyptians that would respond to their demands of the previous years. The 2014 Constitution includes principles that establish the rights of Egyptians to a decent life in all aspects. For example, Article 27 stipulates that "the goal of the economic system is to achieve prosperity in the country through sustainable development and social justice in a way that ensures increasing the real growth rate of the national economy, raising the standard of living, increasing job opportunities, reducing unemployment rates, and eliminating poverty."

The Constitution also mandates the equitable distribution of the proceeds of development and a reduction in the disparities between income levels. It also requires a minimum wage and pension be put in place, as well as a maximum wage for salaried employees of Egypt's public administration bodies. It also ensures balanced growth across geographic regions, sectors, and environments, and calls for the State to pay attention to small and medium-sized enterprises, as well as work on regulating and training the informal sector. The Constitution also stresses the importance of maximizing investment in human agency within the framework of sustainable development. For the first time, the Egyptian Constitution stipulates minimum rates for government spending on health (3 percent of GNP), education (4 percent), higher education (2 percent), and scientific research (1 percent), as it considers these areas to be the most important elements supporting human development (see Chapter 1).

In February 2016, the Ministry of Planning and Economic Development launched the Sustainable Development Strategy: Egypt Vision 2030. The national strategy constitutes the governing framework for development plans and programmes in Egypt and was developed through a participatory approach which saw contributions from public and private development partners, civil society and academic experts. Egypt committed to ensuring that the development vision within the strategy was in line with the SDGs, as well as the African Union's Agenda 2063.

The strategy includes a roadmap that maximizes Egypt's capabilities and competitive advantages and aims to make Egypt one of the 30 largest economies in the world by 2030. It includes three dimensions: the economic, the social, and the environmental. It is divided into 10 themes, each of which has a set of goals and indicators to measure progress.

Despite the importance of completing the new Constitution and formulating the national sustainable development strategy, the economic conditions in the wake of the January 2011 revolution and the decline in Egypt's financial resources (Tables 2.1 and 2.2) prevented the possibility of maintaining the pace of economic performance prior to 2011. Given this, Egypt had no choice but to implement a comprehensive national reform programme to launch the development process and achieve the goals set out in the Constitution and Egypt Vision 2030. The country began negotiations with the International Monetary Fund (IMF), and in August 2016, agreed on a loan of $12 billion, to be repaid over a period of three years. This financing was part of a comprehensive programme of adjustment and reform in order to restore macroeconomic stability and pave the way for sustainable long-term growth.

The national economic and social reform programme aimed to achieve stability in macroeconomic indicators and to ensure consistency and integration of fiscal and monetary policies. It also aimed to provide a stable environment that would enhance confidence in Egypt's economy and its ability to attract the high investment rates needed to achieve comprehensive development. The programme focused on reducing public debt rates while providing an appropriate amount of financing for the private sector and productive projects. It also aimed to reduce the balance of payments gap and restore foreign direct investment flows. Furthermore, the programme aimed to enhance the Central Bank of Egypt's ability to manage a flexible exchange rate, while also gradually shifting to a system targeting low inflation rates to maintain the real incomes of citizens and the competitiveness of the Egyptian economy.

Among the most important taxation reforms included in the programme supported by the IMF were the implementation of a value added tax (VAT), the development of a new, simplified tax system for medium and small-sized enterprises, and the introduction of measures to increase the efficiency of tax administration. The programme also reformed the energy subsidy system, gradually rationalizing subsidies over a period of five years. Well-targeted social programmes were prioritized instead, and spending was increased on health, education and infrastructure development in order to support human development and improve public services.

2.2.1 Government Action Programme 2018-2022

After implementation of the governmental programme for 2016-2018, which aimed to address the economic crisis, Egypt in 2018 formulated a national action programme from the fiscal year 2018/2019 to 2021/2022 in line with the Sustainable Development Strategy: Egypt Vision 2030, and the obligations stipulated in the 2014 Constitution concerning health, education, and scientific research. The medium-term sustainable development plan (2018/2019 to 2021/2022) is the schematic framework of the national action programme and has been approved by the parliament. The programme includes five main objectives: 1) protection of Egyptian national security and foreign policy; 2) building the Egyptian nation; 3) economic development and improving efficiency of government performance; 4) higher operating levels; and 5) improving standards of living for citizens. The programme includes a set of sub-goals and outlines specific policies and programmes by which they can be achieved, in line with the comprehensive economic and social reform programme.

The action programme aims to expand partnerships with the private sector and includes structural reforms to improve the investment climate and stimulate local industry and exports. The goal is to strengthen the competitiveness of the Egyptian economy, which will in turn help to achieve inclusive growth, create new job opportunities, and develop Egyptian exports. Egypt also issued a new law on natural gas which allows the private sector to take part in trading and distribution activities for the first time.

2.2.2 Fiscal policy

Within the national economic and social reform programme, the main objective of the fiscal policies laid out is to achieve fiscal control and to bring about a decline in the deficit and public debt rates. This is to be achieved through a rationalization and rearrangement of public spending and by increasing revenues. The fiscal policy also aims to increase social protection allocations and increase programmes that target the most vulnerable groups. Furthermore, it aims at contributing to the goal of increasing growth and employment and developing a stimulating business environment for the private sector.[4]

As of 2016, Egypt has implemented several measures to achieve these goals, including the adoption and implementation of the *Civil Service Law*, the implementation of a value-added tax, and a diversification of funding sources through the issuance of dollar bonds in international markets. The draft budget of 2017/2018 was the main focal point of the national economic and social reform programme and included a set of measures aimed at controlling the total deficit. It targeted a medium-term deficit of between 5 percent and 6 percent by 2020, a revenue growth rate that exceeded the expenditure growth rate, and a reduction in government debt rates in the medium term, to reach 80-85 percent of GDP by 2020/2021.

In 2017/2018, an increase in the prices of some oil products was approved at an average of 13 percent, in addition to an increase in the tax exemption limit from EGP 6,500 to EGP 7,300, an increase in the tariffs for transportation, an increase in cash support by EGP 100 per month for all beneficiaries of the *Takaful and Karama* "Solidarity and Dignity" social safety net programme, the payment of debt to oil companies, an increase in pensions, an increase in the monthly subsidies for ration cards from EGP 21 to EGP 50, and an increase in taxes on tobacco and cigarettes. The 2020/2021 budget targeted a total deficit of 6.3 percent, but due to the impacts of the COVID-19 pandemic, the expected percentage is likely to reach 6.9 percent.[5]

Fiscal policy was not only limited to efforts to reduce the public budget deficit and public debt; there were also efforts to improve financial management. The Ministry of Finance developed the process of preparing the general state budget by expanding the application of programme and performance budgets, with the aim of maximizing the return on expenditures and achieving the greatest possible use of state resources and giving more scope for monitoring, evaluation, and accountability. The Ministry has also established a system to automate the management of government financial information within all public budget entities, with the aim of managing cash flows from the general budget more effectively, more closely monitoring general budget flows, and tightening financial control. In 2018/2019, the Ministry implemented the full activation of electronic payment methods to ensure the speedy collection and payment of financial obligations, and to ensure that all parties comply with the financial allocations for the general budget bodies.

2.2.3 Monetary policy

The liberalization of the exchange rate was the most important feature of monetary policy during the post-2014 period, leading to a decrease in the value of the Egyptian pound against the US dollar from about EGP 9 to EGP 18, and a rise in the inflation rate. The price of the dollar began to decline, reaching less than EGP 16 by the end of fiscal year 2019/2020. In 2016/2017, Egypt raised interest rates by 500 basis points, in line with the procedures for correcting foreign exchange trading policy through liberalizing exchange rates, aiming to restore circulation by legitimate channels and ending the parallel foreign exchange market. In 2017, the Central Bank of Egypt also increased the cash reserve ratio at banks from 10 percent to 14 percent, in order to give more flexibility to liquidity management. The monetary policies adopted by the Central Bank of Egypt led to an improvement in the situation in the foreign currency positions in the banking sector, an increase in net foreign reserves, and an improvement in the balance of payments.[6]

In 2020, amid the emergence of the COVID-19 pandemic, the Central Bank of Egypt decided to keep interest rates unchanged through January and February. In March 2020, as the crisis deepened, the central bank reduced basic interest rates by 300 points, making the credit and discount rates 9.75 percent. By November, it had lowered these rates to 8.75 percent (Table 2.7), taking into account global conditions, and aiming to provide adequate support for economic activity, given the target inflation rate of 9 percent (± 3 percent).

External debt increased by about 17 percent between June 2017 and June 2018 as a result of the increase in net loans and debt facilities, and the exchange rates of most borrowed currencies against the US dollar. Egypt's external debt is within safe limits, according to the classifications set out by the IMF and the World Bank, as debt-to-GDP ratio amounted to about 34.1 percent in 2020. However, the general rise in debt indicates the need to curb borrowing and conduct studies to estimate the size of debt in the future and its impact on the state budget.

It should be noted that the regulation of debt management in Egypt is based on Prime Ministerial Decree No. 188/2013, which established a committee for managing public debt and regulating external debt that is headed by the Minister of Planning and Economic Development, and includes representatives from the Central Bank of Egypt, the Ministry of Finance, and the Ministry of Investment. The committee has several tasks, including monitoring the developments of external debt, following up on external loans and grants, studying strategic alternatives to external financing, and proposing ways to rationalize external borrowing, with the view of reducing the debt burden.

Egypt has also worked to expand financial inclusion in this period. The Central Bank of Egypt established a financial inclusion department in November 2016 that reports directly to the bank's Governor. In 2017, a presidential decree established the National Payments Council, headed by the President. The functions of the council are to reduce the use of banknotes outside the banking sector, support and stimulate the use of electronic means and channels for payments, develop national payment systems and parallel supervisory frameworks to reduce the risks associated with them, achieve financial inclusion by integrating the largest number of citizens into the banking system as possible, integrate the informal sector into the formal economy, reduce the cost of money transfers, and lastly, increase tax receipts.

There were also a number of developments in payment systems and information technology in 2017/2018, including the start of a trial run of the national branded payment card programme, *Meeza*, in December 2018. In addition, the Central Bank of Egypt developed a financial strategy and created a fund to support technological innovations. In January 2019, a law regulating the use of non-cash payment methods was approved, a digital financial technology strategy was developed, and an innovation financing fund worth EGP 1 billion was established. These efforts aim to develop an integrated strategy in accordance with the latest international standards and in line with the nature of the Egyptian market. In parallel, the moves are also meant to advance the financial technology industry and its services, while also transforming Egypt into an important regional centre in the field of financial technology within three years.

2.2.4 Major state projects

Since 2014 and until now, the pattern of development in Egypt has been characterized by the launch of a large number of major state projects[7] in multiple fields and spread across the country. These projects have focused on the transport sector, the Suez Canal, the energy sector (especially electricity), the establishment of new regional roads, the improvement of main roads, and the development of new cities, particularly the New Administrative Capital and New Alamein City on the Mediterranean coast. The Sustainable Development Strategy: Egypt Vision 2030, requires such projects in order to achieve the structural national economic and social reform programme. Box 2.1 outlines some of the most important projects.

Box 2.1 Most important national projects since 2014

Development of the Suez Canal Axis

The projects of the Axis began with the project of digging the new Suez Canal, which was completed in one year, from 2014 to 2015, and with national funding through the issuance of investment certificates of EGP 64 billion. The idea behind establishing the new canal is based on maximizing the use of its current waterways in order to achieve the highest level of ship flow in both directions without stopping, thus reducing the transit time of ships and increasing their carrying capacity. The project to develop the Suez Canal Axis is based on exploiting the current capacities of its ports, and exploiting its geographical location in establishing industrial and logistical zones, in addition to constructing seven tunnels to connect Sinai with the rest of the regions, with the aim of transforming Egypt into a global economic and logistical hub, as well as attracting foreign investments, and providing an opportunity for national companies to participate in the implementation in order to achieve the recovery of these companies.

National Project for the Development of Sinai

The project includes the establishment of residential cities east of Port Said, Ismailia and New Suez, the construction of more than 77,000 housing units in the Sinai Peninsula, a network of roads and industrial zones, and the establishment urban space of fish farms.

One and a Half Milion Feddan Project

The project aims to exploit desert land, increase the agricultural area, and redraw Egypt's population map by expanding space and establishing integrated modern urban communities, maximizing the use of Egypt's resources from groundwater, and cultivating economic crops that generate a large financial return. It would also contribute to bridging the food gap and establishing many industries related to agricultural activity, livestock, and food industries, aiming to increase Egypt's exports of crops and provide new ideas to create job opportunities for young people.

National Road Network Project

The National Roads Project is one of the most prominent projects undertaken by the State and aims to improve and increase the efficiency of existing roads, construct new roads, improve infrastructure, and build new urban communities. The total target of establishing the national road network is 30,000 km, and it includes several axes, the most important of which are the Rod Al-Farag Axis and the Egypt-Africa Axis. Several projects have been implemented within the framework of Egypt's interest in the roads and bridges sector, in order to accommodate the increasing volume of transport, while achieving traffic fluidity, in addition to serving national projects. The projects included the construction and duplication of new roads, the development of roads, increasing their efficiency, and implementing six axes on the Nile, in addition to the construction of El-Dabaa Axis and the construction of El Galala Road. The government also sought to implement a number of projects aimed at the comprehensive development of railways, and the port sector witnessed the implementation of many projects to exploit Egypt's distinguished geographical location, which contributed to the improvement of Egypt's ranking on the road quality index in the Global Competitiveness Report from 128th to 28th globally.

National Project for New Cities

The project includes the New Administrative Capital, which is built to the highest international standards, New Alamein City, which is an integrated tourism and urban project, and the new city of East Port Said, which includes an industrial area. There is also El Galala Maritime City, which is located on the Galala Mountain Plateau. It includes many tourism and service projects, including the establishment of Galala University and the first Olympic village. New Ismailia is the first model city in Egypt that takes into account people with special needs. It also includes the city of New Suez, which represents the first steps in the development of Sinai and one of the steps to eliminating terrorism in the urban community in Sinai.

Box 2.1 Most important national projects since 2014 *(continued)*

National Energy Project

The State provides all the required energy sources, with an emphasis on clean energy, such as the Benban Solar Park, which received the award for the best project funded by the World Bank in 2019 to establish investment, development and service projects. In the electricity sector, an urgent plan was designed to add 2,600 megawatts with the construction of a giant Siemens plant and El Dabaa Nuclear Plant. Egypt is working on developing the national electricity network to receive its additional capacities and developing control stations. The national electricity grid has achieved great stability, and its surplus production has reached more than 4,000 megawatts. The State was able to confront the phenomenon of power outages, through the implementation of 169 projects at a total cost of about EGP 308 billion, which contributed to increasing the electrical capacities of the National Electricity Grid of Egypt to 52,000 megawatts. In the field of electricity transmission and distribution, ten gas stations were built and the transmission network of extra-high and high voltage was reinforced as the medium and low voltage network, as well as the construction of new distribution networks, the re-planning of networks, and the installation of 4.6 million prepaid meters. The State was also keen to carry out maintenance activities for the existing stations and provide the fuel needed for operation, which contributed to bridging the gap between production and consumption.

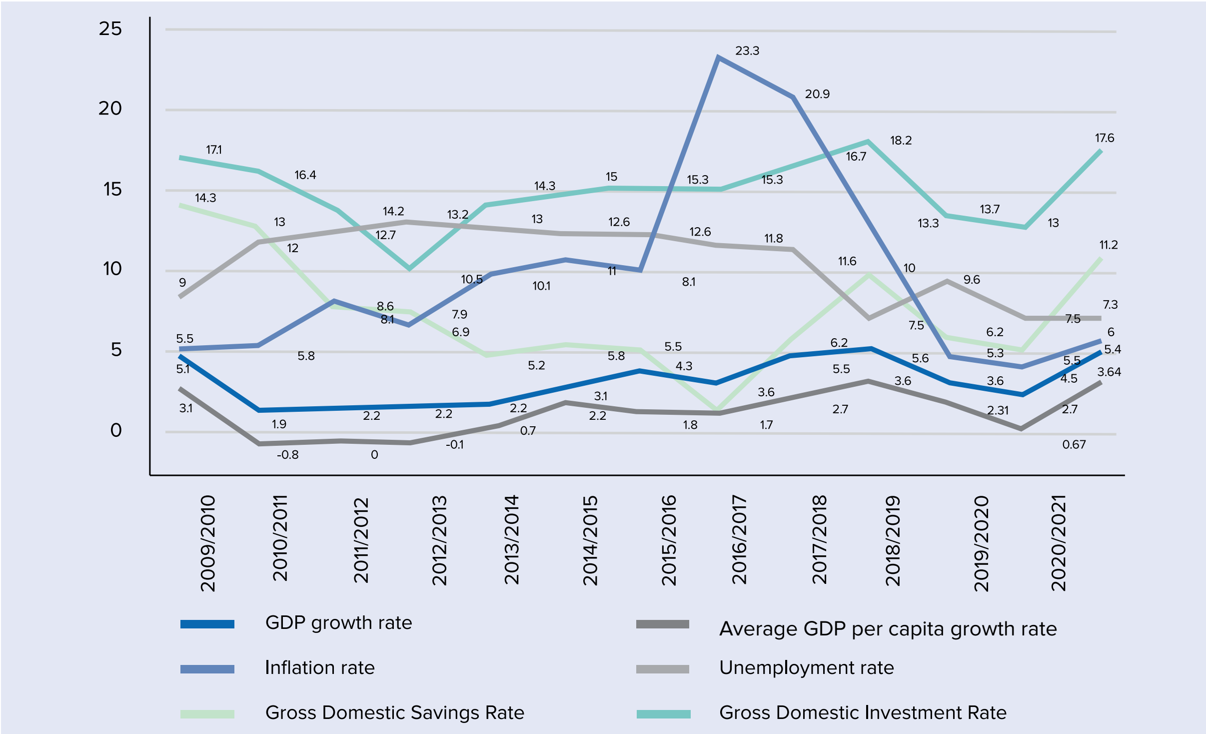
In the petroleum sector, about 69 projects were implemented, which contributed to achieving an economic return, providing petroleum products to meet the needs of the local market and exporting the surplus. Agreements were signed with investments estimated at EGP 14.7 billion, 186 new petroleum discoveries were made, the number of ports to receive butane increased, and the import of liquefied gas began. A number of projects were also set up to develop gas and oil fields, the most important of which is the Zohr Field development project, which is considered one of the most important development projects, in addition to preparing a plan for developing refineries, and the implementation of several projects in the field of infrastructure.

2.3 Progress on economic performance indicators with the implementation of the reform programme

Since Egypt began implementing its reform programme, it saw an increase in the GDP growth to 5.6 percent in 2018/2019 and a decline in the unemployment rate to 7.5 percent in the same year. The rates of savings and gross domestic investment initially increased, before decreasing amid the COVID-19 pandemic. They increased again during 2020/2021, as shown in Figure 2.1.

According to estimates by the Ministry of Planning and Economic Development, the growth rate will reach 5.4 percent in 2021/2022, the inflation rate will reach 6 percent, the unemployment rate 7.3 percent, the average per capita GDP growth rate will reach 3.6 percent, the gross domestic savings rate 11.2 percent, and the gross domestic investment rate will reach 17.6 percent.

Figure 2.1 **Key economic indicators, 2009/2010 to 2020/2021 (%)**

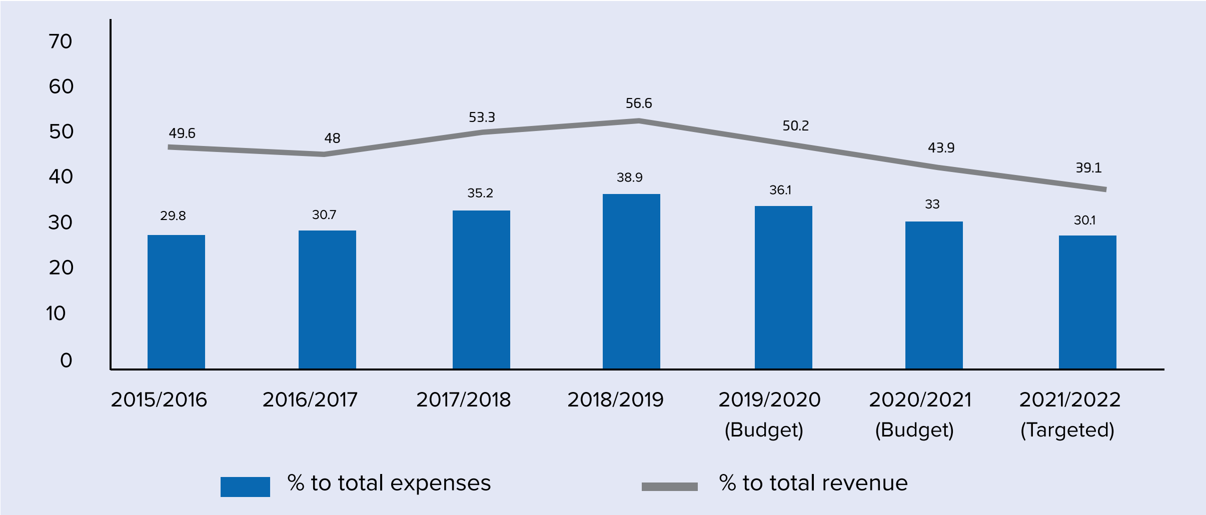


Source: Ministry of Planning and Economic Development (2021).

Table 2.5 shows that the state budget deficit decreased from 12.9 percent in 2012/2013 to 10.7 percent in 2016/2017 and further decreased to 8.2 percent in 2018/2019. The goal for the primary deficit was also achieved, as a deficit of 3.5 percent in 2014/15 was changed to a surplus of 1.8 percent of GDP in 2019/2020, before declining to 0.9 percent in 2020/2021. The ratio of public debt-to-GDP increased from 82.1 percent in 2012/13 to 96.7 percent in 2015/2016 and then began to decline to 87.5 percent in 2019/2020. It increased again to 89.8 percent in 2020/2021.

Table 2.5 Deficit and debt indicators amid reforms, 2009/2010 to 2020/2021 (%)			
Year	**Budget deficit to GDP ratio**	**Primary deficit/surplus ratio to GDP**	**Debt-to-GDP ratio**
2009/2010	-8.1	-	72.5
2010/2011	-10	-	73.6
2011/2012	-10.1	-	80.3
2012/2013	-12.9	-	82.1
2013/2014	-11.5	-3.9	85.3
2014/2015	-11	-3.5	86.6
2015/2016	-12	-3.5	96.7
2016/2017	-10.7	-1.8	91.1
2017/2018	-9.5	0.1	91
2018/2019	-8	2	90
2019/2020	-7.1	1.8	87.5
2020/2021	-7.6	0.9	89.8

Figure 2.2 **Interest payments as a share of total revenues and total expenses, 2015/2016 to 2021/2022 (%)**



Source: Ministry of Finance, multiple budgets and final accounts.

Figure 2.2 indicates a decline in interest payments as a percentage of total revenues by 12.7 percentage points between 2018/2019 and 2020/2021, and as a percentage of total expenditures by 5.9 percentage points during the same two years.

With regards to subsidies, the petroleum subsidies increased from EGP 66.5 billion in 2009/2010 to EGP 126 billion in 2013/2014, then declined to EGP 51 billion in 2015/2016. However, as a result of the significant decline in the value of the Egyptian pound against the dollar in November 2016, and the import of dollar-priced petroleum products, the value of petroleum subsidies increased significantly in 2016/2017, reaching EGP 115 billion, then EGP 120 billion in 2017/2018. With the subsequent improvement in the value of the Egyptian pound and the completion of the subsidy system reform programme, the value of petroleum subsidies decreased to EGP 84.7 billion in 2018/2019, EGP 53 billion in 2019/2020, and EGP 28.2 billion in 2020/2021.

In line with social protection programmes, the amount spent on food subsidies increased steadily over this period. Food subsidy costs increased from EGP 16.8 billion in 2009/2010 to EGP 39.4 billion in 2014/2015, then to EGP 87 billion in 2018/2019 and to EGP 89 billion in 2019/2020. Likewise, the value of social benefits borne by the public budget increased from EGP 4.5 billion in 2009/2010 to EGP 41 billion in 2014/2015, to EGP 76 billion in 2018/2019, to EGP 128.9 billion in 2019/2020, and to EGP 181.1 billion in 2020/2021 (as shown in Table 2.6). The increased funding of social protection programmes was intended to counter the effects of the national economic and social reform programme on the poor, aiming to shift to cash subsidies and to directly target the poor.

Table 2.6 Subsidy indicators amid reforms (EGP billions), 2009/2010 to 2020/2021				
Year	Petroleum subsidies	Food/good subsidies	Total subsidies	Social benefits
2009/2010	66.5	16.8	93.6	4.5
2010/2011	67.7	32.7	111.2	5.3
2011/2012	95.5	30.3	134.9	5.3
2012/2013	120.0	32.5	170.8	20.8
2013/2014	126.2	35.5	187.7	35.2
2014/2015	73.9	39.4	150.2	41.0
2015/2016	51.0	42.7	138.7	53.9
2016/2017	115.0	47.5	202.6	64.2
2017/2018	120.6	80.5	243.5	77.8
2018/2019	84.7	87.0	203.7	76.0
2019/2020	52.9	89.0	149	128.9
2020/2021	28.2	84.5	115.1	181.1

Source: Ministry of Finance (several years).

These changes over the past 10 years reflect a shift away from energy subsidies, primarily oil and electricity, which are consumed more by higher-income groups, towards subsidizing food and social programmes that primarily benefit lower-income groups, with the aim of increasing distributive justice and combating poverty.

In addition, Egypt established a new minimum wage of EGP 700 per month for public administration employees in July 2011, and raised it to EGP 1,200 in January 2014. Accordingly, the wages of about 4.1 million employees were increased by different rates, according to their grades, with the annual cost of these increases amounting to about EGP 18 billion. Subsequently, Prime Ministerial Decree No. 1,627/2019 raised the minimum wage for all civil servant grades to EGP 2,000 per month, beginning in July of that year. The total number of government bodies required to implement the resolution was 3,286. The decree also introduced periodic bonuses for civil servants, ranging from 7 percent to 10 percent of their salary.

With regard to the structure of public spending during this period, the increase in the percentage of interest paid on debt is a noteworthy development, increasing from 25 percent of total public expenditure in 2013/2014 to 39 percent in 2018/2019. By contrast, the percentage spent on subsidies decreased from 33 percent to 21 percent in 2018/2019. The tax rate as a proportion of GDP decreased from 14 percent in 2009/2010 to 8.4 percent in 2014/2015, and then increased to 14.7 percent in 2018/2019.[8]

Table 2.7							
Monetary indicators, 2009/2010 to 2021							
Year	**Interest rate (%)**	**Exchange rate (EGP to $)**	**Inflation rate (%)**	**Year**	**Interest rate (%)**	**Exchange rate (EGP to $)**	**Inflation rate (%)**
2009/2010	8.5	5.7	5.5	2015/2016	12.25	8.9	10.3
2010/2011	8.5	5.8	5.8	2016/2017	17.25	17.9	23.3
2011/2012	9.5	6.1	8.6	2017/2018	17.25	17.9	20.9
2012/2013	10.25	7	6.9	2018/2019	16.25	16.6	13.9
2013/2014	8.75	7.18	10.1	January 2020	12.75	16.1	7.2
2014/2015	9.25	7.8	11	January 2021	8.75	15.8	5.4

Source: Central Bank of Egypt.

As a result of the liberalization of the exchange rate, the inflation rate increased to 23 percent in 2016/2017. The Central Bank of Egypt addressed this increase by raising interest rates to 20 percent. With the decline in inflation rates at the end of 2017, the central bank cut interest rates to 16.25 percent in 2018/2019 and then lowered them several more times in a row until they reached 12.75 percent at the end of 2019. To stimulate the economy in the face of the COVID-19 crisis, rates were reduced further to 9.25 percent in May 2020.

Indicators on banking in Egypt show the development of the system's deposit and lending structure. The average annual growth rate of domestic deposits ranges around 20 percent; however, the growth rate increased to 26.8 percent in 2017, while the growth rate of foreign deposits saw a significant increase to 114.4 percent in the same year, but later decreased to about 3 percent in 2018. This boom was due to the liberalization of the exchange rate and the significant rise in the price of the dollar at the end of 2016, as well as the efforts of the Central Bank of Egypt to attract dollar deposits in order to increase international reserves. Household sector deposits constitute the largest percentage, increasing from 75.7 percent of the total in 2016 to 79.5 percent in 2019. The ratio of loans to deposits also increased from about 44.5 percent in 2016 to about 47.8 percent in 2019, and the value of loans in Egyptian pounds also increased after 2016 due to the rise in the value of the dollar.

Loans to the private sector by banks (excluding the Central Bank of Egypt) constituted about 60 percent of all loans in 2019 compared to 70 percent in 2016, which reflects the high investment by banks in treasury bills to address the budget deficit.

The share of loans provided to the government, especially in foreign currency, increased during the period 2016 to 2019. Although the industrial sector is the sector that receives the most loans, it is important to note the large and increasing volume of borrowing for the household sector, which exceeds borrowing in all other sectors, including by the government. This indicates an increase in borrowing for consumption, which calls for an in-depth study of its economic and social effects, especially with the decline in the average per capita income and saving rates, and the spread of Luxory consumption, which usually depends on imported goods. In general, the increase in household consumption through borrowing, despite the need to study it in more depth, increases the rate of consumption. Both consumption and investment rates constitute the pillars of economic growth.

According to foreign trade indicators, Egypt's trade deficit rate increased from 10.7 percent of GDP in 2012/2013 to 15 percent in 2016/2017. It declined to 14 percent in 2017/2018 as a result of a rise in the cost of imports after the liberalization of the exchange rate and the resulting import restrictions imposed by the Central Bank of Egypt. Foreign trade declined in 2018/2019 according to the indicators, and the trade deficit increased by a small percentage compared to the previous two years. The current balance deficit also increased, although it was better than the level in 2016/2017.

The overall balance became a deficit in 2018/2019, having achieved a surplus in the previous two years. Looking at exports and imports, a rise in domestic production of natural gas has meant that energy is now the largest group of exports, overtaking finished goods, although it must be noted that the majority of natural gas exports belong to a foreign partner, and their returns do not belong to Egypt. In contrast, the share of finished goods in total exports decreased to about 37.2 percent in 2018/2019, down from about 41.5 percent in 2016/2017.

Intermediate and consumer imports together constitute more than half of Egypt's imports, which highlights the need for a manufacturing policy that meets the needs of the local market by replacing some of these imports and thereby reducing the trade deficit. However, domestic goods must be of the same quality as imported goods in order for this policy to be successful. Small projects can contribute to the production of some intermediate goods, such as spare parts for large projects, provided that there is good coordination between the projects.[9] It is expected that imports as a share of GDP will decline from 20.7 percent in 2019/2020 to 16 percent in 2021/2022. Exports as a share of GDP will also decrease from 13.1 percent to 9.6 percent over the same two years.

A number of international institutions have recognized the success of the economic reform process in Egypt. In several of its reports on the performance of the Egyptian economy under the national economic and social reform programme, the IMF stated that the Egyptian economy continues to perform well despite less than positive global conditions.[10] The World Bank has also recognized the success of the reform experience in enhancing investor confidence in the Egyptian economy. Deutsche Bank, Bloomberg, and Moody's credit rating agency recognized the Egyptian experience, and their expectations for future growth were positive and encouraging. In May 2018, Standard & Poor's rating agency raised Egypt's sovereign credit rating to B, reflecting confidence in the Egyptian economy and its ability to repay debts in light of the improvement in the country's economic outlook and the strength of its economic policies. The Purchasing Managers' Index, which reflects the degree of confidence in the economic performance and in the future outlook of the economy by the private sector, has also improved, rising from 41.8 in October 2016 to 50.7 in November 2017, although it subsequently declined in May 2020 on the backdrop of the COVID-19 pandemic. It increased again to 51.4 percent in October 2020, above the value of 50 percent that separates stagnation from growth.

2.4 The repercussions of COVID-19 on the Egyptian economy and measures to confront it

International institutions agree that the COVID-19 pandemic's effects on the global economy constitute the worst economic crisis that the world has ever experienced. Its effects have extended to both supply and demand, leading to a decline in foreign investment flows, a slowdown in global trade and a disruption of international supply chains. International institutions have predicted a 4.9 percent decline in global output in 2020, a 11 percent contraction of international trade,[11] the loss of about 495 million jobs across the world (most of which are in the middle-income segment) and a 16 percent increase in the number of people in poverty.[12]

These estimates are reviewed and amended at frequent intervals due to the uncertainty around the pandemic and the timeline of the global vaccine rollout. The crisis has been exacerbated by the accumulation of debts by many countries worldwide, including developed countries, which has weakened their ability to deal effectively with the crisis.

COVID-19 was first recorded in Egypt on 14 February 2020, with cases subsequently increasing and reaching their first peak during the months of June and July. Egypt had prepared for the crisis since January 2020 and collaborated with the World Health Organization (WHO), adopting WHO-recommended health measures and introducing measures to limit the spread of the virus (see box 2.2).

Box 2.2 Egyptian policies and decisions to tackle COVID-19 pandemic

- Reducing the price of natural gas for industry to $4.5 per million thermal units. It was also decided to reduce electricity prices for industry for ultra-high, high and medium voltage by 10 piasters, and to stabilize electricity prices for other industrial uses for the next 3 to 5 years.
- Providing EGP 1 billion to exporters during the months of March and April 2020 to pay part of their dues, according to the agreed mechanisms (the investment and cash payment initiative announced to exporters). Also, postponing the payment of the real estate tax due on factories and tourist facilities for a period of three months, and allowing them to pay it in monthly installments for previous periods for a period of six months.
- With regard to stock exchange transactions, the State allocated EGP 20 billion for investment in the stock exchange out of the total financial stimulus program of EGP 100 billion. The service fees for stock exchange operations were reduced by 20%. The decision to specify brokerage commissions and fees for listing securities and stock exchange operations was amended to reduce service fees by 17%. Clearing and settlement services for shares, bonds, and other debt instruments were also reduced by 20%. Foreigners were completely exempted from capital gain taxes, which were postponed for residents until the beginning of 2022. The stamp tax and tax on dividends were reduced by 50% to 5% on companies listed on the Exchange.
- The tax exemption limit was increased from EGP 8,000 to EGP 15,000, and the income tax segments were reduced. The remuneration for internship doctors in university hospitals of the Ministry of Higher Education and Scientific Research, and Al-Azhar University hospitals, which currently spend between EGP 400 and EGP 700, was increased to EGP 2,200 per month.
- The deadlines for submitting tax returns and the deadlines for paying all or part of the tax due have been extended in accordance with the provisions of the *Income Tax Law* and/or the *Value Added Tax Law*, for a period not exceeding three months, renewable for another similar period, for financiers or for those registered in the economic or productive sectors or services affected by the repercussions of confronting the virus. These sectors include: aviation, tourism and antiquities (including restaurants and cafes), hotels (tourist and hotel establishments), the press and media (due to the significant impact on the most important financial resource, which is the proceeds of advertising and marketing), and companies operating in the field of communications and information technology, except for those licensed to provide landline and mobile phone service, as well as companies operating in the sports field, the transport and communication sectors, car distributors, the hospital sector, contracting, and the industrial sector (especially companies working in the field of export), except for industrial facilities operating in the food and pharmaceutical sector, health care supplies and detergents. A total of EGP 50 billion was allocated to support the tourism and hotel sector, and the cost of borrowing decreased to 8%. Mask production lines were also doubled to increase local production to 3 million masks per day.

Box 2.2 Egyptian policies and decisions to tackle COVID-19 pandemic *(continued)*

- The interest rate was reduced by 300 basis points, bringing the credit and discount rate to 9.75% to support economic activity.
- Additional financial allocations of about EGP 5.1 billion were provided during the fiscal year 2019/2020 to support the health sector in its various tracks across the country, meet the urgent and inevitable needs of medicines and medical supplies, and disburse incentive rewards to medical staff and workers in quarantine outlets, isolation hospitals, central laboratories, governorate laboratories, epidemiological surveillance teams, and the ambulance service.
- An additional EGP 5 billion was made available to the Ministry of Supply and Internal Trade during the fiscal year 2019/2020 to manage the additional needs for wheat and other food commodities and to ensure the provision of basic and food commodities to citizens.
- Government investments were increased by an additional EGP 10 billion during the fiscal year 2019/2020 in a way that contributes to preserving employment, and paying the dues of contractors and suppliers, while improving the level of services provided to citizens. Some economic sectors were also supported by about EGP 10 billion, whether through tax facilitations or additional financing. A grant of EGP 500 for irregular workers was also disbursed for a period of three months from April to June 2020, and this grant was extended until the end of the year.

Despite the positive impact of policies in maintaining the gains of the national economic and social reform programme, Egypt's foreign exchange reserves decreased from $45.5 billion in February 2020 to $37 billion in May, although they subsequently rose to $38.4 billion in September, and rose further to $40.5 billion in June 2021. The target growth rate for 2019/2020 was lowered from 6 percent to an achieved growth rate of 3.6 percent, placing Egypt as one of the few countries in the world to achieve positive growth rates during COVID. The debt volume increased by EGP 44 billion (equivalent to 3 percent of GDP), as a result of the increase in necessary expenditures. Public revenues decreased by about EGP 75 billion, of which EGP 65 billion was lost in tax proceeds. The projected state budget deficit was revised to exceed 8 percent, while the actual growth rate in 2019/2020 was 3.5 percent.

Revenues from the tourism sector saw a decline of 84 percent in the period from April to June 2020, compared to the corresponding quarter of 2019, according to data from the Central Bank of Egypt. Domestic tourism revenues also decreased as a result of the closure of restaurants and cafés for a period of three months. Aviation revenues decreased as flights were suspended, and remittances from overseas workers also decreased. During the first quarter of 2020, Egypt lost 548,000 tourists, 3.1 million tourist nights, and $295 million in revenues. According to data from the Central Bank of Egypt, revenues of the tourism sector witnessed a sharp decline, estimated at 84 percent, from April to June 2020, compared to the corresponding period in 2019. Shares in tourism and entertainment companies listed on the Egyptian Stock Exchange declined by 4.1 percent in February 2020 and then by 18.9 percent in March of the same year. Aviation sector revenues dropped as a result of suspending flights and lack of remittances from workers abroad.[13]

Egyptian non-oil exports increased during the first quarter of 2020 by about 2 percent to reach $6.728 billion, compared to about $6.58 billion during the same period in 2019, and imports witnessed a significant decline of about 24 percent, to reach $13.814 billion, compared to $18.233 billion during the same period in 2019. These indicators contributed to decreasing Egypt's trade deficit by $4.566 billion, a decline of 39 percent over the same period in 2019.[14]

Despite the losses outlined above, many sectors within Egypt's economy were able to adapt to the impacts of the COVID-19 pandemic and find new opportunities amid the crisis, the most important being IT and communications, agriculture, pharmaceutical and chemical industries, and construction. The report on Egypt's urgent plan for 2020/2021 to deal with the COVID-19 crisis expects a decrease in total investments to EGP 740 billion, compared to about EGP 840 billion in 2019/2020, and an increase in the proportion of public investments in 2020/2021 to more than 80 percent of the total expected investments, as a direct result of the decline in foreign and domestic private investments in the wake of the pandemic.[15]

At the same time, the COVID-19 crisis has also generated a number of opportunities, the most important being a decline in the import bill for commodities such as edible oils, sugar, and meat and poultry, the global prices of which are expected to decrease. There is also an opportunity to benefit from the decline in trade growth rates and from protectionist restrictions by deepening local manufacturing, especially in the food and pharmaceutical industries, to meet increasing demand. Another benefit is the likely-temporary decrease in global oil prices, which has led to a decrease in Egypt's import bill for crude oil and some petroleum derivatives, as well as a decrease in the energy subsidy bill.

On the back of the efforts of the State, the private sector, and civil society, international institutions predict that Egypt's economy will have a better recovery than other countries in the Middle East and North Africa, and these institutions have also recognized the measures Egypt has taken. The World Bank and the IMF confirmed that Egypt is the only country in the region that has achieved positive growth rates despite the crisis. Fitch Ratings, a credit rating agency, indicated the success of the economic reform policies adopted since 2016 and the effectiveness of the measures taken to tackle the impacts of the COVID-19 pandemic. In April 2020, Standard & Poor's maintained Egypt's credit rating in both local and foreign currencies at B/B, with its outlook at stable.

Moody's also maintained its credit rating for Egypt in both local and foreign currencies at B2, and the outlook at stable, through May, August and November 2020. These decisions reflect the continued confidence of international institutions and rating agencies in the ability of the Egyptian economy to deal positively with the impacts of COVID-19. It also reflects the confidence of Moody's experts and analysts in the policies pursued by Egypt to deal with the economic and health crisis brought about by the pandemic.

In May 2020, the IMF approved Egypt's request for emergency financial assistance of $2.772 billion under the Rapid Financing Instrument (RFI) to meet the urgent balance of payments needs that resulted from the pandemic. The funds aimed to help provide urgent financing in order to mitigate the negative impact of the crisis on the macroeconomic stability that Egypt had achieved. By the end of June 2020, the IMF also approved a 12-month Stand-by Arrangement for Egypt worth $5.2 billion. Egypt also issued dollar-denominated bonds valued at $5 billion in three tranches of 4 years, 12 years, and 30 years.

In January 2021, in the IMF's first review of the Stand-by Arrangement, the report indicated that the negative effects of the COVID-19 pandemic on the Egyptian economy were less than expected as a result of government measures to deal with the crisis. This led to increased growth expectations for 2020/2021. However, some expected risks were identified that must be dealt with, especially due to the continued ambiguity and uncertainty regarding the path of recovery from the second wave of the pandemic at both the local and global levels. The IMF report stressed the importance of continuing structural and governance reforms to achieve more inclusive growth led by the private sector, more transparency regarding state-owned enterprises, the provision of equal opportunities for all development partners, and the removal of bureaucratic obstacles facing the private sector. The report also indicated that the high level of public debt exposes Egypt to situations in which there is a degree of vulnerability in terms of international financing conditions.[16]

A study by the US Agency for International Development (USAID), in cooperation with The Economist,[17] looked at possible scenarios for the Egyptian economy after the COVID-19 pandemic and until 2025. The study predicts a gradual increase in GDP growth to 5.28 percent in 2025 under the base scenario, growth of 5.7 percent in the optimistic scenario, and growth of 5.22 percent in the pessimistic scenario. The unemployment rate was predicted to decline in all three scenarios, reaching 9.5 percent by 2025 in the base scenario and 8.1 percent in the optimistic scenario.

2.5 Development prospects in Egypt

In 2016, the Sustainable Development Strategy: Egypt Vision 2030, was developed to provide a governing framework for interim action plans and programmes which are consistent with the UN SDGs, as well as with the African Union's Agenda 2063.[18] In terms of progress on the SDGs, Egypt's Voluntary National Review, prepared by the Ministry of Planning and Economic Development in 2018,[19] indicates that Egypt has made progress on some of the SDGs and is still working to fulfill the remaining goals. A report by the Central Agency for Public Mobilization and Statistics (CAPMAS) indicates that the share of SDG indicators that were available to track Egypt's performance until the end of 2018 was around 47.5 percent.[20] Due to the lack of data necessary to measure all indicators, the existing indicators showed that the best achievement rate was that of Goal 7, on meeting energy needs. This was followed by Goal 2, on eradicating hunger and providing food security, and Goal 9, on building resilient infrastructure, stimulating inclusive industrialization and encouraging innovation. The least implemented goals were those related to sustainable cities and communities and sustainable consumption and production patterns.

In terms of development partners, the private sector continued to play the leading role, with a predicted contribution to GDP of around 68 percent in 2021/2022. It accounted for over 90 percent in some areas, such as agriculture, manufacturing, construction, internal trade, tourism, information technology, real estate, and social services. Private investment contributed about 52 percent of total investments in 2018/2019. It is expected that this percentage will reach 25 percent in 2021/2222. While there has been a significant increase in investments in the area of housing and real estate, especially in Luxory housing for residential complexes, investments have still not reached the level required, resulting in modest growth of the industry compared to other sectors. In light of the problems faced by the industrial sector in the past, Egypt issued a new law on investment and put in place several measures to shorten times and procedures for establishing businesses and to facilitate the process. Notably, despite the importance of the economic reform process and its aim of enhancing macroeconomic stability, the private sector has been significantly affected by the high rates of inflation and the increase in interest rates, especially between 2017 and 2019. This has resulted in investors being reluctant to invest and in high costs for starting or expanding a business.[21]

Despite the existence public-private partnership (PPP) law, and a PPP unit in the Ministry of Finance since 2010, the projects carried out under this framework have nonetheless been limited. To address this, the Prime Minister established a committee in 2018 to activate partnerships with the private sector, especially in the fields of education and public utilities. Administrative authorities were also permitted to finalize licenses, approvals and permits. Decisions were made to allocate the necessary land to projects before putting them up for bids and to stress the need to find a mechanism for selecting projects that would be conducted on the basis of participation, while conducting technical and financial studies for them. A committee was also formed at the Ministry of Finance to study and make the necessary legislative amendments to the law regulating private sector participation, including the development of new mechanisms for contracting with the private sector and the expansion of investment fields available to the private sector. The Ministry of Planning and Economic Development has also established a unit for feasibility studies and partnership with the private sector and governmental organizations with the aim of selecting suitable PPP projects according to defined criteria, promoting the projects nominated for the partnership, and coordinating with the PPP unit in the Ministry of Finance.

In addition to the private and public sector, the cooperative sector has a strong presence internationally and has made important contributions to employment and operations, as well as to social protection. The number of cooperatives in Egypt is estimated at nearly 10,000 and they work in several areas of production and consumption. The total number of members is estimated at more than 12 million, and turnover exceeds EGP 50 billion.[22] Cooperatives are subject to several laws and several jurisdictions that regulate their activities. This sector requires attention to regulate it and the services provided to its members, especially younger and low-income people.

It is worth emphasizing that a partial approach is not sufficient in order to address areas where developmental progress is weak; instead, a strong push forward is required to create momentum that boosts progress in all areas. The Egyptian experience is in line with the "big push model" theory formulated by economist Paul Rosenstein-Rodan in 1943 and later developed by Kevin M. Murphy in 1989,[23] where Egypt has adopted multiple policies, especially in the field of exchange rate liberalization, dealing with energy subsidies, and implementing major state projects in infrastructure in various fields on a large scale, as stated in Box 2.1.

In order to achieve sustainable development and tangible impact, a certain amount of infrastructure investment must precede or coincide with investment in other production and service activities. Egypt has clearly adopted this approach. Due to limited financing, identifying innovative alternative financing mechanisms and borrowing became justifiable, as theory and reality indicate that infrastructure projects pave the way for all other productive activities and for local and foreign investment.

Large-scale investment in infrastructure projects also stimulates market demand for other economic sectors, which encourages investment in those sectors. This is what happened in Egypt, where state infrastructure projects employed large numbers of workers and generated incomes as a result, creating a demand in the market that boosted production and investment in other sectors, contributing to advancing development.

State authorities play an essential role at this stage, and state intervention is important to compensate for the low rate of savings, and the inability of the private sector to invest in infrastructure which does not generate appropriate profits in the short and medium term. The private sector cannot manage the huge investment required for infrastructure alone. However, due to the level of development problems and their accumulation over many years, some pressing challenges predate the beginning of this development process. In light of this, the government policies that will be implemented in the coming years seek to preserve achievements in the field of infrastructure and achieve macroeconomic stability by addressing these challenges, which are outlined below.

- **Financing development:** Due to the increasing financial burdens of development requirements, Egypt has faced problems related to financing development, limited domestic resources, low savings rates, and a lack of foreign investment flows at the required and expected rates. The issue of a weak savings rate is exacerbated by Egypt's high budget deficit, which consumes the largest proportion of domestic savings and thus increases pressure on resources. The gross domestic investment rate increased slightly from 16.7 percent in 2017/2018 to 18.2 percent in 2018/2019, while the gross domestic savings rate increased from 6.2 percent to 10 percent, narrowing the domestic financing gap from 10.5 percent to 8.2 percent. Due to a rise in the national savings rate to 15.7 percent, the financing gap decreased to 2.5 percent. However, these savings and investment rates are still far from the levels required to achieve a qualitative step forward on the path to development.[24] According to forecasts from the Ministry of Planning and Economic Development, the financing gap is expected to reach 6.4 percent of GDP in 2021/2022.

- **Modest growth rates in industry and lack of investment in manufacturing, particularly by the private sector, despite the importance of manufacturing to development and employment:** The growth rate of the industrial sector declined from 4.8 percent in 2017/2018 to 3 percent in 2018/2019 and is expected to reach 2.1 percent in 2021/2022. According to an analysis of GDP in 2018/2019, the three sectors that contributed the most to GDP that year (manufacturing industries, wholesale and retail trade, and agriculture) were not the sectors seeing the highest growth; in fact, they were the least developing sectors. This emphasizes the importance of the manufacturing and agricultural sectors and their essential role in boosting GDP and achieving development goals.

- **Increasing constraints on export performance; tariff and non-tariff barriers affect the performance of Egyptian exports:** The external customs duties imposed by Egypt are high compared to the rest of the world. The average simple tariff applied globally is 10 percent, compared to 19 percent in Egypt. Consequently, Egypt is considered the second largest protected economy in the world, after Sudan, which undermines the process of local competition. There are also significant non-tariff restrictions affecting export performance, such as technical requirements, import bans and export restrictions.[25]

- **High rates of poverty:** The poverty rate in Egypt has been increasing since 2008/2009, according to the biennial Household Income, Expenditure and Consumption Survey conducted by CAPMAS. It increased from 21.6 percent in 2008/2009 to 32.5 percent in 2017/2018. It subsequently decreased to 29.7 percent in 2019/2020, while the extreme poverty rate decreased from 6.2 percent in 2017/2018 to 4.5 percent in 2019/2020. This indicates that structural reforms and social protection measures have begun to achieve returns for vulnerable groups, especially with the various projects to improve the standard of living of the poor. The most important of these is the national project for the development of Egyptian rural areas, *Hayah Karima*, at a total budget of more than EGP 700 billion over three years, to develop Egyptian villages by developing projects in various fields, with a focus on education, health, infrastructure, and employment.

Box 2.3 *Hayah Karima* project to develop Egyptian villages

- The project aims to achieve the following objectives and activities during the period 2020 to 2023:
  - Improve living conditions and invest in people (social care and protection/decent housing/ social awareness/rehabilitation of persons with disabilities);
  - Improve urban infrastructure and service provision (sewage/drinking water/ paving roads /gas /electricity/postal service);
  - Enhance the quality of human development services (education/health/sports and cultural services);
  - Promote economic development and employment (financial inclusion/loans for small projects/ vocational training and professional qualification/industrial complexes/agricultural and fishery development);
- The *Hayah Karima* initiative is targeting 4,584 villages located in 175 districts *(markaz)* in 20 governorates.
- It is targeting investments of EGP 700 billion benefiting 58 million beneficiaries in total.
- The total appropriations directed to the villages of the first phase amount to EGP 260 billion, targeting 52 districts in 20 governorates.

  - Criteria for selecting district *(markaz)* to join the project:
  - Share of the district's rural population of the total district population;
  - Share of district's poor rural population of the district's total rural population;
  - Share of the poor residing in the poorest 2,000 villages nationwide out of the district's total rural population;
  - Share of villages with access to waterways;
  - Share of households headed by women;
  - Illiteracy rate of individuals aged 15 years or above;
  - Share of villages that have security-related issues;
  - Share of households with no access to public sewage network;
  - Share of families with no access to public water networks.
- Among the most important strategic outputs expected of the project are::
  - Decreased average poverty rate;
  - Improvement in the quality of life index (the rate of availability of basic services);
  - Improvement in coverage of health services;
  - Improvement in coverage of educational services;
  - Improve sustainable management, access to drinking water, and sanitation services;
  - Provide loans to small and medium-sized enterprises;
  - Provide thousands of job opportunities.
- The United Nations has included *Hayah Karima* among the best international initiatives/ practices for many reasons: the initiative has clear quantitative goals, is measurable and tracks achievement levels, is verifiable for its entry into force, resources are available that guarantee its implementation, it has a specific time frame, and it converges with many of the SDGs.

Source: Ministry of Planning and Economic Development

Analysis of the characteristics of poverty in Egypt shows a significant correlation between poverty and family size, which further highlights the burden and challenge of the country's population problem. Population growth rate reached 2.62 percent in 2016/2017, but decreased to 1.79 percent in 2018/2019. The analysis also showed that the low quality of education and the weak ability of the educational sector to respond to the needs of the labour market are among the factors most associated with the risk of poverty, leading to individuals that lack skills and who are forced to engage in sporadic marginal work in the informal sector.

Table 2.8

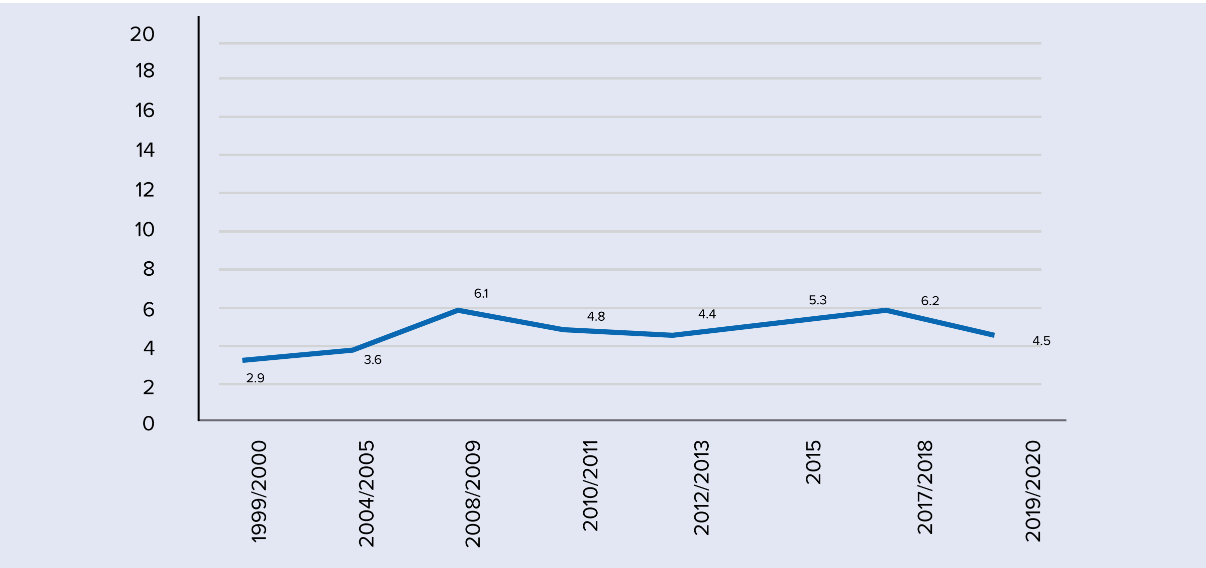
Population below the national poverty line in Egypt, 2008/2009 to 2019/2020 (%)

Year	Poverty rate	Year	Poverty rate
2008/2009	21.6	2015	27.8
2010/2011	25.2	2017/2018	32.5
2012/2013	26.3	2019/2020	29.7

Source: Heba El-Leithy, Analysis of Poverty Indicators from Income, Expenditure and Consumption Surveys (2019), and the Central Agency for Public Mobilization and Statistics, Research on Income, Expenditure and Consumption Results 2019/2020 (2021).

Central Agency for Public Mobilization and Statistics. "Research on Income, Expenditure and Consumption Results 2019/2020.

Figure 2.3 Extreme poverty rates, 1999/2000 to 2019/2020 (%)



Source: Central Agency for Public Mobilization and Statistics, Key Results of Research on Income, Expenditure and Consumption 2020/2019 (2021).

- **Regional disparities:** Egypt has long suffered from major disparities and imbalances in the level of development between different governorates and regions. Economic censuses and indicators clarify the picture of development in the different geographical areas. CAPMAS conducted the first economic census at the level of regions and governorates in 2012/2013,[26] and it was followed five years later by the economic census of 2017/2018. There had been no data available in previous years on the distribution of GDP between geographical regions, so this was estimated using employment data. The follow-up of the development in the geographical distribution of economic activity is therefore limited to the period between the two censuses. It should be noted that there was some modification in the census methodology in 2017/2018 to avoid some of the shortcomings of the 2012/2013 census.

Table 2.9

Regional contribution to GDP* (%)

Economic region	2012/2013	2017/2018
Greater Cairo	44.5	41.9
Alexandria	14.2	18.1
Delta	12.8	11.2
Suez Canal	12.6	17.5
Southern Upper Egypt	8.2	5.9
Northern Upper Egypt	5.7	4.0
Central Upper Egypt	2.0	1.4

(*) It should be noted that the activity of the government and economic bodies is excluded from the value of the regional GDP.
Source: Central Agency for Public Mobilization and Statistics, Results of the Economic Census 2017/2018.

The statistics in Table 2.9 show that the governorates of Upper Egypt (i.e. the southern part of the country from Fayoum to Aswan) contributed approximately 16 percent of GDP in 2012/2013. This percentage decreased to less than 12 percent in 2017/2018. Lower Egypt (or northern Egypt) and the urban governorates contributed approximately 88 percent of economic activity. Notably, the contribution of the Suez Canal region was high compared to both Greater Cairo and Upper Egypt.

These results show that there is still a need to dampen regional imbalances especially in Upper Egypt, despite the efforts and investments directed to the region. It should be noted, however, that this analysis is limited to one indicator only, the distribution of GDP by region and governorate, and that different indicators may offer a more detailed picture. For example, data on the average wage in different governorates as shown in Table 2.10 indicates that five governorates in Upper Egypt have the lowest average wage, and the governorates that attract a lot of tourism and/or feature petroleum sector activity (such as Red Sea and Matrouh) have the highest average wage. However, it should be noted that the wage disparities involved are not high; the highest average wage is 3.3 times the lowest wage. For example, the poverty rate in Port Said is less than 8 percent, while in Assiut it is more than eight times that, at 66.7 percent.[27]

Table 2.10					
Average monthly wage and population below the poverty line in Egypt's governorates, 2017/2018					
Governorate	Average monthly wage (EGP thousands)	Population below national poverty line (%)	Governorate	Average monthly wage (EGP thousands)	Population below national poverty line (%)
South Sinai	6,952	Border provinces 51.5% on average	Sharqia	2,803	24.3
Red Sea	6,681		Menoufia	2,705	26.0
Matrouh	6,446		Al-Wadi Al-Jadid	2,681	51.5
Suez	6,126		Gharbia	2,622	9.4
North Sinai	6,053		Dakahlia	2,592	15.2
Port Said	4,579	7.6	Beheira	2,585	47.7
Cairo	4,156	31.1	Damietta	2,529	14.6
Alexandria	3,831	21.8	Beni Suef	2,394	34.4
Aswan	3,808	46.2	Kafr El-Sheikh	2,305	17.3
Giza	3,766	34.0	Minya	2,207	54.7
Ismailia	3,257	32.4	Luxor	2,205	55.3
Qena	3,007	41.2	Fayoum	2,190	26.4
Qalyubia	2,991	20.1	Sohag	2,061	59.6
Assiut	2,822	66.7	Nationwide average	3,496	32.5

Source: Central Agency for Public Mobilization and Statistics, Results of the Economic Census 2017/2018.

- **Economic databases:** One of the most important challenges facing development in Egypt is the problem of database deficiencies. These gaps result in poor capacity to use advanced analysis and planning methods, and a weak ability to predict the expected effects of various policy alternatives. Egypt's economic database system suffers from several problems, perhaps the most important of which is related to the available statistics and the extent to which they cover all activities, and the absence of information on some important indicators such as the distribution of income and credit available to the community. The national project to develop the country's information infrastructure, and the establishment of the National Center for Spatial Information Infrastructure, aim to contribute to the development of databases and linking them electronically. This will lead to the effective interconnection of all state institutions and improvements in their performance, boosting administrative reform.

- **The system of values and community awareness:** A major challenge facing Egyptian society is the country's value system and the negative aspects that have been seen over recent years. This has a serious impact on Egypt's most important resource, its human capital. This problem is directly reflected in economic variables such as a decline in the value of hard work, proficiency and productivity, poor awareness of the importance of preserving public funds, excessive consumption by some groups, and a decrease in the tendency to save. This directly affects economic performance and the potential for growth. Therefore, a strategy for building human capacities has been launched and is being implemented.

- **Challenges and new realities imposed by the COVID-19 pandemic:** The emergence of COVID-19 revealed the importance of hedging risks as a major component of the development process. Among the most important concepts illustrated by the pandemic are: climate change and epidemics are closely linked to economic development; the importance of infrastructure in the health sector and its geographical distribution; the importance of education and raising awareness among citizens; and the importance of infrastructure in the ICT sector.

It should be noted in this context that the Government's Action Programme (2018/2019-2021/2022) includes main and subsidiary objectives and programmes to deal with the previously-listed challenges. The programme presents a vision of increasing funding resources through programmes to improve the efficiency of tax collection, maximize the benefit from international financing opportunities, enhance the cooperation of the Sovereign Fund of Egypt with other sovereign funds and major financial institutions, and the expansion of financing in partnership between the public sector and the private sector. It also includes a set of programmes to deepen industry, raise employment levels, reduce population growth, address regional disparities, develop Upper Egypt (the poorest region) and the Sinai Peninsula, work on environmental improvement, and spread positive values in society.

2.6 Policies to support Egypt's development path

Egypt is seeking to complete the structural reform process by focusing on production activities (especially industry), creating a business environment that allows the private sector to play its natural role in these activities, and lastly, by activating and revitalizing the partnership between the State and the private sector to address the lack of state funding resources and to reduce pressure on public debt. Egypt aims to advance partnership projects with the private sector, expand its scope to include many sectors, make the necessary amendments to laws regulating private sector participation, as well as create new mechanisms for contracting with the private sector.

It may also be useful to expand the scope of participation and find a mechanism for the participation of the private sector in development planning within a permanent institutional framework. The participation of the private sector is not based on individuals but is achieved via organizations, such as the Federation of Egyptian Industries, chambers of commerce, federations of investors, and trade unions. Such mechanisms would allow the private sector to interact with decision makers that have a better understanding of development goals, societal priorities, and governing constraints. It could also highlight the problems that hinder the private sector from investing in industry and could help find mechanisms to solve these issues.

The persistence of large income disparities is one of the challenges that must be addressed. As tax policy is one of the most important tools to address this disparity, Egypt has made amendments to the *Income Tax Law* in May 2020, in the direction of increasing taxes. More amendments in the same direction, in addition to an increase in the tax exemption limit, are still required at a future stage. It is also important to develop a clear policy and gain a firmer hand on geographical imbalances, which are still salient and constitute a key development challenge. This issue in particular can also affect the social cohesion of the country and limit its economic capabilities and potential.

Egypt is also seeking to avoid increasing debt, both internal and external, which has resulted in an increase in debt service. The State aims to accomplish this by strengthening the management of public debt, strengthening risk management, and building its own capacities, as well as raising capacities related to financial analysis and forecasting.

Egypt has realized significant development achievements in recent years and it is therefore crucial to protect and maximize these achievements. In this context, the trade-off between the costs of preparing for risks and the costs of addressing their consequences must be assessed and evaluated. The World Bank recommends that analysing risks in light of uncertainty and resource scarcity should be at the heart of economic and public policies,[28] and proposes an analytical framework to address risk as follows: 1) evaluation of the primary objectives of risk management and their triggers; 2) understanding the environment in which the risks occur; 3) components of risk management including preparing and adapting to negative and positive events; 4) assessment of the main obstacles facing individuals and societies when managing risks; and 5) the potential role of groups and teamwork. It may be useful to be guided by the proposals of the World Bank in this area. In addition, acquisition of knowledge and the accumulation of information is an essential component of risk management, and of particular importance are capabilities related to assessment and judgement and the use of modern technology in the field of communications.

The world is now in agreement that there must be coexistence with COVID-19, as it is predicted to last for a considerable period of time. This requires investing in people through health and education, as well as investment in infrastructure and social safety nets. Egypt's economic census in 2017/2018 showed that the average wage in the health sector is the lowest in comparison to other sectors. This contradicts the importance of this vital sector and the risk that workers face in relation to exposure and infection. Low salaries have also led to a noticeable decrease in the quality of health services, especially in government institutions where people of middle- and low-income brackets are treated. Increasing the incomes of health sector workers is therefore a key priority.

At the same time, the COVID-19 pandemic has demonstrated the need to boost financial inclusion to facilitate the normal flow of economic activity and services. This requires a significant strengthening of infrastructure in the field of communications and IT, which must be geographically dispersed to serve all parts of the country. It is also crucial to utilize the opportunity presented by the pandemic in terms of the importance of digital technology and communications. Their value is especially visible in the education sector in the implementation of distance education and rethinking school usage in order to reduce overcrowding. In addition, the experience of working from home as part of the COVID-19 precautionary measures should be subject to further research in order to expand this practice where appropriate.

The COVID-19 pandemic has prompted a change in Egypt's priorities and policies, especially due to the significant shortage of resources in terms of the State, the private sector, individuals, and the community in general, as well as the shrinking opportunities for foreign aid and borrowing. The change in priorities not only reflects on public spending increases for health, scientific research, and the environment, but also on economic activities (especially agriculture, industry, and energy) to secure a minimum level of self-sufficiency in strategic goods. Analytical studies are needed on the mechanisms to achieve these changes and to assess the priorities and balances required by the economy. It may also be necessary to pay attention to import substitution for some strategic goods, including those production inputs that would hinder industrial activity if in shortage. The fundamental issue of how to direct the private sector to invest in these activities at the required levels still remains.

During the next few years, Egypt is seeking to implement the second phase of its economic and social reform programme. The programme targets the real economy for the first time, with significant and purposeful structural reforms in order to transform the Egyptian economy into a productive, knowledge-based economy that has competitive capabilities on the global stage. This will include encouraging inclusive growth, creating decent and productive job opportunities, diversifying and developing production patterns, improving the investment climate and business environment, localizing industry, and increasing the competitiveness of Egyptian exports. These efforts will contribute to achieving sustainable economic development, as well as comprehensive and sustainable economic growth. The programme includes six key themes, the key theme being restructuring the economy with a focus on the real sector. Other complementary themes include: the business environment and role of the private sector; the flexibility of the labour market and increased efficiency of vocational training; human capital (education, health, and social protection); financial inclusion and access to finance; and the efficiency of public institutions, governance and digital transformation.

In addition, three productive sectors have been identified as major priorities for the structural reform programme, with the aim of encouraging investment and developing the business environment in accordance with Egypt's goals and in coordination with the private sector. These are the agricultural sector, the technology-intensive manufacturing sector, and the ICT sector. In parallel with the implementation of the themes of the national economic and social reform programme, service sectors that complement and support the productive sectors and that are capable of creating job opportunities and generating foreign currency will be supported. Among these sectors are logistics, the construction sector, and tourism. The green economy will also be strengthened.

The second phase of the national economic and social reform programme is based on five reform systems: the legislative reforms system, the government performance development system, the transportation and logistics efficiency improvement system, the financing and financial inclusion development system, and the demographic system. The improvement of population characteristics is also part of this programme. In its second phase, the programme aims to achieve a growth rate of 6-7 percent by fiscal year 2023/2024, to increase the contribution of the manufacturing sector to GDP to 15 percent, that of the agriculture sector to 12 percent, and that of the ICT sector to 5 percent. In the same year, the programme seeks to achieve a surplus in the balance of payments ranging between $3 billion and $5 billion, and to increase the proportion of industrial exports with a high-tech component to 7 percent. The programme is based on increasing the primary surplus as a percentage of GDP to 2 percent, reducing the overall budget deficit of GDP to 5.5 percent, and reducing public debt to 84.5 percent of GDP.

In addition, the social aspect will receive increasing attention during the second phase of the programme. By 2023/2024, Egypt aims to have increased spending on social protection to EGP 355.5 billion, to have increased spending on food subsidies to EGP 91.6 billion, to have increased contributions to pension programmes to reach EGP 201 billion, and to have provided cash support of EGP 21 billion via the *Takaful and Karama* progamme.