# 1 Introduction

Over the past few years, Egypt has embarked on economic reforms to promote strong, inclusive and sustainable growth (Box 1.1) and to resume faster convergence with the more advanced economies, following a lull in the early 2010s (Box 1.2). Egypt Vision 2030 sets national objectives in line with the United Nations Sustainable Development Goals. A series of programmes have been spelled out to help achieve these objectives, including the Economic Reform Programme (2016-19) and the National Structural Reform Programme (2021-24), with a view to enhance the productive capacity of the economy and to boost competitiveness and employment opportunities. The National Structural Reform Programme is comprehensive, covering a number of priority policy areas, in particular, reducing the state footprint, facilitating private sector activity, promoting a green and circular economy, reforming the labour market and expanding social protection.

### Box 1.1. Recent and ongoing reform efforts

Egypt Vision 2030 sets out the overarching development targets, and the National Structural Reform Programme encompasses the divestment strategy (State-Ownership Policy) and the ICT 2030 Strategy. The National Climate Change Strategy 2050 (NCCS 2050) outlines the country's long-term goals for climate change mitigation and adaptation. The following recent and ongoing reforms relate to the priorities discussed in this Survey.

***Strengthening fiscal policy and social inclusion***

- The Medium-Term Revenue Strategy aims to raise the tax-to-GDP ratio by at least 2 percentage points over the medium term by broadening the tax base and enhancing tax collection.
- The budget for fiscal year 2023/24 increases the top marginal tax rate from 25% to 27.5%, and raises the tax-free allowance.
- Allow electronic submission of tax declarations and create a unified tax number for all firms.
- Expansion of the two income-support programmes, *Takaful* (“Solidarity”) and *Karama* ("Dignity”), to 5 million families.

***Improving the business environment to support the private sector***

- Divestment of 35 state-owned enterprises. Removal of tax exemptions and alignment of the governance of state-owned enterprises with OECD guidelines. Listing of some military-owned companies on the stock exchange.
- A Competitive Neutrality Strategy was launched by the Egyptian Competition Authority in 2022.
- Improvement of investor relations with the launch of a new Investment Unit in the Cabinet and a fast-track Golden Licence granting a one-time approval to establish, operate and manage a project.
- National Anti-Corruption Strategy Phase 3 (2023-30).
- Ongoing reforms to improve digitalisation and enhance public sector efficiency, including digitalisation and automation of all customs documentation.

***Environment and the green transition***

- Egypt submitted its Second Updated Nationally Determined Contributions in mid-2023.
- New legal frameworks to supplement the NCCS 2050: the Low Emissions Development Strategy and executive regulations to implement the 2022 Waste Management Law.
- Integrated Sustainable Energy Strategy to 2035 sets targets for energy security and diversification.
- Waste Resource Development and Management Strategy (2050) with four pillars: water resources, consumption, improvement of water quality and management of resources.
- *Hayah Karima* ("Decent life") programme includes digitalisation at village level.
- Promotion of sustainable financing tools such as green and sustainable development bonds.
- Tax and customs incentives to attract "green investment", including a deduction of 30%-50% of the investment costs from the tax bills, and a five-year exemption from stamp duty.

***Strengthening the labour market for stronger and better-quality jobs***

- Establishment of the Egyptian National Authority for Quality Assurance and Accreditation in Technical and Vocational Education and Training to oversee vocational training and continued education.
- New curricula related to professional competencies and upgrades to vocational education.
- Opening of child-care services at work to support working mothers.
- Establishing a National Labour Market Information System.

Egypt is currently facing cost-of-living pressures and balance-of-payment difficulties. These are being addressed with international support, notably that of the International Monetary Fund under an Extended Fund Facility programme put in place in late 2022, and a new agreement expected to be reached in the first half of 2024. The international support also includes the European Union's EUR 9 billion investment plan for Egypt. The government has been stepping up reform efforts and is committed to follow through with respect to implementation. For instance, a number of key measures were endorsed in Spring 2023 by the Supreme Investment Council, chaired by the President, and have begun to be rolled out, with a series of divestments announced in July 2023.

### Box 1.2. Egypt's economic history from the 1950s to the late 2010s: a brief overview

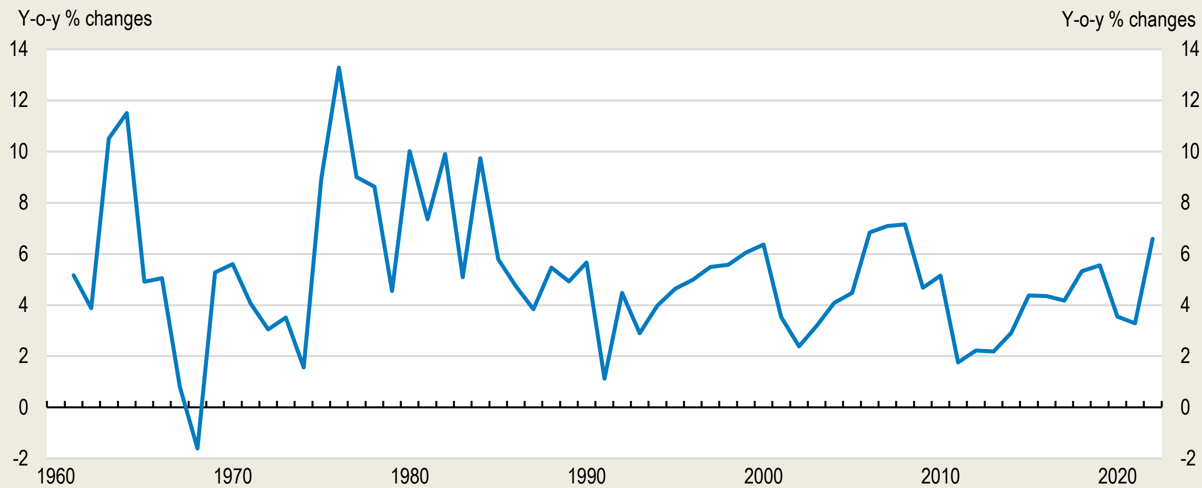
Egypt became a republic in 1952 following the overthrow of the monarchy by a group of officers. Colonel Gamal Abdel Nasser instigated policies of state-led growth through import-substitution, industrialisation, mass nationalisations (including of the Suez Canal Company) and the creation of a Ministry of Military Production. The strategy produced modest growth rates averaging 3.5% a year over 1952-73.

Following the first oil shock, President Anwar Sadat's *infitah* (open-door) reform policies, starting in 1975, allowed the private sector wider scope for operations and encouraged investments. As a result, the economy expanded by 8.4% per year on average between 1975 and 1985. In October 1981 President Sadat was assassinated. He was succeeded by vice-president and former air force officer Hosni Mubarak.

From the mid-1980s, growth stagnated (Figure 1.1) and macroeconomic imbalances widened, with high inflation, a wide current-account deficit and accumulating external arrears. These imbalances reflected substantial fiscal deficits and expansionary monetary policy, as well as administrative restrictions: administered prices, interest rate ceilings, an overvalued official exchange rate, administrative allocations of foreign exchange and restrictions on the private and foreign sectors. The financial sector suffered from segmentation, limits on competition, and mandatory and subsidised credit allocations. Large-scale public ownership was crowding out the private sector, and investment in human capital was low. Real GDP growth averaged 3% in the period 1986-93.

### Figure 1.1. Economic growth has been volatile

Real Gross Domestic Product, annual growth rates




Source: World Bank, World Development Indicators.

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Having turned to the IMF and the World Bank for support in the early 1990s, the government initiated new structural reforms from 1993, including privatisations. However, rising social inequality and a violent crushing of Islamic militancy between 1992 and 1999 led to a halt to the reform programme. By the early 2000s, a protracted economic slump saw a new reduction in living standards, with a 45% drop in the value of the Egyptian pound between the start of 2000 and mid-2003, after the government had to abandon its managed peg to the US dollar. The downturn served to focus attention on deep socioeconomic disparities reflected in high rates of poverty and unemployment.

A shake-up in government in 2004 saw the arrival of a new, reform-minded administration. A vast structural reform programme was implemented, which led to an acceleration of the privatisation programme, a shift in monetary policy towards inflation targeting rather than exchange-rate stability, and a lowering of import tariffs from an average of 14.6% in 2004 to 6.9% in 2006. Sharp reductions in personal and corporate income taxes were also implemented in 2005.

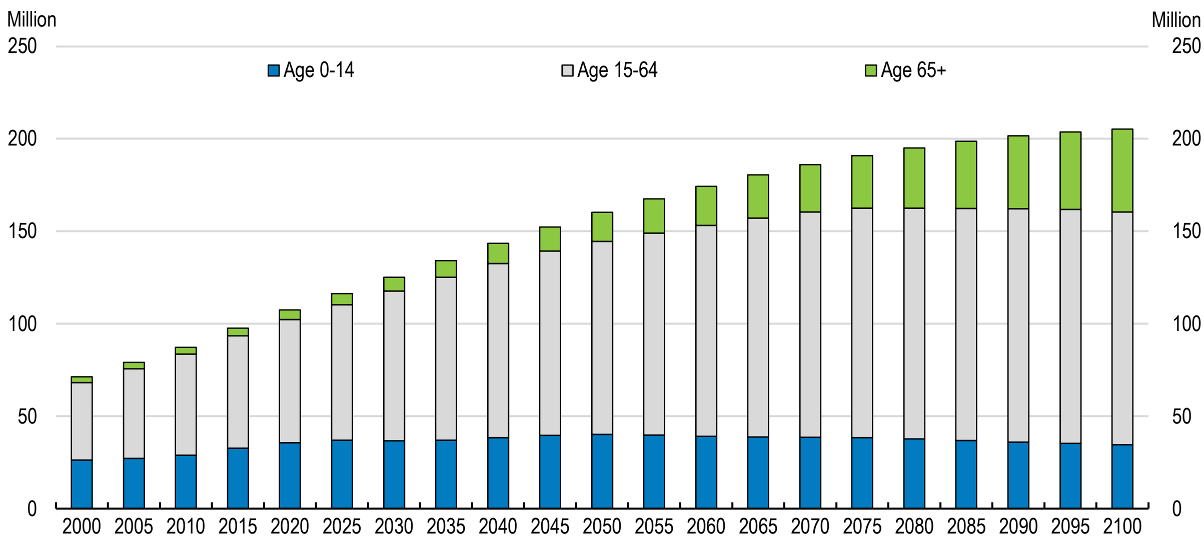
The reforms were broadly successful, with economic growth averaging 5.5% per year over 2004-10. However, growth was not sufficient to absorb the young and growing population and the external sector remained in deficit. The international financial crisis in 2008-09 also halted reform momentum. Mounting social pressures eventually led to the 2011 Revolution, also known as the Arab Spring.

In the four years following the Arab Spring, economic growth plummeted while the fiscal and external deficits widened, and foreign-exchange reserves fell. Unemployment and poverty increased to new highs. From the mid-2010s, the government of President Abdel Fattah el-Sisi undertook the first phase of the National Structural Reform programme, which included decreasing food and fuel subsidies, raising interest rates to stem high inflation, and passing new laws aimed at supporting private investment, while fiscal policy was tightened. The government also set in motion vast infrastructure and public investment projects. Against this backdrop, economic growth picked up, averaging close to 5% per year between 2015 and 2019.

Source: Handy (1998); EIU (2008); IMF (2015, 2018, 2021); Zaki (2017).

The aforementioned reforms need to be implemented fully and effectively, which will also require effective institutions and capacity building of officials. Egypt still needs to make progress in this area, including in aspects such as public-sector performance, upholding of property rights, protection of intellectual property, budget transparency or corruption (WEF, 2019; Bertelsmann Stiftung, 2022). Further reforms should be pursued to increase living standards and wellbeing and make the economy more resilient against future shocks. This will allow Egypt to catch up faster towards more advanced economies by boosting investment and productivity. A rapidly growing population (Figure 1.2), with rising educational attainment (Figure 1.3), will contribute to vigorous growth provided enough good job opportunities arise. This requires improving the business environment to unleash private sector forces (Chapter 3) and a labour market that allows the full use of people's potential (Chapter 4).

## Figure 1.2. The population is growing rapidly




Source: World Population Prospects 2022, United Nations, Department of Economic and Social Affairs, Population Division.

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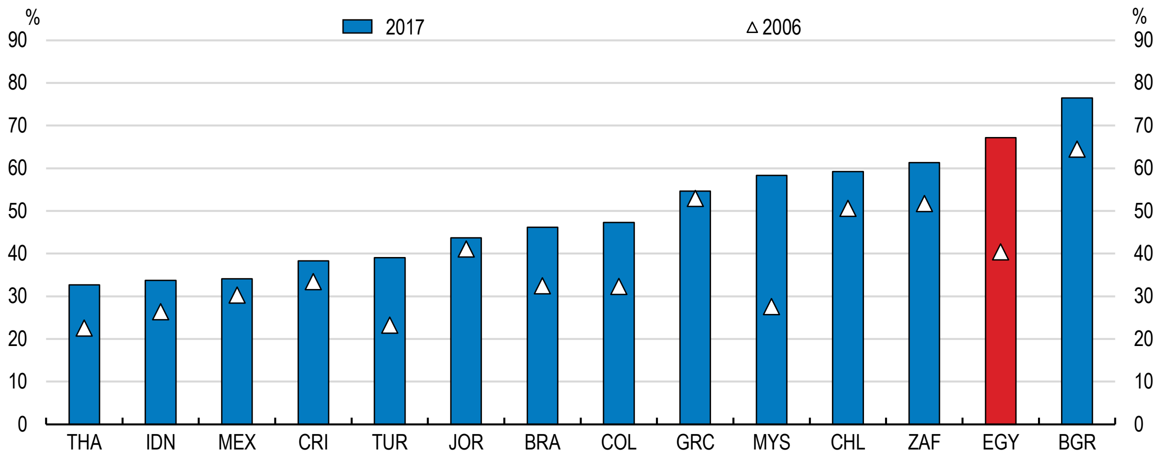
Over the past three decades, GDP per capita has increased substantially in purchasing power parity terms, a measure of living standards, growing faster than in neighbouring countries (Figure 1.4, Panel A). Growth slowed following the global financial crisis and again in the late 2010s, even before the COVID-19 shock (Panel B). Business investment and exports have been subdued since the 2011 "Arab Spring" (Chapter 2). At the same time, public expenditure has tended to outpace GDP, driven *inter alia* by large-scale public investment projects. Egypt has accumulated large macroeconomic imbalances, as public debt has risen, which has increasingly been financed by borrowing from abroad, and currently faces severe balance-of-payment difficulties (Chapter 2).

Egypt's per-capita GDP is one third of the OECD average and below the average of neighbouring countries, as defined in Box 1.3 (Figure 1.4), reflecting gaps in productivity (Chapter 3) and employment (Chapter 4). Straddling the Asian and African continents, Egypt enjoys a geographical advantage in international trade. However, trade openness is low (Figure 1.5), and integration in global value chains is limited (OECD, 2024, forthcoming), with a predominance of low-value added activities (Chapter 2). Continued management of the exchange rate has led to repeated devaluations, the expectation of which has held back investments. Egypt has long attracted the largest amount of FDI inflows in Africa but the stock of inward FDI as a share of GDP is low (Figure 1.6), indicating difficulties with the investment climate. FDI inflows picked up recently, more than doubling to USD 11 billion with increased cross-border M&As in 2022 over the previous year (UNCTAD, 2023). Nonetheless, structural weaknesses remain, including regulatory bottlenecks that hold back private sector activity by stifling market competition (Chapter 3). Structural reform to remove such bottlenecks can lead to significant improvements in growth and living standards (Box 1.4).

### Figure 1.3. Educational attainment has increased

Share of those completed at least upper secondary education, population aged 25 years or older




Note: Data for 2006 and 2017 or closest year.
Source: World Bank, World Development Indicators.

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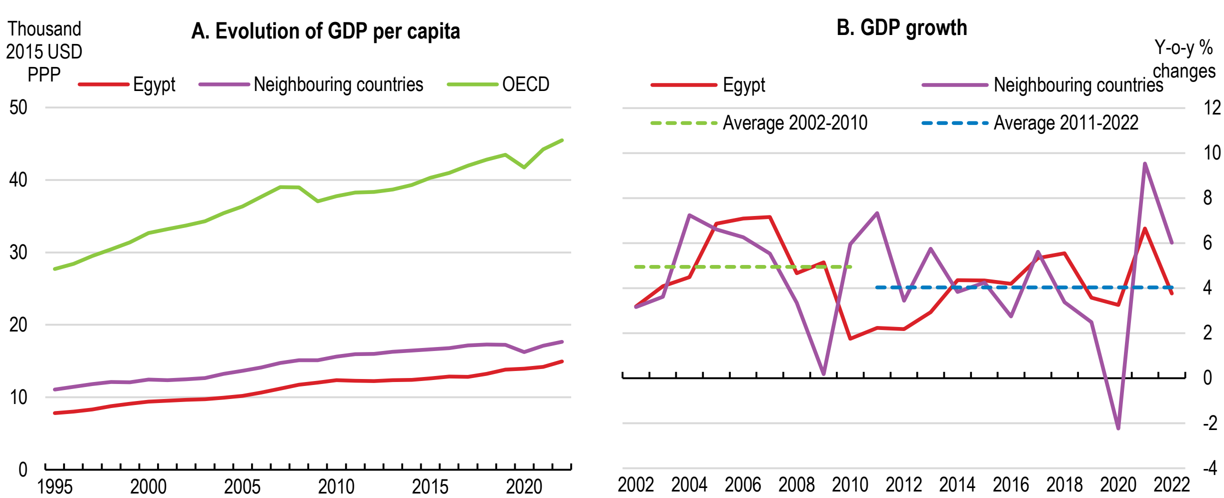
### Figure 1.4. Living standards have improved




Note: Country aggregates represent simple averages of the list of countries as defined in Box 1.3. Data for Egypt refer to fiscal years (from July to June of the following year).
Source: IMF, World Economic Outlook - October 2023 database; Ministry of Planning and Economic Development; OECD, National Accounts database.

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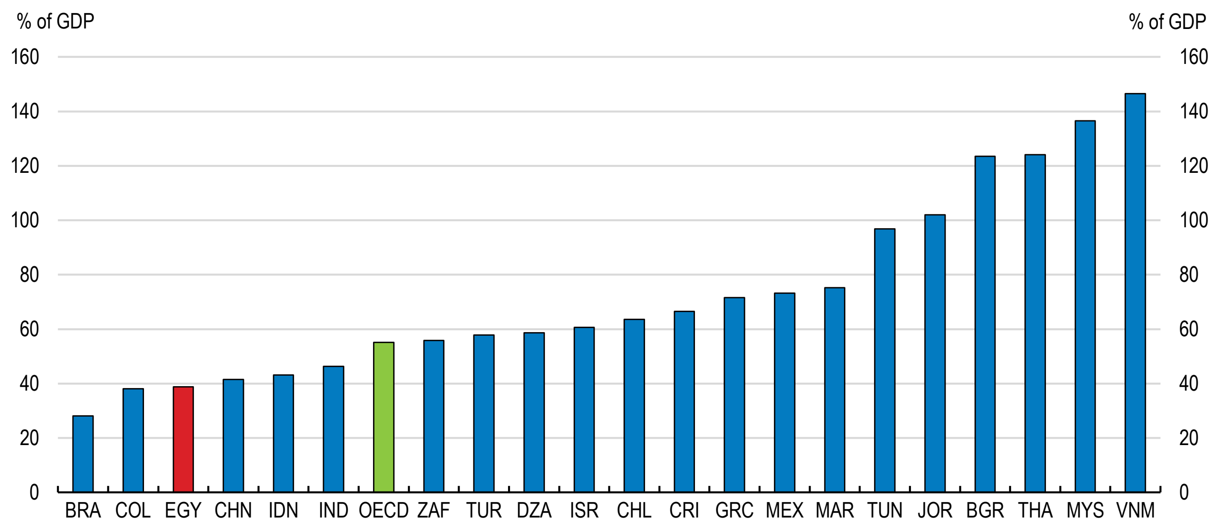
### Box 1.3. Choice of comparator countries

The "comparator countries" refer to 17 countries for which the OECD has already produced at least one OECD Economic Survey and whose living standards (in terms of GDP per capita) are closest to Egypt's, namely: Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Greece, India, Indonesia, Malaysia, Mexico, Morocco, South Africa, Thailand, Tunisia, Türkiye, and Viet Nam.

The "neighbouring countries" refer to a set of countries located in the same region: Algeria, Israel, Jordan, Lebanon, Morocco, Tunisia, and Türkiye.

### Figure 1.5. Trade openness is low

Trade as % share of GDP, 2010-22 average




Note: Trade is the sum of exports and imports of goods and services as a share of gross domestic product.
Source: World Bank, World Development Indicators.

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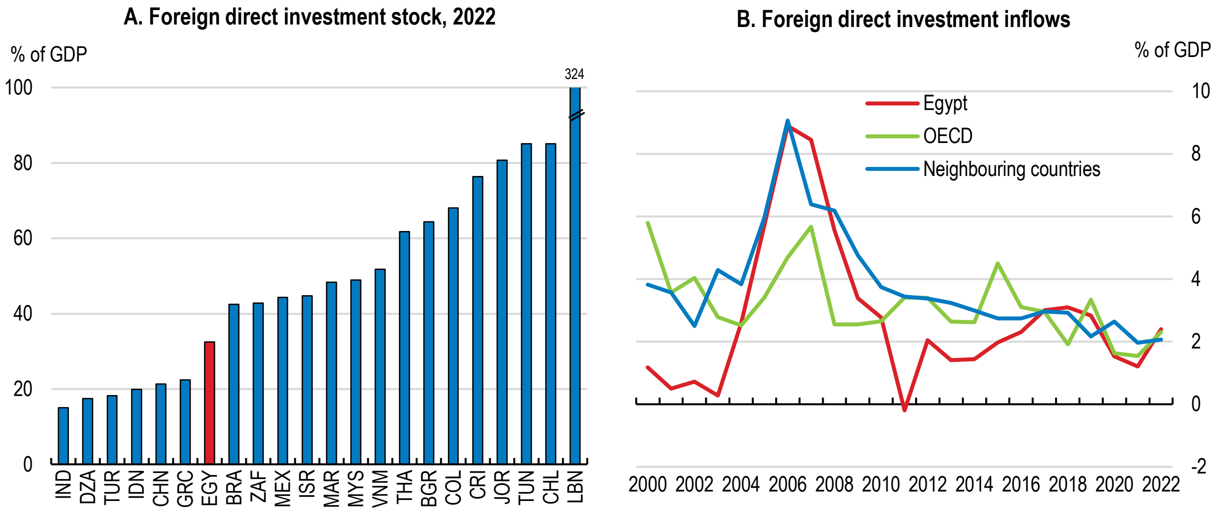
Egypt's employment rate is low and has declined (Figure 1.7, Panel A), holding back growth and living standards. Many highly-educated youth fail to find a formal job, and a larger share of women remain out of the labour force than in many other countries. Informal jobs, most of which are poorly paid, have tended to become more prevalent. As a result, the poverty rate has trended up (Panel B), with many working poor, although the rise in poverty has been kept in check due to an expansion of targeted social benefits (Chapter 4). Egypt has made much progress in education as primary education is quasi-universal and formal educational attainment has improved substantially (Figure 1.3), but the education system struggles to meet labour market needs (Chapter 4). At the same time, structural weaknesses, in the form of rigid product and labour markets, hinder better-quality job creation.

### Figure 1.6. The FDI stock has room to increase




Note: Country aggregates represent simple averages of the countries as defined in Box 1.3. OECD aggregate excludes Luxembourg due to its erratic values. The directional definition underpinning the UNCTAD stock data differs from the asset/liability approach of the Sixth edition of the Balance of Payments and International Investment Position Manual used to compile flows.
Source: UNCTAD, FDI/MNE database; IMF, World Economic Outlook - October 2023 database.

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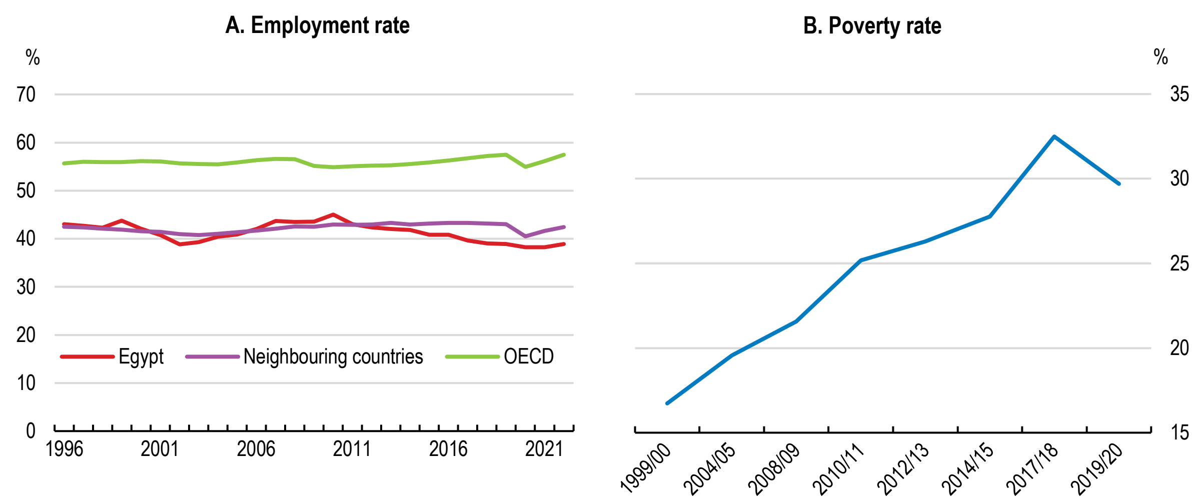
### Figure 1.7. Employment has fallen behind and the poverty rate has trended up




Note: In Panel A, employment rate is defined as the share of employed in working age population (15+).
Source: World Bank, World Development Indicators; and Central Agency for Public Mobilisation and Statistics (CAPMAS), Egypt.

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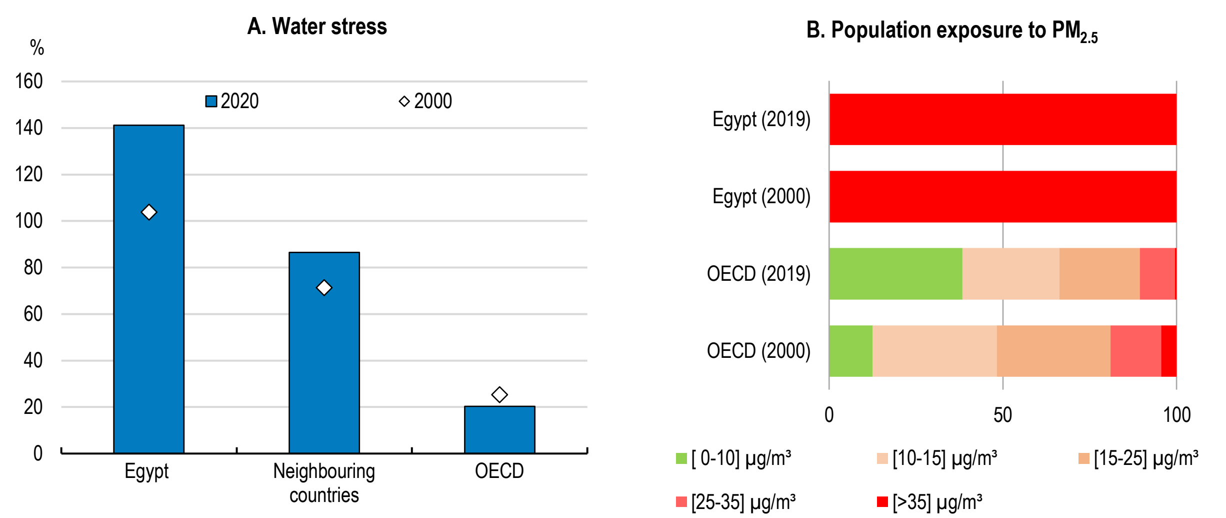
Egypt is highly exposed to the effects of climate change, particularly rising temperatures and water scarcity (Figure 1.8, Panel A). This is even more so given fast population growth, which pushes up demands for energy, transport and consumption, straining available resources. Changes in temperature, in evaporation and in rainfall in the Nile River basin will reduce water availability. Population concentration in the Nile Delta amplifies the potential climate-change impact from rising sea levels, which negatively affects available fresh water for human consumption and destroys agriculture due to sea water intrusion. Climate change will also adversely affect biodiversity and critical ecosystems, undermining the livelihoods of both farmers and workers in the tourism sector. Moreover, rapid urbanisation has led to unplanned urban expansion, and aggravated problems related to solid and wastewater management, as well as $CO_2$ emissions from buildings. Air pollution is severe (Panel B), with the highest rate of premature deaths from ambient air pollution in the Middle East and North Africa region (Heger et al., 2022).

### Figure 1.8. Further efforts to reduce emissions are needed




Note: Panel A: Water stress is defined as freshwater withdrawal as a proportion of available freshwater resources (adjusted for the amount of water required to sustain aquatic ecosystems, with a minimum risk of degradation); Panel B: CO2 emissions from the combustion of coal, oil, natural gas, and other fuels.
Source: FAO, Aquastat; OECD, Green Growth Indicators.

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This Survey assesses Egypt's capacity to improve its prospects for strong, inclusive and sustainable growth, taking stock of ongoing efforts and identifying areas of improvement. Its key messages are:

- The immediate priority is to tackle the cost-of-living crisis and balance-of-payment difficulties. This includes making the exchange rate more flexible to resolve foreign currency shortages and adjusting monetary policy as needed to bring inflation down to target, while further expanding the cash transfer programmes targeted to the most vulnerable.
- Over the medium term, improving public finance sustainability is key. Committing to a comprehensive and credible consolidation strategy would improve investor confidence and thereby ease financing conditions. This requires, among others, rationalising public investment projects by extending current efforts and increasing tax collection.
- From a longer-term perspective, sustaining higher productivity growth is essential. The ongoing reforms including the divestment plan should be implemented fully and effectively, while strengthening public institutions. Reform efforts should be intensified, by further reducing the state footprint to ensure a level playing field and continuing to lift regulatory barriers to spur private sector activity, which would boost private investment including in the green transition.
- Living standards can be improved for all and better-quality job creation can be boosted by making markets more flexible, reducing high taxes on labour, pursuing the reform of the education system to develop skills needed in the labour market, strengthening public support for job search and facilitating the reconciliation of work and family responsibilities.

The Survey is structured as follows. Chapter 2 discusses the macroeconomic outlook with a focus on reducing macroeconomic imbalances and on greening growth. Chapter 3 discusses measures that can raise productivity growth by improving the business environment with a focus on strengthening competition.

Chapter 4 discusses measures that can increase living standards for all durably, by boosting better-quality job creation, expanding social benefits and enhancing skills. Simulations suggest that the recommendations in this Survey can substantially increase living standards (Table 1.1).

## Box 1.4. Structural reforms will support long-term growth

This box shows the results of quantifying the effects of some of the structural reform measures proposed for Egypt in this Survey.

This exercise draws on the OECD reform quantification framework (Égert and Gal, 2017; Égert, 2017). The framework relies on a production function approach. The influence of policies on GDP is typically assessed through their impact on supply-side components: labour productivity and employment. Each in turn can be further decomposed, respectively into capital intensity and multi-factor productivity, and into labour force participation and unemployment. Within the framework, the impact of structural reforms is quantified from a range of cross-country reduced-form panel regressions on three channels: i) multi-factor productivity, ii) capital deepening, and iii) employment. The overall impact on GDP per capita is obtained by aggregating the policy effects of the various channels through a production function.

The estimated effects derived in this framework are used to simulate the impact of reforming policies in Egypt towards best practices. For the purpose of illustration, each policy variable for Egypt is assumed to improve by one standard deviation of the same policy variable across countries in the sample. For instance, this corresponds to a change by 0.81 in the OECD Product Market Regulation indicators that vary from 0 (best) to 6 (worst). This simplified assumption generates very large effects in some cases. The effects of the policy variables are additive in principle, since in the quantification framework, the effects of each policy variable are estimated by controlling for those from other policies. However, this does not hold for some policy variables, in particular, institutional indicators from the World Bank Worldwide Governance Indicators, which display significant correlation among each other. However, empirical work indicates that the quality of institutions matters to a large extent both over time and across countries (Égert, 2017).

### Table 1.1. Illustrative impact of selected structural reforms on GDP per capita

| Policy area | Policy actions | Cumulative effect on real GDP per capita after: | | |
|---|---|---|---|---|
| | | 5 years | 10 years | Long term |
| Reduce the footprint of the state in the economy | Fully implement the privatisation programme announced in the State-ownership Policy document (December 2022) and continue to divest non-strategic firms to private owners; fully implement the principle of competitive neutrality across all SOEs and economic authorities and uphold decisions by the High Committee for Competitive Neutrality; remove remaining exemptions for SOEs (for instance, those in the public procurement law) and clarify remaining caveats in tax exemptions; adhere to and implement the principles of good corporate governance for SOEs. | 10.7 | 13.5 | 14.8 |
| Lower barriers to entrepreneurship | Reduce time to register a business towards international best practice; fully implement the Industrial Permits Act and create a genuine one-stop-shop for industrial licences; implement the "silence is consent" principle where appropriate. | 4.0 | 4.9 | 5.3 |
| Reduce barriers to trade and investment | Remove remaining differential treatment of foreign investors; lower and streamline import tariffs; simplify and automate customs procedures | 4.7 | 8.7 | 22.7 |
| Improve access to finance [1] | Increase the number of bank branches and access to e-banking in rural areas; reduce the time to resolve insolvencies. | 5.4 | 6.4 | 7.5 |

1. The access to finance indicator measures the impact of improving access to financial services proxied by the number of bank branches by 20 000 persons but the same effect is likely achieved through increasing access to e-banking in rural areas using financial technology services via mobile telephony, which requires improving the digital infrastructure.
Source: OECD calculations.

The table below only shows the results for the policy measures discussed in Chapter 3 and that fall within the OECD reform quantification framework, such as tariff reductions or changes to regulation.

Other reforms, such as fiscal measures (Chapter 2) fall outside of the model. Reforms pertaining to active labour market policies (Chapter 4) can only be quantified for OECD countries in the model, owing to data availability. Finally, some policy reforms are more broadly aimed at improving the business climate, or relate to changing or improving implementation. Such measures are more difficult to quantify, but their potential effect should not be neglected. The quantification exercise is meant to serve as an illustration of a potential impact of reforms and the results should not be considered as OECD projections.

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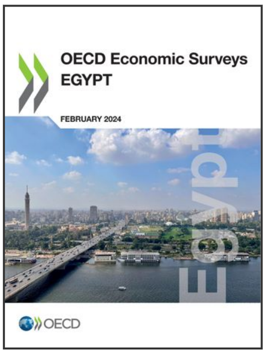




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