COUNTRY PROFILE **2015**

EGYPT

United Nations
Economic Commission for Africa

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The Egypt country profile was prepared by the Data Centre of the ECA Subregional Office for North Africa and the Special Initiatives Division, under the coordination of Zoubir Benhamouche. The following persons contributed to the country profile: Omar Abdourahman, Ochozias Gbaguidi, Houda Mejri, Salem Sebar, Isidore Kahoui, Marieme Bekaye, Aziz Jaid and Mohammed Mosseddek.

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EGYPT AT A GLANCE

General Information	
Region	North Africa
Official language(s)	Arabic
Currency	Egyptian pound (EGP)
Capital city	Cairo
REC membership(s)	COMESA, CEN-SAD

Rankings	
Human development index (United Nations Development Programme)	108/188 (2014)
Gender Inequality index (United Nations Development Programme)	131/155 (2014)
Ibrahim index of African governance (Mo Ibrahim)	24/54 (2014)
Ease of doing business index (World Bank)	126/189 (2015)
Corruption perceptions index (Transparency International)	88/168 (2015)

ECONOMIC GROWTH

The gross domestic product (GDP) of Egypt grew by 4.7 per cent in the first three quarters of the fiscal year 2014/15. On the supply side, growth was driven by the manufacturing sector (excluding hydrocarbons), tourism, the construction sector, wholesale and retail trade, and agriculture. On the demand side, household consumption and public spending continued to be buoyed by the fiscal stimulus, contributing to growth by 4.8 points.

FISCAL POLICY

Budget earnings increased by 3.6 per cent from July 2015 to May 2015. Public debt remained high at nearly 90 per cent of GDP (89.7 per cent in March 2015, compared to 90.4 per cent in March 2014).

MONETARY POLICY

Inflation grew by 11 per cent in the fiscal year 2014/15, after rising by 10.1 per cent the previous year. In formulating its monetary policy, the Government had to deal with meeting the financing requirements of the State and containing inflation at the same time. In January 2015, the Central Bank of Egypt reduced its key interest rate by 50 base points to accompany growth and cater for the drop in inflation in late 2014.

CURRENT ACCOUNT

The current account balance reached a deficit of $-4 billion in the first quarter of 2015. From July 2014 to March 2015, the current account deficit reached $-8.4 billion (2.5 per cent of GDP). This stems from the degradation of the trade balance, which reached -8.8 per cent of GDP, following a fall in oil exports.

CAPITAL AND FINANCIAL ACCOUNTS

The ratio of foreign direct investment (FDI) in the country's domestic investment rose again, following a drop from 25.7 per cent in 2008 to nearly 3 per cent in 2011, owing to political instability. Since 2012, this ratio has been rising steadily, reaching 17.7 per cent in 2015. In terms of external trade, the situation of Egypt remains fragile and dependent on financing from the Gulf States (+$2.4 billion) and FDI (+$5.7 billion).

DEMOGRAPHY
With a growth rate of 1.6 per cent in 2015, the population of Egypt will exceed 100 million by 2030.

POVERTY
From 1990 to 2000 the country reduced the proportion of people living in poverty significantly, from 25 per cent in 1990 to 16.7 per cent in 2000.

EMPLOYMENT
While the unemployment rate in Egypt is structurally high, it dipped slightly to 12.8 per cent in the first quarter of 2015, from 12.9 per cent in the fourth quarter of 2014 and 13.3 per cent for the first quarter of that year. The unemployment rate in Egypt averaged 10.59 per cent from 1993 to 2014.

HEALTH
According to the World Health Organization, 20.5 per cent of children under 5, 22.5 per cent of men and 46.3 per cent of women are overweight, making Egypt one of the world's top 20 overweight nations.

EDUCATION
Egypt has exceeded the gender parity goal for the completion rate in secondary education (83.4 per cent for girls and 74.8 per cent for boys).

GENDER SCORECARD OF THE AFRICAN UNION COMMISSION
Egypt has almost reached parity in secondary enrolment, with a gross enrolment rate of 85.5 per cent for girls and 87.11 per cent for boys. Only 2 per cent of members of parliament, however, are women. The workforce participation rate is 24.9 per cent for women and 85.1 per cent for men. There are also acute inequalities in terms of access to and control of land, as illustrated by the country's score of 1 out of 10 on the scorecard.

1

OVERVIEW

Following a mean 7 per cent growth rate from 2005 to 2007 and over 5 per cent from 2008 to 2010, the economic growth of Egypt fell to 1.8 per cent in 2011, following the social upheavals. Political instability and structural deficiencies in the economy (underdeveloped infrastructures, weak human capital, difficult access to financing and an uncompetitive business environment) seriously affected growth from 2011 to 2014.

The return to relative political stability and a review of the constitution in January 2014, as well as the presidential elections in June 2014, coupled with structural reforms, helped to revitalize the economy of Egypt to restore growth to pre-crisis levels.

Despite an average growth rate of over 5 per cent from 2004 to 2010 (7 per cent from 2005 to 2008 and 4.9 per cent from 2009 to 2010, owing to the financial crisis), Egypt was unable to start any true structural transformation of its economy, which is still dominated by sectors where productivity gains have been relatively low. A close look at the share of various sectors in GDP shows very little change in the relative importance of the various sectors. In 2000, the share of the manufacturing industry, the extractive industry, agriculture and services was 19.7 per cent, 7.3 per cent, 16.6 per cent and 33.7 per cent, respectively. In 2014, it was 14.48 per cent, 17.26 per cent, 16.44 per cent and 28.23 per cent. Clearly, structural transformation of the economy is a major challenge.

In terms of the budget, the cumulative effect of the 2008 financial crisis and the political upheavals in 2011 deteriorated the public finance situation. The public finance deficit rose from less than 6.5 per cent of GDP in 2009 to 13.7 per cent in 2013. The total public debt rose from 81 per cent of GDP in 2009 to nearly 90 per cent in 2015.

The authorities were confronted with the dual challenge to revive growth and consolidate public spending. The reforms thus focused on reducing subsidies on fuel, for instance, and controlling salary increases and better managing public finance.

In 2014, the following reforms were made: (a) tax reform to extend the tax base and ensure better collection of taxes; (b) continue with reduction in energy subsidies; (c) better targeting of social policies, including money transfer programmes; (d) reform of the business environment, with significant improvement in investor protection. In March 2014, the Ministry of Investment introduced a business reform entitled "Egyptian Regulatory Reform and Development Activity".

All these reforms have started bearing fruit. The budget deficit was reduced to 10.8 per cent of GDP in 2015. Growth in the first nine months of fiscal year 2014/15 reached 4.7 per cent, compared to a mere 1.6 per cent during the same period in fiscal year 2013/14.

In terms of human development, Egypt has made significant strides, especially in the areas of health and education. This pushed the human development index (HDI) from 0.452 to 0.621 from 1980-2000. From that date, social progress has been relatively slow. Indeed, from 2000 to 2014, the HDI only increased by 0.061. This shows the limitations of the development model, which is mainly based on investments in HDI components such as health and education that are not connected to with the economic sector. Moreover, the country is currently facing major challenges, especially since the social upheavals of 2011, which adversely affected the national economy, especially public finance.

Streamlining budget expenditure, following the increase in public deficits, coincides with the need to step up the efficiency of social expenditure. It became necessary to reform the subsidy system, a costly venture for Government, which absorbs over 25 per cent of public expenditure and amounts to 13 per cent of GDP. The system reform should also affect food and energy subsidies, and in the long run, lead to price liberalization, but taking into account the plight of the most vulnerable populations. Energy subsidies, however, remain a sensitive issue in Egypt, and the Government has not yet called the universal nature of the mechanism into question. A smart card system, with quotas for each vehicle, was set up. These measures, which were introduced in 2013, should help to halve subsidies, which, according to the Government's plan, will drop from EGP 126.8 billion in 2013 to EGP 61.7 billion in fiscal year 2015/16. The Government is relying on the sharp fall in oil prices to cushion the effect of these reforms for the people.

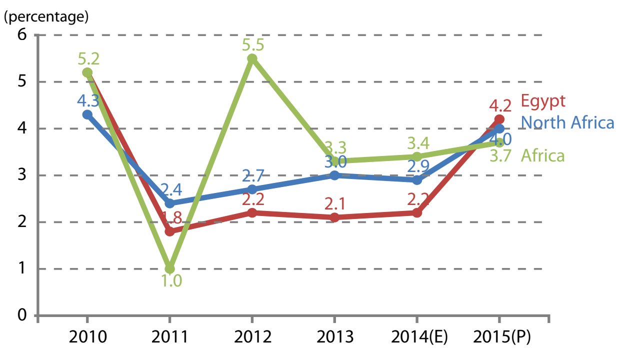
2

NATIONAL AND SUBREGIONAL CONTEXT

The subregion is faced with numerous challenges, political and social alike. Most countries were hit by widespread social upheavals which led to political instability that had far-reaching consequences on economic activity. The economic growth of the subregion fell from 4.3 per cent in 2010 to 2.4 percent in 2011 (see figure 1).

The political and social events which broke out in 2011 plunged Tunisia, Egypt and Libya into turmoil. Despite the fragile security situation in Egypt and Tunisia, they still embarked on political reforms which led to presidential elections, marking a return to a degree of political stability. This relative stability renewed the path to growth. Libya is still under the throes of political wrangling, which has limited its prospects for development. In 2009, Mauritania also restored political stability, which led to a mean growth rate of 5.5 per cent over the period 2010-2015.

Figure 1: Growth rate, Egypt, North Africa and Africa



Sources: National data; Department of Economic and Social Affairs; ECA calculations.

Morocco and Algeria have been spared the political turmoil. However, all the countries of the north are plagued by poor governance. Political instability leads to bad governance, especially economic, which hinders development in the region. According to the Mo Ibrahim index, only Tunisia (ranked eighth) is featured among the top 15 African countries. The Sudan and Mauritania are fifty-first and fiftieth respectively, while Morocco and Algeria are in sixteenth and twentieth place, respectively.

In terms of efficiency of public regulation (on an index of 1 to 100, 100 being the best performance), according to the World Bank good governance index, no significant progress has been made since 2010. Only Morocco obtained a score above 50 in 2014. In terms of efficiency of the State, very little progress has been made, with Egypt and Tunisia underperforming. No country obtained an index higher than 50, with Tunisia having the highest score (49), followed by Morocco (48). Lastly, corruption continues to be a major challenge for the economies of the region. On the Transparency International index, all the countries scored below 4 (on a scale of 0 to 10, with 0 being the bottom of the scale). In terms of controlling corruption, the progress made is inadequate, with no country scoring 50.

The economies of the region are not diversified enough in terms of exports. Their growth stems from the primary or natural resource sectors. The exports of Algeria, the Sudan, Mauritania and, to a lesser extent, Egypt, all comprise low value added products. In the Sudan, oil, gold and livestock farming account for 77 per cent of exports; in Algeria, hydrocarbons account for 95 per cent; in Mauritania, gold, fishing and iron account for 78 per cent, and in Egypt, fuel oil, oil and by-products make up 48 per cent. On the other hand, Morocco and Tunisia were able to diversify their exports. Capital goods account for over 16 per cent of exports in the two countries and consumer goods over 32 per cent.

Private sector development is still a huge challenge for the economies of North Africa, while the business climate is one of the prime targets of the Governments in the region. Only Morocco and Tunisia were ranked lower than 100 in the Doing Business 2016. Algeria and Egypt went down in the rankings in 2015. In 2013, Mauritania made considerable effort to improve the business environment by establishing companies and access to credit. The Mauritanian Government has adopted a new road map for the Doing Business 2015.

The lack of diversification stretches government resources earmarked for economic and social development. For most of the countries in the region, the State budget depends on a limited number of sectors and volatile resources. While strides have been made to improve public finance management and diversify resources, in terms of tax earnings, much still remains to be done. The proportion of tax revenue in GDP is about 19 per cent in all countries, except for the Sudan (7.3 per cent).

Lastly, unemployment is an endemic problem in this subregion, with the rate exceeding 10 per cent in most of the countries. More and more young people are unemployed, with youth unemployment exceeding 25 per cent in all the countries except for Morocco whose rate was 19.3 per cent in 2013.

In terms of regional integration, the country's integration with the other North African economies is very developed. Its share accounts for less than 6 per cent of its total exports and 4 per cent of its imports. Because of this, impact of economic shocks from other countries in the region on the country's economy is limited.

According to the African regional integration index (see table below), Egypt is ranked seventh in Africa for trade integration, showing how well rooted its economy is on the continent. This is because the country has opened up to its regional neighbours through groupings such as the Common Market for Eastern and Southern Africa (COMESA) and the Community of Sahel-Saharan States (CEN-SAD). Besides, with the June 2015 launch of the tripartite agreement between the COMESA, the East African Community and the Southern African Development Community at Sharm El Sheikh, it will open up even further. This future common market of 26 countries and about 600 million consumers will strengthen integration in the region and serve as a springboard for the future continental agreement, thereby affording Egypt unique opportunities to diversify and develop its economy.

Box 1: Africa regional integration index

The Africa regional integration index is designed to measure the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks such as Agenda 2063 and the Abuja Treaty. The index, which is a joint project of the African Development Bank, the African Union Commission and the Economic Commission for Africa, covers the following dimensions: (i) free movement of persons; (ii) trade integration; (iii) productive integration; (iv) infrastructure; (v) financial integration and macroeconomic policy convergence. The following section gives highlights on selected indicators. A technical description of the indicator may be found on the ECA website at www.uneca.org.

Overall rank: Twelfth in CEN-SAD (0.39), fourth in COMESA (0.51). Best performer in COMESA is Kenya (0.57).*				
Free movement of persons: Twenty-eighth in CEN-SAD (score: 0.03); eighteenth in COMESA (score: 0.03). Best performer in COMESA is Seychelles (score: 0.70).	Trade integration: Second in CEN-SAD (score: 0.82); second in COMESA (score: 0.9). Best performer in COMESA is Zambia (score: 1).	Productive integration: Sixth in CEN-SAD (score: 0.43); first in COMESA (score: 0.76).	Infrastructure: Ninth in CEN-SAD (score: 0.33); fourth in COMESA (score: 0.51). Best performer in COMESA is Seychelles (score: 0.71).	Financial integration and macroeconomic policy convergence: Twenty-first in CEN-SAD (score: 0.32); eleventh in COMESA (score: 0.35). Best performer in COMESA is Seychelles (score: 0.5).

**A continent-wide ranking in which all African countries from all regional economic communities will be compared with one another is currently being developed for the Africa regional integration index and will be added to subsequent updates of the ECA country profiles.*

Free movement of persons

Egypt does not perform particularly strongly in the dimension of free movement of persons. Seven other African countries are allowed to enter Egypt visa-free or with a visa on arrival, which places the country joint forty-third in Africa for this indicator (source: International Air Transport Association, McKinsey and national websites). At the time this country profile was being drafted, Egypt had not yet ratified any of the protocols on free movement of persons of the regional economic communities of which it is a member (ECA, African Development Bank and the African Union Commission, 2012; ECA, the African Union Commission and the African Development Bank, 2013; ECA and the African Union Commission, 2015).

Trade integration

Egypt appears to have made strong progress towards removing tariff barriers to intra-community imports: its average applied tariff on imports from CEN-SAD and COMESA is just 0.1 per cent (United Nations Statistics Division, 2015; ITC, 2015). The country also scores well in trade facilitation, ranking eighth in Africa on the indicator on the World Bank Doing Business index for the ease of trading across borders. In addition, Egypt ranks second highest in terms of its trade complementarity with the rest of the continent, behind only South Africa, which suggests a high degree of specialization between Egypt and its neighbours.

These efforts are not reflected, however, in the actual volume of intracommunity trade as a share of GDP. Within CEN-SAD, Egypt has the lowest level of intraregional imports as a share of GDP of any member country. In COMESA, it ranks second lowest on this parameter. The country's low intra-regional tariffs, high complementarity with the rest of the continent and low costs of trading with the world suggest that the non-tariff costs of trading within the region may be higher than those with the rest of the world. This may be due to the high costs of transporting goods overland between Egypt and the rest of Africa, which in turn suggests that, in order to boost intra-regional imports, the country may need to focus on trade facilitation and infrastructure in the land corridors that connect it with the rest of the region (national sources; United Nations Statistics Division, 2015; UNCTADStat, 2015).

Egypt has a higher share of intracommunity exports relative to GDP. Its level of intra-CEN-SAD exports as a share of GDP places it eleventh among the 18 CEN-SAD members for which data were available; while its level of intra-COMESA exports as a share of GDP places it ninth among the 17 COMESA members for which data were available (national sources; United Nations Statistics Division, 2015).

Productive integration

Egypt appears to have strong forward integration with the rest of the region. It exports more intermediates by value to CEN-SAD than any other CEN-SAD member for which data are available, and has the fifth highest volume of intermediates exports to COMESA members. In terms of imports of intermediates, Egypt imports the ninth most intermediates from the region of any CEN-SAD member and the fifth most intermediates of any COMESA member. Given the size of the Egyptian economy relative to others in the region, the country's backward integration with regional value chains is not as strong as its forward integration (United Nations Statistics Division, 2015).

Infrastructure

Internet bandwidth per capita in Egypt is the ninth highest on the continent, according to the latest data (from 2013), at around two megabits per second per person. This will support the country's communication with other African countries, including through trade in services. Egypt also has the fifth highest net electricity production capacity per capita among African countries, at 0.3 megawatt hours per capita per year. Access to electricity is essential for the industrial sector, the development of which promises to encourage intra-African trade (national source; United Nations Statistics Division, 2015a).

Conclusion

Overall, Egypt appears to be performing well in most dimensions of regional integration included in the index, although ensuring the free movement of persons and facilitating intra-regional trade via land corridors represent two areas in which the country could make further progress.

3

ECONOMIC PERFORMANCE

3.1 Economic growth

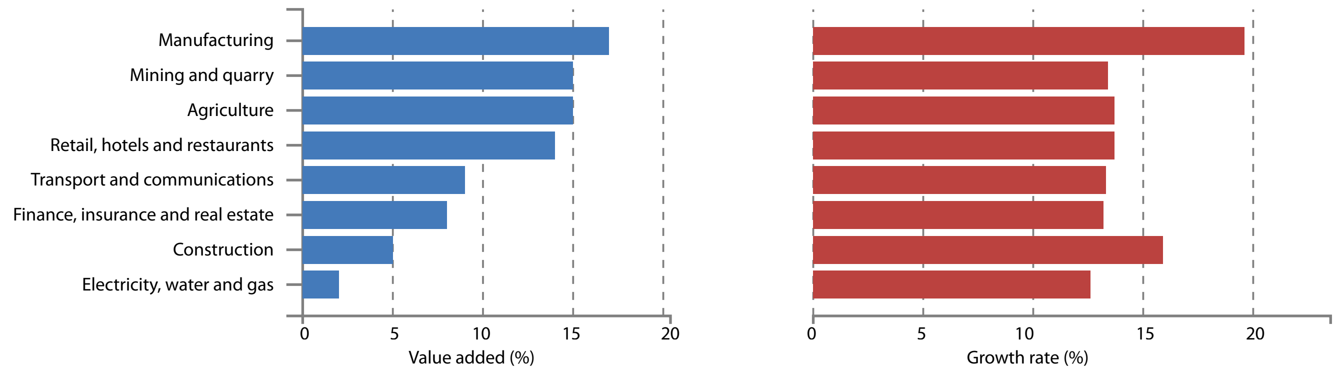
The economy of Egypt was bedeviled with social upheavals in 2011, which had dire consequences on the national economy owing to the political and security uncertainties that led to a significant reduction in earnings from the tourism sector and the Suez canal, and a freeze on or postponement of private investments.

GDP growth reached 4.7 per cent in the first three quarters of fiscal year 2014/15. On the supply side, growth was driven by the manufacturing sector (less hydrocarbons), the construction sector, wholesale and retail trade and agriculture, while other services contributed negatively to it (see figure 2). On the demand side, household consumption and public spending continued to be buoyed by the fiscal stimulus, contributing to growth by 4.8 points (see figure 2).

In terms of structural transformation, despite an average growth rate exceeding 5 per cent during the period 2004-2010 (7 per cent average growth from 2005 to 2008, 4.9 per cent from 2009 to 2010 due to the financial crisis), Egypt could not embark on a proper structural transformation of its economy, which was still dominated by sectors where productivity gains were relatively low.

A review of the share of the various sectors in the GDP shows that they have not changed greatly. The country's economy is still dominated by agriculture and mining, which accounted for 30 per cent of GDP in 2014, compared to 29 per cent in 2006 (see figure 3). The structural transformation of the economy is a major challenge. Aware of this challenge, in March 2014, the Government initiated a business reform entitled "Egyptian Regulatory Reform and Development Activity", to stimulate investment and create businesses. The security

Figure 2: GDP growth rate breakdown by sector, 2014 (percentage)Source: Ministry of Finance, 2015.



Source: Ministry of Finance, 2015.

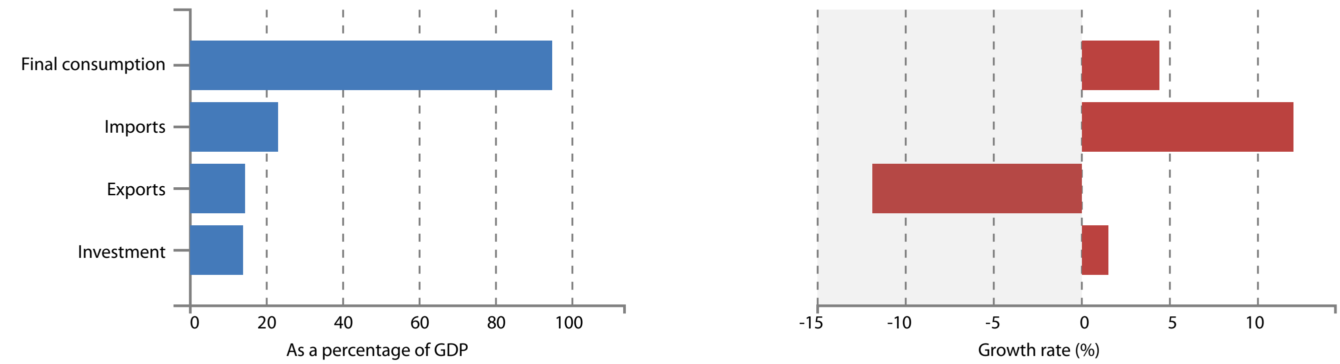
situation and political turmoil led to a "wait and see" approach by investors. Egypt's Doing Business ranking fell from 126th place in 2015 to 131st place in 2016.

The expansion of the Suez Canal in August 2015, however, coupled with the discovery of the largest gas reserves ever found in the Mediterranean (850 billion cubic metres, or the equivalent of 5.5 billion barrels of oil), will not only radically change the energy scene of Egypt, but also have a significant impact on the development of the manufacturing industries, especially the energy-intensive ones.

3.2 Comparing economic forecasts

The quality of forecasts is assessed to inform decision-makers about the relevance of projections and macroeconomic aggregates carried out by national and international institutions, so as to guide them in the formulation and implementation of their development strategies. The data for conducting the assessment are from national and international sources. The present analysis on Egypt was based on three macroeconomic variables, namely the economic growth rate, the inflation rate and the current account balance, based on data from the African Development Bank (AfDB), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF) for the period 2008-2014. Data on GDP growth (2001-2012) and inflation (2005-2012) from the United Nations Department of Economic and Social Affairs were also used.

Figure 3: Distribution and growth rate of GDP demand components, 2014 (percentage)



Source: Ministry of Finance, 2015.

Box 2: Forecasts for the Egyptian economy

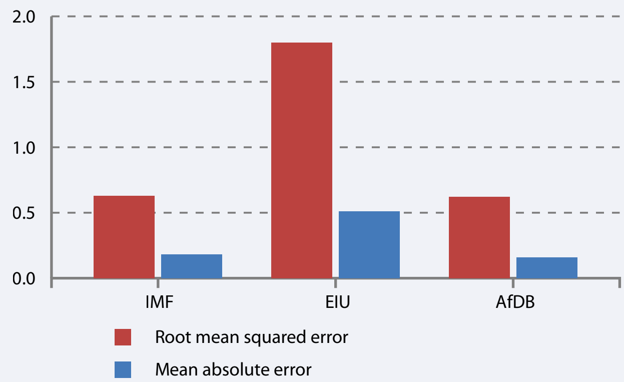
A number of organizations produce forecasts of economic growth in Egypt, including AfDB, EIU and IMF. The most optimistic forecasts for 2014 were made by IMF (2.3 per cent), while EIU predicted 2 per cent. The forecasts of all these organizations hover around 2.8 per cent for the period 2009-2014. However, 2009 was an exception. In that year, the most optimistic forecasts were around 7.1 per cent for EIU, compared to 3.5 per cent for AfDB.

The root mean squared error and the mean absolute error percentage are common measures used to ensure precise forecasts. The higher the value of these measurements, the less accurate the forecasts are. On this basis, EIU provides the best forecasts for growth rate. Overall, however, the precisions on the forecasts of the growth rate are relatively different from the actual, due to high errors in the forecasts

How accurate are these forecasts? The root mean squared error and the mean absolute error are common measures used to evaluate forecasts. Generally, the higher the value of these errors, the less accurate the forecasts. ECA analysis suggests that the most accurate forecasts produced over the period 2008-2014 were those made of AfDB followed by EIU. However, the variance in the error estimates is small, suggesting that all three organizations have produced forecasts of similar accuracy.

Figure 4: Forecasted GDP real growth rates, by institution

Figure 5: Forecast accuracy



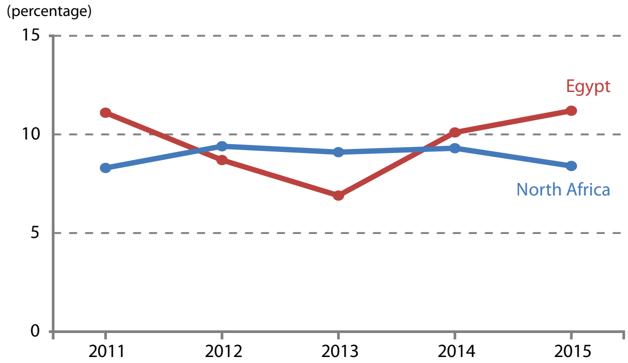
3.3 Monetary policy

The inflation rate was 11.9 per cent for the year 2015 (see figure 6), up from 10.1 per cent the previous year. Core inflation,1 however, hovered at 8 per cent. Energy-related inflationary pressures reduced. In July 2015, as part of its budget consolidation policy, the Government introduced administered price increases for electricity, water and public transport2. This explains the monthly price increases of 0.7 per cent in June 2015, and drop of 0.7 per cent in July 2015.

[1] Excluding the prices of regular goods such as fuel, electricity and tobacco, and the prices of items such as fruits and vegetables that are subject to seasonal fluctuations.

[2] Increase of 21.2 per cent, 14.3 per cent and 10.7 per cent respectively.

Figure 6: Annual inflation rate for Egypt and North Africa, 2011-2015



Source: Ministry of Finance, 2015.

The Government had to formulate a monetary policy that would meet its financing requirements as well as achieve its goal to contain inflation. The expectation of a slowdown in inflation following a reduction in energy costs, and better growth prospects led the Central Bank to maintain its policy rates at 9.75 per cent at the end of July 2015. In January 2015, the Central Bank of Egypt reduced its policy rate by 50 basis points to support growth, due to a drop in inflation in late 2014.

Private sector credit continued to be plagued by high interest rates (private sector credit increased by a mere 8.5 per cent, compared to 24 per cent for the public sector), thereby limiting increase in demand and inflationary pressures. Consequently, the Central Bank could relax the monetary policy in the subsequent months to support the resumption in activity.

Since 2010, the nominal depreciation of the Egyptian pound against the dollar (25 per cent) was more than compensated for by inflation, triggering a real appreciation of the currency. Consequently, the real exchange rate of the Egyptian pound was estimated at 28 per cent, higher than its average level in the past 15 years. This greatly affected the foreign competitiveness of the Egyptian economy.

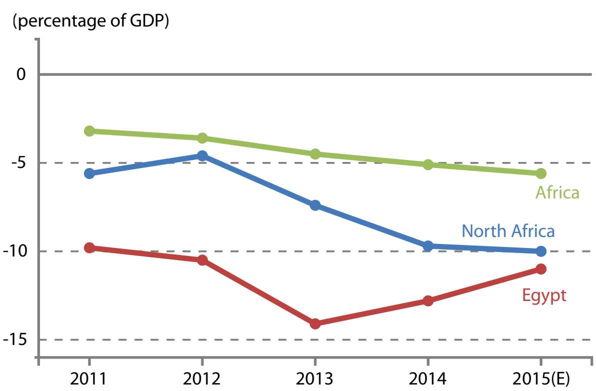
Despite fears of a rise in inflation, as it faced a drop in its foreign exchange rate reserves (which dropped to less than three months of imports in September 2015), the Egyptian Government devalued the currency in October 2015 to EGP 7.93 to $1. It hoped that that would have a positive impact on exports and FDI.

3.4 Public finances

The State tightened its budget policy in an effort to limit debt and achieve 10 per cent deficit in 2015. The deficit had reached EGP 239.7 billion, making 13.8 per cent of GDP in 2012-2013 because of increased public spending to stimulate growth (see figure 7). However, the deficit dropped to 10.8 per cent from July 2014 to May 2015.

Despite increased spending (17 per cent salary increase between fiscal years 2013/14 and 2014/15), the rising budget deficit was contained following an expansion in State revenue. Budget earnings increased by 3.6 per cent from July 2014 to May 2015. This increase stems from fiscal reform undertaken at the beginning of fiscal year 2014/15, with: (a) a broadening of the tax base; (b) tax on property; (c) 10 per cent tax on capital gains and dividends; (d) additional 5 per cent tax on incomes exceeding EGP 1 million of physical persons and

Figure 7: Overall treasury balances, 2011-2015 (percentage of GDP)



Note: E indicates expected.
Source: Ministry of Finance, July 2015.

corporate bodies; (v) increase in taxes on alcohol (+200 per cent average) and cigarettes (+50 per cent).

For the 2014/15 budget, Government is expecting EGP 548.6 billion in increased earnings, which would rise by 62 per cent as compared to earnings of fiscal year 2013/14, (Ministry of Finance). This rise in earnings was mainly from tax proceeds, which increased from EGP 212.9 billion to EGP 364.3 billion in 2014/15. Budget expenditure for its part, is expected to increase to EGP 789.4 billion from EGP 519 billion. This rise stems from the increased wage bill (21 per cent), interests on debt (22 per cent) and subsidies and social expenses (35 per cent).

Lastly, public debt remains high at nearly 90 per cent of GDP (89.7 per cent in March 2015, compared to 90.4 per cent in March 2014). The current debt level is a threat to growth (increased debt burden in the State budget) and depreciation of the Egyptian pound (increase in external debt burden). These risks, however, have been reduced by the reforms undertaken by Government to boost fiscal earnings and control increasing expenditure. The recovery of growth should also help ease the debt burden on the GDP. Lastly, the debt is from national investors mainly, with external debt accounting for 16 per cent of GDP in 2014, thereby reducing the risk of external shocks having an adverse effect on the economy. The profile of the country's debt does not present any major short- or medium-term risks.

3.5 Investment

Investment rose by 9.2 per cent in the first half of fiscal year 2014/15, after reducing by 6.3 per cent in the first half of 2013-2014. Public spending has crowded out private investment. Public sector credit rose to over 50 per cent of GDP in 2014, while private sector credit dropped from nearly 40 per cent in 2008 to 25 per cent in 2013. Furthermore, the business environment is hardly competitive. Egypt was ranked 112th in the 2015 Doing Business index.

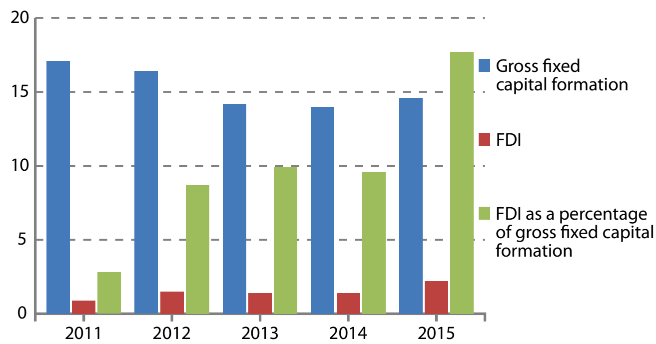
The ratio of FDI in the country's domestic investment rose again, following a drop from 25.7 per cent in 2008 to nearly 3 per cent in 2011, due to the political instability. Since 2012, this ratio has been rising steadily, reaching 17.7 per cent in 2015 (see figure 8).

3.6 Balance of payments and external trade

Externally, the country's situation remains fragile and dependent on financing from the Gulf countries ($2.4 billion) and FDI ($5.7 billion). The current account balance of payments reached a deficit of $4 million during the first quarter 2015, according to the Central Bank of Egypt (see figure 9).

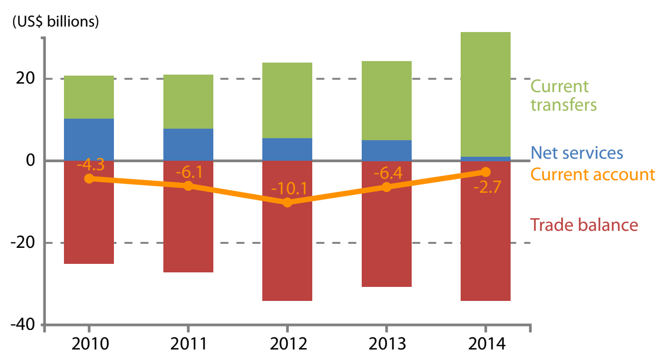
From July 2014 to March 2015, the current account balance deficit reached $8.4 billion, accounting for 25 per cent of GDP, according to the Ministry of

Figure 8: Ratio of gross fixed capital formation to FDI



Source: Ministry of Finance, 2015

Figure 9: Trend in major current account balances



Source: Central Bank of Egypt, 2015.

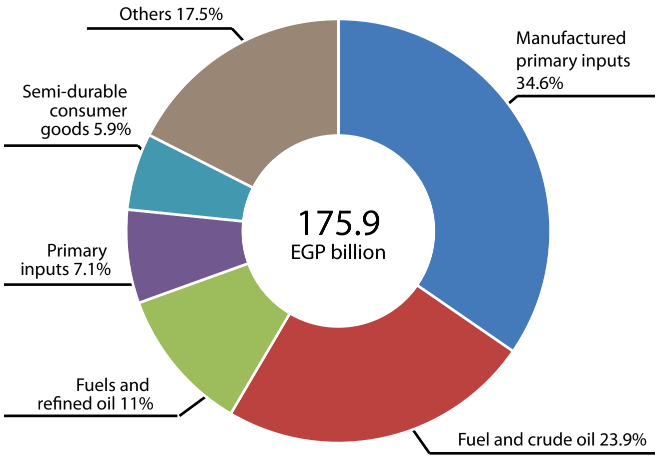
Finance. This stems from degradation of the trade balance, which dropped to -8.8 per cent of GDP because of the drop in oil exports.

In 2014, goods exports amounted to over $25 billion, posting a sharp drop of 5 per cent, while imports exceeded $64 billion, recording an annual growth of over 12 per cent, compared to 2013. The balance of trade structural deficit worsened, reaching over $38 billion. The imports coverage rate by exports deteriorated and dropped from 47 per cent in 2013 to 39 per cent in 2014. Exports of oil and its by products accounted for 35 per cent in 2014 (see figure 10). Manufactured goods accounted for 34.6 per cent of total imports in 2014.

Despite a sharp drop in national hydrocarbon production in recent years, oil and gas continue to be the main export products, while tourism earnings are the main source of service income. The Suez Canal also brings in a steady annual income of about $5 billion. The commissioning of the new canal, which will give access to larger vessels and literally halve the travel time between the Mediterranean to the Red Sea from 23 hours to 11 hours, should improve the national earnings to $13.2 billion by 2023.

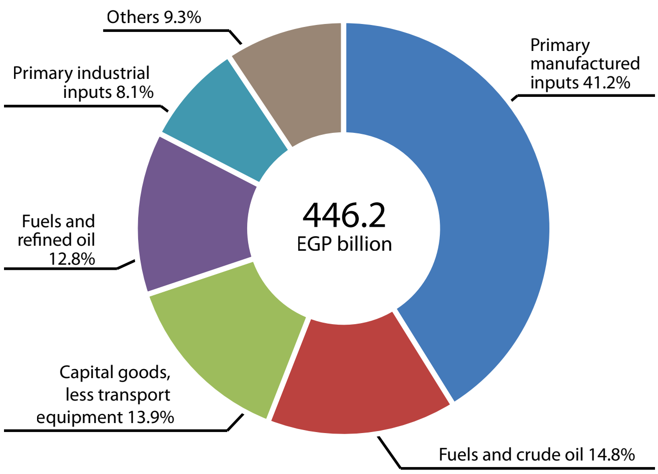
The capital account rose to $7 billion, following an increase in FDI (+5.7 per cent, i.e., 1.7 per cent of GDP - see figure 12).

Figure 10: Composition of exports (2014)



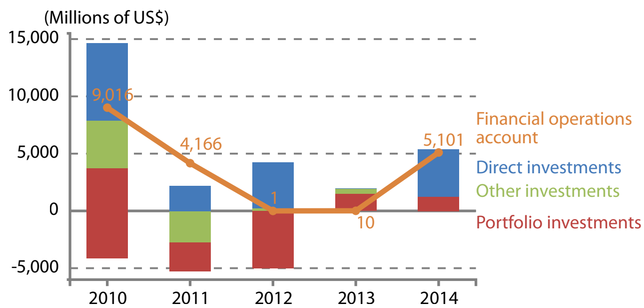
Source: Ministry of Finance, 2015.

Figure 11: Structure of imports (2014)



Source: Ministry of Finance, 2015.

Figure 12: Trend in financial operations account



Source: Central Bank of Egypt, 2015.

4

SOCIAL DEVELOPMENTS

4.1 Demography

Since the 1980s, according to the 2015 Human Development Report Egypt has invested heavily in the health, education and food sectors, thereby significantly reducing its human development deficit, with its HDI rising from 0.452 in 1980 to 0.621 in 2000, and to 0.682 in 2014 (see figure 13). The country ranks 110th, behind Libya fifty-fifth, Tunisia ninetieth and Algeria ninety-third out of the 187 countries on the HDI.

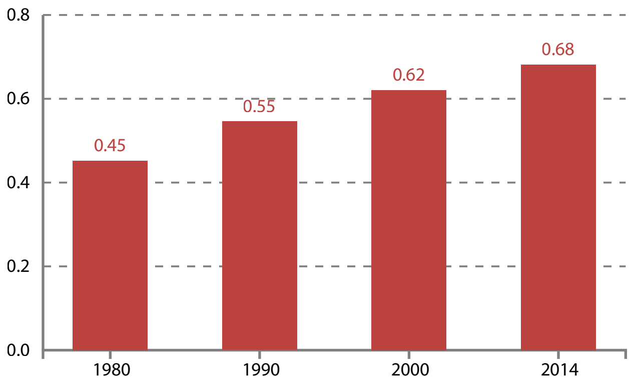
Egypt, with a population growth rate of 1.6 per cent in 2015, will exceed the 100 million mark by 2030. This brings about a three-fold development challenge: (a) poverty, with 26.3 per cent of Egyptians living below the poverty line in 2015; (b) structurally high unemployment (12.8 per cent), particularly among young people (38.9 per cent) and women (24.5 per cent) in 2015; and (c) major disparities between rural and urban areas (see figure 14). Indeed, the country will be confronted in the medium and long term, with challenges such as the development of costly diseases caused by an aging population and lifestyle changes (growing obesity).

4.2 Poverty and employment

From 1990 to 2000 Egypt was able to significantly reduce the proportion of people living in poverty, with the prevalence dropping from 25 per cent in 1990 to 16.7 percent in 2000 (see figure 15). However, there are differences between the urban areas, where poverty was more than halved, and the rural areas, where the reduction was less significant.

From 2005, there was an upswing in the poverty curve, following a succession of crises: the 2008 global financial crisis; the unprecedented oil price hikes from 2004 to 2008; the escalation in global

Figure 13: Human development index



Source: 2015 Human Development Report.

Figure 14: Population trends by age group (percentage of total population)

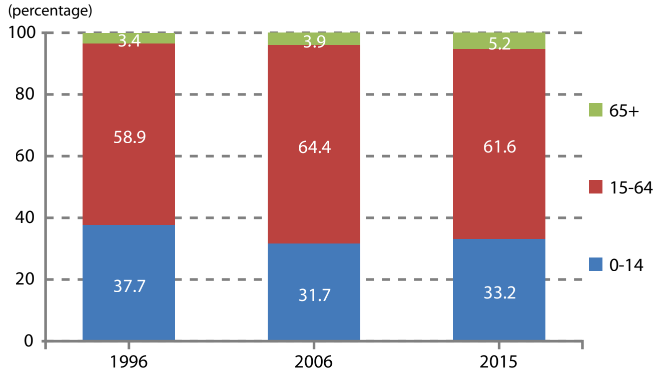
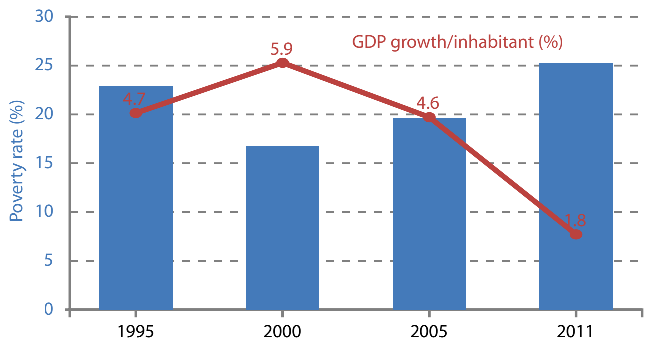


Figure 15: Poverty rate and GDP growth rate per capita



Source: Data from household consumption survey, 2011, Central Agency for Public Mobilization and Statistics and Ministry of Planning, 2014

food prices from 2010; and the social upheavals that hit the country from 2011, not to mention the hasty return of over 300,000 Egyptians who were working in Libya.

The African social development index focuses on six key dimensions of social **well being** to measure the gap between those who benefit fully from development and those who are excluded from each of the areas in question[3]. The index is also a tool for measuring exclusion according to geographical areas, living environment or by gender. An analysis of the six areas comprising the index shows that Egypt is making progress on some indictors such as neonatal and infant mortality, chronic malnutrition among under-five children, literacy rate and life expectancy after 60 years. However, the country fell back on other indicators such as youth unemployment (15-24 year olds) and the percentage

Table 1: Human exclusion

	Life expectancy after 60 (years)		Youth poverty			
	2006	2014	2009	2013	2000	2011
National	67.8	71.1	25.6	34.2	16.7	25.26
Urban	n/a	n/a	36.6	41.6	9.3	11
Rural	n/a	n/a	18.6	29.4	22.1	28.9
Men	66.5	69.7	15.7	28.7	n/a	n/a
Women	69.1	72.5	56.2	52.2	n/a	n/a

	Neonatal mortality (%)	(%)	Malnutrition	(%)	Literacy	
	2000	2014	2000	2008	2006	2013
National	24	14	23	29	70.3	74.9
Urban	26.5	13	N/D	N/D	79.6	80.9
Rural	30.5	18	N/D	N/D	62.9	68.8
Men	32.6	17	N/D	N/D	77.6	81.5
Women	25.2	15	N/D	N/D	62.5	66.7

Source: CAPMAS.

[3] Neonatal and infant mortality, chronic malnutrition among under-fives, literacy rate, youth unemployment (15-24 years), percentage of population living below the national poverty line, life expectancy after 60.

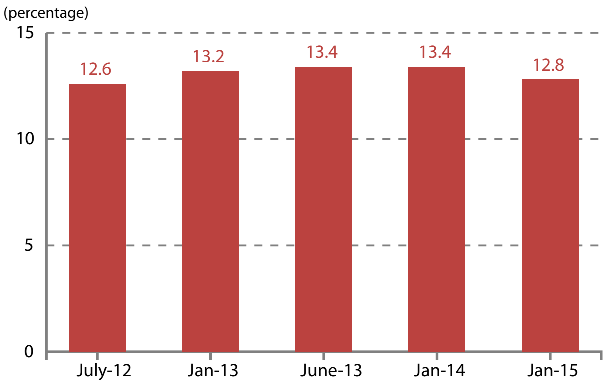
of the population living below the poverty line (see table 1).

The indicators show a clear difference between urban and rural areas. The phenomenon of exclusion is mainly found in the rural areas.

While the unemployment rate in Egypt is structurally high, it has reduced slightly, and stood at 12.8 per cent in the first quarter of 2015 (see figure 16), compared to 12.9 per cent in the fourth quarter of 2014, and 13.3 per cent for the first quarter of that year. The unemployment rate averaged 10.59 per cent from 1993 to 2014, reaching an all-time high of 13.4 per cent in the third quarter 2013, and an all-time low of 8.1 per cent in the second quarter 1999. Prior to the social upheavals of 2011, the unemployment rate, according to estimates of the Central Agency for Public Mobilization and Statistics, was 9 per cent.

While young people may be more educated than their parents, they are the hardest hit by unemployment. Despite a rise in schooling among men and young women, over one-third (38.9 per cent) of young people are still unemployed. Young women and the most educated bear the brunt of the unemployment burden with the rate among young women being much higher than that of young men, at 52 per cent in 2013, compared to that of young

Figure 16: Unemployment



Source: CAPMAS, 2015.

men, which was 28.7 per cent. Just like in other countries in the region, there is a structural problem to adapt the training offered to employment, making it difficult for first-time job seekers, especially university graduates, to find work.

4.3 Health

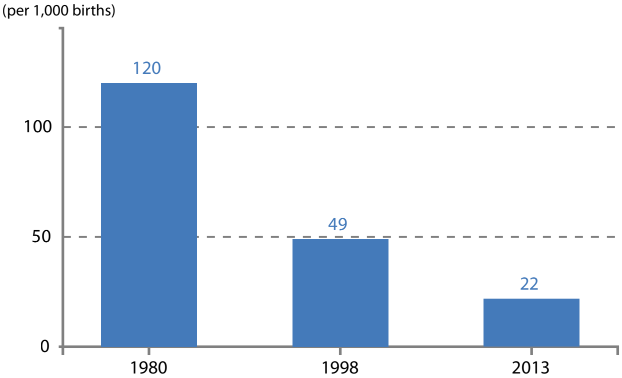
Since the 1970s, Egypt has made considerable efforts to improve medical coverage for the people by making immunization universal in an effort to significantly curb communicable diseases such as poliomyelitis, diphtheria, tetanus, whooping cough and tuberculosis. It has increased coverage and the quality of medical services, especially in the regions. It has also included specific needs such as mother and child protection in its strategic programming. Life expectancy rose from 48 years in 1960 to 65 years in 1990 and 71 years in 2013.

The health-care system in Egypt is a dense network of health facilities which allows the people to have relatively easy access to basic services. Management of the health system is pretty complex, and involves the Ministry of Health as well as several public bodies such as the Ministries of Defense and the Interior (which have their own health structure), and civil society and medical practitioners.

According to the 2015 World Health Statistics, in terms of health facilities and staff, the country has 0.6 basic healthcare facilities per 100,000 inhabitants, 28 doctors and nurses per 10,000 inhabitants to implement all manner of health programmes. The total health spending is about 5 per cent of GDP, and public expenditure is about 6 per cent of the total public spending.

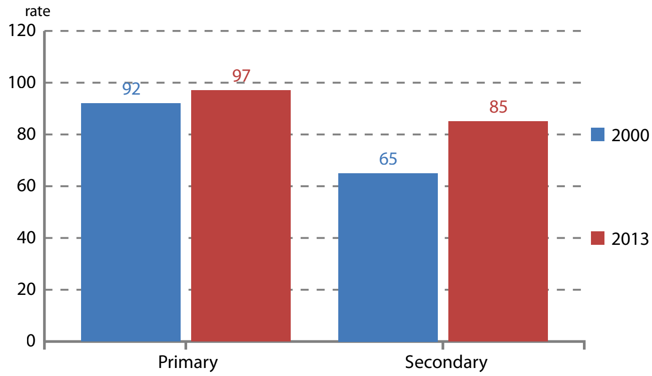
Egypt has reduced under-five deaths (see figure 17), and indicators show that the country recorded a drop from 85 deaths per 1,000 live births to 25 deaths per 1,000 live births in 2015, thanks to significant efforts made in health coverage for births,

Figure 17: Infant mortality



Source: 2013 national report on the Millennium Development Goals.

Figure 18: Net enrolment in primary and secondary education



Source: 2010 national report on the Millennium Development Goals, and 2014 UNICEF estimates.

immunization of newborns, improvement in hygiene and food conditions, and so forth. The progress made, however, is not felt equally in the various regions, depending on their level of development. The neonatal mortality rate is 13 per cent in urban areas and 18 per cent in rural areas.

Maternal and reproductive health is a worrying situation, despite the efforts made. The rate of maternal mortality is abnormally high at 45 deaths per 100,000 live births in 2013. The country must double its efforts, especially in the rural and remote areas, to provide antenatal surveillance, assisted deliveries and postnatal care, which are all necessary for providing appropriate care to prevent pregnancy-related risks and complications.

4.4 Education

Egypt has a free and compulsory education system for children aged 6 to 15. It entails six years of primary schooling, three years of preparation and three years of secondary schooling prior to entering university. The country considers the education sector a priority one and has made major efforts to reach a net child enrolment rate of 93.3 per cent. Similar efforts have been made in secondary (85.4 per cent) and university education (see figure 18). Pre-university spending during the period 2012-2013 is estimated at 3 per cent of GDP and nearly 9 per cent of public expenditure.

It appears clearly that focus was on the quantitative aspect, without sufficiently considering how to adapt the education offered to job market requirements. The deterioration in public education led to the development of private schools, giving rise to a two-tier education system. According to figures from the national strategic plan for reform of pre-university education (2014-2030), in 2012-2013, out of the 20,913 primary schools, 15,587 were public, 3,439 faith-based and 1,887 private.

To address these issues, in 2013, the country adopted a national strategic plan for pre-university education reform, for the period 2014 to 2030. The strategy envisages a revamp of the system to provide the same quality education opportunities to all children. Vocational and university training will be better adapted to the needs of the job market. Schools will be upgraded at all levels and the quality of human resources of the sector will be improved considerably.

4.5 African gender scorecard*

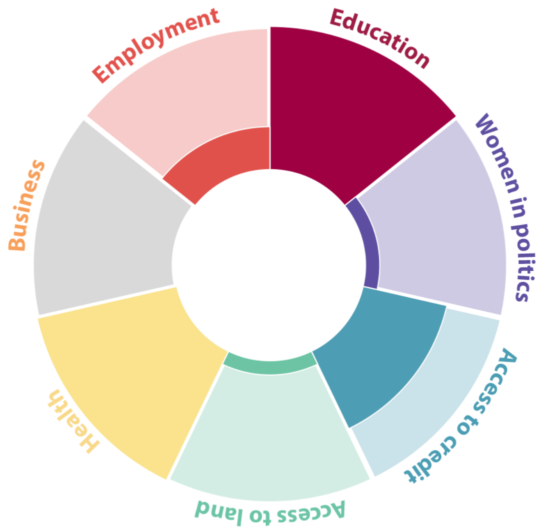
The African Union declared 2015 as the Year of Women's Empowerment and Development towards Africa's Agenda 2063, with a view to building momentum for gender equality and women's empowerment on the continent. Based on this commitment, the African Union developed the African Gender Scorecard. The scorecard is designed to measure the status of gender equality and women's empowerment in seven core sectors that have a transformative impact on women's lives through their contribution to broad-based, sustainable and inclusive growth. These core sectors are: employment, the business sector, access to credit, access to land, women in politics and decision-making, health, and education at the secondary and tertiary levels.

*Interpretation of the pie chart: The scoring is between 0–10, with 0 being the worst level of inequality, 5 suggesting middle parity, and 10 indicating perfect parity. Perfect parity connotes a situation where the proportion of men and women is equal, irrespective of the developmental level of the variable or indicator being assessed. Some countries go beyond the score of 10, thus showing that women may be more highly empowered in that subsector than men for that country. However, caution is needed when drawing conclusions based only on the scores, particularly when there are large variations in levels of developmental achievements between countries.***

Employment	Score
Employment in non-agricultural sector	2
Labour force participation rate	3

Business	Score
Top management in firms	No data
Ownership in firms	5

Health	Score
Under-five survival rate	10
Children under age five who are not stunted	11
Life expectancy at birth	11
Share of population without HIV	31



Education	Score
Youth literacy rate	9
Enrolment ratio in secondary education	10
Enrolment ratio in tertiary education	10

Women in politics	Score
Representation in parliament	0
Ministerial positions - cabinet	1

Access to credit	Score
Account at a financial institution	5
Borrowed from financial institution	6

Access to land	Score
Access to land	1

* The data used in the calculation of the scorecard are drawn from several international databases and sources, including: United Nations, Statistical Division; World Development Indicators, Global Financial Inclusion Database and Enterprise Surveys of the World Bank; the Gender and Land Rights Database of the Food and Agriculture Organization of the United Nations; International Labour Organization; United Nations Children's Fund; Joint United Nations Programme on HIV/AIDs; World Health Organization; International Food Policy Research Institute; United Nations Educational, Scientific and Cultural Organization; United Nations Population Division; United Nations Population Fund; Inter-Parliamentary Union; and some national data sources. Data on access to land were drawn from several sources, with the scoring and harmonization of legislative frameworks done in-house by the African Centre for Statistics and the African Centre for Gender.

** The pie chart is based on the African Gender Scorecard, which was presented to the Heads of State and Government at the twenty-fifth ordinary session of the Assembly of the African Union in June 2015.

5

MAJOR POLICY CHALLENGES

In the short term, Egypt must stabilize its macroeconomic situation, first by reducing inflation. A return to political stability, by revitalizing growth and streamlining public spending, should lead to better control of rising prices. Second, it must reduce the budget deficit to bring it to a level that will contain the escalating public debt and crowding out of private investment. The adoption of spending-related measures (such as reducing subsidies and controlling salary increases in the civil service) and earnings (through tax reform) should help reduce the budget deficit. Third, it must support growth by investing in infrastructure. The Government should redirect social and operational spending to public investment in order to sustain growth.

In the medium term, structural transformation of the economy remains a major challenge. In terms of cumulative data over the period 2000-2010, GDP grew by nearly 100 per cent, while labour productivity increased by 20 per cent and GDP per capita by less than 60 per cent. This shows that Egypt has still not been able to reallocate resources and manpower from the traditional sectors or sectors with low productivity gains, to more technological sectors. The country must make major efforts to increase the share of sectors with high productivity gains. It must invest more in education and research and development, while pursuing reform of the business environment and facilitating access to financing for the private sector. Investment in modern infrastructure is also a major tool.

There are disparities between the development in urban and rural areas, reflecting a deep problem in the distribution of the benefits of growth and development. Most poor people in the country live in the rural areas, especially in Upper Egypt, where the development indicators compared to the urban areas, are rather alarming. These regions have higher rates of illiteracy and infant mortality, as well as little access to public services and basic amenities such as roads, potable water and sanitation. These areas have a high prevalence of underweight children. According to estimates of the Central Agency for Public Mobilization and Statistics, 49.4 per cent of the population living in rural areas and Upper Egypt are poor (see table 2).

Egypt, just like some other developing countries, is going though demographic transition and changing lifestyles, and is therefore confronted today by new challenges caused by an increase in the number of young people and the beginnings of an aging population.

A lifestyle change is being observed among young people (food with high fat and sugar content and lack of exercise, which leads to obesity), which predisposes them to chronic and costly diseases, whose symptoms begin to show in the short and medium term. This phenomenon is spreading and affecting younger and younger people, with women more affected than men.

According to the World Health Organization, 20.5 per cent of children under 5, 22.5 per cent of men

Table 2: Poverty prevalence by region (percentage of the population)

	2008/09	2010/11	2012/13
Urban governorates (Cairo, Alexandria, etc.)	6.9	9.6	15.7
Lower-Egypt			
Urban	7.3	10.3	11.7
Rural	16.7	17	17.4
Upper-Egypt			
Urban	21.3	29.5	26.7
Rural	43.7	51.4	49.4
Sinai and desert and frontier governorates			
Urban	4.8	3.6	11.3
Rural	21.6	25.2	26.3

Source: Children in Egypt 2014, UNICEF, CAPMAS data, 2014.

and 46.3 per cent of women are overweight. Nearly one in every two women and one in every five men above 20 years is affected by this problem, putting Egypt among the top 20 countries affected by obesity.

As already mentioned, the country also has to contend with the early signs of an aging population, according to demographic projections, from 2015 to 2050, the population aged 65 and over will increase from 5.9 to 12.3 per cent of the total population. This category of the population will double in less than 40 years, contrary to that of developed countries, where aging of the population has been long and steady.

The combination of an overweight and aging population must alert us to the risks of chronic diseases, which are generally costly. Health expenditure could be reviewed upwards.

6

SPECIAL FEATURE: STRUCTURAL REFORM OF SOCIAL ASSISTANCE POLICY

To sustain purchasing power, the country's 2014-2015 budget provided for an increase of EGP 65 billion in public spending, which is about 10 per cent more than the previous budget. The Government has made efforts to increase wages, the bill for which increased by 13 per cent from EGP 184.5 billion the previous fiscal year to EGP 209.5 billion for the current budget.

For social expenditure, the health budget increased by EGP 9.5 billion, from EGP 42.15 billion in the budget of the previous fiscal year to EGP 51.65 billion in the budget of the current fiscal year. Also under social expenditure, education sector spending rose from EGP 93.5 billion to EGP 105 billion.

The protection and social assistance policy comprises elements such as subsidies, direct money transfers, and income-generating programmes designed to help combat poverty and the dwindling purchasing power of the people. It is a vital policy for the people, but rather costly for Government, as it absorbs over 25 per cent of public spending and accounts for 13 per cent of GDP.

After the Second World War, Egypt set up this system to cushion the people against the adverse effects of shortages and high inflation. This mechanism, designed initially to provide essential goods such as sugar, kerosene, cotton textiles, oil and tea, at affordable prices, has changed in purpose and structure, and become a vital instrument for combating poverty.

Food subsidies doubled from 2009 to 2011, from EGP 16.8 billion to EGP 32.7 billion. In 2011, they accounted for 30 per cent of the total subsidies, compared to 18 per cent in 2009 (see table 3). The high rise in the cost of food items in 2008 is the cause of the sharp growth in food subsidies. In the 2015/16 national budget, EGP 37.7 billion in subsidies has been earmarked for food, accounting for 24.5 per cent of total subsidies and 4.3 per cent of the national budget.

The State has several tools for running the food subsidy programme. The ration card entitles families to monthly quotas of subsidized items such as sugar, oil, rice, tea and a type of bread called "baladi". Today, 18.2 million families (69 million people) ration cardholders benefit from the subsidized bread system. The State, through its institution for supplying vital items, buys wheat at the market price and sells it to the bakeries at a subsidized price. In 2013-2014, the country bought 3.7 million tons of local wheat, 5.46 million tons of imported wheat, making Egypt the largest importer of wheat in the world. The subsidized bread is sold at EGP 0.05 per bread, much lower than the free market price of EGP 0.35, at a maximum of five loaves per day per person.

Table 3: Food subsidies (in billions of EGP)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16 (E)
Food subsidy	16.81	32.74	30.28	32.55	35.49	31.55	37.75
Total subsidies	93.57	111.21	134.92	170.8	187.25	178.25	153.93
Total public spending	365.98	401.86	470.99	588.18	701.51	789.43	864.56

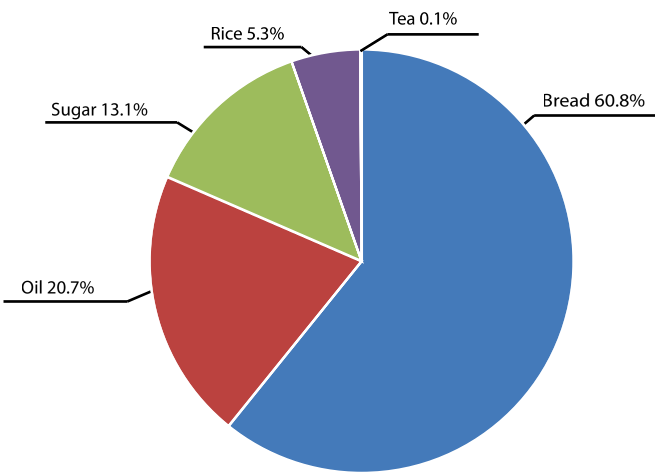
Source: Study on subsidy system in Egypt, 2013, CAPMAS.

With regard to the other subsidized products, a family of four was entitled to buy a monthly subsidized quota of 8 kg of rice, 8 kg of sugar and 6 litres of cooking oil. The cost of 1 kg of subsidized rice is EGP 1; cooking oil EGP 3 per litre and sugar EGP 1.25 per kg, while the market price for rice and sugar, for instance, is EGP 5 (see figure 19).

The Government also provides the poor with food coupons which families can use to purchase consumer items of their choice, but at the market price. Under this mechanism, families can diversify their diets, according to their priorities, and vary their food and increase the nutritional value of food items, especially for babies and young children.

There are also subsidies for certain products and public services, which guarantee the availability of common consumer items at below market price or at cost price, such as school books, pharmaceutical products and social housing, and the use of public services at a subsidized price, such as public transport, water and electricity.

Figure 19: Distribution of food subsidies



Source: Egypt subsidy system study, 2013, CAPMAS.

There are also additional food programmes in the form of school canteens and the distribution of food rations. Such programmes are designed to increase the nutritional value of the diets of some segments of the population such as nursing babies, mothers and school children, in rural areas especially.

The subsidy system for energy products covers almost all petroleum products, natural gas and electricity. Energy subsidies are by far the highest in the national budget. They rose steadily from 2009 to 2013, from EGP 66.5 billion to EGP 126.18 billion (see table 4). The State supplies these energy products at a subsidized price.

In 2009, oil subsidies accounted for over 70 per cent of total subsidies. For 2015-2016, the expenditure earmarked for this subsidy was EGP 61.7 billion, accounting for 40 per cent of total subsidies and 7.1 per cent of the national budget. In terms of weight in the distribution of subsidies, liquefied petroleum gas (LPG) tops the list with nearly 30 per cent of the total, followed by gas oil with 25 per cent, heavy fuel 14 per cent and petrol, 13.3 per cent (see figure 20).

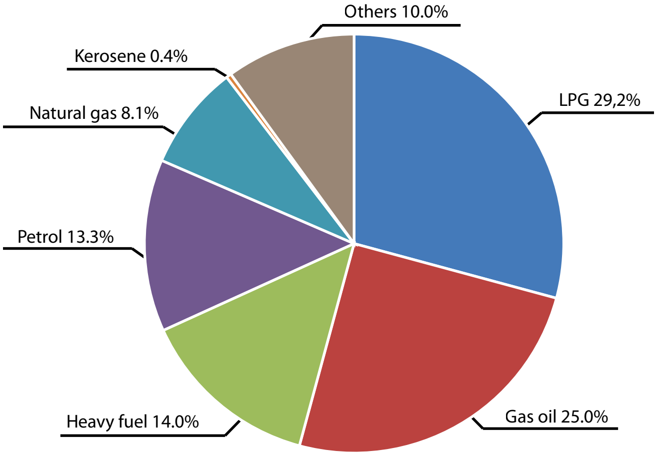
The State also introduced a financial assistance programme, in the form of monthly payments of an amount of money to underprivileged people like the handicapped, the aged, the widowed, divorced and those without resources.

Table 4: Oil subsidies (in EGP billion)

	2009/10	2010/11	2011/12	2012/ 13	2013/14	2014/15	2015/16 (E)
Oil subsidies	66.52	67.68	95.53	120	126.18	100.25	61.70
Total subsidies	93.57	111.21	134.92	170.8	187.25	178.25	153.93

Source: Study of Egypt subsidy system, 2013, CAPMAS

Figure 20: Distribution of energy subsidies



Source: Egypt subsidy system study, 2013, CAPMAS.

This programme is based on the incomes of the number of people making up the household. In 2009, the State introduced, based on models used in some Southern American countries such as Brazil and Mexico, conditional money transfer programmes for the poorest households in the most impoverished areas of the country (such as the governorates of Sohag and Assiout. Under the programme, money is transferred directly to beneficiary families living below the poverty line. In exchange, these families commit to improving the health and education monitoring of their children, by for instance, improving school attendance and regular attendance at health centres. The mechanism also helps to increase the income of households and raise parents' awareness about the importance of monitoring the health and education of their children. An assessment of the programme shows that it has had a positive impact on school and health centre attendance.

Microcredit programmes are described by economic literature as an efficient means of reducing poverty. It is also an important tool for women's empowerment and emancipation. Egypt is the largest market for microfinance in the Arab world, with 1.3 million clients and a portfolio of gross loans amounting to $324 million. Currently, over 300 organizations work in microfinance and their activities extend countrywide. Given the importance of this sector in the financial environment of the country, in 2004 the Central Bank of Egypt developed a national microfinance strategy which led to the creation of Egyptian Microfinance Network.

Subsidies are unsustainable for the national budget. Food subsidy spending, more than doubled from 2008 to 2010 essentially as a result of the 2007 and 2008 food crisis which led to price hikes of food items.4 This disrupted the operation of the subsidy mechanisms. The acute shortage of subsidized bread and essential items in the cities and rural areas contributed to the development of the black market around it. This situation led to violent unrests and protests, at times, against rising costs in most Egyptian cities. Faced with this deep crisis, the Egyptian Government took emergency measures and decided to expand its food rationing programme to reach 70 per cent of the population. It also decided to double the quantities of subsidized items allocated to beneficiaries and

[4] The price of wheat leapt by 157 per cent. On the local market, the prices of essential items rose dramatically: dairy products (20 per cent), vegetables and cooking oil (40 per cent) and meat (6.5 per cent).

increased the salaries of civil service employees by about 30 per cent.

The situation remains critical, more so as energy subsidies are straining the national budget. They kept an upward trend from 2009, with over EGP 66.5 billion, to 2013 when the cost reached a high of EGP 126.18 billion. On average, they accounted for 70 per cent of total subsidies. However, from 2014, the country took measures to liberalize prices to reverse the trend, bringing the bill down to a little over EGP 100 billion. The failure to target these subsidies is the reason for the high cost for public finance and their lack of efficiency.

An analysis of the consumption of food products subsidized by households divided into three groups (low, middle and high-income households) shows that in the urban areas, 46.4 per cent of "baladi" bread is consumed by low-income households, 34.5 per cent by middle-income households and 19.2 per cent by high-income households. The analysis arrives at the same conclusion for the other four subsidized products (cooking oil, sugar, rice and tea), 20 per cent of which is consumed by the wealthier class. In other words, despite the identification system put in place to reach low- and middle-income households nearly 20 per cent of well-to-do families are able to benefit from the system, showing the limitations of its efficiency. Losses and wastage in the system are still rife in the rural areas, as 36 per cent of the "baladi" bread programme and 42 per cent of other subsidized products are consumed by the more well-to-do class.

Subsidies on energy consumption benefit the rich and well to do more than the underprivileged. These are the higher income classes, which consume proportionally more energy products subsidized by the State. Forty per cent of the wealthier population consume nearly 60 per cent of the subsidy on energy, while this share drops to 25 per cent for the poorer 40 per cent. These differences are even more pronounced in the urban areas, where 40 per cent of the well-to-do population obtain nearly 75 per cent of energy subsidies and 90 per cent of subsidies on petrol (in general, the poorest households do not own vehicles).

This situation raises serious concerns as to the viability of these policies. The current Government has already started streamlining food subsidies, which, for the current fiscal year, will lead to a reduction from EGP 34.6 billion to EGP 31 billion in costs. In exchange, the Government has introduced a plan to reform the food subsidy system, which will start by liberalizing the price of flour and setting a limit for bread consumption per person. The system of providing subsidies directly to the bakers has been replaced by a smart card system, where cards are distributed to households to buy the subsidized bread and distribute the wheat. The bakers are reimbursed on the basis of points collected on the cards of beneficiaries.

Each card contains a certain number of points linked to the number of family members. It allows them to choose, in case the bread requirements of the family are below the amount fixed, among a range of food items (milk, fruits, vegetables, etc.) each corresponding to a number of points. The system helps to reduce leakages to the black market and introduces consumers to a broader range of options of subsidized food items. This system is considered to be a success for the Government because it helped to make savings right from the onset, and was a relief to families who no longer had to wake up early to queue up at the subsidized bread distribution centres.

This reform also has to do with oil subsidies introduced in 2014, and which led to price hikes in petroleum products of nearly 78 per cent, but equally to a reduction of nearly 35 per cent in the cost of the subsidy.

From 2013 to 2016, subsidies will be reduced, from EGP 126.8 billion to EGP 61.7 billion for the 2015/16 fiscal year. The Government is relying on the steep drop in oil prices to cushion these reforms for the people. These measures are a first step toward total price liberalization in the next three to five years. Under the liberalization process, the vulnerable groups to be spared will be identified.

A smart card system was adopted to better control energy subsidies. The card is distributed to all owners of all vehicles for various uses: private, taxi, bus, public transport, tourism, school, etc. The goal of the Government is to determine the quantities of fuel consumed by each vehicle, using the fuel smart cards. Based on this information, each vehicle will be given a quota of subsidized fuel yearly, which is on average 5 litres per day. Utility cars that use diesel will be able to obtain about 10,000 litres of subsidized yearly, making 30 litres per day.

Management of the system is likely to be costly and bureaucratic, as it affects all vehicles used in the country. Just like other countries such as Brazil, Indonesia and Turkey that have successfully reformed this sector, Egypt would benefit by moving gradually toward liberalization of the market by introducing a direct money transfer system for the most needy households. This means that care should be taken to identify and target the most vulnerable population.

It is key, therefore, to update the poverty map in Egypt. To that end, a general population census is slated for 2016, as a first step toward updating the statistical databases. Data collection by way of budget and consumption surveys, and surveys on access to basic services to pinpoint the most needy households could be done on more representative updated samples.

7. NATIONAL DATA QUALITY EVALUATION

Methodological note on data quality evaluation

The quality of national data sources for key indicators in the country profiles was evaluated. The result is presented in colour codes, with green indicating a "good" data source, yellow for "satisfactory", and red for "needs improvement".

The evaluation focused on the transparency and accessibility of each national data source. The evaluation took into consideration the timeliness and periodicity of data publishing, based on the punctuality of publication and frequency of data updates in accordance with international standards. It also measured the comparability of the data series, based on their length, definition and standard units of measurement. It evaluated database accessibility, specifically whether the data were open and freely available to the general public, the format of the data, and the ease of downloading and sharing. Data citation, together with references to primary or secondary sources, was also assessed. Finally, the evaluation checked the completeness of metadata for data release and the completeness and clarity of documentation and notes.

Demography	Value	Evaluation
Population (Million)	85.8 (2014)	1
population growth rate (average annual %)	1.6 (2015)	1
Crude death rate (deaths per 1000 population)	6.1 (2014)	1
Crude birth rate (Births per 1000 population	27.2 (2014)	1

Key Macroeconomic and Sectoral Performance	Value	Evaluation
Real GDP growth rate (%)	4.2 (2015)	2
Inflation rate (%)	11.2 (2015)	2
Gross fixed capital formation (% GDP)	14.6 (2015)	3
Current account balance (Billion USD)	-2.7 (2014)	3

Economic trends and Performance Indicators	Value	Evaluation
Total Exports (Billion USD)	25 (2015)	2
Total Imports (Billion USD)	64 (2015)	2

Education and employment	Value	Evaluation
Literacy rate of 15-24 year-olds, women and men	74.9 (2013)	1

Health	Value	Evaluation
Under five mortality rate (per 1000)	18.9 (2014)	1
Infant mortality rate (per 1000 live births)	39.7(2014)	1

Poverty	Value	Evaluation
Population below national poverty line (%)	3.9 (2013)	1

Data Sources Code Index

1. CAPMAS
2. Ministry of Finance
3. Central Bank of Egypt

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ANNEXES

Annex 1: Assessment of forecast accuracy in Egypt, using Theil's decomposition technique

GDP growth	AfDB	EIU	IMF	UNDESA
Bias proportion (UM)	0.27	0.31	0.52	0.19
Regression proportion (UR)	0.29	0.40	0.01	0.11
Disturbance proportion (UD)	0.45	0.28	0.47	0.69
Inflation				
Bias proportion (UM)	0.27	0.31	0.71	0.11
Regression proportion (UR)	0.17	0.02	0.20	0.00
Disturbance proportion (UD)	0.56	0.67	0.09	0.89
Current account balance				
Bias proportion (UM)	0.07	0.55	0.39	
Regression proportion (UR)	0.43	0.37	0.00	
Disturbance proportion (UD)	0.50	0.08	0.61	

Annex 2: Africa regional integration index

The index is designed to measure the extent to which each country in Africa is meeting its commitments under the pan-African integration frameworks such as Agenda 2063 and the Abuja Treaty. Since the Abuja Treaty stipulates that Africa's integration should currently be focused at the regional economic community level, the index generally focuses on how far African countries are integrating with other States members of the same regional economic community.

The Index is a joint project of the African Development Bank, the African Union Commission and ECA. It covers the following dimensions: free movement of persons, trade integration, productive integration (development of regional value chains), regional interconnections and infrastructure and macroeconomic policy convergence. Financial integration is not included, owing to the lack of data on intra-African direct investment flows.

Trade integration

The index includes a number of indicators of trade integration, namely, average applied tariffs on intra-community imports, score on the United Nations Conference on Trade and Development merchandise trade complementarity index, ease of trading across borders (using the World Bank Doing Business indicators), intra-community goods imports and goods exports. Trade in services is not included, because of the lack of data on intra-African trade in services.

Productive integration

The index measures productive integration, looking at intra-regional trade in intermediate goods.

Free movement of persons

African countries are scored against two indicators in this dimension of the Africa regional integration index: the proportion of community-level protocols on the free movement of persons that they have ratified (out of those regional economic communities of which the country is a member), and the number of other African countries whose nationals are allowed to enter visa-free or with a visa on arrival.