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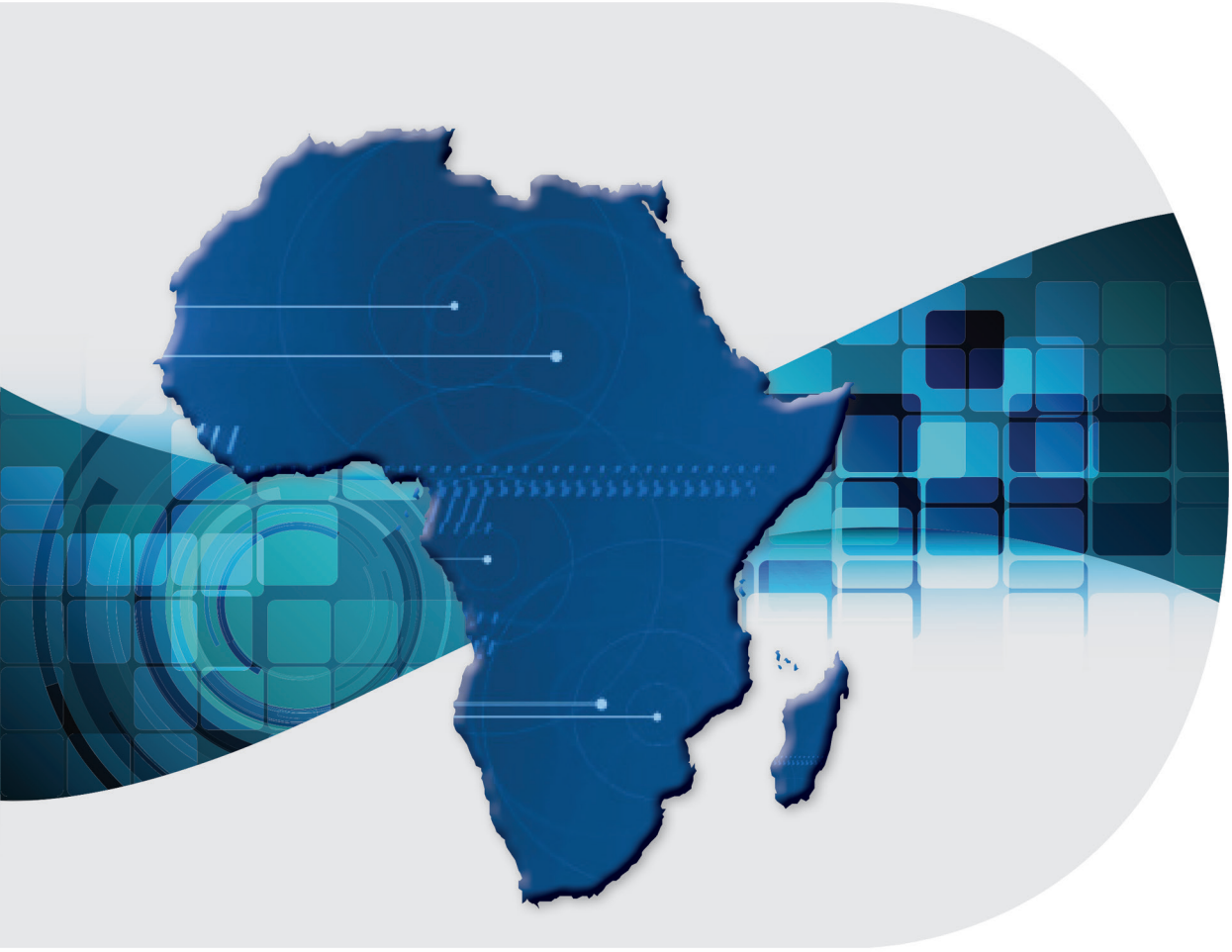
Economic Commission for Africa

COUNTRY PROFILE 2017



EGYPT

United Nations
Economic Commission for Africa

COUNTRY PROFILE 2017

EGYPT

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The Egypt country profile has been prepared by the Data Centre of the ECA Subregional Office for North Africa, under the coordination of Amal Elbeshbishi. The Office is grateful for inputs provided by Khaled Hussein of the Macroeconomic Policy Division on forecasting; Wafa Aidi of the Regional Integration and Trade Division on the African regional integration index; and Gonzague Rosalie of the Social Development Policy Division on the African gender scorecard. Section 6 of the present country profile draws from a case study on the promotion of infrastructure development in Egypt prepared by Komi Tsowou of the Regional Integration and Trade Division.

The country profile has been prepared under the general coordination and guidance of the Deputy Executive Secretary of the Commission for Knowledge Delivery, Giovanie Biha, and under the direct supervision of the Director of the Subregional Office for North Africa, Lilia Hachem Naas.

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Acronyms

AfDB	African Development Bank
CEN-SAD	Community of Sahelo-Saharan States
COMESA	Common Market for Eastern and Southern Africa
ECA	Economic Commission for Africa
FDI	foreign direct investment
GDP	gross domestic product
ICT	information and communications technology
ILO	International Labour Organization
IMF	International Monetary Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	value added tax
WHO	World Health Organization

Egypt at a glance

General information	
Region	North Africa
Official language(s)	Arabic
Currency	Egyptian pound
Capital	Cairo
Regional economic community membership(s)	COMESA, CEN-SAD

Ranking	Position	Out of a total of	Year	Source
Human Development Index	111	188	2015	UN
Gender inequality index	135	159	2015	UN
Ibrahim Index of African Governance	24	54	2015	Mo Ibrahim Foundation
Ease of doing business index	128	190	2017	World Bank
Corruption perceptions index	108	176	2016	Transparency International

Economic growth

The prospects for the Egyptian economy in 2017 warrant prudent optimism. They depend on how the Government implements its strategy for sustainable development and macroeconomic reforms. According to the latest data released by the Ministry of Planning, real gross domestic product (GDP) growth reached 3.8 per cent for the period July 2016–March 2017. On the supply side, growth was driven by the manufacturing (excluding hydrocarbons), construction, wholesale and retail trade and agriculture sectors. On the demand side, household consumption and public spending continued to be buoyed by fiscal stimulus.

Fiscal policy

Total revenue and grants increased from 465.2 billion Egyptian pounds in the fiscal year 2014/15 to 491.5 billion Egyptian pounds in 2015/16. The overall deficit rose from 279.4 billion Egyptian pounds to 339.5 billion Egyptian pounds for the same fiscal years. However, for the period July 2016–March 2017, total revenues and grants amounted to 363.7 billion Egyptian pounds, and the overall deficit reached 273.3 billion Egyptian pounds (8.0 per cent of GDP).

Monetary policy

Inflation rose by 10.2 per cent in the fiscal year 2015/16, compared with 11.0 per cent the year before, and accelerated to 29.8 per cent in 2016/17. In formulating its monetary policy, the Central Bank of Egypt must concurrently deal with meeting the financing requirements of the State and containing inflation. It has liberalized the exchange rate, which has had negative and positive results. Among the negative results are rising operating costs and the effect on prices. The positive results include signs of a desire to increase investment to replace imports and enhance productivity. Although inflationary pressures are likely to ease in the near future, a new wave of subsidy cuts that are expected towards the end of 2018 will raise prices again. Inflation is thus expected to remain in double digits in both 2017 and 2018.

Current account

The current account deficit narrowed to $15,575.2 million in the fiscal year 2016/17, from $19,831.1 million in 2015/16.

Capital and financial account

The ratio of foreign direct investment (FDI) to 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, the 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 ($18.5 billion in the form of deposits as at the end of June 2017) and FDI ($7.9 billion in the fiscal year 2016/17).

Demography

The Egyptian population reached 104.2 million in 2017, of which 94.8 million are living in the country and 9.4 million are abroad. According to the Central Agency for Public Mobilization and Statistics, the population of Egypt was 59.2 million in 1996, 72.6 million in 2006 and 94.8 million in 2017, which implies an average annual growth rate of 2.04 per cent during the period 1996–2006 and of 2.56 per cent during the period 2006–2017. The sex distribution in Egypt is 51.6 per cent males and 48.4 per cent females, which gives a sex ratio of 1.07:1. The Egyptian population is young: 34.2 per cent of the population is below 15 years of age. Young people aged 15–29 constitute 26.8 per cent of the total population. The working-age population (15–64 years of age) constitute 61.9 per cent, which constitutes the largest component of the Egyptian population. The remaining 3.9 per cent are persons aged 65 or older.

Poverty and unemployment

The proportion of people living in poverty has increased, from 16.7 per cent in 1999/2000 to 27.8 per cent in 2015. The overall poverty figure masks differences in welfare among regions and among governorates within the various regions of Egypt. A significant part of the rural population is located in Upper Egypt, where poverty is mainly structural and chronic, driven by lack of adequate public infrastructure and private capital accumulation, low investment in human capital and the absence of a pro-poor fiscal policy. These factors collectively have led to deterioration in living standards in Upper Egypt compared to other regions.

Employment

While the unemployment rate in Egypt is structurally high, it dipped slightly to 12.4 per cent in the last quarter of 2016, from 12.8 per cent in the fourth quarter of 2015 and from 13.4 per cent in the first quarter of 2014. It declined further to 12.0 per cent in the second quarter of 2017. The unemployment rate in Egypt averaged 10.59 per cent from 1993 to 2014.

Health

According to the World Health Organization (WHO), 20.5 per cent of children under 5 years of age, 22.5 per cent of men and 46.3 per cent of women are overweight, making Egypt one of the world's top 20 nations in terms of obesity.

Education

Slightly less than 19 per cent of the population has a lower-than-average education qualification, 22.2 per cent has received a vocational degree, 6.9 per cent has received a secondary school degree and 12.4 per cent has a tertiary education degree.

Gender scorecard of the African Union Commission

Egypt has almost reached parity in secondary school 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 labour force participation rate is 24.9 per cent for women and 85.1 per cent for men, reflecting high gender disparity. 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 a possible 10 on the scorecard.

1 Overview

Following an average growth rate of 7 per cent from the fiscal year 2005/06 to 2007/08, and of over 5 per cent from 2007/08 to 2009/10, economic growth in Egypt slowed to 1.8 per cent in 2010/11, owing to the negative impact of social upheaval. Political instability and structural deficiencies in the economy (including underdeveloped infrastructure, weak human capital, difficulty in gaining access to financing and an uncompetitive business environment) seriously affected growth from 2011 to 2014.

The return of relative political stability and a review of the Constitution in January 2014, along with presidential elections in June 2014, coupled with structural reforms, helped to revitalize the economy of Egypt to restore growth to pre-crisis levels, to reach 4.3 per cent in the fiscal year 2015/16. Egypt could build on its large market size, its business sector and its geographical proximity to the large European market. To do so, Egypt needs to step up its reform efforts and address the major rigidities that negatively affect its goods, labour and financial markets. Other priorities include higher education and training, in particular in terms of quality, in addition to the overall security situation, which remains fragile and imposes significant costs for business.

Despite an average growth rate of over 5 per cent from the fiscal years 2003/04 to 2009/10 (from about 7 per cent from the fiscal years 2005/06 to 2007/08 and 4.9 per cent from 2008/09 to 2009/10, owing to the financial crisis), Egypt has been 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 the fiscal year 1999/2000, the share of the manufacturing industry (including extractive activities) was 24.8 per cent, that of agriculture was 16.2 per cent and that of services was 52.2 per cent. In the fiscal year 2013/14, the shares of those sectors were 30.6 per cent, 11.1 per cent and 51.6 per cent, respectively. In the period July 2016–March 2017, those sectors contributed 28.0 per cent, 11.5 per cent and 53.0 per cent, respectively. Clearly, structural transformation of the economy is a major challenge. The 2008 financial crisis and the political upheavals of 2011 have had cumulative effect on the budget and public financing. The budget deficit increased from less than 6.5 per cent of GDP in the fiscal year 2008/09 to 13.7 per cent in 2012/13. Total public debt skyrocketed to 90 per cent of GDP in 2014/15, from 81 per cent in 2008/09.

The authorities in Egypt are confronted with the dual challenges of reviving economic growth and consolidating public spending. Therefore, the reforms have focused on reducing subsidies for fuel, for instance, and controlling salary increases, in addition to better management of public finances. The following policy reforms were undertaken in 2014: first, tax reform to expand the tax base and ensure better collection of taxes; second, additional reductions in energy subsidies; third, better targeting of social policies, including money transfer programmes; and, fourth, reform of the business environment, with significant improvement in investor protection. In March 2014, the Ministry of Investment introduced a business reform on the theme "Egyptian regulatory reform and development activity". All the reforms have started bearing fruit. The budget deficit declined to 11.5 per cent of GDP in the fiscal year 2014/15. Growth in the first nine months of the fiscal year 2014/15 registered 4.7 per cent, compared to a mere 1.6 per cent over the same period of 2013/14. The overall deficit reached 12.5 per cent of GDP in 2015/16, but it declined to 8.0 per cent in 2016/17. Support for reform efforts has come from the drop in oil prices that could open up fiscal space to consolidate the public budget by reducing energy subsidies, which make up a significant part of public spending.

Egypt has made significant strides in human development, in particular in the areas of health and education. This is evidenced by the increase in the human development index from 0.452 to 0.621 over the period from 1980 to 2000. Since 2000, progress has been relatively slow. Indeed, from 2000 to 2014, the human development index increased by 0.061 only. This shows the limitations of the country's development model, which is mainly based on investment in human development index components, such as health and education, that are not well connected to the economic and production sectors. But more important is the fact that Egypt has faced major challenges, especially since the social upheavals of 2011, which adversely affected the national economy, in particular public finance. The need to streamline budget expenditure, following the increase in the public deficit, coincides with the need to step up the efficiency of social expenditure. It has become necessary to reform the subsidy system, which is a costly venture for the Government. Subsidies in Egypt absorb over 26.8 per cent of public expenditure (24.6 per cent in the fiscal year 2015/16 and 20.3 per cent in the period July 2016–March 2017) and accounts for 8.9 per cent of GDP (7.4 per cent in 2015/16 and 4.7 per cent in the period July 2016–March 2017). The reforms should have affected food and energy subsidies, and in the long run, should have led to price liberalization. Energy subsidies, however, have remained 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, has been set up. The reform measures introduced in 2013 should have helped to halve the subsidies, which, according to the Government's plan, would drop from 120.0 billion Egyptian pounds in the fiscal year 2012/13 to 51.0 billion Egyptian pounds in 2015/16. In the period July 2016–March 2017, subsidies totalled 22.1 billion Egyptian pounds, owing to corrective measures taken for fuel prices in the fiscal year 2016/17. The Government is relying on the sharp fall in oil prices to cushion the impact of these reforms on citizens.

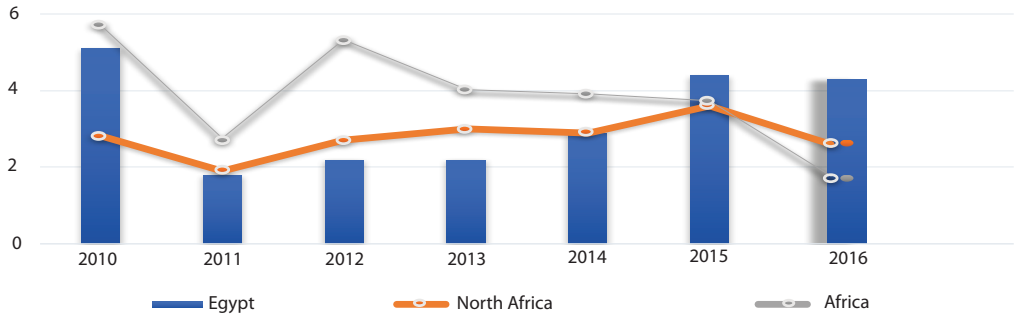
2

National and subregional contexts

Figure 1 illustrates the economic growth rate of Egypt in contrast to the average for the subregion and for Africa. The growth rate of 5.1 per cent in 2010 was higher than the average for the subregion and close to the average for Africa. However, most countries in the subregion have faced numerous political and social challenges. They have suffered from widespread social upheaval, which has led to political instability and public uprisings. Consequently, the economic growth of the subregion declined from 2.8 per cent in 2010 to 2 per cent in 2011. The rate for Egypt declined sharply, from 5.1 per cent in 2010 to 1.8 per cent in 2010.

The political and social events that broke out in 2011 plunged Egypt, Libya and Tunisia into turmoil. Notwithstanding the fragile security situation in Egypt and Tunisia, those countries have embarked on political reforms that have led to presidential elections, marking a return to a degree of political stability. That relative stability has renewed the path to growth, as clearly shown in figure 1. With increasing stability, the growth rates in 2015 and 2016 for Egypt surpassed both of the averages for the subregion and for Africa. Mauritania also restored political stability in 2003, which led to an average growth rate

Figure 1: Growth rates of Egypt, North Africa and Africa



Source: Growth of Egypt: Ministry of Planning; Growth of Africa: Department of Economic and Social Affairs of the United Nations Secretariat, October 2016; Growth of North Africa: ECA calculations.

* The spike in the growth rate of North Africa in 2012 reflects Libyan growth of 10.45 per cent, the result of the revival of oil production following the end of the crisis. If Libya is excluded, the rate goes down to 2.3 per cent.

of 5.5 per cent over the period 2010–2015. Libya is still in the throes of political wrangling, which has limited its prospects for growth and development.

Morocco and Algeria have been spared the political turmoil. However, all countries in North Africa are plagued by governance challenges. Political instability often is associated with serious challenges in governance and economic performance. According to the Ibrahim index of African governance, only Tunisia, ranked eighth, is featured among the top 15 African countries. Mauritania and the Sudan are ranked fiftieth and fifty-first, respectively, while Morocco and Algeria ranked sixteenth and twentieth, respectively.

According to the Ibrahim index of African governance, North Africa ranks second among the five subregions in Africa in overall governance, and in sustainable economic opportunity and human development. In those two categories, and all their component subcategories, North Africa's score is higher than the continental average. In participation and human rights, however, North Africa is ranked the second lowest of the five subregions, with a score that is considerably below the continental average. Within that category, North Africa is the worst performing subregion in the participation subcategory and the second lowest in the rights subcategory. North Africa's performance is also relatively weak in safety and rule of law, ranking third among the five subregions. With a strong average performance in sustainable economic opportunity and human development, and a weak average performance in safety and rule of law and participation and human rights, North Africa demonstrates extreme imbalances in governance performance.

The exports of the economies of the region are not sufficiently diversified, with export growth stemming from the primary or natural resource sectors. The exports of Algeria, Mauritania, the Sudan and, to a lesser extent, Egypt, are all composed of 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 have been able to diversify their exports. Capital goods account for over 16 per cent of exports in the two countries and consumer goods for over 32 per cent.

Private sector development is still a huge challenge for the economies of North Africa, while improving the business climate is one of the prime goals of the Governments in the region. The scores of Morocco and Tunisia on the ease of doing business index of the World Bank in 2016 were 64.51 and 64.88, respectively. Those scores increased to 67.5 and 64.89, respectively, in 2017. The scores of Algeria and Egypt fell in 2015., In 2016 and 2017, however, Egypt scored 54.43 and 56.64, respectively, and its ranking changed from 131 in 2016 to 122 in 2017. In 2013, Mauritania made considerable effort to improve the business environment by establishing companies and access to credit. The Mauritanian Government adopted a new road map for doing business 2015. Mauritania scored 44.74 in 2016 and 47.76 in 2017, and its ranking changed from 168 in 2016 to 160 in 2017.

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 efforts have been made to improve public financial management and diversify resources, in terms of tax revenue, much remains to be done. The proportion of tax revenue to GDP is about 19 per cent in all countries, except for the Sudan, where it is 7.3 per cent.

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

Box 1: Africa regional integration index

In terms of regional integration, Egypt is the best performer in productive integration within the Common Market for Eastern and Southern Africa (COMESA) and the second-best performer in trade integration within the Community of Sahelo-Saharan States (CEN-SAD) and COMESA. Egypt is among the top performers in productive integration within CEN-SAD (ranking sixth) and in infrastructure within COMESA (ranking fourth), whereas it is an average performer in infrastructure in CEN-SAD (ranked fourteenth). However, Egypt is the lowest performer in CEN-SAD (ranking twenty-ninth) and the second-to-lowest performer in COMESA (ranking eighteenth) in the free movement of people, as shown in the table below.

Egypt ranks fourth overall in COMESA, with a score of 0.51. The best performer in COMESA is Kenya, with a score of 0.57. Egypt ranks fourteenth overall in CEN-SAD. The best performer in CEN-SAD is Côte d'Ivoire, with a score of 0.65.

Free movement of people:	**Trade integration**	**Productive integration**	**Infrastructure**	**Financial and macroeconomic integration**
Egypt ranks eighteenth in COMESA, (score: 0.03). The best performing country in COMESA is Seychelles (score: 0.70). Egypt ranks twenty-ninth in CEN-SAD (score: 0.03). The best performer in CEN-SAD is Côte d'Ivoire (score: 0.80).	Egypt ranks second in COMESA (score: 0.90). The top performer in COMESA is Zambia (score: 1). Egypt ranks second in CEN-SAD (score: 0.82). The best performer in CEN-SAD is Côte d'Ivoire (score: 0.96).	Egypt ranks first in COMESA (score: 0.76). Egypt ranks sixth in CEN-SAD (score: 0.43). The best performer in CEN-SAD is Kenya (score: 0.75).	Egypt ranks fourth in COMESA (score: 0.51). The top performer in COMESA is Seychelles (score: 0.71). Egypt ranks fourteenth in CEN-SAD (score: 0.28). The best performer in CEN-SAD is Morocco (score: 0.60).	Egypt ranks eleventh in COMESA (score: 0.35). The top performer in COMESA is Seychelles (score: 0.50). Egypt ranks twenty-second in CEN-SAD (score: 0.32). The best performer in CEN-SAD is the Niger (score: 1).

Egypt is a member of two regional economic communities, namely the Common Market for Eastern and Southern Africa (COMESA) and the Community of Sahelo-Saharan States (CEN-SAD). The country's performance varies widely, both within the context of each regional economic community and across the various dimensions of the index.

Free movement of persons: Egypt does not perform well on this dimension. The country is ranked eighteenth in COMESA and twenty-ninth in CEN-SAD, with scores as low as 0.03. At the time the index was calculated, the country had not yet ratified any of the protocols on the free movement of people in its regional economic communities. Only 16 per cent of citizens of COMESA countries and 7 per cent of citizens of CEN-SAD countries are allowed to enter the country visa-free.

Trade integration: Egypt performs relatively well within the two regional economic communities on the dimension of trade integration, ranking second in both COMESA and CEN-SAD. The country applies very low tariffs on intraregional imports. In 2014, its average applied tariff on imports from CEN-SAD and COMESA countries was 0.1 per cent. In terms of regional trade flows, Egypt is among the top performers within its regional economic communities, accounting for 13 and 11 per cent of total regional trade in COMESA and CEN-SAD, respectively. However, the country has not yet fully maximized its regional trade potential. Intraregional economic community trade (exports to and imports from members of a regional economic community) of Egypt remains below 2 per cent of the country's GDP.

Productive integration: Egypt is the best performer in COMESA (score: 0.76) and occupies sixth position in CEN-SAD (score: 0.43). The good performance of Egypt reflects the country's better integration into regional value chains. Over the period 2010–2013, Egypt accounted for an average of 43 per cent of regional trade in intermediate goods in COMESA, while the equivalent share in CEN-SAD was 28 per cent. Moreover, Egypt has the highest value on the trade complementarity index of the United Nations Conference on Trade and Development (UNCTAD), within its regional economic communities. This implies a relatively high complementarity in regional trade structure (imports and exports) between Egypt and other States members of COMESA and CEN-SAD.

Infrastructure: Egypt seems to have better regional infrastructure connectivity in COMESA (ranking fourth, with a score of 0.51) than in CEN-SAD (ranking fourteenth, with a score of 0.28). The country had an average roaming cost of $0.7 per minute in COMESA and CEN-SAD (based on data used in the calculation of the index), making it a moderate performer on this indicator. In terms of infrastructure development, Egypt ranks among the top performers in the regional economic communities. On the Africa infrastructure development index of the African Development Bank, the country's scores were 77.67 for 2013, 81.11 for 2014, 85.62 for 2015 and 85.66 for 2016. In terms of ranking, it went from third on the continent in 2013 to second throughout the period 2014–2016. Seychelles ranked first on the continent throughout the period 2013–2016.

Financial integration and macroeconomic convergence: Egypt does not perform so well in terms of financial integration and macroeconomic convergence at regional levels. Over the period 2010–2013, Egypt recorded an average inflation rate of nearly 10 per cent. In comparison, the average inflation rates over the same period were nearly 6 per cent and 9 per cent in CEN-SAD and COMESA, respectively. Moreover, the Egyptian pound is not convertible with the currency of any other member State in its regional economic communities.

Egypt seems to have a better integration in COMESA than in CEN-SAD. The country performs relatively well on the following dimensions of the index: trade, productive integration and infrastructure integration. With regard to the movement of persons regionally, the country still has a long way to go. Ratifying the protocols on the free movement of persons in its regional economic communities and granting visa-free entry to citizens of COMESA and CEN-SAD member States remain just as critical as expanding regional infrastructure assets if the country is to achieve its regional integration ambition. Implementation of the regional project to construct a navigational link between Lake Victoria and the Mediterranean Sea through the Nile River and other projects are key in this regard.

3

Economic performance

3.1 Economic growth

GDP grew by 4.3 per cent in the fiscal year 2015/16. On the supply side, growth was driven by manufacturing (excluding hydrocarbons), construction, wholesale and retail trade and agriculture, while tourism and extractive activities contributed negatively to growth. On the demand side, household consumption and public spending continued to be supported by the fiscal stimulus.

In May 2017, the International Monetary Fund (IMF) agreed to a second $1.25 billion loan instalment and praised the implementation of recent measures, such as the introduction of value added tax (VAT) and fuel subsidy cuts. The Government's reform agenda is continuing at pace, with a new investment law designed to cut red tape and entice foreign investors.

Foreign investors are venturing back to Egypt, following the swift implementation of reform measures as part of the IMF financial assistance programme. Renewed confidence in the economy is evidenced by a significant increase in the Central Bank's international reserves. However, Egyptian households are taking a hit owing to skyrocketing inflation caused by currency depreciation and fuel subsidy cuts, which means that private consumption will likely remain depressed. Public spending is also likely to be subdued as the Government takes a prudent fiscal approach to reduce the budget deficit.

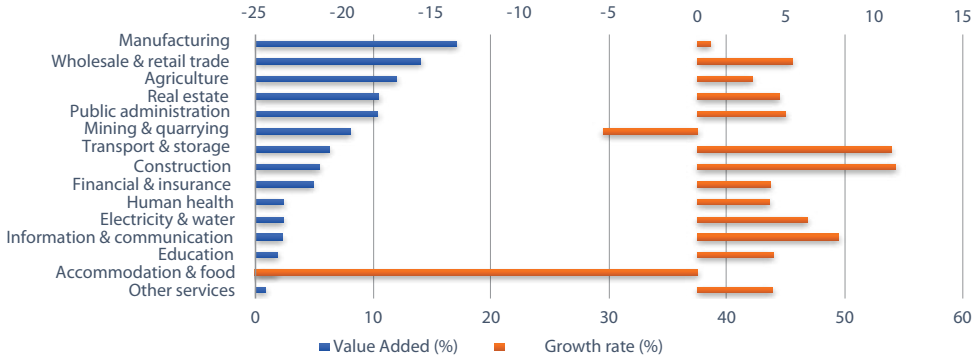
The implementation of measures announced in the 2017 budget should pare the fiscal deficit and put public debt on a sustainable path, which, together with a predicted decline in inflation and continuing IMF support, should increase macroeconomic stability and be conducive to investment.

Despite an average growth rate exceeding 5 per cent throughout the period between the fiscal years 2003/04 and 2009/10 (with around 7 per cent average growth from 2005/06 to 2007/08 and growth of 4.9 per cent from 2008/09 to 2009/10 owing to the financial crisis), Egypt could not embark on proper structural transformation. The economy is still dominated by sectors where productivity gains are relatively low. A review of the share of the various sectors in GDP shows that the structure of the economy has not changed significantly. Agriculture and mining are the dominant sectors, accounting for

25.6 per cent of GDP in the fiscal year 2013/14, compared with 24.3 per cent in 2005/06. The structural transformation of the economy is a major challenge. Aware of this challenge, in March 2014, the Government initiated a business reform on the theme "Egyptian regulatory reform and development activity" to stimulate investment and create businesses. However, the security situation and political turmoil led to what may be termed a "wait-and-see" approach by investors.

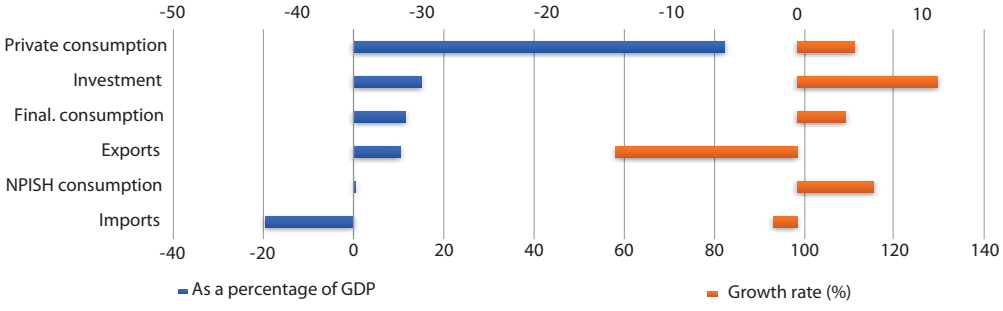
Figures 2 and 3 illustrate the supply and demand structures of the economy in 2016. The contributions of manufacturing, wholesale and retail trade and agriculture to GDP were 17.1 per cent, 14 per cent and 11.9 per cent, respectively. Those sectors grew by 0.8 per cent, 5.3 per cent and 3.1 per cent, respectively. In contrast, the transportation and storage sector and the construction sector grew at 10.9 and 11.2 per cent, respectively, and had added values of 6.3 per cent and 5.4 per cent, respectively. The mining sector grew at a rate of negative 5.3

Figure 2: Percentage distribution of GDP and real growth of added value by sector in 2016



Source: Ministry of Planning.

Figure 3: Percentage distribution and growth rate of GDP, demand components, in 2016



Source: Ministry of Planning.

per cent and its added value was 8 per cent in 2016. The social development sectors of health and education grew by 4.1 per cent and 4.3 per cent, respectively, and had added values of 2.3 per cent and 1.9 per cent, respectively. On the demand side, private consumption is dominant, at 82.4 per cent of total consumption, and had a growth rate of 4.6 per cent.

The expansion of the Suez Canal in August 2015, coupled with the discovery of the largest gas reserves in the Mediterranean Sea (850 billion m^3, or the equivalent of 5.5 billion barrels of oil), will radically change the energy scene of Egypt and will also have a significant impact on the development of the manufacturing industries, especially the energy-intensive ones.

Box 2: Comparing economic forecasts

The quality of forecasts is assessed to inform decision makers regarding the relevance of projections and macroeconomic aggregates carried out by national and international institutions, to guide them in the formulation and implementation of development strategies. The data for conducting the assessment are taken from national and international sources. The African Development Bank (AfDB), the Economist Intelligence Unit, IMF and the World Bank produce forecasts on economic growth for Egypt. The forecasts produced by those organizations diverged from each other by as much as 5 percentage points over the period 2008–2017 (see figure A). The Economist Intelligence Unit provided the most optimistic forecasts of growth, averaging 4.8 per cent for the period 2008–2017. Looking forward, the most optimistic growth rate estimates for 2017 are from the World Bank (4.6 per cent) and AfDB (4.5 per cent).

The degree of accuracy of those forecasts is an important issue, which is assessed by calculating the root mean square error and the mean absolute error, which are the most commonly used measures to evaluate forecasts. Generally, the higher the value of the errors, the less accurate the forecast. The analysis shows that over the period 2008–2014, IMF forecasts were relatively more accurate, followed by those from AfDB, while the forecasts of the World Bank had relatively high forecast errors (see figure B).

Figure A: Forecasted GDP real growth rates, by institution

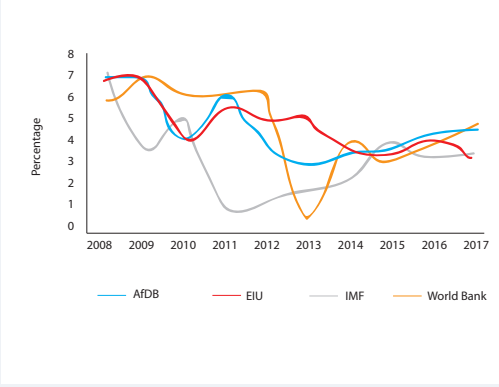
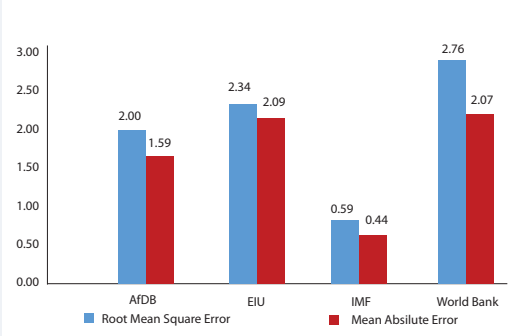


Figure B: Accuracy of forecasts (2008-2014)



Source: Calculated by ECA.

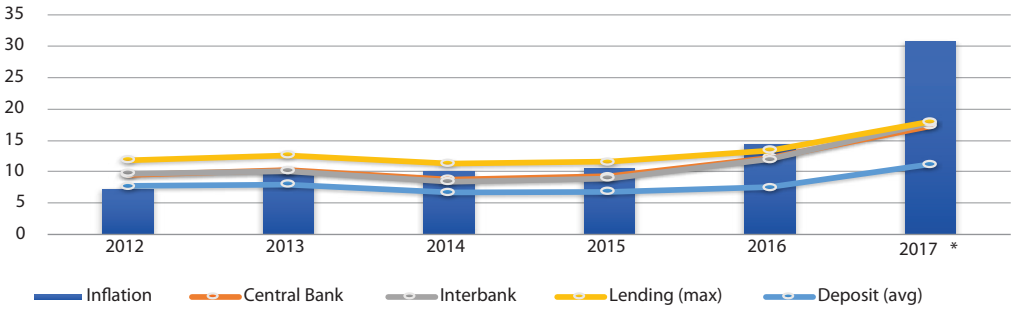
3.2 Monetary policy

The macroeconomic outlook remains fragile owing to high inflation, estimated at 10.2 per cent in the fiscal year 2015/16, and a debt-to-GDP ratio of 18.1 per cent at the end of June 2016, up from 16.3 per cent at the end of June 2013 (AfDB, 2015). In July 2015, as part of its budget consolidation policy, the Government introduced administered price increases for electricity, water and public transport, thereby reducing energy-related inflationary pressures.

The Government has recently embarked on structural reforms aimed at boosting economic growth and promoting a stable business environment. As part of these efforts, the authorities have succeeded in significantly reducing the budget deficit, despite a decline in foreign grants, thanks to a wide-ranging set of reforms, including energy subsidy reforms, and progress in limiting salary increases and in increasing tax revenues. To consolidate the gains in economic performance, however, the Government should continue to address headwind inflation and fiscal challenges to further unlock growth potential.

The Central Bank of Egypt had to formulate a monetary policy that would both meet the country's financing requirements and achieve its goal to contain inflation. In November 2016, the Central Bank announced its decision to liberalize the exchange rate regime to quell the distortions in the domestic foreign currency market. As a result of this decision, along with other factors (e.g., the imposition of VAT and reductions in fuel subsidies), inflation reached 31.5 per cent in April 2017 and led the Central Bank to raise its policy rate to 17.25 per cent in May 2017. The policy rate was raised again, to 19.25 per cent in 2017 to further contain the negative effects of increasing prices. The goal of the Central Bank is to reduce the inflation rate to 13 per cent (+/- 3 per cent) in the fourth quarter of 2018 and to single digits thereafter.

Figure 4: Annual inflation and interest rates (percentage)



Source: Central Bank of Egypt (2017).

Private sector credit, which, by the end of June 2017, had grown by 47.3 per cent (compared with 59.8 per cent for public sector credit), continued to be plagued by high interest rates, which limited the increase in demand and inflationary pressures. Consequently, the Central Bank was able to relax monetary policy in the subsequent months to support the resumption in activity.

Steps were taken to float the local currency in November 2016, which left the whole economy, with its production and consumption sides, facing the big shock of rising production costs and living costs. The Government has been subsidizing the Egyptian pound more than any commodity, and by liberalizing its exchange in terms of other currencies, a new era is now being witnessed by all segments and social classes of the economy. The liberalization has forced consumers to re-adjust their patterns of consumption, which was a significant shift for a net importer country that is strongly tied to the United States dollar. The new foreign exchange rate system will move the whole economy into a new price level, pushing up the value of all assets in local currency to adjust to a new foreign exchange rate, and accordingly, a high inflation rate. With stable macroeconomic policies, a liberalized foreign exchange system and an advancing financial sector, monetary policy had gained greater flexibility.

3.3 Fiscal policy

The State tightened its budget policy to limit debt and achieve an 11.5 per cent deficit relative to GDP in the fiscal year 2014/15. The deficit reached 239.7 billion Egyptian pounds, or 13.0 per cent of GDP, in 2012/13, spurred by higher public spending to stimulate growth. However, the deficit dropped to 10.7 per cent from July 2014 to May 2015. The overall deficit in the fiscal year 2015/16 was 339.4 billion Egyptian pounds (12.5 per cent of GDP) and 273.3 billion Egyptian pounds in the period July 2016–March 2017 (8.0 per cent of GDP) compared with 9.4 per cent in July 2015–March 2016. Despite increased spending on salaries (by 10.5 per cent between the fiscal years 2013/14 and 2014/15, 7.1 per cent in 2015/16 and 0.5 per cent in the period July 2016–March 2017 relative to the period July 2015–March 2016), the rising budget deficit was contained, following an expansion in State revenues. Budget earnings increased by 1.8 per cent in the fiscal year 2014/15 and by 5.6 per cent in 2015/16. As for the period July 2016–March 2017, those earnings increased by 24.9 per cent, compared to the same period of the fiscal year 2015/16, owing to the introduction of VAT in September 2016. That increase stemmed from fiscal reforms undertaken at the beginning of the fiscal year 2014/15, which included: a broadening of the tax base; a tax levied on property; a 10 per cent tax on capital gains and dividends; an additional 5 per cent tax on incomes exceeding 1 million Egyptian pounds for physical persons and corporate bodies; and increases in taxes on alcohol (by 200 per cent on average) and cigarettes (by 50 per cent).

For the fiscal year 2015/16, total revenues reached 491.5 billion Egyptian pounds (rising by 5.6 per cent compared to 2014/15) thanks largely to tax proceeds, which rose from 306.0 billion Egyptian pounds in the fiscal year 2014/15 to 352.3 billion Egyptian pounds in

2015/16. Budget expenditure reached 817.8 billion Egyptian pounds in 2015/16, compared with 733.3 billion Egyptian pounds in 2014/15. This rise stems from the increased wage bill (by 7.1 per cent), interest on debt (by 26.2 per cent) and subsidies and social benefits (by 1.2 per cent).

For the period July 2016–March 2017, total revenues registered 363.7 billion Egyptian pounds, an increase of 24.9 per cent compared to the period July 2015–March 2016 that was spurred by tax proceeds, which increased from 212.4 billion Egyptian pounds in the period July 2015–March 2016 to 269.0 billion Egyptian pounds in the period July 2016–March 2017. Budget expenditure reached 631.4 billion Egyptian pounds in the period July 2016–March 2017, against 533.3 billion Egyptian pounds in the period July 2015–March 2016. That rise reflects increases in the wage bill (by 0.5 per cent), interest on debt (by 31.1 per cent) and subsidies and social benefits (by 20.3 per cent).

The current debt level is a both a threat to growth (thereby increasing the burden of debt on the State budget) and to the value of the Egyptian pound (thereby increasing the external debt burden). This is the reason for competing priorities in respect of investment in areas

Table 1: Fiscal accounts (millions of Egyptian pounds)

	2010	2011	2012	2013	2014	2015	2016	2017*
Revenue (incl. grants)	268 114	265 286	303 622	350 322	456 788	465 241	491 488	669 756
Tax revenue	170 494	192 072	207 410	251 118	260 289	305 957	352 315	433 300
Non-tax revenue	93 288	70 927	86 109	93 996	100 643	133 847	135 630	234 240
Grants	4 332	2 287	10 103	5 208	95 856	25 437	3 543	2 213
Expenditure and net lending	365 987	401 866	470 992	588 188	701 514	733 350	817 844	974 794
Recurrent expenditure	317 637	361 985	435 074	548 672	648 632	671 600	748 594	828 082
of which: wages and salaries	70 3210	78 270	99 926	118 196	146 869	162 311	173 827	228 736
of which: interest payments	72 333	85 077	104 441	146 995	173 150	193 008	243 635	292 520
Development expenditure	48 350	39 881	35 918	39 516	52 882	61 750	69 250	146 711
Overall deficit	98 038	134 460	166 705	239 719	255 439	279 430	339 495	319 460
Budget balance/GDP (percentage)	-8.1	-9.8	-10.6	-12.9	-12.0	11.6		-9.8

Source: Ministry of Finance, Financial Monthly Bulletin (October 2017).

such as infrastructure and social development. However, these risks have been reduced by the reforms undertaken by the Government to boost fiscal earnings and keep the increase in expenditure under control. The recovery of growth should also help to ease the debt burden on GDP. It is worth noting that the debt is mainly from national investors, with external debt accounting for only 15.4 per cent of GDP at the end of June 2014. The composition of Egypt's debt reduces 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.

3.4 Investment

The rate of investment increased to 15.0 per cent in the fiscal year 2015/16, from 14.3 per cent in 2014/15. As for the distribution of investment by ownership, public sector investment decreased to 42.0 per cent in the fiscal year 2015/16, from 44.3 per cent in 2014/15, while private sector investment increased to 58.0 per cent in 2015/16, from 55.7 per cent in 2014/15.

FDI inflows to Egypt increased to $13,349.1 million in the fiscal year 2016/17, from $12,528.7 million in 2015/16. Concurrently, FDI outflows declined to $5,433.3 million, from $5,596.1 million. Net FDI in Egypt has been rising steadily since the fiscal year 2012/13, with an average annual increase of 20.0 per cent.

3.5 Balance of payments and external trade

Externally, the country's situation remains fragile and dependent on financing from the Gulf countries ($18.5 billion in the form of deposits at the end of June 2017) and FDI ($7.9 billion in the fiscal year 2016/17). On the fiscal side, transactions of the Egyptian economy with the outside world over the fiscal year 2016/17 resulted in a balance of payments surplus of $13.7 billion, against an overall deficit of around $2.8 billion in the corresponding fiscal year. The trade deficit declined by nearly $3.2 billion (8.4 per cent) to reach approximately $35.4

Figure 5: Composition of exports in 2016

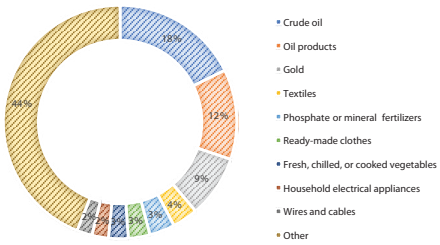
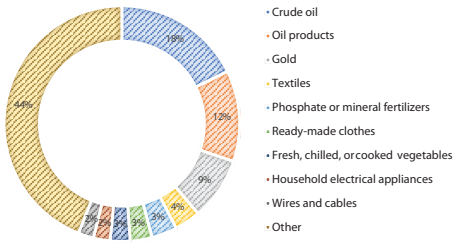
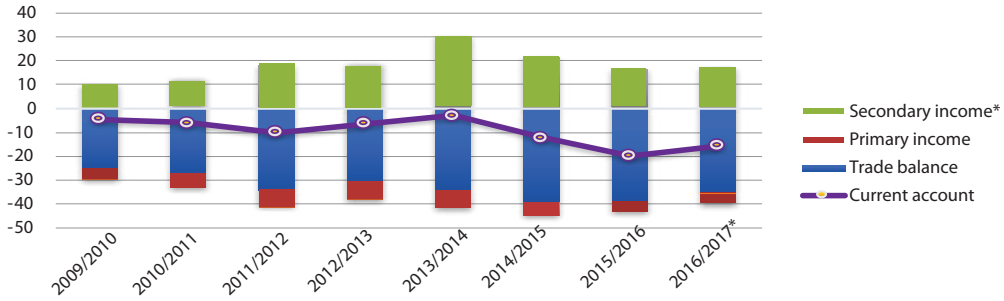


Figure 6: Structure of imports in 2016



Source: Central Bank of Egypt (2017).

Figure 7: Trend in major current account balances (millions of United States dollars)



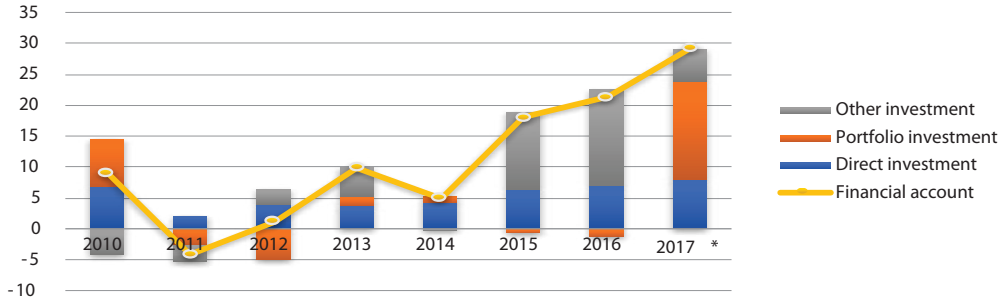
Source: Central Bank of Egypt (2017).

billion, compared with $38.7 billion in the previous period. This can be attributed to higher commodity export earnings, which increased by $3.0 billion, and lower import payments, which decreased by $265.6 million.

Despite a sharp drop in national hydrocarbon production in recent years, oil and gas continue to be the country's main export products. Owing to the lack of structural transformation, the import/export composition of the Egyptian economy is dominated by oil, whereby Egypt is exporting crude oil and importing refined oil. The Suez Canal 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), is expected to increase national earnings from the canal to $13.2 billion by 2023.

The capital account rose to $29.0 billion, following an increase in FDI of 14.2 per cent (i.e., 3.6 per cent of GDP).

Figure 8: Trend in the financial operation account (millions of United States dollars)



Source: Central Bank of Egypt (2017).

4

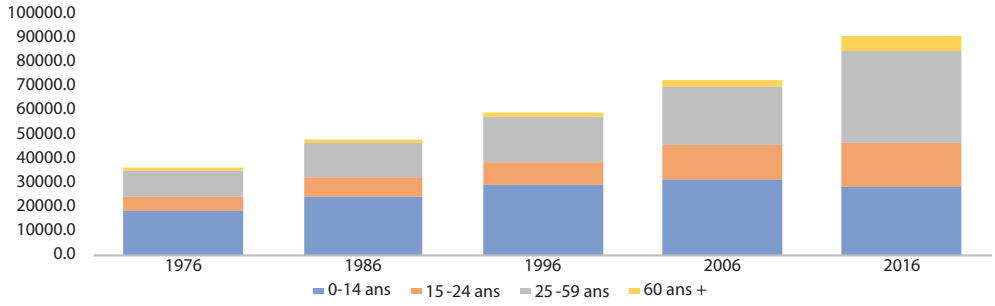
Social development

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 human development index rising from 0.452 in 1980 to 0.621 in 2000, and to 0.682 in 2014. The country ranks 110th, behind Libya, at 55th, Tunisia at 90th and Algeria at 93rd, out of the 187 countries on the human development index.

The population of Egypt exceeded the 100 million mark in 2017. This brings about a three-fold development challenge: first, the challenge of reducing poverty, with 26.3 per cent of Egyptians living below the poverty line in 2015; second, the challenge of addressing structurally high unemployment (12.8 per cent), in particular among young people (38.9 per cent) and women (24.5 per cent) in 2015; and, third, the challenge of addressing major disparities between rural and urban areas. Indeed, the country will be confronted in the medium and long term, with challenges such as the development of costly diseases caused by an ageing population and lifestyle changes (growing obesity), and increasing demand for water.

Figure 9: Population trends by age group (percentage of total population)



Source: Central Agency for Public Mobilization and Statistics (2017).

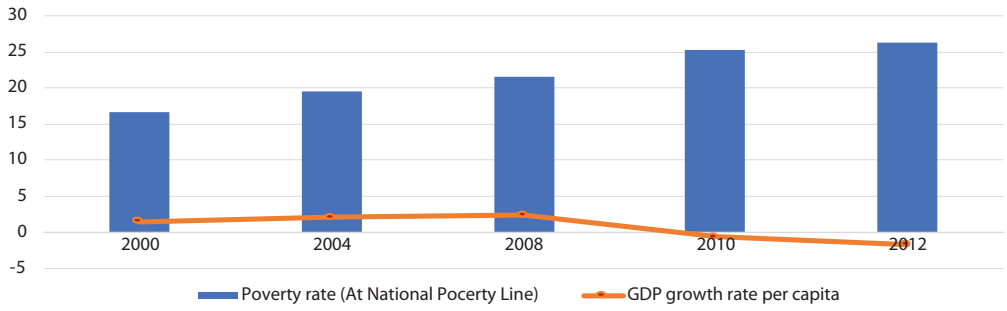
4.2 Poverty and employment

The task of reducing the proportion of people living in extreme poverty continues to challenge Egypt. Poverty is widespread with three fourths of the poor living in rural areas, compared to one fourth in urban areas. This is largely attributed to lack of adequate public infrastructure, private capital accumulation, and low investment in human capital, and also to the absence of a pro-poor fiscal policy, which collectively have led to a deterioration of the living standards in rural areas.

Unemployment remains pervasive across the country. Youth unemployment, in particular, has increased by 50 per cent over the past decade, from 28 per cent in the period 2000–2002 to 42 per cent in 2012–2014, because of subdued economic opportunities. There is a persistent mismatch between the needs of the country and the educational and skills systems, including both general education and technical and vocational education and training. Significant progress has been made in increasing educational enrolment, including for females. But unemployment rates for your people are highest among the more educated.

These elevated unemployment rates for the educated could be attributed to number of factors. Young people with more education may have higher expectations of attaining particular kinds of work, and may also have support mechanisms (such as families) which enable them to spend longer searching for jobs or to wait until they get jobs which match their expectations. In addition, jobs for the highly educated may simply not exist – either because companies are unable to develop these posts (or do so rarely), or because there is a mismatch between the skills acquired by these young job-seekers and those sought by the companies (ILO, 2017). In addition, gender disparities are high, with female youth unemployment standing at 64.9 per cent in 2012, relative to that of their male counterparts at 23.8 per cent (ILO, 2012). It is also worth pointing out that, unlike in other subregions of Africa, unemployment in North Africa,

Figure 10: Poverty rate and GDP growth rate per capita (per cent)



Source: Central Agency for Public Mobilization and Statistics (2017).

including Egypt, affects mostly educated youth, leading to underemployment, as many of them pick up informal jobs for survival.

Although the country's Gini coefficient of 0.30 is relatively low in comparison to other African countries, there are widespread disparities between urban and rural areas. This equality gap is of a more geographical nature, however, falling between the four largest cities and the rest of the country, rather than between urban and rural areas in general (Verme and others, 2014). In addition, the same authors note that inequality within urban areas is significantly worse than inequality in rural areas. This indicates increased levels of income inequality and possibly challenges in fiscal and distributional policies across the country.

The main determinants of human exclusion at the national level are youth unemployment and poverty, contributions of 27.6 and 19 per cent, respectively, in 2014. The contribution of indicators such as stunting and illiteracy to overall human exclusion decreased by 34.4 and 22.6 per cent, respectively, while shares of mortality, youth unemployment and poverty increased by varying degrees between 2006 and 2014.

The statistics on poverty are quite revealing. At the national level, poverty went up by 4 percentage points, from 22 per cent in 2009 to 26 per cent in 2013 – possibly as a result of a slump in economic activities. Policy commentators have noted that the political turbulence that started in 2011 and its snowballing effects on the economy and labour markets fuelled an increase in poverty, rendering some 21.7 million people unable to meet their basic food and non-food needs (Government of Egypt and UNDP, 2015).

When disaggregated by gender, unemployment and illiteracy appear to be the major forces driving exclusion among women. Poverty and unemployment have a higher contribution to exclusion among men. Poverty levels have also increased by varying degrees across gender. This demonstrates the need for gender-sensitive policy interventions in economic and social sectors, to address the key factors that drive human exclusion across gender.

There are also stark differences in the labour force participation among men and women. Men have higher participation rates, owing to a number of factors, including cultural and social norms (ILO, 2015). Although youth unemployment for males is lower than that of females, it increased from 16 per cent in 2009 to 29 per cent in 2013, according to national statistics. On the other hand, female youth unemployment remained high, although it marginally declined from 56 to 52 per cent over the same period. The marginal decline in female youth unemployment could be indicative of affirmative actions and women empowerment programmes put in place by the Government, in particular in terms of training and skills development programmes to improve youth employability.

4.3 Health

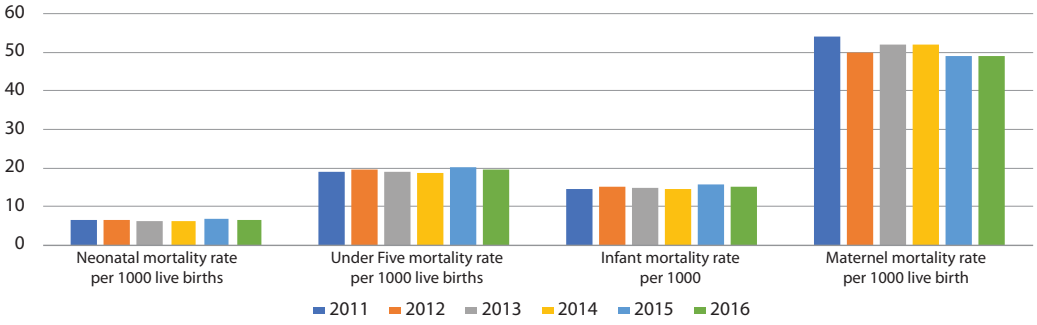
Since the 1970s, Egypt has made considerable efforts to improve medical coverage for its people by making immunization universal, in an effort to significantly curb communicable diseases such as poliomyelitis, diphtheria, tetanus, whooping cough and tuberculosis. It has enhanced coverage and the quality of medical services over all the country's governorates. 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 then to 71 years in 2013, demonstrating the improvements in public health.

Egypt was among the first countries to join the global Child Survival Call to Action, launched in 2012. The country has maintained its polio-free status, and, in 2007, was removed from the list of countries where maternal and neonatal tetanus are endemic.

The health-care system in Egypt is a dense network of health facilities, which allows people to have relatively easy access to basic services. Management of the health system is complex, and involves the Ministry of Health, along with several public bodies, such as the ministries of defence and internal affairs (which have their own health structure), civil society and the country's medical practitioners themselves. The health system in Egypt provides for the health needs of a large number of people from African countries, such as the Sudan.

Where health facilities and their staff are concerned, according to the WHO 2015 World Health Statistics report, the country has 0.6 basic healthcare facilities per 100,000 inhabitants, and 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. By comparison with other countries in the same socioeconomic bracket, Egypt spends less than the average on health care and its total expenditure on health,

Figure 11: Trends in the mortality rate from 2011 to 2016



Source: Central Agency for Public Mobilization and Statistics (2017).

as a percentage of GDP, falls below international standards and benchmarks. Other countries spend 9–14 per cent of their GDP on health, while the 2001 Abuja Declaration on Roll-Back Malaria in Africa requires members of the African Union – among them Egypt – to allocate 15 per cent of their GDP to health expenditure.

Egypt has reduced the level of under-five deaths, 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, immunization of newborns, improvement in hygiene and food conditions, among other factors. 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.

The situation of maternal and reproductive health remains cause for concern, despite the efforts made. The rate of maternal mortality is abnormally high, at 52 deaths per 100,000 live births in 2013, as reflected in figure 11. The country must double its efforts, in particular in rural and remote areas, to provide antenatal surveillance, assisted deliveries and postnatal care, all of which are necessary for providing appropriate care to prevent pregnancy-related risks and complications. There is need to improve the quality of maternal and health services, in particular in hospitals.

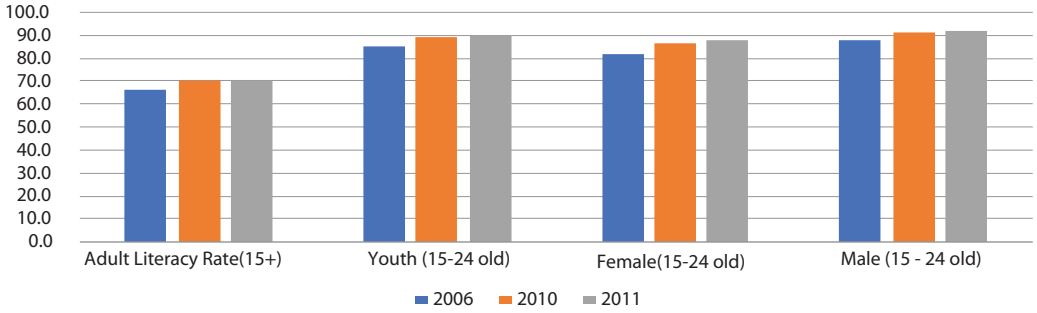
4.4 Education

Egypt has a free and compulsory education system for children aged 6–15. The system comprises six years of primary schooling, three years of preparatory and three years of secondary schooling, prior to entering university. Top priority is assigned to the education sector and major efforts have been made 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 12). Pre-university spending over the period 2012–2013 is estimated at 3 per cent of GDP and nearly 9 per cent of public expenditure. Given that nearly one third of the Egyptian population are young people aged between 10 and 24, investment in their skills is crucial for the future of the country.

A national civic education programme promoting active citizenship among teenagers and young people from all over Egypt has been institutionalized by the National Council for Youth, with technical support from the United Nations Children's Fund (UNICEF). In partnership with the Information and Decision Support Centre of the Egyptian Cabinet, United Nations agencies and the Population Council, UNICEF has contributed to the periodic conduct of the survey of young people in Egypt, which updates the national data on young people and provides a solid and informed base for programming and policy development.

It is evident that the focus has been placed on quantitative considerations, without sufficiently considering how to adapt the education current being offered to labour market requirements.

Figure 12: Adult and youth literacy rate (per cent)

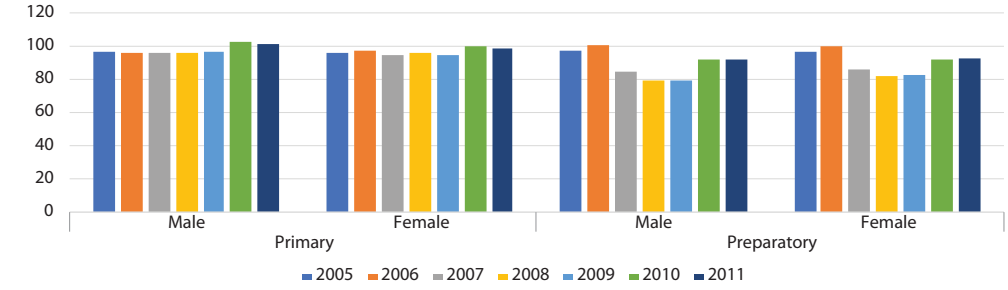


Source: Central Agency for Public Mobilization and Statistics (2017).

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 the reform of pre-university education (2014–2030), in 2012–2013, of the country's 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 the above-mentioned national strategic plan for pre-university education reform, for the period 2014–2030. The strategy envisages the revamping 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

Figure 13: Gross enrolment ratio (per cent)



Source: Central Agency for Public Mobilization and Statistics (2017).

will be considerably improved.

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, which 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.

Introduction and interpretation of data

The status of gender equality and women's empowerment is measured in terms of the key areas indicated in the circular chart below. These areas are important for the improvement of women's lives and their contribution to sustainable and inclusive growth in Africa.

To determine the actual extent of gender inequality and to achieve the goal of measuring gender equality and women's empowerment in Africa, ECA has developed a monitoring tool, the African Gender Development Index. The Index enables policymakers to assess their own performance in implementing policies and programmes geared towards ending the marginalization of women.

The calculation for the scoring is based on gender status index data, which form one of the components of the Index. For each key indicator, the score is calculated by taking the female-to-male ratio of the indicator values, multiplying this by 10 and rounding the result to the nearest whole number. A score of zero represents the highest level of inequality, 5 shows middle parity level and 10 represents perfect parity. Parity levels exceeding 10 represent situations where women have outperformed men, irrespective of the level of development of the area being assessed.

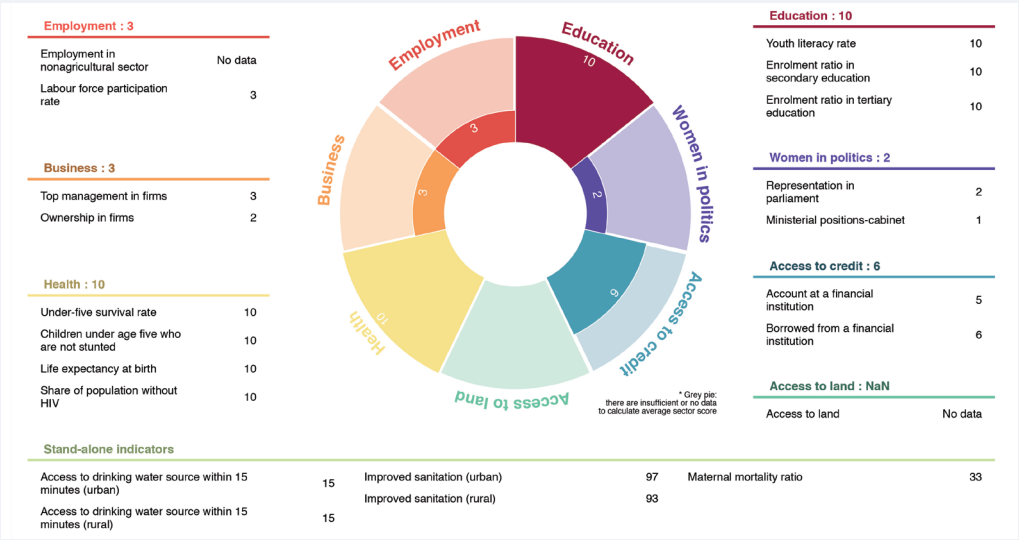
Most of the data used to calculate the scores were drawn from the latest nationally available data sources. For a few indicators, however, where countries have no disaggregated data, international data are used. As set out in figure 14, for Egypt these sources include the 2014 demographic and health survey, the statistical databases of the International Labour Organization and the United Nations Educational, Scientific and Cultural Organization, the UNICEF report ***State of the World Children 2016***, the World Bank's Enterprise Survey and Global Findex, the UNICEF and WHO 2015 report ***Progress on Sanitation and Drinking-Water*** and the Inter-Parliamentary Union.

Status of gender equality

In Egypt, gender equality is observed for all the education and health indicators covered. There is a significant gender disparity in favour of males in labour force participation, participation in business and political representation. Based on data from the World Bank's Enterprise Surveys, Egypt scores 3 and 2 for gender parity in top management in firms and in ownership of firms, respectively. Labour force participation is estimated at 23 per cent for females, compared to 77 per cent for males. According to data from the Inter-Parliamentary Union, 89 women hold seats in parliament compared to 507 men. In a cabinet of 32 ministers, only 4 are women. Data from the World Bank's Global Findex gave a gender parity score of 6 for access to credit.

UNICEF estimates that the maternal mortality ratio is 33 per 100,000 live births. Access to a drinking water source is estimated at 99 and 97 per cent for urban and rural areas respectively. Access to improved sanitation is 97 per cent for urban areas and 93 per cent for rural areas.

Figure 14 : African gender scorecard for Egypt



5

Major policy challenges

In the short- term, Egypt must stabilize its macroeconomic situation, first by reducing inflation. 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 to 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. Cumulative data over the period 2000–2010 show that 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 its workforce from traditional sectors or those 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 should also be a priority.

There are disparities between 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, in particular in Upper Egypt, where, by comparison with the urban areas, the development indicators are rather alarming. These areas have higher rates of illiteracy and infant mortality, combined with limited access to public services and basic amenities, such as roads, potable water and sanitation. These areas also have a high prevalence of underweight children. According to estimates by 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).

During the years leading up to the Arab Spring, the disconnect between macroeconomic indicators and a sense of well-being at the household level widened. According to Gallup, a 34 per cent increase in per capita GDP in Egypt between 2005 and 2010 coincided with

a sharp decline in the number of people who indicated as their status: "thriving", from almost one third of the population to 12 per cent (Clifton and Morales, 2011).

Like certain other developing countries, Egypt is going through a period of demographic transition and changing lifestyles, and is therefore confronted today by new challenges caused by an increase in the size of its young population and the growth of a sizeable ageing population. This demographic transition in Egypt will undoubtedly be associated with a demographic dividend that needs to be harnessed through policies on health, education and job creation for young people.

A lifestyle change is being observed among young people, involving a growing predilection for foods with high fat and sugar content and a disinclination to exercise, leading to obesity. In turn, this change is predisposing them to chronic and costly diseases, whose symptoms are beginning to show in the short and medium term. The problem is spreading and largely affecting young people, with more significant effects on women than men.

According to WHO, 20.5 per cent of children under 5, 22.5 per cent of adult men and 46.3 per cent of adult 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 ageing population, according to demographic projections, from 2015 to 2050, the population aged 65 and over will increase from 5.9 per cent to 12.3 per cent of the total population. This category of the population will double in fewer than 40 years, contrary to that of developed countries, where the ageing of the population has been a slow and lengthy process, continuing over some 150 years. The rapid ageing of the population will adversely affect the sustainability of the pension system in the country, a problem to which the Government must give close attention. The combination of an overweight and ageing population must alert Egypt to the risks of chronic diseases, which are generally costly. Health expenditure could be reviewed upwards.

6

Special feature: promoting infrastructure and industrial development in Egypt

6.1 Introduction

The need for the Egyptian economy to promote higher value-added activities that would provide more decent jobs to citizens is well recognized by the Government. This is clearly demonstrated in the recently launched development plan, or Vision 2030, which aims to create a competitive, balanced and diversified economy that yields sustainable development and prosperity for all Egyptians.[1] Consonant with this Vision, the development strategy for 2016–2020 launched by the Ministry of Trade and Industry emphasizes the role of industrial development as the engine of sustainable development in Egypt, designed to meet domestic demand and enhance export growth.[2] The strategy aims specifically to increase the contribution of the industrial sector to the country's GDP by 21 per cent in 2020, while generating 3 million jobs. The critical importance of economic infrastructure to industrial development in Egypt and, therefore, to fulfilment of the country's development ambition cannot be overstated.

Egypt needs to provide more decent jobs for its growing population. This could be achieved through a structural transformation of the Egyptian economy in which a leading role is played by the manufacturing sector. In this process, and in fulfilment of its commitment to make industrial development an engine of sustainable and inclusive development, the upgrading and widening of the country's infrastructure assets and the improvements of its human capital and business environment are of crucial importance.

6.2 Policy environment

The 2011 revolution in Egypt has opened up a new area in the economic development of the country, with people aspiring to more inclusive and sustainable growth. This legitimate aspiration of all Egyptians is well echoed in the country's Vision 2030: "By 2030, Egypt will be a country with a competitive, balanced and diversified economy, depending on knowledge and creativity, and based on justice, social integrity and participation, with a balanced and varied ecosystem, a country that uses the genius of the place and the citizens in order to achieve sustainable development and improve the quality of life for all",[3] The industrial sector, which has the potential to improve economic diversification,

1 http://www.mfa.gov.eg/SiteCollectionDocuments/SDS2030_English.pdf.
2 Ministry of Trade and Industry, Industry and Trade Development Strategy (Cairo, 2016).
3 http://www.mfa.gov.eg/SiteCollectionDocuments/SDS2030_English.pdf.

boost exports and create more decent jobs, is seen as the potential driving force in attaining some of the objectives of the 2030 Vision.

The Government of Egypt has clearly defined sectors for value added activities and those for export-led industrialization. The targeted industries for improving value added include engineering, textiles, agro-processing, natural product-based industries, iron and steel, furniture and leather. The industries with a focus on export markets include engineering, textiles and clothing, chemicals, information technology and software and craft industries. Attainment of the set objectives of industrial development in Egypt are being pursued through a process of economic reform, the development of new industrial zones, the upgrading and extension of infrastructure assets and the implementation of substantive training programmes. In addition, to support local value-added activities, the Government of Egypt enacted a local procurement law in 2015 which stipulates that at least 40 per cent of the government purchases should be domestically manufactured with a local preferential price rate of 15 per cent.[4]

The industrial development strategy of Egypt, recognizes the important contribution of micro, small and medium-sized enterprises to economic activities and employment in Egypt. The country counts about 2.5 million such enterprises, 20 per cent of which are entrenched in the informal sector. Micro, small and medium-sized enterprises constitute 75 per cent of the total labour force.[5] Through the development strategy of the Ministry of Trade and Industry, the Government has committed itself to providing sustained support to these often marginalized small and medium-sized businesses while giving priority to enterprises owned by women, youth and minorities. Specific industrial parks are being developed for micro, small and medium-sized enterprises, such as that in Alexandria for the plastics industry.

The importance of economic infrastructure assets to the industrialization process and export growth of Egypt is critical. The country has been promoting a cluster-based approach through the development of industrial parks to scale up its manufacturing sector. This is principally based on the belief that industrial clusters yield the benefit of economies of scale in infrastructure and the provision of services to businesses while maximizing economies of agglomeration of industrial activities including experience and technology-sharing. Moreover, for the Government, industrial parks as self-inclusive areas providing infrastructure assets to manufacturers remain an efficient means of circumventing the country's infrastructure gaps for industrial development. Beyond industrial parks, Egypt has committed itself to improving national infrastructure assets through a number of projects, including the development of Suez Canal zones, the expansion of road networks, the establishment of storage and logistics centres and the upgrading of power supply assets.

4 This means that local production should be prioritized as long as it does not cost more than 15 per cent compared with the imported equivalent products.

5 Ministry of Trade and Industry, Industry and Trade Development Strategy (Cairo, 2016).

Egypt has also made a commitment to move towards environmentally friendly industrial development through the promotion a of greener infrastructure, such as renewable energy, waterways, light railways and the promotion of innovative centres through the application of information and communications technology (ICT). Where, for example, renewable energy is concerned, efforts are being made to unlock the potential for solar and wind. In 2014, the Egyptian Government passed a key feed-in tariff act to encourage private investment in the sector. The act allocates State-owned lands to renewable power projects, forces electricity companies to source and trade the energy produced through these projects, and provides attractive tax incentives for private investments in the renewable energy sector.

In addition, renewable energy producers are also incentivized through long-term leases of land charged at 2 per cent of the value of the energy produced and reduced customs tariffs at a rate of 2 per cent on imported equipment and materials. Digitalization of the Egyptian economy is on track, with an enabling institutional framework that fosters innovation and an eco-friendly environment. For example, the Information Technology Industry Development Agency, an executive agency of the Egyptian Ministry of Communications and Information Technology, was founded in 2004 with a clear mandate to make ICT a catalyst for innovation and economic growth, while positioning Egypt as a global digital hub. The Software Engineering Competence Centre was created by the Government in 2001 to promote and support the development of the software industry in Egypt. Later that same year, on 6 October, a high technology business centre, known as the "Smart Village", was inaugurated in west Cairo. In 2010, the Technology and Entrepreneurship Centre was created to drive innovation in ICT to catalyse the growth of the domestic economy.

6.3 Infrastructure contribution to manufacturing performance and export-led industrialization in Egypt

The country's economic infrastructure, including transport, energy, ICT and water resources, along with their related services, remains vital for industrial development in Egypt. These services and resources serve not only as inputs in production sectors but also contribute to making the Egyptian industrial output competitive in domestic, regional and international consumption markets. This section discusses the contribution made by infrastructure to industrial development in Egypt.

6.3.1 Transport infrastructure, a key enabler of manufacturing performance and export-led industrialization in Egypt

Transport infrastructure is vital for Egypt to tap into the opportunities offered by domestic and foreign markets. Egypt has a large national market – the country's current population is over 90 million and is expected to exceed 100 million by 2020 – and the country's unusual geographical position, at the conjunction of continents, provides easy access to markets in the Middle East and North Africa, Europe, Asia and the rest of Africa.

Roads are vital for intermodal freight in Egypt, accounting for more than 90 per cent of the country's internal freight (British Expertise, 2015).[6] Road transport depends on a relatively well-developed road network, compared with the networks available to transport systems such as railways and waterways. The country's road infrastructure is relatively dense and of good quality, with 95 per cent of its roads paved.[7] At the same time, all alternative transport systems, such as the railways, remain totally inadequate. River transport, which has the potential to contribute to environmentally friendly trade – Egypt has 1,850 km of navigable waterways with more than 40 ports – currently accounts for less than 1 per cent of inland transportation in the country. This low level is mainly due to the poor integration of river transport to the country's transportation networks and the underdevelopment of its river ports (MOT, 2014).[8] It is important for Egypt to reduce the demand for road transport by upgrading the alternative modes of transport, including railways and waterways. In addition, these alternative transport systems bring environmental benefits. Addressing bottlenecks in the Egyptian railway infrastructure would make it easier for heavy industries to improve their cost-efficiency and undertake more value-added activities locally.

Air transport is vital for economic activities in Egypt, connecting the country to urban centres across the world. Air transport both facilitates the movement of people, including businesses and their clients, while contributing to a speedy and reliable delivery of mail and goods. The country has an extensive airport network, with 10 international and a number of local airports.

Maritime transport, fostered by sound infrastructure and logistics, plays a significant role in the country's export strategy. Maritime routes and ports link the Egyptian manufacturing sector to foreign markets, helping businesses to procure inputs in a cost-efficient manner and to enjoy ease of access to regional and international markets for their outputs. Alexandria Port, the country's biggest, located at the west end of the River Nile, handles around 60 per cent of the country's total foreign trade (MOT, 2014).[9]

Despite the performance of maritime transport in Egypt, the country has still to maximize the benefit of its maritime infrastructure assets. At present, the Suez Canal, which plays such a strategic role in international trade, accounting for nearly 10 per cent of world trade, mainly benefits Egypt through the tariffs collected from ships and vessels that cross it (British Expertise, 2015).[10] The potential opportunities offered by the Canal to attract foreign manufacturers that are looking for locations close to markets in Europe, the Middle East and Africa are still to be seized. These opportunities will certainly be targeted by the current Suez Canal Area Development Project, which includes, at the north-west end of the Gulf of Suez,

6 British Expertise (2015). Egypt in Transition: Infrastructure & Development. Spring. Available at http://www.britishexpertise.org/bx/upload/Events/Egyptintransition_Spring2015_LR.pdf.
7 Egypt, Statistical yearbook 2015.
8 http://mot.gov.eg/wp-content/uploads/2015/05/----------.pdf .
9 http://mot.gov.eg/wp-content/uploads/2015/05/----------.pdf.
10 British Expertise (2015). Egypt in Transition: Infrastructure and Development. Spring. Available at http://www.britishexpertise.org/bx/upload/Events/Egyptintransition_Spring2015_LR.pdf.

an industrial zone covering 200 km^2, including a 20.4 km^2 expanse of special economic zones with direct access to ports (Government of Egypt, 2015).[11] The project should make the area a major industrial hub in Egypt that would attract foreign investment.

In addition, Egypt still needs to promote its regional transportation infrastructure, to enable it to tap into trade opportunities with the rest of Africa. A major impediment to the country's trade with Africa has been the poor connectivity provided by the existing transport infrastructure. For example, textile companies sourcing their inputs – raw cotton – outside Egypt find it easier and less costly to trade with Asian countries than with those in Africa. In many instances, the absence of maritime routes between Egypt and many African countries means that products traded between the countries pass through transit ports in Asia and Europe and, in the process, increase the associated shipping costs. Boosting trade between Egypt and the booming African markets would undoubtedly involve the building of regional and continental land, river and maritime routes. The current navigation project linking Lake Victoria and the Mediterranean Sea through the Nile would improve the country's connectivity with markets in the rest of Africa. This project is still at feasibility study stage, however, and will need strong institutional and financial support to become a reality.

6.3.2 Energy, a vital input for Egyptian industries

Energy is a key input for the industrial sector. The contribution by the manufacturing sector to energy is effected through its spillover effects on other sectors, including the provision of direct services to industries such as finance, trade and technology. In Egypt, where almost all citizens have access to electricity, the situation results in improved education and health and these benefits, in turn, make available a pool of skilled and productive workers for manufacturers.

The country has still not managed to achieve a level of renewable energy that has the potential to contribute to environmentally friendly industrial development. Renewables, including wind and solar, represent today less than 3 per cent of the power generation mix in Egypt, despite the country's huge potential (it has a sunlight coverage rate of 9–11 hours per day, and the Gulf Suez area, with its high and stable wind speeds, is considered as one of the best sites for wind energy). To address the issue and attract investments in renewables, the Government passed a series of reforms in 2014. The Renewable Energy Act was enacted by presidential decree in December 2014. The former Ministry of Electricity was renamed the Ministry of Electricity and Renewable Energy, demonstrating the increased importance of renewable energy in the Government's strategy to promote less polluting energy sources. The Feed-in Tariff Act was also enacted in the same year to encourage private investment in the renewable energy sector. The Act allocates State-owned lands to renewable power projects, makes it

11 Government of Egypt, "Vision 2030: sustainable development strategy and medium-term investment framework 2014/15 – 2018/19". Paper prepared for the Egypt Economic Development Conference, 13–15 March 2015, Sharm El-Sheikh, Egypt.

mandatory for electricity companies to source and trade the energy produced via these projects, and provides attractive tax incentives for private investments in renewable projects.

6.3.3 ICT, a catalyst for industrial growth and the promotion of high-tech industries in Egypt

Egypt's digitalizing performance, led by strong ICT development strategies and skilled human capital, has contributed to promoting innovation and high-tech industries, including computer and electronics manufacturing through technology parks. The country has several such technology parks, such as Maadi Technology Park, measuring over 300,000 m^2; the Tenth Ramadan City Tech and Science Park, close to Cairo, 120,000 m^2 in area; the Borg Al Arab Tech and Science Park, near Alexandria, 378,000 m^2 in area; and the Ismailia Technology Valley, located on the west bank of the Suez Canal and measuring over 400,000 m^2 in area.

These parks offer a range of benefits that encourage investments in Egyptian high-tech industries. They provide well-functioning and eco-friendly infrastructure, including information technology facilities, buildings, reliable power supply, water resources and transportation assets. In addition, the parks foster linkages between members of technological clusters, on the one hand, and industry and academia, on the other, while providing incubation centres for the country's start-ups to shape their businesses and grow. These parks and a sound ICT institutional framework have contributed to the country's impressive reputation as a provider of world-class ICT and outsourcing services. The 2016 Global Services Location Index published by the consultancy A.T.Kearney put Egypt as a top-performing global ICT outsourcing destination – ranking sixteenth worldwide and the leader in Africa and the Middle East and North Africa region.[12]

An important factor behind the success of the country's digitalization performance is undoubtedly the special attention devoted to local stakeholders in that process, in particular its micro, small and medium-sized enterprises. Support for such enterprises is provided through capability development, access to finance and sponsored research and development projects in the areas of innovation and entrepreneurship. The country's Software Engineering Competence Centre has introduced a programme on software process improvement for small and medium-sized enterprises that helps these enterprises to improve their software development and to boost the efficiency of their service delivery processes. For its part, the Technology Innovation and Entrepreneurship Centre has developed an annual programme called Fabrication Catalyst, under which funding is provided to local micro and small enterprises for the manufacturing of electronics chips. These efforts to support domestic high-tech value-added activities and micro, small and medium-sized enterprises should help to maintain the momentum generated by such ventures as the recently launched "Egypt Makes Electronics"

12 A.T.Kearney, Global Services Location Index. On the Eve of Disruption, 2016. Available from https://www.atkearney.com/strategic-it/global-services-location-index.

initiative, which promotes the local production of mobile phones, tablets, light-emitting diode (LED) lighting, smart meters and solar energy systems.

ICT in Egypt has also contributed to improving the way in which services are delivered to industries. ICT is contributing indirectly to industrial development in the country through its positive impact on education and health, which in turn provides skilled and productive human resources for the manufacturing sector. For example, the Enterprise Networking and Technical Support Programme, launched in 2016, aims to provide technology-oriented training to 600 fresh university graduates, while the Basic Skills Development Training Programme is providing high-quality information technology training to thousands of Egyptians, enhancing their skills and creating a pool of skilled workers for economic activities in the country (Ministry of Communications and Information Technology, 2016).[13]

6.3.4 Water, a critical resource for light industries in Egypt

Water is a scarce resource in Egypt, as more than 90 per cent of the country is covered by desert. This resource is of key importance for the agricultural sector, which accounts for some 85 per cent of the country's total demand for water.[14] Water is also a key ingredient for Egyptian light industries, including beverages and food processing and the textiles value chain. Water resources serve directly as an input to these and other industries, including leather, furniture and chemicals. Indirectly, water contributes to providing infrastructure-related services, including the electricity supply from hydropower and transport to manufacturers via the country's waterways.

The increasing demand for municipal water in Egypt, driven by the country's growing population, is likely to place a severe strain on water availability for the industrial and agricultural sectors in the years to come. Accordingly, the Government is taking measures to increase the country's water production capacity, including through wastewater treatment. The new Cairo wastewater treatment facility, with a daily capacity of 250,000 cubic meters is a good illustration of this endeavour. Economic development in Egypt will depend to a significant degree on the country's ability to increase its water supply capacity.

6.4 Concluding remarks

The Egyptian Government is committed to making the industrial sector an engine of inclusive economic growth and sustainable development. Infrastructure assets remain a key factor behind the country's industrial development and export-growth strategies. Roads and railways are vital for manufacturers to tap into the country's large markets. The Egyptian maritime transport network remains of strategic importance for export growth, enabling producers to ship their goods to regional and international markets located in Asia, Africa and Europe, while procuring inputs in a cost-efficient manner. Power is a key input to the country's industries.

13 Ministry of Communications and Information Technology. Yearbook 2016 (Cairo, 2016).
14 Ministry of Water Resources and Irrigation, Water Scarcity in Egypt: The Urgent Need for Regional Cooperation among the Nile Basin Countries. Ministry of Water Resources and Irrigation (Cairo, 2014).

The dynamic ICT sector in Egypt is reshaping how the country's goods and services are produced and traded, through a range of innovative approaches, while the development of high-tech industries is being promoted. Technological progress and investments in renewable energy are supporting the country's environmentally friendly industrial development.

Egypt has not fully tapped into its resources, with a view to moving towards higher value-added activities. The low value-added agricultural and extractive sectors have continued to play a key role in the country's economic performance. As a result, structural transformation of the Egyptian economy, where resources are shifted into higher value-added activities with greater productivity gains, still has some way to go. Consequently, continued efforts to promote the country's manufacturing sector remain of critical importance, together with improving infrastructure assets that remain key to boosting its industrial and economic performance.

Over the past few years, Egypt has made tremendous efforts to boost infrastructure investments, which increased more than twofold between 2012 and 2016. The country has continued to face several infrastructure bottlenecks, however, in such areas as its railways, waterways, energy and water resources, among others, that in turn contribute to limiting its economic potential. Limited connectivity with the rest of Africa has also continued to impede the country's efforts to harness opportunities on the continent's markets. For that reason, continued efforts to mobilize more investments in national and regional infrastructure assets remain critical for Egypt. Several options could be considered. First, the involvement of the private sector could be further promoted through public-private partnerships, leveraging the favourable institutional framework created by the country's new law on such partnerships and the recently established independent Public-Private Partnership Central Unit. Second, the country could consider using innovative financing instruments, such as market-based instruments and pension funds, to draw additional resources into its infrastructure projects. Third, domestic resource mobilization remains crucial for the development of infrastructure. For Egypt, these would undoubtedly result in lower investment risks by setting in place a stable political environment that strengthens security, promotes structural reforms and improves the business environment for growth.

The contribution of small and medium-sized enterprises that have the potential to create jobs and support industrializing efforts in the country cannot be overstated. Egypt should continue its efforts to implement measures to promote such enterprises and to unlock their potential. It is also important to help small and medium-sized enterprises that are still entrenched in the informal sector to move to the formal sector, with special attention to businesses run by women and youth, in order to ensure inclusive growth.

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 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.

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