Egypt

- Egypt’s real GDP grew at 4.2% in fiscal year 2016/17 and is expected to reach 4.5% in FY 2017/18 and 5.3% in FY 2018/19, mainly driven by investments and private and public consumption.

- This positive performance reflects the efforts made by the Egyptian Government to achieve fiscal consolidation and improve the business environment, through a home-grown reform programme backed by the International Monetary Fund (IMF), the African Development Bank (AfDB) and the World Bank (WB).

- Focusing on infrastructure and national projects is one of the main features of Egypt’s current development programme.

OVERVIEW

Following mounting macroeconomic imbalances that had resulted in declining growth and official reserves, rising public debt, and a widening current account deficit, the Government of Egypt embarked on a major home-grown reform programme backed by the IMF, the AfDB and the WB. The programme mainly consists of liberalizing the exchange rate, fiscal consolidation, improving the business climate, and implementing social measures to support the most vulnerable. As a result, macroeconomic indicators are improving.

Real GDP grew at 4.2% in fiscal year (FY) 2016/17, after slightly underperforming the 4.3% recorded in FY 2015/16, and is projected to reach 4.5% and 5.3% in FY 2017/18 and FY 2018/19, respectively. Growth is mainly driven by investments, private and public consumption as well as net exports from the demand side and is likely to be maintained as investor’s confidence is restored.

Inflation rose to 23.4% in FY 2016/17 from 10.3% in FY 2015/16, as a consequence of exchange rate liberalization in November 2016. Inflation has started to abate and is expected to revert to 13.4% in FY 2018/2019.

The fiscal deficit was cut from 11.2% of GDP in FY 2015/16 to 9.5% in FY 2016/17, its lowest level in the past five years, and is projected at 7.3% of GDP in FY 2017/18. The country has reformed subsidies, introduced value-added and other new taxes, and curtailed growth in the public sector wage bill to both increase revenue and reduce expenditure.

The current account deficit is expected to drop from 6.5% GDP to 4.6% between FY 2016/17 and FY 2017/18, resulting from the improved competitiveness that has boosted the country’s exports, and inflows of foreign direct investment (FDI).

The trade deficit dropped by 8.4% in FY 2016/17 compared to FY 2015/16, on the back of a 16.2% increase in non-petroleum exports coupled with a 4.5% decline in non-petroleum imports. Net FDI rose from USD 6.8 billion (2.4% of GDP) in FY 2015/16 to USD 7.9 billion (3.4% of GDP) in FY 2016/17.

Infrastructure finance mainly depends on public expenditure in Egypt. Although the Government has focused on encouraging private sector funding and FDIs, this remains a challenge requiring sustained reforms.
RECENT DEVELOPMENTS AND PROSPECTS

Egypt has made important progress in implementing its structural reform agenda under a three-year IMF programme, adopted in 2016 and also backed by the AfDB and the WB. The launching of IMF’s extended facility fund (EFF) to support the Egyptian economy has been effective and more efforts are being made to support the most vulnerable portion of the population to make the positive results of these reforms more inclusive.

Egypt has made significant progress on economic and structural reforms. Reform measures have been adopted to liberalize the exchange rate, introduce VAT, reduce subsidies, and streamline the civil service. The reforms have started to pay off in terms of restored market confidence, strengthening growth momentum, a narrowing of budget and current account deficits, and adequate foreign exchange reserves. Sustaining the reform effort will help secure macroeconomic stabilization and unlock Egypt’s potential for higher growth and much needed job creation.

Recent trends in the main economic indicators demonstrate improvements in the economy. Real GDP grew by 4.2% for FY 2016/17 compared to 4.3% in FY 2015/16 and is projected to reach 4.5% and 5.3% in FY 2017/18 and FY 2018/19, respectively. The construction and energy sectors are the main engines of growth on the supply side.

The Government has made good progress toward its fiscal consolidation plan, which consists in increasing revenues and reducing expenditures. On a quarterly basis, budget deficit has declined to 3.8% of GDP during the period July-November 2017/18 compared with 4.2% during the same period last fiscal year. On a fiscal year basis, the fiscal deficit fell from 11.2% of GDP in FY 2015/16 to 9.5% in FY 2016/17, its lowest level in the last five years, and is projected to be 7.3% of GDP in FY 2017/18.

The balance of payments (BoP) ran an overall surplus of 5.8% of GDP during 2016/17, compared to a deficit 0.8% of GDP in the previous fiscal year, and 2.2% of GDP during the quarter July-September 2017 compared to the same quarter last fiscal year. These developments are mainly due to increased inflows in the capital and financial account, coupled with a decrease in the deficit on the current account. Foreign exchange reserves increased to a record of USD 38.2 billion (8.2 months of imports) as of end January 2018.

The main constraint to growth is high inflation because it affects the most vulnerable in the population as well as returns on investment, since the real interest rate may be negative. Indeed, inflation rose to 23.4% in FY 2016/17 from 10.3% in FY 2015/16 and will remain around 22.1% in FY 2017/18. This evolution is a consequence of the depreciation of the Egyptian Pound (EGP) from EGP 8.8 per USD in October 2016 to EGP 15.8 in November 2016. Therefore, monetary policy remained tight in an effort to support the EGP and reduce inflation. More precisely, after a cumulative increase in interest rates by 700 basis points (bp) to combat inflation, the Central Bank of Egypt (CBE) lowered the key rates by 100 bp in February 2018 followed by another reduction of 100 bp in March 2018 to support economic growth and lending to the private sector. Inflation is expected to fall to 13.4% in FY 2018/19. Then monetary policy will loosen gradually from 2018 with the decline in inflation.

On May 11, 2018, Standard & Poor’s raised the country’s credit rating to B from B- with stable outlook, confirming that the comprehensive economic reform programme is restoring confidence in the economy.

To sustain momentum from the economic reforms, in the medium term policy priorities must aim to raise potential output

<table>
<thead>
<tr>
<th>TABLE 1. Macroeconomic indicators</th>
<th>2015/16</th>
<th>2016/17(e)</th>
<th>2017/18(p)</th>
<th>2018/19(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>4.3</td>
<td>4.2</td>
<td>4.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Real GDP per capita growth</td>
<td>2.3</td>
<td>2.2</td>
<td>2.5</td>
<td>3.3</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>10.3</td>
<td>23.4</td>
<td>22.1</td>
<td>13.4</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>-11.2</td>
<td>-9.5</td>
<td>-7.3</td>
<td>-5.8</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>-6.0</td>
<td>-6.5</td>
<td>-4.6</td>
<td>-3.8</td>
</tr>
</tbody>
</table>

Source. Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
and promote inclusive growth and job creation, especially for the youth. Moving forward, the Government has to keep up with restoring macroeconomic stability by pursuing the efforts made so far to address longstanding imbalances, with a focus on the twin (fiscal and current account) deficits and an effective monetary policy. The Government will also have to continue to strengthen and expand the social protection systems with the aim of making growth more inclusive and mitigating the short-term effects of the on-going adjustment on the most vulnerable. It will need in addition to address unemployment by improving the quality of education, making labour market reforms, and adopting a comprehensive approach to the informal sector. Finally, providing the private sector with a conducive environment, which includes stable macroeconomic conditions and a friendly and attractive business climate, will be key to consolidating Egypt’s current momentum.

Table 2. GDP by sector (percentage of GDP)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2010/11</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing and hunting</td>
<td>14.5</td>
<td>11.7</td>
</tr>
<tr>
<td>of which fishing</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>14.9</td>
<td>9.6</td>
</tr>
<tr>
<td>of which oil</td>
<td>14.5</td>
<td>8.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16.5</td>
<td>16.7</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>1.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Construction</td>
<td>4.6</td>
<td>5.7</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of vehicles; household goods; restaurants and hotels</td>
<td>14.7</td>
<td>15.8</td>
</tr>
<tr>
<td>of which restaurants and hotels</td>
<td>3.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>9.4</td>
<td>9.1</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>9.7</td>
<td>15.2</td>
</tr>
<tr>
<td>Public administration and defence, security</td>
<td>10.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Other services *</td>
<td>3.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Gross domestic product at basic prices / factor cost</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Other services include education, health and social work and other services.

Source: Data from domestic authorities.

MACROECONOMIC POLICY

Fiscal policy

Egypt has made good progress toward fiscal consolidation, one of the main objectives of the reform programme adopted by the Government under the three-year IMF’s extended fund facility (EFF) and the AfDB’s budget support. A reduction of the public deficit to 10% of GDP over the three-year duration of the programme was planned, primarily by reducing expenditures and increasing revenues. Specifically, tax revenues are rising due to the introduction of VAT at a rate of 13% in September 2016 (increased by 1 percentage point in FY 2017/18), the widening of the tax base, and higher taxes on domestic salaries and industrial and commercial profits. The depreciation of the currency also helped increase goods and services taxes. Plans are also under way to boost non-tax revenue, including a forthcoming offer of shares on the stock market in five partly State-owned refining and petrochemical firms. On the expenditure side, the Government made further cuts to fuel and electricity subsidies in June 2017 and reformed the bread subsidy programme in July 2017. Also, the Government is curtailing the growth in public sector wage bill. One percent of GDP in fiscal savings will be dedicated, however, to increasing food subsidies and cash transfers to vulnerable groups under the umbrella of the social protection measures undertaken in the reform process.
As a result, the fiscal deficit decreased from 11.2% of GDP in FY 2015/16 to 9.5% of GDP in FY 2016/17. Government budget intra-annual data reveal that the budget deficit continued to shrink, declining to 3.8% of GDP during July-November of FY 2017/18. This compares to 4.2% over the same period in FY 2016/17.

The primary deficit stood at 2.4% of GDP in FY 2016/17, indicating that debt service weighed heavily in the overall fiscal deficit. Indeed, budget sector debt was at about 106% of GDP in FY 2016/17, mainly because of on-lending and direct borrowing from the treasury single account and a higher interest repayment bill.

The overall budget deficit is projected to narrow further to 7.3% of GDP in FY 2017/18 and 5.8% in FY 2018/19. In the coming years, public finance is expected to be strengthened by rising tax revenues in tandem with higher real GDP growth.

In the medium term, the Government needs to create fiscal space through continued improvement in tax administration to meet its spending needs, including upgrading infrastructure, investing in health and education, and building a sustainable social safety net.

**Monetary policy**

By moving the exchange rate to a floating regime in November 2016, the EGP depreciated by 44% between October and November 2016, from EGP 8.8 to EGP 15.8 for USD 1, on average. Subsequently, inflation reached an annual average of 23.4% over FY 2016/17. In July 2017, inflation peaked at 35%, the highest level since 2008, reflecting the pass-through from the depreciation of the currency, as well as the increase in energy prices and in the VAT rate, and supply bottlenecks.

However, inflation is decreasing after the CBE tightened monetary policy to support the pound and contain inflation. CBE had raised borrowing costs by 700 bp in several steps since the devaluation after it abandoned currency restrictions. The measures helped secure a USD 12 billion IMF loan, ease a crippling dollar shortage and unleash foreign inflows into the Egyptian economy. The impact of higher interest rates on the budget will sustain primary deficit pressures as interest payments account for around one third of total spending. Also, an interest rate increase by CBE may constrain the private sector and corporate borrowers. However, the monetary policy transmission mechanism is relatively weak and private sector lending was not shown to have been affected by the increase in interest rate in Egypt.

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1. Although the CBE’s Monetary Policy Committee (MPC) decided to keep rates steady following its August 2017 meeting, the MPC raised its key policy interest rates by 200 bp in July 2017 to 19.75% (ON lending rate) and 18.75% (ON deposit rate). This follows a 200 bp rise in May and 300 bp rise in November 2016, when the exchange rate policy was liberalized. The committee justified its decision in terms of balancing risks to the inflation outlook and economic growth.

2. Despite further policy tightening, real domestic yields stayed negative through most of the previous fiscal year, given higher inflation rates.
More recent data indicate a declining trend in annual core inflation, down to 11.6% in March 2018. Accordingly, monetary policy started to loosen gradually from 2018 in a bid to support economic growth. This evolution paved the way for monetary loosening by 100 bp in February 2018. Specifically, the MPC lowered the overnight deposit rate by 100 bp to 17.75%. The overnight lending rate was also reduced by 100 bp to 18.75%. Most recently, the MPC cut interest rate by another 100 bp on deposits and lending in March 2018. In all, there has been a decline in rates of return by 200 bp relative to a 700 bp increase since November 2016 (a net increase of 500 bp).

Inflation is expected to be 22.1% in FY 2017/18 and fall to 13.4% in FY 2018/19.

**Economic co-operation, regional integration and trade**

Egypt continues to organize and participate in African-wide initiatives. More recent ones include the Africa 2017 Business Forum in December 2017; the launching the Single African Air Transport Market (SAATM) initiative by the African Union (AU); and hosting the third African Science, Technology, and Innovation Forum in February 2018. Egypt will chair the African Union in 2019. Egypt is an active member of COMESA and hosts the COMESA Regional Investment Agency.

The current account deficit, which had increased to 6.0% of GDP in FY 2015/16 from 3.6% a year before, remained almost unchanged in FY 2016/17 at 6.5%. This is likely to fall back down to around 4.6% and 3.8% of GDP in FY 2017/18 and FY 2018/19 respectively, boosted by improved external competitiveness, reforms in the business environment, and a further recovery in tourism. Following elimination of the currency parallel market, prompted by the liberalization of the exchange rate, the interest rate differential against major funding currencies attracted portfolio inflows of about USD 18.5 billion between November 2016 and November 2017. In turn, inflows boosted international reserves to around USD 38.2 billion in January 2018, equivalent to 8.2 months of imports.

**Debt policy**

During the past six years, Egypt has accumulated a significant stock of debt, mainly domestic. Debt increased from 65% of GDP in FY 2011/12 to 91.1% in FY 2016/17, reflecting the fiscal deficit financing needs.

Total Government debt (domestic and external) increased to 106% of GDP at end of March 2017. Of this, domestic budget sector debt increased to 89% of GDP (compared to 95% of GDP by end of June 2016). The rise was mainly due to financing the budget deficit, in addition to the impact of settling some expenditure arrears of budget sector entities.

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**TABLE 4. Current account (percentage of GDP at current prices)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export of goods (f.o.b)</td>
<td>-13.3</td>
<td>-11.2</td>
<td>-11.7</td>
<td>-11.6</td>
<td>-13.3</td>
<td>-12.0</td>
<td>-11.9</td>
</tr>
<tr>
<td>Import of goods (f.o.b)</td>
<td>13.3</td>
<td>8.5</td>
<td>6.7</td>
<td>5.6</td>
<td>9.3</td>
<td>11.6</td>
<td>12.1</td>
</tr>
<tr>
<td>Service</td>
<td>26.5</td>
<td>19.7</td>
<td>18.4</td>
<td>17.2</td>
<td>22.6</td>
<td>23.6</td>
<td>24.0</td>
</tr>
<tr>
<td>Service</td>
<td>6.5</td>
<td>2.7</td>
<td>3.2</td>
<td>2.0</td>
<td>2.9</td>
<td>2.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Factor income</td>
<td>0.1</td>
<td>-2.4</td>
<td>-1.7</td>
<td>-1.3</td>
<td>-2.1</td>
<td>-1.8</td>
<td>-1.5</td>
</tr>
<tr>
<td>Current transfers</td>
<td>4.4</td>
<td>9.9</td>
<td>6.6</td>
<td>5.0</td>
<td>6.0</td>
<td>6.6</td>
<td>7.2</td>
</tr>
<tr>
<td>Current account balance</td>
<td>-2.3</td>
<td>-0.9</td>
<td>-3.6</td>
<td>-6.0</td>
<td>-6.5</td>
<td>-4.6</td>
<td>-3.8</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
External debt stock (Government and non-Government debt) increased to USD 79 billion (41% of GDP) at the end of June 2017, compared to USD 55.8 billion at the end of June 2016. Meanwhile, Government external debt increased to 18% of GDP at the end of June 2017, compared to 8% of the GDP at the end of June 2016.

Eurobond issuance was part of the Government’s FY 2016/17 financing strategy. It issued a total of USD 7 billion. This has been rolled over into FY 2017/18 (during which it issued a total of USD 6.46 billion). Egypt plans to issue USD 6-7 billion Eurobonds in FY 2018/19. The Government intends to diversify its financing sources, alleviating the burden on the domestic debt market and building a yield curve for potential Egyptian issuers in the global market.

**ECONOMIC AND POLITICAL GOVERNANCE**

**Private sector**

The role of the private sector is one of the core pillars of the Government’s reform programme. Some of the key recent reforms taken by the Government include: an industrial land and licencing law; a new investment law; making information available online for investors regarding investment opportunities; establishing new one-stop investment centres across the country; supporting individual-owned companies; a new bankruptcy law; stronger consumer protections; and a law on movable collateral assets. The private sector has recorded growth rates higher than the public sector in FY 2016/17. Private investments reached 9.5% of GDP and FDI flows also increased by 14.5% between FY 2015/16 and FY 2016/17.

Egypt’s overall rank in the World Bank’s 2018 Doing Business report dropped 6 points over the year to 128 (out of 190 countries), reflecting a decline in ‘ease of registering property’, ‘getting electricity’, ‘paying taxes’, and ‘resolving insolvency’. The World Economic Forum’s Global Competitiveness Index ranked Egypt 100 out of 137, an improvement of 15 places with notice-able improvements in the institutions, infrastructure, market efficiency, financial market development, and innovation categories, but a distinct worsening in the category of higher education and training.

The State continues to play a prominent role in the economy, at times competing with the formal private sector. The informal sector, which generates an estimated 40% of GDP, remains an intractable challenge. In 2017 the CBE launched an initiative to support small and medium enterprises and encouraged the informal sector to benefit from financial services alongside the formal sector.

**Financial sector**

Banks remain conservative vis-à-vis the Egyptian market, with little long-term financing, a narrow mortgage market, and weak collateralized loans. The public sector remains an important borrower, and absorbed about 44.5% of all loans granted by the 10 largest banks by the end of 2017. This comforts the banks’ significant risk aversion and gives them steady business but may ultimately be detrimental to private sector borrowing.

In December 2017, the CBE reported that the ratio of non-performing loans (NPLs) had fallen to 4.9% across the banking sector, and 3.4% among the top 10 banks, reflecting a strengthening of the banking sector and particularly the largest banks.

Financial intermediation, measured by banks’ loan-to-deposit rate, stood at 44.2% in December 2017, reflecting the banks’ preference for lending to large companies (public and privately owned) and investing in Government securities, which are perceived as low-risk. Such a strategy crowds out the private sector, especially micro, small and medium enterprises (MSMEs). Loans to MSMEs remain insufficient. In 2016 the CBE introduced a plan to push bank lending at preferential rates to MSMEs, in a bid to reach 350 000 MSMEs in 4 years.

Microfinance activities are growing and achieved a nominal 23% increase to EGP 5.5 billion in the first half of 2017 compared to the previous six months. Around 850 microfinance institutions are licensed by the Financial Regulatory Authority (FRA); they serve an estimated 1.2 million customers.

Savings are still below investment financial needs and the domestic resource gap amounted to EGP 62.4 billion in the third quarter of 2017. Egypt remains a largely cash-based economy, with 12% of the population using a bank account. In February 2017, the Government created the national payments council to enhance financial inclusion through a digital national payment and subsidies disbursement system, and the development of mobile banking.

**Public sector management, institutions and reforms**

The Government and public sector payroll exceeds 6.5 million employees (24% of Egypt’s workforce). The State provides extensive subsidies and owns a large number of public enterprises. Moreover, State-owned enterprises (SOEs) have not been held to the same standards of transparency and accountability to shareholders as private entities. Most land

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3. In a range of sectors, including banking, the energy sector, manufacturing, agriculture, transport, tourism, and services, SOEs compete directly with the private sector.
is State-owned. In March 2018, the Government announced an ambitious privatization programme for 23 SOEs, which will either sell their shares by initial public offering (IPO) or increase their free-floating shares on the local stock exchange.

As part of the IMF programme, Egypt will reduce its total wage bill to 5.5% of GDP by 2020-2021, having peaked at 8.5% in 2013-2014. The Civil Service law, approved by Parliament in 2016, seeks to reduce bureaucracy. The Government is also automating the public-sector payroll, an exercise that requires strong institutional coordination and collaboration between different Governmental entities and a fully-fledged e-government strategy.

Other key initiatives being pursued in 2018 include approval of a new procurement law and streamlining of Government procedures, including e-payment and online signatures. In addition, efforts were made to enhance fiscal transparency through publication of key budget reports. Due to these changes, Egypt’s score in the open budget index improved sharply. It ranked 65 (out of 115 countries) in January 2018, up from 89 in 2015.

Overall, reforms underway that need to be pursued include: a modernized regulatory framework; enhanced competition in input and product markets; greater trade integration; improved access to finance and land; strengthened governance, transparency, and accountability of SOEs; and labour market reforms.

Natural resource management and the environment
Egypt attaches importance to environmental sustainability and natural resources management. Achieving these goals requires continued individual and institutional capacity development, and job creation in the fields of climate change mitigation and sustainable management of natural resources.

The 2018 Environmental Performance Index ranked Egypt 66 (of 180 countries). The country aims to improve air pollution by reducing SO2 and CO2 emissions. It is also undertaking an institutional and price reform strategy for the water and sanitation sectors, biodiversity and habitat, and to improve the quality of the marine ecosystem. Egypt has signed and ratified many agreements on climate change, hazardous substances and waste, marine pollution, and nature conservation.

In March 2018, Egypt and the United Nations signed a partnership development framework agreement for the period 2018-2022. The agreement includes a component on environmental sustainability and natural resource management that focuses on effective and productive management of the country’s natural resources and the mitigation of environmental risks as well as the risks of climate change.

Political context
Egypt held Presidential elections in March 2018. The final result confirmed a 97% majority win by President El-Sisi, with a voter turnout of approximately 42%. This is likely to enable the Government, to continue implementing its reform agenda, to achieve a robust and stable macroeconomic environment, deepen structural reforms, and social inclusion.

SOCIAL CONTEXT AND HUMAN DEVELOPMENT
Building human resources
The 2014 Constitution makes it mandatory to allocate 10% of GDP to spending on health, education, and research. Egypt is yet to reach this objective. Despite small nominal increases year-on-year, expenditure on public services has declined as a share of GDP. Health expenditure fell from 1.62% of GDP in FY 2015/16 to 1.43% in FY 2016/17 and 1.34% in FY 2017/18. Education and research fell from 3.59% to 3.05% and 2.60% of GDP over the same period.

Health sector inefficiencies in part are addressed by the Universal Health Insurance Act, approved by Parliament in December 2017, which will extend universal health insurance coverage to all Egyptians by 2030. The act will establish three regulators to manage and monitor the new system, which will be financed by contributory payments, a healthcare industry tax, and other sources.

Egypt reports a 75.2% overall literacy rate (83.2% for men and 67.3% for women). Boys and girls attend school at nearly equal rates in primary education, and enrolment in secondary education is increasing. Yet, the country ranks at the bottom of education quality (133 out of 137 in quality of primary education in the 2018 Global Competitiveness Report). The Government has embarked on an ambitions education reform programme, which includes piloting public-private partnerships (PPPs).

In 2017, Egypt announced a slight decline in the rate of population growth, from 2.55% in 2014 to 2.4% in 2015, the first decline in a decade.

Young people and women have been particularly affected by the lack of job opportunities. The youth unemployment rate stood at 31% in FY 216/17. According to the 2014 ILO School-to-Work Transition Survey (SWTS), one in four young people are without an occupation (i.e., not working and not in education or training). The participation of women in the labour force remains low at 23% (76% for men). The participation of young women in
the labour force is even lower than that of young men, and the proportion of young women who are unemployed is also higher.

**Poverty reduction, social protection and labour**

Recognizing the social risks associated with economic reforms, the Government has actively planned and implemented a set of integrated social reforms to shield the population from the negative impact of the structural reforms now being implemented. A cash transfer programme, Takafal and Karama, launched in 2015, has been successfully implemented and rolled out. It had covered 10 million persons by January 2018. The programme has regularly lifted the level of the cash transfers to take account of inflation. Almost 65% of the beneficiaries of the programme are in Upper Egypt, which confirms the effort that has been made to reduce urban-rural disparities. Other achievements include the adoption of the universal health insurance law in December 2017.

Subsidies, a longstanding challenge in Egypt, have been restructured to reduce leakages and improve their quality and targeting. Mitigating measures include an increase of the monthly food subsidies allowance; this more than doubled in 2017/18 from EGP 21 to EGP 50 per beneficiary. Other mitigating measures include: raising tax credits for those on low incomes; granting wage bonuses of 7-10% to public sector employees; and increasing pensions by 15%. In terms of housing, the Government launched a five-year plan in 2017 to build a million social housing units for low-income residents. It is also expanding household sanitation capacity and aims to achieve 100% coverage by 2020 in urban areas and 2037 in rural areas. An aggressive programme to upgrade informal settlements has also been launched, ambitiously targeting the upgrade of all unsafe settlements by the end of 2018.

Unemployment has been a chronic challenge for Egypt. Almost 1 million young men and women enter the employment market annually. Youth unemployment is particularly acute. Positioned as an engine of growth, MSMEs are being promoted as generators of employment. The Government has embarked on several strategies to promote financial inclusion, youth entrepreneurship, training for employability, and similar programmes. These have started to bear fruit. For the first time in eight years, the unemployment rate fell (to 10.6%) in the first quarter of 2018.

**Gender equality**

The World Economic Forum’s Global Gender Gap Report ranked Egypt 134 (of 144 countries) in 2017, compared to 132 in 2016. There is room to improve gender equality, which is reflected in unequal economic participation, unequal access to economic opportunity and low political empowerment of women. The ranking highlighted low labour force participation (more than three quarters of Egyptian women are outside the labour force) and lack of political empowerment. These are due. Among other factors, to socially conservative behaviours and the absence of laws that guarantee equal pay and non-discrimination in hiring. According to the IMF, raising the female labour participation rate, currently at 26%, to the male rate (79%) could boost GDP by 34%.

Some progress has been made in recent years. Women secured 87 seats (14.59%) in the 2016 Parliament, which is the highest in history. The Egyptian National Women’s Strategy 2030, presented in June 2017, contains seven pillars of action to support women’s empowerment.

**THEMATIC ANALYSIS: INFRASTRUCTURE FINANCING**

**Importance of infrastructure**

According to a 2010 World Bank study, Egypt has made remarkable progress over the past century in the provision of infrastructure in all areas, including transportation (roads, civil aviation, urban metro in Cairo), telecommunication, power generation, and water and sanitation. One of the main features of Egypt’s current development programme, launched after the June 2013 revolution, is a focus on infrastructure and national projects. In the last five years the Government has invested heavily in infrastructure, particularly on energy projects (mainly oil), housing, transportation, electricity, drainage and water. Further improvement of Egypt’s infrastructure would require a combination of higher infrastructure expenditure, more efficient investment, and the participation of the private sector in infrastructure provision to balance any decline in spending by the public sector.

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4. Integration of women in the labour market can be fostered by improving the safety of public transportation; improving the availability of childcare; adopting more flexible policies for maternity leave and parental services; promoting entrepreneurship among women; and improving access to finance.


6. Power generation projects have enabled the country to avoid power shortages, even in the summer months, and there are plans to interconnect power transmission with Saudi Arabia and Sudan.

7. Empirical research has shown that an increase in infrastructure spending from 5% to 6% of GDP in Egypt would raise the annual per capita GDP growth rate by about 0.5 percentage points in a decade and by 1 percentage point by the third decade. This highlights the importance of considering renewed infrastructure investment in the larger context of public sector reform. It also underscores the importance of private sector participation to complement declining public investment in infrastructure.
Overview of the current status of infrastructure

Egypt has vast infrastructure needs, and meeting these needs requires a combination of increased investment and institutional and sectoral reforms.

Energy sector

Egypt continues to strive not just for energy independence, but to return to its status as a regional exporter of oil and gas, and eventually an energy hub. With oil and gas fields in the Gulf of Suez, the Mediterranean and the Western Desert, the country has been a site of energy exploration since the early 20th century. Following the recent discovery of major natural gas deposits and gas flow from the large Zohr gas field, and benefiting from a low-cost environment and the likelihood of steady, even rising, global oil prices, Egypt expects to increase gas and petroleum production for export, to meet growing local energy demand, and promote itself as a regional power hub for gas exports through its LNG plants. In 2015, the Ministry of Petroleum announced that investment of around USD 70 billion would be required to revamp the energy sector by 2022, including USD 25 billion in new investment. Gas development would absorb around USD 21.5 billion, or a third of spending. The Government is working to reorient the sector to operate economically with increased private sector participation.8

Egypt has great potential to generate energy from renewable sources, especially wind, solar and biomass. The country enjoys a total annual global solar irradiance of up to 2.6 kWh/m and a total annual sunshine duration of up to 4,000 hours. The Gulf of Suez is also comparable to the best sites on the UK’s Atlantic coast in terms of wind power potential. A comprehensive renewable energy law was passed in 2014, which approving feed-in tariffs for purchasing electricity from solar and wind renewable sources. This has been an important step toward attracting private investors into the sector.9

Remarkable investments have been made in the power sector in recent years. The sector, which faced a deficit of more than 5,000 MW in 2014, now generates a surplus of about 10,000 MW. In addition to public investments, the Government has been working to create the right environment, through legal, regulatory and tariff reforms, to attract private investments to the sector. As a result, after almost two decades of minimal private investment in the power sector, more than USD 2 billion was committed by the private sector in the past three years, mostly in renewables, with more investments in the pipeline. The ultimate goal is to gradually reduce the State’s heavy presence and create a competitive energy market with a diversity of players.

Transport

The country’s transport infrastructure is in relatively good condition compared to its African peers. The road transport network is supplemented by good inland water connections along the Nile as well as a good rail network. Roads play a key role in Egypt’s transportation network and carry 94% of freight. The Government estimates that USD 8 billion is needed to upgrade Egypt’s roads in the next five to ten years. The Suez Canal will remain an important asset because it is the main trade route between Europe and Asia, accounting for roughly 7.5% of world sea trade. Egypt completed a USD 8.6 billion expansion of the Suez Canal in 2015, which increased capacity, allowed two-way maritime traffic for the first time, reduced waiting and transit times, and created new jobs and revenues. Airports need to be improved to keep up with the rise in tourism demand that is expected in the medium term. Egypt has a fairly reliable State run railway system. It can be described as adequate to handle the country’s needs, although its operational capacity is stretched to the limit and its locomotive stock requires investment.

Telecommunication

The Government promotes the ICT sector by supporting ICT industry development, technology innovation and entrepreneurship, thus creating more job opportunities and attracting FDI. Egypt is keen to develop the ICT infrastructure, a key element for overall development. According to different data sources, 43.3% of the Egyptian population were internet users in 2015. This share is projected to grow to 53.5% in 2019. The ICT sector contributes about 4% of GDP. Egypt is already attracting growing interest from global ICT players, most of which are already working in the Egyptian market.

Water and sanitation

Egypt has been committed to ensuring that its populations has sustainable access to water and urban sanitation. The institutional framework for managing water and wastewater has undergone important regulatory and water governance reforms in recent decades, and adopted specialized management tools. Currently, 98% of Egyptians have access to a supply of water. The country’s 2,700 water treatment plants produce 25 million m³/day of potable water. Nearly 380 wastewater

8. Multilateral development agencies continue to play a crucial role in promoting infrastructure investment. A consortium led by the International Finance Corporation (IFC) has completed a USD 663 million debt package to fund construction of 13 solar power plants that will generate up to 752 MW of power near Aswan. The consortium includes the Asian Infrastructure Investment Bank, the ADB, CDC Group, Finnfund, Oesterreichische Entwicklungsbank, Industrial and Commercial Bank of China, Europe Arab Bank, Arab Bank, and Finance in Motion. The funding will assist six groups of private power firms to build and operate the plants. The projects will cost USD 823 million.

9. The Ministry of Energy is working on its stated goal to increase the share of power generated from renewable energy to 20% by 2022. Hydro is due to provide 6%, wind 12%, and from other renewable energy sources, such as solar, 2%. The country’s longer-term target is to power 44% of its demand from renewable energy sources.
Plants treat about 12 million m³/day; around 90% of these are in urban areas. In rural areas, sanitation coverage is only 15% and 600 sanitation service clusters will be required to meet the needs of 100,000 people by 2040.

Surface water pollution remains a risk requiring appropriate management and is linked to scarcity of water resources. The Government’s vision to ensure universal and sustainable rural sanitation services reflects national priorities that are entrenched in Egypt’s 2014 Constitution, Vision 2030, and the country’s commitment to the Sustainable Development Goals and 2030 Agenda.

Only 40% of treated wastewater undergoes secondary treatment, which limits significantly the possibilities for irrigation. In recent years, the Government has continued to commit additional financing to upgrade facilities for secondary treatment and expand essential wastewater treatment plants.

**Financing**

Looking back, total infrastructure expenditure relative to GDP in Egypt fell after reaching its peak in the late 1980s, mainly due to a decline in public spending. Private investment in infrastructure started in the mid-1980s and has grown in scale since then. The rise in private investment is clear in transportation and telecommunications, and the private sector has become an important player in telecommunications since 2005. The rise of private investment in the last two decades has nevertheless not entirely offset the decline in public spending.

Recent data from the Ministry of Finance on infrastructure investment indicated that, between FY 2013/14 and FY 2016/17, nearly EGP 1100 billion (around USD 55 billion) has been spent on infrastructure and services in Egypt’s governorates (see Table 5). From this amount, 44% was spent on energy projects (mainly oil), through self-financing or loans. Other infrastructure projects include housing (18%), transportation (14%), electricity (11%), drainage (2.9%), and water (2.3%).

The Global Infrastructure Outlook report, Infrastructure Investment Needs, which reviewed the needs of 50 countries in seven sectors up to 2040, proposed a current trends scenario in which the total infrastructure investment forecast for Egypt to 2040 is projected to be USD 444 billion, while financing needs are estimated at USD 675 billion, leaving an investment gap of USD 230 billion. The report, supported by the global infrastructure hub, adds that total infrastructure investment in the 5-year period between 2011 and 2015 was around USD 76 billion (including private finance infrastructure investment of USD 1 billion), again indicating a large financing gap. In a homeland conference in January 2018, President El-Sisi estimated Egypt’s general infrastructure needs at around USD 900 billion.

**Financing challenges**

The Egyptian Government has relied on borrowing (in addition to some domestic savings, which are still relatively low) to finance its development. It has focused on infrastructural and national projects to attract FDI and augment its contribution to infrastructure financing. Reform of the legislative and financial

### Table 5. Infrastructure investment by sector (percentage, unless otherwise indicated)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>Average</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy (oil and gas)</td>
<td>48.4</td>
<td>47.5</td>
<td>47.0</td>
<td>36.9</td>
<td>44.9</td>
<td>43.9</td>
</tr>
<tr>
<td>Electricity</td>
<td>6.6</td>
<td>6.3</td>
<td>6.6</td>
<td>18.8</td>
<td>9.6</td>
<td>10.7</td>
</tr>
<tr>
<td>Water</td>
<td>2.6</td>
<td>2.4</td>
<td>3.0</td>
<td>1.5</td>
<td>2.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Construction and real estate</td>
<td>15.7</td>
<td>17.9</td>
<td>18.2</td>
<td>20.4</td>
<td>18.1</td>
<td>18.4</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>10.5</td>
<td>8.0</td>
<td>7.7</td>
<td>6.4</td>
<td>8.1</td>
<td>7.8</td>
</tr>
<tr>
<td>Drainage</td>
<td>3.3</td>
<td>3.3</td>
<td>2.9</td>
<td>2.3</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>12.9</td>
<td>14.6</td>
<td>14.6</td>
<td>13.6</td>
<td>13.9</td>
<td>13.9</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total (billion EGP)</td>
<td>205</td>
<td>236</td>
<td>279</td>
<td>376</td>
<td>274</td>
<td>1,096</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities.
environment (the new investment law\textsuperscript{10} and currency deregulation) supported these efforts to attract FDI.

To entice private sector participation and fill the country’s large financing gap, several challenges need to be addressed. In the infrastructure sector, the lack of adequate market-based incentives holds back investment and much-needed private sector participation. Transport and municipal infrastructure tend to be State administered. Regulated tariffs are often below cost recovery levels, although some tariffs have risen as a result of reforms. These aspects constrain the operational and financial sustainability of SOEs, leading to probable insufficient maintenance and investment and consequent efficiency losses.

The energy sector has faced contractual uncertainty, payment arrears, and uncompetitive pricing which until recently impeded the private sector’s willingness to make the significant investment needed for further exploration and development of natural resources. (Efforts are being made by the Government in these areas). Following sector and other investment-related reforms, the situation has turned around; energy is an example that may inspire other sectors.

**Solutions and policy recommendations**

In the energy sector. The Government is recommended to further accelerate gas production from existing fields and incentivize new exploration and development through subsidy phase-out. The stable regulatory and contractual framework for renewables, required to promote private sector investments, is already well underway, reorienting the sector to operate on an economic basis with increased private sector participation. This has allowed the development of the first private renewable energy projects under a feed-in-tariff scheme. Building on that experience will inject more competition for renewable energy capacity development in the future.

In telecommunication. The Government is recommended to continue its efforts to expand basic sector infrastructure, including the broadband network, submarine cables and cloud computing infrastructure; promote outsourcing industries by creating technology parks, encouraging innovation, and undertaking regulatory reform to ensure transparency and data security. A new cyber security law, an access to information law, and an e-commerce law would foster private involvement in public-led projects.

In rural sanitation. To succeed in expanding rural sanitary service coverage, the Government is recommended to promote an implement a countrywide multi-dimensional strategy. In addition, it will be necessary to integrate the different stakeholders in small-scale sanitation. Wastewater reuse and sludge management are vital (and also an unconventional resource) and should be taken into account when forecasts are made of the country’s water resources.

Governance reforms to commercialize public service provision represent an opportunity to improve operational and financial sustainability, unlock higher investment, and deliver improvements in service quality. Greater decentralization of operations could also help improve service delivery.

PPP opportunities are spread across many sectors (independent power producers, integrated water and power projects, solid waste, toll roads, urban transport, ports, airports, logistics hubs, wastewater treatment plants). They need to be well prepared and structured to attract investors. It will be necessary to train public officials and strengthen the capacity of PPP Units to develop PPP financing schemes and prepare complex projects.

Develop sector-specific roadmaps to identify potential investment opportunities in energy, transport, telecommunications and water and sanitation; prepare detailed project action plans to take identified projects forward. In the electricity sector this involves building on recent successes in unbundling and introducing competition in the sector, as laid out in the Electricity Law (87/2015). Development of plans in the transport sector is at an earlier stage; it is recommended to focus first on ports and airports. In the water sector, BOT-type engagements to create wastewater installations in new cities and desalination plants are the principal opportunities for private investment or commercial finance.

Overall, it is recommended to increase infrastructure expenditure in the context of public expenditure reform. The aim should be to continuously seek opportunities to redistribute funds from less to more efficient uses, develop co-participation with the private sector in the investment process, and create more fiscal space through tax reforms to promote improved growth.

\textsuperscript{10} The approval of the executive regulations for Egypt’s new investment law in October 2017 supports the view that fixed investment will pick up in the country as the business environment improves. The law, which was adopted on June 1, aims to cut red tape and simplify procedures for businesses, by creating a new investors’ service centre tasked with issuing licenses. The law also introduces various tax incentives, including the restoration of several free zones, and substantial tax breaks, especially for investment in the country’s less developed areas.