Egypt: A New Economy for the 21st Century

Egypt's educated, young and ambitious population provides it with vast economic promise and potential. Upon taking office in 2013, President Abdel Fattah El Sisi and his government embarked on an ambitious and transformative plan to achieve and advance this potential, through the construction of a modern, responsive and equitable economy.

For far too long, previous governments failed to make the innovative investments, key reforms and tough political decisions necessary to fulfill the promise and aspirations of the Egyptian people. Having inherited an economic system burdened with structural impediments to growth, the government today is working on multiple tracks to transform Egypt's economy through tough political decisions, smart reform, social justice and targeted investment.

A BOLD REFORM AGENDA

On 3 November, the Central Bank of Egypt (CBE) announced the immediate float of the Egyptian Pound's (EGP) exchange rate against foreign currencies to improve Egypt's competiveness and allow for the deepening of foreign currency liquidity. In taking this landmark step, the CBE stated that it is "steadfastly committed to unleashing the vast potential of the Egyptian economy, an economy that has weathered many challenges and endured much uncertainty, an economy that will ultimately come out stronger and will persevere."

This action was the most recent in a broad package of reforms initiated soon after President El Sisi assumed office. Together, they are intended to ensure macroeconomic stability through fiscal consolidation, and will be achieved by decreasing the budget deficit and general government debt, enacting subsidy reforms and decreasing government spending.

IMF AGREEMENT: SUPPORTING A SUSTAINABLE PATH FOR EGYPT'S ECONOMY

To complement this reform agenda, on November 11 Egypt and the International Monetary Fund (IMF) reached agreement on a $12 billion Extended Fund Facility (EFF) loan package in support of Egypt's comprehensive economic reform program. The government's home-grown program, supported by the EFF arrangement will support Egypt's ongoing economic modernization efforts to address macroeconomic vulnerabilities, liberalize the foreign exchange system, expand employment opportunities for youth and women, strengthen the social safety net, embrace structural reform and promote inclusive growth and job creation.

Decreasing public debt

- Over the program period, general government debt is expected to decline from about 98 percent in 2015/16 to about 88 percent of GDP in 2018/19. The aim is to raise revenue and rationalize spending, to reduce the deficit and to free up public funds for high-priority spending such as infrastructure, health and education and social protection.
- The government has adopted and implemented a value-added tax (VAT), after approval by the parliament, and continued to take steps during the second half of 2016 to continue the program begun in 2014 to rationalize energy subsidies.

- Taxes on cigarettes and alcohol will increase, while remaining well below comparable taxes in other countries.

Ensuring social protection

- About 1 percent of GDP out of the achieved fiscal savings will be directed to additional food subsidies, cash transfers to the elderly and low-income families, health insurance for young children and female primary provides and other targeted social programs, including vocational training for youth and more free school meals.
- This builds on programs such as the Takaful and Karama pension, a cash transfer program aimed at protecting the poor through income support, which approximately 500,000 families are already benefitting from.

> "Egyptian authorities have embarked on an ambitious reform program to put the country's economy on a sustainable path and achieve job-rich growth. This agreement will help restore macroeconomic stability and bring Egypt's economy closer to its full potential.
>
> IMF MANAGING DIRECTOR
> CHRISTINE LAGARDE

> "It is encouraging that Egyptian leaders are making the difficult decisions needed to move their country towards prosperity.
>
> U.S. SECRETARY OF STATE
> JOHN KERRY

Improving the foreign exchange market

- The Central Bank of Egypt (CBE) monetary and exchange rate policy will aim to improve the functioning of the foreign exchange market, increase foreign reserves, and bring inflation down to single digits during the program.
- Egypt's move to a flexible exchange rate regime will strengthen competitiveness, support exports and tourism and attract foreign direct investment, and in turn will foster growth and jobs and reduce financing needs.
- Financial sector policies will be geared toward safeguarding the strength and stability of the banking system.

Bolstering the business environment

- With the aim of significantly improving Egypt's ratings in Doing Business and Global Competitiveness, new reform measures will target creating a competitive business environment, attracting investment and increasing productivity to provide fertile ground for private sector activity. These include:
  - A new microfinance law to support small and medium enterprises.
  - A new unified investment law to significantly reduce bureaucratic hurdles.
  - Amendments to competition and public procurement laws.

Strengthening public financial management and fiscal transparency

- Planned reforms in this area include regularly reviewing the operational performance of the economic authorities; improving oversight of state issued guarantees through the preparation of reports; developing a road map for pension reforms; and preparing a budget statement on economic and public finance developments will be presented to the parliament with every budget.

Implementing structural reforms and inclusive growth

- Measures will include streamlined industrial licensing for all businesses, greater access to finance to SMEs and new insolvency and bankruptcy procedures.
- Job intermediation schemes and specialized training programs for youth will be encouraged.
- To support women's labor force participation, availability of public nurseries will be increased and safety of public transportation improved.

EGYPT'S VISION FOR LONG-TERM GROWTH

In February 2016, President El Sisi launched Egypt Vision 2030, a sustainable development strategy that establishes a roadmap for maximizing the use of Egypt's competitive opportunities and advantages. The framework commits the Government to continue supporting a competitive, diversified, knowledge-based and private-sector-led economy, characterized by a stable macroeconomic environment and sustainable inclusive growth. Accordingly, by 2030 the Egyptian economy will be a more active player in the world economy, capable of adjusting to international developments and well positioned to join the ranks of the world's medium-income countries.

EGYPT 2030 GOALS

- Achieve economic growth rate of **7 percent on average**
- Raise the investment rate to **30 percent on average**
- Increase the contribution of services to GDP to **70 percent**
- Raise the contribution of exports to **25 percent**