Egypt Moves Towards Building a well-structured Reform Economy

"Glimpse of the National Structural Reform Program"

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Prior to November 2016, the Egyptian economy had reached an unsustainable economic state. Firstly, GDP growth dwindled to 3%. Secondly, the fiscal deficit reached 11.3%. Lastly, inflation inched up to 14.1% in September 2016. Moreover, unemployment rising to 12.8%, headline The current account deficit was further widened from 3.7% of GDP in 2014/15 to 6% in 2016/17. In addition, the official exchange rate was devaluated by 13% in March 2016; the gross international reserves stood at $17.1 billion in June 2016, equivalent to 3.1 months of prospective imports.

That being said, the Egyptian Government, in cooperation with IMF, embarked on a significant economic reform programme. It anchored the floatation of EGP in order to improve Egypt's external competitiveness, support exports and tourism, attract investments, and rebuild the international reserves. Worthy to Note, the economic reform programme aimed at reducing the budget deficit, reforming energy subsidies, increasing the employment rate, boosting participation of labor force (women and youth), and bolstering social-protection measures to shield the most vulnerable who have been affected by the short-term consequences of the economic reforms.

The program focused on four key pillars: (I). A significant policy adjustment including: 1) Liberalization of the foreign exchange system to eliminate shortages in foreign exchange along with encouragement of investments and exports. 2) A monetary policy aiming at containing inflation. 3) A strong fiscal consolidation to ensure public debt sustainability; (II). strengthening social safety nets by increasing spending on food subsidies and cash transfers; (III). Far-reaching structural reforms to promote higher and inclusive growth, increasing employment opportunities for youth and women; (IV). Fresh external financing to bridge any financing gaps.

The results of implemented economic reform programme were impressive: Growth accelerated to 5.3% over the first three quarters of 2017/18. Besides, inflation was contained (after the short-termed post floating hike of 33 percent in July 2017) at 11.4% in May 2018. Also, the gross international reserves reached $43 billion at end of May 2018. The rest of the impressive results were mainly reflected in the decline of unemployment rate declined to 10.6%

the lowest since 2011. Moreover, the current account deficit stood at 2.6% of GDP in 2018/19. The budget became on track to achieve a primary surplus of 2% of GDP in 2018/19, in line with the program target, with gross general government debt to decline from 93% of GDP in 2017/18 to 85% of GDP by end-June 2019

Over the previous years, Egypt has showed a great economic progress in each review conducted by IMF, garnering the fruits of reforms in correcting external and fiscal imbalances. It achieved the highest level of growth at 5.7% since FY 2007/08; the unemployment rate was also decreased to 7.5%, the lowest in 20 years. In addition, inflation rates have started dipping markedly to a record 6.7%, and they remain anchored by the medium-term objective of bringing inflation down to single digits. Furthermore, EGP has regained its strength, boosted by an increasing trend in growing the foreign reserves. The confidence of investors and international institutions has been recovered in light of the reform measures, which have contributed to the improvement of macroeconomic indicators and an increase in the flow of domestic and foreign investments.

Meanwhile, the Government and Parliament have worked together effectively on issuing the legislation required for boosting the competitiveness of the economy and enhancing the investment climate through a new investment law, a law on industrial land

allocation, and a law on small and medium-sized enterprises (SMEs). They will help create incentives for the informal economy and spur the channels of entrepreneurship in the near future. There have been also reforms of competition policy, tax administration, public procurement and on state-owned enterprises.

Noteworthy, these reforms have helped to build the resilience of the Egyptian economy in mitigating the current COVID-19 crisis and even finding opportunities within it.

The economy has proven its resilience to external shocks thanks to the adoption of well-coordinated fiscal and monetary policies to cushion the negative economic and financial impacts of the global COVID-19 pandemic, notably by providing adequate liquidity for the economy. The negative impacts of the pandemic are mainly driven by weaker external demand and lower global growth, partially disrupting earnings from tourism, the Suez Canal, remittances from abroad, non-oil exports, foreign direct investment (FDI), and portfolio investments.

However, Egypt's external buffers, built up since 2016, have allowed these external shocks to be absorbed. The volume of the country's international reserves is still adequate to cover the imports of commodities and services for the next five or six months. Also, Egypt's credit ratings have not been severely affected by the impact of the global pandemic, unlike other countries in the region that started out with the same credit ratings, reflecting the confidence in Egypt's economy to cope with the crisis of COVID-19.

Building on the success of economic reform programme, the Egyptian Government in 2020 has embarked on formulating the National Structural Reform programme (NSRP).

The program is the second phase of the national program for economic and social reform that was launched in November 2016, which aimed at supporting the economy to achieve balanced and sustainable inclusive growth.

Bearing in mind, it is a national programme that was prepared following the participatory approach adopted by the Egyptian State, hand-in-hand with the Egyptian State's public and private institutions and civil society.

The main objectives of the Programme are enhancing economic resilience, promoting employment and employability, and raising the productive capacity and competitiveness of the economy, particularly especially export-oriented industries.

The NSRP targets the real sector and the three inter-related markets: money market, trade market, and labour market. More focus is to drawn on diversifying the productivity structure of three main prioritized sectors: Agriculture, Manufacturing and Industry, and Communication and Information technology. This would result in scaling up their contribution to GDP, BOP and increasing employability. Noteworthy, the diversification of productivity structure is backed by technical support to implement the necessary regulatory reforms to enhance access to markets as well as to finance, considering SMEs.

Besides, diversifying the productive structure of the Egyptian economy, a cornerstone to the NSRP, is developing the business environment and enhancing the role of the private sector.

These two pillars are supplemented by fundamental reform measures in the labour market to ensure its efficiency, reforms in human capital, ensuring financial inclusion and access to finance and last but not least reforms in the public governance and digitalization to ensure fiscal sustainability and efficiency in the bureaucratic sector in Egypt.

Worth noting, the NSRP encompasses six pillars, supplemented with both structural and legislative measures. The first pillar includes measures to business environment-related improvements, to boost trade exchange and increase exports in regional and international markets. This will also maintain the development of infrastructure-related sectors (i.e. the electricity and renewable energies, the maritime and transportation sector).

The second pillar encompasses measures for boosting domestic industrialisation, promoting competitiveness of manufacturing industry, bolstering water and food security, considering increasing competitiveness of agri and agri products. In addition, measures for developing the communications and information technology sector and supporting SMEs and entrepreneurship as well as logistics and construction sectors.

The third pillar covers measures to promote the efficiency of labour market and vocational technical and technological training. In addition, it will facilitate providing training programs, modern methods of job accessibility, empowering women, youth, and individuals with special needs.

The fourth pillar includes measures to maintain human capital development through promoting the efficiency of educational systems, bolstering health care services and ensure better targeting of beneficiaries from food subsidies and cash transfers. The fifth pillar encompasses measures to widen the scope of financial inclusion and to ease the access to finance and diversify financing tools, promote financial soundness of capital market. The sixth pillar contains measures to guarantee public governance of public and financial institutions, and to widen and deepen the scope of digitalization across the economy, and to empower the independency and financial capabilities of local administrative units, and promote transparency of fiscal policies and debt management.

All in all, building a well-founded and well-structured economy and making it more resilient requires such major domestic structural reforms and well-coordinated economic policies, including the expansion of social safety nets to protect the poorest individuals and the most vulnerable households.