OECD Economic Surveys
EGYPT

FEBRUARY 2024

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OECD Economic Surveys: Egypt 2024

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Please cite this publication as:
OECD (2024), *OECD Economic Surveys: Egypt 2024*, OECD Publishing, Paris, https://doi.org/10.1787/af900de2-en.

ISBN 978-92-64-54814-5 (print)
ISBN 978-92-64-80481-4 (pdf)
ISBN 978-92-64-67894-1 (HTML)
ISBN 978-92-64-45122-3 (epub)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

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FOREWORD

This Survey is published under the responsibility of the Economic and Development Review Committee of the OECD, as part of the OECD Egypt Country Programme. It is the first OECD Economic Survey of Egypt.

The economic situation and policies of Egypt were reviewed by the Economic and Development Review Committee on 24 October 2023, with the participation of representatives of the Egyptian authorities, led by Dr. Ahmed Kamaly, Deputy Minister at the Ministry of Planning and Economic Development. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 2 February 2024. It was updated to reflect recent developments, with a cut-off date for data and information of 15 February 2024. The Survey has been compiled and revised in close collaboration with senior representatives from national official institutions including the Prime Minister's Office, the Ministry of Planning and Economic Development, the Ministry of Finance, the Central Bank of Egypt, the Central Agency for Public Mobilisation and Statistics, the Ministry of Trade and Industry, the Ministry of Environment, the Ministry of Communications and Information Technology, the Ministry of Public Business Sector, the Ministry of Electricity and Renewable Energy, the Ministry of Education and Technical Education, the Ministry of labour, the Ministry of Social Solidarity, the Ministry of Health and Population, the Egyptian Competition Authority, the General Authority for Investment and Free Zones, the Administrative Control Authority, the Financial Regulatory Authority, the Micro, Small and Medium Enterprise Development Agency and the Sovereign Fund of Egypt.

The Secretariat's draft report was prepared for the Committee by Yosuke Jin, Ania Thiemann and Natia Mosiashvili under the supervision of Vincent Koen, with contributions from Andrea-Rosalinde Hofer (Education Directorate) and Reham ElDesoki (Consultant). It benefited from comments provided at various stages by Alvaro Pereira, Luiz De Mello, Isabell Koske, David Haugh and Tim Bulman (Economics Department) as well as by experts in the Economics Department, Centre for Tax Policy and Administration, and Financial and Enterprise Affairs, Development, Education and Skills, Employment, Labour and Social Affairs, Environment, Public Governance, Global Relations and Cooperation, Science, Technology and Innovation, and Trade and Agriculture Directorates. Jean-Rémi Bertrand, Sisse Nielsen and Michelle Ortiz provided editorial support.

The OECD and Egypt, represented by Prime Minister Dr. Mostafa Madbouly and Minister of Planning and Economic Development Dr. Hala El-Said, signed a Memorandum of Understanding in October 2021 to start a three-year Country Programme to incentivise and support structural reforms. Its main objective is to bring Egypt closer to OECD bodies and standards while supporting its domestic reform agenda. The Country Programme is aligned with Egypt's national development strategy, Egypt Vision 2030 and will support Egypt's efforts in achieving the United Nations Sustainable Development Goals. The Country Programme will also contribute to the implementation of the National Structural Reform Programme that was adopted in September 2021. The Country Programme focuses on five pillars: (1) inclusive and sustainable economic growth; (2) innovation and digital transformation; (3) governance and anti-corruption; (4) statistics and monitoring; and (5) sustainable development. It comprises 35 projects spanning 16 OECD Directorates.

On the Egyptian side, Dr Heba Y. Hashem, Head of the Country Programme Monitoring Unit at the Ministry of Planning and Economic Development, coordinated the preparation of this Economic Survey. The Economics Department country desk visited Cairo three times and met with a wide range of Egyptian officials as well as representatives of the social partners, the private sector, academics and country-based experts.

Information about the latest as well as previous Surveys and more details about how Surveys are prepared is available at www.oecd.org/eco/surveys.

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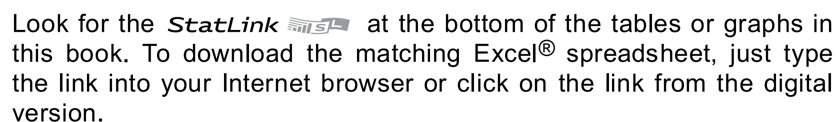

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Glossary of acronyms

Acronyms	Terms
ACA	Administrative Control Authority
ACUD	Administrative Capital Urban Development Company
ALMP	Active Labour Market Programme
BEPS	Base Erosion and Profit Shifting
CAOA	Central Agency for Organisation and Administration
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CEO	Chief Executive Officer
CNY	Chinese Yuan (Renminbi)
EBRD	European Bank for Reconstruction and Development
ECA	Egyptian Competition Authority
EFF	Extended Fund Facility
EGP	Egyptian Pound
EGX	Egyptian Stock Exchange
EOI	Global Forum on Transparency and Exchange of Information for Tax Purposes
ETQAAN	Egyptian National Authority for Quality Assurance and Accreditation
ETUF	Egyptian Trade Union Federation
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FY	Fiscal Year
GAFI	The General Authority for Investment and Free Zones
GDP	Gross Domestic Product
GOEIC	General Organisation for Export and Import Control
GPA	Grade Point Average
ICT	Information and Communication Technology
IDA	Industrial Development Authority
IDSC	Cabinet Information and Decision Support Centre
ILO	International Labour Organization
IMF	International Monetary Fund
IPO	Initial Public Offerings
ISO	International Organisation for Standardisation
IT	Information Technology
LFS	Labour Force Survey
LMIS	National Labour Market Information System
MENA	Middle East and North Africa
MNEs	Multinational Enterprises
MSE	Micro and Small Enterprises
MSME	Micro, Small and Medium Enterprises
MSMEDA	Micro, Small and Medium Enterprises Development Agency
MTDS	Medium-Term Debt Strategy
MTRS	Medium-Term Revenue Strategy
NCCS	National Climate Change Strategy

NDCs	Nationally Determined Contributions
NEET	Not in Employment, Education or Training
NGO	Non-Governmental Organisations
NSPO	National Service Projects Organisation
NSRP	National Structural Reform Programme
NTRA	National Telecommunications Regulatory Authority
OECD	Organisation for Economic Co-operation and Development
PIMA	Public Investment Management Assessment
PPP	Purchasing Power Parities
PVTD	Productivity and Vocational Training Department
R&D	Research and Development
RIA	Regulatory Impact Assessment
SOEs	State-Owned Enterprises
SOP	State-Ownership Policy
SPV	Special Purpose Vehicles
STTR	Subject-To-Tax Rule
TFP	Total Factor Productivity
TIMSS	Trends in International Mathematics and Science Survey
USAID	United States Agency for International Development
USD	US Dollar
VAT	Value Added Taxes
VC	Venture Capital
VET	Vocational Education and Training
WTO	World Trade Organization

Country acronyms

ISO3 code	Country name
ARE	United Arab Emirates
ARG	Argentina
BGR	Bulgaria
BRA	Brazil
CHL	Chile
CHN	China
COL	Colombia
CRI	Costa Rica
CZE	Czechia
DZA	Algeria
EGY	Egypt
EU	European Union
GBR	United Kingdom
GRC	Greece
IDN	Indonesia
IND	India
ISR	Israel
JOR	Jordan
KOR	Korea
KWT	Kuwait
LBN	Lebanon
LBY	Libya
MAR	Morocco
MEX	Mexico
MRT	Mauritania
MYS	Malaysia
PER	Peru
PHL	Philippines
QAT	Qatar
ROU	Romania
SAU	Saudi Arabia
SGP	Singapore
SVN	Slovenia
THA	Thailand
TUN	Tunisia
TUR	Türkiye
URY	Uruguay
VNM	Viet Nam
ZAF	South Africa

BASIC STATISTICS OF EGYPT, 2022[1]

(Numbers in parentheses refer to the OECD average)[2]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	111.0		Population density per km² (2021)	110.8	(39.0)
Under 15 (%)	32.9	(17.2)	Life expectancy at birth (years, 2021)	70.2	(78.7)
Over 65 (%)	4.8	(18.0)	Men (2021)	67.9	(75.9)
International migrant stock (% of population, 2019)	0.5	(13.2)	Women (2021)	72.6	(81.7)
Latest 5-year average population growth (%)	1.7	(0.4)	Latest general election	December 2020	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2022, OECD: 2021)		
In current prices (billion USD)	457.7		Agriculture, forestry and fishing	11.5	(2.8)
In current prices (billion EGP)	8 788.3		Industry including construction	34.6	(28.3)
Latest 5-year average real growth (%)	4.8	(1.7)	Services	53.9	(68.8)
Per capita (thousand USD PPP, 2021)	16.9	(50.9)			
GOVERNMENT ACCOUNTS[3]					
Expenditure (FY 2021/22)	23.4	(32.9)	Gross central government debt (FY2021/22, OECD:2022)	87.2	(108.6)
Revenue (FY 2021/22)	17.2	(37.4)	Net central government debt (FY2021/22, OECD:2022)	79.4	(79.6)
EXTERNAL ACCOUNTS					
Exchange rate (EGP per USD)	19.20		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	4.68		Mineral fuels, lubricants and related materials	37.8	
In per cent of GDP			Chemicals and related products, n.e.s.	16.5	
Exports of goods and services	17.1	(33.4)	Manufactured goods	14.5	
Imports of goods and services	21.5	(34.9)	Main imports (% of total merchandise imports)		
Current account balance	-2.3	(-0.9)	Mineral fuels, lubricants and related materials	18.7	
Net international investment position (2021)	-50.3		Machinery and transport equipment	17.4	
			Chemicals and related products, n.e.s.	16.7	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %, 2021)	39.8	(56.1)	Unemployment rate, Labour Force Survey (aged 15 and over, %, 2021)	7.4	(6.2)
Men (2021)	65.2	(64.2)	Youth (aged 15-24, %, 2021)	17.6	(12.8)
Women (2021)	12.9	(48.5)	Long-term unemployed (1 year and over, %, 2021)	1.8	(1.7)
Participation rate (aged 15 and over, %, 2021)	43.0	(60.2)	Tertiary educational attainment (aged 25+, %, 2017)	6.2	(28.5)
Mean weekly hours worked (2021)	43.0	(36.2)	Gross domestic expenditure on R&D (% of GDP, 2020)	1.0	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2021)	0.9	(3.7)	CO_2 emissions from fuel combustion per capita (tonnes, 2020)	1.9	(7.9)
Renewables (%, 2021)	5.7	(11.8)	Renewable internal freshwater resources per capita (m³, 2020)	9.3	(9310.0)
Exposure to air pollution (over 10 µg/m³ of PM 2.5, % of population, 2019)	99.8	(61.7)			
SOCIETY					
Income inequality (Gini coefficient, 2019, OECD: latest available)	0.319	(0.315)	Education outcomes (PISA score)		
Poverty gap at USD 3.65 a day (2017 PPP, %, 2019)	3.4		Reading	NA	(486)
Public and private spending (% of GDP)			Mathematics	NA	(488)
Health care (2020)	4.4	(13.9)	Science	NA	(487)
Pensions (OECD: 2019)	NA	(9.5)	Share of women in parliament (%)	27.6	(32.5)
Education (% of GNI, 2021)	4.4	(4.4)	Net official development assistance (% of GNI, 2021)	2.0	

[1] The year is indicated in parenthesis if it deviates from the year in the main title of this table.

[2] Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

[3] The figures for expenditure and revenue relate to the Budget sector, which comprises central administrative units, local administrative units, and public service authorities. These figures are from the Ministry of Finance, Egypt. For the OECD countries, the figures relate to the general government.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank, CEIC, Ministry of Economic Planning and Development, Ministry of Finance and Central Bank.

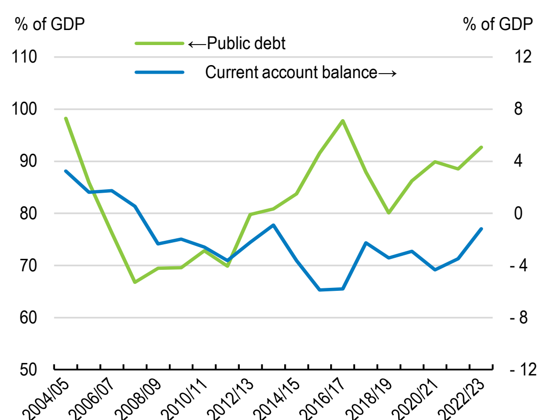
Executive Summary

Growth has weakened amidst economic challenges

Growth has held up better in Egypt until recently than in neighbouring countries in the face of a series of major exogenous shocks, and reform efforts have been stepped up in several areas. However, growth slowed in 2022, as inflation surged and massive capital outflows occurred, which led to foreign currency shortages and devaluations of the Egyptian pound.

Egypt was hit hard by the surge in global food prices. Inflation took off, even though energy prices were kept in check via price controls. It has become broad-based and, coupled with currency depreciation, reached very high levels in 2023. Fiscal support, including the expansion of targeted cash-transfer programmes, has sustained private consumption. Business activity has weakened due to tightened financing conditions, limited access to foreign currency, and increased uncertainty, following large-scale capital outflows of around USD 20 billion (4.7% of GDP). Egypt was particularly vulnerable to such outflows, due to its large current account deficit and high public debt (Figure 1), which had been increasingly financed from abroad. IMF financial assistance was put in place in late 2022, the fourth package in six years. Under this IMF programme, Egypt has expanded the scope of policy reforms to reduce public debt and macroeconomic imbalances.

Figure 1. Macroeconomic imbalances are large



Source: Central Bank of Egypt; Ministry of Planning and Economic Development; IMF World Economic Outlook October 2023 database.

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GDP growth is projected to decline to 3.2% in FY 2023/24 but to pick up thereafter (Table 1). Provided inflation subsides, consumption will recover despite gradual withdrawal of fiscal support. The recovery of investment is set to be subdued as financing conditions will remain tight for some time. Exports are expected to regain momentum if the disruptions to tourism and Suez Canal traffic end. The risks surrounding this outlook are substantial and skewed to the downside. They include, among others, further losses in investor confidence, which would result in further depreciation and deeper foreign currency shortages, and lead to additional tightening in financing conditions. The geopolitical tensions in the region, if prolonged, would further affect tourism and Suez Canal receipts.

Table 1. The economy will gradually recover

Annual growth rates unless noted	FY 22/23	FY 23/24	FY 24/25	FY 25/26
Gross domestic product (GDP)	3.8	3.2	4.4	5.1
Private consumption	3.8	3.0	4.2	4.7
Gross fixed capital formation	- 24.1	- 1.4	1.5	3.2
Exports	31.4	5.4	6.5	7.1
Imports	1.1	2.9	4.1	4.5
Consumer price index	25.1	32.0	15.9	7.5
Core consumer price index	29.3	30.7	16.8	7.9
Fiscal balance (% of GDP)	- 6.0	- 7.8	- 7.0	- 6.5
Central government debt (% of GDP)	95.7	92.0	86.9	80.7
Current account balance (% of GDP)	- 1.2	- 0.8	- 0.8	- 0.7

Note: Data refer to fiscal years from July to June of the following year.
Source: Update of the OECD Economic Outlook November 2023; Ministry of Planning and Economic Development; Ministry of Finance; Central Bank of Egypt.

The government faces large near-term financing needs. International market funding has been limited since early 2022, although the government has sought to diversify its debt portfolio and instruments. Restoring investor confidence in the public finances is essential to bring down debt service costs, with 10-year government bond yields having risen to close to 27% in early February 2024. This would facilitate fiscal adjustment and help achieve the Medium-Term Debt Strategy objective to reduce the debt-to-GDP ratio to around 80%. Although the initial Budget FY 2023/24 aimed at increasing the primary surplus to 2.5% of GDP, the overall budget deficit will remain large due to high interest payments.

Commitment to fiscal consolidation over the medium term is key, as is improving public financial management. Fiscal support targeted to those most in need should continue, but untargeted energy subsidies should be gradually reduced, which would also contribute to reducing emissions. Public investment has expanded substantially since the early 2010s. The government has recently limited new projects by Prime Ministerial decree. This should be complemented by a thorough review of the efficiency of public investment projects. Such spending cuts will not only help to reduce public debt but also create the fiscal space to finance priority policies including health and education. While pursuing the Medium-Term Revenue Strategy to enhance tax collection, the government should examine the numerous tax exemptions and eliminate inefficient ones. In this respect, it is key to abolish all preferential tax treatments granted to state-owned enterprises (SOEs) by implementing a 2023 law. Despite some recent initiatives, budget transparency is limited and large contingent liabilities and budget transfers to SOEs can endanger the sustainability of public finances. They should be scrutinised and reduced.

Monetary policy should continue to combat high inflation and bring it down towards the 7 ±2% target. Control of the exchange rate should be reduced gradually, while avoiding abrupt fluctuations.

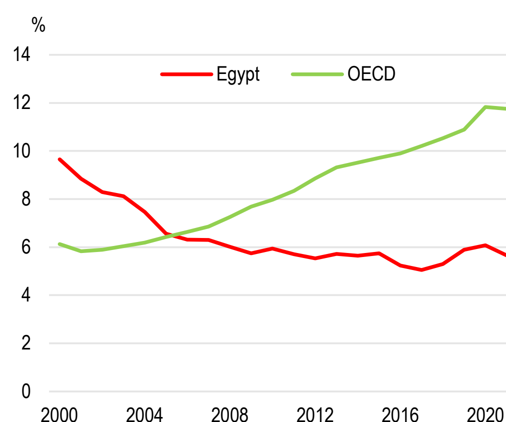
Speeding up Egypt's green transition

Egypt is highly vulnerable to the consequences of climate change and suffers from air pollution. Its updated Nationally Determined Contributions include some sector-specific emission reduction targets for 2030, subject to additional funding, and some adaptation measures, but efforts need to be stepped up.

Private investment and development partner support should play a key role in promoting green growth. Current efforts to scale up green investment need to be pursued. Renewables only accounted for just under 6% of total energy supply in 2021 (Figure 2). To achieve the National Energy Plan's goal to raise the share of electricity generation from renewable sources to 42% by 2030, major efforts are required, including mobilising financing, through the use of green bonds and concessionary loans, as well as attracting private investment with long-term power-purchasing agreements. The government has started to invest in transmission infrastructure and grid connections. Further private sector involvement is called for, notably in low-emissions industrial and green hydrogen projects, as well as in climate adaptation strategies, such as better management of scarce water resources.

Figure 2. Renewable energy has room to expand

Renewables as a share of total energy supply



Source: OECD, World Energy Balances database.

StatLink https://stat.link/6rdwzb

Unleashing private sector activity

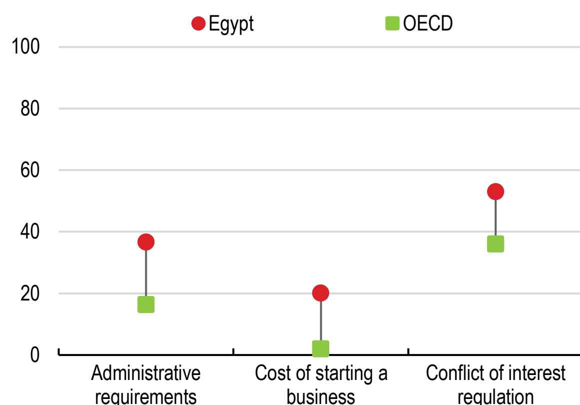
Egypt has ample scope to increase private investment and productivity. Recent reform efforts should be intensified. Strengthening competition and reducing market distortions are key to reinvigorate productivity growth.

Regulatory barriers hindering firm entry and expansion should be reduced and external barriers lowered (Figure 3). The current efforts to reform the licensing regime, including steps to reduce approval times and the one-stop "Golden Licence" for investors, should be continued to further simplify procedures for all businesses. Digitalisation of invoices and tax returns should help ease administrative burdens, which are a contributing factor to informality and create opportunities for corruption. While openness to trade and FDI is essential to promote competition, trade barriers remain high, depriving Egypt of the full benefits of global trade. Tariffs should be

lowered, simplified and streamlined while unnecessary non-tariff barriers should be removed.

Figure 3. Competition pressures are low

Scale 0 (not burdensome) to 100 (extremely burdensome)



Source: World Economic Forum, Global Competitiveness Index 4.0.

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Perceived corruption is high and undermines business activity, despite recent measures to improve public procurement. Fully implementing the 2018 Public Procurement Law, including removing procurement exemptions for SOEs, will reduce opportunities for corruption and build confidence to help attract more investment.

The domineering presence of SOEs has hindered private sector activity and investment. It has reduced business dynamism, reflected in low firm entry and low efficiency of resource allocation. The State Ownership Policy programme, aiming at cutting back overall government ownership across most business sectors and redefining its role in the economy, has progressed slowly since its announcement in December 2022. More clarity regarding its execution is needed, with a well-specified timeline and greater transparency in the choice of firms to be sold, the sequencing of sales and the future role of the state. As the state will likely remain a significant player in the economy, the principles of competitive neutrality need to be fully adhered to and implemented.

Expanding access to finance would support firm creation and expansion, while digital diffusion is necessary to boost productivity. This should be supported by, among others, liberalising the digital services market.

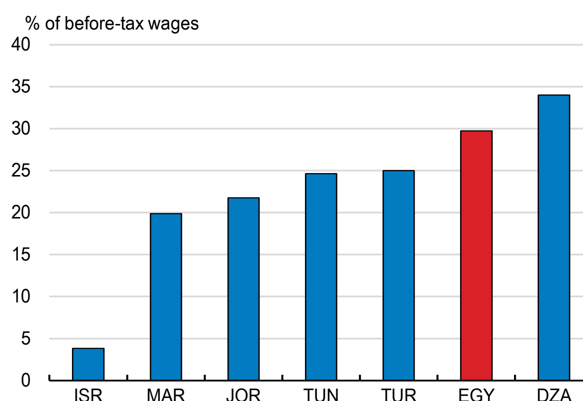
Creating more and better-quality jobs

The working age population is expected to grow fast, and educational attainment to rise further. However, the employment rate is low, particularly among youth and women, and the share of informal jobs is high. The poverty rate has trended up, with many working poor.

Job opportunities need to be expanded, while reducing informality. Still high social security contribution rates (Figure 4) are a driver of informality, depriving workers of benefit entitlement. The government should examine the effects of the 2019 reform and consider reducing business costs further, including compliance costs. While expanding targeted social benefits, job-ready beneficiaries should be encouraged to engage in paid work, by strengthening assistance for job search. Expanding childcare facilities and promoting flexible work arrangements would help raise female labour force participation.

Figure 4. Social contribution rates are high

Social security contribution rate



Note: 2022 for Egypt, 2019 or latest for other countries.
Source: International Social Security Association.

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Education and skills are essential to ensure better job opportunities and boost productivity, and to facilitate school-to-work transition. EDU 2.0, an ongoing reform agenda to shift the focus from rote learning to developing critical skills, requires long-term strategic allocation of resources and support structures. The new qualification accreditation system should help to provide skills required in the labour market. To ensure better job-skill matching, identification of labour market needs should be developed further by improving the information system.

MAIN FINDINGS	KEY RECOMMENDATIONS
Achieving macroeconomic stabilisation	
Inflation reached very high levels in 2023. Initially driven by global food prices, it has become broad-based. The policy interest rate has been increased by 1 300 basis points since early 2022. Budget FY2023/24 features a primary surplus of 2.5% of GDP.	Keep a restrictive monetary policy stance until inflation approaches the target and raise the policy interest rate as needed. Achieve the primary surplus target and avoid adding to inflationary pressures.
The official exchange rate was devalued in steps in the course of 2022 but has remained almost unchanged since. Foreign currency shortages have endured, contributing to import backlogs.	Reduce the control over the exchange rate gradually, while avoiding abrupt fluctuations.
Energy subsidies had been significantly reduced over the past decade but were increased again following the rise in global energy prices. Food subsidies still reach the vast majority of the population.	Phase out energy subsidies gradually to fully reflect global energy price movements in domestic fuel prices. Target food subsidies strictly to those who are most in need.
Public investment has expanded considerably over the past decade, casting doubts on the quality of some projects. A public investment management assessment was conducted with the IMF in 2022. In February 2024, a governmental decree curtailed the public investments foreseen in Budget FY2023/24.	In the short run, ensure the recently-decreed curtailment of public investment is implemented. Undertake spending efficiency reviews of public investment and rationalise infrastructure projects accordingly.
The green transition requires fast and concerted action	
Tackling climate change requires large investments in adaptation and mitigation, including new infrastructure and clean technologies, to achieve sustainable growth.	Pursue climate efforts, especially in the oil and gas, and transport sectors where targets can be reached more easily. Strengthen capacity to monitor and report greenhouse gas emissions. Continue efforts to leverage private financing with green bonds and concessional loans, and earmark green projects clearly for investors. Step up adaptation measures, such as water and irrigation management, and natural sea defences.
Improving the business climate to revive private sector growth	
High regulatory barriers stifle the opening and operation of businesses, and the overall burden of licensing imposed on firms is high.	Streamline licensing procedures for new and operational licences. Introduce the “silence is consent” principle for business registration.
Perceptions of corruption are high, affecting investor confidence. The 2018 Public Procurement Law does not apply to state-owned enterprises (SOEs) and allows direct awards for non-civil firms.	Fully implement the 2018 Public Procurement Law, and strictly limit exemptions for SOEs and direct awards for non-civil firms.
Egypt is not well integrated into global value chains. Tariff and regulatory barriers to imports are high.	Lower, simplify and streamline tariffs. Eliminate routine requirements to obtain pre-export authorisations for products exported to Egypt that meet domestic standards.
No single entity is clearly mandated with planning and designing investment policy.	Consolidate investment policy in a single entity with powers to design and execute investment policy and provide the General Authority for Investment (GAFI) with sufficient resources to act effectively as Egypt’s investment promotion agency.
The corporate tax system remains riddled with exemptions. Overlapping legal texts increase the risk that incentives fail to attract more foreign investment.	Consolidate tax incentives into a single law under the Ministry of Finance. Tax incentives should be reviewed regularly to verify that they remain aligned with objectives.
The state footprint is large, with SOEs operating across most sectors of the economy. The full extent of the SOE sector is not known, and ownership is dispersed across numerous ministries, while financial transparency is lacking.	Fully execute the announced divestment programme with a clear timeline. Regularly publish a list of all SOEs and their ownership, and increase financial transparency.
The privatisation process requires greater clarity as to the objectives of the sales, the preferred method of privatising and the role of the state.	Increase transparency in the choice of firms to be sold, the sequencing of sales, the valuations of assets, and the future role of the state.
The state will likely remain a significant player in the economy.	Fully adhere to and implement the principles of competitive neutrality across all state entities and transactions.
Promoting better-quality job creation for inclusive growth	
Social security contributions remain high even after the 2019 reform, leading firms to often not register their employees or underreport labour earnings.	Evaluate the effects of the 2019 reform. Consider reducing the social security contribution rates for lower-paid workers.
Cash-transfer programmes targeted to the most vulnerable, notably *Takaful* and *Karama*, contribute to reducing poverty. However, the transition to paid work needs to be facilitated.	Register job-ready beneficiaries with public employment services to support them in finding an adequate job.
Women often withdraw from paid work due to household responsibilities, instead of taking maternity and childcare leaves and returning to work.	Accelerate the creation of nurseries and promote flexible work arrangements to allow women to reconcile work and family responsibilities. Further reform the regulation on workplace safety.
Education has been criticised for being repetitive and grounded in rote memorisation.	Provide necessary resources for schools and financial incentives for teachers to implement the EDU 2.0 reform, subject to monitoring and evaluation of its progress.

1 Introduction

Over the past few years, Egypt has embarked on economic reforms to promote strong, inclusive and sustainable growth (Box 1.1) and to resume faster convergence with the more advanced economies, following a lull in the early 2010s (Box 1.2). Egypt Vision 2030 sets national objectives in line with the United Nations Sustainable Development Goals. A series of programmes have been spelled out to help achieve these objectives, including the Economic Reform Programme (2016-19) and the National Structural Reform Programme (2021-24), with a view to enhance the productive capacity of the economy and to boost competitiveness and employment opportunities. The National Structural Reform Programme is comprehensive, covering a number of priority policy areas, in particular, reducing the state footprint, facilitating private sector activity, promoting a green and circular economy, reforming the labour market and expanding social protection.

Box 1.1. Recent and ongoing reform efforts

Egypt Vision 2030 sets out the overarching development targets, and the National Structural Reform Programme encompasses the divestment strategy (State-Ownership Policy) and the ICT 2030 Strategy. The National Climate Change Strategy 2050 (NCCS 2050) outlines the country's long-term goals for climate change mitigation and adaptation. The following recent and ongoing reforms relate to the priorities discussed in this Survey.

Strengthening fiscal policy and social inclusion

- The Medium-Term Revenue Strategy aims to raise the tax-to-GDP ratio by at least 2 percentage points over the medium term by broadening the tax base and enhancing tax collection.
- The budget for fiscal year 2023/24 increases the top marginal tax rate from 25% to 27.5%, and raises the tax-free allowance.
- Allow electronic submission of tax declarations and create a unified tax number for all firms.
- Expansion of the two income-support programmes, *Takaful* (“Solidarity”) and *Karama* ("Dignity”), to 5 million families.

Improving the business environment to support the private sector

- Divestment of 35 state-owned enterprises. Removal of tax exemptions and alignment of the governance of state-owned enterprises with OECD guidelines. Listing of some military-owned companies on the stock exchange.
- A Competitive Neutrality Strategy was launched by the Egyptian Competition Authority in 2022.
- Improvement of investor relations with the launch of a new Investment Unit in the Cabinet and a fast-track Golden Licence granting a one-time approval to establish, operate and manage a project.
- National Anti-Corruption Strategy Phase 3 (2023-30).
- Ongoing reforms to improve digitalisation and enhance public sector efficiency, including digitalisation and automation of all customs documentation.

Environment and the green transition

- Egypt submitted its Second Updated Nationally Determined Contributions in mid-2023.
- New legal frameworks to supplement the NCCS 2050: the Low Emissions Development Strategy and executive regulations to implement the 2022 Waste Management Law.
- Integrated Sustainable Energy Strategy to 2035 sets targets for energy security and diversification.
- Waste Resource Development and Management Strategy (2050) with four pillars: water resources, consumption, improvement of water quality and management of resources.
- *Hayah Karima* ("Decent life") programme includes digitalisation at village level.
- Promotion of sustainable financing tools such as green and sustainable development bonds.
- Tax and customs incentives to attract "green investment", including a deduction of 30%-50% of the investment costs from the tax bills, and a five-year exemption from stamp duty.

Strengthening the labour market for stronger and better-quality jobs

- Establishment of the Egyptian National Authority for Quality Assurance and Accreditation in Technical and Vocational Education and Training to oversee vocational training and continued education.
- New curricula related to professional competencies and upgrades to vocational education.
- Opening of child-care services at work to support working mothers.
- Establishing a National Labour Market Information System.

Egypt is currently facing cost-of-living pressures and balance-of-payment difficulties. These are being addressed with international support, notably that of the International Monetary Fund under an Extended Fund Facility programme put in place in late 2022, and a new agreement expected to be reached in the first half of 2024. The international support also includes the European Union's EUR 9 billion investment plan for Egypt. The government has been stepping up reform efforts and is committed to follow through with respect to implementation. For instance, a number of key measures were endorsed in Spring 2023 by the Supreme Investment Council, chaired by the President, and have begun to be rolled out, with a series of divestments announced in July 2023.

Box 1.2. Egypt's economic history from the 1950s to the late 2010s: a brief overview

Egypt became a republic in 1952 following the overthrow of the monarchy by a group of officers. Colonel Gamal Abdel Nasser instigated policies of state-led growth through import-substitution, industrialisation, mass nationalisations (including of the Suez Canal Company) and the creation of a Ministry of Military Production. The strategy produced modest growth rates averaging 3.5% a year over 1952-73.

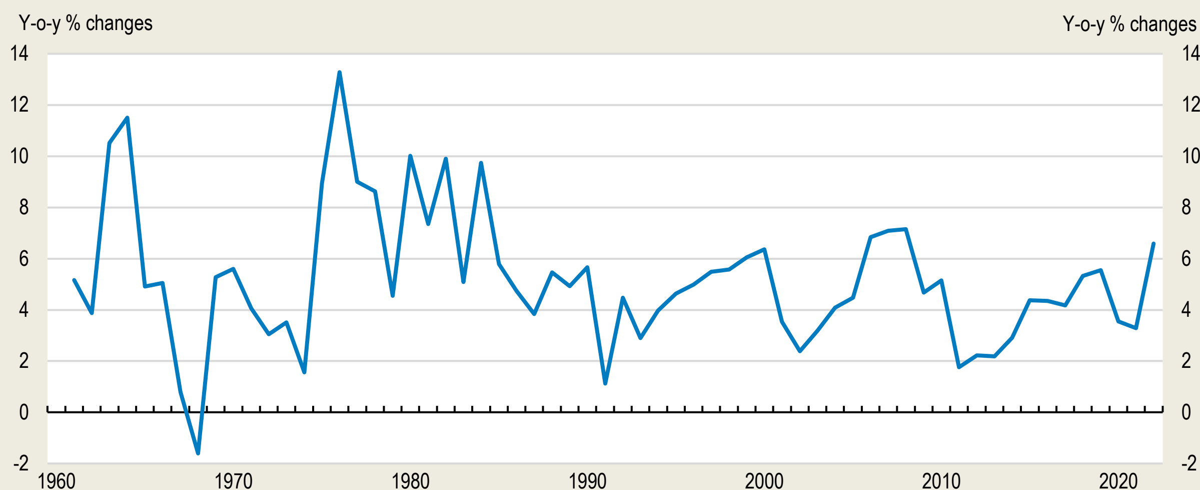
Following the first oil shock, President Anwar Sadat's *infitah* (open-door) reform policies, starting in 1975, allowed the private sector wider scope for operations and encouraged investments. As a result, the economy expanded by 8.4% per year on average between 1975 and 1985. In October 1981 President Sadat was assassinated. He was succeeded by vice-president and former air force officer Hosni Mubarak.

From the mid-1980s, growth stagnated (Figure 1.1) and macroeconomic imbalances widened, with high inflation, a wide current-account deficit and accumulating external arrears. These imbalances reflected substantial fiscal deficits and expansionary monetary policy, as well as administrative restrictions: administered prices, interest rate ceilings, an overvalued official exchange rate, administrative allocations of foreign exchange and restrictions on the private and foreign sectors. The financial sector suffered from segmentation, limits on competition, and mandatory and subsidised credit allocations. Large-scale public

ownership was crowding out the private sector, and investment in human capital was low. Real GDP growth averaged 3% in the period 1986-93.

Figure 1.1. Economic growth has been volatile

Real Gross Domestic Product, annual growth rates



Source: World Bank, World Development Indicators.

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Having turned to the IMF and the World Bank for support in the early 1990s, the government initiated new structural reforms from 1993, including privatisations. However, rising social inequality and a violent crushing of Islamic militancy between 1992 and 1999 led to a halt to the reform programme. By the early 2000s, a protracted economic slump saw a new reduction in living standards, with a 45% drop in the value of the Egyptian pound between the start of 2000 and mid-2003, after the government had to abandon its managed peg to the US dollar. The downturn served to focus attention on deep socioeconomic disparities reflected in high rates of poverty and unemployment.

A shake-up in government in 2004 saw the arrival of a new, reform-minded administration. A vast structural reform programme was implemented, which led to an acceleration of the privatisation programme, a shift in monetary policy towards inflation targeting rather than exchange-rate stability, and a lowering of import tariffs from an average of 14.6% in 2004 to 6.9% in 2006. Sharp reductions in personal and corporate income taxes were also implemented in 2005.

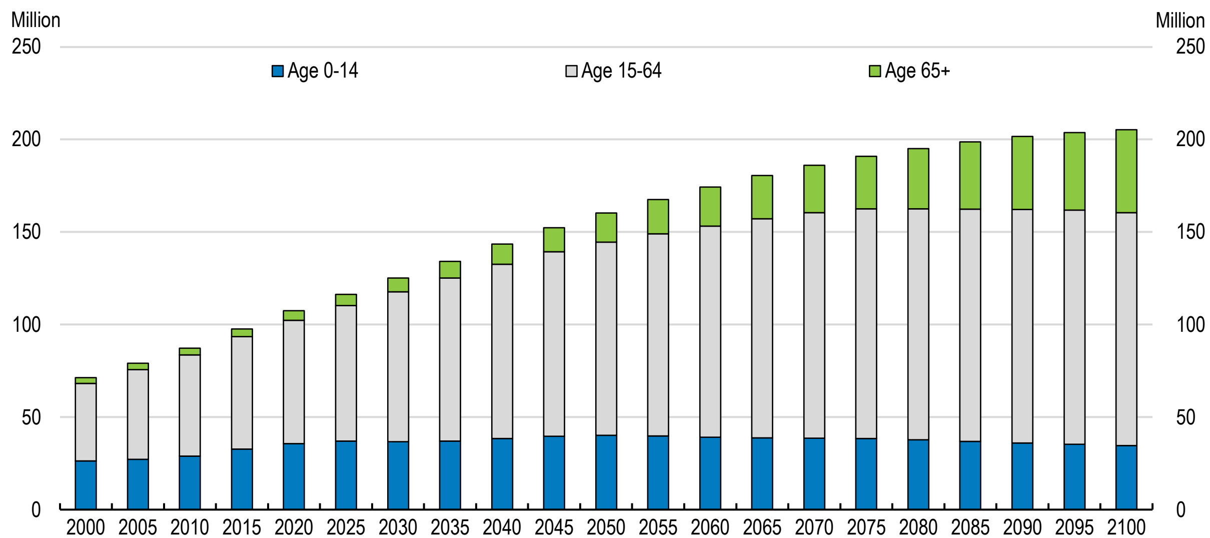
The reforms were broadly successful, with economic growth averaging 5.5% per year over 2004-10. However, growth was not sufficient to absorb the young and growing population and the external sector remained in deficit. The international financial crisis in 2008-09 also halted reform momentum. Mounting social pressures eventually led to the 2011 Revolution, also known as the Arab Spring.

In the four years following the Arab Spring, economic growth plummeted while the fiscal and external deficits widened, and foreign-exchange reserves fell. Unemployment and poverty increased to new highs. From the mid-2010s, the government of President Abdel Fattah el-Sisi undertook the first phase of the National Structural Reform programme, which included decreasing food and fuel subsidies, raising interest rates to stem high inflation, and passing new laws aimed at supporting private investment, while fiscal policy was tightened. The government also set in motion vast infrastructure and public investment projects. Against this backdrop, economic growth picked up, averaging close to 5% per year between 2015 and 2019.

Source: Handy (1998); EIU (2008); IMF (2015, 2018, 2021); Zaki (2017).

The aforementioned reforms need to be implemented fully and effectively, which will also require effective institutions and capacity building of officials. Egypt still needs to make progress in this area, including in aspects such as public-sector performance, upholding of property rights, protection of intellectual property, budget transparency or corruption (WEF, 2019; Bertelsmann Stiftung, 2022). Further reforms should be pursued to increase living standards and wellbeing and make the economy more resilient against future shocks. This will allow Egypt to catch up faster towards more advanced economies by boosting investment and productivity. A rapidly growing population (Figure 1.2), with rising educational attainment (Figure 1.3), will contribute to vigorous growth provided enough good job opportunities arise. This requires improving the business environment to unleash private sector forces (Chapter 3) and a labour market that allows the full use of people's potential (Chapter 4).

Figure 1.2. The population is growing rapidly



Source: World Population Prospects 2022, United Nations, Department of Economic and Social Affairs, Population Division.

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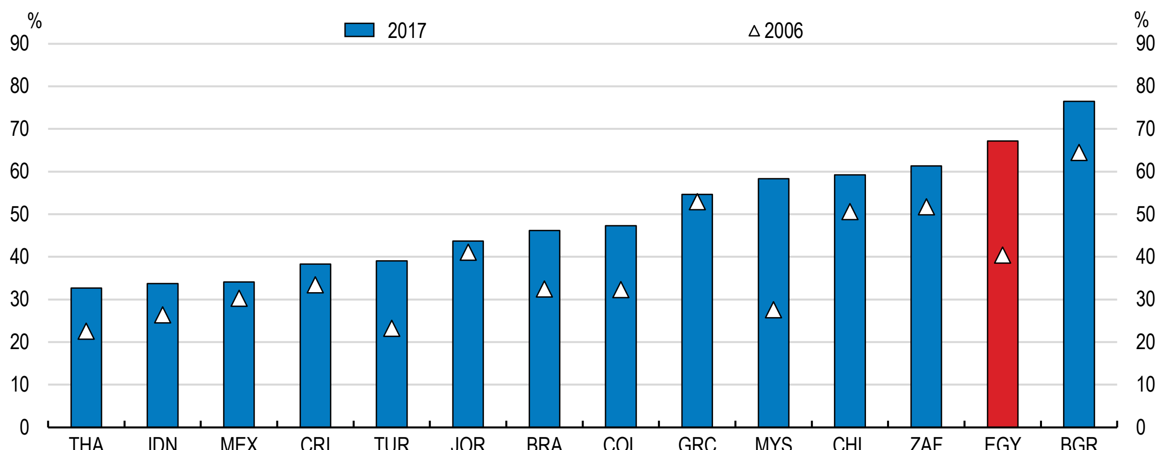
Over the past three decades, GDP per capita has increased substantially in purchasing power parity terms, a measure of living standards, growing faster than in neighbouring countries (Figure 1.4, Panel A). Growth slowed following the global financial crisis and again in the late 2010s, even before the COVID-19 shock (Panel B). Business investment and exports have been subdued since the 2011 "Arab Spring" (Chapter 2). At the same time, public expenditure has tended to outpace GDP, driven *inter alia* by large-scale public investment projects. Egypt has accumulated large macroeconomic imbalances, as public debt has risen, which has increasingly been financed by borrowing from abroad, and currently faces severe balance-of-payment difficulties (Chapter 2).

Egypt's per-capita GDP is one third of the OECD average and below the average of neighbouring countries, as defined in Box 1.3 (Figure 1.4), reflecting gaps in productivity (Chapter 3) and employment (Chapter 4). Straddling the Asian and African continents, Egypt enjoys a geographical advantage in international trade. However, trade openness is low (Figure 1.5), and integration in global value chains is limited (OECD, 2024, forthcoming), with a predominance of low-value added activities (Chapter 2). Continued management of the exchange rate has led to repeated devaluations, the expectation of which has held back investments. Egypt has long attracted the largest amount of FDI inflows in Africa but the stock of inward FDI as a share of GDP is low (Figure 1.6), indicating difficulties with the investment climate. FDI inflows picked up recently, more than doubling to USD 11 billion with increased cross-border M&As in 2022 over the previous year (UNCTAD, 2023). Nonetheless, structural weaknesses remain, including

regulatory bottlenecks that hold back private sector activity by stifling market competition (Chapter 3). Structural reform to remove such bottlenecks can lead to significant improvements in growth and living standards (Box 1.4).

Figure 1.3. Educational attainment has increased

Share of those completed at least upper secondary education, population aged 25 years or older



Note: Data for 2006 and 2017 or closest year.
Source: World Bank, World Development Indicators.

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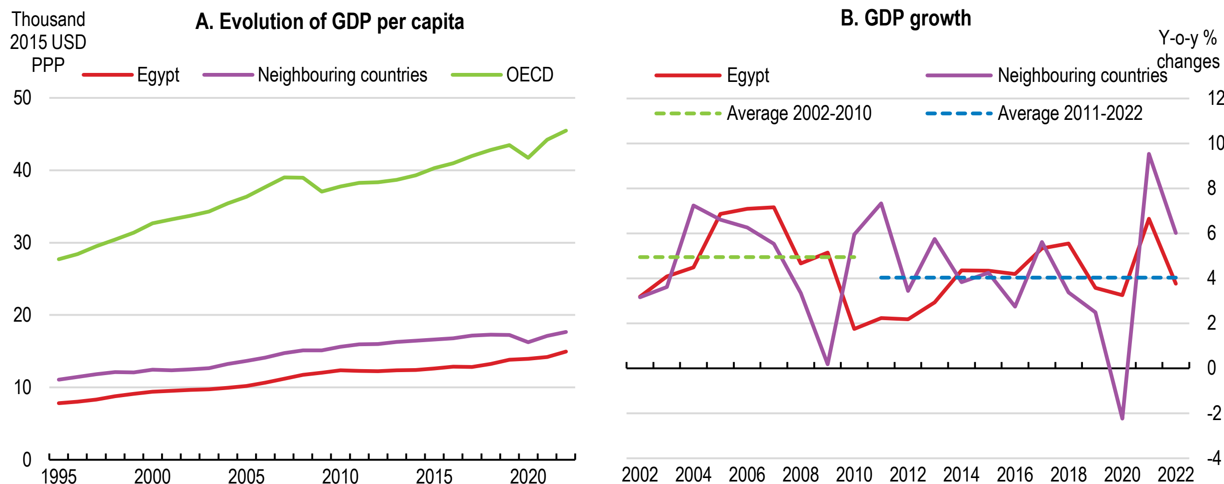
Figure 1.4. Living standards have improved



Note: Country aggregates represent simple averages of the list of countries as defined in Box 1.3. Data for Egypt refer to fiscal years (from July to June of the following year).
Source: IMF, World Economic Outlook - October 2023 database; Ministry of Planning and Economic Development; OECD, National Accounts database.

StatLink https://stat.link/286xwo

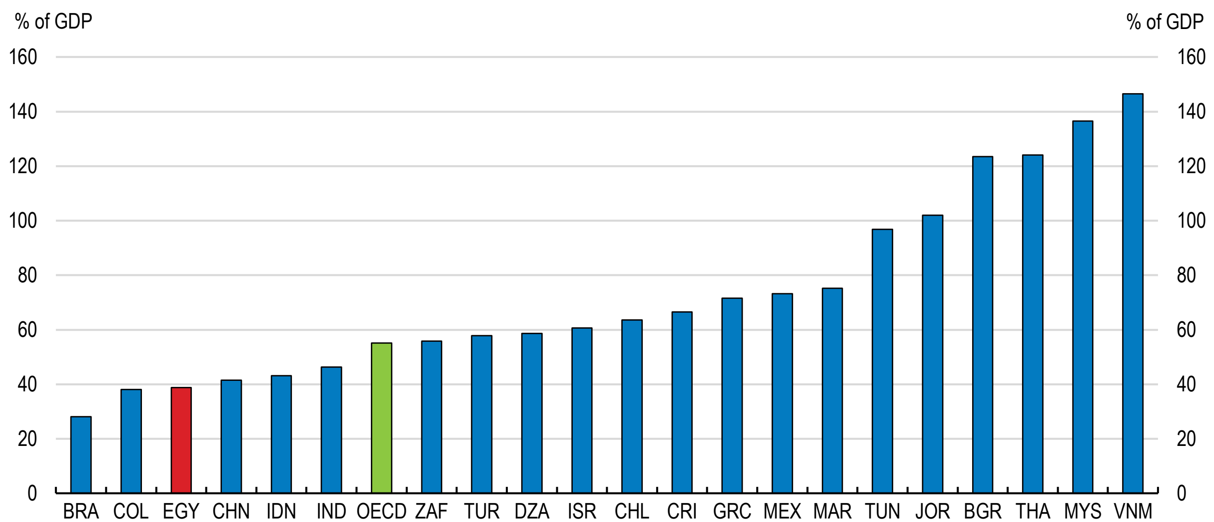
Box 1.3. Choice of comparator countries

The “comparator countries” refer to 17 countries for which the OECD has already produced at least one OECD Economic Survey and whose living standards (in terms of GDP per capita) are closest to Egypt’s, namely: Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Greece, India, Indonesia, Malaysia, Mexico, Morocco, South Africa, Thailand, Tunisia, Türkiye, and Viet Nam.

The “neighbouring countries” refer to a set of countries located in the same region: Algeria, Israel, Jordan, Lebanon, Morocco, Tunisia, and Türkiye.

Figure 1.5. Trade openness is low

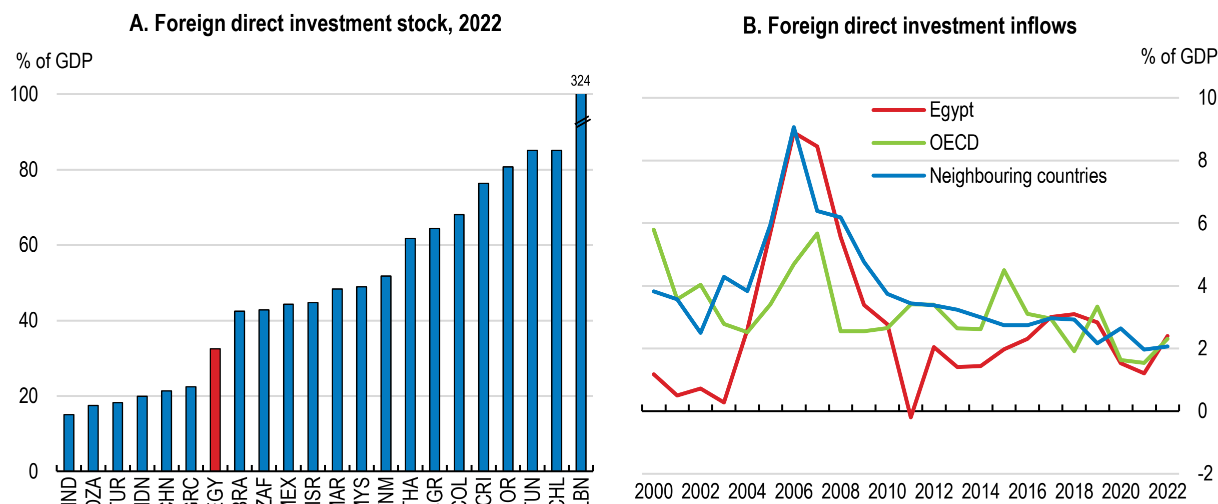
Trade as % share of GDP, 2010-22 average



Note: Trade is the sum of exports and imports of goods and services as a share of gross domestic product.
Source: World Bank, World Development Indicators.

Egypt’s employment rate is low and has declined (Figure 1.7, Panel A), holding back growth and living standards. Many highly-educated youth fail to find a formal job, and a larger share of women remain out of the labour force than in many other countries. Informal jobs, most of which are poorly paid, have tended to become more prevalent. As a result, the poverty rate has trended up (Panel B), with many working poor, although the rise in poverty has been kept in check due to an expansion of targeted social benefits (Chapter 4). Egypt has made much progress in education as primary education is quasi-universal and formal educational attainment has improved substantially (Figure 1.3), but the education system struggles to meet labour market needs (Chapter 4). At the same time, structural weaknesses, in the form of rigid product and labour markets, hinder better-quality job creation.

Figure 1.6. The FDI stock has room to increase



Note: Country aggregates represent simple averages of the countries as defined in Box 1.3. OECD aggregate excludes Luxembourg due to its erratic values. The directional definition underpinning the UNCTAD stock data differs from the asset/liability approach of the Sixth edition of the Balance of Payments and International Investment Position Manual used to compile flows.
Source: UNCTAD, FDI/MNE database; IMF, World Economic Outlook - October 2023 database.

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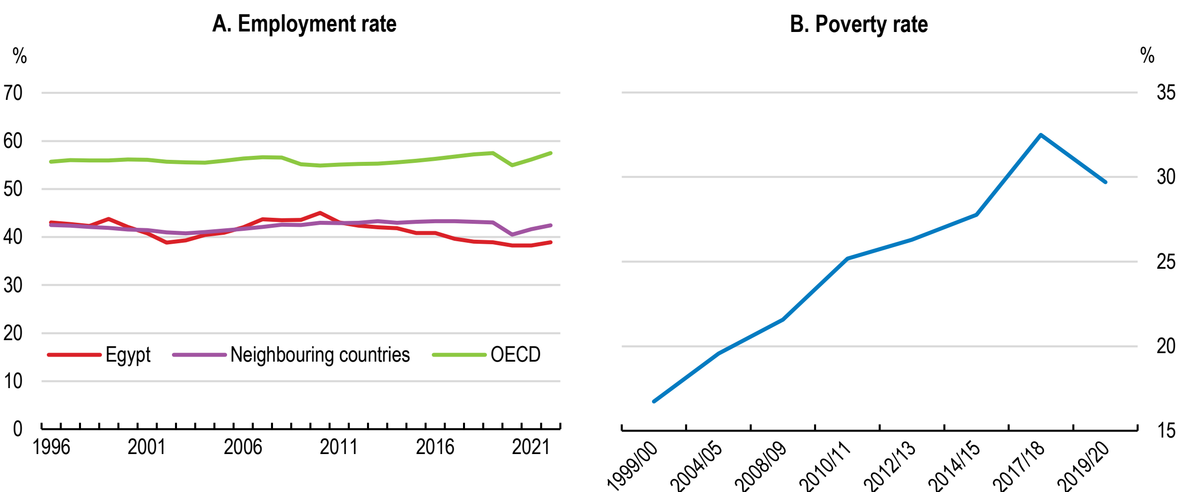
Figure 1.7. Employment has fallen behind and the poverty rate has trended up



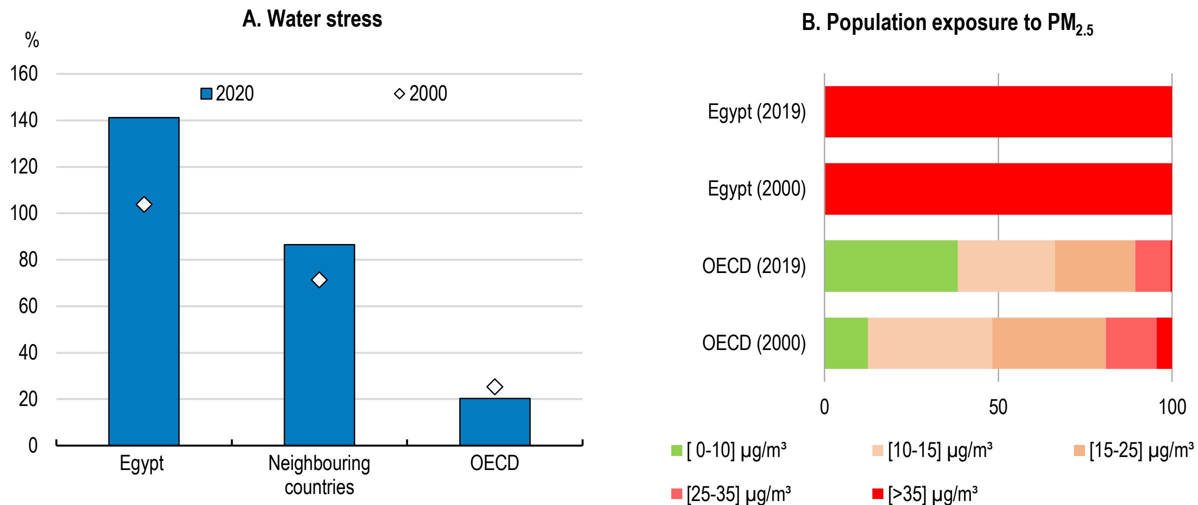
Note: In Panel A, employment rate is defined as the share of employed in working age population (15+).
Source: World Bank, World Development Indicators; and Central Agency for Public Mobilisation and Statistics (CAPMAS), Egypt.

StatLink https://stat.link/vtrxko

Egypt is highly exposed to the effects of climate change, particularly rising temperatures and water scarcity (Figure 1.8, Panel A). This is even more so given fast population growth, which pushes up demands for energy, transport and consumption, straining available resources. Changes in temperature, in evaporation and in rainfall in the Nile River basin will reduce water availability. Population concentration in the Nile Delta amplifies the potential climate-change impact from rising sea levels, which negatively affects available fresh water for human consumption and destroys agriculture due to sea water intrusion. Climate change will also adversely affect biodiversity and critical ecosystems, undermining the livelihoods of both

farmers and workers in the tourism sector. Moreover, rapid urbanisation has led to unplanned urban expansion, and aggravated problems related to solid and wastewater management, as well as CO_2 emissions from buildings. Air pollution is severe (Panel B), with the highest rate of premature deaths from ambient air pollution in the Middle East and North Africa region (Heger et al., 2022).

Figure 1.8. Further efforts to reduce emissions are needed



Note: Panel A: Water stress is defined as freshwater withdrawal as a proportion of available freshwater resources (adjusted for the amount of water required to sustain aquatic ecosystems, with a minimum risk of degradation); Panel B: CO2 emissions from the combustion of coal, oil, natural gas, and other fuels.
Source: FAO, Aquastat; OECD, Green Growth Indicators.

https://stat.link/byim2v

This Survey assesses Egypt's capacity to improve its prospects for strong, inclusive and sustainable growth, taking stock of ongoing efforts and identifying areas of improvement. Its key messages are:

- The immediate priority is to tackle the cost-of-living crisis and balance-of-payment difficulties. This includes making the exchange rate more flexible to resolve foreign currency shortages and adjusting monetary policy as needed to bring inflation down to target, while further expanding the cash transfer programmes targeted to the most vulnerable.
- Over the medium term, improving public finance sustainability is key. Committing to a comprehensive and credible consolidation strategy would improve investor confidence and thereby ease financing conditions. This requires, among others, rationalising public investment projects by extending current efforts and increasing tax collection.
- From a longer-term perspective, sustaining higher productivity growth is essential. The ongoing reforms including the divestment plan should be implemented fully and effectively, while strengthening public institutions. Reform efforts should be intensified, by further reducing the state footprint to ensure a level playing field and continuing to lift regulatory barriers to spur private sector activity, which would boost private investment including in the green transition.
- Living standards can be improved for all and better-quality job creation can be boosted by making markets more flexible, reducing high taxes on labour, pursuing the reform of the education system to develop skills needed in the labour market, strengthening public support for job search and facilitating the reconciliation of work and family responsibilities.

The Survey is structured as follows. Chapter 2 discusses the macroeconomic outlook with a focus on reducing macroeconomic imbalances and on greening growth. Chapter 3 discusses measures that can raise productivity growth by improving the business environment with a focus on strengthening competition.

Chapter 4 discusses measures that can increase living standards for all durably, by boosting better-quality job creation, expanding social benefits and enhancing skills. Simulations suggest that the recommendations in this Survey can substantially increase living standards (Table 1.1).

Box 1.4. Structural reforms will support long-term growth

This box shows the results of quantifying the effects of some of the structural reform measures proposed for Egypt in this Survey.

This exercise draws on the OECD reform quantification framework (Égert and Gal, 2017; Égert, 2017). The framework relies on a production function approach. The influence of policies on GDP is typically assessed through their impact on supply-side components: labour productivity and employment. Each in turn can be further decomposed, respectively into capital intensity and multi-factor productivity, and into labour force participation and unemployment. Within the framework, the impact of structural reforms is quantified from a range of cross-country reduced-form panel regressions on three channels: i) multi-factor productivity, ii) capital deepening, and iii) employment. The overall impact on GDP per capita is obtained by aggregating the policy effects of the various channels through a production function.

The estimated effects derived in this framework are used to simulate the impact of reforming policies in Egypt towards best practices. For the purpose of illustration, each policy variable for Egypt is assumed to improve by one standard deviation of the same policy variable across countries in the sample. For instance, this corresponds to a change by 0.81 in the OECD Product Market Regulation indicators that vary from 0 (best) to 6 (worst). This simplified assumption generates very large effects in some cases. The effects of the policy variables are additive in principle, since in the quantification framework, the effects of each policy variable are estimated by controlling for those from other policies. However, this does not hold for some policy variables, in particular, institutional indicators from the World Bank Worldwide Governance Indicators, which display significant correlation among each other. However, empirical work indicates that the quality of institutions matters to a large extent both over time and across countries (Égert, 2017).

Table 1.1. Illustrative impact of selected structural reforms on GDP per capita

Policy area	Policy actions	Cumulative effect on real GDP per capita after:		
		5 years	10 years	Long term
Reduce the footprint of the state in the economy	Fully implement the privatisation programme announced in the State-ownership Policy document (December 2022) and continue to divest non-strategic firms to private owners; fully implement the principle of competitive neutrality across all SOEs and economic authorities and uphold decisions by the High Committee for Competitive Neutrality; remove remaining exemptions for SOEs (for instance, those in the public procurement law) and clarify remaining caveats in tax exemptions; adhere to and implement the principles of good corporate governance for SOEs.	10.7	13.5	14.8
Lower barriers to entrepreneurship	Reduce time to register a business towards international best practice; fully implement the Industrial Permits Act and create a genuine one-stop-shop for industrial licences; implement the "silence is consent" principle where appropriate.	4.0	4.9	5.3
Reduce barriers to trade and investment	Remove remaining differential treatment of foreign investors; lower and streamline import tariffs; simplify and automate customs procedures	4.7	8.7	22.7
Improve access to finance [1]	Increase the number of bank branches and access to e-banking in rural areas; reduce the time to resolve insolvencies.	5.4	6.4	7.5

1. The access to finance indicator measures the impact of improving access to financial services proxied by the number of bank branches by 20 000 persons but the same effect is likely achieved through increasing access to e-banking in rural areas using financial technology services via mobile telephony, which requires improving the digital infrastructure.
Source: OECD calculations.

The table below only shows the results for the policy measures discussed in Chapter 3 and that fall within the OECD reform quantification framework, such as tariff reductions or changes to regulation.

Other reforms, such as fiscal measures (Chapter 2) fall outside of the model. Reforms pertaining to active labour market policies (Chapter 4) can only be quantified for OECD countries in the model, owing to data availability. Finally, some policy reforms are more broadly aimed at improving the business climate, or relate to changing or improving implementation. Such measures are more difficult to quantify, but their potential effect should not be neglected. The quantification exercise is meant to serve as an illustration of a potential impact of reforms and the results should not be considered as OECD projections.

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2 Key policy insights

Growth has held up better in Egypt until recently than in neighbouring countries in the face of several major external shocks, and the government has started to implement structural reforms to address macroeconomic imbalances and improve longer-term growth prospects. Following the ongoing slowdown, growth is projected to pick up, provided inflation subsides, financing conditions normalise, and uncertainty dissipates, which requires prudent monetary policy and steadfast commitment to fiscal consolidation. Stepping up reform efforts would help improve investor confidence, alleviate external pressures and keep debt service costs in check. It would also bolster the economy's resilience against future shocks. Egypt is particularly exposed to the consequences of climate change, highlighting the importance of green policies. Energy subsidies should be reduced and social benefits target the most vulnerable people. Public investment should focus on green infrastructure that promotes private sector investment.

2.1. The Egyptian economy faces macroeconomic challenges

Growth has held up better in Egypt until recently than in neighbouring countries in the face of a series of major exogenous shocks, and reforms efforts have been stepped up in several areas. However, a large current account deficit and high public debt made Egypt particularly vulnerable to capital outflows, which indeed occurred in early 2022, in a context of rising commodity prices and tightening financial conditions in international financial markets. As balance of payment prospects worsened and the country faced acute foreign currency shortages, a USD 3 billion Extended Fund Facility Arrangement with the IMF was put in place in late 2022.

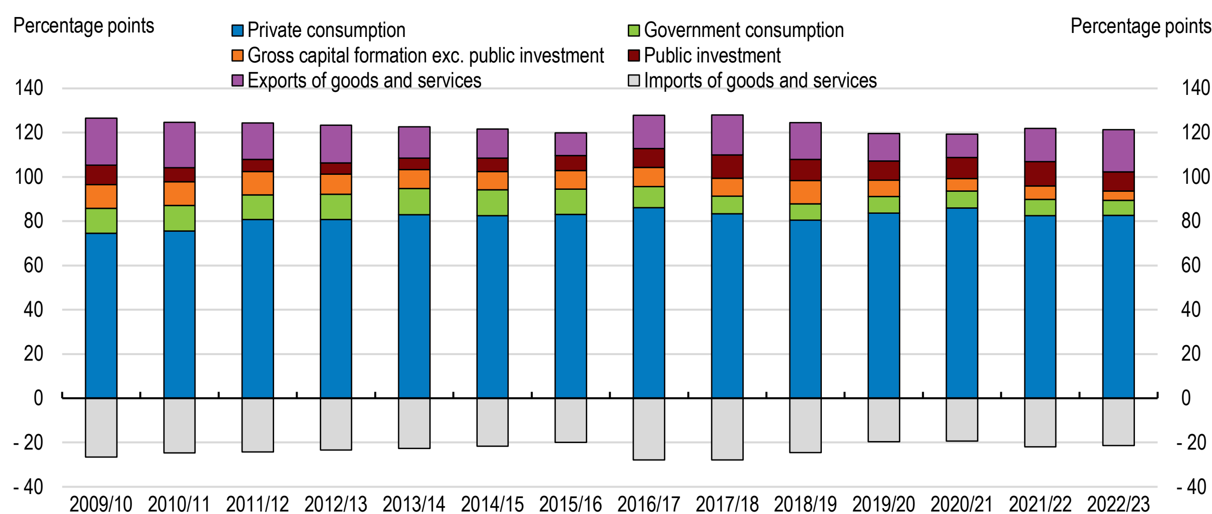
Egypt has expanded the scope of macroeconomic policy reforms under the IMF programme. Programme conditionality includes making the exchange rate flexible, conducting prudent monetary policy, improving the budget balance and implementing structural reforms (IMF, 2023a). Such reforms would reduce public debt and macroeconomic imbalances, alleviating financial stability risks and making the economy more resilient to future exogenous shocks. Reducing the fiscal gap would strengthen market confidence, which would reduce debt servicing costs, and create space to finance the much-needed expenditures to ensure people's well-being, such as health and social protection.

2.1.1. Imbalances have built up over the past decade

Export growth slowed down over the decade to FY 2021/22, reducing exports' share in GDP (Figure 2.1). The share of total investment in GDP declined over the same period, to only 12.9% of GDP by FY 2022/23, which is low by international standards. This reflects a drop in the share of private investment in GDP to 4.3% by FY 2022/23. Public investment in contrast reached 8.6% of GDP, higher than in any OECD country. Consumption has outpaced GDP over the past decade, propelled by various government supports. As a result, public expenditure has expanded faster than GDP, aggravating the fiscal deficit.

Figure 2.1. Public investment has increased

The share of expenditure components in current-price GDP



Note: Data refer to fiscal years from July to June of the following year.
Source: Ministry of Planning and Economic Development.

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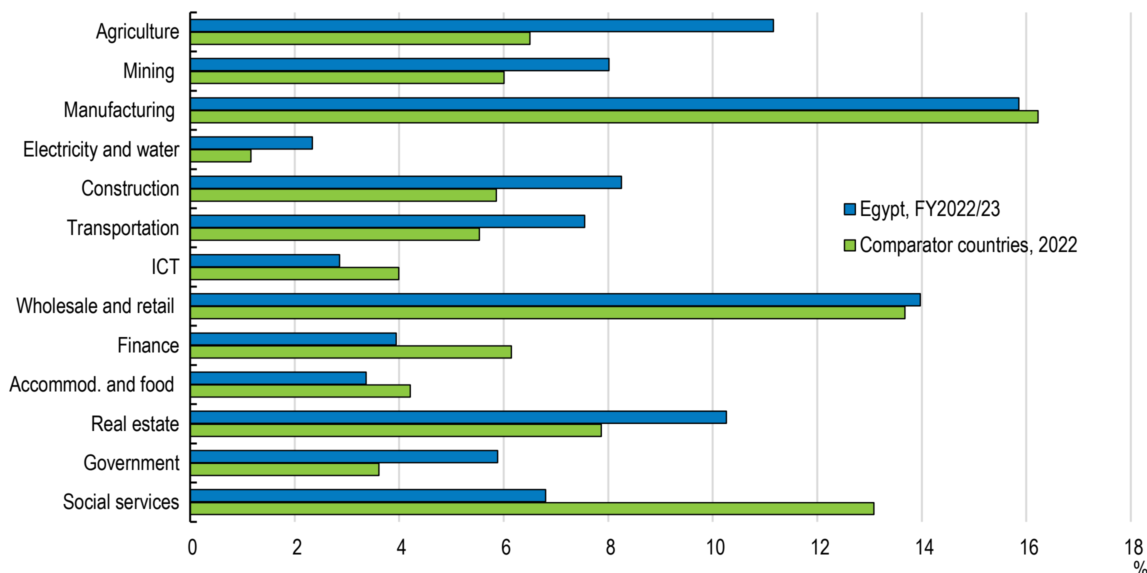
The industrial structure has also changed over the past decade but the development of high value-added industries remains limited (Figure 2.2). Manufacturing, wholesale and retail trade, and agriculture remain the largest sectors. The share of the manufacturing sector in Egypt is slightly lower than in comparator countries on average. The share of construction has almost doubled over the past decade, consistent with the expansion of large-scale public investment projects. The services sector is relatively less developed, which is particularly the case for finance as well as information and communication technologies. Although the government sector *stricto sensu* is not that large, numerous public enterprises operate across industries and account for approximately one-third of total value added (Chapter 3).

Figure 2.2. The development of high value-added industries remains limited

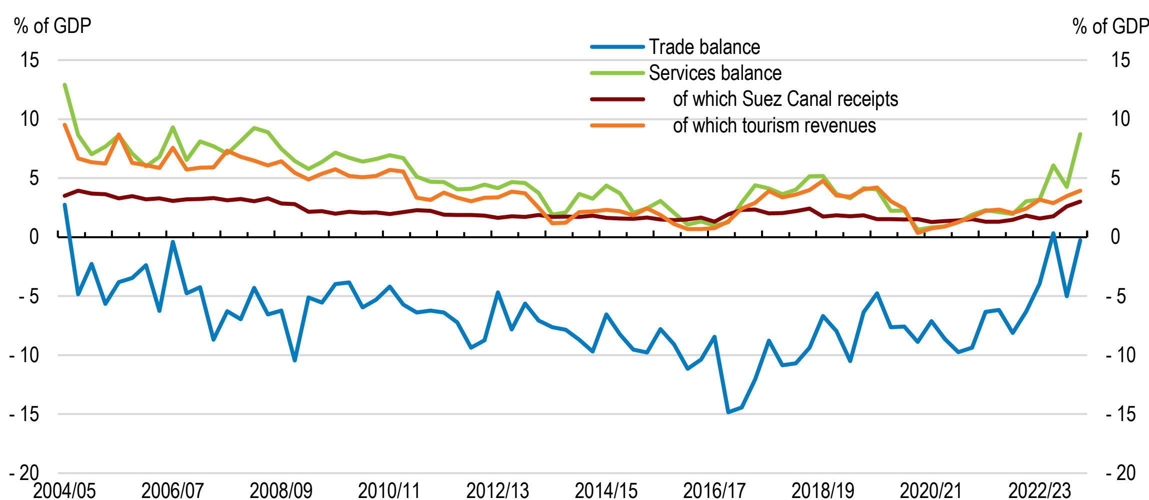
Share of industries, as % of GDP



Note: Comparator countries refer to Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Greece, India, Indonesia, Malaysia, Mexico, Morocco, South Africa, Thailand, Tunisia, Türkiye and Viet Nam as defined in Box 1.3 in Chapter 1.
Source: Ministry of Planning and Economic Development.

Until recently, Egypt has recorded a sizeable trade deficit (Figure 2.3), as it has long been spending more than its production capacity, relying heavily on imported products, including basic necessities such as food and energy. In terms of imports, food, mineral fuels, as well as machinery and transport account for a large share (Figure 2.4). Among exports, mineral fuels and tourism stand out, reflecting Egypt's geographical and historical endowments. The improvement in the trade balance in FY 2022/23 is mostly due to a decline in non-petroleum imports (see below).

Figure 2.3. The trade deficit has been shrinking



Note: Data refer to fiscal years (from July to June of the following year).
Source: Central Bank of Egypt; Ministry of Planning and Economic Development and CEIC.

Despite the large size of its agricultural sector, Egypt imports far more food products than it exports, making it vulnerable to terms-of-trade shocks. Among imported food items, wheat is the most important, accounting for 16% of total food imports (Box 2.1). Egypt is the world's largest importer of wheat, with Russia and Ukraine accounting for 85% of wheat imported by Egypt prior to the war (OECD, 2022a). Due to the spike in global food prices, the food trade balance deteriorated by USD 2.0 billion in 2022, with the value of wheat imports rising by USD 1.3 billion. Population growth will push up food demand even as the agricultural sector faces intensifying pressures from climate change (Abdalla et al., 2022).

Egypt is both a large importer and a large exporter of energy (Box 2.2). It imports oil, essentially from countries in the Middle East, such as Saudi Arabia and Kuwait. At the same time, it exports natural gas, mainly to Europe. Natural gas accounts for the bulk of electricity generation in the country. Energy production is affected by energy prices in international markets, as for instance Egypt increased exports of natural gas in 2022 when its price soared, while increasing the share of heavy fuel oil in electricity production. In FY2021/22, petroleum exports increased by 109% while petroleum imports increased by 57%, resulting in an improvement of the petroleum trade balance by USD 4.4 billion (0.9% of FY 2021/22 GDP). This more than offset the deterioration in the food trade balance. In FY2022/23, the petroleum trade surplus was substantially reduced, essentially due to a decline in petroleum exports.

Figure 2.4. The reliance on exports of raw materials is high

A. Export of goods by destination

2022
2010
0 20 40 60 80 100
%

Asia
Europe
Africa
South America
Oceania
North America
Other

B. Import of goods by origin

2022
2010
0 20 40 60 80 100
%

Asia
Europe
Africa
South America
Oceania
North America
Other

C. Composition of goods exports

2022
2010
0 20 40 60 80 100
%

Food and live animals
Beverages and tobacco
Inedible crude materials
Mineral fuels
Oils, fats and waxes
Other chemicals
Manufactured goods
Machinery and transport eq.
Miscellaneous
Other

D. Composition of goods imports

2022
2010
0 20 40 60 80 100
%

Food and live animals
Beverages and tobacco
Inedible crude materials
Mineral fuels
Oils, fats and waxes
Other chemicals
Manufactured goods
Machinery and transport eq.
Miscellaneous
Other

E. Composition of services exports

2022
2010
0 20 40 60 80 100
%

Travel
Transportation
Government services
Computer and information services
Other business services
Construction
Other

F. Composition of services imports

2022
2010
0 20 40 60 80 100
%

Travel
Transportation
Government services
Computer and information services
Other business services
Construction

Source: UN, Comtrade; OECD Structural Analysis (STAN) database; and OECD calculation.

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Box 2.1. Food production, trade and subsidies

Egypt's agricultural sector is large (Figure 2.2). Its major products include rice, maize, wheat, cotton and sugarcane. Egypt is the world's largest importer of wheat and imports large quantities of other key commodities, including major grains and cooking oil. Consumption of wheat increased by 64% in volume terms between 2000 and 2021 (Table 2.1). Production was up by 50% and imports by 98% over the same period (Table 2.1), thus the self-sufficiency ratio declined significantly. Egypt has imposed temporary export bans on several food products such as wheat, maize, lentils, flour, sugar, onions and cooking oils.

Table 2.1. Egypt relies heavily on wheat imports

	1990	1995	2000	2005	2010	2015	2020	2021
	Tonnes, thousands							
Production	4268	5722	6564	8141	7177	9608	9102	9842
Exports	0	0	13	0	62	253	466	20
Imports	5864	6322	5701	7600	10140	12068	12146	11300
Consumption	10132	11794	12902	14841	17455	20397	21482	21121

Source: OECD/FAO Agricultural Outlook 2023 database; Ministry of Agriculture and Land Reclamation.

The government actively intervenes in the agricultural sector, notably through procurement policies. Procurement prices for wheat are below global prices: the latter are projected to be USD 340 per tonne in FY 2023/24, but the procurement price is set at EGP 10 000 per tonne, or around USD 325 at the end-2023 market exchange rate.

The country faces acute food security challenges. 27% of the population were classified by the Food and Agriculture Organisation (FAO) as moderately or severely food insecure and 5.1% were undernourished in 2019-21. These pressures are exacerbated by a rapidly growing population and strong vulnerability to climate change. Sustainable management of irrigation and water resources is also an important concern, as agriculture accounts for over 80% of total water use, and less than 2% of agricultural production is rain-fed.

The government aims to develop the agricultural sector further, as stated in the National Structural Reform Programme. To do so, it collaborates with international bodies such as the FAO. The 2018-22 FAO Country Programming Framework for Egypt aimed to improve agricultural productivity, raise food security in strategic food commodities, and ensure sustainable use of natural agricultural resources.

Until recently, food subsidies for households consisted of two main systems. The first one was the bread subsidy, covering 71 million individuals and five loaves of round bread daily per person. The second one was the "ration card", covering 64.4 million individuals (World Bank, 2022a), which provides a monthly voucher for subsidised food items, including rice, macaroni, tea, sugar, and cooking oil essentially. These subsidies were conditioned on eligibility criteria, such as household income (no more than EGP 1500 per month), employment status (e.g. seasonal workers), and household structure (e.g. widowed or divorced women, and pensioners). Recently the two systems were integrated into the new "ration card", which still reaches almost the same number of households as in the previous systems. In the new system, only two children per household can be covered.

Food-producing businesses receive indirect support, in particular in the form of exceptions for the fuel price indexation mechanism (see Box 2.2).

Box 2.2. Energy production, trade and subsidies

Egypt has become a net importer of oil since the turn of the millennium. Production of crude oil and natural gas liquids has declined over the past decades (Table 2.2) and accounted for 0.7% of world production as of 2021. In contrast, Egypt has considerably increased natural gas production since the mid-2000s: by 2022, it represented 1.6% of world production.

Table 2.2. Egypt's energy production mix has changed

A. Crude oil and natural gas liquids production

	1990	1995	2000	2005	2010	2015	2020	2021
Unit: kilotonnes								
Production	45499	46588	35539	32243	34676	34561	30789	29398
Exports	19615	17133	9891	2055	9438	12399	0	0
Imports	0	0	0	2504	3694	3238	2155	1507

B. Natural gas

	1990	1995	2000	2005	2010	2015	2020	2022
Unit: million cubic meters								
Production	8242	12594	17673	52189	56814	38302	61780	67000
Exports	0	0	0	15480	12975	258	2141	9758
Imports	0	0	0	0	0	6973	2150	6680

Source: IEA Key World Oil Statistics; IEA Natural Gas Statistics.

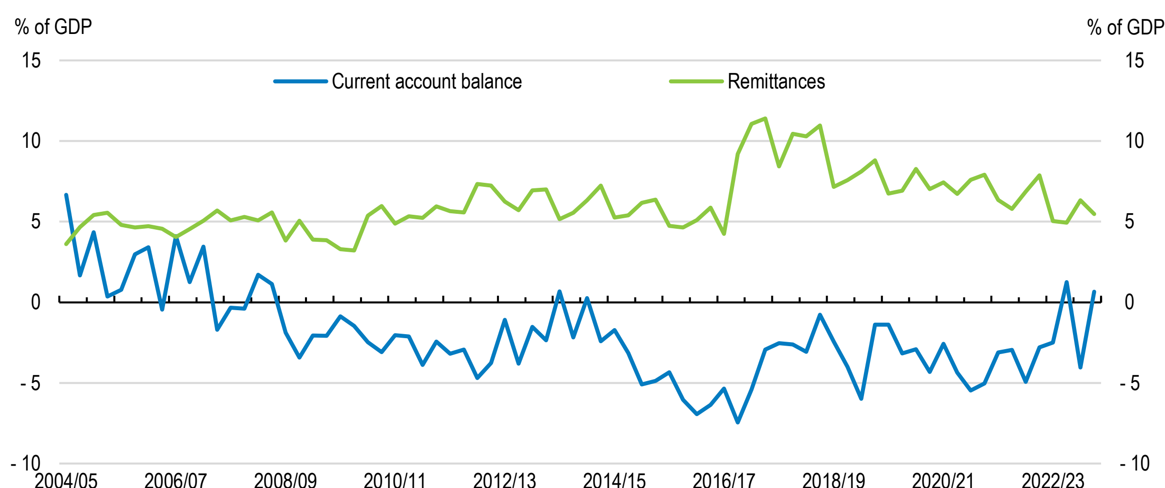
The government controls retail electricity and fuel prices and provides subsidies to the national energy producers, the Egyptian General Petroleum Corporation and the Egyptian Natural Gas Holding Corporation. The fuel products subject to subsidies include heavy oil (*mazut)*, diesel, kerosene, butane gas, natural gas and gasoline (95, 92, 80 octane).

These subsidies compensate energy producers for the price controls (as costs for energy production exceed the controlled price), taking into account prices in international markets. Energy subsidies were estimated at 52% of total costs in electricity generation and 24% of total costs in refineries in the early 2010s (Griffin et al., 2016). The price-to-cost ratio has significantly risen since, reaching almost 100% before the recent surge in energy prices in international markets.

Electricity prices are determined according to consumption brackets: users face different prices depending on how much electricity they use. Fuel prices do not vary with consumption but differ between households and businesses. Since early 2022, against the backdrop of surging energy prices in international markets and currency depreciation, the price per litre has been raised in steps. By the end of 2023, they reached EGP 8.25, up from EGP 6.75 for diesel; EGP 10, up from EGP 7.25 for gasoline 80; EGP 11.5, up from EGP 8.5 for gasoline 92; EGP 12.5, up from EGP 9.5 for gasoline 95; and EGP 6 000, up from EGP 4 200 per ton for diesel for industries.

The current account remained in deficit over the 2010s (Figure 2.5) but recently improved, reflecting the aforementioned improvement of the trade balance. Remittances by Egyptian workers abroad amounted to USD 31.4 billion in FY 2021/22, almost fully offsetting the trade deficit. Only a few neighbouring countries record a larger contribution of remittances as a share of GDP, namely Jordan (around 10% of GDP) and Morocco (around 8% of GDP). Remittances shrank by almost a third in FY 2022/23 according to balance of payments statistics, partly reflecting decisions in Gulf Cooperation Countries to restrict jobs to nationals. Expectations of further exchange rate adjustments may have delayed remittances, or led them to be carried out via the parallel market.

Figure 2.5. Remittances support the current account balance



Note: Data refer to fiscal years (from July to June of the following year). Remittances data is based on ITRS incorporating results of a survey conducted by CAPMAS.
Source: Central Bank of Egypt; Ministry of Planning and Economic Development; and CEIC.

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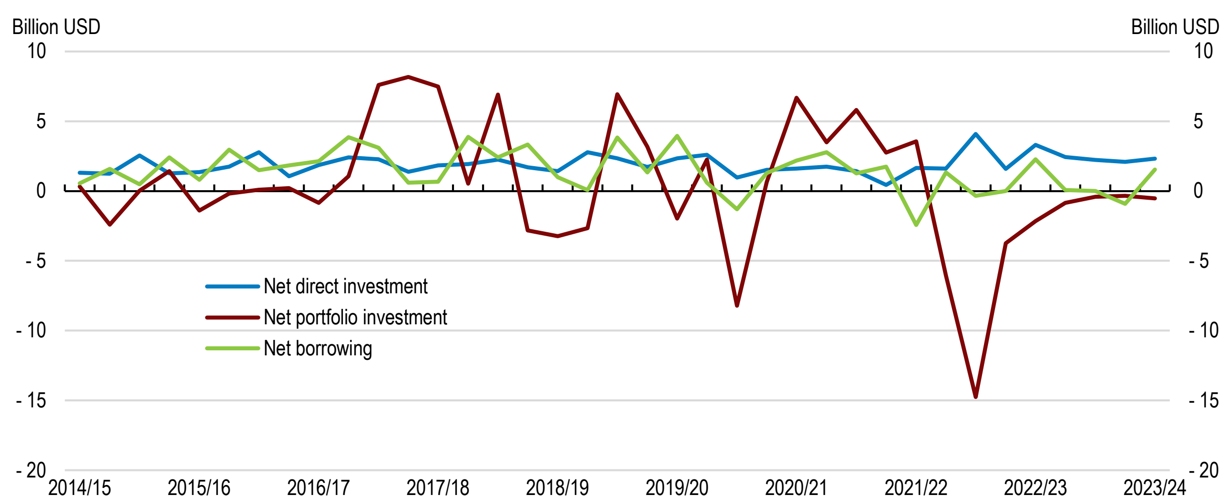
Capital inflows to Egypt have been significant but volatile over the past decade (Figure 2.6). In the five years prior to the onset of the COVID-19 crisis, portfolio investment and borrowing from abroad averaged USD 1.4 billion and 2.0 billion, respectively, per quarter, mostly on account of the government sector. Capital from abroad has contributed to financing the accumulation of public debt (Figure 2.7). More recently, foreign direct investment (FDI) inflows have regained momentum as they stood at USD 2.3 billion on average per quarter over the year up to September 2023. At the same time, portfolio outflows diminished to USD 0.5 billion on average per quarter over the same period.

Figure 2.6. Capital inflows have been volatile



Note: Data refer to fiscal years (from July to June of the following year).
Source: Central Bank of Egypt.

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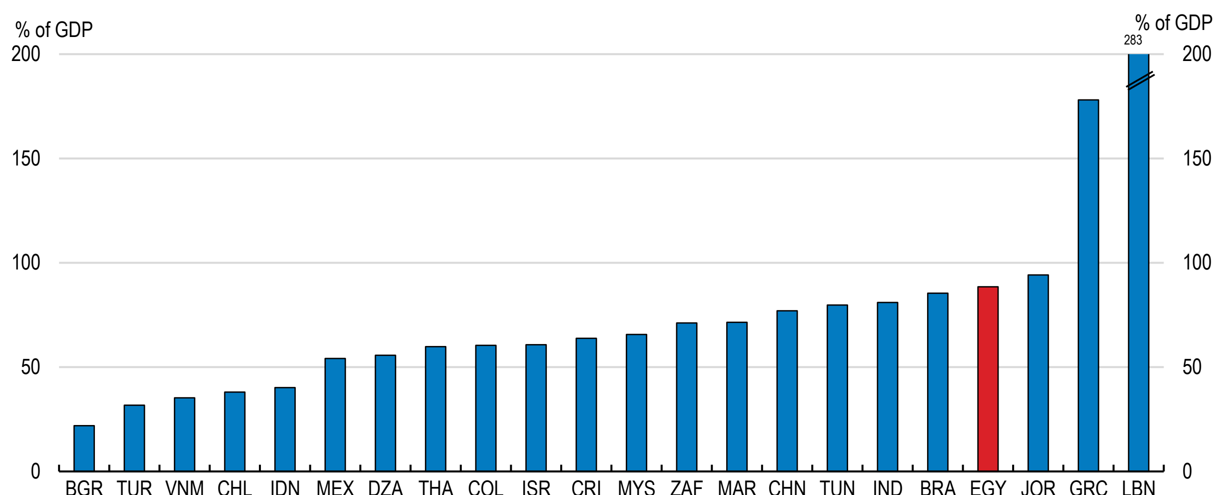
Figure 2.7. Public debt is high

General government gross debt, 2022 or latest value



Source: IMF, World Economic Outlook – October 2023 database.

2.1.2. Major external shocks exacerbated existing imbalances and fuelled inflation

The COVID-19 pandemic caused considerable damage in Egypt. The authorities reacted swiftly. They sealed the border and imposed social distancing measures for three months starting in March 2020, including the closure of public places such as restaurants and bars as well as public transportation at night. Some sectors were severely affected, notably accommodation (Table 2.3). Tourism revenue plummeted from USD 9.9 billion in FY2019/20 to 4.9 billion in FY 2020/21, before rebounding strongly (see below).

Nonetheless, Egypt weathered the COVID-19 crisis relatively well owing to a relatively short period of containment and various government support measures, which amounted to EGP 100 billion (1.5% of FY 2019/20 GDP). Private consumption held up well, unlike in OECD countries, where it dropped substantially. Both investment and exports contracted somewhat upon the outbreak of the pandemic, but rebounded relatively quickly, recovering to pre-crisis levels within a few quarters.

Table 2.3. The impact of the recent shocks varied across sectors

2-quarter per cent change in volume terms

Agriculture	Mining	Manufacturing	Electricity	Water	Construction	Transportation	Communication	Information	Suez Canal	Wholesale and retail	Finance	Insurance	Accommodation and food	Real estate	Government	Social services	Total GDP
COVID-19 shock: Q3-Q4 FY2019/20																	
-15.8	22.5	-12.9	11.5	-10.5	7.4	-3.9	0.4	-1.9	7.4	-19.5	-11.3	12.5	-41.8	6.9	4.4	4.5	-5.1
Russia/Ukraine war shock: Q3-Q4 FY 2021/22																	
-18.0	24.2	-8.1	12.1	-11.0	1.0	-5.9	-1.6	-3.7	22.7	-21.3	-11.8	12.0	1.0	4.4	5.2	3.7	-4.4

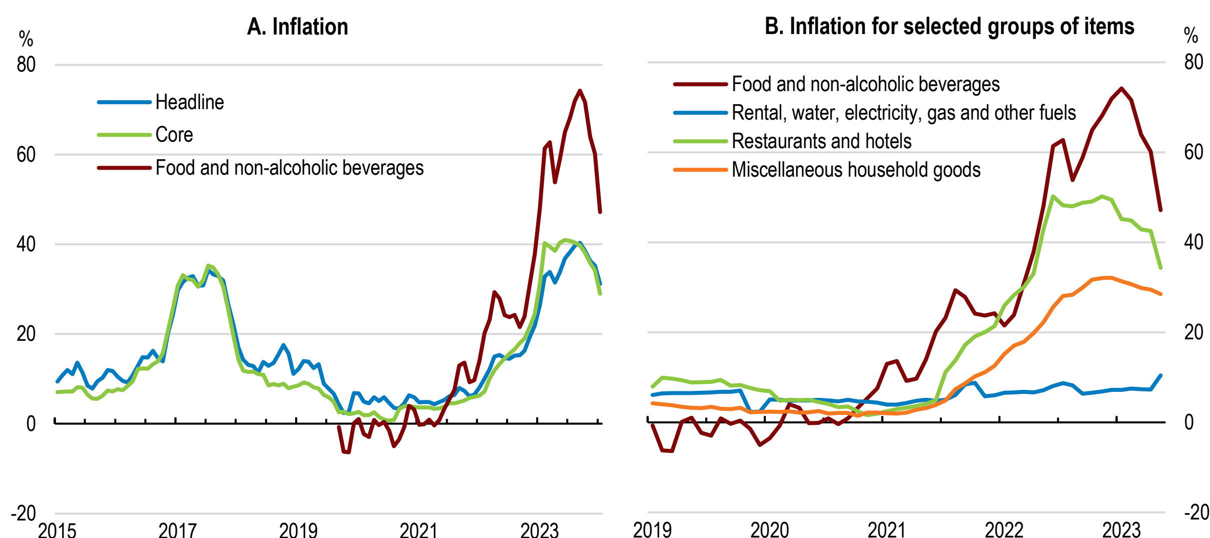
Note: The rate of change refers to the sum of value added for the two consecutive quarters during which each shock occurred compared with the sum of value added during the two preceding quarters.
Source: Ministry of Planning and Economic Development; OECD calculation.

Upon the outbreak of Russia's invasion of Ukraine, energy and food prices, which had already increased before the war, soared in international markets. Egypt was hit particularly hard due to its reliance on imported foodstuffs, including wheat. Russia and Ukraine together accounted for 30% of global wheat exports (OECD, 2022a). Supply disruptions occurred as a result, which contributed to fuel domestic food inflation (CSIS, 2023). The tourism sector was affected again, as Russians and Ukrainians had accounted for around one-third of tourist arrivals in Egypt prior to the war. The wholesale and retail trade sector was the most affected by the war (Table 2.3). Private consumption, which did not contract even during the COVID-19 crisis, declined immediately following the onset of the war owing to high food prices.

Massive capital outflows amounting to around USD 20 billion (4.7% of GDP) occurred upon the outbreak of the war. This took place within the context of substantial risks of capital flight from emerging market economies in general, as international financial market conditions tightened following policy interest hikes in advanced economies (OECD, 2022b). Egypt was particularly vulnerable to such capital outflows, given its macroeconomic imbalances, reflected in high public debt financed by capital abroad, and its direct trade exposure to Russia and Ukraine. GDP growth slowed down in 2022, while cost-push inflation soared (Figure 2.8). Food price inflation was driven by high prices in international markets. In contrast, retail energy prices were kept in check by price controls (Box 2.2). The rise in food prices was aggravated by supply-chain issues, such as those related to shipping and transport capacity and raw material hoarding due to uncertainty. As food accounts for a large share of the consumption basket, especially for poor households, the burden has been disproportionately borne by the poor.

Figure 2.8. Inflation has surged to record highs

12-month rate of change



Note: Nationwide inflation rate (rate of change in the index over a year earlier). FY 2018/19 base year for consumer price weights.
Source: Central Agency for Public Mobilization and Statistics; Central Bank of Egypt.

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Inflation has been broad-based since early 2022. Headline urban consumer price inflation and the associated core measure stood at 29.8% and 29.0%, respectively, in January 2024. Food prices in international markets have receded since mid-2022, but they have strongly increased domestically, against the backdrop of successive devaluations of the currency (see below). According to the central bank, the impact of exchange rate movements on domestic inflation is instantaneous and peaks after three months. The surge in imported food prices has boosted the price of other products, including processed food products, which contributed to

both headline and core inflation. The central bank estimates that core food items accounted for approximately ¾ of the increase in headline and core inflation on average during the first three months of 2023. After peaking at around 40%, inflation has slowed recently due to favourable base effects on a year-on-year basis. However, it has recently picked up on a month-on-month basis, driven by price hikes in the services and utilities sectors and also likely reflecting cost pressures arising from transactions in the parallel market, which has witnessed considerable depreciation (see Figure 2.15, further down).

Private consumption has been sustained by fiscal support. Three fiscal packages were introduced in 2022, amounting to 2.7% of FY 2021/22 GDP in total (Box 2.3), which have buttressed household disposable income. Two further packages were introduced in 2023, totalling around 2.2% of FY2022/23 GDP. The support measures took various forms ranging from an increase in public sector wages and pensions to an expansion of cash-transfer programmes targeted to the poor (Box 2.3). In the meantime, the share of consumer spending devoted to essentials likely rose, with car sales, for instance, down by 65% in October 2023 on a year earlier. To provide further impetus, the minimum wage in the private sector was increased from EGP 3 000 to 3 500, and the minimum pension from EGP 1 105 to 1 300 in January 2024. Furthermore, the government announced a substantial increase in the public sector minimum wage and various social benefits in February 2024 (Box 2.3). There are no reliable timely data on retail sales, which makes it difficult to assess recent developments in private consumption.

Box 2.3. Fiscal packages introduced since March 2022

The government has announced several fiscal packages since March 2022 to protect those vulnerable to rising costs of living. The increase in the income tax exemption featuring in the 2022 and April 2023 fiscal packages was finally adopted in mid-2023 in separate legislation.

April 2022 package: EGP 130 billion (1.7% of FY 2021/22 GDP)

Increase in public sector wages; increase in pensions by 13%; extension of the *Takaful* and *Karama* cash-transfer programmes to an additional 450 000 families; increase in the income tax exemption threshold from EGP 24 000 to 30 000.

September 2022 package: EGP 12 billion (0.2% of FY 2021/22 GDP)

Extension of the *Takaful* and *Karama* programmes to an additional one million families; one-off allowance for six months for low-wage workers in the public sector and low-pension earners.

November 2022 package: EGP 67 billion (0.9% of FY 2021/22 GDP)

Increase in the minimum wage in the public sector to EGP 3 000 from 2 700; one-off allowance of EGP 300 per month for workers in the public sector and pensioners; support for certain families eligible for the ration card (tranches of EGP 100/200/300) until June 2023; increase in the income tax exemption threshold from EGP 24 000 to 30 000; maintaining the electricity prices unchanged (price control mechanism, see Box 2.2) until June 2023.

April 2023 package: EGP 165 billion (2.1% of FY 2021/22 GDP)

Increase in the minimum wage in the public sector to EGP 3 500 from 3 000; increase in pensions by 15%; increase in the amount of cash-transfer programmes by 25% from April 2023; increase in the income tax exemption threshold from EGP 24 000 to 36 000.

October 2023 package: EGP 60 billion (0.6% of FY 2022/23 GDP)

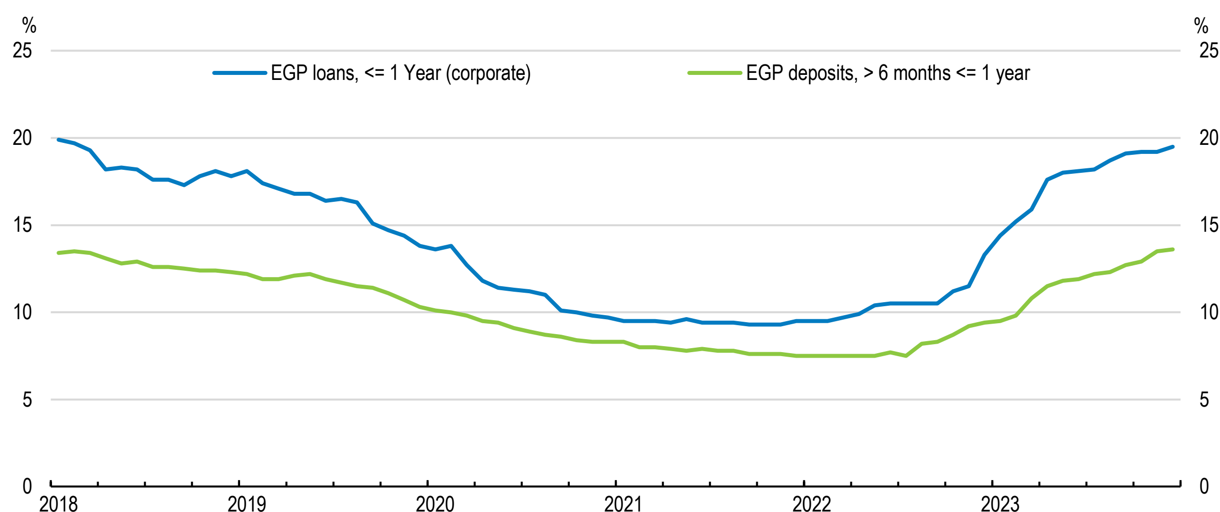
Increase in the public sector minimum wage to EGP 4 000 from 3 500; further income support for low-paid pensioners; increase in the income tax exemption threshold from EGP 36 000 to 45 000.

February 2024 package: EGP 180 billion (1.3% of FY 2023/24 GDP)

Increase in the public sector minimum wage to EGP 6 000 from 4 000; broad-based increase in public sector wages by EGP 1 000 - 1 200; increase in pensions by 15%; increase in the amount of the *Takaful* and *Karama* benefits by 15%; increase in the income tax exemption threshold from EGP 45 000 to EGP 60 000.

Since mid-2022, financing conditions have tightened (Figure 2.9), foreign currency shortages have become more binding and business sentiment has soured. Against this backdrop, investment declined sharply. Foreign currency shortages are reflected in low foreign exchange reserves, even though they increased over the past 17 months to around 10% of GDP, and negative net foreign assets held by Egyptian banks (Figure 2.10). Banks ration foreign currency, which has contributed to backlogs at ports (as importers cannot meet their obligations to pay in foreign currency). Currency shortages are notably affecting the provision of electricity, as they hamper imports of natural gas and heavy fuel oil, leading to reduced operations in some power plants since the summer of 2023 with frequent blackouts. The divestment programme (Chapter 3), disbursement of the next tranches of the IMF Extended Fund Facility arrangement and financial support provided by Gulf Cooperation Countries would help alleviate them.

Figure 2.9. Financing conditions for businesses have deteriorated



Note: Weighted average rates for a sample of banks whose deposits represent around 80% of total deposits in the banking system and calculated on a monthly basis.
Source: Central Bank of Egypt.

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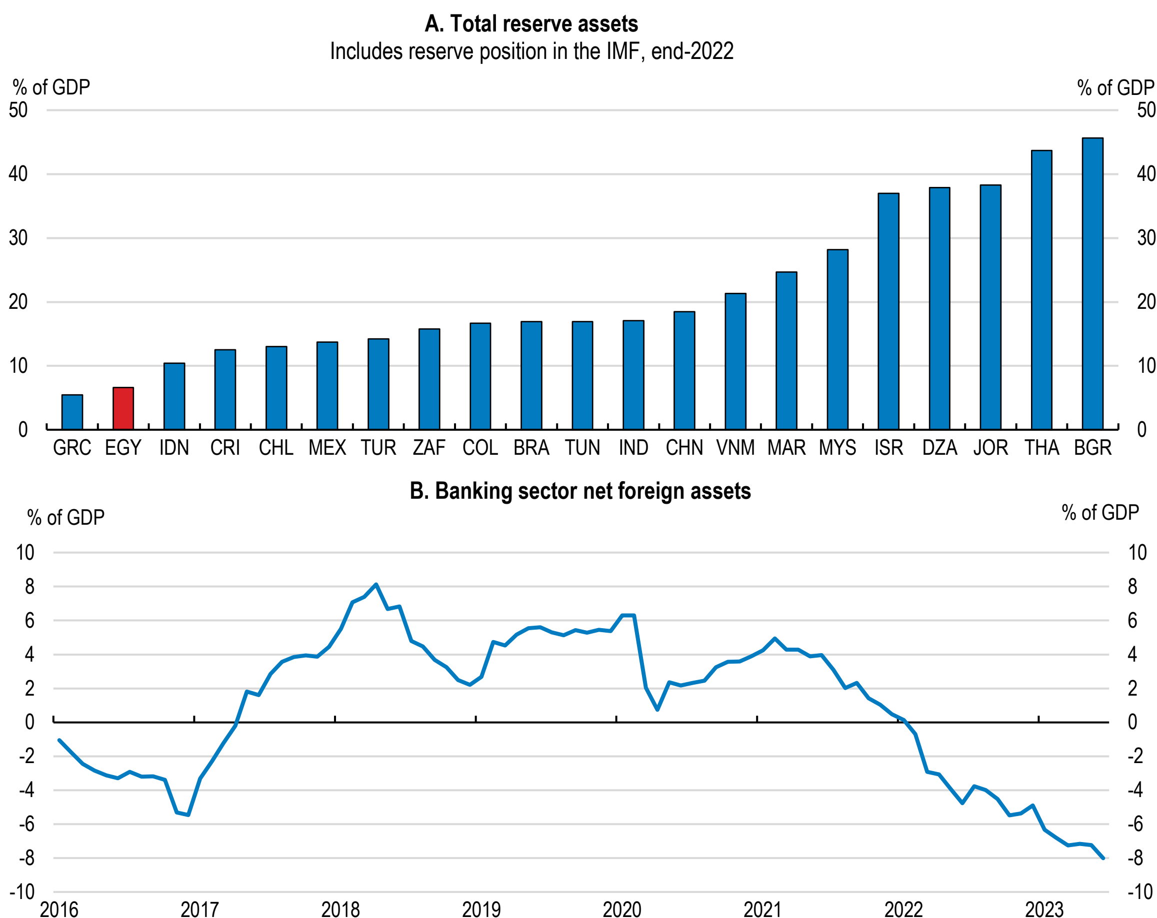
The authorities introduced additional import measures in 2022 against the backdrop of worsened balance of payment prospects and the shortage of foreign currency. These included full advance payments in foreign currency, in lieu of a down-payment, as well as changes in the required documentation. Most of these measures were removed at the end of the year, but they exacerbated import backlogs. The latter have weighed down exports, due to their import content.

Figure 2.10. Both foreign exchange reserves and foreign assets of banks are low



Source: IMF, World Economic Outlook - October 2023 database; Ministry of Planning and Economic Development; Central Bank of Egypt.

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Overall, GDP growth has slowed in FY 2022/23 to 3.8% (Table 2.4). According to the OECD projections, GDP growth is set to pick up in due course (Table 2.4). Inflation is likely to remain high for some time, continuing to exert a drag on household consumption. Consumption will recover, however, insofar as inflation declines, despite the gradual withdrawal of fiscal support. In contrast, the recovery of business investment is set to be subdued as funding conditions will ease only gradually. The OECD projections assume that public investment will moderate only somewhat, while the government announced its intention to curtail large-scale projects (see below).

The current account deficit narrowed to USD 4.7 billion in FY 2022/23 from USD 16.6 billion a year earlier, helped by a shrinking trade deficit (Table 2.4). The decline in food prices in international markets likely contributed to reduce the trade deficit. Overall, non-petroleum imports declined by USD 16.4 billion, partly due to the aforementioned temporary import measures. Tourism and Suez Canal revenues increased by 26.8% to USD 1.8 billion and by 25.2% to USD 2.9 billion, respectively, contributing to the improvement in the overall trade balance.

Table 2.4. Macroeconomic indicators and projections

	FY2020/21	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26
	Current prices (EGP billion)					
GDP at market prices	**6663.1**	**6.6**	**3.8**	**3.2**	**4.4**	**5.1**
Private consumption	5730.6	3.8	3.8	3.0	4.2	4.7
Government consumption	503.6	- 17.3	- 2.8	6.5	6.2	6.5
Gross fixed capital formation	882.5	33.5	- 24.1	-1.4	1.5	3.2
Total domestic demand	7245.1	5.4	- 0.7	2.7	4.6	4.9
Exports of goods and services	703.7	51.7	31.4	5.4	6.5	7.1
Imports of goods and services	1285.7	25.2	1.1	2.9	4.1	4.5
Net exports	-582.0	0.6	4.5	0.4	0.4	0.5
Memorandum items						
GDP deflator	_	10.4	24.8	29.6	14.2	7.3
Consumer price index	_	9.7	25.1	32.0	15.9	7.5
Core inflation index	_	7.9	29.3	30.7	16.8	7.9
Budget sector financial balance (% of GDP)	_	- 6.1	- 6.0	- 7.8	- 7.0	- 6.5
Central government gross debt (% of GDP)	_	87.2	95.7	92.0	86.9	80.7
Current account balance (% of GDP)	_	- 3.5	- 1.2	- 0.8	- 0.8	- 0.7

Note: Data refer to fiscal years from July to June of the following year. “Consumer price index” refers to the nationwide inflation rate. The Budget sector comprises central administrative units, local administrative units and public service authorities. The numbers for FY2023/24 onwards are OECD projections, based on the technical assumption of an unchanged official exchange rate but taking also into account the gap between the official and the parallel rate.
Source: Update of the OECD Economic Outlook November 2023, Ministry of Planning and Economic Development; Ministry of Finance; Central Bank of Egypt.

The current account deficit is projected to stabilise around ¾ per cent of GDP over the next two years. Easing import backlogs would support exports given the high import intensity of exports. Suez Canal receipts were down 47% in January 2024 over a year earlier following attacks on cargo ships and the ensuing diversion of traffic, but are expected to recover on the assumption that security will improve (Box 2.4). Tourism receipts have been affected by the geopolitical tensions in the region over the past months but are also expected to recover.

Box 2.4. The role of the Suez Canal in the Egyptian economy

Suez Canal traffic

Opened in 1869, the Suez Canal is a major trade route between Europe, Asia and Africa and plays a key role in global supply chains, as illustrated in 2021 when a huge container ship got stuck in the canal, causing a massive maritime traffic jam. It represents 11 to 13% of global maritime trade in volume terms according to the International Transportation Forum. The Suez Canal recorded an annual traffic of over 25 900 vessels and 1.5 billion tonnes of cargo in FY2022/23 according to the authorities, a volume of cargo around five times greater than that going through the Panama Canal. Suez Canal traffic accounted for 1.5% of GDP and generated 5% of total government revenue in FY 2021/22. The revenue from Suez Canal traffic reached USD 9.4 billion in FY 2022/23, a record high.

The Suez Canal is managed, operated and maintained by the Suez Canal Authority, established in 1956. Its capacity has recently been doubled, to allow around 100 vessels to go through on average per day. Container ships and oil tankers account for 28% and 27% of the traffic, respectively, followed by bulk carriers (23%), general cargo ships (8%), car carriers (5%) and liquefied natural gas (LNG) tankers (4%) according to the Suez Canal Authority.

The Suez Canal Authority levies a toll on through traffic, which depends on the type of vessel and tonnage. The toll is denominated in special drawing rights and should be paid in one of 10 designated foreign currencies.

The Suez Canal Economic Zone

In addition to the expansion of the Suez Canal, the Egyptian government set up a 455 km^2 Suez Canal Economic Zone straddling six maritime ports in 2015, to serve as an international logistics hub as well as a platform for industry, leveraging the strategic location of the Suez Canal to develop export-oriented industries.

The General Authority for the Suez Canal Economic Zone (SCZone Authority) supervises the activities in the economic zone. It is an autonomous institution with regulatory powers in the areas of operation, staffing, budget and funding, partnerships with developers and business facilitation services. The SCZone Authority has worked with the OECD since 2017 to develop a legal framework to attract investments based on international standards and best practices, aiming at the implementation of policy reforms in investment regulations, tax incentives, infrastructure governance and financing mechanisms.

Source: Suez Canal Authority, *Navigation Statistics*; information provided by the Egyptian authorities.

The risks surrounding the projections are skewed to the downside and partly overlap (Table 2.5). First, inflation may turn out to be more persistent than foreseen, due to the lagged effects of inflation on wages and the recent minimum wage hikes. A terms-of-trade shock reflecting higher international food and energy prices would worsen the current account deficit and fuel inflation. Capital outflows would generate further currency depreciation pressure. Further inflation would cause a significant strain on the budget with an increasingly limited scope to compensate for rising living costs. Indeed, significantly worsened prospects for the public finances would further harm international investor confidence, which in turn could discourage capital inflows. This would further tighten financing conditions due to heightened uncertainty. Finally, Egypt is exposed to the risk of droughts or high temperatures, not least given the importance of the agricultural sector.

Table 2.5. Events that could lead to major changes to the outlook

Shock	Possible impact
Further escalation of geopolitical tensions in neighboring countries.	Tourism and Suez Canal receipts may be further affected, with negative effects on the budget and the current account. Refugee inflows would strain social services and imply fiscal costs. Rising defense expenditure would also weigh on the budget.
Abrupt rise in food and energy prices in international markets.	Inflation would rise, aggravating the cost-of-living crisis. Food and energy subsidies would significantly increase, straining the budget.
Significant tightening in international financial markets.	Government bond yields would rise abruptly and financing conditions would further deteriorate.
Natural disasters such as droughts.	Agricultural production would be substantially damaged. Food prices would abruptly rise, reducing consumption significantly, aggravating food security and undernutrition.

2.2. Macroeconomic stability needs to be restored

The prospective recovery is fragile. While continuing targeted fiscal support to the most vulnerable in the face of high living costs, the government should contain overall expenditure by extending its commitment to reduce the pace of the implementation of public investment projects, to help bring inflation under control and safeguard financial stability. The overall budget balance is expected to improve under the IMF programme, which would help buttress investor confidence, reducing high debt servicing costs, which amount to 43% of

government revenue. While Egypt needs to reduce its reliance on foreign capital in the long run, restoring international investor confidence and capital inflows will help to ensure financial stability in the short run.

2.2.1. Financial instability risks are high

Bank assets as a ratio to GDP stood at 100.3% in 2021, according to World Bank data, which is relatively high by emerging market standards. The banking sector appears to be sound (Figure 2.11), and the Central Bank of Egypt monitors banks' capital adequacy ratio and liquidity ratio. Lending to the private sector is low (Chapter 3), while domestic banks are heavily exposed to domestic sovereign debt (Figure 2.12), possibly reflecting a preference for safer and more liquid public assets (Bouis, 2019). However, sovereign risk is not fully taken into account in the capital adequacy ratio, as zero weight is assigned to government securities.

Figure 2.11. The banking system seems sound against the background of low risk taking

Q3 2023 or latest available figures

A. Regulatory Tier 1 capital to risk-weighted assets

B. Return on assets

C. Liquid assets to total assets ratio

D. Non-performing loans to total gross loans ratio

Source: IMF, Financial Soundness Indicators; and Central Bank of Egypt.

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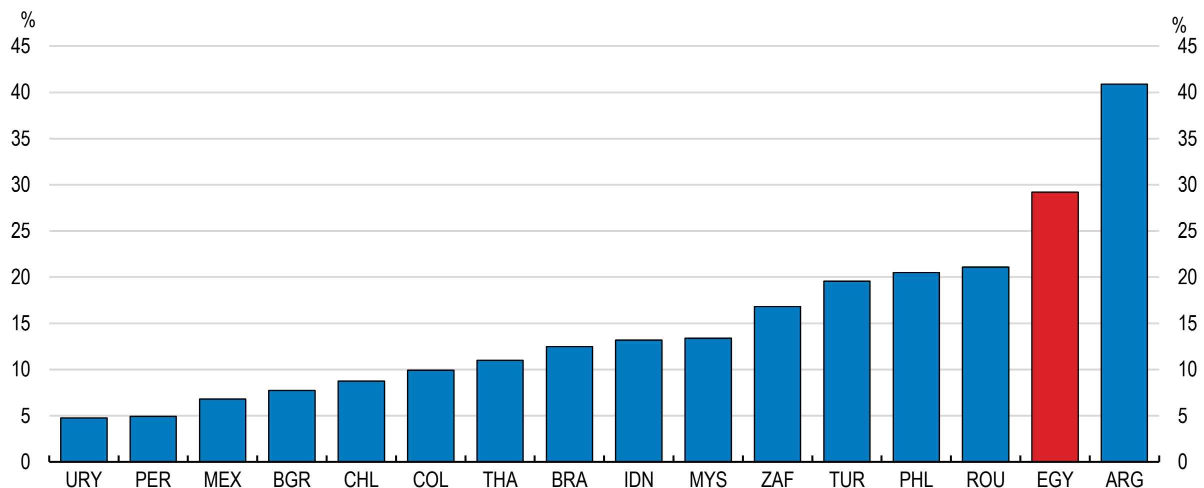
The sovereign-bank nexus can be a source of financial instability (OECD, 2023a). The transmission of risks between the sovereign and banking sectors is significant both directly and indirectly through the non-financial corporate sector. An increase in sovereign risks can adversely affect banks' balance sheets and lending

appetite, especially in countries with higher fiscal vulnerabilities, and constrain funding for the non-financial corporate sector, reducing its capital expenditure (IMF, 2022a). Significant repricing of Egyptian sovereign debt could occur, affecting the quality of bank assets. In that case, investor confidence towards the government could be further harmed insofar as investors expect the government to rescue troubled banks, which can in turn deteriorate the worth of the government's securities held by banks.

Figure 2.12. Banks' exposure to sovereign debt is high in Egypt

Share of outstanding sovereign debt held by domestic banks in total bank claims, %, 2023 Q2 or latest



Note: Total claims are defined as the sum of claims of domestic depository corporations on domestic borrowers and non-resident borrowers. Data for Peru are for 2022 Q1.
Source: IMF, Sovereign Debt Investor Base dataset; IMF, International Financial Statistics; and OECD calculations.

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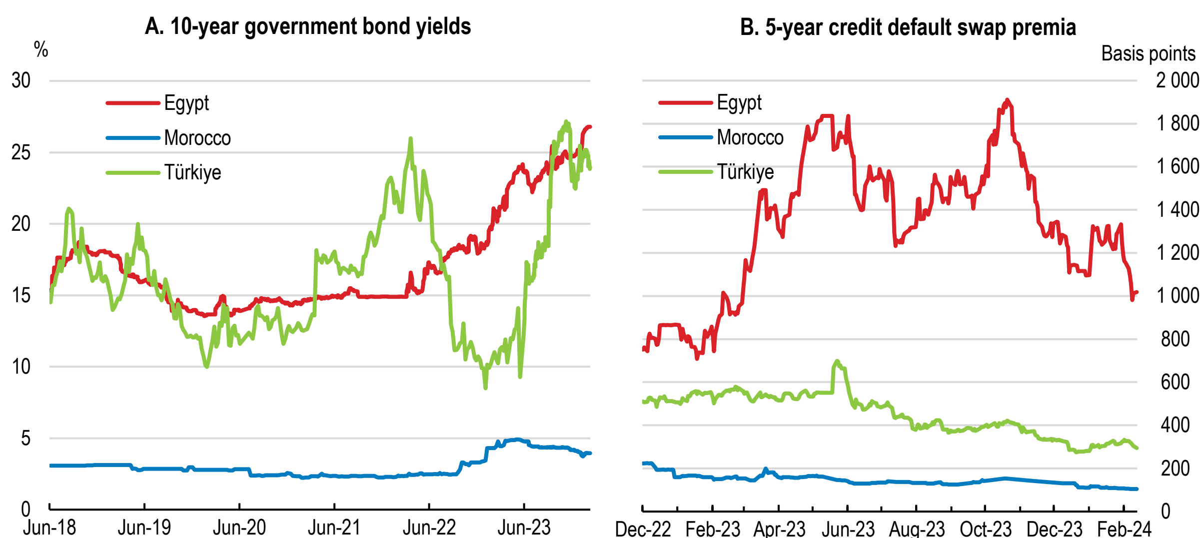
Given high public debt, Egypt is particularly vulnerable to abrupt changes in investor confidence. Global financial market conditions tightened against the backdrop of a rapid rise in policy interest rates and banking sector vulnerabilities in the first half of 2023 (OECD, 2023a). This increased vulnerabilities in emerging market economies, adding to debt servicing costs and capital outflows and reducing credit availability for borrowers relying on foreign lenders (OECD, 2023a). In this context, investor confidence in Egypt has suffered, and although global financial market conditions have improved since then, financing conditions in Egypt remain tight overall (Figure 2.13).

The cost of international market funding has risen since early 2022. Since then, the government has sought to diversify its debt portfolio and instruments further. For instance, Egypt issued Samurai bonds denominated in Japanese yen, in March 2022 and again in early November 2023, both times for around USD 500 million. In October 2023, it issued its first Panda bond in China with a size of CNY 3.5 billion (around USD 480 million), a tenor of three years and a 3.5% coupon, fully guaranteed by two international financial institutions. The Egyptian government also placed so-called *sukuk* (Islamic bonds) with a 10.9% coupon in the international market in February 2023 (Box 2.5). Nonetheless, the government continues to face difficulties in funding as investors require higher yields than the government is ready to offer.

The government faces large financing needs, estimated at close to 35% of GDP in FY 2023/24 – of which around 28% of GDP for principal repayment and rollovers and 7% of GDP for the budget deficit. While the primary balance is projected to be in surplus, the government is expected to spend 9% of GDP on interest payments. For FY 2024/25, financing needs are estimated to decline slightly to just under 28% of GDP, but interest payments would still top 9% of GDP. The average maturity has increased in recent years, to 3.4

years by mid-2022. The government intends to increase the average maturity further to five years by the end of FY 2026/27 by diversifying debt instruments to reduce pressures arising from debt rollover.

Figure 2.13. Egyptian sovereign bonds yields have risen



Source: LSEG Datastream.

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Box 2.5. Islamic finance in Egypt

Egypt issued its first sovereign *sukuk* (Islamic bond), worth USD 1.5 billion (EGP 46 billion) in February 2023, amidst investor interest in *sukuk* in the international bond market. Türkiye for example launched its second sovereign *sukuk* in October 2022, for USD 2.5 billion. Islamic finance instruments, that typically involve various forms of leasing, generated around 5% of the total volume of banking sector financing in Egypt in 2022, according to the Egyptian Islamic Finance Association, and 6% of all deposits in March 2023. Islamic financing in Egypt remains small by international standards, with a share in total banking assets of 4% in 2021, as against 6% in Türkiye, 30% in Jordan, 32% in Malaysia or 77% in Saudi Arabia.

14 banks are authorised by the CBE to offer Islamic products, three of which are fully Islamic banks: Faisal Islamic Bank of Egypt, Al Baraka Bank of Egypt, and Abu Dhabi Islamic Bank - Egypt. Although Islamic banking services have been authorised since 1963, their uptake remained limited until the 2018 revisions to the Capital Markets Law (which included provisions on corporate *sukuk*) which led to more interest and expansion. There are now 254 Egyptian Islamic bank branches, representing 5% of the total number of branches in the domestic banking market, and servicing roughly 3 million customers. Since 2018, six corporate *sukuks* have been issued, totalling EGP 12.8 billion.

Source: Egyptian Islamic Finance Association (2023), bi-annual report; IFSI (2022), Islamic Financial Services Industry Stability Report.

2.2.2. Monetary policy has been tightened

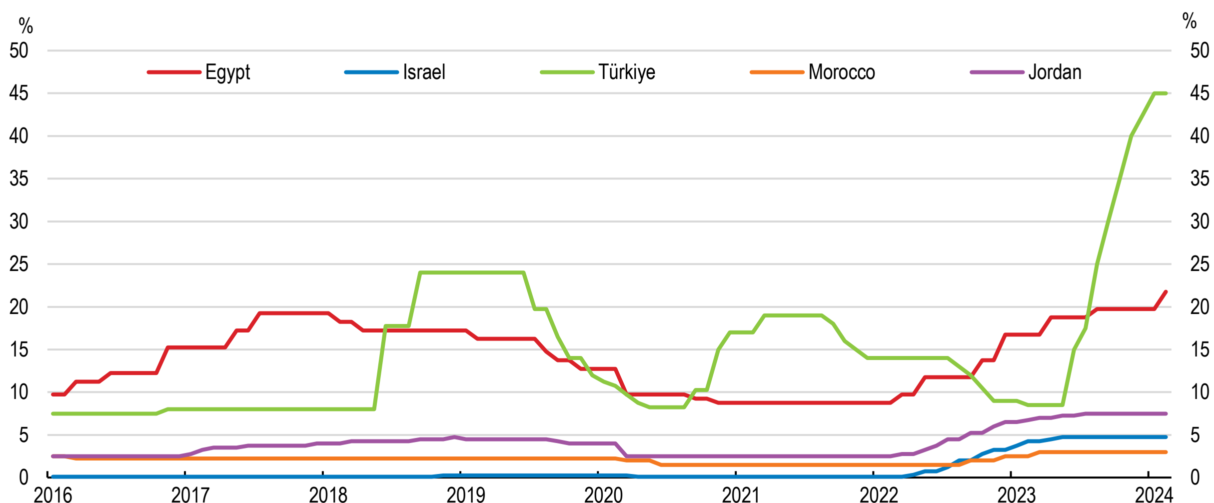
The Central Bank of Egypt (CBE) is responsible for monetary policy, exchange rate policy as well as banking sector supervision under Law 194/2020. Article 6 of this law stipulates that the CBE should seek to protect the integrity of the banking and monetary system and to stabilise prices within the framework of the state's public economic policy. The CBE, however, operates in a broader institutional policy framework that includes the Coordinating Council of the Central Bank's Monetary Policy and the Government's Fiscal Policy headed by the Prime Minister, as well as the National Council of Payments chaired by the President of Egypt.

The CBE aims to bring headline inflation down within its target of 7% (± 2 percentage points) by end-2024 and 5% (± 2 percentage points) by end-2026. It seeks to achieve the near-term inflation target and price stability over the medium term while minimising economic volatility. Egypt's monetary policy framework is in the process of moving towards a flexible inflation targeting regime (IMF, 2022b), akin to the ones in Costa Rica and Romania. The CBE is currently developing a tool to gauge inflation expectations. The CBE assesses the transmission of monetary policy to various interest rates at different maturities, such as interbank rates, banking sector deposit and lending rates, and government bond yields. According to the CBE, monetary policy affects economic activity with a lag of one to two years. Transmission to the economy is likely less potent than in most OECD countries given the large share of the informal sector.

Faced with surging inflation (Figure 2.8), the CBE has raised the policy interest rate by 1 300 basis points since early 2022, to 21.75%, one of the highest levels across the region (Figure 2.14). It also raised banks' required reserve ratio from 14% to 18% in September 2022. The effects of monetary policy tightening on inflation have been limited by subsidised lending. The CBE has committed to refrain from extending, renewing or introducing any new subsidised lending schemes, with the outstanding lending transferred to the government to be wound down (IMF, 2023a). However, a new subsidised lending scheme managed by the Ministry of Finance was launched in January 2023. This scheme aims to support the agriculture and manufacturing sectors at a rate that currently stands at 11%, which is below market interest rates (Figure 2.9). This lending scheme will run for five years with a total balance of EGP 150 billion, of which EGP 140 billion is for working capital and the rest for capital goods financing, with a ceiling for each company of EGP 75 million to maximise the number of beneficiaries.

The effectiveness of monetary policy can be enhanced by improving the policy framework. Across emerging market economies, central bank independence and transparency are among the most important factors to strengthen the monetary policy transmission mechanism, along with the adoption of an inflation targeting regime (Brandao-Marques et al., 2020). In Mexico, where the role of the interest rate channel is weak due to relatively limited financial inclusion, monetary policy has gained traction as inflation expectations were stabilised by strengthening the independence and transparency of the central bank, which boosted confidence that it is committed to price stability (Banco de Mexico, 2016). In this respect, it was important to clearly announce its inflation target in the medium term, release monetary policy statements that provide sufficient information about monetary policy decision-making, and publish quarterly reports including the central bank's forecasts. Costa Rica has reformed its monetary policy framework along similar lines (OECD, 2018a).

Figure 2.14. The policy interest rate has been raised substantially



Source: Central Bank of Egypt; and central banks of the referenced countries.

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The CBE faces difficult policy trade-offs as the economy has slowed but inflation remains high and second-round effects may turn out to be stronger than expected. A renewed surge in commodity prices in international markets would strongly affect inflation in Egypt. The continuing war in Ukraine might lead to renewed pressures on the prices of wheat, corn, edible oils, and fertilisers. When it hiked policy interest rates in February 2024, the CBE noted that inflation had not moderated as it had expected, implying that underlying inflationary pressure persists. The policy rate may need to be lifted further if inflation expectations rise, which would also help to strengthen the confidence in the central bank. Further rate hikes, however, may affect financial stability given the high level of public debt. Although the bulk thereof carries a fixed rate, its average maturity is relatively short (see above), implying that higher interest rates would quickly entail an increasing burden. Moreover, weak monetary transmission means that larger policy interest rate hikes are needed, all else equal, to achieve the objective of price stability.

2.2.3. The Egyptian pound lost half of its value against the dollar in the year to March 2023

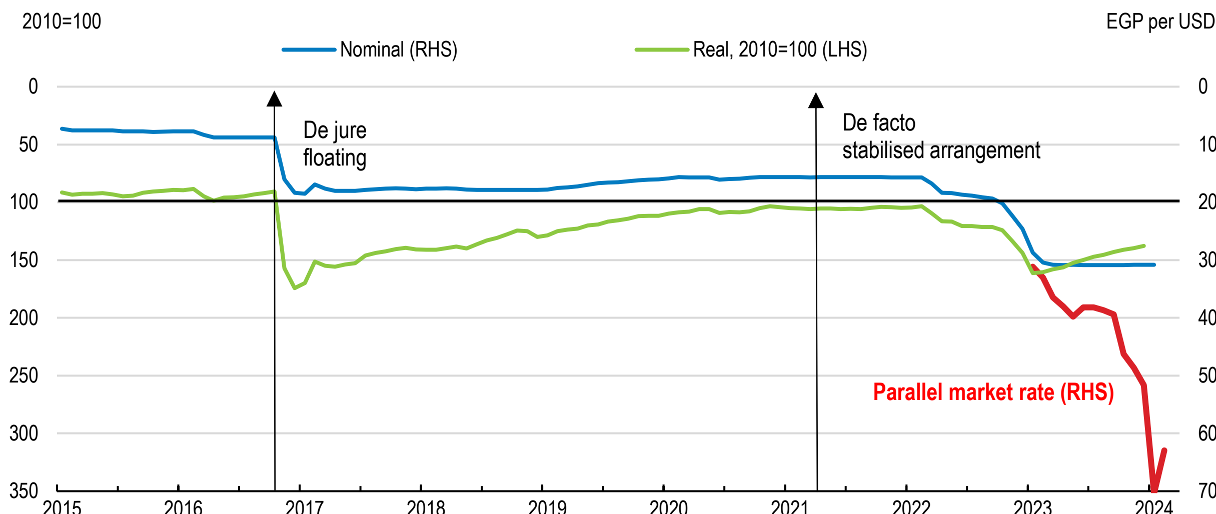
The CBE has long operated a managed exchange rate regime, which has led to overvaluation (IMF, 2021), thereby allowing for imports of commodities priced in US dollars at lower cost but impeding export growth. In November 2016, under a previous IMF programme, the CBE adopted a *de jure* floating exchange rate regime. The CBE intervened directly in the foreign exchange market following the shocks imparted by COVID-19 and the outbreak of the war in Ukraine, consistent with its mandate to preserve financial stability. The *de facto* exchange rate regime has been reclassified as a stabilised arrangement by the IMF (Figure 2.15), which can be described as exchange rate steering without a specific exchange rate path or target.

In 2022, the CBE began to loosen this managed exchange rate regime with a view to moving towards a market-determined exchange rate system. The currency has been devalued in steps, loosing around half of its value against the US dollar since early 2022 (Figure 2.15). Thereafter, it has barely moved, even as pressures have mounted, implying significant real appreciation. In October 2023, the CBE announced restrictions on credit card payments both at home and abroad as well as on the use of debit cards to withdraw foreign currency. Demand for foreign currency that is not met by the banks is partly directed to the parallel market where the rate has increasingly diverged considerably from the official rate (Figure 2.15). Facing a similar situation, Türkiye introduced measures from 2018, including a foreign exchange-protected deposit scheme, which compensated savers for potential exchange rate losses (OECD, 2023b). The authorities also actively intervened in the foreign exchange market (World Bank, 2022b). The Turkish lira lost 86% of its value against the US dollar between early 2018 and mid-2023, illustrating that propping up the currency against market forces is costly and unsustainable (OECD, 2023b; IMF, 2023b).

The Egyptian authorities should reduce control over the exchange rate gradually, subject to interventions to keep volatility in check. Restoring investor confidence by reducing macroeconomic imbalances and extending structural reform efforts will help durably support the exchange rate. Relaxing restrictions on the official exchange rate is likely to lead it to depreciate and move closer to the rate in the parallel market but can also be expected to lead to the latter's appreciation. This may impart some near-term inflationary impulse, as seen in late 2022 following the successive devaluations, and call for raising the policy rate further, as the Central Bank of Türkiye has recently had to do in a similar context. High inflation is particularly painful for the most vulnerable, underscoring the importance of continuing to strengthen the social safety net by targeting fiscal support more (see below).

Following the presidential election in December 2023, plans were floated to introduce a new strategy to increase foreign exchange inflows. This strategy includes specific targets to be achieved by 2030 in terms of exports, tourism revenues, remittances, FDI, and Suez Canal revenues. The strategy also advocates moving towards a flexible exchange rate regime, thereby closing the gap between the official exchange rate and the parallel market rate while reducing inflation to single-digit levels by the end of 2025.

Figure 2.15. The official exchange rate shifted substantially in 2022



Note: Real exchange rate calculated based on consumer price indices. Latest data point for the parallel market rate is 11 February 2024.
Source: Central Bank of Egypt; IMF, International Financial Statistics database; parallelrate.org; and OECD calculation.

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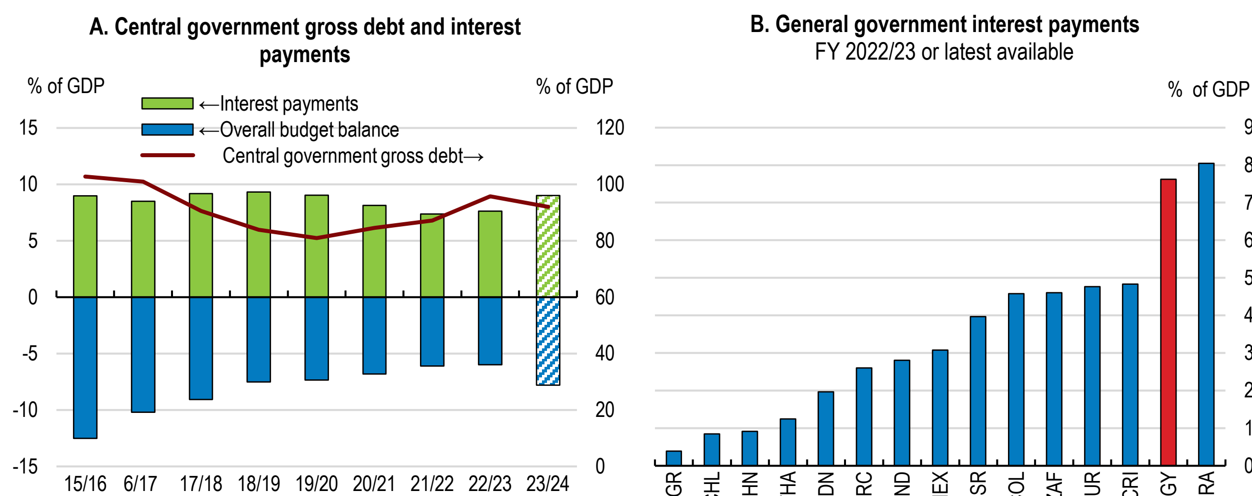
2.2.4. Fiscal space is limited

Given the immediate need to protect the most vulnerable people against the cost-of-living crisis, the government has to further step up its efforts to strengthen revenue collection and rationalise expenditure. The budget deficit stood at 6% of GDP in FY2022/23, virtually unchanged from the previous fiscal year, despite higher-than-foreseen spending on food and energy subsidies and a series of fiscal packages (Box 2.3). The budget has exhibited a primary surplus in recent years but interest payments take a large toll, at 7.6% of GDP in FY2022/23, and push up public debt (Figure 2.16). The initial Budget for the ongoing fiscal year (FY 2023/24) featured higher interest payments, a primary surplus of 2.5% of GDP and a headline deficit of 7% of GDP.

Figure 2.16. Interest payments weigh on the budget balance



Note: For Egypt, the data for FY 2022/23 refer to the latest estimate in Budget FY 2023/24. OECD projections for FY 2023/24.
Source: Ministry of Finance, Monthly Finance Report, December 2023 and Budget FY 2023/24; Ministry of Planning and Economic Development; and IMF, Government Finance Statistics.

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As global food and energy prices have declined from 2022 peaks, and minimum wages have now been increased to take account of past inflation, fiscal support should become more targeted on the most vulnerable (OECD, 2023a). Budget FY 2023/24 is broadly in line with this approach. The government aims to reduce broad-based energy subsidies by aligning domestic energy prices with those in international markets (Box 2.2) to EGP 119 billion (1% of GDP), and to withdraw them altogether in 2025. It also plans to limit food subsidies to EGP 128 billion (1.1% of GDP), which could be further reduced by strengthening the targeted approach so that they reach only those most in need (Box 2.1). At the same time, it is set to raise spending on social safety programmes to EGP 31 billion (0.3% of GDP), and announced an increase in the *Takaful* and *Karama* benefits in February 2024 (Box 2.3). The government has continued to increase the tax exemption threshold for low- and middle-income households from EGP 24 000 at the beginning of the FY 2023/24 to 60 000 as per the February 2024 fiscal package.

To help combat inflation, total fiscal expenditure needs to be restrained. The government is committed to containing public investment, postponing the implementation of new projects that have not started and require US dollar financing, and shifting some projects outside of the budget perimeter to the private sector. Also, the government intends to postpone any projects that are not deemed of "extreme necessity", though the definition of the latter is not clear. The total amount of the deferred projects is estimated at EGP 247 billion in Budget FY 2023/24. More recently, the government decided to cut back public investment by 15%, with a Prime Ministerial decree cancelling any new investment projects until the end of June 2024 except for essential ones such as those in the health sector, to save around EGP 150 to 200 billion. The government has also announced an economic and social development plan with investments amounting to EGP 1.65 trillion, of which EGP 1.05 trillion borne by the government and EGP 600 billion by the private sector in FY 2023/24. It is not clear how much of it is incorporated in Budget FY 2023/24. The envisaged expenditure should be subjected to a thorough review and scaled back if found inefficient (see below).

The government has underlined that it aims to safeguard spending in key social areas such as health and education. In the initial FY 2023/24 budget, EGP 397 billion was allocated to public health services, a 30.4% increase from FY 2022/23, and EGP 591.9 billion to education, a 24.3% increase.

2.3. Restoring public finance sustainability

To keep public debt on a sustainable path, considerable efforts are needed to improve the budget balance and debt management. The government is undertaking a series of reforms to increase tax collection and strengthen public financial management. Following up on the plans to contain public investment, long-term spending and infrastructure needs should be properly evaluated and determined, while concentrating resources on priority areas such as social benefits targeted to the most vulnerable, health and education (Table 2.6). Egypt faces large fiscal challenges but lacks a comprehensive and credible consolidation strategy.

Table 2.6. Illustrative impact of fiscal policy recommendations

Recommendation	Estimated impact on fiscal balance (% of GDP)
Reduction in public investment to early-2010s levels	+3.1
Reduction in energy subsidies	+0.7
Reduction in food subsidies	+0.7
Expansion of the targeted cash-transfer programmes (*Takaful* and *Karama*)	-0.4
Increase in health spending to the MENA average	-1.5
Increase in education spending to the MENA average	-1.8
Steepening progressivity in personal income tax	
- Increasing the tax exemption threshold	-0.2
- Reducing the threshold at which the highest rate applies	+0.1
Resulting change in primary revenue	**-0.1**
Resulting change in primary expenditure	**+0.9**
Resulting change in primary balance	**+0.8**

2.3.1. Debt sustainability is at risk

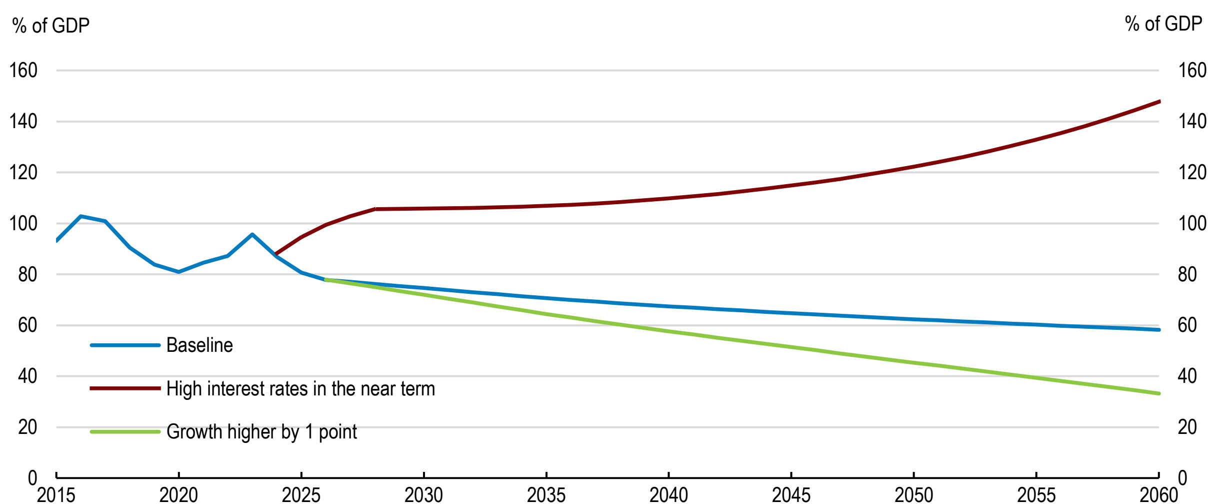
Central government debt is estimated to have reached 95.7% of GDP at the end of FY 2022/23. The share of external debt has also increased to 40.3% of GDP by Q4 FY 2022/23, up from 32.6% at the end of FY2020/21. Moreover, the share of short-term external debt has increased to 17.1% of GDP in Q4 FY 2022/23 from 9.9% at the end of FY2020/21, reflecting difficult funding conditions. The share of central government debt denominated in foreign currency reached 25.9% at the end of 2022. The burden of liabilities denominated in foreign currency is raised by currency depreciation. A high share of short-term debt raises refinancing risks amidst a worsening sovereign credit outlook.

Under the 2022 agreement with the IMF, general government debt was to be reduced to 78% of GDP by the end of the IMF programme, in FY 2026/27. This corresponded to the objectives in the 2020 Medium-Term Debt Strategy, which aimed at reducing central government debt to 80% of GDP by 2024 (extended to the end of FY2025/26 due to the COVID-19 crisis). Under the Medium-Term Debt Strategy, the government sought to ensure timely funding for the government's financing needs, meet requirements and payment obligations at low cost, develop the domestic debt market, and smooth the redemption profile by extending the debt maturity profile and increasing the share of tradable debt.

OECD simulations suggest that the debt path may be sustainable but is surrounded by large risks (Figure 2.17). They assume that the government will maintain a primary surplus of 1.6% of GDP, taking account of historical data and rising old-age related spending pressures. Even on the arguably optimistic assumption of a sustained sizeable primary surplus, the reduction of the debt ratio would be slow due to high interest rate payments. Importantly, the baseline also assumes that interest payments will normalise relatively quickly from their currently very high level, which requires investor confidence to be restored. If instead interest rates were to remain at their recent level for some time, debt would be much higher (Figure 2.17).

Figure 2.17. Debt sustainability is particularly sensitive to interest rates

Central government debt, as a percentage of GDP



Note: The baseline scenario assumes a primary surplus of 1.6% of GDP; real GDP grows at its potential growth rate; the interest rate is set at its estimated neutral level plus a term premium of 0.5 percentage point and fiscal risk premium of 2 basis points per percentage point of gross government debt/GDP ratio in excess of 75%. The "high interest rates" scenario assumes that the interest rate remains at the current level for three more years before it goes back to the level calculated according to the above-mentioned method. The “higher growth” scenario assumes that GDP growth remains higher by 1 percentage point after the projection horizon in the OECD Economic Outlook November 2023.
Source: Update of the OECD Economic Outlook November 2023; OECD calculation.

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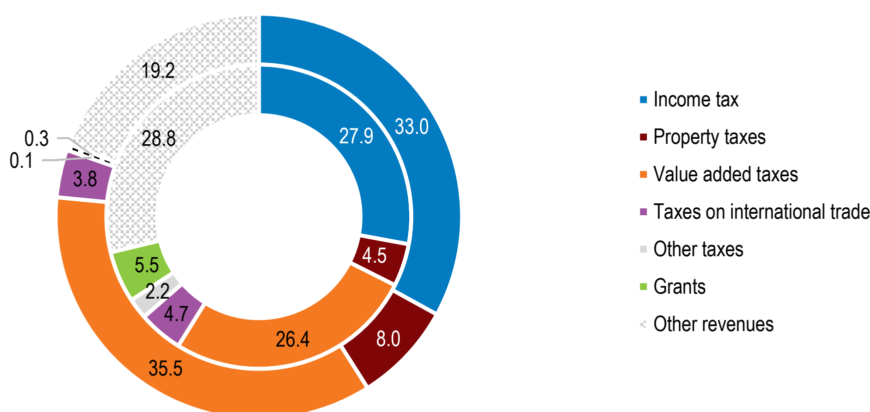
2.3.2. Tax collection should be enhanced

Central government revenue as a share of GDP is low in Egypt and the ratio fell from 19.0% in FY 2014/15 to 17.0% in FY 2021/22. The decline was largely due to non-tax revenue (Figure 2.18), which was mostly driven by property income, in particular, dividends from the Egyptian General Petroleum Corporation, the CBE and the Suez Canal. The overall low revenue-to-GDP ratio can be explained by a narrow tax base because of tax exemptions, low tax compliance and high informality (Chapter 4).

The authorities are implementing the Medium-Term Revenue Strategy (MTRS) to increase tax revenue by broadening the tax base and enhancing tax collection. The MTRS is a wide-ranging policy agenda, comprising tax policy, legislative and administrative reforms to help finance the government's objectives with a specific medium-term revenue target. The government aims to raise the tax-to-GDP ratio by at least 2 percentage points over the medium term. It intends to increase this ratio by at least 0.5 percentage points already in FY2023/24 notwithstanding difficult macroeconomic conditions. In the process, the authorities will seek to raise the progressivity of the tax system, which is comparatively weak (Monsour and Zolt, 2023; Chapter 4).

Figure 2.18. Non-tax revenue has declined over the past decade

Revenue components in % of total revenue, central government FY2014/15 (inner circle) and FY 2022/23 (outer circle)



Source: Ministry of Finance.

The authorities are seeking to improve tax administration, notably through automation and digitalisation. First, they introduced the unified tax procedures law in 2020, which is based on a unified tax registration number covering all types of taxes. The government introduced an electronic invoicing system in 2020, for the Egyptian Tax Authority to better monitor commercial transactions between firms including those that are not tax-registered through real-time digital invoice data, which can help reduce tax avoidance. In addition, imposing electronic payments to government agencies expands the base of taxpayers that the government monitors, which should help to reduce informal activities. The authorities aim to set up a comprehensive database ("Data Warehouse"), including both past and new data, which would help to expand the tax base and improve tax compliance. To further encourage tax compliance and business formalisation, the authorities should consider introducing presumptive tax regimes – also known as simplified tax regimes (Mas-Montserrat et al., 2023). These regimes reduce compliance costs for micro and small businesses and levy tax on a presumed tax base that intends to approximate taxable income by indirect means. The single tax payment can be a substitute for the personal (or corporate) income tax for unincorporated (or incorporated) businesses and potentially for a wider range of taxes (Chapter 4).

The collection of personal income tax has been weak, reflecting low tax coverage and poor compliance (World Bank, 2022a). The government is undertaking a reform in the personal income tax system in Budget FY 2023/24. This steepens the tax schedule by raising the highest tax rate from 25% to 27.5%. The highest tax rate applies to annual income exceeding EGP 1 200 000 (around USD 38 700, or 13.3 times estimated average wage earnings in FY 2023/24). The government initially considered reducing the threshold of the highest tax bracket to EGP 800 000, but this was not enacted. As the highest bracket remains particularly high, also in comparison with neighbouring countries, the government may consider lowering it to steepen progressivity as part of its commitments under the IMF programme (IMF, 2023a). The government plans to introduce other measures, including limiting tax deductions on interest. In the medium term, the government intends to enact a new income tax law to address existing loopholes, streamline taxes on various income categories, including capital income, capital gains and professional income, and eliminate tax exemptions by the end of the IMF programme in 2026. In the meantime, the government should continue to improve its data capacity and analysis and strengthen tax administration to get ready for tax reform.

The corporate income tax system provides multiple forms of exemptions, with an unknown amount of forgone revenues (World Bank, 2022a). The amendments to the Special Economic Zone law in 2015 and the 2017 Investment Law made some improvements, such as restricting tax holidays to firms in some special economic zones. However, preferential tax treatment remains too generous overall (Chapter 3). The government intends to reduce and streamline remaining corporate tax expenditures. It has been planning to publish an annual tax expenditure report with information on the tax revenue foregone of business tax expenditures, including tax exemptions and holidays covering firms in special economic zones and all state-owned enterprises. The government intends to update this report annually and include it in budget documentation. The government was expected to publish the first such report in April 2023, but it has not been issued yet.

Among OECD countries, Canada undertakes a tax expenditure review each year. It provides a description of each measure and of its objectives, cost estimates and projections, legal references, and historical information. As a result of such a review, the Canadian government has for instance introduced restrictions to reduce misuse of the small business tax regime by high-income households (OECD, 2018b). The OECD is currently conducting a study to improve the design of tax incentives in the corporate income tax system in Egypt (OECD, 2024a forthcoming).

The efficiency of the value-added tax (VAT) system is diminished by multiple rates and exemptions, while tax compliance has deteriorated (World Bank, 2022a). The government intends to simplify the VAT system by subjecting all goods and services other than basic foodstuffs to the standard VAT rate (IMF, 2023a). Given the challenges associated with such a measure, the government should begin by examining the feasibility of reducing the number of VAT exemptions, drawing on international good practices in applying exemptions.

The VAT system faces new challenges owing to the rise in e-commerce. Imports resulting from online sales are often either not taxed or under-taxed because of fraudulent non-declaration or undervaluation to avoid tax and duties. This widens the VAT revenue gap and creates unfair competitive conditions for domestic businesses. To address similar challenges relating to imports of services, Egypt has recently introduced a new regime, effective from June 2023, for collecting VAT on digital services and products, and other remote services, that non-resident businesses supply to consumers in Egypt. The OECD has provided comprehensive support throughout the development and implementation of this reform, which aligns with OECD international VAT standards and guidance and will have a positive impact on VAT revenues.

Property taxation is comparatively less harmful to growth and is a progressive source of revenue (Arnold et al., 2011). In Egypt there are two types of property taxation: transfer tax on sales of built real estate or land, assessed on the total disposable value of the property; and real estate tax, which is a recurrent tax levied annually on all constructed real estate units, covering land and building. The real estate tax rate is 10% of the rental value of real estate units. The rental value is determined by the Ministry of Finance, taking account of such factors as location, nature of buildings, and the economic situation of the district. It is updated every five years, which is rather infrequent during times of high inflation. The calculation of the rental value differs

for residential and non-residential units. There are deductions to account for expenses incurred by the taxpayer, including maintenance costs. There are also exemptions for real estate used for production and services activities. With a view to increasing property taxation in the medium term, the government plans to streamline various exemptions and to revise its valuation model for property tax assessments before the end of the IMF programme in 2026, which is essential to ensure the effectiveness of property taxation. To enhance the efficiency of property taxation, the government plans to compile data in an electronic register using geo-coded identifiers. By making full use of digitalisation, the government can expand the tax base and facilitate compliance, for example, by identifying undisclosed properties that could be subject to property taxation.

The authorities seek to improve tax transparency, also in cooperation with the OECD and the Global Forum on Transparency and Exchange of Information (EOI) for Tax Purposes Egypt is a member of. The December 2022 amendment to the Unified Tax Procedures Law allows the disclosure of financial account information for EOI purposes with tax authorities of foreign jurisdictions with which an agreement is in place. This progress was made in the context of the implementation of the EOI on request standard, requiring the availability, access and exchange of banking information. Egypt's peer review under this standard began in December 2022 and is still ongoing.

Furthermore, Egypt is a member of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS). Egypt will benefit from the two-pillar solution to address the tax challenges arising from the digitalisation of the economy. First, it will reallocate taxing rights over 25% of the residual profit of the largest and most profitable multi-national enterprises (MNEs) in the world. These taxing rights will be re-allocated to the jurisdictions where the customers and users of those MNEs are located. Second, it establishes a global minimum tax on the largest MNEs in the world (also known as the GloBE Rules). This will place a floor on corporate tax competition, which will ensure an MNE is subject to tax in each jurisdiction at a 15% effective minimum rate regardless of where it operates, thereby ensuring a level playing field. A further component will be the subject-to-tax rule (STTR), which will protect the right of developing countries to tax certain intra-group payments such as interest or royalties where these are subject to a nominal corporate income tax that is below the 9% minimum rate. To benefit from the minimum rate and the STTR, Egypt needs to continue to engage with the process and transpose the GloBE Rules into its domestic law. The OECD is assisting the Egyptian authorities on international tax issues through capacity building, implementation of the BEPS package, support for the implementation of the two-pillar solution, and audit support. The GloBE Rules will also affect the use of tax incentives in the corporate income tax system (see above).

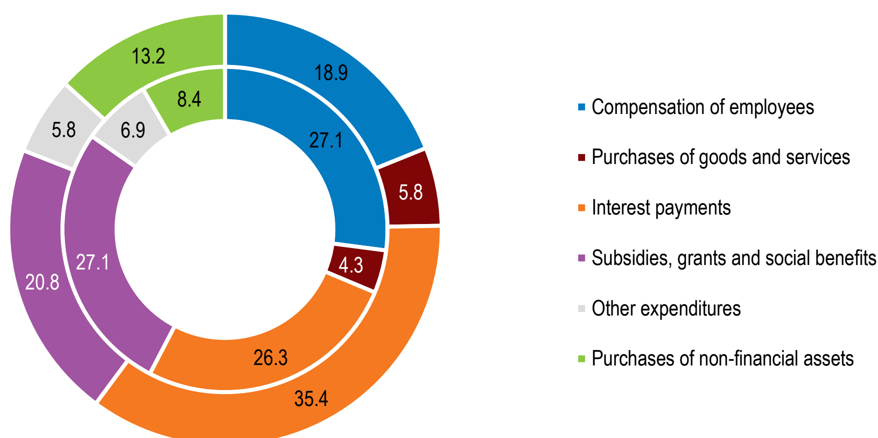
2.3.3. Prioritising and rationalising spending

Central government expenditure as a share of GDP declined over the past years from 30.0% in FY 2014/15 to 23.1% in FY 2021/22. At the same time, the composition of spending has substantially changed (Figure 2.19), driven, among others, by a substantial increase in the share of interest payments and public investment.

Over the past decade, significant fiscal reforms have been undertaken, notably the reduction in energy subsidies and in the public sector wage bill. Energy subsidies, which accounted for 10.1% of total expenditure in FY 2014/15, have been reduced to 5.8% in FY 2022/23 (Table 2.7). This contrasts with food subsidies, which have remained basically constant as a share of total expenditure at around 5.5%. The share of compensation of employees has also declined significantly over the same period, from 27.1% to 18.9%, largely resulting from the cap on the number of public sector employees in place since the early 2010s. The government is extending its efforts to reduce administration costs. Under the Administration Reform Plan (see below), it is strengthening strategic planning coordination, restructuring the national authorities and reforming recruitment.

Figure 2.19. The spending mix has significantly changed

Spending components in % of total expenditure, central government FY2014/15 (inner circle) and FY 2022/23 (outer circle)



Source: Ministry of Finance.

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Table 2.7. The spending mix has changed over the past decade

Subcomponents of the category “subsidies, grants, and social benefits”, in % of total expenditure

	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Subsidies, grants, and social benefits	26.8	26.5	21.0	16.0	16.7	18.8	20.8
of which:							
Food	4.6	6.5	6.4	5.6	5.3	5.3	5.6
Energy	11.1	9.7	6.2	1.3	1.2	3.3	5.8
Contributions to pension funds	4.4	4.2	3.5	3.8	6.3	6.6	5.8
Social solidarity pension (including Takaful and Karama)	0.7	1.4	1.3	1.3	1.2	1.0	1.1
Housing of low-income groups	0.0	0.0	0.0	0.1	0.1	0.1	0.2

Source: Ministry of Finance; OECD calculation.

The government intends to reform energy subsidies, extending its previous efforts. These subsidies had been reduced to 0.3% of GDP by FY 2020/21, but rose again to 1.2% of GDP in FY 2022/23 due to the jump in energy prices in international markets (see above). The government aims to fully reflect global price movements in domestic energy prices (Box 2.2). This will help solidify the progress made thus far, while protecting the budget and contributing to achieving the government’s environmental objectives. The government intends to increase transparency in pricing decisions and payment arrears for the Egyptian General Petroleum Corporation, the energy producer.

In parallel, the government plans to extend social benefits targeted to vulnerable people. While energy subsidies have decreased, social benefit programmes targeted to those most in need have been strengthened. To wit, the introduction and expansion of the *Takaful* and *Karama* programmes, which replaced similar but less well targeted benefits (Chapter 4). By changing the spending mix, these programmes should be financed further and developed to reach all eligible households, which would cost 0.4% of GDP (World Bank, 2022a). The government has expanded the coverage of the social registry to 11.4 million households by the end of 2023. Out of these, 4.7 million receive cash transfers. The social registry should continue to be expanded, which will help identify those who are eligible for these programmes. The government intends to introduce targeted approaches also in several other social protection schemes. In this respect, food subsidy programmes, which currently reach the vast majority of the population (Box 2.1), can be made more targeted to poor people. Middle-class households, meanwhile, will benefit from the increase in the threshold for the personal income tax exemption.

Fiscal pressures related to old-age spending are expected to increase. The old age dependency ratio (in terms of those aged 65 years or above as a ratio to the working age population) will rise from 8.8% in 2020 to 10.2% in 2030 and 14.8% in 2050. Law 148/2019 on Social Insurance improved the sustainability of the pension system. Following this reform, public expenditure on pensions is projected to decline from 4% of GDP currently to around 3% in the mid-2030s and to remain at this level thereafter (World Bank, 2022a). This reflects both the extension of the retirement age (from 60 years old, by one year every two years from 2032, to 65 by 2040) and a reduction in the replacement rate. The latter is projected to decline gradually but substantially from approximately 70% currently to 30% over the five decades to the 2070s. This decline is due to the change in reference wages (whole career wages instead of wages during the final two years) and indexation only to inflation. The expected low pension adequacy may require the government to revisit its pension calculation method. The social insurance scheme ensures minimum pensions ("social insurance pensions"), currently at EGP 1 300 per month, for those whose contribution falls short of guaranteeing sufficient pensions under certain eligibility conditions. The need for such minimum guarantees may increase due to increasing periods of unemployment or inactivity among workers (Chapter 4).

Public spending on health is currently low, at 6% of total government expenditure over the five years to FY2021/22, but is expected to rise as the population expands and ages. Life expectancy in Egypt was 70 years in 2021, against an average of 76 years for neighbouring countries (as defined in Box 1.3). The public share in total health spending is low, at approximately 27%, well below the average of the MENA countries (World Bank, 2022a). This is reflected in low health insurance coverage and a high co-payment rate (the share of medical costs covered by patients themselves) of 60% (World Bank, 2022a). The government has been implementing the Universal Health Insurance System (UHIS), introduced by Law 2/2018. The UHIS covers individuals outside the social insurance system and provides exemptions for insurance premiums. Under this law, universal health coverage will be completed within 15 years by gradually increasing the number of regions where it applies. It takes a gradual approach as its rollout entails considerable investment in public healthcare facilities. The implementation of the UHIS can be accelerated by prioritising public investment in healthcare facilities.

Finally, spending on education is also expected to rise, as the number of youth of school age will grow considerably. In Egypt, access to education is nearly universal at pre-secondary level. However, student performance as measured by Trends in International Mathematics and Science is weak as Egypt ranks in the bottom decile of countries. The results reflect the teaching methods, which are being reformed, and the lack of resources to support the education system (Chapter 4). Spending on education is low and has declined in recent years from 2.8% of GDP for pre-tertiary education and 0.8% for tertiary education in FY 2015/16 to 1.8% and 0.7%, respectively, in FY 2019/20. Both are well below the mandated levels of 4% and 2%, respectively, set by the government. Public spending on education, at 2.5% of GDP altogether, is among the lowest across MENA countries (World Bank, 2022c). The low spending ratio inter alia reflects low wages for teachers, leading to an acute shortage, which is officially estimated at over 320 000 teachers. The government has taken action to urgently increase the number of teachers by 150 000 over the coming years,

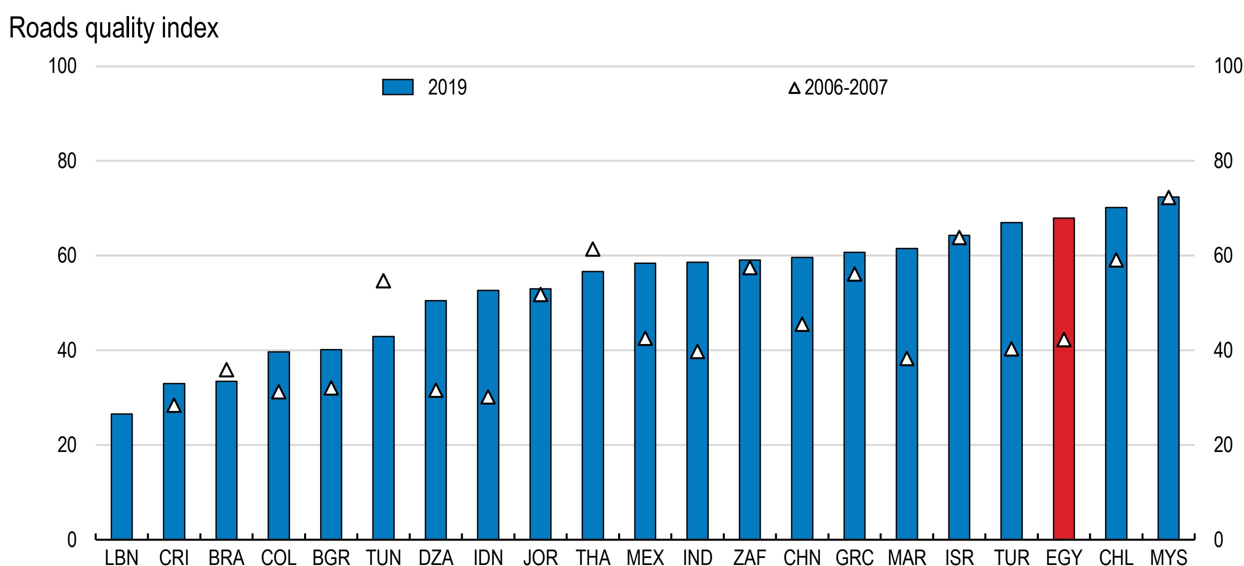
which can raise quality issues. The government should consider increasing spending on education over the long term, with a framework to ensure adequate resource use (World Bank, 2022c; Chapter 4).

Faced with increasing spending pressure, the government must consider rationalising spending in some areas, particularly with respect to large-scale infrastructure projects. The rise in public investment has been significant (Figure 2.19). This partly reflects stepped-up efforts to improve infrastructure, which had long been perceived as poor by businesses. Significant progress has been achieved for example with respect to the quality of the road network (Figure 2.20). Even so, international experience suggests that fast growth in public investment can lead to inefficiencies, as shown in an empirical study by the World Bank (Devadas and Pennings, 2018).

The government should curtail public investment in steps. In the short run, it should remain committed to the aforementioned plan to contain the expansion of public expenditure immediately. There may be scope to include some of the ongoing mega projects in this effort (Box 2.6). Looking further ahead, the government conducted a Public Investment Management Assessment (PIMA) and a Climate PIMA with the IMF in 2022 to improve infrastructure governance covering planning, budget allocation and implementation. The PIMA investigates institutional frameworks related to project appraisal and selection. Public investment projects need to be properly evaluated and determined through the use of spending reviews and cost-benefit analysis. Such an approach is necessary when the authorities need to rationalise large-scale construction projects while facing rising needs for public investment in priority policy areas such as the environment.

Figure 2.20. The quality of roads has improved in recent years

Roads quality index



Note: The value ranges from 0 (worst) to 100 (best) and is derived from expert judgment-based scores.
Source: World Economic Forum Global Competitiveness Index Historical Dataset 2005-2014, Global Competitiveness Index 4.0 2019.

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Box 2.6. The New Administrative Capital

The New Administrative Capital project was announced in 2015 and is under way. The New Administrative Capital is located 35 km east of Cairo, along the highway from Cairo to the Red Sea. It is intended to relieve congestion in Cairo, where the population approaches 20 million (in the metropolitan area at large).

The New Administrative Capital is considered as one of the projects for economic development in the context of *Egypt Vision 2030*.

The New Administrative Capital project is being rolled out under Presidential authority. The Administrative Capital Urban Development Company (ACUD) is taking the lead in managing the operations. It is a joint stock company established in 2016, with the Ministry of Defence (the National Service Projects Authority and the Armed Forces Projects Authority) holding 51% of the shares on account of its in-kind contribution of the land, and the Ministry of Housing, Utilities and Urban Communities (through the New Urban Communities Authority) holding 49% of the shares for a capital injection of EGP 20 billion in 2016. An interministerial committee coordinates the development of the project.

The New Administrative Capital is to include a government administrative district, which started to function in mid-2023, a diplomatic quarter, a cultural district, a central business district, parks and 21 residential districts, with a view to eventually host 6.5 million people on a total area of 725 km^2.

The construction has been implemented by private developers. While the ACUD manages the project development, it allocates the land, mostly through auctions and tenders to private developers that implement the specific construction works in the designated areas within a specific time frame. The total cost associated so far with the New Administrative Capital project is estimated to amount to USD 60 billion, borne to a large extent by developers. The ACUD's financial statement and balance sheet are not publicly available, nor are the budget outlays and contingent budget liabilities associated with the project.

2.3.4. Strengthening public financial management

The government aims to enhance public financial management to strengthen governance and use resources more efficiently and transparently (IMF, 2023a). It has adopted the Public Financial Management law, which requires executive regulations for its implementation. These will include the key elements of the budget calendar and the process to update and publish the medium-term budget framework. Simultaneously, the government is taking initiatives to increase transparency. For instance, it plans to publish budget outturns within 60 days after the end of the reporting month, as well as the three most recent annual audit reports by the Central Auditing Organisation. Moreover, the government plans to compile and publish an annual report on payment arrears between the Ministry of Finance and public entities within 90 days after the end of the fiscal year.

In parallel, the government has taken steps to develop its capacity to manage fiscal risks. The Ministry of Finance established an independent internal audit unit in 2018 that reports directly to the Minister of Finance, which helps review its performance and identify any risks that require correction or improvement. The Ministry of Finance has also established the Fiscal Risks Unit. It analyses the budget's sensitivity to changes in macroeconomic assumptions on growth, global trade, the exchange rate, inflation and commodity prices. It also identifies contingent liabilities, including loans and loan guarantees for not only SOEs, but also public private partnerships. The Ministry of Finance reconstituted the Sovereign Guarantee Committee in 2022, which had been set up initially in 2017 to develop the policy on sovereign guarantees and monitor them. At the same time, the government has introduced a threshold for new guarantees issued to the government entities at EGP 160 billion per year, which is welcome. The Ministry of Finance is improving its risk assessment process, shifting the focus from SOE-specific fiscal risks to a portfolio risk management approach. The OECD is providing technical assistance in this area, drawing on OECD instruments such as the Recommendation of the Council on Budgetary Governance (OECD, 2015).

Fiscal risk assessment should be enhanced further. For instance, despite the sensitivity analysis with respect to different macroeconomic assumptions undertaken by the Fiscal Risk Unit, it is not clear to what extent it is reflected in the analysis of future liabilities and fiscal sustainability, as there is no such information in the budget document (Table 2.8). The government's contingent liabilities, estimated at 18.4% of GDP (IMF,

2021), are a significant fiscal risk. Although the Ministry of Finance has enforced some initiatives to control contingent liabilities, information is not fully available in the budget document, which does not provide a policy rationale for each contingent liability, new guarantees or insurance commitment proposed for the budget year (Table 2.8). The government plans to publish the information related to the guarantees issued for each governmental entity in the annual financial statement. This is welcome, and the information provided to the public needs to be as detailed as possible. Moreover, SOE-related financial links should be disclosed further, not only the payment arrears by the government to SOEs (see above), but also budget transfers and direct loans from the government to SOEs, which are estimated at around 1% of GDP (Boukezia et al., 2023). Finally, extra-budgetary public entities (i.e. SOEs outside Law 203) are undertaking off-budget capital spending, notably for Egypt's infrastructure development and mega-projects, estimated at 6.8% of GDP in 2018 against 2.4% of GDP of on-budget spending (Youssef et al., 2019).

In addition, the evaluation of efficiency in public spending can be strengthened by increasing transparency. As the budget should properly account for public resource availability and constraints, it should provide comparative information on past revenues and expenditures. Such information is available in the budget document, but not in a comparable way by showing the difference between enacted and actual expenditure, explaining why such divergence occurred (Table 2.8). This makes it impossible for instance to evaluate whether certain spending programmes rested on over-optimistic assumptions. Moreover, available information on government assets is limited in the budget document and there is no information on non-financial assets (Table 2.8), making it impossible to assess the worth of the public capital stock.

Table 2.8. Public financial management can be improved further

Selected items from the Open Budget Survey, 2021

	Algeria	Egypt	Jordan	Lebanon	Morocco	Tunisia	Türkiye
Information related to the composition of the total outstanding debt	No	Partly	Partly	No	No	Partly	Partly
Expenditure estimates of the preceding budget year compared with actual expenditures	No	No	Yes	No	Yes	Yes	Yes
Revenue estimates of the preceding budget year compared with actual revenue collections	No	No	Yes	No	Yes	Yes	Yes
Information on extra-budgetary funds	No	No	Partly	No	Yes	Partly	Partly
Central government finances on a consolidated basis	No	No	No	No	Yes	No	Yes
Information on estimates of intergovernmental transfers	No	No	Partly	No	Partly	Partly	Partly
Information on estimates of transfers to public corporations	No	Partly	Partly	No	Yes	No	Partly
Information on quasi-fiscal activities	No	No	No	No	Partly	No	Partly
Information on financial assets held by the government	No	Partly	No	No	Partly	No	No
Information on nonfinancial assets held by the government	No	No	Partly	No	No	No	No
Information on estimates of expenditure arrears	No	No	Partly	No	No	Partly	No
Information on contingent liabilities	No	Partly	No	No	No	No	Partly
Projections assessing the government's future liabilities and fiscal sustainability	No	No	No	No	Partly	No	No
Information on tax expenditures	No	Partly	No	No	No	No	Partly

Source: International Budget Partnership "Open Budget Survey" database.

Spending efficiency can also be enhanced through a more systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning. Currently, the budget is formulated based on conventional economic classifications, then mapped into specific programmes within the over-arching government objective. According to the government, this allows it to measure budget performance against pre-defined government targets and pledges. Nonetheless, if administrative data (compiled by the line ministries) and financial data (compiled by the Ministry of Finance) are not compatible, it is not possible to identify expenditure by type of spending at detailed levels and track outcomes against budget inputs (World Bank, 2022a). The government

is taking steps to introduce programme-based budgeting by FY 2025/26 along with conventional line-item budgeting. The OECD is proving assistance in this area to the recently established Programme and Performance Budgeting Unit in the Ministry of Finance, drawing on OECD instruments such as *OECD Good Practices for Performance Budgeting* (OECD, 2019).

Finally, the institutional set-up can affect efficiency in public investment projects. Budgeting for capital and recurrent spending falls under the responsibility of the Ministry of Planning and Economic Development and the Ministry of Finance, respectively. This can hinder achieving the objectives of public investment projects, as capital budgeting decisions and their recurrent spending implications are not synchronised (World Bank, 2022a). In many cases, infrastructure spending is not met with the necessary allocation for workers' salaries and/or for maintenance and operations spending. According to the World Bank (2022a), new primary health care units, hospitals and modern equipment are often not fully functional because of shortages in medical staff or medical supplies.

Credible fiscal frameworks underpinned by fiscal rules and setting out future expenditure and tax plans are needed to provide clear guidance about the medium-term trajectory of public finances (OECD, 2023a). The OECD defines a fiscal rule as "a long-term constraint on fiscal policy through numerical limits on the budgetary aggregates" (OECD, 2013). There is no legislated fiscal rule in Egypt although the government has committed to meeting fiscal targets, as reflected in the MTRS and MTDS. Fiscal rules usually take the form of:

- Balanced budget rules that aim to limit annual borrowing, often allowing for some flexibility to take account of the business cycle;
- Debt ceilings, usually expressed as a percentage of GDP to ensure that the debt burden remains sustainable; or
- Expenditure rules, which set a limit on annual increases in government spending.

Within the framework of the Public Financial Management law, the government will be committed to binding fiscal rules, which is welcome. In the case of Egypt, interest payments, which are largely exogenous owing to developments in financial markets, are substantial implying it is preferable to focus on approaches built on the primary budget balance, which is more directly under the control of the government. As the budget balance is also subject to other largely exogenous factors, such as Suez Canal and tourism receipts, there is a case for adopting an expenditure rule, such that any windfall benefits are not spent inefficiently. However, in the current situation of high inflation, it would be difficult to project expenditure. Therefore, an expenditure rule could only be adopted once inflation recedes durably.

Establishing an independent fiscal institution could help achieve fiscal targets and evaluate fiscal projections. Fiscal councils, which exist in most OECD countries, are associated with increased fiscal rule compliance, more accurate forecasts, and less pro-cyclical fiscal policy (Rawdanowicz et al., 2021). Their functions include monitoring compliance with fiscal rules, assessing long-term fiscal sustainability, analysing budgets and medium-term fiscal plans and endorsing or producing economic and fiscal forecasts. According to the OECD *Principles for Independent Fiscal Institutions*, a fiscal council should not have any direct policy-making responsibilities, and its leadership term should be independent of the electoral cycle and selected strictly on the basis of merit and technical competence (OECD, 2014).

The government has made enhanced governance a priority in *Egypt Vision 2030*, to increase public administration effectiveness, transparency and accountability. To modernise the administration, the Central Agency for Organisation and Administration (CAOA) has been implementing the Administration Reform Plan, which resulted in reorganising administrative entities and improving the digitalisation of public services. A new Civil Service Law was introduced in 2016, which underpins the efforts to make the public service merit-based, cost-effective, and responsive. The CAOA is currently developing a new National Administrative Reform Plan to accelerate reform efforts. A forthcoming OECD review will discuss further measures to support both strategic planning and public administration reform efforts (OECD, 2024b, forthcoming).

2.4. The green transition requires fast and concerted action

Egypt's carbon dioxide (CO_2) emissions slowed in the late 2010s but have since picked up (Figure 2.21, Panels B and C). Egypt's emissions represent less than 1% of the global total, but the country is greatly impacted by the consequences of climate change, with the Nile Delta being considered one of the world's three extreme vulnerable mega-deltas directly affected by 2050 (IPCC, 2007). Indeed the green transition is an economic, health and climate urgency, in particular the effects of rising temperatures and intensified water scarcity (Chapter 1). Most of Egypt's land mass is arid desert, with only 3.7% suitable for agriculture, supported by the Nile River and its Delta Valley. Agricultural lands have seen their access to water reduced. Southern Egypt, a region that is already economically stressed and whose food supplies are under constant threat of disruption, faces extreme climate shocks with reduced crop and livestock productivity caused by temperature rises and longer spells of drought as well as reduced water resources (AbdelMonem et al., 2022). Rising sea levels, erosion and flooding could reduce agricultural production by 30% in the Nile Delta by 2030, and national agricultural output by 10% (Government of Egypt, 2023; AbdelMonem et al., 2022). Egypt's annual renewable water resources per capita stood at 570 m^3/capita in 2018, below the threshold of water scarcity defined by the United Nations (700 m^3/capita). It is expected to fall further, to 390m^3 per capita by 2050, pushing the country closer to the severe water scarcity threshold (Government of Egypt, 2023).

Climate change will further exacerbate these challenges for agricultural and food production (OECD et al., 2021), as witnessed during the summer of 2023 where extreme heat led to losses of livestock and poultry, and reduced output. Other challenges include air pollution, marine plastic pollution, waste disposal and management (only an estimated 55% of waste is currently being collected), and waste-water collection and treatment. The focus of this section, is mainly on CO_2 emissions and challenges to meet targets for climate mitigation and adaptation.

2.4.1. Meeting Egypt's climate targets requires an integrated approach

Egypt's programme to address the challenges from climate change involves both actions for climate mitigation and adaptation. Its National Climate Change Strategy 2050 does not include any net-zero targets, but it aims to incorporate climate-change considerations into all sectors of the economy and includes five key goals: sustainable economic growth with low emissions in various sectors, enhanced resilience and adaptive capacity to climate change impacts, improved climate change governance, better climate financing infrastructure, and strengthened research, technology transfer, and awareness to combat climate change. Egypt ratified the Paris Agreement in 2017, and submitted its updated Nationally Determined Contributions (NDCs) to climate action, under the United Nations Framework Convention on Climate Change in June 2022, alongside the National Climate Change Strategy 2050.

The NDCs were updated in June 2023. They still do not include an economy-wide emissions reduction or net-zero target. Rather, they present sectoral targets – reducing electricity sector emissions by 33%, oil and gas emissions by 65%, and transport sector emissions by 7% by 2030 relative to a business-as-usual scenario based on emissions in 2015 (Government of Egypt, 2022, 2023). The 2023 NDCs outline mitigation and adaptation actions, with mainly qualitative objectives related to regulations, financing, technology and capacity building. As before, they build on *Egypt Vision 2030* and the national climate strategy, as well as on sectoral policies for energy, water, waste management and sustainable agriculture. Egypt also lists measures for the industry, buildings, tourism and waste sectors but does not commit to specific emissions reductions. The agriculture and land use sectors are excluded from mitigation action, but adaptation measures are outlined for sustainable agriculture, such as Egypt's ongoing Sustainable Agricultural Development Strategy (2009-2030), which is being implemented jointly with the Food and Agriculture Organisation (FAOLEX, 2023). Furthermore, implementation of the NDCs is conditional on international financial support (Government of Egypt, 2023).

While the 2023 NDCs have more details on proposed measures than the previous version, more quantitative targets and specific actions are needed for effective climate action. The lack of recent data on pollutants and emissions since 2015, and on specific action points in the NDCs, makes any assessment of progress difficult. Egypt also urgently needs to build an effective institutional system for climate risk and disaster management for all areas of climate change impact, by strengthening the capacity of monitoring, forecasting and analysis, establish early warning systems and exchange information at the regional, national and international levels. Further, regular economic risk assessments of climate change are needed across Egypt, including of the vulnerability of rural and coastal communities. The 2023 NDCs includes a proposal to set up a Monitoring, Reporting and Verification Unit, which should be implemented as a matter of urgency, and be provided with sufficient means.

Climate adaptation measures need to go hand-in-hand with mitigation

Adaptation – the process of building resilience to the effects of climate change – is a vital part of efforts to achieve Egypt's sustainable development goals in a changing climate. Rising sea levels and the recurrence of severe storms and other extreme weather events that have increased in Egypt over the past decade, would negatively impact ecosystems in coastal cities in the Mediterranean Sea, Red Sea and Upper Egypt, affecting land use, infrastructure, human settlements, economic activities, human health, the reliability and operating costs of water and sanitation infrastructure, and the country's economic activities in general (Government of Egypt, 2023). Given limited funding, Egypt, as many developing countries exposed to the environmental disruptions caused by climate change, can already improve its climate resilience through focusing scare resources on adaptation, such as embracing traditional water saving methods, planting more climate resilient crops, or other nature-based measures (OECD, 2022c).

Adaptation to climate-induced risks of water scarcity and droughts or risks from storms and floods is necessary, but it is also a policy area where links to mitigation can be fostered. Nature-based measures in water management, such as wetland restoration near coastal areas, are examples of the creation of important carbon sinks, while enhancing natural defences against water-related risks. When solutions against water-related risks are based on nature, they can enhance adaptation against extreme weather events and bring mitigation benefits, as shown in Mexico (OECD, 2021).

Several sectoral adaptation projects have already been implemented through pilot projects financed by national and international sources: Sustainable Agriculture Investments and Livelihoods Project (2014-2023), Adaptation to Climate Change in the Nile Delta through Integrated Coastal Zone Management (2009-2017), and Enhancing Climate Change Adaptation in the North Coast and Nile Delta Regions in Egypt (2018-2024). However, to be effective, such projects need to be sustained and to move beyond the pilot phase, which will require additional funding. Indeed, tackling climate change will require significant investments in adaptation and mitigation, including new infrastructure and clean technologies, to achieve sustainable growth and development while ensuring that the natural assets continue to provide the resources and environmental services on which well-being relies. The cost is currently estimated at USD 246 billion until 2030, of which USD 50 billion is for adaptation (Government of Egypt, 2023). The Egyptian authorities have requested financial support under the IMF's Resilience and Sustainability Facility (RSF), which could provide up to an additional SDR 1 billion to support climate-related policy goals. Discussions are expected to take place in the context of future EFF reviews (IMF, 2023a).

While public policies and government investments are essential for achieving Egypt's environmental targets, the private sector has a key role to play in meeting these goals. An integrated policy approach, combining regulation, technology, well-functioning markets, and international support, is the most effective means to achieve Egypt's climate targets, and ensure efficient capital allocation and technological advancements. However, the multiplication of overlapping agencies and instruments involved in meeting Egypt's climate goals are leading to a more convoluted division of labour between government entities, and creating

unnecessary complexity for private investors, as illustrated by the case of renewable energy investment and the associated permitting processes (see below).

The OECD's first Green Growth Policy Review of Egypt (OECD, 2024c) will provide more detailed insights into the ways to achieve Egypt's long-term green transition, including a focus on climate-smart, resilient and inclusive cities. Additionally, the OECD will examine how the forthcoming national hydrogen strategy can be operationalised through better enabling conditions and innovative financing. Low-carbon hydrogen is a versatile energy source that can improve the trade balance and decarbonise local industries (OECD, forthcoming).

Climate change will increase social disparities and impact Egypt's labour market

Climate change also exacerbates current social and economic challenges. The poor are often the most severely affected by the impact of climate change, but have few resources available to overcome its consequences. The World Bank estimates that the share of Egypt's population living on less than USD 4 a day by 2030 (expected to be the national poverty live), will increase by 0.8 percentage point, owing to various climate change impacts, including the effect on agriculture, health and extreme temperatures (World Bank, 2022d). Damages from climate change can also trigger the reallocation of the workforce away from geographical areas that are most affected, such as Upper Egypt or coastal areas, in search for better living conditions and work. It will also impact sectors, firms and job profiles that are made less productive by a changing climate or the required transition to a less polluting, less carbon-intensive way of producing. This will affect the demand for Egypt's export goods and services, as well as the input mix of production. Employment will shift out of activities that are high-carbon or polluting, but also from other activities that are impacted by the reduction in GHG emissions, and from those activities that are hampered and made less productive by difficult climate conditions (Keese and Marcolin, 2023).

Skills gaps and shortages are already recognised as a major bottleneck in several "green" sectors constraining innovation and technology adoption. Nevertheless, existing evidence indicates that the green transition is not necessarily skill-biased, and that it requires both technical skills that are specific to "green" industries, and transversal skills, such as management and communication skills. Targeted skills development programmes will therefore be necessary to accompany the green transition, in addition to mitigation and adaptation programmes. An effective activation strategy can also help workers and firms to adapt quickly to changes brought about by greening the economy. Such a strategy combines measures that strengthen people's motivation to search actively and accept suitable jobs, with actions to increase employability, particularly for more vulnerable workers (Keese and Marcolin, 2023). Finally, upskilling and reskilling can be strengthened to ensure a smoother transition of workers out of declining sectors and into expanding ones as the economy becomes greener. To assess this and track emerging skill needs, Egypt will need a high-quality labour market information system, such as the one that the authorities have announced they will put in place under the National Structural Reform Programme (Chapter 4). In the longer term, the new skill needs brought about by the green transition will also affect the design of curricula in initial education and vocational education, and the role of work-based learning (Chapter 4).

To mitigate the social impact, social protection can help cushion the damaging disruptions of people's livelihoods the transition and climate change may produce. Targeting ensures that the support provided is fair and effective, while maintaining price signals to encourage emission savings. In the context of climate change, the ongoing reform of Egypt's social protection system may become even more urgent to extend protection to non-standard workers, the working poor and those on or below the poverty line, while maintaining adequate levels of protection. OECD work highlights that policies should focus on: the integration of climate and disaster risk considerations into the planning and design of social protection programmes; the extent and the way revenues from market-based climate change mitigation policies (e.g., carbon pricing) are recycled to prevent any regressive impact on incomes; and the sequencing of the policy, so that social protection measures do not intervene too late (Keese and Marcolin, 2023).

2.4.2. Climate mitigation requires action to lower carbon emissions

Egypt has made progress in reducing energy intensity (Figure 2.21, Panel A), but population growth and the need to raise living standards will push up emissions further (World Bank, 2022d). CO_2 emissions from fossil fuels and industry (particularly cement and fertiliser industries), exclusive of land use, have risen. Egypt needs to pursue its announced mitigation measures to prevent further increases and decouple emissions from economic and population growth.

Figure 2.21 There is untapped potential to scale up renewable energy

A. Energy intensity
Energy supply per unit of GDP

B. Per capita carbon dioxide emissions

C. Per capita carbon dioxide emissions growth relative to 2000 levels

Note: Gross Domestic Product (GDP) is expressed at constant 2015 USD using PPP. Emissions in Panels B and C include carbon dioxide (CO_2) emissions from fossil fuels and industry; land use change is not included. These figures are based on 'production' or 'territorial' emissions (i.e. emissions from the burning of fossil fuels or production within a country's borders), not on the emissions of traded goods (consumption-based emissions). Panel C shows changes from 2000. For the definition of neighbouring countries in Panels B and C see the note in Figure 2.2.
Source: OECD, Green Growth Indicators; Ritchie, Roser and Rosado (2020), "CO_2 and Greenhouse Gas Emissions".

Energy, transport and industry account for around 80% of total emissions. Primary energy supply has a high share of fossil fuels usage, and the transport and buildings sectors are major drivers of Egypt's CO_2 emissions (Figure 2.22). The energy sector and its value-chain are the largest emitters overall, owing to practices such as gas flaring and methane venting, as well as energy used for extraction. Decarbonising the energy sector and the oil and gas value-chain operations is a national priority, reflected in the emissions targets

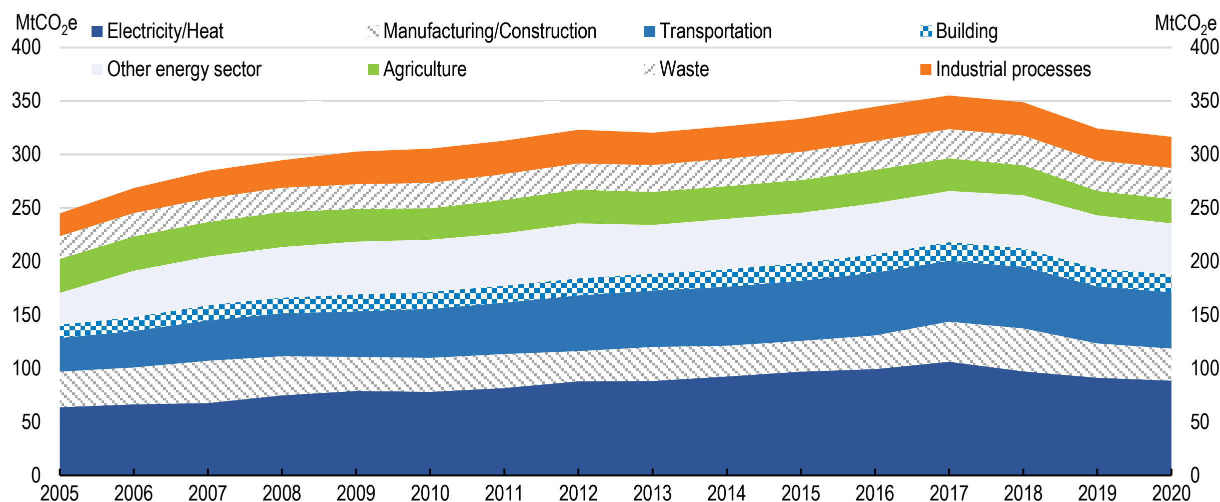
(Government of Egypt, 2023). Egypt has joined the World Bank's Zero Routine Flaring initiative, which aims to end routine flaring by 2030, but effective action should be taken sooner. The transport sector accounts for 24% of Egypt's total CO_2 emissions from fuel combustions, while road transport alone is responsible for 95% of all transport-related emissions. With a fast-growing population and mobility needs linked to sprawling urbanisation, greenhouse gas emissions are projected to keep rising. Urban transport in particular is problematic as 70% of all registered vehicles are over 15 years old, resulting in poor air quality and affecting population health. Vehicle emissions standards are low and should be raised towards international levels.

Transitioning to a low-carbon economy requires overcoming barriers to private sector engagement, such as fossil fuel and electricity tariff subsidies and restrictive regulations. A robust regulatory framework ensuring competitive neutrality is essential to encourage green investments and innovations that support productivity gains (OECD, 2020). Regulatory reform, including the creation of independent sector regulators in high emission areas such as transport, buildings and industrial production, and an improvement of the general business climate through simplified procedures (Chapter 3), could create the right incentives for private investment in new or better emission-efficient technologies, leading to both productivity growth and lower greenhouse gas emissions.

Egypt would achieve its emissions targets faster by initially focusing on "low-hanging fruit" in sectors where mitigation gains are fairly straightforward, using proven and existing methods. Viable solutions to rapidly decarbonise the oil and gas sector and its value-chain operations for instance include electrification and integration of renewable energy; gas flaring reduction; abatement of CO_2 venting and participation in international projects to develop carbon capture and storage; as well as digital solutions for demand-side management. Leveraging these opportunities could bring significant reductions in the short to medium term, be cost-efficient and bring environmental benefits (World Bank, 2022d).

Figure 2.22 Energy-related sectors, industry, and transportation are the largest emitters

Total greenhouse gas emissions by source



Note: Excludes land use and forestry. Energy sector includes electricity, heat, manufacturing, construction, transportation, building, and other energy sector including fugitive emissions and other fuel combustion emissions.
Source: World Resources Institute, Climate Watch (CAIT): Country Greenhouse Gas Emissions Data.

https://stat.link/5vnbq1

Progress towards low-emission transport can enhance quality of life and strengthen competitiveness. Egypt should accelerate its programme of improving public transport, especially the ongoing expansion and rehabilitation of the Cairo and Alexandria metro lines, and the Light Rail Transit programme to provide rail links between Cairo's satellite cities, to reduce the reliance on cars. Several other initiatives are underway,

such as a new high-speed railway network that would add some 2 000 km of rails to Egypt's existing network, or the construction of two new monorail lines, one which will link the New Administrative Capital with Cairo International Airport and one for 6th October, a satellite city close to Cairo (Government of Egypt, 2023). Improving transport links should go hand-in-hand with better urban planning and zoning policies to limit urban sprawl. Upgrading the national railways can also provide a realistic alternative to road freight transport.

Egypt's heavy industries, such as cement, steel-making and in particular nitrogenous fertilisers (of which Egypt is the world's largest exporter), contribute significantly to greenhouse gas emissions and should be rapidly decarbonised. Low-emission filters, such as kiln bag filter systems, and in due course carbon-capture technology, should be implemented in emitting industries. In the cement sector, emissions can also be reduced by improving energy efficiency, switching to lower-carbon fuels or electric kilns, and promoting material efficiency (to reduce the clinker-to-cement ratio and total demand) (IEA, 2023). The fertiliser industry can switch to more efficient and lower-energy production methods.

Businesses across Egypt should be encouraged to switch to green and low-emissions alternatives, to decrease reliance on coal and fuel. Using cleaner energy sources can help local firms leverage opportunities in greener international markets and green global value chains by reducing the carbon content of products. To support Egypt's Climate Change Strategy 2050, the General Organisation for Export and Import Control (GOEIC), which also oversees quality assurance (such as ISO certification), has been upgrading its laboratories to support the relevant tests on imports and exports, to monitor compliance with international green content requirements.

Circular and green public procurement would also help cut emissions and improve wellbeing more widely. This is particularly true for large industrial and infrastructure projects, as well as for construction, including the new cities being built on the North Coast and around the New Administrative Capital. While new urban developments better take account of Egypt's greening policies, there is an urgent need to focus on Egypt's existing building stock, including unsecure settlements which make up the homes of a large majority of the population. Ensuring affordability of housing while strengthening carbon efficiency raises questions as to where dwellings are built or how they are connected to energy and transport systems. Housing allowances and social housing are examples of financial support schemes that benefit low-income and other vulnerable tenants in particular, while subsidies to homeowners to retrofit buildings can be designed to enhance household income progressivity (Keene and Marcolin, 2023). Waste management should be upgraded to include a nation-wide collection and disposal system, and the number of landfills should be significantly cut back. A system of waste-to-energy should be rolled out on a larger scale after a first project in the west of Cairo, using improved waste collection systems.

Inefficiencies in electricity use in industry, transport and logistics (which account for nearly 40% of energy demand) stem from subsidies and technical challenges, such as old and obsolete infrastructure (World Bank, 2022d). Reducing the significant electricity transmission and distribution losses would help increase energy efficiency, leading to energy savings and emissions reductions. Fully phasing out subsidies both for electricity and natural gas in the long term is crucial to address inefficiencies. In the short term, targeted cash transfers could be increased in parallel with the phase-out of energy subsidies.

Setting a price on carbon has proven to be effective in reducing emissions in many OECD countries. Egypt is developing a carbon trading system. The Egyptian Accreditation Council has joined Verra, and other global standard-setting bodies for climate action and sustainable development, such as the Gold Standard Foundation, to allow the certification of low-emissions projects and businesses. In December 2022 the Cabinet approved new regulations to allow carbon credits to be treated as financial instruments (Decree 4664/2022), following the EU model. The Financial Regulatory Authority is reviewing requirements for verification and validation bodies to issue regulations, while GOEIC will participate by estimating carbon emissions from firms seeking certification, notably in co-operation with the US Agency for Development. This is an encouraging step but needs broad support across government and civil society to deliver results. There is a strong need within the Egyptian context to raise awareness amongst both the public and business sectors

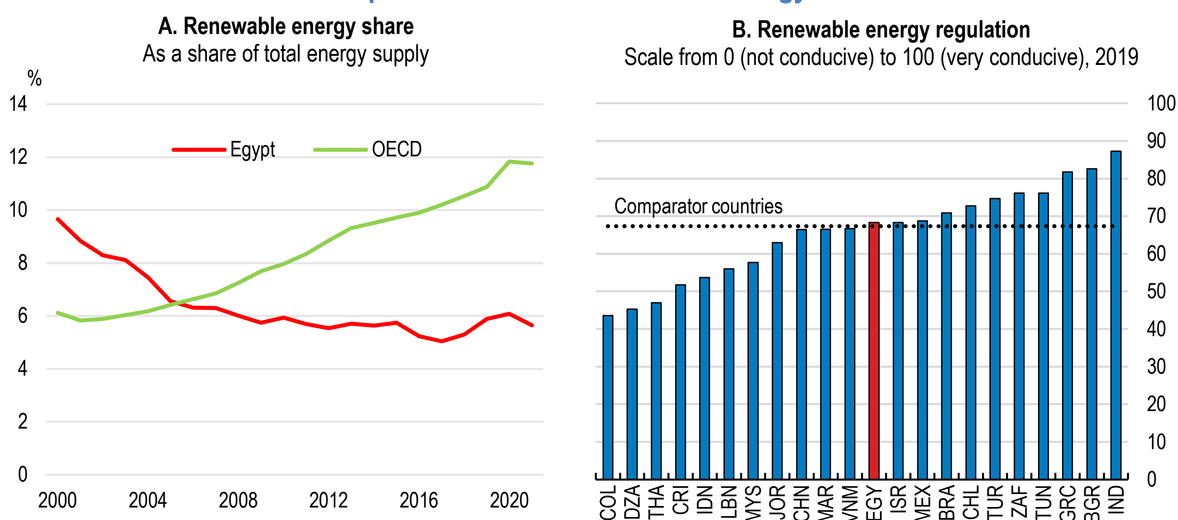
about the environmental costs of business as usual on the one hand, and the potential market opportunities and financial, economic and social benefits of green solutions and technologies on the other hand. This requires education and media campaigns, consultation processes, and civil society engagement.

2.4.3. Renewable energy can be further promoted with accelerated market liberalisation

Natural gas and oil represented 92% of primary energy supply in 2021, against a target of 42% of energy supply from renewable sources by 2030. Renewable energy accounted for just under 6% of the energy mix and about 12% of electricity generation, mainly in the form of hydropower (Figure 2.23, Panel A). Egypt invested massively in power generation after 2015, reaching a power generation capacity surplus of 21 Gigawatts in 2022, with 90% of installed capacity being thermal plants. This means that there is less urgency to integrate renewable energy into the power mix from an energy security point of view. It also means that the country is likely to require incentives, including further financial assistance and concessional loans, to accelerate the decarbonisation of its energy system to a pathway consistent with the Paris Agreement.

A number of large-scale renewable energy projects have nonetheless been implemented recently, such as the Benban Solar Park (total of 1465 MW), the Assuit hydropower plant (32 MW), the Kom Ombo Solar PV Plant (26 MW) and the Gabal El-Zeit Wind Power Plant (580 MW). Even so, World Bank projections based on current policies show that Egypt's energy mix will remain dominated by gas (79%), supplemented by wind (8%) and solar (5%) at the 2030 horizon. This will not be sufficient to meet the NDC targets. To reach those targets, a larger share of wind (43%) and solar photovoltaic power (15%), in addition to a significant increase in energy storage systems, need to be deployed (World Bank, 2022d). Accelerating the integration of renewable energy in accordance with the targets in the National Climate Change Strategy will require more and better grids and transmission networks, and large storage systems, to accommodate and strengthen the network. More renewable energy in the energy mix will also reduce reliance on imported energy, and lower domestic demand for natural gas, in addition to moving to a lower carbon path (World Bank, 2022d). Given the significant investments that are required in network infrastructure, the government should consider how the current regulatory regime governing electricity markets affects the potential for private investment.

Figure 2.23. There is room for improvement in the renewable energy sector



Source: OECD, Green Growth Indicators; and World Economic Forum, Global Competitiveness Index 4.0.

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Energy market reforms, driven by the 2015 Electricity Law, have presented significant opportunities in solar and wind power generation, as well as infrastructure investment. But more incentives are needed to enhance private sector involvement in the electricity sector. There are still some margins to make the regulatory

framework more investor-friendly in the renewable energy sector (Figure 2.23, Panel B). The current regulatory framework allows for feed-in-tariffs, net metering and closed grids. However, currency depreciation has currently made the feed-in-tariff, originally established in 2016, less competitive for international investors. Proposing long-term off-take agreements, through Power-Purchasing Agreements, would help attract private investors. In addition, establishing an independent sector regulator is essential, drawing on international experience which highlights its role in ensuring transparent and fair electricity procurement from generators. The state's quasi-monopoly in electricity distribution and retail should be lifted, accompanied by accounting separation between regulatory and operational functions. This separation will prevent conflicts of interest and foster competition on a level playing field (Chapter 3). Shifting from subsidised tariffs based on consumption to direct income support for low-income households will enhance fairness and competition, enabling private suppliers to compete more effectively with state-owned distribution firms. This move will also empower consumers to make informed choices about their energy consumption.

2.4.4. Attracting private financing will be important for the green transition

The cost of the investments required for the green transition is one of the major stumbling blocks for implementation in Egypt. The cost of capital is a key barrier to energy investments in developing countries, which are seen as riskier by investors. Egypt will need to seek partnerships between international investors, the public sector and multilateral financial institutions, as this can reduce the cost of capital. Bringing in international investors could lower the spread on debt finance by 8%, adding multilateral development banks could lower it by 10%, and combining the two with governments in public-private partnerships could reduce it by 40% (UNCTAD, 2023).

To finance the low-carbon transition, Egypt will need to continue to make strategic use of public finance to mobilise private investment, such as green bonds. Egypt issued the MENA region’s first-ever green bond in 2020 for USD 750 million, signalling its commitment to public-sector green investment. Proceeds were to be used to develop Egypt's portfolio of green projects, the value of which is around USD 1.9 billion, with 19% going to clean transportation, 16% to renewable energy, 26% to water projects and 39% to pollution reduction and control (Tiemann et al., 2021; Government of Egypt, 2023). In October 2023 Egypt issued another green bond (a so-called “Panda bond”, issued in yuan) worth USD 500 million, the first of its kind in the Middle East and North Africa. Egypt’s first green corporate bond was issued in 2021 by Commercial International Bank, the largest private commercial bank, for USD 100 million.

The 2018 Capital Markets law was amended in 2022 to introduce further new instruments, including climate bonds, sustainability-linked bonds, and transition bonds, amongst others. However, private financing for the green transition is contingent upon an attractive business environment, even more so in challenging macroeconomic conditions. The development of the local capital market could partially address the infrastructure funding gap, aligning with Egypt's commitment to rebuilding foreign-exchange reserves and implementing divestment as part of a structural reform programme (Chapter 3). Furthermore, government infrastructure plans need to set out clearly what the priority low-carbon projects are, with clear funding targets, and expected completion dates, to guide private investors. The new Golden Licences to speed up the granting of licences for investment, some of which are earmarked for green projects, should help in this respect. Egypt could also explore the links between climate-resilient finance and investment (Mullan and Ranger, 2022).

In partnership with the European Bank for Reconstruction and Development (EBRD) and the European Union, Egypt launched the Nexus on Water, Food and Energy (NWFE) programme in November 2022. Its Energy Pillar is expected to attract USD 10 billion in private investment to install 10 GW of solar and wind energy by 2028. The initiative will also include the retirement of 5 GW of inefficient fossil-fuel capacity by 2025, leading to a substantial reduction in natural gas consumption and greenhouse gas emissions, estimated at around 17 million tonnes of CO_2 per year. The energy pillar has secured international support from several OECD countries, the European Commission and donors to the EBRD’s High Impact Partnership on Climate Action (EBRD, 2022).

Recommendations on macroeconomic and environmental policies

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Macroeconomic stability needs to be restored	
Inflation reached very high levels in 2023. Initially driven by global food prices, inflation has become broad-based. The policy interest rate has been increased by 1 300 basis points since early 2022. Budget FY2023/24 features a primary surplus of 2.5% of GDP.	**Keep a restrictive monetary policy stance until inflation approaches the target and raise the policy interest rate as needed.** **Achieve the primary surplus target and avoid adding to inflationary pressures.**
The official exchange rate was devalued in steps in the course of 2022 but has remained almost unchanged since. Foreign currency shortages have endured, contributing to import backlogs.	**Reduce the control over the exchange rate gradually, while avoiding abrupt fluctuations.**
Takaful and *Karama*, cash-transfer programmes targeted to the most vulnerable, are being extended but do not reach all eligible recipients.	Further expand the targeted cash-transfer programmes to reach additional eligible people by making full use of the social registry system and prioritising public spending in these programmes.
Energy subsidies had been significantly reduced over the past decade but were increased again following the rise in global energy prices. Food subsidies still reach the vast majority of the population.	**Phase out energy subsidies gradually to fully reflect global energy price movements in domestic fuel prices.** **Target food subsidies strictly to those who are most in need.**
Restoring public finance sustainability	
The overall revenue-to-GDP ratio is low, reflecting low tax compliance and high informality.	Set up a comprehensive database to improve tax compliance and to expand the tax base.
The efficiency of the value-added tax (VAT) system is undermined by multiple rates and exemptions, while tax compliance has deteriorated. Imports of low-value products resulting from online sales are often either not taxed or under-taxed because of fraudulent non-declaration or undervaluation to avoid tax and duties.	Examine the feasibility of reducing the number of VAT exemptions, drawing on international good practices in applying exemptions. Extend the simplified registration and collection regime for non-resident businesses.
Public investment has expanded considerably over the past decade, casting doubts on the quality of some projects. A public investment management assessment was conducted with the IMF in 2022. In February 2024, a governmental decree curtailed the public investments foreseen in Budget FY2023/24.	**In the short run, ensure the recently-decreed curtailment of public investment is implemented.** **Undertake spending efficiency reviews of public investment and rationalise infrastructure projects accordingly.**
State-owned enterprises receive budget transfers and represent contingent liabilities for the government, which compromises public finance sustainability.	Reduce fiscal risks by effectively managing and reducing contingent liabilities, public transfers and payment arrears.
The availability of information in the budget document is relatively limited, despite a few recent initiatives taken together with international organisations, which makes it difficult to evaluate public spending efficiency.	Increase transparency by regularly disclosing more information on fiscal plans and outcomes as well as the worth of the government's assets.
While it is difficult to cut back overall public spending immediately in the current economic conditions, establishing a credible medium-term framework would help restore confidence in public finances.	Formally introduce a fiscal rule through the Public Financial Management law, with a cap on expenditure.
The green transition requires fast and concerted action	
Tackling climate change requires large investments in adaptation and mitigation, including new infrastructure and clean technologies, to achieve sustainable growth.	**Pursue climate efforts, especially in the oil and gas, and transport sectors where targets can be reached more easily.** **Strengthen capacity to monitor and report greenhouse gas emissions.** **Continue efforts to leverage private financing with green bonds and concessional loans, and earmark green projects clearly for investors.** **Step up adaptation measures, such as water and irrigation management, and natural sea defences.**
Egypt's heavy industries, such as cement, steel-making and nitrogenous fertilisers, contribute significantly to greenhouse gas emissions.	Equip emitting industries with low-emission filters, such as kiln bags, as a matter of urgency. In the cement sector, adopt low-carbon fuels or electric kilns, reduce the clinker-to-cement ratio and invest in emission-reducing technologies. Switch the fertiliser industry to more efficient production methods.
The need to reduce emissions is a cross-cutting economic issue. Low-hanging fruit includes clean infrastructure projects and waste management and more efforts focused on adaptation measures.	Implement circular and green public procurement. Promote sustainable waste management by ensuring nationwide waste collection, reducing the number of open dumps and landfills. Roll out waste-to-energy systems. Step up adaptation measures, such as water and irrigation management, and natural sea defences.
There are indications that Egypt may not reach its 2030 target for renewable energy on current trends.	Provide incentives, in the form of long-term power off-takes, and multilateral finance schemes helped by programmes such as the Nexus of Water, Food and Energy initiative, to increase investment in transmission and grids, in addition to wind and solar power generation.

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3 Improving the business climate to revive private sector growth

Weak productivity in Egypt is rooted in deep-seated structural causes that impede market competition and prevent a more efficient resource allocation. This implies a number of challenges for economic policy to meet the objectives for long-term sustainable growth as set out in the National Structural Reform Programme, but the government is determined to tackle the issues, and is committed to increase the role of the private sector. Market mechanisms such as business entry and exit, and growth of the most efficient firms, appear to be weaker than in many similar emerging markets. Recent reforms have started to tackle heavy regulatory burdens and barriers that hinder market entry and encourage informality and should be pursued, while the judiciary system still requires improvement. Competition from abroad, and the attraction of foreign direct investment are hampered by tariff and non-tariff barriers, implying that Egypt does not fully benefit from global value-chains and spillovers of technology and knowledge that would help lift productivity. The way state-owned companies are operating across a large number of sectors prevents private businesses from competing on a level playing field, although the government has recently started to take steps to level the playing field for all firms. Moreover, many businesses still face difficulties in accessing finance, as banks overwhelmingly prefer to lend to the government. Enhancing access to finance and improving digitalisation would contribute to a more competitive environment, lifting business sector growth.

Productivity is the principal source of long-run growth. It provides the basis for better material living standards and improvements in well-being. Productivity is also the main driving force for economic convergence towards better performing economies (OECD, 2015d). In Egypt, labour productivity is still significantly below the OECD average (Figure 3.1, Panel A), with low overall investment (Panel B) and a declining share of private investment in the total (Panel C). Low investment in innovation and R&D also contributes to low productivity growth (OECD, 2015d). Egypt spends less than 1% of GDP on R&D (Figure 3.2). Moreover, total factor productivity (TFP) declined in most sectors between 2013 and 2018, against the backdrop of a deteriorating investment climate and the presence of regulatory barriers (Zaki, 2022).

Figure 3.1. Low output per worker is related to low investment

A. GDP per worker
2015 USD PPPs

Thousand

Egypt
Neighbouring countries
OECD

B. Gross capital formation

% of GDP

Egypt
OECD

C. Gross fixed capital formation by institutional sector

% of GDP

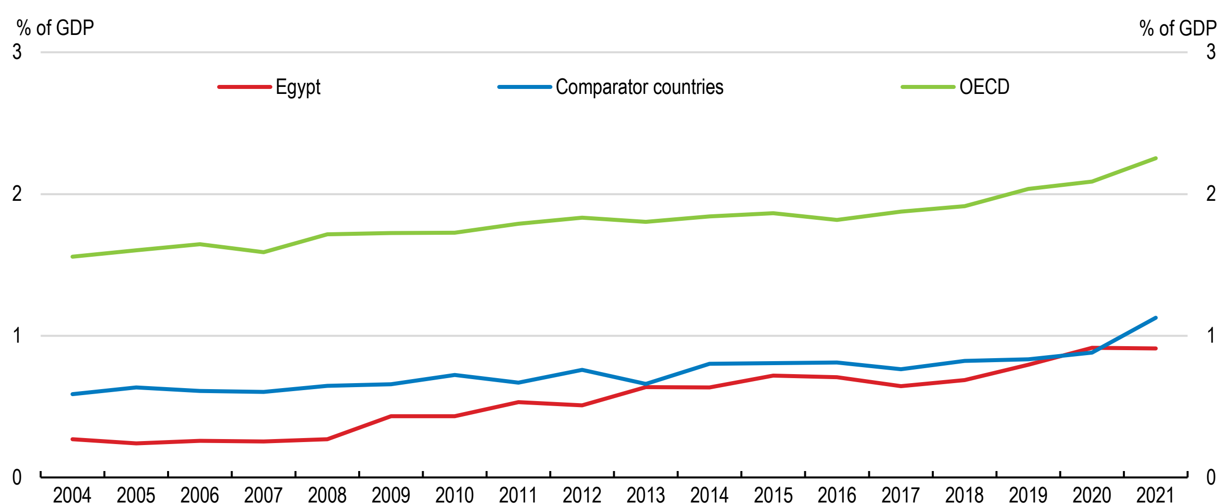
Private
Public

Note: Data for Egypt in all three panels refer to fiscal years (from July of indicated year to June of the following year). In this report, the following definitions are used: comparator countries refer to Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Greece, India, Indonesia, Malaysia, Mexico, Morocco, South Africa, Thailand, Tunisia, Türkiye and Viet Nam. Neighbouring countries refer Algeria, Israel, Jordan, Lebanon, Morocco, Tunisia and Türkiye. These country aggregates are employed if data are available for at least 80% of the countries. Panel C: data for public investment include state-owned enterprises.

Source: IMF, World Economic Outlook database October 2023; OECD, National Accounts database; Ministry of Planning and Economic Development; and OECD calculation.

Figure 3.2. Spending on research and development is low

Spending on research and development as a share of GDP, calendar years



Note: Country groups refer to simple averages of its members. For the definition of comparator countries refer to the note in Figure 3.11.
Source: World Bank, World Development Indicators.

Slow productivity growth in Egypt is rooted in deep-seated structural causes that impede market competition and prevent a more efficient resource allocation. To ensure sustainable economic growth, as set out in the National Structural Reform Programme, policy reforms are required that can boost market competition and raise productivity to lift Egypt to a higher economic growth path. This is also needed to provide more and better-quality jobs to Egypt's fast-growing and young population, to help tackle endemic youth unemployment (Chapter 4). The ongoing IMF Extended Fund Facility programme underlines the role of structural reform in general, including divestment, to shore up the Egyptian economy.

Against this background, this chapter explores ways to promote a more competitive business environment, shedding light on factors that are known to stimulate market competition and to facilitate the entry and expansion of new firms. First, it presents some stylised facts about productivity growth and competition. Then it turns to conditions needed to unleash private sector growth, starting with a conducive regulatory framework, an efficient judiciary and measures to fight corruption, as well as an enhanced competition law enforcement framework, and improved trade and investment policies. The next section then discusses how to reduce the state's presence in the economy through the divestment of state-owned enterprises (SOEs) and a levelling of the playing field. The last two sections discuss access to finance and digitisation, which are key growth enablers.

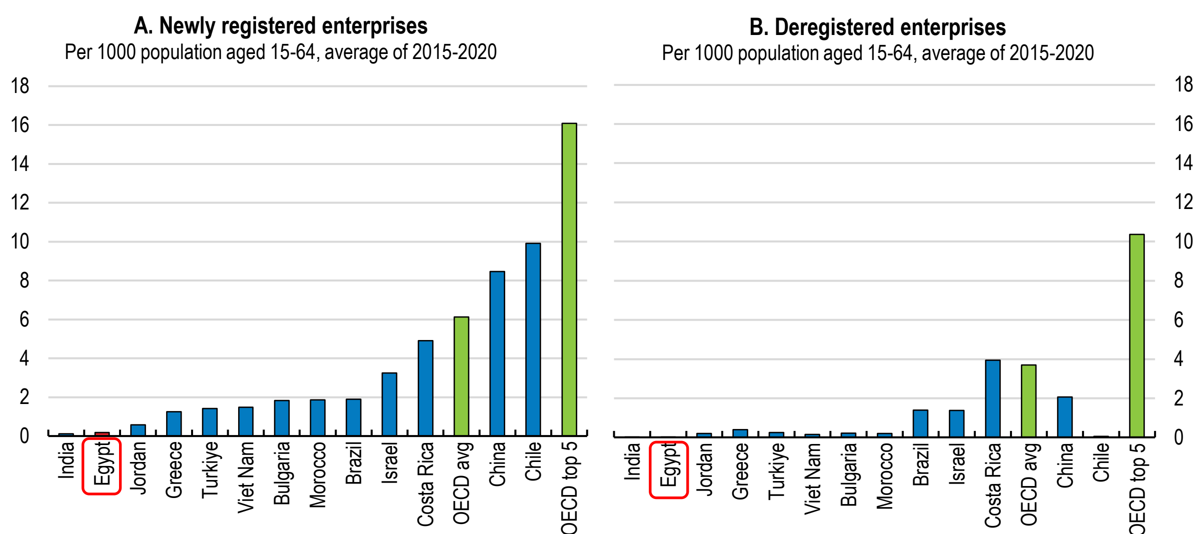
3.1. Weak productivity growth is related to a challenging business climate

Competition supports the process of economic convergence. Competitive pressure spurs firms to constantly improve to attract customers, through product innovation, better quality and higher efficiency. OECD research shows that diffusion of frontier technologies, thus productivity growth, is slow where competitive pressures are weak, be it at the macro, sector or firm level (Nicoletti and Scarpetta, 2003, Andrews, Criscuolo and Gal, 2016). Hence, competition is vital for market selection mechanisms to work and for efficient resource allocation (Andrews, Cingano and Conconi, 2014).

Business dynamism ensures that productive firms enter the market and grow, while unproductive firms exit and their owners can make a fresh start, which keeps up the competitive pressure (OECD, 2015d; Berlingieri et al., 2020). Egypt exhibits weak business dynamism: both start-up and exit rates are below regional and

global averages relative to population size (AUC, 2022). The number of limited liability company starts related to the adult population is one of the lowest among Egypt's peers, and significantly behind OECD economies with a dynamic business sector, and likewise for exits (Figure 3.3, Panels A and B). A low business churn rate, i.e., the rate at which companies are formed and exit, is typically associated with limiting factors that restrain business activity, such as regulatory restrictions (Thum-Thysen and Canton, 2017). The authorities are working to facilitate procedures related to the start-up of firms. For instance, a new legal type of firm, the one-person company, was launched in 2018, and the government supports initiatives offering funding to startups, including through Egypt Ventures, a government-backed venture capital firm (StartupBlink, 2023). Encouragingly, the number of newly incorporated companies is on the rise, from around 22 000 in 2018/19 before the pandemic, to 31 165 in 2021/22 and 32 447 in 2022/23. Low exit rates may reflect obstacles to the orderly exit of failing firms, such as inefficient insolvency regimes (Adalet McGowan and Andrews, 2016). The lack of competition and of fluid entry and exit reduces the pressure for firms to innovate or adopt better management processes. The OECD is currently conducting a Review of Business Dynamics that investigates firm entry, expansion and exit in Egypt, with results to be published in 2024.

Figure 3.3. Business dynamism is low in Egypt



Note: Enterprises here refer to limited liability companies. Panel A, data for Egypt cover 2015-22, data for Indonesia cover 2015-16. Panel B, data for Jordan cover 2018-20, data for Brazil, Costa Rica, Israel, Türkiye 2019-20, and for Indonesia - 2020. Averages chosen to smooth the impact of the pandemic in 2020 on business dynamism.
Source: World Bank, Entrepreneurship database.

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International indicators point to inefficiencies in product markets owing to Egypt's regulatory environment (Figure 3.4). Complex regulatory procedures, a lack of trade openness, and high state control and involvement in product markets, compared to the OECD, impede business operations. Recent reforms are likely to have led to some improvement in Egypt's position. In particular the 22 measures to support Egypt's business and investment climate announced in May 2023 are welcome (Table A.1 in the annex). Even so, enabling Egypt's private businesses to play a greater role in driving overall growth will require continuing with the reform of regulatory settings and the institutional framework within which Egypt's firms operate.

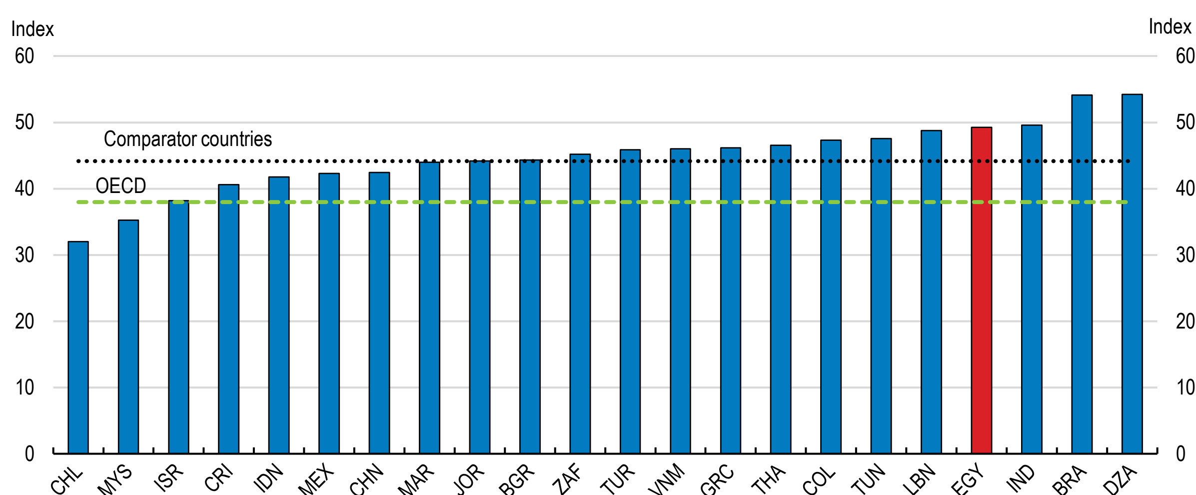
Wide-reaching state involvement in the economy is crowding out the private sector (IMF, 2021). Including military-owned establishments, there are more than 700 SOEs in Egypt with combined assets of around 50% of GDP, some of which are joint-venture firms between the state and private-sector partners, often with complex ownership structures, involving ministries and/or other public sector firms, or other public stakeholders, which add to the complex landscape of state-involvement in the economy. In total, 33 state

entities own and operate firms (18 ministries, 9 governorates, the Central Bank of Egypt, The General Authority for Financial Supervision, the Radio and Television Union, the Unified Purchasing Authority, the Upper Egypt Development Authority, and the Suez Canal General Authority), according to the State Ownership Policy Document follow-up report. SOEs are prevalent not only in the utility and public services typically provided by the state, but also operate in most other sectors (Ramirez Rigo et al., 2021). They have historically been endowed with tax benefits and better access to land and resources, thereby enjoying a competitive advantage. The authorities recognise the market-distorting impact of the SOEs, and the National Structural Reform Programme (NSRP) sets out measures to address the issue of state-ownership through a reboot of the country's privatisation programme, and measures to provide for a level playing field.

Figure 3.4. Egypt's business environment is restrictive

Business environment in product markets

Scale from 0 (not burdensome at all) to 100 (extremely burdensome), higher score corresponds to a poorer outcome



Note: Business environment in product markets is an overarching indicator covering domestic market competition and trade openness, namely, distortive effects of taxes and subsidies on competition, extent of market dominance, competition in services, prevalence of non-tariff barriers, trade tariffs, complexity of tariffs, and border clearance efficiency.

Source: World Economic Forum (2019), Global Competitiveness Index 4.0.

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OECD research quantifying the impact of structural reform finds that reforms in product market regulation (measured by an improvement in the OECD product market regulation (PMR) indicator over two years) lead to higher growth in per capita income (Égert and Gal, 2017). Such effects are found to be much stronger among emerging economies: stringent product market regulations have a three-times larger negative impact on TFP in countries with per-capita income lower than about USD 8 000 (in PPP terms). A similar pattern can be observed for doing-business indicators, the time for insolvency procedures and the time for starting a business. Policies that improve business and product market regulations can have substantial economic benefits in Egypt over the longer term, as indicated by quantitative estimates of the impact that some of the structural reforms undertaken by Egypt could have over time (Box 1.4, Chapter 1). Moreover, as confirmed by other studies, the benefits from structural reforms are particularly large when they are associated with institutional reform, aligning countries with principles of good governance, respect for property rights and measures to fight corruption (Égert, 2017).

3.2. Unleashing market forces to promote private sector expansion

To reap the full benefits of its policy reform programme (Chapter 1), building on the progress made in 2023, Egypt's regulatory framework should be improved further, with a stronger competition law enforcement regime, enhanced institutional quality and lower corruption. Opening up for trade, attracting more foreign direct investment (FDI) and integrating global supply chains would also expand growth and development opportunities for Egypt's firms (OECD, 2020b). These priorities are reflected in the government's reform efforts, such as the NSRP, and in several reform initiatives under the Ministry of Trade and Industry. These include the National Strategy for Industrial Development (FY2022/23-2026/27), which targets priority industrial sectors in which Egypt has a manufacturing base, opportunities and competitive advantages, to move up the value chain. They also include the adoption of a National Single Window to facilitate customs procedures (*Nafeza*). The authorities' efforts to attract more FDI through targeted measures have been followed by an increase in net FDI inflows from USD 5.1 billion in 2021 to USD 11.4 billion in 2022, mainly driven by rising cross-border merger-and-acquisition activity (UNCTAD, 2023), making Egypt the second-highest recipient of FDI among Arab states, behind the United Arab Emirates.

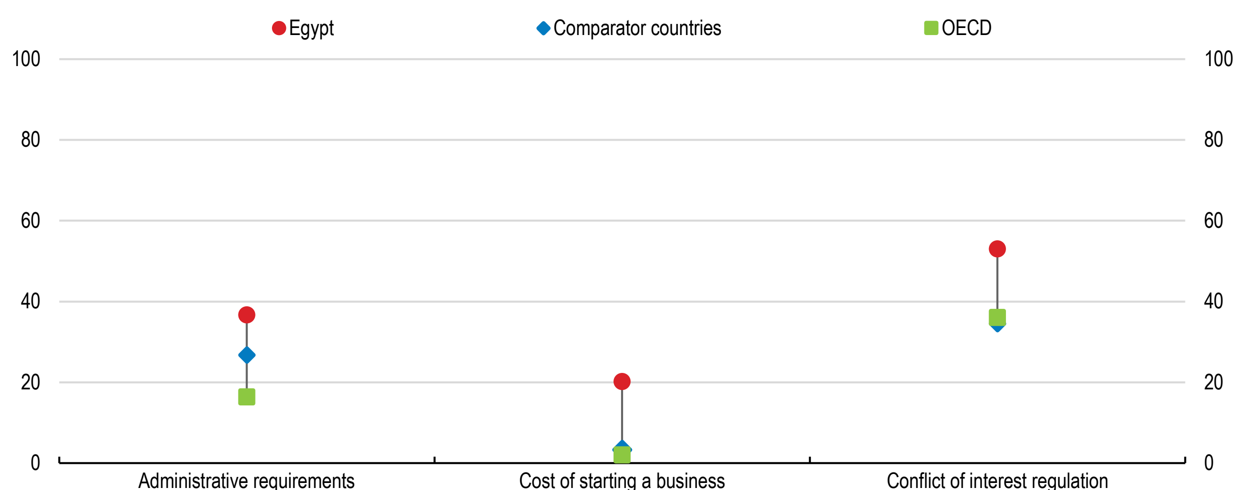
3.2.1. Improving market competition through regulatory reform

The operating environment in Egypt for both domestic and foreign firms is restrictive (Figure 3.5), although ongoing reforms to ease business regulations in Egypt are likely to lead to improved operating conditions, provided they are fully implemented. This should also enhance Egypt's position in international comparisons. While licences and permits are useful regulatory tools to ensure adequate levels of service quality, counter market failures or allocate scarce resources, complex and excessive licencing procedures raise barriers to the entry of new firms, leading to potentially anti-competitive effects. Incumbent firms have strong incentives to lobby regulators to use licensing arrangements to protect themselves from new entrants. Permits can also increase costs and multiply barriers for businesses owing to the burden involved in compliance. Product market regulations, like any kind of regulation, may drift away from their original purpose and hamper the good functioning of markets. They can influence the productivity of existing firms by reducing their incentives to grow, innovate and adopt modern technologies (Arnold and Grundke, 2021). In addition, regulations and administrative burdens may create opportunities for corruption, especially if they involve multiple agencies delivering authorisations.

A high regulatory burden and the cost of compliance can also encourage informality. Kelmanson *et al*. (2019) find that poor regulatory quality, along with shortcomings in government efficiency and human capital are among the drivers of informality in emerging Europe. Workers and firms with little human and physical capital, and very low productivity, may choose to remain informal, as the regulatory and tax burden imposed by the requirements for entering the formal labour market is untenable for them (Loayza, 2018). In Egypt, the informal sector accounts for around one-third of GDP (Medina and Schneider, 2018), one of the largest shares in the MENA region, and slightly above the 29% global average for emerging markets (IMF, 2022). Under the OECD Egypt Country Programme, a study is being conducted to explore avenues to reduce informality, and the Egyptian authorities are already working to encourage firms to formalise: Law 152/2020 for the development of micro, small and medium enterprises (MSMEs) provides for a five-year exemption from stamp duty and other taxes and fees, as well as a full tax amnesty for all owed taxes, for firms that apply to regularise their status, in addition to other non-tax incentives. These efforts are complemented by the Financial Inclusion Strategy (2022-2025), approved by the Central Bank of Egypt. One of its objectives is to provide and facilitate MSMEs and start-ups' access to financial services and to encourage their integration into the formal sector, as well as the provision of non-financial services. A new law (149/2023) grants the Industrial Development Authority (IDA) the possibility of delivering temporary three-year operating permits to unlicenced industrial firms, provided they commit to adhering to environmental requirements, civil procedures and related inspections. During the three-year period, the firm can regularise its statutes and employees.

Figure 3.5. Barriers to entrepreneurship are high

Scale from 0 (not burdensome at all) to 100 (extremely burdensome), higher score corresponds to a poorer outcome, 2019



Source: World Economic Forum (2019), Global Competitiveness Index 4.0.

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3.2.2. Reducing regulatory complexity to support business expansion

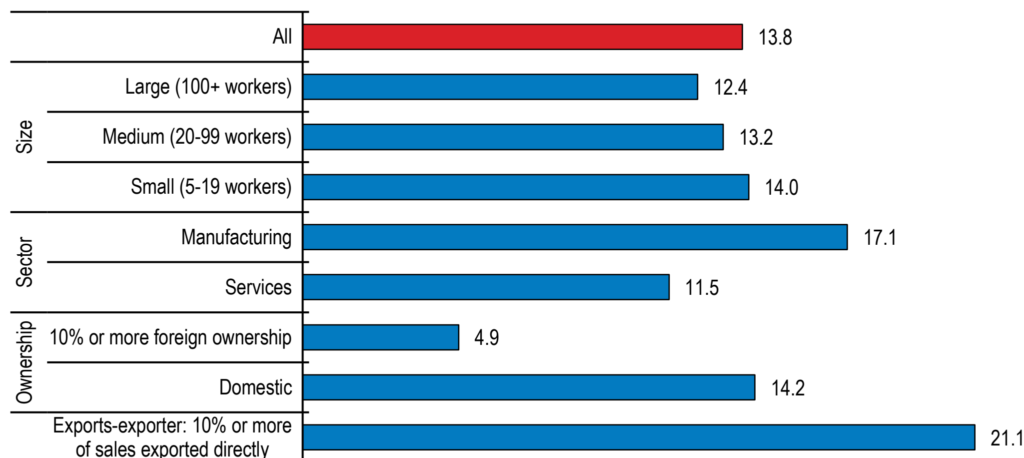
The licensing burden imposed on firms is high (Figure 3.6). Moreover, the cost of administration entailed in compliance has a disproportionate effect on micro and small enterprises (MSEs), which have more limited resources and account for some 98% of firms in Egypt. The Micro, Small and Medium Enterprises Development Agency (MSMEDA) can issue a five-year temporary licence for MSE. However, experience with size-based regulation show that this tends to be ineffective, as it may discourage smaller firms from growing, or lead to perverse outcomes, such as failing to declare revenues or staff once the critical size has been attained (Dabla-Norris et al., 2018). Ultimately, reducing the administrative burden on all firms will also benefit small firms. Despite recent reforms, it still takes at least 12 days for a firm to be fully operational after registration in Egypt, against nine days on average in the OECD (World Bank, 2020a; GAFI, 2023). The actual time to register a company has been known to reach 30 days (OECD, 2019e, 2020b), although recent reforms, including the August 2023 opening of an e-platform by the General Authority for Investment (GAFI) to register new firms online, should cut the time for the firm to be listed in the company registry to as little as two days. The principle of "silence is consent" for business registration or licensing, which implies that licences are issued automatically if the competent licensing authority has not reacted by the end of the statutory response period, is not used in Egypt (around half of the OECD countries used this principle in 2018). The one exception is for new micro and small enterprises that apply to incorporate under MSMEDA. Since the entering into force of Law 152/2020 on MSMEs in April 2021, they receive a renewable one-year licence. After two years, if no further exchange of information with MSMEDA has taken place, the principle of "silence is consent" will apply and they receive a permanent licence. This practice greatly enhances the business environment and should be applied to most business incorporations that do not involve toxic or hazardous products.

The new e-platform registry will help speed up firm registration, and should strengthen the functioning of the Investor Service Centre, created within GAFI under the 2017 Investment Law to help with business incorporation. However, post-establishment administrative requirements, which are equally important, remain heavy and add significantly to the burden (OECD, 2020b). For instance, obtaining a construction permit takes longer and involves more steps than the regional and OECD averages (Figure 3.7, Panels A and B). The

overall amount of paperwork is also high. Registering employees for social security, a compulsory step in opening a business, involves providing copies of the graduation certificate of both the employer and the employee, as well as their birth certificate, and the lease agreement for the firm's premises. The latter is also required for VAT registration, limiting opportunities for internet and data service firms that may not need physical premises. In the United Kingdom, only four procedures are required when establishing a firm, and all of them can be conducted online. In New Zealand, registering a business takes only half a day, and involves a single procedure which can be conducted online (World Bank, 2020b).

Figure 3.6. Business licensing is a major constraint for domestic businesses and exporters

Percentages of firms in Egypt[1] identifying business licensing and permits as a major constraint, 2020



Note: 1. Share of respondent firms out of 3075 firms surveyed.
Source: World Bank, Enterprise Surveys.

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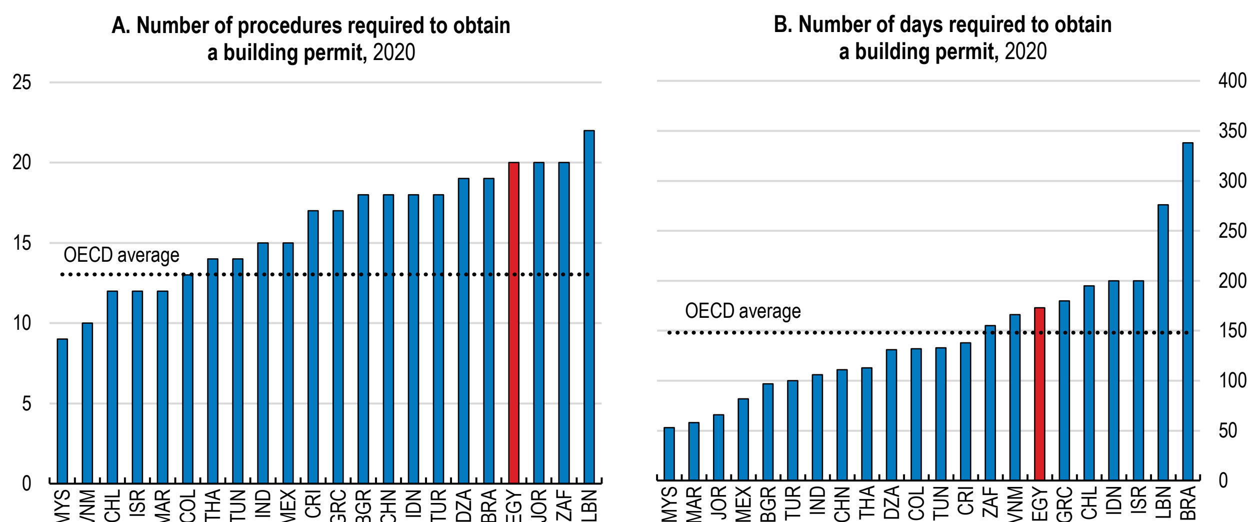
Egypt's regulatory landscape is also rather complex. The industrial sector is governed by seven different laws, 15 legislative amendments, as well as presidential decrees. Three ministries are directly involved in granting industrial licences (Environment, Interior and Health), but depending on the economic activity, a number of different ministries may be involved in providing licences and permits for the industrial sector. Other permits, such as construction permits, may be granted at the governorate level, subject to the local development plan. For heavy industry (such as steel and cement), their establishment or expansion requires a decision by the Prime Minister after determining the needs of the sector: investors then have to bid for licences that are made available by the Industrial Development Authority, with the final cost, the timing of new licences, the total market available, and the decision times not always known to bidders. Despite Cabinet decrees to address these issues in 2020 and 2021, just one bid has been submitted since. Some of the high licensing costs may serve to abate carbon emissions as these industries tend to be heavy polluters, but increasing transparency about the procedure, timing and cost would help to even the playing field for investors.

Egypt has taken steps to simplify the industrial licensing system. The 2017 Industrial Permits Act was intended to make the Industrial Development Authority (IDA) under the Ministry of Trade and Industry a one-stop-shop for industrial operating licences, as the only entity interfacing with businesses. However, manufacturers still need to seek pre-establishment approvals from local authorities, for instance for health and safety, or environmental impact, involving the Civil Protection Authority and the Environmental Affairs Agency, among others. This is also the case for the annual renewal of operating licences, which can lead to delays, reportedly of up to six months, which hamper business expansion, and may lead businesses to divest

or work in the informal sector (OECD, 2020b). Long delays and the multiple agencies involved may also provide opportunities for corruption. However, the IDA recently issued a number of regulations to facilitate land allocation – a major stumbling block for industrial projects – as well as the issuance of operating licences. Measures include a simplification of the documentation required for prior notification, and better co-ordination between agencies involved in the licencing process, through the creation of committees where the IDA will represent the investor before the General Administration of Civil Protection, or the Environmental Affairs Agency. These measures could reduce the time to acquire an industrial licence to seven days for low-risk projects, and 20 days for high-risk projects.

Figure 3.7. Obtaining permits is a lengthy and complex process



Source: World Bank, Doing Business Indicator.

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Building on this initiative, Egypt should take a step further and make the most of information technology to provide fully-fledged one-stop shops for licences, permits, and other procedural requirements to make service delivery more streamlined and user-focused, as per the OECD's *Recommendation on Regulatory Policy and Governance* (OECD Council, 2012). Fully implementing the Industrial Permits Act at the governorate level would help. The number of procedures involved in granting new and operational licences should be significantly reduced, and documentary requirements simplified. A recent measure now grants foreign investors a one-year residence permit during the incorporation period, allowing them to complete bank transactions, bank account opening and company incorporation procedures, but simplifying and digitising procedures would shorten the time needed for business incorporation.

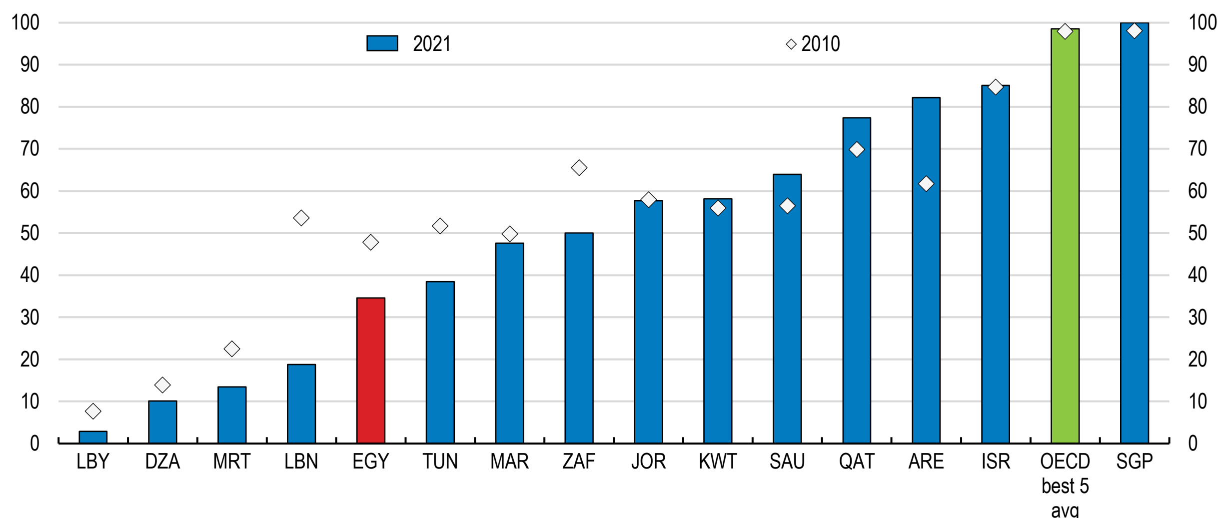
Further, to minimise delays, Egypt should implement the "silence is consent" principle for the issuing of business registration licences for non-industrial licences, provided authorisations are carefully drafted to minimise the risk that this would lead to increased informality. Businesses could, for instance, be required to simply register their new business on a website, to be given the ID number required to proceed with other formalities, for instance to open the business bank account, and to facilitate spot checks. This would significantly reduce the burden and costs on both businesses and the administration, and interventions would only take place in case of a genuine need, such as for products or activities with a risk to health or the environment. The OECD Standard Cost Model provides details on how to reduce administrative costs and burdens, taking advantage of the experience in the United Kingdom, the Netherlands and Denmark (OECD, 2007). The model was successfully applied in Greece in 2014, identifying cost savings up to EUR 3.28 billion (OECD, 2014b).

3.2.3. Performing regulatory impact assessments

Regulatory quality in Egypt is perceived to be low, hampering private sector development (WGI, 2022) (Figure 3.8). Poorly drafted legislation creates legal ambiguity and insecurity which undermines investor confidence, and hampers the cost-effective delivery of policy objectives (OECD, 2019e; 2020b).

Figure 3.8. Despite reforms, regulatory quality has declined

Regulatory quality[1], ranks from 0-100 (100=best)[2]



Note: 1. Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. 2. Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank). Singapore is the best performer. The Worldwide Governance Indicators collect six aggregate indicators, based on over 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. For details on the underlying data sources, the aggregation method, and the interpretation of the indicators see Kaufmann, Kraay and Mastruzzi (2010), "The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues", World Bank Policy Research Working Papers, No. 5430.
Source: World Bank, Worldwide Governance Indicators.

To support a leaner and more efficient regulatory framework, Egypt should systematically carry out regulatory impact assessments (RIA) of new draft legislation, before its enactment, in line with the 2012 *Council Recommendation on Regulatory Policy and Governance* (OECD Council, 2012). Such assessments should include the expected impact on the fiscal budget, the investment climate, the environment, gender balance and market competition (OECD, 2020c). Carrying out regulatory impact assessment also allows legislators to identify what means, other than regulation, may help achieve policy goals. This should be complemented with an ex-post assessment of existing regulations against clearly defined policy goals, to ensure that regulations remain up to date, are cost justified, cost effective and consistent, and deliver the intended policy objectives. The principle of proportionality of a regulation should be respected throughout the process, meaning that regulation should be proportional to the objective it seeks to solve (Box 3.1).

In 2019 Egypt re-launched ERRADA (Egyptian Regulatory Reform and Development Activity: Egypt's unit for regulatory review, first created in 2008) to support good regulatory practices, notably by assisting the government in improving regulatory quality and simplifying procedures. ERRADA's tools include the ability to carry out a light review of draft legislation, conducting "light RIA"; to meet stakeholders that will be affected by legislative changes; and to conduct workshops on best practices. This is an encouraging initiative, but to be effective, ERRADA would require a stronger mandate to perform RIA systematically on draft legislation, and this should include quantitative assessments. This in turn would require more resources being directed to the unit, including more staff with the technical capability to conduct quantitative impact assessments.

Box 3.1. The principle of proportionality in EU legislation

The "principle of proportionality" underpins the legislative process in the European Union. Under this principle, EU regulations: (i) must be suitable to achieve the desired end; (ii) must be necessary to achieve the desired end; and (iii) must not impose a burden on the individual that is excessive in relation to the objective sought to be achieved (proportionality in the narrow sense). In the case of a breach of the principle of proportionality, the measures may be challenged before the Court of Justice of the European Union.

Source: Treaty of the European Union, Article 5(4) (European Union, 2007).

Egypt would also benefit from an ex-post evaluation of its sector regulations (also known as Competition Assessment), i.e., a full review of all existing laws and regulations of a sector to scan for potential regulatory obstacles to competition, such as excessive standard requirements or legal barriers to entry (OECD, 2019b). This would be particularly beneficial for the three NSRP priority sectors, manufacturing, agriculture and the information technology and communication sector (ICT); or sectors with high employment or growth potential, for instance tourism; or sectors with a high regulatory burden, such as the network sectors (mainly utilities), discussed below (OECD, 2019b). In Australia, since the mid-1990s, the National Productivity Commission has systematically carried out an assessment of existing product market regulations in the economy, reviewing more than 1 800 laws. A first stock-taking after ten years of reviewing and eliminating regulatory restrictions found that observed productivity and price changes in a number of selected sectors boosted Australia's GDP by 2.5% (Productivity Commission, 2005).

In the past decade, several countries have undertaken such competition assessments with the support of the OECD, including Brazil, Greece, Iceland, Mexico, Portugal, Romania and most recently, Tunisia. In Greece, an OECD project identified benefits from lifting restrictions in four key sectors of the economy (tourism, food processing, retail trade and construction materials) amounting to more than 2.5% of GDP, while a review of tourism and construction in Iceland found benefits of around 1% of GDP from lifting sector regulatory restrictions (OECD, 2014c; OECD, 2020a). The Egyptian Competition Authority (ECA) has a mandate to review draft legislation for potential barriers to competition, but so far, its opinions are not binding. To improve the effectiveness of regulatory review, the ECA's opinions should become binding.

3.2.4. Improving legal certainty and trust with a more efficient judicial system

The regulatory framework and institutional capacity for overseeing a competitive business environment, and for conducting reform effectively, are crucial to promote market competition. An effective legal system can provide firms with greater certainty when doing business, and limit costs when disputes arise (OECD/WJP, 2019; OECD, 2021c). It can also help to reduce corruption risks. Prolonged times to resolve cases and lack of judicial efficiency are cited as important impediments to investment in Egypt (overall, Egypt ranked 93rd out of 141 countries in the latest World Economic Forum assessment; WEF, 2019). Inefficient courts also detract from the effectiveness of competition enforcement as well as the anti-corruption system. Egypt ranks 130th out of 139 worldwide for effective enforcement of civil justice, and likewise (130/139) for regulatory enforcement, with a rank of 138th out of 139 for the sub-indicator, conducting administrative proceedings without an unreasonable delay (WJP, 2021).

Egypt's courts remain under pressure from a high case load, despite the creation of the economic courts in 2008 (effective 2011). Around 9 million cases are settled annually in Egypt, but with an overall case load estimated at 12 million cases a year, this leaves a substantial backlog (Hesham, 2020). Enforcing contracts took on average 1 000 days in Egypt in 2019, of which 700 were spent on trial and judgement (Gold et al., 2019), almost four times the average in the European Union. The economic courts were created to relieve some of the pressure on Egypt's court system by treating all cases related to commercial and competition

law. Their remit was expanded in 2019 to also include consumer protection, bankruptcy, microfinance, cybercrimes, as well as aviation and maritime law, and in 2022 to include trade law. However, paper-based procedures continue to create many inefficiencies. Furthermore, outside of Cairo, the courts lack IT equipment and the means to implement automation which would help speed up processing cases. While economic court judges have received specialised training, further training is required to match the expanded jurisdiction since 2019 (Gold et al., 2019). Increasing judicial efficiency to support Egypt's business environment will require more targeted investment in economic courts outside of Cairo, including through donor funding, in equipment, training and more administrative staff. As part of a USD 77 million Comprehensive Economic Governance agreement between the US and Egyptian governments, a project to support the development of the economic courts, including through digitalisation and better governance, was launched in June 2022.

Alternative dispute resolutions can help resolve these problems. The revised 2017 Investment Law established alternative out-of-court forums for foreign and national investors for resolving commercial disputes, including mediation, with support from the Investment Dispute Resolution and Investment Contracts Dispute Resolution centres in GAFI, which also includes a Grievances Committee. In addition, Egypt has set up a Ministerial Committee on Investment Disputes Resolution and a Ministerial Committee on Investment Contracts Dispute Resolution. The 2018 Bankruptcy Law gives the economic courts the jurisdiction for overseeing both bankruptcy cases and alternative dispute resolution mechanisms such as restructuring. Requiring, or strongly encouraging, firms to attend an initial mediation session or other alternative dispute resolutions can promote out-of-court solutions, and would help make this an efficient system and reduce the case load. On average across EU countries, using mediation before deciding whether to go to court has been shown to reduce the overall time to resolve disputes by up to 60%, and to cut average costs per case – comprising the use of courts, mediators and lawyers – by up to 33% (De Palo et al., 2014).

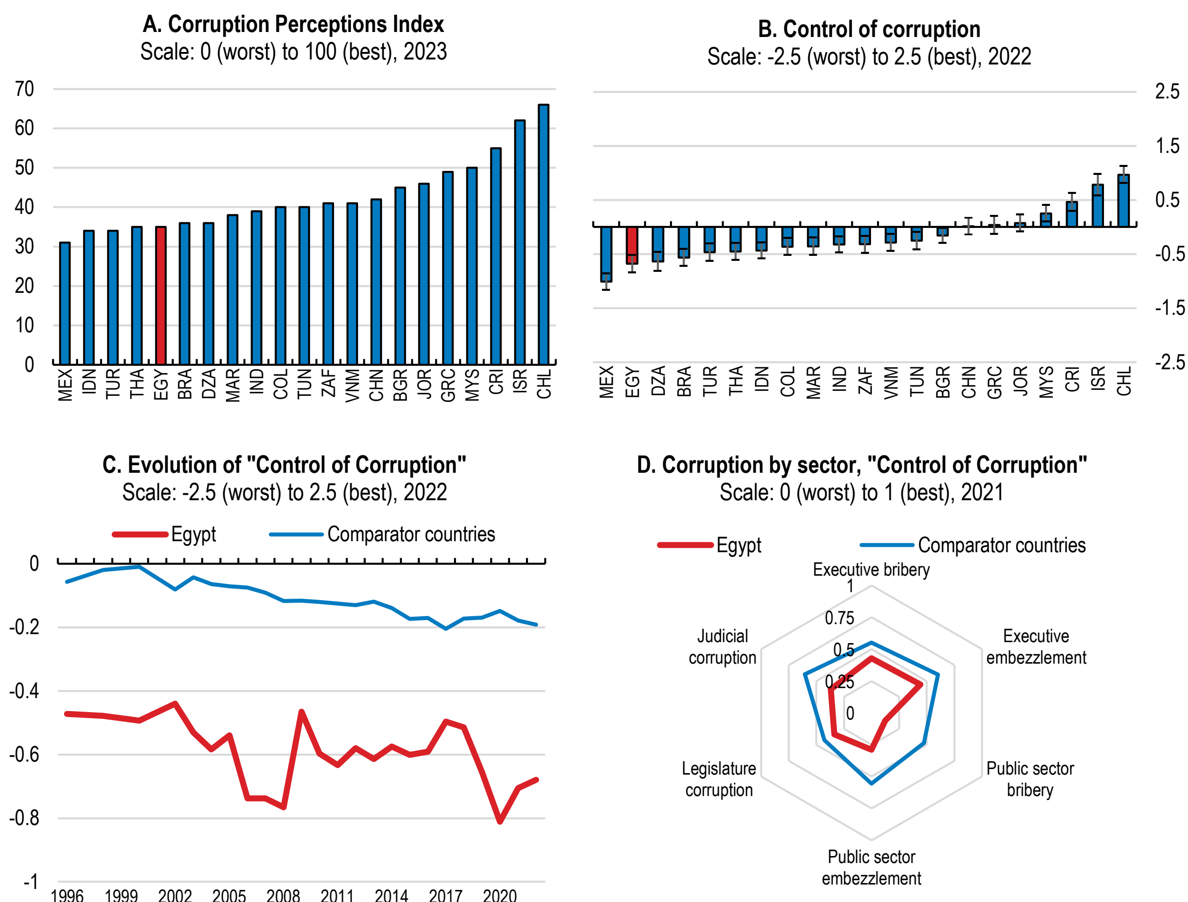
3.2.5. Combating corruption to promote a better business climate

Alongside judicial efficiency, tackling corruption is an important component of building an enabling business environment. Bribery and corruption discourage investment and distort international and domestic competitive conditions. Corruption hampers economic efficiency and leads to an inequitable allocation of resources. Moreover, the exploitation of public office for personal gain undermines state institutions and public trust.

Perceptions of the control of corruption are worse than in many comparator countries and have tended to worsen over the past decade (Figure 3.9). Corruption is seen to be pervasive in Egypt according to several sources, encompassing both "petty corruption", such as facilitation payments, within the public sector, and "grand corruption" involving officials abusing public institutions. 35% of surveyed firms in 2020 identified corruption as a major constraint for doing business and 41% of firms expected to have to give a gift in order to obtain a construction licence (World Bank, 2020c).

Tackling corruption is high on the political agenda in Egypt. *Vision 2030* has a strong focus on strengthening reform and good governance in the civil service to combat corruption and promote transparency and integrity. The Administrative Control Authority (ACA) was created in 1964 and has jurisdiction over state administrative bodies, SOEs, public associations and institutions, private companies undertaking public work, and organisations to which the state contributes in any form. The ACA reports to the President, who also appoints its head. However, the Law grants the ACA technical, financial and administrative independence, and the head of the ACA has the rank of minister and appoints the rest of the staff. Additional entities to fight and prevent corruption include a specialised national academy to build the capacity of ACA staff (OECD, 2020b). Other actors that have a role in supporting public integrity in Egypt include the Central Agency for Organisation and Administration (CAOA), the Accountability State Authority, and the National Institute for Governance and Sustainable Development within the Ministry of Planning and Economic Development.

Figure 3.9. Perceptions of corruption are high



Note: Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Panel B shows the point estimate and the margin of error or confidence interval. Panel D shows sector-based subcomponents of the “Control of Corruption” indicator by the Varieties of Democracy Project. For the definition of comparator countries in Panels C and D refer to the note in Figure 3.1.
Source: Transparency International; World Bank, Worldwide Governance Indicators; Varieties of Democracy Project, V-Dem Dataset v12.

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On paper, Egypt has a strong legal framework to address corruption. It ratified the United Nations Convention against Corruption in 2005. The Egyptian penal code criminalises active and passive abuse of power including facilitating payments and bribes, and a Conflict-of-Interest Law targeting senior public officials was passed in 2013. However, Egypt is not party to the OECD *Convention on Bribery of Foreign Public Officials in International Business Transactions.* A National Strategy for Combatting Corruption has been in place since 2014, with two programmes implemented in 2014-18 and 2019-22, while the third phase, to run from 2023 to 2030, was launched in December 2022 by the ACA. Yet, despite robust laws and multiple administrative efforts, corruption and money laundering remain a concern. The OECD Financial Action Task Force identifies Egypt as being exposed to “domestic risks of money laundering, terrorist financing and proliferation”, in addition to risks related to transnational activities owing to its geographical position and long land borders, as well as the large size of the informal economy, which means that many transactions remain cash-based (FATF, 2021). The lack of progress with fighting money laundering and corruption is mainly because of poor implementation of the instruments in place, shortcomings in complaint mechanisms, such as assured anonymity, and a lack of protection of whistle-blowers, poor auditing, difficulties for the public to obtain information, and insufficient monitoring of anti-corruption policy (European Commission, 2017; FATF, 2021; Bertelsmann Stiftung, 2022).

The Money Laundering Combating Unit, under the Central Bank of Egypt (CBE), is in charge of the supervision and enforcement of anti-money laundering measures. New regulations from late December 2023 aim to tighten banks' monitoring of cash flows, particularly transactions made in USD and credit card deposits. The CBE and the Federation of Egyptian Banks have introduced measures to incentivise individuals and small businesses to join the formal financial sector. To this end, the National Council for Payment (NCP) was established in February 2017 to limit cash usage, encourage the adoption of electronic payment methods, and integrate citizens and businesses into the banking system. The CBE issued new regulations in March 2023 to introduce tokenisation services and promote the use of electronic and contactless payment methods. This has resulted in a significant increase in mobile payment accounts ("mobile wallet"), with around 34 million users by June 2023, according to the State Information Service. In addition, the Central Agency for Organisation and Administration is developing a new Code of Conduct and Ethics for internal compliance in the public administration.

Reforms should prioritise strengthening private sector and civil society involvement in promoting integrity. Indeed, promoting integrity is not only the responsibility of the public sector, but also that of citizens, civil society organisations and the private sector, as they can harm or promote integrity with their actions (OECD, 2017). This entails engaging relevant stakeholders in developing, updating and implementing public integrity policies, raising awareness in society of the benefits of public integrity, and encouraging misconduct reporting, amongst others. Legislating to safeguard whistle-blowers is also crucial (OECD, 2020b). Additionally, fostering a culture of accountability, integrity, and transparency across both public and private sectors is crucial, notably through public awareness campaigns that emphasise how civil society and the private sector are key actors in supporting public integrity, and providing civic education programmes at all levels of education to cultivate skills and behaviours to uphold public integrity (OECD, 2020d).

Some progress has been made in this area. The government is carrying out initiatives to promote awareness, education and training in the field of anti-corruption, mainly through the ACA, to raise awareness and improve public knowledge of corruption. Measures include support for anti-corruption education; promoting ethics and integrity training; and adopting the Global Initiative for Anti-Corruption Education and Youth Empowerment. Moreover, governments can also encourage integrity within the private sector by ensuring public integrity standards are established and implemented in companies, in particular through their lobbying and political financing practices, as well as in the movement between the public and private sectors (OECD, 2020d). To strengthen public integrity systems and practices, Egypt could also adhere to the OECD Convention on Bribery, and the *OECD Recommendation on Public Integrity*, both of which are open to non-members.

Corruption in public procurement particularly harms private sector business dynamism notably by undermining investor confidence. A new Public Procurement Law was passed in 2018 to regulate public procurement processes. However, SOEs are exempt from its provisions, and the law still allows direct awards to "non-civil" entities (Tiemann et al., 2021). Since 2020, public entities must have a governance and compliance unit in charge of internal audits and monitoring of procurement, and the Ministry of Finance has announced its intention to start publishing all government procurement contracts above EGP 20 million on a monthly basis. Once it has been applied, the Ministry of Finance will also publish information on all bids made, the winning bid, and names of successful bidders. These are important steps to ensure that public procurement is competitive, non-discriminatory, and transparent (IMF, 2023). However, with the exception of the public health sector, there is no central government procurement authority. Each public entity carries out its own procurement which runs counter to recommended practice (OECD, 2015b), which is to centralise procurement to minimise opportunities for corruption and to enhance purchasing power.

OECD work on fighting bid-rigging in public procurement (OECD, 2023a) also underscores the benefits from centralising procurement. A survey of OECD member states found that central purchasing bodies obtain better prices for goods and services (100%), lower transaction costs (96%), improve capacity and expertise (81%), increase legal, technical, economic and contractual certainty (81%), and provide greater simplicity and usability (78%) (OECD, 2015e). Additionally, central purchasing bodies can play an important role in the implementation of secondary policy objectives, such as environmental considerations. The government is in

the process of establishing an e-procurement platform. Doing so would also help minimise opportunities for bid-rigging. Under the OECD Egypt Country Programme, the OECD is engaged in a project on public procurement focusing on SOEs. Progress in this area requires fully implementing the new procurement law, removing the procurement exemptions for SOEs except in exceptional cases, which need to be clearly defined and published, as well as the direct-award option for non-civil entities. The authorities should also consider the benefits of moving towards more centralised procurement.

3.2.6. Strengthening the competition law and the competition authority

A good regulatory framework needs to be supplemented by an effective competition law and enforcement framework to enable market competition. Fair competition between firms allows for better outcomes in terms of innovation, prices and product quality while anticompetitive conduct by dominant firms can seriously inhibit incentives to innovate and diversify (Nickell, 1996; Aghion et al., 2005).

The Egyptian Competition Law was introduced in 2005, and the Egyptian Competition Authority (ECA) began functioning in 2006. The Competition Law covers both private and public operators, prohibits horizontal agreements, vertical constraints and abuses of dominant or monopolistic positions. The law does not apply to agreements made by the government to fix the price of designated “essential products”, nor to public utilities managed by the state or any of its public juristic persons. The Competition Law has been amended four times, in 2008, 2014, 2019, and 2022, to allow for merger control. From early on, the ECA took fairly strong action against breaches of the Competition Law (OECD, 2011a and 2012b). The 2014 amendments reinforced the ECA’s independence and powers to conduct investigations and strengthened its enforcement tools through enhanced settlement powers and a leniency programme. As a result, the number of ECA decisions against anticompetitive practices increased significantly from 2015, covering a wide range of markets, including insurance, pharmaceuticals, fertilisers, the health sector and poultry, and cases of abuse of dominance in telecommunications, electricity, media, health and sports (Arezki et al., 2019).

In 2017, the ECA carried out its largest bid-rigging case related to public tenders for governmental and university hospitals, which involved seven of the biggest suppliers in Egypt of medical equipment for heart and chest surgeries (Talaat and ElFar, 2017). Other large cases include a price-fixing cartel among 70 clay brick factories which was referred to court (Egyptian Competition Authority, 2018), and a case against the Qatari sports broadcaster, beIN, which was fined for abusive bundling of international football events (Nasser Al-Khulaifi / beIN Media). More recently, the ECA took on Uber to prevent a take-over of a regional ride-sharing firm. As a relatively young agency, the ECA’s track record has improved in recent years, in particular with regard to strengthening the legal framework, enhancing international co-operation (which is increasingly crucial for effective competition enforcement to address violations by multinational firms), and improving its enforcement (UNESCWA, forthcoming).

Sufficient staff and budget for competition authorities are key for them to function effectively and independently (European Commission, 2014). Budget allocation is a critical point on which undue pressure could be exercised and where appropriate safeguards should be in place (OECD, 2016a). Egypt’s enforcement record holds up well amongst its peers, but it has completed comparatively fewer cartel cases (Figure 3.10, panels B and C). Cartel investigations are resource intensive, and the ECA has fewer resources than most other competition authorities, even compared with the rest of the Middle East and Africa (Panel A), and despite its large population size. The state budget approved annually by Parliament includes ECA funding, but without a dedicated line of appropriation. Additional funding for the ECA can be provided in the form of grants or donations and, since the December 2022 amendment, a small fee for merger notifications. However, the executive regulations for the 2022 law have still not been published. To support its competition enforcement efforts, not least in light of the heavier burden implied by the work on competitive neutrality, the ECA could benefit from more staff and financial resources. This would also bolster its independence. Ideally, the agency should be funded from a combination of sources, to reduce the risk of dependence on a single source of funding (OECD, 2016a).

Figure 3.10. Egypt's competition enforcement could improve further with more resources

A. Competition enforcement resources
2022

B. Number of cartel cases

C. Number of abuse of dominance cases

Note: Data for Egypt was provided by Egypt Competition Authority and country aggregates were computed by OECD based on CompStats database. In Panel A, values were converted in 2015 EUR using exchange rates on 31 December 2015.In Panels B and C, the number of cases refer to absolute number of cases for Egypt and simple averages for country aggregates. Middle East and Africa* include Botswana, Egypt, Kenya, Mauritius, Tunisia, and Common Market for Eastern and Southern Africa (COMESA). For the definition of comparator countries refer to the note in Figure 3.1.
Source: Comp Stats, Egypt Annual Competition Reports to the OECD Competition Committee (2020 and 2021), ECA, OECD calculations.

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The ECA's mandate and ability to support the government's competitive neutrality policies (see below) could be further improved with stronger independence to support its enforcement powers and guard it from political interference. The ECA's governance structure may affect its independence, as the Board has ministerial representation, contrary to suggested good practice (OECD, 2016a). This is particularly important in view of the ECA's central role in the recently created Higher Committee for Competitive Neutrality, which has been set up under the Cabinet to help preserve a level playing field in markets where SOEs are operating, discussed below. The Committee, which involves several key ministries, is tasked with examining breaches of competitive neutrality. One of the Committee's first decisions involved an exclusivity contract carried out between a state authority and an undertaking affiliated with the military. The ECA's powers related to competitive neutrality include tackling discrimination on any basis, including state ownership. The ECA's Competitive Neutrality Strategy states that maintaining competitive neutrality includes encouraging a level playing field between all undertakings, regardless of ownership, nationality, or size.

As an enforcer, the ECA can document violations, issue cease and desist orders against anticompetitive practices and reach extra-judicial settlements with wrongdoers, but only the economic courts may impose fines for antitrust violations. The inability to sanction and to issue fines creates uncertainty on the final outcome of the ECA's decisions and may make deterrence less effective (OECD, 2016a; Arezki et al., 2019). Moreover, the economic courts which deal with anti-trust violations have a high case load and enforcement is slow, further eroding the deterrent effect, as discussed above. To increase judicial certainty, the ECA could be granted the powers to sanction anticompetitive conduct associated with the ability to issue administrative fines for breaches of competition law, which is common in many OECD jurisdictions, and only refer criminal matters, such as cartels, to be decided by a court. In the case of Egypt, such measures would help safeguard the independence of the ECA and increase deterrence.

Further amendments to the Competition Law are pending in parliament to grant the ECA more independence. These amendments would create a more independent Board. They also give the ECA more budgetary autonomy, and it would gain the power now held by the judiciary to sanction anticompetitive practices and increase transparency through enhanced publishing obligations. These amendments should be passed as soon as possible. An amendment to improve the ECA's independence should include granting it the status of "Autonomous Organisation" (Article 125 of the Egyptian Constitution) similar to other regulators such as the Financial Regulatory Authority or the Central Auditing Organisation. This entails being technically, financially and administratively independent; and the ECA would have to be consulted with respect to the bills and regulations that relate to its field of work.

3.3. Increasing competitive pressures through trade and foreign investment

Strengthening competitive pressures from abroad through trade and foreign direct investment raises competition (Arnold and Grundke, 2021) and increases firms' competitiveness (Sakakibara and Porter, 2001). With total trade at around 40% of GDP (Chapter 1), Egypt's economy is significantly less open to international trade than other emerging market economies of similar size. Trade liberalisation is associated with higher levels of investment and output (Boubakri, Cosset and Guedhami, 2005).

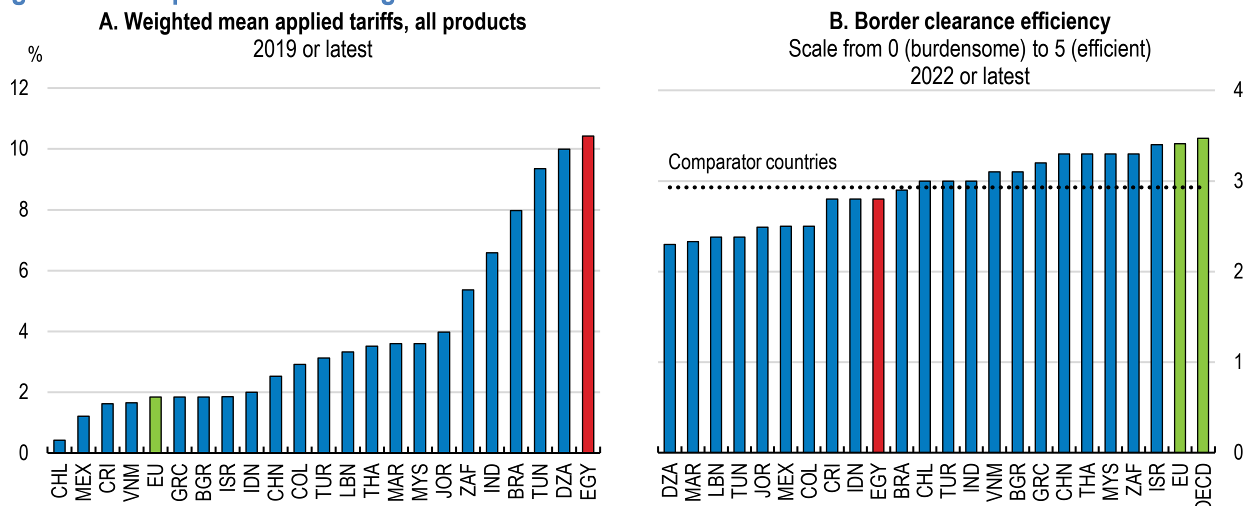
Competition in the domestic market can also be spurred by stimulating direct competition between foreign counterparts and Egyptian firms by attracting more inward investment. Access to superior service inputs, including through FDI, is crucial for advancing sectors like manufacturing, boosting economic growth, and creating more job opportunities. FDI can also help rebuild Egypt's capital stock and contribute to an expansion of exports, and increased participation in global value chains. Foreign firms bring innovation, introduce new products, improve processes, invest in R&D and tend to use more sophisticated technologies. Therefore, attracting FDI can enhance competitiveness and support the development of local enterprises through technology transfers, expertise and skills acquisition (OECD, 2020b, 2022b). To this end, and as part of its role in investment promotion, GAFI has set up an interactive online "investment map" to showcase different investment opportunities in Egypt to both local and foreign investors. It recently revised the investment-map development process to facilitate addition of more opportunities by different government agencies in various economic sectors. Information on the opportunities listed on the investment map includes property type and location, sector and market size, infrastructure availability and cost, incentives for the project, whether for local or export production, and associated costs, fees and permits for the project set-up.

3.3.1. Tariff and non-tariff barriers are high

In Egypt external competition is hampered by trade barriers. Average tariff levels weighted by trade are the highest amongst regional peers, and more than twice as high as in Morocco or Jordan (Figure 3.11, Panel A). Egypt's average trade weighted tariff was 10.5% in 2019 (most recent comparable data), but tariff rates are higher for agricultural products, and for imported alcoholic beverages (notably for the important tourism sector) where the maximum tariff is 3000%, and products that compete with Egyptian manufactured products

such as textiles, where the tariff rate is 40-60%. The system is difficult to navigate: it contains 7 850 tariff lines (World Trade Organization, 2019) and rules change frequently (US Department of Commerce, 2022). The presence of import tariffs cushions many sectors from the forces of external competition. Opening up for trade, by lowering, simplifying and streamlining tariffs, would give a significant stimulus to competition. Moreover, increasing trade can help alleviate poverty over time through increasing the number and quality of jobs, stimulating economic growth and driving productivity increases. The poor also benefit from lower prices of imported goods when trade barriers come down (Bartley Johns et al., 2015; OECD, 2009b).

Figure 3.11. Import tariffs are high



Note: In Panel A, data for the countries presented refer to 2019 except for Thailand (2015), Tunisia (2016), Israel (2017), Mexico (2018), Jordan and Malaysia (2020). Weighted mean applied tariff is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. When the effectively applied rate is unavailable, the most favoured nation rate is used instead.
Source: World Bank, World Development Indicators; World Economic Forum (2019), Global Competitiveness Index 4.0.

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Competitive pressures are reduced when firms shelter behind non-tariff barriers. Egypt remains among the group of developing countries that have the highest frequency index, i.e., the share of products that are subject to non-tariff measures, and coverage ratio, i.e., share of imports that is subject to one or more non-tariff measures (Youssef and Zaki, 2019). Non-tariff measures include heavy registration and documentation rules, and the requirement to obtain an import licence. A long list of items such as household goods and beauty products must be pre-registered with the Egyptian General Organisation for Export and Import Control, under the Ministry of Trade and Industry, or they will be refused entry (US Department of Commerce, 2022). Technical barriers such as additional product requirements and local standards are widespread (Youssef and Zaki, 2019). While this is ostentatiously for quality assurance purposes, the effect is to limit competition, and simpler procedures, including mutual recognition of products that already fulfil national standards, would benefit trade. Such non-tariff barriers are essentially anticompetitive, and Egypt may forego opportunities to participate in global trade if the costs to meet additional market requirements are too high. Such costs can be related to product and production requirements, the conformity assessment and certification requirements, or to information requirements. These tend to be particularly prohibitive for small firms where the cost of simply gathering the necessary information can be disproportionately high. Well-designed and efficient processes, including use of relevant international standards, can help facilitate participation in trade by more and smaller firms, help ensure consumer trust, and help support good regulatory practices (OECD, 2023d). Previous studies also found that non-tariff barriers have a negative effect on trade in Egypt and the wider region (Ghali et al., 2013; Péridy and Ghoneim, 2013). OECD work to assess the impact of trade facilitation measures during COVID-19 demonstrate the importance of trade facilitation to support an effective supply chain (Sorescu and Bollig, 2022).

Efforts to automate administrative processes through the 2020 Customs Law are welcome and should be stepped up to reduce trading costs and delays. As international trade becomes more digitalised, customs procedures should be further streamlined to keep up with global progress (OECD, 2022d). In this respect, the creation of the National Single Window (*Nafeza*), which is meant to facilitate external trade and is becoming compulsory for any goods exported to Egypt, should support faster custom clearance, despite some teething problems, which are holding up the full roll-out of the programme. Border clearance has improved but remains comparatively slow (Figure 3.11, Panel B). To support faster import release, the General Organisation for Export and Import Control (GOEIC) is working on a new risk management system for inspection and testing of imported non-food industrial products, which should speed up processes by reducing the number of inspections to those selected by the risk matrix. However, Egypt should also simplify its tariff regime. Foreign traders whose products already meet domestic standards should not have to preregister their products with GOEIC. Import licences could be replaced by a simple registration with the customs authorities, as is the case in Europe, except for hazardous or security-related products. Removing pre-shipping clearing formalities, even if they comply with WTO rules, and abolishing pre-authorisation for products that meet domestic standards, would facilitate trade, and support a more competitive business climate. Digital trade facilitation measures can support such efforts (OECD, 2022d).

Trade liberalisation would support Egypt's growth strategy. Costa Rica, for instance, undertook a vast trade liberalisation programme in the 1980s as part of its development strategy. It cut import tariffs unilaterally, from an average of 46.3% in 1982 to 16.8% in 1989 and 1.43% by 2021. Costa Rica also entered a large number of preferential trade agreements, supporting the creation of a robust export platform. Trade liberalisation has hugely benefited the economy and led to a profound diversification of the export portfolio, along with the emergence of new export, business and employment opportunities, including high value-added industries such as medical equipment and business services. The broad diversification of exports is a source of resilience during negative economic shocks, as witnessed during the Covid-19 pandemic (OECD, 2011b, 2023c; WITS, 2023). Costa Rica's ambitious trade agenda has however demanded significant resources from the government plus technical expertise, which have been provided in part by international institutions and donors.

Other trade facilitation measures could involve the customs authorities liaising with all importers, exporters and manufacturers of essential goods, providing regular information on shipments of critical supplies and compiling concerns from the private sector to facilitate information flows, as implemented by New Zealand Customs (OECD, 2022d). New Zealand, in the mid-1980s, embarked on a thorough trade reform: over time, it unilaterally reduced tariffs (now at 2.2%), dismantled subsidies for its protected agriculture, and removed import licensing requirements, as part of a broader economic reform programme, boosting trade and inward investment (WTO, 2022). A twinning project, such as the two-year project between the Italian and Egyptian customs authorities from March 2021 to strengthen the administrative and operational capacities of the Egyptian Customs Authority, under the aegis of the European Union, is also a useful measure which could be replicated with other trading partners (EUItalia, 2021).

3.3.2. Barriers to foreign direct investment remain high

Regulatory obstacles to FDI are greater in Egypt than in most OECD and other emerging countries, hindering market competition. To create a conducive investment climate for foreign investors, Egypt has undertaken reforms, such as the 2017 Investment Law, which lifted most ownership restrictions for foreign nationals. However, certain sectors still require a joint venture with 51% Egyptian co-ownership. Additional recent legislative changes, including the new Companies Law, Bankruptcy Law, and Customs Law, further support investment activities for instance by allowing a smaller customs levy on firms that fall under the Investment Law.

Despite these reforms, Egypt has scope to further reduce barriers to FDI as reflected in the OECD FDI Restrictiveness Index (Figure 3.12), although Egypt performs better than some OECD member states.

Sector-specific legislation maintains foreign equity restrictions and imposes limits on foreign-controlled firms' entry and operations. Restrictions exist on foreign ownership in activities such as civil aviation and tourism transportation (OECD, 2020b). Commercial agents must be Egyptian nationals. However, a May 2023 legal amendment allows foreign investors to be registered as importers for a 10-year period, even if they do not hold Egyptian citizenship, to help them import goods for their projects.

Figure 3.12. There is scope to improve Egypt's FDI regime

A. FDI restrictiveness index

Index: 0 (less restrictive) to 1 (more restrictive), 2020

B. FDI restrictiveness index by economic sector

Index: 0 (less restrictive) to 1 (more restrictive), 2020

Note: The FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment across 22 economic sectors and is bound between 0 (open) to 1 (closed). It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: 1) foreign equity limitations; 2) discriminatory screening or approval mechanisms; 3) restrictions on the employment of foreigners as key personnel and 4) other operational restrictions, e.g., restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. The discriminatory nature of measures, i.e., when they apply to foreign investors only, is the central criterion for scoring a measure. The FDI Index is not a full measure of a country's investment climate. A range of other factors come into play, including how FDI rules are implemented. For the definition of neighbouring countries in Panel B refer to the note in Figure 3.1.
Source: OECD (2023), Foreign Direct Investment restrictiveness indicator.

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All foreign investments, including touristic activities, undergo security screening and require government approval on a case-by-case basis, leaving room for discretion and causing delays. A new decree aims to reduce the duration of security screenings to ten days, past which the security clearance is considered to be

granted. This would be a positive step. Foreign ownership of agricultural land, as well as land in the attractive Sinai Peninsula and border regions is prohibited. Investment projects in Sinai require an Egyptian shareholding of at least 55%, but a 2022 decree exempts the sites of Sharm-el-Sheikh, Dahab and Aqaba from this provision. While a recent presidential decree grants the right to apply for Egyptian citizenship to investors that invest more than USD 300 000, or make a non-refundable deposit of a similar amount with the Treasury, it remains unclear whether this grants access to land purchase in restricted areas. Removing remaining barriers to foreign involvement, particularly for commercial agents, traders, and the tourism transport sector, could attract more inward investment and foster market competition.

3.3.3. Simplifying incentives to minimise the anti-competitive impact

Tax incentives, when well-designed, can effectively encourage investment in areas such as R&D, innovation and the green transition. However, poorly-designed incentives may limit efforts to mobilise tax revenues, or even reduce them, without generating new or significant "additional" investment, thereby creating windfall gains to investors that would have invested anyway, even in the absence of the tax incentive, or yielding investments of low quality, with limited spillovers on productivity and employment (OECD 2022c). To ensure a level playing field, as recommended by the OECD Council (2021), the authorities could improve the design of their tax incentives, notably by using cost-based rather than profit-based tax incentives (OECD, 2022c).

Egypt employs a wide range of tax incentives to attract foreign investors (although in principle incentives are available to all investors), including tax holidays, income tax exemptions, accelerated depreciation, reductions in customs duty, and stamp duty exemptions for new projects. So-called "special tax incentives" are granted based on criteria related to investment type and location, ranging from 50% to 30% of investment costs, such as for investments in green hydrogen; in labour-intensive projects (if the wage cost exceeds 30% of the operating costs); projects where exports account for at least 50% of the output; or investments in deprived areas. Egypt also implements various special ("free") zone regimes, again depending on location and the type of investment. These include Free zones, Investment zones, Technological zones, Industrial zones and, under a separate law, the Suez Canal Economic Zone (Box 2.4). The Council of Ministers can also grant a "Golden Licence" to targeted investors in accordance with a list of project types and criteria that was expanded in 2023 to include green and infrastructure projects (Box 3.2). By mid-February 2024, 26 such licences had been awarded according to GAFI, the General Authority for Investment.

GAFI assesses eligibility for the special tax incentives, while the Ministry of Trade and Industry can provide incentives for industrial projects, and the Council of Ministers can provide additional non-tax incentives on a case-by-case basis, such as free personnel training or separate customs facilities, a rebate on land costs and on infrastructure costs. So far these types of incentives have not yet been allocated as they involve post-project allocations from the state budget, requiring multi-authority co-operation. Moreover, granting post-establishment incentives involves paying out state financing that is not allocated in the budget, which creates a dilemma from a fiscal perspective, and may render the incentives difficult to implement *de facto*.

Inconsistent interpretation of incentives can distort competition in the market. Moreover, incentives that target specific locations or sectors may not yield the expected results (OECD, 2020b). In Egypt, the complex governance structure of both tax and non-tax investment incentives, with multiple overlapping authorities empowered to grant permissions, and several co-existing legal texts, further increases the risk that incentives do not fulfil their foremost objective of attracting more foreign investment. Consolidating tax incentives into a single law under the Ministry of Finance can increase their transparency and reduce potential overlap and duplication (OECD, 2022b). Such work is currently underway by the Ministry of Finance, to support a more stable tax legislation environment. This is encouraging. Tax incentives should furthermore be reviewed regularly to ensure they continue to be the right policy instrument to meet the investment objectives.

The granting of incentives should ideally be triggered by "outcome conditions" which are a more indirect way of linking tax relief to substance than minimum conditions: for instance, tax relief could be conditioned ex-post on the firm effectively creating a certain number of jobs, or reaching a certain value-added to output

ratio; or investing a determined share of capital in R&D (OECD, 2020b, 2022c). An OECD project on tax-incentive reform in Egypt is ongoing and will include a discussion on the interaction between tax incentives and the global minimum tax (OECD, 2023b/CTP, forthcoming). The Ministry of Finance is working to standardise tax rates and exemptions, and aims to review them regularly. Two reports on tax policy and tax expenditure are also under preparation (Chapter 2). These should be published as soon as they are ready to increase transparency and certainty for businesses.

As in the case of investment incentives, several bodies appear to have overlapping roles with respect to investment policy. The 2017 Investment Law grants the Supreme Council of Investment, under the President of the Republic, the power to establish investment frameworks and policies, while GAFI oversees operational matters. The Council approves the investment policies and plans that determine the priority of targeted investment projects in alignment with the state's overall policy, economic and social development plan, and sets investment priorities. Between 2017 and 2019, the Ministry of Investment co-existed with the Council, but the Ministry was then absorbed by the Prime Minister’s office in December 2019, and the Prime Minister became the acting Minister for Investment (the 2017 Investment Law stipulates that there must be an investment minister; it would require a new law to remove this position). Formally, it thus appears that the Prime Minister is mandated with the formulation and execution of investment policy in co-ordination with the Cabinet of Ministers, while GAFI remains in charge of investment promotion. At the same time, the provision of investment incentives formally lies with GAFI, but the Ministry of Trade and Industry and the Supreme Council for Investment can also grant incentives, while the Ministry of Finance is tasked with their execution.

Separating the functions of investment promotion and operational matters from the overall formulation of investment policy strategy, and multiplying the bodies involved in investor relations, may lead to co-ordination difficulties that could hamper effective implementation of reforms and the maximisation of investment potential. It also makes the institutional landscape more opaque for investors. Egypt’s business environment would benefit from having a clearly communicated investment strategy with the investment portfolio gathered into a single entity, for instance, a fully-fledged Ministry of Investment, while GAFI should be solely in charge of investment promotion. Subsequently, reporting lines and the division of tasks and responsibilities between the Supreme Council for Investment and GAFI should be further clarified and enforced, beyond the provisions in the 2017 Investment Law, to enhance transparency and ease of use for investors. Decisions arising from other ministries that affect the process and cost of doing business should be cleared by a technical body, for instance a secretariat within the Supreme Investment Council, or in a future Ministry of Investment, to limit any negative impact on the wider business climate.

Box 3.2. The Golden Licence

A so-called Single Approval, or “Golden Licence”, was created in the 2017 Investment Law. It dispenses the investor from all further licensing procedures. Issued by the Council of Ministers, rather than the usual channels, it is supposed to be quick, comprehensive and directly enforceable. A holder of a Golden Licence may also be granted further tax incentives and reductions in fees and customs duties, as well as in-kind “special incentives”, such as a special customs outlet for the project’s imports or exports. The state also offers to bear the costs of connecting utilities, training personnel, and allocating plots of land, among other incentives.

The use of the Golden Licence system has been expanded, and investors are encouraged to apply through GAFI or directly through Cabinet. The list of criteria of eligibility to obtain the licence, including the type of project, the legal form of the firm and other attributes, has been expanded beyond the previous ‘priority’ areas. However, the Committee at GAFI that oversees the attribution of the Golden Licence acts on a case-by-case basis with full discretionary powers over the attribution of the licence, and it is not clear how the different criteria are weighed up. The process remains heavy: the applicant still has to submit a similar number of documents as for a normal business licence application. There have also been teething problems, with investors reporting that local authorities do not recognise the legality of the licence. The

Golden Licence does not address the wider issue of over-regulation; it merely increases the speed at which successful applicants obtain their licences. Finally, the distinction between projects that receive the usual investment incentives, and those that obtain the Golden Licence, is not clear. Recent changes to the executive regulations of the 2017 Investment Law expanded the use of the Golden Licence to include most legal forms of companies, not just those established under the Investment Law, and to companies established before the Investment Law came into effect. However, while all firms are now in theory eligible, the size and nature of the projects on offer (such as green hydrogen plants) for the Golden Licence means that most such licences will be awarded to large firms.

3.4. Reducing the state footprint to support competitive markets

The state may choose to have recourse to SOEs to help address market failures, ensure fast or quality public service delivery, and contribute to the broader economy, provided they operate efficiently, transparently and on a level playing field with private enterprises. However, state-ownership is often associated with weaker corporate performance, in particular for firms that are wholly owned by the state, with inefficient management and declining or even negative returns on assets (Musacchio, Lazzanini and Farias, 2014). Poorly governed SOEs can negatively affect wider economic growth, crowd out more productive private sector activity and strain public resources (Szarzec, Dombi and Matuszak, 2021). When inadequately regulated, they can also be abused for political patronage or self-enrichment, reducing the confidence of public and private investors (OECD, 2015c, 2018a).

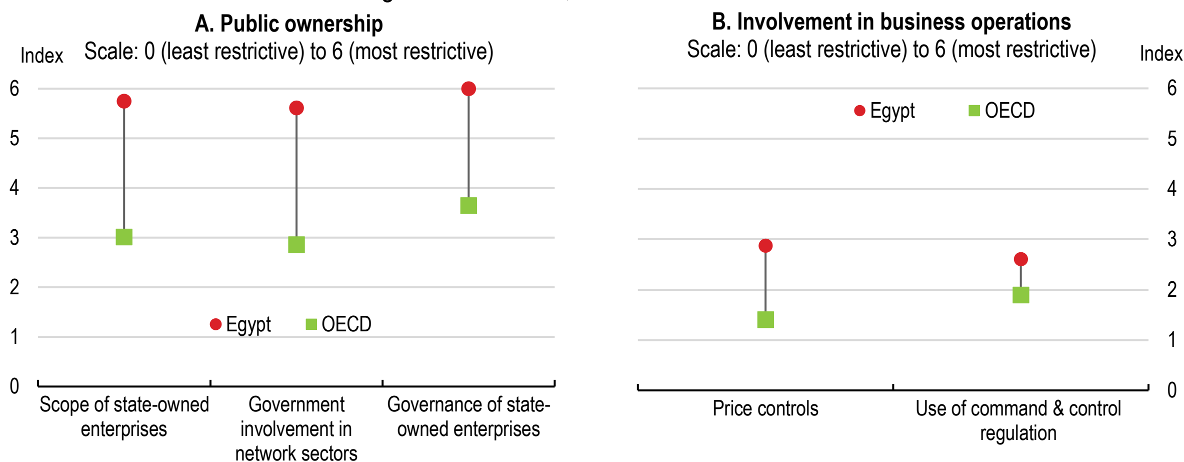
Public ownership and state-involvement are factors that likely distort market competition in the Egyptian economy. According to the OECD-World Bank product market indicators (PMR), the governance of SOEs does not conform to best practices, while the state is highly dominant in the network sectors, such as electricity, water, energy, railways, insurance and aviation (Figure 3.13). The PMR indicators were collected in 2017, but according to the latest available data, the state maintains a dominant presence in the network sectors, which remain heavily regulated, and the state often plays a dual role as both owner and regulator, potentially leading to conflicts of interest. This affects competition and productivity both in those sectors and in the downstream sectors that rely on their inputs, for instance, manufacturing (Conway and Nicoletti, 2006). Indeed, a study carried out in India found that reforms to liberalise similar service sectors, such as the banking, telecommunications, insurance and transport sectors, all had significant positive effects on the productivity of manufacturing firms (Arnold et al., 2015). Reducing the weight of the state in the economy by carrying out privatisations, implementing a level playing field, and resolving conflicts of interest in network sectors, would support private sector expansion.

It is difficult to fully gauge the extent of the state's involvement in the Egyptian economy through state-owned and -operated firms. For instance, there is no publicly available information related to the number of the firms owned and operated by the military (which is known to own a significant number of firms (Box 3.3), so only SOEs more formally incorporated under other ministries are accounted for in official data. Even so, the number of SOEs is substantially higher than in the average OECD country, and in most of Egypt's neighbours (IMF, 2021). The government's involvement is also substantially broader in scope than in many other comparable emerging market economies (Ramirez Rigo et al., 2021), with SOEs operating across almost every sector of the economy, sometimes for legacy reasons (Box 3.3). In addition to wholly-owned SOEs, there are approximately 645 joint ventures and other partnerships involving the State (Table 3.1). Joint ventures are a major feature of the state-owned sector in Egypt. For instance, it is the most common corporate form in Egypt's oil and gas sector which requires at least 50% state-ownership (OECD, 2012a). A significant barrier to the effective oversight of Egypt's governmental ownership in joint ventures, and to assessing the quality of such oversight, is that there is no consolidated listing of joint ventures with state participation. The Cabinet Information and Decision Support Centre (IDSC) has undertaken work with the whole of government to create a unified database for all SOEs, which also includes companies with state minority shares. The Ministry of Finance has announced its intention to impose a requirement on SOEs to submit financial

accounts on a biannual basis, with a view to ensure open access to these data, along with information on SOE subsidies. This is encouraging and would be an important step towards improving the governance of Egypt's SOEs.

Figure 3.13. High government involvement in the economy distorts competition

OECD-World Bank Product Market Regulation Indicator, 2017 or latest [1]



Note: 1. Data for Egypt and OECD refer to 2017 and 2018 respectively.
Source: OECD, Product Market Regulation indicators.

Fuel distribution (retail and wholesale) is entirely owned and managed by the government and the military, with some private sub-distributors and some licences for foreign firms. Wataniya, a fuel wholesaler and retailer, owned by the army-controlled National Service Projects Organisation (NSPO), is expected to be part-privatised in 2024. An earlier sale stalled as the deal excluded a number of Wataniya's petrol stations, which were instead spun off into a new state-owned company. However, some of the petrol stations may now be released for sale. The government owns and operates the national water distribution network. Private operators can build and operate water plants and closed-circuit networks for specific projects only, such as private residential compounds. All roads and bridges are government owned and managed, although there are plans to lease and operate some parts of the road network to private operators. All ports are government-owned and managed, with some licensed operations in specific ports. To support competition in these sectors, Egypt should take steps to fully implement the *OECD Recommendation on Structural Separation in Regulated Industries* (OECD, 2016b). The authorities should establish clear functional separation between the roles of regulator and operator, known as the "arms-length" principle, to ensure regulatory independence, confidentiality and market integrity; and allow competitive tendering, wherever appropriate.

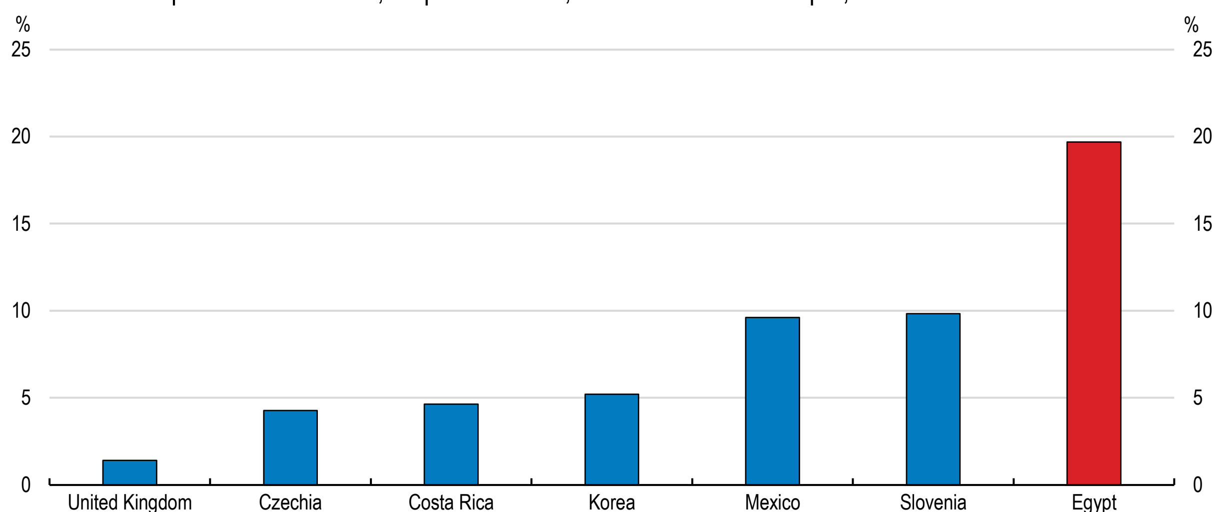
The public sector's output, at almost 20% of the non-financial corporate sector in 2021, is higher than in OECD countries with comparable data (Figure 3.14). SOEs governed by Law 203/1991 and Law 97/1983 (which do not include the firms owned by the military) represent 25% of capital investment and 6% of total employment (14% of public employment) (IMF, 2021). A subset of 88 state-owned companies generated revenues of EGP 87.4 billion in fiscal year 2021, around 1.6% of GDP, down from 2.4% the year before (data from Ministry of Public Business Sector and Central Bank of Egypt).

The profitability of Egypt's SOEs is weak, however: out of 278 non-bank SOEs that published data for FY 2018/19, 107 incurred losses (IMF, 2021) and some holding companies are posting losses recurrently according to the Ministry of Public Business Sector, especially in the textile, paper, plastics, and food sectors. Underperforming SOEs may generate fiscal risks (Chapter 2). In some cases, underperformance may be linked to quasi-fiscal activities conducted by SOEs, such as providing energy subsidies, or building social

housing. Government guarantees to the SOE sector amounted to 18.4% of GDP at the end of fiscal year 2020 (IMF, 2021).

Figure 3.14. The public sector produces a large share of output

Production of the public non-financial, corporate sector, as a share of total output, 2021 or latest[1]



Note: 1. Only a few OECD member countries report output with a breakdown of the non-financial corporate sector (S11) in a comparable way to that of Egypt: Costa Rica, the Czech Republic, Mexico, Slovenia, South Korea and the United Kingdom. Data refer to fiscal year 2021/22 for Egypt, 2017 for Korea, 2020 for Czech Republic, and 2021 for Costa Rica, Mexico, Slovenia and United Kingdom.
Source: Ministry of Planning and Economic Development; OECD, National Accounts database and OECD calculations.

https://stat.link/gy31lk

Box 3.3. A brief history of state ownership and privatisations in Egypt

The role and weight of state-owned enterprises (SOEs) has been a central question in Egyptian economic policy since the founding of the modern Egyptian state. In the 1950s and 1960s, Egypt pursued a socialist development model and protectionist import substitution policies. The overthrow of the monarchy in 1952 was followed by broad-ranging nationalisations. SOEs were seen as essential sources of industrial growth, job creation and self-sufficiency. By 1962, the state controlled all banking, insurance, utilities, maritime and air transport, most large-scale industry, as well as many service sectors. The strategy failed to deliver sustained growth: inefficient public-sector enterprises soon became a fiscal burden (Bromley and Bush, 1994). By the end of the 1970s, output from SOEs contributed 13% of GDP, and state firms accounted for 60% of value added in manufacturing, nearly double the average for developing countries (OECD, 2020b). The Ministry of Defence created the National Service Products Organisation (NSPO) to set up projects for government entities related to the military forces, to render the army self-sufficient in products and services and supply the local market with goods. The NSPO soon grew to become a business conglomerate, as a large food producer and big public contractor. By the end of the 1980s, NSPO and other military-owned factories were making subsidised bread and frozen vegetables, running mechanised slaughterhouses, chicken and fish farms, pasta and textile factories, and taking part in vast construction programmes through the Engineering Authority (Abul-Magd, 2014).

Privatisation efforts began in 1991, under the terms of structural adjustment agreements with the World Bank and IMF, under the auspices of the then Ministry of Public Sector which oversaw execution of the programme, under Law 203/1991, which included gathering most SOEs within sector Holding Companies supervised by the Ministry. Over the next two decades the government oversaw the full or partial privatisation of around 400 SOEs in a range of sectors, and cut SOE debt by nearly 75% (Raballand,

2015). However, privatisations were initially met with opposition, in particular from vested interests and labour organisations, notably reflecting a perception that they led to layoffs and benefited politically connected businesses (OECD, 2013). Sales of state-owned firms were halted after the Arab Spring in 2011, and some earlier sales were challenged in court (Adly, 2017). In recent years, a large-scale infrastructure upgrade programme has been rolled out under the auspices of companies owned by the military. At the same time, the commercial role of the state has expanded, with firms diversifying into new sectors. SOEs have become major food producers and public contractors, and increasingly participate in joint public-private ventures in "strategic" sectors (OECD, 2020b). Under the aegis of a new reform programme, the government is now planning partial divestments of a selection of enterprises (Box 3.4). Yet, based on the course of action announced in the State-Ownership Policy document, it seems that the state intends to retain a non-negligible share of firms, including in non-strategic sectors, such as manufacturing, construction and agriculture.

Source: OECD (2021a, 2019a, 2018b).

Table 3.1. The state's involvement in the private sector is wide-reaching

Firms affiliated with the state, FY2021/22[1]

Known state-owned firms, or with state involvement	Number	Legal regime	Employees	Net equity	
				(EGP billion)	(% of GDP)
Joint-venture firms (public-private) of which state-owned banks and insurance companies are the largest owners[2]	645	Law 195/1981	n.a.	n.a.	n.a.
SOEs under Law 203/1991, in the Ministry of Public Business Sector or elsewhere [3]	72+107	Law 203/1991	168 000	38 797+20 000	0.49+0.26
Special-purpose SOEs[4]	30	Law 97/1983	163 000	18 000	0.23
Total of known SOE sector	**854**		**331 000 +**	**76 797**	**1 %**

Note: 1. Does not include firms owned by the military, nor "Economic Authorities", which are state bodies and some of which engage in business operations, such as the Suez Canal Authority. 2. Formally, joint-venture firms are not considered to be state-owned firms: they are legally considered to be private firms with public ownership. The state, however, has a majority stake in some of these, often through a state-owned bank or insurance firm, which influences business conduct as the state is represented on the board of these firms. A forthcoming tabulation of state-ownership by the Cabinet Information and Decision Support Centre merges these firms with the wholly-owned SOEs. 3. There are also 107 SOEs operating within the scope of Law 203/1991 but outside the MPBS. Employment for those firms is not made public. Over time, some SOEs have been moved to ministries relevant for their activity, for instance, the Holding Company for Food Industries was moved to the Ministry of Trade and Industry in 2013. 4. State-owned companies subject to law 97/1983. These tend to be public companies established for a special purpose, such as the companies under the Suez Canal Authority or Arab Contractors (construction).
Source: Ministry of Public Business Sector; OECD research.

3.4.1. Ensuring good governance and competitive neutrality for a level playing field

SOE governance conditions their performance and their impact on growth (Szarzec, Dombi and Matuszak, 2021), economic efficiency and competitiveness (OECD, 2015c; OECD, 2021a). Principles for good governance include a clearly articulated rationale for public ownership, transparent ownership structures and accountability with clear reporting lines, and a level playing field for competition between state-owned and private businesses. Stronger corporate governance structures to encourage SOEs to act commercially are also important to promote a level playing field for downstream private sector firms. Hence the principle of competitive neutrality should be applied to all SOEs, as highlighted by the *OECD Council Recommendation on Competitive Neutrality*: all enterprises, public or private, domestic or foreign, should face the same set of rules, and the government's involvement in the marketplace, in fact or in law, should not confer an undue competitive advantage on any actual or potential market participant (OECD, 2015a; OECD Council, 2021). This is also the aim of the Higher Committee for Competitive Neutrality under the Cabinet (see above).

Egypt was the first country in the Middle East to issue a Corporate Governance Code, in 2006 (OECD, 2012a). However, in practice, governance has not consistently reflected the best practice spelled out in the OECD *Guidelines on Corporate Governance of State-Owned Enterprises* (OECD, 2015c; OECD, 2019c). Leaving aside so-called strategic reasons, there appears to be no formal policy which clearly sets out the rationale and objectives for public ownership, i.e., detailing publicly why the state is better placed to run firms than the private sector. Law 203/1991 was meant to clarify the government's ownership policy: it created portfolios of firms under sectorial holding companies and their affiliates and transferred the companies under the authority of the Ministry of Public Business Sector. However, firms have been moved and reporting lines diluted over time, and only firms under Law 203 have recently seen new governance rules being implemented (OECD, 2019c).

Ownership and management selection processes in Egypt's SOEs lack transparency (OECD, 2019c). This is particularly the case for military-owned firms that are outside the competence of the 2006 Corporate Governance Code. Opaqueness of public ownership undermines the activity of private firms, because it harms the confidence of business owners and investors. The dispersed nature of public ownership adds to the lack of transparency. Different ministries control portfolios of SOEs directly or through holding companies, which manage firms by sector. There is no co-ordinating entity to ensure each ministry follows the same procedures (OECD, 2019c; OECD, 2020b). Some ministries do not report which companies they control. Some firms in sectors including transport, electricity, telecommunications and petroleum, are controlled directly by their corresponding line ministry (Raballand, 2015). In some cases, presidential decrees have created holding companies with no apparent overseeing ministry, such as for Egypt's National Airline Holding Company (OECD, 2014a).

Public-private joint ventures face special governance challenges. The state's ownership objectives may diverge from the objectives of the private partners, including on issues such as risk appetite, disclosure and transparency, and commitments to social and environmental standards. Such firms may also be subject to complex and unclear reporting regimes, in part because their different classes of owners must comply with different regulatory constraints and reporting requirements depending on whether they are listed firms, government agencies, state-owned firms, privately held firms, other joint ventures, or even individuals. Arms-length relations between the regulator and the regulated are impossible to achieve if the government is on both sides of the table (OECD, 2012a; 2020b).

Better governance requires improving the oversight of Egypt's SOEs. Reasons for retaining ownership in sectors other than defence should be publicly divulged, beyond referring to strategic interest, and a path to exit should be outlined, in cases where retained state ownership is transitory. The forthcoming list of SOEs that is being compiled by the IDSC should include all SOEs, irrespective of their affiliation, and reporting lines should be clarified. As recommended by the OECD Council, centralising ownership or, at least, oversight of their management, would improve the ability to steer and monitor the performance of the SOEs. Unclear lines of responsibility may expose Egypt's SOEs to undue interference, and efficiency losses in corporate operations. Moreover, lack of oversight due to distant ownership by the state or its dispersion can weaken the incentives of SOEs and their staff to perform in the best interest of the enterprise and the general public who constitute its ultimate shareholders, and raise the likelihood of self-serving behaviour by corporate insiders (OECD Council, 2015).

Increasing financial transparency

Funding and budgeting rules should ensure that any compensation for public services rendered is not unduly favouring Egypt's SOEs and economic authorities, such as the Suez Canal Authority or the Egyptian General Petroleum Corporation. The latter is involved in 12 SOEs, 41 joint-venture companies and 87 Investment Law Companies, either directly as a shareholder, or through other affiliated companies, but it also issues licences for exploration. SOEs and economic authorities maintain complex financial links with the state budget, either in the form of explicit subsidies or through substantial cross-debt or arrears. Moreover, extra-budgetary public

entities (i.e., SOEs outside Law 203) are undertaking off-budget capital spending, notably for Egypt's infrastructure development and mega-projects, estimated at 6.8% of GDP in 2018 against 2.4% of GDP of on-budget spending (Youssef et al., 2019).

Off-budget spending can distort the market by granting additional resources to the SOEs, in addition to undermining fiscal transparency. SOE reforms to impose account separation and increase transparency about off-budget payments could reduce fiscal risks by decreasing hidden subsidies and direct transfers, and at the same time strengthen competition and develop capital markets (OECD, 2015c; 2019c). Recently, the government has started publishing auditing documents for the firms under Law 203. All SOEs will be required to submit financial accounts to the Ministry of Finance on a biannual basis, and the Ministry of Finance has announced that it will ensure open access to these data, along with information on the subsidies to the SOEs with an annual report covering any tax breaks, exemptions and incentives. This is welcome and should be extended to all SOEs, regardless of affiliation, and the government should clarify the mandate for existing SOEs to limit quasi-fiscal operations where these take place, in line with good governance principles (OECD, 2015c).

Eliminating undue advantages that distort competition

Egyptian SOEs have traditionally benefited from tax advantages and other preferential treatments that contribute to skewing competition. They include exemptions from VAT, income tax, and real-estate tax, as well as exemptions from paying fees, services charges or fines. Beneficiaries include projects for land reclamation, food-processing firms, as well as buildings and hospitals owned by the military. Customs Law 207/2020 provides exemptions for import duties for goods brought in by the Ministry of Defense, the Ministry of Military Production and their affiliates. This may distort competition in markets where firms owned by these entities compete with the private sector (such as household goods). A new law (159/2023) was passed to revoke preferential treatment to SOEs, and to promote governance and transparency, mainly in the form of reports on tax benefits and exemptions to be published by the Ministry of Finance. While this is a welcome move, the law mentions possible caveats for defence and "national security" reasons, and until the executive regulations are passed, it is not possible to know whether the law will include all firms in the state sector, and all non-defence related activities. This aspect needs to be clarified, and the principle of competitive neutrality, which would imply that no preferential treatment is granted in any circumstances, should be fully adhered to. Pillar 3 of the OECD Egypt Country Programme focuses on issues related to governance and SOEs. Recommendations from this pillar will further serve to promote a level playing field for the private sector.

3.4.2. Accelerating the privatisation programme

The Egyptian government is undertaking a divestment programme as part of its wider structural reform programme (Chapter 1). The State-Ownership Policy document from December 2022 sets out the plan for reducing the state footprint and increasing the role of the private sector in the economy. It was updated in August 2023 (Box 3.4). The government should implement its announced divestment programme in full, and over time continue to sell firms that operate in sectors that are not related to national defence activities, such as agriculture, manufacturing – in particular household goods production, textiles and food processing – and services. However, the timeline of the implementation of the State-Ownership Policy has been extended several times, and there is little information available about the legal framework governing each asset class that will be sold.

If done right, privatisation can improve competition, efficiency and consumer welfare. Empirical studies of privatisations document an increase in profitability, efficiency, investment and output, after privatisation, subject to effective economic institutions (Guriev and Megginson, 2006; OECD, 2019a). In the first decade of the 2000s, many OECD governments sold their larger SOEs either on stock exchanges through public offerings or to strategic investors, often retaining a majority or a significant minority of shares. These partially state-owned enterprises benefited from performance and efficiency improvements through the disciplines of

stock-market listing or private ownership. At the same time, mixed ownership allowed the state to maintain strategic participation in companies for which there remained a rationale for continued state ownership (OECD, 2018b; OECD, 2019a).

Box 3.4. Egypt's new State-Ownership Policy

In late December 2022, the Egyptian government published its new State-Ownership Policy, which includes a divestment programme to take place over a timeframe of three to five years. It was updated in August 2023. The document sets out the government's rationale for state-ownership in broad terms, in several cases outlining reasons to maintain or even increase the state's share, all for strategic reasons. Beyond national defence and natural monopoly, "strategic" activities include activities such as food provision (both agriculture and food processing), energy, housing, transport, publishing, education and health. The document outlines a divestment strategy, but several elements remain unclear, such as the final number of firms that will be divested; the full extent of the government's withdrawal; the legal framework that will govern the divestment for each asset class and the relationship with the private sector; and the ownership structure of current SOEs (some of which are in holding companies, some of which are owned by ministries or economic authorities, governorates, or state banks, and some by the military).

Three main forms of future state involvement have been outlined: i) remain in sector, maintaining or reducing public investments (potentially 71 firms); ii) remain in sector, maintaining or increasing public investments (potentially 22 firms); iii) exit sector within three years, (later extended to five years) (first 22 firms, then 32, and later revised to 35, but the number continues to evolve).

The government has set out several models for divestment:

1. Full privatisation or sale of a majority stake to a strategic investor or in the stock market (IPO).
2. Offering a minority stake up to 45% of the company to a strategic investor or in the stock market.
3. Capital increase offered to the private sector to dilute public sector ownership.
4. Self-financed improvement of the company without involving an investor, for an interim phase as preparation for partnership with the private sector.
5. Establish new companies (Special Purpose Vehicles, SPVs) to manage the execution of improvement or development projects.
6. Merge with sister companies.
7. Execute projects with the private sector that do not include a direct sale, e.g., revenue share agreements or management contracts.
8. Liquidation as a last resort if other options fail or are not possible.

The State-Ownership Policy states that the preferred method of divestment is for a partnership with a private sector partner, for instance in certain key infrastructure or strategic sectors with the aim of maintaining government control. Most will likely be sold to strategic investors. A number of companies need large financing for new projects involving technology transfer, with a preference for a capital increase from the private sector. For instance, Misr Aluminium Company required EGP 300 million in financing from a private investor with the appropriate technical expertise. For distressed firms in sectors deemed strategic by the state (such as import substitution or public hotels) with significant debt, the preference will be given to specialised international investors through a new company (an SPV) with new technical and/or financial capacities. Each will be evaluated on a case-by-case basis.

A Privatisation Committee headed by the Prime Minister has been set up in the Cabinet to oversee the privatisations. The Cabinet Information and Decision Support Centre (IDSC) is working with the Committee and government entities to create a unified database for all SOEs, to support the privatisation effort and to enhance governance. The database is not yet complete, and more information

is needed for the Privatisation Committee to analyse the data and decide on the government's role in these companies. In the first phase of the revitalised privatisation programme, a list of 32 firms to be sold via an IPO or through strategic investors, was announced in February 2023. The date of execution of the first phase was moved from June 2023 to June 2024. The list was expanded in August 2023 to include three more companies, two of which were already partly privatised.

Privatisations are also taking place through the Sovereign Fund of Egypt, with the World Bank and the IFC acting as the government's strategic advisors. Between March 2022 and July 2023, minority stakes in 13 companies were offered for sale through the Sovereign Fund for a total value of USD 4.8 billion, which included a group of seven historic government-owned hotels, stakes in three companies (that feature on the list of the 35 companies from the SOP), and shares in six other listed companies. By late December 2023, only the sale of a hotel group had been completed.

Source: Ministry of Public Business Sector, State-ownership Policy Document; Information and Decision Support Centre; press reports.

The Egyptian government's privatisation programme appears to aim mostly for mixed ownership outcomes. The State-Ownership Policy document mentions IPOs or strategic sales as some of the preferred ways of divestment, typically with the government retaining a stake in the company. However, few details are publicly available on the selection of individual firms for sale, the choice of privatisation method, the road map, or the role of the state post-privatisation, including with respect to the separation of ownership and regulatory functions. Publishing this kind of information would also provide more certainty for potential investors. In addition, the government could draw up a priority list of non-strategic firms that would be put forward for sale first, including several firms in the manufacturing or services sectors, such as hotels, food processing, household goods, textiles and leather goods. Currently, a committee headed by the Prime Minister is in charge of overseeing the privatisation programme studying each company on a stand-alone basis to determine the valuation, number of shares to be offered, whether it will be an IPO on the stock exchange (EGX) or a sale to strategic investors and how much in terms of proceeds will be expected (Box 3.4). Egypt has signed an agreement with the World Bank, to provide advisory services for Egypt's privatisation programme. To ensure a successful outcome, the right framework conditions for a competitive market need to be in place first as discussed above, so that any current state-dominance does not merely transfer into a private dominance in the market. Furthermore, the privatisation process should follow best international practices as laid out in the OECD Policy Maker's Guide to Privatisation (Box 3.5).

Box 3.5. OECD Policy Maker's Guide to Privatisation

Getting privatisation "right" requires a well planned and executed transaction, backed by sound rationales, strong institutional and regulatory arrangements, good governance, and integrity in order to enhance investor confidence while gaining the support of stakeholders and the public. Drawing on the OECD Guidelines on Corporate Governance of State-Owned Enterprises and decades of national experience across OECD and partner economies, Policy Maker's Guide to Privatisation provides the following practical advice on key stages of the process from inception to post-privatisation.

Stage 1: Guiding principles to inform policy makers and the public

- Before embarking on a privatisation process, policy makers should clearly communicate the guiding principles and rationales underlying the transaction to the public.
- Privatisations require transparent and credible institutional frameworks that appropriately involve stakeholders. A professional and informed authority, operating at arms-length from policy making and regulatory duties, should steer the execution of the transaction.

Stage 2: Measures to be undertaken prior to divestment

- Appropriate competition and market regulation should be in place prior to the privatisation.
- Industry or company restructuring might be necessary to ensure readiness for the sale.
- The sales method depends on the asset, market conditions, relative maturity of the economy and the objectives determined at the start of the process.

Stage 3: Organisation of the privatisation process

- Advisors should be selected according to quality, competence, and experience. To avoid conflict of interest, the separation of advisory and sales mandates is critical.
- Company valuation should be based on fair market value. Should a government sell below market value, the reasons should be clearly identified, justified and transparent from the outset.
- Buyers should be selected based on prequalification criteria and due diligence should be conducted on their financial and technical capacity, future solvency, and corporate conduct and compliance track records. Bids should be handled transparently, while respecting confidentiality.

Stage 4: Steps to take post-privatisation

- The post-privatisation phase includes wrapping up the sale, handling proceeds and establishing good governance practices if the state remains a shareholder. Systematic ex-post evaluation and audit are critical to impartially evaluate the sale and to ensure the integrity of the process.

Source: OECD (2019a).

3.4.3. Setting out a road map for the divestment programme to improve efficiency

The order in which assets are privatised and the sequencing of a particular transaction is an important policy decision for the privatisation programme. Egypt already had a successful privatisation programme launched in 1991, as part of the Economic Reform and Structural Transformation Programme, which was implemented against a backdrop of a steep economic slowdown. Privatisation was one of the main pillars of the reforms, leading to a total of 382 SOEs being fully or partially privatised over 1991-2009. The total proceeds were around EGP 57 billion (approximately USD 9.5 billion at the time) (Badr El-Din, 2014). The pace of privatisations followed the pace of overall economic reform: between 1991 and 2004, around 15 SOEs were privatised a year; but between 2004 and 2006, around 25 firms a year were privatised, at a time of accelerated macroeconomic and structural reforms. However, the privatisation programme encountered a number of obstacles, including resistance to foreign ownership out of fear that a high proportion of foreign holdings in the stock market was merely speculative and could thus thwart the country's long-term development goals, as well as protests against the lay-offs of public sector workers (public sector employment was halved from just over 1 million to around half a million employees between 1985 and 2004) (Pfeifer, 2012).

As was the case in Egypt in 1991-2009, privatisation programmes usually begin with the sale of assets that operate in competitive sectors of the economy, where the market structure is already adapted to competition and where the company governance structure is already corporatised, requiring less preparation before a sale (OECD, 2019a). Another important factor is whether the asset will be fully or partially privatised. The state may decide to retain majority or partial ownership due to political or strategic imperatives, or where the SOE's sheer size can have systemic impacts (OECD, 2018a). If full privatisation is not possible, the SOE can be broken up into different parts and the parts not considered strategic can be sold; for example, the Swedish pharmacy monopoly was divided into different lots, with some left in state ownership, while others were auctioned off (OECD, 2019a).

As noted in the State-Ownership Policy, the Egyptian government tends to prefer partial sales. Based on its previous experience with privatisation, and given that an overarching guiding framework for the entire programme is yet to be developed, partial sales may indeed be necessary at the outset for a number of

reasons: (1) more time is needed for an effective regulatory capacity to develop; (2) staging of the sales can gradually build momentum and gain credibility among investors and the public to facilitate subsequent sales; (3) transactional and market requirements set the pace of sequencing; and (4) the government sees the benefit of maximising proceeds. A selection of national experiences is highlighted in Box 3.6. Setting out a clear road map which lists the order in which the firms will be put up for sale, and the sequencing of those sales with a detailed timeline, would further enhance transparency and investor confidence. The SOP does not mention how the proceeds from the sales will be used, but they should serve to reduce Egypt's high public debt. The Egyptian authorities should clearly communicate the intended use of the proceeds from privatisations to the public. The divestment process should also be subject to auditing, with the auditing reports published on a regular basis.

Box 3.6. Selected national examples: sequencing of privatisations

Sequencing often takes the form of IPOs, followed by a number of subsequent share offerings. Sequencing is common especially where the privatisation of large or strategic SOEs occurs, but a host of factors can motivate the decision to sequence a privatisation process, to wit the following national examples:

- In the United Kingdom, reasons for maintaining a state ownership stake have included: i) benefiting from a potential improvement in performance; ii) ensuring continued involvement in a strategically important activity or for national security reasons; and iii) retaining a degree of influence, including linked to the public interest. Sequencing of privatisation has also depended on the wider political landscape and the appetite for the type of corporate assets potentially on offer.
- In France, the maintenance of the state's shares in a company after privatisation is most often based on social, political and strategic motivations. The decision usually involves inter-ministerial discussions.
- In Germany, sequencing of privatisation has occurred where particularly large SOEs were being divested. It is deemed that the stock market's capacity to absorb new equities is such that a gradual process is needed to obtain the best price for the state's shares.
- In the Netherlands, the government maintains its ownership in a company if it decides that a public interest needs to be safeguarded through public shareholdings.

Source: (OECD, 2018b).

The State-Ownership Policy document highlights the desire of the authorities to float some firms on the stock exchange as initial public offerings (IPOs), but no such IPOs have as yet been proposed. Privatising all or parts of an SOE through an IPO has a number of attractions in terms of ready access to financing, increased visibility, and wider participation, whether local or foreign. The listing requirements would also contribute to increasing transparency surrounding the sale as well as the ongoing operations. However, in Egypt, the disclosure and governance requirements for an IPO may be an obstacle for some SOEs. Furthermore, the Egyptian stock exchange (EGX) is rather small and dominated by local and retail investors, which may limit the appetite and capacity for big-ticket sales. These are compounded by the remaining restrictions of ownership for non-nationals, and uncertainty surrounding exchange-rate policy and the ability of investors to repatriate dividends. Hence, selling companies through an IPO does not guarantee generation of maximum proceeds, contrary to privatisation through the sale to a strategic investor or consortium. Furthermore, against a backdrop of high domestic inflation and interest-rate increases, market uncertainty and volatility may lower investor appetite. As such, the authorities are likely to continue to favour strategic sales over public offerings in the near term.

3.5. Improving access to finance to better support investment

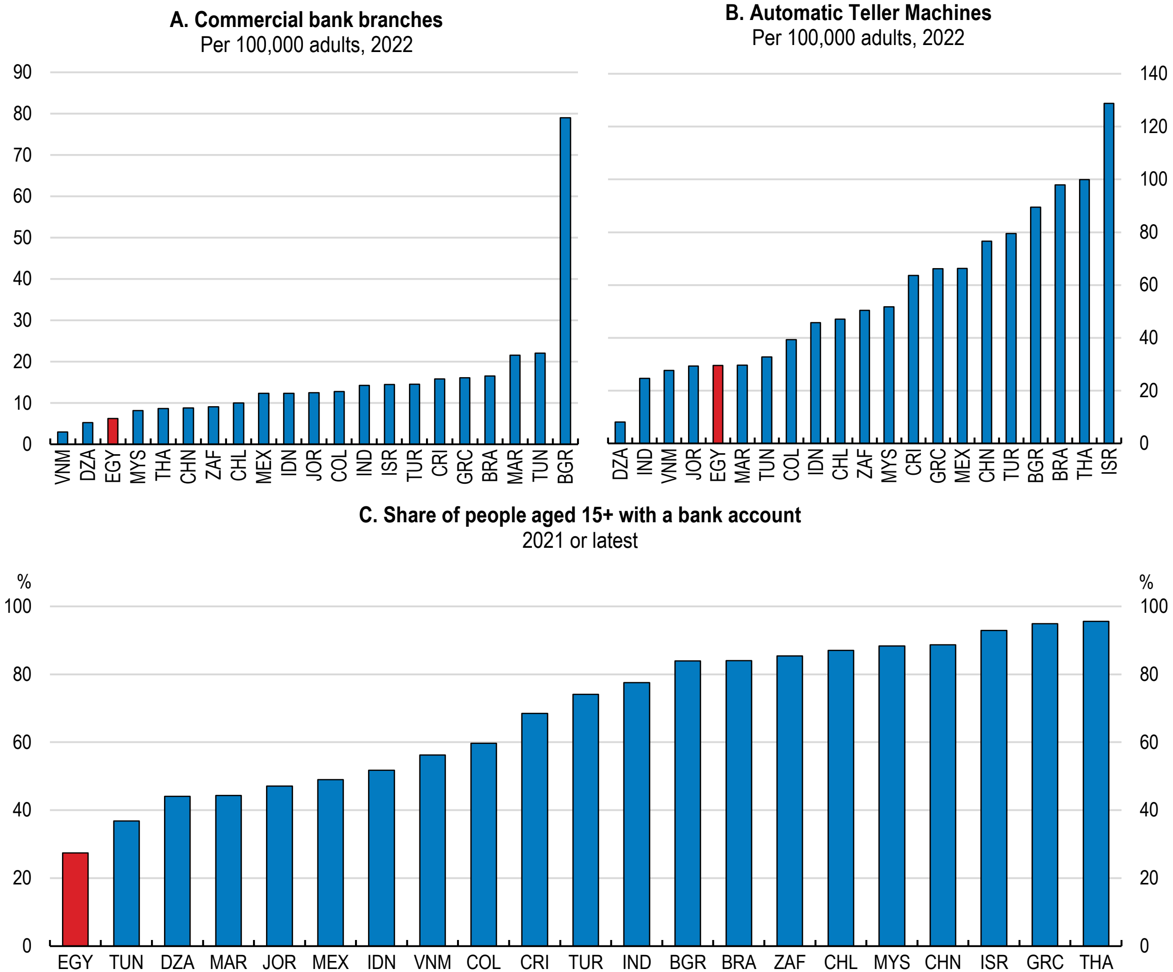
An efficient financial system that can deliver essential services is key to a country's economic development (Heil, 2017). A well-functioning financial market plays a critical role in channelling funds to their most productive uses, while so-called financing frictions induce sluggish investment and impede the implementation of productive projects (Demmou, Franco and Stefanescu, 2020).

Access to finance remains constrained in Egypt, especially with regard to traditional banking services. The number of commercial bank branches, automatic teller machines, and share of adult population with a formal bank account are all low compared with peers (Figure 3.15). Cash is still widely used, including for large-ticket purchases, which also creates opportunities for money laundering (FATF, 2021). However, when including savings accounts with Egypt Post, prepaid cards and Egypt's Mobile Wallet system (mobile payment), around 65% of the population was estimated to be financially included by end-December 2022 (CBE, 2022). In 2022, there were 38 banks with 4 591 branches, up from 2 800 in 2018. The sector is concentrated, with the five largest banks accounting for 70% of assets, according to data from the CBE. Financial inclusion is one of the updated *Egypt Vision 2030* priorities, to offer a diverse range of innovative financing tools and incorporate all segments of society into the financial system including the informal sector and individuals unwilling to engage with the traditional banking system. The CBE is also implementing a Financial Inclusion Strategy 2022-25 which involves improving financial literacy, increasing the financial capabilities of consumers and micro, small and medium-sized enterprises (MSMEs), and capacity building of bank staff, including from other banks and financial institutions, as well as "train-the-trainer" programmes.

Egyptian businesses also appear underbanked, in particular smaller firms. Informal firms, which are unregistered, face exclusion from the formal financial system. Egyptian businesses overall encounter difficulties in obtaining bank loans (Figure 3.16). Discouragement plays a significant role as firms anticipate loan rejections, leading them to refrain from applying for bank loans (Betz, Ravasan and Weiss, 2019). Instead, they rely heavily on personal finance options, including consumer credit. The authorities are working to raise awareness of the advantages of joining the formal sector for instance when dealing with the banking system. Indeed, one of the main objectives of the aforementioned Financial Inclusion Strategy is to support companies' access to financial services and encourage the transition to the formal sector.

Although there is a well-developed microfinance industry catering to the needs of micro-enterprises (see below), there remains a funding gap for SMEs. This is concerning because SMEs, which represent 98% of Egypt's businesses, often represent the segment with the highest growth potential, and inadequate access to finance becomes a significant constraint on their expansion, hindering overall economic growth and job creation. Insufficient financial resources limit these firms' ability to invest in innovative projects to improve their productivity (OECD, 2022a).

Figure 3.15. Access to formal financial services is low

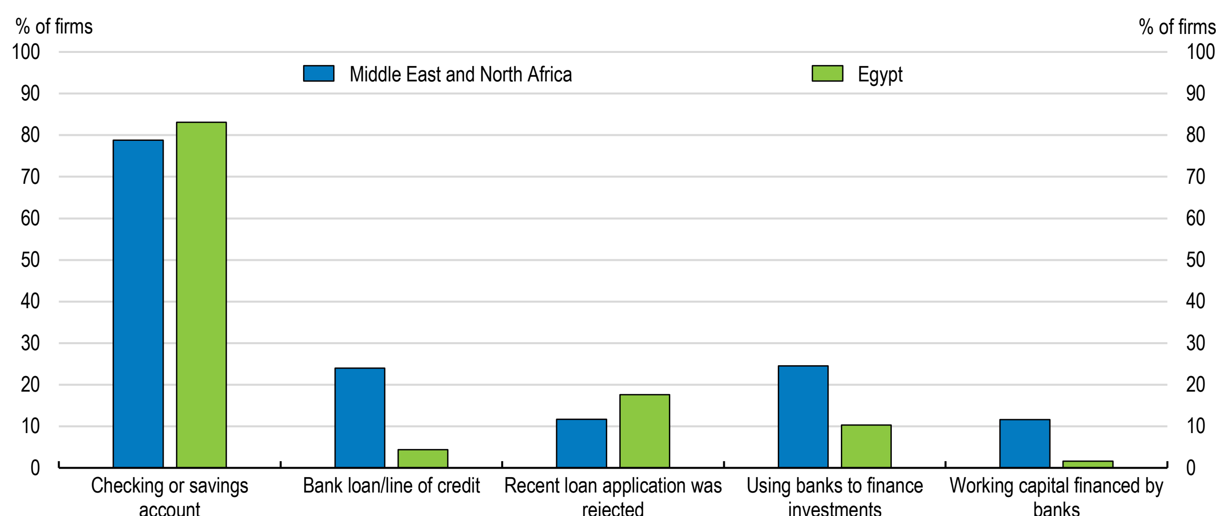


Note: In Panel C, data for Mexico and Viet Nam refer to 2022.

Source: IMF Financial Access Survey; and World Bank Global Findex 2021.

Figure 3.16. Egyptian firms have little recourse to bank lending

Share of firms reporting to have used service, 2020[1]



Note: 1. Percentage of responding firms reporting to have used service. Selection bias is likely to have formal firms overrepresented. Excludes firms under five employees.
Source: World Bank, Enterprise Surveys.

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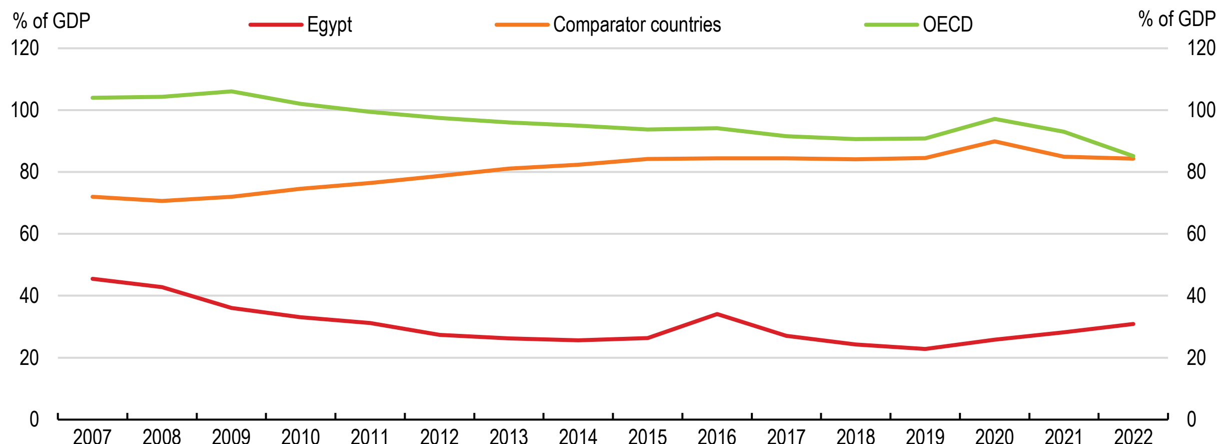
3.5.1. Government borrowing is crowding out lending to the private sector

Lending to the private sector is low by international standards (Figure 3.17), with bank lending to the government crowding out available funding for businesses (Figure 3.18). Crowding-out occurs through two channels: on the one hand, government borrowing drives up interest rates, increasing the cost for the private sector; on the other hand, banks tend to prefer government bills and bonds over riskier private loans (El-Said et al., 2013; Shetta and Kamaly, 2014). Empirically, Betz et al. (2019) find that unlike in other countries in the Middle East and Northern Africa, firms in Egypt are more credit constrained in areas where the local banks invest more in government debt, pointing to particularly severe crowding-out in Egypt (Betz et al., 2019). A recent study finds that extending credit to the government is associated in Egypt with a more than commensurate reduction in lending to the private sector (Haikal et al., 2021).

The government has tried to impose a target for SME lending on commercial banks, recently raising it from 10% to 25% of total bank lending. However, this raises questions of moral hazard and about banks' ability to assess the prospects of small firms. OECD research suggests that enabling factors to support bank lending to small firms would include tackling policy failures that implicitly impose additional costs on risks, such as poor contract enforcement and timely bankruptcy procedures (Calvino, Criscuolo and Menon, 2016).

Figure 3.17. Lending to the private sector is low by international standards

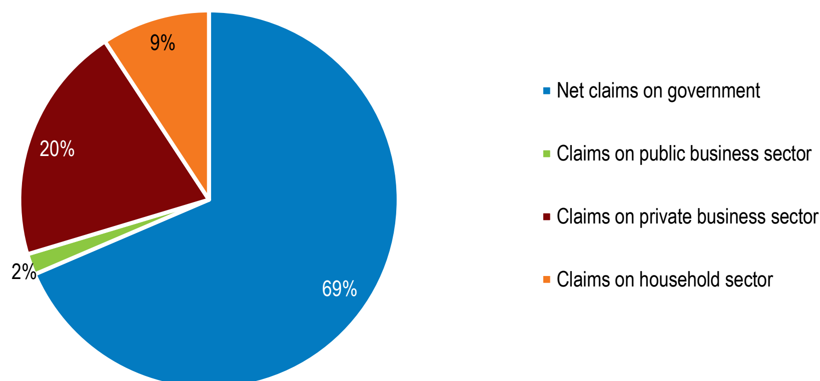
Domestic credit to the private sector, % of GDP



Note: Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of nonequity securities and trade credits.
Source: World Bank, based on International Monetary Fund, International Financial Statistics and OECD National Accounts.

Figure 3.18. Domestic credit goes overwhelmingly to the government

Share of total domestic credit, October 2023

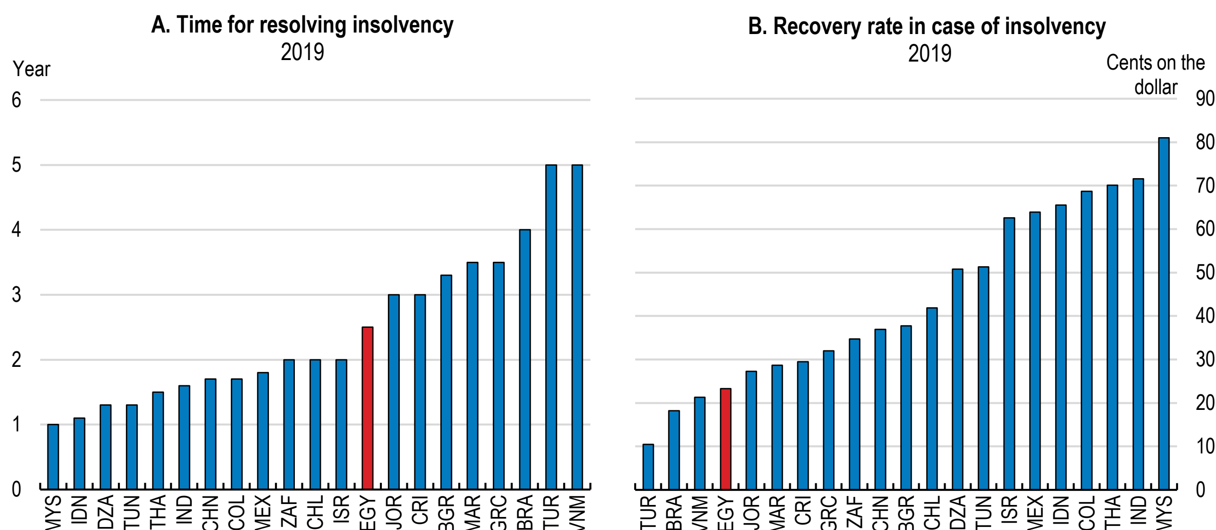


Note: Domestic credit refers to financial resources provided by financial corporations, including the Central bank of Egypt, such as through loans, purchases of non-equity securities and trade credits. Provisional data.
Source: Central Bank of Egypt.

Resolving insolvency in Egypt on average takes just under three years, and cost recovery is low (Figure 3.19). A new Bankruptcy Law was ratified in 2021. Among its positive features, it decriminalises bankruptcy for firms, and allows firms to restructure and continue operations during bankruptcy procedures, akin to the Chapter 11 Bankruptcy Code in the United States. This could support a shift towards more bank lending to firms. Moreover, reducing the time to resolve insolvencies is one of the factors shown to stimulate growth (Égert, 2017). However, the Bankruptcy Law is onerous for small firms that must show at least two years' continuous accounting statements to apply. Moreover, the law applies only to commercial companies and traders but not to non-merchant individuals, who continue to be subject to the insolvency provisions under Civil Code 131/1948, including prison time for even small debts. As many small traders rely on personal

consumer credit to buy equipment, these provisions still hamper smaller firms' access to credit. Moreover, the Bankruptcy Law does not apply to SOEs. To fully reap the benefits of the revised insolvency framework, decriminalisation and removal of debt-prison should be extended to individuals. The framework should also include SOEs to allow restructuring rather than funding from the public purse (OECD Council, 2021). More support should be provided to small firms to enhance management, financial literacy and accounting, for instance through public training programmes. Bank staff should be trained in understanding the needs of small or new firms.

Figure 3.19. Resolving insolvency is slow and recovery rates are low



Source: OECD, Structural Policy Indicators Database for Economic Research (SPIDER).

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3.5.2. Developing non-bank financial services to support firm financing

The government has been working to activate non-bank financial services since 2014 and to improve access to formal finance. All non-bank financial services are regulated by the Financial Regulatory Authority, including microfinance, factoring, leasing, insurance, the stock market, and financial technology (Fintech, which in some cases is also dually regulated by the CBE). The Micro, Small and Medium Enterprises Development Agency (MSMEDA) also falls within this framework as a provider of financial support to MSMEs. The 2014 Microfinance Law allows specialised microfinance companies to join NGOs, which were previously the only microlenders in Egypt, in the market Box 3.7). In 2020, the law was extended to allow microfinance lenders to extend credit to SMEs, which can now borrow up to EGP 200 000, typically repayable over four to 24 months. The 2018 Factoring and Leasing Law created a regulatory framework for factoring and leasing services, unlocking new tools to help small firms improve their cash flow.

Alternative sources of funding include venture funds and business angels that can provide longer-term finance, and the capacity to give management advice. However, most venture capital (VC) and other equity funds are small and hampered by complex rules for taxation, ownership and exit, which is preventing the sector from expanding, and limiting alternative financing sources for new and growing firms. To support the VC industry, the authorities should ease ownership restrictions and facilitate exit, including through the stock market, to support Egypt's budding venture capital sector, and continue with public-private partnerships to support VC funding (Egypt Ventures, 2023).

Box 3.7. Support for SMEs has grown

According to the latest Egyptian economic census, carried out by CAPMAS in 2017/18, Egypt had 3.742 million enterprises, with micro, small and medium enterprises (MSMEs) representing close to 98% thereof. Of these 47% were in the formal sector (1.7 million enterprises), and 53% in the informal sector (2 million). MSMEs accounted for some 43% of GDP and over 75% of total employment. The government has been working to develop an inclusive MSME ecosystem to promote private sector expansion and create more and better jobs in sectors such as technology, digitalisation and the green transformation.

To support expansion, the government aims to facilitate access to finance for smaller firms, and several regulatory changes to micro-lending have been implemented since 2014. The number non-banking microfinance lenders operating in Egypt has risen considerably to 1 012 by mid-2023, the large majority of which are NGOs.

In 2017, the Micro, Small and Medium Enterprises Development Agency (MSMEDA) was established under the Prime Minister to replace the Social Fund for Development founded in 1991 to continue to support micro and small firms. Law 152/2020 on MSMEs which for the first time formally defined micro, small and medium enterprises, came into force in April 2021, with a view to better apportion financial support and define appropriate tax and non-tax incentives, and establishes the frame for MSMEDA's work.

MSMEDA runs a national MSME and entrepreneurship development programme, within the remit of Egypt Vision 2030, to foster a culture of entrepreneurship and research, creativity, and innovation, and to co-ordinate public and private stakeholders, including international and regional donors. The organisation operates through a network of 33 branch offices covering all governorates and comprising One-Stop-Shop Units, besides partnership with intermediaries (close to 680 NGOs and about 1 900 bank branches), and community development partners. Its outreach includes potential entrepreneurs, as well as existing enterprises that aim to expand; the unemployed; young graduates from technical, vocational and higher education; unskilled and semi-skilled youth. MSMEDA's programmes aim to be socially inclusive and have a special focus on youth and women, and marginalised and vulnerable groups (female-headed households, disabled-owned MSMEs, poor families).

MSMEDA provides both financial and non-financial services, through soft loans to small firms, but mainly by lending to microfinance projects. In addition, it provides venture capital and participates in VC institutions, such as accelerators, VC and SME funds. Non-banking finance includes financial leasing to allow clients to purchase fixed assets, and factoring for short-term needs. The Agency has supported some 3.8 million MSMEs since its establishment. It is also leading Egypt's National Strategy for the Development of Organic Clusters 2019-30.

Collectively, microfinance providers, both banks and non-banks, had lent EGP 64.6 billion to 4.5 million beneficiaries by June 2022 (up from 2 million clients in June 2016). Outstanding microfinancing balances were EGP 33 billion (USD 1.8 billion) at end-June 2022. The largest share of microfinancing is directed towards small commercial businesses, followed by agriculture, services and industry. Women represent 62% of beneficiaries. The quality of the microfinance portfolio was affected by the Covid-19 crisis: the ratio of loans past-due date for more than 30 days rose from 3.4% of the total in FY 2020 to 21.9% in FY 2021.

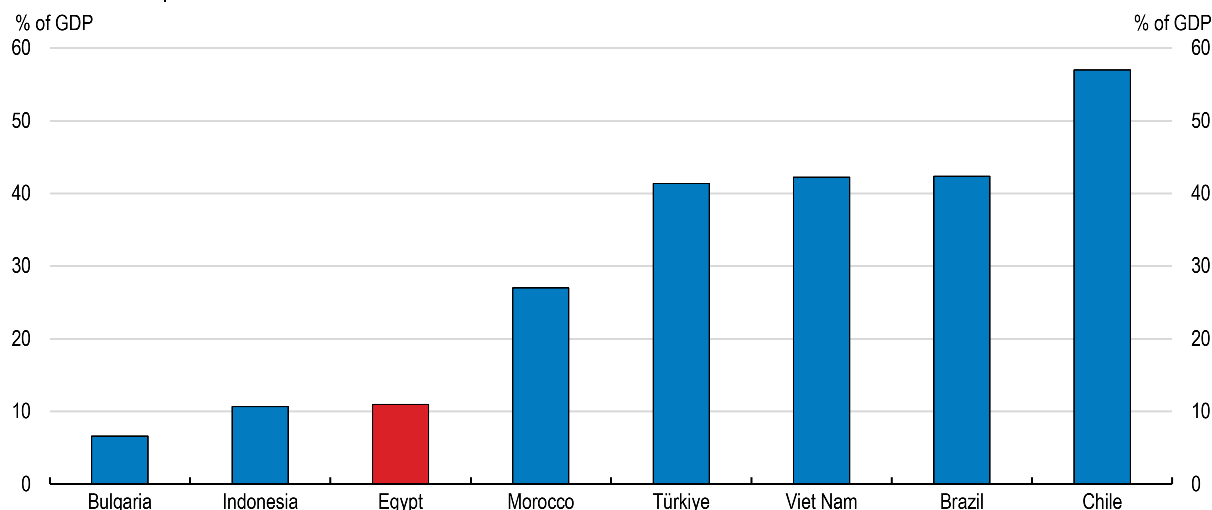
Source: CBE, MSMEDA, OECD, World Bank.

The Egyptian Stock Exchange is comparatively small (Figure 3.20), and most of the listed firms are domestic. Attempts to revive the small-caps NILEX exchange (renamed *Tamayoz*) to deepen Egypt's capital markets, have so far failed to yield meaningful results. Strict ownership and licensing rules also apply in non-bank

financial services, limiting the attractiveness of making acquisitions in the Egyptian Stock Exchange (EGX). There is hardly any trading of corporate bonds. The EGX should continue to expand its products and diversify its range of instruments available to Egyptian firms, in particular for market-ready SMEs. Project 1.4. under the OECD Egypt Country Programme with the OECD Centre for Enterprise is working with the authorities to further enhance Egypt's SME policies, including access to finance, fintech and digitalisation.

Figure 3.20. The stock market is shallow

Stock market capitalisation, 2022



Note: Data refer to the calendar year for all countries.
Source: CEIC.

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To further support access to finance for small and growing firms, Egypt could make greater use of Fintech, as recommended by the *2022 Updated G20/OECD High-Level Principles on SME Financing* (OECD, 2022a). Egypt has a budding Fintech industry and uses regulatory sandboxes to encourage start-ups, with the second cohort underway in 2023. Sandboxes have been used with success in places such as the United Kingdom and in Singapore to launch financial start-ups without their having to fully comply with heavy macroprudential regulatory frameworks (OECD, 2019d). New regulations for Fintech institutions from June 2023 impose similar capital adequacy levels as for fully fledged banks, possibly stifling new initiatives. In March 2023, the EGX launched the first centre to support innovative Fintech solutions for non-banking activities named "CORBEH", in partnership with the Financial Regulatory Authority, one of several initiatives to incubate new non-bank financial service technologies. A new Fintech Law from 2022 regulates the use of platforms and aims to facilitate electronic commerce. However, it falls short of opening up the market by not also allowing full open data access and interoperability.

To stimulate competition and increase market access for prospective Fintech institutions, Egypt could implement a fully-fledged open banking approach such as first implemented with success in the United Kingdom and Australia. Open Banking stimulates competition in financial services by allowing new financial service providers to gain access to vital consumer data on the one hand, and for consumers to switch bank accounts and access new services, on the other (OECD, 2019d). It would help newcomers challenge incumbent banks, notably in payment services. While, initially, Fintech institutions may not directly provide new sources of finance, they can help small businesses identify and accede to financial services. The advent of Fintech has also stimulated competition and improved and broadened banking services in the United Kingdom and Europe, ultimately supporting better access to finance and financial services (Land and Roberts, 2021; OECD, 2019d). This could also help Egypt leapfrog banking sector development and spur

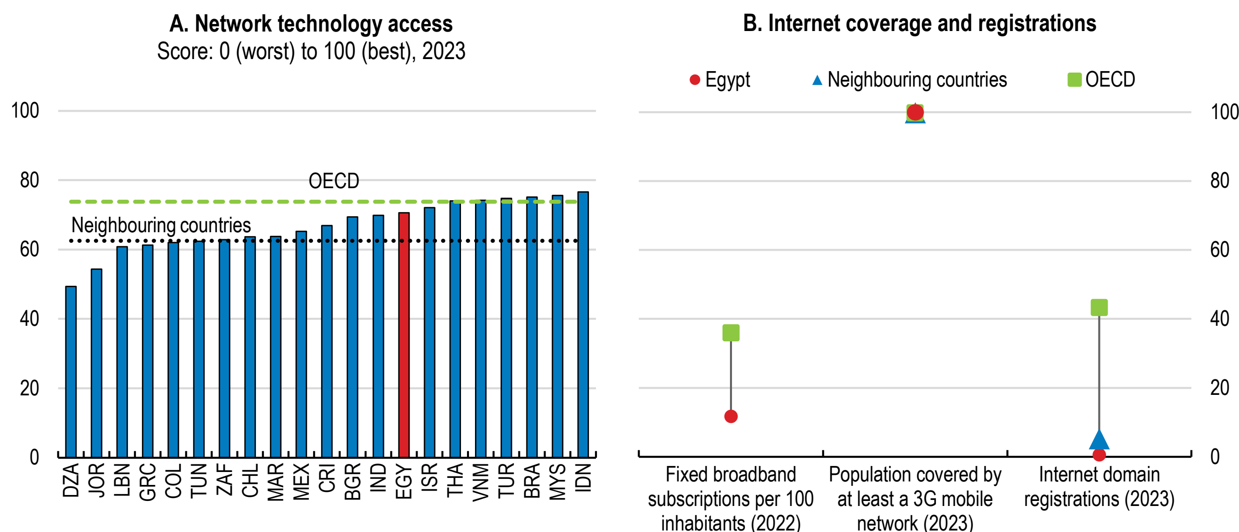
innovation. To work, however, Fintech also requires fast, reliable and nation-wide broadband services, and trust in digital payments systems (Arezki et al., 2019).

3.6. Promoting digital diffusion to support private sector expansion

Accelerating Egypt's digital transformation is crucial for achieving strong and sustainable economic growth, with the information and communications technology (ICT) sector being a priority area in the government's NSRP. ICT contributes to the industrial development of the country, which in turn requires skilled and productive human resources to grow (Chapter 4). Successful adoption of digital technologies hinges on two key factors: capabilities and incentives. Capabilities include managerial and technical skills (Chapter 4), while incentives involve a competitive business environment. These factors exhibit strong complementarities (Andrews, Nicoletti and Timiliotis, 2018).

Egypt has made progress with respect to several digital development indicators, and network technology access is better than in several neighbouring countries (Figure 3.21). 4G coverage is around 98%, one of the highest in Africa, but broadband penetration rates remain low. The rural-urban divide is high with 23 percentage points more households in cities having at least low-speed broadband access, compared with just 4 percentage points for rural-urban split in the OECD. Businesses in particular lag behind. Firms in Egypt have only a small internet presence, with few internet domain registrations (Figure 3.21, Panel B). Trade in digitally-deliverable services constitutes only some 15% of commercial services in Egypt, versus 38% in the OECD on average (OECD, 2023e). International trade in ICT goods and services, another objective outlined in the NSRP, accounts for 5% of total trade, as against 12% OECD-wide, and 26% for China (OECD, 2023e), although digital services exports have been expanding in recent years. The slow diffusion of digital technologies may be attributed to entry and expansion barriers that impede competition across product markets (Arezki et al., 2018).

Figure 3.21. Mobile broadband penetration is low



Note: In Panel B, fixed broadband subscriptions refer to all subscriptions regardless of price, contracted or realised connection speed and are sourced from OECD Going Digital Toolkit. 3G mobile network coverage refers to the share of inhabitants living within the range of at least a 3G mobile-cellular signal, irrespective of whether or not they are subscribers. The Internet domain registrations indicator measures the production of Internet content and refers to two types of top-level domains: generic top-level domains and country-code top-level domains.
Source: The Network Readiness Index 2023; and The OECD Going Digital Toolkit, based on the OECD Broadband Portal.

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The authorities are seeking to accelerate Egypt's digital transformation. The three-pillar Digital Egypt programme, a part of the updated *Vision 2030* strategy, aims to expedite the country's digital transition seen as the key enabler to achieve the *Vision 2030* objectives of sustainable development. The digital transformation pillar aims for a digital and data-driven environment, facilitating faster and simpler public service delivery. This includes building a national information infrastructure as well as data centres for secure data storage across the country. In 2019-20, Egypt invested around USD 1.9 billion in developing the ICT infrastructure. The government is digitising its services, resulting in computer usage and internet adoption among government and public sector entities now surpassing those in the business sector (99.9% and 95.3%, compared with 82.5% and 65.7%, respectively) (World Bank, 2021). The Digital Egypt platform was launched in July 2022. By end-year, it had over 7.5 million users and more than 170 government services had been launched on the platform, covering law enforcement, notarisation, personal status, agriculture and investment. The number of e-signature transactions rose by 142% in 2022, to 375 million. A proposed amendment as part of the 22 measures announced in May to facilitate investment aimed at further simplifying the use of e-signatures, but the amendment was rejected by the Ministry of Justice (Table A.1). Egypt's ranking in the Network Readiness Index for 2022 improved, to 73rd position out of 131 countries (Portulans Institute, 2022).

As part of the *Hayat Karima* (Decent Life) programme, the Ministry of Communications and Information Technology is deploying fibre-optic networks in 4 500 villages, ensuring reliable internet access for 58% of Egypt's population, through a mandate to Telecom Egypt. Furthermore, it is expanding mobile telecommunications networks and enabling Egypt Post to deliver local digital services. To facilitate the efficient rollout, it has expedited the process of issuing permits for building cell towers for mobile operators to enhance 4G services. It is also allocating new frequencies to improve network coverage and the quality of communication services.

However, barriers to entry remain in the telecommunication sector. In the past few years, the sector has registered high growth rates both in terms of revenues and subscribers in the mobile and Internet markets, whereas the fixed line segment has experienced slower growth, which may be a result of the dominant position of the incumbent, part-state-owned Telecom Egypt, which owns the legacy fixed-line infrastructure. The market is open to competition at the service level, however. The National Telecommunications Regulatory Authority (NTRA) issued three integrated licences for fixed virtual network operators in 2016 to the existing mobile network operators. The three operators are operational and offer their services to consumers. Telecom Egypt has started to deploy fibre-optics to replace copper lines and improve the quality of internet services, but the high cost makes it uneconomical to roll them out in poorer neighbourhoods. The high infrastructure cost means that private operators struggle to provide the last-mile network owing to difficulties in recuperating the cost, limiting quality especially in city centres. This is partly because tariffs are capped by the NTRA, and operators need to apply to the NTRA for new tariffs. New communities and the New Administrative Capital will however receive fibre-optics from the outset. International call services are routed through Telecom Egypt, despite the presence of four mobile network operators in the country (WE (owned by Telecom Egypt), Vodafone (40% of which is owned by Telecom Egypt), Orange and Etisalat).

The Minister of Communications and Information Technology appoints the CEO of Telecom Egypt, as well as the head of the NTRA, and the head of the Information Technology Industry Development Agency, which oversees Egypt's digital development. The licensing of communication services and network deployment activities are regulated by the NTRA. Competing operators pay both access and annual fees to the NTRA, potentially limiting entry. A further 10% stake of Telecom Egypt was sold in mid-2023, but the company is yet to be fully restructured. Its retail and network business could be separated, as happened for the privatised telecommunications incumbent in Australia, Telstra, to promote competition in the fixed-line retail sectors (OECD, 2016c).

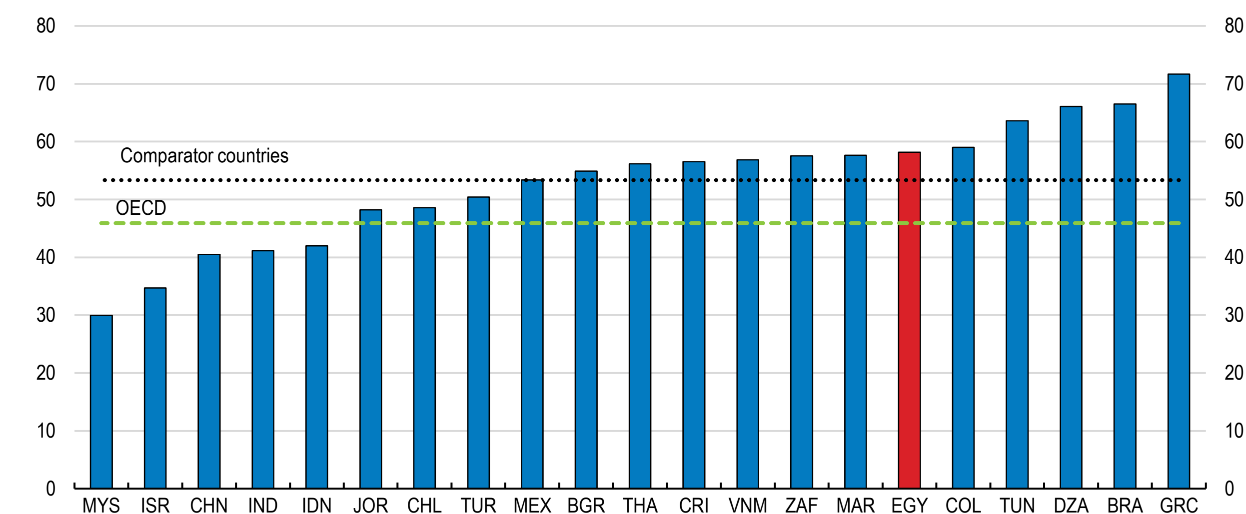
Digital Egypt's second pillar focuses on digital skills and jobs, to develop citizens' capabilities and expand the skills pool within the ICT industry, including training programmes in co-operation with major technology companies and global universities, targeting different segments of society, including students, professionals,

women, persons with disabilities, and young people. Digital skills are essential to innovation, competitiveness and development of the digital economy and training young people in these much-needed skills can contribute to reduce youth unemployment (Chapter 4). However, Egypt needs to step up efforts to increase the supply of digital skills in line with rising digital needs, and the large number of youths in the population. To benefit from the digital economy, the development of intermediary and advanced digital skills needs to be further scaled up (Chapter 4). The ICT strategy also includes digital literacy programmes.

Digital Egypt's third pillar focuses on entrepreneurship, research and development, and ICT-based innovation. Collaboration among various stakeholders, including the government, academic and research institutions, financial institutions, the private sector, entrepreneurs, and support networks, will be instrumental in driving sector growth and positioning Egypt as a regional innovation hub, taking advantage of agglomeration effects to create clusters (Badr et al., 2018). However, Egypt's regulatory framework is not well adapted to digital business models (Figure 3.22). For instance, it limits opportunities for digital start-ups: digital platforms need a licence from the Supreme Council of Media. Moreover, according to the Media Licensing Regulation, only the state can own companies carrying out any business activity related to creating digital or satellite platforms, and they must hold a minimum authorised capital of EGP 50 million (Soliman et al., 2023). Lifting the state-ownership requirement for digital platforms would help stimulate activity in the sector, as would lowering the minimum capital requirement. The market for digital services should be fully liberalised.

Figure 3.22. Legal framework adaptability to digital business models

Scale from 0 (not burdensome at all) to 100 (extremely burdensome), higher score corresponds to a poorer outcome



Source: World Economic Forum (2019), Global Competitiveness Index 4.0.

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Finally, the Ministry of Communications and Information Technology seeks to foster an ecosystem that encourages entrepreneurship and spurs creativity and to promote R&D, innovation, and entrepreneurship in the field of ICT, to support sustainable national development and position Egypt as a regional innovation hub, in line with NSRP objectives. With over 560 active tech start-ups, Egypt has the fourth-largest eco-system in Africa by number of companies, behind South Africa, Nigeria, and Kenya (ITIDA, 2021). Egyptian tech start-ups attracted investment and financing deals for USD 600 million in 2022. Start-up activity is concentrated in Cairo, which ranks second in Africa and fifth in the Middle East as a start-up ecosystem. In 2023, MNT-Halan, a microfinance lending and payment platform, reached unicorn status, the first such case in Egypt. To further boost its ecosystem for startups, Egypt should continue to work on expanding its physical infrastructure, and pursue regulatory improvement, to allow for the growth acceleration of young and small firms (StartupBlink, 2023).

Policy recommendations to support a better business climate

Main findings	Recommendations (key ones in bold)
Unleashing market forces to promote private sector expansion	
High regulatory barriers stifle the opening and operation of businesses, and the overall burden of licensing imposed on firms is high.	**Streamline licensing procedures for new and operational licences. Introduce the "silence is consent" principle for business registration.** Fully implement the Industrial Permits Act at the local level.
Regulatory quality is perceived to be low, hampering private sector development. ERRADA, the government agency carrying out regulatory impact assessment, only has the capacity to carry out qualitative and superficial regulatory impact assessments and lacks teeth.	Systematically conduct regulatory impact assessment of new legislation. Grant ERRADA a mandate and resources to do quantitative assessments. Undertake a competition assessment of sector regulations, in particular in manufacturing, agriculture and ICT.
The judiciary has a high case load and backlog, and judiciary efficiency is perceived to be low.	Increase the funding of economic courts to improve their IT infrastructure and increase their resources, such as administrative staff.
Perceptions of corruption are high, affecting investor confidence. The 2018 Public Procurement Law does not apply to state-owned enterprises (SOEs) and allows direct awards for non-civil firms.	**Fully implement the 2018 Public Procurement Law, and strictly limit exemptions for SOEs and direct awards for non-civil firms.**
The Egyptian Competition Authority (ECA) is highly active, but lacks sufficient resources, as well as institutional independence. The ECA cannot impose fines but must refer matters to court for prosecution. This creates uncertainty on the final outcome, and may make deterrence less effective.	Increase the institutional independence of the ECA and ensure it has more budget and staff resources. Grant the ECA powers to issue administrative fines, and only refer criminal matters to courts.
Increasing competitive pressures through trade and foreign investment	
Egypt is not well integrated into global value chains. Tariff and regulatory barriers to imports are high.	**Lower, simplify and streamline tariffs.** **Eliminate routine requirements to obtain pre-export authorisations for products exported to Egypt that meet domestic standards**.
Barriers to FDI remain, notably ownership restrictions in some sectors and activities, such as civil aviation or tourism transportation.	Lift remaining barriers to foreign investment, notably in tourism transport, to support inward investment.
No single entity is clearly mandated with planning and designing investment policy.	**Consolidate investment policy in a single entity with powers to design and execute investment policy and provide the General Authority for Investment (GAFI) with sufficient resources to act effectively as Egypt's investment promotion agency.**
The corporate tax system is subject to numerous exemptions. Overlapping legal texts increase the risk that incentives fail to attract more foreign investment.	**Consolidate tax incentives into a single law under the Ministry of Finance.** **Tax incentives should be reviewed regularly to verify that they remain aligned with objectives.**
Reducing the state footprint to support competitive markets	
State-owned enterprises dominate network sectors and compete with private firms in services, manufacturing, and agriculture. Network industries are heavily regulated, and the state plays a large role as both owner and regulator.	Implement the announced divestment programme in full, and over time continue to sell firms that do not operate in strategic activities (such as national defence). Implement structural separation, and adhere strictly to the principles of competitive neutrality, in particular by separating the functions of regulator and operator in network industries.
The privatisation process requires great clarity as to the objectives of the sales, the preferred method of privatising and the role of the state.	**Increase transparency in the choice of firms to be sold, the sequencing of sales, the valuations of assets, and the future role of the state.**
The state will likely remain a significant player in the economy.	**Fully adhere to and implement the principles of competitive neutrality across all state entities and transactions.**
The state footprint is large, with SOEs operating across most sectors of the economy. The full extent of the SOE sector is not known, and ownership is dispersed across numerous ministries, while financial transparency is lacking.	**Fully execute the announced divestment programme with a clear timeline. Regularly publish a list of all SOEs and their ownership, and increase financial transparency.**
Improve access to finance to support better resource allocation	
Alternative sources of funding for firms need further development. Rules on taxation, ownership and exit, are preventing venture capital firms from expanding. Fintechs could help facilitate access to finance by improving services and helping consumers make better choices.	Lift strict ownership rules to allow the venture capital industry to expand further. Implement Open Banking regulations to spur competition in the banking sector.
Promoting digital diffusion to support private sector expansion	
Egypt still lags behind on a number of digital development indicators. Slow diffusion may be related to barriers to entry and expansion, such as the monopoly of Telecom Egypt over certain national services.	Impose structural separation of retail services on Telecom Egypt, and encourage private investment in fibre-optics.
Digital platform service activities are heavily regulated, requiring state ownership as well as licensing by the Supreme Council of Media.	Revoke the rule stipulating state-ownership, and replace licensing of digital platforms with registration.

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Annexe A.

Table A.1. The 22 measures to stimulate investment announced in May 2023, and their progress

Measure	Progress
Amending the Investment Law to facilitate the establishment of companies in private free zones and expand their activities to include services and IT.	Done
Amending the Investment Law to allow licensing for industrial projects with a high content of natural gas to operate under the free zones system.	Done
New decision limiting the response time for security checks on foreign stakeholders to 10 working days. Absent a response, approval should be considered as granted.	Done
Launching an e-platform for establishing, operating, and liquidating projects via GAFI, in co-operation with all concerned parties.	Done
Amendments to the Electronic Signature Law to reduce bureaucracy and simplify procedures were announced but the Ministry of Justice noted that the current electronic signature law and its executive regulations effectively meet all objectives. GAFI and the Real Estate Authority agreed to simplify the use of e-signatures in their procedures.	Previous measure remains in place. Electronic signature authorised for company establishment services.
Allowing non-Egyptians to own built real estate and vacant lands for residential purposes, provided that the price is paid in foreign currency with a transfer from abroad, and in accordance with the controls issued by the Central Bank of Egypt.	Done
Expanding the issuance of the single approval license also known as the "Golden Licence" to more activities and different legal forms of new and existing companies.	Done
The Cabinet will study the setting up of independent sector regulators for utilities (telecom, electricity, transportation, water and wastewater), removing them from ministerial supervision to guarantee their independence, and the separation of ownership from management in a number of sectors.	In progress
Revoking preferential treatment to state-owned enterprises and entities. A law was issued in July cancelling exemptions from taxes and fees for state owned entities in investment and economic activities. However, the law is open for interpretation as exemptions remain for some “strategic firms”.	Done, but caveats remain
Establishing a permanent unit at Cabinet headed by the CEO of GAFI, to set appropriate policies, laws and regulations for start-up companies in Egypt, as well as receiving complaints from start-up companies in co-ordination with the Investors’ Problem-Solving Unit in the Cabinet and developing appropriate solutions for each in co-ordination with the competent authorities.	Done
Improving governance and transparency with respect to public procurement, tax exemptions, sovereign guarantees and profit distribution of SOEs. The Ministry of Finance and the Health Unified Procurement Authority have started implementation.	In progress
Amending the Importers’ Registry Law to allow foreign corporate importers to be registered in the importers register for a period of up to ten years with an option to extend for another ten years subject to Cabinet approval.	Done
Any decision, regulation, law or decree which adds a financial or procedural burden on firms, related to the establishment or operation of projects subject to the provisions of the Investment Law, or imposes fees or charges for services related to the Investment Law, can only be accepted after the joint approval of GAFI Board, Cabinet and the Supreme Council for Investment.	Done
The Ministry of Finance is mandated to implement an automated clearing system between dues to investors and any tax or other payments they need to make to public entities, with a 45-day limit on reimbursing VAT and expediting procedures.	In progress
Expediting the announcement of a new five-year tax policy document to help reduce the instability in tax legislation and moving away from multiple authorities charging additional fees. The Ministry of Finance has engaged a consulting office to prepare a tax policy document which will be put out for stakeholder consultation.	In progress
A decision mandating the Ministry of Justice to expedite drafting a law regulating profit transfer to holding companies and affiliate companies to avoid double taxation.	In progress
Assigning the Ministry of Justice to make legislative changes raising the threshold value for the competence of economic and partial courts, and expanding the scope of their substantive jurisdiction to resolve commercial disputes, while raising the quorum for non-appeal.	In progress

Assigning the Ministry of Justice to set a specific time limit for disbursing compensation to investors in cases of expropriation, not exceeding three months, while obligating the administrative authorities to intensify negotiations with investors on appropriate compensation.	Order executed
Formally tasking the IFC to contract an international consultant to lay out a coordinated strategic vision for investment in Egypt and mechanisms to improve Egypt's ranking in the Ease of Doing Business in the coming years to raise investment rates to a range of 25%-30% of GDP.	In progress
Studying the amendment of articles of the Special Economic Zones Law 83/2005 which governs the Suez Canal Economic Zone to grant new incentives and further exemptions to economic zones.	In progress
Obliging all state agencies to issue the necessary licences within 20 working days, with facilities to simplify licenses for industrial projects and renewal of licenses for five years, instead of one year previously.	Done
Approving a package of incentives for a number of sectors and projects, including agriculture, industry and energy (green hydrogen), housing (real estate development and investment projects in new cities) and transportation (related to export fees and customs, among other measures).	Done
Granting further incentives and facilities to real-estate developers and investment projects (real estate, agricultural, industrial, tourism) in the new cities.	Done
Granting new incentives to green hydrogen projects.	In progress
Amending the Investment Law to grant new incentives and facilities, including extending the time during which incentives are in force. Incentives include exemptions from stamp duty, and cash payments of between 35% and 55% of the value of the tax paid on the income generated from the investment project, provided the project is funded with foreign exchange for at least 50%.	Done

Source: Government of Egypt; elaborations by the Secretariat.

4 Promoting better-quality job creation for inclusive growth

Egypt’s working age population is set to expand substantially, with a rising education level, making for growth opportunities. However, employment ratios have trended down, while informality has become increasingly prevalent, particularly penalising the youth. Such trends should be reversed by creating more and better-quality jobs, thereby better integrating people into the labour market, in particular the youth. Easing rigid market regulations would boost productivity and promote formal job creation. High labour costs should be reduced, which would also bring a larger share of the working age population into formal employment. At the same time, social protection and worker support should be expanded to address labour market insecurity and obstacles to labour force participation. Education is also key to foster productivity growth and formal jobs. Ongoing reforms, notably the National Structural Reform Programme, aim at developing skills, promoting female labour force participation and expanding social benefit programmes. These important initiatives should be complemented by additional policy measures to ensure sufficient job creation and improve job quality, thereby durably raising living standards for all and improving employment prospects especially for younger generations.

Employment rates in Egypt are low and have trended down over the past decade (Figure 4.1), while unemployment is high. Youth and women are particularly affected. While the unemployment rate has declined in recent years, this reflects eroding labour force participation. On average, wage earnings are low, reflecting low productivity (Chapter 1). Informal activity is widespread, often meaning low-paid jobs with poor working conditions. Income inequality and poverty are high and have drifted up over the past decade (Chapter 1). The working-age population is projected to increase significantly over the coming decades. Therefore, youth employment is a prominent issue. Young people need to be better integrated into the labour market by reviving business dynamism to boost job creation as discussed in this Survey. Simultaneously, their skills need to be enhanced and better aligned to labour market needs (OECD 2024a).

Figure 4.1. Employment rates are low and unemployment is high

A. Employment ratios across countries, 2022

Total working age population (15+)
Female (15+)
Youth (15-24)

B. Employment rate in Egypt

Employment rate, Age: 15+
Female, Age: 15+
Youth, Age: 15-24

C. Participation rate in Egypt

Participation rate, Age: 15+
Female, Age: 15+
Youth, Age: 15-24

D. Unemployment rate in Egypt

Unemployment rate, Age: 15+
Female, Age: 15+
Youth, Age: 15-24

Note: ILO standards, LFS based, including informal employment.
Source: World Bank, World Development Indicators.

https://stat.link/3ovydq

A well-functioning labour market is key to achieve inclusive growth, the benefits of which are widely shared. Drawing on the 2018 OECD Jobs Strategy framework (OECD, 2018), this chapter considers three dimensions through which the labour market contributes to inclusive growth and well-being:

- More and better-quality jobs, focusing on earnings and their distribution, labour market security and the quality of the work environment (Box 4.1);
- Labour market inclusiveness, standing for a fair distribution of opportunities and outcomes across individuals; and
- Resilience and adaptability, indicating the ability to absorb and adapt to economic shocks and make the most of the new opportunities arising from technological change.

Several of the reforms initiated over the past years aim to facilitate the creation of better-quality jobs. These include, notably, the National Structural Reform Programme (NSRP), which rightly focuses on youth and women. Under the aegis of the NSRP, education and training programmes are being remodelled, as is the qualification accreditation system, and cash transfer programmes such as *Takaful* and *Karama* are being expanded. Such efforts help enhance employability, encourage labour force participation and strengthen social safety nets. In August 2023, the government announced that a National Strategy for Employment would be launched, to cope with labour market challenges and take advantage of new opportunities arising from, among others, the green and digital transformation.

Box 4.1. The OECD Job Quality Framework

The OECD Job Quality Framework links workers' well-being to specific aspects of their job and identifies the job attributes that are of greatest importance to workers. It highlights three key complementary dimensions of job quality:

- **Earnings quality** captures the extent to which labour earnings contribute to workers' well-being. It is measured by the average earnings, adjusted for earnings inequality as individuals display a certain degree of inequality aversion.

- **Labour market security** captures the aspects of economic security related to the risks of job loss and its economic cost for workers. Labour market insecurity is defined as the probability of becoming and staying unemployed as well as the expected earnings losses taking account of unemployment benefits during the unemployment spell.

- **Quality of the working environment** refers to the nature and content of the work performed, working-time arrangements and workplace relationships. It captures job strains, such as time pressures and health risks, but also work autonomy, learning opportunities and social support at work.

Source: Cazes et al. (2015); OECD (2014); OECD (2016).

4.1. More and better-quality jobs are needed

4.1.1. The working age population and educational attainment will increase

Egypt's population reached 104.5 million in 2022, and is set to approach 205 million in 2100 according to United Nations projections (Chapter 1). The increase will be particularly strong over the period up to 2035. The working age population is expected to grow even faster (Figure 4.2), by 32% between 2020 and 2035, with the number of youth (aged 15 to 24) rising by 36%.

The working age population is also expected to become more educated. The proportion of highly educated people (university or above) increased from 10% in 2000 to 14% in 2020, and is on course to rise further (Figure 4.2). New entrants over the period 2020-35 will be substantially more educated, driving an increase in educational attainment within the overall working age population. According to Assaad (2020), at least

half of them will have secondary or post-secondary education, and approximately one third university education or higher.

Figure 4.2. The working age population will increase and become more educated

A. Working age population by education attainment

B. Working age population by education attainment, 2035

Source: United Nations, Department of Economic and Social Affairs, Population Division; OECD calculation based on Assaad (2020); Human Capital Data Explorer, Wittgenstein Centre.

Employment has not kept pace with the increasing working age population over the past decade. Employment and population grew by 1.5% and 2.4%, respectively, on average over the 10 years through 2021, compared with 3.1% and 2.2% over the preceding 10-year period. This gap is expected to continue widening, resulting in a sizeable share of the youth becoming unemployed or inactive (CAPMAS and IOM, 2017).

4.1.2. Employment outcomes have worsened over the past decade

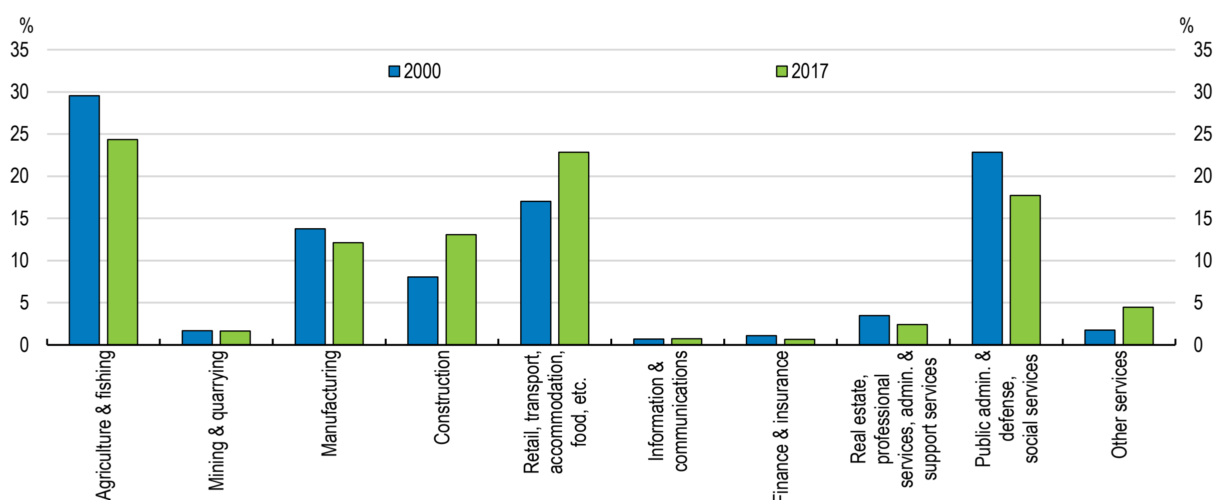
While total employment has not expanded sufficiently, the pattern of job creation has changed over the past decade. According to ILO and ERF (2021), agriculture remains the largest sector in terms of the employment share, followed by the public sector (including state-owned enterprises), and the retail,

transport, accommodation and food sectors (Figure 4.3). The shares of agriculture and the public sector have declined since the early 2000s. Those of construction as well as of retail, transport, accommodation, and food have expanded. As the share of informal jobs is typically high in these sectors, this has likely contributed to a rising share of informal jobs in the economy.

Those sectors requiring high skills such as ICT, finance and professional services remain very small, which limits adequate job opportunities for more educated people. In fact, the share of the highly educated (with post-secondary education) working or living abroad in 2018 was 7.0%, versus 1.4% for those with only pre-secondary education (David et al., 2020), reflecting the incentive for some highly-educated people to look for better job opportunities abroad.

Figure 4.3. Job creation in highly skilled sectors has remained limited

Share of employment for each sector, out of total employment

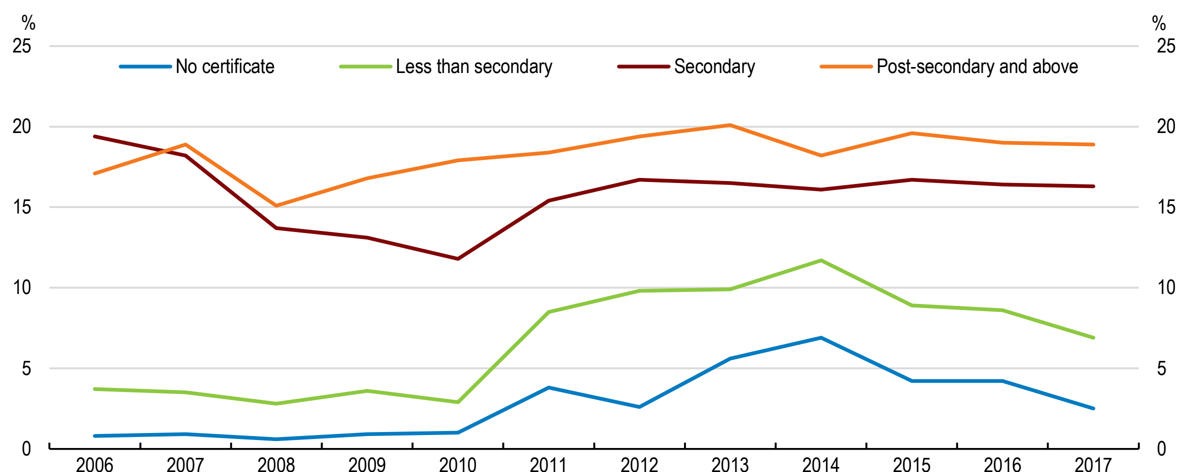


Source: ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey. The underlying data were provided by Prof. Selwaness, Amer and Zaki, Cairo University.

The lack of adequate jobs tends to push up the unemployment rate of highly-educated people (Figure 4.4). This is particularly true for highly-educated youth. According to Amer and Attallah (2019), looking at the 15-34 age cohort, the unemployment rate among university graduates is high and edged up from 20.8% in 1998 to 21.6% in 2018. Over the same period, the unemployment rate of highly-educated young women rose from 30.2% to 37.7%, whereas that of highly-educated men declined from 15.7% to 11.2%. The increase in unemployment among highly-educated women can be explained by the decline in new entrants to the public sector due to restrictions on hiring in the public sector introduced in the early 2010s (Chapter 2), and their preference for work stability and predictable working hours (Dougherty, 2014; Assaad et al., 2017).

Not only is unemployment high, but underemployment is also important. Around 10% of male workers are over-qualified, in the sense that their educational attainment exceeds the one required by their occupation (Figure 4.5). The incidence of overqualification is slightly lower among women. While the overall incidence of overqualification remains lower than the OECD average of 16.5% in 2019, it has increased over the past decade (ILO and ERF, 2021). The fastest-growing occupations among workers with tertiary education are clerks, sales workers, machine/plant operators, each growing at around 10% per year (ILO and ERF, 2021). The incidence of overqualification is higher in sectors where high skills are required such as ICT, finance and professional services, implying that firms in these sectors have a limited capability to use high skills.

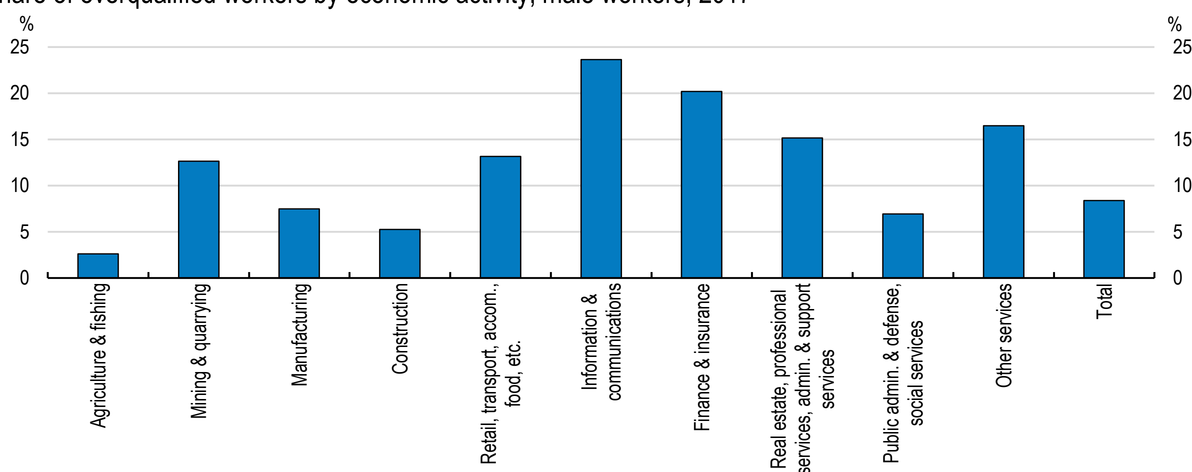
Figure 4.4. Unemployment is high among highly-educated people



Source: ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey. The underlying data were provided by Prof. Selwaness, Amer and. Zaki, Cairo University.

Figure 4.5. The extent of overqualification varies across sectors

Share of overqualified workers by economic activity, male workers, 2017



Note: ILO and Economic Research Forum (2021) compare the level of skill required by each occupation (at the 1-digit level) with the actual educational level of each worker. For further details, see Appendix 2b of ILO and Economic Research Forum (2021).
Source: ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey (LFS). The underlying data were provided by Prof. Selwaness, Prof. Amer, and Prof. Zaki, Cairo University.

Low employment rates are also largely explained by low labour force participation, particularly for women. Labour force participation is positively related to educational attainment. The only exception is men with no certificates (those who did not achieve primary education) whose employment rate is high, as many of them settle for informal jobs.

Furthermore, the share of youth (15-24 years old) who are not in employment, education or training (NEET) is high. According to the ILO data, the NEET rate was 28.7% among the youth in 2021 (16.8% for men and 42.2% for women). This compares with 22.9% in comparator countries and 12.3% in OECD countries on average. Among those who are NEET, the vast majority of men are unemployed and searching for a job, while the large majority of women are out of the labour force (ILO and ERF, 2021).

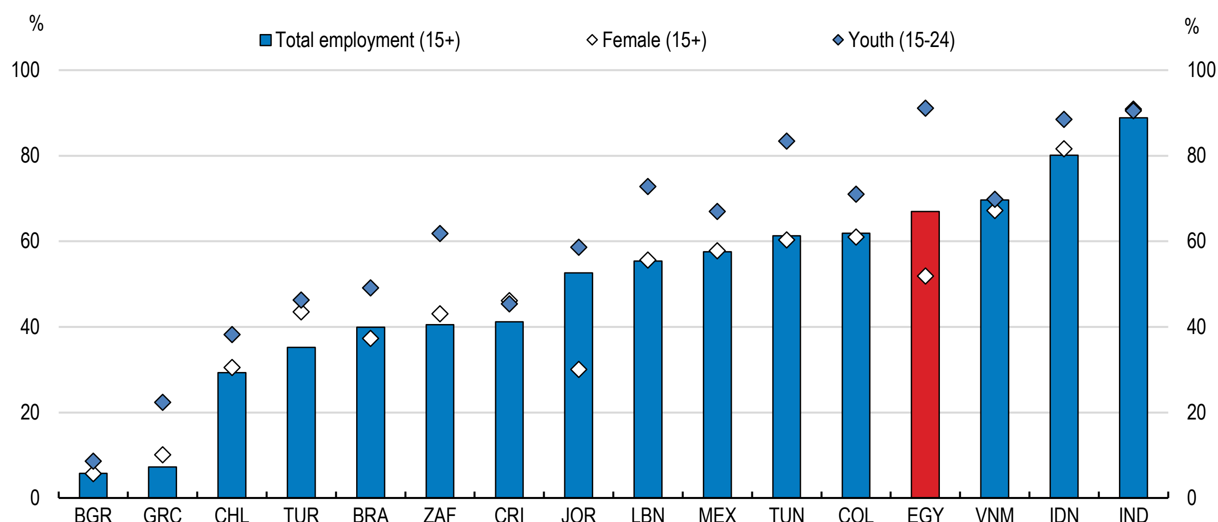
4.1.3. Widespread informality is detrimental to job quality

While the overall employment rate is low, the share of informal employment is high, accounting for 67% of total employment (Figure 4.6). Following ILO (2018), informal employment includes employment in the formal sector that is not covered by social security, employment in the informal sector (unincorporated enterprises not constituted as separate legal entities independent of their owners) or employment in households (Box 4.2). The incidence of informal employment among youth in Egypt stands out, with 91% of 15-24 year-olds in informal jobs (Figure 4.6). The incidence of informal employment among women is low, whereas in other countries there is little difference between men and women.

The share of informal jobs among employees is also high, accounting for 51% of the total (Figure 4.7). This share is much higher among youth, after having increased significantly over the past decade (Figure 4.7). Informal employees work either within an establishment or outside, notably on construction sites, operating vehicles or in the street (ILO and ERF, 2021). A forthcoming report by the OECD, ILO and UNDP will provide an overview of the informal economy in Egypt, not limited to informal jobs, and discuss the recent developments (OECD, ILO and UNDP, 2024).

Figure 4.6. Informal jobs are prevalent, particularly among youth

2019 or latest



Source: ILO, Labour Force Statistics.

Figure 4.7. The share of informal employees is high

A. Share of job categories, 2017, total working age population

% of total employment

Public sector | Private formal | Private informal inside establishment | Private informal outside establishment | Employer | Self-employed | Contributing family worker

Employees | Other

B. Evolution of the share of informal employees

% of total employees

Total | Youth | Female | Low educated

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

Note: "Informal employees" are those in the job categories "private informal inside establishment" and "private informal outside establishment".
Source: OECD calculation based on ILO and Economic Research Forum (2021).

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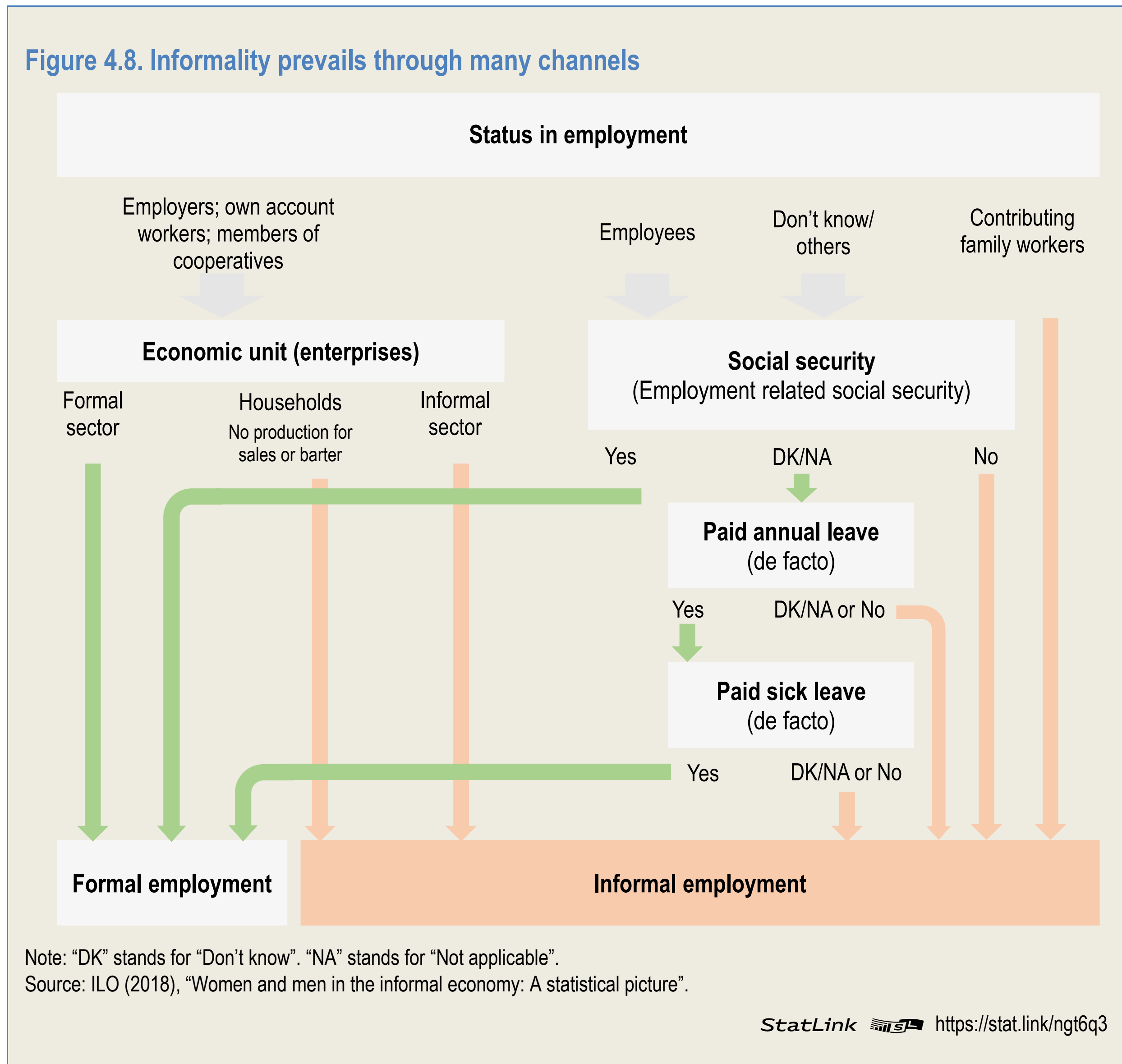
Box 4.2. Informality across countries

In this chapter, informal employment is defined according to the ILO (2018) definition (Figure 4.8) as:

- employment in the informal sector, which in turn is defined as unincorporated enterprises not constituted as separate legal entities independently of their owners;
- informal employment in the formal sector, which is, among others, identified by the coverage of social security, and some other complementary criteria such as the availability of paid annual leave and paid sick leave; and
- employment in households.

Figure 4.8. Informality prevails through many channels



Note: "DK" stands for "Don't know". "NA" stands for "Not applicable".
Source: ILO (2018), "Women and men in the informal economy: A statistical picture".

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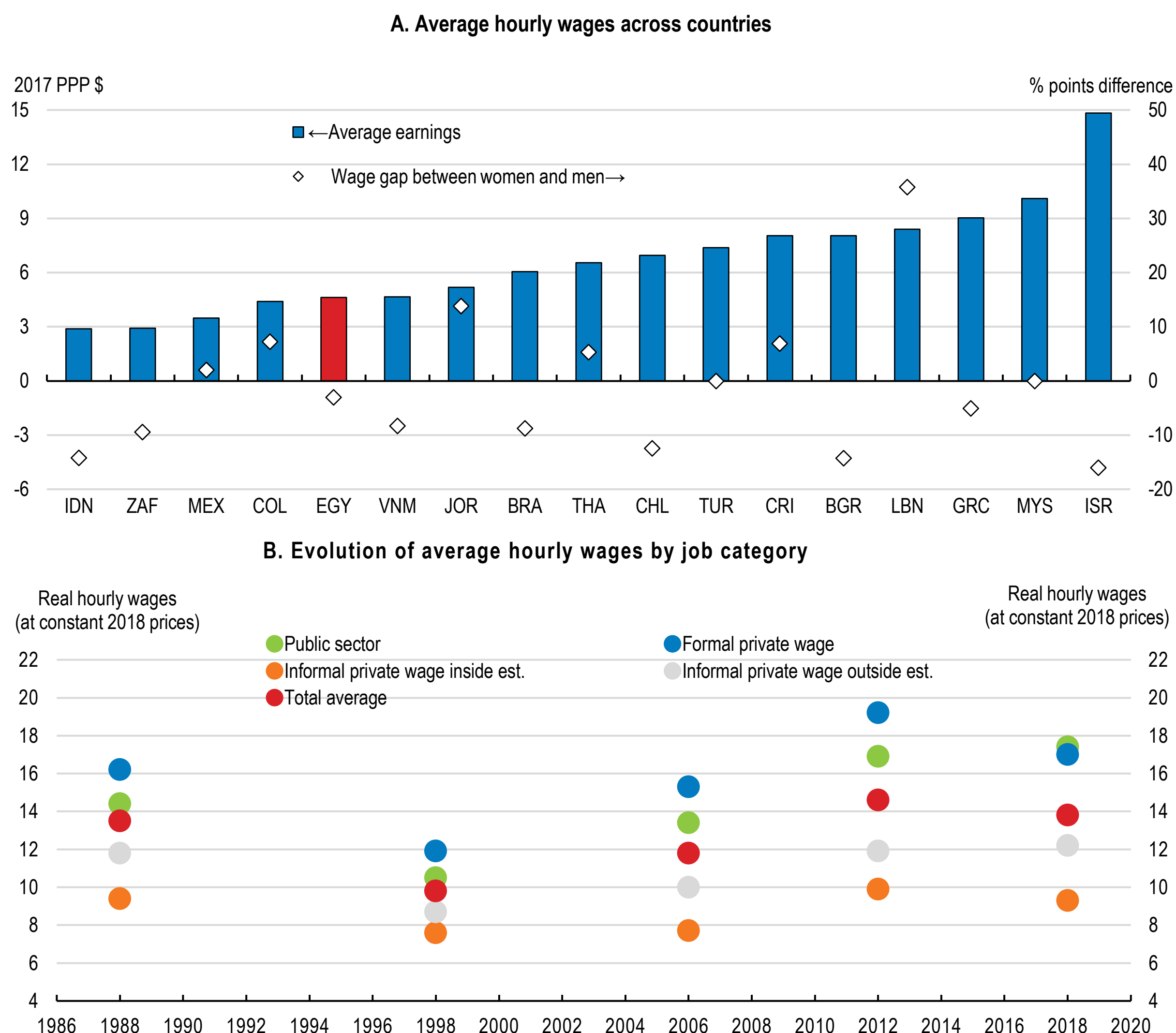
Informality implies lower average labour earnings and wider earnings disparity. Average earnings in Egypt are lower than in most comparable countries (Figure 4.9, Panel A). Since 2012, economy-wide hourly earnings at constant prices have declined and the average earnings of informal employees are markedly lower than those of formal employees (Panel B). Informal workers within establishments have lower hourly earnings on average than those working outside establishments, but the latter's work schedule tends to be very irregular and their earnings are not stable. Finally, the gender gap in hourly wages is comparatively small (Panel A), which at least partly reflects the lower share of informal workers among women.

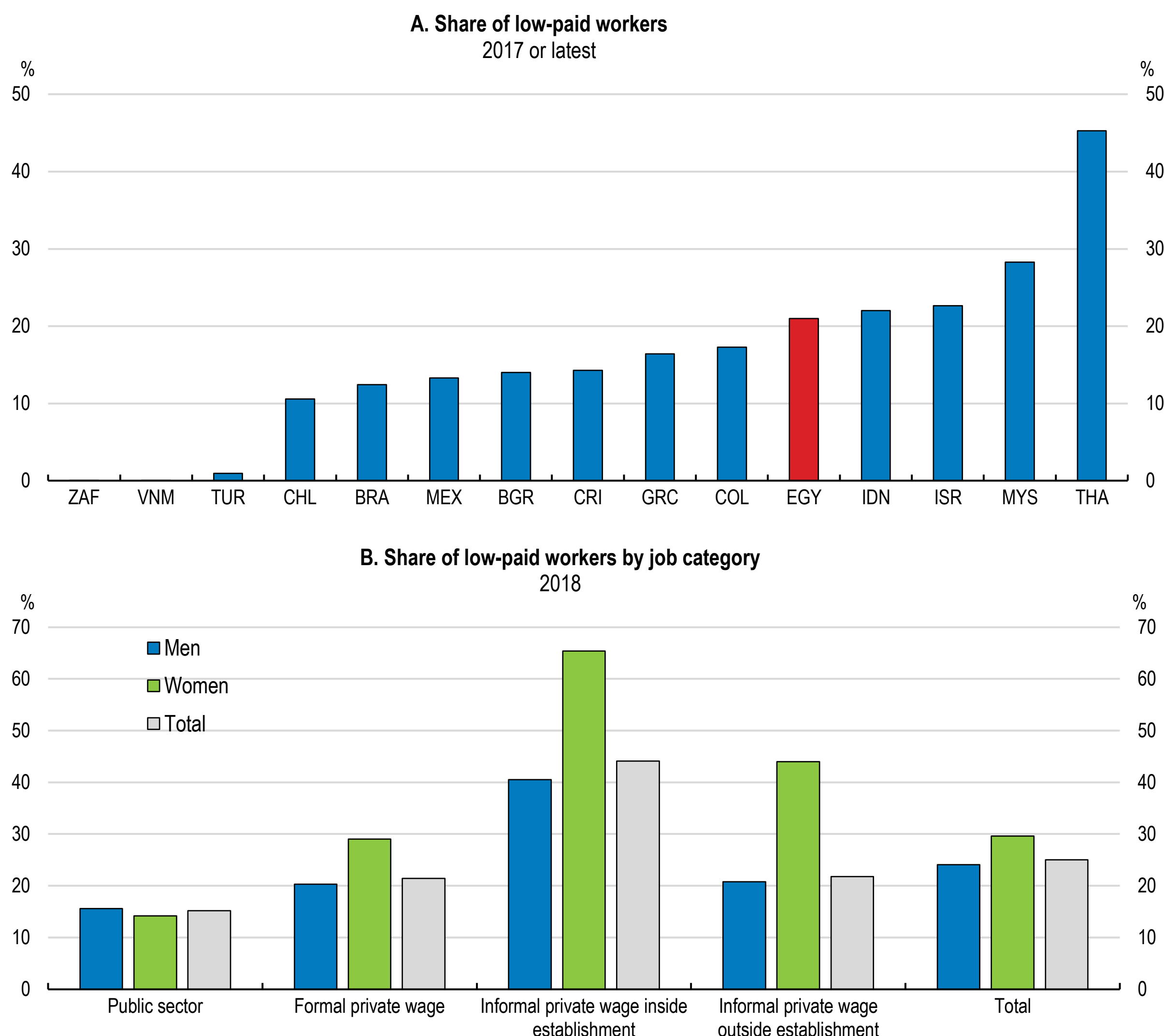
Figure 4.9. Labour earnings are low and have declined over the past decade



Note: Panel A: difference between average hourly earnings of women and men expressed as a percentage of average hourly earnings of men.
Source: ILOSTAT, Wages and Working Time Statistics; ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey. The underlying data were provided by Prof. Selwaness, Amer and. Zaki, Cairo University.

Labour market security is low among informal workers, with high unemployment risk. In emerging market economies, many workers are at risk of being pushed into extremely low pay jobs owing to the absence or weakness of social insurance schemes. The incidence of low pay, defined as earnings at two-thirds of the median wage or below, is high in Egypt (Figure 4.10), at approximately 21% of employees. It is markedly higher among informal than among formal employees (Figure 4.10). Among informal employees, the incidence of low pay is slightly lower for those working outside establishments, but they tend to be frequently out of work. Indeed, when measured in terms of monthly earnings, the incidence of low pay is higher among informal workers outside establishments.

Figure 4.10. The incidence of low pay is high in Egypt



Note: Low-paid workers are defined as those earning two-thirds of the median hourly wage, or less.
Source: ILOSTAT; ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey (LFS). The underlying data were provided by Prof. Selwaness, Amer and Zaki, Cairo University.

The quality of the working environment, as defined in Box 4.1, is low, especially for informal workers. The incidence of very long working hours is particularly important for workers' well-being (OECD, 2015a). Average working hours are long in Egypt, and a sizeable share of employees work very long hours, particularly among men (Figure 4.11). Average working hours are longer among informal employees within establishments than for those working outside establishments. However, among the latter, the irregularity of the work schedule is markedly higher, implying that they occasionally work very long hours or not at all.

Figure 4.11. Working hours are long in Egypt

A. Average working hours per week across countries

2021 or latest

Hours

ISR CHL GRC BRA VNM BGR CRI THA COL MEX EGY MYS TUR JOR IND

B. Average working hours per day by job category in Egypt

Hours/day

Average working days per week

	Public sector	Formal private wage	Informal private wage inside est.	Informal private wage outside est.
Men	5.6	5.8	6.0	5.1
Women	5.5	5.8	5.8	4.8

Source: ILOSTAT; OECD calculation based on ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, Geneva.

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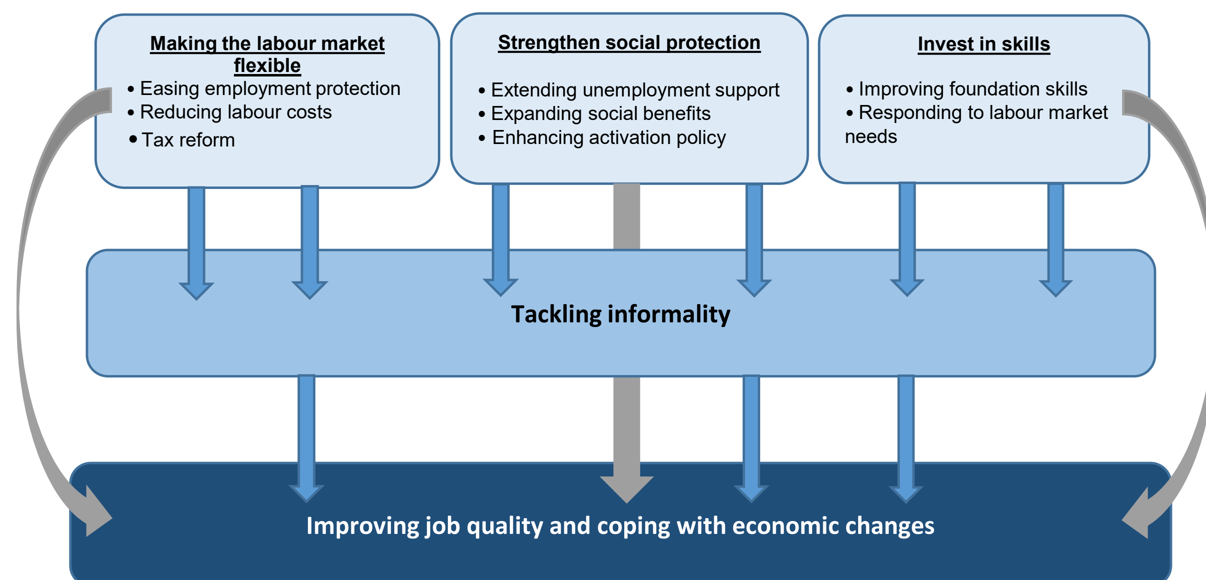
4.1.4. Policy measures to be prioritised in Egypt

The OECD Jobs Strategy framework identifies policy measures that need to be prioritised to ensure inclusive growth in emerging market economies such as Egypt, that are characterised by low productivity and widespread informality (Figure 4.12). Removing inefficient market regulations, not only in the product market (Chapter 3) but also in the labour market such as very rigid employment protection legislation (see below), can spur the entry and expansion of prospective firms and job creation, particularly in the formal sector. Expanding social protection and worker support provided by the authorities to the vulnerable people, in particular, those in the informal sector, can directly improve labour market security and, if well designed, promote labour market attachment. Finally, skill development is critical for raising productivity and promoting formal employment while reducing inequality. These measures are all essential to make the economy resilient to shocks and adapt to new technologies.

As more and better-educated young people enter the labour market in the near future, accelerating reform efforts in line with the OECD Jobs Framework is crucial. This would help promote better-quality jobs for young people and improve their work incentives and employability. More flexible market regulations would boost hiring and especially benefit youth newly entering the labour market. Providing income and employment support matters particularly for young people, as many of them are involuntarily unemployed or working poor in the informal sector. Developing skills aligned to changing labour market would improve youth's employment prospects and reduce the risk of informal employment.

Figure 4.12. Policies to reduce informality and improve job quality

OECD Jobs Strategy framework for emerging economies



Source: Adapted from OECD (2018), "Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy".

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4.2. Increasing labour market flexibility for better job creation

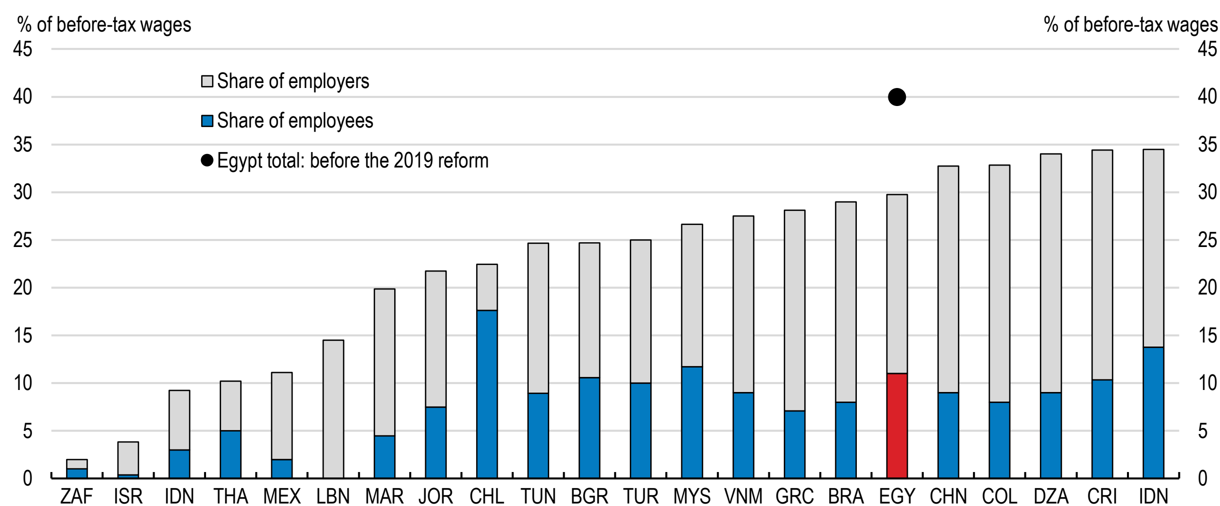
Labour market flexibility can support job creation and improve job quality by reducing inefficient labour costs. Excessively rigid employment regulations, including those on collective bargaining, and high labour taxation hold back job creation in the formal sector, and shift job creation into the informal sector where job quality tends to be poorer.

4.2.1. Labour taxation should be reduced

The statutory rate of social security contributions is high in Egypt (Figure 4.13). High labour costs are among the most important drivers of informality (ERF, 2019). Employers often either decide not to register their workers, thus pushing them into informality, or underreport their earnings. The coverage rate declined in the 2010s, as reflected in the rising share of informal employees (Figure 4.7). Employers underreport the earnings of approximately 40% of employees in the private sector (Roushdy and Selwaness, 2019). Such underreporting occurs frequently, particularly for youth, low-educated people and low-paid workers (Barsoum and Selwaness, 2022). These findings illustrate how employers often circumvent non-wage labour costs, depriving employees of benefit entitlement and increasing the risk of poverty.

Figure 4.13. Labour taxation for the employer remains high

The social security contribution rate for employers and employees



Note: 2023 data for Egypt, 2019 data for Algeria, Brazil, Colombia, Costa Rica, Morocco, South Africa and Tunisia; 2018 data for Bulgaria, China, Greece, India, Indonesia, Israel, Jordan, Lebanon, Malaysia, Thailand, Türkiye and Viet Nam.
Source: The International Social Security Association.

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The Social Insurance Law 148/2019 expanded coverage to a wider range of workers while reducing contribution rates. It reduced the contribution rate in the private sector from 40% to 29.75% of gross earnings subject to the lower and higher thresholds (Figure 4.13). Out of the total contribution rate, 18.75% is paid by the employer and 11.0% by the employee. Even so, the contribution rate remains higher than in most comparator countries (Figure 4.13) and than the OECD average (16.4% for the employer and 9.7% for the employee, respectively, for single persons at 100% of gross wage earnings in 2022). However, minimum pensions to support low-income older people are financed by social security funds in Egypt rather than by the general budget, unlike in many OECD countries. In practice, collection is weak and the share of social security contributions in total government revenue in Egypt is only 1.9% in FY 2020/21 versus 9.2% on average in OECD countries in 2020 (OECD Revenue Statistics), notably due to high informality.

In the calculation of social security contributions, there are two earnings thresholds: the lower one at EGP 1 400 in 2022 or around 26% of average earnings in FY 2021/22, under which social security contributions are exempted; the higher one, at EGP 9 400 or around 176% of average earnings, at which social security contributions are capped. These thresholds are increased by 18% each year on average until 2027 and at the pace of inflation thereafter, according to the 2019 social insurance law. Thus, the evolution of the thresholds can differ from the pace at which actual wages increase. This is particularly problematic during times of high inflation.

A large part of social security contributions serves to finance the pension system (Table 4.1). Only a small share of social security contributions is allocated to finance unemployment benefits. There is no additional contributory unemployment assistance, which is typically provided upon the expiration of the standard unemployment benefits in some OECD countries. Thus, jobless people not eligible to the unemployment benefit can only be covered by non-contributory benefits (see below).

Table 4.1. Social security contribution rates were reduced

The rate of social security contribution by insured risk, in %

	Old scheme (Law 79/1975)			New scheme (Law 148/2019)		
	Employer	Employee	Total	Employer	Employee	Total
Old age, disability and survivors' pension	15	10	25	12	9	21
End of service bonus	2	3	5	1	1	2
Injury	3	0	3	1.5	0	1.5
Sickness	4	1	5	3.25	1	4.25
Unemployment benefit	2	0	2	1	0	1
Total	26	14	40	18.75	11	29.75

Source: Barsoum and Selwaness (2022), "Egypt's reformed social insurance system: How might design change incentivize enrolment?"

Law 148/2019 also introduced provisions to promote the enrolment of informal workers. Own-account workers who remain outside the formal business sector are covered by these provisions. Their earnings are presumed to amount to EGP 1 700 in 2023, the lower threshold, and they pay social security contributions set at 9% of presumed earnings, while the government pays 12% thereof, in lieu of the employer contribution. These provisions apply to a limited number of specific jobs only, implying that the system does not fully capture the diversity of informal forms of work (Barsoum and Selwaness, 2022). The 2019 law also increased the fines imposed on employers who do not register their employees. The government conducts labour inspections to verify the registration of employees, but like in other countries these take place less frequently in small firms, which explains disproportionately low social security coverage among these firms (Barsoum and Selwaness, 2022).

So far, no studies have investigated the effects of the 2019 reform on the promotion of formal jobs. The government should evaluate its effects. These may be limited due to the existence of the low earnings threshold, above which social security contributions become mandatory. It should be removed as it has created strong disincentives to increase low wages and creates strong incentives for employers to underreport wage earnings, in particular when the threshold does not increase as much as average wages, compromising the collection of social security contributions and the social insurance coverage for low-paid workers. The threshold should therefore be removed, while further reducing the rate of social security contributions, which would expand the coverage of social insurance and limit the financial burden for employers.

An across-the-board reduction of social security contributions across all earnings levels can be costly. Therefore, a reduction could be targeted on low-paid workers. The expected effects would be stronger, for a given budget, as the elasticity of labour with respect to taxation is higher among low-paid workers (OECD, 2011a). Labour costs matter particularly for goods and services that are more intensive in low skills as they are more sensitive to price competitiveness. However, such a targeted reduction in labour taxation can result in a low-pay trap, as the marginal tax wedge becomes high when low-paid workers move to higher earnings levels (OECD, 2011a). Therefore, the reduction in labour taxation would need to be tapered gradually, avoiding an abrupt rise in the marginal tax wedge at a particular earnings level.

Moreover, compliance costs should be reduced as they prevent the expansion of the coverage of the social security system. The introduction of a presumptive tax regime aiming at reducing tax compliance costs (Chapter 2) can be an option to increase social insurance coverage (Mas-Montserrat et al., 2023). The presumptive regime is characterised by simplified procedures, for instance, levying tax on a presumed tax base approximating taxable income by indirect means. By reducing compliance costs, it would encourage the provision of social protection to self-employed individuals who otherwise would operate in the informal sector. Moreover, it encourages labour formalisation if social protection is provided through registration. Such simplified procedures can be particularly adapted not only to the self-employed but also to domestic workers (Figure 4.7). Social and labour rights are often extended to domestic workers via simplification

measures in other countries, such as the simplified registration, tax and contribution payment mechanisms in Argentina and Peru (OECD and ILO, 2019).

Progressivity in the personal income tax system is relatively limited. According to a recent study (Mansour and Zolt, 2023), the lowest rate is comparatively low among MENA countries (Table 4.2), but the threshold below which income tax is exempted is also low. The highest rate is comparatively low, and the income threshold above which the highest rate applies is high.

Table 4.2. The personal income tax could be more progressive

Personal income tax rates and taxable income brackets among selected MENA countries

	2020				Early 2000s			
	Rates, %		Brackets (Multiples of per capita GDP)		Rates, %		Brackets (Multiples of per capita GDP)	
	Low	Top	Exempt	Top	Low	Top	Exempt	Top
Algeria	20.0	35.0	0.29	3.51	10.0	40.0	0.44	14.17
Egypt	2.5	25.0	0.41	13.10	10.0	20.0	0.56	4.45
Jordan	5.0	30.0	2.96	328.87	5.0	25.0	0.00	7.62
Lebanon	2.0	25.0	0.80	25.54	4.0	21.0	1.12	17.98
Morocco	10.0	38.0	0.95	5.68	13.0	44.0	0.97	2.92
Tunisia	26.0	35.0	0.49	4.86	15.0	35.0	0.48	15.88

Source: Mansour and Zolt (2023).

The government aims to sharpen progressivity in the tax system as part of the IMF programme (Chapter 2) (IMF, 2023). The recent income tax reform in Budget FY 2023/24 raised the highest tax rate to 27.5% while raising all the taxable income brackets, reflecting surging inflation. To raise progressivity further, the threshold for the top taxable income bracket could be lowered as it is comparatively high (Table 4.2). Besides, the statutory tax burden can be reduced for the low-paid by increasing the income tax exemption threshold, as it is low compared with some neighbouring countries (Table 4.2). The government has increased this threshold to EGP 45 000 in October 2023 and then to EGP 60 000 in February 2024 (Chapter 2). The threshold has increased by 50% since the beginning of FY 2023/24, making up also for high inflation in previous fiscal years. Reducing the tax burden on low-paid workers can have strong effects given the high elasticity of labour supply to taxation (OECD, 2011a).

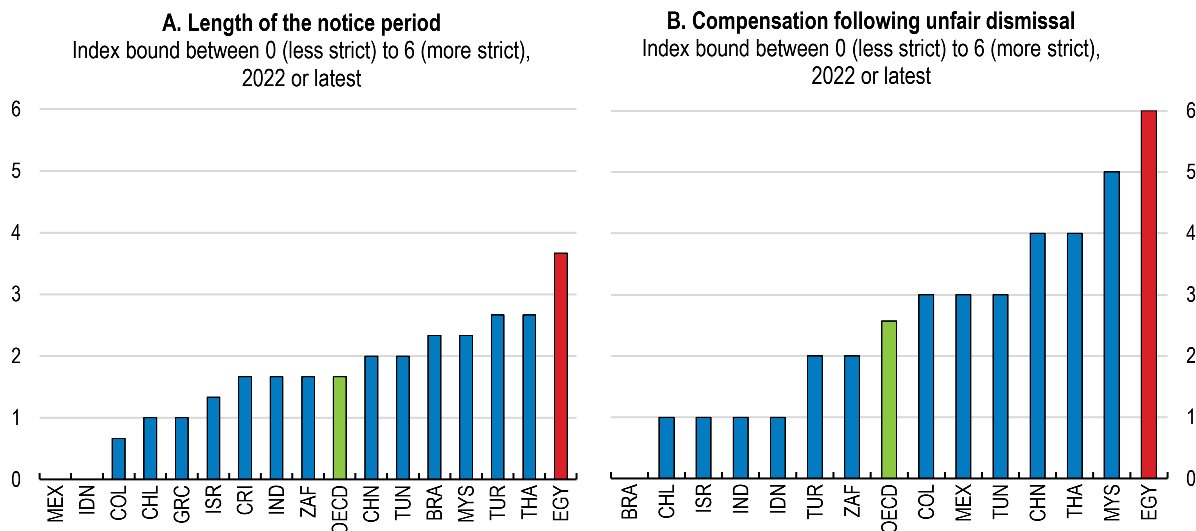
4.2.2. Employment protection should be more efficient

In Egypt, both job creation and job separation are low, likely due to rigid employment protection legislation. Yassin (2014) estimates the hiring rate (as a ratio of total employment) to be between 2 and 3% using household survey data, and the job separation rate (as a ratio of total employment) to be below 1%. Across OECD countries, hiring rates range from 3.8% to 10.7% and separation rates from 6.1% to 16.3% (OECD, 2010). Yassin (2014) attributes Egypt's excessively low labour turnover to rigidity in the labour market. She finds a high job-to-job transition rate within the informal sector, which implies rigidity in the formal sector.

In general, employment protection legislation provisions raising employer costs of dismissal include long proceedings related to dismissal including trials in the labour court, high severance pay, and additional penalties in case of unfair dismissal. Employment protection legislation limits both job creation and job separation, which is particularly harmful to the expansion of youth employment insofar as it discourages the hiring of new entrants. It also inhibits the efficient reallocation of resources (OECD, 2010), particularly when firms undertake innovative activities with high risks (Calvino et al., 2016). Among its provisions, financial burdens and uncertainty related to the judgment as to whether dismissal is fair or unfair are found to significantly affect labour turnover (OECD, 2010; Bassanini and Marianna, 2009).

In Egypt, Labour Law 12/2003 regulates labour contracts between employers and employees. According to this law, difficult economic conditions can justify dismissals, although the exact criteria are unclear. Dismissals must be notified in writing two months in advance for employees whose tenure does not exceed 10 years and three months in advance for employees with over 10 years of tenure, a notice period that is longer than in other countries (Figure 4.14). Employees may object to a committee that consists of competent authorities, trade unions and business associations. If not settled after 21 days, they may turn to the labour court. If the dismissal turns out to be unfair, financial compensation amounting to two months per year of service would be required of the employer, a heavier penalty than in other countries (Figure 4.14).

Figure 4.14. Employment protection legislation is strict



Note: The OECD Indicators of employment protection legislation evaluate regulations on the dismissal of workers on regular contracts on a scale of 0-6, with higher scores representing stricter regulations. Panel A shows the evaluation of the length of the notice period and Panel B the evaluation of compensation following unfair dismissal. The evaluation criteria can be found in Chapter 3 of the 2020 OECD Employment Outlook.

Source: OECD Indicators of Employment Protection Legislation. Costa Rica and Brazil were evaluated jointly by the OECD and the Inter-American Development Bank. OECD estimate for Egypt.

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The 2003 Labour Law eased employment protection. Before this reform, employers were basically prohibited from terminating contracts after a probation period (Wahba, 2009). This law also introduced the possibility to continue renewing temporary contracts. The share of temporary workers stands at 6.1% of total employees in 2021 according to CAPMAS, versus an OECD average of 11.8%. Langot and Yassin (2015) find that the reform increased the job separation rate but did not significantly affect the hiring rate, while both remain low by international standards. The draft Labour Law, currently in discussion in Parliament, revisits the use of temporary contracts with a view to promoting a longer-term employment relationship.

Although dismissal costs remain high after the 2003 reform, employers tend to find ways to circumvent them in practice. Such compensation is rarely paid in emerging economies because of widespread non-compliance, particularly when workers have weak bargaining power (OECD, 2018). In Egypt, enforcement of fundamental labour rights is generally weak (World Justice Project, 2022). The employer may circumvent dismissal costs by forcing the worker to sign a voluntary resignation. Such practices allow employers to reduce dismissal costs on an ad hoc basis, but without certainty at the time of job creation. They also deprive dismissed workers of entitlement to unemployment benefits (see below).

To order to increase compliance to the labour law, the legislated dismissal costs (Figure 4.14, Panel B) can be reduced further, for instance by aligning them with the levels in comparable countries. This would reduce the potential dismissal costs faced by employers with certainty. To increase compliance with the labour law, labour inspections should be tightened, while strengthening the bargaining power of the labour unions that are also involved in the dismissal procedure.

4.2.3. The collective bargaining system could be further developed

Collective bargaining and social dialogue can play a key role in ensuring the effective enforcement of labour, tax and social security regulations, which is important for combatting informal employment (OECD, 2018).

In Egypt, the Labour Code defines collective bargaining as negotiations about labour terms and conditions, social development for workers and dispute settlement between workers and employers. Collective bargaining engages both trade unions and business owners and is mediated and supervised by the Ministry of Labour. Since its independence in Egypt, union activity has been characterised by centralisation, and all collective bargaining agreements have been made at the national level, controlled by the Egyptian Trade Union Federation (ETUF) and the state (Nilsson, 2021). In the meantime, the union membership rate declined from 24.7% 1998 to 18.8% in 2018.

Law 213/2017 on Trade Unions aims to develop collective bargaining at various levels. It stipulates that collective bargaining can take place at the establishment, firm, sector, occupation or regional level. It also re-established the ETUF as a single organisation to represent workers while dissolving independent trade unions, requiring them to re-register to be recognised by the government and affiliated to the ETUF.

In order to effectively bargain for labour and social security regulations, worker representativeness should be ensured. The government should investigate the effects of the 2017 law in terms of worker representativeness. It is possible that the law discouraged independent trade unions from participating in collective bargaining by choosing not to be affiliated to the ETUF, which would further reduce the union membership rate. The government should also investigate the extent to which decentralised bargaining has been expanded. In a context in which the union membership rate has declined, ensuring worker representativeness at the firm level could be particularly difficult. According to the same 2017 law, when an establishment is small and lacks sufficient representation of unionised workers, those selected by the union branch office can represent the workers of the establishment in question. Such provisions need to be developed further to avoid adverse effects possibly arising from the weak representativeness of workers.

Recent studies highlight the importance of coordination across negotiating units regardless of the bargaining level, allowing negotiators to internalise the macroeconomic effects of the terms set in collective agreements. For example, Garnero (2021) shows that coordination results in higher employment, particularly among vulnerable workers, and lower wage inequality. Duval and Loungani (2019), summarising the findings for emerging market economies, highlight how specific features can affect outcomes, for example, the required degree of representativeness and coordination among stakeholders.

4.3. Tackling labour market insecurity and encouraging labour force participation

Many Egyptians are jobless or working poor, and are not covered by social insurance. Vulnerable people need adequate support to ensure minimum living standards and foster labour market attachment. Targeted social benefits can address informality-related labour market insecurity. Tailored worker support is particularly important for youth, given the high unemployment and incidence of informal jobs among them. Support to reconcile work and family life is particularly important for women, as their labour force participation rate is low, often due to their household responsibilities. Spending in some priority policy

areas, including various supports targeted at the most vulnerable people, can be increased, while gradually reducing broad-based subsidies, in particular, untargeted energy subsidies, eliminating inefficient tax incentives and scaling down or postponing some public investment projects, as part of changing the structure of public expenditure (Table 2.6 in Chapter 2).

4.3.1. Unemployment benefits should be developed

In Egypt, unemployment spells tend to be very long, reflecting very low labour turnover. The probability of losing a job is low, as reflected in the low job separation rate (see above). However, once a job is lost, the probability of returning to work is also quite low. Yassin (2014) estimates the job finding rate among job losers to be around 30% on an annual basis. This contrasts with job finding rates between 10% to 35% on a monthly basis across OECD countries (OECD, 2010). Unemployment benefits need to factor in potentially long unemployment spells.

Unemployment benefits are reduced rapidly and the benefit duration is short. Social Insurance Law 148/2019 sets unemployment benefits at 75% of the reference before-tax wage during the first month, which is comparable to OECD standards. However, the replacement ratio declines rapidly: 65% during the second month; 55% during the third month and 45% during the remainder of the period. The total duration is also short, at 28 weeks for first-time beneficiaries with a minimum contribution record of more than 36 months, and 12 weeks in other cases, for which a minimum contribution record of 12 months is still required. The duration is short compared with 34 and 16 weeks, respectively, for a similar contribution record on average in MENA countries according to World Bank data. To be eligible for unemployment benefits, the beneficiary should be registered with a public employment service office (Labour Office) and visit it regularly. Those who resigned voluntarily are not entitled to unemployment benefits.

The number of beneficiaries is considered negligible, although there are no official data. Indeed, only 17% of employees have social insurance coverage for possible job separation (excluding employees in the public sector and informal employees, Figure 4.7). The rate of job separation is very limited, and the duration of the unemployment benefit is very short by construction.

Unemployment benefits should be developed further to reduce jobseekers' precariousness. Given the very long average unemployment spell, the duration of unemployment benefits could be extended, for instance to the MENA country average. This would facilitate job search and reduce the risk of pushing them into accepting informal jobs or formal jobs that involve large adjustment costs or do not match their qualifications.

At the same time, conditionality could be further strengthened to better support jobseekers. Currently, beneficiaries are encouraged to find a job owing to the rapid reduction in benefits. This is not effective when labour demand is weak. Instead, while enhancing income support during unemployment, jobseekers can be better oriented and up-skilled or re-skilled by public employment services (see below). According to current regulations, jobseekers are required to visit a public employment service office regularly, but it is not clear how strictly these requirements are enforced (e.g. whether the benefit is suspended or terminated if the beneficiary breaches these requirements). Jobseekers are also supposed to take up a job similar to their previous job, but it is not clear how "similar" jobs are defined. Finally, it is not clear how frequently job-search activities are verified. These aspects must be considered when seeking to enhance the effectiveness of public employment service support (Langenbucher, 2015; Immervol and Knotz, 2018).

4.3.2. Activation policy needs to be strengthened

In Egypt, the Ministry of Labour is responsible for the provision of labour market information and employment services. Over 300 public employment services offices exist across the country, which are in charge of the registration of jobseekers and job vacancies. These offices tend to be underdeveloped and to lack resources such as information systems, while mainly playing a bureaucratic role of registering

jobseekers (Semlali and Angel-Urdinola, 2012). Staff are not sufficiently qualified to help match labour supply and demand (ILO, 2017). According to the ILO Decent Jobs for Egypt's Young People project in 2015, 90% of young people who registered reported not having received any job offer and only 4% said they had received career guidance services and/or labour market information. About 45% of respondents who received a job offer said that it did not match their qualifications. These problems arise due to the lack of personnel, in particular job counselling specialists, and modern equipment (ILO, 2017). Public employment service resources should be increased to provide tailored support to jobseekers (so-called "profiling"). The Ministry of Labour is seeking to upgrade the quality of employment services, for instance, by making the career guidance units meet international standards, which is a step in the right direction.

Active labour market programmes (ALMPs) to facilitate labour market transitions are provided not only by the Ministry of Labour, but also by many other entities. These include quasi-public bodies, such as the Federation of Egyptian Industries, civil society organisations, private companies and international donors. They provide diverse programmes for different purposes. The Ministry of Labour offers job training programmes to jobseekers, which are different from the formal VET programmes provided by the Ministry of Education, and around 350 000 people obtained a certificate in 2022. However, it is not clear how such a certificate is recognised by employers due to diverse accreditation systems (see below). Moreover, the ALMP system is fragmented without a coherent policy and strategic framework (ILO, 2017). In order to achieve policy objectives such as those stated in *Egypt Vision 2030*, such as reducing the share of youth not in work nor in training, the introduction of such a coherent and strategic framework would help to design specific programmes and target programme beneficiaries.

Evaluation of ALMPs is not common in Egypt. According to the Youth Employment Inventory database that surveyed 183 ALMPs in Egypt, skill training accounts for 66% of all ALMPs, followed by entrepreneurship promotion (24%), employment services (8%) and subsidised employment (2%) (Barsoum, 2016). According to the same database, around two-thirds of all ALMPs only collected basic descriptive information and only about 30% of programmes had some form of performance or process evaluation (ILO, 2017). Such evaluation is not available publicly, and it is not possible to assess these programmes, since key outcome indicators such as placement rates, income, job stability and retention are often missing.

For ALMPs to be successful, programme design should take labour market needs into account. The Ministry of Labour monitors labour market developments and assesses current labour market shortages and future needs, through regional labour market observatories. According to the Ministry of Labour, this information is used when it designs its training programmes. However, the labour market information it collects is not publicly available. The coverage of such information should be wide enough, including as many industries as possible and specifying required worker skills in as much detail as possible. The Ministry is expanding the number of labour market observatories. Also, as part of the new National Labour Market Information System, the Ministry of Labour intends to improve the methods of data collection and analysis for the determination of labour market needs across sectors (see below). The Ministry of Labour should be accountable for explaining how exactly the information and assessment feed into its labour market programmes and how these affect employment outcomes for beneficiaries.

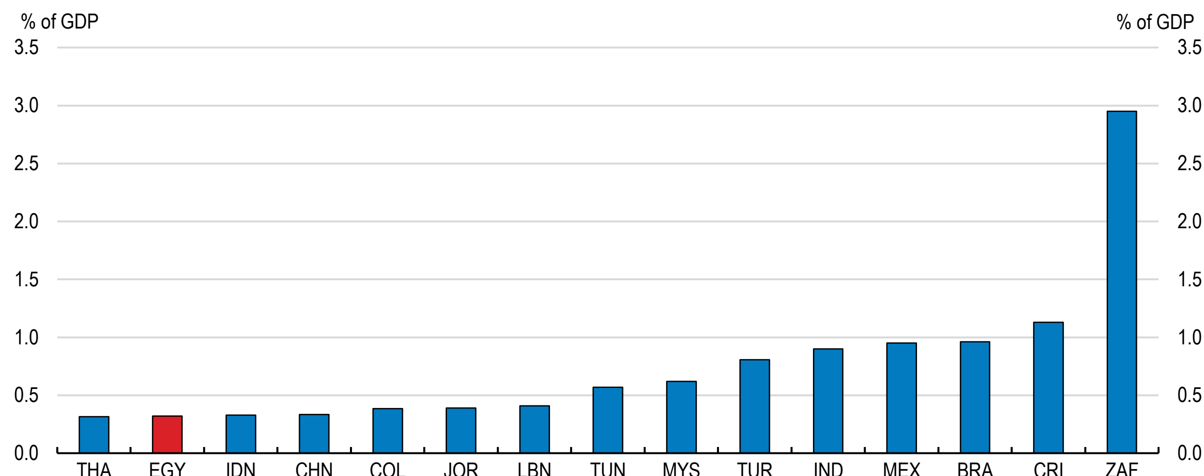
4.3.3. Social benefits should be enhanced further

In Egypt, there are several non-contributory benefits. These include the ration card for foods and energy subsidies, which are broad or untargeted (Chapter 2), as well as various types of support for specific beneficiaries. Among them, *Takaful* and *Karama* are the main non-contributory cash transfer programmes conditional on households' means. These programmes target those living below the poverty line. They were introduced in 2014 and have expanded since, though still accounting for a limited share of public expenditure (0.3% of GDP in FY 2020/21; Figure 4.15). While the government expands these targeted

social benefits, job-ready beneficiaries should be encouraged to earn their own income by improving financial incentive mechanisms and job search support (see below).

Figure 4.15. Social protection spending is comparatively low

Non-contributory social benefits, as a % of GDP



Source: World Bank (2022) “Egypt Public Expenditure Review for Human Development Sectors - Social Protection, Education and Health: Volume 1 - Macroeconomic Context, Social Assistance and Pensions”.

Takaful (“solidarity” in Arabic) is a non-contributory benefit for families with children. Around 2.7 million households were enrolled in this programme in December 2023. The basic component of *Takaful* amounted to EGP 406 per month as of end 2023, with the top-up component varying depending on the age of children (from EGP 75 for every child aged zero to six to EGP 175 for every child enrolled in secondary education) covering a maximum of two children per household. The February 2024 fiscal package has increased the benefits by 15% overall (Chapter 2). These benefits aim to reduce poverty, support food consumption, ensure use of health care services and encourage school enrolment. As such, beneficiary households need to meet certain requirements, including at least 80% school attendance and four visits per year to health care units by mothers and children aged six or less. Once households earn more than the nationally defined poverty line or their assets exceed the threshold in the predefined criteria, they lose eligibility for this programme. This is verified monthly against the Unified National Registration system.

Karama (“dignity” in Arabic) is a non-contributory benefit aiming at protecting specific disadvantaged people living under the poverty line. Over 1.7 million individuals are enrolled in this programme as of December 2023. The benefit amounts to EGP 615 per month for the elderly and those with disabilities and EGP 490 for orphans and jobless single women aged 50 or above as of end 2023. The February 2024 fiscal package has increased the benefits by 15% overall. Unlike *Takaful*, there are no specific requirements but the same eligibility condition applies, which is also verified by the Unified National Registration system.

Compared with broad-based benefits, these programmes are well targeted as they mostly reach low-income households. Selwaness and Ehab (2019), on the basis of 2018 household survey data, show that the benefits paid to households in the poorest first and second quintiles account for 78% of total benefits. The same study shows that the households in the first and second quintiles benefiting from these programmes account for 13% and 7% of total households in these quintiles, respectively. This contrasts with the results for food subsidies, with the share of recipient households varying within a limited range (70 to 75%) across quintiles, except for the highest quintile where that share is only somewhat lower.

In terms of adequacy, the targeted programmes are found to be far more efficient than broad-based benefits in reducing poverty. In terms of poverty reduction, World Bank (2022) shows that bread subsidies and ration card subsidies (Chapter 2) contribute to reducing the poverty rate by approximately 10 and 8 percentage points, respectively, while the *Takaful* and *Karama* programmes together reduce the poverty rate by approximately 9 percentage points. Accordingly, the *Takaful* and *Karama* programmes are much more cost-effective, as they account for only 0.3% of GDP, while the two food subsidies together account for 1.4% of GDP. World Bank (2022) micro simulation analysis suggested that increasing the number of beneficiaries of these programmes to 5 million households would further reduce the poverty rate by one percentage point, at a cost of EGP 9 billion (0.1% of FY2021/22 GDP).

There is no official mechanism to index the benefits to inflation, but they are adjusted on a discretionary basis. For instance, total expenditure on these programmes is planned to increase by 31% from 23.7 billion in FY 2022/23 to 31 billion in FY 2023/24, which is higher than the 12.6% projected inflation in Budget FY 2023/24 over the same period. These programmes can be further developed by expanding their target to all poor households, including those without children. There are still many households that are potentially eligible for these programmes. The government intends to expand their coverage, including additional households into the social registry while verifying their programme eligibility (Chapter 2).

While expanding the cash transfer programmes, the government also aims to facilitate the transition from dependency to self-sufficiency by encouraging recipients to engage in paid work. According to the current system, once the beneficiaries of the *Takaful* and *Karama* programmes earn more than the poverty line, they lose their entitlement to the programmes altogether, but only after six months, not immediately after they begin work. This has a larger budgetary cost, but ensures that incentives to work are not compromised, which may pay off in the longer run.

The attachment of beneficiaries to the labour market could also be strengthened by integrating various support measures, including income support and assistance for jobseekers, as in Chile's anti-poverty programme, *Chile Solidario*. The latter is one of the best-known examples of integrated anti-poverty programmes, which combine income support for the poor with interventions that seek to address the structural causes of poverty, recognising the need for a comprehensive approach to tackling the multiple barriers to moving out of poverty.

FORSA ("opportunity" in Arabic), is such an integrated anti-poverty programme supported by the World Bank. *FORSA* assists individuals who wish to work with finding a job or establishing a micro-enterprise to earn a decent income on their own. If the beneficiary chooses to establish a micro-enterprise, *FORSA* offers assets to start a business. This programme is built on cooperation with a wide range of stakeholders, including several ministries, governorates, civil society organisations, the private sector, and local economic development partners who can identify the strengths and opportunities available in local economies. It complements other social benefits, including *Takaful* and *Karama*. *FORSA* is implemented across the country, and supported by the World Bank in eight governorates. *FORSA* covered only 35 000 families as of early 2023. Given its comprehensive approach, it requires huge resources and coordination efforts across stakeholders.

Market mechanisms can be employed further to reach as many beneficiaries as possible while minimising costs. While a comprehensive but costly approach, such as *FORSA*, can target the most vulnerable, the beneficiaries of the *Takaful* programme may be encouraged to register with the public employment service, benefiting from support measures such as job counselling, job broking, referrals to companies, and if necessary, job training. Such an integrated policy would not only provide immediate income support but also allow benefit recipients to enter or stay attached to the labour market, which is ultimately more important for improving their living standards durably. Examples of this approach include Mexico's *Prospera* programme, which is linked to other public services to support poor households in obtaining a foothold in the labour market (Box 4.3).

Box 4.3. Fostering labour market attachment: *Prospera* in Mexico

The conditional cash transfer programme *Prospera* is Mexico's federal strategy to combat poverty. Mexico initiated this programme in 1997 (originally called *Progresa*). It aimed to promote human capital formation among poor children by incentivising parents to invest better in children. The government targeted three outcomes: improved school attendance, preventive health care, and nutrition status. Cash income support was given mostly to mothers conditional on their children regularly accessing health care facilities and attending school with fewer than three unjustified absences a month. The cash income transfers gave beneficiary families greater freedom than the pre-existing system of transfers in the form of food subsidies.

Originally offered to just over 300 000 beneficiary families in randomly selected poor communities, *Prospera* redistributed income to 6.6 million families in 2017 (out of a target population of 7.9 million) using a multidimensional poverty threshold as its eligibility criterion. *Prospera*'s stated objective was to contribute to strengthening the effective implementation of social rights that enhance the capabilities of people living in poverty, through actions that amplify their capacities in food, health and education, and improve their access to other dimensions of welfare.

Prospera expanded from its initial three focal areas of education, health and nutrition to include links with other federal programmes. This entailed providing beneficiaries with advice, information and access to programmes or actions in different government agencies related to productive development, income generation, training, employment, financial literacy, access to savings schemes, life insurance and credit. *Prospera*'s connection with the *Banco de Ahorro Nacional y Servicios Financieros* (National Savings and Financial Services Bank) led to gains in access to formal banking. By 2016, a total of 626 000 mostly female *Prospera* beneficiaries had contracted savings accounts.

The *Prospera* programme ended in 2018 with its funding transferred to another programme offering free health services (*Servicios de salud y medicamentos gratuitos*).

Source: OECD (2017), Building an Inclusive Mexico, Policies and Good Governance for Gender Equality.

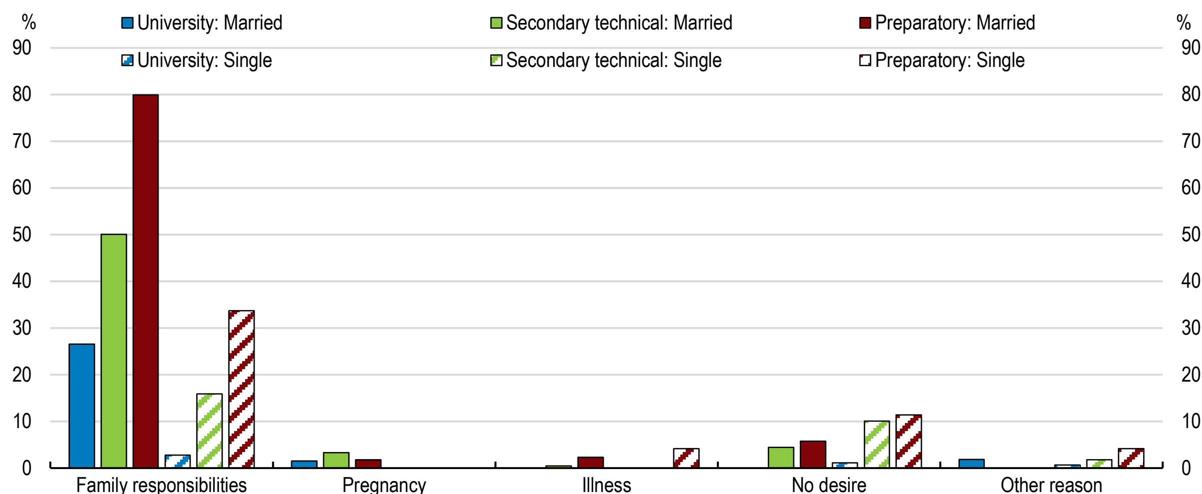
4.3.4. Promoting female labour force participation

Egypt is committed to empowering its women and launched the National Strategy for the Empowerment of Egyptian Women 2030 in 2017. It aims to increase female employment rates and women's access to economic resources, and also includes goals in terms of political representation as well as access to education and property. It sets targets, for instance, to raise the ratio of female income to male income to from 29% in 2016 to 58% by 2030 and to increase the ratio of women with bank accounts from 9% in 2015 to 18% by 2030.

In light of the sharp reduction in female labour participation in recent years (Figure 4.1), it is a matter of urgency to implement the national strategy in full. Although low female labour force participation is fairly common in the Arab world, it is lower in Egypt than in most of neighbouring countries (Figure 4.1). Labour force participation is particularly low among married and low-educated women. The main reason why they are staying out of the labour force is unpaid care work (Figure 4.16). Thus, reconciling work and family responsibilities is key to promote female labour force participation. In this respect, maternity leave and childcare support play an important role. The disproportionate burden of unpaid care work borne by women stems mainly from social norms (OECD, ILO and CAWTAR, 2020), calling for multi-dimensional solutions (OECD, 2024b, forthcoming).

Figure 4.16. Women are often out of the labour force due to family responsibilities

Share of women who are out of the labour force, 25-29 years old, by reason



Source: OECD calculation based on Dougherty (2014) "The labour market for youth in Egypt: Evidence from the 2012 school to work transition survey".

Female employees with at least 10 months of social security contributions are entitled to 90 days of paid maternity leave. During that period, they are paid at 75% of the last wage. In addition, women employed in establishments with more than 50 employees are entitled to up to two years of unpaid childcare leave. According to Assaad et al. (2017), only 18% of female employees take paid maternity leave and unpaid leave is uncommon in Egypt. They attribute this result to the fact that female employees often quit their work in the private sector upon the first pregnancy without taking maternity leave. Moreover, rules are unevenly enforced across businesses, which may force some women out of work altogether. Better informing employers of women's rights and ensuring their enforcement would support women taking up maternity leave. Finally, wage compensation during maternity leave is paid directly by the employer, which can discourage the hiring of women.

Childcare support also helps women reconcile work and family responsibilities. In Egypt, employers are required to set up childcare facilities if the number of female employees is 100 or above, which can hamper the expansion of female employment. Instead, childcare facilities should be provided by the authorities. Nurseries provide such childcare support for children under the age of four under the responsibility of the Ministry of Social Solidarity. Nursery users can also benefit from financial support, covering from 25% to 75% of the actual cost, depending on users' income. However, the enrolment rate in nurseries is very limited, at slightly below 8% as of 2020, according to the Ministry of Social Solidarity. Indeed, nurseries are few and far between. To provide childcare services at work, the government has established 1 200 new nurseries as part of the National Structural Reform Programme. However, the total number of new nurseries appears to fall below demand, and the government should accelerate the creation of nurseries.

Working hours are also an important element to reconcile work and family responsibilities. Predictable hours of work can explain women' preference to work in the public sector (see above). In Egypt there are legal provisions in place according to which female employees in the public sector can request half-time work for half pay. The experience in Jordan shows that flexible work arrangements have likely resulted in increasing female employment (OECD, ILO and CAWTAR, 2020) and that flexible work arrangements are mostly based on informal agreements between the employer and the employee rather than applying legal provisions as the formal procedures are often cumbersome (OECD, ILO and CAWTAR, 2020). In this respect, the government could promote jobs that typically allow for flexible working hours for women.

Currently, Egyptian women, in particular, low-skilled women, are more likely to work in recreational services, as well as textiles and apparel productions (OECD, 2024b, forthcoming), where working hours are less predictable or flexible. Public employment support could adopt a targeted approach to upskill women to white-collar jobs, as this type of job better allows for flexible working hours, including teleworking.

Ensuring a safe work environment is a prerequisite to promote female employment. One of the reasons why women prefer working in the public sector (see above) is that it is perceived to provide safer working conditions (Dougherty, 2014). The National Strategy for the Empowerment of Egyptian Women 2030, which subsumed the National Strategy for Combating Violence against Women set up in 2015, focuses on different kinds of violence against women under the pillar of women's social empowerment. The strategy emphasises eliminating all harmful and discriminatory practices. However, the legal framework in Egypt is still not in line with international standards as, for instance, the definition of violence against women is too narrow (OECD, ILO and CAWTAR, 2020). The government should reinforce and extend its actions to align the legal framework with internationally recognised standards.

The government has provided comprehensive support to a limited number of women as part of *FORSA* (see above). With the help of local non-governmental organisations, by early 2023 the programme had proactively reached out to over 60 000 potential female beneficiaries, disseminating information on its objectives. *FORSA* includes behavioural change trainings which introduce the programme and encourage participation in economic inclusion activities. Thanks to this programme, around 4 000 women have received assets through which they can sustain their livelihoods. The government is also actively supporting female entrepreneurship as part of *Egypt Vision 2030* (Box 4.4).

Box 4.4. Supporting female entrepreneurship

For Egyptian women, entrepreneurial activity is mostly driven by necessity. Unpaid work, low job quality, lack of safe work conditions, the burden of family duties, lack of market opportunities and other factors push most Egyptian women to seek self-employment as a last resort for survival, rather than for economic opportunity. The female unemployment rate is three times higher than for males. Despite the higher proportion of women in universities, a gender gap in entrepreneurship persists. Around 10% of women owned a business in 2018 (including early-stage entrepreneurship), against around 33% of men. Most of the entrepreneurial activities of women in Egypt (78%) take place in the micro and informal sectors. Among the many obstacles faced by female entrepreneurs in Egypt, the most significant are: i) cultural barriers to starting a business, with 43% of women still needing permission from their father or husband to start a business; and ii) access to finance, in particular a lack of collateral for bank loans, since women own little property in their own right, and banks perceive women as a high-risk segment.

The Egyptian government is actively supporting female entrepreneurship as part of *Egypt Vision 2030*. The Micro, Small and Medium Enterprise Development Agency (MSMEDA) has a dedicated gender strategy focusing on microfinance loans and capacity building to support women's access to resources. In 2020, MSMEDA launched a 50 Million African Women Speak networking platform project, in co-operation with the Common Market for Eastern and Southern Africa, to support trade in products of small and medium projects owned or run by women, via mobile telephones, to lower learning and transaction costs.

Source: Zeitun (2019); Rizk and Rashed (2019); Hassan and Zaharia (2021).

4.4. Enhancing education and skills to improve youth employment prospects

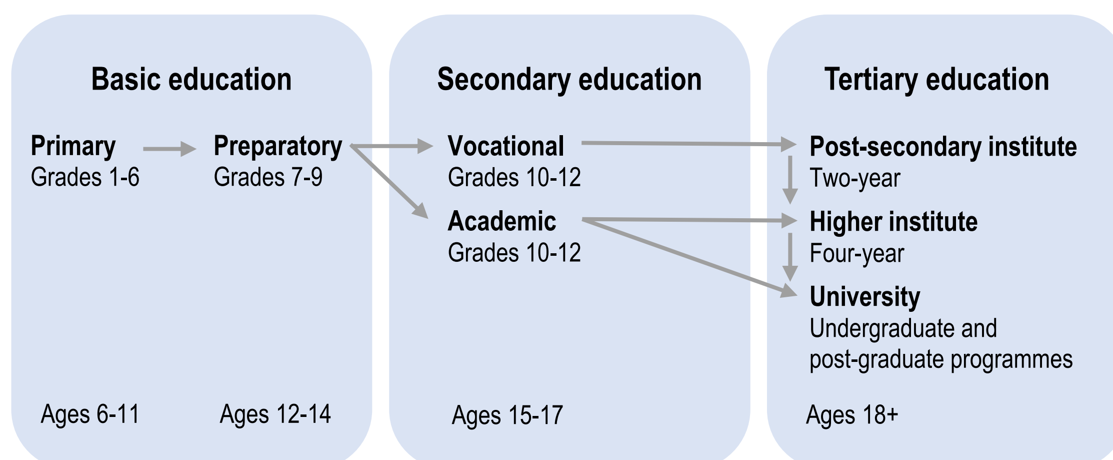
Education and skills are fundamental to improve the economic prospects of countries and individuals. They affect business dynamism, productivity and innovation, and contribute to more and better job creation. At

an individual level, increased labour earnings, reduced earnings inequality, increased labour market security, and improved quality of life are all positively associated with education and skills. Enhancing education and skills, if corresponding to labour market needs, could help exploit Egypt's job creation potential, which would be particularly beneficial for youth.

4.4.1. Expansion of educational opportunities from primary to tertiary education

In Egypt, education is compulsory from age six to 17, and various options exist for tertiary education (Figure 4.17). Primary education is followed by preparatory education and completed with a centralised national examination, the Basic Education Certificate. Academic secondary education includes a general academic and a technical track, both leading to the General Secondary Education Certificate, which provides access to a university degree. Students whose exam results are not good enough to progress to academic secondary education enter vocational education, which offers study tracks in industry, commerce and agriculture. The final examination of secondary-level VET education qualifies for labour market entry, and, with a grade point average (GPA) of at least 70%, graduates can enter vocationally oriented programmes at tertiary level.

Figure 4.17. Formal education in Egypt

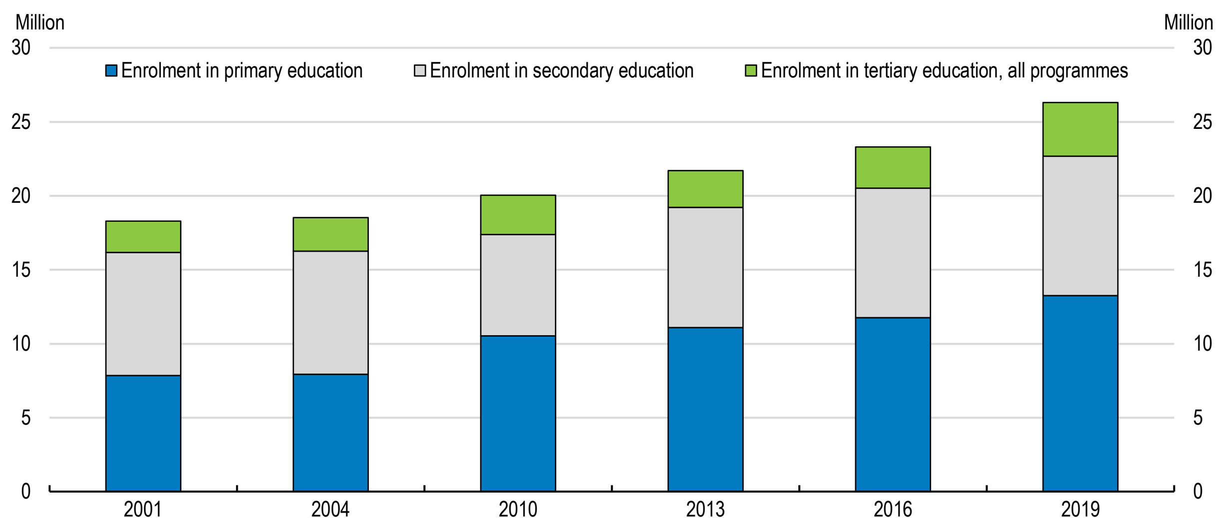


Source: OECD (2024, forthcoming), *OECD Review of Higher Education: Egypt*.

Primary and secondary education is provided by government-funded schools, private schools – of which some offer an Arabic curriculum – and international schools, including American, British, French, and German schools. The demand for places in international schools is increasing, despite their high fees. These schools follow a different curriculum in mathematics and science to their Egyptian counterparts and guide students towards university education, often by maintaining direct relationships with trans-national tertiary education providers.

Enrolment in education is growing continuously across all levels (Figure 4.18). Attrition from secondary education remains a persistent challenge, although the likelihood of continuing from secondary to tertiary education has increased in recent years, with around 40% of secondary students now estimated to be entering university (Roushdy and Sieverding, 2015). A key factor influencing non-completion of secondary education is the inability of households to afford education-related expenditures, which often include high costs for private tutoring (Sobhy, 2012). Overall, socio-economic mobility in Egypt is still low and the educational status of parents plays a significant role in determining the educational attainment of young people (Roushdy and Sieverding, 2015).

Figure 4.18. Trends in enrolment in primary, secondary and tertiary education in Egypt



Source: UNESCO-UIS, Enrolment in primary, secondary and tertiary education.

StatLink https://stat.link/9mw6sa

4.4.2. Primary and secondary education remains weak

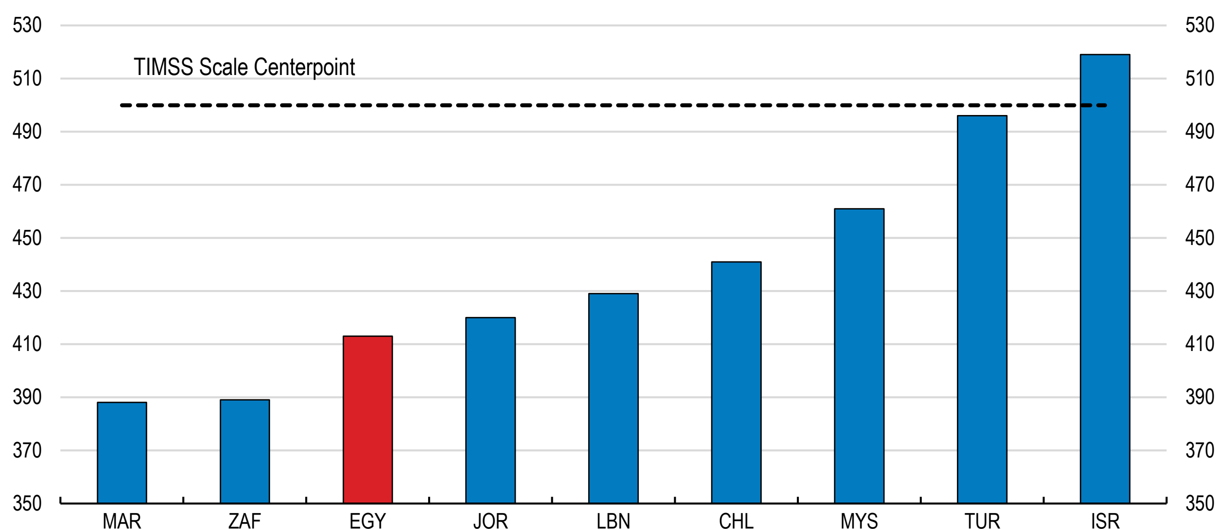
Strong foundation skills are the basis for continuous learning and are typically developed through formal education, underpinned by well-designed curricula. In this regard, Egyptian students perform comparatively poorly in standardised international skill assessments of secondary school students. In the 2019 edition of the Trends in International Mathematics and Science (TIMSS) survey, 8th grade students in Egypt ranked far below the Scale Centrepoint of 500 (Figure 4.19) in both maths (413) and science (389).

Egyptian schooling has been criticised for being repetitive, and grounded on rote memorisation and factual learning to obtain a grade (OECD, 2015b). To shift the focus to the development of critical thinking, the government introduced 'EDU 2.0' in 2018, as a multi-year reform agenda to lay the foundations for lifelong learning. The reformed school curricula emphasise the learning outcomes in cognitive and social skills, going beyond memorisation. The reform started with the early years of education and has gradually introduced a new student assessment system and a modernised curriculum using digital technologies (Moustafa et al., 2022).

The aim of EDU 2.0 is also being reflected in the evaluation of student performance. There are mainly two types of evaluation. Firstly, continuous evaluation is carried out periodically through different types of tests such as oral and written tests. Secondly, final examination is carried out at the end of both semesters for all grades in the general education track. For the final examination, the Ministry of Education aims to introduce the measurement of cognitive skills gradually, in accordance with the aim of EDU 2.0, while ensuring the objectivity and fairness of tests. The Ministry has approved a new system introducing short essays to evaluate critical thinking (weight of 15%), while preserving multiple-choice questions (weight of 85%), the answers to which are considered to be processed more objectively. The Ministry will provide training forms to students on its official website before the official exam, and supervisors have been trained to get students familiarised with this new exam.

Figure 4.19. Student performance is low

TIMSS international results in mathematics and science 2019, mathematics grade 8 scores



Source: IEA TIMSS & PIRLS, Boston College, Lynch School of Education and Human Development.

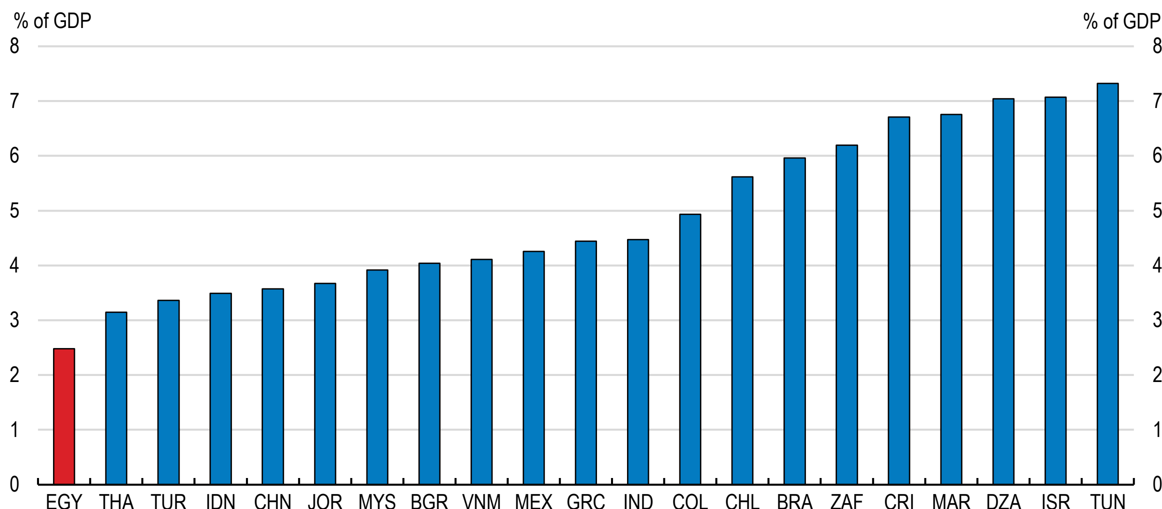
Although a number of the measures envisaged by EDU 2.0 have already been implemented, the monitoring and evaluation mechanism remains weak. It is the responsibility of the directors and agents of educational directorates at the Ministry of Education to follow up the progress of the educational process in all affiliated schools. Directors are responsible for monitoring the implementation of EDU 2.0 and assessing the achievement of objectives, in addition to their coordination task with different departments in the Ministry and local authorities. While it is not clear whether and to what extent the directors of educational directorates are held accountable for the progress of EDU 2.0, it is essential that progress is monitored and evaluated in an objective way.

To achieve this ambitious reform agenda, the education system lacks critical resources, as Egypt's spending on education is comparatively low (Figure 4.20). Overcrowded classrooms and teacher shortages have long been a challenge to the provision and quality of primary and secondary education in Egypt. The 2014 Constitution stipulates that education is a right for every citizen and the state is committed to allocating no less than 4% of GDP to education. With actual education expenditure falling below this target, it is insufficient to meet the requirements for achieving quality education. For instance, it does not allow the state to pay teachers' salaries sufficiently and to appoint new teachers to fill the shortage resulting from the retirement of a large number of teachers. The insufficient budget for education is also reflected in a weak capacity to build new schools corresponding to the steady increase in the number of students, which amplifies classroom density, and to ensure school equipment such as furniture, laboratories and technological infrastructure.

Education spending remains low notwithstanding a 23% increase during this fiscal year foreseen in Budget FY 2023/24 (Chapter 2). While raising education spending to the stipulated level of 4% of GDP, the budget allocation should be subject to monitoring and evaluation of the progress in the implementation of EDU 2.0 to ensure value for money.

Figure 4.20. Education spending is low

Total government expenditure on education as a share of GDP, 2020 or latest



Note: Data refer to 2020, except for Brazil, Chile (2019), Mexico (2018) and Tunisia (2016).
Source: World Bank, World Development Indicators.

StatLink https://stat.link/zyqxd3

4.4.3. Higher education is not aligned with emerging labour market needs

With over three million students enrolled in undergraduate programmes, Egypt has the world's seventh largest undergraduate education system after China, India, the United States, Brazil, Türkiye and Mexico. With a place at university (subsidised or tuition-based) offered to every student who completes upper secondary education, the current 20% enrolment rate of 15-24 year olds is set to rise further. Against this backdrop, the government oversaw the opening of 47 new universities between 2018 and 2022 and is encouraging universities to introduce new study programmes. Moreover, the share of enrolment in private universities has increased, from 2% in FY 2014/15 to 8% in 2020/21.

The labour market outcomes of higher education graduates are mixed. High-end employment in ICT and other priority sectors of the economy has not grown in recent years (El-Hamidi, 2020), and a key reason for high-skilled emigration is the lack of research facilities and opportunities for workplace R&D in Egypt (Kabbash et al., 2020). Employment rates of higher education graduates vary by field of study (Figure 4.21). Engineering, manufacturing and construction graduates have the highest employment rates, in contrast to their peers from the arts, humanities and languages and social sciences, journalism and information. Returns on education, measured through wage proposals in online job vacancies, are highest in jobs requiring advanced digital skills.

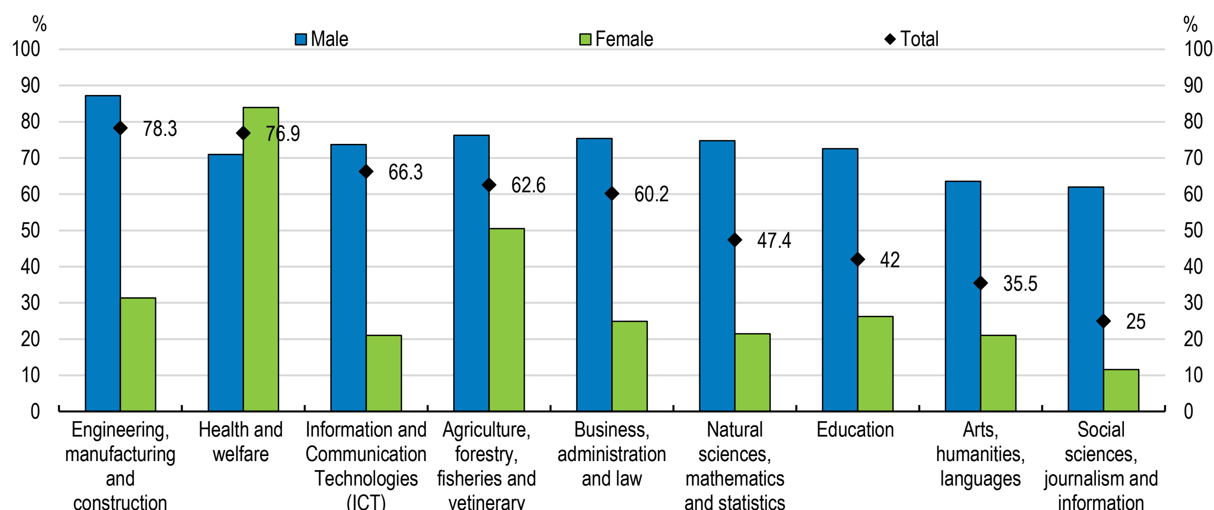
Early tracking of students in Egypt limits their subsequent learning options (OECD, 2015b). Students' post-secondary educational choices are restricted at an early stage by secondary school tracking into vocational and academic streams. Academic secondary education is subdivided into "mathematics", "science" and "humanities and arts". The general tendency to enrol in a university degree instead of pursuing a higher education VET programme and the tracking in upper secondary education distorts enrolment in public universities towards programmes with lower entry requirements at the expense of engineering, computer science and other programmes that require high GPA results and a completed math/science track in secondary education.

Matching supply and demand for university places is a challenge. Every year, the government defines the number of study places per faculty and the exact cut-off scores that prospective students need to have

obtained in the centrally administered secondary education examination. The highest scores allow access to medicine, dentistry, engineering and science. Lower scores give access to agriculture, arts, commerce and law. In addition to the national examination results, some faculties have additional entry requirements (such as second languages or specific subjects). Excess demand for student places in fields with good employment outcomes, for example engineering programmes (Figure 4.21), is directed towards private universities where admission requirements tend to be lower, but tuition fees are typically high.

Figure 4.21. Employment rates of higher education graduates in Egypt

Data from the Employment of Tertiary Education Graduate Survey, 2021



Note: Data are sorted in descending order by total employment rate.
Source: Roushdy (2021), *Tertiary Education Graduate Survey in Egypt 2021: Towards Achieving Graduates' Full Potential*.

Given the rapid rise in the number of university students, ensuring the quality of higher education is a challenge. Although there are no reliable real-term data related to the capacity of universities, such as the student-teacher ratio, the increase in the number of students likely has caused a significant strain on university teachers' workload (OECD, 2024a, forthcoming). Moreover, the support to teaching staff is not sufficient. There are mandatory training activities to support teaching staff, but these are generally perceived as preventive troubleshooting rather than genuine development and reflection. For more established and tenured staff, there does not appear to be a formal and regular review of teaching ability (Elsafty et al., 2020).

Building on the practice of world-leading universities, universities in Egypt are designing new study programmes. The new programmes are mainly offered at undergraduate level or as one-year diploma courses which may fail to bring students to professional levels of proficiency. Furthermore, the lack of labour market information can make it difficult to adapt study programmes, created abroad, to the Egyptian context. It is essential to gather data on higher education indicators and labour market outcomes as well as emerging employer skills demand for the development of new study programmes.

Easily accessible, up-to-date and trustworthy information on the content of studies and possible career options is limited. It makes the job market for university graduates inefficient. On average, it takes up to two years after graduation for graduates to start their first formal job (Assaad and Krafft, 2021). Job-search methods tend to be informal, including for subsequent jobs, and to a greater extent than elsewhere in the region (Elamin, 2018). The new National Labour Market Information System (see below) can be used

widely, and if associated with better guidance provided by universities, labour market insertion of university graduates would be greatly facilitated.

Limited information suggests that graduates from some fields of study, such as ICT, are in high demand (Figure 4.21). Correspondingly, the government has introduced a number of initiatives to develop ICT education recently. These include the establishment of *Creativa* Innovation Hubs in nine universities across the country, Egypt University of Informatics aimed at becoming a centre of excellence for education and scientific research, and the *Mahara-Tech* platform of the Information Technology Institute to provide online training for students (OECD, 2024a, forthcoming).

4.4.4. A greater role for vocational education and training

High quality vocational education and training (VET) can promote necessary work skills. The share of students enrolled in VET in secondary education is relatively high at around 55% in Egypt, which compares with a 43.3% OECD average. OECD experience suggests VET speeds up school-to-work transitions (OECD, 2023). *Egypt Vision 2030* identified nine sectors for sustainable development: agriculture, water and irrigation, manufacturing, tourism, transport, information and communication technology, utilities and domestic trade, housing and utilities, and foreign trade. VET graduates will be needed to meet the diverse skills requirements of the priority sectors. The Egyptian government and international donor agencies have joined forces to improve the social standing of VET, the quality of provision, and the information available to learners about career prospects.

The VET system in Egypt is classified into a formal and an informal one. Formal VET leads to a diploma when the student completes a defined VET programme, while informal VET provides a certificate of attendance to a training programme. The Ministry of Education is responsible for the majority of formal VET programmes. It provides secondary-level VET to over 2 million students enrolled in approximately 3 500 technical schools, out of a total number of about 2.7 million VET students (both formal and informal VET). Other ministries such as the Ministry of Trade and Industry (see below) and the Ministry of Higher Education (responsible for VET at the tertiary education level) also provide formal VET to a small number of students. In addition, the Ministry of Labour provides informal VET for up-skilling or re-skilling to a small number of people as part of active labour market programmes (see above).

The Ministry of Education is centrally responsible for designing the VET curricula provided by its technical schools. Technological Universities, in contrast, design their VET curricula on their own, not the Ministry of Higher Education that supervises them. Since 2018, the Ministry of Education has adopted the Technical Education Reform, reforming all VET curricula to be competency based, shifting from a content-based approach. In this reform, skills are defined in a broader sense than those narrowly limited to those required in a specific occupation. At the same time, as part of the National Structural Reform Programme, 54 school curricula were revised and 56 new ones were introduced. New schools of applied technology have also been established.

OECD experience illustrates the importance of practical training at workplaces along with school-based training (OECD, 2023). It is desirable to increase the share of workplace training, not only because of the value the workplace has as a learning environment, but also because it helps align training more closely with the needs of employers. It is necessary to ensure that the skills being developed are in line with firms' needs and that they are adapted to the rapidly changing nature of jobs (OECD, 2023).

While the Ministry of Education acknowledges its importance, workplace learning in VET programmes is limited in practice. The time spent by students in workplaces depends on the type of VET school. In Dual System VET schools, students spend four days per week at a workplace and two at school. However, there are currently only about 300 Dual VET schools out of the total 3 000 VET schools. In the remaining vast majority of VET schools, workplace learning usually takes place in an ad hoc way, for instance, during the summer vacation for a period of one month. There are obstacles to develop workplace learning in VET

schools, due to the limited capacity and willingness of firms to provide training opportunities for VET students. As a result, only 57 000 students have enrolled in the Dual VET system, representing about 2.5% of all students enrolled in VET schools, and only 4 000 firms have participated in the Dual VET system since its inception in 1996.

The Ministry of Education is coordinating with the private sector in various ways to develop workplace learning further. It has established 46 Applied Technology Schools in partnership with private sector firms since 2018. In these schools, students spend one to two days per week on average at workplace depending on the nature of the partner company. So far, only large private sector firms are partnering with the Ministry. The Ministry aims to build up efforts to extend this partnership to SMEs as well. To overcome typical constraints, such as the lack of resources within SMEs, co-operation among various stakeholders can be extended. To do so, some existing initiatives in OECD countries, such as Centres of Vocational Excellence, can be considered. These typically develop and implement better quality VET programmes and are engaged in a range of cooperative activities, including the provision of placements for students by businesses (Box 4.5).

Box 4.5. Partnerships with the private sector: Spain's Centres of Vocational Excellence

In Spain, 150 VET schools across the country form a network of integrated training centres, providing both initial vocational training within the education system, and in-company training for people already in employment. The network's main objectives include the design, management and development of training plans for Initial Vocational Training and employment, and the integration and reintegration of workers. Along these lines, the network aims to boost qualification and requalification levels by offering needs-based quality training in all phases of the lifelong learning cycle. It further facilitates the evaluation and accreditation of professional competences acquired by people through professional experience and other procedures outside formal education. VET Integrated Schools have a Social Council, made up of representatives of the administration, of the centres and of the most representative business and trade union organisations. They also have coordination bodies that guarantee the attainment of integrated and quality training across the VET centres, professional information and guidance, the functions of evaluation and recognition of professional competences, as well as the functions of relationships and cooperation with companies.

Source: European Commission (2019), Mapping of Centres of Vocational Excellence (CoVEs).

In parallel, the Ministry of Trade and Industry, represented by the Productivity and Vocational Training Department (PVTD), is also engaged in vocational training in partnership with the private sector. It runs 45 training centres plus 100 training stations within affiliated private firms. Its VET programmes, which feature a high share of workplace learning, include: an apprenticeship system for three years for the holders of a general preparatory certificate, which leads to a certificate recognised as an equivalent to the Technical Education Certificate; a highly-skilled technical training system for two years for the holders of secondary-education certificates, which leads to a vocational training certificate equivalent to the Technological College Certificate; and some other short-term training programmes. PVTD programmes also attract those who already have work experience but with modest skills or with re-skilling needs.

PVTD programmes coordinate more closely with industry than the technical schools supervised by the Ministry of Education. PVTD partners with the Federation of Egyptian Industries, the Egyptian Federation of Investor Associations and Institutions, and the Education for Employment Foundation to train students for specific needs. It also partners with the German Development Cooperation Agency GIZ, the Italian Agency for Development Cooperation and the Korean International Cooperation Agency. PVTD focuses on the objectives stated in *Egypt Vision 2030*, such as the green and digital transformation, by providing training programmes related to renewable energy and artificial intelligence.

As part of the National Structural Reform Programme, the authorities will set up Sector Skills Councils to develop public-private partnerships. At the same time, the Ministry of Education has already collaborated with private sector representatives to identify the required competencies for each profession in the reform of VET curricula (see above). In addition, private sector representatives participate in the committees of the Ministry of Education in charge of the final practical exams before graduation. The institutional framework to promote the role of the private sector in education and training will be reinforced by the establishment of the Sector Skills Councils, but their exact competency is not known yet. For the Sector Skills Councils to be effective, the network with private sector representatives needs to be expanded further while streamlining and better coordinating the two ministries' cooperation with them.

As part of the National Structural Reform Programme, the Egyptian National Authority for Quality Assurance and Accreditation in Technical and Vocational Education and Training (ETQAAN) has been established to facilitate the recognition of skills and qualifications in line with efforts to adopt the National Qualifications Framework. ETQAAN will be in charge of quality assurance of VET education at all levels and for all types, looking after all VET schools, training centres as well as the 10 newly established Technological Universities affiliated to the Ministry of Higher Education. The law setting up this new independent authority has been approved in October 2022 and bylaws are now being prepared. International partners for vocational education such as the German GIZ and KfW as well as the USAID and European Union are supporting the establishment of ETQAAN. ETQAAN will adopt indicators following the example of the European Quality Assurance Reference Framework for Vocational Education and Training indicators, which aim to evaluate whether VET programmes are established in response to labour market needs and the private sector participates in the identification of competencies and assessment of students. According to the current plan, VET curricula will be reviewed based on the results of quality assurance examination of VET schools by ETQAAN. As the VET system is highly fragmented currently, ETQAAN should assess numerous VET programmes provided by different entities in a consistent way, such that its assessment facilitates the recognition of each VET programme by potential employers.

Finally, also as part of the National Structural Reform Programme, the authorities will establish the National Labour Market Information System (LMIS) to better assess labour market needs. In Egypt, labour market information is scarce and prospective students and their parents tend to be guided in their choices by culturally influenced aspirations, leading to a potential mismatch between study choices, individual interests and labour market demand. It will be important to strengthen the provision of study and career guidance in schools, as well as the capacity of public authorities to collect, analyse and disseminate labour market information. The LMIS should help to meet such needs. Such an integrated information system would help not only design formal VET programmes but also informal training for the purpose of up-skilling and re-skilling existing workers, both corresponding to labour market needs.

Policy recommendations to promote better-quality job creation

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Making the labour market more flexible for better job creation	
Dismissal costs are high, as proceedings are long and complex, and financial compensation for unfair dismissal is heavy, though firms tend to circumvent these difficulties in practice.	Reduce dismissal costs. Clarify the definition of an unfair dismissal. Simplify dismissal proceedings and strengthen their enforcement.
Social security contributions remain high even after the 2019 reform, leading firms to often not register their employees or underreport labour earnings.	**Evaluate the effects of the 2019 reform.** **Consider reducing the social security contribution rates for lower-paid workers.** Consider introducing a presumptive tax regime extended to social security contributions aiming at reducing compliance costs and providing social protection to all workers, including domestic workers.
The minimum threshold below which social security contributions are exempted creates a very high marginal tax wedge and incentives to underreport earnings.	Remove the minimum threshold to facilitate increasing wages above this level.
Income tax progressivity is weaker than in some other MENA countries.	Increase the income tax exemption threshold and lower the taxable income threshold above which the highest rate applies.
Tackling labour market insecurity and encouraging labour force participation	
The average unemployment spell is quite long but the duration of unemployment benefits is short. Beneficiaries are required to register themselves with public employment services but are not adequately monitored and supported.	Extend the duration of unemployment benefits while strengthening job search support to beneficiaries.
Cash-transfer programmes targeted to the most vulnerable, notably *Takaful* and *Karama*, contribute to reducing poverty. However, the transition to paid work needs to be facilitated.	**Register job-ready beneficiaries with public employment services to support them in finding an adequate job.**
Jobseekers do not receive adequate job offers at public employment service offices. Information on the outcomes of the labour market programmes run by the authorities is lacking.	Increase resources for public employment service offices, in particular, qualified job counsellors, to provide tailored job search support. Improve the information about labour market programmes outcomes to allow for their assessment.
Women often withdraw from paid work due to household responsibilities, instead of taking maternity and childcare leaves and returning to work.	**Accelerate the creation of nurseries and promote flexible work arrangements to allow women to reconcile work and family responsibilities. Further reform the regulation on workplace safety.**
Enhancing education and skills taking account of labour market needs	
Education has been criticised for being repetitive and grounded in rote memorisation.	Provide necessary resources for schools and financial incentives for teachers to implement the EDU 2.0 reform, subject to monitoring and evaluation of its progress.
Post-secondary education choices are limited due to early tracking of students, resulting in low take-up of science, technology, engineering and mathematics in upper secondary education.	Consider later tracking of students in secondary education. Take steps to raise interest, aspirations and competencies in science, technology, engineering, and mathematics.
Practical training at workplaces is limited overall in VET programmes. Coordination within different government bodies is not sufficient to develop partnerships with the private sector.	Streamline and further develop partnerships with the private sector when establishing Sector Skills Councils.
Easily accessible, up-to-date and trustworthy information on the content of studies and possible career options is limited.	Fully develop the National Labour Market Information System to support educational institutions in designing programmes.

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Growth has held up better in Egypt than in neighbouring countries until recently but inflation has reached very high levels and financing conditions have tightened along with foreign currency shortages. In this context, Egypt is stepping up economic reform efforts. The exchange rate needs to become more flexible with monetary policy geared to bring inflation down to target. High public debt makes Egypt more vulnerable to external shocks. Committing to a credible consolidation strategy is key to restore public finance health, which would improve investor confidence and thereby reduce debt servicing costs. While expanding cash transfers to the most vulnerable, broad-based energy subsidies should be phased out, which would also reduce emissions. As public investment has expanded substantially, further efforts to rationalise large-scale construction projects should be pursued, while allocating resources to green investment. To revive private sector growth, the regulatory burden and the state footprint ought to be reduced, and ongoing reforms including the divestment plan should be implemented fully and effectively. As the working-age population will expand with a rising education level, younger generations need to be better integrated into the labour market. This requires reducing labour taxation, enhancing public employment support and better aligning skills to labour market needs.

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PRINT ISBN 978-92-64-54814-5
PDF ISBN 978-92-64-80481-4

Volume 2024/3
February 2024

ISSN 0376-6438
2024 SUBSCRIPTION
(18 ISSUES)