

# Stabilization and Adjustment in MENA: The Case of Egypt

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## Abstract

While it is true that the shaky current global economic situation – due to the Russia-Ukraine war, the disruption of international supply chains, and the huge shock to all economies caused by COVID-19 – has a lot to do with the difficulties that Egypt is going through, the country is not unique in facing such difficult circumstances. In fact, the world’s economies are all facing similar external challenges, yet most of them do not exhibit the depth of Egypt’s current economic problems. In addition, Egypt has been repeatedly undergoing the very same problems of the persistent debt burden, the large budget deficit, and limited exports, among others, way before all the recent shocks and international disruptions. This all points to the fact that the problems are deeper than what meets the eye. Given the importance and missing focus on this deeper level of problems, the study chooses to focus on the internal challenges. The paper’s objective is twofold. First, to analyze the real state of affairs and the different policy options in a comprehensive manner and to the fullest extent possible. Second, to suggest the correct course of action that Egypt needs to follow to exit the present crisis situation and avoid its risks. It includes a detailed explanation of what this study calls the “Vicious Circle” of poor economic performance leading to the present crisis situation, with its dangers and repercussions, as well as the expected near future “best-case” and “worst-case” scenarios given the continuation of the status quo. These scenarios all lead to the main conclusions of the above analysis and point in the direction of the root of all the country’s problems: institutional disorders in need of serious reform. Evidence-based analysis for needed institutional reform and the suggested approach for its implementation are the core of the study. when it is actually realized, Egypt can reach the High Road for Development that it deserves to be moving along.

**Keywords:** debt burden, budget deficit, internal challenges, present crisis, vicious circle, scenarios, institutional disorders, evidence-based analysis, institutional reform, high road for development, macroeconomic indicators, fiscal policy, monetary policy

**JEL Classification:** P1, O1

## ملخص

في حين أنه من الصحيح أن الوضع الاقتصادي العالمي الحالي المهتز - بسبب الحرب الروسية الأوكرانية، وتعطيل سلاسل التوريد الدولية، والصدمة الهائلة لجميع الاقتصادات التي سببها وباء الكورونا- له علاقة كبيرة بالصعوبات التي تمر بها مصر، فإن البلاد ليست فريدة من نوعها في مواجهة مثل هذه الظروف الصعبة. في الواقع، تواجه اقتصادات العالم جميعها تحديات خارجية مماثلة، ومع ذلك فإن معظمها لا يظهر عمق المشاكل الاقتصادية الحالية في مصر. وبالإضافة إلى ذلك، تعاني مصر مرارا وتكرارا من نفس المشاكل المتمثلة في عبء الديون المستمر، والعجز الكبير في الميزانية، والصادرات المحدودة، من بين أمور أخرى، قبل كل الصدمات الأخيرة والاضطرابات الدولية. كل هذا يشير إلى حقيقة أن المشاكل أعمق مما تراه العين. ونظرًا للأهمية والتركيز المفقود على هذا المستوى الأعمق من المشاكل، اختارت الدراسة التركيز على التحديات الداخلية. هدف ورقة العمل هذه هو ذو شقين. أولاً، تحليل الحالة الحقيقية للشؤون ومختلف خيارات السياسات بطريقة شاملة وإلى أقصى حد ممكن. وثانياً، اقتراح مسار العمل الصحيح الذي يتعين على مصر اتباعه للخروج من الأزمة الراهنة وتجنب مخاطرها. ويتضمن شرحاً مفصلاً لما تسميه هذه الدراسة «الحلقة المفرغة» للأداء الاقتصادي الضعيف الذي يؤدي إلى الوضع الحالي للأزمة، بمخاطرها وتداعياتها، فضلاً عن سيناريوهات المستقبل القريب «الأفضل» و «الأسوأ» بالنظر إلى استمرار الوضع الراهن. وتؤدي جميع هذه السيناريوهات إلى الاستنتاجات الرئيسية للتحليل المذكور أعلاه وتشير إلى اتجاه جذور جميع مشاكل البلد: الاضطرابات المؤسسية التي تحتاج إلى إصلاح خطير. ويكون جوهر الدراسة هو التحليل القائم على الأدلة للإصلاح المؤسسي اللازم والنهج المقترح لتنفيذه. وعندما يتحقق بالفعل، يمكن لمصر أن تصل إلى الطريق العالي للتنمية الذي تستحقه.

## **1. Context and objective**

The Economic Research Forum (ERF) launched a research project on stabilization and adjustment in the Middle East and North Africa (MENA) in collaboration with the Finance for Development Lab (FDL). The research project aims to clarify the macroeconomic risks related to external and internal balances (and the sustainability of public and external debt) and to propose an overall strategy for dealing with these risks. This study comes as part of the second phase of the project covering country-specific research.

Our objective is twofold. First, we analyze the real state of affairs and the different policy options in a comprehensive manner and to the fullest extent possible. Second, we suggest the correct course of action that Egypt needs to follow to exit the present crisis situation and avoid its risks.

While it is true that the shaky current global economic situation – due to the Russia-Ukraine war, the disruption of international supply chains, and the huge shock to all economies caused by COVID-19 – has a lot to do with the difficulties that Egypt is going through, the country is not unique in facing such difficult circumstances. In fact, the world’s economies are all facing similar external challenges, yet most of them do not exhibit the depth of Egypt’s current economic problems.

In addition, Egypt has been repeatedly undergoing the very same problems of the persistent debt burden, the large budget deficit, and limited exports, among others, way before all the recent shocks and international disruptions. This all points to the fact that the problems are deeper than what meets the eye. Given the importance and missing focus on this deeper level of problems, the study chooses to focus on the internal challenges.

Beyond this introduction, this study includes six sections. Section 2 briefly summarizes Egypt’s macroeconomic dashboard from 2011 to date. Section 3 includes an explanation of what this study calls the “Vicious Circle” of poor economic performance leading to the present crisis situation, with its dangers and repercussions, as well as the expected near future “best-case” and “worst-case” scenarios given the continuation of the status quo. These scenarios all lead to the main conclusions of the above analysis and point in the direction of the root of all the country’s problems: institutional disorders in need of serious reform. Section 4 presents an evidence-based analysis for institutional reform (i.e., building the case). Sections 5 and 6 present the suggested approach to reform in detail and its positive repercussions when it is actually realized, which this study calls the optimistic “if” scenario, including reaching the High Road for Development that Egypt deserves to be moving along.

## **2. Egypt’s macroeconomic dashboard from 2011 to date**

The analysis of the macroeconomic situation covers a dashboard of indicators: GDP growth and sectoral contribution, unemployment and labor market challenges, the fiscal balance and budget deficit, the debt situation, the external balance, the exchange rate policy, and inflation.

It covers the overall trend in the period FY 2010/11 to FY 2021/22, with a special focus on landmarks in Egypt’s economic situation as indicated in Table 1.

**Table 1. Time phase divisions of interest for analysis**

Phase	Key landmarks
2010/11-2014/15	25 <sup>th</sup> of January revolution and its second wave in June 2013.
2015/16-2019/20	Huge wave of megaproject implementation and signing of a three-year International Monetary Fund (IMF) program in 2016.
2020/21-2021/22	COVID-19, slow world recovery, Russia-Ukraine war starting February 2022.
Oct 2022 to date	Signing of a new agreement with the IMF.

Source: Prepared by ECES.

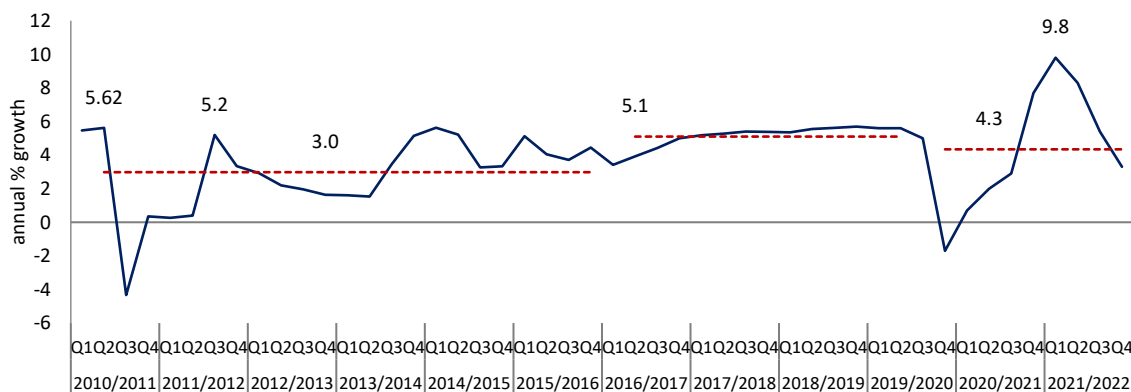
### 2.1. GDP growth and sectoral contribution

Figures 1 and 2 below show a clear picture of the GDP status. The overall period (2010/11-2021/22) exhibits weak growth with clear fluctuations, an overall average of 3.5 percent. The negative rates of growth during the revolutions and COVID-19 phases stand in contrast to the positive rates witnessed after 2014, and they are particularly visible between 2016 and 2019. However, this positive growth or rebound of the economy is largely misleading because it misses features of sustainability. On the supply side, it emerged primarily from the construction, real estate, and wholesale and retail trade sectors, and not from productive sectors such as manufacturing and agriculture and their associated productive services.

In addition, while the agricultural sector’s contribution to growth was always low and almost stagnant at an average of 0.4 percent throughout the whole 12 years of analysis, the contribution of manufacturing has been clearly deteriorating, reflecting the government’s limited interest in manufacturing and the persistence of business environment constraints faced by investors in that sector.

On the demand side, consumption remains the largest contributor to growth, with a negative contribution by exports and a limited contribution by investment, mostly emerging from public investment in a large number of megaprojects, all in infrastructure and new cities.

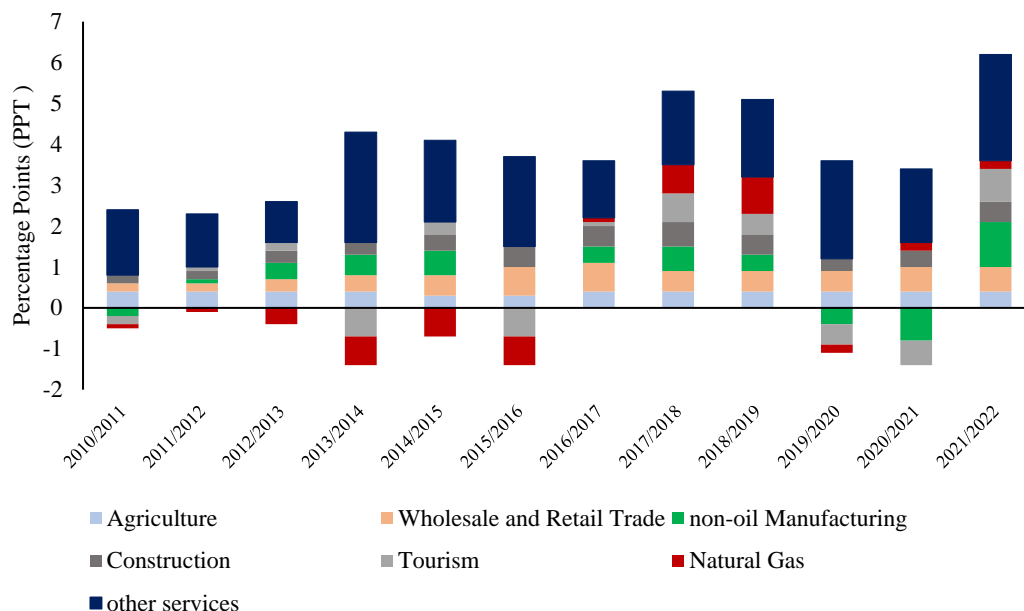
**Figure 1. Real GDP growth: 2010/11-2021/22**



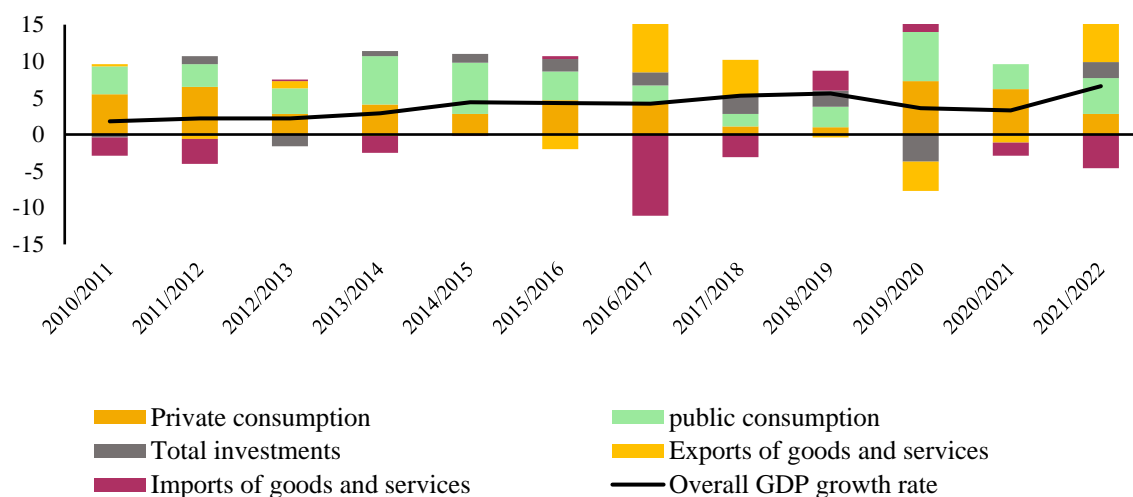
Source: Ministry of Planning and Economic Development.

**Figure 2. (a and b). Contributors to GDP growth on the supply and demand sides (calculated at market prices)**

**a. Supply side**



**b. Demand side**



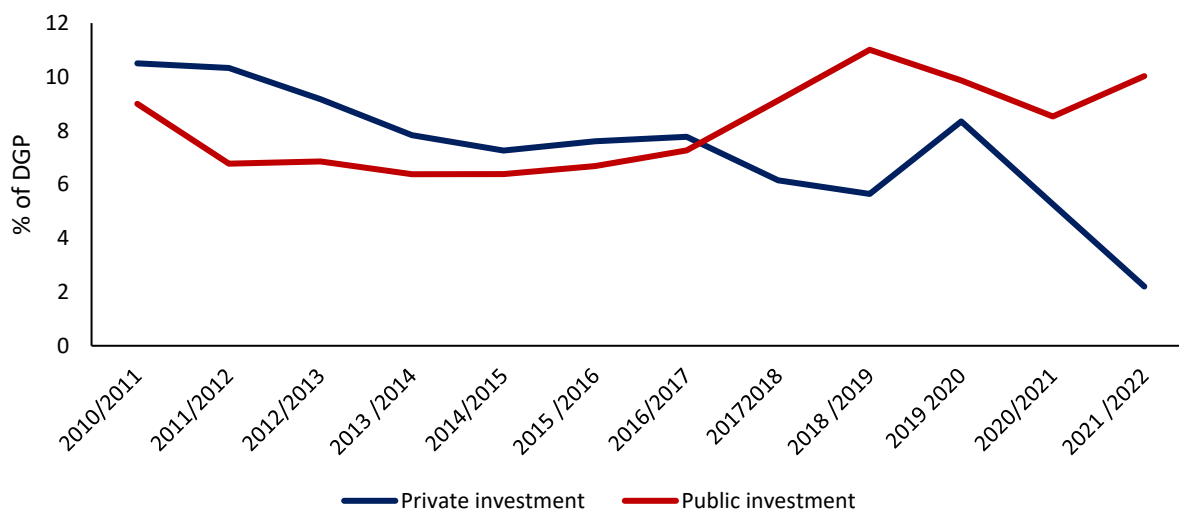
Source: Central Bank of Egypt (CBE) and the Ministry of Finance (MOF), Monthly Finance Report, various issues.

Figure 3, which shows the trend of public and private investment through the whole period, is also very revealing. The year 2016 stands out as this is when private and public investment switched places, with public investment taking over. The decreasing trend of private investment reflects the shrinking role of the private sector in the Egyptian economy, further



confirmed by the results of the PMI Indicator and the Egyptian Center for Economic Studies (ECES) Business Barometer.<sup>8</sup>

**Figure 3. Public and private investment as a percentage of GDP**



Source: ECES calculations based on the World Bank, World Development Indicator’s database.

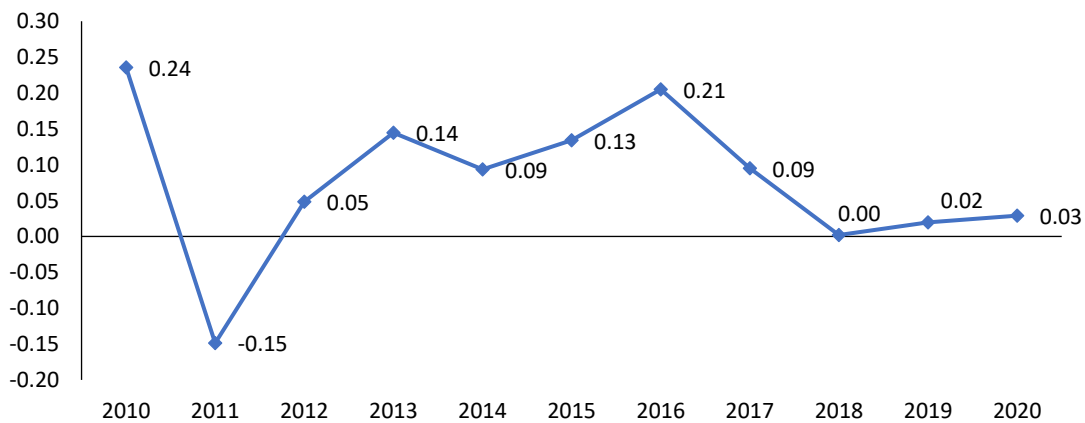
## 2.2. Unemployment and labor market challenges

As seen in Figures 4 and 5, during the decade of the analysis, the Egyptian labor market features inelastic employment with respect to economic growth, reflecting a generally weak ability to generate jobs.<sup>9</sup> Employment is also dominated by low value-added economic sectors, mainly agriculture, wholesale, and retail trade, as they absorb the largest numbers of jobs created. Sectors that demand high skills such as communications and information technology (ICT), engineering, and financial activities, on the other hand, still have very limited contribution to employment.

<sup>8</sup> ECES Business Barometer, various issues, available at: [www.eces.org.eg](http://www.eces.org.eg).

<sup>9</sup> Assaad, R. (2019). Is the Egyptian Economy Creating Good Jobs? A Review of the Evolution of the Quantity and Quality of Employment in Egypt from 1998 to 2018. ERF Policy Brief no. 45. The Economic Research Forum (ERF).

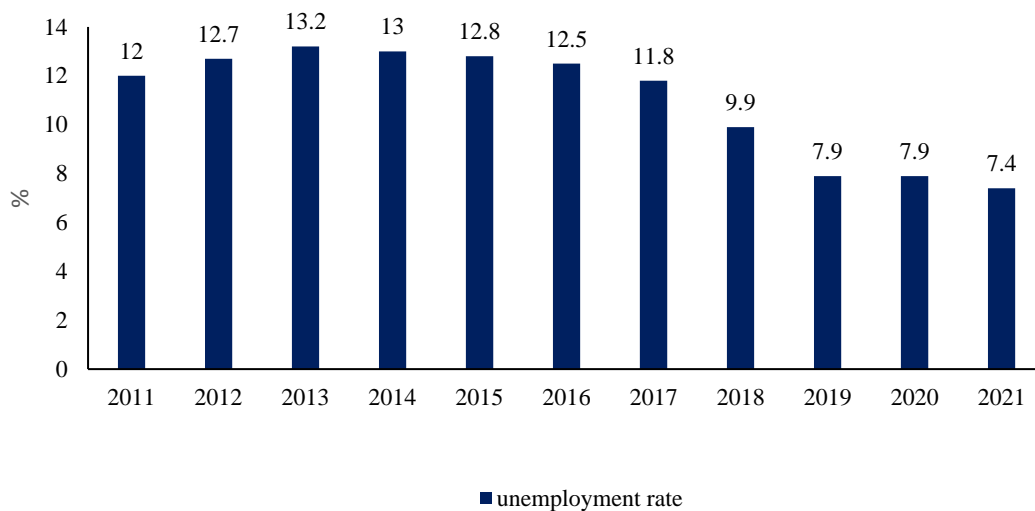
**Figure 4. Employment elasticity in Egypt during the period 2010-20**



Source: ECES calculations based on Central Agency for Public Mobilization and Statistics (CAPMAS) data, Statistical Yearbook, various issues.

These features of the labor market stand as a clear reality despite the observed decline in the unemployment rate starting 2016 as seen in Figure 5, reaching 7.4 percent in 2021. This is primarily due to the expansion in construction and infrastructure projects, which create temporary jobs for low-skilled workers but do not solve the country’s stubborn structural unemployment problem of the coexistence of excess supply and excess demand.

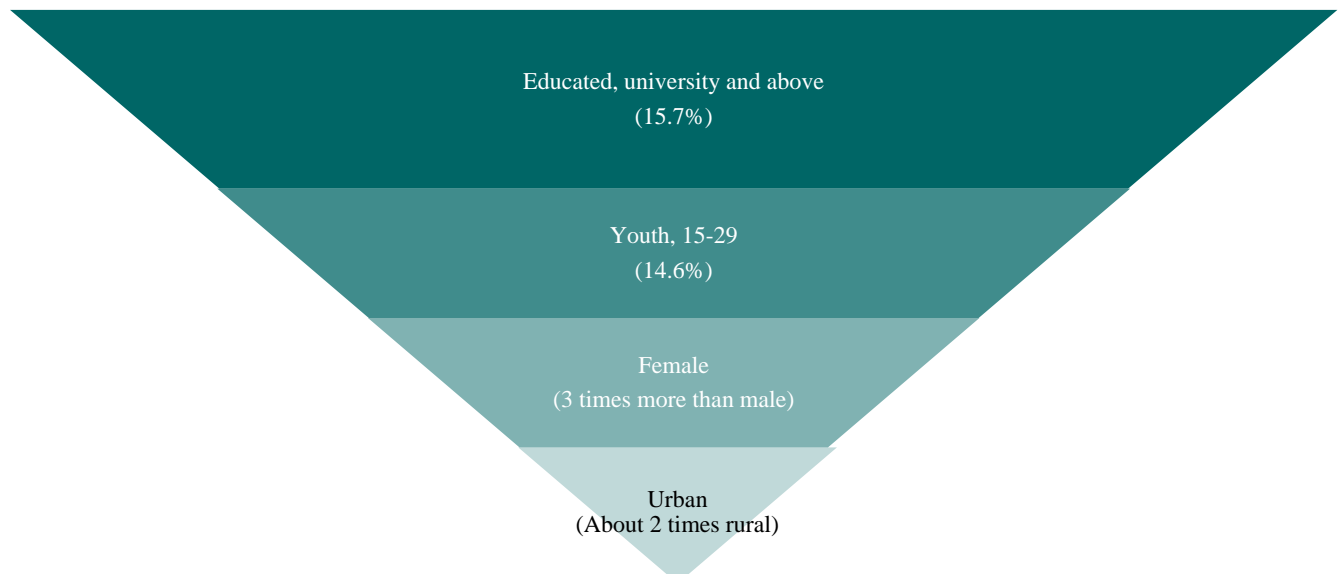
**Figure 5. Overall unemployment rate (2011-21), %**



Source: CAPMAS, Annual Bulletin of Labor Force Survey, various issues.

It also doesn’t solve Egypt’s inverted unemployment pyramid featured in Figure 6, whereby unemployment is highest among the highly educated, significantly higher for youth than older people, 300 percent higher for females than males, and twice as high for urban areas (where jobs are normally available) than rural areas.

**Figure 6. The inverted pyramid of unemployment in Egypt in every feature**

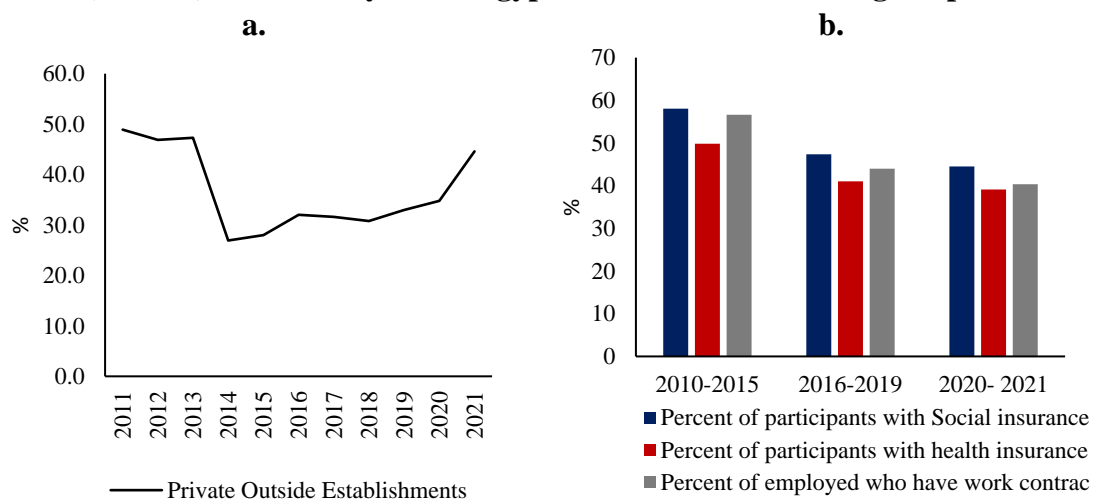


Source: ECES calculations based on the CAPMAS labor force survey bulletin, various issues.

In fact, the labor force participation rate has been declining continuously from 49.5 in 2010 to reach 42.5 in 2021, with female labor force participation driving the overall downward trend.

A final clear feature of the labor market during the period of the study is the increase in the level of informality starting 2016 as seen in Figure 7, with informality measured in terms of an increasing percentage of employment outside establishments and in terms of an observed decrease in social and health insurance and the percentage of those working with contracts.

**Figure 7. (a and b). Informality in the Egyptian labor market during the period 2010-21**



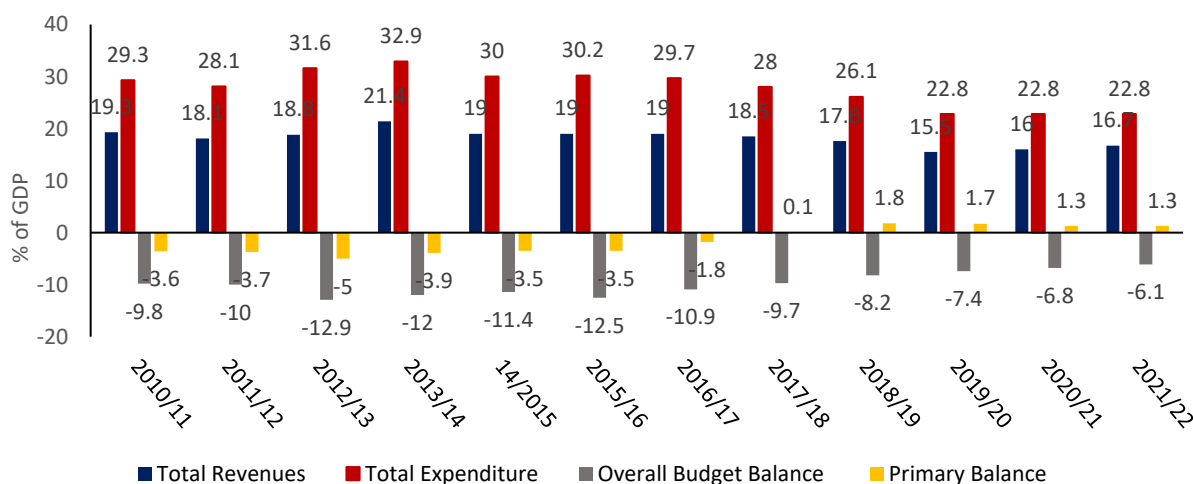
Source: CAPMAS, Labor Force Survey Bulletin, various issues.

### 2.3. Fiscal balance and budget deficit

The gradual phasing-out of energy subsidies, the containment of the wage bill, and the adoption of value-added taxation during the period of the analysis resulted in a narrowing trend of the

overall budget deficit to single digits, from an average of around -11 percent of GDP during 2010/11-2015/16 to 7.4 and 6.1 percent in FY2019/20-FY2021/22, respectively (as seen in Figure 8). In addition, the same figure shows that the primary balance turned from deficit to surplus starting 2017/18.

**Figure 8. Budget deficit, revenues, and expenditures**



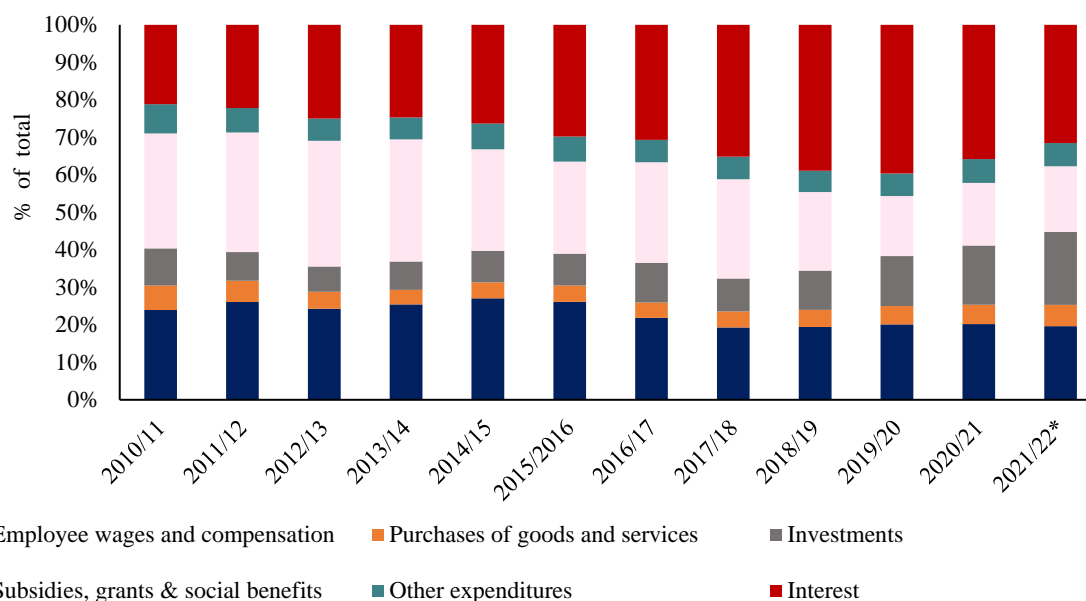
Source: MOF, Monthly Financial Report, various issues.

While a superficial look at the above indicators seems to reflect an improvement in the overall fiscal balance situation, a closer look is not that positive. The improvement in the deficit situation is due to a significant decrease in expenditure combined with much smaller increases in revenues, which reflects in itself a shrinking of economic activity more than healthy fiscal reform.

A deeper look at the expenditure breakdown in Figure 9 and Table 2 below provides further alarming evidence and confirms the negative assessment of the overall fiscal situation. For starters, debt interest payments alone account for more than 30 percent of government expenditure, followed by public investment accounting for an increasing percentage every year. The reduction in expenditure was not only due to the gradual phasing-out of energy subsidies and the containment of the wage bill, as mentioned above, but it is also due to decreases in real necessary expenditure on key areas such as education, health, export subsidies, and social support. The slight increase in social spending during the COVID-19 phase is hardly visible in the expenditure structure, further confirming the bias against this whole line of spending on basic needs. Specifically, expenditure on education and health witnessed a serious reduction in real terms, also falling short of constitutional commitments with a serious negative impact on growth potential in the medium and long terms.

Achieving a primary surplus is becoming more and more an end in itself, even though no less than 30 percent of the expenditure is on debt principal, and interest payment reduces its importance as an indicator of improved fiscal management.

**Figure 9. Expenditure breakdown (in economic classification) (% of total expenditures)**



Source: ECES calculations based on CBE, Monthly Statistical Bulletin, various issues.

**Table 2. Summary table of all types of social expenditure (% of GDP)**

	2011/12	2015/16	2018/19	2021/22
Education	4	4.1	2.2	2.6
Health	1.5	1.8	1.2	1.8
Subsidies	8.8	5.1	3.8	2.4
Food subsidies	2	1.6	1.6	1.3
Energy subsidies	6.2	1.9	1.6	0.8
Social benefits	0.6	2	1.4	2.0

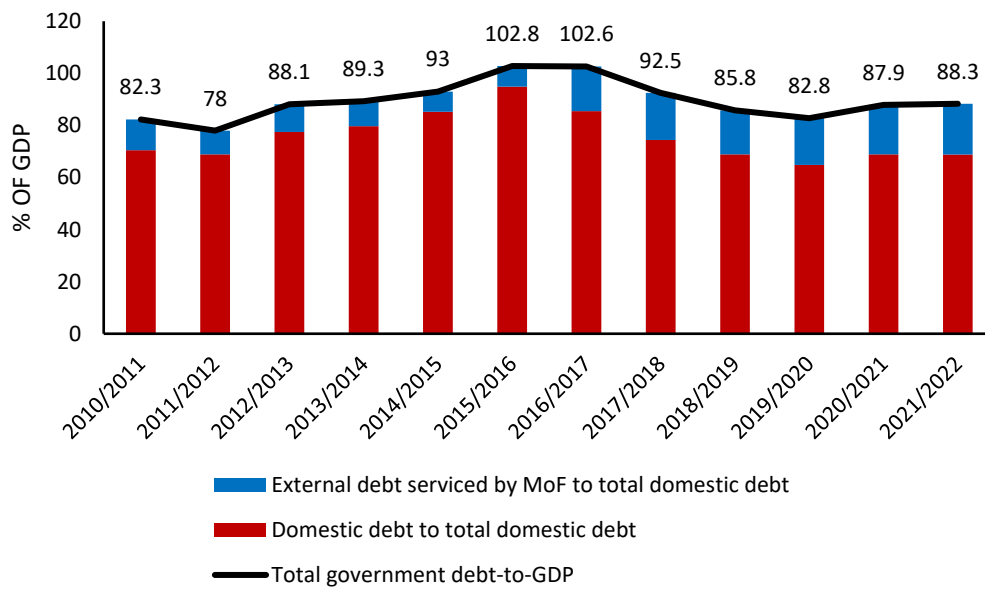
Source: ECES calculations based on data from MOF Final Account, various issues.

#### **2.4. Debt situation**

As seen in Figure 10, throughout the period of analysis (2010/11-2021/22), total public debt has been on an upward trend never reaching below 88 percent of GDP. It reached a peak of 102.8 percent in 2015/16, followed by a decline a couple of years after the 2016 reform. The diversification of financing sources along with increasing the average time to maturity of the budget sector debt from 1.9 years in 2016/17 to 3.3 years in June 2020 contributed to getting off the peak (World Bank, 2021). However, this new trend didn't continue because of COVID-19 and other global developments.

While the decline of total public debt as a percentage of GDP has been driven by a drop in domestic debt's percentage of GDP from 80 percent to 68 percent following the 2016 reform, an observed trend of a serious increase in external debt (and, therefore, external debt servicing obligations) has also been observed, as further explained below.

**Figure 10. Debt trend (2010/11-2021/22) – total and components**

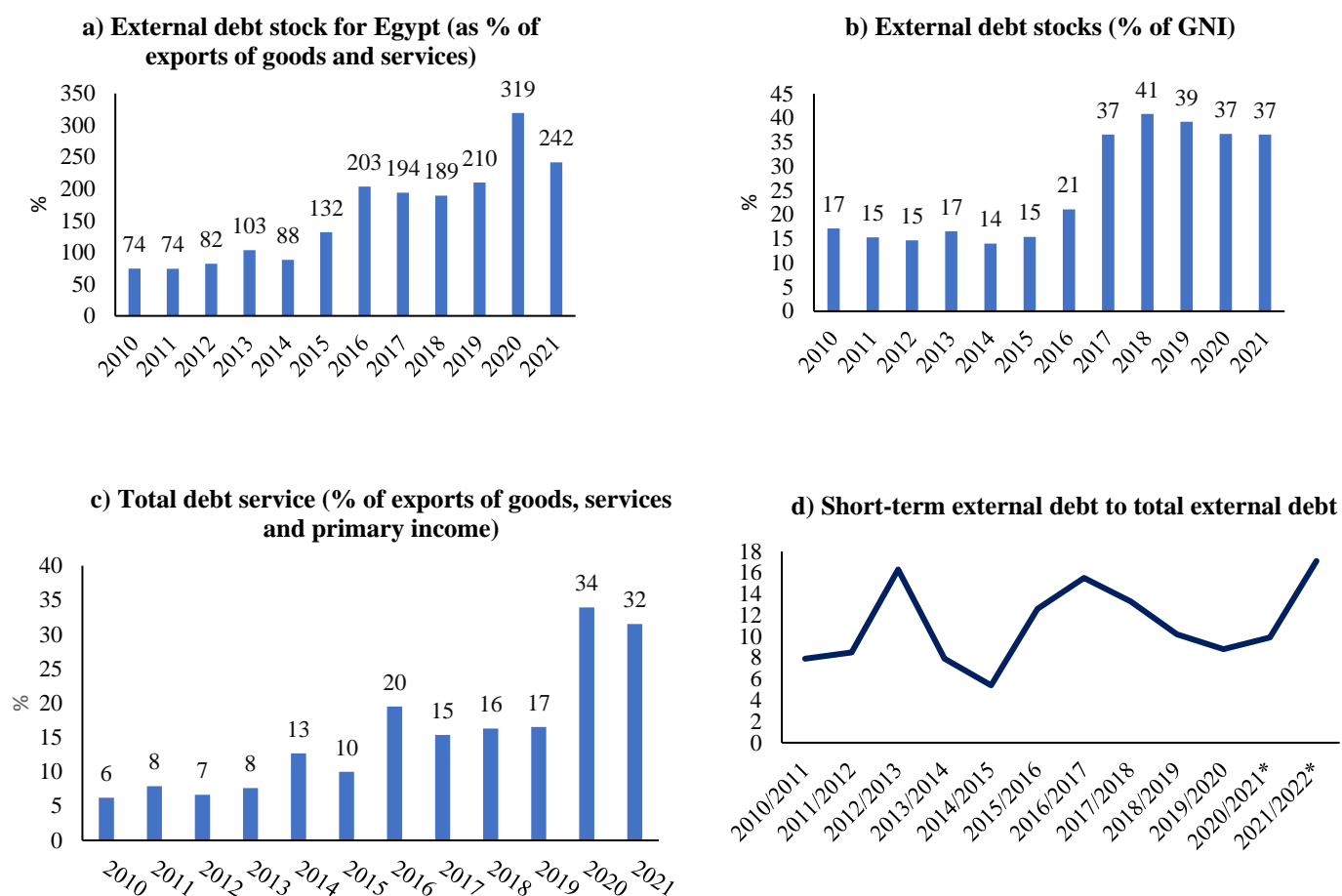


Source: World Bank, Egypt Economic Monitor, Dec 2022.

Figure 11 presents key indicators of the external debt situation. While the debt stock to exports and the total debt service to exports have been increasingly alarming and beyond the safe margins of the IMF, reflecting Egypt’s limited ability to meet mature debt and interest payments in a timely way, the external debt stock to GNI has been within a safer range (16 percent, on average) with the commitments of the Central Bank of Egypt (CBE) and the Ministry of Finance (MOF) to stay within this range.

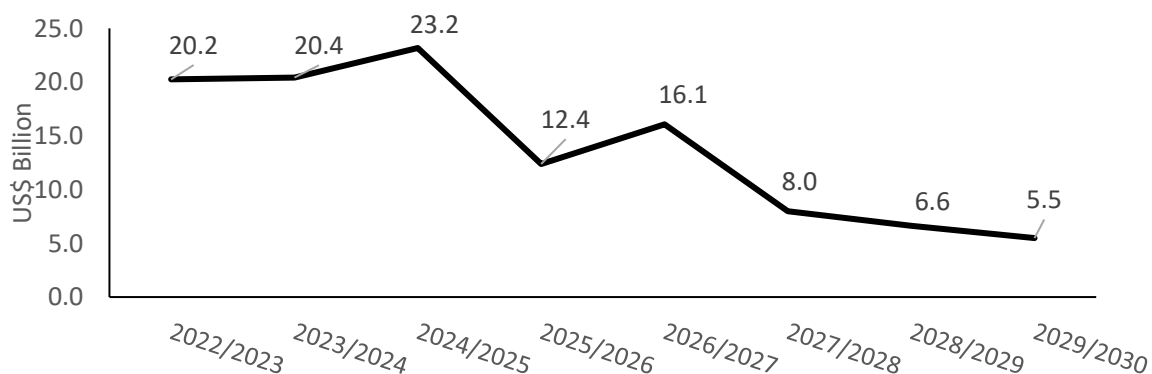
Starting 2016/17, all three indicators reached unprecedented alarming levels. The total external debt stock to GNI jumped from about 16 percent of GNI in 2015/16 to 37 percent in 2020/21, and the other two already bad indicators became a lot worse, with debt stock to exports and total debt service to exports reaching 243 percent and 32 percent in 2021, respectively. In addition, the percentage of short-term external debt to total external debt started a new upward trend in the same year after going through a downward trend in the previous couple of years following the revolutions. This combination meant (and still means, as seen in Figure 12) higher debt that is more quickly due, with an increasingly more difficult ability to pay. Egypt’s projected debt burden is actually alarmingly high, at least until 2026/27.

**Figure 11. Main indicators of external debt stocks, 2010-21**



Source: World Bank International Debt Statistics.

**Figure 12. Projected medium- and long-term public and publicly guaranteed external debt service, 2023-30**



Source: CBE, Egypt External Position Report No.79, November.

How does debt get to be accumulated so fast and so heavily in Egypt? A debt decomposition analysis shows that direct budget deficit financing is not the only driver of government debt accumulation as one would immediately expect. Off-budget borrowing, arising from extra-

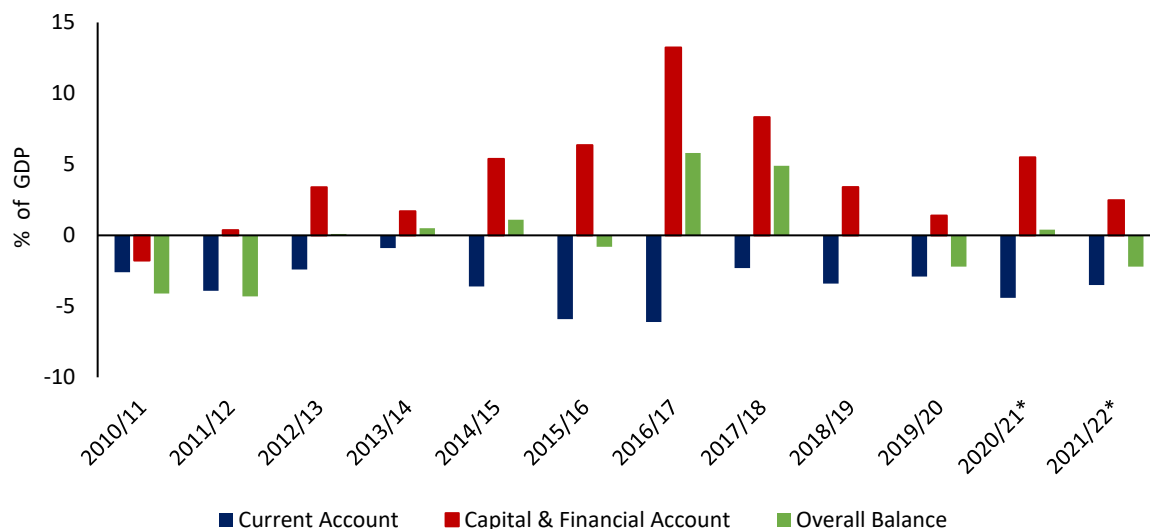
budgetary units such as public economic authorities and the public business sector, is another important contributor to the accumulation of debt. Each of these entities (economic authorities) has a budget of its own, with the right to borrow on its own. Their expenditure and borrowing are not monitored, yet their debt reaches the pool of total public debt for the country. To make matters worse, a lot of what they borrow is guaranteed by the MOF by the mere fact that they are government authorities.

During 2020/21, approximately 56.4 percent of the change in the total government debt stock stemmed from financing the budget deficit and favorable exchange rate revaluation impact, whereas the remaining 43.6 percent was driven by extra-budgetary (below-the-line) items, including potential on-lending to government entities, transfers to the Social Insurance Funds (SIF), discrepancy due to accrual versus cash accounting, borrowing from the Treasury Single Account, and the revaluation bonds issuances to the CBE (World Bank, 2022).<sup>10</sup>

### 2.5. External balance

As seen in Figure 13, which presents the external balance situation throughout the period of the analysis (2010/11-2021/22), the current account deficit has been a persistent feature of the Egyptian economy long before the recent global crisis situation, mainly due to supply side constraints and the imbalances of composition of growth and investment (World Bank, 2019).<sup>11</sup> The large non-oil trade deficit driven by low levels of non-oil merchandise exports in addition to practically stagnant foreign direct investment (FDI) levels have been at the core of the problem.

**Figure 13. Egypt’s balance of payment indicators, 2010/11- 2021/22**



Source: CBE, Monthly Statistical Bulletin, various issues.

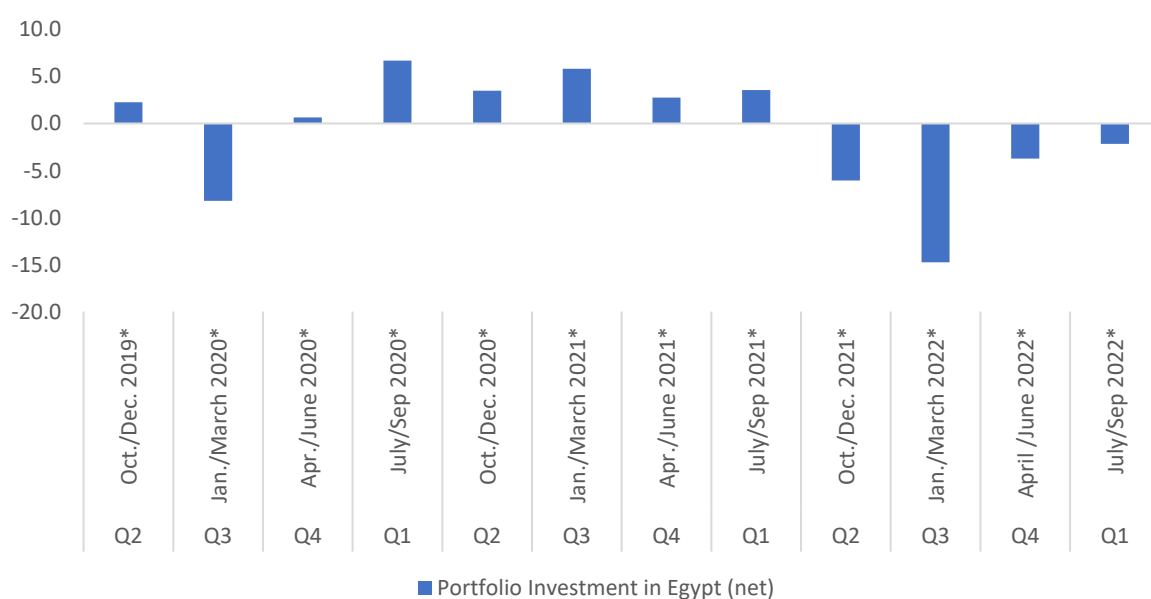
<sup>10</sup> World Bank Group (2022). Strengthening Resilience through Fiscal and Education Reforms, Egypt Economic Monitor.

<sup>11</sup> World Bank Group (2019). From Floating to Thriving: Taking Egypt’s Exports to a New Level, Egypt Economic Monitor.



Given that the current account balance has always been negative, the overall external balance is mostly influenced by the status of the capital and financial accounts, which changes from one year to the other, primarily depending on the status of portfolio investment. An overreliance on selling government securities and sovereign issuances starting 2016/17 made portfolio investments the driving force. However, it is a dangerous and volatile driving force. Just like positive inflows led to a tangible overall balance of payment surplus in 2016/17 and 2017/18, serious drops in the same indicator quickly turned the surplus into a deficit over the next couple of years. More indicative of the volatility is the shift from a deficit of 2.2 percent of GDP in 2019/20 to a surplus of 0.4 percent in 2020/21 to quickly turn into a deficit of 2.2 percent the very next year (2021/22). The high volatility is further fueled by the fixing of the exchange rate and the ease of exit of the same investments without any capital losses, all making Egypt highly vulnerable to international capital shocks. Evidence of the dangerous exposure is the quick persistent outflow of the same portfolio investments witnessed starting from the second half of 2021 as seen in Figure 14 below.

**Figure 14. Portfolio investment trend (Oct/Dec 2019- July/Sep 2022)**



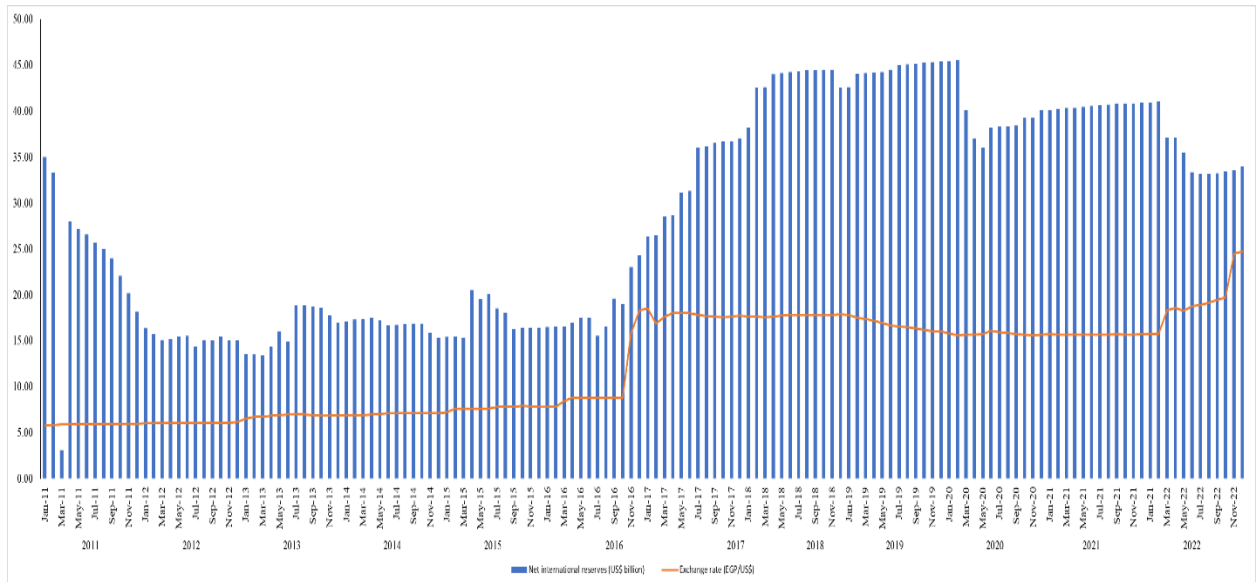
Source: CBE, Monthly Statistical Bulletin, various issues.

## ***2.6. Exchange rate policy, international reserves, and inflation***

Figures 15 and 16 clearly show Egypt’s exchange rate policy, the status of international reserves, and the relationship between them. Egypt’s policy has clearly relied on fixing the exchange rate until it is no longer possible. This means the emergence of the black market, which starts trading the USD at a higher rate than the official one, as seen in Figure 15. Change is always associated with forced change due to forced compliance with economic reform programs by the IMF (2016, 2022). The trend of international reserves shows a clear association with the exchange rate trend. Protecting the value of the EGP by adopting a fixed exchange rate policy – even as shortages of foreign currency revenues become acute – has been financed through the depletion of international reserves. The reserves themselves are weak,

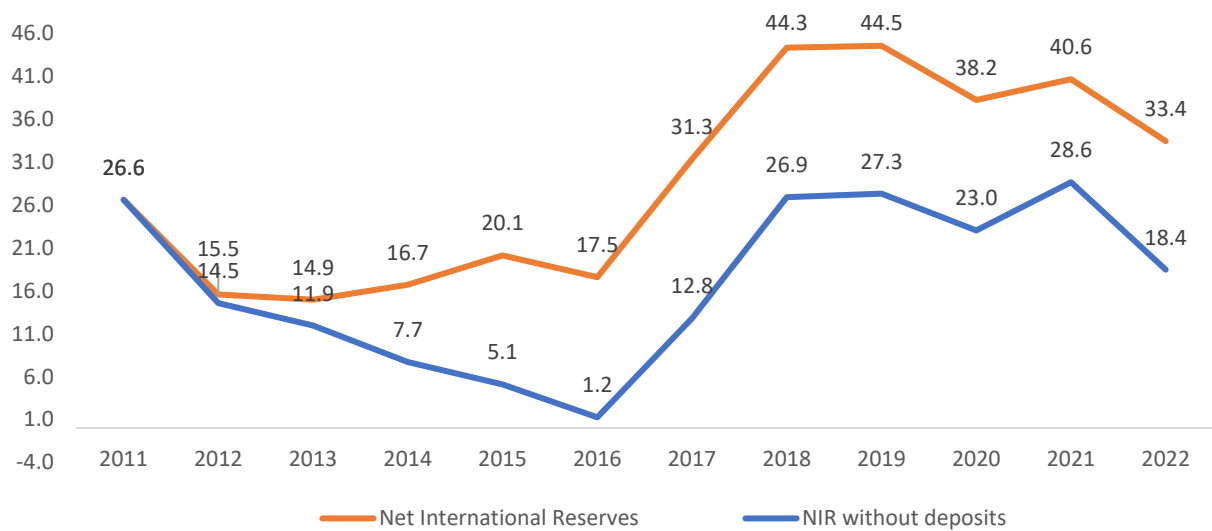
relying primarily on portfolio investments (as seen in sub-section 2.5) and also relying heavily on Gulf deposits. The latter represented 55 percent of reserves in 2022.

**Figure 15. Net international reserves and exchange rate trends, 2011-22**



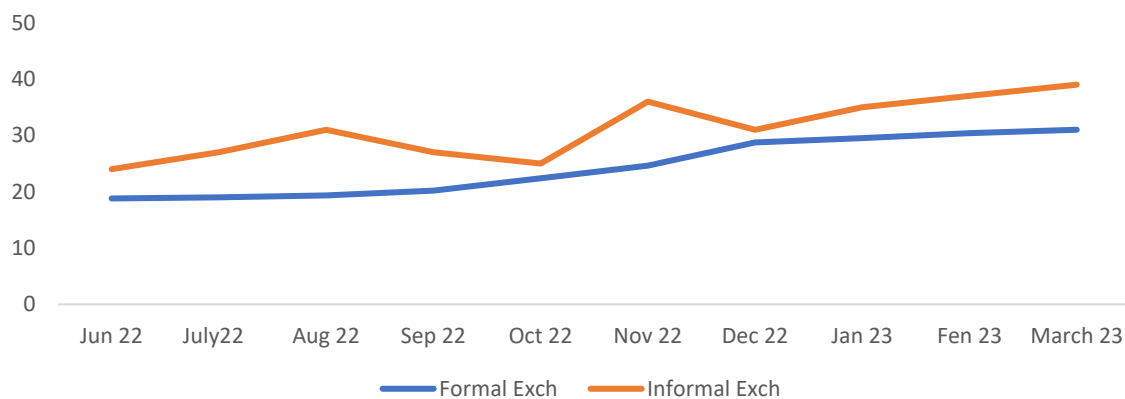
Source: CBE, Monthly Statistical Bulletin, various issues.

**Figure 16. Net international reserves (in billion \$) including and excluding deposits, 2011-22**



Source: CBE, Egypt External Position Report, various issues.

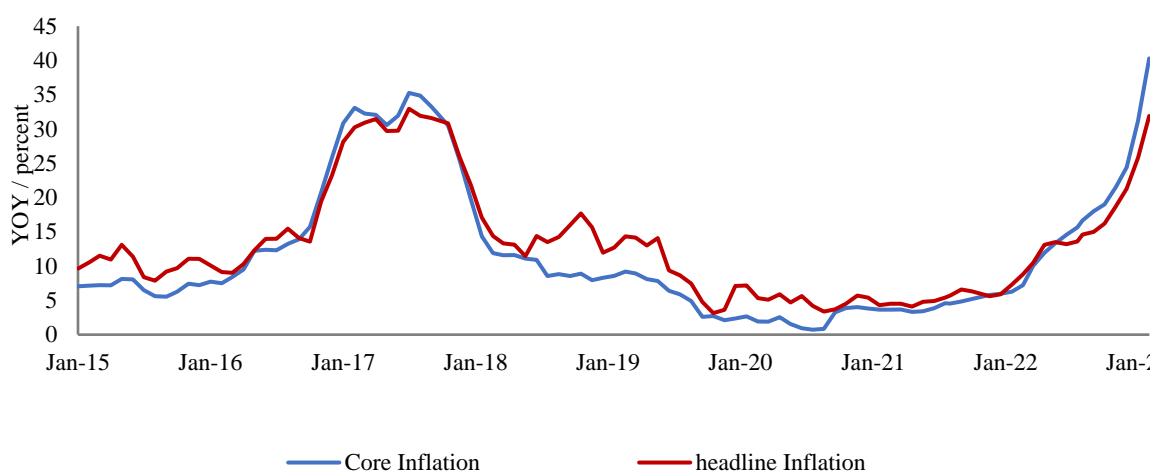
**Figure 17. Increasing gap between the official and black market exchange rates since June 2022**



Source: CBE reports and different newspapers.

As far as the inflation trend is concerned, starting June 2005, the CBE attempted to take serious steps to develop its monetary policy framework with the objective of implementing an inflation targeting regime over the medium term. Between June 2010 and October 2016, the annual inflation rate recorded an average of 9.8 percent. However, since the devaluation of the EGP in 2016, the removal of subsidies on energy products, the gradual increase in publicly provided utilities (e.g., electricity, water, and transportation), and the issuance of the value-added tax (VAT), inflation became a very serious concern for Egypt, reaching unprecedented levels as seen in Figure 18. The problem was accentuated by the more recent international increase in food prices and supply chain disturbances caused first by COVID-19, shortly followed by the Russia-Ukraine war, not to mention the inflationary impact of the second wave of devaluation in 2022 and the CBE’s decisions to interfere in trade procedures to cut on imports in March 2022. Although these decisions were canceled in December 2022, their impact is still felt with strong reflection on inflation because of the foreign exchange shortage and the difficulties in getting finance faced by the private sector, the production and trade agent in the economy.

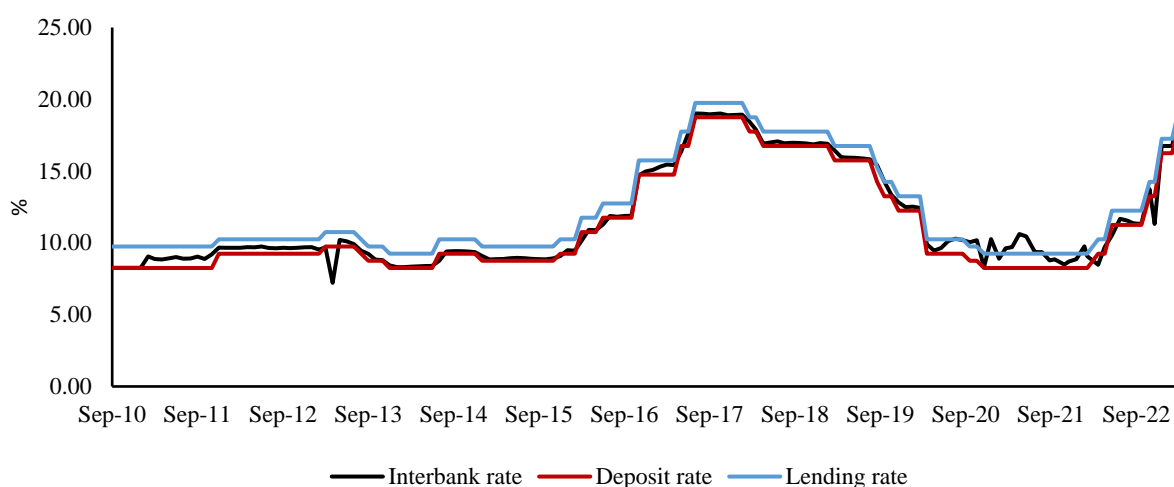
**Figure 18. Headline and core inflation trends (Jan 2015-Jan 2023)**



Source: CBE, Monthly Statistical Bulletin, various issues.

The tool used by the CBE to try to control inflation has always been the changing of the interest rate. It tightened the monetary policy six consecutive times between November 2016 and January 2018, then four more consecutive times between March 2022 and December 2022 (Figure 19). Inflation is still on the increase as already indicated above, reflecting that the problem is more supply-driven than demand-driven, which explains the limited impact of changing the interest rate. Raising the interest rate also means more costly borrowing, making financing investments even harder.

**Figure 19. CBE interest rate policy**



Source: CBE, Monthly Statistical Bulletin, various issues.

### 3. The vicious circle of poor economic performance, present crisis situation, and near future “best-case” and “worst-case” scenarios

Having presented the dashboard of indicators in the previous section, the objective of this section is to explore why the performance has been so poor, where we are at present, and what our options are.

#### 3.1 What is meant by the “vicious circle of poor economic performance”?

What is described below as the vicious circle of poor economic performance and presented in Figure 20 below is neither a new nor recent phenomenon. It has existed for decades even before 2011. The Egyptian economy has been going along the path of growth with an overreliance on fiscal and monetary policies. Solutions to all the problems have always emerged from these two toolboxes, with everything else remaining unchanged.

The exchange rate and interest rate policies have been the most frequently used tools. Sudden measures of unavoidable devaluation take place when the gap between the official and black market exchange rates reaches levels that paralyze the economy.

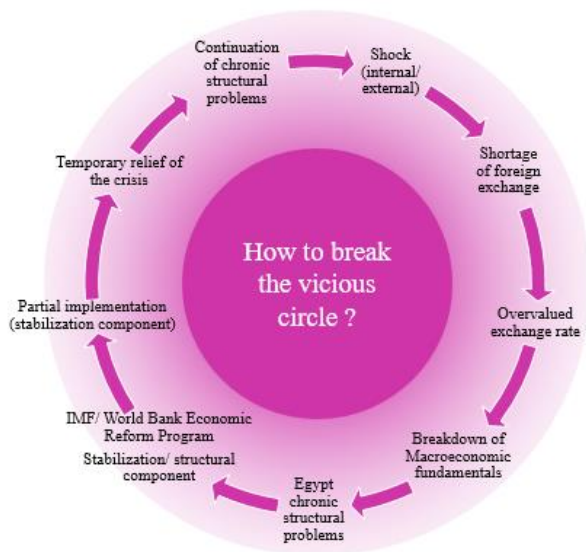
The repeated scenario proceeds as follows: temporary relief of the problem, shortly after – in the span of approximately 10 years or less – the unavoidable downturn of the economy takes place again, and the old symptoms reemerge, namely an overpriced currency and accumulated debt due to an overreliance on borrowing in managing the economy.

These symptoms, of course, coexist with Egypt’s persistent chronic problems of high unemployment, limited local and foreign investments, overreliance on imports, high trade deficits, mediocre human investment levels in education and health, low social justice, and increasing poverty.

Being a primarily rentier economy with little focus on productive sectors, along with the recent complete focus on mega construction projects with heavy reliance on debt financing, the obsession with attracting volatile hot money, and the overreliance on Gulf deposits as constituents of international reserves, all made the vicious circle even more vicious.

The more recent complete control by the state and setting aside of the private sector – rhetorically yet incorrectly described as “leading the economy” – has also made the vicious circle more vicious.

**Figure 20. The vicious circle of poor performance in action**



Source: Prepared by ECES.

### ***3.2. The present crisis situation: Dangers and repercussions***

The analysis of the present situation is divided into three parts: Alarming economic indicators, alarming policy directions, and the dangers and repercussions of the whole situation.

#### ***3.2.1 Alarming economic indicators (most recent)***

- a. Foreign exchange gap reaching USD 23 billion.
- b. Monthly inflation reaching 40 percent officially, much higher unofficially.

- c. Serious shrinkage in private sector activities supported by the PMI Indicator and ECES's Business Barometer.
- d. Serious decreasing trend of Egypt's biggest source of foreign exchange (labor remittances officially decreasing by 25 percent).
- e. Huge debt obligations in the next few years; in the next three years alone (2023-25), total due debt is USD 63.8 billion, with USD 20 billion annually.
- f. Many international credit rating agencies have downgraded Egypt's credit rating and changed its future outlook to negative.
- g. Overall budget deficit to GDP during 2023/24 is expected to increase by 26 percent to record -7.8 percent due to increases in domestic interest payments.

### *3.2.2 Alarming policy directions*

- Decreasing compliance with the IMF program, especially starting from February 2023.
- Continuation of megaprojects as originally scheduled despite foreign exchange shortage.
- Access to foreign exchange finance is more available for the state than the private sector.
- Continued policy of increasing the interest rate even though it is proving to be ineffective on inflation and increasing the release of USD by the people.
- Continued focus on attracting portfolio investments (seeking hot money) though it is not likely to come given the global conditions and its clearly harmful effects, which were previously witnessed.
- Continued abrupt increases in income taxes, fees, and gas and electricity prices while the production machine is still paralyzed.
- New announced government budget for FY2023/24 is set in the same old way with a growth rate of four percent and 2.5 percent primary surplus, respectively, without explaining its philosophy, sources of revenues, logic of expenditure...etc.
- Public media focusing on passing positive messages to improve the image of the system while the crisis situation is clearly felt within the business community and the street, not to mention international organizations and credit agencies.
- Continued heavy involvement of the army and other security authorities in the economy.

### *3.2.3 Dangers and repercussions*

- Loss of trust in the Egyptian economy.
- Paralysis of productive sectors because of delayed clearance of components in ports.
- Serious discouragement of investment due to higher interest rates and new certificates with returns exceeding 20 percent.
- Further drop in ranking by credit rating agencies, reflecting the weak ability to pay debt obligations.
- According to the IMF's latest report (Jan 2023), the sovereign risk assessment (overall and medium) is high, and the debt sustainability assessment is sustainable but not with high probability.
- Aggressive monitoring by the IMF for the implementation of the 2022 agreement.

- Inflation rate reaching extremely high levels (40 percent) and still increasing, seriously impacting the Egyptian people.

### ***3.3. Expected near future best-case and worst-case scenarios given the status quo***

Based on all the above reflecting economic performance, this study predicts two extreme scenarios, “best-case” and “worst-case.” Between the best-case and worst-case scenarios lie a number of possibilities depending on the extent of the corrective actions.

#### *3.3.1. Worst-case scenario*

- The insistence on not adopting a flexible exchange rate policy, resulting in a widening gap between official and black market exchange rates and leading to deeper negative expectations and mistrust in the economy.
- Failure of the asset sale program or its very slow implementation due to the resistance of the army to let go.
- Continuation of the megaprojects at the same present pace and further accumulation of debt.
- Continued increases in interest rates and overshooting of inflation, resulting in high fiscal costs and the discouragement of investment.
- Continued paralysis of the productive engine of the economy and social unrest due to basic needs not being met.
- Inability to pay due debt in time and forced foreign intervention along the lines of Paris club arrangements.

#### *3.3.2 Best-case scenario*

- Regaining foreign exchange market stability and ending the black market through full compliance with the IMF program requirement of full flexibility of the exchange rate.
- Success of the asset sale program and the commitment to sell stakes in up to 32 public and military-owned corporates and financial institutions over the coming year to hopefully bring in enough funds to fill the existing foreign currency gap and improve Egypt’s ability to pay its due debt payments in a timely way.
- Positive results of the above in increasing labor remittances, exports and gradually reducing inflation caused by negative expectations associated with the foreign exchange market, in addition to reviving the paralyzed productive engine of the economy by releasing components stocking up in ports and meeting the private sector’s unmet demand for USD.

##### *3.3.2.1 Downside of the best-case scenario*

- Overshooting of the exchange rate due to accumulated unmet demand as a temporary side effect until the market adjusts.
- Huge inflation and a very heavy social cost that needs large compensation by the government for the poor.
- The biggest downside of the best-case scenario is that it still follows the “aspirin approach,” which means that the problems will re-emerge shortly after because the full flexibility of the

exchange rate (as a single policy) will not be maintained for long due to its heavy price on the people.

- Even if the army agrees to sell the military companies currently offered, it might not continue receding out of the economic arena.

#### 4. Evidence-based analysis for institutional reform as the correct and ‘only’ way out: Building the case

The above analysis leads to some very specific observations:

- The gradual approach to critical reform and partial solutions to problems have repeatedly proven to be inefficient.
- Overfocusing on specific tools within fiscal and monetary policy only scratches the surface of problems, has a temporary positive effect, and simply does not solve them.
- The government is continually addressing the **symptoms** of problems and never the **core**, following **the aspirin approach of quick relief of problems**.
- The present crisis situation and the previously observed vicious circle all rotate around **wrong decision-making by the government at all levels**.

This study argues, with evidence-based analysis, that the institutional structure of the economy’s management system and the missing governance element are behind such wrong decision-making process, not to mention a number of misconceptions about specific key issues that guide the present operating system; thus the serious need for **institutional reform**. Addressing the symptoms of the problem alone deals only with the tip of the iceberg when the huge core problems lie below, hence the repeated problems (Figure 21).

**Figure 21. Symptoms are just the tip of the iceberg**





Building the case for institutional reform involves three components. The first component *sets the stage* by explaining exactly what is meant by institutional reform in this study. It is followed by the second and third components, which present evidence of the existence of the problem in Egypt and its extent, starting with *key misconceptions guiding the present operating system*, followed by specific examples of *institutional obstacles and proposed solutions*.

#### **4.1. The definition of institutional reform adopted in this study**

There are many definitions in the institutional reform literature; some focus on organizations and how they function, others focus on the legal and regulatory frameworks, some focus on corruption, and others see it as administrative reforms at different levels. Institutional reform actually encompasses all of the above, and any attempt to focus on one part without the others makes the institutional reform incomplete and, thus, ineffective (Abdel-Latif, 2020).

Institutional reform requires looking at the structure of the state and its governance system, how decisions are taken, and how the various components (government, private sector, and civil society) connect. Table 3 below presents the main questions that need to be answered as we assess the impact of the existing institutional setup in any country and the need for reform. Looking at the questions, it is easy to conclude that limited political commitment to institutional reform, limited inclusivity, and wide grey zones in all rules and regulations – combined with informality and weak checks and balances – would typically be the main impediments to institutional reform.

**Table 3. Question sheet to address the need for institutional reform**

<b>Area</b>	<b>Questions</b>
<b>Priorities</b>	Who sets the priorities and in response to what interests? What mechanisms are available to ensure that people’s views are taken into account?
<b>Policies</b>	Are policies based on evidence and data? What is the availability and quality of the data?
<b>Incentives</b>	What is the current formal/informal incentive structure? Who does it benefit? What incentives are there to modify the behaviors of key players in support of the desired outcomes?
<b>Rules and law</b>	Are formal rules and laws respected? Are there informal rules leading to corruption and exclusion? Are rules and laws subject to political interference?
<b>Culture</b>	National attitudes to risk, hierarchy, incentive systems, participation, and donor interventions.
<b>Drivers for change</b>	What are the key drivers for change? Are they social, technological, economic, or political? Are there sponsors or champions for reform? What is the level of commitment to reform?
<b>Voice and partnership</b>	What mechanisms and structures are in place to promote poor people’s concerns? What voice do people have to hold delivery organizations accountable?

Source: Extracted from DFID (2003).

#### 4.2. Key misconceptions guiding the present operating system

There are a number of prevailing misconceptions guiding the present operating system that need urgent correction. Table 4 presents some examples of such misconceptions affecting a number of areas. For each one, the explanation is followed by the resulting negative impact and then the correct concept. The areas covered include the timeframe of implementation of any element under the title of institutional reform, the responsibility for implementation of any proposed improvements in the system, especially if it is institutional, and the perception of the EGP, among many others. Between basic general misconceptions to ones associated with specific programs, the message remains unchanged: these misconceptions have a serious disruptive impact on the economy due to the adoption of wrong policies and programs. The country has gotten caught in deep foreign and local debt, expenditure has drifted away from high-priority programs to others that are much less urgent, there is a slowdown of all aspects of development, and announced reforms simply never get implemented. The correction of such misconceptions is a must if Egypt is to move forward and exit its crisis situation with no return.

**Table 4. Key misconceptions and needed corrections**

<b>The topic</b>	<b>The misconception</b>	<b>The resulting negative impact</b>	<b>Correction of the misconception</b>
Timeframe of institutional reform	Anything related to institutional reform is a long-term concern.	Solutions to problems always focus on monetary and fiscal policies and ignore everything else of impact. Problems re-emerge as a result.	Many institutional reform procedures are simple, quick, and have quick and positive results.
Responsibility for the implementation of any proposed improvements in the system, especially if it is institutional.	Responsibility is always assigned to the very authority whose organizations need the change.	Change never takes place because of interest group(s) within the organization.	The implementation of change needs to be superimposed by a higher authority out of interest for Egypt.
The perception of the EGP	The EGP should never go down in value except in extreme circumstances, because its decrease is a weakening of the economy.	For decades, the CBE and the government have been protecting the EGP up to the maximum use of reserves, not to mention subsidizing imports and hot money investors, as well as discouraging investment and sending wrong signals to all players.	The value of the EGP needs to reflect the market and account for inflation in different countries.

**Table 4. Key misconceptions and needed corrections (contd.)**

Deepening of industry and import substitution	Local production of every imported component or finished product imported.	Huge resources wasted on producing components that can be imported at a fraction of the price (high domestic resource cost and high opportunity cost).	Only the production of components that are economically viable needs to take place.
Digitalization	Automation of all existing processes.	Most processes are automated as they are, without first working on making them leaner and better interconnected.	The institutional review of all processes and their interlinkages needs to take place before actual automation; only then can it become digitalization.
Key Performance Indicators (KPIs)	KPIs for any project are simply the list of objectives to be achieved.	KPIs are looks without function as they don't involve a timeframe for implementation, quantifiable targets, or mechanisms for follow-up.	KPIs should involve a timeframe for implementation as well as quantifiable targets or mechanisms for following up with checks and balances.
Infrastructure	All infrastructure projects are a top priority for implementation.	Egypt's infrastructure agenda was, and still is, massive. However, it is proceeding on its own, irrespective of other government priorities and the needs of the economy. It is swallowing huge resources, with a high opportunity cost in other sectors and huge debt accumulation. More importantly, some of the projects implemented are not essential at this stage.	Even within the domain of infrastructure projects, there are priorities as per the availability of resources, expected returns, and other priorities in the economy. Infrastructure projects need to be addressed within the context of the government plan and budget.
Bureaucracy	It consists of a huge interest group responsible for all administrative failures.	Whenever there is a focus on institutional reform, there is an immediate focus on bureaucracy, especially at the lower levels. It is addressed with incomplete digitalization as explained above. Positive results are still not felt.	While it is true that bureaucracy is problematic, the roots of the problem lie in the system giving room for degrees of freedom for employees without any punishment. Further, there are lots of grey zones in the rules and regulations, leaving huge room for employees to interpret as they think fit. It is a problem of system more than individuals.

**Table 4. Key misconceptions and needed corrections (contd.)**

Takaful and Karama and housing subsidy programs	There is a strong belief that these three governmental programs are enough to address poverty.	There is a huge focus on these programs and very little attention to everything else. Almost 60 percent of the Egyptian population now falls under the poverty line and most of them do not fit the criteria for these programs.	The adoption of diversified social policies that take care of the needs of the poor and their heterogeneous nature is necessary. It is important to adopt a multi-dimensional definition of poverty based on data and design programs accordingly.
The increase in population	It is the reason behind the poor economic performance.	More pressure on people to reduce birth and the deprivation of benefits for big families, with little attention to the other reasons behind the high increase in population.	While the increase in population puts pressure on resources, it is primarily a result of poverty caused by ignoring education, health, and means of social mobility. Not seeing it this way leads to ignoring the variables that matter and blaming the people for the poor condition of the economy.

Source: Prepared by ECES.

#### ***4.3. Evidence of institutional obstacles and proposed solutions***

In the case of Egypt, institutional weaknesses are observed at all levels, both directly and indirectly. It is seen directly in the governmental structure, interrelations between ministries, operations of different organizations within each ministry and their interrelations, level of decentralization, and the level of involvement of the private sector and civil society in decision-making.

Indirectly, most of the observed constraints and complications in the business climate that the private sector constantly complains about (i.e., all observed inconsistencies of policies, spread of corruption and informal arrangements, and weakness of the rule of law, among others) have their roots in the institutional structure.

Tables 5 and 6 present specific examples of such institutional obstacles. Table 5 focuses on the multiplicity of organizations responsible for land accessibility and the monitoring of activities in the food and tourism sectors as examples. The significant slowdown in all procedures is caused by the existence of numerous players, not to mention overlapping responsibilities. If we take into account that there is no timeframe for the delivery of any kind of public service or accountability in case of mistakes or abnormal delays, it is easy to imagine why the ease of doing business in Egypt is always an issue. In the CIT sector, there is an example of another serious institutional problem: the CIT Minister is also the Chair of the regulatory body (National Telecom Regulatory Authority (NTRA)) and there is a clear conflict here as the same person cannot be a referee and a player at the same time.

**Table 5. Examples of specific institutional weaknesses in specific sectors**

<b>Sector</b>	<b>Institutional weaknesses</b>
<b>CIT</b>	<ul style="list-style-type: none"><li>- No publicly announced national strategy for digital transformation.</li><li>- Monopoly by Telecom Egypt for all communication infrastructure.</li><li>- The CIT Minister is also Chair of the NTRA and President of Telecom Egypt.</li></ul>
<b>Tourism</b>	Multiple supervisory authorities for tourist facilities (around 32) and poor coordination between them.
<b>Food industries</b>	Supervision of their daily activities by at least nine ministries.
<b>Health</b>	Ministry plays four roles simultaneously: the planning role, financing role, executive role, and the overseeing role
<b>State-owned lands</b>	Multiplicity of entities entrusted with the authority to own, use, or dispose of state land depending on its location.

Source: Based on various ECES studies.

Table 6 offers a more detailed analysis of the institutional roots of problems along with efforts by the government for correction and the proposed deep corrections of the system. Many of the governmental efforts are in the wrong direction, specifically because the focus of correction is on the superficial layer of the problem (i.e., the observed complaint by investors) and not on the institutional root of the problem. The examples presented in the table cover the areas of government structure and relation between ministries; budget; data and information; population file; the Customs Authority; the Egyptian Company for Mining; and the entrepreneurial ecosystem.

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
Government structure and relations between ministries	<ul style="list-style-type: none"> <li>• The complex state administrative apparatus; it consists of 2,456 entities.</li> </ul>	<ul style="list-style-type: none"> <li>• Excessive number of government employees: high cost and low productivity.</li> <li>• In Egypt, there is an employee for every 15 citizens, compared to 88 in Morocco.</li> </ul>	<ul style="list-style-type: none"> <li>• Creating new administrative units without attempting to fundamentally reform the existing structures.</li> </ul>	<ul style="list-style-type: none"> <li>• The government plans to move the headquarters of ministries and affiliated agencies to the new Administrative Capital, without fundamentally reforming the existing structures. Employee training and qualification are the only planned improvements.</li> </ul>	<ul style="list-style-type: none"> <li>• Review current administrative structures based on their missions to make appropriate decisions regarding their <b>activation, integration with other units, or complete elimination</b> upon completion of their designated tasks.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ministerial separation between integrated activities.</li> <li>• Egypt has the largest number of ministries in the world, with a total of 33 ministries, compared to 15 in Korea and Germany, 16 in France, and 10 in Japan.</li> </ul>	<ul style="list-style-type: none"> <li>• Overlapping competencies of ministries, fragmentation of tasks among them, and conflicting powers and responsibilities.</li> <li>• Disruption of many projects, especially in the absence of program and performance budgeting.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing new ministries specifically to solve problems that do not necessarily require the establishment of a new institutional structure.</li> </ul>	<ul style="list-style-type: none"> <li>• No efforts made so far.</li> </ul>	<ul style="list-style-type: none"> <li>• Merging ministries with overlapping specializations, in order to achieve unity of responsibility and rationalization of spending.</li> <li>• Embracing modern institutional thinking by creating lean organizations that are dissolved upon completion of their designated tasks.</li> </ul>
	<ul style="list-style-type: none"> <li>• Severe centralization, and the powers of governors conflict with the powers vested in the central ministries.</li> </ul>	<ul style="list-style-type: none"> <li>• Deepening geographical inequality.</li> <li>• Governors are held accountable for public utility problems in their governorate, despite 95 percent of resources being</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to activate the Local Administration Law in violation of the provisions of Articles 175-183 of the Egyptian Constitution.</li> <li>• Not granting economic regions an</li> </ul>	<ul style="list-style-type: none"> <li>• Significantly improving public facilities in Egypt's poorest villages through the "Decent Life" initiative.</li> </ul>	<ul style="list-style-type: none"> <li>• Reactivating the Local Administration Law and transferring the powers and competencies of the service directorates from the central ministries to the governorates.</li> <li>• Granting economic regions legal personality while</li> </ul>

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
		allocated outside their jurisdiction.	independent legal personality.		ensuring their empowerment and independence.
	<ul style="list-style-type: none"> <li>• Weak commitment to the legal frameworks regulating the state's administrative apparatus and the absence of transparent rules regulating government businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• The prevalence of financial and administrative corruption, waste of resources, inefficiency in performance, and the negative impact on the business community.</li> </ul>	<ul style="list-style-type: none"> <li>• The large number of outdated and conflicting legislations. The number of legislations in effect until January 2019 is 53,538, some of which were passed in 1880.</li> </ul>	<ul style="list-style-type: none"> <li>• Initiating the Erada project in 2019 to evaluate, purify, and simplify Egyptian legislation.</li> </ul>	<ul style="list-style-type: none"> <li>• Revamp and streamline the legislative system governing the state's administrative apparatus, aligning it with international best practices.</li> </ul>
	<ul style="list-style-type: none"> <li>• Most decisions are taken without adequate study or a deep understanding of their direct and indirect consequences.</li> <li>• Lack of a clear philosophy behind change and its priorities in most national plans, resulting in weak decisions.</li> <li>• Trying to constantly find parallel solutions to avoid institutional weakness instead</li> </ul>	<ul style="list-style-type: none"> <li>• Reversing decisions combined with a lack of foresight of their indirect consequences erode credibility and harm economic performance.</li> <li>• Ignoring the indirect negative effects of economic decisions and emphasizing only direct positive outcomes can be detrimental.</li> <li>• Individualistic decision-making can result in conflicting and confusing decisions that hinder,</li> </ul>	<ul style="list-style-type: none"> <li>• The cost-benefit methodology is not followed in economic decision-making.</li> <li>• The executor and regulator roles are not separated, with regulatory authorities subordinated to ministers.</li> <li>• Leaders are selected based on security considerations and personal relationships, rather than ability and merit.</li> <li>• Security services heavily interfere in decision-making, violating the</li> </ul>	<ul style="list-style-type: none"> <li>• No efforts made so far.</li> </ul>	<ul style="list-style-type: none"> <li>• Economic decisions should prioritize preserving future generations' rights, efficiency, social acceptance, and justice.</li> <li>• Decision-makers should be selected based on competence, experience, teamwork ability, and creativity.</li> <li>• Officials should not be punished for making a wrong decision based on objective data and information.</li> <li>• Officials should remain in their positions for a suitable period to ensure policy sustainability and minimize volatility, with performance evaluations and monitoring.</li> </ul>

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
	of radically solving the problem.	rather than facilitate, business procedures.	constitution and disregarding the role of the parliament. <ul style="list-style-type: none"> <li>• The absence of legal empowerment and a competent administrative apparatus hinders timely and confident decision-making.</li> <li>• Institutional memory is lacking in ministries.</li> </ul>		<ul style="list-style-type: none"> <li>• Implementing performance balancing programs and setting up rigorous monitoring standards under the oversight of the parliament.</li> </ul>
Budget	<ul style="list-style-type: none"> <li>• Confusion about the status of the budget and public debt situation.</li> </ul>	<ul style="list-style-type: none"> <li>• Giving an inaccurate picture of the financial situation of the state, especially the size of the deficit, due to the absence of a number of important entities.</li> </ul>	<ul style="list-style-type: none"> <li>• The budget lacks comprehensiveness and, thus, accountability.</li> <li>• The economic bodies remained a component of the state’s general budget until Law No. 11 of 1979 was issued amending Law No. 53 of 1973 regarding the state’s general budget. With its issuance, these bodies became independent from the state’s general budget and had independent budgets. There are 59 economic bodies according to the Minister of Finance.</li> <li>• The presence of several extra-budgetary entities with different</li> </ul>	<ul style="list-style-type: none"> <li>• Issuance of the Unified Finance Law No. 6 of 2022.</li> </ul>	<ul style="list-style-type: none"> <li>• Existence of a comprehensive budget for all financial transactions of the government, including all entities.</li> <li>• Adopting the “Program and Performance Budget” to be the only form of the state budget for all entities.</li> <li>• Including data related to special accounts, funds, and economic bodies in the budget’s data appendices.</li> <li>• Canceling special accounts and funds that do not perform services distinct from those of the existing administrative units and consolidating their transactions into the state’s general budget.</li> <li>• Putting in place political and technical mechanisms to reduce the possibility of</li> </ul>



**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
			<p>accounting rules, such as special funds, private accounts, and economic bodies.</p> <ul style="list-style-type: none"> <li>• The existence of many ministries that have two budgets in violation of the principles of unity and comprehensiveness of the budget.</li> <li>• Continuing to follow the traditional budget (line-item budgeting), which is unable to provide decision-makers with the necessary information on financing the various expenditure chapters.</li> </ul>		<p>unjustifiably establishing new extra budgetary special accounts and funds, which would harm the integrity of the budget system.</p>
Data and information	<ul style="list-style-type: none"> <li>• Inconsistent and fragmented data release between various entities, although there is only one entity that is responsible for releasing data (CAPMAS).</li> <li>• Data not updated or not available.</li> <li>• Private sector’s reliance on international data sources in obtaining the</li> </ul>	<ul style="list-style-type: none"> <li>• No consolidation of certain data values obtained from the same source across periodic reports, without citing the reason.</li> </ul> <p>For example, GDP data at current prices in USD for the year 2017/18 amounted to USD 251.069 million in the monthly report issued by the Ministry of Finance in December 2020, while</p>	<ul style="list-style-type: none"> <li>• Non-compliance with articles of the Egyptian Constitution that guarantee freedom of information (Article 68 of the Egyptian Constitution)</li> <li>• Dealing with most data and information as confidential and subject to national security without any distinction, due to the number of previous data hacking attempts</li> </ul>	<ul style="list-style-type: none"> <li>• Preparing drafts of the Information Circulation Law, but it hasn’t seen the light yet.</li> </ul>	<ul style="list-style-type: none"> <li>• Issuance of the same data by one entity only and supplying it to other entities, citing the only source.</li> <li>• Reclassification and tabulation of data, drawing a distinction between those related to national security and those that are publishable (which is the most general case), provided that this is done according to specific and logical criteria.</li> <li>• Observing accuracy in measuring indicators and building comprehensive,</li> </ul>

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
	<p>information needed for its activity and making own investment decisions.</p> <ul style="list-style-type: none"> <li>• Delayed issuance of reports and data due to waiting for security approvals.</li> </ul>	<p>in the latest issue dated January 2023, it amounted to USD 264.015 million.</p> <ul style="list-style-type: none"> <li>• Making repeated changes to the same data despite being issued and described as final (actual) years ago.</li> </ul> <p>For example, the percentage of total revenues to GDP in 2017/18 was 18.5 percent according to the monthly report issued by the Ministry of Finance in May 2019, while the same indicator for the same year was 17.2 percent in the report issued in January 2023.</p> <ul style="list-style-type: none"> <li>• Tourism sector data have not been released since 2019, in addition to data not being released with the same level of detail over different years.</li> </ul> <p>For example, not releasing the classifications of total executed investments (government sector, economic authorities,</p>	<ul style="list-style-type: none"> <li>• Data exist in many entities without requiring them to publish it.</li> <li>• Lack of coordination between data-issuing agencies (for example, CAPMAS, Ministry of Planning, Ministry of Finance, and CBE, all of which issue macro indicators that may differ from one source to another), leading to data inconsistency.</li> <li>• Disclosure of certain data is not permitted although it is not confidential or security related.</li> </ul>		<p>connected, and updated digital databases at all levels.</p> <ul style="list-style-type: none"> <li>• Issuance of the Information Circulation Law, provided it classifies information according to categories of confidentiality.</li> <li>• Developing a specific and clear definition of ‘national security.’</li> </ul>

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
Population file	<ul style="list-style-type: none"> <li>• Consistent failure to curb the accelerated population growth despite implementing large-scale population programs for decades.</li> </ul>	<p>public companies, central projects, and private sector) and only releasing public investments in the latest issue of the monthly report issued by the CBE in November 2022, unlike in previous issues.</p> <p>Hence, there is an inability to predict accurate scenarios for the future.</p> <ul style="list-style-type: none"> <li>• Population growth did not fall below 1.9 percent between 1960 and 2017. This means that Egypt adds at least two million citizens to its population every year (a country the size of El-Bahrain and Estonia combined).</li> </ul>	<p>Weak institutional setup: The National Population Council (NPC) is subject to the Ministry of Health, which:</p> <ul style="list-style-type: none"> <li>• Abstracts the population file into the health aspect with minimal focus on social, political, and economic aspects.</li> <li>• Makes the council’s policies and plans non-binding for other ministries involved in implementing the population strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• In February 2022, the Ministry of Planning and Economic Development (MPED) launched the Egyptian Family Development Program.</li> </ul>	<ul style="list-style-type: none"> <li>• The empowerment and independence of the NPC.</li> <li>• Moving NPC from under the Ministry of Health, as it is now, to the level of the cabinet. It should be meant to put the population strategy and KPIs for its implementation. The KPIs are measured by CAPMAS and assessed by the parliament and the President. In its work, the NPC should rely on all available expertise in the country. It does not implement programs; it only puts the strategies and relevant policies in place. Implementation is done by</li> </ul>

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
Customs Authority	<ul style="list-style-type: none"> <li>• The “documentation cycle” in Egypt is slower than the “product cycle,” which is unlike the global norm.</li> </ul>	<ul style="list-style-type: none"> <li>• Long duration and high cost.</li> <li>• High incidence of informal payments.</li> </ul>	<ul style="list-style-type: none"> <li>• There are no discernable service standards for any inspection by any agency.</li> <li>• Complete absence of a digitized risk management system.</li> </ul>	<ul style="list-style-type: none"> <li>• Incomplete implementation of the X-ray system.</li> </ul>	ministries, the private sector, and civil society.
	<ul style="list-style-type: none"> <li>• Delay in obtaining the photographic copies of the export certificate for a period of up to three months.</li> </ul>	<ul style="list-style-type: none"> <li>• Exporters miss critical deadlines related to the drawback, temporary admission, and export support funds, thus exporters lose eligibility for reimbursement.</li> </ul>	<ul style="list-style-type: none"> <li>• Weak IT infrastructure in the Customs Authority. Many steps take longer than expected because the IT system is not functioning properly.</li> <li>• Different customs procedures in different ports.</li> </ul>	<ul style="list-style-type: none"> <li>• The “NAFEZA” system is expanding horizontally to include additional organizations without real reforms.</li> </ul>	
The Egyptian Company for Mining	<ul style="list-style-type: none"> <li>• In July 2020, the Egyptian Company for Mining (ECM), a state-owned enterprise, started to provide quarry licenses and export permissions besides its regular export operations. However, in order to obtain the permission, private companies have to</li> </ul>	<ul style="list-style-type: none"> <li>• Unfair competition: ECM has access to information and resources that are not available to any other exporting enterprise in the market.</li> <li>• Distortion of incentives and subsequently lower levels of investment in the sector.</li> </ul>	<ul style="list-style-type: none"> <li>• ECM serves as both a regulator and an exporter, indicating a clear conflict of interest.</li> </ul>	<ul style="list-style-type: none"> <li>• Efforts toward reform went backward, leading to more institutional failure.</li> <li>• Introducing the role of ECM complicated the export process and added unnecessary layers of bureaucracy with additional procedures, fees, and paperwork.</li> </ul>	<ul style="list-style-type: none"> <li>• Canceling the role of ECM as a regulator and limiting this role to The Egyptian Mineral Resource Authority (EMRA), which has been actively working as the regulator of the sector since established in 1984.</li> <li>• Returning to the old applied system, where a letter is issued from the governorate in which the quarry is located, indicating the quarry production</li> </ul>

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
	be financially cleared by ECM, meaning that all their financial and marketing information is revealed to a direct competitor.				capacity in a year or six months. This letter is submitted to EMRA and the export permission is issued accordingly (this letter is issued once or twice a year).
Entrepreneurial ecosystem	<ul style="list-style-type: none"> <li>• Very limited number of entrepreneurial projects, despite the existence of many government entrepreneurship programs and initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>• The effectiveness of these programs has decreased, and most entrepreneurs are not aware of them.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no single umbrella for governmental bodies entrusted with the development of the entrepreneurial society in Egypt.</li> <li>• Launching of programs and initiatives by entities that are not related to any form of entrepreneurship and without coordination with other programs provided in the same area.</li> <li>• There is no specific definition of entrepreneurship, and the concept of SMEs is confused with that of entrepreneurship.</li> <li>• The ecosystem of entrepreneurship is discouraging, such as the conditions of exit from the market</li> </ul>	<ul style="list-style-type: none"> <li>• Most ministries and universities have units of entrepreneurship such as the Ministry of Planning, TIEC in MCIT, Ain Shams University.</li> <li>• There is an entity that deals with entrepreneurship under the umbrella of SMEs: the Medium, Small, and Micro Enterprises Development Agency (MSMEDA).</li> <li>• The issuance of Law No. 152 of 2020 for the development of medium, small, and micro enterprises, and its inclusion of incentives for entrepreneurs.</li> </ul> <p>It is worth noting that these incentives were not limited only to the projects referred to above, but the law took into account that they extend to business incubators and accelerators,</p>	<ul style="list-style-type: none"> <li>• Establishment of a high council affiliated with the Prime Minister to be responsible for all the related policies, measures, and follow-up of the launched initiatives.</li> </ul>

**Table 6. Major observed problems in the present operating system that have institutional roots**

Topic	Problem	Negative impact	Institutional root of the problem	Current governmental efforts to fix the problem	Correct solution
			according to the “Law Regulating Restructuring, Preventive Composition, and Bankruptcy” (Law No. 11 of 2018).	<p>which provide services to newly established projects and entrepreneurs.</p> <ul style="list-style-type: none"> <li>• Decisions of the CBE’s Board of Directors to oblige banks to increase the percentage of financing small and medium enterprises to 25 percent of their total portfolios, provided that at least 10 percent of the portfolio is for small enterprises.</li> <li>• The “One Million Entrepreneurs” campaign launched by the Ministry of Planning.</li> <li>• The launch of an international initiative for training 10,000 Egyptian and African young people in entrepreneurship and establishing 100 specialized companies in Egypt and Africa as part of the recommendations of the World Youth Forum (Presidency initiative).</li> </ul>	

Source: Prepared by ECES.

## 5. The suggested approach to reform

The suggested approach to reform and the way out of the present crisis situation is to prepare and implement an **Immediate Emergency Plan** with its primary objectives being to regain trust in the Egyptian economy and significantly improve the policy decision-making process. The proposed emergency plan consists of three components to start with all at once: (1) full compliance with the IMF program; (2) the implementation of a comprehensive institutional reform plan; and (3) working on the pre-conditions for success – all at the same time. The idea behind the three-component plan is to initiate serious institutional reform along with the handling of the immediate crisis situation so that Egypt gets on the road to sustainable (and not just temporary) recovery, once and for all.

The implementation of the IMF program – the main component of which is the adoption of a flexible exchange – has to accompany protective measures by the Egyptian government for the poor. Given the debt and budget deficit situation, this, in its turn, means a serious change in government expenditure in favor of different types of safety nets for the poor, along with a serious revision of priorities and a full hold of the ongoing megaprojects. Such a change will also activate the productive sectors of the economy and increase production, exports, and employment.

The asset sale program, which is another cornerstone of the IMF program, needs to go beyond the privatization of the 32 public companies. Selling these companies alone does not automatically imply the empowerment of the private sector and the receding role of the state from the economic arena. The asset sale program needs to be within a broader framework of steps toward the revision of the public-private balance of roles. The state ownership doctrine, which was out in December 2022, is a first step in that direction, but alone and without implementation steps, it is of little use. Specific steps in that direction are explained below.

The two specific steps are: (1) expanding the framework of the asset sale program to a privatization and leading role for the private sector; and (2) the shift of government expenditure priorities toward protecting the people from the negative impact of further devaluation. These steps give an institutional reform dimension to the IMF program itself. This means higher chances of its success without the recurrence of problems.

The implementation of an IMF program **alone** – without the above two steps but, more importantly, without the other two components of the emergency plan – even if successful in getting Egypt out of the present crisis, will be no different than previous attempts (another aspirin) and **will not** take Egypt out of the repeated vicious circle of debt, inefficiency, poverty, and more emergencies to come in the future.

Another important point to mention before explaining the details of the three components of the emergency plan is that the implementation of the third component (i.e., working on the pre-

conditions for the success of the two programs) needs to start along with the other two programs, and not necessarily precede them, in order to capitalize on successful efforts in every step in each program to lay a stronger foundation for a successful implementation of the whole program.

The following section provides a detailed description of the proposed comprehensive institutional reform plan followed by the pre-conditions for the success of the whole emergency plan.

### ***5.1. The proposed comprehensive institutional reform plan***

The plan includes four stages, with each stage having a specific objective as illustrated in Table 7 below. The sequence of the stages matters and contributes to the success of the whole plan as each stage lays the foundation for the next. The suggested timeframe for the implementation ranges between the immediate, short, and medium terms, with the medium-term timeframe the longest for completion of changes, being no more than two to three years. Given the depth and seriousness of the present situation, Egypt cannot afford to delay reform any longer.

**Table 7. The four-stage approach toward the implementation of the institutional reform program**

<b>Stages</b>	<b>Objective and brief description</b>
<b>Stage Zero</b>	Laying the foundation for improved policymaking capabilities (data and criteria for choice of decision-makers).
<b>Stage One</b>	Facilitating all procedures associated with ease of doing business (investment and trade).
<b>Stage Two</b>	Restructuring a number of key entities regulating activities at the sectoral level (IDA, EOS, ICA, and GOEIC).
<b>Stage Three</b>	The hardest stage, yet it is the core of the problem: restructuring the cabinet, involving all stakeholders in the decision-making process, achieving checks and balances, and separating between planning, execution, and assessment

Source: Prepared by ECES.

### ***5.2. More details about each stage and the involved steps***

- **Stage Zero: Laying the foundation for improved policymaking capabilities (data and criteria for choice of decision-makers)**

Without information and statistics, policymaking is haphazard and subject to higher error than acceptable levels. At this point, as far as personal information is concerned, there are scattered pieces of such databases in different ministries, namely the Ministry of Social Solidarity, the Ministry of Interior, and the Ministry of Supply. The complete profiles of individuals do not exist since tax file, asset ownership, education, and skill level are not there. A similar situation exists in the case of land and other resources and infrastructure. Updated information on



different kinds of investments is supposedly available at the General Authority for Investment and Free Zones (GAFI) but is not readily available in complete profiles to be useful for policymaking, and the search for information is a problem for all.

- **Stage One: Facilitating all procedures associated with ease of doing business (investment and trade)**

These range from construction permits, getting electricity, and registering property, to enforcing contracts and resolving insolvency. Steps have been taken by the government to improve matters, but the process has been slow and too piecemeal for investors to appreciate.<sup>12</sup>

- **Stage Two: Restructuring a number of key entities regulating activities at the sectoral level (IDA, EOS, ICA, and GOEIC)**

All manufacturing industries are achieving way less than their potential in investment, production, exports, and employment because of impediments emerging from these entities. The smaller the enterprise, the higher the transaction costs involved in trying to overcome the heavy red tape, old processes, major bureaucracy, weak human capital, unnecessary complexity of procedures, and numerous laws and ministerial decrees.

All sectors suffer from similar problems emerging from counterpart entities. If we add the Egyptian Tax and Customs Authorities to the institutional reform agenda at this stage, that would support businesses in all sectors.

- **Stage Three: Restructuring the cabinet, involving all stakeholders in the decision-making process, achieving checks and balances, and separating between planning, execution, and assessment**

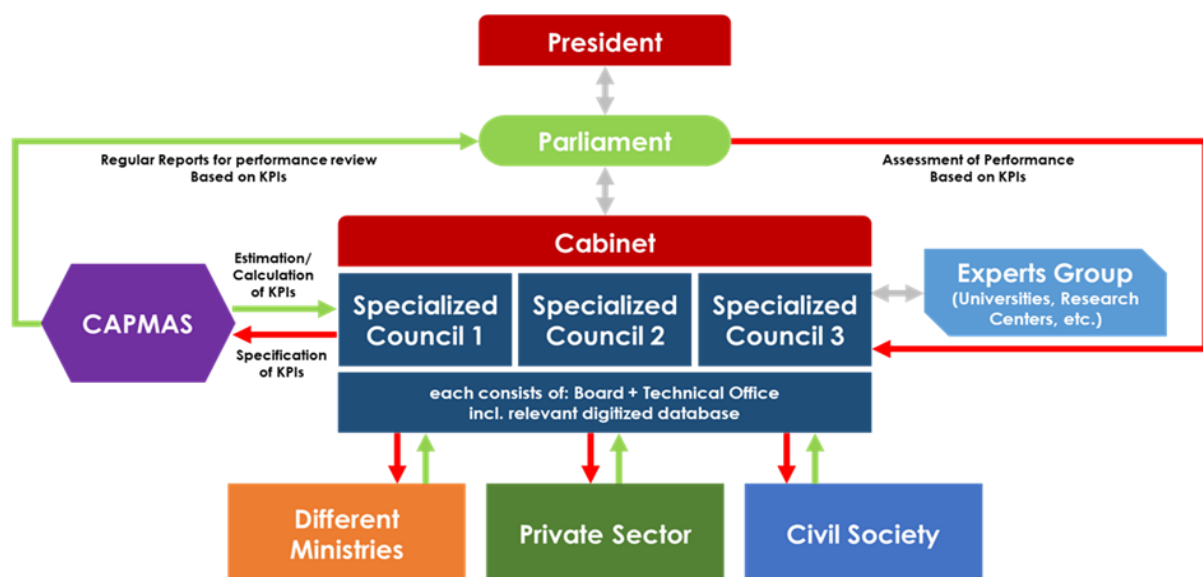
Figure 22 illustrates the process. Each of the suggested specialized individual councils (health, education, industry...etc.) is meant to put the sector's strategy and KPIs for its implementation. The KPIs are measured by CAPMAS and assessed by the Parliament and the President. In its work, the council is relying on all available expertise in the country. It does not implement programs; it only puts the strategies and relevant policies in place. Implementation is done by ministries, the private sector, and civil society. The application of such a system in the case of population control would move the NPC from under the Ministry of Health, as it is now, to the level of the cabinet

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<sup>12</sup> Egypt ranked 114 out of 190 in the Doing Business Indicator 2020, with an improvement of six positions in comparison to the previous year due to new laws improving the process of starting a business. It is still, however, a very low rank in comparison to other countries in the region which are making huge jumps in this area such as the United Arab Emirates and Saudi Arabia. This immediately translates into receding Egypt's competitive positioning in comparison to these countries.

with the implementation of population control programs done by the Ministry of Health (among others) with designated roles played by the private sector and the civil society.<sup>13</sup>

**Figure 22. Institutional structure that achieves good governance (separation of planning from execution and assessment)**



Source: Prepared by ECES.

### 5.3 Preconditions for success

Six pre-conditions for success are presented below along, with the extent to which Egypt has taken actual steps in each:

- Create grounds for the political desirability of the state stepping back and the private sector stepping forward for the benefit of all. In the case of Egypt, the President and Prime Minister’s interest in and commitment to institutional reform exist, but the cascading of this commitment is lower from the Prime Minister’s level downwards and disappears as the bureaucracy level is reached.
- Push for implementation steps of the “State Ownership Doctrine” by forming an unbiased committee involving private sector and civil society representation.
- Enforce decentralization as stated in the constitution (2014) as well as the revised version (2019).
- Capitalize on the silver lining of the crisis, which is the obligatory implementation of the IMF program and the serious competition by neighboring countries such as Saudi Arabia, to push for the badly needed institutional reform.

<sup>13</sup> A detailed analysis is presented in ECES (2019).

- Prepare KPIs for the implementation process itself in order to respect a timeline for reform and clearly spell out what is not acceptable, in addition to implementing a corrective mechanism in a timely manner in case of occurrence. Such an exercise needs to be done for every KPI. This step hasn't taken place yet in Egypt. More generally, the overall plan for institutional reform beyond small steps in many directions is not clear.
- Empower the authority in charge of championing the change and not ask existing beneficiaries to implement reforms that will reduce their authority.

For example, it is not logical that a minister enjoying a certain level of power in their ministry is asked to take this power from themselves and pass it on to others. This needs to be done at a higher level. To that effect, one of the latest changes in the cabinet (2019) was a very positive step in that direction. Specifically, it was the moving of the administrative reform function up from the ministerial level (under the Ministry of Planning) to the Prime Minister's level.

## **6. The optimistic “if” scenario**

The implementation of the suggested emergency plan will lead to the realization of the IMF outlook of the Egyptian economy **if** the program is fully implemented.

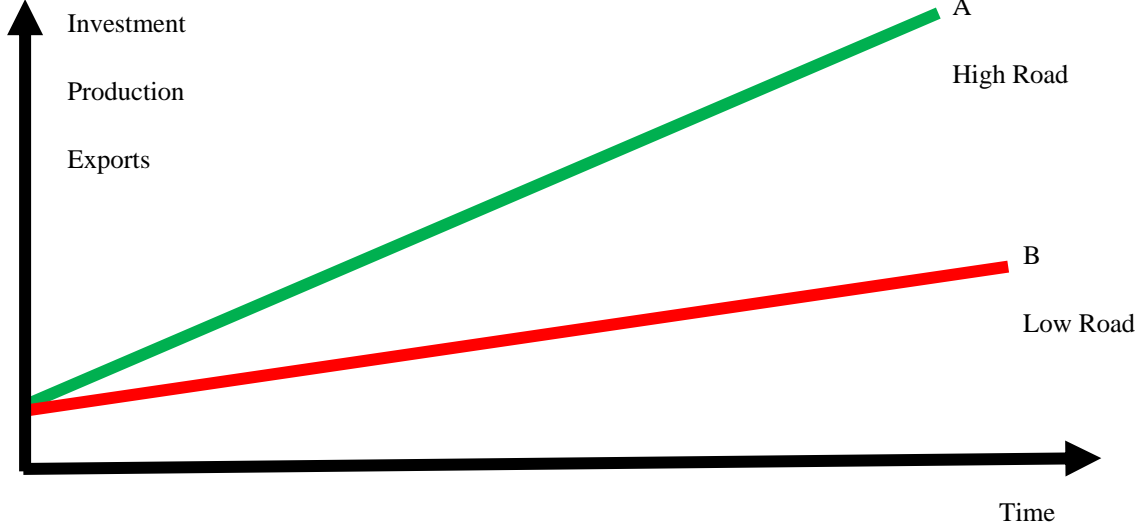
The biggest achievement would be the regaining of trust in the Egyptian economy by the people, local investors, and foreign investors. Such trust will not be regained right away; it is likely to take some time as the regaining of trust is a lot more difficult than the loss of trust, especially in light of repeated unfulfilled promises and being caught in the vicious circle of poor performance for decades. Persistence on the fulfillment of the suggested plan, even if no immediate positive impact is observed, is a must. It is from that angle that this section is titled ‘the optimistic “if” scenario,’ because all positive outcomes are conditional upon the adoption of the correct policies and institutional changes suggested in the previous section.

Significant investment opportunities are awaiting Egypt **if** the correct policies are adopted. Migrating investments from Europe in all manufacturing industries, full value chains are looking for alternative destinations. All countries are competing to attract these investments, such as Türkiye, Morocco, and all of Africa. Egypt is the top candidate because of all its known advantages in terms of location, energy price, cheap labor, and international agreements...etc. However, all such investments are adopting a ‘wait and see’ policy to see how Egypt is planning to move. This window of opportunity is very narrow as competition between countries is fierce, especially in light of the slow growth in the entire world. This is another reason why “if” is used in the title of this section.

Finally getting out of the vicious circle of poor performance once and for all and improving the decision-making process in managing the whole economy will allow Egypt to advance on the high

road for development instead of the low road, i.e., reaching Egypt’s full potential at all levels because of the full adoption of the needed institutional reforms as seen in Figure 23 below.

**Figure 23. High road vs. low road for development**



Source: Prepared by ECES.

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#### مراجع باللغة العربية

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