

# ERF Policy Brief

## On the Practice of Sustainable Growth in Egypt

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### About the authors

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### In a nutshell

- *The Transition: As Egypt concludes a decade of IMF programs in 2026, it must shift from short-term stabilization to a long-term, structural growth model.*
- *The Triple Crisis: The economy faces three chronic bottlenecks: a public revenue crisis, a stagnant export sector, and a significantly low national savings rate compared to global peers.*
- *Macroeconomic Stability: High external debt has fueled inflation; future growth depends on decoupling development from debt through inflation-targeting and fiscal discipline.*
- *Structural Reform: Sustainable growth requires a “level playing field” for the private sector, moving away from state-led, non-tradable sectors toward high-productivity, export-oriented industries.*
- *Policy Recommendations: Priorities must include mobilizing domestic savings, enhancing export competitiveness, and investing in green economy resilience to ensure a stable post-2026 era.*

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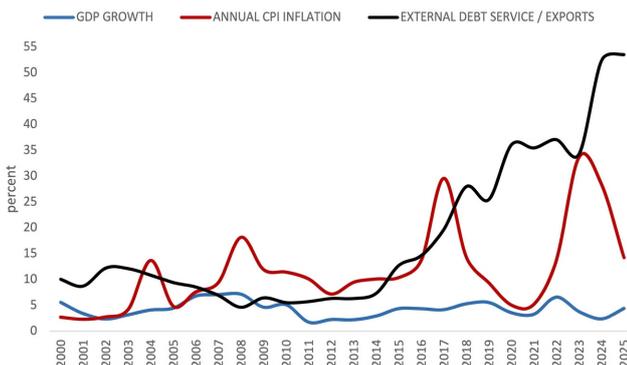
The conclusion of a ten-year long period of four programs between Egypt and the International Monetary Fund (IMF) will occur in 2026. These programs included: the 2016-2019 Extended Fund Facility (EFF), the 2020 Stand-By Arrangement (SBA), the 2020 Rapid Financing Instrument (RFI), and the 2022 Extended Fund Facility (EFF). At this juncture, Egypt must adopt a critically improved growth model that goes beyond typical IMF-led reforms. A more sustainable and ambitious growth model supported by a sound macroeconomic stability program will rely on fostering private sector productivity, upholding a level playing field, improving export competitiveness, and mobilizing development through localization. This growth model should rely on an adequate enhancement of domestic savings to sustain the needed financing for development, private-public partnerships, and effective debt management.

In recent years, Egypt has faced several episodes of devaluation of its local currency and mounting debt burden, straining its public finances and eroding living standards. Overcoming current challenges and setting the country on a path of high and sustained growth requires the recognition that Egypt’s current economic situation is not merely a symptom of an exchange rate and debt crises. Instead, the situation reflects deeper structural issues related to the current growth model, specifically the drivers of economic growth and how they are financed.

Critically, for a new growth model to succeed, Egypt must pursue a more ambitious macroeconomic stability program centered on inflation-targeting, improved debt management, and fiscal discipline.

Addressing high inflation is particularly challenging against the backdrop of the economy’s reliance on external debt (Figure 1). Effectively containing inflation therefore necessitates the full coordination between

**Figure 1. Reliance on heavy external indebtedness has led to significant inflationary pressures and compromised growth performance**



Source: Central Bank of Egypt

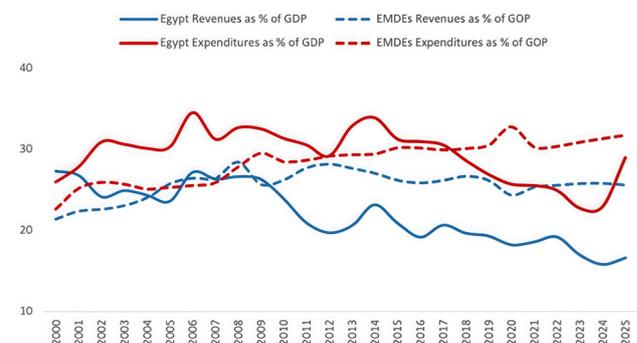
monetary and fiscal policies within an inflation-targeting framework, aligned with the principles of a flexible exchange rate (Bernanke & Mishkin 1997; de Mello 2008). Beyond policy design, ensuring efficient execution is crucial. Furthermore, these policies must be adequately communicated, well before the end of the current IMF program, to the Egyptian people, investors, and various stakeholders to assure them that fiscal discipline is not compromised after the conclusion of the various IMF programs. The prevailing assessment of Egypt’s economy since 2016 has suffered from myopia as manifested in the continuation of three major crises: *a public revenue crisis, an export crisis, and a savings crisis* (Mohieldin et al. 2024).

Egypt’s budget deficit is caused by low domestic revenue mobilization, especially given that its public spending on goods and services as a share of GDP remains modest compared to peer economies (Figure 2). This requires serious efforts to widen the country’s revenue base.

Egypt’s export crisis is the primary driver of its trade deficit. The amount of imports (largely composed of essential and intermediary goods) remains on par with peer economies, but exports are not. Export-oriented economies, such as South Korea and Vietnam, often require high imports of raw materials and components as inputs for their exporting industries (Figure 3). However, Egypt is in desperate need of structural reforms, particularly focused on *productivity*, in order to *boost competitiveness* of Egyptian products and therefore exports on the global market.

Egypt suffers from a significantly low national savings rate (including household savings, private sector savings, and government savings), which restricts the availability of capital for investment and increases the

**Figure 2. Spending challenges and a revenue**

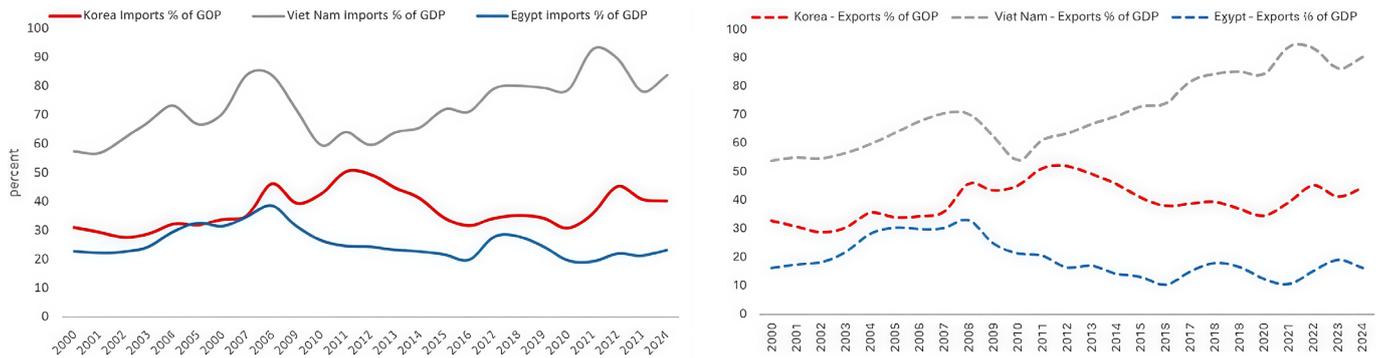


Source: IMF, *The Political Economy of Crisis Management and Reform in Egypt (2024)*

Note: Emerging Market and Developing Economies (EMDEs) definition as per the IMF. Revenues and Expenditures are those of the general government as per the IMF.



Figure 3. Import challenges and an export crisis



Source: World Bank: *The Political Economy of Crisis Management and Reform in Egypt (2024)*

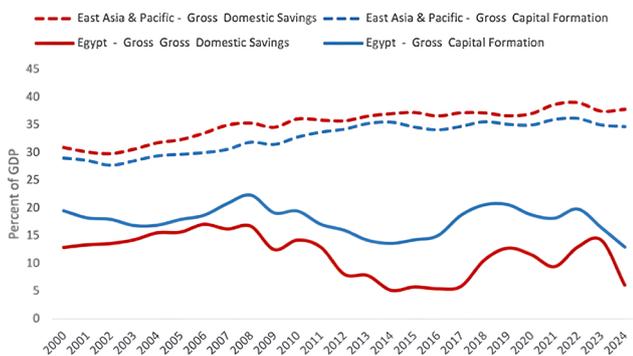
reliance on external debt. East Asian countries sustained high growth rates through saving a sizable proportion of their GDP (Figure 4). *Boosting Egypt's domestic savings* necessitates policies targeting household and corporate savings behavior, social security systems, and financial inclusion and development.

Egypt's improved growth model should therefore prioritize addressing the chronic challenges of public revenues, exports, and savings to achieve sustained economic growth. Egypt's growth model has so far been dependent on state-led economic activities, which prioritized non-tradable sectors. There has been a reliance on state-led projects, including megaprojects in real estate, with very limited receivables in foreign currencies while demanding significant import components of materials and capital goods. Securing these import components, some of which through extra-budgetary financing mechanisms, have resulted in direct pressure on the foreign exchange market, and significantly raising Egypt's external and domestic debt.

Considering the scale of investments needed to sustain growth while recognizing the government's fiscal constraints, financing economic growth should primarily rely on the private sector and on public-private partnerships. State interventions should only occur where necessary for providing public services (e.g.: health and education) and productivity-enhancing infrastructure investments, with careful consideration of the public sector's comparative advantages.

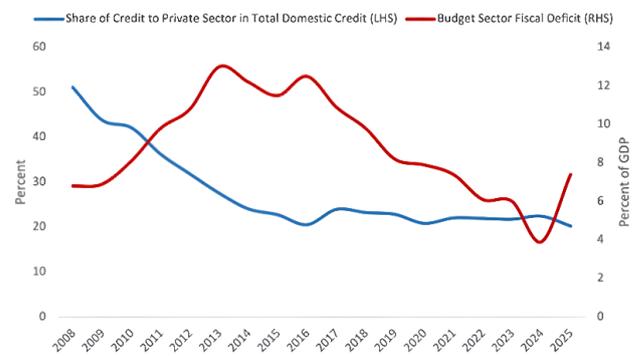
Crucially, it is necessary to implement the rule that no transactions are conducted outside the budget. When the state intervenes, it must adhere to the principle of a level playing field to avoid crowding out the private sector – as reflected by the significant fall in the private sector's share in domestic credit over time (Figure 5). In essence, all commercial business activities, including those by state-owned entities, must equally comply with the prevailing economic laws. This includes the payment of taxes, customs, access to credit, labor laws, and competition policies. This approach promotes a more competitive and transparent economic environment that is conducive to fostering investment.

Figure 4. Deteriorating investment performance and a savings crisis



Source: World Bank: *The Political Economy of Crisis Management and Reform in Egypt (2024)*

Figure 5. Large public expenditure has crowded out the private sector



Source: Central Bank of Egypt



To effectively address its debt challenges, the country must minimize reliance on a transactional approach focused primarily on real estate development. Instead, it should dedicate resources toward productivity-enhancing investments, prioritize institutional reforms, and adopt well-defined policies for sustainable growth. A few proposals to consider:

- As an initial measure, *the establishment of a national debt commission*<sup>1</sup> would consolidate various efforts under one umbrella. With full disclosure to the parliament and the concerned public, the commission would operate with a mandate of full authority over the country's domestic and external debt management and report directly to political leadership. The commission should set guidelines for responsible domestic and external borrowing, benefit from best practices that apply international standards, monitor the diversion of national resources from fundamental public services to debt servicing, and review the feasibility of state-backed projects.
- As a second critical measure, *the establishment of a Sustainable Development Board* to foster sustainable growth and investment focused on distinct, local needs. These localized investments need to focus on three key areas: (1) human capital including health and quality education, (2) digital and physical infrastructure, and (3) resilient investments in the green economy and adaptation to climate shocks.<sup>2</sup> Equally important is improving the availability of reliable, timely data to inform economic decision-making; enhancing the capacity and training of civil servants; and raising accountability and transparency in decision making at all levels.

This new growth model that addresses the three major crises outlined above through adopting effective economic policy management, advancing institutional reforms, and capitalizing upon Egypt's competitive advantages, in particular its diversified economy and strong demographics, is the needed lifeline for the aspired sustainable growth in Egypt.

<sup>1</sup>This institutional reform could benefit from the example of the [Swedish International Debt Office](#)

<sup>2</sup> See examples of investments for resilience and adaptation under the [Sharm El-Sheikh Adaptation Agenda](#) which includes opportunities in food and agriculture, health, human settlement, coastal and ocean, water and natural and infrastructure systems.

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