



Egypt in Transition Towards Prosperity for All



Ministry of Finance
March 2014

Outline

Introduction

I. Economic Challenges, June 2013

- Macro-Economic Imbalances
- Sluggish Economic Growth
- Poverty and Inequality

II. Meeting Challenges

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- Fiscal Consolidation
- Structural and Institutional Reforms
- Social Programs

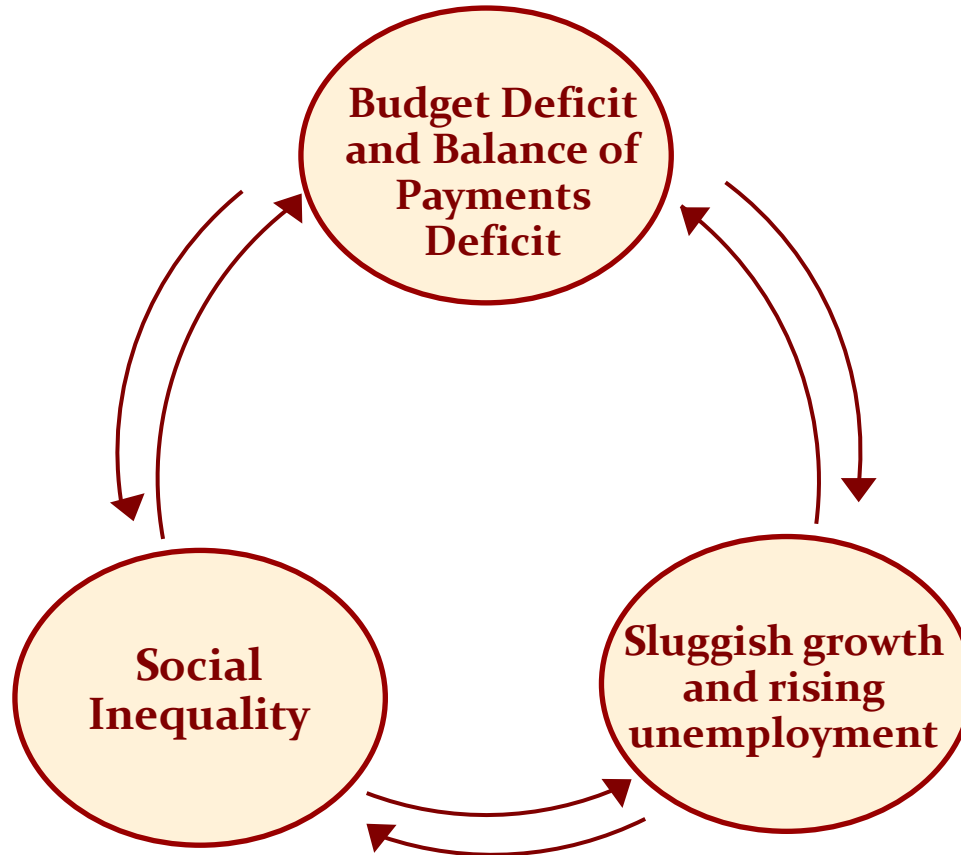
III. Economic Outlook (Baseline and Reform Scenarios)

- Fiscal Sustainability
- Economic Growth and Employment

Conclusion

Economic Challenges at end of June

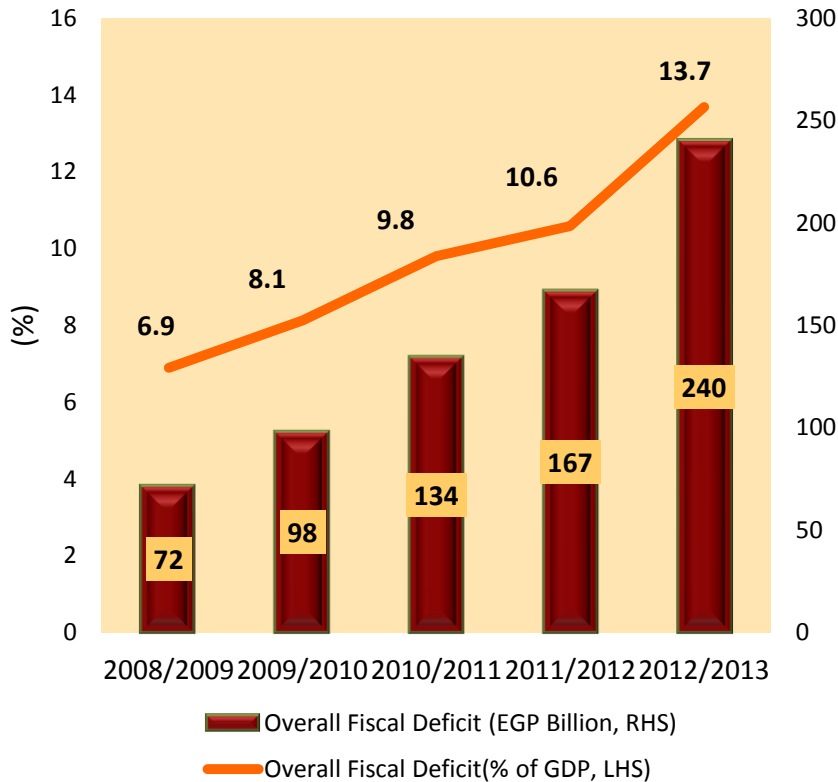
The economic crisis on June 30, 2013:



I. Economic Challenges, June 2013

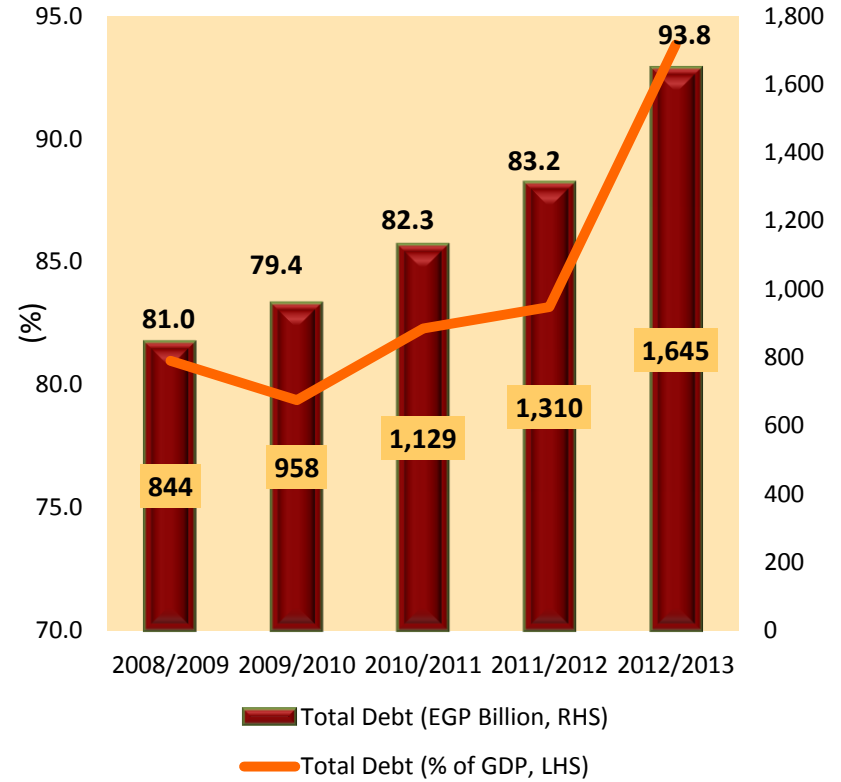
Macro-Economic Imbalances:

High and growing budget deficit



Source: Ministry of Finance (MoF)

An ever-growing public debt



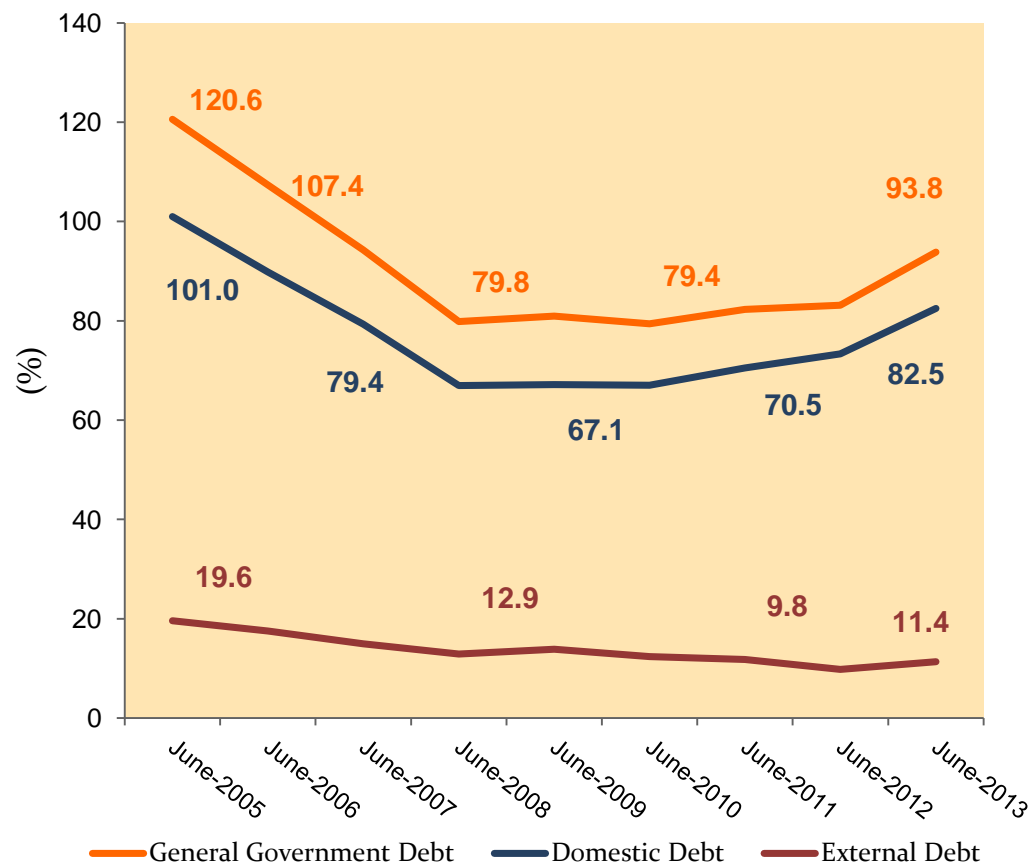
Source: MoF

II. Meeting the Challenges

Macro-Economic Imbalances:

- General Government (GG) Debt has recorded LE 1.6 trillion in June 2013 (94 percent of GDP)
- External Debt amounted to LE 0.2 trillion out of GG Debt (11.4 percent of GDP), which considered relatively low if compared to other developing countries (external debt amounts to 25.5 percent of GDP on average in MENA countries according to IMF)
- The aggravation of domestic debt constitutes one of the major current imbalances, recording LE 1.4 trillion (82.5 percent of GDP)

Debt as percent of GDP

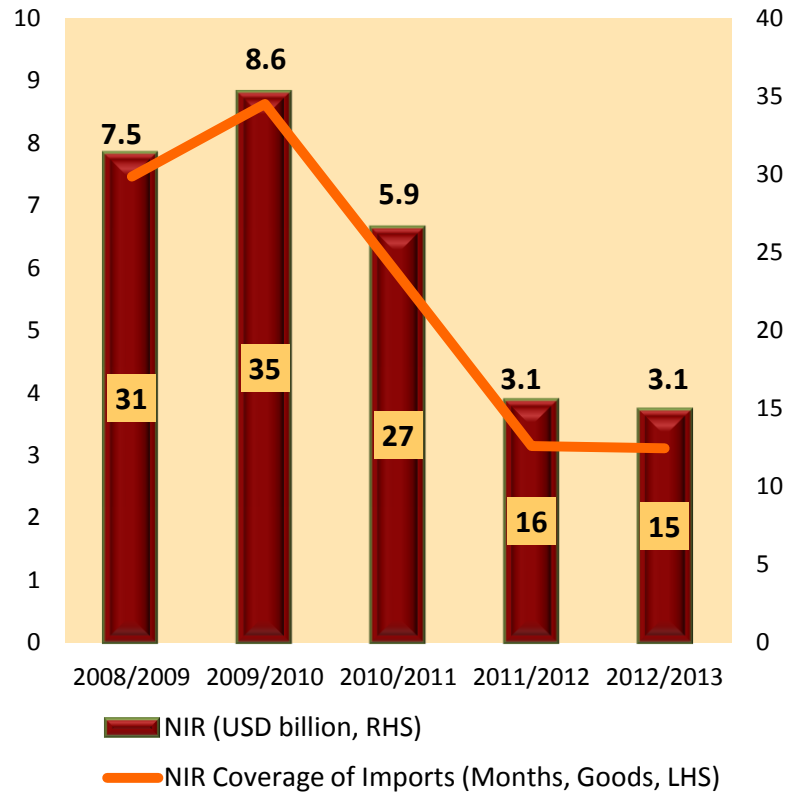


Source: Ministry of Finance (MoF)

I. Economic Challenges, June 2013

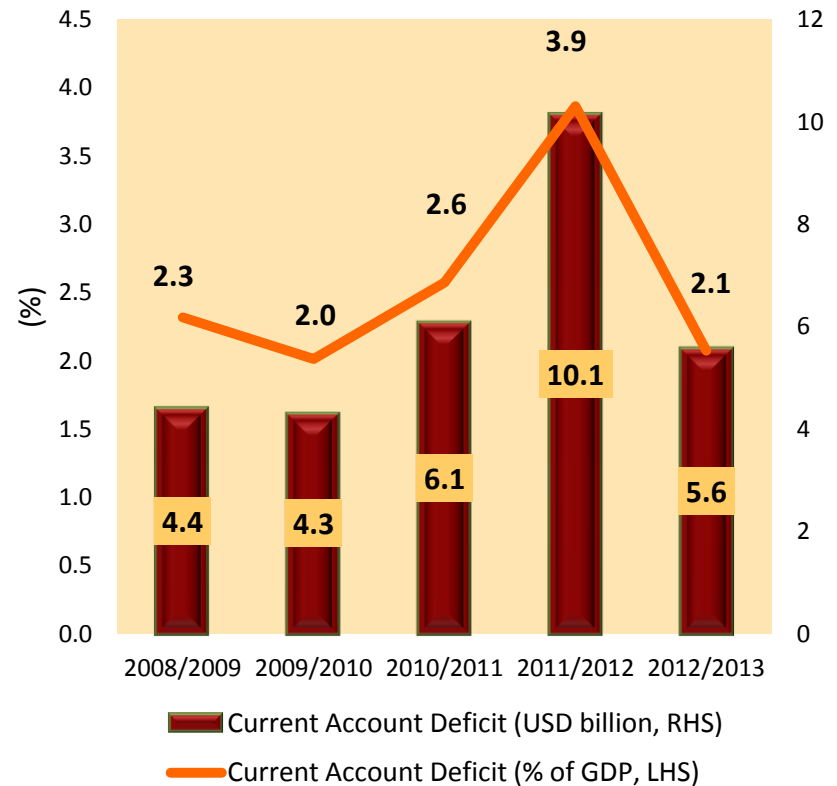
Macro-Economic Imbalances:

Dwindling international reserves



Source: Central Bank of Egypt (CBE)

Persistent current account deficit

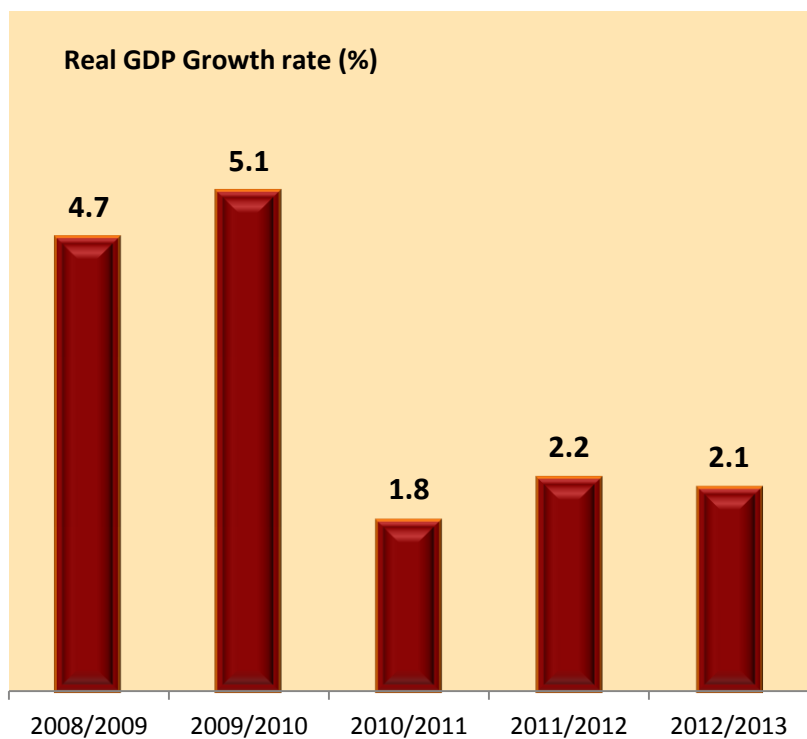


Source: CBE

I. Economic Challenges, June 2013

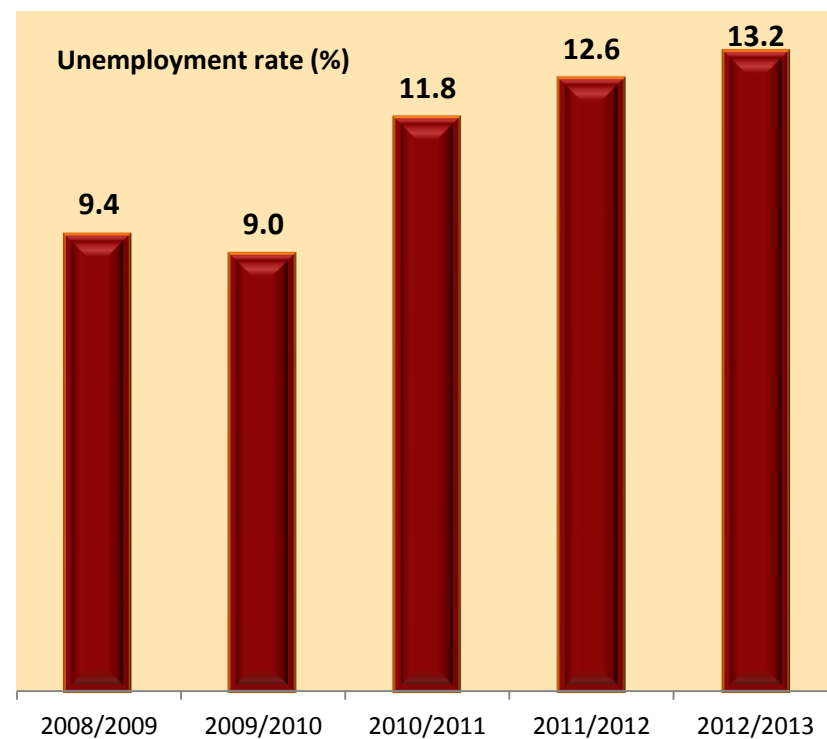
Sluggish Economic Activity:

Significant decline in economic growth



Source: Ministry of Planning (MoP)

Notable jump in unemployment

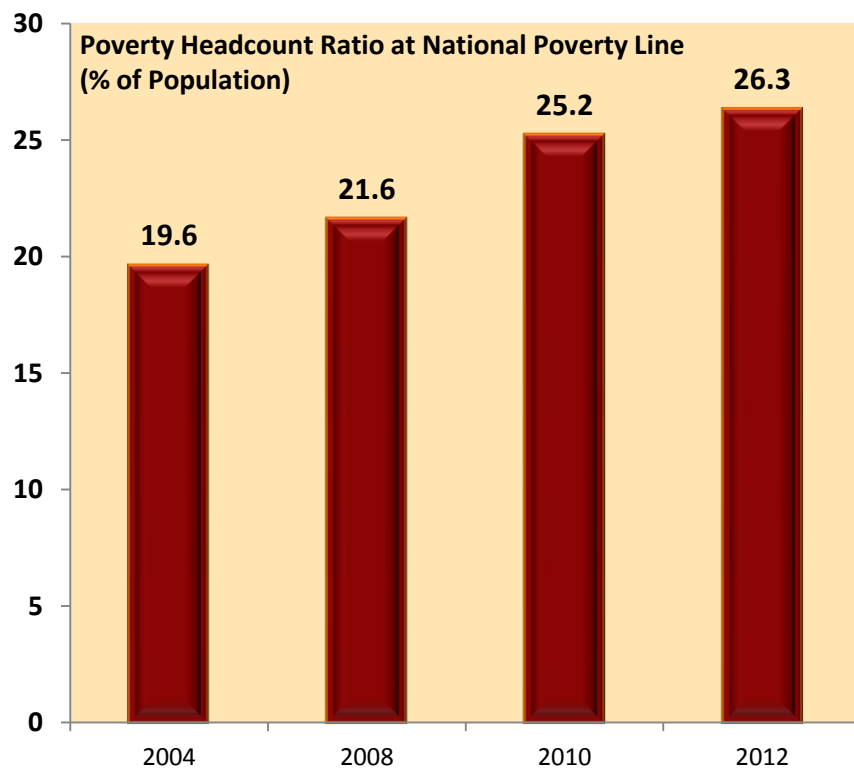


Source: Central Agency for Public Mobilization and Statistics (CAPMAS)

I. Economic Challenges, June 2013

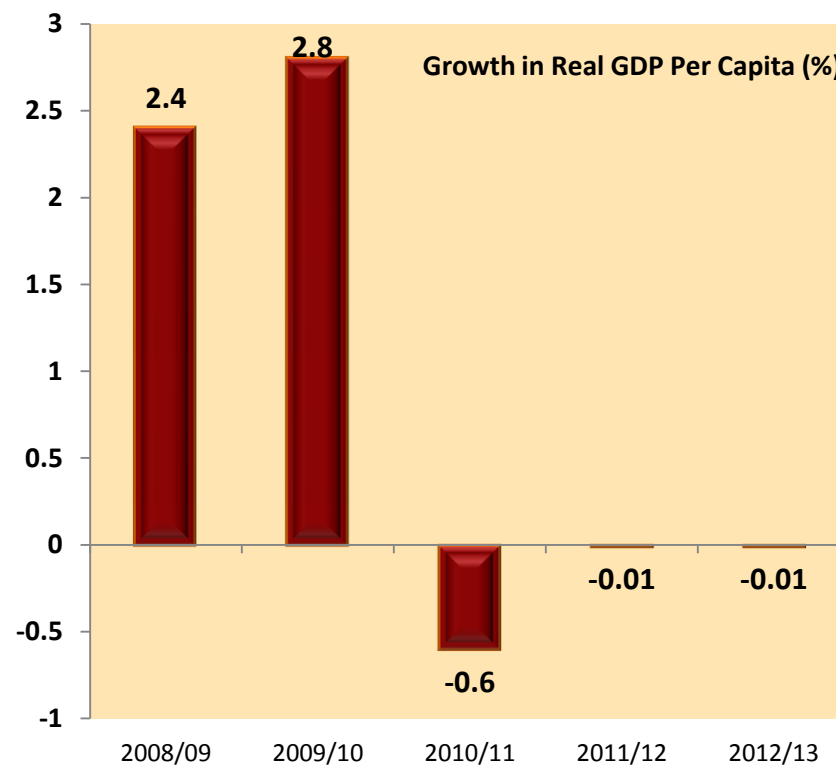
Poverty and Inequality:

Continuous rise in poverty rates



Source: CAPMAS

Erosion in real incomes



Source: MoP




II. Meeting the Challenges

The interim government's reform agenda was guided by:

- Unwavering commitment to implementing the political roadmap as a prerequisite to economic progress
- Addressing immediate challenges while paving the way for greater prosperity in the future
- Balancing fiscal discipline with economic growth and more egalitarian distribution of income

II. Meeting the Challenges

Political Roadmap:

Milestone	Due date	Action
• First draft of the constitution prepared by 10-person expert committee	August 2013	
• Draft constitution prepared by 50-person expert committee representing all segments of society	December 2013	
• Referendum on the constitution	January 2014	
• Presidential Election	March- April 2014	Still to come
• Parliamentary Election	June- July 2014	Still to come

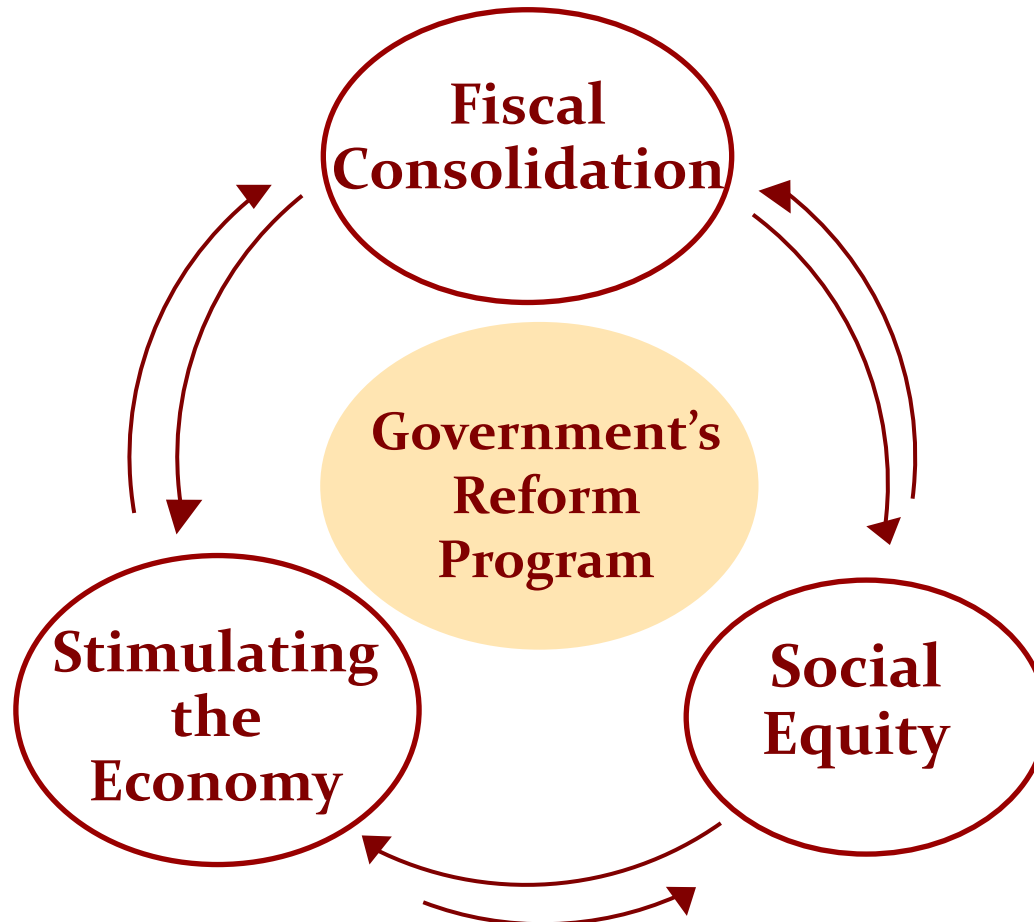
II. Meeting the Challenges

Main Features of the Economic Reform Package:

- Expansionary fiscal policy to activate the economy
- Fiscal consolidation to achieve macroeconomic stability
- Structural and institutional reforms to enhance economic growth over time
- Initiatives to reduce poverty and achieve social equity

II. Meeting the Challenges

Main Features of Reform Package:



II. Meeting the Challenges

Activating the Economy:

- A first stimulus package of LE 29.7 billion (US\$ 4.3 billion), focusing on public investments in infrastructure, to improve public services and encourage private sector investments
- A second stimulus package to meet government social commitments, effective January 2014, with total size of unprecedented 3 percent of GDP
- Payment of arrears to petroleum and construction companies and supporting closed factories (approximately US\$ 1.5 billion)
- Expansionary monetary policy leading to the reduction of interest rates three consecutive times by a cumulative 1.5 percentage points

II. Meeting the Challenges

Fiscal Consolidation:

1) Benefiting from grants and exceptional financing

Utilizing from a government deposit at the CBE (US\$ 8.8 billion), in addition to support from the GCC (US\$ 14.8 billion), the government:

- Reduced gross public debt by some US\$ 4.4 billion (equivalent to half the amount of the deposit), which lowered the borrowing cost
- Decreased the budget deficit due to cash grants (taking into consideration the coming grants from Saudi Arabia and Kuwait)
- Financed the stimulus packages into the economy

2) Structural and financial reforms

II. Meeting the Challenges

Fiscal Consolidation:

On the Revenue side

- Shifting from GST to VAT
- Implementing a new property tax
- Introducing a new mining law
- Settling outstanding tax arrears
- Widening the tax base through formalization
- Resolving cross debt between public entities
- Revising the income tax law

On the Expenditure side

- Rationalizing energy subsidies
 - Applying smart card system to prevent leakages
 - Implementing gradual price reform over the medium-term
- Improving the efficiency of public investment and public debt
- Introducing a new cash management system
- Completing General Financial Management Information System
- Strengthening internal auditing
- Review for the Public Procurement Law

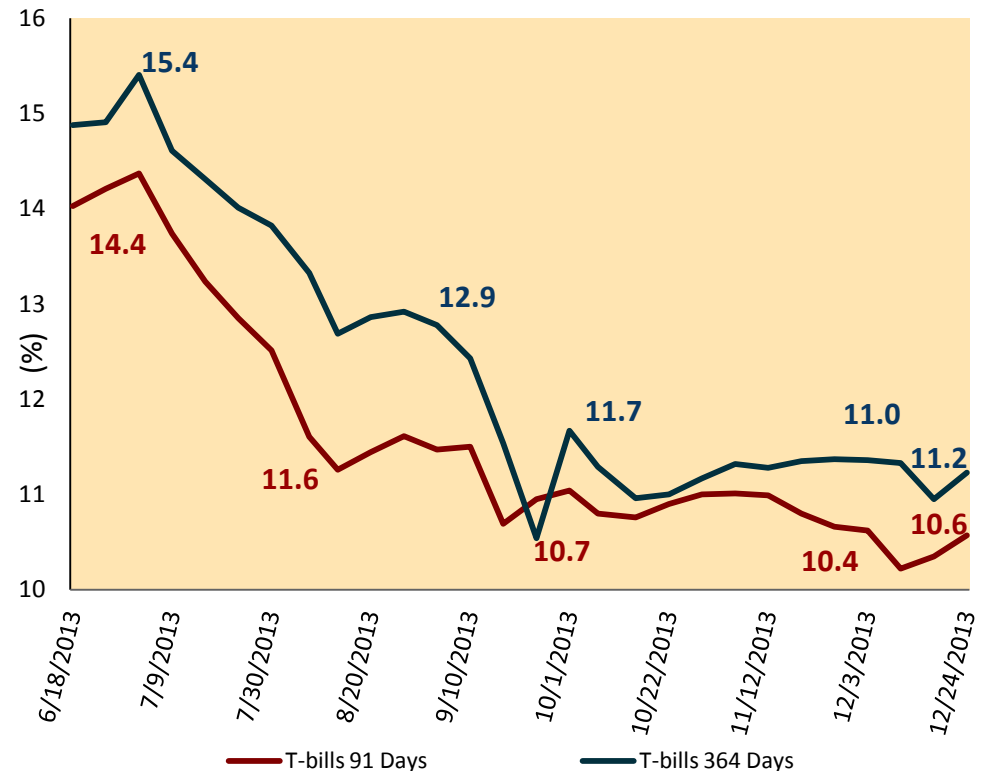
II. Meeting the Challenges

Fiscal Consolidation:

Decreasing GG Debt as percent of GDP through:

- Decreasing overall budget deficit
- Decreasing GG Debt Service, as interest rates on T-bills declined by 4 percentage points since June 2012. (Saving LE 29 billion from interest payments during the current and next fiscal year)
- Stimulating GDP growth rates to improve GG Debt indicators

T-bills Interest Rates



Source: Ministry of Finance (MoF)

II. Meeting the Challenges

Structural and Institutional Reforms: Investment Environment

- A Unified Law for Companies and for Investment
- Creating a ministerial committee to resolve outstanding disputes with investors
- A unified law to facilitate licenses and permits for economic and commercial activities to encourage Small and Medium Enterprises (SMEs) integrate in the formal economy
- Review of laws regulating non-bank financing and Micro-finance
- Improving the efficiency of special economic courts
- Enacting conflict of interests law for public employees
- Adopting Information Disclosure Act to achieve transparency

II. Meeting the Challenges

Structural and Institutional Reforms: Labor Market

- Addressing wage policy distortions on the basis of a study being conducted by the National Council for Wages and the ILO
- Setting minimum and maximum wages for civil servants
- Amending syndicates law to allow for fair negotiations
- Reforming the pension system to ensure its sustainability
- Integrating the informal sector to protect and provide more descent employment to almost 47% of total labor force

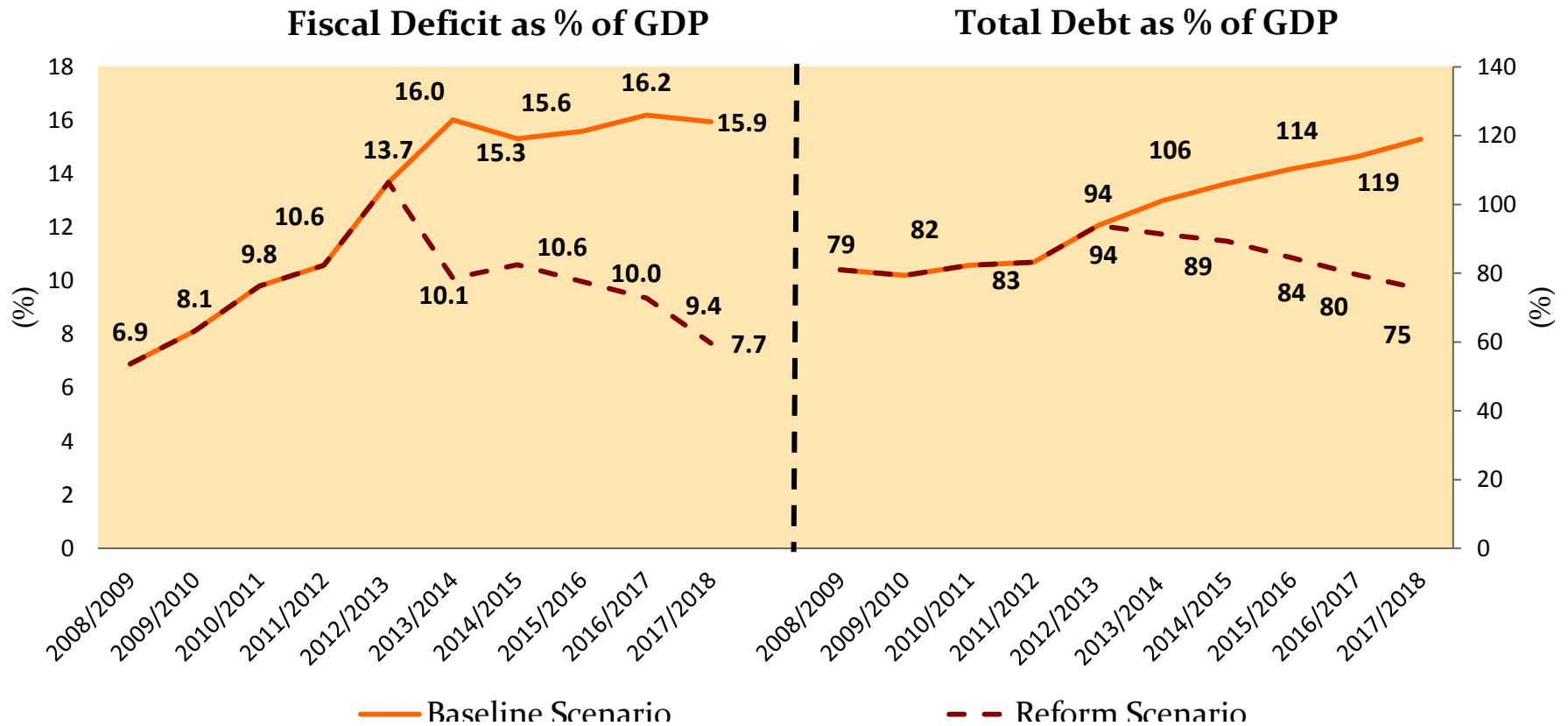
II. Meeting the Challenges

Social Programs:

- Ensuring that economic growth is job creating and adopting specific programs to guarantee employment for the poor
- Increasing public expenditure on health and education to meet specific targets as identified in the new constitution (3 percent of GDP for health, and 6 percent for basic and higher education)
- Restructuring social safety net through better targeting for families rather than commodities
- Enabling small entrepreneurs in the informal sector to benefit from access to credit and contract enforcement through formalization

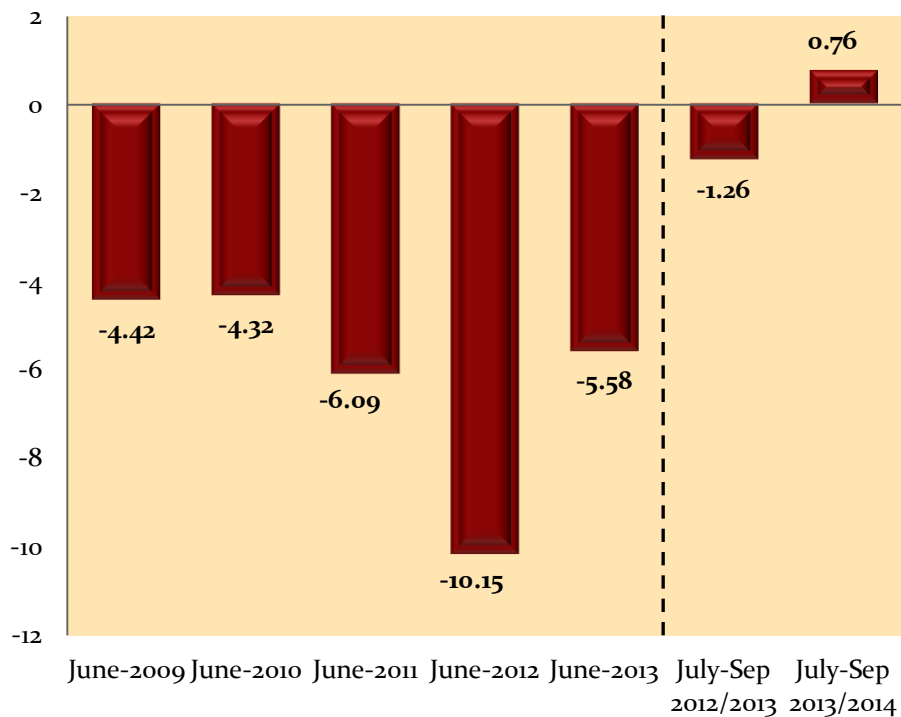
III. Economic Outlook

Preliminary estimates, based on firm commitments and identified reforms, reveal a significant reduction in deficit and public debt ratios



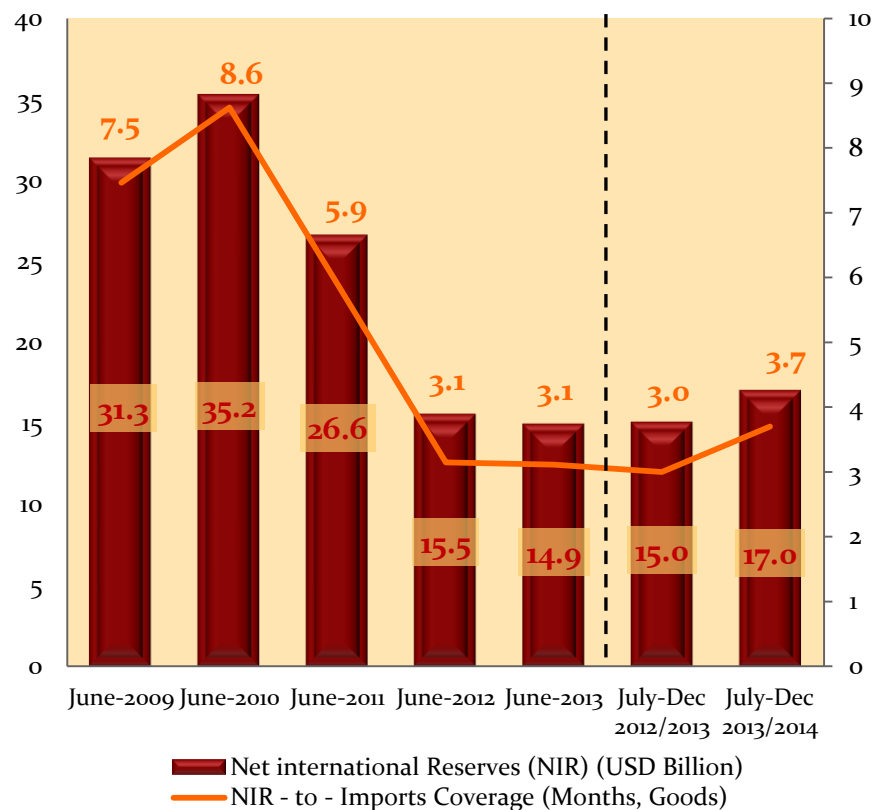
III. Economic Outlook

Surplus in Current account



Source: Central Bank of Egypt (CBE)

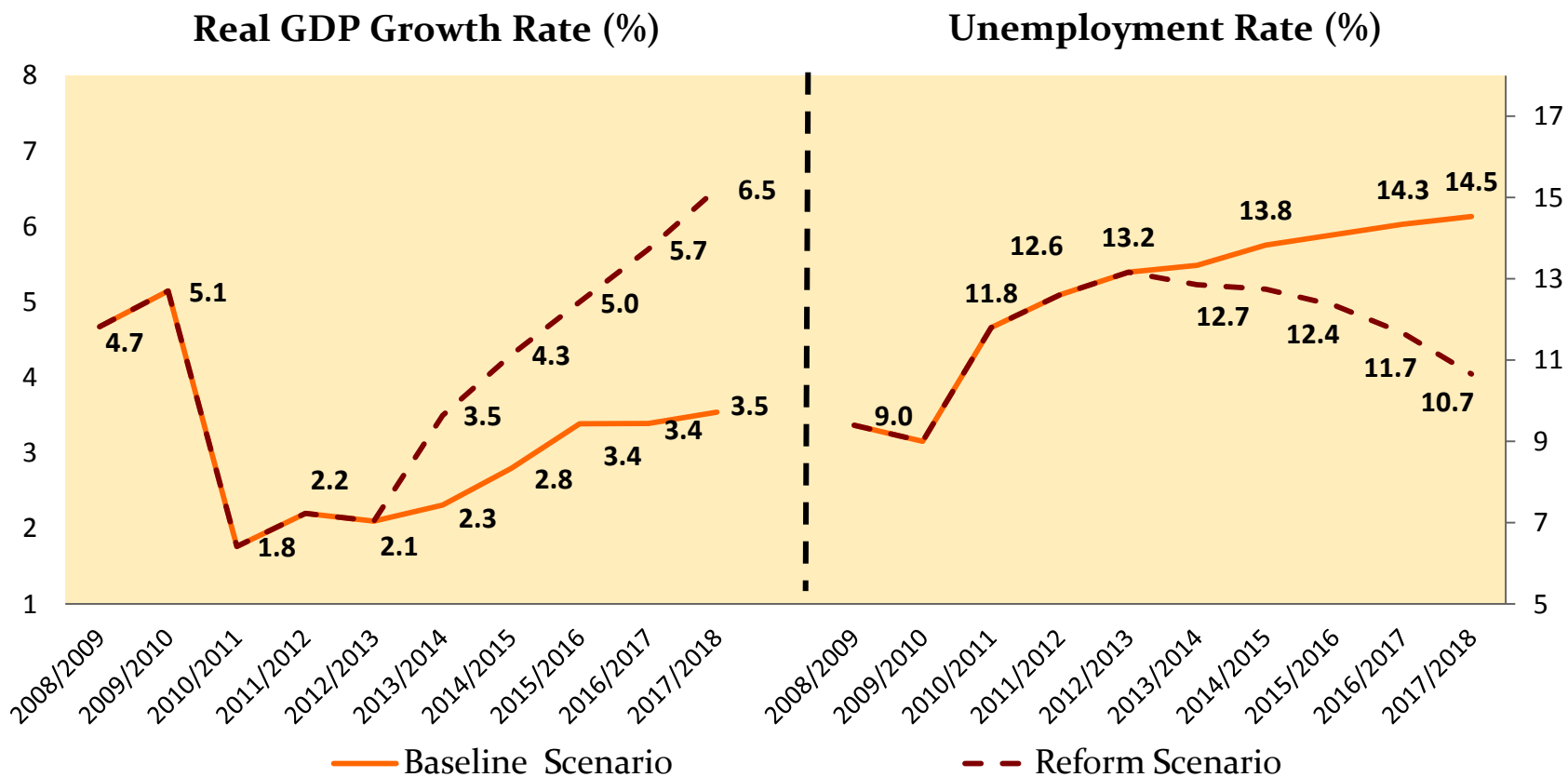
Increase in Net International Reserves (NIR)



Source: CBE

III. Economic Outlook

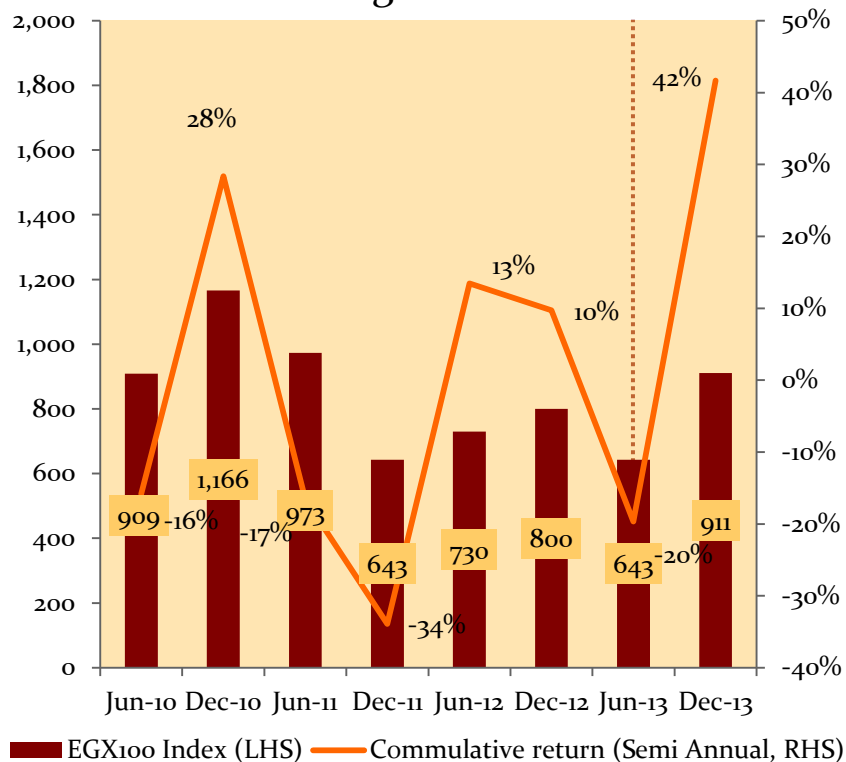
Reform measures are expected to improve economic growth and reduce unemployment



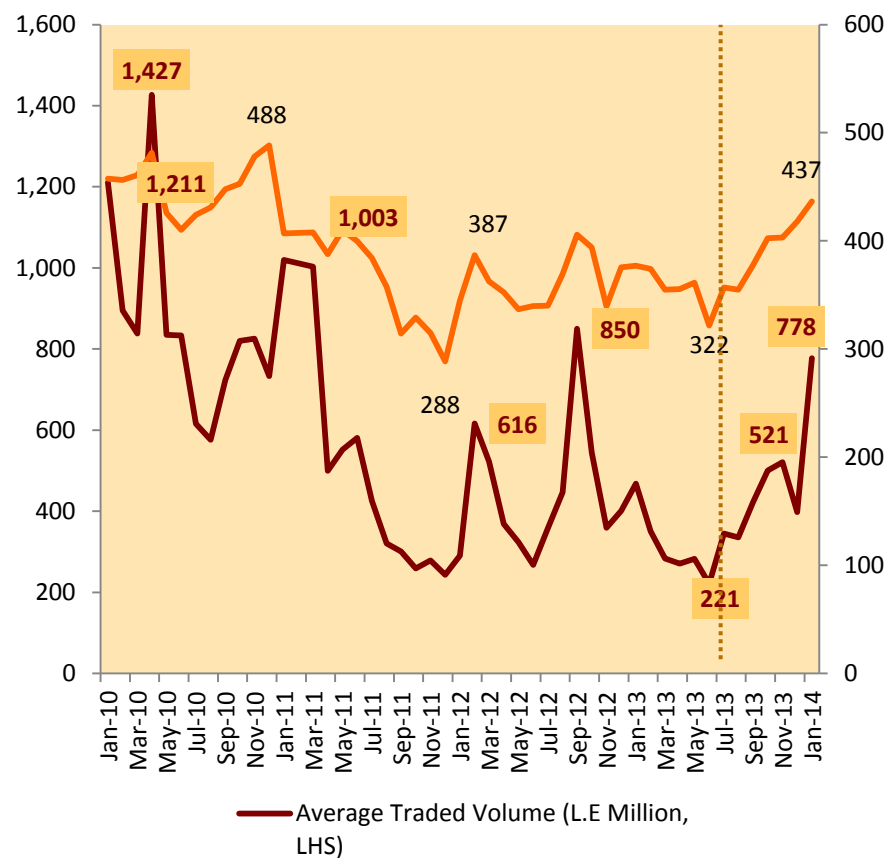
III. Economic Outlook

Positive Performance in Egypt's Capital Markets:

Ever since July 2013, Egypt's general stock index have been steadily increasing, approaching pre-January 2011 levels, with trading volume more than doubling, along with double digit returns on average.



Source: Capital Market Authority, Egypt Stock Exchange.



Source: Capital Market Authority, Egypt Stock Exchange.

III. Economic Outlook

Some indicators have already started to signal early signs of recovery, yet a more pronounced recovery is expected by the end of the fiscal year:

- For the first time since the 1990's, Standard & Poor's has raised Egypt's sovereign credit rating for both local and foreign currency denominated debt to 'B-/B', with a stable outlook, from previously 'CCC+/C'.
- For the first time since September 2010, HSBC Bank PMI Survey edged back into expansionary territory in November 2013, marking the strongest improvement in operating conditions in the survey history. This reflected an increase in the real activity, especially in the private non-oil sector. This suggests increased investor confidence in the economic outlook.

III. Economic Outlook

Short and Medium Term Structural Reform Agenda:

1- Short Term Reforms:

- Moving/Switching to a value added taxation (VAT) system
- Implementing the smart card system for fuel disbursement and completing the energy price adjustment program
- Improving the quality of social services, especially health and education
- Enhancing social safety nets by improving targeting

2- Medium Term reforms:

- Moving forward with fiscal reforms, with the objective of maintaining macro-economic balances.
- Structural adjustments to public institutions, including economic authorities and public enterprises.
- Revising Labor market laws, along with readjustments in the wage structure on the national level, and increasing efficiency in the general administration.
- Ensuring the self-sustainability of the pension system.

Conclusion

The economy is likely to improve significantly in the near term. This will be mainly on the back of:

- Reaping the benefits of political stability and improved security, especially with regards to higher investment levels and flourishing tourism.
- Witnessing the positive impact of fiscal expansion and monetary easing.
- Improved financial stability due to fiscal and structural reforms implementation.