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Infographic: Egyptian Economy exceeds expectations of international institutions

Egypt was able to stabilize its economy through comprehensive strategic policies, rooted in strong foundations. This resulted in gains in economic and structural reforms, and ongoing developments in various pillars and directions, in ways that help sustain improvement of economic indicators, and bolster the national economy against internal and external shocks through its resilience and diversity. This was reflected in the views of international institutions towards the Egyptian economy, elevating its position in global rankings, and providing a positive and optimistic view of its future performance over the coming years.

[Link to the News Story]

Our Views

There is no doubt that the economic reform program implemented by the government since 2016 resulted in improving many macroeconomic indicators; the most notable being GDP growth, unemployment, budget deficit, and stable inflation rates as monitored in the reports of international institutions.

Although stable macroeconomic indicators are a prerequisite for achieving growth, they are insufficient to demonstrate the soundness of the growth pattern followed, and to ensure its sustainability in the future and its ability to face crises. Failure to pay sufficient attention to these factors in previous economic reform programs resulted in Egypt maintaining the same level of development while being incapable of sustaining stability in macroeconomic indicators, and their deterioration as a result of internal and external shocks.

Therefore, a proper evaluation of the economy's performance requires supplementing the previously mentioned evaluation in the report with a set of indicators that reflect the structural aspects of the economy.

A quick look at examples of these indicators reveals the following:

- The largest sectors contributing to growth of GDP in FY 2018/2019 are extractive industries, construction, and wholesale and retail trade, which collectively contributed about 39.3 percent of GDP growth, while the contribution of manufacturing was estimated at 9 percent only. This is attributed to the decline in the growth rate of this important sector, which was estimated at 2.8 percent. Manufacturing also ranks fifth in terms of its share in total investment, estimated at 10.4 percent in the same year, preceded by oil and natural gas, infrastructure and utilities, education, health and other sectors, transportation and the Suez Canal, whose shares in total investments were estimated at about 20.3%, 15.2%, 12.8%, and 12.6%, respectively.[1]

- The vast majority of available job opportunities are characterized by low skill levels. According to the data of the Central Agency for Public Mobilization and Statistics (CAPMAS), agriculture, wholesale and retail trade, and construction and building sectors account for 48 percent of total employment in 2020/2021, while unemployment rates are higher among college graduates and postgraduates.
- The savings rate was moderate, which resulted in an increased reliance on borrowing to finance growth. According to the latest report issued by the Ministry of Finance, the proportion of total government debt (domestic and external) was estimated at 87.5 percent of GDP at end of June 2020.
- An increase in imports of intermediate goods, raw materials and investment goods occured, which resulted in a rise in the non-oil trade balance deficit by 16.7 percent in 2020/2021, compared to the previous year.[2]
- The private sector's share in total domestic credit is weak; at about 21 percent compared to 67 percent for the government sector.

[1] Based on data issued in the latest performance follow-up report issued by the Ministry of Planning and Economic Development 2018/2019.
[2] Central Bank of Egypt, a press release on the performance of the balance of payments during FY 2020/2021.

- The net inflow of foreign direct investment recorded its highest level in 2018/2019 reaching $8.2 billion, then witnessed a decline in the two following years. According to CBE data, net FDI flows witnessed a decline in 2020/2021 reaching $5.2 billion, a decline of 30.6 percent from the previous fiscal year. This is in addition to Egypt's moderate share in the foreign direct investment inflows for the purpose of establishing new companies (green-field investments) directed to developing countries, estimated at only 0.9 percent in 2020.[3]
- Despite relative improvement in Egypt's ranking in the competitiveness index compared to previous years, it is lagging behind comparable countries. Egypt ranks (93) out of 140 countries compared to South Africa (60), Turkey (61) and Morocco (75).

In light of the previous examples, it is clear that there are still many issues that need detailed and in-depth studies through which priorities can be outlined and addressed in the next stage of the economic reform program, through integrated policies that address the roots of the problem and not just the symptoms.

Finally, it must be emphasized that despite the importance of reports of various international institutions, which reflect the extent of confidence of these institutions in the Egyptian economy, they focus only on select aspects of economic performance according to the nature of the role of this institution and the policies it focuses on; hence it must be regarded with

[3] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report*, 2021.

this in mind. On the other hand, it is necessary to analyze the strengths and weaknesses of the Egyptian economy as mentioned in these reports, as well as the requirements stated to sustain growth, in order to address weaknesses, highlight areas for improvement, and ensure the sustainability of strongpoints.

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