The Tahrir Institute
for Middle East Policy

EGYPT

ECONOMIC TRAJECTORY

ASSESSING EGYPT'S ECONOMIC REFORM

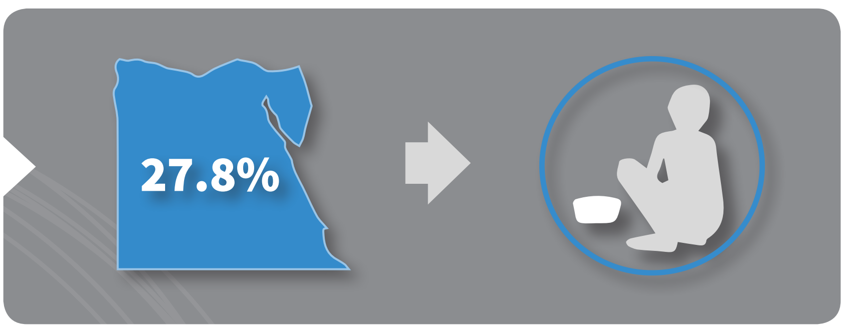
التحرير

CONTENTS

INTRODUCTION

Nearly two years after Egypt's inking of a $12.4 billion deal with the International Monetary Fund in November 2016, headlines extol the improvements made, and the IMF declared in June 2018 that "strong program implementation and generally positive performance has been instrumental in achieving macroeconomic stabilization." The IMF loan came with a set of conditions designed to prevent Egypt's economy, struggling under heavy and imbalanced spending, from collapse. While the austerity measures required for the loan may have stabilized the economy in the short term, they have caused heavy strain on economic conditions and purchasing power, making it very difficult for many to maintain social status, with the majority struggling merely to make ends meet.

The promise of any government or lending institution that introduces such measures is that, while they may lead to a tenuous, difficult time, the period of belt tightening will be followed by prosperity. Ideally, and in line with the IMF's own recommendations, austerity measures should be accompanied by a socioeconomic support plan to mitigate the effects on the least privileged of society and low-income sectors—a critical need in a country where 27.8 percent of the country lived below the poverty line *before* the reforms were put into place.



27.8 percent of the country lived below the poverty line before the reforms were put into place

To ensure the proper institution and efficacy of balancing measures, there is a need to systematically track, monitor, and analyze the impact of the economic reform program on Egypt's economy and society. Two years after the signing of the IMF loan, there remains a gap in this essential knowledge as a tool for policy reform. Thus, TIMEP has launched a new project, Egypt's Economic Trajectory, which consists of two major components. The first is a quantitative tool for researchers, journalists, and others, to help them make better sense of the program in numerical and visual terms. The second component is analysis of developments and data, to assess the program in terms not only of economic indicators, but also its impact on social health and human rights.

As such, this report sets the stage for the project, examining in depth the two years of Egypt's economic reform plan. It covers a timeline of developments that led to the loan deal as well as the IMF program's conditions and scope, and analyzes policies and fiscal, monetary, and socioeconomic trends. The report, like the project, is intended to encourage economic policies that harness the country's potential, encourage equitable and sustainable growth, and improve the everyday lives of Egyptians.

EXECUTIVE SUMMARY

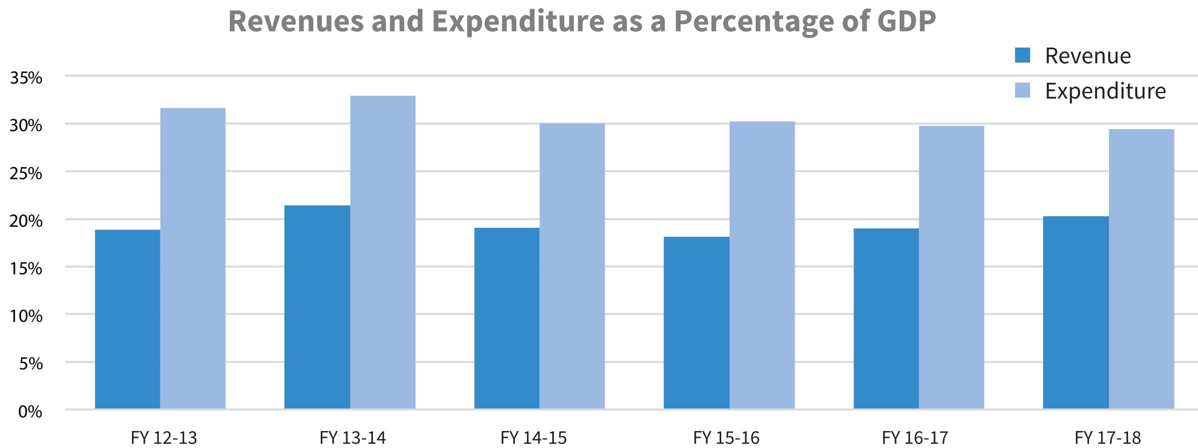
Across a series of elected and transitional governments, the years leading up to 2016 were characterized by the failure to undertake any meaningful reforms to address the country's growing economic and social woes. After seeking the IMF as a lender of last resort in 2016, the Egyptian government undertook a series of difficult reforms, which has changed the shape of the Egyptian economy over two years of the reform program's acceleration. The following summarizes the policies undertaken, the corresponding trends, and analysis, more details of which may be found in the report:

Reform Measures

- The May 2016 passage of a value-added tax (VAT), one of the conditions required by the IMF, significantly reformed Egypt's tax structure, replacing previous sales taxes with a single tax designed to streamline tax collection and broaden the tax base.
- On November 3, 2016, the government moved to a flexible exchange rate for the pound, another condition required by the IMF. The Egyptian pound (LE), which stood at just under nine to the dollar before the float, lost nearly half its value overnight and has not recovered at the desired rate. The exchange rate stands close to LE18 to the dollar today.
- Along with floating the pound, the government announced significant subsidy cuts, embarking on escalated subsidy reform aimed at reducing expenditure on energy subsidies.
- The government has expanded its social welfare programs, Takaful and Karama, to cover an estimated 10 percent of the population, and has passed legislation to increase bonuses and pensions (in real terms) for some.
- The government has undertaken a set of legislative reforms designed to make the economy more attractive for investment, including the passage of a banking law, a much-touted investment law, and an industrial licensing law.
- In an effort to promote domestic industrialization, President Abdel-Fattah El Sisi has adjusted the country's tariff regime twice since the signing of the loan. The most recent decree increased tariffs on some imported goods by 60 percent.

Fiscal Trends and Developments

- While recent wage bills show nominal increases, these represent real decreases and decreases relative to GDP; spending on wages in fiscal year 2017–18 was only 6 percent of GDP, less than the IMF's target of 6.3 percent in that year.
- Egypt's foreign reserves have nearly doubled since the reform program began and stand at $44 billion as of June 2018, far exceeding the IMF program's targets. This increase has reflected increases in tourism revenue, remittance, exports, and foreign borrowing.
- Government revenues have increased nominally due to high inflation, but have not shown significant increases in real terms; FY 17–18 saw an 18 percent increase in revenues alongside a 14.4 percent inflation rate. To improve the budget deficit, the government has reduced spending.



- While it has improved the foreign reserves situation, the rapid increase in foreign borrowing has led foreign debt to balloon.
- Direct and indirect investments have increased since the start of the reform program, with most increases seen in indirect investments and investments in the energy sector.
- Egypt's credit ratings have slowly improved, with Moody's maintaining Egypt's "B" rating as of August 2018, but adjusting the outlook from "stable" to "positive," while still citing concerns about debt repayment exposure.

Monetary Trends and Developments

- To combat inflation, the Central Bank of Egypt raised the interest rate by 7 percent, before cutting it twice in 2018. Deposit rates now rest at 16.75 percent and lending rates to 17.75 percent, still just under twice the rate as before the pound devaluation.
- Inflation skyrocketed to 32.8 percent after the pound float, significantly higher than IMF predictions of 16.6 for end of FY 16–17. After raising the interest rate and significant borrowing, inflation stood at 13.5 percent in July 2018.
- After expansion in the broad money supply at the time of the move to a flexible exchange rate, monetary policy has seen a relative tightening, but recent increases in money supply still reflect pre-2016 averages.

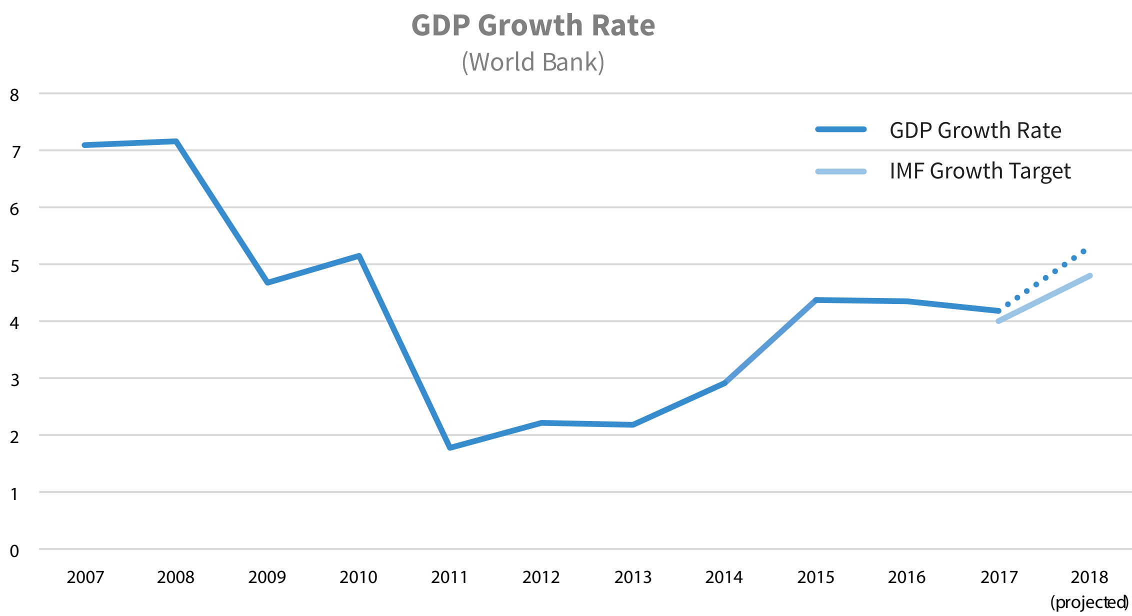
Socioeconomic Trends and Developments

- The massive reduction in spending exceeded the IMF's guidelines and contributed to a reduction in the budget deficit, but came at the expense of spending on education and health, both of which decreased with respect to GDP and fall short of constitutional requirements.
- The removal of a wide range of subsidies drastically increased the price of electricity, fuel, and water, leading to protests over bread and transportation prices. Efforts have been made in the FY 18–19 budget to increase food subsidies to offset the burden.
- Unemployment has steadily improved, though it remains high for women and youth; labor force participation also remains low.

Findings and Analysis

- Managing ballooning debt and high inflation has created a policy dilemma that the government has sought to manage through increasing and decreasing the interest rate. Avoiding this dilemma will require immediate measures to increase revenues by strengthening tax policy, scrutinizing large expenditures on megaprojects or big-ticket military purchases, and a long-term vision to encourage job creation and productive investment by improving accountability and the overall political climate.
- Relying on external borrowing raises concerns about debt default, particularly given the predominance of short- and medium-term securities in the composition of foreign reserves. The IMF's third review acknowledged this risk but concluded that capacity to repay was "adequate."
- Despite rosy claims from government ministers, the situation for foreign direct investment has not improved considerably. The energy sector has received the bulk of FDI, which is problematic given that it is capital-intensive, rather than labor-intensive, and the fact that many companies in this sector are publicly owned.
- An increase in foreign portfolio investment may be a positive development. While the high investments in bonds in the composition may be worrying in the medium and long term, a move to open 23 publicly owned companies to the market is a welcome sign.
- A reduction in the size of the wage bill has lowered spending, but focusing only on the size, rather than the character of wage spending, is unadvisable. Wages are not keeping up with high inflation and rising costs, affecting women and lower wage brackets disproportionately. This may affect spending patterns and undermines one of the IMF's objectives of increasing women's participation in the formal economy.
- While government social programs like Takaful and Karama have been successful in alleviating pressure on the poor, they do not compensate for the combination of high inflation, a devalued pound, and cuts to subsidies, and they have faced difficulties in identifying and targeting those most in need.
- The current tax structure disproportionately burdens the poor and fails to capture adequate tax revenue. Tax revenue targets should be set at between 20 and 25 percent of GDP, and these may come from corporate income, professional income, and the enforcement of the property tax, in addition to reducing illicit financial outflows.
- Continued cuts to health and education mean that the government is not adhering to its constitutional obligations, with serious detriment to human rights and the development of the country's human capital, boding poorly for short-term social and long-term economic health.
- With positive signs in lowering unemployment, more work needs to be done to encourage women's and youth labor participation. This includes ensuring safe and healthy environments for women to work and ensuring that women and youth are equipped with the education and skill sets needed for success in the economy.

- April 2010: **The IMF concludes its Title IV review of Egypt.** The staff report praises "significant progress in wide-ranging structural reforms that accelerated after 2004," highlighting how the Egyptian government's policy response to the 2008 global financial crisis allowed the country to weather the period relatively well. The report makes mention of the country's high external debt and inflation, but not of the social impact.



- January 2011: **Egyptians take to the streets, demanding "bread, freedom, and social justice."** After 18 days of mass protests, longtime president Hosni Mubarak is deposed on February 11. Mubarak was later tried on a series of corruption-related charges, as well as for complicity in the killing of peaceful protesters.
- February 2011 to June 2012: **Turmoil and mismanagement take its toll on Egypt's economy.** After the deposal of Mubarak, Egypt was left with $37 billion of external debt, with little transparency as to how these funds were used, and the country was forced to use foreign reserves for repayment. Additionally, the turbulent political situation caused an exodus of capital in the form of cash and investments as tourism and Suez Canal revenues dropped, exacerbating the foreign reserves crisis. Simultaneously, improper maintenance of the fixed exchange rate regime resulted in the rise of a parallel black exchange market that prevented adequate foreign currency from reaching the government. In June 2011, the IMF had outlined a $3 billion support plan for the country, but the transitional government scrapped the plan.
- June 2012 to June 2013: **The Morsi government fails to enact policies to address the worsening economic situation.** The election of Muhammad Morsi as president resulted in Qatar providing substantial aid to Egypt to prop up a deteriorating exchange rate, decreasing investment, and rapidly shrinking foreign reserves. Qatar deposited $2 billion into the Central Bank of Egypt to ease the balance of payments and exchange rate crisis; six months later, the Qatari aid doubled and the country pledged to buy $3 billion worth of Egyptian

bonds. Still, the Morsi government was unable to develop an economic policy program to address the worsening situation. With continued rising inflation, a deterioration in the value of the Egyptian pound, and the tanking of foreign reserves, talks between the IMF and the Morsi government about a $4.8 billion loan began the same year. But, fearful of public backlash, the government resisted the difficult measures the loan would require, and no deal was made.

- **June 2013 to June 2014: Despite significant investments from the Gulf, the economy sees almost no improvement.** Following Morsi's ouster (and Qatar's demand), Gulf countries provided multiple packages of assistance in the hope of addressing Egypt's economic crisis, with the ultimate aim of achieving political stability. The transitional government of President Adly Mansour received $12 billion in assistance from the United Arab Emirates, Saudi Arabia, and Kuwait that temporarily eased economic pressure and allowed the government to avoid IMF loans yet again. While the funding was intended to ease negative indicators and boost infrastructure, investment, and public wages, there was little progress in turning the economy around: growth stagnated at 2 percent, and unemployment and inflation remained high.
- **June 2014: Abdel-Fattah El Sisi assumes the presidency, spurring another two years of Gulf investment.** After Sisi formally took office in 2014, the U.A.E. pledged $9 billion, Kuwait $1.2 billion, and Saudi Arabia $23 billion in petroleum products over one year, nine months, and five years, respectively. Furthermore, the same three countries pledged an additional $12 billion in investments in 2015, most of which were aimed at restoring the Central Bank of Egypt's depleted foreign reserves. A year later, in 2016, Saudi Arabia set up a $16 billion investment fund in Egypt after the cession of two islands in the Red Sea.
- **May 2014 to June 2016: Rather than reducing spiraling debt and encouraging a competitive business sector, the Sisi government favors high spending.** Sisi's economic plan featured spending on megaprojects such as the new administrative capital and the so-called "New Suez Canal" (really an expansion of the existing canal) as well as increased the purchase of military equipment from France, Russia, and elsewhere, which surged 60 percent from 2015.[1] Despite Gulf funding, overall debt ballooned and increased as a percentage of tax revenues, from 521 percent at the end of the 2012–13 fiscal year[2] to 645 percent at the end of FY 15–16.[3] This led to serious concerns that salaries and subsidies could not be maintained. Meanwhile, rather than take steps to improve a business climate that the World Bank ranked 122 out of 190 in 2016, the military continued to expand its private business empire.[4] By producing consumer goods with under-market conscript labor costs, and with the advantage of avoiding corporate income taxes and auditing, the military manufacturing sector cut into the already struggling private sector, preventing industries from developing and becoming competitive.
- **November 2016: With the Gulf states unwilling to contribute more funds, Egypt seeks the IMF as a lender of last resort.** After extensive negotiations, the IMF and the government reached in November 2016 (though the agreement would not be approved by the parliament until March 2017, well after the loan went into effect; see more in Appendix A). The agreement was first predicated on raising $6 billion from external sources, which Egypt secured primarily from U.A.E., China, and G7 countries. The IMF agreement also required the implementation of three primary changes in economic policy that Egypt had been long resisting: floating the currency, introducing a value-added tax (VAT), and gradually decreasing government subsidies on food and energy. The agreement on the IMF program involved an immediate disbursement of about $2.75 billion, with the remaining $9.25 billion to be disbursed in tranches with five reviews over three years.

International Monetary Fund Program

The IMF stated that the policies and reforms developed by the Egyptian government were aimed at restoring stability and promoting inclusive growth through exchange rate stabilization and monetary, and financial-sector policies; fiscal policy, social protection, and public financial management; and structural reforms and inclusive growth. These included:

- The liberalization of the foreign exchange system;
- Containment of inflation through controlling credit to the government and banks and boosting the Central Bank's management of liquidity;
- Improving banking;
- Restoring debt sustainability;
- Reduction of subsidies and containment of the wage bill;
- Increased transparency;
- Streamlined business licensing;
- More finance for small and medium enterprises;
- New insolvency and bankruptcy procedures;
- Training programs for youth;
- Increased availability of nurseries and safer public transportation to encourage women's employment; and
- Strengthening social protection programs through additional food subsidies, cash transfers, and free school meals.

The first three IMF reviews of the loan program, completed in July 2017, January 2018, and June 2018, have all been generally optimistic about the progress of the economy and its prospects for continued development. The reviews have praised adherence to structural reforms, a broad increase in growth, healthy reserves, and improved competitiveness, while expressing concern about the military business empire, strengthening social protection, a more inclusive private sector, and recently, tightening global conditions. The current dispersal of the loan has reached just over $8 billion.

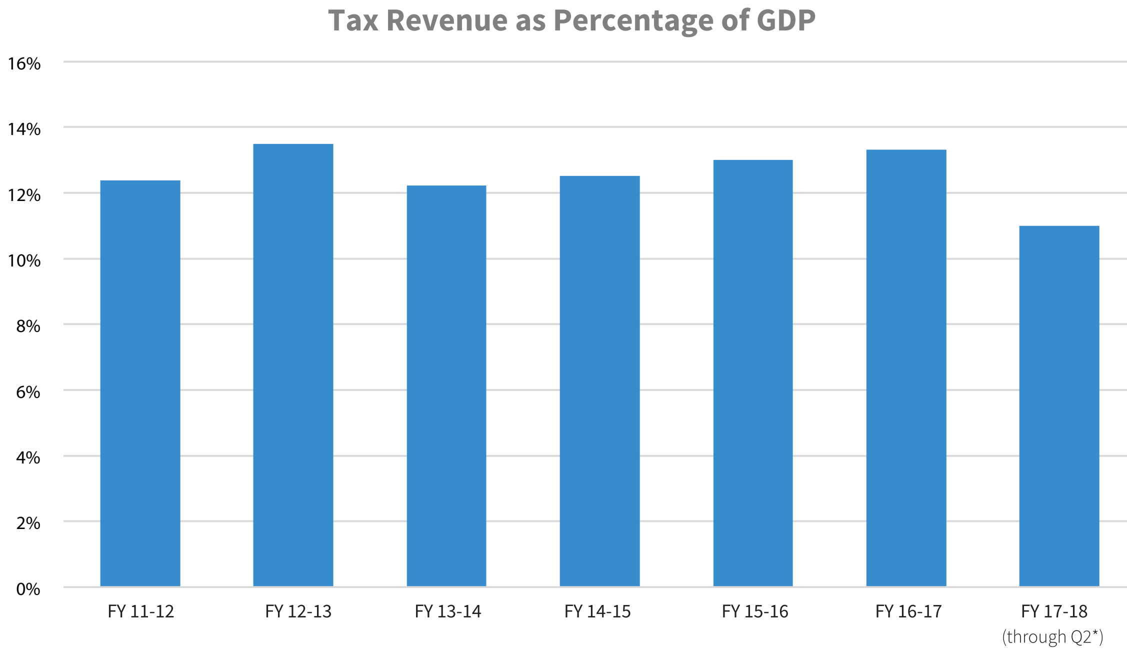
The following sections detail policies implemented and trends in indicators over this period.

Reform Measures

A series of laws had been passed from 2014 to reform the tax scheme, with the 2016 passage of a VAT required by the IMF. After legislation passed in 2014 to expand the tax base (including a 10 percent tax on profits from stocks, a 10 percent capital gains tax, both of which were later canceled, and a property tax, all enacted by executive decree), the August 2016 approval of the VAT marked a significant tax reform, abrogating the previous sales taxes. The VAT began at 13 percent, rising to 14 percent by 2017. For more on the VAT and other laws, see Appendix A.

On November 3, 2016, the government removed restrictions on the pound, moving to a flexible exchange rate. The currency, which was held at just under 9 pounds to the dollar in the months prior to the float, lost nearly half its value overnight, and ended the year close to 19 pounds to the dollar. Despite difficulties with high inflation and rising costs, the bank has adhered to the flexible rate and the pound has remained between 17 and 18 pounds to the dollar since then.

Immediately upon floating the pound, the government announced new subsidy cuts. While cuts had been rolled out since 2014, with the announcement of the float the government also announced that fuel prices would increase by 40 percent, with further cuts to energy subsidies to come afterward. The cuts resulted in significant price increases, including an increase of about 300 percent in the price of Cairo Metro tickets in April 2018, sparking protests that led to the arrest of at least 30 protesters. Further cuts in water subsidies (with price increases up 45 percent), electricity (raising prices by 21



*As some taxes are paid only once yearly at the end of the fiscal year, mid-year figures may under represent revenue.

percent for households and 42 percent for factories), and gasoline (up 50 percent) occurred in 2018. By contrast, the government increased food subsidies by 5 percent in the FY 18–19 budget; these subsidies have also been reformed since 2014, with greater targeting and increased cash transfers, in an effort to focus subsidies at the end of the supply chain.

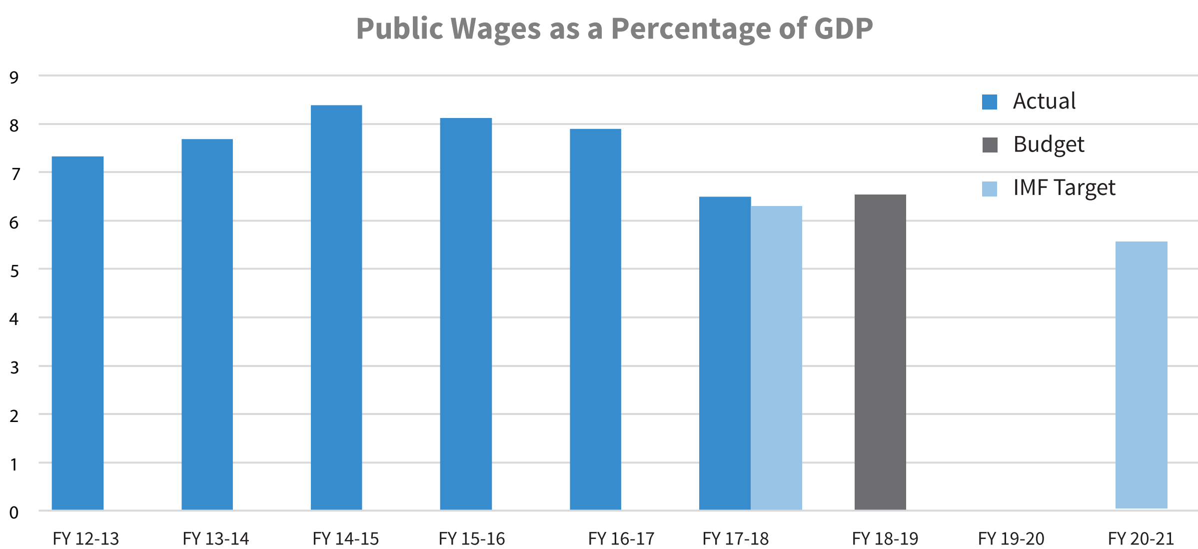
After the public backlash against these subsidy cuts and in line with recommendations from the IMF, the government increased social welfare spending in the form of food cash transfers, welfare payments, and pension payments. Active since 2015, the Takaful and Karama cash transfer programs are estimated to cover about 10 percent of Egypt's population. The Karama program targets the elderly and those with disabilities, whereas Takaful targets poor households with children under 18 and without assets such as land or cars. Food ration cards have also increased from 14 to 50 Egyptian pounds (LE) per person, allegedly a result of the fiscal space from the reduced subsidies. According to the most recent figures from the FY 17–18 budget, spending on subsidies and social welfare programs increased from LE267.7 billion to LE324.4, a 21 percent increase in nominal terms. And in June 2018, parliament approved legislation intended to increase bonuses for about five million government employees pensions for about 9.5 million people, and to expand tax credits to benefit 20 million.

The government passed a number of laws designed to make the Egyptian business and investment climate more attractive for both domestic and foreign capital. Such reforms include an industrial licensing law intended to reduce the wait time for new projects, an investment law that guarantees for international investors and reduces barriers for foreign company operations, and a bankruptcy law that streamlines the post-bankruptcy process, minimizing court involvement in such cases. Additionally, in March 2018, the government announced that it would begin a program of privatizing state companies, with 23 set to sell minority shares in the stock market beginning the fourth quarter of 2018.

In an effort to encourage domestic industrialization, Sisi issued decrees to adjust tariffs on imported goods. The first adjustments were decreed in January 2016 and the second round in September 2018. The second round of changes included increases of up to 60 percent for over one thousand imported items, including foods and other household items.

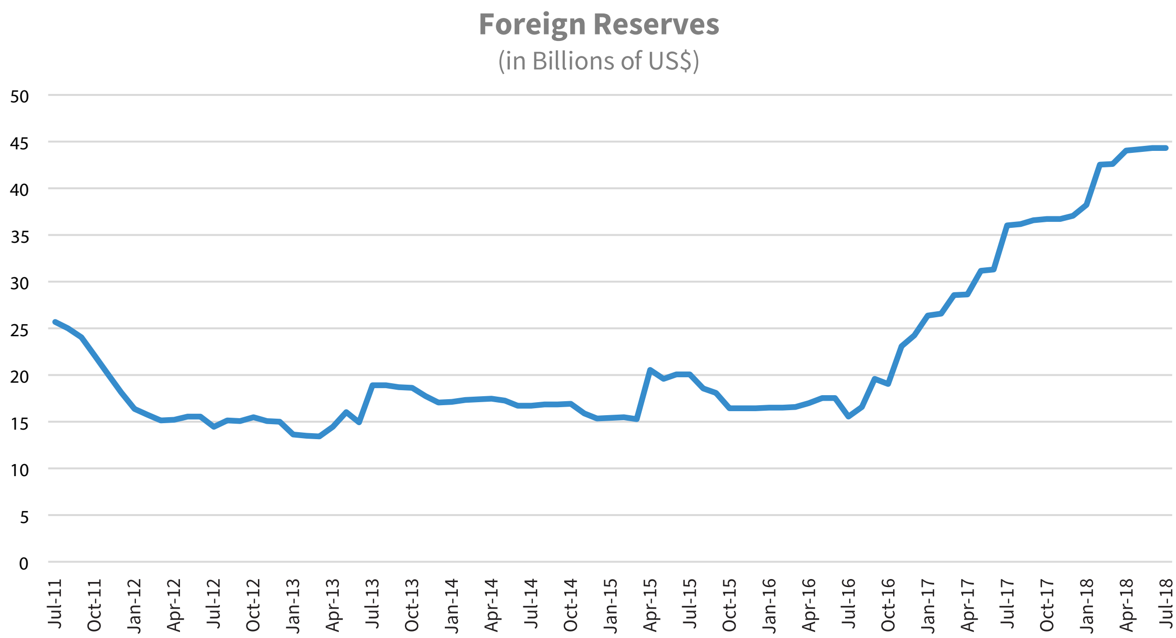
Fiscal Trends and Developments

While recent wage bills have reflected nominal increases, they have represented decreases relative to gross domestic product and decreases in real terms. When inflation rates soared above 30 percent in 2017, even severe budget cuts still reflected an increase in nominal terms, and indeed the Ministry of Finance in its monthly reports claimed that spending on wages and social programs increased over the course of that year. The public wage bill for Fiscal Year 2017/18, for example, had increased nominally from nearly EGP 229 billion to EGP 239.5 billion—but this 4.7 percent increase meant about a 28 percent decrease in real terms, and wage increases were more heavily targeted toward the judicial and security sectors. Wages accounted for about 6 percent of GDP, gradually down year-on-year from a high of 8.5 percent in FY 2013–14. The 6 percent figure exceeds even the IMF program's requirement of public wages reaching 6.3 percent in FY 17–18 (before requiring a dip to 5.5 percent in FY 20–21).



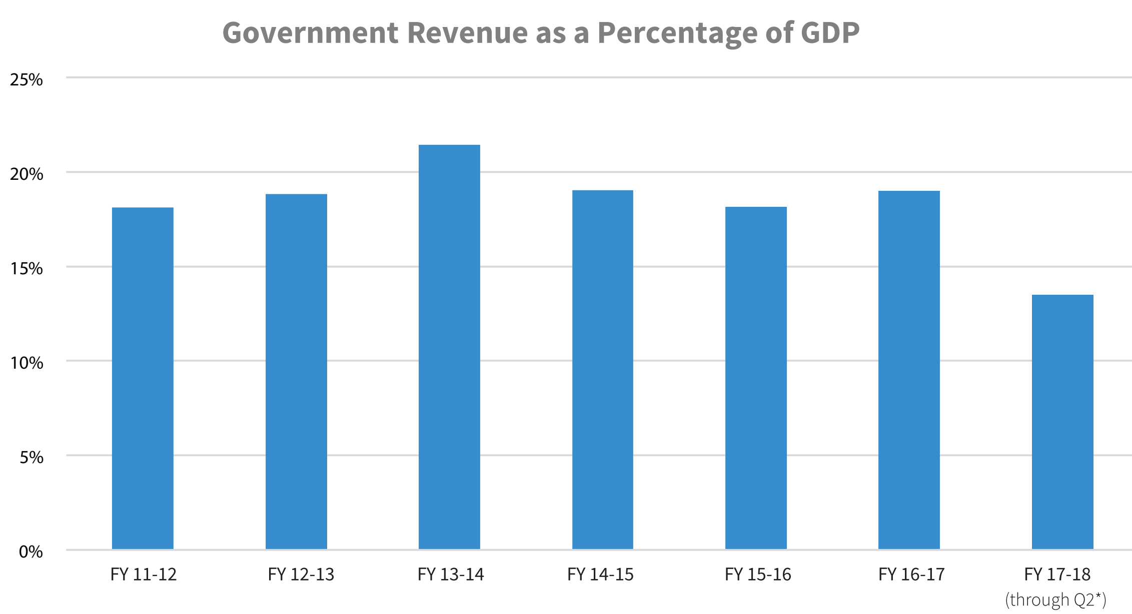
Egypt's foreign currency reserves have more than doubled since the start of the IMF program, increasing from $19 billion in October 2016 to $44 billion in June 2018. This indicator exceeded the targets for the IMF program in its first year, as the program aimed at reaching $22 billion by the end of FY 16–17, and $31 billion over five years.

The substantial increase in foreign reserves since the IMF program's inception were tied to an increase in tourism, exports, remittances, and foreign borrowing. In 2017, tourism increased by 54 percent over the previous year, and revenues from tourists increased by over 100 percent to reach $7.6 billion. Remittances went from $4.6 billion Year on year in January 2017 to a new high of $7.1 billion in January 2018, reflecting a 54 percent increase. In terms of exports, the current account deficit has dipped below 3 percent of GDP, down from 6 percent in 2016-17—notable given the annual increase of GDP of about 5.5 percent.



Revenues have increased nominally because of very high inflation, but in real terms have stagnated, and the Egyptian government has cut spending as a means to reduce the budget deficit. Total government revenues increased from LE491 billion during FY 15–16 to LE659 billion during FY 16–17, or about 34 percent. From July 2016–May 2017, tax revenues increased by about 33.3 percent. Both increases are almost exactly the same as the inflation rate, which means that both total government revenues and tax revenues have stagnated in real terms or in relation to the GDP; for the most part, deficit-reducing measures were the contribution of cuts from the spending side, and not increases on the revenues side. Revenues increased by a marginal 0.6 percent of GDP when comparing July 2016–May 2017 to the same period a year earlier, whereas spending decreased relative to GDP by 1.1 percent during the same period. The increase in government revenues may be accounted for by the contribution of the newly implemented VAT[6] which now accounts for almost half of all tax revenues.

More recently, the FY 17–18 budget saw revenues increase an additional 18.5 percent to reach LE781 billion, driven primarily by increases of both income tax and VAT at about LE80 billion each. More-



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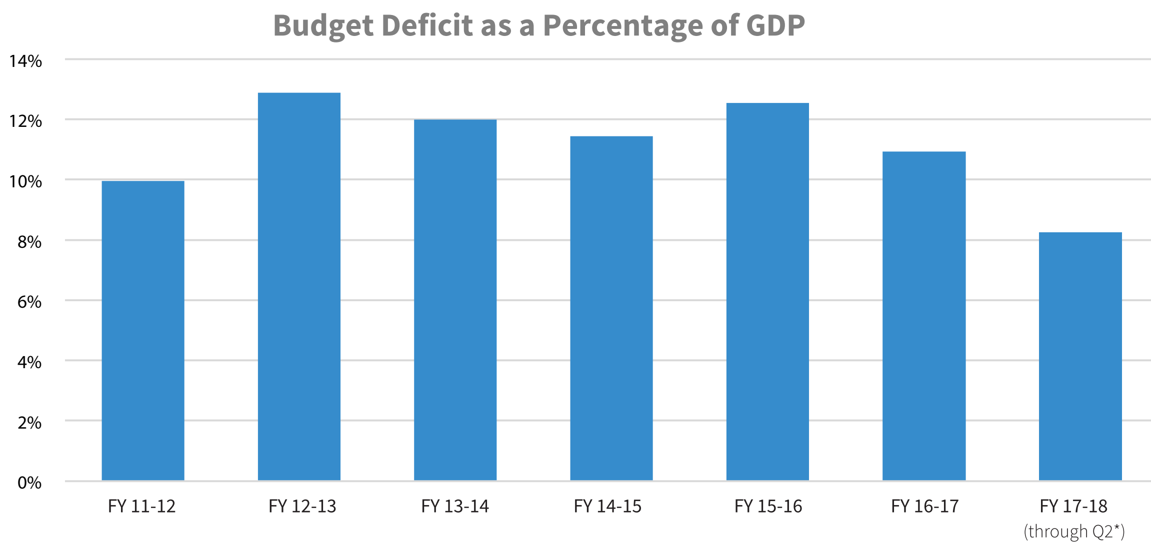
over, total tax revenues reached LE566 billion, up 38 percent from LE409 billion. Given that the year-on-year inflation rate during this period was about 14.4 percent, this represented a real increase in total government and tax revenues.

Debt has steadily increased, both as a percentage of GDP and tax revenues. Egypt rapidly increased its foreign borrowing with external debt approaching $90 billion, which accounts for nearly



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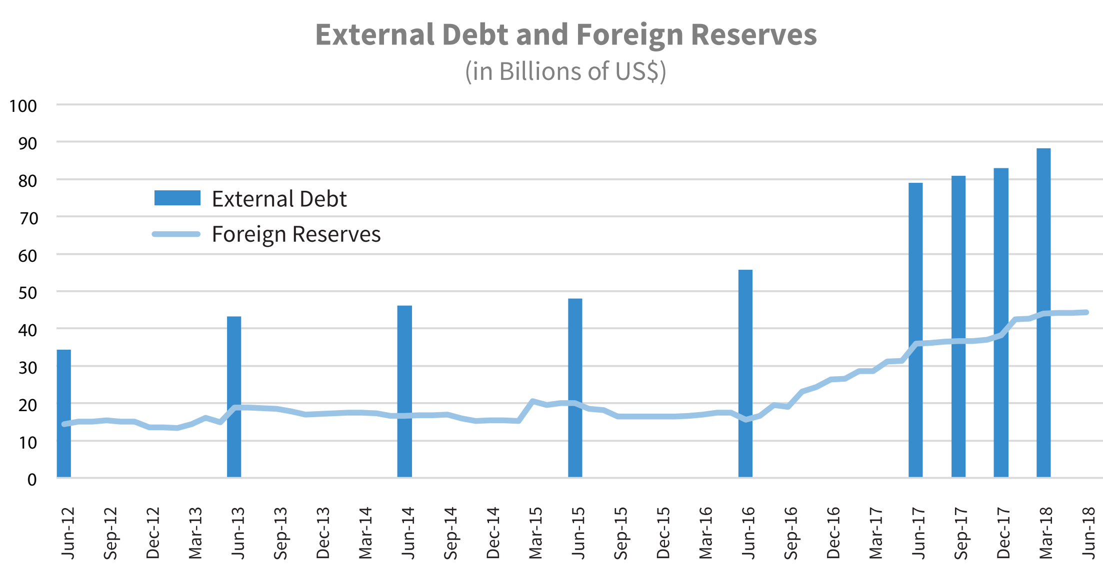
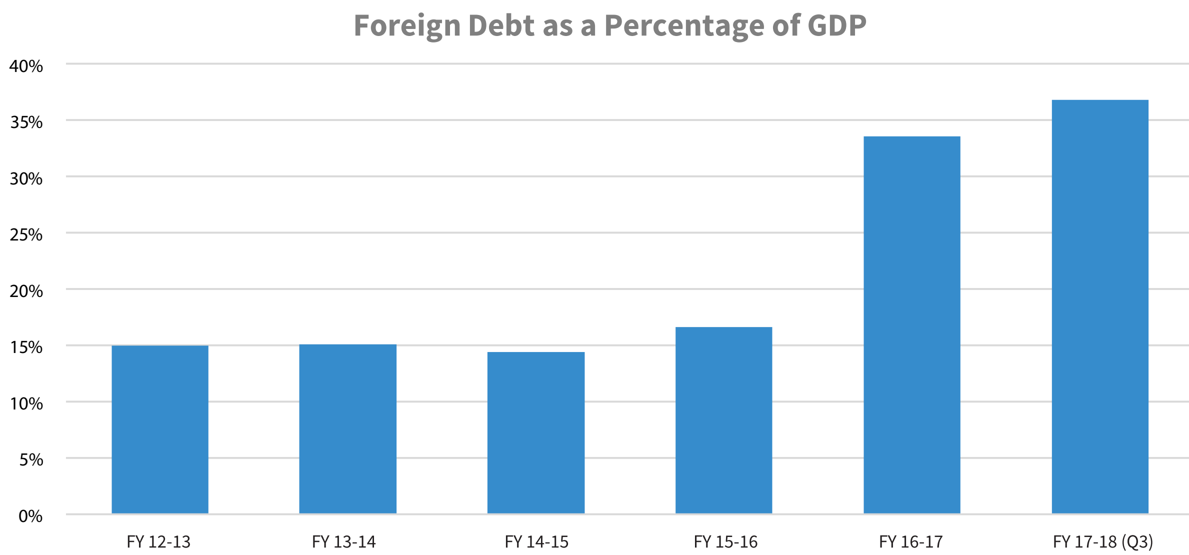
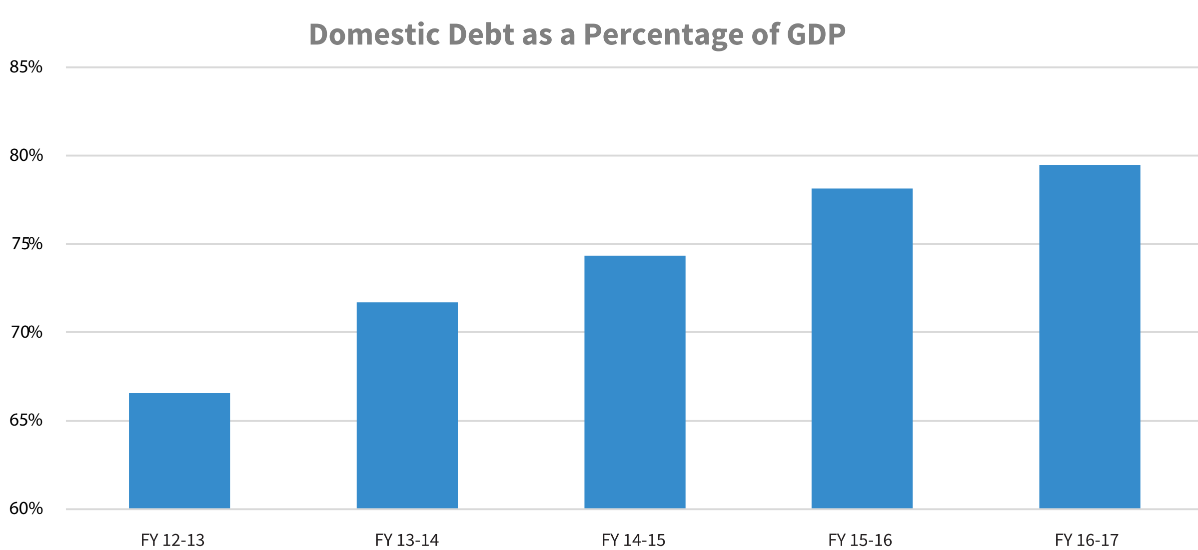
40 percent of GDP, up from 14.2 percent late 2015. This debt is significantly higher than the developing economies' average of 28 percent, the Middle East average of 27 percent, and the world average of 17 percent of GDP.

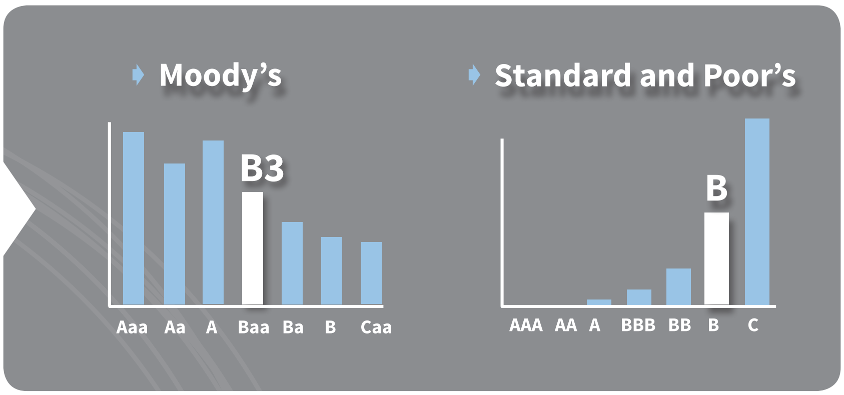


Additionally, the composition of debt also changed, relying more on external debt. Between July 2016 and July 2017, external debt increased from $55.7 billion to $79 billion (a 41 percent increase), whereas domestic debt increased nominally over the same period, from LE2.75 trillion to LE3.16 trillion (a 14.6 percent increase). Given an inflation rate of above 30 percent during this period, this makes the increase in nominal debt value over the period negative in real terms. According to July central bank figures, gross debt in March 2018 had reached 122 percent of GDP, which is composed of 37 percent external debt and 85 percent domestic debt.





Following the devaluation of the Egyptian pound and inception of the program in November 2016, indirect investment, largely in stocks and bonds, and direct investment, mostly in the form of energy investments, have increased. Increases in indirect (portfolio) investment (FPI) amounted to about $16 billion for the FY 16–17. Of this, $5.5 billion was in bonds. For the first three quarters of FY 17–18, FPI reached nearly $15 billion, of which only $3 billion was bonds. This increase, however, was not nearly matched by an increase in foreign direct investment, which increased from $6.9 billion at the end of FY 15–16 to $7.9 billion at the end of FY 16–17. For the first three quarters of FY 17–18, FDI has totaled $6 billion, falling in the second quarter 20 percent year on year.



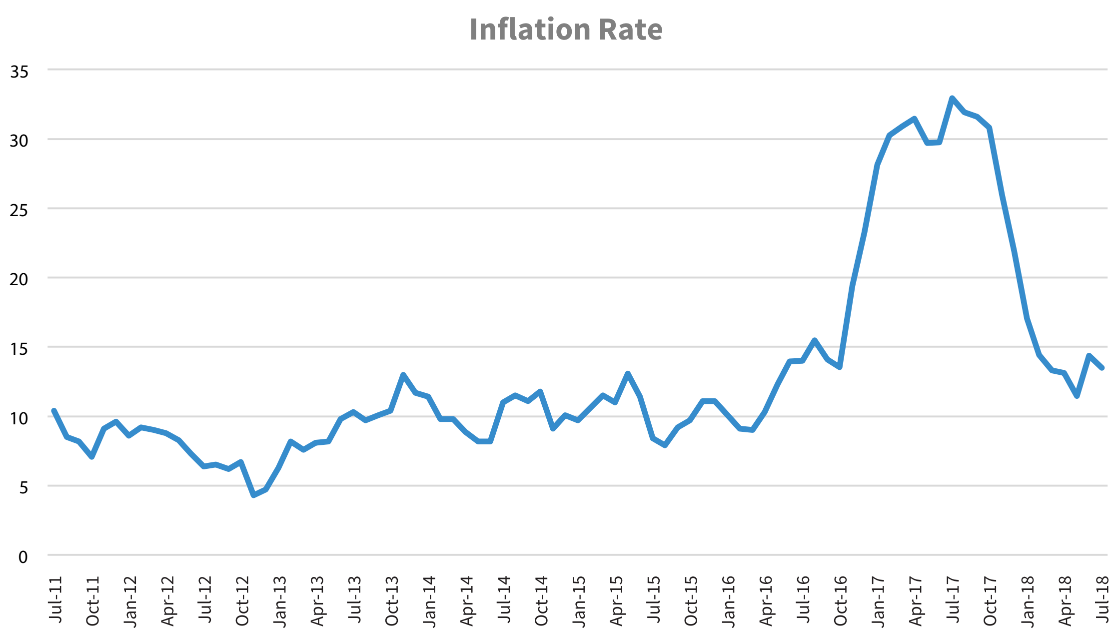
Egypt's Moody's rating remains a B3—with a positive outlook.

Egypt's credit ratings are showing steady signs of improvement; as of August 2018, Moody's rating remains a B3, but with a positive outlook. On August 18 2017, the credit rating agency Moody's had kept Egypt's B3 credit rating and described Egypt's outlook as "stable," while warning that "very weak government finances will continue to constrain the rating pending further clarity on the sustainability and impact of the reform program." Meanwhile, Standard & Poor's sovereign rating went from B- positive outlook in November 2017 to a B stable outlook in May 2018, citing a more competitive exchange rate and increased exports, notably in natural gas: "Economic and fiscal reforms will underpin rising business confidence and sustain capital inflows."

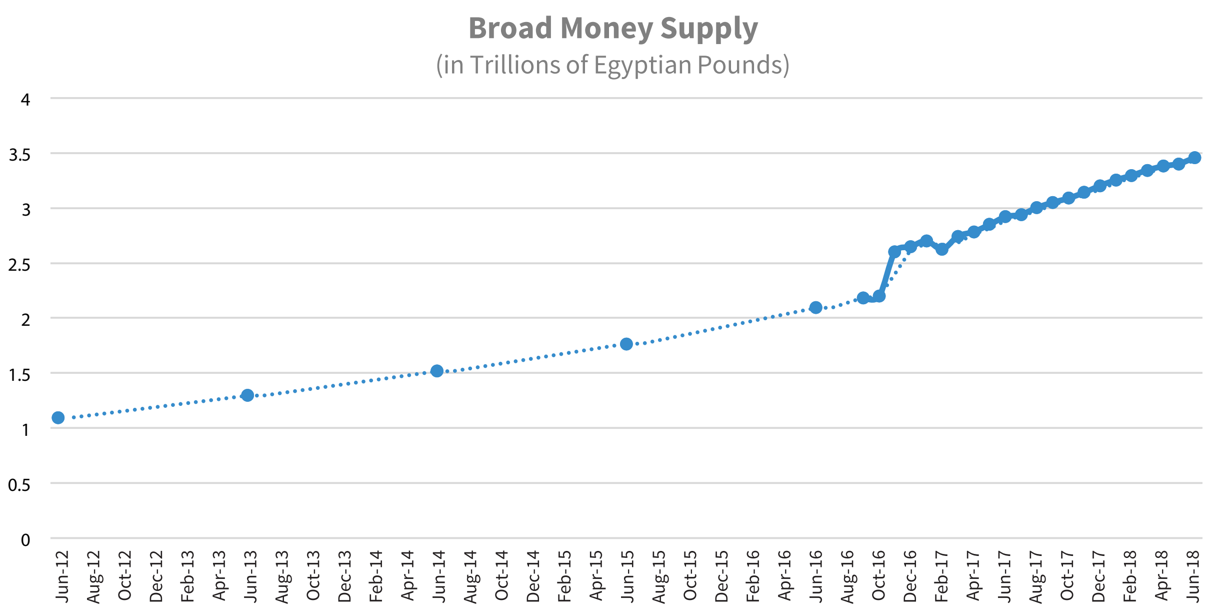
Monetary Trends and Developments

Rising to 18.75 percent in November 2017 to combat inflation, the central bank deposit rate has since eased to 16.75 percent. The IMF admitted that 2016's devaluation of the pound was "deeper than expected," and subsequent increases in fuel and electricity prices and VAT did not slow down inflation, which peaked at 32.92 percent in July 2017. To combat such high inflation, policymakers increased the interest rate by 7 percent, with the deposit rate at 18.75 percent and the lending rate at 19.75 percent, despite vocal complaints from the business community, before the central bank cut the rate in both March and April 2018, bringing deposit rates to 16.75 percent and lending rates to 17.75 percent—still much higher than before the pound flotation, which was at 8.75 percent at the start of 2016.

After peaking in 2017 at 32.8 percent, inflation has since moderated to 13.5 percent as of July 2018. While the IMF program predicted an inflation rate of 16.6 percent for the end of the 2016–17 period, the actual inflation rate reached nearly double that. The massive 2017 spike focused the attention of policymakers on controlling inflation by two main measures: increasing interest rates (which reached 20 percent for some investment certificates) and resorting to external borrowing to replace domestic borrowing, because of the high interest rates on borrowing in Egyptian pounds subjecting the economy to debt default. Meanwhile, the inflation rate stood at 13.5 percent in July 2018, after having increased for the first time in over a year to 14.5 percent in June. While this was a substantial decrease from the 32.8 percent in 2017, continued subsidy cuts and the lowering of the interest rate put continual upward pressure on the indicator. Also, while this approach led to a lower revised projection of the size of domestic debt, from 83.7 percent of GDP to 77.7 percent, it increased the revised projection of foreign external debt from 10.1 percent to 20.8 percent for 2016–2017. According to figures in June 2018, external debt is fast approaching 40 percent of GDP.

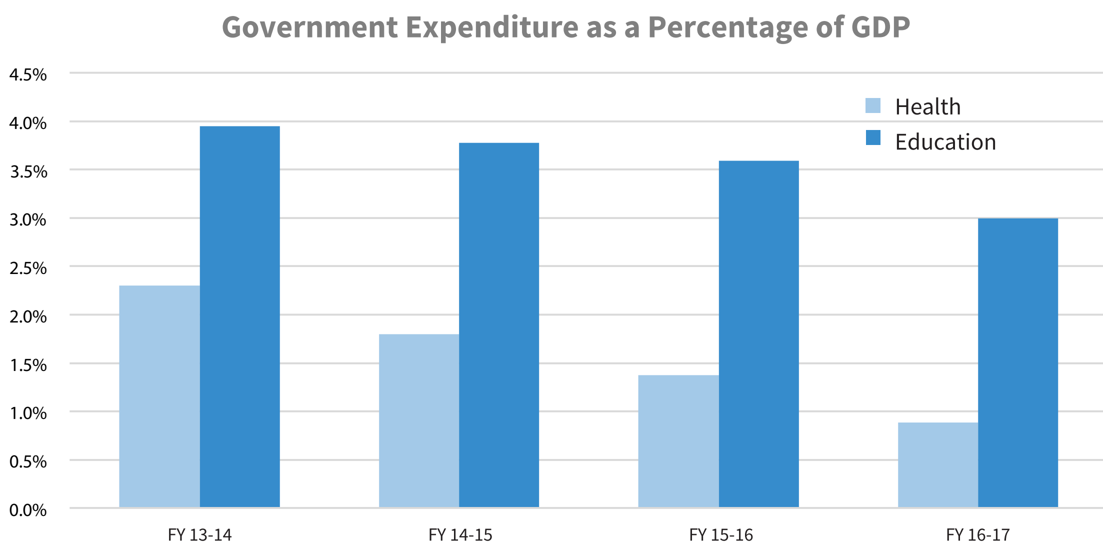


The rate of increase for the broad money supply has returned to previous high rates after a spike after August 2016. The current rate has returned to a rate about the same as the average of the increase in recent years of 17.86 percent from August 2013 to August 2016 (excluding the spike from August 2016 to January 2017, because it was distorted by the impact of devaluation on the increase of dollar deposits). The June 2018 year-on-year increase in money supply stood at 18.4 percent, the higher growth reflecting the decreases in the interest rate, adding to previous expansionary policy. One indicator that reflects a tightening of monetary policy is the increase in banks' reserve requirements, which moved in October 2017 from 10 percent to 14 percent.



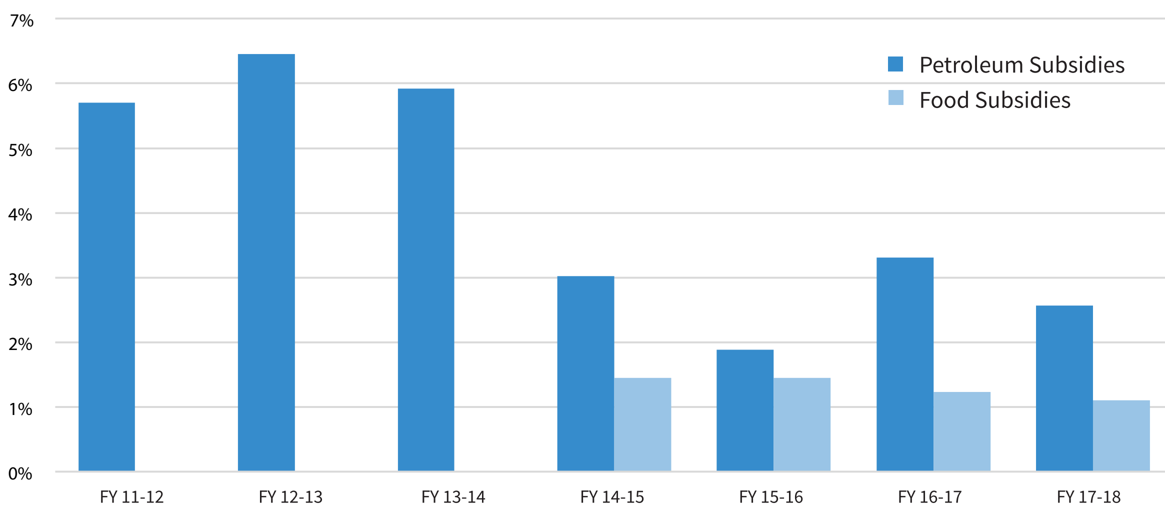
Socioeconomic Trends and Developments

A massive reduction in government spending exceeded even the IMF's target for budget deficit, but came at the expense of reduced spending on health and education. The budget deficit was narrowed to 9.8 percent of GDP in 2017–18, down from 12.5 percent in 2015–16, dipping below the 10 percent line the first time in six years. In addition, the government managed a primary budget surplus for the first time in 15 years, reaching LE44 billion. However, this reduction came at the expense of lower spending on key social services. Spending on education, for example, was reduced from an already low 3.05 percent of GDP in 2016–17 to 2.6 percent of GDP in the planned budget for FY 17–18. Spending on health also dropped from 1.43 percent in FY 16–17 of GDP to 1.34 percent during the current FY 17–18. This marks a further gap widening of the constitutional requirement of spending 6 percent and 4 percent on education and health, respectively.[7]



The removal of many subsidies was integral to the IMF loan, and the government has gradually and consistently implemented subsidy cuts, raising the price of fuels, electricity, water, and even public transportation. In 2017, cuts to fuel subsidies contributed to inflation peaking at above 32 percent, and cuts to bread subsidies for those without an electronic ration card from 4,000 to 500 state-provided loaves per bakery elicited widespread protests. In May 2018, the price of metro tickets increased by about 300 percent, sparking further protests. In June 2018, the price of piped drinking water increased by 46.5 percent and electricity prices rose by an average of 21 percent for households and 42 percent for factories. Gasoline prices also rose by 50 percent during this month.

Government Subsidies as a Percentage of GDP



Broad unemployment has decreased slowly since the start of the IMF program, but a large number of youth and woman are still unemployed. According to data from the Central Agency for Public Mobilization and Statistics, the unemployment rate fell to 9.9 percent in the second quarter of 2018, down from 12.7 percent in 2016. Meanwhile, unemployment of youth (ages 15–24) is about 34 percent, whereas women's unemployment remains at about 24.7, based on 2017 data from the International Labor Organization. Labor force participation is low, at 30 million, hindered by a young population and limited women's participation. Only 6.3 million women, or 20 percent, are in the labor force. The IMF has cited that increasing female labor force participation to the male level could increase GDP by 34 percent.[8]

Raising the interest rate contributed to ballooning external debt, but lowering it has seen higher inflation and risks dollarization, presenting a serious policy dilemma. The central bank deposit rate increased from 8.75 percent in January 2015 to 18.75 percent in November 2017, before being eased to 16.75 percent in March 2018. The initial increase helped stabilize inflation, but led external borrowing to replace domestic borrowing and caused from 14.2 percent of GDP in 2016 to 40 percent of GDP in April 2018. At the same time, the lowering of the interest rate to 16.75 percent saw inflation rise in June for the first time in 11 months, to 14.5 percent. While reducing the interest rate encourages investment and should ease government debt servicing for future borrowing, the tradeoff of rising inflation represents an immense social cost, wiping out already meager increases in wages and making life increasingly difficult for the low- and middle-income groups. Additionally, if inflation continues at the current high rates and faith in the stability of the pound is not fully restored, this would also increase the risk of dollarization and may risk a renewed foreign currency crisis. To avoid this dilemma, policymakers should adopt short- and medium-term alternatives to borrowing that include strengthening the tax policy and increasing revenues to reduce both debt commitments and budget deficits (see details in subsequent sections), reduce illicit outflows that drain the economy of foreign currency resources, and scrutinize spending on megaprojects or big-ticket military purchases. Long-term alternatives to borrowing will necessitate developing an environment that encourages real job-creation and labor-intensive direct investments by improving accountability and eliminating corruption, both of which require an opening of the political space.

External debt service as a percentage of GDP stood at 36.8 percent in March 2018; continued reliance on external borrowing raises concerns about debt default, particularly given the predominance of short- and medium-term securities in the composition of foreign reserves. While the buildup of foreign currency reserves to pre-2011 levels has been lauded as a positive result of Egypt's economic reforms, the current reserves are mostly composed of debt. Egypt's debt commitments in just the second quarter of 2017–18 (beginning of October until the end of December) were more than $8 billion (or about a fifth of the foreign exchange reserves, which currently stand at about $44 billion). Expanding foreign borrowing exposes the economy to risk of external debt default if the bill continues to grow at this rate; the IMF's third review acknowledged this risk, but concluded that capacity to repay was "adequate." Simultaneously, the Ministry of Finance website shows that the majority of foreign denominated debt—bonds and T-bills—are short- and medium-term securities; comparing foreign reserves to short-term external debt further indicates an unsustainable structure. In June 2010, short-term external debt was 8.4 percent of the reserves, whereas by March 2017, it reached a staggering 44.2 percent. While this figure has dropped to 30 percent in early 2018, it is still much higher than pre-2011 levels. The move to reduce the interest rate may mitigate this risk by making it more viable for the government to issue bonds for periods of five to seven years.

Foreign direct investment inflows have only slightly increased since the signing of the IMF loan, and its benefits have been obscured by targeting to the energy sector. Using the first three quarters of each year, FDI inflows went from $9.6 billion in FY 15–16 to $10.7 billion in FY 16–17, down to $10.2 billion in FY 17–18, with the energy sector has received the bulk of this inflow. This is problematic, as the oil and gas sector is extremely capital intensive rather than labor intensive, thus investment will generate few jobs overall. Moreover, because the energy sector is largely public, this FDI is enlarging the public sector despite goals to expand private enterprise instead. Meanwhile (and despite Investment Minister Sahar Nasr's April 2018 claim that "FDI has picked up 15 percent"), net FDI flows fell 12 percent year on year to $3.8 billion in FY 17–18, falling 20 percent year on year in the second quarter. The lack of substantial FDI increases suggests that, despite warming outlooks from ratings agencies, foreign investors are still not confident enough in Egypt's economic potential to engage in high-risk direct investment—especially those not in the energy sector; rather, they prefer the less risky portfolio investment.

While increased FPI is a positive outcome of reforms, the high percentage of bonds in its composition is worrying. Part of the increase in indirect investment (FPI) is a matter of concern, because portfolio investments heavily feature government bonds; FPI in the form of bonds does not generate jobs, real wealth, or tax revenue, and hence are only a viable solution to short-term hard currency shortages. Their medium- and long-term implications are negative and an unsustainable way to bring dollars into the country, compared to the other form of FPI—investing in the stock market—which generates jobs and wealth during initial public offerings (IPOs). In a positive trend, the total market capitalization of the Egyptian stock market has dramatically increased since the start of the IMF program, from LE382 billion in June 2016, reaching a peak of over LE1 trillion in April 2018. This influx of foreign and domestic investment is a positive sign of economic growth and investor confidence. Moreover, the next years are set to see 23 IPOs of state-owned companies, raising about LE80 billion in funds.

Focusing only on reducing the size of the wage bill has led to stagnation in wages (amid increasing prices), with negative implications for middle income groups and women's employment. The wage bill from 2017 was high relative to taxes and government revenues, but more so because latter were low rather than wages being high; relative to GDP, Egypt's wage bill is close to the international average, if not less. The new wage bill for FY 18–19, effective July 2018, will allocate LE64 billion in wage and pension increases; public wages increase from LE240 billion to LE270 billion, with the remaining LE34 billion reflecting pension increases). This 12.5 percent increase in wages, while more significant than the 4.7 percent increase from the previous year, is still meager compared to the drastic subsidy cuts to fuel and electricity, and continued rates of high inflation reflect no real increase. Although increased efficiency of bureaucracy is crucial, better distribution of government wages is necessary, rather than a reduction in mere size of the wage bill. Civil servants in Egypt constitute a large portion of the lower-middle and middle income groups that spend income on consumer products, driving domestic demand and therefore job creation and growth. Reducing pay would increase the pressure on a middle class already struggling with increasing prices due to subsidy cuts and inflation. Second, half of the female workforce is employed by the public sector, and curtailing public employment is already having a negative impact on the employment of educated women, undermining one of the explicit goals of the IMF program. To mitigate these problems, the distribution of actual service providers such as doctors and teachers, who are in short supply, need to be balanced against the overcrowded back office and administrative staff.

Subsidy cuts have reduced government spending but disproportionately impacted the poor, and social welfare programs have only addressed part of the problem. While amending the previous inefficient subsidies program is necessary for containing the state budget and increasing growth, concerns remain. As low, medium, and high-income households all received the same subsidized prices for commodities like fuel, energy, and water, this government spending was inappropriately allocated. To high income households, these subsidies were negligible, whereas they were a necessity for the lower bracket. Considering this, however, the rapid and drastic cutting of these subsidies has had a disproportionately negative effect on the poor, particularly when combined with high inflation. While government cash transfer and food programs like Takaful and Karama have been successful in alleviating pressure on the poor, these programs are simply not enough to compensate for the combination of high inflation, a devalued pound, and cuts to subsidies. Additionally, many lie narrowly outside of the recipient bracket and remain uncovered by the programs, and identifying those truly in need is complicated by the immense size of the informal sector, which may lead some to receive undue benefits where they claim lower formal revenue than their true income.

The current tax structure is inefficient and relies disproportionately on contributions from lower-income groups. Egypt's credit profile issue highlights the need for the government to improve its revenues, especially tax revenues, considerably. However, almost all new increases in tax revenues are contributed to by an increase in consumption taxes, which again will have a disproportional impact on already struggling lower-income groups and may reduce demand. Meanwhile, Egypt only collects about 12.4 percent of GDP in tax, whereas developed countries in Europe and North America range between 25 and 45 percent, and middle-income countries normally have about a fifth of their GDP paid in taxes. To help reduce the budget deficit without cutting spending on key social services such as health and education and do so in a way that does not kill growth, Egypt should have a target for tax revenues to reach 20–25 percent of GDP in the coming years. Currently, tax revenues from property, corporate income, and professional income are still meager and represent untapped tax revenue streams. Enforcing the property tax particularly would be ideal because it does not distort markets and will decrease the speculative nature of Egypt's real estate market, stabilizing the prices of property and diverting capital to sectors that create more stable jobs (rather than the real estate sector, in which employment is precarious and seasonal). Another short-term measure of reform would be to reduce illicit financial outflows (IFO) and base erosion and profit shifting, which drains the economy of its scarce foreign currency resources.

Spending cuts have further reduced critical social spending, with human rights and long-term economic implications. The most direct and obvious immediate impact of austerity measures has been access to health and education as a result of budget cuts in these two areas. The quality of both education and health services in Egypt is already poor and was in dire need of investment, yet only 2.6 percent of GDP was allocated on education and 1.53 percent on health in the FY 17–18 budget (below constitutional requirements). Drastic cuts threaten to further deteriorate the quality of these key services, and therefore have an unfavorable impact on the development and well-being of Egyptians (especially the impoverished and marginalized, who rely primarily on public services). The less direct impact is the right to an adequate standards of living as stipulated by Article 25 of the Universal Declaration of Human Rights and Article 11 of the International Covenant on Economic, Social, and Cultural Rights. To avoid further deterioration on these indicators and ensure adequate investment in human capital, the IMF and the Egyptian government should adopt a human rights impact evaluation to accurately capture the human rights implications of the program on the population, especially poor and marginalized groups, guiding principles for which are currently being developed by the United Nations independent expert on foreign debt and human rights.

The facilitation of private-sector growth and investment has seen a steady drop in unemployment, but cutting public-sector employment puts the already marginalized female labor force in a more difficult position. The public sector employs more women than the private sector, with women reporting more equal working and pay conditions in the former sector. With a goal of all-inclusive growth, the government should work to encourage labor force participation and accessibility for women by making daycares more widely available, by providing incentives for women to pursue education and less precarious employment, and by improving the safety of public transportation for female commuters. Separately, creating jobs alone will not amend youth unemployment; the country's long faltering education system will need to be drastically revitalized if the country is to equip its youth with the skill sets and capabilities needed in a modern labor force.

APPENDIX A: LAW BRIEFS

VAT Law

Background: The Value-Added Tax Law was drafted and approved by the cabinet in May 2016. The House of Representatives approved the draft law in August 2016. President Abdel-Fattah El Sisi ultimately ratified the law; it was published in the Official Gazette in September 2016. The VAT Law was amended in November 2017 to increase the taxation rate on cigarettes and hookah.

Summary: The VAT Law replaces the previous 10 percent sales tax with a VAT initially set at 13 percent that will increase to 14 percent in the fiscal year following the law's ratification. Although the VAT Law applies to a broad range of goods and services identified by the text, it also exempts 56 basic goods and services in order to ease the burden on those considered economically vulnerable. Rather than taxing businesses at the end of an item's production, the VAT Law stipulates that businesses are taxed at each stage throughout the production process. Additionally, the law amplifies the punishment for tax evasion, as violators face imprisonment of three to five years and a fine between 1,000 and 10,000 Egyptian pounds (LE). Important to note, however, is that tax evasion claims can only be initiated upon the minister of finance's request, raising concerns about possible unfair application.

Significance: The VAT Law is expected to streamline the process of tax collection, broaden the tax base, and take on the informal economy, bringing in revenue to the government. The VAT Law replaces the previous sales tax scheme with a tax scheme that is designed to make revenue collection easier and tax evasion more difficult. At the same time, however, critics of the VAT Law fear that it will contribute to inflation and burden poor Egyptians by claiming a larger proportion of their income. There is additional concern about the degree to which the VAT Law will be properly enforced and whether businesses may end up taking advantage of weak enforcement by raising prices but failing to pay the tax themselves.

Legal Context: The VAT Law repeals the General Sales Tax Law (Law No. 11 of 1991).

Political Context: The VAT Law was drafted, approved, and ratified to help implement a number of the conditions set by the International Monetary Fund when it issued its $12 billion loan to Egypt.

Adherence to Legal Norms: Article 27 of the Egyptian Constitution commits the country's economic system to take "into account the financial and commercial balance and a fair tax system." Further, Article 38 notes that "the state commits to the development of the tax system and adoption of modern systems to achieve efficiency, ease, and accuracy in tax collection." Ratified in this legal context, the VAT Law seeks to modernize the Egyptian taxation scheme; however, implementation of the VAT and its impact on society in the coming years will determine whether the tax is meeting its constitutional mandate to achieve efficiency, ease, and accuracy.

Implementation: Results for fiscal year 2017–18 budget results recorded LE781.1 billion in revenue, up 18.5 percent from the previous fiscal year. This included LE261 billion in VAT, which rose LE79 billion from the previous fiscal year. VAT has been implemented with a bias, though, as businesses owned by the military are exempt from the VAT policy. This exemption disproportionately impacts private-sector businesses, as defense industrial plants are not taxed on products purchased for national security purchases, but private-sector businesses are required to pay the tax in its entirety.

Text: The official text of the VAT Law is available here in Arabic. The official text of the VAT Law's November 2017 amendment is available here in Arabic.

Bankruptcy Law

Background: Egypt's Bankruptcy Law was issued as part of a series of economic reform laws that collectively seek to implement the conditions for the $12 billion International Monetary Fund loan to Egypt. The cabinet approved the draft law in January 2017 and subsequently sent it to the House of Representatives; the legislature approved the draft law in January 2018. President Abdel-Fattah El Sisi ultimately ratified the Bankruptcy Law in February 2018.

Summary: The Bankruptcy Law creates mechanisms that decrease the need for individuals and companies to resort to the court system in cases of bankruptcy. The law also eliminates prison sentences for individuals who declare bankruptcy except in cases of fraudulent behavior, though it amplifies the penalties for those individuals convicted of bankruptcy fraud. The law regulates the process of financial and administrative restructuring of projects, whether troubled or stalled, in an attempt to remove them from faltering and put them back into the market. Per the law, project restructuring plans must be completed within 60 days of filing for a standstill and judges are given the discretion to extend that deadline. The Bankruptcy Law also reduces the liquidation timeline for businesses from about two years to nine months.

Significance: The Bankruptcy Law relaxes restrictions on businesses and individuals facing bankruptcy, representing a liberalization of the economy. Under the law, individuals and legal entities enjoy more financial flexibility and face reduced chances of financial hardship. The elimination of prison sentences in bankruptcy cases reflects yet another example of the law's liberalizing effects on the economy.

Legal Context: The Bankruptcy Law is Egypt's first bankruptcy law; prior to the law's ratification, bankruptcy cases were dealt with on a case-by-case basis. The law is one of multiple economy-themed laws passed in accordance with the implementation of the conditions for the IMF loan to Egypt. It was approved after the VAT Law and Investment Law, which both included significant economic reforms and liberalization endeavors. The Bankruptcy Law does away with some components of the Trade Law, which established an extensive bureaucratic network for bankruptcy courts that hampered the process.

Political Context: When the IMF agreed to issue its $12 billion loan to Egypt, it mandated that the government further liberalize the economy, resulting in multiple pieces of legislation, including the Bankruptcy Law, aimed at improving the business environment in the hopes of attracting foreign investment. At the time of the law's passage and amid the IMF reform conditions, Egypt's economic changes disproportionately impacted its poorest residents through measures such as cuts to energy subsidies that raised prices by over 100 percent. Egypt continues to rank near the bottom in terms of efficient markets for companies to operate in, thus further limiting the country's economic potential.

Adherence to Legal Norms: Article 27 of the Egyptian Constitution states that "the economic system aims at achieving prosperity in the country through sustainable development and social justice to guarantee an increase in the real growth rate of the national economy, raising the standard of living, increasing job opportunities, reducing unemployment rates, and eliminating poverty." It further commits the Egyptian economic system to a number of things including supporting competitiveness, encouraging investment, taking into account the financial and commercial balance, and achieving a balance between the interests of different parties to maintain the rights of workers and protect consumers. The country's new Bankruptcy Law promises to contribute to a liberalization and reinvigoration of the economy in accordance with this constitutional provision. However, experts have expressed some concern about how the law interacts with Egypt's Labor Law, particularly the right of a terminated worker to demand compensation.

Implementation: Given that the Bankruptcy Law was ratified only seven months ago, its effect on investment and the economy as a whole has not yet been fully documented. However, the law, in concert with other economic reforms and laws, is expected to positively influence the ease of doing business in Egypt and therefore, increase foreign and domestic investment.

Text: The full text of the law in Arabic is available here.

Investment Law

Background: Egypt's Investment Law was issued as part of a series of economic reform laws that collectively seek to implement the conditions for a $12 billion International Monetary Fund loan to Egypt. The draft law was approved by the country's cabinet in January 2017. The House of Representatives approved the draft law in early May 2017. President Abdel-Fattah El Sisi subsequently ratified the law and it was published in the Official Gazette on May 31, 2017. The implementing regulations of the Investment Law were passed in October 2017.

Summary: The Investment Law promotes remote and underdeveloped regions by offering tax breaks of up to 50 percent for investments in these areas, though companies are not eligible for the tax breaks unless they are established within a three-year period of the issuance of the law's implementing regulations. Additionally, the law offers rebates on land acquisition costs for factories, primarily in underdeveloped regions, as long as they begin operations within a two-year period after breaking ground. The law reestablishes free zones for private companies that are subject to a two percent fee to be collected evenly between the Ministry of Finance and Ministry of Investment. The law also expands its scope to include other previously not-included industries, such as education, sports, and waste recycling, representing an increase in the types of businesses that will be eligible to incorporate; previously, recognized industries had included more traditional ones, such as automobiles and pharmaceuticals.

Significance: The Investment Law aims to attract foreign investors to Egypt to revitalize the Egyptian economy. The financial rebates and significant tax breaks for factories included in the law provide significant incentives for companies to begin operations in Egypt.

Legal Context: The Investment Law was passed after roughly two years' worth of debate and revisions to the legislation. It repeals the Investment Guarantees and Incentives Law (Law No. 8 of 1997). The Investment Law includes similar components to the 1997 law, but offers some additional incentives, consolidates previous amendments made to the 1997 law, and removes certain previously identified investment obstacles. During the legislative process, members of the House of Representatives offered conflicting opinions on the law, with some stating that the law would assist in reducing state bureaucracy and others dismissing the law's necessity and calling for an increase in production.

Political Context: The Investment Law was approved to help implement a number of the conditions set by the IMF when it issued its $12 billion loan to Egypt, including loosening restrictions on the exchange rate in order to promote foreign investment. In the same year as the Investment Law's passage, about $17 billion was invested in Egypt's treasury bills, though businessmen and experts warned of the potential disastrous repercussions of this measure due to the volatility of currency. Similarly, an IMF progress report on Egypt's economic reforms noted that the country had made progress in its attempts to liberalize investment opportunities for nontraditional industries.

Adherence to Legal Norms: Articles 27 and 28 of the constitution commit the Egyptian state to encouraging investment and to "providing an environment that attracts investment." Accordingly, the country's new Investment Law was ratified in furtherance of these provisions. Critics, however, have noted that the Investment Law offers little to combat corruption and the increasing economic influence of the military, despite a constitutional commitment in Article 218 to fight corruption.

Implementation: While details of the Investment Law's implementation are not yet available, the law was welcomed widely among the business, investment, and donor communities upon its passage. By way of example, First Deputy Managing Director and Acting Chair of the International Monetary Fund's Executive Board David Lipton was quoted as saying: "An industrial licensing law and a new investment law have been passed, and … are critical pieces of legislation necessary to strengthen the business climate, attract investments, and promote growth."

Text: The official text of the Investment Law is available here in Arabic. The official text of the implementing regulations of the Investment Law is available here in Arabic.

Industrial Licensing Law

Background: The Law on the Simplification of the Procedures for Licensing Industrial Installations (Industrial Licensing Law) was approved by the cabinet in January 2017. It was approved by the House of Representatives in March 2017. Afterward, President Abdel-Fattah El Sisi ratified the law; it was published in the Official Gazette in May 2017.

Summary: The Industrial Licensing Law mandates that the Industrial Development Authority (IDA) respond to a request by a business for licensing within 30 days of the request being filed. Licenses will be offered to businesses based on two separate criteria depending on the type of factory. Businesses classified as heavy industries that pose significant environment or safety concerns must receive prior approval from the IDA and pay up to 20,000 Egyptian pounds (LE) in fees. Smaller businesses that do not hold similar externalities are required to inform the IDA of their intent to open a factory; they are subsequently given a temporary 90-day permit to meet the IDA's standards in order to continue operations. If businesses do not comply with the standards within the 90-day period, they can be granted a 180-day extension to fully adhere to the requirements. The law also tightens penalties for violators of the law by subjecting individuals to up to one year in prison and a fine of LE10 million for violating components of the licensing process.

Significance: In light of the government's economic reform program, the Industrial Licensing Law furthers efforts to liberalize the economy. The law reduces the amount of time required for businesses to become recognized entities by the government in an attempt to encourage investment in Egypt. By expediting the application process, the law encourages businesses to invest in Egypt through reduced licensing restrictions.

Legal Context: The Industrial Licensing Law repeals the Industry Law of 1958 and the Industrial and Commercial Workshops Law of 1954. The Industrial Licensing Law consolidates preexisting entities under the aforementioned laws and establishes the Industrial Development Authority as the sole entity responsible for business' licensing agreements. Observers had deemed the previous laws as overly bureaucratic and prohibitive in allowing companies to achieve the necessary licenses to operate. Important to note is that the Industrial Licensing Law was passed amid a series of economy-focused laws aimed at promoting investment in Egypt and liberalizing the economy, including the Bankruptcy Law, Investment Law, and VAT Law.

Political Context: At the time of the law's passage, Egypt's economic state was in disarray amid ongoing reforms aimed at liberalizing the system. To comply with the International Monetary Fund's conditions following its $12 billion loan, Egypt cut energy subsidies, allowing prices to more than double for fuel and electricity, which had disastrous economic effects for the country's poorest residents at disproportionate levels. Further, international debt increased to LE1.575 trillion in 2018 and domestic debt rose to LE3.4 trillion in 2017; these increases have been credited to Egypt investing in multiple mass-development power plants nationwide, including the Dabaa Nuclear Plant.

Adherence to Legal Norms: Articles 27 and 28 of the constitution commit the Egyptian state to encouraging investment and to "providing an environment that attracts investment." Accordingly, the country's new Industrial Licensing Law was ratified in furtherance of these provisions.

Implementation: In light of other investment-themed bills passed during this time, the Industrial Licensing Law has reportedly encouraged individuals to start businesses and promote investment opportunities in Egypt. Between June 2017 and May 2018—a period following the law's ratification—8,400 operating licenses were granted to businesses, compared to 340 in the same period before the law was approved.

Text: The full text of the law is available in Arabic here.

[1] The SIPRI Arms Transfers Database uses a trend value indicator (TIV) metric to measure relative year-on-year weapons imports increases.

[2] The Egyptian government's fiscal year runs from July 1 to June 30.

[3] Final results for FY 16–17 had not been published at the time this report was written.

[4] Some estimates put the military empire's contribution to the economy as high as 40 percent of GDP, while the official figure sits at 1.5 percent. For more, see: https://fas.org/sgp/crs/mideast/RL33003.pdf and https://www.madamasr.com/en/2016/11/02/feature/economy/sisi-says-military-economy-is-1-5-of-egypts-gdp-but-how-accurate-is-this/.

[5] While the property tax law had been on the table as early as 2008, it faced strong opposition and was not formally ratified until 2014, though the law's provisions were backdated to the previous year. Still, the government has been slower in implementing it, though the tax authorities have recently listed October 15, 2018, as a deadline to pay any property taxes due without a fine.

[6] The VAT is a tax on all goods and services wherein the tax is applied on all stages of production and distribution, unlike a sales tax, which is paid upon final consumption. The end result is the same; the consumer ultimately bears the brunt of the price's final increase due to the taxation, which affects primarily low and middle-income earners, making the tax regressive. However, tax collection is more efficient; tax revenues more quickly proceed to the government and tax evasion is much more difficult.

[7] "Where does our money go this year?" campaign by the Egyptian Initiative for Personal Rights (EIPR. Could be accessed in Arabic on:, "Where Does Our Money Go This Year?" (press release), July 11, 2017, https://eipr.org/press/2017/07/%D8%A7%D9%84%D9%85%D8%A8%D8%A7%D8%AF%D8%B1%D8%A9-%D8%A7%D9%84%D9%85%D8%B5%D8%B1%D9%8A%D8%A9-%D8%AA%D8%B7%D9%84%D9%82-%D8%AD%D9%85%D9%84%D8%A9-%D8%A3%D9%8A%D9%86-%D8%AA%D8%B0%D9%87%D8%A8-%D8%A3%D9%85%D9%88%D8%A7%D9%84%D9%86%D8%A7-%D9%87%D8%B0%D8%A7-%D8%A7%D9%84%D8%B9%D8%A7%D9%85%D8%9F-%D9%A2%D9%A0%D9%A1%D9%A7-%D9%A2%D9%A0%D9%A1%D9%A8.

[8] DeAnne Aguirre, Leila Hoteit, Christine Rupp, and Karim Sabbagh, Empowering the Third Billion: Women and the world of work in 2012, Booz & Company, 2012, https://www.strategyand.pwc.com/media/file/Strategyand_Empowering-the-Third-Billion_Full-Report.pdf.

[9] A recent IMF report also shows how taxing wealthy groups will improve equality—at a times when inequality is on the rise—without affecting growth. See Larry Elliott and Heather Stewart, "IMF: higher taxes for rich will cut inequality without hitting growth," the Guardian, October 11, 2017, https://www.theguardian.com/business/2017/oct/11/imf-higher-taxes-rich-inequality-jeremy-corbyn-labour-donald-trump.

[10] Global Financial Integrity, a nonprofit organization in Washington, estimates that Egypt loses about $4 billion every year in IFO. It is difficult to estimate accurately how much Egypt loses on top of that as a result of legal profit shifting for tax purposes, but it is also estimated to be in the billions of dollars. See Dev Kar and Joseph Spanjers, Illicit Financial Flows from Developing Countries: 2004–2013, Global Financial Integrity, December 2015, http://www.gfintegrity.org/wp-content/uploads/2015/12/IFF-Update_2015-Final-1.pdf.

[11] Eighty-three percent of female citizens report experiencing some kind of sexual harassment, with public transportation the second most likely place for it to occur. For more, see the Cooperation for urban mobility in the developing world (CODATU), "Sexual Harassment and Women-Only Transport in Egypt," http://www.codatu.org/publications/sexual-harassment-and-women-only-transport-in-egypt/.

APPENDIX B: METHODOLOGY

TIMEP's Egypt's Economic Trajectory team collects and continuously updates relevant data to highlight developments, conduct statistical and qualitative analyses, identify long-term trends, and compare the goals of the reform program (as articulated by the International Monetary Fund or the Egyptian government) with its implemented activities and the reality on the ground. The ability to present such data is, of course, restricted by the availability of the data itself and the frequency of its release. The project relies primarily on data presented in the Central Bank of Egypt's monthly statistical bulletin and the Egyptian Ministry of Finance's financial monthly report as listed below, as well as the Central Agency for Public Mobilization and Statistics, the World Bank, and national budget data, where noted. Budget projections may be referenced and noted, otherwise all figures reflect actual data. Whenever possible, the project will also present the data in relation to the objectives of the IMF program to be able to assess the success of the program according to its own standards.

The seemingly technical issues of macroeconomics will be addressed with a rights-based approach. Most economic analyses define success based on measurable but intangible indicators such as "growth" or "foreign currency reserves," without providing an explanation of how such policies will impact different social groups such as the poor, youth, and women, as well as their social and economic rights. To understand the long-term human rights impact and therefore the eventual success of monetary and fiscal policies, it is important for them to be addressed in terms of their human rights impact.

Based on these pillars, the team developed a set of indicators that would help to track development and impact. The indicators include but are not limited to:

1. Monetary Indicators

1.1 Inflation Indicators, all as reported by the Central Bank of Egypt

1.1.1 Broad Money Supply (M2)

1.1.2 Inflation Rate % (monthly and year on year)

1.1.3 Domestic Credit (government, business sector private and public, household sector)

1.1.4 Income Velocity of Money (GDP/M2)

1.2 International Reserves, as reported by the Central Bank of Egypt

2. Fiscal Indicators

2.1 Taxation, as reported by the Ministry of Finance

2.1.1 VAT as % of GDP/Total Tax Revenue

2.1.2 Corporate Tax Revenue, excluding Suez Canal and Petroleum Industry as % of GDP/total tax revenue

2.1.2 Tobacco Taxes

2.2 Public Debt Sustainability, domestic debt as reported by the Ministry of Finance, external debt as reported by the Central Bank of Egypt

2.2.1 Total Debt to GDP/Total Government Revenues

2.2.2 External Debt to GDP/Total Government Revenues

2.2.3 Domestic Debt to GDP/Total Government Revenues

2.2.4 Debt Servicing as % of GDP/Total Government Revenues

2.2.5 Short-term External Debt/International Reserves

2.3 Wages, as reported by the Central Bank of Egypt

2.3.1 Real Increase/Decrease in wages

2.3.2 Wages Bill as a Percent of GDP (comparison with international average(s))

2.4 Energy Subsidy, as reported by the Ministry of Finance

2.4.1 Electricity Subsidy (IMF program goal: eliminate electricity subsidies over the next five years)

2.4.2 Petroleum Subsidies

2.5 Budget Deficit, as reported by the Central Bank of Egypt

3. Socioeconomic

3.1 Employment, as reported by Central Agency for Public Mobilization and Statistics

3.1.1 General Unemployment Rates

3.1.2 Youth Unemployment Rates

3.1.3 Women Unemployment Rates

3.2 Food Subsidies and Cash Transfers, as reported by the Ministry of Finance

3.3 Growth Rates, as reported by the Ministry of Finance