New reforms needed to tackle Egypt’s economic challenges, claims TRENDS study

The IMF program implemented policy adjustments and structural reforms yet challenges remain for sustainable and inclusive economic growth

ABU DHABI, March 12, 2020 – The IMF-supported economic reforms program launched in 2016 succeeded in improving almost macroeconomic indicators for the Egyptian economy yet a new phase of reforms is needed to tackle the remaining problems on the supply side, a new study has claimed.

A Policy Paper – *Egypt beyond economic stabilization: the road to sustainable growth* – published by TRENDS Research & Advisory says that such a step would enhance the economy’s efficiency and achieve sustainable and inclusive growth.

“As the reform program reached its conclusion in November 2019, with significant improvement in containing domestic absorption and in some structural issues, challenges remain for sustainable and inclusive economic growth,” says the study.

According to the research study, areas of improvements includes simulating domestic private investment and foreign direct investment apart from the energy sector. Other areas that require policy attention are privatization, human capital development and resolving red tape, inefficiency, and redefining the roles of public and private sectors.

Reform achievements

The study explained that the IMF program succeeded in improving almost all the macroeconomic indicators for the Egyptian economy as the real GDP growth increased from 4.3 percent in 2015/16 (fiscal year starts July 1st) to 5.5 percent in 2018/19 and was estimated to be 6 percent in the medium term.

“The unemployment rate declined from 12.7 percent in 2015/16 to 8.8 percent in 2018/19. As for the inflation rate, the initial evaluation and adjustment of fuel prices led to a spike in it to reach 29.8 percent in 2016/17, but the prudent monetary policy that tackled the second-round effects led to a continuous decline of the inflation rate to reach 12.4 percent by the end of 2018/19,” the study said.
According to the study, the consolidation efforts succeeded in switching the primary deficit of -3.5 percent of the GDP in 2015/16 to a primary surplus of 2.0 percent in 2018/19, which led the overall budget deficit to decline from -12.5 percent of the GDP to -8.2 percent.

Egypt’s ranking in the Global Competitiveness index improved with the implementation of the 2016 reform program as its overall ranking reached 93 out of 141 countries in 2019 compared to 100 out of 137 countries in 2017/18, said the study.

The CHEP framework

One of the important highlights of the study was the introduction of CHEP as an integrated structural policy framework for enhancing the supply side of the Egyptian economy. The suggested framework covers four major pillars – Competitiveness Improvement, Human Capital Development, Efficiency Enhancement, and Private Sector Participation.

To achieve sustainable and inclusive growth, the study recommends a policy framework for enhancing the supply side of the economy, driven by improving Egypt’s global ranking in the Doing Business Index, and the Global Competitiveness Index.

“These reforms should target the policies related to improving human capital, increasing the role of the private sector through enhancing privatization and encouraging PPPs, removing the remaining distortions, cutting red tape, and working mainly on achieving significant improvements on Egypt’s global ranking in almost all components of the Human Development Index, the Doing Business Index, and the Global Competitiveness Index,” the study says.