

# Policy Perspective

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## EGYPT POST JANUARY 2011

### AN ECONOMIC PERSPECTIVE\*

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*This paper offers a road map for future economic development in Egypt post-January 25th Revolution. It attempts to answer the following questions:*

- *Which development model should Egypt follow in the wake of the revolution?*
- *What can be done in the short-run to deal with the economic downturn while ensuring that measures adopted do no harm to future economic reform efforts?*
- *Finally, once the dust settles and a new political system emerges, what can be done to achieve faster economic growth with greater equality among all Egyptians?*

*It argues that success on the political front is what will make it possible for Egypt to make progress on the economic development front.*

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The Revolution of January 25th 2011 offers a unique and historic opportunity to dramatically improve the way Egypt is governed. The resulting shift in the political paradigm also paves the way for a new development strategy that combines faster economic growth with a fair distribution of the benefits on the basis of contribution or need rather than political connections. And, unlike those overly concerned with the short-run economic losses, similar political transformations elsewhere indicate that these losses will be modest relative to the potential gains once security is restored and the ability of the new government to make credible promises is evident.

The rationale for optimism is not difficult to articulate. In a democratic society, where liberties are respected, the separation of powers among the executive, legislative and judicial branches of government is

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### About the author



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clear, the laws are enforced efficiently and fairly, and where citizens elect their leaders freely, hold them accountable and replace them if they do not meet their aspirations:

- Policymakers are likely to adopt economic policies that serve the interests of the majority of the population rather than a few. This is the egalitarian argument.
- Because policies will also be debated more openly, the most viable and efficient options are likely to be selected. That is the policy efficiency argument.
- Finally economic (and other agents) will have more confidence in the promises (policies) made by government on account that these promises no longer depend on the whims of one person or the dominant influence of close associates. This is the credible commitment argument.

Understandably, the political transition to the new state of affairs will take time to materialize and even more time to mature. But the speed with which this process is carried out, starting with the development and announcement of a clear road map, is what will bring about quick economic recovery in the short-run and lay solid foundations for sustainable economic growth with social justice in the medium run. After all, not much progress can be made without a reasonable sense of security and strong confidence in the nature of governance in the future.

That is not to say that we do not need to worry about economic policies in the short-run or about having a clear vision for economic development in the future. On the contrary, the failure of past poli-

cies, as will be elaborated below, left an intellectual vacuum and made it abundantly clear that we urgently need clear answers to at least the following three questions:

- Which development model should Egypt follow in the wake of the revolution?
- What can be done in the short-run to deal with the economic downturn while ensuring that the measures adopted do no harm to future economic reform efforts?
- Finally, once the dust settles and a new political system emerges, what can be done to achieve faster economic growth with greater equality among all Egyptians?

This note attempts to answer these questions. It is intended to serve as a modest contribution to igniting a “national dialogue” on a vision for “economic development” in Egypt in the wake of the January 25 revolution, without claiming to be the only way forward. It starts with answering the following question: what went wrong over the past few decades, followed by what needs to be done in the short-run, then in the medium-run.

### What went wrong over the past few decades? In search of a development model

Because those in power up until February 11, 2011 did not represent the majority of the population and had not been held accountable, they pursued a model of development that served their interests and those of their associates. That development model focused primarily on accelerating investment (domestic and foreign) and economic growth by relying on market forces, private initiative and minimal state intervention (i.e., following the Washington Consensus). To please supporters, special deals were carved out in relation, for example, to land allocation, awarding large contracts (for example, natural gas, construction projects) and even through the design of some policies (for example, competition policy, exports subsidy). From the experience of East Asia, one lesson was drawn and adopted, namely that rapid economic growth required champions. Hence, the regime created a large, ultra-rich and ultra-influential business class. The model reached its limits when

several business leaders also became political leaders.

The claim was that the benefits of rapid economic growth would eventually trickle down through job creation and other channels. And because trickle down was taking too long, the regime felt it necessary to appear to be doing something about reducing extreme poverty. Besides being an afterthought, the measures taken in this regard were too partial to make a difference in the lives of millions of Egyptians. One example is the so called 1000 poorest villages, a project that was intended to alleviate poverty in these villages over a period of 5 years. However, progress was slow, ignoring the demand by the poor and leaving out too many of them. The other example is the continuation of the food and energy subsidies, although many studies have shown that these subsidies involve serious leakages and do not fully reach their intended beneficiaries.

The above model was declared by the regime as a resounding success, with endorsement from International Financial Institutions. Success was measured primarily by the magnitude of capital inflows, the accumulation of international reserves by the central bank and exchange rate stability, and above all economic growth. The figures support these claims. Foreign direct investment peaked at US\$13.2 billion in FY08 compared with merely US\$252 million in FY04. And the Central Bank accumulated around US\$35 billion in official international reserves during 2010, and another 10.4 billion in foreign currency deposits by September 2010, due to a surge in portfolio investment inflows and foreign purchases of short-term t-bills. Economic growth averaged 7 percent during the period FY06-FY08, compared with an average of 3.6 percent during FY01-FY05. The part of the strategy that was pursued but not declared is how much corruption was taking place, as recent events uncovered.

More importantly, the fundamental flaw with the above model of development is that it left a large fraction of the Egyptian population behind. The question that was asked repeatedly by many Egyptians was: where did all the benefits from growth go? This question went largely unanswered because the necessary

data to systematically assess the evolution of income and wealth distribution were either not collected in the first place or not made available, perhaps deliberately. However, there were enough signs, beyond visual observations regarding the way the rich and the poor live, that too many Egyptians did not see the fruits of economic growth. Most notably:

- Growth did not create sufficient productive jobs to absorb the new entrants into the labor market, with open unemployment persisting at around 9 percent and 21 percent among the youth (age 15-24). The share of wages to total income declined from 28 percent in 2000 to 25 percent 2009. The process for wage formation in the private sector was not made explicit and trade unions were anything but independent.
- The informal sector, which accounts for 30 percent of GDP and employs approximately 40 percent of the labor force, saw none of the improvements in the business environment by virtue of operating extra-legally. As a result, small entrepreneurs could not expand their business or become more productive since they had limited or no access to formal credit, contracts with large firms or government or even the protection of the law. Workers in this sector operated at low levels of productivity and wages, with no protection against old age, unemployment or ill health.
- Finally, there was no systematic effort at equalizing economic opportunity among Egyptians. Successive governments made only shy attempts if any to improve the quality of education and health services. As a result, even though the policy of free education and health services continued, the services offered did not enable the poor to acquire the necessary skills to benefit from rewarding opportunities in the labor market. Moreover, there is ample evidence that those who benefited from free higher education tend to be rich, born to educated parents and live in urban areas.

Simply put, the development model was flawed. It favored the ruling elite and large private businesses. Large owners of capital were given preference

over workers, farmers and consumers. The model relied excessively on market forces, without effective measures to curb abuse of market power, prevent corruption or reduce extreme poverty.

In search for a better model of development going forward, it is tempting to move from a pro growth to a pro distribution model. It is also tempting to dismiss the private sector as corrupt. However, both conclusions would be a mistake. Just as growth alone is not good enough, distribution might mean equalization of poverty if there is nothing much to distribute. Dismissing the entire private sector as corrupt is neither fair to the vast majority of this group nor to the economy at large. What we need is a balanced model, in which the economy draws on the strength of the state, the private sector and civil society. To this end, we have three possibilities:

- i. looking for a country to imitate,
- ii. following one ideology or another, or
- iii. pursuing what may be called "common sense economics."

The first option is not appealing as no two countries are exactly alike. The ideological option is no longer viable in light of the collapse of socialism in Eastern Europe. So we are left with the option of "common sense economics," the essence of which is to capitalize on accumulated knowledge across the developing world and pragmatically select the best course of action for Egypt to achieve growth with equity. This is the model that seems to have been followed closely by the most successful emerging markets, including many in Asia (e.g., East Asian tigers, China and India) as well as successful countries in Latin America (e.g., Chile, Brazil and Mexico). Taking as given that these economies, except China, share similarly open and democratic regimes, the main features of the model are as follows:

- Economic growth is a necessary but not sufficient condition to achieve widely shared prosperity. The job creating intensity of economic growth, reforms of the social sectors (education, health) and safety nets are all critical ingredients to bring about shared benefits, greater equality of opportunity and protection of the very poor.
- The role of the state is critical in facilitating the functioning of markets through enforcing

contracts, protecting property rights and safeguarding against anti-competitive behavior. The state is also responsible for adopting measures to bring about a more egalitarian society. Where the role of the state is debatable is when it comes to selective intervention to promote certain activities or sectors over others (for example, through ownership, taxes/subsidies, or restrictions). Here the decision must be made on a case-by-case basis.

- Competition, "good", in the sense of dynamic and innovative, private sector and profit maximization are the most efficient mechanisms for resource allocation, improving productivity and encouraging innovation. However, markets do not function in a vacuum and generally do not produce the best outcomes for society on their own. Safeguards are necessary to protect consumers from exploitation and ensure that workers have the right to decent working conditions and fair pay.
- Finally, no successful emerging country has made it without benefiting from the opportunities offered by global markets. At the early stage of development, domestic savings (and investment) are too low, domestic markets too limited and endogenous technology too underdeveloped to achieve rapid growth. Carefully designed integration into world markets can help relax these constraints.

This is the development model suggested for Egypt. It neither presumes the superiority of markets over governments nor does it presume the opposite. Rather, it suggests that Egypt would do well by clearly identifying its ultimate objectives, then pragmatically selecting the most appropriate instruments to achieve these objectives in light of the initial conditions and prevailing knowledge of successful experiences elsewhere. This model is best illustrated by examples, which is what is done below in the context of making recommendations about what can be done in the short then in the medium-run.

#### **What can be done in the short run? "Do no harm"**

Immediately before the revolution in January 2011, the economy was expected to grow in 2010/11 at 5.1

percent, notwithstanding the 2008 global crisis. Unemployment was relatively high (9 percent), as was inflation (above 10 percent). The budget deficit was a problem (8 percent of GDP), but the bigger problem was domestic public debt (above 70 percent since 2008). Egypt's external debt was not huge, amounting to around US\$35 billion (14.7 percent of GDP) in December 2010 and mainly dominated by long-term debt. The Central Bank enjoyed a healthy level of international reserves (\$43 billion in both official and foreign currency deposits) and the exchange rate was relatively stable. The prevailing wisdom was that as the world economy recovered, the Egyptian economy would resume its high growth trajectory and the rest of the macroeconomic indicators would improve.

### *The aftermath of the revolution*

In the wake of the January 25 revolution, lack of security and concern over the course of political events proved to be economically costly. There were significant capital outflows in January-March, including \$6 billion in foreign holdings of treasury bills. Egypt's foreign exchange revenues from exports and tourism were down. Domestic production was interrupted, partly because of security concerns, partly because of the temporary closure of banks and stock exchange and partly because of the strikes over salary increases that ensued once the security situation improved somewhat. Some private and public properties were damaged in the early phase of the revolution. And economic agents continue to refrain from making long-term decisions about consumption and investment (and savings) in anticipation of how things will evolve on the political front. As a result, the forecast for economic growth this year is now expected to be down to 1-2 percent. Unemployment is expected to rise, not only because of the economic slowdown but

### **Egypt: Selected Macroeconomic Indicators**

	2008/2009	2009/2010	2010/2011*
Real GDP growth (Annual % change)	4.7	5.1	1-2
Consumer Price Index (Annual % change)	16.2	11.7	10.7
Current Account (% of GDP)	-2.3	-2	-3.3
Budget Deficit (% of GDP)	-6.9	-8.1	-9.7
Public Debt (% of GDP)	76	74	74

\*Projections

Source: IMF Data

also because of the return of Egyptian migrants from Libya. Inflation is likely to remain above 10 percent (fueled by higher food prices which hurt the poor in particular).

In response to the above developments, the monetary authorities accommodated the outflows of capital and the decline in foreign exchange earnings with a drawdown of reserves (official and unofficial) in the amount of \$13 billion between January and March. At the end of March, official reserves were \$30 billion, or approximately six months of imports. The exchange rate depreciated by 2 percent over the period. The Central Bank imposed no formal controls on capital outflows, although there were restrictions on the amounts that can be withdrawn by Egyptians from banks and large withdrawals were subject to scrutiny out of concern that they belong to individuals under criminal investigation. Firms needed to show evidence to be able to use their funds to secure imports of intermediate inputs. When the banks were reopened on February 6 and the stock market on March 23, there was no run on banks and the stock market did fall but not crash. Overall, the initial response has been reasonably well managed by the Central Bank. But the pressure is not over yet. The sharp decline in tourism, the slowdown in remittances and higher food prices are expected to cause a current account deficit of around 3 percent of GDP in 2010/11.

<sup>1</sup> Notwithstanding the short term economic losses associated with the revolution, the potential economic gains in the medium and long terms are expected to be much more substantial. Moreover, the economic losses are trivial relative to the ultimate price paid by those who were killed or injured in the fight for liberty. Finally, the magnitude of the economic losses in Egypt so far are much less than those endured by other countries during similar political transitions, certainly in Eastern Europe.

On the fiscal front, the situation is more worrisome. To start with, both the fiscal deficit and domestic public debt were large. While most of the debt is denominated in Egyptian pounds, it is of a short term maturity structure with annual rollover needs of 25 percent of GDP. In response to popular demand, in some cases justifiably so, the government followed expansionary fiscal policy, for example giving compensation to relatives of those killed in the revolution or deferring payment of taxes for 2-3 months. Some actions were not justified, nevertheless, and could prove costly in the medium run. The list includes permanently hiring 450,000 temporary employees and premature payment of a 15 percent bonus to civil servants and pensioners. The government's offer to accommodate requests for employment generated 7 million applications. These measures, along with the announcement that the government is working to adjust the wage structure and revising the minimum wage, raised expectations and probably further protests. On the revenue side, a similar pattern emerged. The real estate tax law, which had been passed after long discussions would only have affected a small, relatively wealthy section of the population, was put on hold. So was the move on the value added tax as a means for raising revenue. At the same time, borrowing costs have gone up as Treasury bill yields increased by some 200 basis points from pre-January 25 levels. The fiscal deficit is now expected to widen by nearly 2 percent of GDP at the end of the fiscal year in June.

The next 6-8 months are critical. Expectations of immediate dividends from the revolution are high at a time when growth has decelerated and unemployment is high. Food and fuel prices are likely to remain at elevated levels and the government's borrowing costs have risen. Non-performing loans are expected to go up. Meanwhile, the balance of payment will come under increasing pressure as the current account deficit widens and foreign investors wait for elections to take place. According to the government, the financing gap over the next 14 months is estimated at \$12 billions (US\$2 billion for FY11 and US\$10 billion for FY12).

#### *Recommendations in the short run*

Addressing the above problems through a combina-

tion of seeking debt forgiveness and accommodating the decline in foreign exchange earnings, mainly through the drawdown of international reserves, may not necessarily be the best course of action. Nor is the policy of following loose fiscal policies, especially through the hiring into an already bloated public sector and relaxed effort at revenue collection.

The first and most critical step to arrest the deteriorating economic situation in Egypt is in the hands of politicians. Namely, the political leadership needs to urgently regain confidence by giving priority to restoring security of individuals and property as well as by putting forward a clear and broadly supported political transition road map. The security situation is unquestionably better than during or immediately after the revolution, but much more needs to be done especially to face the new sectarian violence and laxity in enforcing the law. Similarly, it is true that there is a political transition plan that involves parliamentary elections in September, entrusting the new parliament with the drafting of a new constitution and holding the Presidential election before the end of 2011. However, this plan is not supported by many Egyptians. Security and a viable transition plan would help economic agents anchor their expectations favorably about the future of Egypt, thereby encouraging them to resume production, exports and investment (both domestic and foreign). It would also encourage the return of tourists.

Meanwhile, the following suggestions can be made with respect to fiscal policy:

- Resist the tendency to increase the fiscal deficit in response to rising expectations so as to stay consistent with medium-term stability and sustainable public debt position.
- Seek international financial support and use this support as an opportunity to put the macroeconomic situation in order, rather than as a substitute for prudent policies.
- Leaving the level of expenditure unaffected, reconsider the composition of public expenditures to benefit the poor and activate the economy.

With respect to monetary policy, the challenge would be to deal with the expected inflationary pressure (especially from elevated food prices) and the increasing downward pressure on the pound (because of the sharp drop in foreign exchange earn-

ings). To address these pressures, the central bank may consider:

- A policy response that relies on a mix of intervention through reserves and exchange rate flexibility.
- Refusing to accommodate fiscal expansion.
- Shifting to a crawling peg regime of the exchange rate, and
- Becoming more open and transparent about the conduct of monetary policy to help create more realistic expectations.

Finally, what can be done about employment and wages? The simple answer is nothing dramatic in the short-run. The root causes of unemployment are inadequate demand for labor, which depends on the capacity of the economy to produce productive jobs, and the supply of skills, which is the result of accumulating human capital. Both of these, job creating growth and acquiring human capital, take a long time. Trying to artificially affect them in the short-run can have adverse consequences. For example, government can immediately boost the demand for labor by increasing public sector hiring. But this action would create a long-term fiscal burden on the state. Furthermore, it would provide the wrong incentives to existing job seekers and those still in the education system. By reviving the possibility of obtaining public sector work, it encourages graduates to queue for these jobs and will thus raise unemployment rates, not lower them. It also encourages those who are still acquiring an education to seek credentials useful for getting government jobs not private sector employment. Instead, the government should send credible messages that whatever public sector hiring will take place will be according to highly selective competitions that test for the same sorts of skills needed in the private sector.

That does not mean that nothing can be done in the short-run. For example, the government could:

- Provide incentives to private sector employers to increase hiring through a temporary holiday on payroll taxes and temporary on-the-job training subsidies to encourage internships and apprenticeships. These subsidies must be widely available to all employers and not simply focused on large firms. They should be temporary in nature

and phased out over time as the worker becomes more productive and thus more employable.

- Revise the minimum wage upward, given it has been the same for years. However, in doing so the new minimum wage should ensure that employment can lift people out of poverty but not setting the minimum wage too high to destroy existing wage structures or push new jobs into the informal sector. The minimum wage must not be set at a level higher than the current entry-level wage in formal private sector establishments. It should be set as hourly rather than monthly wages so as not to discourage part-time work. Finally, it should be indexed to inflation so that its value does not erode over time.
- In response to the recent strikes asking for higher wages in the public and private enterprises, initiate legislation to clearly specify a wage negotiation process between the employers and the legitimate representatives of labor. The government should not be in a position of negotiating specific deals, simply because that is not feasible.
- Finally, prepare the grounds for reforming the wage structure in government, abolishing the existing parallel structure made possible by aid money. To ensure that the new system will enable government to attract and retain the most qualified public servants, compensation packages should be high enough but subject to an acceptable ratio between maximum and minimum salaries. Implementation should come when the government finance can accommodate the additional cost.

### **What can be done in the medium-run? Balancing growth with, employment and distribution**

Egypt post the revolution has the potential of emerging as a model of successful development in the Arab world. Surely, the country is not rich with natural resources (such as oil) and the population lives on only 6 percent of the land. However, many factors work in Egypt's favor. To cite but a few, the country's population of 85 million is largely homogenous, young, dynamic and educated. The economy is reasonably diverse, thanks to attempts at industrialization since World War II. The domestic market is large enough to allow producers to experiment with new products.

Access to foreign markets is assured by the country's central location and the free trade agreements signed with the EU and Arab countries. Last but not least, physical infrastructure is not bad and the economy does not suffer from major price distortions (except energy). The boost that Egypt needed was provided by the spirit of Tahrir square in January.

To bridge the gap between potential and reality however, requires the adoption of a coherent set of policies and institutional reforms. The objectives of these policies should be to simultaneously foster job-creating growth in a more egalitarian society. What might these policies be? Here are some basic suggestions that need to be fleshed out before implementation.

### *Job-creating economic growth*

The determinants of economic growth are reasonably well known. At a minimum, countries need to have a high level of investment (and savings) relative to GDP, skilled labor and efficient management of both. Efficient management involves having stable macroeconomic policies, carefully designed strategy for integration into global markets and the protection of property rights. While some progress has been made on this agenda, much remains to be done especially in terms of making a link between growth and job creation.

- Going forward, Egypt would need to make serious progress on three fronts:
- Maintaining macroeconomic stability, especially with respect to bringing the budget deficit and public debt under control. Monetary policy should move to inflation targeting, as inflation impacts the poor more adversely than others.
- Augmenting domestic savings (currently around 16-17 percent of GDP) with foreign savings (and investment) so that both account for at least 25 percent of GDP. The emphasis should not be any more on the quantity of foreign capital, but on its quality in terms of boosting job creation and sustained development.
- Reforming the education and training systems, not only to meet labor demand but also to enable the poor to benefit from their investment in acquiring human capital and benefiting from the opportunities offered by economic growth.

To enhance the employment-intensity of growth, Egypt must work to significantly reduce, if not eliminate, the formality barrier and make concerted efforts to reduce regulatory obstacles to the operation of micro, small and medium enterprises. This would require a significant reform of bureaucratic procedures and an improvement in the governance and performance of both regulatory and service-oriented public agencies. The very high transaction costs presently associated with government regulations and services simply force small private sector entities to remain either fully or partially informal. It is not simply, or even primarily, a question of providing greater access to credit. The institutional barriers to the growth of enterprises go much deeper and cover a vast array of regulations at all levels of government from the municipal level to the national level.

To enable Egyptians to benefit from growth, improving the quality of education and aligning the mix of graduates with labor market demand are critical components of any reform effort. Up till now, much of the reform focused on the physical aspects of education (e.g., building schools, training teachers, upgrading the curriculum), but too little attention has been given to the incentives and motivation of teachers, students and parents. The often cited way to fix the education system is to allocate more money. However, the current system of directly funding public education institutions with little or no linkage to their performance encourages them to ignore market signals. It also ends up subsidizing education for those who least need such a subsidy. While retaining the policy of free basic education (up till secondary school), it is becoming necessary to gradually move to a higher education system that charges tuition and fees, accompanied by public scholarships for those who are most deserving both in terms of need, as well as merit. Such a system would not only improve equity in access to higher education by not wasting public funds on the better-off, but would also significantly improve the performance of higher education institutions.

Another segment of the educational system in dire need of reform is the technical secondary sector. This sector currently absorbs about two-thirds of secondary school students. This is the part of the pre-university system that is designed to make students



ready for the job market and, by all indications, does a very poor job of it. Technical secondary schools have no built-in mechanisms to respond to what the job market needs. There are simply no mechanisms for either the schools or their teaching staff to be rewarded when they do well. Students lack basic cognitive, creative and communication skills, or even decent reading, writing and numeric skills. To address these problems, we propose that the distinction between general and technical education be gradually phased out, that the admission to higher education be separated from successfully completing the general secondary track and that the technical stream be optional rather than mandatory for those who lack the grades to make it into the general stream.

### *Equality*

To the extent that growth is job-creating, progress is being made to ensure that not only owners of capital are rewarded but also a large number of workers and employees. Also to the extent that growth is taking place not only in large formal private enterprises, but also in micro, small and medium enterprises, a larger fraction of Egyptians are included. And because the size of the informal sector is large, successful formalization would make a big difference for a large number of marginalized entrepreneurs and workers.

But all this may not be enough. To be truly inclusive, it is important to take measures to equalize opportunities across all Egyptians and to help the very poor. After all not all Egyptians are born to the same circumstances in terms of the wealth, education and social connections of the parents. Nor are all Egyptians able to participate in the labor market. To equalize circumstances to a reasonable extent, the government could change the way it spends on infrastructure, social services and safety nets. Taxation is another instrument. NGOs could also play an important role in the process, and the government should empower them to do so, at least by reforming the current NGO law.

The guiding philosophy should not be to discourage effort and hard work, but to enable most Egyptians to start the race from the same start line. For those who can not make it on their own, either because of age, illness, transition to work, or physical limitations, special programs are necessary. To give

but a few suggestions, the government could:

- Review the pattern of public expenditure to make it more socially equitable. For example, investment in infrastructure should be more balanced across governorates, paying particular attention to rural areas and upper Egypt. Public expenditure on social services (mainly education and health) should be rationalized so that those who are able to pay do so, while those who cannot are not deprived from getting the same quality of service.
- Phase out energy subsidies to reduce excessive consumption and improve the environment. If necessary, some exceptions can be made, for example, the use of energy in public transportation and taxes. By the same token, make serious progress on targeting the allocation of commodity subsidies to the poor by getting rid of all subsidies and shifting to cash transfer, conditional or not. The current regime is by all accounts inefficient, costly and fails short of helping the very poor adequately.
- Reconsider the tax regime to bring about greater equality without taking the risk of lowering government revenues. For example, rather than staying with a flat rate of 20 percent on all incomes above a certain level, there may be some room for a higher upper bracket. By how much should be the subject of analysis and debate.
- Devise efficient and equitable insurance schemes, especially regarding health and unemployment.

### **Conclusion**

The challenges ahead of Egypt are not trivial, starting with a political transformation that is still unfolding. However, the will to make a peaceful transition to a modern state where people enjoy dignity, liberty and justice is not dying away. On the contrary, progress is being made every day, thanks to the spirit of Tahrir square, the support of the army and the awakening of most Egyptians.

Success on the political front, it is argued in this paper, is what will make it possible for Egypt to make progress on the economic development front. The purpose of this paper was to provide a road map for future economic development in Egypt, including some suggestions about what can be done during the transition period. It is hoped that this road map would serve to ignite a national debate for the benefit of Egypt going forward. 9

## ERF at a Glance

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The Economic Research Forum (ERF) is a regional network dedicated to promoting high quality economic research to contribute to sustainable development in the Arab countries, Iran and Turkey.

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Established in 1993, ERF's core objectives are to build strong regional research capacity; to encourage the production of independent, high quality economic research; and to disseminate research output to a wide and diverse audience.

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