

# Egypt's immense potential

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The most important issues that face Egypt over the coming years are tied to a rapidly growing population, the modernisation of its economy, and how best to ensure a modern social safety net to protect the most vulnerable in society.

Below, IMF Mission chief for Egypt Subir Lall, discusses these three issues in detail:

## 1. Take advantage of the rapidly growing population

Over the next five years, around 3.5 million young Egyptians are projected to join the labour force. Absorbing these new entrants into the labour market will be a challenge. However, this also creates a tremendous opportunity for faster growth—if Egypt can support the emergence of a strong and vibrant private sector to productively employ this emerging generation of workers.

Over the past several decades, the private sector in Egypt has been less dynamic and outward-oriented than in peer countries, with a small share of firms able to compete outside the domestic market.

To foster greater private sector development and export-led growth, the authorities have broadened the structural reform

agenda under their program, initiating reforms to improve the efficiency of land allocation, strengthen competition and public procurement, improve transparency of state-owned enterprises, and tackle corruption.

## **2. Modernise the economy**

With nearly 100 million people and a geographic location that provides excellent access to important foreign markets, Egypt has immense potential. However, economic development has been constrained by the legacy of inward-oriented economic policies, weak governance, and a large role for the state in economic activity that has resulted in significant misallocation of resources.

With the economy now stabilising, Egypt's challenge is to modernise its economy to better take advantage of its potential. An essential element of that process is to ensure the best allocation of resources to generate higher growth, and remove price distortions that impede markets from functioning efficiently.

Energy subsidies have been among the most significant price distortions. They keep fuel costs well below the market price, which encourage inefficient use of energy and overinvestment in capital intensive industries to take advantage of low fuel costs. Energy subsidies are costly and inequitable, tending to benefit the well-off who are disproportionately large energy consumers.

Pricing energy correctly will help improve economic efficiency so that investment is not channelled to capital intensive and heavy energy-use sectors. Rather, investment should be made into job creating sectors that benefit small and medium-sized businesses that take advantage of Egypt's strengths, and help integrate the country into global supply chains. Reducing energy subsidies also frees up resources for health and education—critical to long-term economic growth and societal progress.

## **3. Provide a modern social safety net to protect the vulnerable**

As Egypt begins to modernise its economy and make it more competitive, it will also need to continue to bring down public debt to a level consistent with long-term sustainability. The challenge is to ensure that the most vulnerable segments of society are protected during this process, and that fiscal resources are safeguarded for spending on health and education.

The shift away from a social protection system based on energy subsidies is crucial in moving toward a better-targeted and more effective social safety net. The 2018/19 budget will continue to replace poorly-targeted energy subsidies with programs that directly support the poorest households through expanded cash transfer and food subsidy programs. The authorities have strengthened programs like food smart cards, and more than doubled the amount of assistance provided through these cards.

The government has also strengthened social solidarity pensions, and the Takaful and Karama cash transfer programs. Takaful is an income support program for families with children, and Karama is a social inclusion program for persons who cannot work, specifically the elderly and people with disabilities.

These efforts are also being supported by reforms to improve the efficiency of government spending and tax collection to ensure that pro-poor spending and investments in health and education are protected. More broadly, the faster creation of private sector job opportunities and the integration of women into the labour force as part of the authorities' inclusive growth strategy is expected to steadily improve living standards, including for lower-skilled workers.