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Macroeconomics, Trade & Investment

# EGYPT ECONOMIC MONITOR

**THE FAR-REACHING  
IMPACT OF GOVERNMENT  
DIGITALIZATION**

December 2021



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# Acronyms

|          |   |       |   |
|----------|---|-------|---|
| ACI      | Advance Cargo Information                             | MENA  | Middle East and North Africa                      |
| BoP      | Balance of Payments                                   | MIE   | Main income earner                                |
| CAPMAS   | Central Agency for Public Mobilization and Statistics | mmBtu | Metric Million British Thermal Unit               |
| CBE      | Central Bank of Egypt                                 | MoF   | Ministry of Finance                               |
| COVID-19 | Corona Virus Disease 2019                             | MNO   | Mobile network operators                          |
| CPI      | Consumer price index                                  | MPED  | Ministry of Planning and Economic Development     |
| DECA     | Digital Economy Country Assessment                    | MPSE  | Monthly Phone Surveys in Egypt                    |
| DFS      | Digital Financial Services                            | NAFA  | Net acquisition of financial assets               |
| DGSS     | Digital Government/GovTech Systems and Services       | NBFI  | Non-Bank Financial Institutions                   |
| ECA      | Egyptian Competition Authority                        | NFA   | Net Foreign Assets                                |
| EGDI     | E-Government Development Index                        | NIR   | Net International Reserves                        |
| e-GP     | Electronic Government Procurement                     | NPL   | Non-performing loan                               |
| e-KYC    | Electronic Know-Your-Customer                         | NSRP  | National Structural Reform Program                |
| ETA      | Egyptian Tax Authority                                | NTRA  | National Telecommunications Regulatory Authority  |
| FDI      | Foreign Direct Investment                             | OPEC  | Organization of the Petroleum Exporting Countries |
| Fintech  | Financial Technology                                  | PoS   | Point of Sale                                     |
| FRA      | Financial Regulatory Authority                        | PMI   | Purchasing Managers' Index                        |
| FY       | Fiscal year   | PPT   | Percentage Points                                 |
| G2C      | Government-to-Consumer                                | RER   | Real Exchange Rate                                |
| G2P      | Government-to-Person                                  | RFI   | Rapid Financing Instrument                        |
| GDP      | Gross Domestic Product                                | SBA   | Stand-By Arrangement                              |
| GEM      | Global Economic Monitoring                            | SDR   | Special drawing rights                            |
| GTMI     | GovTech Maturity Index                                | SIF   | Social insurance funds                            |
| ICT      | Information and Communication Technology              | SME   | Small and Medium Enterprises                      |
| IMF      | International Monetary Fund                           | SOE   | State Owned Enterprise                            |
| IT       | Information Technology                                | STEM  | Science, Technology, Engineering, and Mathematics |
| ITU      | International Telecommunication Union                 | TVET  | Technical and Vocational Training                 |
| KYC      | Know Your Customer                                    | US    | United States                                     |
| LE       | Egyptian Pound  | USSD  | Unstructured Supplementary Service Data           |
| LMIC     | Lower Middle-Income Countries                         | WB    | World Bank  |
| MCIT     | Ministry of Communications and Information Technology | WBG   | World Bank Group                                  |
|          |   | WGI   | Worldwide Governance Indicators                   |

# Executive Summary

**Egypt’s macroeconomy continues to show resilience more than a year and a half through the COVID-19 pandemic.** Macroeconomic stabilization and energy sector reforms implemented in recent years have helped build resilience, and the mobilization of international financing has contributed to keeping foreign reserves at rather ample levels. Monetary easing and selected sectoral support partially alleviated pressures on households and private businesses and contributed to the reduction of domestic borrowing costs for the public sector. Egypt also continues to address entrenched economic problems, through taking steps to strengthen public debt management, promote financial inclusion and enhance aspects of the business environment, such as streamlining customs clearance processes and facilitating business restructuring procedures. International rating agencies have thus maintained Egypt’s outlook as ‘stable’, despite the acute global crisis caused by COVID-19.

**Economic activity and foreign income sources in Egypt have picked up, reflecting favorable annual base effects, easing restrictions and the resumption of economic activity.** Egypt’s export-oriented sectors that were contracting since the beginning of the crisis (tourism, manufacturing, extractives, and the Suez Canal) started rebounding. This has pushed year-on-year growth in April—June 2021 (Q4-FY2020/21)<sup>1</sup> to 7.7 percent (from a contraction of 1.7 percent a year earlier at the height of the COVID-shock), and then further to 9.8 percent in Q1-FY2021/22 (compared to a modest growth of 0.7 percent in Q1-FY2020/21) (Ministry of Planning and Economic Development). The recent surge in growth was supported by base effects, pent-up demand, as well as the pick-up in international travel and global trade.

**However, global COVID-related challenges (including the new Omicron variant and vaccine-deployment) as well as an uneven recovery of the world economy continue to restrain the nascent uptick, especially on the production (supply) side.** On the global front, uneven recovery patterns – with the growth surge stemming mainly from major economies – reflect compelling challenges on the access and deployment of vaccines, especially throughout emerging and developing economies (World Bank, 2021a, Global Economic Prospects, June). In Egypt, the vaccination process has accelerated recently, but the coverage of a population of above 102 million remains a challenge. As of December 24, 2021, 52.8 million doses were administered in Egypt, although only 19.8 percent of the population were fully vaccinated, according to official data collated by [Our World in Data](#). More broadly, the global COVID-related challenges continue to cause disruptions in international trade and tourism and create uncertainty due to the risks of renewed COVID-19 surges and variants, which are especially critical for private investors’ sentiments. Inflation is starting to rise in Egypt, reflecting food price volatility, but also the emerging international supply chain bottlenecks (caused by the demand growth that exceeds supply), compounded with soaring international commodity prices, and unfavorable base effects.

**Unemployment declined, albeit partly reflecting withdrawals from the labor market among women.** Unemployment declined to 7.5 percent by Q1-FY2021/22, compared to 9.6 percent at the height of the COVID-shock in Q4-FY2019/20. Yet, labor force participation and employment rates remain below-potential at 43.7 percent and 40.4 percent of the working-age population, reflecting the long-standing challenge of job-creation, especially in the formal sector. The COVID-shock has also led to dropouts from the job market, notably by women whose labor force participation rate was recorded at 15.4 percent in Q1-FY2021/22; below the pre-COVID levels ([CAPMAS Quarterly Labor Force Survey](#)).

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<sup>1</sup> Fiscal Year 2020/21 refers to the period July 1, 2020 – June 30, 2021.

**Foreign reserves remain ample, however the widened current account deficit has raised external financing requirements.** International reserves are below their pre-pandemic level of US\$45.5 billion but remain relatively ample at US\$40.8 billion at end-October 2021 (covering 7 months of merchandise imports), despite the ongoing impact of COVID-19 on key foreign income activities. Reserves continued to be supported by remittances, portfolio investment inflows in government securities (attracted by a considerable interest rate-differential), sovereign bond issuances, and external financing. While exports of goods and services have also started rebounding, notably during Q4-FY2020/21, they have been outweighed by a recent increase in non-oil imports. Other (albeit smaller) pressures on external accounts arise from an uptick in foreign debt repayments and interest and dividends on foreigners' investment in sovereign securities.

**Egypt continues to push ahead with fiscal consolidation. Yet, similar to the global trend, the government debt-to-GDP ratio has increased. The relatively high real interest rates, and additional fiscal requirements have contributed to this uptick.** The overall budget deficit-to-GDP ratio declined from 7.9 percent in FY2019/20 to 7.4 percent in FY2020/21, thanks to the relatively contained expenditures, and an improvement in government revenues as tax delays and forbearance measures introduced at the beginning of the COVID-19 crisis have started to phase-out. Despite the ongoing fiscal consolidation and the sustained primary surplus, the government debt-to-GDP ratio increased from 87 percent at end-June 2020 to an estimated 91.6 percent at end-June 2021, driven by unfavorable debt dynamics stemming from positive real interest rates on debt (which surpassed real GDP growth) in FY2020/21. Moreover, debt-issuance that exceeded the amount needed to finance the overall budget deficit points to the existence of additional fiscal requirements that may be – at least in part – due to the settlement of pre-existing financial obligations in between public sector entities, such as public economic authorities, in order to improve these entities' balance sheets.

**Egypt continues to face the dual challenge of pursuing fiscal consolidation, whilst raising spending on key human development sectors, social protection and investment.** Fiscal consolidation over the past years has helped reverse the chronic primary deficit into a solid and sustained surplus. However, fiscal space remains constrained by the still-large interest burden and low revenue-mobilization. As such, allocations to the health and education sectors remain rather limited, despite their cumulative increase *in nominal terms* (by 43.1 percent and 33.0 percent respectively during the three-year period FY2017/18—20). These increases are relatively marginal when measured in real terms. Indeed, the sectors' allocations as a share of GDP (at 1.5 percent and 2.4 percent, respectively as per the FY2021/22 budget) are below their pre-FY2017/18 levels.

**Under the baseline scenario that assumes a gradually improving COVID-19 situation, Egypt is expected to revert to its pre-pandemic growth path and push ahead with reforms to contain the budget deficit- and government debt-to-GDP ratios. The outlook still remains clouded by the global challenges related to disease variants and vaccine deployment.** Similar to the global outlook, Egypt's near- and medium-term prospects depend, in large part, on the containment of the pandemic. The baseline scenario assumes that the vaccination process would accelerate both domestically and abroad, and re-instated lockdowns would be temporary, such that the overall COVID-stringency measures would be on a generally declining trend. Under this scenario, Egypt's growth would revert to its pre-pandemic path, reaching a pace of 5.5 percent in FY2021/22. While exports of goods and services are projected to continue recovering, external financing requirements are expected to remain rather elevated through FY2021/22—23, as imports are also forecast to increase in tandem with the resumption of growth in addition to the recent appreciation in the real exchange rate. Further, global financial conditions may tighten and in turn may raise the cost of foreign financing. On the fiscal front, the government debt-to-GDP ratio is expected to resume

its downward path over the forecast horizon, especially as revenue mobilization improves gradually, in light of the recently approved Medium-Term Revenue Strategy.

**Going forward, Egypt also seeks to advance key structural reforms for a sustained recovery. The Focus Chapter in this report is dedicated to one of the priority policy areas, as articulated in the country’s National Structural Reform Program (NSRP)<sup>2</sup> which is “*Raising the efficiency of public institutions through digital transformation*”.** Egypt has been increasingly adopting digital technologies to modernize core government systems and provide online service portals;<sup>3</sup> rendering the country at a relatively elevated level of government digitalization, according to international indices, such as the United Nations E-Government Development Index, as well as the newly constructed World Bank GovTech Maturity Index. This not only holds the potential of transforming public service delivery but will also provide incentives for more widespread uptake of digital technologies across the whole economy, as individuals and businesses are offered more accessible means of (two-way) digital communication and interaction with the public sector. In turn, this can foster trust, create a friendlier business environment, conducive for a thriving private sector, and raise value-added and productivity in the economy. The Focus Chapter of this report thus gives a snapshot of the progressive status of the digital government in Egypt, and then discusses key priorities for further advancement, drawing on the [World Bank Digital Economy Country Assessment for Egypt](#).

**Five main messages emerge from the analysis in the Focus Chapter:**

1. Building on Egypt’s steady advancement on the digital government agenda, there is an opportunity to strengthen the impact of these digitalization efforts on key governance indicators (such as ‘government effectiveness’ for better delivery of public services, and ‘control of corruption’) as they manifest themselves on the ground in many forms, including the interactions with the government to obtain and pay for public utilities (water/electricity/waste management), as well as the extent of irregular payments when dealing with tax and customs administrations, and more broadly the overall transparency and accountability of the public sector.
2. Simplification and streamlining of government processes and procedures along with their automation and digitalization are pre-conditions for better governance results.<sup>4</sup>
3. The front-end (user-facing) digital services (e.g., online government portals) that are provided to individuals and businesses in Egypt are not built around integrated and inter-operable systems at the back-end (such that the back-end functions may continue to be paper-based and susceptible to inefficiencies). Thus, it is crucial to establish end-to-end digital government services. This means that digital transformation occurs in every step throughout a given (simplified and streamlined) governmental process or procedure. Rolling out end-to-end digital government services can ultimately lead to improved public service delivery. End-to-end digital systems also have the potential to stimulate more demand on other digital services, such as e-payments and other digital financial services.
4. While Egypt has been gradually digitalizing core government systems, such as tax administration, public financial management, public procurement, aspects of human resource management, and public investment management, the progress is uneven between these systems, and across governorates as well.

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<sup>2</sup> The NSRP includes the following key structural reforms: (i) enhancing labor market efficiency and improving technical education and vocational training; (ii) improving the business environment by enhancing competition, trading across borders and supporting the transition to a green and sustainable economy; (iii) raising the efficiency of public institutions through digital transformation and governance; (iv) advancing financial inclusion and access to finance; and (v) human capital development, which would raise the efficiency and scope of public health services and upgrade the education system (Source: The National Structural Reform Program: The Second Phase of the National Economic and Social Program, April 2021, Ministry of Planning and Economic Development).

<sup>3</sup> Further, Egypt is gradually integrating all government services into one portal (the Digital Egypt Portal) where citizen-oriented services are availed. The portal was launched as a pilot in July 2020 and as of end-December 2021 offers 103 digital service, according to the MCIT. And the plan is to have more than 500 government digital services by the end of 2023.

<sup>4</sup> This was similarly highlighted in the [World Bank GovTech Maturity Index Report 2021](#), and World Bank WDR 2016; both describing the streamlining of government procedures as the ‘analog’ complements of digitalization.

Further, these digitalized systems could benefit from being inter-connected and integrated. This will enable Egypt to reap the gains of “inter-operability”, such that the different systems can combine, exchange and make use of each other’s data and information in an automated format. Inter-operability also can strengthen fiscal and financial management which is conducive for reducing malpractice and enhance transparency. Inter-operable systems can also provide the necessary data infrastructure to support evidence-based policymaking.

5. For Egypt to effectively leverage digital technologies for a more efficient public sector, strengthening the foundations of the digital economy will be crucial. These foundations consist of the following:
  - (5.a.) *Universal access to high-speed internet (broadband)*: Upgrading digital infrastructure for a fully operational digital government, and for larger uptake by individuals and businesses via affordable and quality internet service.
  - (5.b.) *Digital skills*: Expanding capacity of public sector workers, as well as businesses and individuals to utilize digital technologies.
  - (5.c.) *Digital financial services*: Build on the ongoing momentum to enable electronic and digital modes of payment.
  - (5.d.) *Reviewing and modernizing the relevant legal and regulatory framework* (cross-cutting enabler).

**In summary, for Egypt to unlock its full potential in public sector modernization, important steps include:** (i) Simplified and streamlined government processes; (ii) a ‘whole-of-government’ approach to transformation that would digitalize all steps within a given government process (end-to-end digital solutions) and create inter-operable systems; (iii) citizen-centric public services that are universally accessible, including through mobile devices; and (iv) strengthened foundations of the digital economy (digital infrastructure, skills, financial services and an overall enabling legal and regulatory environment) for the widespread uptake of digital technologies and far-reaching positive spillover effects of digitalization across the whole economy.

# Chapter 1 – Recent Economic Developments and Outlook

## Real Sector, Employment and Prices

*The rebound in domestic economic activity continues to be restrained by persisting COVID-related challenges and an uneven global recovery*

**Real GDP growth started rebounding strongly since Q4-FY2020/21, due to the favorable annual base effects, the improved global economic conditions, and eased restrictions.** COVID-19 caused a decline in economic activity, especially in Egypt’s key export-oriented sectors, with overall real GDP growth decreasing to 3.3 percent<sup>5</sup> in FY2020/21 from 3.6 percent during FY2019/20, and below the pre-pandemic averages of 5 percent during FY2016/17–19. Subsequently, real GDP per capita growth also declined to 1.9 percent in FY2020/21, from an average of 3.4 percent in the two years prior to the pandemic. The decomposition of the demand-side drivers of growth shows that the downtick in economic activity during FY2020/21 was mainly on account of a widened net exports balance and drop in total investments.<sup>6</sup> Meanwhile, private consumption was the main driver that sustained positive growth (Figure 1.1), which in turn partly reflected pent-up demand and was supported by the growing remittances and the relatively contained inflation rates (favorable for households’ real incomes and purchasing power). ***The decline in the FY2020/21 annual average rate however masks a growth spurt that had started since the last quarter of the year.*** Growth surged to 7.7 percent in April–June 2021 (Q4-FY2020/21) and further to 9.8 percent in Q1-

FY2021/22. Investments stood out as the main contributor (8 percentage point—PPT) to overall growth during the last quarter of FY2020/21 (with positive contributions from both private and public investments), followed by private and public consumption (1.3 PPT and 0.2 PPT, respectively), whereas net exports continue to be a drag on growth (with a negative contribution worth ‘-1.8’ PPT) (Figure 1.1. and 1.2.).

**Yet, the pandemic continues to constrain the recovery.** Notwithstanding the nascent rebound since Q4-FY2020/21, leading indicators continue to point to a restrained recovery due to the ongoing COVID-related challenges as still-captured by high-frequency data. The Purchasing Managers’ Index (PMI) averaged 49.1 during the first four months of FY2021/22 (July–October 2021); thus remaining below the ‘50-threshold’ which indicates that non-oil private activity has been in the ‘contractionary’ territory. While the global economy has broadly improved<sup>7</sup> and COVID-related restrictions have relatively loosened both domestically and abroad (compared to the initial shock), the pandemic continues to cause uncertainty as well as renewed disruptions to international travel and trade, and bottlenecks in international supply chains, more recently exacerbated by the Omicron variant.

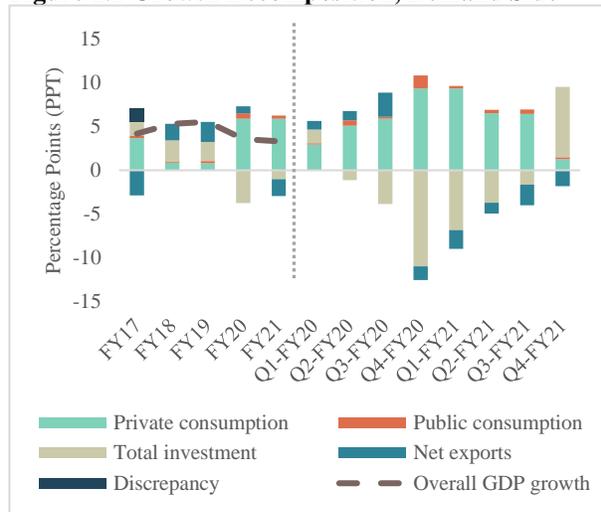
<sup>5</sup> While GDP at market prices growth was 3.3 percent in FY2020/2021, it is worth noting that gross value added measured at factor cost (total sectoral growth) was only 2 percent. ‘Net indirect taxes’ (which is the balance between ‘GDP at market prices’ and ‘gross value added at basic prices’) accounts for this difference between the two GDP concepts, as it grew substantially, albeit from a low base.

<sup>6</sup> Public investment has been posting positive contributions to overall growth since Q3-FY2020/21. The contraction in total investments was mainly driven by the decline in private investments

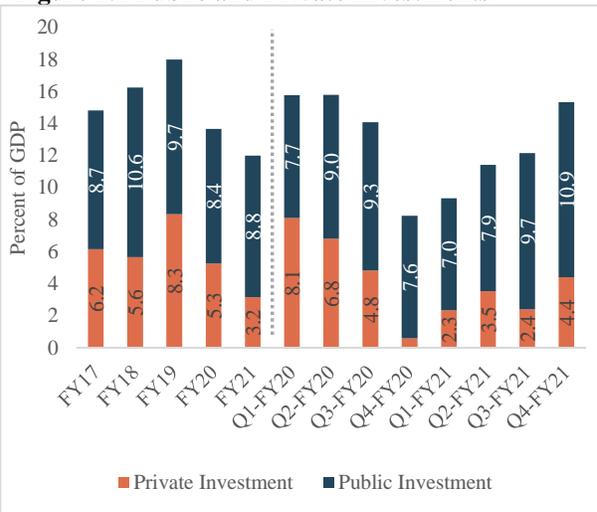
up until Q3-FY2020/21. Both public and private investments rebounded in Q4-FY2020/21.

<sup>7</sup> Global output growth is projected to reach 5.6 percent in 2021 compared to a contraction of 3.5 percent in 2020. The rebound in growth is expected to moderate over the next few months with fading favorable base effects and pent-up demand that had initially catalyzed the uptick in growth. As such, global output growth is projected to decline to 4.3 percent and 3.1 percent in 2022 and 2023, respectively (World Bank, 2021a, Global Economic Prospects, June).

**Figure 1.1 Growth Decomposition, Demand Side**



**Figure 1.2 Public and Private Investments**

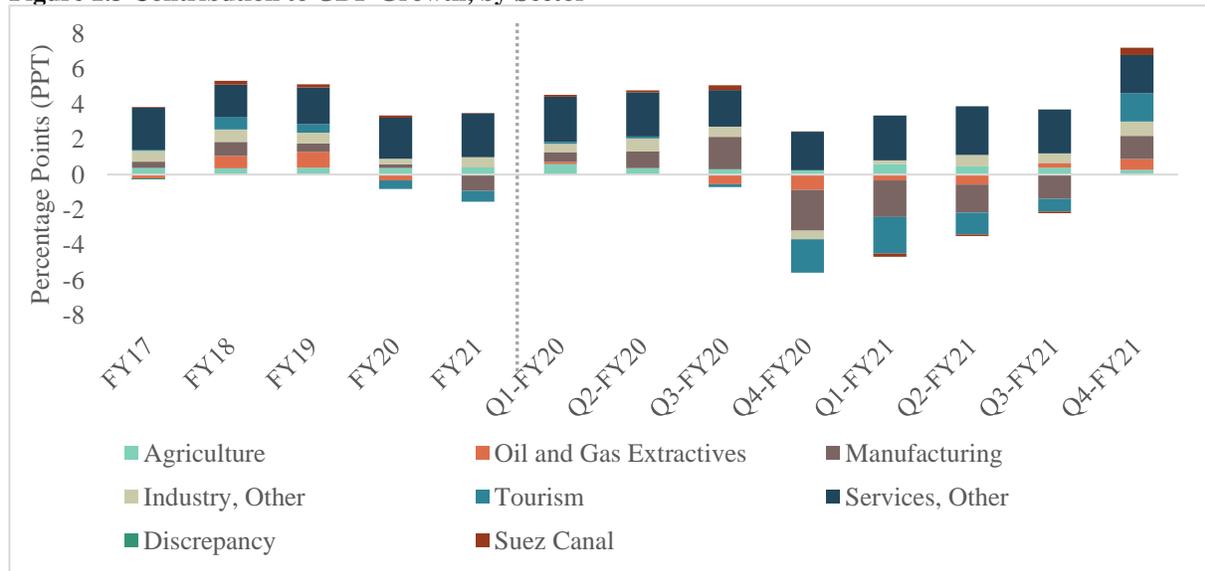


Source: World Bank staff estimates based on Ministry of Planning and Economic Development (MPED)

**Sectoral performance similarly improved (especially since April—June 2021), as key economic activities—including tourism, manufacturing, gas extractives, and the Suez Canal—started recovering from the COVID-shock, after an initial contraction.** Similar to the demand-side growth drivers, this nascent recovery mainly reflects base effects, easing

restrictions, and the gradual resumption of economic activity which was supported by the return of tourists, and the acceleration of international trade with the rebounding global demand. The services sectors,<sup>8</sup> along with agriculture and construction have shown relative resilience and have supported growth through the pandemic (Figure 1.3).

**Figure 1.3 Contribution to GDP Growth, by Sector**



Source: World Bank staff estimates based on MPED.

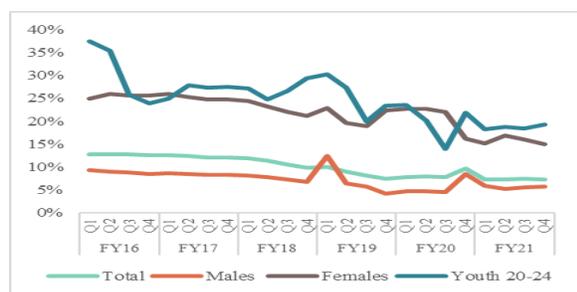
<sup>8</sup> Particularly wholesale and retail trade, communication and information technology (ICT), real estate and the general government services were key drivers of growth.

*The impact of the initial COVID-shock on employment is gradually winding down, but the disruptive repercussions of the pandemic continue to aggravate long-standing labor market challenges, notably for women*

**The unemployment rate moderated after the initial spike at the beginning of the COVID-shock. However, the pandemic continues to adversely affect employment (especially for women), and is exacerbating long-standing structural challenges.** Unemployment (as a share of the labor force) declined from 9.6 percent a year earlier (at the height of the COVID-shock) to 7.3 percent by Q4-FY2020/21, before inching up to 7.5 percent in Q1-FY2021/22. Female and youth unemployment rates (at 15 percent and 19.2 percent, respectively) have also broadly moderated, although partially explained by withdrawals of women from the labor force, notably during Q3- and Q4-FY2020/21 (CAPMAS Quarterly Labor Force Survey). These labor market outturns are generally supported by the results from the Monthly Phone Surveys in Egypt (MPSE)<sup>9</sup> conducted in February and July 2021 which similarly indicate that the impact of the COVID-shock started to wind down, although the recovery is still underway. Among the surveyed “Main Income Earners” (MIEs), 72 percent of men in the sample reported to be employed in July 2021, up from 67 percent during lockdown; albeit still 5 PPT lower than the

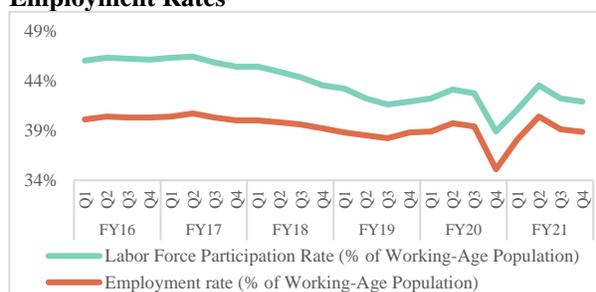
pre-COVID employment levels. Meanwhile, the portion of women MIEs who reported to be employed during July 2021 went down to 29 percent, compared to 30 percent during lockdown and 42 percent prior to the COVID-shock. The primary reasons that have been stated for “loss of employment” were job-related challenges and labor market conditions, followed by family responsibilities; with the latter more commonly reported by women. And while labor force participation (LFP) and employment rates have recovered from their sharp drop at the outset of the pandemic, they remain low at 43.7 percent and 40.4 percent of the working-age population, respectively during Q1-FY2021/22 (Figures 1.4 and 1.5). This is well below the country’s potential, and compares to average LFP and employment rates that have averaged 53.1 percent and 49.9 percent, respectively in Lower Middle-Income countries, and 45.7 percent and 40.9 percent, respectively in the MENA region.<sup>10</sup> Most jobs created over the past two decades were in relatively lower productivity sectors, and were largely informal (See [World Bank, Egypt Economic Monitor, 2020](#) and [Assaad, 2019](#)).

**Figure 1.4 Unemployment Rates**



Source: Central Agency for Public Mobilization and Statistics (CAPMAS Quarterly Labor Force Survey)

**Figure 1.5 Labor Force Participation and Employment Rates**



<sup>9</sup> The sample consists of 2,106 respondents in February 2021 and 2,088 respondents in July 2021 (18 years old and older) from all governorates in Egypt and the results of the survey refer to the Main Income Earner (MIE) of a household.

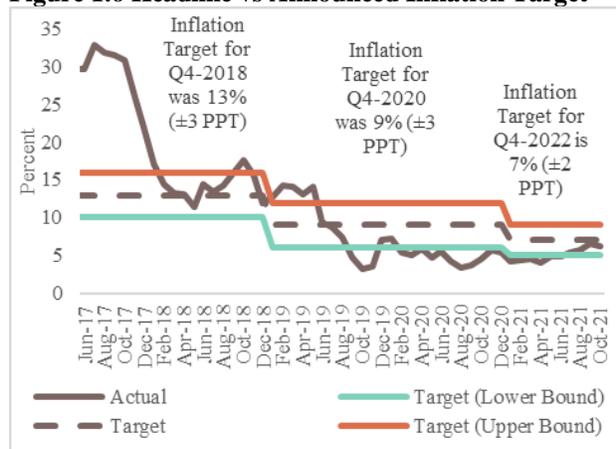
<sup>10</sup> The labor force participation rates and employment rates were obtained from the World Bank’s World Development Indicators (WDI) online database. Data refer to 2020 for MENA countries and Lower Middle-Income countries (latest data points available as of mid-November 2021).

*Domestic inflation is starting to accelerate, fueled by international commodity prices and unfavorable base effects*

**Inflation has recently increased, reflecting food price inflation, upward adjustments to energy prices (fueled by the increase in international commodity prices), compounded with unfavorable base effects.** Headline urban inflation was following an overall downward trend, plunging from double digit figures (19.6 percent on average during the period FY2016/17—19) to 5.7 percent during FY2019/20, and further down to 4.5 percent in FY2020/21. In recent months however, inflation started to accelerate, rising to an average of 6 percent during July—October 2021, albeit remaining within the CBE target range

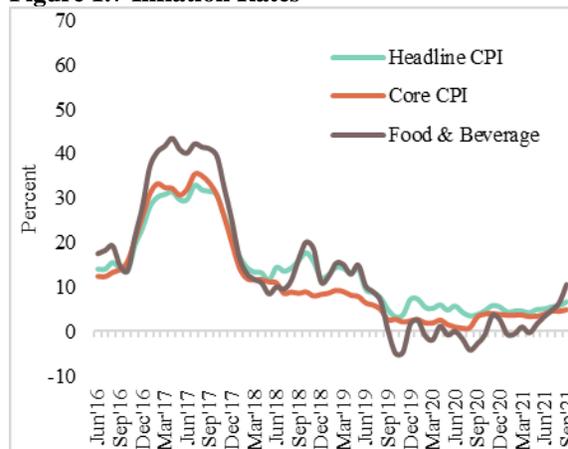
(Figure 1.6.). This uptick in domestic inflation, especially for food (Figure 1.7), has been driven by increases in international commodity prices (in part caused by supply chain bottlenecks and demand that has exceeded supply), as well as the unfavorable base effects. Egypt has also raised the prices of electricity, gasoline (Octane), and natural gas for vehicles and more recently also for industrial producers by 13.3 percent, 3.2 percent, 7.1 percent, and 28 percent, respectively<sup>11</sup> to partially reflect the rise in international prices on the domestic price level, and to help contain energy subsidies<sup>12</sup> (Box 1.1).

**Figure 1.6 Headline vs Announced Inflation Target**



Source: World Bank staff estimates based on Central Bank of Egypt (CBE).

**Figure 1.7 Inflation Rates**



**Social conditions thus remain difficult, in light of the labor market and (recent) inflation trends.** Official estimates suggest that there have been gains in welfare prior to the pandemic, though the poverty rate (reported for the period October 2019—March 2020) remained elevated at 29.7 percent. Results from the Monthly Phone Surveys in Egypt conducted in February and July

2021 indicate that 59 percent of the Main Income Earners that maintained their jobs through the pandemic reported a decline in family income; most notably among the self-employed and informal workers. The sluggish (formal sector) employment-creation and the recent uptick in inflation pose further pressures on real incomes.

<sup>11</sup> Natural gas prices were increased as follows: US\$5.75/mmBtu for steel and cement (up from US\$4.5/mmBtu); US\$5.75/mmBtu for fertilizers, unless a company has a pre-existing pricing agreement (up from US\$4.5/mmBtu); US\$4.75/mmBtu for other industrial producers (including ceramics and glass) (up from US\$4.5/mmBtu).

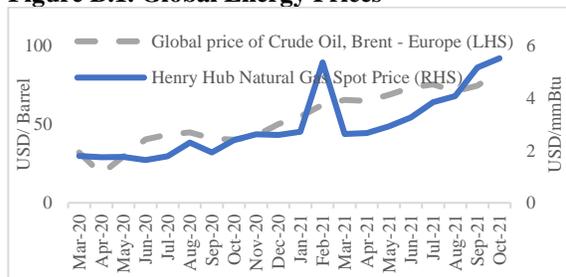
<sup>12</sup> Prices of fuel products are revised on a quarterly basis using the automatic price indexation mechanism that was introduced following the streamlining of energy subsidies, in order to partially mitigate shocks and ensure continued fiscal consolidation.

### Box 1.1. Higher Global Energy Prices and Implications for Egypt

**Energy prices have increased, especially since end-FY2019/20 due to a combination of factors, including recovering global demand, constrained supply, as well as weather factors.** The price of crude oil (Brent) has increased to its highest level since October 2018, reaching US\$83.54 per barrel as of October 2021, up by 355 percent since its collapse to US\$18.38 per barrel in April 2020 at the outset of the COVID-shock. Similarly, Henry Hub natural gas spot price has also increased to US\$5.51 in October 2021 from US\$1.74 in April 2020 (Figure B.1.). Energy prices have been soaring with the resumption of economic activity and the recovery in global demand, which was not met with a simultaneous increase in supply, due to the ongoing COVID-related disruptions to production, international supply and capacity constraints. Production levels by OPEC and its partners (OPEC+) were lower than targeted, largely due to unplanned outages, weak investment in several countries (mainly in Angola and Nigeria), and maintenance issues in Kazakhstan. Supply disruptions in the United States resulted from Hurricane Ida. This was further compounded by a decline in electricity production from renewable sources due to drought notably in Brazil, China, Turkey, the United States and Europe and low wind speed in Europe (World Bank, 2021a and World Bank, 2021b). The Omicron variant of COVID-19 and the uncertainty around it has contributed to a moderation in international oil prices in November/December 2021.

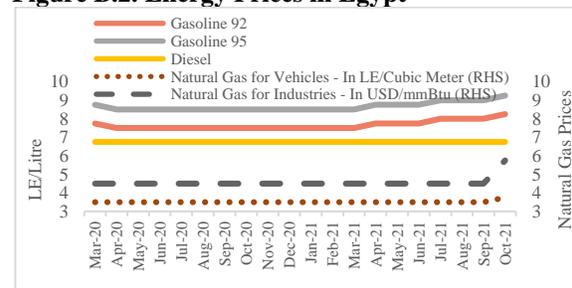
**The global energy crunch and overshoot in commodity prices can have adverse implications for Egypt’s domestic price inflation, energy-intensive manufacturing, as well as the fiscal balance. Yet, the impact on external accounts can be positive, mainly through the remittances channel.** The increase in global energy prices has contributed to an uptick in Egypt’s inflation rate: During April 2020 – October 2021, Egypt successively raised the domestic prices of gasoline, as well as natural gas for vehicles and for industries by an average 10.3 percent, 7.1 percent and 27.8 percent respectively (Figure B.2.). That, along with the rise in international commodity prices, are contributing indirectly to domestic inflation as transport, as well as other sectors, are factoring in the price increases. On the real sector front, the impact of the higher energy prices is mixed: On the one hand, the extractives sector as well as the oil refining sector – which together represent around 14 percent of GDP in FY2019/20—21 – can be stimulated to expand activity and production by the higher prices. On the other hand, non-oil manufacturing – which accounts for about 11 percent of GDP – will face (limited) constraints due to the higher cost structure. On the fiscal front, the recent streamlining of energy subsidies has contributed to their decline from 6.9 percent of GDP in FY2012/13 to 0.3 percent in FY2020/21. Nevertheless, higher international oil prices will lead to a slight deterioration in the deficit-to-GDP ratio, as energy subsidies (while expected to remain small due to recent reforms) are projected to witness an uptick. That is mainly because the upward adjustments in the domestic prices of fuel products (part of which continue to be imported) were lower than the increase in international crude oil prices. Egypt’s FY2021/22 budget assumes an average price of US\$ 60/barrel for Brent crude, which is around US\$20 lower than its price as of end-October 2021; although prices moderated during November 2021. Holding all else constant, a US\$10 increase in oil prices could entail an increase in the deficit-to-GDP ratio by around 0.2-0.3 percent. Therefore, the official target for an overall budget deficit of 6.7 percent of GDP may not be attainable. On the external accounts front, the impact of higher international oil prices can be positive, on balance: Even if Egypt remained a net importer of hydrocarbons (as in FY2019/20—21), the impact of the higher international prices on the current account balance is expected to be favorable, as growth in remittances (in tandem with the expansion in GCC economies—where the larger part of Egypt’s remittances originate) is expected to overcompensate for the potential widening of the oil trade balance on the back of the higher prices.

**Figure B.1. Global Energy Prices**



Source: WB staff estimates based on [Federal Reserve Bank of St. Louis Data](#)

**Figure B.2. Energy Prices in Egypt**



Source: Ministry of Petroleum and Mineral Resources and Gas Regulatory Authority

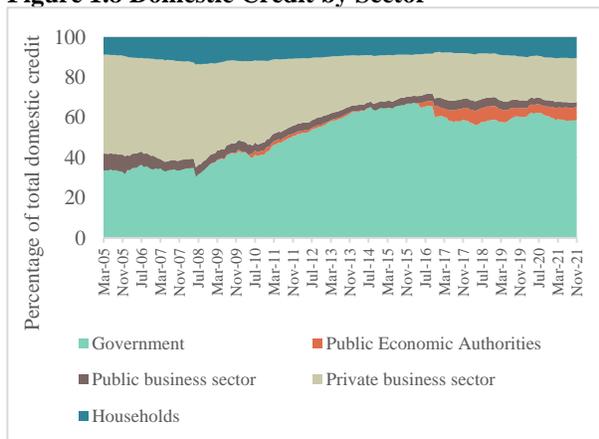
## Monetary and Financial Sector

*The expansionary monetary policy at the outset of the pandemic has helped boost credit intermediation to the private sector, although the public sector continues to take up the largest portion of domestic credit*

The monetary easing introduced at the outset of the pandemic was suspended at the end of 2020, in light of looming inflationary pressures. Between March and November 2020, the CBE had cut key policy rates by 400 basis points cumulatively, thus allowing individuals and businesses to access credit at more favorable terms, and ameliorating borrowing costs for the government during the COVID-19 crisis. Policy rates currently stand at 8.25% and 9.25% for the overnight deposit and lending transactions, respectively (their lowest levels since June 2014), and the inflation rate continues to be within the CBE’s target inflation range of 7 (+/- 2) percent (for the fourth quarter of 2022). Nevertheless, no further policy rate cuts were undertaken, indicating the monetary authority’s cautious stance towards the imminent inflationary pressures. This pause also helps preserve robust portfolio investment inflows, a key – albeit volatile – source of foreign exchange at a time when other foreign income-earning activities are affected by the pandemic.

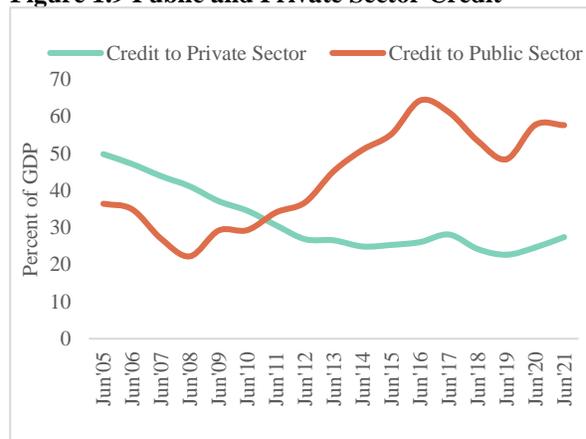
Liquidity conditions were relatively eased during FY2020/21, despite the suspension of monetary expansion, and the prevailing positive real interest rate. The expansionary monetary policy at the outset of the pandemic has reflected on domestic liquidity (M2) growth, which accelerated to 18 percent at end-FY2020/21 compared to 13.9 percent at end-February 2020 prior to the pandemic. This is attributable to the growth in credit expansion to the private sector (in part reflecting the contribution of the CBE’s subsidized loan schemes), followed by the credit extended to the government and (to a lesser extent) also to public economic authorities (Figure 1.8.). Despite its increase over the past two years, private sector credit remains rather subdued at 32.3 percent of total domestic credit, and 28 percent of GDP as of end-FY2020/21, still below its pre-2011 levels (Figure 1.9).

**Figure 1.8 Domestic Credit by Sector**



Source: World Bank staff estimates based on CBE.

**Figure 1.9 Public and Private Sector Credit**



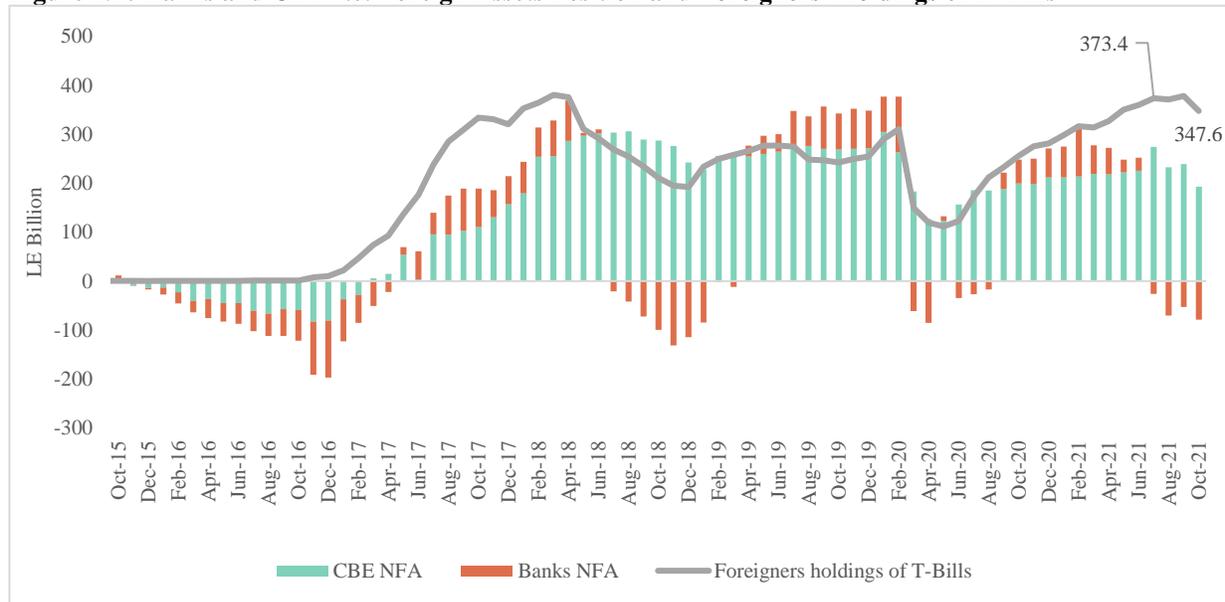
Source: World Bank staff estimates based on CBE and MPED.

**Egypt's banking sector remains resilient in the face of the COVID-19 crisis and continues to display favorable financial soundness indicators, although this partly reflects the banking system's large holdings of sovereign debt.** Egypt's banking sector entered the COVID-19 pandemic with relatively strong liquidity and capital positions, and steady profitability. The financial soundness of banks remains adequate, even after the COVID-shock. As of end-June 2021, the capital base to risk-weighted assets was last reported at 19 percent. The ratio of non-performing loans (NPL) to total loans has been generally declining, reaching 3.5 percent, after reaching 4.2 percent at end-2019. Loan provisioning coverage was last reported at 94 percent. The favorable financial soundness indicators as reported by the CBE partly reflect the large holdings of treasury securities (as of end-June 2021, commercial banks alone held 44 percent of the total outstanding stock of Treasury bills), as well as the low level of credit

intermediation (notably to the private sector). Nevertheless, the banking sector's large exposure to sovereign debt entails only limited financial stability risks, especially as liquidity remains ample.

**Net foreign assets of the banking system are however affected by global financial conditions, and the uptick in external financing requirements.** The large-scale portfolio inflows in the form of investments in fixed-income government securities have helped support the banking system's net foreign assets (NFA) position. However, the recent tightening of global financial conditions, coupled with the downtick in foreigners' holdings of Treasury Bills (T-Bills) since August 2021, in addition to the higher non-oil import bill (in tandem with the resumption of economic activity) have altogether pushed the commercial banks' NFA position into a deficit once again during July-October 2021.

**Figure 1.10 Banks and CBE Net Foreign Assets Position and Foreigners' Holdings of T-Bills**



Source: World Bank Staff estimates based on CBE.

## External Sector

*Reserves are relatively ample and a gradual recovery in foreign income activities is underway. Yet the widened trade deficit, and ongoing disruptions to global trade and travel continue to raise financing requirements*

**Foreign reserves were supported by the substantial remittances as well as capital and financial inflows.** While foreign reserves continue to be below the pre-pandemic peak of US\$45.5 billion at end-February 2020, they have been inching upwards since end-FY2019/20, and remain at rather comfortable levels, recorded at 40.8 billion at end-October 2021 (covering 7

months of merchandise imports). Reserves remained propped up since the onset of the COVID-19 crisis by sizeable remittances, as well as large-scale portfolio inflows (foreign investments in fixed income government securities and sovereign issuances), in addition to the external borrowing, and the one-off IMF SDR allocation (Figure 1.11. and 1.12.).

**Figure 1.11 Cumulative Change in NIR since Onset of COVID-19 vs. BoP Outturns**



Source: Authors' calculation based on CBE

**Figure 1.12 Net International Reserves (Actual vs. Counterfactual)**



Note: Counterfactual (dashed) line excludes IMF RFI and Eurobond in May'20, IMF SBA 1st Tranche in Jun'20, Green Bond received in Oct'20, SBA 2nd Tranche in Dec'20, Eurobond in Feb'21, SBA 3rd Tranche in Jun'21, IMF SDR allocation in Aug'21 and Eurobond in Sep'21.

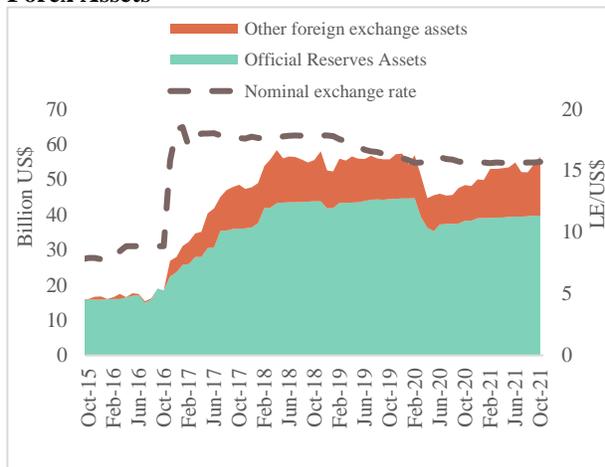
Source: WB staff estimated based on CBE and official/media announcements of foreign financing.

More recently, foreign income sources started improving. Yet, pressures on external accounts continue to emanate from the widened trade balance, external debt servicing and sluggish FDI, in addition to the persisting disruptive implications of the pandemic. Important foreign income activities have started rebounding, including merchandise exports (especially of non-hydrocarbons), the Suez Canal revenues, and more recently tourism receipts, as restrictions on trade and travel have eased (compared to the beginning of the crisis). However, the nascent recovery in these key foreign income sources has been outweighed by a simultaneous rise in non-oil imports (in tandem with the resumption of economic activity), as well as an uptick in interest payments and dividends on foreigners' investment in sovereign bonds and securities. Therefore, the current account deficit widened from US\$11.2 billion (3.1 percent of GDP) in FY2019/20 to US\$18.4 billion (4.6 percent of GDP) in FY2020/21. Further, FDI inflows decreased from US\$7.5 billion (2 percent of GDP) to US\$5.2 billion (1.3 percent of GDP) in FY2020/21, due to the ongoing disruptions and uncertainty caused by the pandemic. Notwithstanding these ongoing pressures on

external accounts, the overall balance of payments improved from a deficit of US\$8.6 billion (2.4 percent of GDP) in FY2019/20 to a surplus of US\$1.9 billion (0.5 percent of GDP) in FY2020/21, owing to the attractive sovereign debt market and official financing which together continued to buoy the capital and financial account, allowing Egypt to target an accumulation of foreign reserves, in order to compensate for the decline in reserves that took place at the outset of the COVID-19 crisis, and to provide a cushion against the persisting COVID-related challenges.

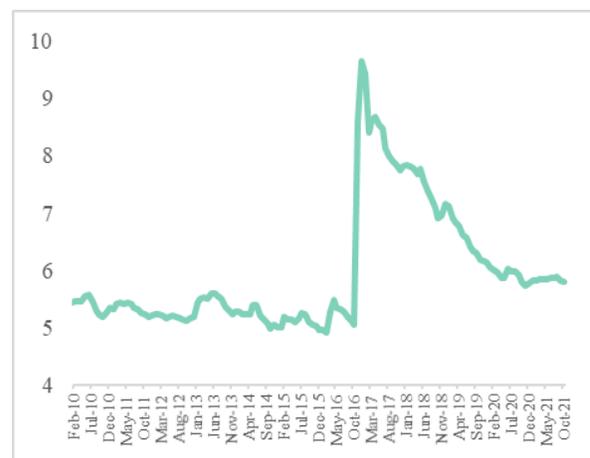
**Despite the impact of COVID-19 on foreign income sources, the nominal exchange rate has been relatively stable so far.** The exchange rate depreciated marginally at the outset of the COVID-19 shock, then strengthened once again since September 2020, returning to its pre-pandemic level of around LE 15.7/US\$ (Figure 1.13.). While maintaining the relative stability of the exchange rate in these exceptional circumstances imposed by the COVID-19 crisis is favorable for containing inflationary pressures and for households' purchasing power, the ensuing real appreciation of the exchange rate (as depicted in Figure 1.14) is likely favoring imports growth which can contribute to the widening of the trade deficit.

**Figure 1.13 Official Reserves Assets and Unofficial Forex Assets**



Source: CBE

**Figure 1.14 Real Exchange Rate**



Source: Global Economic Monitoring (GEM) data and MoF Financial Monthly Bulletin

Note: The real exchange rate is calculated using the following formula:  $RER = SP^*/P$ ; where: S is the nominal exchange rate;  $P^*$  is the CPI in the United States; P is the CPI in Egypt. A decline indicates a real exchange rate appreciation.

## Public Finance

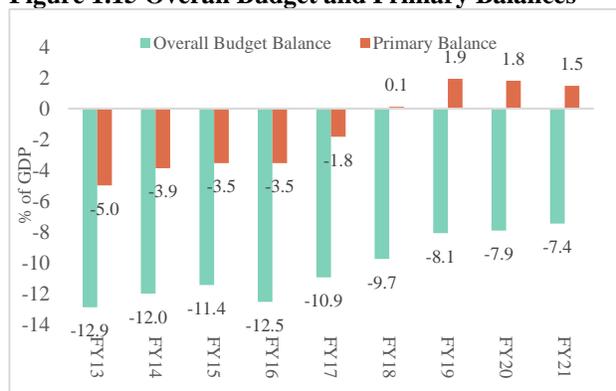
### *Egypt faces the dual challenge of pursuing fiscal consolidation, whilst raising spending on human development sectors, social protection, and investment*

**Egypt’s sustained fiscal consolidation efforts are reflected in a narrowing overall budget deficit, but the debt-to-GDP ratio has increased.**

The budget deficit-to-GDP ratio declined from 7.9 percent in FY2019/20 to 7.4 percent in FY2020/21, driven by tax and non-tax government revenues, whereas total expenditures stabilized (Figures 1.15, 1.16 and Table 1.1). On the other hand, the government debt-to-GDP ratio increased from 87 percent at end-June 2020 to an estimated

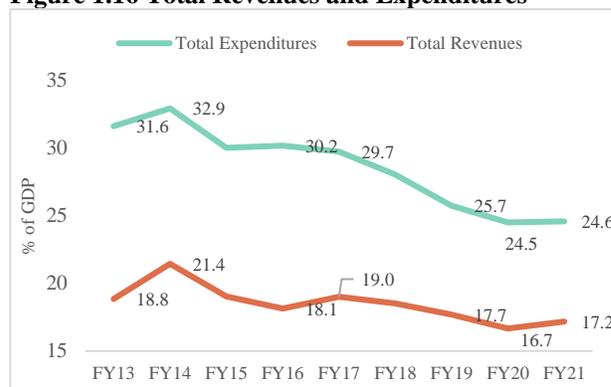
91.6 percent at end-June 2021, driven by unfavorable debt dynamics (as positive real interest rates on debt surpassed real GDP growth in FY2020/21). Moreover, debt-issuance exceeded the amount needed to finance the budget deficit; thus pointing to fiscal pressures, possibly arising from extra-budgetary units such as public economic authorities and the public business sector.<sup>13</sup>

**Figure 1.15 Overall Budget and Primary Balances**



Source: Ministry of Finance (MoF) and MPED

**Figure 1.16 Total Revenues and Expenditures**



**Government revenues improved, albeit remaining rather subdued, as the long-standing informality problem, and tax policy and administration challenges continue to hamper revenue-mobilization.** Government revenues-to-GDP ratio witnessed its first increase over the past three years, but remained below-potential at 17.2 percent of GDP in FY2020/21. The improvement in revenues was primarily driven by the uptick in VAT revenues in tandem with the relatively strong growth in private consumption during FY2020/21 (Table 1.1.), followed by a

slight pick-up in income taxes, partly reflecting the phase-out of the forbearance measures (in the form of delays in tax filing and payment) that were introduced at the beginning of the COVID-19 crisis. Taxes on the interest payable on T-bills and bonds have also increased marginally, due to the removal of tax breaks on interest payable on Treasury bills and bonds. More generally, Egypt’s tax revenues-to-GDP ratio has been relatively low, ranging between 12 and 14 percent even during the pre-COVID years when growth was relatively robust. This highlights structural issues related to

<sup>13</sup> Reported fiscal accounts and debt refer to the “budget sector” definition of the government which includes: The Central Administration, Local Governments and Public Service Authorities. Thus, Public Economic Authorities and State-Owned Enterprises or

the Public Business Sector are not included, and are considered extra-budgetary units. More details are included in Table 1.2. at the end of the Public Finance section.

the informality in the economy, difficulties faced by individuals and businesses when dealing with tax authorities due to cumbersome procedures, as well as limited capacity to enforce compliance due to tax administration challenges. Moreover, tax expenditures (which entail lost revenues due to various forms of tax exemptions and tax holidays) require streamlining. More recently, the government has been progressively digitalizing and modernizing tax administration in order to simplify procedures for taxpayers and enhance the

efficiency of tax collections (*More details on the progress and impact of these steps towards digitalization are covered in the Focus Chapter of this report*). These efforts will be more effective if complemented with structural reforms to create an enabling environment for the private sector to shift towards higher productivity, formal sector activities, notably through leveling the playing field between the various public/private sector players in the economy and enhancing competition and firm capabilities.

**Table 1.1 Breakdown of Total Revenues**

| <i>(Percent of GDP)</i>                   | <i>FY20<br/>(actual)</i> | <i>FY21<br/>(pre-actual)</i> | <i>Difference</i> |
|---|--------------------------|------------------------------|-------------------|
| <b>Total Revenues</b>                     | <b>16.7</b>              | <b>17.2</b>                  | <b>0.5</b>        |
| <b>Tax Revenues</b>                       | <b>12.6</b>              | <b>13.0</b>                  | <b>0.4</b>        |
| Income Tax                                | 4.9                      | 5.0                          | 0.1               |
| Property Taxes <sup>a/</sup>              | 1.0                      | 1.1                          | 0.1               |
| Value Added Taxes                         | 5.6                      | 6.0                          | 0.4               |
| Taxes on International Trade              | 0.6                      | 0.6                          | 0                 |
| Other Taxes                               | 0.5                      | 0.3                          | -0.2              |
| <b>Other Revenues, of which</b>           | <b>3.9</b>               | <b>4.2</b>                   | <b>0.3</b>        |
| Property Income                           | 1.1                      | 1.2                          | 0.1               |
| Proceeds from Sales of Goods and Services | 1.0                      | 0.9                          | -0.1              |
| Miscellaneous Revenues <sup>b/</sup>      | 1.7                      | 2.0                          | 0.3               |

<sup>a/</sup> Include taxes on T-bills and T-bonds.

<sup>b/</sup> Include revenues from “self-financed” government investment.

Source: MoF and MPED

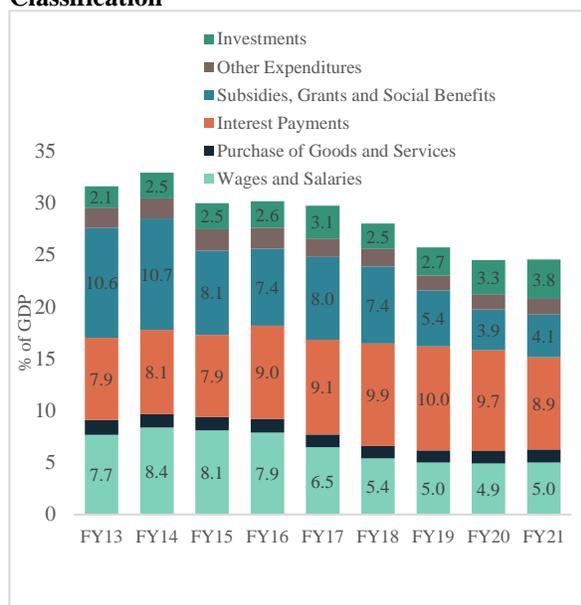
**Despite the narrowing overall deficit-to-GDP ratio and improved budget structure, fiscal space remains rather limited, mainly due to the still-elevated interest payments and constrained revenue-mobilization.** Total government expenditures were recorded at 24.6 percent of GDP in FY2020/21, broadly unaltered from the previous year. Further, the underlying structure of the budget improved, as the decline in interest payments (supported by the monetary easing at the outset of the crisis) gave way to an uptick in allocations to social protection. Nevertheless, the interest burden continues to be high, taking up 36.3 percent of total expenditures; 8.9 percent of GDP; 68.2 percent of tax revenues in FY2020/21.

As such, the available space for more productive investment spending and social sectors is relatively limited. Allocations to the health and education sectors have increased in nominal terms (by 43.1 percent and 33.0 percent during the three-year period FY2017/18—20). But these increases are quite marginal if measured in real terms, or as a share of GDP (Figure 1.18.). The budgeted figures for FY2021/22 show that spending on health and education is expected to rise to 1.5 percent and 2.4 percent of GDP, respectively; albeit below the ratios mandated by the constitution (which are 3 percent and 6 percent of Gross National Product, respectively).<sup>14</sup>

<sup>14</sup> The figures quoted in Figure 1.18 reflect the government allocations to the health and education sectors according to the definition of the functional classification of the budget.

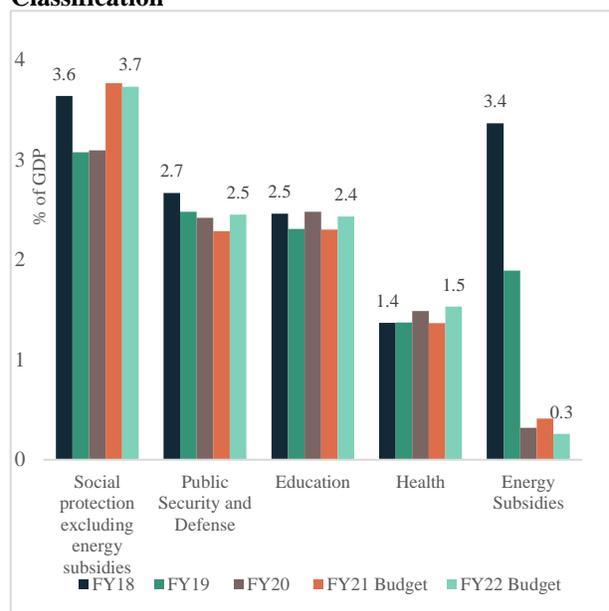
As per the Ministry of Finance’s [press release](#) on June 14, 2021, the constitutional mandates for the health and education budgets are met, according to a wider definition of public expenditures.

**Figure 1.17 Total Expenditures, Economic Classification**



Source: MoF and MPED

**Figure 1.18 Selected Expenditures, Functional Classification**



**Significant progress in fiscal and debt reporting is underway, yet the current administrative structure within the public sector necessitates further clarity about the stock of arrears, deficit financing and the drivers of debt accumulation.**

Before the COVID-19 crisis, the government had successfully managed to put the debt-to-GDP ratio on a downward path after peaking at 108 percent at end-FY2016/17. The government has also taken steps to improve debt management, through diversifying financing sources and prolonging the maturity structure, increasing average time-to-maturity of the budget sector debt to 3.2 years in June 2020 (up from 2.8 years in June 2018, and an even shorter maturity of 2.1 years in June 2016). However, the government debt-to-GDP ratio expanded to an estimated 91.6 percent at end-FY2020/21, up from 87 percent a year earlier, in part driven by the unfavorable debt dynamics, stemming from the prevailing positive real interest rate on debt (which exceeded real GDP growth) in FY2020/21. In addition, the recent debt-accumulation has partly been driven by ‘residual’

extra-budgetary items (Table 1.2), possibly arising from the activities of entities such as public economic authorities and the public business sector. This debt-issuance beyond deficit-financing needs may, at least in part, reflect the settlement of legacy financial obligations that exist in between these off-budget entities, in order to improve their financial positions. Achieving higher predictability of the fiscal balances and the public debt trajectory would necessitate promoting disclosure on payment arrears and providing additional details on gross financing needs (including from these entities that are not part of the central government). Regular publication of official debt figures, with broader and more comprehensive data coverage, is expected to start (*Please see World Bank, 2021c, [Development Policy Financing Program Document](#)*). In addition, efforts are underway to clear up fiscal liabilities stemming from the economic authorities and State-Owned Enterprises (SOEs).

**Table 1.2 Drivers of Egypt's Government Debt Accumulation (On-Budget vs. Extra-Budget)**

| In Billion LE, Unless Otherwise Indicated   |  | Jun-15         | Jun-16         | Jun-17         | Jun-18         | Jun-19         | Jun-20         |
|---|--|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>1</b>  | <b>Stock of Domestic and External Government Debt</b> <sup>a/</sup>                              | <b>2,274.2</b> | <b>2,784.6</b> | <b>3,748.7</b> | <b>4,315.5</b> | <b>4,801.8</b> | <b>5,094.2</b> |
| <b>2</b>  | <b>Change in Debt Stock</b>  | <b>371.5</b>   | <b>510.3</b>   | <b>964.2</b>   | <b>566.8</b>   | <b>486.3</b>   | <b>292.4</b>   |
| 3   | Primary deficit  | 86.4           | 95.9           | 63.0           | -4.9           | -103.1         | -105.6         |
| 4   | Interest payments  | 193.0          | 243.6          | 316.6          | 437.4          | 533.0          | 568.4          |
| 5   | Valuation effect due to exchange rate  | 13.7           | 31.9           | 425.0          | -7.2           | -56.0          | -32.2          |
| <b>6</b>  | <b>On-Budget Items that contribute to debt accumulation</b>                                      | <b>293.1</b>   | <b>371.4</b>   | <b>804.6</b>   | <b>425.4</b>   | <b>374.0</b>   | <b>430.6</b>   |
| <b>7</b>  | <b>Extra-budgetary (below-the-line) items that contribute to debt accumulation</b> <sup>b/</sup> | <b>78.4</b>    | <b>139.0</b>   | <b>159.6</b>   | <b>141.3</b>   | <b>112.4</b>   | <b>-138.2*</b> |
| 8   | Lending to other entities <sup>c/</sup>  | N.A.           | N.A.           | 78.0           | N.A.           | N.A.           | N.A.           |
| 9   | Difference between T-bills face value and present value <sup>d/</sup>                            | 9.5            | N.A.           | 47.0           | 43.1           | 35.7           | -9.9           |
| 10  | Social Insurance Funds (SIF) bonds <sup>e/</sup>   | 20.8           | 44.1           | 24.5           | 22.2           | 23.8           | -371.1*        |
| 11  | Revaluation bonds <sup>f/</sup>  | 0.0            | 1.5            | 1.5            | 1.5            | 2.7            | 0.0            |
| 12  | Unexplained extra-budgetary items that contribute to debt accumulation                           | 48.0           | 93.4           | 8.6            | 74.5           | 50.2           | 242.8          |
| <b>Memorandum Items:</b>  |  |                |                |                |                |                |                |
|   | Domestic and External Government Debt (in percent of GDP)  | 93.1%          | 102.8%         | 108.0%         | 97.3%          | 90.2%          | 87.0%          |
|   | Unexplained extra-budgetary items that contribute to debt accumulation (in percent of GDP)       | 2.0%           | 3.4%           | 0.2%           | 1.7%           | 0.9%           | 4.1%           |
|   | Overdraft facility (TSA stock) <sup>g/</sup>   | 249.1          | 203.1          | 0.0            | 4.5            | 53.1           | 85.4           |
| <i>Notes: Row 6 = 3 + 4 + 5, Row 7 = 2 - 6, Row 12 = 7 - 8 - 9 - 10 - 11</i>  |  |                |                |                |                |                |                |
| Source: World Bank (WB) staff calculations based on data from Ministry of Finance (MoF), Central Bank of Egypt (CBE), and IMF (2018) page 8.  |  |                |                |                |                |                |                |
| <sup>a/</sup> Domestic and external debt due on central government of Egypt including central administration, local governments, and public service authorities.  |  |                |                |                |                |                |                |
| <sup>b/</sup> Below the line items that contribute to debt accumulation is the change in debt arising from obligations other than financing the fiscal deficit.   |  |                |                |                |                |                |                |
| <sup>c/</sup> Public authorities' borrowing from Treasury Single Account (TSA) at CBE, in addition to borrowing by the central government to onlend economic authorities and to the public business sector (IMF, 2018).   |  |                |                |                |                |                |                |
| <sup>d/</sup> T-bills are issued at a discount from their face value, however at maturity the government pays the holders of these securities their face value.   |  |                |                |                |                |                |                |
| <sup>e/</sup> Treasury bonds annually issued to recognize government's liabilities towards SIFs.  |  |                |                |                |                |                |                |
| <sup>f/</sup> Bonds issued to CBE to offset the change in the value of bonds resulting from exchange rate revaluation.  |  |                |                |                |                |                |                |
| <sup>g/</sup> Data source for 'overdraft facility' is the CBE financial statements.   |  |                |                |                |                |                |                |
| * Reflects the one-off cancellation of the debt owed by the government to the Social Insurance Funds (SIF) worth LE371 billion. This debt cancellation followed the enactment of Law 148/2019, which included an article stipulating that the debt cancellation is made in return for annual government payments to the SIF that increase every year at a compounded rate for the duration of 50 years. |  |                |                |                |                |                |                |

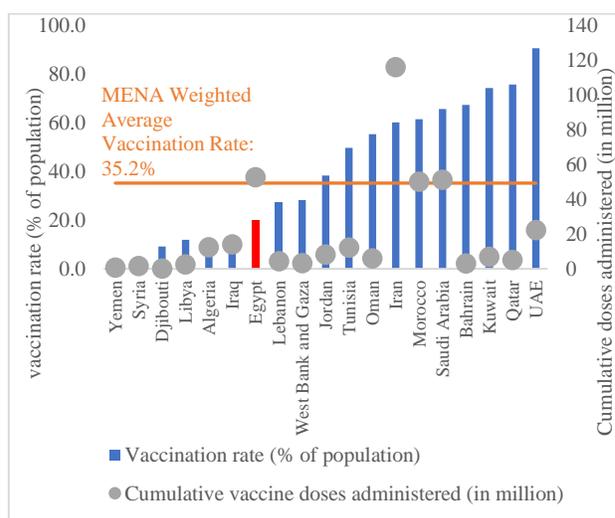
## Outlook

*Egypt is expected to revert to its pre-pandemic growth path over the forecast horizon and continue to push ahead with fiscal consolidation, under the baseline scenario that assumes a gradually improving COVID-situation*

**Egypt’s outlook, similar to other countries, depends in large part on the containment of COVID-19.** The outlook remains clouded by the pandemic, including the emergence of the disease variants (more recently the Omicron) which pose risks to the global recovery. Despite the large number of vaccine doses that have been administered in Egypt, the vaccination rate remains rather modest: As of December 24, 2021, around 19.8 percent of the population is fully vaccinated in Egypt; a rate that falls below the MENA average (Figure 1.19.). Global vaccine deployment has also been uneven, especially in developing countries. Thus, expediting vaccination both domestically and abroad will be key to support a faster rebound and a more favorable outlook. Egypt’s key export-

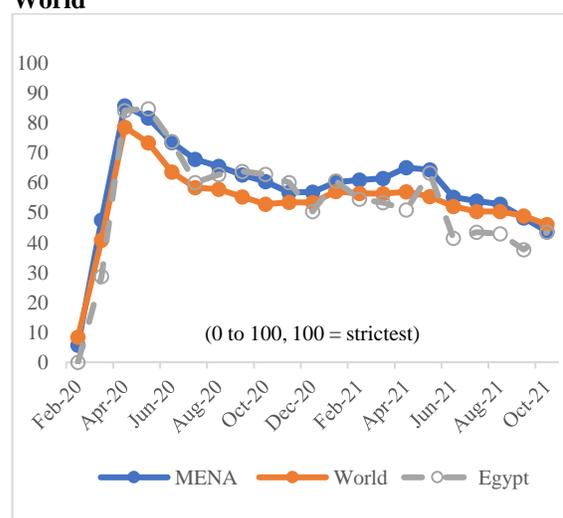
oriented sectors (namely, tourism, the Suez Canal, manufacturing, and oil and gas extractives) are particularly affected by global demand. And while the recovery of the world economy has started, it remains uneven (as it largely reflects sharp rebounds in some major economies)<sup>15</sup> and continues to be subjected to downside risks, including from renewed COVID-19 waves and variants, supply chain bottlenecks and rising commodity prices. In addition, a combination of elevated debt levels, large rollover needs, and tightening global financial conditions could heighten the country’s susceptibility to external financing pressures, and can further constrain discretionary policies.

**Figure 1.19 COVID-19 Vaccination rates in MENA Countries, December 2021**



Source: Compiled by World Bank Staff based on <https://ourworldindata.org/covid-vaccinations>.<sup>16</sup>

**Figure 1.20 Evolution of Stringency Index for Closure Measures in Egypt, MENA and the World**



Source: Oxford COVID 19 Government Response Tracker, Blavnik School of Government, University of Oxford

<sup>15</sup> World Bank, 2021a, Global Economic Prospects, June. Available at: <https://www.worldbank.org/en/publication/global-economic-prospects>

<sup>16</sup> Chart refers to latest available data of vaccination rate in each country. This mostly refers to December 2021.

**Egypt is expected to revert to the pre-COVID growth path over the medium-term, under the baseline scenario that envisages a gradually improving COVID-situation.** While COVID-19 is expected to persist (at least) through FY2021/22, the baseline scenario for growth assumes that vaccination efforts will be scaled-up considerably, such that the pandemic becomes gradually contained. And even if small-scale lockdown measures are reinstated, they would be temporary, such that overall COVID-related stringency measures would be on a general downward path (similar to the trends in the historical series as shown in Figure 1.20.). Growth is expected to accelerate from 3.3 percent in FY2020/21 to 5.5 percent in FY2021/22, supported by the global recovery – notably in some of Egypt’s main trading partners, such as the EU, the Arab countries, China and the US<sup>17</sup> – coupled with easing restrictions and a favorable base effect. A gradual return of tourists (especially with the resumption of flights from Russia after a 6-year hiatus), continued growth in the Information and Communication Technology (ICT) sector, an uptick in gas extractives (along with its exports), and expansion in the construction and real estate sectors (incentivized by public investments) will all support an expansion of aggregate demand. Going forward, pushing ahead with structural reforms to establish new drivers of growth will be crucial to sustain pre-pandemic rates of growth over the medium-term. As economic activity approaches full capacity, increased private investment will be essential to drive productivity improvements and generate high-earning job opportunities.

**Exports of goods and services are projected to continue recovering and remittances may rise further with the improving GCC economies. However, external financing requirements are expected to be rather high as imports may also**

**increase with the resumption of growth, and as global financial conditions may tighten.** The current account deficit-to-GDP ratio is forecast to narrow marginally from 4.6 percent of GDP in FY2020/2021 to 4.4 percent in FY2021/22, mainly driven by an expected uptick in remittances, bolstered by the increase in global oil prices, and the subsequent positive impact on GCC economies where most Egyptian expat workers are based. Meanwhile, the projected improvement in exports (notably from services such as the Suez Canal and tourism, with the resumption of international trade and travel), are expected to be counterbalanced by a continued uptick in non-oil imports. Over the medium-term, the current account deficit is expected to narrow gradually, under the assumption that global trade and international travel continue to rebound, and gas exports improve further. The capital and financial account surplus is projected to decline gradually over the medium-term, as the large-scale financing that was required during the COVID-19 crisis starts phasing out. Portfolio inflows will depend on the attractiveness of yields on Egyptian debt instruments, and more generally on investors’ sentiment towards emerging markets, but are still expected to be supported by sovereign issuances. While FDI inflows to the oil and gas extractives sectors are expected to inch-up with the global recovery, the level of total FDI inflows to other sectors is likely to remain rather stable, if major reforms to improve the overall business environment were not implemented.

**External debt<sup>18</sup> servicing obligations are rather substantial but are expected to be met.** Egypt’s external debt has increased to US\$137.9 billion (34.0 percent of GDP) at the end of June 2021 from US\$123.5 billion (33.9 percent of GDP) a year earlier. External debt is mostly owed to multilaterals and maintains a favorable maturity

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<sup>17</sup> Growth in the EU is projected to rebound from -6.6 percent in 2020 to 4.2 percent in 2021 and 4.4 percent in 2022; Saudi Arabia: from -4.1 percent in 2020 to 2.4 percent in 2021 and 3.3 percent in 2022; China from 2.3 percent in 2020 to 8.5 percent in 2021 and 5.4 percent in 2022; and the US: from -3.5 percent in 2020 to 6.8 percent in 2021 and 4.2 percent in 2022 (World Bank, 2021a, Global Economic Prospects, June).

<sup>18</sup> The data on the repayment schedules published by the CBE refer to total external debt, which includes government and non-government external debt.

structure, mostly medium-to-long term (as short-term external debt represented only 9.9 percent of total external debt at end-June 2021). It also includes the deposits in the CBE from Saudi Arabia, Kuwait and the UAE (last reported at US\$15.0 billion as of end-June 2021) and were recently augmented by the US\$3 billion CBE deposit by Saudi Arabia received in October 2021. External debt servicing remains rather large, as the obligations that are confirmed to be paid in FY2021/22 amount to US\$31.37 billion.<sup>19</sup> And while the external financing conditions may tighten amidst the soaring international commodity prices, debt servicing obligations are expected to be met, as the maturing external debt can be rolled-over (especially with Egypt's access to international financial markets and official financing channels), and as the ratio of external debt service to exports of goods and services has moderated somewhat to 39 percent as of Q4-FY2020/21 (after spiking to above 50 percent at the height of the COVID-shock).<sup>20</sup>

**The budget deficit-to-GDP ratio is expected to continue narrowing over the medium-term.**

Under the baseline scenario where government revenues continue increasing gradually, the overall budget deficit-to-GDP ratio is expected to decrease from 7.4 percent in FY2020/21 to around 6.8 percent by FY2022/23. Importantly, the primary surplus-to-GDP ratio is also projected to improve from an estimated 1.5 percent in FY2020/21 to almost 2 percent over the medium term. Government revenues are expected to be supported by the resumption of economic activity, and the continued phasing-out of tax forbearance measures that were introduced during FY2019/2020—21, in addition to the efforts to modernize and digitalize tax and customs administrations, as well as the implementation of the recently approved Medium-Term Revenue

Strategy. Meanwhile, the expenditures-to-GDP ratio is expected to remain largely unchanged over the medium-term, because the consolidation efforts are expected to be counterbalanced by the large interest burden (which may increase further if monetary policy was tightened), and by rising commodity prices (which will put upward pressures on the food and energy subsidy bills).

**The government debt-to-GDP ratio is expected to resume its downward trajectory over the medium-term. Gross financing requirements will follow suit, albeit projected to remain elevated.**

The increase in the government debt-to-GDP ratio during FY2020/21—22 is expected to start reversing by FY2022/23, under the baseline scenario where growth starts rising towards pre-pandemic levels, the budget deficit-to-GDP ratio continues to decrease, and as the need for external borrowing declines in tandem with the improving foreign-income sources, as the pandemic gradually abates. The government debt-to-GDP ratio is projected to decline from an estimated 91.6 percent at end-FY2020/21 to 90 percent by end-FY2022/23. Domestic debt is expected to decline at a higher pace over the forecast horizon, as the government replaces part of the costly short-term domestic debt (less than one-year maturity which was last reported at around 52 percent of total domestic government debt at end-June 2020), with longer maturities and more favorable terms. Gross financing requirements (which include covering the overall budget deficit as well as maturing government debt) is forecast to decrease from the estimated 40 percent of GDP in FY2020/21, although expected to stay quite high. Resolving the financial inter-linkages with extra-budgetary entities, along with clearing out legacy arrears and developing the secondary market should further support debt sustainability over the medium term.

<sup>19</sup> Based on CBE data, in line with published figures in the External Position of the Egyptian Economy Publication, July/December 2020/21, Volume no. 72 and July/March 2020/21 Volume no. 73. This includes US\$8.2 billion in short-term external debt service obligations in July-March/FY2021/22, as well as

US\$23 billion in medium- and long-term external debt servicing obligations for the full fiscal year FY2021/22.

<sup>20</sup> [World Bank data](#) indicate that debt service (% of exports of goods, services and primary income) was 29.5 percent in Egypt in 2020, compared to an average 16.8 percent in Middle Income countries.

**Table 1.3 Selected Economic Indicators**

|  | FY16    | FY17    | FY18    | FY19    | FY20    | FY21       | FY22     | FY23     |
|--|---------|---------|---------|---------|---------|------------|----------|----------|
|  | Actual  | Actual  | Actual  | Actual  | Actual  | Pre-Actual | Forecast | Forecast |
| <b>Real Sector and Prices</b>  |         |         |         |         |         |            |          |          |
| GDP at market prices (Current prices, LE bn)                                     | 2,709.4 | 3,470.0 | 4,437.4 | 5,322.1 | 5,855.0 | 6,341.0    | 7,165.3  | 8,168.5  |
| GDP growth rate (Constant prices)  | 4.3     | 4.2     | 5.3     | 5.6     | 3.6     | 3.3        | 5.5      | 5.5      |
| GDP deflator growth (%)  | 6.2     | 22.9    | 21.4    | 13.6    | 6.2     | 4.8        | 7.1      | 8.1      |
| Population (in millions) (mid-year CAPMAS data)                                  | 91.0    | 95.2    | 97.1    | 98.9    | 100.5   | 101.9      | 103.6    | 105.5    |
| Unemployment rate (Last quarter in fiscal year) (%)                              | 12.5    | 12.0    | 9.9     | 7.5     | 9.6     | 7.3        | 7.4      | 7.2      |
| CPI inflation, (Urban, Period average)   | 10.2    | 23.3    | 21.6    | 13.9    | 5.7     | 4.5        | 7.0      | 8.0      |
| GDP per capita (Current prices, US\$)  | 3,652.3 | 2,476.1 | 2,570.5 | 3,064.5 | 3,634.4 | 3,963.5    | 4,190.4  | 4,554.6  |
| <b>Public finance (% of GDP)</b>   |         |         |         |         |         |            |          |          |
| Total revenues   | 18.1    | 19.0    | 18.5    | 17.7    | 16.7    | 17.2       | 17.3     | 17.7     |
| <i>Tax revenues</i>  | 13.0    | 13.3    | 14.2    | 13.8    | 12.6    | 13.0       | 13.3     | 13.7     |
| <i>Grants</i>  | 0.1     | 0.5     | 0.1     | 0.0     | 0.1     | 0.0        | 0.0      | 0.0      |
| <i>Other non-tax revenues</i>  | 5.0     | 5.2     | 4.3     | 3.8     | 3.9     | 4.2        | 4.0      | 4.0      |
| Total Expenditures (excl. NAFA)  | 30.2    | 29.7    | 28.0    | 25.7    | 24.5    | 24.6       | 24.5     | 24.4     |
| <i>Current expenditures</i>  | 27.6    | 26.6    | 25.6    | 23.0    | 21.2    | 20.8       | 21.1     | 20.9     |
| <i>Capital expenditures</i>  | 2.6     | 3.1     | 2.5     | 2.7     | 3.3     | 3.8        | 3.5      | 3.5      |
| Net Acquisition of Financial Assets (NAFA)                                       | 0.5     | 0.2     | 0.2     | 0.0     | 0.1     | 0.0        | 0.0      | 0.1      |
| Overall Budget Balance   | -12.5   | -10.9   | -9.7    | -8.1    | -7.9    | -7.4       | -7.2     | -6.8     |
| Primary Balance  | -3.5    | -1.8    | 0.1     | 1.9     | 1.8     | 1.5        | 1.8      | 2.0      |
| Gross Domestic Budget Sector Debt  | 94.9    | 90.0    | 78.2    | 72.5    | 68.1    | 71.6       | 71.5     | 69.1     |
| Gross Budget Sector Debt (Domestic + External)                                   | 102.8   | 108.0   | 97.3    | 90.2    | 87.0    | 91.6       | 93.0     | 90.0     |
| <b>External sector</b>   |         |         |         |         |         |            |          |          |
| Trade Balance (% of GDP)   | -11.6   | -15.8   | -14.9   | -12.5   | -10.0   | -10.4      | -10.5    | -9.6     |
| Current Account Balance (% of GDP)   | -6.0    | -6.1    | -2.4    | -3.6    | -3.1    | -4.6       | -4.4     | -4.1     |
| Net Foreign Direct Investment Inflows (% of GDP)                                 | 2.1     | 3.4     | 3.1     | 2.7     | 2.0     | 1.3        | 1.5      | 1.9      |
| Capital and Financial Account Balance (% of GDP) (excludes errors and omissions) | 6.4     | 13.2    | 8.8     | 3.6     | 1.5     | 5.8        | 4.3      | 3.7      |
| Overall Balance of Payments (% of GDP)   | -0.8    | 5.8     | 5.1     | 0.0     | -2.4    | 0.5        | -0.1     | -0.4     |
| Net international reserves (NIR) (end of period, US\$ bn)                        | 17.5    | 31.3    | 44.3    | 44.5    | 38.2    | 40.6       | 39.9     | 38.2     |
| NIR in months of same year's merchandise imports                                 | 3.7     | 6.4     | 8.4     | 8.0     | 7.3     | 6.9        | 6.1      | 5.6      |
| External Debt (% of GDP)   | 18.3    | 41.1    | 37.2    | 34.0    | 33.9    | 34.0       | 34.3     | 32.4     |
| External Government Debt (Serviced by MoF) (% of GDP)                            | 7.9     | 18.0    | 19.0    | 17.8    | 18.9    | 20.0       | 21.5     | 20.9     |
| <b>Monetary sector</b>   |         |         |         |         |         |            |          |          |
| Domestic Liquidity (M2) annual growth rate                                       | 18.6    | 39.3    | 18.4    | 11.8    | 17.5    | 18.0       | 18.0     | 17.0     |
| Private Sector Credit annual growth rate   | 14.2    | 38.0    | 10.1    | 12.4    | 19.5    | 20.5       | 21.0     | 21.0     |
| Private sector credit annual <b>real</b> growth rate (%)                         | 4.0     | 14.7    | -11.4   | -1.5    | 13.8    | 16.0       | 14.0     | 13.0     |

Source: Historical data (until FY2020/21) are based on official data from the Ministry of Planning and Economic Development, Ministry of Finance, CBE, and CAPMAS. The years FY2021/22—23 reflect World Bank staff projections.

## Chapter 2 – The Far-Reaching Impact of Government Digital Transformation in Egypt



### Introduction

*Recent advances in digital government transformation in Egypt improve the prospects for modernized public service delivery and policymaking. To realize its potential, digitalization needs to be complemented with a continued simplification and streamlining of government processes, adoption of a ‘whole-of-government’ approach to digital transformation, interoperability, as well as stronger digital infrastructure across the country that would ensure uninterrupted availability of essential digital government services. Universal access to high quality internet, promotion of digital literacy and skills, incentivizing use of digital financial services and ensuring an overall conducive legal and regulatory framework are all crucial foundations for a vibrant digital economy that would allow for the inclusive uptake and large-scale adoption of digital government services.*

**Accelerating digital transformation is core to Egypt’s objectives to achieve vibrant economic growth, higher productivity, advancing human capital development and quality of life.** Egypt has a high value-added ICT sector that is not only a key contributor to economic activity, but that also holds the potential to support the country’s

emergence as a leading digital economy in the Middle East and in Africa. Indeed, ICT has been identified among the priority sectors to drive export-oriented economic growth in the medium term, as part of the country’s National Structural Reform Program (NSRP) launched in 2021 aiming to unleash the potential of the private sector. The

COVID-19 pandemic has further underscored the important role that ubiquitous and affordable broadband connectivity and digital technologies play in facilitating day-to-day transactions, ensuring continuity of business activity, access to essential government services, as well as crisis response and recovery.

**The Egyptian government has been increasingly harnessing digital technologies and there is an opportunity to build on the recent advancements to improve key governance indicators such as “the efficiency of public institutions”;** a key priority articulated in the NSRP. Egypt has reached quite an advanced level of government digitalization, through providing online government services (e-portals) for individuals and businesses (user-facing / front-end), in addition to the automation and adoption of digital data, tools and procedures in core government functions (back-end). Egypt has also established the national digital ID system, and ensured its integration (inter-operability) with other civil affairs systems (such as birth certificates, passports) as well as notary services. Other new national projects, such as the Universal Health Insurance, are also being implemented while ensuring inter-operability. This creates direct efficiency gains, reduces government operational costs, and helps in building a centralized citizen database and more accurate population register; all while reducing the government’s carbon footprint through less paperwork, paper printing and commutes by citizens seeking related services.

Despite the advancements, the progress across the different digitalized systems and across governorates is uneven, and Egypt is yet to realize the potential of furthering “inter-operability”, such that the various digitalized government systems can combine, exchange and make use of each other’s data and information in an automated format, notably for the purpose of strengthening fiscal and financial management. Furthermore, the online government portals through which the State provides e-services to individuals and businesses (user-facing / front-end digital services) may not be built around smooth and streamlined end-to-end processes; such that the back-end functions may continue to be paper-based and/or susceptible to inefficiencies. Thus, it is crucial to establish ‘end-to-end’ digital government solutions. This means that digital transformation occurs in every step throughout a given governmental process or procedure. Rolling out end-to-end digital government services can ultimately lead to a more efficient public sector and improve public service delivery. Therefore, undertaking a ‘whole-of-government’ approach to digital transformation can help Egypt improve the impact of the government digitalization efforts, and strengthen their contributions to enhancing government effectiveness, efficiency, transparency and control of corruption. *See Box 2.1. for a summary of the different stages of the digital transformation of the government.*

### **Box 2.1. Three Stages of Government Digital Transformation**

- (1) **Digitization (E-Government):** The conversion of information from analog or paper-based formats to digital formats, while providing one-way communication and supply-driven public service delivery.
- (2) **Digitalization (Digital Government):** The adoption of digitized data, tools and procedures for user-driven public services.
- (3) **GovTech:** The adoption of a whole-of-government approach to public sector modernization through the application of digital technologies to all government practices to promote simple, efficient, and transparent government with the citizen at the center of reforms.

*Sources: World Bank, Europe and Central Asia Economic Update, Spring 2021 “Data, Digitalization, and Governance”.*  
*World Bank, 2019, based on the OECD’s presentation of digital transformation in Digital Government Studies.*

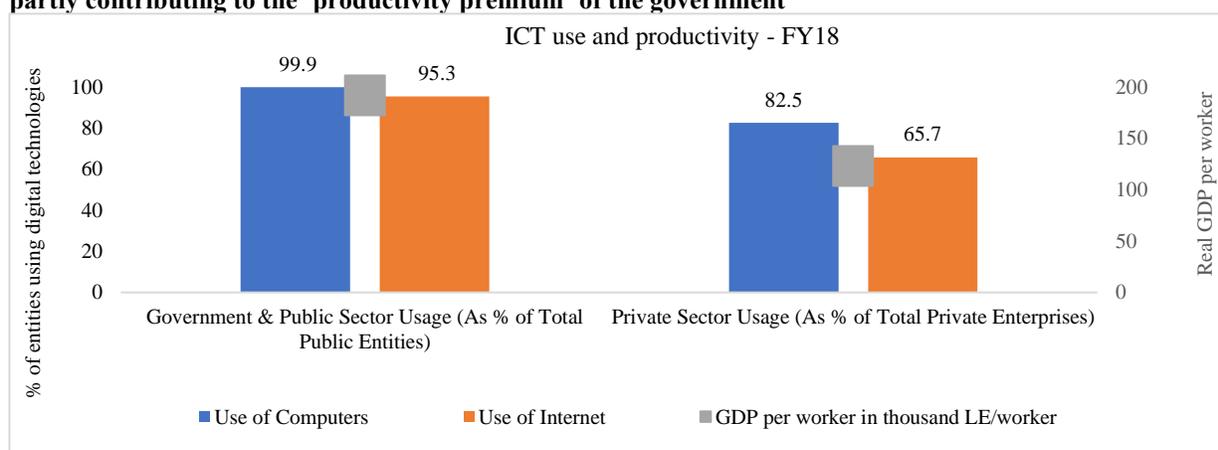
**Diffusion of the digital government provides an opportunity to advance uptake of digital technologies more broadly, with potentially far-reaching positive spillovers on improved**

**governance and policymaking.** The COVID-19 pandemic has fast-tracked important Financial Technology (fintech) reforms in Egypt (*See Box 2.3 for recently introduced fintech reforms*) and has

driven many businesses to utilize digital technologies for social distancing purposes, and led to a surge in e-commerce activity.<sup>21</sup> Nevertheless, large-scale adoption of digital technologies – by the general public and by private businesses – remains a key challenge in Egypt (Figure 2.1).<sup>22</sup> Accelerating digital transformation of the government can help incentivize the widespread uptake of digital technologies, as individuals and businesses are offered more

accessible means of (two-way) digital communication and interaction with the public sector. Further, as the government builds unified databases and inter-operable (integrated and inter-connected) digital systems, sharing data at the back-end can promote data-driven decision- and policymaking for improved public service delivery and progress towards an integrated national data system ([World Bank, World Development Report 2021](#)).

**Figure 2.1 Uptake of technology and digitalization in the government is ahead of that in the private sector; partly contributing to the ‘productivity premium’ of the government**



Source: World Bank staff estimates based on Ministry of Communications and Information Technology (MCIT), ICT Indicators Annual Report 2014–2018, Ministry of Planning and Economic Development (MPED) and CAPMAS.

Note: This reflects the latest data available for ICT use in the public and private sector.

**Strengthening the foundations of the digital economy (namely, digital infrastructure, skills, financial services, and the overall legal and regulatory environment) will, in turn, be crucial to advance digital transformation, not only in the government, but also across the whole economy.** Internet penetration and the quality of high-speed internet (broadband) remain below-

potential. Digital literacy and skills<sup>23</sup> as well as the utilization of Digital Financial Services (DFS) (and more broadly financial inclusion)<sup>24</sup> could be fostered further. In addition, the overall regulatory and legal environment requires updating to promote competition (notably in infrastructure), and ensure cybersecurity, data protection and privacy.

<sup>21</sup> Egypt is viewed to have led the MENA region’s e-commerce boom in 2020, alongside UAE and Saudi Arabia. According to a study by [Wamda and MIT’s Legatum Center for Development and Entrepreneurship](#) the value of the region’s e-commerce sector surged 52% to reach USD 22 bn by the end of 2020 — 80% of which came from Egypt, Saudi Arabia and the UAE.

<sup>22</sup> According to CAPMAS’s establishments survey, out of a sample of more than 772,000 establishments in 2017, only 6.3 percent reported use of computer and 4.3 percent reported use of internet. Meanwhile, almost all the establishments reported an even lower use of basic technology with 0.4, 0.24 and 0.19 percent using fax, website, and e-mail respectively.

<sup>23</sup> According to the World Economic Forum Global Competitiveness Index, Egypt’s performance on the indicator assessing ‘Digital skills

among population’ is at a value of ‘4.7’ in 2019. This indicator measures the extent to which the active population possess sufficient digital skills (e.g., computer skills, basic coding, digital reading)? [1 = not all; 7 = to a great extent].

<sup>24</sup> Based on data received from the CBE, the proportion of the eligible population (i.e., 16 years old and above) who have a bank account, a post account, active wallet, or pre-paid card has been increasing over the past years, and was last registered at 53.3 percent as of June 2021. According to the [Global Findex Database](#), the share of adults in developing countries who have an account with a financial institution or through a mobile money service averaged 63 percent in 2017.

**Therefore, this focus chapter consists of three sections:**

- (i) The first section provides a snapshot of Egypt’s progressive digital government status.
- (ii) The second section discusses the current challenges that undermine the impact of the

government digitization efforts and key priorities for advancement, notably in the context of a ‘whole-of-government’ approach towards digital transformation.

- (iii) Finally, the last section addresses more broadly the reforms to strengthen the foundations of the digital economy in Egypt.

## **A Snapshot of Egypt’s Digital Government Status**

*Investments in telecommunications infrastructure, automation of several core government functions, and the launch of digital government platforms have placed Egypt at a relatively elevated level of digital government transformation. Yet, there are opportunities for solidifying the impact of these advances on key governance indicators*

**Egypt has achieved a relatively elevated level of government digitalization and significant GovTech maturity in light of recent reforms. And this has been positively reflecting on the country’s scores in international indices gauging digital transformation of the public sector.** Egypt’s score on the United Nations E-Government Development Index (EGDI)<sup>25</sup> has witnessed an improvement over the last two decades. It was last recorded at 0.55 in 2020; very close to the MENA and the global averages of 0.60 and exceeding the African countries’ average of 0.39 (Figure 2.2). Egypt thus has emerged from the “middle” to the “high” performing EGDI group.<sup>26</sup> Similarly, Egypt’s score on the World Bank’s

newly constructed GovTech Maturity Index (GTMI)<sup>27</sup> in 2020 is 0.65, placing Egypt in the “B” group of countries (the second highest category), characterized as having “significant” focus on GovTech. Egypt performs higher than the global average, as well as the average in MENA, lower middle-income countries, and the GTMI “B” group (Figure 2.3). This relative advancement in digital government reflects mainly: **(1)** The scaled-up investments in telecommunications and digital infrastructure, especially in recent years; **(2)** The automation of several core government functions; and **(3)** the launch of digital government platforms and services, more recently accelerated as part of the “Digital Egypt Strategy”.<sup>28</sup>

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<sup>25</sup> EGDI is a normalized composite index with three components: Online Services Index (OSI), Telecommunications Infrastructure Index (TII) and Human Capacity Index (HCI).

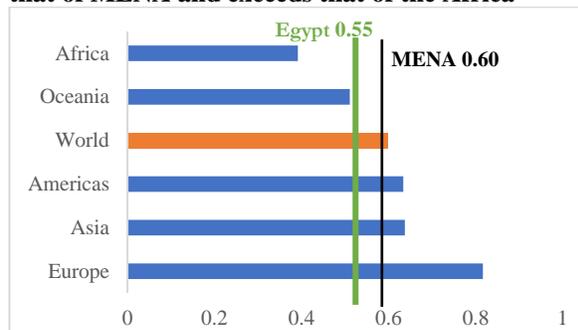
<sup>26</sup> EGDI categories are: Low, Middle, High and Very high: countries with values below 0.25 are grouped as “Low”; countries with values ranging from 0.25 to <0.50 are grouped as “Medium”; countries with values ranging from 0.50 to <0.75 are grouped as “High”; countries with values ranging from 0.75 to 1.00 are grouped as “Very High”. In 2020, 8 countries scored “low”, 59 countries scored “middle”, 69 countries scored “high” and 57 countries scored “very high”.

<sup>27</sup> The GovTech Maturity Index draws upon an updated and expanded version of the Digital Government/GovTech Systems and Services global dataset—and several external indices to provide a composite GovTech Index. It benchmarks a country’s performance on the extent

to which a whole-of-government approach, focus on simple and efficient government, and citizen-centric modernization are incorporated in a government’s advancement of digital innovation. GTMI has four components: government core operations; public service delivery, citizen engagement and GovTech enablers. Based on the scores, countries are grouped under one of the four groups: A,B,C and D, where A is the highest and D the lowest performing groups.

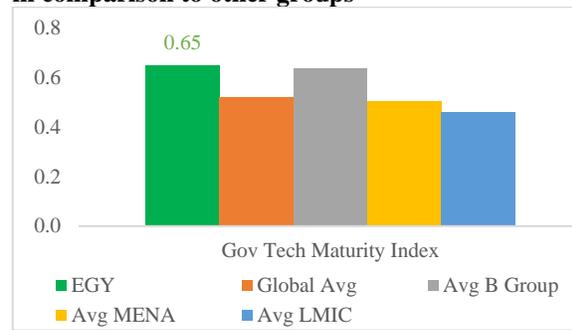
<sup>28</sup> Under the Egypt ICT 2030 vision, MCIT has embarked on building “Digital Egypt” which lays the foundations for the transformation of Egypt into a digital society. The strategy rests on three main pillars: (i) digital transformation, which aims to transform the existing government services and community ecosystem to an entirely digital and data driven ecosystem under the “Digital Egypt” e-platform, (ii) digital skills and jobs, and (iii) digital innovation.

**Figure 2.2 Egypt's 2020 EGDI Score is very close to that of MENA and exceeds that of the Africa**



Source: WBG Digital Government/GovTech Systems and Services (DGSS) Dataset, December 2020; 2020 United Nations E-Government Survey

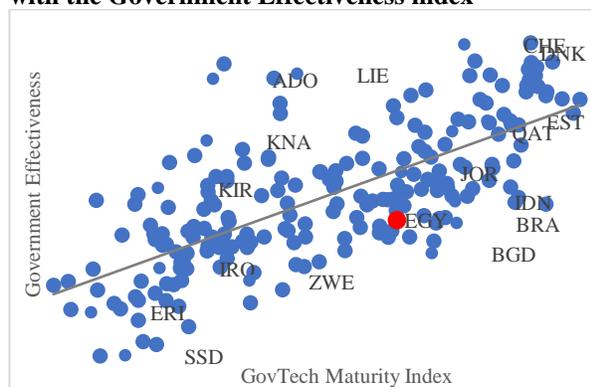
**Figure 2.3 Egypt's 2020 GTMI performs favorably in comparison to other groups**



**Given Egypt's relative advancement in digitalization and readiness for GovTech, performance on governance and quality of public service delivery are projected to be at higher levels. This indicates that digitalization efforts are yet to fully reflect on these important policy objectives (see Figures 2.4 and 2.5).** The World Bank's governance indices for Government Effectiveness and Control of Corruption reflect perceptions of public sector management and how it reflects on the quality of infrastructure, individuals' interactions with key services such as public utilities (water/electricity/waste management), as well as perceptions relating to the quality of budgetary and financial management and efficiency of revenue mobilization, in addition to the extent of irregular payments when dealing with

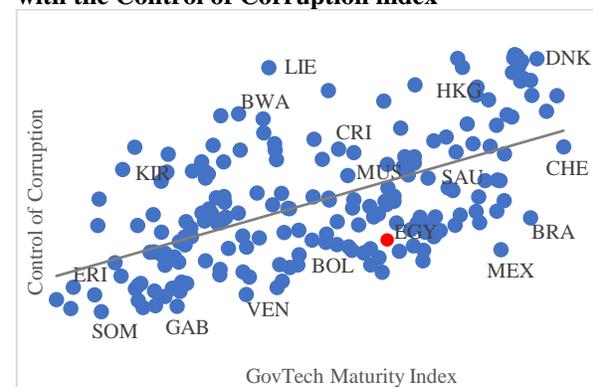
tax and customs administrations, the speed and fairness of judicial decisions, and more broadly the overall transparency and accountability of the public sector. *While governance generally improves with digitalization of government services, Figures 2.4. and 2.5. show that Egypt falls below the positive-sloping trendline.* This indicates that for Egypt's level of GovTech maturity, government effectiveness and control of corruption are expected to be at higher levels.<sup>29</sup> Recognizing that it takes time for individual users to adopt digitalization and gradually change their perception of governance, there are further opportunities to enhance Egypt's government digitalization and GovTech journey, and ultimately reflect positively on these governance indicators. These steps are discussed next.

**Figure 2.4 GovTech Maturity positively correlates with the Government Effectiveness index**



Source: WBG Digital Government/GovTech Systems and Services (DGSS) Dataset, December 2020; The WBG Worldwide Governance Indicators (WGI), 2020.

**Figure 2.5 GovTech Maturity positively correlates with the Control of Corruption index**



<sup>29</sup> According to the MCIT, Egypt is developing a Digital Governance roadmap in partnership with the Administrative Control Authority.

## Towards a ‘Whole-of-Government’ Approach to Digital Transformation

*Key features of an effective digital government transformation include: Roll-out of ‘end-to-end’ digital solutions (whereby digital transformation occurs in every step throughout a given governmental process), ensuring the integration and inter-connectedness of the different government systems, and following a geographically balanced plan for their deployment*

A ‘whole-of-government’ approach towards digital transformation entails the modernization of user-facing / “front-end” government services and “back-end” core government functions and ensuring their integration and inter-connectedness. User-facing / front-end public services, such as Government-to-Consumer (G2C) and Government-to-Business (G2B) online portals, are more visible to the public. Yet, focusing on the front-end without reengineering and streamlining processes within the government can undermine the impact of digital transformation, especially those related to enhancing the internal efficiency of the government and speed and quality of public service delivery. Similarly, digitalization of the back-end core government functions (Government-to-Government or G2G) can reduce bureaucracy and transaction costs. Further, breaking silos in between the different systems and ensuring their integration is crucial for information-sharing and stronger deterrence of fraud and enhanced transparency.

**Egypt is working towards adopting the ‘whole-of-government’ approach to digital transformation.** *On the back-end*, Egypt has been taking steps to digitalize core government systems, including for public financial management, human resource management, tax and customs

administration, and public investment management. *On the front-end*, Egypt has launched the “Digital Egypt”<sup>30</sup> platform in July 2020, with the aim of modernizing and digitalizing public service delivery. That is, through transitioning from paper-based transactional models towards online integrated digital offerings, while reducing the burden of bureaucracy. The platform (only available in Arabic) offers 103 online government services, categorized under automated services for: civil affairs (recording births, deaths, and causes of deaths), food subsidy cards, issuing legal documents such as power of attorneys, driving / traffic services, notarization, commercial registers, courts, real estate taxes, justice services, social insurance, pensions and social housing.<sup>31</sup> Important government services are now also available online, such as the e-Tenders portal and the new one-stop Advance Cargo Information (ACI) platform. Additionally, Egypt rolled out the electronic invoice system,<sup>32</sup> and launched the first phase of the electronic receipt system to support efforts to curb tax evasion, enhance audit procedures and expedite tax refunds. In October 2021, Egypt approved a law to establish the “Digital Egypt Fund”<sup>33</sup> to be overseen by the Prime Minister’s office in order to ensure relevant inter-governmental coordination of the digital transformation journey.<sup>34</sup>

<sup>30</sup> The Digital Egypt platform is available here: <https://digital.gov.eg/>

<sup>31</sup> Digital Egypt: A Citizen Centric Approach, Ministry of Communication and Information Technology, June 2021

<sup>32</sup> As of October 2021, the E-invoice system has more than 2700 registered companies, recorded 55 million invoices and prevented 2800 tax evasion cases amounting to LE 3.5 billion (according to news reports compiled by the World Bank Finance, Competitiveness and Innovation Global Practice team).

<sup>33</sup> According to the Cabinet Statement from the meeting number 165, 2021: [available here](#), the Digital Egypt Fund aims to develop the

digital identity system, improve digital literacy, establish data centers, modernize existing digital government services and systems, support young innovators, and finance technical studies on infrastructure development.

<sup>34</sup> According to the MCIT, in order to ensure the effective and whole-of-government implementation of the digital transformation strategy, there is a presidential mandate to revamp all government applications through a world-class government lab “AHMOS”, where high level skills and expertise from national and multinational

**Despite the recent progress, digitalization of both user-facing (G2C and G2B) and core government (G2G) systems continue to suffer from challenges, and Egypt is yet to roll out end-to-end digital solutions whereby digital transformation occurs in every step throughout a given governmental process.** *On the bank-end*, progress on the digitalization of core government systems has been uneven across governorates, and the digital solutions that have been created remain only partially operational and are not inter-operable (i.e., the different systems are not able to combine, exchange and make use of each other’s data and information in an automated format). For instance, Egypt established digital solutions for the financial management system, integrating line ministries and spending entities; which is crucial for the classification, recording, and accounting of government financial transactions, ensuring that spending is in line with the budget allocation, and importantly also for producing in-year State budget performance reports and annual consolidated financial statements. However, this system is not integrated with the other key systems, such as public procurement.<sup>35</sup> Similarly, the human resources management information system is separate for each government entity. This makes it less functional than a system that is shared between all government agencies in a centralized platform. *On the front-end*, the online government services that are provided to individuals and businesses (user-facing) are not built around inter-operable systems at the back-end. That is to say that even those services that are made available online for the public (G2C and G2B) can continue to rely on the legacy inefficient (sometimes paper-based) systems within the government (G2G). This undermines the use and impact of these online government services. For example, the relatively new “e-tenders portal” is so far limited to the

publication of procurement plans, opportunities, contracts awarded as well as the current status of procurement transactions, among other features. This is an important step to enhance transparency of government purchases, facilitate SME access to the public procurement market, and reduce the administrative burden. However, establishing an end-to-end system where every step of the process is digitalized will be more efficient and impactful. Egypt is currently working to develop a comprehensive electronic-Government Procurement (e-GP) system. As discussed above, taking this system one step further by linking the e-GP to other financial management systems would help flag potential cost overruns, and gather data on spending and demand trends and further improve transparency, reduce malpractice and corruption risks. Similarly, under the Egyptian Customs Authority’s new one-stop ACI platform, importers are now required to sign up for the national single window for foreign trade facilitation (“Nafeza”) system in order to be able to release imported goods at seaports. But these efforts mainly provide user-centric online (front-end) services (*See Box 2.2. for key steps to accelerate digital transformation of international trade processes*). To be more effective, digitalization of these front-end services need to be embedded in a smooth and streamlined process, with end-to-end digital solutions (i.e., they need to be built around inter-operable systems at the back-end – integrated and interconnected systems within the government).<sup>36</sup> This will allow for improved coordination and data sharing which enhances the efficiency of government services, including identifying tax/customs evasion, licensing and permits violations, and any other non-compliance with regulatory procedures. Therefore, rolling out *end-to-end digital government services* is crucial for better governance and improved service

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companies are combined to produce topnotch applications and services ensuring interoperability, security, and real-time verification in different government agencies.

<sup>35</sup> The following are important relevant resources: WBG Digital Government/GovTech Systems and Services (DGSS) Dataset; Integrated PFM Solutions: Global Trends in Transition to Integrated FMIS Solutions, October 2014; and Dener, et al. (2021).

<sup>36</sup> The recent piloting of the end-to-end life journey public services in Port Said governorate could help illustrate the efficiency gains from

the optimization and redesigning of services (modernization of services steps) as well as their integration into a common government-wide service Bus.

For example, a universal health insurance mechanization project was launched in cooperation with the Ministry of Military Force and the Ministry of Health and Population. The project developed the work systems of three authorities (the health care authority, the universal health insurance authority, and the health accreditation and surveillance authority).

delivery. Last, but not least, public service delivery could improve further if these online government platforms allow for citizen engagement, feedback, and e-participation.<sup>37</sup>

**In summary, the whole-of-government approach for digital transformation requires:**

(i) Simplified and streamlined core government systems so that their digitalization produces better results; (ii) Gradual scale-up of digitalization efforts to eventually cover key functions and operationalize them across all governorates; (iii) Importantly, the different systems have to be inter-connected. In addition, effective use of shared

(cloud-based) platforms and data, as well as the implementation of ‘Egypt Artificial Intelligence Strategy’<sup>38</sup> will be important for the exchange and utilization of data to inform decision- and policymaking, improve transparency and enable data use, reuse and repurposing; (iv) Online government services for the public will be more efficient and impactful in terms of improving service delivery as end-to-end digital solutions are put in place, such that the whole government process or procedure is modernized; and (v) online government platforms should be two-way communication channels where citizen engagement is reinforced for better outcomes.

**Box 2.2. Digital Transformation of International Trade Processes\***

The one-stop Advance Cargo Information (ACI) platform that Egypt has recently launched is a breakthrough step towards the digitalization of customs clearance procedures and the reduction of the associated administrative burden, which should address a key bottleneck of the business environment in Egypt. Efforts are also underway to fully operationalize the electronic Single Window (e-SW) and to automate other processes handled by border authorities.

Further simplification and re-engineering of the business processes will be crucial to ensure optimum outcomes from the digitalization of international trade processes in Egypt. According to the World Bank Country Private Sector Diagnostic, “at least 33 government entities [were] involved in regulating trade” (World Bank, 2020e). Streamlining trade regulation will improve the processes for importers and exporters. Further, inter-operability of the digitalized systems within the various border authorities is also critical for the seamless processing of the electronic documents filed as part of the Customs Declaration procedures. Moreover, departing from paper-based processes and transiting towards digitalized ones can further enhance efficiency. For instance, adoption of E-phytosanitary certification (of the International Plant Protection Convention—IPPC or similar ones) as a pilot for electronic processing of certificates and permits can complement ACI and potentially establish links with the e-SW. Importantly, the introduction of data analytics and data science techniques will help inform policy reform and decision-making. Last, but not least, two-way communication between authorities and the users (individuals and businesses) is key to the success of the newly modernized and digitalized systems. As such, regularly and systematically consulting with the private sector, and conducting surveys to better understand stakeholder expectations of the ongoing ACI, e-SW, and other border authorities’ automation efforts can improve outcomes of the reform process. Similarly, in order to ensure easy, inclusive and transparent access to all trade-related information, it is important to establish a unified and comprehensive platform. For this purpose, establishing a Trade Information Portal (TIP) is very useful. Indeed, recommendation no. 38 from the United Nations Economic Commission for Europe (UNECE) states that “A Trade Information Portal (TIP) is an online facility that aggregates and publishes all regulatory and procedural, import and export trade-related information on an internet portal accessible to all stakeholders and the public at large. It allows traders to consult a single source to obtain searchable, accurate, comprehensive, and up-to-date information”. Availing such a portal with localized content and with easy accessibility can contribute to a smoother digital transformation journey of international trade processes.

*\*This box is authored by Marwa Mahgoub (Operations Officer, IFC) and Lazar Ristic (Consultant, World Bank)*

<sup>37</sup> “Citizen Engagement” captures the government use of online services in providing information to citizens (e-information sharing), interacting with stakeholders (e-consultation), and engaging in decision-making processes (e-decision-making). As per the World Bank’s GovTech Dataset in 2020, Egypt performs rather well on e-information sharing, but less favorably on e-consultations, and only undertakes very limited e-decision-making.

<sup>38</sup> As per MCIT, the national AI Strategy aims to adopt AI technologies to support the achievement of Egypt’s sustainable development goals. It also aims to adopt and lead strong positions on topics such as AI ethics and the social and economic impact of AI on African, Arab, and developing countries.

## Strengthening the Foundations of the Digital Economy

This section is based on the [World Bank Digital Economy Country Assessment for Egypt](#). It aims to discuss the priorities to effectively leverage digital technologies for a more efficient public sector, and larger adoption by individuals and

businesses. It covers four foundations of the digital economy, namely: Digital infrastructure, skills, financial services, as well as the overall legal and regulatory environment.

*Expanding the geographical coverage of mobile 4G+ broadband networks and boosting fixed fiber optic broadband access would help achieve territorially balanced availability of broadband services which are crucial for a fully operational digital government and larger uptake by users*

**Universal access to high-quality and affordable fixed and mobile broadband in Egypt is an important foundation for a fully operational digital government, and for larger uptake by individuals and businesses of these digital government services, as well as promoting a vibrant digital economy at large.** Widespread access to reliable high-speed broadband services is paramount for the full operationalization of digital government services, both at the back-end (government networks and digital solutions) and front-end (user-facing), and also for individuals and businesses to be able to make use of the government services available online. Internet penetration in Egypt, *defined as the proportion of the population using internet*, stands at 57.3 percent in FY2019/20, up from 41.3 percent in FY2015/16.<sup>39</sup> Further, there is a digital divide between urban and rural areas (where internet penetration was reported at 68.8 percent and 47.8 percent, respectively)<sup>40</sup> which the government is aiming to address with an estimated investment of US\$ 370 million. In terms of domestic

geographic coverage, *mobile* broadband coverage is around 97.7 percent for 3G, and 61.1 percent for 4G as of June 2020 (based on National Telecommunications Regulatory Authority (NTRA) records), whereas deployment of 5G is still underway,<sup>41</sup> and will be needed to support the industry.<sup>42</sup> Furthermore, *fixed* broadband accessibility in Egypt remains relatively low. In end-2020, the number of subscriptions to fixed broadband<sup>43</sup> were at around 9 million, below the world average (Figure 2.6). Therefore, mobile devices remain the primary means by which people access broadband internet in Egypt. Although this limits the usability of broadband internet, it constitutes a significant opportunity for widespread uptake of government services via mobile devices. Fixed broadband remains below-potential, mainly due to the primary use of copper in the “last mile” (*i.e., the final cable that connects the home or the office to the network*). While the average download speed increased by more than 5-fold between early-2019 and end-2020, it is still at just over 35 megabits per second (Figure 2.7)

<sup>39</sup> Internet penetration figures rely on the Ministry of Communication and Information Technology, ICT Indicators Annual Report 2020, September 2021

<sup>40</sup> The initiative Haya Karima “Decent Life” was endorsed by Egyptian President Abdel Fattah Al-Sisi, with the main objective of improving the quality of life in the poorest rural communities within the framework of the Sustainable Development Strategy. In January 2019, the first phase was launched targeting to cover 375 villages across Egypt. By launching the second phase, in January 2021, the number of targeted villages increased to 1500, with the number of

beneficiaries representing 20% of the overall Egyptian population. [www.mped.gov.eg](http://www.mped.gov.eg)

<sup>41</sup> Digital Economy Country Assessment, World Bank, 2020.

<sup>42</sup> The GSMA forecasts 5G will contribute \$2.2 trillion to the global economy by 2034, with key industries such as manufacturing, healthcare, transportation, utilities, retail, financial services and public sector benefitting the most from the new technology for digital transformation.

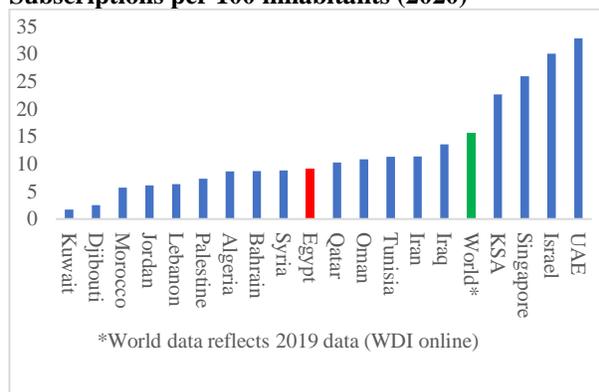
<sup>43</sup> Fixed broadband is mainly provided over copper using VDSL technology, while fiber is now deployed in all greenfield areas such as new developments (World Bank, DECA, 2020).

below the world average.<sup>44</sup> Egypt has ramped up investments in telecommunications infrastructure. During 2019—2020, investments in the ICT sector amounted to US\$1.6 billion. Also, the NTRA auctioned 80 megahertz of spectrum (*wireless carrier resources that mobile providers use to offer their mobile internet services*) at end-2020, in order to improve the availability and quality of mobile broadband. As a result, Egypt’s position improved on several international indicators. For instance, Egypt progressed to rank 77 (out of 130 countries) on the Network Readiness Index (NRI) 2021, and improved by 54 positions to rank 41 (out of 193 countries) on the International Telecommunication Union (ITU) ICT regulatory tracker 2020. Going forward, further reforms are required to increase the availability of high-quality broadband services, including: (1) Expanding the geographical coverage of mobile 4G+ broadband networks and

deploying 5G in Egypt;<sup>45</sup> (2) Simplifying the tower construction authorization process<sup>46</sup>; and (3) Boosting usage of fiber-optic by network operators. This could be accelerated if the NTRA fostered competition in the fixed digital infrastructure and further facilitated alternative operators (other than Telecom Egypt) to deploy their own fiber infrastructure.<sup>47</sup>

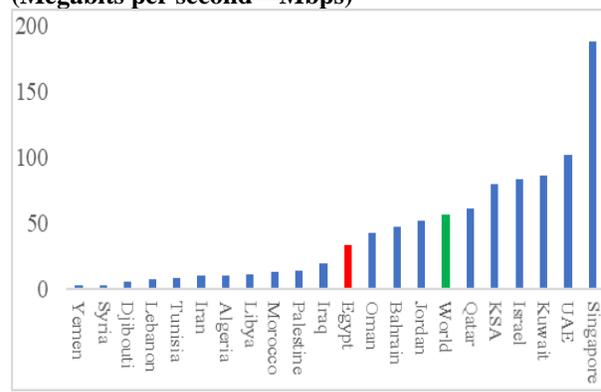
**For Egypt to become a digital hub in the MENA region, a world-class, carrier-neutral, open access data center built by, and for, large international companies, is critical.** First, when content is made available locally, there is no longer the need for expensive international capacity, and the cost of access drops dramatically. Second, latency issues will improve because content is physically closer to the end user, with fewer hops, improved latency and less congestion risks.

**Figure 2.6 Access to Fixed Broadband: Subscriptions per 100 inhabitants (2020)**



Source: International Telecommunication Union (ITU) <https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx>

**Figure 2.7 Fixed Broadband Download Speed (Megabits per second—Mbps)**



Source: Ookla, “Speedtest Global Index”, October 2021, <https://www.speedtest.net/global-index>

*Scaling up efforts to propagate and upgrade digital literacy and skills (including through fostering more partnerships with the private sector and the utilization of ICT bootcamps) is a critical precondition for the design and implementation of digitally enabled solutions for the government, as well as their “inclusive” uptake and adoption by the public*

**Investing more widely in digital skills will ensure that all Egyptians have an equal**

**opportunity to participate in the digital economy.** While the roll-out of digital services by

<sup>44</sup> Digital Economy Country Assessment, World Bank, 2020.  
<sup>45</sup> Developing and transparently communicating a national spectrum plan with relatively predictable timetables, prices, and magnitude of released spectrum bands.

<sup>46</sup> “NTRA Announces New Framework for Egyptian Towerco License.” Tower Xchange, August 13, 2020. <https://www.towerxchange.com/ntra-announces-new-framework-for-egyptian-towerco-licence/>  
<sup>47</sup> Digital Economy Country Assessment, World Bank, 2020.

the government will encourage greater uptake and create further demand for these digital services by individuals and businesses, a significant portion of the population in Egypt continues to lag on the necessary basic digital skills (such as use of computers and smartphones, email communication, Web research, and online transactions). Such basic skills are essential for the future work and are considered a prerequisite for inclusive and effective access to digitally enabled services and platforms, including those offered by the government. Therefore, Egypt needs to further invest in digital skills and literacy to support adoption of digital services and innovation, such that the benefits stemming from greater access to enhanced digital government services are inclusive and more widely felt by the public.

**Important programs and initiatives are put in place to enhance digital skills in the public sector and among students, in addition to efforts to further stimulate demand for these skills.**

Egypt has conducted several ‘digital transformation’ training programs for the public sector, including employees of governorates and local administration.<sup>48</sup> These programs are being embedded in a comprehensive training strategy to expand and strengthen lifelong learning and second-chance reskilling and upskilling of government employees, in line with the fast-changing digital technologies. Further, for the general public, Egypt has undertaken steps to raise the quality and relevance of basic education, Technical and Vocational Training (TVET) including through strengthening foundational skills, in particular, basic literacy and numeracy. And schools are increasingly also being connected to high-speed internet for improved learning methods. Moreover, for the purpose of stimulating demand for digital skills, Egypt is starting to establish technology parks throughout the country, especially in underprivileged regions, under the “Egypt Makes Electronics Initiative” which covers electronics manufacturing and outsourcing, call

centers, electronic design and manufacturing, IT design, programming, and IT assembly, among other areas. The vision of this initiative is to reach out to Egypt’s talented youth where they are located and provide the ecosystem that enables them to create value through innovation and technological advancements. In addition, Egypt is cooperating with industry leaders, including prominent multinationals to launch advanced capacity-building scholarships to help qualify young graduates for future jobs in digital transformation in key areas such as Artificial Intelligence, data science, cloud management, advanced programming and database management.<sup>49</sup> Also, as part of FinTech talent development efforts, the CBE launched the “FinYology – FinTech for Youth” initiative in February 2020 in collaboration with the Egyptian Banking Institute, as well as various universities and banks, aiming to raise knowledge on FinTech and digital financial solutions amongst students. Further, the CBE launched the “Accelerate’ha’ initiative – Unleashing Female FinTech and Entrepreneurial Potential” with the aspiration of endorsing Gender Equality and Women Empowerment in Egypt, creating a FinTech talent pipeline for female entrepreneurs.

**Going forward, it is crucial for Egypt to continue expanding the availability (supply) of more sophisticated digital skills.**

These include *intermediate* digital skills (that involve using professional software for data analysis and presentation, digital marketing), as well as more *advanced* digital skills (that are used by ICT specialists, computer engineers and increasingly digital finance specialists). This will require increasing the percentage and quality of graduates (including women) in Science, Technology, Engineering, and Mathematics (STEM) disciplines. In addition to the emphasis on STEM for the younger generations, upgrading digital skills training and improving the delivery mechanisms for the existing labor force. Such

<sup>48</sup> These include: (1) The Digital Transformation program to train 3,251 senior and supervisory leaders in the state’s administration system (March 2020), (2) The Digital Transformation program to train 1,310 employees of Governorates and Affiliated Directorates on innovation technology, digital transformation and using social networks for employees; implemented in Aswan, Beheira, Sharqiya, Qalyubiya, Menoufiya, Minya, Beni Suef, Port Said, Sohag, North Sinai and Kafr El-Sheikh (June 2020), (3) Advanced Computer Skills Program to train 4,769 government employees of the central

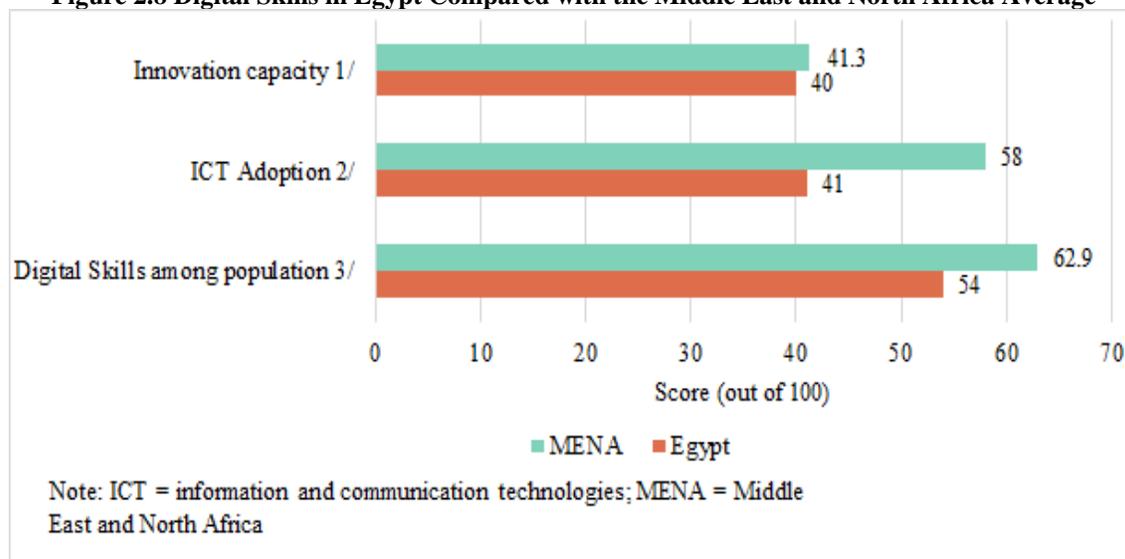
administration (June 2020), and (4) Technology Innovation and Digital Transformation Program to train 753 government employees on technology innovation and digital transformation (July 2020). Further, MCIT launched the Digital Transformation Academy in 2021. In addition, the Institutional Development, Training and Human Capacity Building Sector at MCIT also provides technical support and has thus far trained 49,929 state employees.

<sup>49</sup> This includes cooperation between the Egyptian government and companies such as Microsoft and Amazon Web Services.

initiatives<sup>50</sup>, including partnerships with the private sector, and the utilization of ICT bootcamps could be further scaled up for continuous and rapid

digital upskilling and reskilling of the workforce, especially for the youth.

**Figure 2.8 Digital Skills in Egypt Compared with the Middle East and North Africa Average**



1/ Indicators of diversity and collaboration (e.g., diversity of workforce, multistakeholder collaborations), R&D (e.g., scientific publications, patent applications, R&D expenditures) and commercialization (e.g., buyer sophistication and trademark applications)  
 2/ Indicators of mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed-broadband internet subscriptions, fiber internet subscriptions and internet users  
 3/ Indicators of active population possession of sufficient digital skills (e.g., computer skills, basic coding, digital reading)

Source: World Bank, DECA, 2020; WB Staff calculations based on the Global Competitiveness Assessment Report.

*Digital financial services (DFS) are conducive to greater financial inclusion which in turn is crucial for the wider use of digital services, including those offered by the government. At the same time, e-government services stimulate the development of DFS*

**Fostering further financial inclusion is key to the acceptance and large-scale (inclusive) uptake of digital government services.** This underscores the importance of developing digital financial services, since they can promote financial inclusion, and thus contribute to wider benefit from the digital government services. In turn, accelerating digital government transformation creates demand for digital financial services and advances the financial inclusion agenda. More specifically, the automation of Person-to-Government (P2G) financial transactions – such as

electronic payment of taxes, public utilities and other government fees – necessitates the availability of digital financial services to enable individuals and businesses to make these online financial transactions. Similarly, Government-to-Person (G2P) disbursements – such as public sector wages, pensions and social benefits – boost the demand for these digital financial services.<sup>51</sup>

**Over the past few years, Egypt has been undertaking key steps to promote digital**

<sup>50</sup> MCIT is conducting several programs aiming to develop digital capabilities of Egyptian citizens  
[https://mcit.gov.eg/en/Human\\_Capacity/MCIT/Basic\\_Digital\\_Skills\\_Development\\_Programs](https://mcit.gov.eg/en/Human_Capacity/MCIT/Basic_Digital_Skills_Development_Programs)

<sup>51</sup> According to the latest Global Findex database (2017), if governments digitized their payments to individuals, the number of

banked adults could rise by 100 million globally. Many of these adults have the basic technology needed to receive these payments in digital form. Of the 60 million unbanked adults worldwide who receive government transfers in cash, two-thirds have a mobile phone.  
<https://globalfindex.worldbank.org/>

**financial services and financial inclusion.** In 2017, Egypt established the National Payment Council with the aim to improve the e-payment space. Also, Egypt has now fully automated the civil servants' wage bill, and the National Organization for Social Insurance has recently signed a protocol of cooperation with the four Mobile Network Operators (MNOs) in Egypt: Vodafone, Orange, Etisalat and WE, with the aim to enable and facilitate pension disbursement through mobile wallets (These are examples of *G2P* in Egypt). Further, the government is leveraging the large customer base of Egypt Post<sup>52</sup> for inclusive digital financial services to enable pension disbursement through electronic payment cards. Similarly, the government is providing incentives to use electronic means of payments for all governmental services that cost above LE500. The government has also introduced online tax payments, and e-payment platforms (such as Fawry) to facilitate the payment of public utility bills (example of *P2G*). The recent introduction of the “Meeza” National Payment Scheme (which now has issued more than 22 million prepaid/debit cards) used for disbursement of public sector wages and ensuring its “*inter-operability*” across various digital platforms (including on the Digital Egypt platform)<sup>53</sup> is another key step in furthering

financial inclusion. In 2019, the CBE announced its Fintech and Innovation Strategy, including a regulatory sandbox for experimentation with innovative solutions. The CBE has also issued new and comprehensive rules to facilitate and organize payment services, as well as digital lending and savings services, through the mobile phone in order to improve access for all members of society. These reforms are *gradually* helping Egypt transition away from a predominantly cash-based society.

**More recently Egypt has been ramping up legal and regulatory reforms that promote digital financial services, notably as the COVID-19 crisis (and the associated mobility restrictions) highlighted their importance.** These legislative reforms most notably include the new Central Bank and Banking law (194/2020) which includes provisions to regulate Fintech in the banking sector. Box 2.3. summarizes some key reforms and initiatives undertaken since the onset of COVID-19. According to the CBE, 1 billion electronic banking transactions worth more than LE 2.8 trillion (US\$178.2 billion) have been performed during FY2020/21, which is 49 percent higher than the 700 million transactions worth LE 1.9 trillion performed in the previous year.<sup>54</sup>

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<sup>52</sup> ‘Egypt Post’ provides financial services. As per data provided by MCIT, the number of deposit accounts at Egypt Post exceeds 27 million accounts (22.5 million Saving accounts, 4.5 million current accounts); out of which 7.1 million accounts are for women. And the number of issued electronic cards linked to pension accounts exceeds 3.9 million.

<sup>53</sup> This is based on the recently signed cooperation protocol between the CBE and the MCIT, as reported [by MCIT](#). “Digital Egypt platform” supports digital payment services, where users (citizens) are encouraged to pay online using digital payment methods.

<sup>54</sup> Based on [news reports quoting the CBE](#).

### Box 2.3. Selected Reforms to Boost Digital Payments since Onset of COVID-19

Over the past year and a half, Egypt has implemented a bold package of Fintech reforms to help ramp up digital financial services. Below are some of these key measures:

- Introduction of the electronic know-your-customer (E-KYC) as an exceptional measure for mobile wallets, thus enabling digital onboarding and removing the constraint of physical KYC, identity checks and documentation (eliminating the need to visit a branch) (March 2020). The full launch of the E-KYC service is underway.
- Issuance of prepaid cards for free to encourage electronic payments (March 2020).
- Waiver of the Merchant Discount Rate (MDR) for contactless transactions below LE600.
- Launch of the CBE's initiative for Electronic Payments (May 2020).  
This initiative helped more than triple the number of digital Points of Sale (PoS) terminals nationwide from around 200,000 to more than 700,000 in September 2021.
- Waiver of setup fees for new SMEs under the CBE e-commerce initiative (February 2021).
- Ratification of the Central Bank and the Banking Sector Law (No. 194/2020), including new provisions that regulate (for the first time) payments and Fintech in the banking sector. This paves the road for further development in Fintech and expanding its infrastructure especially on digital payments, digital banks, and digital currencies (September 2020).
- The new draft Fintech Law (awaiting Parliament approval) to regulate Fintech in Non-Bank Financial Institutions (NBFI) such as insurance companies and microfinance firms.
- Listing of the State-owned e-payment platform *e-finance* for Digital and Financial Investments on the Egyptian Stock Exchange, with more public offerings of Fintech companies in the pipeline. This would allow them better access to capital and enable their growth (October 2021).
- Launch of a fund by State Owned Banks (National Bank of Egypt, Banque Misr, and Banque du Caire) to support financial technology startups with a minimum capital of LE 1 billion (September 2021).
- Introduction of the regulations of Cash in and Cash out inter-operability (July 2021)
- Adoption of the instant payment network services regulations (October 2021).
- Raising withdrawal and transfer limits for mobile wallets to encourage their wider use (April 2021).
- Licensing the service of accepting contactless mobile payments which will facilitate the process of transforming smart devices into electronic points of sale (PoS) without incurring additional costs (September 2021).
- Enabling use of e-signature to allow signing and certifying bank documents and forms whilst ensure the privacy and confidentiality benefits enjoyed by corporate customers through the use of a strong coding system. Banque du Caire became the first bank to use the e-signature license.
- In the pipeline: The CBE, in cooperation with the FRA, is currently preparing to issue a new law to regulate alternative finance activities including P2P lending, crowdfunding, rotating savings and credit association (ROSCA) and other newly developed digital financing activities.

**Building on the reform momentum is vital to continue stimulating the growth of digital financial services, whilst ensuring their propagation in an inclusive manner.** The relevant secondary regulations for payment systems and services should be expedited. Furthermore, designing evidence-based policies and customer-centric diversified products and services based on the findings of the surveys recently conducted by the CBE (in consultation with stakeholders) can help Egypt unlock the potential of digital financial services, whilst balancing risk with opportunity. And for ensuring that these novel financial services are widely

adopted in an “inclusive” manner, it is important to continue the efforts to promote the use of smart cards, notably for social programs, and designing them to be “inter-operable” across these various programs. In addition, digitalizing international remittances can be another means to incentivize financial inclusion. Moreover, there is a need to avail the use of Unstructured Supplementary Service Data (USSD) for mobile wallets provided by banks. That is because USSD enables the use of feature phones (which lack the advanced functionality of a smartphone) to deliver financial services to more users, thereby facilitating their outreach to the poorer segments of the population.

*A shared, collaborative and strategic legal and regulatory framework is vital for a safe and innovative transition to a digital economy.*

**Egypt has embarked on an ambitious regulatory reform program to accelerate its journey to digital transformation.** By the end of 2020, 55 laws and regulations were in force covering matters such as licensing, intellectual property rights, competition, cyberspace safety, data protection, and financial transactions. The presence of vague and excessive criminal sanctions across different legislative areas (such as telecommunications, media, and cybercrime) stifles the market. Overall, the framework would benefit from a comprehensive streamlining and modernization exercise to address gaps and eliminate institutional overlap. For example, reviewing the Egypt Telecommunication Regulation Law (Law No. 10 of 2003) which has not been revised since it was first issued in 2003 and developing executive regulations for it could be a clear milestone, including provisions that could allow greater private sector participation. Further, improving the capacity and autonomy of the NTRA is a key factor underlying Egypt's ability to accelerate its transformation to a digital economy. Currently, the role of the government within the telecom sector (as regulator, policymaker, investor and operator) needs to be harmonized to avoid possible conflict of interest. Key regulatory measures to revive competition in the fixed broadband market are effectively on hold, including measures to address Telecom Egypt's dominance of the fixed market. Moving forward, as initiatives become more complex and require a

wide array of technical experts to drive them forward, a whole-of-government approach to rule making could be favored. Furthermore, reinforcing the role of the Egyptian Competition Authority (ECA) as the authority responsible for competition issues, while maintaining coordination mechanisms with relevant stakeholders including the NTRA, the Financial Regulatory Authority, and the CBE could as well facilitate reforms aiming at enhancing competition.<sup>55</sup>

**In conclusion, fast tracking digital transformation and scaling up end-to-end digital government services on robust public sector platforms are necessary for improving service delivery and shoring up demand for digital services.** Further steps could be taken to infuse more market competition, maximize usage of existing capacity, and expand fiber networks. A comprehensive plan for developing basic and advanced digital skills is indispensable to fully retain and mobilize Egypt's human capital. Finally, fostering inclusion in financial services, which requires the cooperation of public and private stakeholders, will go a long way in boosting the digital economy. It is time for Egypt to further create incentives for investment and innovation, and reform the regulatory framework for accelerated growth. Only then will the country fully unleash the potential of the digital economy for lasting transformational impact.

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<sup>55</sup> In September 2021, the NTRA and ECA signed a Memorandum of Understanding to enhance free competition practices in Egypt's telecom market.

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## **Annex – Summary of Focus Topics from Latest Egypt Economic Monitors**

### **2020 EEM: From Crisis to Economic Transformation: Unlocking Egypt’s Productivity and Job-Creation Potential**

The economic transformation process has been progressing at a modest pace in Egypt, with employment shares increasing either in sectors characterized by low productivity (value-added per worker), or in sectors that have experienced a decline in productivity. Going forward, for businesses to expand and create sufficient and high-quality employment opportunities, a three-pronged approach will be crucial: (i) Sustaining macroeconomic stability and overall policy predictability whilst incentivizing domestic savings to finance investments. (ii) Getting the enabling environment right to create attractive opportunities for domestic and foreign investors. (iii) Upgrading human capital and firm capabilities to fast-track the economic transformation process in Egypt and to strengthen the country’s resilience against such severe shocks.

The report is available for download in English and Arabic using the following links:

<https://www.worldbank.org/en/country/egypt/publication/egypt-economic-monitor-november-2020>

<https://documents.albankaldawli.org/ar/publication/documents-reports/documentdetail/894431604932229627/egypt-economic-monitor-from-crisis-to-economic-transformation-unlocking-egypt-s-productivity-and-job-creation-potential>

### **2019 EEM: From Floating to Thriving: Taking Egypt’s Exports to New Levels**

The large depreciation of local currency was expected to reflect positively on exports performance and reinvigorate the exports-oriented private sector. Yet, the increase in non-oil exports remained modest, thereby suggesting that Egypt could not entirely benefit from such a large depreciation. The analysis identifies three main areas where historic lack of reforms has impeded Egypt’s ability to fully exploit the recent competitiveness gains from currency depreciation and shift towards an exports-oriented model of growth where exporting firms can flourish and grow. These are the (i) concentration of exports in traditional areas of comparative advantage as opposed to goods that are subject to high global demand; (ii) significant trade (especially non-tariff) barriers; and (iii) connectivity and infrastructure challenges.

The report is available for download using the following link:

<https://www.worldbank.org/en/country/egypt/publication/egypt-economic-monitor-july-2019>