

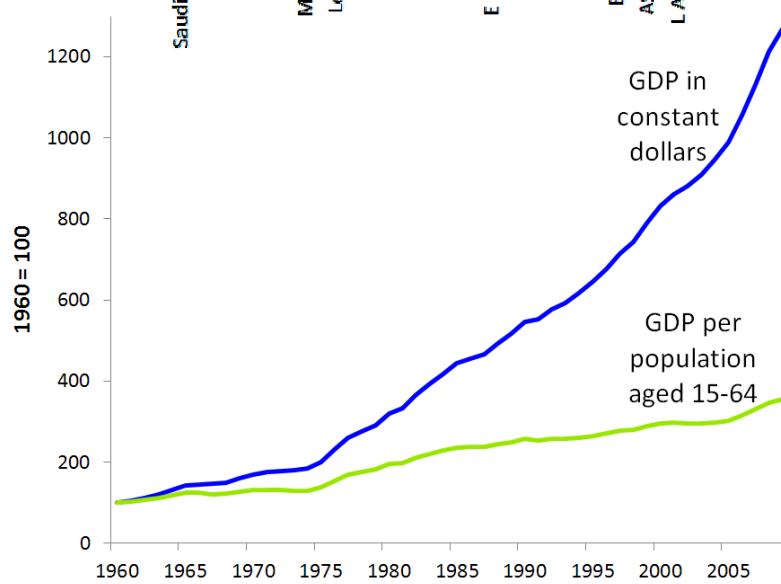
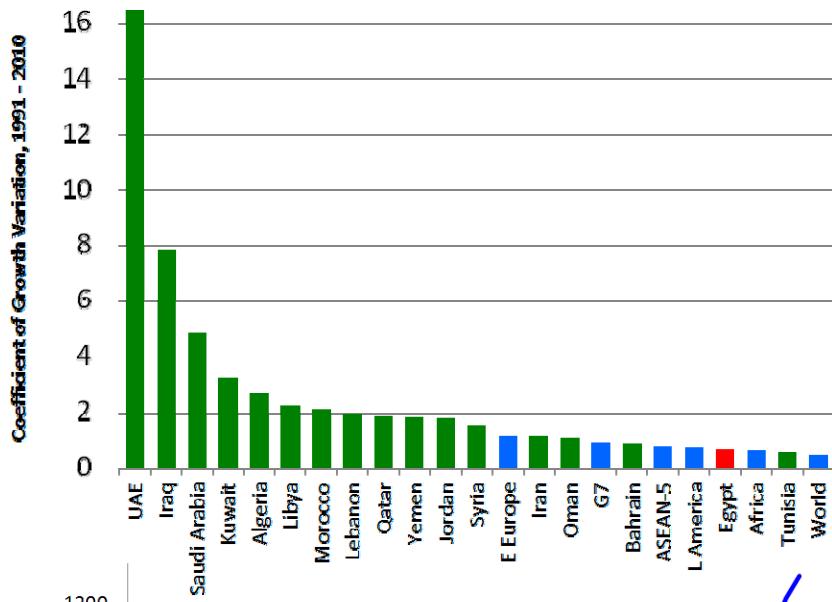
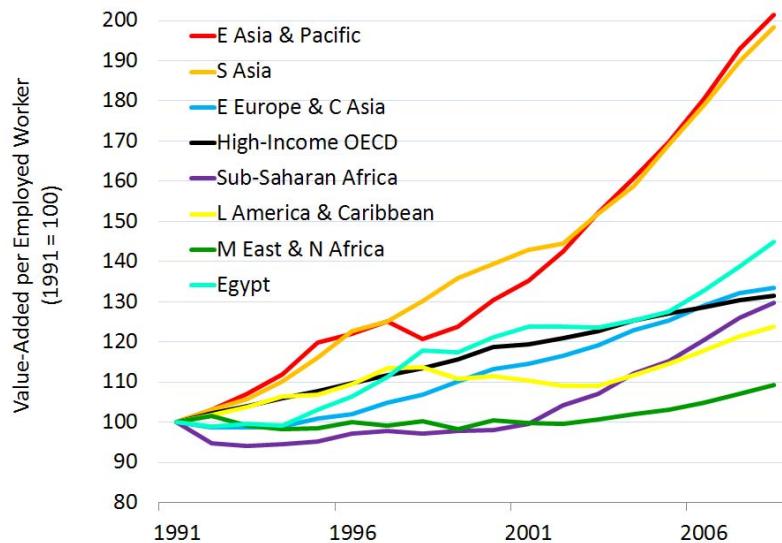
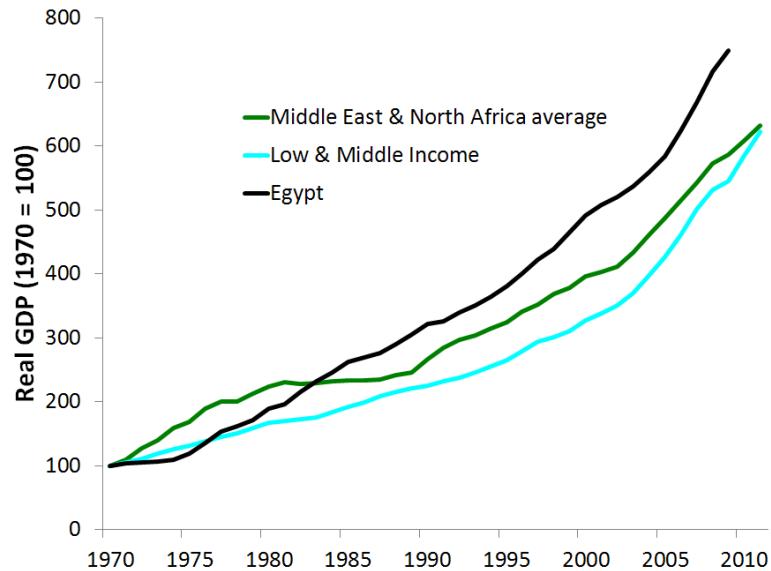
Egypt's Growth Environment

Economic prospects
in the post-Mubarak era

Raj M. Desai
Georgetown University
and
The Brookings Institution

Egypt Forward Forum
July 27, 2011

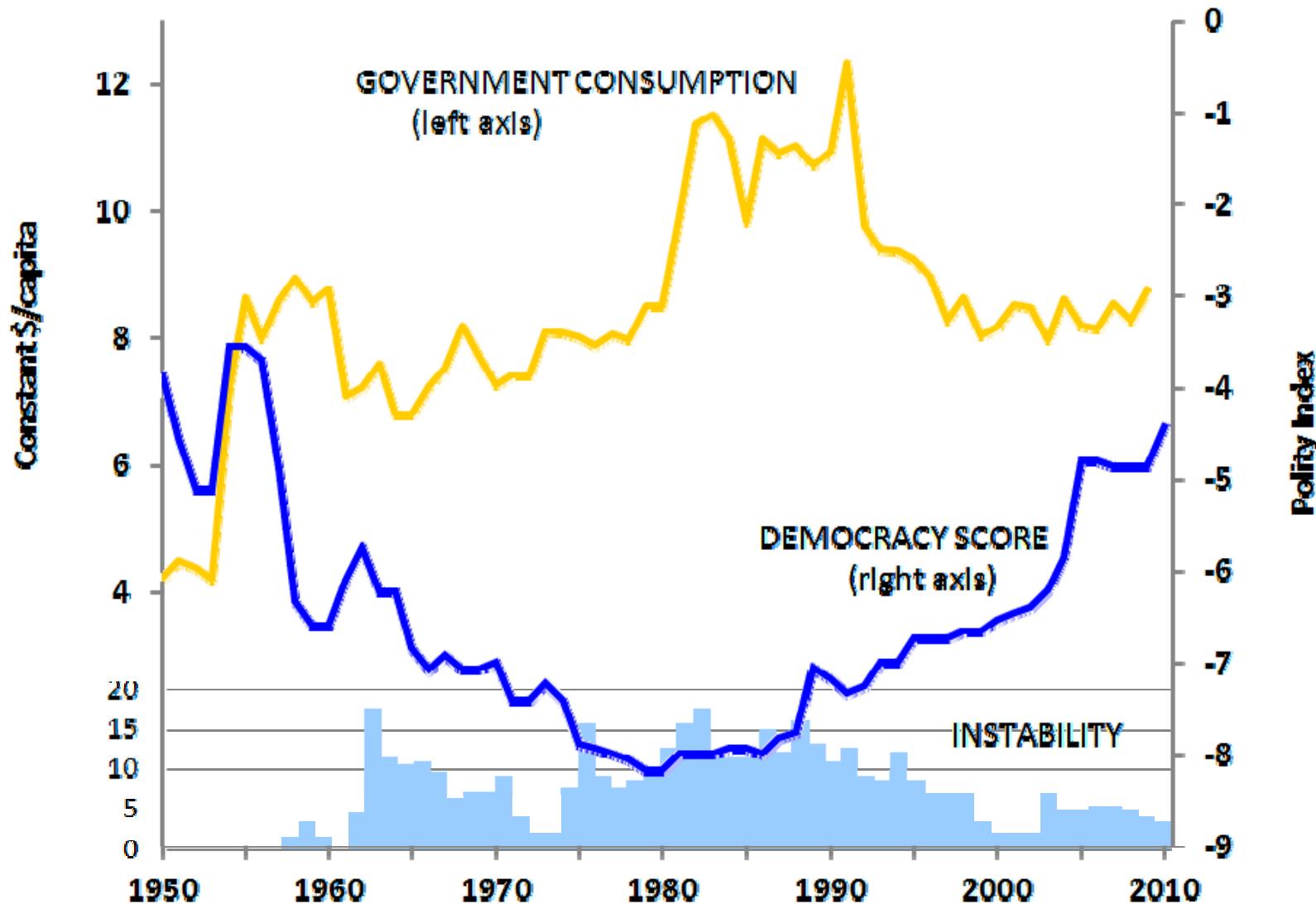
Egypt has out-performed MENA



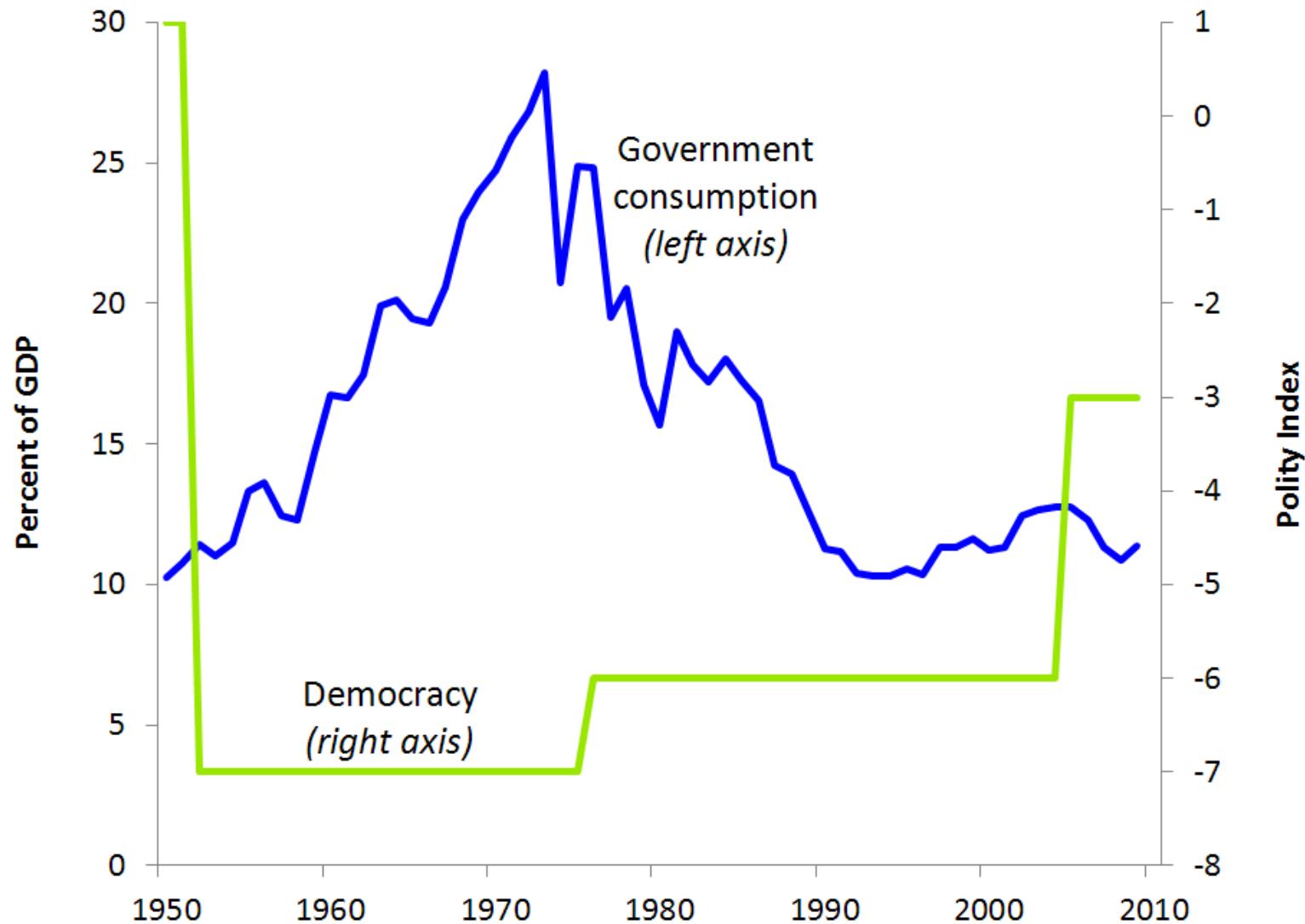
The short-term: filling a financing gap

- EGX30: -25% since January 2011
- Tourism revenues: -60% since June 2010
- Official reserves: -22% since end 2010
- Growth in 2010: +5%; Q1 2011: -4%
- Cost of subsidies: +9% since 2010
- Public-sector wage bill: +25% since 2010(?)
- External financing gap: \$12 billion

The MENA “social contract”



Egypt follows a similar pattern



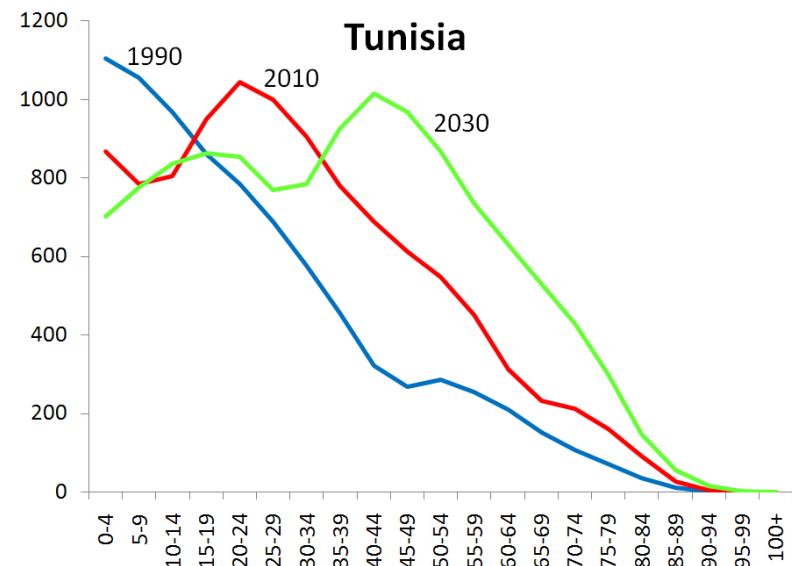
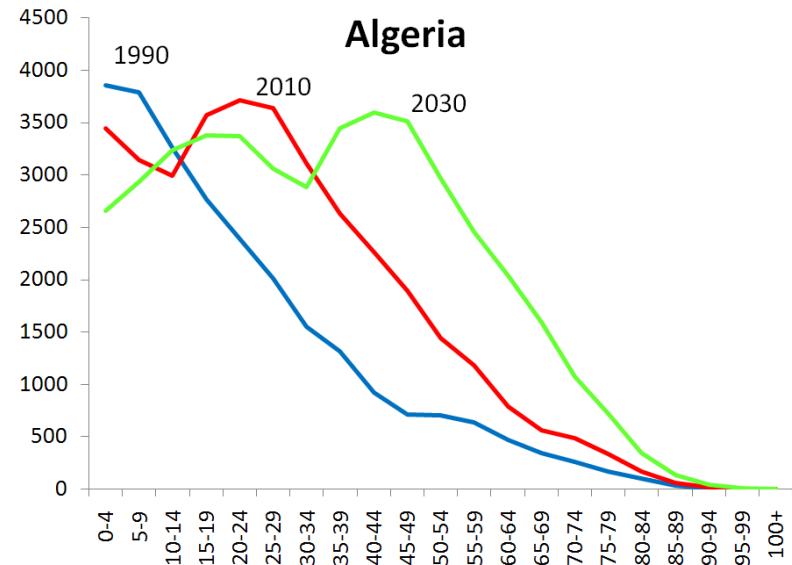
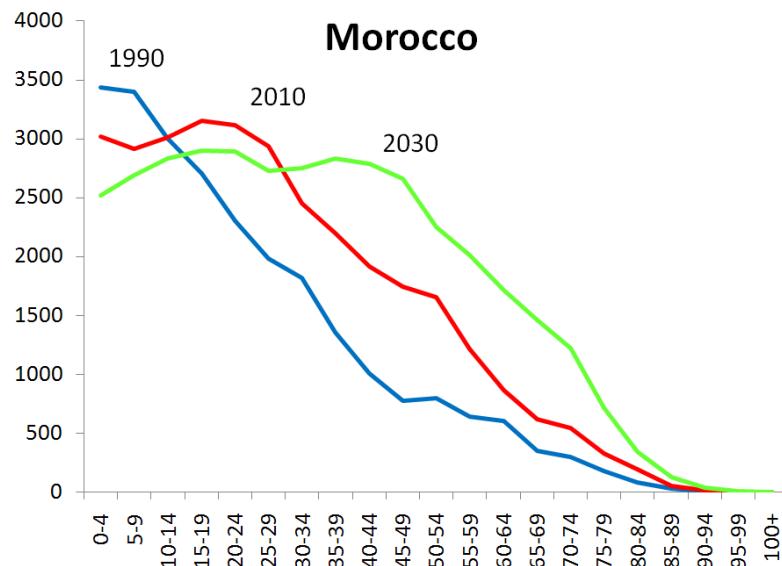
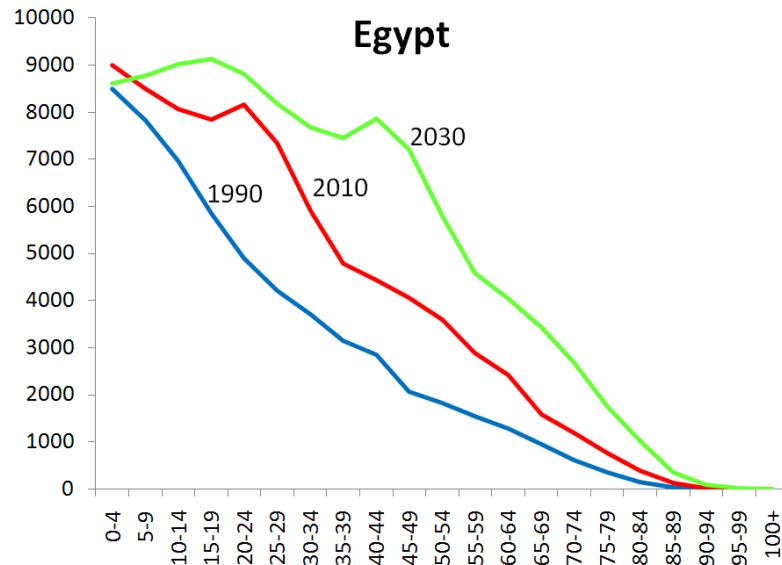
Medium term

- Egypt’s “social contract” relies on entitlements instead of high-quality public services
 - Subsidies (food, fuel, etc.) = 3x education spending
 - Public sector employment is 30% of total
- The “social contract” also relies on state control over the economy
 - 40% of agricultural VA is state-controlled
 - The army controls ~10 – 20% of GDP
- The social contract imposes costs on
 - Youth
 - Small and medium entrepreneurs

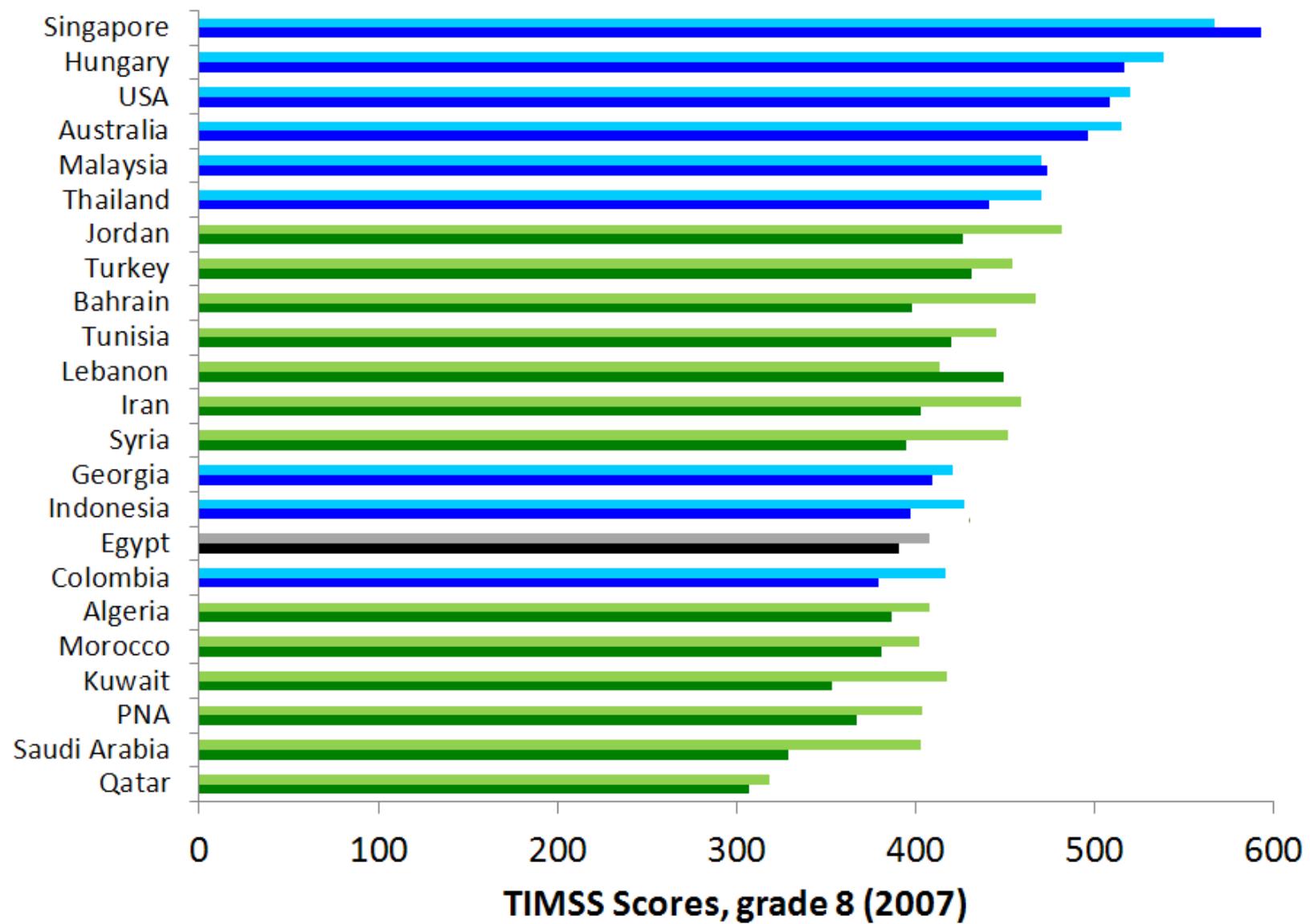
Egypt's Economic Outlook

- Main short-term priority: re-establish confidence (the core of economic stability)
 - Close the financing gap
 - Raise public support,
- Reignite growth
 - Must be >5% to absorb new labor-market entrants
 - A new social contract requires strong political voices for: small-medium entrepreneurs, youth, women, rural residents, etc.

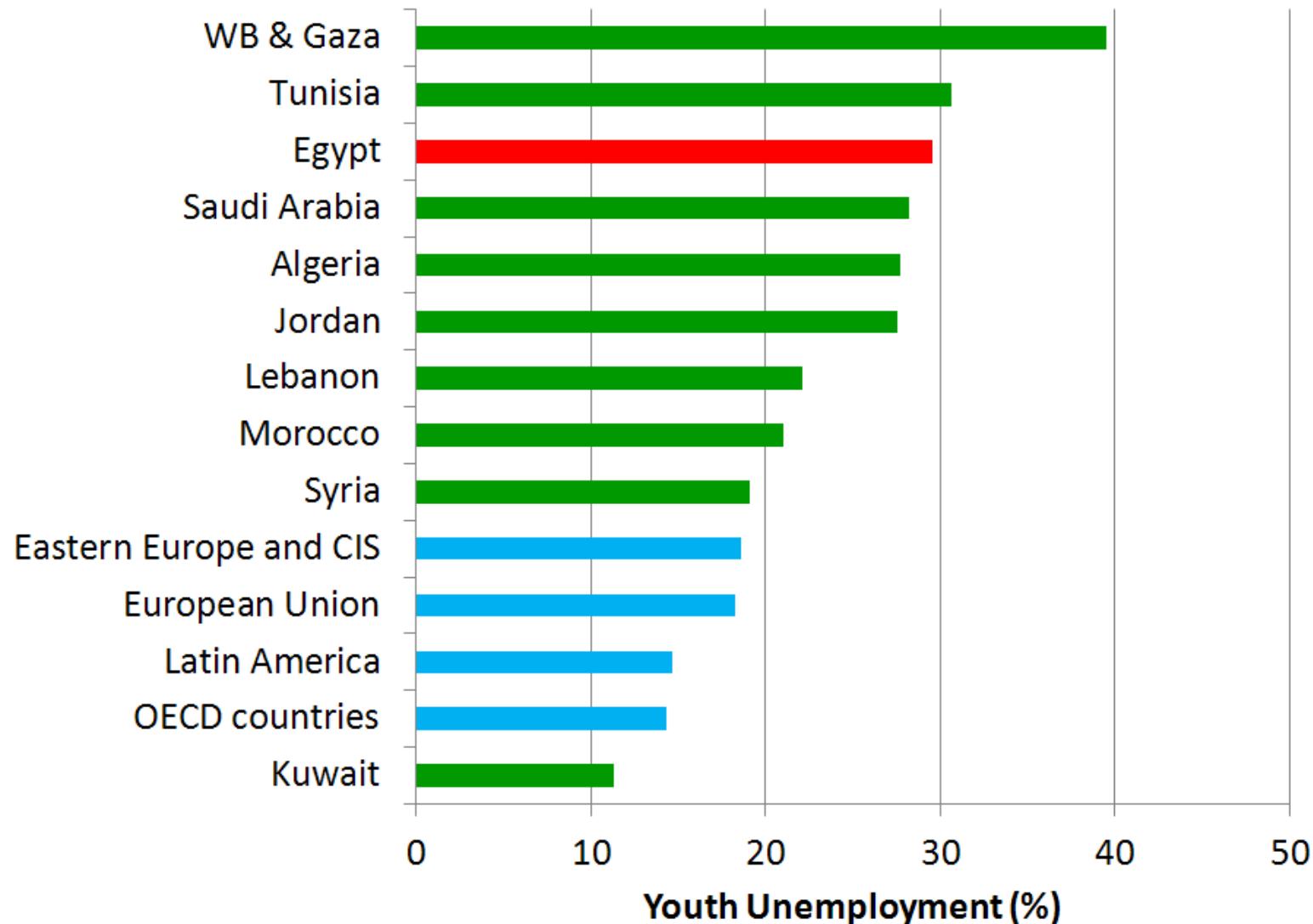
The youth “bulge”



...while the quality of education is low



And youth unemployment remains persistently high



Egypt at the crossroads?

