Executive summary

Egypt is among Africa's heavyweights. The country has a strategic position linking Africa, Europe and the Middle East and is home to the Suez Canal, which handles 10% of world maritime traffic. It is Africa's third-largest economy by GDP and its third-most-populous country. Egypt is also the continent's top manufacturer accounting for 22% of total continental manufacturing value added (MVA) and also has the second largest share (21%) of MVA in the Middle East and North Africa (MENA), behind only Saudi Arabia. In Egypt, manufacturing accounts for 16% of GDP, putting it on par with the OECD average, and above Africa's average of 11% and MENA's of 10%, but lower than in Southeast Asia (22%). The country's fast-growing economy has been increasingly attracting the attention of international investors. Egypt's annual foreign direct investment (FDI) inflows have averaged 3.3% of GDP during 2017-19, nearly double the average for MENA (1.7%) and higher than sub-Saharan Africa (1.9%).

Prior to the onset of the COVID-19 pandemic, Egypt had embarked on a march towards prosperity leveraging its fast-growing economy. During 2015-19, Egypt's GDP outperformed the African average, and was the fastest growing economy in MENA, with GDP rising at an annual rate of 4.4%. During 2020, Egypt's economy continued to grow by 3.6% despite the challenging global circumstances, compared to a contraction of 4% in the Middle East, of 1.9% in Africa, and of 3.3% globally, according to estimates by the IMF. Egypt reacted quickly to mitigate the economic effects of the COVID-19 pandemic on the population and on businesses with a recovery package amounting to 1.9% of Egypt's GDP.

Despite the challenges associated with supporting economic recovery from the pandemic, Egypt can continue advancing towards shared prosperity counting on several important assets.

Africa has a continental agenda prioritising trade integration and industrialisation. The African Continental Free Trade Area (AfCFTA) entered into force in 2019 and when fully implemented will create an integrated market of 1.2 billion people. The AfCFTA is expected to add 32 new FTA partners for Egypt, providing opportunities to add scale to Egypt's exports and to connect Egypt to traditional partners in Europe and the Middle East as well as to the overall global market.

The country has a government committed to implementing reforms. Since 2017, Egypt has been reforming its governance and regulatory framework in the areas of investment attraction, trade promotion and digitalisation for economic development. In addition, Egypt has a long-term vision for development enshrined in the Sustainable Development Strategy: Vision 2030, launched in 2016, and in line with the Africa Union Commission (AUC) *Agenda 2063: The Africa We Want*, while the National Structural Reforms Program (NSRP 2021-24) creates a vision for the post COVID-19 economy.

Egypt's private sector has demonstrated a readiness to exploit new competitiveness drivers. For example, Egypt has a track-record of investing in quality and branding in textiles, while the establishment of the National Food Safety Authority (NFSA) in 2017 under the Prime Minister's Office also represented an important step in ensuring competitiveness in agro-food. A vibrant start-up scene is also taking root in Egypt. It has the third highest number of start-ups in the continent at 14% of total, following Nigeria and South Africa, and the fourth-largest amount of venture capital (VC) investments during 2018-20 accounting for 10.5% of Africa's total (after South Africa, Nigeria, Kenya) and up from around 1% during 2013-15.

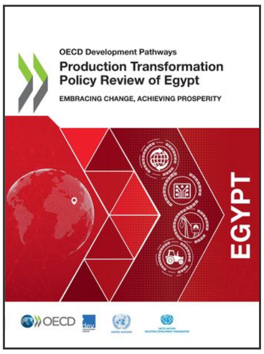
To continue advancing on its development path, Egypt needs global uncertainty to return to acceptable levels and to address key structural challenges that hamper the country's capacities to achieve its vision of a prosperous and inclusive economy. Upgrading infrastructure, both transport and digital, is crucial. Digital connectivity has improved, but is still below potential. In April 2021, the speed of fixed broadband, as measured by Ookla, was 39.66 Mbps, while the world average stood at 66.86 Mbps. Egypt's current economic specialisation poses challenges for enabling innovation and for environmental sustainability.The oil and gas sector in particular, plays a large role in the domestic economy, accounting for 9.7% of GDP during 2019/20, while refined petroleum emerges as the top sector in terms of MVA, accounting for 39% of total in 2017. The country's large agro-food sector, which accounts for 24% of the labour force and 15% of GDP, also faces sustainability problems, particularly related to water scarcity that could be exacerbated with climate change. The existing specialisation and persistent duality of the economy where a myriad of micro and subsistence firms co-exist with pockets of modernised excellence, also help explain why the country invests little in innovation. Egypt invests 0.72% of GDP in R&D, a third of the OECD average (2.37%). Finally, the country could be benefiting more from trade. Egypt's trade openness has remained relatively stable since the 1990s, with a trade to GDP ratio of 40%-50%, currently lower compared to Morocco (83%) and the OECD (57.2%).

Despite progress, the reforms agenda for Egypt is vast. Among several areas, three issues appear as game changers for future reforms.

Investing in making AfCFTA a real development driver. A more integrated continent with an agenda for industrial development has the potential to deliver new partnerships and markets, and could entail more competition for Egypt's firms. Benefiting from AfCFTA requires public and private efforts to explore new markets and build trust. Egypt would benefit from setting up a monitoring and evaluation system to track progress of AfCFTA implementation in relation to Egypt's Vision 2030 and the NSRP (2021-24) and continued efforts to facilitate trade and improve infrastructure for continental integration. In a highly competitive global landscape, branding and reputation can help set Egyptian products apart and become an asset for penetrating new markets. This will require commensurate investments in harmonising infrastructure for metrology, standardisation, accreditation and standards compliance to gain consumer trust at the continental level and beyond. Increasing the efficiency of logistics and reducing non-tariff barriers will also help make the most of the AfCFTA.

Engaging the private sector in innovation. Egypt falls short, by international comparison, of the typology of tools and budget allocated to innovation and R&D. Although the introduction of fiscal incentives through Law No. 72/2017 is a step forward, more needs to be done to increase public support for innovation to all firms across all sectors, leveraging existing tools. Egypt could also better use existing fiscal incentives to steer private sector investments towards innovation, Industry 4.0 and Agro 4.0 and sustainability through the smart use of conditionalities. Regarding Industry 4.0, in particular, Egypt would benefit from increasing cross-ministerial and institutional co-ordination, and from updating the policy mix to ensure that firms across all sectors, not only ICT, can benefit from government support targeted to foster digital technology adoption and development. Finally, amplifying the support targeted to MSMEs (including matching funds and services) is also necessary. This could be done by strengthening the programmes implemented by MSMEDA and IMC and expanding their digital components.

Getting the policy-making process ready for the future. Egypt has a strong leadership, a vision for the future, and an established system for co-ordination among institutions at the top level. In future, the country would benefit from updating the policy-making process by increasing co-ordination capacities also beyond the higher echelons and within institutions. Egypt would also benefit from rationalising and strengthening implementation institutions, for example by building their capacities to operate across the whole country. Egypt also needs to modernise its quality infrastructure system to ensure it operates well in an Industry and Agro 4.0 landscape. Finally, enriching the strategy setting process for production transformation with budgeting could help ensure resources are available in a way that matches the goals.



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