PAPER NO. 10

SOCIAL PROTECTION

EGYPT'S SUCCESSIVE ECONOMIC CRISES:
THE IMF'S IMPACT AND PATHWAYS TO JUST MONETARY, FOOD, AND SOCIAL POLICIES

Edited by
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Arab Reform Initiative

Arab Region Hub for Social Protection

WOMEN FOR JUSTICE FOUNDATION
نساء من أجل العدالة

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Introduction

Salma Hussein

This is a new era. An era of multiple and complex crises. An era in which international financial institutions, led by the International Monetary Fund (IMF), have abandoned many of their previous beliefs, based on neoliberal principles. These principles have long been criticized by the few economists who have gone against the grain. Successive crises since the beginning of the third millennium paved the way for this era, during which the IMF made important revisions at the intellectual and discursive levels. Starting with the global economic crisis of 2007-2008, through the Arab uprisings since 2011, then under the weight of the growing discourse of inequality in economic thought by Thomas Piketty and his team, and finally, in 2015, with the adoption of the 2030 Agenda for Sustainable Development Goals (SDGs).

Thus, when the COVID-19 pandemic shocked the world in 2020, the international financial institutions became more aware of the importance of social protection and social spending, and more interested in fighting the harmful social effects of their programs, for which the IMF and the World Bank closely cooperate and ensure that social spending is not negatively affected by any prescribed austerity programs. This is the era of multiple complex crises as the world has not yet recovered from the economic and social effects of COVID-19, until it was dealt a new blow by the outbreak of the Russian war in Ukraine, followed by stubborn global inflation in a highly indebted, semi-stagnant world.

In this new era, Egypt became the IMF's second-largest client. The IMF has allowed it to borrow in extraordinary decisions beyond the amount available to it. Since 2017, it has borrowed $20 billion in three loans, in addition to a new loan of $8 billion over the next three years. The IMF has also become the godfather of Egypt's external borrowing policy, encouraging lenders in international capital markets to invest in its sovereign debt. It is safe to say that the IMF (and the World Bank behind it) has been one of the main architects of Egypt's economic policy over the past seven years, and one of the most important players to point the finger at for any failures.

The IMF reports that its first prescription in Egypt succeeded in strengthening its resilience (through the measures of the Extended Credit Financing Program 2017-2019). The economic problems that followed this program were the result of external shocks, such as COVID-19, the Russian war in Ukraine, global inflation, rising global interest rates, and finally the Israeli war on the Gaza Strip. These are all violent external shocks. Why did these shocks affect Egypt and its citizens more than most countries with similar income levels? Why did Egypt's inflation index explode more than others? Why has the value of the local currency deteriorated? Why has the food security index deteriorated? Why have education and health reforms not led to greater equality of opportunity?

The following data shows Egypt's high vulnerability to successive economic crises, or in other words, the inability of its economy to withstand crises compared to other economies.

- The inflation rate in Egypt exceeded the average inflation rate in emerging and developing countries and took an upward trend during 2023 while it took a downward trend on average in the peer countries, reaching 8.1 %,[1] while the average inflation rate in Egypt reached 28.1%.[2]
- Egypt was the fifth country with the highest food inflation rate in 2023 (56.32 %),[3] although the FAO's global food inflation rate fell in the same year.[4]
- After the full implementation of the measures demanded by the IMF in 2017, poverty and hunger (extreme poverty) rates rose to all-time high levels, reaching respectively 32.5 % and 6.2 % in 2018, according to data from the Official Statistical Organization (CAPMAS).[5] Although poverty and hunger data for 2020 and 2022 have not yet been published, poverty ratio is likely to exceed 35 %, according to some projections (there are no projections for hunger).[6]
- The FAO estimates that 28.5 % of the population in Egypt experienced severe to moderate food insecurity between 2020 and 2022. [7] The prevalence of undernourishment is estimated at 7.2 % during the same period,[8] the highest compared to pre-IMF cooperation period.
- Between 2016 and 2023, external debt more than doubled, rising from $55.8 billion to $164.5 billion, and its maturity structure deteriorated. Repayments due abroad within a year in September 2023 amounted to $51 billion, equivalent to about one and a half times

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[1] International Monetary Fund, *World Economic Outlook 2024*, available at https://www.imf.org/en/Publications/WEO
[2] Researcher's accounts from Central Bank of Egypt data, available on https://www.cbe.org.eg/en/economic-research/statistics/inflation-rates/historical-data
[3] Mohammad Jazib, "Top 10 Countries Where Food Inflation is High in 2023 (Data extracted from the World Bank Development Economics Data group)", *JangranJosh Group*, November 2023, available at https://www.jagranjosh.com/general-knowledge/list-of-countries-with-highest-food-inflation-rate-1699274028-1
[4] Food and Agriculture Organization of the UN, *Food Price Index*, 2024, available at https://www.fao.org/worldfoodsituation/FoodPricesIndex/en/
[5] الجهاز المركزي للتعبئة العامة والإحصاء، أهم مؤشرات بحث الدخل والإنفاق والاستهلاك 2019/2020، كانون الأول/ديسمبر 2020، متاح على https://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5109&YearID=23629
[6] د. هبة الليثي، في ندوة "أين وصلت أرقام الفقر في مصر؟"، حلول للسياسات البديلة، 2023، متاح على https://aps.aucegypt.edu/ar/events/110/open-panel-discussion-at-aps-on-poverty-figures-in-egypt-an-inflation-driven-increase
[7] Food and Agriculture Organization of the UN, *Interactive World Hunger Map 2023*, 2023, available at https://www.fao.org/interactive/hunger-map-2023-embed-dark/en (FAO, *World Hunger Map*).
[8] FAO, *World Hunger Map.*

international reserves at the end of 2023. [9] This prompted the developed world to engage the IMF in a bailout package for Egypt in 2024 to prevent it from defaulting on these obligations.[10]

- In the first quarter of 2023, the Egyptian pound was already the sixth-worst-performing currency against the dollar. This was a continuation of the poor performance that prevailed throughout 2022.[11]

In light of these indicators, this research project attempts to provide a different narrative. Each of the papers tells an important aspect of the Egyptian "success" story. A side that is untold, or not visible enough is a side that reveals the vulnerability and the lack of resilience, and the high social cost of the policies implemented. The project is an addition to the critical literature on the box narrative that has emerged over the past years, revealing new aspects, or adding to those already revealed, in the assessment of Egypt's recent economic experience. More importantly, it is inspired by the reconstruction of a more complex picture than the one presented by the Egyptian government (and the international financial institutions), describing remedies that are more profound than those focused on improving indicators – remedies that are about improving the lives of Egyptians and other peoples.

This research project has chosen to track three aspects related to increasing the resilience of the Egyptian economy. The three aspects under study are:

1- The monetary policy pursued by Egypt in recent years and the negative impact on fiscal policy, poverty, and income distribution.
2- The impact of food and agricultural policies on hunger and food security.
3- Is social spending, especially on education and health, sufficient and fair? How has it been affected by the complex crises? To what extent have the IMF's social spending floors and the World Bank's recent plans succeeded in developing the two sectors?

Why these themes?

The 17 Sustainable Development Goals (SDGs) provide a common reference point against which policies can be evaluated. While the three papers do not directly address the SDGs, they do analyze where government policies deviate from some of the most important ones.

[9] البنك المركزي المصري، النشرة الإحصائية الشهرية عدد 321، كانون الأول/ديسمبر 2023، متاح على https://www.cbe.org.eg/-/media/project/cbe/listing/monthly-statistical-bulletin/bulletin/dec/monthly-statistical-bulletin-321.pdf

[10] In addition to increasing the IMF loan from $3 billion to $8 billion, there is the Capital of Wisdom investment package of $35 billion, the EU aid package of $7.4 billion, in addition to new loans from the World Bank estimated at $6 billion.

[11] Lee Ying Shan, "The Egyptian Pound is amongst the worst performing currencies in 2023", _CNCB_, 4 April 2023, available at https://www.cnbc.com/2023/04/05/the-egyptian-pound-is-amongst-the-worst-performing-currencies-in-2023.html

- The first paper draws inspiration from Goals 1, 8, 9, 10, 12, and 16. When talking about government responses to any economic dilemma, attention often turns to analyzing fiscal policies, which is important, necessary, and indispensable. However, economists rarely analyze monetary policies and trace their significant impact on fiscal policies and, ultimately, the well-being of the general public, under the belief that monetary policy is primarily a technical matter, left to central banks. There is no room for judgment or disagreement in the world of money management. The first paper discusses the fallacy of these assumptions, attempting to shed light on the most important shortcomings of monetary policy in Egypt.
- The second paper is inspired by Goals 1, 2, 12, and 15. The crises that have plagued the Egyptian economy in recent years have led to growing hunger and food insecurity. This paper analyzes how Egypt's agricultural and trade policies have contributed to its vulnerability to external and internal crises. It attempts to answer the question: Has the government's response been sound and sufficient to contain these phenomena?
- The third paper deals with policies related to Goals 3, 4, and 10. The government, the IMF, and the World Bank all share an emphasis on social spending, especially on education and health, as one of the main pillars of social protection. To what extent has this commitment to education and health been reflected in the volume, efficiency, and distribution of government spending? The paper provides an analytical reading of the Bank and Fund documents to assess Egypt's recent reforms in these two sectors.
- Finally, and more generally, in light of Goal 17, which is to revitalize the global partnership for sustainable development and strengthen its means of implementation, discussing the role and accountability of international institutions in this framework is essential to draw lessons.

Recommendations

Overall, the general trend that emerges from the three papers is that the same medicine is being reintroduced in new packaging. If floating fails to achieve its goal of stabilizing the exchange rate, more floating will do what previous floating experiments have failed to do. Similarly, in food and agriculture policies, more exports of agricultural products by subsidizing large corporations may eradicate hunger. Finally, let's keep repeating the importance of spending on education and health while continuing to downsize and privatize them, perhaps the repetition will work a miracle, increasing the number of teachers, doctors, classrooms in schools, and beds in hospitals.

As each of the three papers seeks to provide a better diagnosis of the disease, they open the discussion on better remedies through a series of recommendations. For example, **on monetary policy**, the recommendations range from treating inflation through a combination of fiscal and monetary policies, away from the traditional treatment of raising interest rates, to changing the "primary dealers" system, which has resulted in a few banks and investors monopolizing exorbitant profits from public debt interest, as the system fully transfers indexed interest rates to government debt instruments. **On the food file**, the paper concludes with urgent recommendations such as freezing energy price increases of all kinds, increasing in-kind food assistance programs, especially school meals, increasing in-kind subsidies, and reducing taxes on food products. Finally, with regard to **education and health**, it is necessary to bring spending up to the level of similar countries, while increasing wages for front-line staff in the two sectors, eliminating the shortage of workers, and redistributing income, especially through progressive tax reforms, to provide sources of funding for these measures. It is important to allow a greater degree of autonomy and decentralization in the distribution of education allocations so that more allocations go to regional directorates and schools. It is also important to increase support for health in the poorest geographic areas through the provision of free primary care services.

All in all, the three papers, when read together in this particular order, provide insight into the most important aspects of the current economic crisis. The first paper (monetary policy) proposes policies that would open up fiscal space so that the government can finance the measures recommended in the next two papers. However, it is also entirely possible to read each paper separately for an in-depth understanding of the different dimensions of the crisis.

After all, these papers come at a time when Egypt is beginning to implement a new four-year package of IMF programs (of which one year has already passed). The papers then offer a viable approach to evaluating the measures of this package, both by providing a critical analysis of previous programs and remedies, and by comparing the recommendations to current government policies.

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Captured Interests: How to Prevent the Negative Impacts of Inflation and Currency Depreciation in Egypt?

Reem Abdel Haliem and Salma Hussein

Introduction

Between 2016 and 2023, Egypt lived economically under four agreements with the International Monetary Fund (IMF). It was a real-world experiment for the new generation of IMF programs, which considers the negative social impact of its prescriptions, pays attention to social spending, and sets a minimum threshold for it in its programs. By reading the documents of IMF-supported government programs and comparing them with the set goals and data, we can assess and judge the government's policies.

In 2023, Egypt experienced a complex crisis and an extremely complicated economic situation. The country's monetary policy cannot be designed in isolation from the macroeconomic or social economy. If we look at the economic situation between 2020 and 2023 from a monetary policy perspective, we find the Egyptian economy besieged from the outside by high global inflation rates and a US monetary policy that will raise interest rates globally and weaken currencies around the world against the dollar. This would weaken the value of the Egyptian pound, exacerbate the structural trade deficit, and fuel inflation domestically. To make matters worse, the growing reliance on external debt over the past six years - encouraged by the IMF - has led to greater vulnerability in the face of these external challenges. The Egyptian economy has become increasingly dependent on external financing over the past decade, with foreign debt rising from $36 billion to more than $165 billion, in the absence of any parallel rise in the economy's reserves in dollars.

This happened without adequate disclosure, public debate or even parliamentary approval in many cases, circumventing the constitution. The bottom line is that in 2023 we have reached a severe shortage of dollar reserves. The main reason for this is the growing burden of external debt repayment, which amounts to $51 billion in outstanding debt repayments, excluding interest. This amount is equivalent to one and a third times the value of the Ras al-Hikma deal,[1] and Egypt is required to reflect this scarcity on the price of the pound, in light of uncontrolled inflation.

The paper monitors two of the monetary policy instruments that the IMF focuses on the most in the Egyptian case: The exchange rate and the interest rate. It argues that restricting monetary policy to these two instruments is contrary to the evolution of economic thought, and more importantly, it harms the economy and income distribution and does not allow for a wider policy space.

By monetary policy, the paper means the combination of tools available in the hands of the monetary authority (the Central Bank of Egypt - CBE) to influence economic activity by controlling the money supply and pricing. There are many theoretical schools of thought on monetary policy.[2] This paper criticizes the focus on inflation targeting as the CBE's sole objective, especially the IMF's approach that creates a poor form of high inflation through its preconditions (devaluation of the national currency and raising energy prices on the family sector, small farmers, and producers).

The Central Bank of Egypt's 2020 law limited its tools by codifying the monetary policy objective as inflation targeting. It is a narrow objective that even contradicts the monetary policy set by the bank itself on its official website: "Achieving monetary stability, safety of the banking system, and price stability in the context of the state's general economic policy."

Within this framework, the paper aims to assess the monetary policies agreed upon with the IMF and their impact on macroeconomic balances, poverty, and income distribution. In the first part, the paper discusses the main lessons learned from the first agreement with the IMF (2016-2019) and how they are reflected in the current agreement (2022-2026), while analyzing the published documents of the IMF's experts and those of the government and the Central Bank. In the second part, the paper traces the complex socio-economic effects of this monetary policy, reviewing its impact on the budget deficit, income distribution, and poverty. Finally, it proposes alternatives to monetary policy tools for public debate.

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[1] Ras al-Hikma is an investment project: The United Arab Emirates will pump $35 billion into the Egyptian economy during the first half of 2024.
[2] Ahmed F. Mabrouk and Sherif M. Hassan, “Evolution of Monetary Policy in Egypt: A Critical Review”, *International Journal of Social Sciences,* vol. 4 no.1, (2012), available at http://178.79.131.95/sites/default/files/publication/13.evolution_of_monetary_policy_in_egypt_a_critical_review.pdf (A. Mabrouk and S. Hassan, *Evolution of Monetary Policy in Egypt*).

Differences between the 2016-2017 and 2022-2023 programs

Any lessons learned?

Overlapping cost-induced inflation-generating measures in the first program:

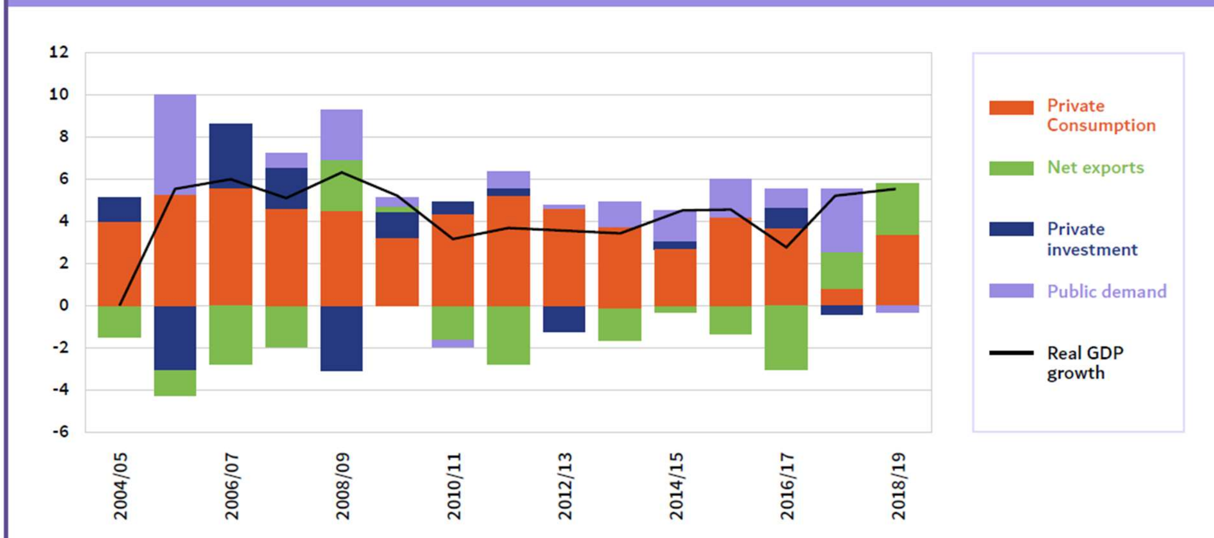
1- The flotation in 2016-2017, when combined with other measures, such as raising consumer energy prices and VAT, resulted in an increase in inflation. It also increased the government's reliance on short-term, high-interest loans as a source of hard currency.

2- The floatation and its impact on the debt repayment burden and the public budget, as it exacerbated the budget deficit for two years before it returned to a downward trajectory through more selective austerity.[3] This led to an increase in both parts of the public debt.

3- Raising interest rates to fight inflation: Damaging banking safety, budget deficits and growth.

The impact of the 2017 IMF program on investment and consumption (quality and volume of growth):

Contributions to Real GDP Growth (In percent)



Egyptian Ministry of Planning and IMF staff calculations, based on available data as of June 15, 2020

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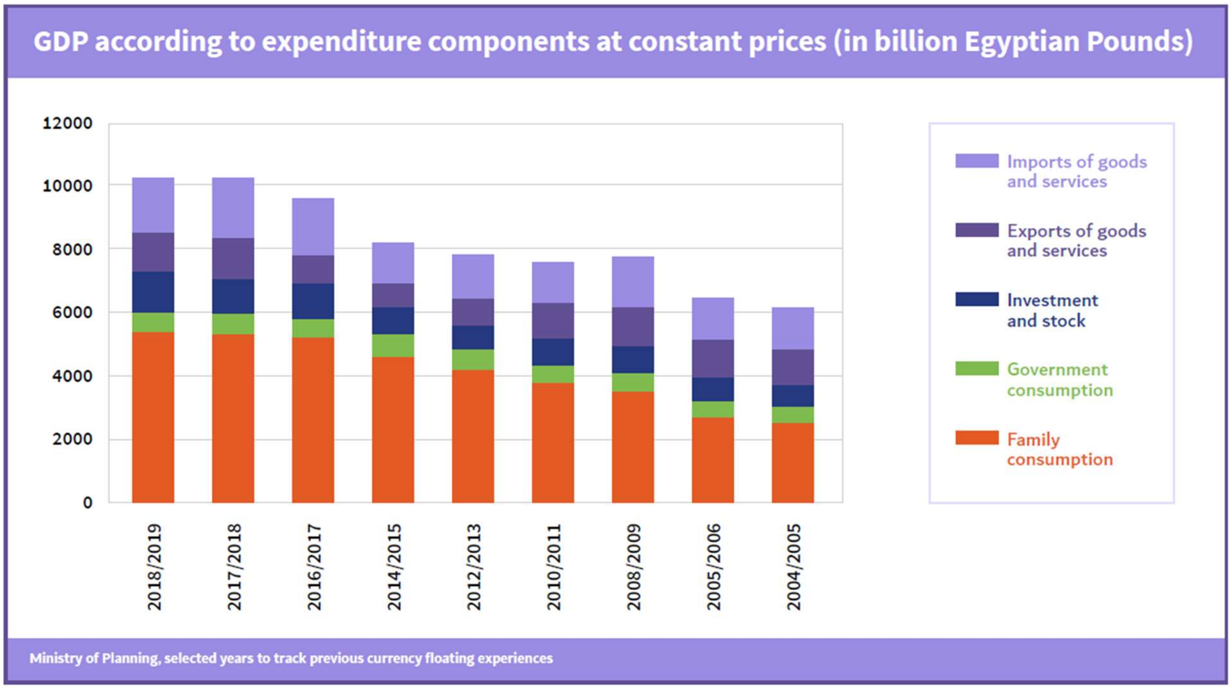
[3] Selective austerity is a term coined by Salma Hussein to express a financial policy that leads to the redistribution of public money from the poorest to the richest, or the transfer of public money into the hands of the rich at the expense of the poorest segments through government decisions that would increase allocations from the general budget directed to aid and support directed to agencies. And government companies and private companies and increasing the profits of the rich from public debt instruments through a steady increase in the interest section (Chapter Three of the budget), in exchange for the stability or decrease in allocations directed to wages (especially small employees, and spending on both education and health and support directed to families (Whether in cash or in kind). Ministry of Planning and Economic Development, Gross Domestic Product, 2021/2022, available at https://mped.gov.eg/GrossDomestic



Source: Ministry of Planning and Economic Development, GDP, 2021/2022, available at https://mped.gov.eg/GrossDomestic

Note how private consumption (orange) remained resilient to various political and economic storms over a decade and a half. Then it stabilized or declined after the implementation of the flotation, VAT, and energy price liberalization package in 2017/2018 and the following year.

Therefore, the government learned some lessons and tried to negotiate in 2022 to get a better program than that of 2016 by bringing the dispute out into the open. It enlisted pressure from European allies (especially Germany), the United States, and possibly its representative within the IMF.[4]

The IMF still prefers that Egypt follow what it did during the 2017 Extended Credit Facility program, when the IMF's monetary policy recommendations and conditions led to an increase in the dollar

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[4] President Abdel Fattah El-Sisi spoke publicly about the dispute with the Fund, stressing that what it demands is not appropriate for a developing country, during a meeting with Angela Merkel in Germany. When he called on "our friends in Europe to deliver a message to the International Monetary Fund and the World Bank that the reality in our country does not tolerate the standards in force during this stage, and until this crisis ends." He added, "The food and energy crisis is very, very, very stressful". For more, see Salma Hussein, "Egypt and the Fund: Some Lessons from the Six Years' Experience," Annual Strategic Report, 2023, Al-Ahram Center for Strategic and Political Studies.
The aim of announcing the dispute was to garner support from developed countries (which have the largest voting bloc within the IMF). This tactic seems to have worked, and the two sides reached a compromise. While Egypt increased the price of diesel for the first time in 3 years, and the price of gasoline for the sixth time in a row as a prior measure, the Fund agreed to the government's proposal to postpone any new increases in energy prices until mid-2023.

supply in Egypt. This came through a combination of several channels: The first was the liberalization of the exchange rate; the second was an interest rate hike; and finally, what the financial investment world calls a certificate of confidence. These are essentially the same recommendations of the 2023 program, but today's world is different for external and internal reasons. Therefore, repeating the recipe will not increase Egypt's dollar supply.

In the last program, Egypt succeeded in passing that the currency float should be gradual and that measures that fuel inflation should be sequential rather than parallel (e.g., postponing energy price increases). In return, the Egyptian government pledged to implement a tax package that would increase public revenues and then reduce the deficit by reducing public expenditures (selective austerity) as a means to curb inflation. The package is characterized by restricting capital outflows and targeting higher incomes. At least, this is what is stated in the document for the 2022 Extended Credit Facility program.[5]

The failure of the first year of the 2023 extended credit facility:

Overall, the latter was better than the former in terms of diagnosis and treatment, but in 2023, it took a completely different path than the IMF predicted. What went wrong?

The big-bang devaluation of the exchange rate failed three times in a row (despite the announcement of a gradual devaluation).

The lesson the government seems to have learned from the experience of implementing the IMF's prescription to the letter is that a big-bang devaluation is not suitable for Egypt. This is because it resulted in a temporary outbreak of inflation, especially in food prices. Poverty and hunger increased (see part 2), and the labor market was also affected. It succeeded in gaining the IMF's approval.[6] So, why did the parallel market exchange rate worsen, and why did inflation run amok?
The following section attempts to answer these questions. It is a preliminary attempt that needs further research and discussion.

Some literature has recently emerged that questions the IMF's preference for big-bang devaluation. The World Bank published a paper[7] that reviews the experiences of hundreds of countries over the past

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[5] International Monetary Fund, *Arab Republic of Egypt: Request for Extended Arrangement Under the Extended Fund Facility-Press Release; and Staff Report*, January 2023, available at https://www.imf.org/en/Publications/CR/Issues/2023/01/06/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-527849 (International Monetary Fund, *Extended Agreement*).

[6] In December 2023, when Egyptian President Abdel Fattah El-Sisi met with Fund Director Kristalina Georgieva in Dubai on the sidelines of COP28, they agreed to postpone the flotation step. Giving priority to controlling inflation. This approval was then repeated following the announcement that the Fund's experts had completed the first and second review, which were postponed for more than six months, which were held during December 2023.

[7] Michael Geiger et al., "Gradual Versus Big-Bang Devaluations: An Empirical Analysis", *Macro, Trade and Investment Discussion Paper,* no. 8, (2018), World Bank, available at https://documents1.worldbank.org/curated/en/844181541168364950/pdf/131800-MTI-Discussion-Paper-8.pdf (Michael Geiger et al., *Gradual Versus Big-Bang Devaluations).*

decades and suggests that the impact of a total exchange rate float (and the consequent currency depreciation) is much worse for the macro economy (growth, job creation, etc.) than gradual devaluation.

The paper defines the big-bang devaluation as a one-time devaluation with the following determinants:[8]

1- Depreciation of the local currency by at least 20 % within one full year.
2- The value of the currency depreciation in the previous year does not exceed -12%.
3- Determinants 1 and 2 did not recur during the three years prior to the current event.

These determinants excluded those cases in which, in consecutive years, there was a succession of sharp declines that could cause sharp rises in the inflation rate. According to this definition, the world experienced 217 big-bang devaluation episodes from 1960 to 2015.

The determinants of a gradual floatation are:[9]

1- A nominal exchange rate depreciation of between 5 and 20% over three consecutive years.
2- In the year prior to the start of the gradual float, the local currency did not depreciate more than 20 %.
3- The country did not adopt an exchange rate liberalization policy at the same time as the gradual liberalization itself.

According to these determinants, the world witnessed 92 gradual devaluation episodes between 1960 and 2015.[10] According to this definition: What happened in March 2022, October 2022, and March 2023 were three shock floats, not a gradual devaluation.

These determinants exclude cases where there was more than one sharp devaluation in consecutive years: The pound lost 57.3% of its value from December 2021 to December 2022, and another 28% in March 2023.

In the meantime, the short supply of dollars in the market continued, leading to a parallel market. The central bank resorted to a full stabilization within six months (this can be explained by the government's preference for stabilization so as not to double the burden of debt service payments). However, it ignored the tax package that could have curbed the outflow of the dollar.

Therefore, it can be argued that the government made a mistake when it announced the "liberalization" of the exchange rate in 2021, when it intended to implement a gradual devaluation. By announcing a gradual devaluation, it allowed a margin of floatation too large to be considered gradual. Finally, it ignored possible remedies to increase the supply of dollars at a moment when further dollar borrowing is difficult.

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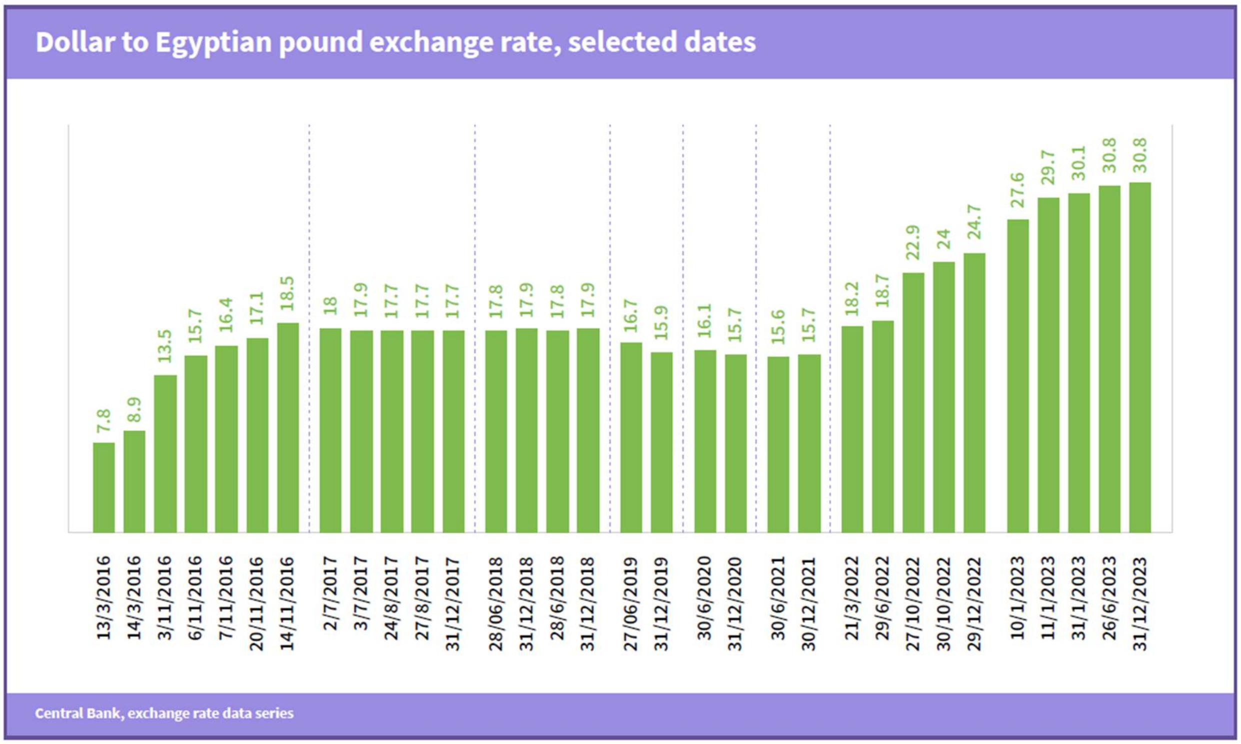
[8] Michael Geiger et al., *Gradual Versus Big-Bang Devaluations*, p. 5.
[9] Michael Geiger et al., *Gradual Versus Big-Bang Devaluations*, p. 5.
[10] Michael Geiger et al., *Gradual Versus Big-Bang Devaluations*, p. 5.

Unless the dollar supply is dealt with, a major collapse in the value of the local currency is likely to continue. The pressure will increase over the next two years at least, and inflation will be unleashed, at a historical moment when imported inflation has had a significant impact on domestic inflation. This is more akin to a failed float than a gradual float.



Source: Central Bank of Egypt, Exchange Rate Data Series[11]

Exchange rate liberalization is not a cure for the dollar shortage.

The value of the pound against the dollar is an important indicator of the availability of hard currency within the economy, i.e. an indicator of an imbalance in the balance of payments, especially the current account. As such, the floatation itself is not a remedy. Therefore, in the case of a current account deficit, it is important to analyze the causes of the deficit and the expected crisis period to address them and close the gap. Here, the monetary policymakers have to turn to macroeconomics to get a complete picture: Is it an emergency crisis? Is it political? Does it reflect an emerging but long-term imbalance?

In 2014 and 2015, capital exited Egypt en masse because of political instability. In 2016-2017, the gap was filled by an increasing package of short- and medium-term foreign loans. The influx of hot money helped create a contrived/fragile climate of a dollar supply breakthrough. In 2022-2023, the causes of the deficit were not addressed.

[11] These days were chosen based on the following considerations: tracking the impact of the floatation in 2016, 2017, 2022, and 2023. Then the middle and end of each year during the years of relative stability of the pound between these periods.

Externally, Egypt's ability to continue borrowing has declined due to the tight global financing climate, which now favors investment in developed countries with relatively high-interest rates, and because most developing countries have accumulated debt and defaulted, and Egypt is by no means an exception. Repeating the IMF prescription is dangerous not only because it is not replicable due to Egypt's difficulty in obtaining the necessary foreign loans, but also because it endangers the safety of the banking system, the sustainability of government debt, and Egypt's ability to fulfill its foreign obligations. Internally, Egypt has failed to combat dollar outflows resulting from tax avoidance and political and social instability.

But also internally, there has been a massive outflow of funds from Egypt for non-economic reasons or reasons unrelated to the domestic economy (see table below).

Comparison of the causes of the two most recent dollar crises:

2015-2016	2021-2023
Capital flight due to political instability (war against militants in North Sinai - restricted political and media space - Sharm el-Sheikh plane accident)	US and European monetary policy
	Political turmoil resulting from the presidential elections
	The Ukraine war (and the current war exacerbates the situation)

Analyzing the balance of payments, we find that in 2022-2023 the balance of trade deficit narrowed, and Egypt attracted a record $10 billion in net foreign direct investment, almost double the amount in 2020-2021.

On the other hand, Egypt witnessed a hemorrhaging of dollars out of the country (see figure below). In the following figures:

1- Net outflow of portfolio investments (from the stock exchange) amounted to $37.7 billion (larger than the Ras al-Hikma deal).
2- The outflow of corporate profits and interest on debt amounted to about 20 billion (more than double the latest IMF loan after its increase).
3- Illegal dollar outflows amounting to more than 3 billion dollars.

Some of the dollar outflow items that can be addressed:[12]

[12] Central Bank of Egypt, Monthly Statistical Report - Balance of Payments, No. 321, 2024, available at https://www.cbe.org.eg/-/media/project/cbe/listing/monthly-statistical-bulletin/bulletin/dec/monthly-statistical-bulletin-321.pdf

	Investment income and interest payments abroad	Net investment in the stock market	Errors and omissions
2020-2021	13	18.7	-3075.9
2021-2022	16.8	21	-5800.1
2022-2023	19.5	-37.7	-3338.6

4- In addition to these outflows, short-term foreign debt obligations and long-term debt maturing within a year can also be repaid. These funds amounted to 42.2 billion dollars, constituting 26% of the total external debt, and almost one and a half times the size of international reserves.[13]

Therefore, we can say that the outflow of dollars is the main reason for the shortage of dollar supply and the deterioration of the value of the national currency. This deterioration cannot be stopped by liberalizing the exchange rate, but through mechanisms that address the imbalance in each of the previous items:

- For example, encouraging the repatriation of profits of non-resident-owned companies through international taxation, and packages to encourage the repatriation and reinvestment of those profits.
- Restructuring the external debt to extend its maturity and reduce the interest burden is an effective tool in alleviating the pressure on the balance of payments.
- Last but not least, curbing portfolio capital flight and illicit money smuggling requires strengthening anti-corruption institutions, enforcing the conflict-of-interest law, and opening up the political space.

These measures should preferably be taken as a package or one after the other, especially since most of them are legislative changes that can be implemented within a year, including negotiating the restructuring of external debt. This would ensure that the need for devaluation does not recur. However, the lack of political will hinders the adoption of these policies.

Interest rate, monetary expansion, and where inflation comes from.

In terms of inflation expectations, the recent program with the IMF was completely disconnected from reality. It did not expect inflation to break out above 7% in 2023. The remedy for inflation was limited primarily to raising the interest rate.[14] (The program also included some fiscal measures such as types of taxes that could ease the burden on the exchange rate and control inflation, but the program does not mention them in this context).

The IMF praised the Central Bank for raising the interest rate during the fourth quarter of 2022 and for practicing monetary tightening by raising the reserve ratio deposited by banks with the Central Bank

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[13] Central Bank of Egypt, Egypt Economic Situation Report, No. 78, 2023, available at https://www.cbe.org.eg/-/media/project/cbe/listing/research/volumes/arabic-file/external-position-78.pdf

[14] International Monetary Fund, *Extended Agreement*

from 14% to 18% when inflation was 16.2% (October 2022),[15] with the government to consult with the IMF if the inflation rate derailed (between 5 and 13% in December 2022).[16]
Therefore, the latest IMF agreement refers to a "monetary policy focused on maintaining price stability supported by efforts to further improve monetary policy transmission and deepen the foreign exchange market."[17]

Since the 1990s, most central banks have moved toward interest rate-based monetary policies and a free-floating exchange rate.[18] After the collapse of the global economy in 2008, followed by low inflation and low growth in developed countries, it was appropriate for central banks to cut interest rates for many years (with the adoption of what is known as quantitative easing) in order to stimulate the economy.[19]

Interest rates are inappropriate for addressing inflation (in the first and current programs)

Thus, when the IMF imposed an interest rate increase in 2016-2017 to control inflation resulting from floatation, the starting point of the reform was at a moment when the developed world was offering debt securities at zero or negative interest rates. It took about double the interest rate in Egypt to control inflation. Worse, the interest rate did not have a direct effect on inflation.

However, it was the combination of floatation and interest rate hikes that led to a collapse in private consumption, in government and private investment, which led to a decline in aggregate demand, and then a decline in inflation.

The high-interest rate did indeed serve to increase the supply of dollars, but directly, by increasing foreign borrowing, fighting dollarization, and lining the pockets of Egyptian and foreign holders of debt securities. The evidence is that real interest rates remained high after inflation receded (see figure below). The opportunity for interest rates to return to rates that are not burdensome to the public budget and private credit was missed.

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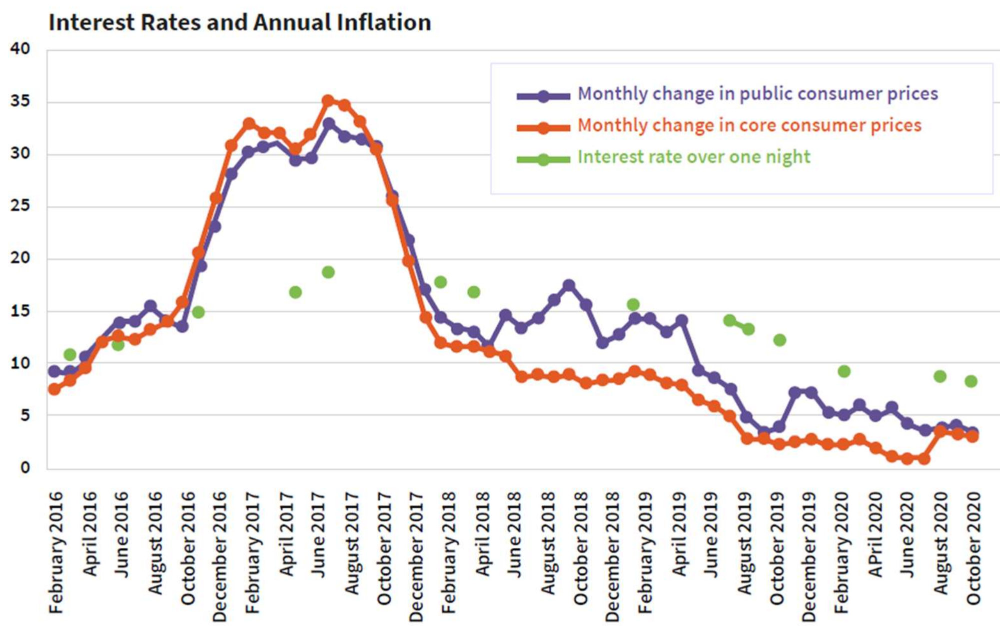
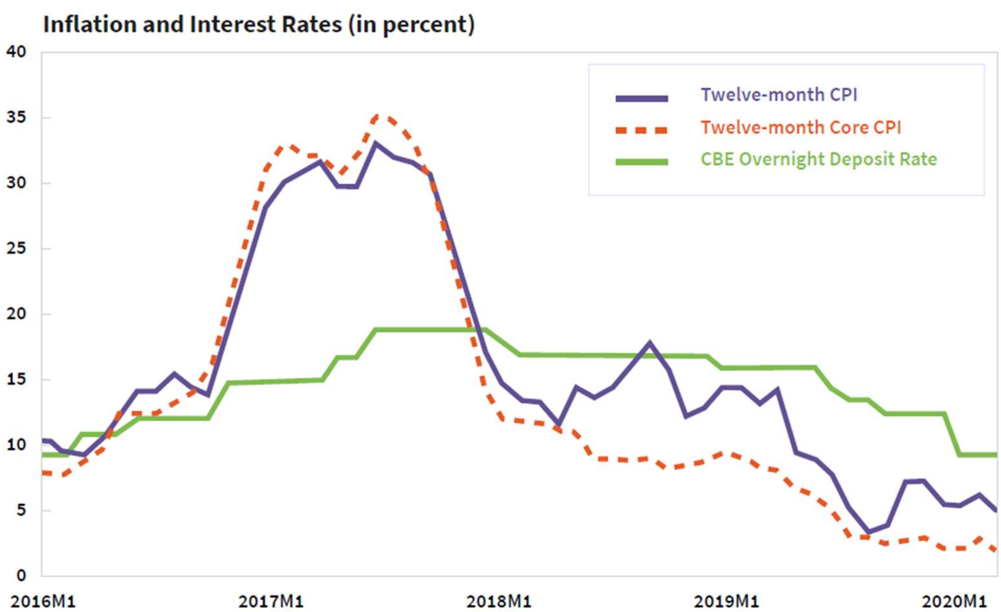
[15] International Monetary Fund, *Extended Agreement*
[16] International Monetary Fund, *Extended Agreement*
[17] International Monetary Fund, *Extended Agreement*
[18] Franz Ulrich Ruch, "Policy Challenges for Emerging and Developing Economies: Lessons from the Past Decade", *World Bank*, Working Paper no. 9180, March 2020, available at https://documents1.worldbank.org/curated/en/249291584025972023/pdf/Policy-Challenges-for-Emerging-and-Developing-Economies-Lessons-from-the-Past-Decade.pdf (Franz Ulrich Ruch, Policy Challenges).
[19] Marc Lavoie, "Rethinking monetary theory in light of Keynes and the crisis", *Brazilian Keynesian Review* vol. 2 no.2, (2016), p.174-188, available at https://www.braziliankeynesianreview.org/BKR/article/view/96

Inflation and interest rate (%)





Haver Analytics and IMF staff calculations, based on available data until 15 June 2020

Revisiting the interest rate tool to fight inflation

After 2020, as global inflation rates rose following the massive fiscal expansion to fight the effects of the COVID-19 pandemic and then the Russian war in Ukraine, the developed world and its monetary institutions began to revise the prevailing beliefs about monetary policy. It turns out that inflation is the result of two different factors that have combined to create long-term inflation. In the face of this complex phenomenon, it became necessary to move away from the idea that inflation is a purely monetary phenomenon and that the central bank is the only doctor who treats it through the interest rate,[20] while other tools are available to deal with crisis situations.[21]

The monetary policy imposed on Egypt by the IMF (a combination of exchange rate liberalization and interest rate hikes) is an oversimplified monetary policy that reinforces the factors that drive cost-push inflation while undermining the factors that fuel demand-pull inflation.[22]

In short, raising interest rates is the wrong remedy because it is appropriate for demand-pull inflation. The inflation we are witnessing is concomitant with the devaluation of the currency, i.e. the source of inflation comes from rising production costs (cost-push effect), and then raising the interest rate, which exacerbates the negative impact on growth and harms aggregate demand.

Cost-push inflation indirectly affects the price of goods and services as producers resort to raising prices to maintain their profit margins.[23] Of course, the worse the monopolistic situation in the economy, as in the Egyptian case, the more producers can increase their profit margins through their ability to raise prices.

Thus, 2023 saw the interest rate hike fail to attract the required amount of foreign loans and fight dollarization (the hidden goal of the interest rate hike). Despite doubling over the past year, it also failed to curb inflation (the stated goal), both as measured by the Consumer Price Index (CPI) and core inflation, which excludes vegetables and fruits.

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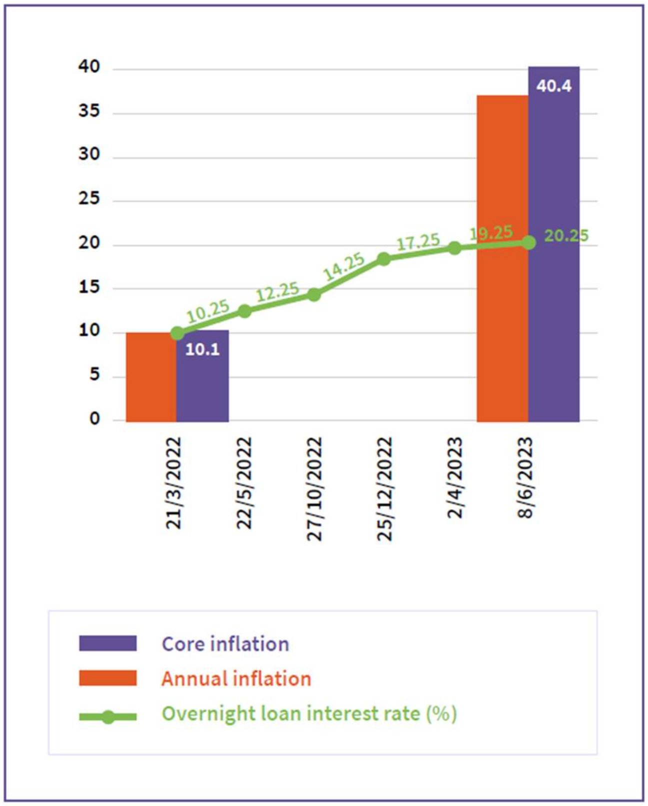
[20] Marcus Brunnermeieir, *Rethinking Monetary Policy in a Changing World*, International Monetary Fund, March 2023, available at https://www.imf.org/en/Publications/fandd/issues/2023/03/rethinking-monetary-policy-in-a-changing-world-brunnermeier (Marcus Brunnermeieir, *Rethinking Monetary Policy*)
[21] Marcus Brunnermeieir, *Rethinking Monetary Policy*
[22] A. Mabrouk and S. Hassan, *Evolution of Monetary Policy in Egypt*.
[23] Karima Korayem, "Egypt's economic reform and structural adjustment", *Egyptian Center for Economic Studies*, Working Paper no. 19, (1997), available at https://eces.org.eg/en/egypts-economic-reform-and-structural-adjustment-ersap/

Interest Rate and Inflation (%)



The Central Bank

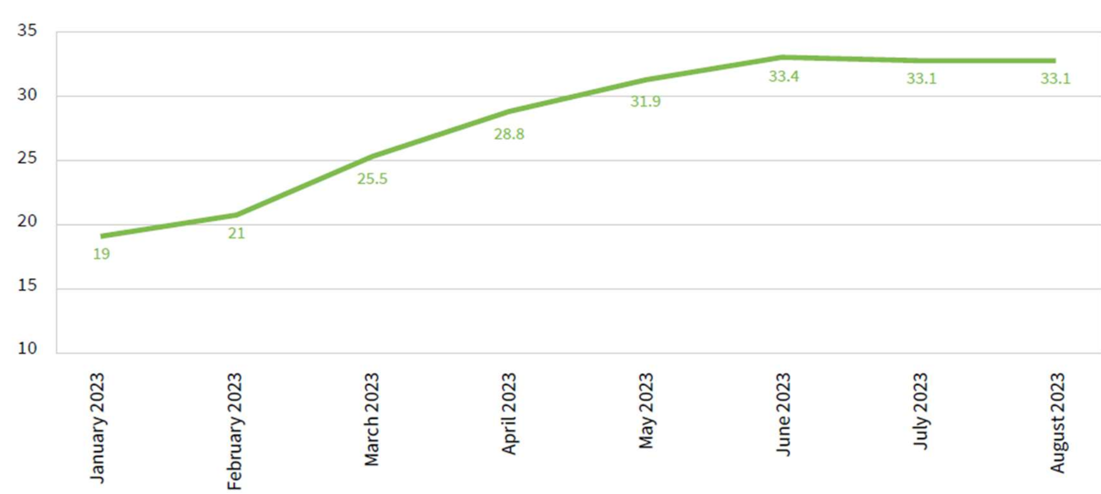
Central Bank Interest Rate Decision	Date
Fixing the interest rate at 16.25% on deposits and 17.25% on lending	2 February 2023
Raise the interest rate by 2% to 18.25% on deposits and 19.25% on lending	30 March 2023
Fixing the interest rate at 18.25% on deposits and 19.25% on lending	18 May 2023
Fixing the interest rate at 18.25% on deposits and 19.25% on lending	22 June 2023
Raise the interest rate by 1% to 19.25% on deposits and 20.25% on lending	3 August 2023
Fixing the interest rate at 19.25% on deposits and 20.25% on lending	21 September 2023
Keeping the interest rate at 19.25% for deposits and 20.25% for lending	2 November 2023
Keeping the interest rate at 19.25% for deposits and 20.25% for lending	21 December 2023

Source: Monetary Policy Committee meeting decisions, various issues.

The Central Bank contradicts itself

Tracking the money supply, the use of the interest rate to curb inflation has been contradictory to the central bank's expansion of the money supply, especially through money printing. [24] We find a coincidence between the high growth rate of the money supply and the growth rate of core inflation (which excludes the effect of rising vegetable and fruit prices).[25] The increase in the money supply (in light of the decline in private credit) can be explained by the financing of the budget deficit.

Money supply growth rate, 2023



In the same vein, the government is resorting to providing dollars by pushing state banks to borrow from abroad, which also threatens bank safety and exposes them to credit rating downgrades. The following figure shows how the net foreign assets held by the banking system have deteriorated.

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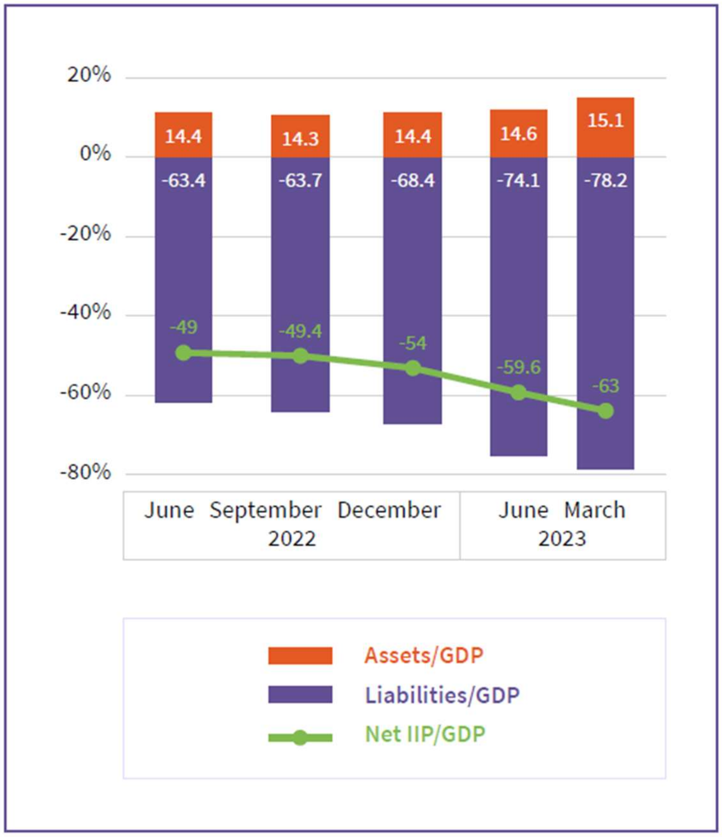
[24] Reem Abdel Halim, "The Need for a Participatory Vision of Monetary Policy", *Alternative Policy Solutions*, 2024, available at https://aps.aucegypt.edu/en/articles/1348/the-need-for-a-participatory-vision-of-monetary-policy https://aps.aucegypt.edu/en/articles/1348/the-need-for-a-participatory-vision-of-monetary-policy (Reem Abdel Halim, Participatory Vision of Monetary Policy).

[25] Reem Abdel Halim, Participatory Vision of Monetary Policy.

Net International Investment Position (Percent of GDP)



The IMF agreement and analyzing the intertwining of monetary and fiscal policy and their impact on poverty and inequality

The literature on the impact of monetary policy on poverty is very limited, including the nature of the impact of expansionary monetary policy on income inequality. Crowe (2006)[26] found a direct correlation between expansionary monetary policy and income inequality, and Albensi (2007)[27] found that the poorest bear the inflationary consequences of expansionary monetary policy more severely.

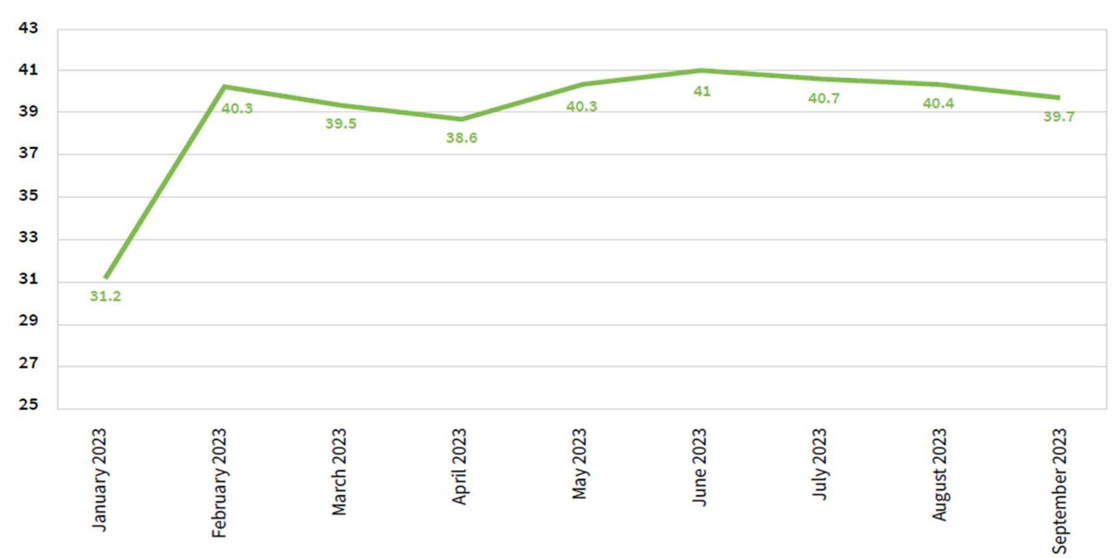
[26] Christopher Crowe, "Inflation, Inequality and Social Conflict", *IMF Working Papers*, no. 6, (2006), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=920250
[27] Stefania Albanesi, "Inflation and Inequality", *Journal of Monetary Economics*, vol. 54, no. 4, (2007), p. 1088-1114, available at https://cepr.org/publications/dp3470

In 2006, Doepeke and Shnidier[28] showed that successive interest rate hikes in a number of countries have benefited the rich and impoverished the poor through job losses and unaffordable borrowing. From this set of studies, it seems that addressing the relationship between monetary policy specifically and income distribution, considering other economic determinants, does not only revolve around the interconnectedness between interest rate, exchange rate, and inflation.

Since the income and expenditure survey data in Egypt has been suspended since 2019/2020, we can only analyze the nature of the expected effects on poverty and fair income distribution by studying the various channels, and their inevitable effects on the variables related to the quality of life and standard of living, namely poverty and inflation, which is the lever used in the various research papers in this edited volume.[29]

As explained in the first part of this paper, reducing inflation as the stated goal of the monetary policy imposed by international financial institutions is too tight. Indeed, a reading of the Egyptian case shows that the target rate of inflation according to the Central Bank data is 7 % +/- 2%, and the actual inflation is far from the number announced by the Central Bank as a target for inflation.

Annual core inflation rate for the months of 2023



Central Bank of Egypt, Monthly Statistical Bulletin

[28] Martin Schneider and Matthias Doepke, "Inflation and the Redistribution of Nominal Wealth", *Journal of Political Economy*, vol. 114, no. 6, (2006), available at https://faculty.wcas.northwestern.edu/mdo738/research/Doepke_Schneider_JPE_06.pdf
[29] Please see the other readings in the reference section at the end of the paper

The interest rate has become a tool for income redistribution:

On the one hand, it provides relative protection for bank savers' money against some amount of inflation, while the poorest have no such protection against inflation.

More importantly, banks, large corporations, and financial investors benefit from higher interest rates. For example, the banking sector has become heavily focused on buying government debt securities, especially short-term ones. It not only earns a profit margin, but also controls its own rate of profitability, while the ratio of credit to the government in relation to total credit in August 2023 was 68.5%, up from 63% in 2020, and some banks' risk-free profits reached 18%, up from 14% during the previous quarter of 2023.

The system of "primary dealers" adds some power to the banking system. Since 2002, according to Ministry of Finance Decision No. 480 of 2002, the government began implementing a system of primary dealers, which are financial institutions (banks) that underwrite government-issued securities and activate their trading in the issuance and trading market. These banking entities then had significant weight in determining the interest rate for treasury bills, which led to a complete pass-through of the variations in the interest rate, as determined by the Central Bank for government debt securities.

Third, the higher the interest rate, the higher the interest payments, leading to further erosion of fiscal prudence. The state cannot raise the interest rate more than it is, as the decision is not easy because it means an explosion in government interest payments and more deficits in the state's general budget, while interest payments eat up more than 37% of total public expenditures in the FY2023/2024 budget, and more than 25% of total public uses. Loan repayments consume 30.2% of total uses (mostly short-term), resulting in a decline in available public spending. Only 13.5% of the budget is left for investment, 12.2% for subsidies, grants, and social benefits, of which 60% is for energy, food, and cash transfers, and the remaining 5% goes to fund pension funds and other incidentals. Only 3.2% is left for the purchase of goods and services, figures that are almost constant at their 2020/2021 level despite the grinding economic crises.

Fiscal pragmatism and inequality:

Every 1 % reduction in the average interest rate on government debt (estimated at 18.5%) provides a fiscal relief equal to EGP 70 billion according to the 2023-2024 budget plan.[30] The higher-than-planned interest rate, the difference between the estimated average of 18.5% and 28% (the interest rate on February 2024 treasury bills), is estimated at LE700 billion. This amount exceeds the total spending on education, health, Takaful and Karama combined (less than EGP 600 billion), meaning that keeping the

[30] Ministry of Finance, Financial Statement for the 2023-2024 Budget, 2024, p. 72, available at https://mof.gov.eg/ar/posts/stateGeneralBudget/63a95e67da80a50008d14783/%D9%85%D9%88%D8%A7%D8%B2%D9%86%D8%A9-%D8%B9%D8%A7%D9%85%D8%A9-2023-2024

interest rate high is tantamount to a reverse redistribution benefiting the richest against the neediest and away from development imperatives.

If we look closely at the statement of subsidies, grants, and social benefits, we find that the main increase, which is only 2% in four years, is the increase in subsidies for ration goods, petroleum subsidies, and price differentials, the most important of which is the subsidy for ration goods, which increased by 58% in four years, or only about 14% per year. This percentage is much lower than the cumulative inflation rates and is related to the natural increase in the quantities of bread required. Unfortunately, no significant increase was imposed on the main alternative that the state relies on to save the poor, namely the Takaful and Karama pensions, which are paid to five million families, at no more than LE 600 per month per family.

All of the above measures did not stop inflation from continuing to be fueled by printing money, as fiscal policy leads to more printing to fill the state's budget deficit. As shown in the following figure, the M1 money supply increased by terrifying jumps, from a growth rate of 15.7% in June 2022 to 33.5% in June 2023.

Money supply growth rate, 2023

The policy decisions available to the state are very limited, and all of them negatively affect the poor through the channels described above. Had the state pursued a more aggressive monetary tightening policy and raised interest rates, there would have been less left for subsidies and employment in the state budget. Every 2% increase in the state's general interest rate means raising the allocations for interest payments from EGP 775 billion in 2022/2023 to about EGP 800 billion.[31] This means more pressure on all allocations for subsidies, grants and social benefits, and operating and investment

[31] Ministry of Finance, Fiscal Statement for the 2023-2024 Budget, 2024, p. 72.

expenditures in the state's general budget, i.e. a withdrawal from the state's general budget resources in favor of savers and non-residents who benefit from high-interest rates.

Had the government gone through more rounds of devaluation, the Egyptian pound equivalent of the interest on dollar loans required to be repaid during the second half of fiscal year 2023/2024 would have risen from EGP 152 billion to EGP 172 billion for each official devaluation of only 15% of the pound's value against the dollar, leading to more selective austerity and exchange rate-linked inflation to essentially erode the poorest, as there is no protection against inflation in the first place.

The recent 63% devaluation of the pound means an increase in foreign debt interest payments by about 95 billion pounds, equivalent to 70% of spending on the health sector, 65% of spending on the education sector, and about half of all commodity subsidies.

A BNP Paribas report predicts that the ratio of government interest paid to government revenues will rise to 70%, up from 43% in FY2023, meaning more selective austerity.[32]

Floating the Egyptian pound and inequality:

With each devaluation of the local currency, the purchasing power of ordinary Egyptians collapses. The lower the income and the lower the savings, the less the ability to compensate for that collapse. In other words, the more income depends on labor, the more the level of income collapses with each floatation. Conversely, the more income is based on assets, wealth, and deposits, the less those segments are affected by the floatation. In other words, inequality is exacerbated with each episode of devaluation of the local currency.

Holding dollars is the most important protection against repeated episodes of floating. For example: If the dollar appreciates by 50%, the wealth of dollar holders automatically increases by the same percentage, which outpaces inflation. Dollar holders then benefit from the net increase in wealth or income, i.e., income or wealth increases by a ratio equal to = (currency depreciation rate - inflation rate).

Recommendations:

The most important changes to be made at the supra-policy level

1- Democratizing the monetary authority and separating the regulatory role from the role of monetary policy.
2- Dealing with inflation as a complex phenomenon. And that there is a type of inflation that is less beneficial, which is demand-driven inflation. As a general trend, inflation should be contained

[32] المنصة، عائد أذون 364 يوماً يرتفع إلى 28.6% وتنامي القلق من الديون المحلية، 2024، متاح على
https://x.com/Almanassa_AR/status/1759623883123269816?s=20

through fiscal policy as well. Some types of taxes do not harm domestic economic activity but benefit it (such as international taxes, wealth taxes, and pollution taxes), some reduce import demand, and if the principles of tax justice are followed, especially progressivity, they also lead to better income distribution.

3- The money supply is the joint responsibility of the government and the central bank. Policy consistency between the two is indispensable, no matter what some economic theories claim.

4- Saying that fiscal policy controls monetary policy is inaccurate. Banks are the biggest beneficiaries of raising the interest rate on government debt. However, it can be said that both are hostage to the mismanaged internal and external public debt file.

Exchange rate (pressure on the local currency)

1- **Supply side:**
   a. Work to increase the supply of dollars in a sustainable, transparent, and job-creating manner. Attracting foreign direct investment in the real economy, especially industry and technology, is ideal.
   b. Restructuring short- and medium-term debt, whether in local or foreign currency, by replacing it with long-term debt securities.
   c. Subjecting the Central Bank to accountability and public accountability, especially with regard to the external debt file, and setting a time plan to reduce its share of the external debt from about 50% to the traditional limits of between 3 and 5% so that the government can return to its traditional position as the main borrower on behalf of the state.

2- **The demand side:**
   a. Tighten rules that limit the smuggling of dollars abroad under the guise of foreign trade invoices or other tax evasion practices.
   b. Imposing progressive taxes on profit transfers abroad and linking taxes on international companies to country-by-country reporting, in line with Egypt's commitments to the OECD Convention on Avoiding Tax Evasion.

Interest rate

1- Reconsidering the primary dealers' system, which has proven to benefit investors at the expense of the public budget. Diversify government borrowing instruments, and ensure that any reduction in the interest rate is passed on to government debt securities.

2- Working on a gradual reduction in interest rates to stimulate private bank credit, reduce the incentive for banks to invest deposits in government debt, and stimulate inclusive growth. This requires a detailed study of proposals in this regard.

3- Moving away from inflation targeting as the CBE's primary objective until the overall macroeconomic framework stabilizes, and replacing it with targeting unemployment, or monetary and banking stability.

The central bank's role as the sole watchdog over banks:

This role implies a conflict of interest (negative net foreign assets and its link to the public debt file), with the two largest state-owned banks monopolizing the lion's share of deposits by offering higher interest rates. This is not a withdrawal of liquidity, but rather a re-injection into the public budget, especially the interest section.

Making more efforts to avoid the conflict between monetary policy and financial stability, and the risks related to the reputation of the banking sector in particular, because monetary effectiveness and financial stability will be negatively affected by the fallout of having one institution lobbying with its financing power, especially when the final lender of last resort and the supervisory body are one entity, the Central Bank.[33]

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Hunger and Food Security in Times of Crises and Inflation: The Impact of Poor Economic Policies in Egypt

Mohamed Ramadan

Introduction

In Egypt's current economic crisis, the country is suffering from the negative effects of rising global food prices because of the local food shortage and the constant need to import major food items, including cereals and oils. While external factors often blamed for the rise in food prices were less prominent in 2023 compared to 2022, last year was no better. Local food price inflation in Egypt comes not only from rising global prices but also from the continuous pressure on the local currency, with the Egyptian pound being floated three times in two years under the management. The parallel market has expanded to trade the dollar at more than double the official rate, which resulted in the pound losing nearly 70% of its value against the dollar from 2016 to 2023.

Ongoing currency devaluations over the past two years have intensified pressure on domestic inflation rates and led to an ongoing crisis in meeting food needs through imports, thus posing a threat to individual household food security by affecting the living standards of mainly the poor and to collective food security through decreasing quantities of imported food and supply chain issues and pricing behaviors due to the dollar scarcity.

The dollar shortage crisis is linked to rising non-resident loan payments over the recent years, thus creating continuous pressure on the value of the local currency and pressure from inflation and government austerity in spending on subsidies and social protection networks, and this unique combination of development crises leads to a continuous threat to individual and collective food security in Egypt.

This paper focuses on high inflation rates and the resulting food pricing shocks, and how they significantly affect various food security indicators, as well as the stability of adequate food supplies over time. It also assesses the Egyptian government's responses to the food price crisis over the past three years.

This period was chosen based on the high inflation rates during this period due to the implementation of the International Monetary Fund (IMF) programs, which included a series of local currency devaluations that increased the level of commodity inflation, especially the inflation of food commodities.

The paper starts by establishing the concept of small-scale local production for the benefit of local communities as opposed to relying on global food supply chains. The COVID-19 pandemic and associated trade disruptions have shown the need to focus on an approach to food security that is based on the concept of "local food sovereignty" and is not, as is the case in Egypt, strictly linked to a trade-based approach.

The concept of food sovereignty differs from trade-based food security in that the former emphasizes small and medium-sized production processes, shortening supply chains for food commodities, and taking into account the larger cultural and social dimensions of food production and consumption.

This paper attempts to draw a framework that can stimulate the response of public policies, especially food and agricultural policies, to deal with inflationary shocks in food prices. It begins by summarizing the nature of the economic crisis and the link between it and the policies of the IMF and the World Bank on the one hand, and between them and agricultural and food policies, and how this negatively affects the different levels of food security.

The second section attempts to sketch the framework of interaction with the current food security crisis and assess the responses required by decision-makers to deal with the negative effects of inflation on food security indicators.

The final part of the paper presents several recommendations and ideas on the formulation of food policies in Egypt and how they can achieve sustainability in food security in the future.

The nature of the current economic-food crisis

The current economic crisis is often viewed as a technical economic one, linked to the numbers associated with the chronic balance of payments deficit or other issues. Nonetheless, it is a crisis whose various effects are embodied in an acute food crisis as a result of inflation.

The current food crisis in Egypt is evident in food inflation rates surpassing the general inflation rate, a trend that has escalated in recent months. High inflation rates can serve as a symptom of a broader economic crisis, with imported inflation and exposure to the world for basic food commodities at its core. Imported inflation refers to price fluctuations influenced by changes in the exchange rate. When the currency is devalued, imported goods become more expensive, and their substitution with local alternatives becomes challenging, contingent upon the economy's structure. In Egypt, the impact of imported inflation is visible during exchange rate devaluations and impacts the pricing strategies of producers and traders when the value of the local currency is low.[1]

The debt crisis (doubling the burden of debt service, especially external debt) has played a major role in exacerbating the economic crisis in Egypt, as debt payments represent great pressure on the local currency, as they have risen over the past years from $13.3 billion in the fiscal year 2018-2019 to nearly $42 billion expected during the fiscal year 2023-2024.[2] The continuous rise in debt payments has forced the Egyptian government to devalue the exchange rate to avoid defaulting on payments. During the period from March 2022 to March 2024, the official exchange rate fell from EGP 16 per dollar to approximately EGP 49 per dollar, reflecting a devaluation of approximately 67%.[3]

The continuous decreases in the value of the pound were driven by the demands of the IMF and other international financial institutions for a flexible or free exchange rate, which produced high inflation rates over the past year, and these rates significantly affected general inflation in Egypt, especially food inflation.

The following figure shows the difference between the general inflation rate and the food inflation rate in Egypt during the past two years.

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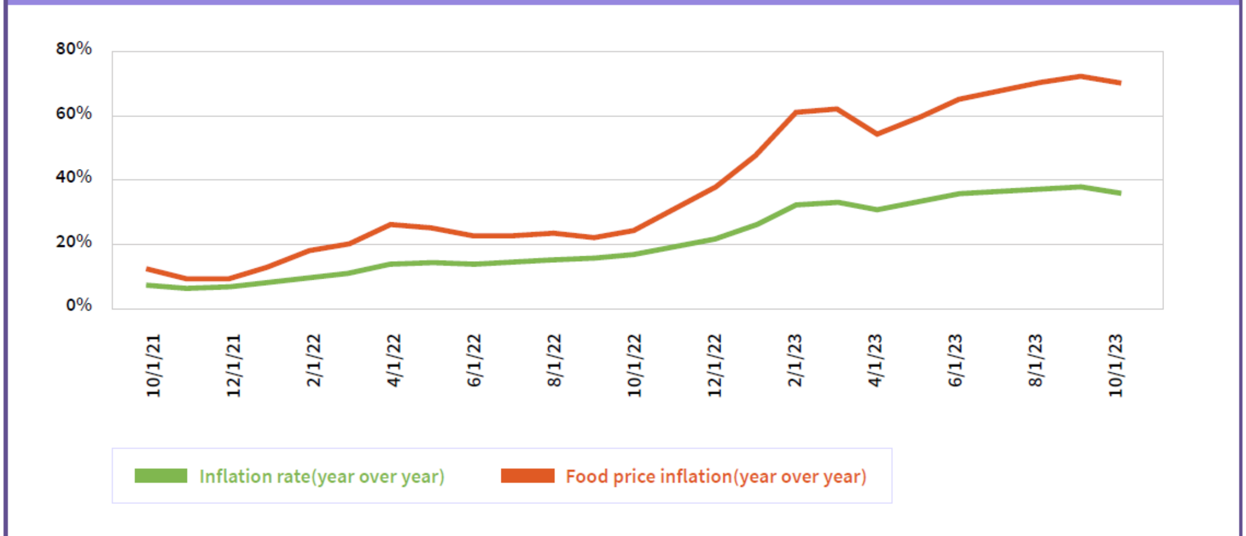
[1] Kholoud Hossein et al., “Exchange rate pass-through to inflation in Egypt: a structural VAR approach”, Review of Economics and Political Science, Vol. 3 no. 2, 2019, p. 2-19, available at https://doi.org/10.1108/REPS-07-2018-001

[2] البنك المركزي المصري، تقرير الوضع الخارجي للاقتصاد المصري ٢٠٢٢-٢٠٢٣، متاح على https://www.cbe.org.eg/ar/economic-research/economic-reports/external-position-of-egyption-economy

[3] International Monetary Fund, *Arab Republic of Egypt: Request for Extended Arrangement Under the Extended Fund Facility-Press Release; and Staff Report*, January 2023, available at https://www.imf.org/en/Publications/CR/Issues/2023/01/06/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-527849

Inflation vs food inflation in Egypt



The central agency for public mobilization and statistics

Referring the source of the crisis to borrowing policies does not negate the direct impact of global food and energy price hikes on food security levels in Egypt, especially considering the two recent global crises. The first is the post-COVID supply chain crisis, which extended from the end of 2020 to the beginning of 2022, and later the Russian-Ukrainian war crisis, which greatly affected the prices of grains and vegetable oils, which are commodities of great importance to Egypt and other developing countries that depend on wheat and grains imported from the Black Sea region. However, the price levels of these commodities have been declining since mid-2022, but the crisis itself has continued in Egypt, driven by the depreciation of the exchange rate and its direct impact on inflation. [4]

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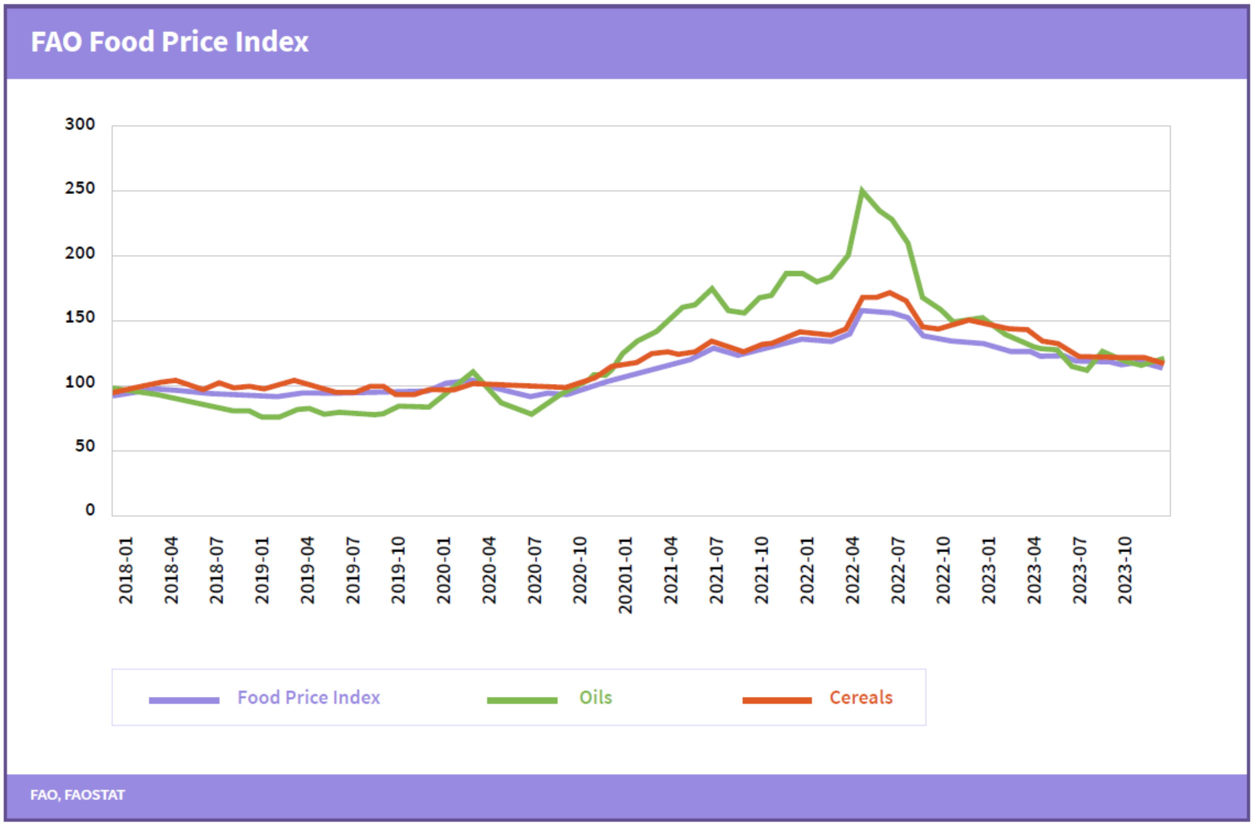
[4] Brendan Rice et al., _2022 Global food report on food crises: Joint analysis for better decisions: Mid-year update: In brief_, Food and Agricultural Organization of the UN, World Food Programme and the International Food Policy Research Institute, September 2022, available at https://ebrary.ifpri.org/digital/collection/p15738coll2/id/136365

The following figure shows global food price trends, from 2018 through 2023:[5]



The prices of major commodities, including grains or vegetable oils, have not fully returned to pre-pandemic levels. These price hikes coincided with the rise in energy prices and various agricultural production inputs such as fertilizers and seeds, which contributed to continued price inflation in food-importing countries. From the end of 2019 until November 2023, the final increases in the prices of these global products were around 15-20%, but the pricing shocks between mid-2020 and mid-2022 for most agricultural commodities represented great pressure on the balance of payments of developing countries, especially those that depend on importing cereals and vegetable oils, which are high-calorie products, cheap compared to other types of food, and form an essential part of the daily diet of the poor in those countries.[6]

It is particularly important to examine this food crisis in combination with the economic crisis. The food crisis is not only a product of the economic crisis but it is fed in the long run by policies that support the borrowing system that the Egyptian government has expanded over the past years. There is a clear

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[5] Food and Agricultural Organization of the UN, *FAO Food Price Index | World Food Situation*, 2022, available at https://www.fao.org/worldfoodsituation/foodpricesindex/en/

[6] Kibrom A. Abay et. al, “The Russia-Ukraine War: Implications for Global and Regional Food Security and Potential Policy Responses”, *Global Food Security* no. 36, March 2023, available at https://doi.org/10.1016/j.gfs.2023.100675

relationship between the borrowing system and the economic pattern supported by international institutions, led by the IMF and the World Bank. This continuous cycle of borrowing and re-borrowing to pay installments and interest on old debts is a recurring cycle that threatens the Egyptian state's development model.

International financial institutions have also focused on promoting trade-based food security strategies rather than developing local food production structures and achieving self-sufficiency. For example, since the crisis began, the Egyptian government has adopted an approach based on the delivery of cultivated wheat without offering international wheat prices. This prompted many farmers to stop supplying and use wheat in various forms, including as animal feed due to the high prices of imported fodder. Interventions based on forcing farmers to supply crops such as rice and wheat prompted speculation and withholding of commodities that ultimately led to higher prices for these commodities.

Although achieving full self-sufficiency is difficult in the Egyptian case, this paper argues that much can still be done by designing more comprehensive agricultural policies that do not prioritize an agricultural export approach, but rather are flexible and take nutritional considerations into account in their design. A holistic approach to food security, based on supporting smallholder farmers and shortening supply chains from farm to final consumer through local markets can better achieve food access targets for poor and marginalized communities and lift the burden of the conditional link between poverty and nutrition.

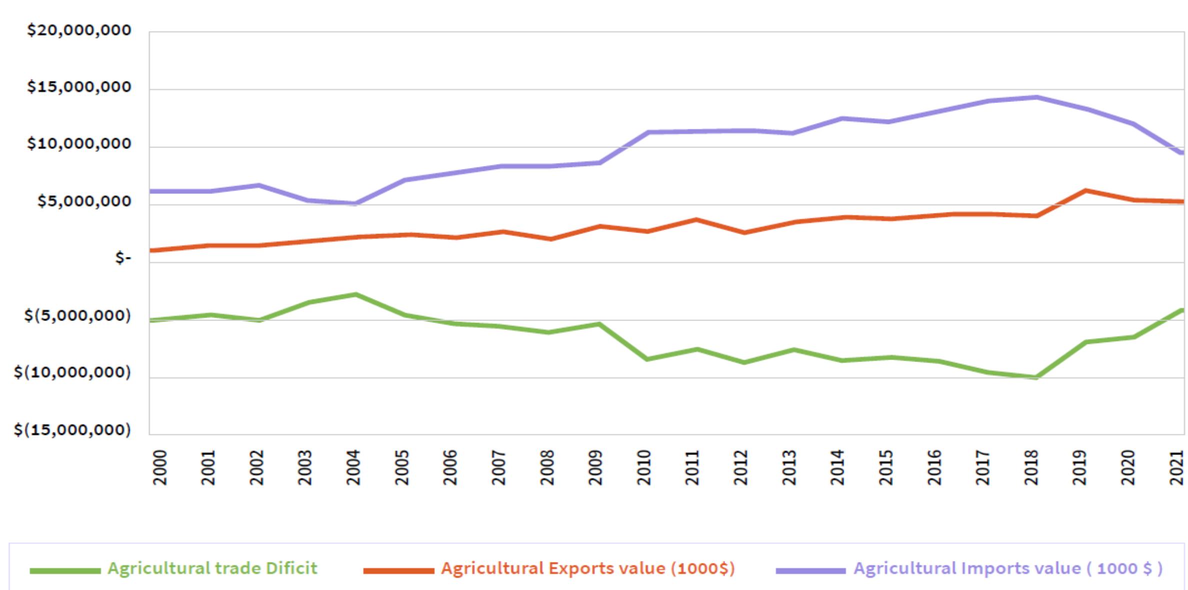
The focus on local food supply chains is based on the fact that trade-based food security strategies have not been greatly successful in the Egyptian case. The reliance on importing various food components adds to vulnerability in times of crisis and rising global prices and thus increases the impact of the transfer of these global prices to the local market in the form of higher food inflation than the general inflation rate.

The Changing Pattern of Agricultural Production over the Last 50 Years: The Role of the World Bank and Donor Institutions

Since the 1970s, the Egyptian agricultural sector has been in a constant state of liberalization. The state has relinquished its control over the agricultural sector and allowed forms of institutional arrangements between the private sector, the government, and international institutions such as the World Trade Organization, the IMF, and the World Bank, as well as development agencies such as USAID to emerge. These institutional arrangements pushed in the direction of exports, and thus Egypt witnessed an export boom in agricultural goods, which in turn played a major role in changing the crop composition significantly, especially in new lands where large capitalist agriculture is spread, but it also played a role in extracting restrictions. The ongoing liberalization of the agricultural sector, and the domestic and international measures associated with it, have played the biggest role in shaping Egypt's agricultural fabric from the mid-1970s until today. The idea was to rapidly integrate the Egyptian agricultural sector into the global economy by focusing on developing large-scale export-oriented agriculture and increasing the ability of Egyptian exports to penetrate the neighboring markets, especially Europe and the Arabian Gulf. The aim was to provide important hard currency for the economy, and the economy as a whole was re-designed to encourage exports and trade, and the agricultural sector was one of the first sectors to attract the attention of international institutions in this context.

The discourse of encouraging agricultural exports and the advantage of this approach did not succeed in providing the hard currency needed to import other food components, as Egypt continued to have a persistent deficit in its general trade balance as well as its agricultural trade balance. This deficit increased continuously since the global food crisis in 2007 until 2018 before it started to slightly decline driven by increased exports and stabilized global grain prices in the period 2018-2021.

The Agricultural Trade Balance for Egypt (2000-2021)



FAO Database https://www.fao.org

The current debt crisis tells us a lot about the economic pattern supported by the IMF and the World Bank. Massive spending by governments, the inability to control budget deficits, and external shocks to emerging economies are usually blamed as the main causes of debt crises, but that does not tell the full story. Debt is highly connected to local food and economic systems; if food systems are dependent on importing a large part of their inputs, this means continuous deficits in the country's food trade balance and greater dependence on borrowing to provide hard currency to import foods. In turn, the interest and subsequent debt installments raise the demand for hard currency and represent continuous pressure on the balance of payments, which leads to successive devaluations of the local currency, thus reproducing inflation and imported inflation in the prices of basic commodities such as grains, which are essential for the poorest segments of the population.

Food self-sufficiency is an issue in Egypt. The country suffers from a chronic deficit in the agricultural trade balance, with declining self-sufficiency rates in the strategic crops that Egyptians consume the most, namely cereals, legumes, and vegetable oils, which are arguably the food of the poor in Egypt. For example, the self-sufficiency of wheat and cereal crops in general decreased from 56% in 2013 to

41% in 2022, that of corn decreased from 56.8% to 44% in 2022, and from 27% to nearly 17% in 2022 for beans.[7] This decline was driven by two important factors. The first is the decline in the cultivated areas of cereal crops, because of the low economic feasibility of their cultivation after the flotation as their local price converges with the global price. The second is the increase in consumption due to the ongoing price inflation, which pushed millions of Egyptians to adapt by consuming cheaper food.

On the other hand, we see an increase in self-sufficiency in fruit and vegetable crops, which reflects Egypt's current agricultural pattern, which relies on exporting a number of crops in vegetables and fruits. These distortions resulting from the liberalization of the exchange rate and the ongoing crisis since 2016 point to the low efficiency of crop composition as a reflection of the pattern of agricultural allocation, which does not reflect the best possible combination of agricultural production in light of local needs due to the imposition of the neoliberal model on the agricultural sector in Egypt, with export crops dominating the capitalist agricultural sector, which is supposed to be the most developed of Egyptian agriculture.

However, self-sufficiency in fruit and vegetable crops does not mean that citizens have adequate access to them. These crops are linked to global pricing in light of the availability of the alternative of exporting commodities, so their local prices are more volatile than other food components, and access to them becomes more difficult in times of crisis. In addition, low productivity in these crops reduces the annual per capita share of vegetables, especially with the increase in population and the tendency to export some types of vegetables and fruits. Data from the annual bulletin of the movement of production and internal and external trade of the most important agricultural commodities shows a clear decline in the citizen's share of vegetables. The latter decreased from 93.1kg per year in 2016 to 72.5 kg per year in 2021.[8]

All of the above was reflected in the levels of food security in Egypt. Egypt ranks 77th out of 113 countries according to the 2022 Global Food Security Index, a position that has not improved significantly over the last 10 years. In 2022, Egypt scored an average of 56 out of 100 points on the index. This represents a decline from the 60.8 points Egypt scored in 2021 on the same index, as well as 61.1 points in 2020 and 64.5 points in 2019. This continued decline in the index reflects significant pressures on food security in the country, with price pressures being one of these pressures, affecting the state of food security in the future.[9]

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[7] Saker El Nour, “Agricultural and Food Policies in Egypt between 2014 and 2021: What Changed and What Didn't”, Arab Reform Initiative January 2023 https://www.arab-reform.net/publication/agricultural-and-food-policies-in-egypt-between-2014-and-2021-what-changed-and-what-didnt/

[8] الجهاز المركزي للتعبئة العامة والاحصاء، النشرة السنوية لحركة الإنتاج والتجارة الخارجية والمتاح للإستهلاك من السلع الزراعية، أعداد مختلفة، متاح على https://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5104&YearID=23524

[9] *Global Food Security Index (GFSI)*, 2022, available at https://impact.economist.com/sustainability/project/food-security-index/explore-countries/egypt

The double burden of Egypt's declining food security

What Is Food Security?

The UN Food and Agriculture Organization defines food security as "the provision of food to all members of society in the quantity and quality necessary to meet their needs for an active and healthy life." This definition differs from the traditional concept of food security, which is associated with achieving food self-sufficiency through local production, so food security is essentially based on encouraging trade. The World Health Organization has set the minimum number of calories needed to cross the threshold of undernourishment at 1,800 calories per day for adults. However, the source of calories is critical in any approach to food security.[10]

Older food security strategies focused on the relationship between poverty and food security. However, since the 1980s, newer food security strategies have focused on linking poverty to various nutritional indicators, in what is called the double burden of diet, especially in societies with complex food security issues, such as Egypt. While the proportion of people who are vulnerable to one degree or another of food insecurity is increasing according to FAO estimates, the proportion of nutritional issues associated with wealth (such as obesity, heart disease, diabetes, and others) is increasing. [11]

In Egypt, poverty and nutrition-related diseases are interlinked. Both reproduce each other by affecting food quality and pushing food spending to be more dependent on cheap, calorie-dense food. The Egyptian government subsidizes a basket of ration commodities which pushes towards this goal, and nutrition-appropriate interventions are completely absent in the design of its macro-food policies, which explains the significantly deteriorating nutritional indicators in the country.[12] The poverty rate increased from 16.7% in 2000 to 29.7% in March 2020. The prevalence of undernourishment increased from 14% in 2009 to 25% in 2018.[13] This period also witnessed an increase in the rates of extreme poverty, which is termed the hunger index since the extreme poverty line refers to the lowest amount of money that can guarantee an individual the minimum daily calorie intake. The percentage of the population below the extreme poverty line also increased from 2.5% of the total population in 2000 to approximately 4.5% currently and recorded after the currency devaluation in 2016 its highest percentage, reaching 6.2% of the total population in 2018.[14]

[10] Food and Agriculture Organization of the UN, *Food security: concepts and measurement*, available at https://www.fao.org/3/y4671e/y4671e06.htm#fn21

[11] Rachel Slater and Simon Maxwell, "Food Policy Old and New", *Development Policy Review 21,* no. 5-6, p.531-553 (2004), available at https://doi.org/10.1111/j.1467-8659.2003.00222.x

[12] Alia Hafiz, et al. ed. *Scaling Up Nutrition in the Arab Republic of Egypt: Investing in a Healthy Future, World Bank Publications*, p. 79-85, 2019, available at https://www.google.com.eg/books/edition/Scaling_Up_Nutrition_in_the_Arab_Republi/1BXCDwAAQBAJ?hl=en&gbpv=1&printsec=frontcover

[13] Imane Helmmy and Rania Roushdy, "Household Vulnerability and Resilience to Shocks in Egypt", Working Paper no. 1362, *Economic Research Forum*, 2019, available at https://erf.org.eg/publications/household-vulnerability-and-resilience-to-shocks-in-egypt/

[14] الجهاز المركزي للتعبئة العامة والإحصاء، بحث الدخل والانفاق للأسرة المصرية، أعداد مختلفة

The Egyptian Household Health Survey provides a brief picture of nutrition. Only two versions have been released: In 2014 and 2021.

This makes it possible to see the measurement of food security conditions and their relationship to poverty at two points in time over the past two decades. The results of the health survey show that the percentage of anemia in children increased from 27% in 2014 to nearly 43% in 2021. The prevalence of nutrition-related diseases illustrates significant issues of access to adequate and quality food at the household level, mainly due to the low purchasing power of most Egyptians due to increasing high poverty and inflation rates. More nutritious food is often more expensive, especially in urban areas, and can only be afforded by fewer people. This is partly because most urban dwellers find it difficult to access healthy and nutritious food due to low-income levels. Since structural adjustment programs began in the early 1990s, this situation has been exacerbated by the limited availability of fresh food due to poor storage, transportation, and marketing conditions. On the whole, due to ongoing changes in the nature of the urban economy and less time available daily outside working hours, urban residents are more dependent on fast food in response to various pressures in the economic model, including work and limited time for cooking, and are therefore more prone to obesity and other malnutrition diseases.

Several factors will contribute to increasing food pricing shocks in the future: climate change, which will affect productivity and make it more volatile in major crops; wars, conflicts, and geopolitical tensions, which were evident in the Russian-Ukrainian crisis; and trade wars and protectionist policies in agricultural goods. Therefore, food price hikes may be here to stay in the long term. The current crisis has also shown the disadvantages of relying on imports for much of the food value chain. Hence, there is an urgent need to rethink the Egyptian government's food security paradigm. The current food crisis could represent an opportunity to think differently about food security in Egypt.

The current crisis represents the most complex crisis in Egypt's recent history. It is linked both to global food prices and domestic economic factors, especially the exchange rate. Dealing with it requires a complex approach that does not rely solely on traditional solutions for dealing with food security, whether trade-based or based on securing food supplies locally. Rather, a response to the crisis should be twofold: short-term responses aimed at mitigating the impact of the crisis on the most vulnerable groups in society, and long-term responses aimed at achieving food sustainability in Egypt and ensuring food security in the long term.

The different components of food security that need to be considered in the design of food policies by governments or international institutions can be summarized as follows:[15]

1. Adequate food availability in both rural and urban areas. Achieving food security in urban areas cannot be at the expense of food security in rural areas through forced pricing of agricultural crops at the expense of farmers.

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[15] Charles Peter Timmer, *Food Security and Scarcity: Why Ending Hunger Is so Hard*, University of Pennsylvania Press, 2015. (Charles P. Timmer, *Food Security and Scarcity*).

2. Adequate access to food for all members of households, through nutritional programs targeting mainly children and women through different targeting mechanisms.

3. Effective utilization of food, which starts via food-related field operations, processing, manufacturing, and marketing, as well as trying to reduce waste at every stage, together with the utilization of food with good nutritional and health values.

4. Sustainability of the food system, so that food production processes should not significantly affect the environment, ensuring negative impacts on various resources, whether soil, water, or climate. Such sustainability must be achieved by emphasizing the right of the current and future generations to food security.

5. Food stability, including the stability of food supplies and the stability of prices and their proportionality to the purchasing power of the general population, especially the poorest classes.

Responses required to achieve food security in times of inflation

Egypt suffers from several structural issues that make it difficult to reform food systems. Foremost among these is the nature of the development pattern, which relies heavily on intensive investment in major infrastructure projects. This puts constant pressure on the balance of payments and makes it difficult for the government to undertake structural reforms that ensure the sustainability and stability of economic growth.

The period from 2016 to 2023 was characterized by continued pressure on food security, the bulk of which came at the level of food access, which was severely affected by successive increases in food prices as a result of economic reforms imposed by the IMF and other international institutions, which included successive exchange rate devaluations.

The government's reaction included three types of responses:

Responses at the Level of Agricultural Policies

The economic crisis pushed the government to expand export agriculture, which is the same pattern followed before, based on the approach to food security through trade. From 2016 to 2022, agricultural exports increased from $2.7 billion to $4.5 billion.[16] The government focused on strengthening the agricultural export sector by expanding investment in large-scale agriculture, whether through public investments or in partnership with the Egyptian and Gulf private sectors. The area of reclaimed land, most of which is directed to agricultural exports, increased from 2.8 million feddans in 2014 to nearly

[16] الجهاز المركزي للتعبئة العامة والاحصاء، النشرة السنوية لبيانات التجارة الخارجية، أعداد مختلفة، متاح على
https://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5104&Year=23417

3.1 million feddans in 2020.[17] The reclaimed areas within the national 1.5 million feddan project were concentrated in New Minya, Toshki, Matrouh, and New Wadi, all of which are primarily export-oriented areas.

The motive behind increasing agricultural exports in a country suffering from a severe food crisis was the constant need for hard currency to finance debt payments. However, this pattern has not worked throughout history, and as agricultural exports increased, so did imports.

At the level of macroeconomic policies, the government has reduced energy subsidies over the past years, which negatively affected the agricultural sector through its impact on various production inputs. For example, the price of diesel, a very important product for the agricultural sector and its various activities, especially irrigation, rose from EGP 1.6 per liter in 2016 to nearly EGP 10 currently within eight years. The increase in energy prices affected fertilizer prices, as the price of gas supply to Egypt's public fertilizer factories increased in successive hikes, which affected the pricing of these fertilizers in both the official and black markets. In general, the government continued to rely on the same agricultural policies it has pursued since the 1990s by reducing support for small farmers in exchange for expanding the pattern of export crops and providing support to exporters through exporter support programs.[18]

Monetary economic responses

On the side of economic responses to inflation, the government focused on increasing interest rates, which is the monetary solution always recommended by the IMF and international institutions. However, raising interest rates did not address the issues of inflation in Egypt because of the structural nature of inflation. For example, inflation in Egypt can be considered as the structural imbalance in the foreign trade sector, which makes the country always export a set of raw materials, agricultural goods, or products with low added value, in exchange for importing capital or consumer goods that are fully processed or semi-processed. In these cases, the balance of payments tends to always be negative and essentially exposes the country to various inflationary pressures resulting from the transit of inflation from abroad, due to the cost of the prices of imported goods.[19]

As a result, interest rate increases cannot solve Egypt's structural inflation issues, but the government has continued to increase interest rates to attract international debt investors.

Fiscal policy responses

To mitigate the effects of inflation, the government focused on social protection policies recommended by the IMF, which is nothing more than a compensatory measure for the effects of currency devaluation

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[17] الجهاز المركزي للتعبئة العامة والإحصاء، النشرة السنوية لإستصلاح الأراضي، أعداد مختلفة، متاح على https://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5104&YearID=23539

[18] صقر النور، "صغار الفلاحين ومعركة كورونا: غائبون عن خطط الدعم.. حاضرون في خطوط الإمداد"، موقع المنصة،ЄË آذار\مارس ΓËΓË، متاح على https://almanassa.com/stories/4345

[19] محمد رمضان، "مسكن رفع الفائدة لا يعالج التضخم المزمن"، مدى مصر، تاريخ النشر Ѣ آيار\مايو ΓËΓΓ، متاح على https://www.madamasr.com/ar/2022/05/12/feature/

and its direct impact on inflation. These measures did not succeed in minimizing the impact of the crisis on the poor, as the IMF imposed austerity measures to control the budget deficit by reducing real spending on subsidies in its various forms, whether energy, electricity, water, and wages, as a proportion of public expenditures that contributed to the increase in the prices of public services and with it the increase in inflation. The Fund also proposed an increase in spending on social protection measures.

However, the Egyptian government actually reduced real spending on the social protection item, if we compare it to its spending on the Takaful and Karama programs. For example, spending on social security pensions increased from EGP 17.5 billion in the fiscal year 2018-2019 to EGP 23.9 billion by the end of the fiscal year 2022-2023, which means that the percentage of increase during the 6 years did not exceed 36%. In addition, most of the increase in spending came from horizontal expansion, i.e. increasing the number of beneficiaries of the two programs rather than a real increase in the value of cash transfers.[20] During the period from June 2018 to June 2023, the inflation rate in most major commodities increased by larger proportions, as the consumer price index rose from 98.5 points in January 2019 to 193 points in January 2023, which represents an increase of 95%, which is the cumulative inflation rate during that period. Thus, real spending on social protection programs did not increase, especially the cash transfer program that the government presented to the IMF as a mechanism to mitigate the effects of economic reforms, especially the devaluation of the exchange rate.

We can summarize the forces or factors affecting food security at the collective level,[21] through the following three factors:

The first factor: Changing agricultural productivity, especially in the main crops – mainly cereals and vegetable oils – in the Egyptian context. Egypt has achieved a lot of progress in this factor due to spending on increasing productivity from the Green Revolution in the 1950s and 1960s until now.[22]

The second factor: Economic growth rates and the degree of its inclusiveness so that it integrates more sectors into the economy and benefits the lower income segments of society, hence the importance of talking about the effects of economic growth in rural areas mainly, how growth rates are reflected on the countryside, employment patterns in the economy, the extent to which growth absorbs the demand in the labor market and the quality of work provided by growth patterns. This is also related to inequality and poverty at the national level, and how each determines the degree of access to food.

The third factor: Food prices and their stability at the global level, the degree of correlation between global prices and domestic prices, through trade, and the degree and ability of commodity stocks to protect against sudden shocks in food pricing.

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[20] حسابات الباحث من الموازنة العامة للدولة، والحساب الختامي، أعداد مختلفة.

[21] Charles P. Timmer, *Food Security and Scarcity*

[22] Charles P. Timmer, “Food Security and Economic Growth: an Asian Perspective”, *Asian-Pacific Economic Literature 19*, no. 1, April 2005, p. 1-17, available at https://doi.org/10.1111/j.1467-8411.2005.00155.x

From here we can understand the different approaches to achieving food security. Some approaches are based on trade and others on local production. In most cases, countries try to diversify between the two, meeting part of their food needs through achieving self-sufficiency, especially in locally consumed intensive crops, while importing other inputs or ready-made food types.

A sustainable food security strategy cannot be achieved without taking the above considerations into account in the design of any agricultural or food policy. There are different levels of thinking, of course, but thinking holistically from the top about food security as part of a long-term economic growth strategy is the way forward. This is due to the correlation between microeconomic factors at the level of different production units and macroeconomic contextual factors. Thus, thinking about food security becomes closely linked to strategies for growth, poverty, and inequality reduction, and strategies for income redistribution through tax interventions and other measures.

Policymakers always face difficult choices in the short term when food supplies are affected by internal or external factors, so developing short-term responses that have the flexibility to shift over time to more sustainable responses in the longer term is a very important factor in achieving sustainable food security. For example, in Egypt, the government often tries to show the financial cost of increasing food support programs in times of crisis and its relationship to the budget deficit, but it does not show the long-term financial cost of food shortages or malnutrition. Hence, understanding the requirements for achieving food security in the short and longer term, as well as at the macro and micro levels, is crucial.

We can summarize this in the following table:

	Long term	Short term
Macro level	Economic policies to stimulate inclusive growth of the poor, especially in areas where rural poverty is concentrated Fiscal policies geared towards supporting farmers Monetary policies at preferential interest rates to support small and medium-sized agriculture Stability of macro indicators of the economy such as exchange rates and inflation	Stability of food prices, especially cereals, through strategic stockpiles and trade resilience Supporting social safety nets to prevent the effects of inflation Develop social safety nets to make them more focused and have direct effects that lead to increased ability to consume food
Micro level	Continuous reduction of poverty levels Good access to healthy and good food Sustainable food security	Good nutrition at the household level Good entry levels allow to cope with sudden pricing shocks

Adapted from C Peter Timmer. 2015. Food Security and Scarcity: Why Ending Hunger Is So Hard

These goals can only be achieved in the long or short term through government market interventions. Such interventions cannot be excluded from the food market, as they exist almost everywhere in the world, whether through subsidies to farmers, or protectionist interventions to restrict food exports in times of crisis. They could also be in through developing transportation and logistics infrastructure for the agricultural sector and providing social protection policies for poorer consumers.

Building a sustainable food security policy in the short term can include a set of interventions:

1- The habit of thinking about VAT on consumer goods, especially food commodities by reducing the tax rate from the current price on those goods, or temporary exemptions for commodities, can have a good impact on the current high levels of inflation. This is because the tax has a direct impact on inflation. As per the Ministry of Finance’s calculations in 2016, it affected inflation by 0. 5% among the poorest 10% of Egyptians and 2.5% among the most consuming 10%, knowing that the inflation rate at the time did not exceed 14.5%. This means that the current impact of the tax exceeds at least 1-2% on the poorest groups, without adjusting the decimal expenditure brackets as a result of the huge drop in the exchange rate.[23]

2- Tax reforms can also include raising the tax threshold for incomes and measuring that limit with food requirements at the family level and not at the level of the individual breadwinner only. For example, the Egyptian government raised the annual tax exemption limit to 60 thousand pounds annually. When comparing the exemption limit with the minimum wage approved by the government – estimated at 6 thousand pounds per month for state workers – the tax exemption limit is less than the minimum wage, which is estimated at 72 thousand pounds per year, (that is 20% below the minimum wage). This is contrary to the simplest principles of tax justice. Tax losses resulting from raising the exemption limit can be compensated by adjusting the tax brackets upwards and by more comprehensive tax reforms.

3- Postponing or stopping raising the prices of other public services (transportation, electricity, water, gas, etc.) until inflation rates decline will provide a larger margin for the poor to spend on food and thus minimize the impact of rising food prices on food consumption levels and the quality of food that the poor mainly receive, as the impact of inflation is not equal on different social groups.

4- Increasing the allocations of social protection programs for the poor, including Karama or Takaful, and increasing the coverage of the programs to include a larger percentage of those below the poverty line in Egypt. Social protection policies are necessary to mitigate the effects of adjusting to inflation in food prices, as well as the losses of reducing spending on food and other items in times of high inflation, especially among the most vulnerable population groups. Therefore, increasing spending on cash transfer programs is essential in any strategy to increase the ability of the poor to face the effects of inflation on individual and household food security. Program expansion policies can be linked, for instance, to the poorest areas and those most vulnerable to food security such as rural areas with cheap agricultural holdings or the poorest areas in the

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[23] أسامة دياب، سلمي حسين، طارق عبدالعال، مشروع قانون الضريبة علي القيمة المضافة، ورقة موقف، آب\أغسطس ĹËŦḦ، المبادرة المصرية للحقوق الشخصية، متاح على https://eipr.org/publications/

suburbs of urban cities. Conditional transfers can be linked to the geographical dimension of poverty in Egypt so that these transfers and coverage to the poorest areas are increased.

5- Improving production and storage levels for agricultural crops by investing in building modern warehouses and modern transportation methods for crops, which will reduce food waste before the final consumption process. Reforming the agricultural production economy in Egypt and focusing on building medium and small food industries in the countryside can contribute greatly to shortening supply chains, rendering them more local and linked to the food needs of local communities and relatively reducing the impact of inflation on the poorest groups in those communities.

6- Designing food support programs that target mainly people in the poorest areas, women, and children. This can start by implementing a hot school meal in the poorest areas of Egypt, and later expand to other areas. Such a meal would provide good nutritional value to children at a young age and could reduce the financial and health costs of malnutrition-related illnesses for children in Egypt, which also affects long-term productivity levels. Targeted support programs could also include hot meal programs in poorer areas for women and out-of-school children.

And in the long term

1- There is a need to develop a more comprehensive approach to dealing with food security issues that includes the development of agriculture-food-health policies by an independent body. Policies for agriculture in Egypt are often formulated in isolation from food and health policies, although there are three main ministries (Agriculture, Health, and Supply and Internal Trade) whose work directly intersects with food security policies. For instance, we see an expansion of export crops in new lands while the country suffers from a shortage of grains and legumes.

2- This policy disconnect is also reflected in the design of Egypt's food subsidy basket, which focuses on high-calorie starches and oils. The Egyptian government supports this basket because it is easy to subsidize and low-cost compared to other commodities. There is, therefore, a need in the long run to design a subsidy basket that is more sensitive to the different nutritional and health dimensions of the recipients. Such a basket could be more expensive to subsidize, but as the government has reduced coverage rates in recent years, the cost could decrease both as an absolute number and as a percentage of GDP. There is a real need to move from the current design of the commodity support basket in Egypt, which relies heavily on sugars, starches, and calorie-dense nutrients, to more diverse food baskets that take into account healthy dietary considerations and the local requirements of the population in each region of Egypt. This can only be done well by involving these local communities in the design of the subsidized food basket and reducing the high degree of centralization in basket design, procurement processes, and tenders associated with the purchase of these commodities.

3- Food security cannot be achieved in the long term without achieving the necessary conditions for justice and sustainability of economic growth to ensure income increases and the transfer of the impact of growth to the poorest groups, as well as comprehensive anti-poverty strategies based on integrating the poorest areas, especially in the countryside, within a production system that absorbs the surplus population and labor in the countryside and pushes in the direction of sustaining growth geographically in Egypt.

The process of creating equitable growth will certainly be affected by the political and social context, as well as the state of governance, the balance of power in society, differences in interests, ideas, stakeholder influence, the concentration of market forces, governance mechanisms, and existing regulatory frameworks to facilitate the reform process and prevent and manage conflicts. All this does not deny that there is an existing potential for long-term economic reforms that can change the pattern of economic development in Egypt.

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Health and Education Injustices in the Age of IMF-Induced Austerity: Lessons from Egypt

Youssef Sharaf

Introduction

This paper aims to depict an accurate overview of Egypt's spending on basic social services, from 2016 to 2023, a period during which Egypt undertook several adjustment programs – supported by the International Monetary Fund (IMF or the Fund hereafter) and the World Bank – to address macroeconomic imbalances and ample foreign reserves. In fact, in November 2016, Egypt embarked on a reform program, supported under the IMF's $12 billion Extended Fund Facility (EFF), which included a sharp devaluation of the Egyptian pound (EGP). As it resulted in the loss of 50% of the pound's value, many Egyptians saw their real wages slashed. To understand the increasing vulnerability of households since then, the paper will particularly analyze the state's chronic inability to inject sufficient investment in human capital, namely basic education[1] and health. In addition to being exposed to loan conditionalities and external shocks, Egypt had very little input in investing in human development – which hardly matches its rapidly growing population[2]. Instead, the Government of Egypt (GOE)'s pursued policy generally imposed harsh austerity measures, such as liberalizing fuel prices and rolling back public services.

Building on the available studies, the paper asserts that although access to social services has nominally increased over the past decade, shrinking government spending – a central flagship of wider

[1] Education in Egypt is public for 12 years of schooling, covering the primary (6 years), preparatory (3 years), and secondary levels (3 years). Prior to the secondary level, students are sorted into either a general track (*Thanawiyya Amma*) or four vocational (technical) tracks: commercial, industrial agricultural or hotel business.

[2] Egypt's population exceeded 102 million in 2021, with an average annual growth rate of 2.1 between 2010 and 2020 (WDI, 2021).

neoliberal-inspired austerity policies – on health and education has only accentuated their long-standing deteriorating quality and equity issues, thereby placing a costly burden on households. Ironically, acute quantitative and qualitative shortages in both sectors come at a time when Egypt is already highlighted as demonstrating among the primary beneficiaries of international development programs since the 1990s.[3] Far from nurturing the necessary fiscal foundations for Egypt to pursue national development and undertake key social policy reforms through progressive and redistributive measures, the paper posits that loan conditionalities have neither ensured sustainable financing of social spending nor focused on the quality of such spending to improve overall social outcomes.

Based on 22 semi-structured interviews – mainly with experts and higher civil servants – conducted as part of the author's master's thesis (between January and April 2023) and a considerable volume of official data and policy documents, this paper analyzes the important shifts over the last decade in Egypt's two key pillars of human capital, education and health, in the context of an exacerbating debt crisis, severe austerity, and privatization trends. The author's particularly wider exposure will inform the policy-driven analysis and the recommendations presented throughout the paper. The latter consists of five sections: the first surveys the existing international literature on the IMF's loan conditionalities and Egypt's political economy of retrenchment (since 1991). The second section focuses on Egypt's poverty dynamics in the context of fiscal consolidation since 2016. The third section provides a detailed assessment of Egypt's expenditure on health and education and the three layers of public spending's deficiencies: *insufficiency*, *inefficiency,* and *inequity*. The fourth section lays out the acute qualitative and quantitative shortages in public health and education. The fifth examines more particularly the negative effects of households' reliance on the private market in light of the steep decline in the quality of key public services.

Setting the context: a more longitudinal and comparative perspective

Long-term IMF-supported programs and the effectiveness of social spending "floors" in the Global South

In countries in crisis, particularly low- and middle-income countries (LMICs), austerity-driven conditionalities related to the IMF and other IFIs[4] have adverse effects on populations, and might be

[3] Steven Heydemann, *Networks of Privilege: Rethinking the Politics of Economic Reform in the Middle East, Palgrave Macmillan*, 2004, p.9.

[4] International Financial Institutions

detrimental to already underfunded social welfare systems. Austerity can also be doubly unfair when a country's financial crisis is largely not of its own making; even if negative economic trends are exacerbated by exogenous factors, the Fund's solutions are primarily to be found endogenously – in implementing major cuts in public spending.[5] In this respect, as part of their loan programs agreed upon with the IMF, 59 out of 125 LMICs – more than 57% of the world's poorest countries – are expected to spend less in 2024 (and over the next five years) than during the 2010s, exposing a total of 2.4 billion people to the repercussions of budget cuts and social spending squeezes.[6] Evidence suggests that scaling back public investment in social services is usually correlated with an increase in poverty and social inequality in these countries.

In the aftermath of the 2008 financial crisis, rising concerns over adjustment policies' effects have led to the scaling up of the Fund's work on social spending and the carving out of a new approach to social protection. This was concretized with the 2019 Strategy for Engagement on Social Spending[7], through which quantitative spending targets (known as *social spending "floors"*) were established – as part of the Fund's lending and surveillance operations – to consider the needs of vulnerable groups[8]. However, although they constitute an encouraging step forward in protecting 'minimum levels of social spending' in LMICs, the effectiveness of these instruments remains greatly contested[9].

Evidence from 39 loan programs (from 2020 to 2023) reveals that relying on social spending "floors" and targeted transfer – or select cash programs – falls far short of fulfilling their objectives.[10] Based on available data, right after the pandemic hit (2020-2021), the Fund's social spending "floors" – designed and expressed in nominal monetary values – have been in large part proving to be hardly consistent and adequate to insulate vulnerable groups in LMICs from austerity-driven measures; data suggests

[5] Alexandros Kentikelenis and Thomas Stubbs, *IMF Social Spending Floors: A fig leaf for austerity?*, Oxfam, April 2023, available at https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621495/bp-imf-social-spending-floors-summ-130423-en.pdf?sequence=5 (Oxfam, *Social Spending Floors*).

[6] Thomas Stubbs et al, "The return of austerity imperils global health", *BMJ Global Health*, no. 8, (2004).

[7] A policy paper, discussed by the IMF's Executive Board, providing the guidance on *when* and *how* to engage on social spending. It is based on the recommendations of the 2017 Independent Evaluation Office (IEO) Report on "the IMF and Social Protection", which found that the IMF's traditional fiscal-centric engagement was uneven and identified areas in which further strengthening was required (IMF, 2019, p.19)

[8] International Monetary Fund, *A Strategy for IMF Engagement on Social Spending*, June 2019, available at https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/06/10/A-Strategy-for-IMF-Engagement-on-Social-Spending-46975

[9] Oxfam, *Social Spending Floors*

[10] Oxfam, *Social Spending Floors*, p.9.

that for every $1 billion IMF-encouraged government spending on public services, the IMF required governments to cut spending by four times more than that to meet their debt repayment obligations.[11]

In some countries (such as Jordan, Cameroon, and Chad), social spending "floors" are opaque, where governments can reallocate (and even decrease) expenditure between various (non-wage) social policy areas: education, health, and social protection. This is indicative of a definitional ambiguity that can obscure overall spending patterns, which therefore necessitates producing more detailed sector-specific and disaggregated data that reflect the actual composition of social spending "floors"[12]. This also demonstrates the need to consider including (a systematic increase in) public sector wages – especially in vital social sectors – in the "floors", and therefore allow hiring additional civil servants and ensure a good-quality delivery of key public services.[13]

In other countries (such as the DRC and Madagascar), the "floors" were constantly unmet or met by a margin less than 10% (such as Kenya and Gambia). This is in large part due to the need for these countries to secure funds – often through cuts in public expenditure – to meet their budget targets, and therefore avoid the interruption of the disbursement of their loan tranches.[14]

This suggests that the newfound "floors" are, in practice, taking the backseat to the IMF's austerity-driven loan conditionalities. In this regard, Egypt provides a case in point. Although efforts were made to mitigate the adjustments' effects, they were inconsistent and inadequate to translate into real increases in social spending (that can meet international benchmarks), given the vicious cycle of severe austerity measures and the debt crisis.[15] In its lending commitments to Egypt since 2016, the IMF included targeted adjustments in the country's primary balance as per cent of GDP to free up space for (nominal) increases in health and education budgets. However, the following in-depth analysis shows

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[11] Oxfam, "World's poorest countries to slash public spending by more than $220 billion in face of crushing debt", 9 October 2023, available at: https://www.oxfam.org/en/press-releases/worlds-poorest-countries-slash-public-spending-more-220-billion-face-crushing-debt

[12] David Archer and Roos Saalbrink, *The Public Versus Austerity: Why public sector wage bill constraints must end*, Actionaid, 2021, available at https://www.researchgate.net/publication/356429971_THE_PUBLIC_VERSUS_AUSTERITY_Why_public_sector_wage_bill_constraints_must_end

[13] Irene Yackovlev et al, *How to Operationalize IMF Engagement on Social Spending during and in the aftermath of the COVID-19 Crisis*, International Monetary Fund, September 2020, available at https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2020/09/14/How-to-Operationalize-IMF-Engagement-on-Social-Spending-during-and-in-the-aftermath-of-the-49718

[14] Government Spending Watch, accessed 2023, available at https://www.governmentspendingwatch.org/spending-data

[15] Human Rights Watch, *Egypt: IMF Bailout Highlights Risks of Austerity, Corruption*, 31 January 2023, available at https://www.hrw.org/news/2023/01/31/egypt-imf-bailout-highlights-risks-austerity-corruption

that such targets failed to act as a catalyst for bolstering spending on basic social services (in *real* terms).

Instead of focusing on offsetting the adjustments' impact on the poor, the Fund's strategy in Egypt, like in other countries, should rather consider turning social spending "floors" into *goals* or *outcome-based* binding conditionalities, financed by progressive domestic revenue-raising measures[16], with an aim to reduce socioeconomic disparities and ensure better governance of social expenditure in the first place.

Egypt's legacy of state retrenchment before and after 2011

Policies of structural adjustment in Egypt have brought about significant changes since 1991[17] and entailed a retrenchment of the state from social protection and public service provision.[18] Despite the relative success of stabilization and the improvement of some macroeconomic indicators, a quarter of the population remained poor, and social expenditure lagged far behind the rapid demographic growth: it declined from 34% of GDP in 1982 to an average of 17% in the 2000s.[19] From 2002 onwards, while Egypt became an IMF's 'top-reformer'[20], the state jettisoned many of its social welfare commitments[21], opening up education and health to private investments. Fiscal retrenchment went hand in hand with privatization and both therefore led to major transformations in key public services before 2011.[22]

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[16] This includes the various forms of progressive tax collection and the increase in direct, rather than indirect, taxes (especially different forms of wealth taxation).

[17] The IMF, alongside other IFIs, have been actively involved in addressing Egypt's economic imbalances since 1976. In 1991, Egypt adopted a macro-stabilization package with the IMF and the World Bank with the aim of slashing the budget deficit and bringing down inflation rate. In the 2000s, the "second round" of market liberalization (2003-2011) – coincided with the rise of the "Businessmen Cabinet" (Smierciak, 2022) – sought to reduce government spending and boost exports by encouraging private investment (Kienle, 2021, 97-123).

[18] Asya El-Meehy, "Rewriting the Social Contract: The Social Fund and Egypt's Politics of Retrenchment", *University of Toronto*, (2009).

[19] Caroline Krafft, Djavad Salehi-Isfahani and Ragui Assaad, "Does the Type of Education Affect Labor Market Outcomes: A Comparison of Egypt and Jordan", *Economic Research Forum - Working Paper Series* no.826, (2014), available at https://erf.org.eg/publications/does-the-type-of-higher-education-affect-labor-market-outcomes-a-comparison-of-egypt-and-jordan/

[20] International Monetary Fund, *Arab Republic of Egypt: 2007 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Arab Republic of Egypt*, December 2007, p. 5, available at https://www.imf.org/external/pubs/ft/scr/2007/cr07380.pdf

[21] From 2002, with the rise of Gamal Mubarak as president of its "Policies Committee", the ruling National Democratic Party (NDP) began asserting that public provision of basic services had led to the deterioration of its quality.

[22] Amr El-Tomahy, "Amr Adly Is Honoured for Analysis of Failed Economic Reforms in Egypt", *Al-Fanar Media*, 6 December 2021, https://www.al-fanarmedia.org/2021/12/egyptian-economist-amr-adly/

However, following the uprisings of 2011 and 2013, analysts suggest that there was a little change to the trends inherited from the pre-2011 period. As Sobhy[23] puts it, since FY2015/16, and as part of the agreements made with the IMF, the same policy direction was eventually presented as Egypt's only way to access international credit. In this context, the GOE undertook fiscal consolidation measures that included the partial streamlining of energy subsidies (resulting in enormous price increases)[24], the reduction of the public sector wage bill, and the introduction of a VAT – an indirect tax that only led to a more disproportionate burden on low-income consumers.[25]

In line with the IMF's recommended cuts, the GOE has also worked on decreasing public expenditure on vital social sectors and increased its reliance on private capital, under the aegis of public-private partnerships (PPPs)[26], championed by an intricate web of both local and international actors.

Ironically, while 90% of students enrolled in pre-university education are in public schools[27], official figures rather suggest that the private sector provision is growing under its own momentum; it grew at an average annual growth rate of 6.2% between 2017/18 and 2022/23, compared to an average annual rate of 2.8% between 2003/04 and 2010/11.[28] Echoing these trends, the Ministry of Education and Technical Education (MOETE) has also more recently given attention to expanding internationally-financed fee-charging schools, from the Egyptian-Japanese Schools and the Nile Schools[29], to the STEM and private international schools. As will be further demonstrated in section 4, this comes at a time when public schools (especially primary) already suffer greatly from the massive deficit in school

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[23] Hania Sobhy, *Schooling the Nation: Education and Everyday Politics in Egypt*, Cambridge University Press, 2023. (Sobhy, *Schooling the Nation*)

[24] The Consumer Price Index (CPI) witnessed a significant spike, by increasing from 12% in 2014 to 30% in 2018.

[25] J.B. Maverick, *What Are Some Examples of a Value-Added Tax (VAT)?*, Investopedia, November 2023, available at https://www.investopedia.com/ask/answers/042315/what-are-some-examples-value-added-tax.asp

[26] Dina Allam, "Explaining the persistence of "decentralisation" of education in Egypt", *International Journal of Educational Development*, no. 82, (2021).

[27] Ministry of Education and Technical Education, *Statistical Summary for Pre-University Education 2021/2022*, accessed 30 October 2023, available at https://emis.gov.eg/Site%20Content/matwaya/2022/matwaya21-22.pdf (MOETE, *Pre-University 2021/2022*)

[28] MOETE, *Pre-University 2021/2022*

[29] Interview conducted with a former adviser to the minister of education, 26 Mar 2023 (online), as part of the author's fieldwork. The respondent emphasized that the Egyptian-Japanese and the Nile schools "target mainly middle-class families", while offering a "better option than private alternatives (non-regulated by MOETE) whose fees are considerably higher". The respondent concluded by stressing: "Forget the public sector".

construction projects[30], which led to high-class densities and multiple shift schools; recent officials emphasize the need to construct over 250,000 new classrooms.[31]

In the health sector, although the main provider of care is public, the number of public hospitals and beds has worrisomely declined by 1.1% and 6.7% between 2012 and 2019, failing to keep up with the demographic trends. Meanwhile, the number of private hospitals and beds increased by 10% and 38%, respectively, during the same period. In this context, it is worth mentioning that around 7% of households spent more than 25% of their income on health, while 2% of households spent more than 40%.[32]

These realities – privatization and public budget cuts – resonate with the GOE's current policy framework, the *State Ownership Policy*[33], which promises a considerable scope of reforms, through which private investments will be strongly encouraged in both sectors.[34]

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[30] Hania Sobhy, *Expensive Classrooms, Poor Learning: The Imperatives of Reforming School Construction in Egypt*, Alternative Policy Solutions - American University of Cairo, November 2019, available at https://api.aps.aucegypt.edu/wp-content/uploads/2020/02/en_education-draft-6-25.Feb_.2020.pdf

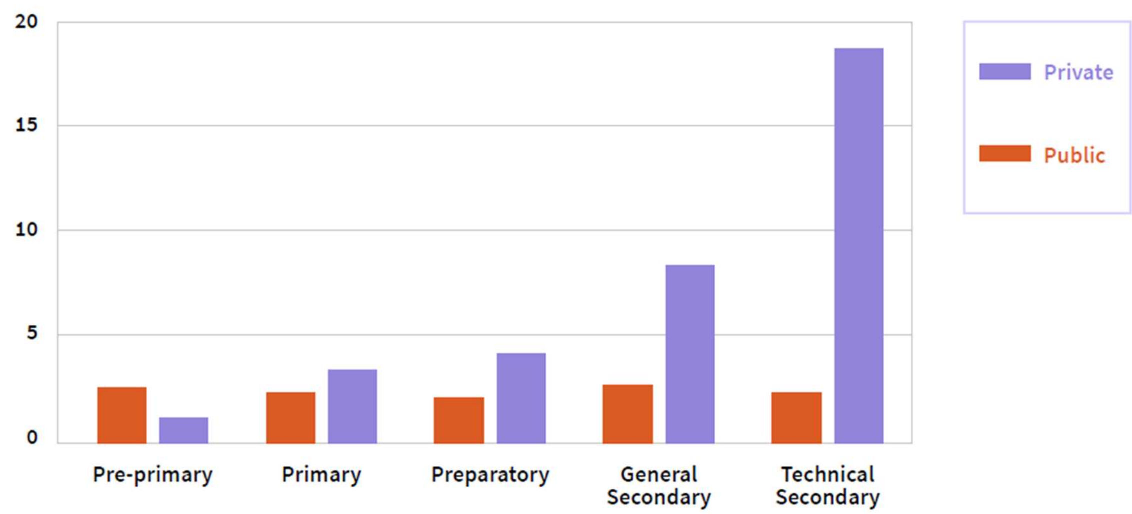
[31] Leila Abdelbaset, "We need 130 billion to solve the education crisis", 8 October 2018, *Al-Shorouk*, available at https://www.shorouknews.com/news/view.aspx?cdate=08102018&id=0d3266c4-c7cd-4956-8a3c-d6748c03efd5

[32] Central Agency for Public Mobilization and Statistics, *Household Income, Expenditure, and Consumption Survey 2017-2018*, January 2019, available at https://www.capmas.gov.eg/Admin/Pages%20Files/2019123101612income1.pdf (CAPMAS, HEICS 2017-2018)

[33] Government of Egypt, *State Ownership Policy - Framework Document*, December 2022, available at https://egyptembassy.jp/cms/wp-content/uploads/2023/02/State-Ownership-Policy-ENGLISH_230117_041444-2.pdf (Government of Egypt, *State Ownership Policy).*

[34] Government of Egypt, *State Ownership Policy,* p. 8.

Annual growth rate (in %) of schools by level, between 2017-2021



Calculations based on MOETE EMIS, various issues

Number of hospital beds by provider type, 2012-2019

Based on CAPMAS, Statistical Yearbook (2021)

Egypt's poverty trends since 2016: understanding the macro-micro disconnect

As presented above, the period of 2016-2023 witnessed many changes with significant implications for the lives of Egyptians. The relatively promising macroeconomic climate did not prevent the harsh austerity-driven measures from exacerbating the already existing distributional bias against the less advantaged.[35]

The Central Bank of Egypt's (CBE) decision to float the EGP in itself depleted the purchasing power of many Egyptians, who saw their savings divided by half overnight. Fixed-wage workers, including teachers, physicians, and nurses – who mostly belong to the lower and lower-middle classes and are mainly employed in the public sector – represent the segment that has notably been the most affected.[36] As the public sector wage bill continues to undergo a significant IMF-induced decline as per cent of GDP, from 8.4% in FY2014 to 4.4% in FY2021[37], this wider group of formal salaried workers (who are at the heart of social spending) saw their *real* incomes decrease sharply without possibilities of increase, which in turn undermines the quality of the services they deliver.

As shown in figure 2.0, while public wages and subsidies (as a share of current expenditures) have been sharply decreased under the IMF austerity measures, interest payments – although they have been declining (as a share of GDP) since FY2020 – remain the single largest expenditure item, taking up to 59% of the country's tax revenues in FY2021/22.[38] Additionally, between FY2011 and FY2021, while government expenditure on wages and subsidies was growing at an annual average rate of 12.8% and 12.4%, respectively, the expense of public debt service (in billion EGP) was growing at an impressive rate (an average of 21.4% annually) during the same period.[39]

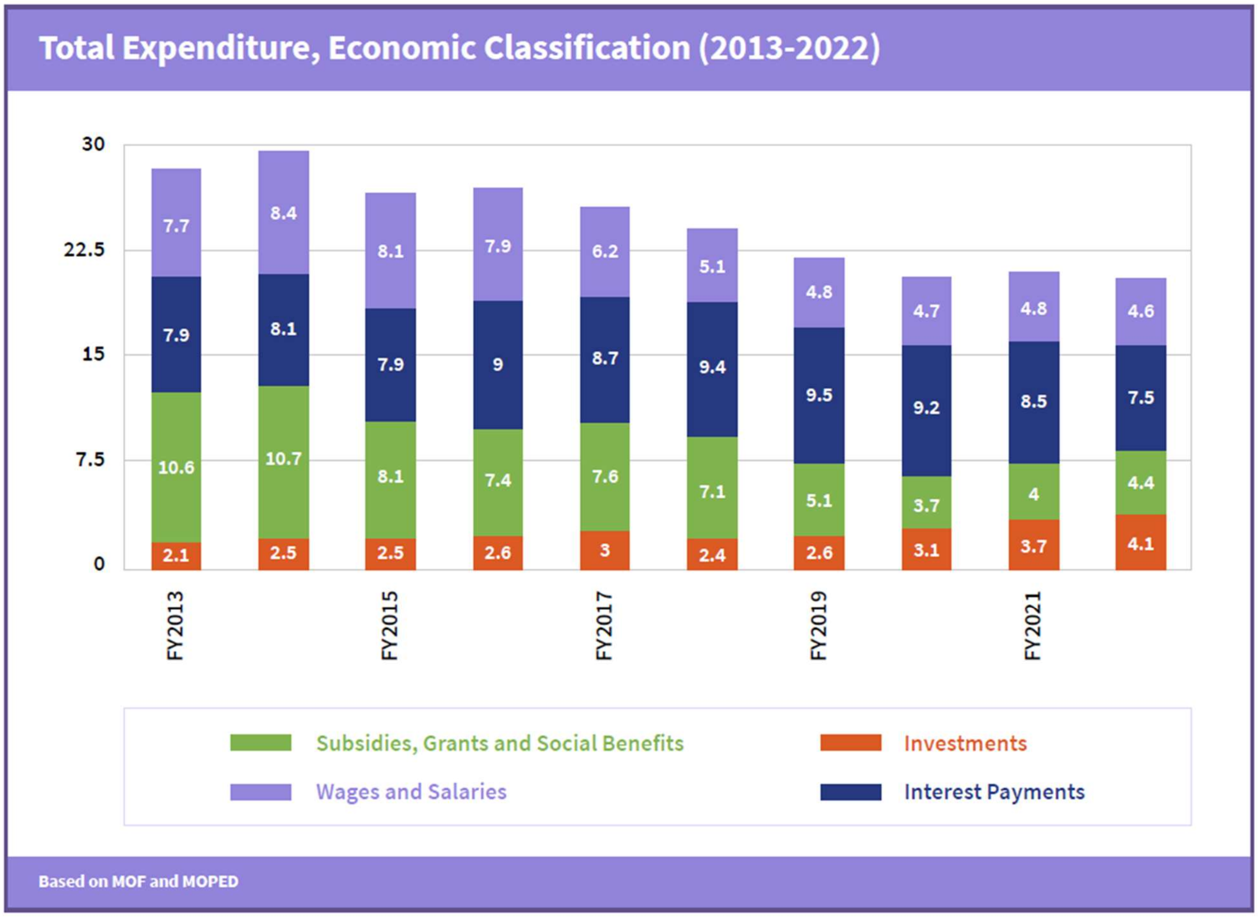
[35] Eberhard Kienle, *Egypt: A Fragile Power*, Routledge, 2021.

[36] International comparisons show that teachers' and healthcare professionals' salaries as a multiple of GDP are lower than in peer middle-income countries, such as Turkey and Jordan (OECD, 2018, 2021).

[37] International Monetary Fund, Arab Republic of Egypt: Request for Extended Arrangement Under the Extended Fund Facility-Press Release; and Staff Report, January 2023, p. 29, available at https://www.imf.org/en/Publications/CR/Issues/2023/01/06/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-527849

[38] Central Bank of Egypt, Monthly Statistical Bulletin no. 318, September 2023, available at https://www.cbe.org.eg/-/media/project/cbe/listing/monthly-statistical-bulletin/bulletin/september/monthly-statistical-bulletin-318.pdf

[39] Amr Adly, "Al-dayn li al-jami' wa al-fawa'ed li ashab al-mal [Debt for Everyone and Interest for Capital Owners]", *Manassa*, 21 May 2023, available at https://manassa.news/stories/11192



Such circumstances led to a 5-percentage point increase in the national poverty headcount in 2018, which went from 27% to 32.5%, before going down to 29.7% in 2019.[40] Poverty rose in almost all regions, where rural Upper Egypt – home to 40% of the population – has the highest poverty rate: it moved from 44% in 2008 to 51.9% in 2018[41]. By contrast, as regional disparities persist, urban Lower Egypt had the lowest poverty rate (14.3% in 2018). Additionally, in rural Upper Egypt, 13% of the population is extremely poor and cannot satisfy their basic needs, compared to 7.7% in extreme poverty at the national level.[42]

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[40] Central Agency for Public Mobilization and Statistics, *Egypt in Figures 2022 – Education*, April 2024, available at https://www.arabdevelopmentportal.com/sites/default/files/publication/egypt_in_figures_ltlym_compressed.pdf

[41] Central Agency for Public Mobilization and Statistics, *Household Income, Expenditure, and Consumption Survey 2019-2020*, September 2021, available at https://censusinfo.capmas.gov.eg/Metadata-ar-v4.2/index.php/catalog/1773 (CAPMAS, *Survey 2019-2020*).

[42] CAPMAS, *Survey 2019-2020*

The deteriorating socioeconomic conditions – coupled with the impacts of global crises – pushed the GOE to work on extending social protection and unleashing fiscal support measures, with the help of the IMF[43] and the World Bank.[44] In fact, the FY2022/23 state's general budget included an expansion of the number of families benefiting from the existing cash transfer program, Takaful and Karama (TKP), from 3.6 million households in 2021 to 4.6 million households in mid-2023.[45] However, given the post-pandemic geopolitical turmoil, prices of commodities continued to soar, pushing the inflation rate to 40.3% in May 2023. Given the short-term impact of inflation, the positive effect of cash assistance and in-kind remittances could therefore be estimated as being only partial and not expected to help poor households graduate into a non-poor status. This could be in part because TKP still focuses on the extremely poor and lower poor segments, without having a conclusive impact on decreasing the likelihood that vulnerable households will fall into poverty or that poor households will escape poverty.[46]

To better protect people, the GOE should rather refrain from expanding the IMF-advised VAT and provide carefully designed subsidies (such as school feeding programs). This must also be accompanied by an automatic indexation of cash transfers and wages on inflation.[47]

Reviewing post-2016 public expenditure on education and health: were social spending "floors" respected in real terms?

Fiscal consolidation has been encouraged by the IMF, since 2016, to free up public funds for high-priority and constitutionally mandated spending.[48] In addition, in 2017, plans were announced for a

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[43] In mid-2020, the IMF approved a 2.7 billion $ financial assistance (RFI) to support Egypt in addressing the consequences of COVID-19.

[44] In December 2022, the World Bank announced a 500 million $ support to help expand and strengthen Egypt's flagship Social Safety Net Program: Takaful and Karama (TKP).

[45] Ministry of Social Solidarity, Takafol wa Karama, 2023, available at https://www.moss.gov.eg/ar-eg/Pages/program-details.aspx?pid=10

[46] World Bank, *Egypt Economic Monitor,* December 2022, available at https://www.worldbank.org/en/country/egypt/publication/egypt-economic-monitor-fall-2022-strengthening-resilience-through-fiscal-and-education-sectors-reforms
UNICEF, *Co-Published Brief On Egypt's Key Decisions to Combat COVID-19 Pandemic,* 2021, available at https://www.unicef.org/egypt/media/7546/file/Egypt%E2%80%99s%20Key%20Decisions%20to%20Combat%20COVID-19.pdf

[47] Oxfam, *First Crisis Then Catastrophe*, April 2022, available at https://www.oxfam.org/en/research/first-crisis-then-catastrophe

[48] Egypt's Constitution, enacted in 2014 (and modified in 2019) stipulates an increase in government spending on health and basic education to at least 3% and 4% of GDP, respectively.

nationwide reform program – 'Education 2.0' (EDU 2.0) – backed by a $500 million worth of World Bank loan (2018-2023), to revolutionize learning outcomes.

Main components of the EDU 2.0 reform and the World Bank's support (2018-2023)	
$100 million	Improved Early Childhood Learning
$100 million	Effective Teachers and Education Leaders
$120 million	Comprehensive Assessment Reform for Improved Student Learning
$160 million	Enhancing Education Service Delivery through Connected Systems
$20 million	Project Management, Communication, and Monitoring and Evaluation

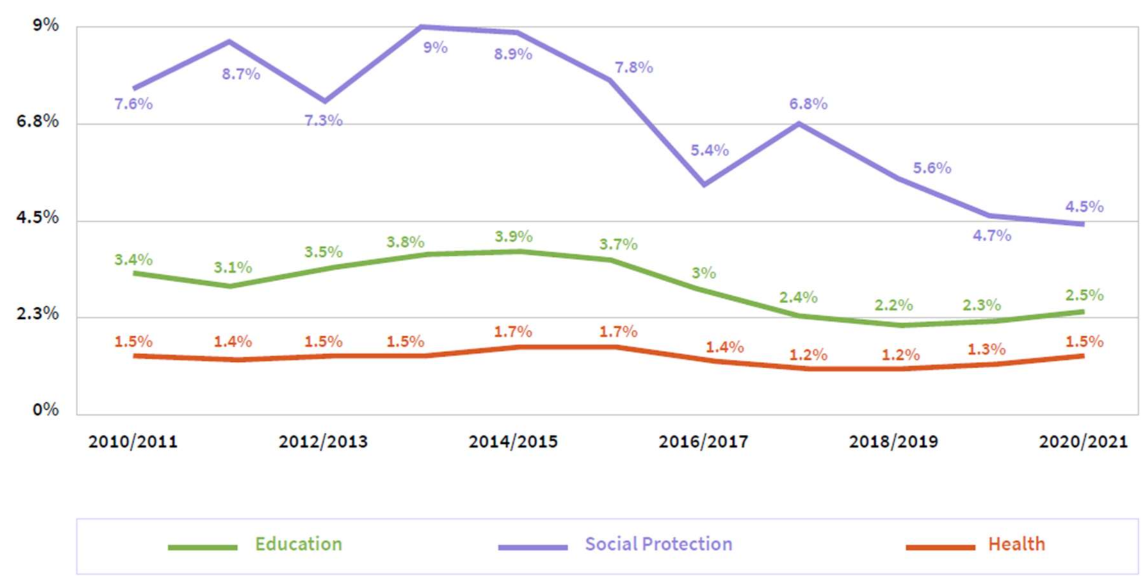
World Bank (Supporting Egypt Education Reform Project, 2018)

However, while an IMF report[49] affirms that Egypt met the social spending "floor" set to safeguard critical social spending (with no detailed evaluation of sector-specific outcomes), available data reveal, as shown in Figure 3.1, that *real* spending on basic education and health declined considerably compared to the pre-2011 levels. Instead, as shown in Figure 3.2, Egypt's economy has been shifted over the past decades towards low productivity and non-tradable sectors (such as transport and construction), which in turn rendered the country more vulnerable to exogenous shocks and the vagaries of global financial markets, undermining Egypt's foreign sources of income.[50]

[49] International Monetary Fund, *Ex-Post Evaluation on Exceptional Access Under the 2020 Stand-By Arrangement – Press Release; Staff Report; And Statement by the Executive Director for Arab Republic of Egypt*, 26 July 2022, p. 24, available at https://www.imf.org/en/Publications/CR/Issues/2022/07/25/Arab-Republic-of-Egypt-Ex-Post-Evaluation-of-Exceptional-Access-Under-the-2020-Stand-By-521257

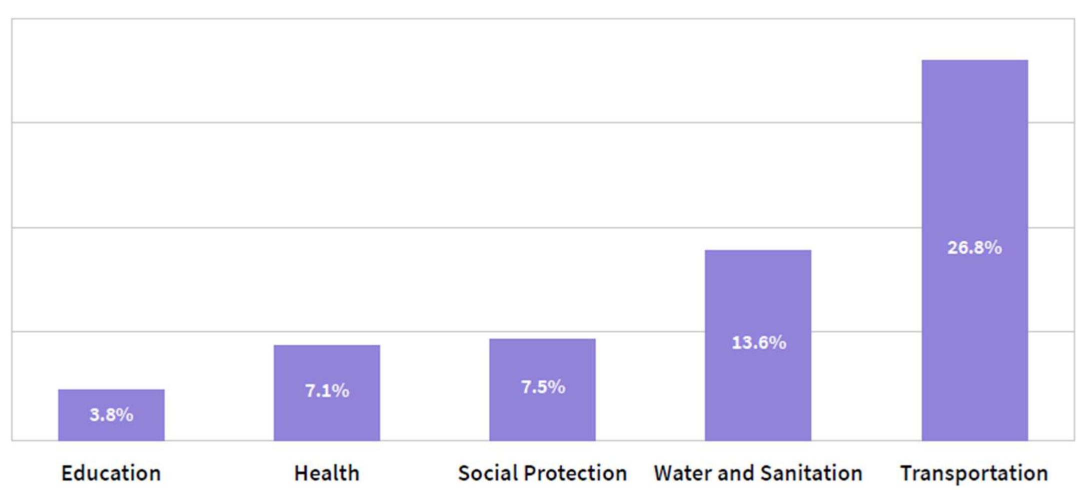
[50] Hamza Meddeb and Nur Arafeh, *Misfortune to Marginalization: The Geopolitical Impact of Structural Economic Failings in Egypt, Tunisia, and Lebanon*, Carnegie Middle East Center, 8 January 2024, available at https://carnegie-mec.org/2024/01/08/misfortune-to-marginalization-geopolitical-impact-of-structural-economic-failings-in-egypt-tunisia-and-lebanon-pub-91292

Sectoral expenditure relative to GDP (2010-2021)



Based on MOF and MOPED. The data provided are in real terms

Official development assistance (ODA) by sector in 2020



Based on MOIC

Public spending is insufficient: Egypt comparing unfavorably with peer countries

Despite the country's aspirations as set out in the Constitution, the levels of public investment in education and health are low by international standards and have been declining in real terms. In fact, the shrinking overall government spending is evidenced by how the GOE calculates its budget expenditure for both sectors. As shown in Figure 3.3, to comply with the mandated health spending, the GOE uses a "broader definition"[51] of health, through which health expenditure has almost doubled between 2016 and 2020, from 2.5% to 4.4% of GDP.[52] Likewise, in education, state budget documents reveal an accounting method that factors in the sector's share in the total interest payments paid on Egypt's public debt. This means that the *monetary* increases[53] in education budget allocations did not translate into higher *real* expenditure: between 2016 and 2020, education expenditure as a per cent of GDP fell from 2.8% to 1.8%.

As previously mentioned, with the significant IMF-supported fiscal consolidation over the previous years, salaries in the public sector also shrank. In education, the insufficient level of government spending has resulted in a *paradox* in the composition of the MOETE budget, where 92% of it is absorbed by staff salaries, yet without translating into higher pay for teachers or non-teaching staff.[54] This in turn crowds out non-personnel expenditure and other crucial investments.[55] Additionally, low salaries have long been a serious challenge in attracting good skills in the health sector; leading to a *brain-drain* in medical professions. As will be presented in section 4, while capital spending gained importance in recent years (between FY2016 and FY2020), the share of public health workers' wages in the total expenditure has significantly decreased, from 61% to 45% during the same period.[56]

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[51] It includes 1) expenditures by extra-budgetary government entities, 2) armed forces and police hospitals, 3) the sector's share in the overall interest payments, and 4) expenditure on water and sanitation.

[52] Ministry of Finance, *Final Accounts for the FY 2021/2022*, accessed 29 October 2023, available at https://mof.gov.eg/ar/posts/finalCalculation/63adaa9e3509480008f7cc81/الحساب%20الختامى%20للعام%20المالى%20 2021-2022

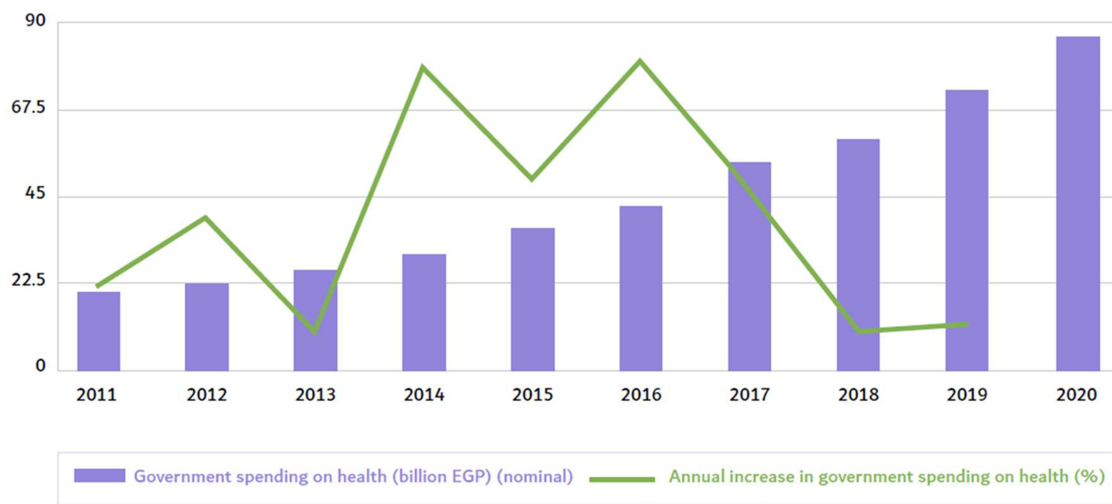
[53] In FY2022/23, 317 billion EGP (an increase of 61 billion EGP compared to FY2021/22) have been allocated to pre-university education to strengthen school feeding, build new schools, and scale up digitalization (MOF, 2023).

[54] World Bank, *Public Expenditure Review*, September 2022, available at https://www.worldbank.org/en/country/egypt/publication/egypt-public-expenditure-review-for-human-development-sectors (World Bank, *Public Expenditure Review*).

[55] Of the remaining 8%, only 2% of the budget is allocated to capital spending, administrated and implemented by the General Authority for Educational Buildings (GAEB).

[56] Ministry of Finance, *2021 Draft State Budget*, 2021, available at https://assets.mof.gov.eg/files/4aa98630-ad8d-11eb-920f-db7f8b346136.pdf (Ministry of Finance, *Draft Budget*).

Public health spending under functional classification (2011-2020)



Based on MOF and WDI

Creating space is therefore imperative to raise allocations. As Egypt's fiscal space is expected to remain limited due to the need to secure funds for interest payments and external debt servicing (which went from USD 32.3 billion in FY2018/19 to USD 47.3 billion in FY2022/23), sustained measures are required in order to generate more revenue streams (and thus secure more resources for both sectors), including more flexibility on macroeconomic targets (such as inflation and fiscal deficits) and progressive direct taxation policies. These measures also include containing *off-budget* borrowing; a key driver of public debt accumulation.

Public spending is inefficient: the non-alignment of strategic goals and financing processes

In addition to the inadequacy of funds, *inefficiency* is another challenge that hinders linking strategic goals to the appropriate levels of resources.

On one hand, speaking of EDU 2.0, the World Bank-supported program has considerably focused on rolling out new curriculum and expanding digital learning resources, among other pillars. However, little attention was paid to addressing education's resource inefficiencies. In addition to the staff salaries *paradox*, funds cannot be (re)allocated for the best interest of local entities (schools) since the budget process is centrally managed and based on historical allocations[57]. Given the schools' limited

[57] Interview conducted with Salma Hussein, 7 Feb 2023 (Cairo, Egypt), as part of the author's fieldwork.

autonomy, transitioning to a (gradual) decentralization of education functions[58] and formula-based funding is indispensable to ensure that resources are allocated and used in line with the needs of these entities, which are at the forefront of service delivery.

On the other hand, as the GOE continues to rely on line-item budgeting, a similar obstacle of limited flexibility is found in the health sector.[59] Historically, health spending was largely correlated with the number of available beds in hospitals. This incentivized facilities to over-inflate bed capacity (even if they are no longer delivering service), which eventually leads to waste. Going forward, allocated budgets need to become correlated to the facility's actual volume of rendered services and quality ratings.

Additionally, levels of spending on preventative care are very low, which will lead to higher burdens of medical spending under the Universal Health Insurance System (UHIS) in the future. Government spending could therefore benefit from a more efficient budget allocation if mandatory screening programs (breast cancer, etc.) were introduced. This proactive measure will significantly ease the burden on medical spending by avoiding future costly complications. In this regard, as public health programs (which fall outside the scope of the UHIS) are a key priority to the GOE, it is noteworthy that Egypt has already launched a World Bank-funded[60] nationwide public health program – the *100 million healthy lives* – under which over 60 million adults have been screened for obesity, hypertension, hepatitis C and diabetes.[61]

Public spending is uneven: the manifestly persistent regional and socioeconomic disparities

By looking deeper into the funds allocated for both sectors, one could find that resources are unevenly distributed. Improving overall outcomes necessitates, above all, a revision of the budget process; expanding public funding must be done structurally *in conjunction* with distributional equity.

Speaking of education spending equity, the final accounts for FY2021/22 reveal that the budget breakdown is clearly exclusionary. While EGP 13 billion was allocated to the *Diwan* (MOETE), including the minister's office and the central administration, around EGP 11.5 billion was allocated to the total

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[58] International evidence shows that decentralization and its impact on learning is a prerequisite for an increased overall efficiency (Allam, 2021). Initially, two main functions can be considered for a delegation from MOETE to education directorates: budgeting for goods and services and the maintenance works.

[59] OECD, *OECD Best Practices for Performance Budgeting*, November 2018, available at https://one.oecd.org/document/GOV/PGC/SBO(2018)7/en/pdf

[60] Launched in 2018, the World Bank's *Transforming Egypt's Healthcare System* is a 530 million $ worth (loan) project and is being implemented over the course of 5 years.

[61] World Bank, *Public Expenditure Review*.

number of schools in Cairo (2.5 million students) and Giza (2.4 million students).[62] As for the funds allocated to the Education Service Authorities, the budgets of the National Examination Center (NCEEE) and the Professional Academy of Teachers (PAT) were ideally expected to increase to EGP 3 billion and EGP 85 million, respectively.[63] However, major gaps were identified: while NCEEE expenditure decreased by 11% between 2020 and 2022, PAT expenditure increased from EGP 35 million to EGP 37.7 million during the same period, with an increase of only 8%.[64]

Additionally, while it is not uncommon for the total (teacher) salary spending per student to differ between education levels, discrepancies are still worth highlighting. While the average teacher salary in 2021 could be estimated at around 3500 EGP (*net* salary after deductions)[65], teacher salaries per student increase progressively, starting at EGP 2639 for the pre-primary level, and reaching a peak of EGP 5062 for the technical secondary level[66] (Sobhy, 2023). Evidence from the enrollment dynamics also shows that inequitable distribution has accentuated the already existing socioeconomic disparities. In fact, 50% of children from wealthier households avoid overcrowded and under-resourced public primary classrooms by enrolling in the private system, compared to only 1% from the poorest households.[67]

Similar regressive trends are observable in the health sector as government spending is unable to ensure affordable and equitable access to quality healthcare services – which is strongly correlated to the place of residence and socioeconomic conditions. By utilizing the Household Income, Expenditure, and Consumption Survey[68], one could find that households in the poorest governorates (Assiut, Suhag, and Luxor) have the lowest health service use. This is further evidenced by the fact that these governorates are among the most impoverished, and two of them have benefited the least from the national cash transfer (TKP) coverage.[69]

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[62] Ministry of Finance, *Draft Budget*

[63] World Bank, *World Bank and Egypt Sign US$500 Million Project to Bring Learning Back to Public Schools,* April 2018, available at https://www.worldbank.org/en/news/press-release/2018/04/21/world-bank-and-egypt-sign-us500-million-project-to-bring-learning-back-to-public-schools

[64] Ministry of Finance, *Draft Budget*

[65] Based on the Minister of Education's official statement in December 2021 (MOETE, 2021). In the absence of consistent and disaggregated data, current average teacher salaries are mainly based on officials' statements and press releases. In 2023, *gross* annual teacher salaries as a ratio of GDP/capita in Egypt were estimated at 1.2, which is lower than in peer countries in the region, such as Tunisia (2.5) and Morocco (3) (Sobhy, 2024, 2).

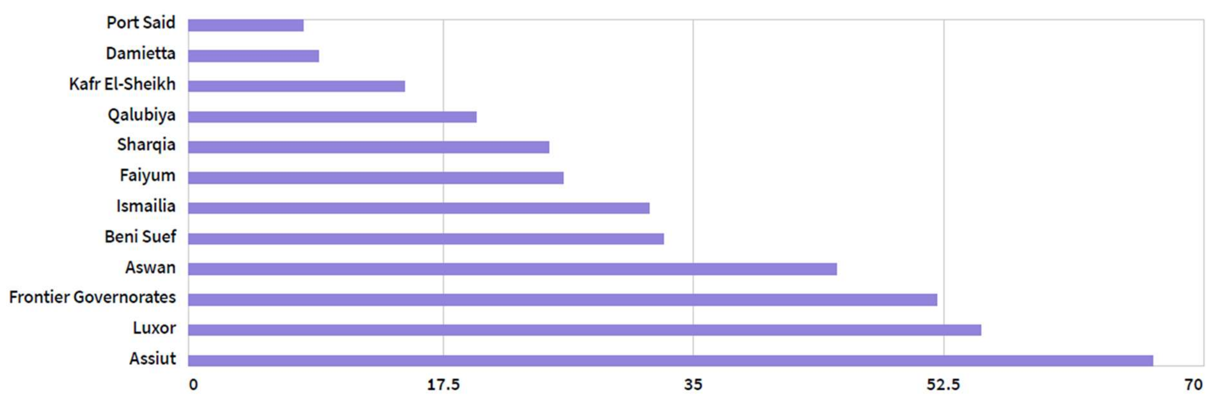
[66] Sobhy, *Schooling the Nation*

[67] World Bank, *Public Expenditure Review*.

[68] CAPMAS, *HIECS 2017-2018*

[69] World Food Programme, *Egypt Annual Country Report 2020*, 2020, available at https://docs.wfp.org/api/documents/WFP-0000125429/download/

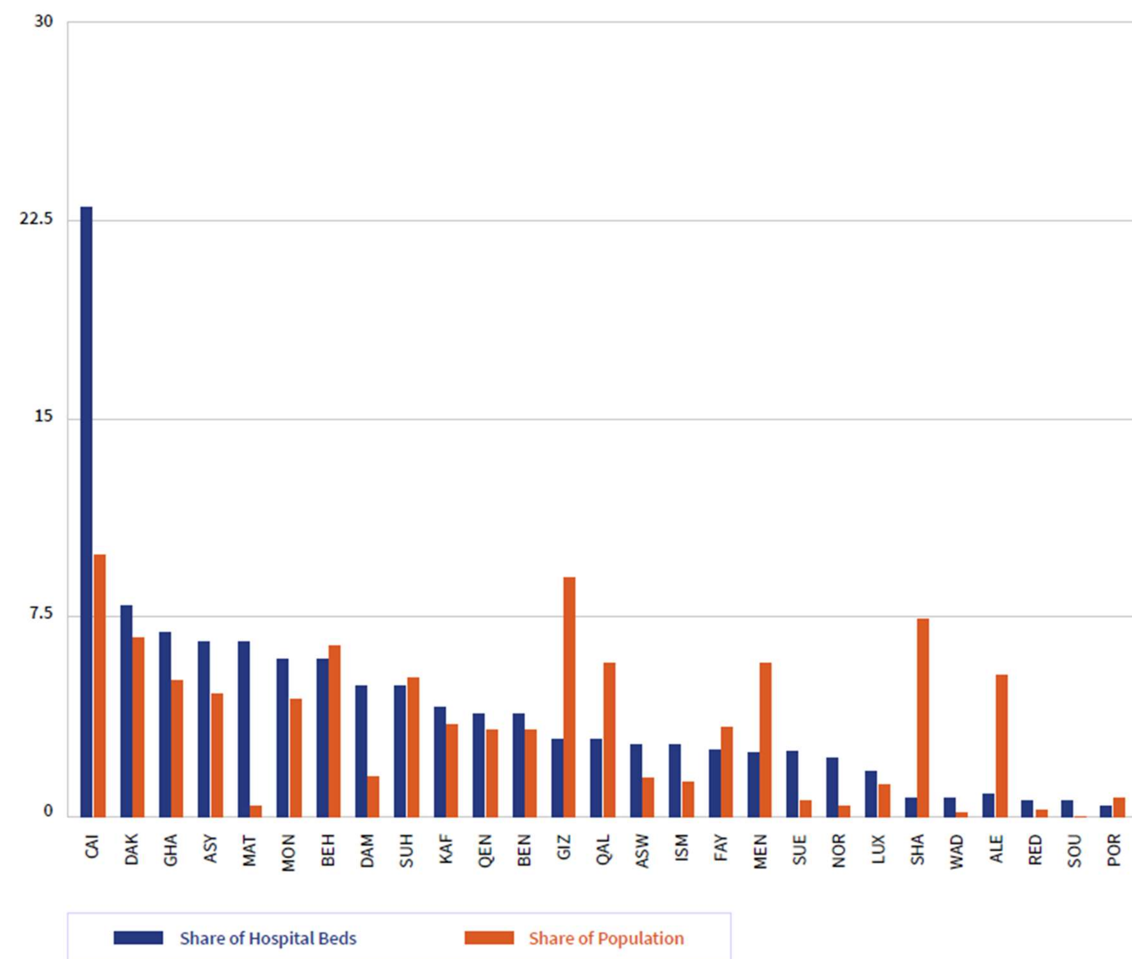
Poverty rates (in %) in Egypt by governorate in 2018



Based on CAPMAS (2019)

Households in rural regions (as well as slums and remote areas), where income levels are significantly low, are therefore suffering the most from poor health outcomes. The wealthiest urban families enjoy, by contrast, better health coverage. There also appears to be a disproportionate distribution of non-financial resources (hospital beds and public health workers) across governorates. As shown in Figure 3.4, limited data, allocations based on historical inputs, and the absence of an electronic medical record system have led to a relative distributional inequity.

Distribution of hospital beds (in %) across governorates in 2019



Based on CAPMAS (2021)

Discrepancies reflect the necessity of establishing strong data collection to inform decision-making processes. Moreover, to compensate for health service deficits in the most disadvantaged regions, government spending needs to necessarily support equity by injecting more funds into these areas and spreading medical centers (and workforce) out to the regions that need them the most. With the rollout of UHIS, the GOE has to closely monitor disparities in service use.

Expanding access, but low quality and shortages of manpower persist

One of the major challenges facing basic social services is manifested in the poor quality, in addition to the shortages of manpower due to years of hiring freezes, during a period of sustained population growth.[70]

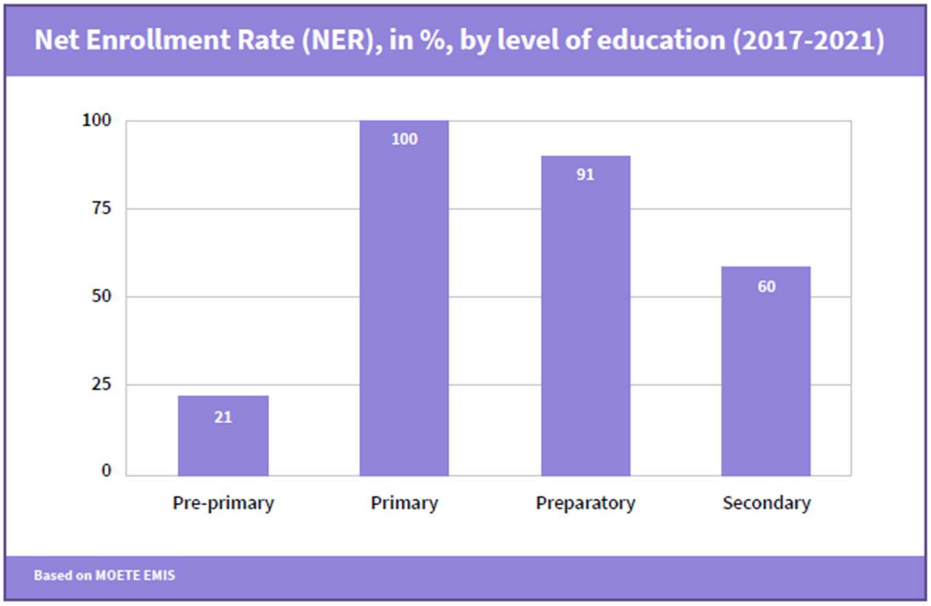
Despite the progress made in expanding access to pre-tertiary education (especially the primary level), nearly 1 in 2 students reach the low international benchmarks in the Trends in International Mathematics and Science (TIMSS) scoring scale.[71] In a global assessment report[72], 70% of primary-level students in Egypt (at the age of 10) were identified as unable to read and understand an age-appropriate text. This was further evidenced by the nationwide grade 4 national assessment (G4NAMA), conducted in late 2021, to evaluate the impact of the 'modernized' curricula.[73] The overall results show that about half of the students (47% for Arabic and 49% for mathematics) achieved only the beginner level; thus unqualified to transfer to grade 5, while less than 4% of students achieved the advanced level.

[70] Ahmed Rashad, Luca Fedi and Mona Amer, *Growth and Precariousness in Egypt*, International Labor Organization, 2019, available at https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_735169.pdf

[71] National Center for Education Statistics, *Trends in International Mathematics and Science Study,* 2019, available at https://nces.ed.gov/timss/results19/index.asp#/math/intlcompare

[72] World Bank, *Learning Poverty Brief - Egypt*, June 2022, available at https://documents1.worldbank.org/curated/en/099130007202226565/pdf/IDU0b51c9d2206132044300bd470a5290a15ce2a.pdf

[73] Ministry of Education and Technical Education, *Grade 4 National Assessment for Mathematics and Arabic (G4NAMA): Executive Summary for Baseline Assessment*, 2023, available at https://moe.gov.eg/media/yxcpziqi/g4nama.pdf



As shown in Figure 4.0, universalizing access – particularly for the lower income groups – to the preprimary level would be indispensable. Ensuring that children start their interaction with the education system early will ultimately reinforce their ability to successfully navigate the primary phase into the preparatory and secondary phases[74], with a greater likelihood of staying longer in the education system.[75]

Furthermore, as highlighted above, additional resources are needed in the primary years as the NER is near universal.[76] In fact, overcrowding in public primary classrooms persists at impressive rates, where class densities moved from 30.9 in 2007 to 51.6 in 2022.[77] While part of the problem can be solved by addressing land allocation issues, overcapacity in classrooms is compounded by another deficiency:

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[74] Interview conducted with Nelly El-Zayyat, former adviser to the minister of education and technical education, 6 Feb 2023 (Cairo, Egypt), as part of the author's fieldwork.

[75] Heckman Equation, *Investing in early childcare and education produces significant economic returns*, available at https://heckmanequation.org/wp-content/uploads/2020/11/F_Heckman_FFN_OnePager_110320.pdf
Caroline Krafft, "Increasing educational attainment in Egypt: The impact of early childhood care and education", *Economics of Education Review*, no. 46, (2015).

[76] Teachers and classrooms are inequitably distributed across education levels. Students-teachers ratios (STRs) and students-classrooms ratios (SCRs) are noticeably higher in the primary years than preparatory or secondary years.

[77] Ministry of Education and Technical Education, *Statistical Summary for Pre-University Education 2022/2023*, 2023, available at https://emis.gov.eg/Site%20Content/matwaya/2023/matwaya22-23.pdf

shortages in the number of teachers and the poor distribution of qualified ones, systematically disadvantaging lower-income areas.[78]

In this regard, it is noteworthy that the loan-conditioned freeze on employment has led to an accumulation of public teacher shortages in already overenrolled schools; in late 2019, MOETE admitted to a shortage of 320,000 teachers.[79] To manage this shortage, officials at MOETE resorted to hiring teachers on temporary contracts. The prolonged use of this method (which mainly attracts male teachers), with declining work conditions and no social coverage, will have an unknown impact on learning quality in classes and risks becoming a structural part of the system. Although the GOE is committed to adding up to 150,000 teachers by 2027, overcoming this bottleneck will necessitate, above all, the development of a budgetary framework that can ensure that more qualified teachers are progressively (and more equitably) added to the system. This, in addition to new public classrooms, will mitigate the shortage gap, especially in the early schooling years, and will have a multiplicative effect on learning quality.

As for the health sector, it is somewhat different. Low utilization of healthcare services is not solely caused by socioeconomic conditions, but also by the systematic quality and performance challenges that public facilities face. As primary health care (PHC) facilities are poorly equipped for advanced treatment, patients often need to provide basic inputs at their expense – even though services are in principle free. In fact, household expenditure on supplies and medical equipment as a percent of their annual health spending moved from 50.8% in 2015 to 55.5% in 2017/2018.[80] This has led to very low proportions of patients with chronic (1.4%) or acute (1.6%) conditions who use PHCs.[81] Moreover, shortages persist in terms of the workforce. As shown in Figure 4.2, healthcare professionals and practitioners in the public sector have little incentive for better performance given their low salaries, which usually leads them to move to the private sector or to migrate overseas.

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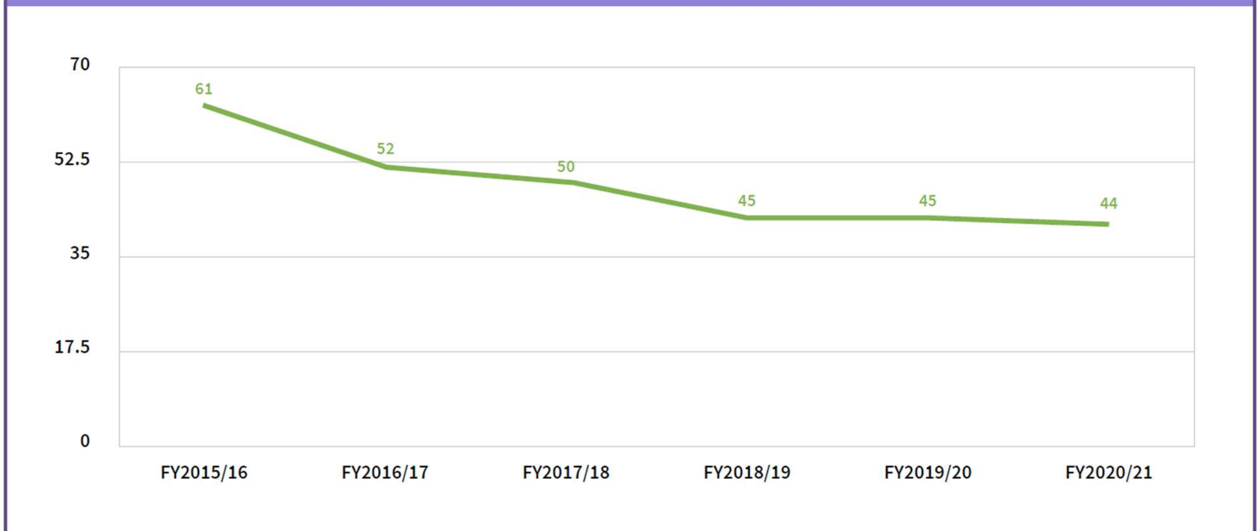
[78] Sobhy, *Schooling the Nation*
World Bank, *Education Statistics: Country at a Glance*, accessed 30 October 2023, available at https://datatopics.worldbank.org/education/country/egypt,-arab-rep

[79] Hadeel Hilal, "Education: We have a teacher shortage of up to 300,000", 9 February 2020, *Al-Shorouk*, available at https://www.shorouknews.com/news/view.aspx?cdate=09022020&id=ea83c0d2-56c3-4aba-8dda-ece65b884cc5

[80] Central Agency for Public Mobilization and Statistics, *2019 Annual Health Services Statistics Bulletin*, accessed 17 December 2023, available at https://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5104&YearID=23361 (CAPMAS*, 2019 Health Bulletin*)

[81] CAPMAS*, 2019 Health Bulletin*



Share of 'Compensation of Employees' (in %) in the total government health spending by economic classification, 2015-2021

Based on MOF

Footnote on infographic[82]

Out-of-Pocket financing and private tutoring: accelerators of household vulnerability?

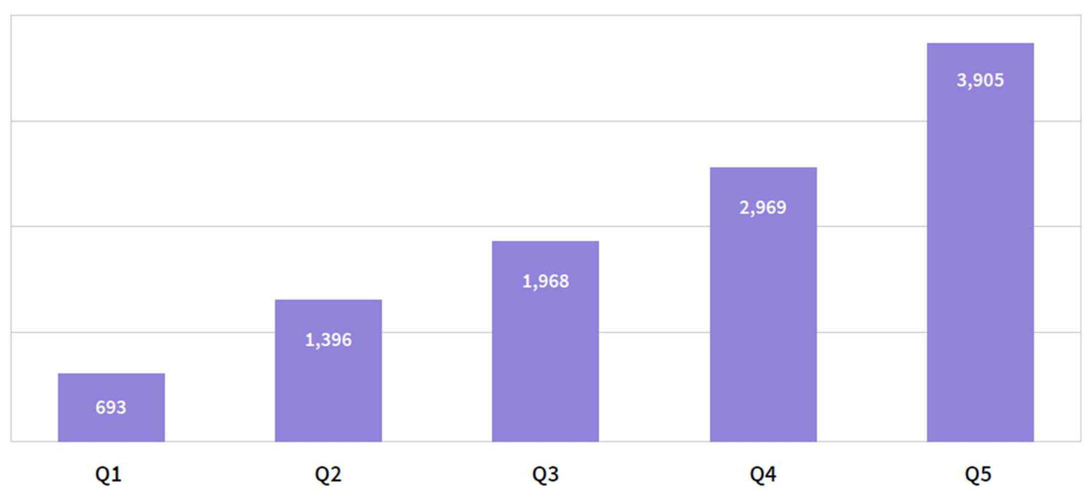
The continued deficiency in public spending on key social sectors, as presented above, is compensated for by private spending.[83] It has become apparent in recent years that, given the steep decline in the quality of public education and health systems, a large share of households have been pushed to increase their reliance on the market, and resorted to (inefficient) private expenditure as a coping mechanism, which in turn represents a critical burden on them – especially those from lower socioeconomic status.

On one hand, while data remains particularly inconsistent, the average annual expenditure of households on private tutoring accounts for 28.3% of their total annual education spending.[84] The prevalence of this informal phenomenon has transformed the education system over the past

[82] Staff working in UHIS (non-budgetary economic authority) are not included. However, staff working at the General Authority for Health Care (GAHC), an Egyptian governmental (and budgetary) body, are included.
[83] Hania Sobhy, "The Lived Social Contract in Schools: From Protection to the Production of Hegemony", *World Development*, no. 137 (2021).
[84] Central Agency for Public Mobilization and Statistics, *Egypt in Figures 2021*, available at https://www.capmas.gov.eg/Pages/StaticPages.aspx?page_id=5035

decades.[85] Although it is a common necessity for students to successfully transition through almost all levels (especially prior to their high-stakes exams in the third preparatory and general secondary stages), informal tutoring proved to be very expensive and inequitable – for both families and teachers.[86] As shown in Figure 5.0, funds allocated to tutoring increase linearly with socioeconomic status, where households from the wealthiest households (Q5) spend almost fivefold the amount of the poorest ones (Q1).

Average annual expenditure (in EGP) on private tutoring, in 2018

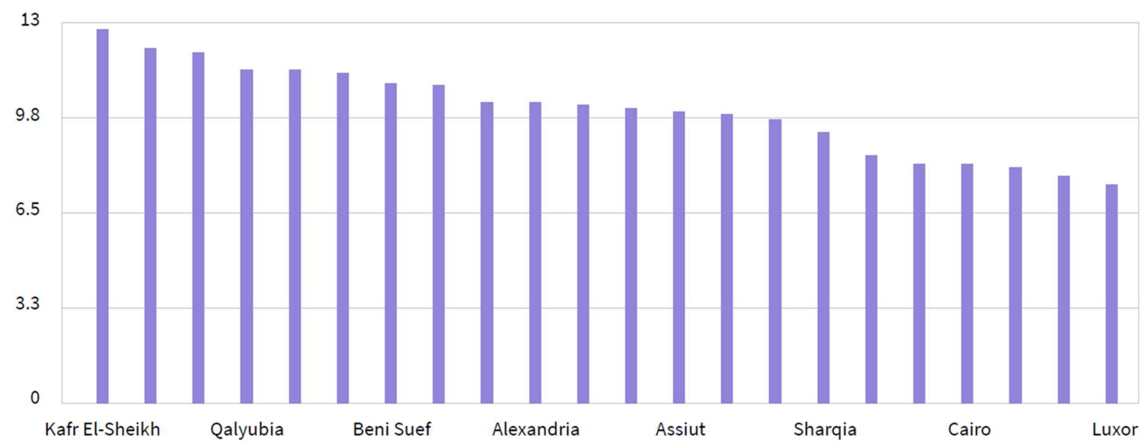


Based on Egypt Labor Market Panel Survey (Economic Research Forum, 2018)

[85] Asmaa ElBadawy, "Education in Egypt: Improvements in Attainment, Problems with Quality and Inequality", *Economic Research Forum - Working Paper Series*, no. 854, November 2014, available at https://erf.org.eg/publications/education-in-egypt-improvements-in-attainment-problems-with-quality-and-inequality/

[86] Abdeljalil Akkari, "Privatizing Education in the Maghreb: A Path for a Two-Tiered Education System", *World Yearbook of Education*, 2010, available at https://www.researchgate.net/publication/345532788_Privatizing_Education_in_the_Maghreb

Health expenditure (in %) by governorate in 2017/2018



Based on HIECS 2017/2018 (CAPMAS, 2018). Frontier governorates are not included

On another hand, given the currently inadequate spending on healthcare, out-of-pocket (OOP) payments have gained a prominent share (almost 62%) of Egypt's total health expenditures.[87] Because of the high OOP spending[88], in addition to the lack of comprehensive social coverage, Egypt's population is facing high financial risks and is more likely to slide into poverty: 7% of Egyptians have already been pushed into poverty in 2017.[89] As shown in Figure 5.1, it is noteworthy that health expenditure varies among governorates, where the rates are considerably higher in Kafr el-Sheikh, Damietta, and Behira. Poor households, despite their enrollment in several insurance schemes, are therefore using fewer services and facing low financial protection. To address these burdens and help households from falling into poverty, accelerating the rollout of UHIS will be necessary. This requires, above all, increasing government investment to scale up the UHIS' institutional capacity and introduce long-term incentives (including higher pay) to gradually solve the issue of under-supply of the health workforce in remote and rural areas.

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[87] World Health Organization, *Global Health Observatory data repository*, 2021, available at https://apps.who.int/gho/data/view.main.GHEDOOPSCHESHA2011v

[88] In 2017, the average per capita OOP spending on health was EGP 1874 for residents of urban centers and EGP 1423 for residents of rural areas.

[89] CAPMAS, *HIECS 2017-2018*

The Way Forward

Given the impact of both sectors on economic growth and recovery, a reprioritization of education and health systems proves to be strongly needed.

This will necessitate a new funding approach, with the buy-in and participation of a variety of stakeholders (including families and the business community) to reduce resistance and potential bottlenecks. Specifically, in education, this new mechanism could be gradually implemented through a delegation of functions that are particularly relevant to local entities.

In both sectors, large inefficiencies and disparities in spending should also be addressed. Objective and transparent allocations have to be linked to levels of performance (quality, satisfaction, enrollment, etc.), rather than historical bias and multi-actor negotiations. In this regard, to improve flexibility and better align budgets with the health sector's goals, program-based budgeting (PBB) could replace the current line-item method.

While leveraging the private sector's involvement might be important to increase access, the GOE's approach will need to consider that public provision is not crowded out, that public sector workers (teachers and healthcare professionals) are paid an adequate wage, and that the population has equitable access to basic social services – regardless of income and location. To serve the growing needs, strengthening public sector capacities and enforcing basic quality standards in education and health are strongly needed.

As such, the paper concludes that, while (unequal) access to basic social services has nominally increased over the past decade in Egypt, loan conditionalities have neither ensured sustainable financing of spending on health and education nor focused on the quality of such spending for improving overall outcomes. In the case of Egypt, the in-depth analysis provided shows that social spending "floors" have not ensured that spending on health and education is, at a minimum, in line with international benchmarks as a percentage of GDP and of Egypt's general budget.

To navigate the currently difficult landscape, both the GOE and the IFIs will need to renew their commitment to addressing Egypt's most underlying problems, by turning these "floors" into outcome-based binding conditionalities that include more transparent and disaggregated data, aim at maximizing Egypt's fiscal space (rather than minimizing public spending) and attaining more equity for its population, and are financed by progressive and direct revenue mobilization measures.

The policy recommendations summed up below aim to provide complementary areas of support.

- **Increase government spending for health and education to make Egypt on par with other peers with similar human and economic potential**. Given the currently inadequate spending on education and healthcare, sustained budgetary reforms are needed to stretch the country's fiscal space.
  - Allow an annual one-point increase in the share of the public sector wage bill as percent of GDP, which would in turn allow the hiring of additional teachers and healthcare workers.
  - Allow more flexibility on macroeconomic targets, such as inflation and fiscal deficits.
  - Consider alternative financing channels and an upward redistribution, through general or specific taxes, collected progressively.
  - Develop a comprehensive debt restructuring approach. Containing the off-budget transactions would also be necessary.
- **Invest in the health system's preparedness and address key burdens through the continued growth of public health (especially preventative) programs**, such as the new disease surveillance systems.
- **Ensure that shortages of manpower are alleviated through a reformed budget process;** this process needs to address the low salary scale. To reduce the internal and external *brain drain* and its negative impact on service quality, new remuneration, and non-tangible mechanisms need to be developed immediately.
- **Explore more efficient and innovative budgeting methods** that could replace the line-item budget to allow more flexibility and better align budgets with targets.
- **Transition to formula-based funding in education**, by delegating functions from MOETE to educational directorates and entities, and basing funding decisions on the number of students and the aggregated costs of inputs (World Bank, 2022).[90] This will permit the efficient use of funding through greater school autonomy.

[90] World Bank, *Public Expenditure Review*

- **Evaluate the impact of the rollout of the UHIS** on primary care and hospital utilization, major health status indicators, as well as the financial distress caused by the OOP expenditure.

- **Link increased government spending to equity**, by subsidizing the most disadvantaged regions; and spreading budget resources out of urban centers.

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We are a space in and through which professionals dedicated to exploring, understanding and advocating for better social protection in the Arab region exchange ideas and explore and initiate collaborative action. We envision an Arab region in which all people, regardless of their identities, are guaranteed social protections that secure their access to the essential goods and services needed to ensure their well-being and decent standards of living, which in turn gives them the opportunity to prosper and contribute as active members of society. We aim to facilitate the development of equitable and sustainable social protection systems in the region by: executing, encouraging and facilitating the production, analysis, collation, and dissemination of interdisciplinary knowledge about the topic; facilitating dialogue within professional spheres and awareness raising among the wider public; and enhancing collective action that amplifies advocacy efforts with the different stakeholders and decisionmakers.

Social Protection Program

The Arab Reform Initiative's Social Protection Program, which gave birth to the Arab Region Hub for Social Protection, aims to place social policy and its impact on the socio-economic rights of citizens and residents in Arab countries center stage in the research and advocacy efforts seeking to achieve social justice and social equality. By mobilizing and coordinating a community of practice and knowledge on social protection, the program aims to create a safe space for regular and systematic dialogue between the different stakeholders, in order to help addressing the problem of fragmented, non-inclusive, ineffective, and unsustainable social protection systems in the region. While doing so, the program adopts different perspectives – from addressing the necessary policy, programmatic, institutional, financial, legal and legislative reforms; to the political economy involved in the feasibility of these reforms; passing by social activism around welfare policies.

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