

THE ARAB REPUBLIC OF EGYPT



The Second Wave of Fiscal Reforms in Egypt

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Main Issues:

- I. Economic Reform
- II. Second-Wave Fiscal Reforms
- III. Formalization of the Informal Sector
- IV. Concluding Remarks

I. Economic Reform

Our goal: Economic growth, better standard of living for all Egyptians

Our means: Market-based economy, private-sector initiative, and global integration while maintaining social stability

I. Economic Reform

Landmarks:

1974: A shift in strategy in favor of private sector-led and market-based economy

1991: First wave of integrated reforms

- Stabilization
- Structural reforms

1998: Second wave of reforms

- Deepening first-wave reforms
- Institutional reforms

I. Economic Reform

1991: First wave of reforms

- Macroeconomic stability
- Trade liberalization
- Commercialization/privatization of state-owned enterprises
- Financial-sector reforms
- Small business development:
 - Social fund for development
 - Credit guarantee company
 - Nongovernmental organizations

I. Economic Reform

1998: Second wave of reforms

- Deepening reforms in trade
 - GATT/WTO; FTAs with the European Union; AFTA with COMESA; TIFA with the United States; and undergoing FTA with the United States

I. Economic Reform

1998: Second wave of reforms

- Institutional, legislative, and sectorial reforms
 - Regulation/deregulation of services sectors (e.g., electricity, telecommunications, and insurance)
 - Central bank law
 - GAFI: New investment law
 - Antitrust and anticompetitive practices law
 - Mortgage finance and securitization laws

I. Economic Reform

1998: Second wave of reforms

- Institutional, legislative, and sectorial reforms
 - Program for modernization of industry
 - Export promotion
 - Tourism development
 - Restructuring of state-owned banks
 - SMEs law and development
 - New labor law
 - Flotation of first Egyptian sovereign bond
 - Flotation of Egyptian pound
 - Intellectual property rights law

II. Second-Wave Fiscal Reforms

Revenue-side reforms:

- Tax reforms: Improving tax administration, automation and new income tax law, sales tax law and property-tax law
- Customs reforms: Administrative and procedural, legislative, tariff structure, duty-relief, customs valuation and release span, human resource & risk management, automation, ex ante goods release, website, one-stop shop
- Model customs tax center: One-stop shop; pilot basis

II. Second-Wave Fiscal Reforms

Expenditure-side reforms:

- Performance-based budgeting and public-expenditure review using pilot-navigation approach
- Cash-flow management: sustainability; primary dealers; treasury management
- Government procurement, inventory and asset management: Encoding; bulk purchases; procurement from SMEs; e-procurement; public assets registry
- Public debt management: Rolling over high cost for cheap debt; debt-to-equity swaps

II. Second-Wave Fiscal Reforms

Expenditure-side reforms:

- Corporatization of public economic authorities: Financial restructuring; preparation for PPP
- Pensions reforms: Sustainability and effective actuarial calculations
- National investment bank: Administrative & financial restructuring; project appraisal; portfolio management; human resource development and automation

III. Formalization of the Informal Sector

- First diagnostic study on informality estimated size
- Study of informal sector drivers, problems and solutions at entry, operation, expansion and exit
- Formalization process **gains** will come from:
 - ✓ Expansion and productivity improvement for *entrepreneurs*
 - ✓ Higher wages, social insurance and job stability for *workers*
 - ✓ Additional revenues from VA and income tax for *government*
 - ✓ Better quality products but higher prices for *consumers*

III. Formalization of the Informal Sector

Our action plan:

- On the making: Philosophy: Benefits of formality greater than costs of remaining in the informal sector
- Reducing cost of entry and operation by some 88 percent through:
 - Establishment of new business public registry and d-base
 - Access to limited liability, single-proprietorship
 - Access to credit and electronic signature verification
 - Simplified tax regime
 - Simplified labor and social security procedures
 - Simplified system of pledges (with or without transfer of possession)
 - Simplified dispute resolution and exit mechanisms

III. Formalization of the Informal Sector

Our action plan: The 'how' question

- Administrative action: Task force
- Communication strategy and client outreach
- Legislative action
- Institutional action

IV. Concluding Remarks

- Genuine reforms since 1991
- Serious determination to realize second-generation economic and fiscal reforms
- Formalization is key for every Egyptian to alleviate poverty, create employment opportunities, enhance transparency and accountability



Thank You