The Second Wave of Fiscal Reforms in Egypt

Dr. Medhat Hassanein, Minister of Finance, Egypt

Presentation at the Institute for International Economics, Washington, DC

15 June 2004
Main Issues:

I. Economic Reform
II. Second-Wave Fiscal Reforms
III. Formalization of the Informal Sector
IV. Concluding Remarks
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
1. 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
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
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
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