

Estimating the Size of the Shadow Economy in Egypt

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The Egyptian economy is facing instabilities since the 2011 Revolution which makes the shadow economy (SE) inevitable to the extent that informal employment increased to 40% in 2012*. In this case, the SE is not necessarily seen as a foe because it acts as an employer of last resort solving poverty and unemployment problems during economic and political crises. However, policymakers recognized the diverse effects of the SE and are currently initiating major reforms to tackle the SE. Recent government efforts are limited to setting a war against the SE. Their approach is either to evacuate street vendors by brutal police force or to intensify regulations by increasing jail times and penalties for involvement in informal economic activities. Needless to say, these efforts failed to regulate the SE. Therefore, understanding the nature and significance of the Egyptian SE becomes essential for policymakers to have a coherent plan of reforms. But there are no studies, until today, have been done to analyze the Egyptian SE. My study will fill this gap by answering the following research questions: What are the trend and size of the SE in Egypt from 1970 to 2013? What causes contribute to the proliferation of the SE? What policies can be effective in tackling the SE? To answer these questions, the econometric model known as the structural model of Multiple Indicators Multiple Causes (MIMIC) shall be utilized. Variables used in the model are exclusively related to the structure and nature of the Egyptian economy that influence the SE. A few studies investigating shadow economies among large groups of countries have also included Egypt**. Yet, they lack nuance as they do not consider specific socio-economic and political structures that significantly influence the Egyptian SE. My study will add to the literature a comprehensive examination of the size, dynamics and causes of the Egyptian SE. Furthermore, changes in the size of the SE shall be explained by the most relevant economic and political events that have occurred in Egypt.

*World Bank (2014): More Jobs, Better Jobs: A priority for Egypt. Report No. 88447-EG.

**Schneider, F., Bühn, A. and Montenegro, C. (2010) 'New Estimates for the Shadow Economies all over the World', *International Economic Journal* 24(4), 443-461;
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