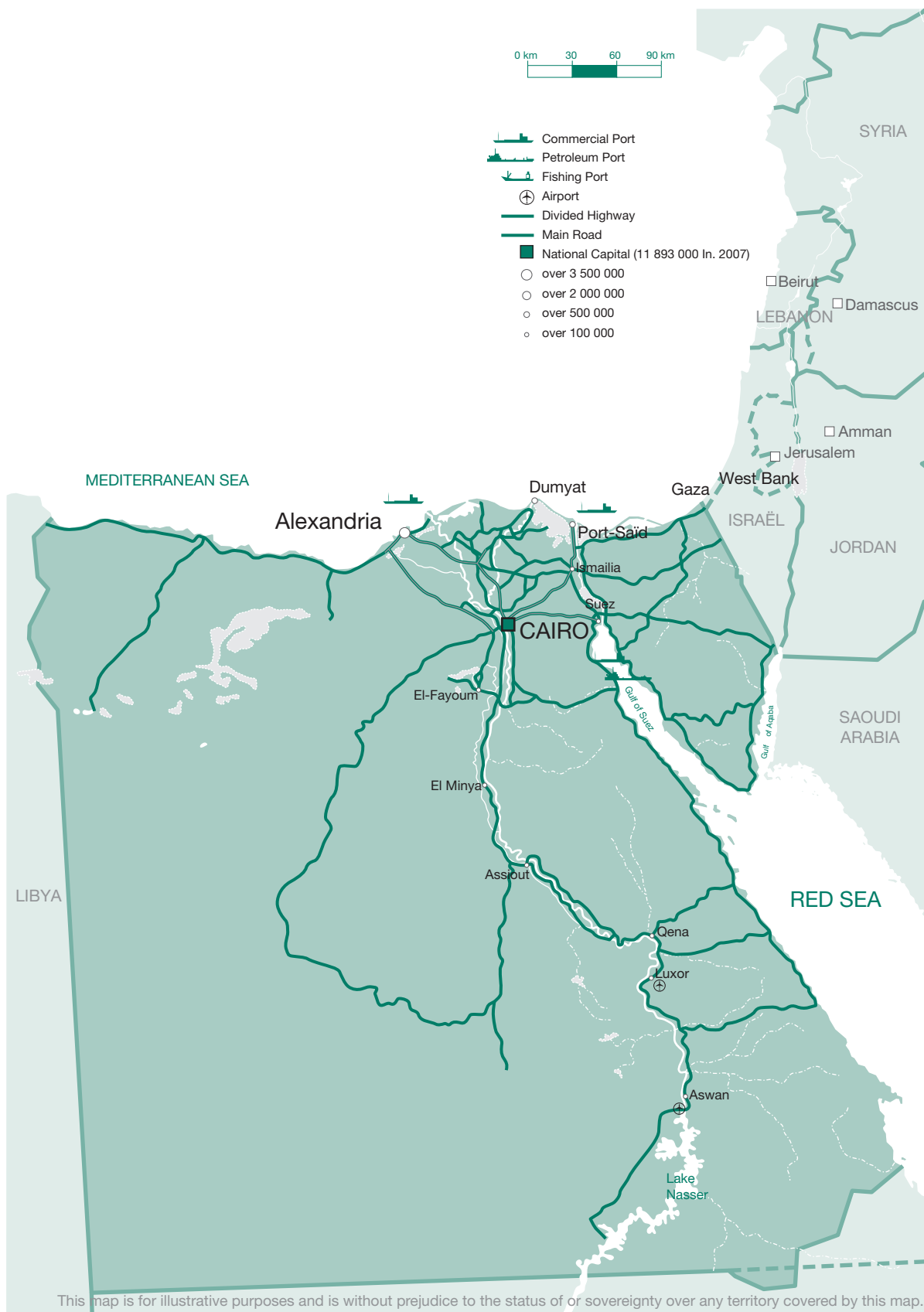


Egypt
2011





Egypt

Overview

Egypt has been on the brink of social and political turmoil for the past few years, with evident signs of mounting frustration among citizens, mainly due to the severe socio-economic conditions, constraints on liberties and an uncertain political outlook. Inspired by the Tunisian revolution, Egyptians started a large-scale uprising on 25 January 2011 and after 18 days of protests, Mr. Hosni Mubarak stepped down, bringing to an end his 30-year rule as Egypt's President. Power was handed to the Supreme Council of the Armed Forces which became responsible for conducting the affairs of the State and leading the transitional period according to a constitutional declaration issued on 30 March, until the parliamentary and presidential elections are held towards the end of 2011.

While the Egyptian popular uprising has come with the promise of major political reform, it has led to the temporary disruption of economic activity, below-capacity production and a 55-day shutdown of the stock market. The adverse economic implications thereof will most likely be sustained throughout 2010/11, as the high uncertainty in Egypt will weaken foreign direct investment (FDI) inflows as well as tourism and Suez Canal receipts. Thus, real gross domestic product (GDP) growth rate is expected to be only 1.6% in 2010/11, down from 5.1% in 2009/10.

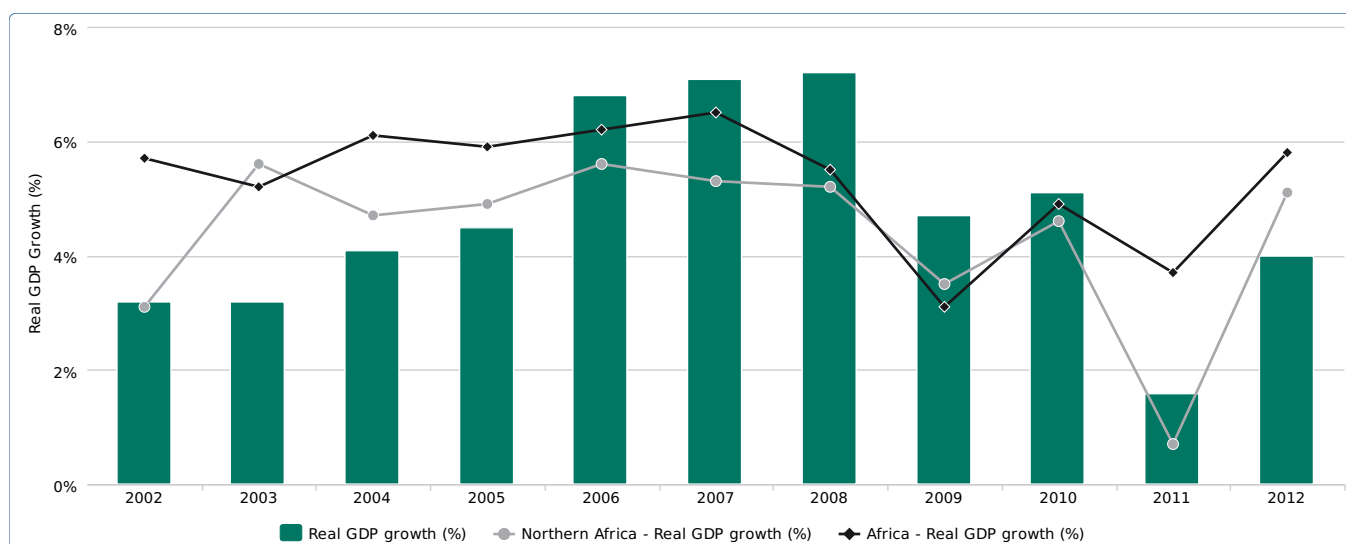
The interim government has tried to absorb the anger of protesters by stepping up food subsidies, freezing the plan to phase out energy subsidies and upgrading the status of temporary government workers who have been in their posts for more than three years to permanent workers. While the interim government should indeed be addressing such crucial social priorities, it should also take into account their medium- and long-term implications on fiscal balances.

The budget deficit is expected to rise from 8.1% in 2009/10 to close to 10% in 2010/11, as the interim government boosts spending to offset the impact of the political unrest. The temporary supply shortages that followed the upheaval coupled with rising international prices of food and fuel have been adding to the pressure on the domestic price level since early 2011. Thus the inflation rate is expected to increase from 11.7% in 2009/10 to 13.4% in 2010/11. Similarly, the current account deficit is expected to widen from 2.0% of GDP in 2009/10 to 3.2% in 2010/11 and then fall marginally to 2.9% in 2011/12 as FDI inflows, remittances and the services balance remain vulnerable.

Egypt's partnerships with emerging economies, mainly in non-Arab Asia and the Arab world, are still marginal compared to those with the European Union (EU) and the United States of America. Although economic relations with emerging partners have been on an upward trend, the political unrest in Egypt and the wider region will hinder trade, particularly with Arab countries as well as FDI inflows and remittances originating from Arab countries. The Egyptian government already allocated 100 million Egyptian pounds (EGP), targeted at addressing employment issues of returning labour from Arab countries, especially Libya.

The restoration of political stability and effective reform are essential if the Egyptian economy is to return to solid growth that benefits the population as a whole. In order to alleviate poverty and improve living standards, the priority has to be a high and sustainable growth rate while addressing social concerns such as unemployment, income distribution and the poor level and quality of education and health services. Fiscal consolidation is key to the realisation of Egypt's economic and social objectives as reform efforts have historically been diluted by poorly targeted government expenditure and a large public debt.

Figure 1: Real GDP growth (N)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404047>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	4.7	5.1	1.6	4
CPI inflation	16.2	11.7	13.4	12.2
Budget balance % GDP	-6.6	-8.1	-9.8	-9.4
Current account % GDP	-2.3	-2	-3.2	-2.9

Source: National authorities' data; estimates and projections based on authors' calculations.

Fiscal year July (n-1)/ June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932406403>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2009
Agriculture, forestry, fishing & hunting	14
Agriculture, livestock, fishery, forestry and logging	-
of which agriculture	-
of which food crops	-
Mining and quarrying	14.4
Mining, manufacturing and utilities	-
of which oil	-
Manufacturing	16.9
of which hydrocarbon	-
Electricity, gas and water	1.6
Electricity, water and sewerage	-
Construction	4.6
Wholesale and retail trade, hotels and restaurants	15.1
of which hotels and restaurants	3.5
Transport, storage and communication	9.4
Transport and storage, information and communication	-
Finance, real estate and business services	9.8
Financial intermediation, real estate services, business and other service activities	-
General government services	10
Public administration & defence; social security, education, health & social work	-
Public administration, education, health	-
Public administration, education, health & other social & personal services	-
Public administration, education, health & social work, community, social & personal services	-
Public administration, education, health & social work, community, social services	-
Other community, social & personal service activities	-
Other services	4
Gross domestic product at basic prices / factor cost	100

Source: AfDB Statistics Department based on data from Statistics Egypt.

Fiscal year July (n-1)/June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407372>

Egypt grew at a rate of 5.1% in 2009/10, picking up from 4.7% in the previous year, but well short of the 7.2% level seen before the onset of the global financial crisis. The popular unrest which led to the ouster of President Hosni Mubarak in early 2011 is expected to slow growth down to 1.6% in fiscal 2010/11 before it recovers again to 4% 2011/12.

In 2009/10, economic growth was led by manufacturing which contributed 1 percentage point to overall GDP growth; wholesale and retail, and construction, each contributed 0.64 percentage points, while tourism and telecommunications each added 0.5 percentage points. The impact of the global slump was felt across the economy which remained largely unchanged in composition – the services sector accounted for 48.5% of GDP, industry 37.5% and agriculture 14%.

The sectors that experienced the fastest growth in fiscal 2009/10 were telecommunications, which expanded by 13.3%, construction 13.2%, transport and warehousing 6.8%, and wholesale and retail 6.1%. The manufacturing sector, which is mainly export-orientated, grew 5.1% (up from 3.7% the previous year), while tourism increased by 12%.

Areas in the Egyptian economy that are vulnerable to global turbulences improved slightly in 2009/10, but the global crisis is still taking its toll on the country's external accounts: Suez Canal receipts, however, continued to decrease for the second year in a row to USD 4.5 billion in fiscal 2009/10 and were down 13.5% from pre-crisis levels. FDI also fell, dropping 16.7% to USD 6.8 billion from 2008/09 and down nearly 50% compared with before the crisis. In 2009/10, the petroleum sector accounted for 68.8% of total FDI inflows – whereas finance and industry accounted for just 8.0% and 4.2%. Remittances rose 25% to USD 9.8 billion in 2009/10 after declining by 9.0% in the previous year, reflecting the recovery of the Gulf countries.

The government allocated around EGP 16 billion in two fiscal stimulus packages to bolster public investment as the global slump hit the domestic economy. In addition to government stimulus spending as the global slump hit the economy, the authorities cut tariffs and set aside more resources to boost external trade. The government also extended a ban on rice exports to October 2011 to ensure adequate domestic supplies while a ban on cement exports was introduced and then withdrawn. Other measures to revive the economy included the waiver of sales tax on machinery, equipment and capital goods for one year from January 2009 that was then extended through to end-2010. Energy prices for industry were also frozen up to June 2010.

The first two quarters of fiscal 2010/11 delivered average growth rates of 5.6%, driven by tourism, construction, telecoms and manufacturing. The political upheaval which overthrew President Hosni Mubarak hit the economy and forced the closure of the stock market for 55 days. International ratings agencies slashed their readings on Egypt and said they could downgrade further depending on political developments. Tourism was very badly hit owing to widespread fears of violent unrest and the central bank had to intervene to support the Egyptian pound.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	18.1	19.3	-1.2	-2.6	8.8	-0.2	-0.6	2.1
Public	9.4	9.7	-25.9	-5	7	-2.7	-0.5	0.6
Private	8.7	9.6	24	-1	10	2.5	-0.1	1.4
Consumption	86.6	87.3	6.3	1.8	3.8	5.2	1.6	3.3
Public	11.8	11.3	10.6	7.8	5.7	1.3	1	0.8
Private	74.8	76	5.1	0.7	3.4	3.9	0.5	2.5
External sector	-4.8	-6.6	-	-	-	0.1	0.7	-1.3
Exports	17.8	24.9	-0.3	-1.8	4.1	-0.1	-0.5	1
Imports	-22.6	-31.5	-0.6	-3.1	6.7	0.2	1.1	-2.3
Real GDP growth rate	-	-	-	-	-	5.1	1.6	4

Source: Data from Central Bank of Egypt (CBE) and CAPMAS; estimates (e) and projections (p) based on authors' calculations.

Fiscal year July (n-1)/June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408341>

Macroeconomic Policy

Fiscal Policy

Fiscal policy was expansionary in 2009/10 in order to offset the impact of the global financial crisis, with the budget deficit rising to 8.1% of GDP, 1 percentage point higher than the average in the previous three years but slightly lower than the government had expected. The wider deficit was due to a combination of lower revenues and higher expenditure. Total revenues and grants fell to 22.2% of GDP in 2009/10 from 27.1% in 2008/09. The budget deficit for fiscal 2010/11 is expected to rise further to almost 10% of GDP.

Total domestic debt jumped by 21% to reach EGP 779.5 billion or 64.6% of GDP, up by 2.8 percentage points, by June 2010.¹ External debt meanwhile rose 6.9% to USD 33.7 billion or 15.9% of GDP by June 2010, one percentage point lower than the previous year. Thus, Egypt's external debt position does not constitute an immediate threat to external stability.

The Finance Ministry's medium-term framework was to bring down the ratio of total public debt (domestic plus external) to 60% of GDP and the overall deficit to around 3.5% of GDP by 2015. Given the country's political transformation with the departure of President Hosni Mubarak, it is unclear whether this target will be met. For 2010/11 and possibly 2011/12, additional spending will be needed to meet higher international food and energy prices, in addition to a larger than expected wage bill due to *ad hoc* measures taken in the face of the political unrest. A 15% salary increase was stipulated for government employees in response to the protests while temporary government workers in their post for at least three years were made permanent staff. The pressure of subsidies may also prove costly. Fuel subsidies in 2009/10 cost an estimated EGP 66.5 billion – 5.5% of GDP and more than 18% of total expenditures.

The 2010/11 and 2011/12 budgeted figures for fuel subsidies were originally set at EGP 67.7 billion and EGP 87.8 billion but plans to phase out this costly exercise will likely be put on hold until a new government takes power after presidential elections scheduled for later in 2011. Rising oil prices may even increase the cost of the subsidies while revenue generation will be challenging. Tax revenues, which constitute more than 60% of government revenues, may be undermined by the slowdown in economic activity during the second half of 2010/11 because of the political upheaval and associated uncertainty.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	20.5	24.2	24.7	27.1	22.2	22.1	22.4
Tax revenue	12.8	14.8	14.8	15.3	13.8	13.4	13.8
Oil revenue	0.5	0.6	0.5	0.3	0.3	0.4	0.4
Grants	-	-	-	-	-	-	-
Other revenues	6.1	8.3	9.2	10.7	7.7	7.7	7.7
Total expenditure and net lending (a)	30.3	29.8	31.5	33.7	30.3	31.9	31.7
Current expenditure	25.1	26.4	27.7	29.5	26.3	28.3	28.2
Excluding interest	19.4	20	22.1	24.5	20.3	21.7	21.8
Wages and salaries	8	7	7	7.3	7.1	6.8	6.5
Goods and services	2.3	2.4	2.1	2.4	2.3	2.5	2.5
Interest	5.7	6.4	5.6	5.1	6	6.5	6.5
Capital expenditure	5.2	3.4	3.8	4.2	4	3.6	3.5
Primary balance	-4	0.8	-1.2	-1.6	-2.1	-3.3	-2.9
Overall balance	-9.7	-5.6	-6.8	-6.6	-8.1	-9.8	-9.4

a. Only major items are reported.

Source: Data from Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

Fiscal year July (n-1)/June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409310>

Monetary Policy

The Central Bank of Egypt (CBE) cut its key interest rates – overnight deposit and overnight lending – in July and September 2009 to 8.25% and 9.75% while the discount rate was left unchanged at 8.5%. Rates were then kept on hold through to March 2011 on the view that underlying inflation pressures were contained.

Consumer Price Inflation averaged 11.7% in fiscal 2009/10, off a monthly high of 13.6% in January 2010 as higher costs for fruits and vegetables showed up in the figures. The still relatively high rate of inflation represented, however, a significant improvement on the 16.2% recorded in fiscal 2008/09. Core inflation, which excludes volatile food items such as fruits and vegetables, as well as items with regulated prices, came in at 6.7% for 2009/10, within the CBE's comfort zone.

The remainder of fiscal 2010/11 will likely see increased inflationary pressures owing to the political unrest that disrupted production and transportation, coupled with sharp increases in global commodity prices, especially for food and fuel. On the other hand, slower growth could help ease inflation pressures to some degree.

External Position

Egypt's external position improved in 2009/10, reflecting the overall upturn seen after the global slump of the previous year but the current account remained in deficit, at 2.0% of GDP compared with 2.3% in 2008/09. The current account deficit, however, is projected to widen again to 3.2% in the current fiscal year and narrow only slightly to 2.9% in 2011/12.

Exports and imports fell for a second year running. Exports of goods fell to 10.9% of GDP in 2009/10 from

13.3% in 2008/09, with imports of goods down to 22.4% from 26.6%. Petroleum exports fell to USD 10.3 billion from USD 11 billion, with non-oil exports lower at USD 13.6 billion from USD 14.2 billion. Total export proceeds were down 5.0% and 18.7% lower than pre-global crisis levels. Total imports fell 2.7% to USD 48.9 billion in 2009/10.

Receipts from services exports also continued to decrease for the second year in a row, to USD 23.6 billion in 2009/10 after a 13% slump in 2008/09. While tourism receipts bounced back to pre-crisis levels, income from the Suez Canal continued to decrease as traffic flows weakened. Imports of services cost USD 13.2 billion in 2009/10, up 17%. The services account surplus fell to USD 10.3 billion in 2009/10 from USD 12.5 billion the previous year. Private and official transfers increased by 26.9% to reach USD 10.5 billion in 2009/10.

The trade deficit was little changed at USD 25 billion over the past two years while the current account deficit narrowed from USD 4.4 billion in 2008/09 to USD 4.3 billion in 2009/10.

The capital and financial account improved significantly in 2009/10 on net inflows of USD 8.3 billion, 3.6 times the amount recorded in 2008/09 even as FDI fell to USD 6.8 billion. Net portfolio inflows amounted to USD 7.9 billion, nearly reversing the previous year's net outflow of USD 9.2 billion as international investment confidence returned. As a result, foreign exchange reserves rose to USD 35.2 billion in 2009/10, higher than before the global crisis and sufficient to cover 8.6 months of imports, compared with 7.5 months in 2008/09.

Gross external debt increased to USD 33.7 billion at end-June 2010, up 6.9% and equal to 15.9% of GDP, a level not seen as a threat to Egypt's external stability.

Egypt operates a managed exchange rate regime. After depreciating in 2008/09, the Egyptian pound rose slightly against the US dollar over the first two quarters of 2009/10, reflecting net portfolio inflows. However, the currency then began to fall as political unrest and associated capital outflows roiled the markets. The CBE intervened to support the currency with the result that at end-January 2011, the Egyptian pound stood at EGP 5.87 per US dollar compared to EGP 5.47 at end-January 2010.

The political uncertainty following the ouster of President Hosni Mubarak may last for some time and is likely to pressure Egypt's external position. On the capital account, the effect of the political upheaval is expected to be severe the rebound in portfolio inflows during 2009/10 could be completely reversed in 2010/11. Trading on the stock market was suspended in late January and only resumed in late March 2011. FDI will also likely continue to fall given the difficulties and uncertainties the country and the wider region face.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-8.5	-12.5	-14.4	-13.3	-11.5	-9.7	-9.5
Exports of goods (f.o.b.)	8	16.9	18	13.3	10.9	11.5	10.4
Imports of goods (f.o.b.)	16.5	29.4	32.4	26.6	22.4	21.2	19.9
Services	4.3	7.9	8.4	6.5	6.7	3.9	3.8
Factor income	0.1	0.9	0.8	0.1	-2	-1.8	-1.7
Current transfers	4.8	5.4	5.7	4.4	4.8	4.5	4.4
Current account balance	0.7	1.7	0.5	-2.3	-2	-3.2	-2.9

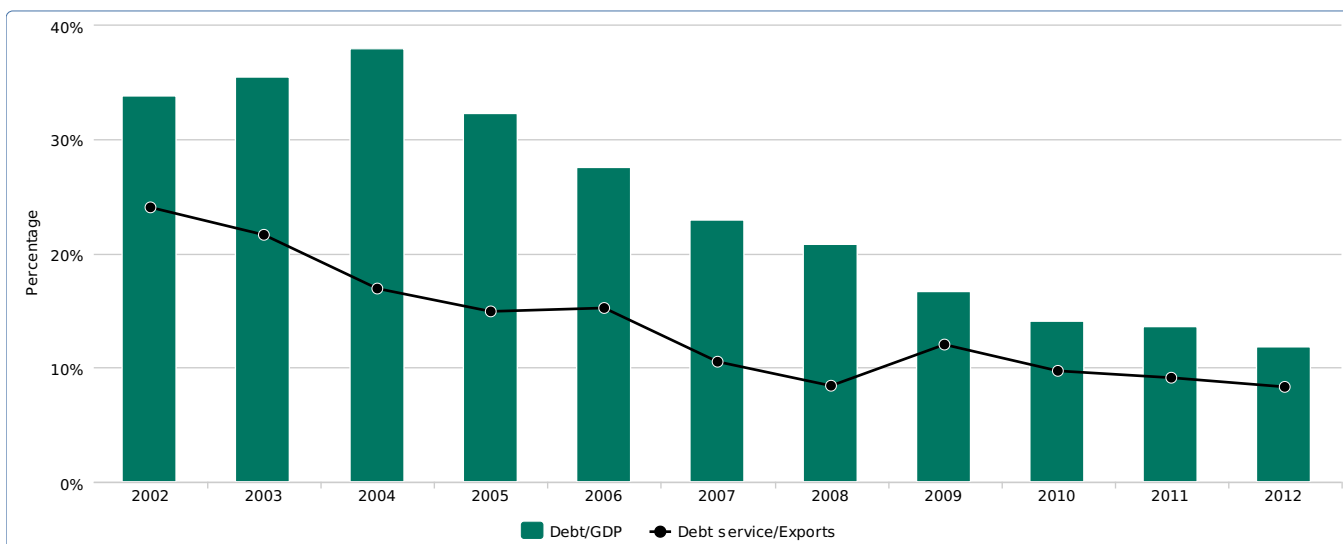
Source: Data from Central Bank of Egypt (CBE) and CAPMAS; estimates (e) and projections (p) based on authors' calculations.

Fiscal year July (n-1)/June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410279>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404047>

Structural Issues

Private Sector Development

Over the past five years, the private sector has accounted for some 62% of GDP, 55% of gross capital formation and close to 70% of total employment. Despite its important role, more still needs to be done to enhance its performance. A lack of skilled labour due to a mismatch between what the market wants and what the education system produces remains a challenge for the private sector's development.

Egypt's business environment has improved, helped by the modernisation of the export/import system and lower costs for starting a company. The World Bank's 2011 *Doing Business* report ranked Egypt 94 out of 183 countries, up five places compared to its 2010 report. Construction permits remain a problem, with the country ranked 154 on this measure despite recent legislation intended to ease the cost of obtaining permits. Other problem areas identified by the World Bank included registering property, getting credit and protecting investors.

The banking sector in Egypt generally appears to enjoy ample liquidity, low dollarisation and improving asset quality. The loan-to-deposit ratio was 51% in June 2010. In January 2011, as political protests gathered pace, the CBE guaranteed all deposits in the banking system and then limited withdrawals in February when the banks reopened.

Domestic credit rose by 7.0% in 2009/10, 1 percentage point lower than in the previous year. Credit to the private sector increased by 7.7%, largely outpaced by credit to the government, which was up by 15%.

One concern about the Egyptian banking system is that it holds a large portion of the outstanding stock of Treasury bills and bonds. In 2008/09, private and public banks held 67% of the total outstanding stock of Treasury bills, falling to 60% in 2009/10. In Egypt, where the banking system is characterised by ample liquidity, banks seem to prefer less risky sovereign lending rather than making loans to the private sector.

The asset quality of the Egyptian banking system improved with Non-performing loans (NPLs) falling to 13.4% of total loans outstanding in 2009/10 from 26.5% in 2005/06. Bad loan provisions provided 100% coverage in 2009/10, up from 51% in 2005/06. The overhaul of the banks' risk management practices is ongoing.

The Egyptian Stock Exchange put in a solid performance in fiscal 2009/10, with capitalisation rising 34.2% from the previous year to EGP 500 billion, but the political unrest of early 2011 sparked very sharp losses and has clouded the short-term outlook.

Other Recent Developments

There have been efforts to improve the performance of the public sector, notably state-owned enterprises (SOEs). In 2009/10, SOE debt owed to commercial banks, which stood at EGP 32 billion in 2003/04, was totally eliminated. SOE profits are picking up, reaching EGP 4.6 billion in 2009/10, compared with a net loss of EGP 1.3 billion in 2003/04. The turnaround in the performance of the SOEs in part reflects total investment estimated at EGP 18.3 billion over the past six years, with the funds raised by the companies themselves, not the government. Chemical, metallurgical, transport, tourism and pharmaceutical sector SOEs have accounted for the bulk of this investment. Serious challenges remain in the spinning and weaving SOEs that are still burdened by difficult financial conditions.

The government has also tried to promote partnerships between the private and public sectors. In July 2010, a law was passed to govern public-private partnerships (PPPs). The first PPP tender for a waste-water treatment plant in New Cairo was signed in mid-2009 and construction began in 2010. For the short term, the PPP initiative is likely to be hindered by the constraints on the government budget as well as weakened private sector activity due to the political unrest that resulted in the resignation of President Hosni Mubarak.

The privatisation process has slowed during the past four years after peaking in 2005/06 when privatisation proceeds reached EGP 14.6 billion from 65 sales. By 2009/10, privatisation proceeds were negligible, falling to EGP 50 million from four sales. Given the recent political upheaval and evident discontent with the previous government's approach in handling the transition to a free-market economy, the privatisation process will most likely be stopped, at least until stability is restored.

Emerging Economic Partnerships

Egypt's most important emerging country partnerships are in Asia, with China and India at the top of the list followed by Arab countries, including the United Arab Emirates (UAE), Saudi Arabia and Kuwait, and to a lesser extent Jordan. Arab countries are particularly important as investment partners, as they contribute to FDI inflows into Egypt and are an important destination for young Egyptian migrants.

Economic relations with Turkey and Brazil have also started to pick up and are expected to flourish in the near future in light of the trade agreements that Egypt signed with each of them. Egypt's partnerships with emerging countries are generally in the form of trade and investment, and to a lesser extent aid and grants.

Egypt's trade with emerging partners

The Asian emerging country partners rank third as Egypt's most important trading partners after the EU and the United States (US). Over the past five years, the non-Arab Asian countries accounted for 16.6% of Egypt's total merchandise trade by volume with the rest of the world. China led the way with 5.5%, followed by India with 3.4% and South Korea 2.0%.

Arab countries meanwhile accounted for some 11.3% of Egypt's merchandise trade in the same period, led by the UAE with 3.0% and Saudi Arabia on 2.6%.

Other important emerging country partners for Egypt include Russia and Turkey, each with a 2.0% trade share over the past five years. Egypt's trade with non-Arab African countries has been modest thus far, taking up a share of 1.2%.

Egypt's total merchandise trade with emerging partners has been increasing steadily, with the exception of a small drop during the worst of the financial crisis in 2008/09. China is the country's fastest growing trade partner while the UAE, Saudi Arabia and Turkey have also posted consistent growth.

Table 6 – Egypt's Merchandise Trade by Trading Partner (in USD Billion and in Percentages)

	2005/2006		2006/2007		2007/2008		2008/2009		2009/2010		5-year
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Total Trade
EU	6.95	11.29	7.44	13.01	9.81	18.01	8.54	18.83	8.48	17.89	120.25
	(37.6%)	(37.1%)	(33.8%)	(34.4%)	(33.4%)	(34.1%)	(33.9%)	(37.4%)	(35.5%)	(36.5%)	(35.5%)
USA	5.64	5.74	6.85	8.26	9.28	9.83	6.42	7.48	4.41	5.3	69.21
	(30%)	(18.9%)	(31.1%)	(21.8%)	(31.6%)	(18.6%)	(25.5%)	(14.9%)	(18.5%)	(10.8%)	(20.4)
Arab Countries	2.13	2.74	2.73	3.24	3.16	5.47	3.85	4.75	4.76	5.4	38.23
	(11.5%)	(9%)	(12.4%)	(8.6%)	(10.8%)	(10.4%)	(15.3%)	(9.4%)	(19.9%)	(11.5%)	(11.3%)
Non-Arab Asia	2.09	4.44	2.97	6.03	4.36	9.87	3.14	9.53	3.4	10.52	56.37
	(11.4%)	(14.6%)	(13.5%)	(15.9%)	(14.9%)	(18.7%)	(12.5%)	(18.9%)	(14.2%)	(21.5%)	(16.6%)
Non-Arab Africa	0.25	0.18	0.33	0.27	0.79	0.42	0.64	0.41	0.38	0.56	4.22
	(1.4%)	(0.6%)	(1.5%)	(0.7%)	(2.7%)	(0.8%)	(2.5%)	(0.8%)	(1.6%)	(1.1%)	(1.2%)
Other											
Turkey	0.3	0.46	0.34	0.44	0.39	0.74	0.34	1.37	0.54	1.5	6.41
	(1.6%)	(1.5%)	(1.5%)	(1.2%)	(1.3%)	(1.4%)	(1.3%)	(2.7%)	(2.3%)	(3.1%)	(1.9%)
Russia	0.07	0.74	0.15	0.69	0.16	1.72	0.16	1.64	0.12	1.36	6.81
	(0.4%)	(2.5%)	(0.7%)	(1.8%)	(0.5%)	(3.3%)	(0.6%)	(3.3%)	(0.5%)	(2.7%)	(2%)

Source: The Central Bank of Egypt.

Fiscal year July (n-1)/June (n).

The values in parentheses are shares of Egypt's total merchandise exports (or imports).

Egypt's main export markets among the emerging country partners are India, the UAE, Saudi Arabia, South Korea, Jordan and Turkey. Egypt's imports in this category come mainly from China, Russia and Brazil, in addition to the same emerging countries that it exports to. The trade balance is in deficit with most of Egypt's emerging country partners. China accounts for the largest trade deficit, which widened from USD 1.2 billion in 2005/06 to USD 3.3 billion in 2009/10 while the deficit with Russia increased from USD 0.7 billion to USD 1.24 billion over the same period. Egypt has a trade surplus with India but this has been falling steadily – from USD 0.6 billion in 2005/06 to just USD 0.04 billion in 2009/10. Egypt runs a trade surplus with, among

others, non-Arab African countries, Jordan and Lebanon, and Mexico, Pakistan and Singapore.

Despite recent and continuing gains, the share of trade accounted for by Egypt's emerging country partners remains marginal compared with its most important traditional trade partners. Over the five-year period to 2009/10, the EU accounted for 35.5% of Egypt's total external merchandise trade, a level that has remained fairly constant. The US average share over the five-year period comes to 20.4% but this masks a sharp decline from 23% in 2005/06 to 13% in 2009/10. This decline may simply reflect the impact of the global economic slump and so would be expected to recover as both the US and Egypt pick up again. The decline in the US share of trade has also been somewhat offset by an increase in the non-Arab Asian countries' share, from 13% in 2005/06 to 19% in 2009/10. Arab countries saw their share increase from 10% to 14% over the same period.

To improve its trade position, Egypt has been trying to broaden ties, signing a series of agreements with a variety of countries and regional groups so as to benefit from lower tariffs and improve market access.

Table 7 - Egypt's Preferential Trade Agreements

Trade Agreement	
Common Market for Eastern and Southern Africa (COMESA)	Egypt joined COMESA in May 1998. Egypt is one of the 20 COMESA members that achieved 100% reduction of import tariffs.
Egypt-EU Association Agreement	Signed in 2001, but entered into force in January 2004.
Agadir Agreement	Signed in 2004 between Egypt, Jordan, Morocco and Tunisia. Entry into force was in July 2006. Members are granted full exemption of customs fees, charges and other taxes on agricultural goods, processed agricultural goods and industrial goods.
Qualified Industrial Zones (QIZ) Protocol	Signed in 2004 between Egypt, Israel and the US. This protocol grants duty-free entry into the US for industrial products originated in Egypt, with a specified content manufactured in Israel. The QIZ was implemented in 2005.
Pan Arab Free Trade Area (PAFTA)	Signed in 1997 between 17 countries of the Arab League, entered into force in January 2005.
Egypt-Turkey Free Trade Agreement	Signed in 2005, entered into force in March 2007. The agreement exempts both parties from customs duties and other charges on industrial products.
Egypt-EFTA Free Trade Agreement	Signed in 2006 with the European Free Trade Association, entered into force in August 2007.
Egypt-US Strategic Plan for Partnership	Signed in May 2009.
Egypt-MERCOSUR Free Trade Agreement	Signed in August 2010.
Egypt-Singapore	Under negotiation.

Source: Ministry of Trade and Industry, December 2010

Trade agreements with emerging economy countries tend to focus on industrial goods as these partners look to take advantage of Egypt's cheap labour while the country itself is a huge market, with established links too to Europe and the US.

Egypt's exports to emerging countries are mainly crude oil and oil products, in addition to clothes, chemicals, iron and steel. Egypt's imports from its emerging country partners vary by region. From Asia, they are mostly cars, auto accessories and spare parts and clothes. From Arab countries, come mainly crude oil and oil products while Russia supplies agricultural produce, wheat and maize, in addition to iron and steel.

Foreign direct investment from Egypt's emerging partners

Egypt's emerging country partners are important sources of FDI, led by the UAE, Kuwait and Saudi Arabia. Out of total FDI inflows to Egypt over the past five years, 8.1% originated from the UAE, 3.1% from Kuwait and 2.4% from Saudi Arabia. Lebanon, Qatar and Jordan each have shares of around 1.0% of total FDI inflows to Egypt while Turkey, China and India are beginning to figure, albeit at still very low levels.

Traditional partners, however, still account for the lion's share of FDI. The EU and US combined accounted for some 70% of FDI over the past five years although this share is falling. US FDI inflows have at the same time been variable – hitting a high of just over 50% in 2005/06 and dropping to 12.9% in 2009/10. Again, this may be explained by the US economic slowdown so the trend could be reversed. The EU share, on the other hand, has

steadily increased, from 32.5% in 2005/06 to 61.4% in 2009/10, helping make up some of the slack.

Table 8 - Foreign Direct Investment Inflows to Egypt from Traditional vs. Non-Traditional Partners
(in USD million, and in percentage of total)

	2005/06	2006/07	2007/08	2008/09	2009/10	Total FDI in 5 yrs
EU	2954.3 (32.5%)	4061 (31.04%)	5430.1 (30.5%)	5578.4 (43.5%)	6763.2 (61.4%)	24787 (38.8%)
US	4553.5 (50.05%)	4681.3 (35.8%)	6447.8 (36.22%)	3515 (27.38%)	1424.9 (12.9%)	20622.5 (32.3%)
Arab countries	554.5 (6.09%)	3351.4 (25.6%)	3235.6 (18.18%)	2029.7 (15.81%)	1439.5 (13.08%)	10610.7 (16.6%)
<i>UAE</i>	63 (0.69%)	3049.5 (23.3%)	726.2 (4.08%)	1037.4 (8.08%)	303.5 (2.76%)	5179.6 (8.11%)
<i>Kuwait</i>	72.5 (0.8%)	24.8 (0.19%)	1597.2 (8.97%)	118 (0.92%)	188.7 (1.7%)	2001.2 (3.14%)
<i>Saudi Arabia</i>	99 (1.09%)	204 (1.56%)	365.4 (2.05%)	514.1 (4.01%)	323.4 (2.94%)	1505.9 (2.36%)
Turkey	0.8 (0.01%)	8.6 (0.07%)	14.3 (0.08%)	69 (0.54%)	25.4 (0.23%)	118.1 (0.19%)
China	0.8 (0.01%)	8.4 (0.06%)	17.5 (0.10%)	60 (0.47%)	26.9 (0.24%)	113.6 (0.18%)
India	0 (0%)	4.1 (0.03%)	4.3 (0.02%)	51.4 (0.4%)	8.7 (0.08%)	68.5 (0.11%)
Total Inflows ^a	9097.9	13084.3	17802.2	12836.1	11008.1	63828.6

Source: The Central Bank of Egypt.

a. "Total inflows" refers to the total amount of foreign direct inflows to Egypt, and thus includes other countries not represented in the table.

Values in parentheses denote the share of the country (or region) from total foreign direct investment inflows to Egypt.

Fiscal year July (n-1)/June (n).

Other forms of partnership with emerging partners

Arab countries are particularly important for Egypt as they are the main destination of young migrants and thus become an important source of remittances. According to official figures, there are 1.9 million Egyptian migrants working outside Egypt on a temporary basis, with the large majority, 87.6%, in Saudi Arabia, Libya, Jordan and Kuwait. Some 20.4% of remittances came from Kuwait in 2008/09, with 17.7% from the UAE and 12.5% from Saudi Arabia.

Egypt also receives official development assistance (ODA) from Arab and African entities, most notably from the Arab Fund for Economic and Social Development, the African Development Bank and the Kuwait Fund for Arab Economic Development. The Arab Fund was the fourth largest provider of ODA in 2009, providing Egypt with USD 191.4 million while the African Development Bank gave USD 190 million and the Kuwait Fund USD 66.4 million.

However, Egypt's most important development partners continued to be the United States Agency for International Development (USAID), the World Bank and the European Investment Bank (EIB). The first two each provided ODA worth more than USD 680 million in 2009, followed by the EIB with nearly USD 380 million.

Political Context

The resignation of president Hosni Mubarak in February 2011 after some 30 years in power marks a watershed for Egypt, opening up the possibility of significant political and economic reform but also bringing with it many uncertainties for the future. After disputed elections for parliament in November 2010 that the government claimed to have won with an overwhelming majority, frustration with the authorities boiled over into street protests in January 2011, inspired by events in Tunisia. As demands for change grew, divisions within the government began to emerge and, crucially, the military appeared hesitant to put down the protests with the full use of force. There were inevitably some violent clashes, with some 365 people reported killed and more than 1 000 injured before Hosni Mubarak finally stood down on 11 February, handing power to the Supreme Council of the Armed Forces. Mubarak's departure was widely welcomed as bringing much needed change to Egypt which faces many challenges in meeting the aspirations of its largely youthful population. The fact that the transition came about without a bloodbath is seen as offering hope that the country can tackle its severe problems while maintaining order. The key question is whether the military establishment can meet the huge popular demand for political and economic reforms. The military pledged to suspend the state of emergency law that has been in place since 1981 before holding the upcoming parliamentary elections set for September 2011. The constitutional declaration that the military issued on 30 March (following the 19 March referendum) maintained the article in the constitution that prohibits the establishment of political parties with a religious frame of reference. However, the banned Muslim Brotherhood, which has been the most organised political opposition, is very active and more vocal after the fall of Mubarak's regime. Many analysts believe that the next elected parliament will be mostly from the two politically structured groups: the Muslim Brotherhood (whose members run as "independents" in the upcoming parliamentary elections) and the remnants of the old regime. Much will depend on the new constitution that will be promulgated by an elected committee from the next parliament.

Social Context and Human Resource Development

Egypt faces serious social challenges. The poverty rate increased to 21.6% in 2008/09 from 19.6% in 2004/05, according to the latest Household Income and Expenditure Survey (HIECS). That means that some 16.6 million Egyptians could not obtain their basic food and non-food needs on a daily basis. Egypt also suffers from large regional disparities when it comes to poverty, with the rural Upper Egypt region the most deprived. According to the HIECS 2008/09 report, 43.7% of rural Upper Egypt lives in poverty, in contrast to only 6.9% of the Metropolitan region. The global economic slump and its impact on Egypt aggravated the poverty problem.

Table 9 – **Poverty Rate and Real GDP Growth Rate (percentage)**

	1990/91	1995/96	1999/00	2004/05	2008/09
Poverty Rate	24.18	19.41	16.74	19.56	21.6
Real GDP growth rate	2.3	4.9	5.2	4.4	4.7

Source: Poverty is obtained from Kheir-El-Din and El-Leithy, 2007 and HIECS, various surveys. The first measure of poverty (of 1990/91) was based on the per capita poverty line, whereas subsequent surveys measured poverty on the basis of household-specific poverty line,

Real GDP growth rate: Authors' calculations based on data obtained from the Ministry of Economic Development.

Fiscal year July (n-1)/June (n).

Poverty and its persistence across generations is closely tied to educational achievement, which by some measures in Egypt appeared to go backwards. Total enrolment at all educational levels actually fell from 76.4% in 2005/06 to 66% in 2007/08² – although this may reflect administrative changes rather than an actual lower rate of enrolment. According to the *Global Competitiveness Report 2010*, Egypt's net primary enrolment rate was 93.5%, gross secondary enrolment was 79.3% and gross tertiary enrolment was 28.5%. In terms of the quality of the educational system, Egypt ranked 131 out of 139 countries. This poor education system not surprisingly fails to produce a workforce with the skills and attainments the country needs.

Official figures show that 521 000 jobs were created in 2009/10 and that the unemployment rate fell to 8.96% from 9.4% in 2008/09. The HIECS 2008-09 report notes that at least 90% of those registered officially as unemployed are aged less than 30 years. Low quality and pay are the hallmarks of many of the new jobs created. Studies suggest that up to 37% of the Egyptian workforce is employed by the informal sector and many new entrants to the labour market seek their first job there.

There has been some progress in achieving the Millennium Development Goals (MDGs) but challenges remain. On the first goal, eradicating extreme poverty, defined as those living on USD 1 per day, Egypt has reduced the numbers by half. On the other hand, the government is unlikely to meet the national target of reducing poverty to 15% given the slowdown in economic growth.

Egypt is on its way to meeting the second MDG of universal primary education, stepping up efforts to increase enrolment rates and so should reach the target by 2015. Despite gains, illiteracy among adults remains a challenge. World Bank figures show adult male illiteracy at 30% in 2007, rising to 42% for women.

Progress on the third MDG of empowering women is slow. Women remain marginalised by any economic, social and political measure. In 2009/10, the official unemployment rate was 22.2% for women and only 5.0% for men. Women suffer more too as the government cuts the number of public sector workers.

In terms of reducing infant mortality and improving maternal health, Egypt has made progress. For 2009, World Bank figures put the infant mortality rate at 18 per 1 000 live births and the maternal mortality rate at 82 per 1 000. Some 80% of births are now attended by trained health staff. Sharp regional disparities persist in health care, with rural Upper Egypt among those areas least well served.

In terms of disease incidence, Egypt is considered to have a low level of HIV/AIDS at 1.0% of the population in 2007, and of tuberculosis, at 0.24% in 2008. The major health challenge facing Egypt is to control hepatitis B and C. Egypt has the highest prevalence of hepatitis C virus (HCV) in the world. According to the Egyptian Demographic Health Survey (EDHS) of 2009, there is an estimated overall prevalence of HCV-antibodies of 14.7% while some 9.8% of the population is estimated to be chronically infected.

Notes

1. These figures reflect the Egyptian Ministry of Finance's definition of domestic public debt (DPD) which refers to consolidated domestic debt due to the general government and economic authorities and does not include definition of the DPD which includes NIB debt amounted to EGP 888.7 billion; 73.5% of GDP in June 2010.

2. The sharp decline in the enrolment rate was explained in the Egypt Human Development Report by the reintroduction of the sixth primary grade, which has led to a significant reduction in the numbers enrolled in some school years; especially in the first secondary grade. Previously, students moved from the fifth primary grade to the first secondary grade. However, with the reintroduction of the sixth primary grade, students moved from the fifth to the sixth primary grade, and hence enrolment into the first secondary grade reflected only repeaters from the previous year's first secondary, and thus falsely indicating a fall in the secondary enrolment rate.