Recent Development in the Egyptian Economy

During the last decade, Egypt has been preparing and planning a strategy for continued and steady economic growth. Starting from 1991, Egyptian government has successfully instituted an Economic Reform Program that has transformed Egypt into a vital and prosperous emerging market. This was due to a set of economic policies, which insured that market forces are given maximum potential to drive growth and employment. The legacy of centralization and public sector domination of the economy is over. Today, there is universal recognition that Egypt has become one of the most stable emerging markets.

Over the last year, Egypt's economy witnessed a noticeable turnaround. Consecutive financial crises that hit many emerging economies started in 1997 and lately the September 11th events have undeniably negatively impacted the Egyptian economy. However, the Egyptian government promptly embraced the necessary policy measures that put the economy back on track.

I. The macro economy

Macroeconomic discipline has been maintained, and restructuring and reforms are an ongoing process. The annual growth rate, although below its projected rates, is still a robust 6 percent in 1999/2000. Inflation is low at 2.5 percent (June 2000), and the budget deficit for 1999/2000 is estimated at 3.7 percent, and projected to decline to 3.4 percent in 2000/2001. The upcoming fiscal reforms include a renewed commitment to fiscal stability and efficient debt management. The current account deficit for 1998/99 was 1.9 percent of GDP, and preliminary indicators for the first three-quarters of 1999/2000 show continued improvements (1.2 percent of GDP).

International reserves, after a period of decline, have now stabilized around a comfortable US$ 14.6 billion (July 2000). External debt stands at US$ 27.7 billion, some 2 percent lower than June 1999. As a percent of GDP, foreign debt sled from 31.7 percent in June 1999 to a preliminary 29 percent in 2000.

Short-term debt as a percent of a total debt has declined from 6.48 percent to 5.86 percent over the same period.

Link for more details on macro-economic indicators with:
www.economy.gov.eg

II. The capital market

Egypt's robust economic profile is also reflected in the growth of its capital market, which is a result of ongoing privatization and legislative developments aimed at reforming current practices to adhere to international standards. Market capitalization rose from $4 billion to $43 billion over the last five years, with over 1056 companies listed on the stock market. Traded volume for the first half of 2000 surpassed $9 billion, compared with $5 billion for the same period in 1999. The average daily traded volume increased by 50% over the last year. Egypt's Capital Market is currently equipped with one of the most advanced trading floor and a highly sophisticated interactive web-site, with E – Business solutions, that has no parallel in the Middle East. Morgan Stanley Capital International (MSCI), encouraged by Egypt's commitment to privatization, decided to include Egypt in its Emerging

Market Free index (EMF) from May 2001.

Link for more details on capital market www.egyptse.com

III. Regulatory framework for the Financial System

Egypt's reform efforts also include strengthening the financial system, and ensuring that it ranks at par with international practices. Substantial progress in improving banking and supervisory standards, and drafting new rules and regulations will help strengthen and diversify the financial system. The central depository law (drafted with assistance from one of the top US firms) was ratified by parliament in the spring and should help enhance the efficiency of settlement of transactions at the Stock Exchange.

A number of other laws have been ratified by the Cabinet and are expected to be passed by The Parliament in its coming legislative round. These include the Mortgage Law, and a new Capital Markets Law that is being drafted with assistance from leading US firm. Recently a code of conduct for brokers and dealers was issued, and a decree organizing bond dealers activities represents a new development in the fixed income markets for Egypt.

A prime ministerial decree granting exclusive marketing rights to pharmaceutical products under patent-in line with Egypt's obligations in the World Trade Organization (WTO) (Trade-Related Intellectual Property Rights Agreement - TRIPS) was issued in March 2000, and will soon be followed by a data exclusivity decree. These two developments do not withstand a new IPR law that will soon be discussed by Parliament, providing the foreign investor with the necessary safeguards. In the meantime, Egypt has no outstanding obligations under the TRIPS agreement.

Other laws in the pipeline are securitization/leasing law, the economic zones law and anti-trust and competition law. In addition, the investment law was recently amended to facilitate business expansion: Article 20 was ratified by Parliament, and added by law 162/2000 to Law No. 8/1997.

A new book entry registry for government securities is being finalized and represents an important step towards strengthening the domestic debt market in order to foster stabilization efforts and enhance private investment. Together with the recently issued Central Depository and Settlement Law this should help increase liquidity in the market, simplify transfer of ownership, ensure safety of transactions, reduce time and expenses transfer of ownership of securities, and help encourage portfolio investment through establishing international best practices.

Other financial sector reforms include the enacting of insurance legislation in 1998, which permits private sector entry into the capital of Egypt's three state-owned insurance companies. The new law also removed all restrictions on minority foreign ownership of insurance firms and abolished the ban on service by foreign nationals as corporate officers. Private sector participation in the insurance sector should help increase domestic savings to finance investments and increase economic growth rates.

IV. Trade reforms

In addition to the ongoing modernization and restoration of the economy, free trade and liberalization, essential forces to growth are reemerging as a new focus of the government. Egypt has concluded negotiations with the EU, and an association agreement will shortly be signed. And over the past few years, Egypt has concluded free trade agreements with a number of Arab countries, as well as an agreement with the Common Market of East and South Africa (COMESA). We have also signed a Trade and Investment Framework Agreement (TIFA) with the U.S with an ultimate objective of reaching a Free Trade Agreement.

The government is also taking other important strides towards opening the economy to international trade. In 1998, Egypt reduced –unilaterally- the maximum tariff rate on most products from 50 percent to 40 percent and consolidated rates of 35 to 45 percent to 30 percent. Egypt's average trade-weighted tariff was 15 percent in 1998. The government lifted its import ban on most textiles on January 1,1998, in compliance with its obligation under the WTO Agreement on Textiles and Clothing. The remaining import ban on apparel is due to be eliminated in 2001.

V. Reduced role of the Government in the production of goods and services

In addition to the privatization program of more than 130 public companies, the government is taking important steps towards reducing its role in the production of goods and services. It plans to sell 20 percent of Egypt Telecom through IPO. In 1998 the Government amended a 1964 law establishing the General Egyptian Maritime Organization to permit the private sector to carry out most maritime transport services. This measure ended the Government's long-standing monopoly in this sector. Egypt also passed a law permitting private firms to build and operate new airports. Also, as part of national strategy to increasetourism, international airlines will now be allowed to operate international flights to airports in resort areas. These developments should help strengthen the capacity to deal with external vulnerabilities, and provide a structured and friendly environment for business, foreign direct investment and portfolios inflows.

Link for more details on privatization: www.mpe-egypt.com

VI. Egypt's Sovereign Credit Rating

The positive development of the economic reform program helped Egypt receive an investment grade in credit rating by international rating agencies since 1997. Fitch Ibca, in its report of 2000, maintained the same rating of August 1997 at (foreign currency BBB-, local currency A-). Standards & Poor issued a report in early July 2000 with the confirmation of the same rating. Moody's in 1999 upgraded Egypt's sovereign rating from speculative to investment grade at the level Baa-1. Thomson Financial Bankwatch has also in July 2000 maintained sovereign risk rating at BB+.

These agencies pointed out in their reports that Egypt's strong growth performance, inflation record, and external payment flexibility compare favorably with its peer group. They also noted that the stresses of 1997-1999 of falling oil prices, the decline in tourism, the Asian and Russian crises demonstrated the strength of Egypt's macroeconomic and external position. They added that the business environment has improved and the government's commitment to liberalization and private sector growth is clear.