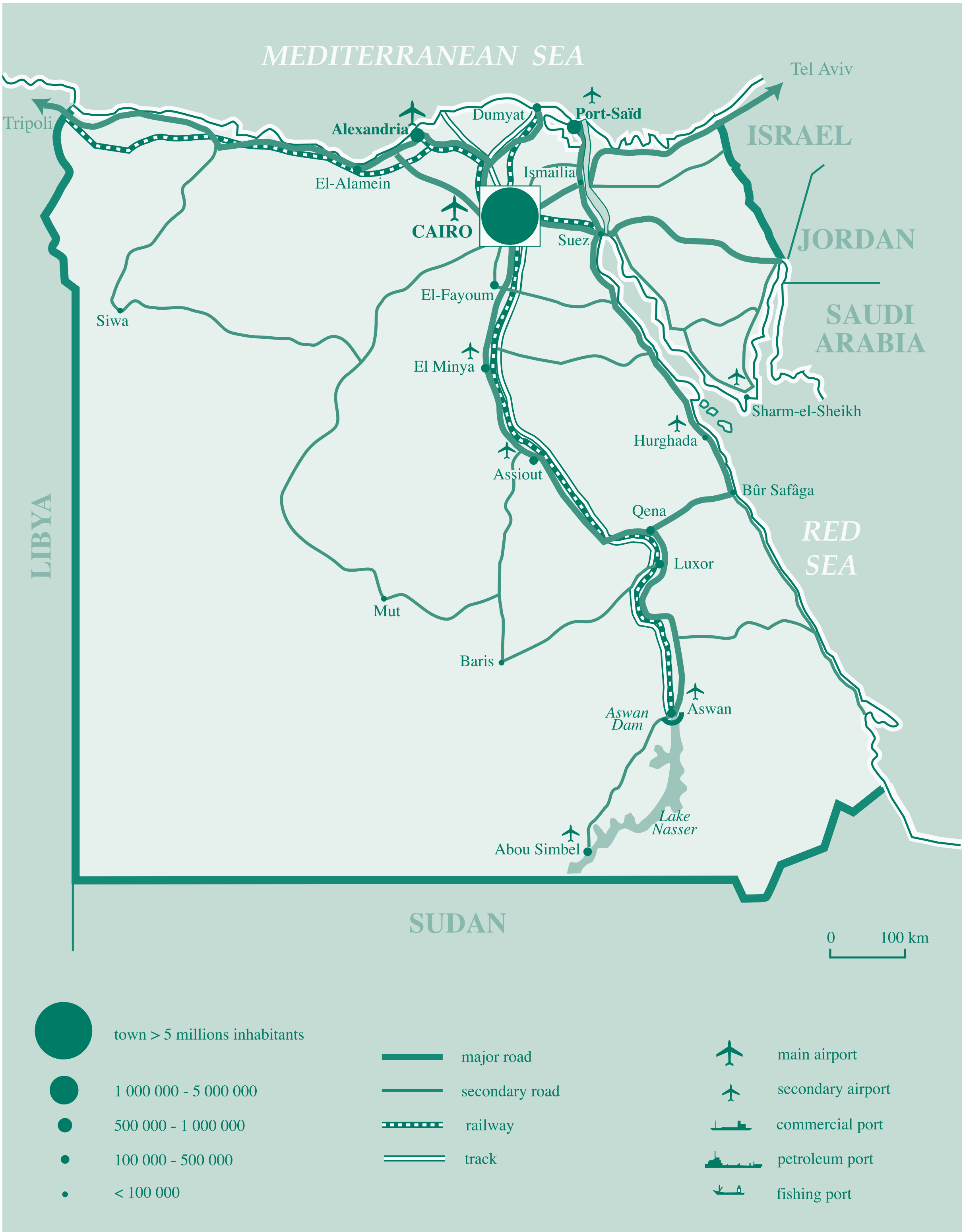
Egypt

key figures

• Land area, thousands of km^2	1 001
• Population, thousands (2006)	75 437
• GDP per capita, $ PPP valuation (2006)	4 500
• Life expectancy (2006)	70.9
• Illiteracy rate (2006)	28.6

Egypt



MEDITERRANEAN SEA
Tel Aviv
Tripoli
Alexandria
Dumyat
Port-Saïd
ISRAEL
El-Alamein
Ismailia
CAIRO
Suez
JORDAN
SAUDI ARABIA
Siwa
El-Fayoum
El Minya
Sharm-el-Sheikh
Hurghada
Assiout
Bûr Safâga
Qena
RED SEA
LIBYA
Luxor
Mut
Baris
Aswan
Aswan Dam
Lake Nasser
Abou Simbel
SUDAN
0
100 km
town > 5 millions inhabitants
1 000 000 - 5 000 000
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

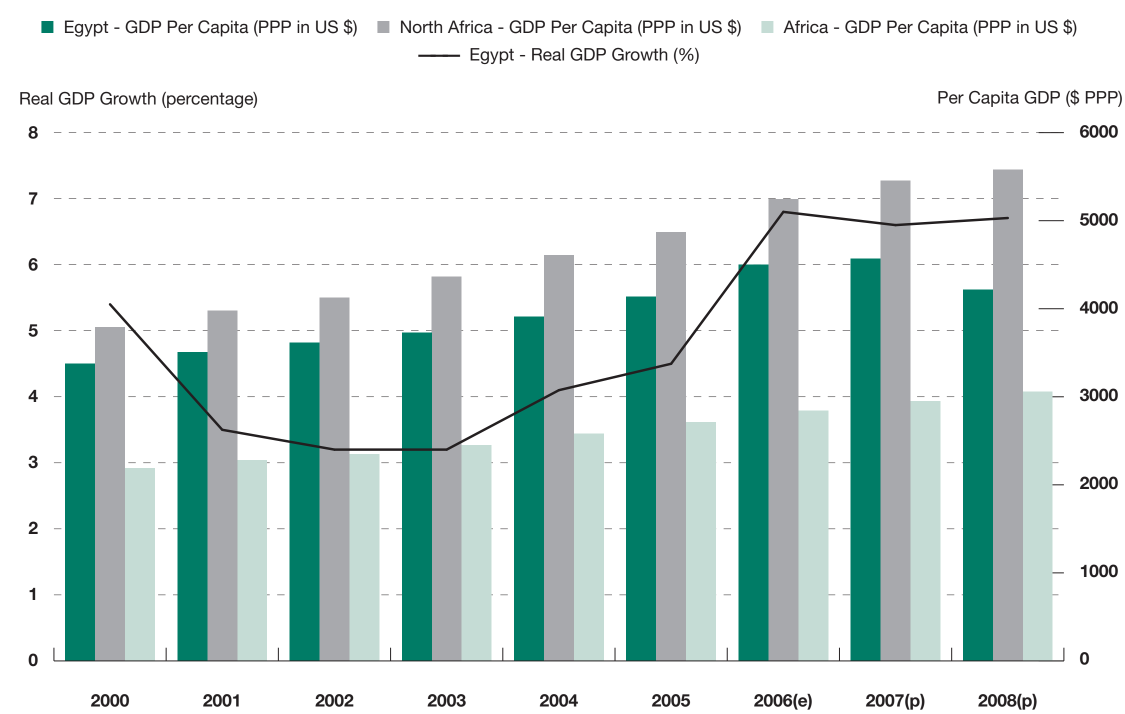
Egypt

EGYPT HAS GREATLY BENEFITED FROM reforms to open up and liberalise its economy in recent years and has quickly become a dynamic market economy, led by the private sector and well integrated into the global economy. It has chalked up excellent real GDP growth rates – 6.8 per cent in 2005/06[1] – with over 6.6 per cent predicted for the next few years. This performance has been accompanied by record foreign direct investment (FDI) – more than $6 billion – and improvement in most economic and social indicators.

The only macroeconomic indicators that need to be substantially improved concern the budget deficit, which was 9.3 per cent of GDP in 2005/06, and the level of public debt, which is more than 100 per cent of GDP. However, the country's leaders do not want to break the current virtuous circle of growth by drastically cutting government spending, especially basic food and energy subsidies for consumers. This might increase poverty at a time when more than 10 per cent of the workforce is unemployed and pockets of great poverty exist all over the country, especially in Upper Egypt. Moreover, inequality and poverty offer fertile ground for Islamic fundamentalists. Although commerce and finance have been greatly liberalised, the political situation has hardened as the authorities have rejected demands to allow new political

Foreign and domestic investment rates exploded in 2006 and the economy performed very well in spite of rising public debt, a high fiscal deficit and political uncertainty.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



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

http://dx.doi.org/10.1787/756538863046

1. Egypt's fiscal year runs from 1 July to 30 June the following year.

parties and arrested many members of the fundamentalist Muslim Brotherhood.

The private sector's share in the domestic economy is growing steadily as the business climate improves and the privatisation programme resumes. Banking has been transformed over the past three years, with new laws, state withdrawal from the sector, restructuring and recent privatisations. Financial intermediaries can now support the private sector and economic growth. At the international level, Egypt has embarked on major economic and trade partnerships with China, Russia and Turkey and strengthened those with its older partners. If the country can meet the key challenges of reducing poverty, unemployment and the budget deficit, it should be able to take full advantage of its potential.

Recent Economic Developments

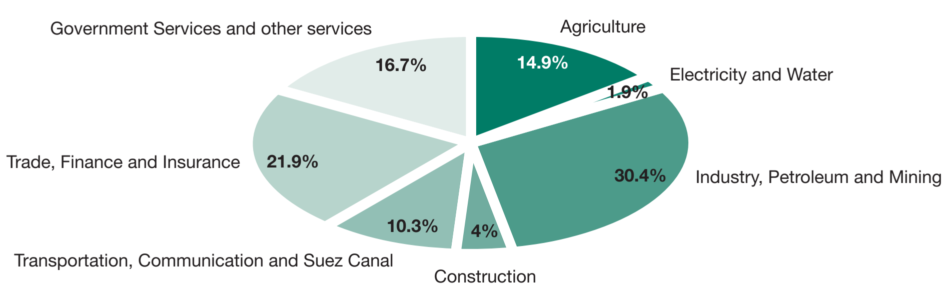
Real GDP grew a robust 6.8 per cent in 2005/06 (4.9 per cent in 2004/05), mostly due to good performances by natural gas, construction, the Suez Canal and communications, and to major structural reforms and soaring domestic and foreign investment. Growth is forecast as 6.6 per cent in 2006/07 and 6.7 per cent in 2007/08 – steady progress that, if it lasts, promises to reduce poverty.

Agriculture grew 3.2 per cent by volume in 2005/06 (3.3 per cent in 2004/05), and its share of GDP was steady at about 15 per cent. Irrigated farming did well and is increasingly focusing on high-value products such as horticulture, whose fruit and flowers are delivered fresh daily to the nearby European market. Domestic consumers bought 95 per cent of agricultural output in 2005/06. The country is still a major importer, mainly of cereals (about 7 million tonnes a year). It is also trying to modernise its cotton mills to maintain its share of the world market and has set up a committee to deal with manufacturing and marketing problems. Despite these efforts, cotton production fell 5.4 per cent by volume in 2005/06, continuing a decline of several years.

Mining expanded 20.8 per cent in 2005/06, but there were great disparities within the sector. While oil output shrank 2.1 per cent, natural gas production is booming (+50.2 per cent real growth), and further gas discoveries were made in early 2007. Oil reserves at the end of 2005 were 3.7 billion barrels and production 579 000 barrels a day (compared with 922 000 in 1996). About two-thirds of output is refined in Egypt's nine refineries, which have a total daily capacity of 726 250 barrels. Natural gas resources are huge, with proven reserves estimated at 66 700 billion cubic feet at the end of 2005, plus potential reserves of 40 000 to 60 000 billion. The country has exported gas in liquefied form since 2003 and continues to expand its markets with the building of a gas pipeline to Jordan and Syria, and also to Russia, Turkey, Israel and Europe. To reduce pollution, the government is encouraging local use of natural gas not only for motor vehicles but also for electricity generation, by converting power plants to use gas turbines.

Manufacturing grew 5.8 per cent in real terms in 2005/06 (4.4 per cent in 2004/05) and largely comprises small units of fewer than 15 employees. In industry, a broader sector, the share of the private sector increased to 86 per cent in 2005/06 with the privatisation of large

Figure 2 - **GDP by Sector in 2005/06** (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

http://dx.doi.org/10.1787/507334376630

public firms. Egyptian industry turns out a wide range of items: pharmaceutical, ceramic and metal products all increased their share in GDP, but the best performances in 2005/06 were by textiles and agro-food. The textiles sector made up for market losses caused by the end of the Multifibre Arrangement by producing textiles and ready-to-wear items in the country's seven Qualifying Industrial Zones (QIZ). Construction did very well, growing 14 per cent in real terms, with its GDP share rising to 5 per cent (up from 3.8 per cent in 2004/05). More than 84 per cent of the 2005/06 cement production of 35.8 million tonnes was sold domestically.

The services sector accounted for about 48 per cent of GDP in 2005/06. As a result of the growing dependence of the West on Middle Eastern oil, the expansion of China's and India's trade, and military operations in the Middle East, more than 7 per cent of the world's maritime traffic passed through the Suez Canal in 2005/06, earning Egypt $3.56 billion – $274 million more than in 2004/05. Its value added at constant prices grew 16 per cent in 2004/05 and 9.4 per cent in 2005/06. Canal revenues have nearly doubled since 2001 and should continue rising in 2006/07, notably because of the March 2006 increase of 3 per cent in charges for all ships passing through.

Telecommunications is also booming, with 10.3 per cent growth in 2005/06 (9.4 per cent the previous fiscal year). After growing 21.1 per cent by volume in 2004/05, tourism was up only 4.3 per cent in 2005/06, mainly because of an attack – the third in 18 months – on a Red Sea tourist site in April 2006.

Table 1 - **Demand Composition** (percentage of GDP)

	1997/98	2004/05	2005/06(e)	2006/07(p)	2007/08(p)
	Percentage of GDP (current prices)		Percentage changes, volume		
Gross capital formation	**21.5**	**18.0**	**15.8**	**17.0**	**14.2**
Public	5.4	4.5	-26.1	12.0	10.0
Private	16.1	13.4	30.0	18.0	15.0
Consumption	**88.0**	**84.3**	**9.3**	**5.8**	**7.2**
Public	11.3	12.7	5.7	4.7	5.0
Private	76.7	71.6	10.0	6.0	7.6
External sector	**-9.5**	**-2.3**			
Exports	16.2	30.3	13.1	5.0	2.5
Imports	-25.7	-32.6	17.2	11.0	11.8

Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

http://dx.doi.org/10.1787/611681120765

Domestic investment is expected to grow a record 15.8 per cent in 2005/06 (followed by 17 and 14.2 per cent in the two subsequent years) and is increasingly provided by the private sector, which promises strong economic growth. Private investment accounted for 58 per cent of total investment on average between 2000 and 2005 and topped 66 per cent in 2005/06. The GDP share of investment was 18.7 per cent in 2005/06 and that of consumption 83.7 per cent. The tertiary sector (transport and communications) was the main target of domestic investment (with 18 per cent of the total), followed by the social sector, manufacturing, and oil and gas (each 15 per cent). Domestic demand (both investment and consumption) should pull growth upwards in 2006/07 and 2007/08. Exports should grow more slowly than imports, which are expected to rise sharply to meet strong domestic demand.

Macroeconomic Policy

Fiscal Policy

The 2005/06 budget was the first one complying with the new Government Finance Statistics (GFS) budget classification system of the International

Monetary Fund (IMF), which treats subsidies explicitly since they are a very big part of government spending. This makes it hard to see budget trends, as the budget was recalculated from 2002/03 under the new system. The GFS system increases the deficit: for example, the 2002/03 deficit was 6.1 per cent of GDP under the old system and 9.1 per cent under the new. In 2005/06, the deficit amounted to 9.3 per cent of GDP (6.2 per cent under the old system), compared with 9.4 per cent (6 per cent) the previous year. It is now expected to fall steadily, to 8.6 per cent in 2006/07, 7.7 per cent in 2007/08 and eventually to 4 per cent – still a high figure – in 2010/11.

The challenge facing the government is to cut spending to reduce the budget deficit and public debt without slowing economic growth. Over the 2002-06 period, public expenditure accounted for a very big share of GDP (over 30 per cent). Soaring oil prices have pushed up spending on subsidies and social benefits from 29.3 billion Egyptian pounds (EGP) in 2004/05 to 50 billion in 2005/06 and an expected 58 billion in 2006/07 (more than 20 per cent of all government spending). Energy subsidies were 40 billion EGP in 2005/06 ($6.7 billion). One solution being considered is to make subsidies more effective by better targeting the poorest people, notably by issuing a smartcard to the poorest families. The reform would be introduced gradually, over four to five years. The price of petrol was put up recently from 1 EGP to 1.30 EGP per litre to reduce the cost of these subsidies to the national budget, but government spending will still be strained by the burden of servicing the national debt, given the country's high level of domestic debt (102 per cent of GDP at the end of the 2005/06 fiscal year). Pay rises promised to civil servants during the presidential and parliamentary election campaigns will also weigh on the budget.

Table 2 - **Public Finances** (percentage of GDP)

	1997/98	2002/03	2003/04	2004/05	2005/06(e)	2006/07(p)	2007/08(p)
Total revenue and grantsa	**23.6**	**21.4**	**21.0**	**20.6**	**21.1**	**21.2**	**21.6**
Tax revenue	12.9	10.4	10.8	10.8	12.8	13.0	13.4
Oil revenue	2.4	2.9	3.0	3.3	0.4	0.4	0.4
Grants	2.8	0.8	1.0	0.5	0.5	0.4	0.4
Total expenditure and net lendinga	**24.7**	**30.5**	**30.1**	**30.0**	**30.4**	**29.8**	**29.3**
Current expenditure	19.2	25.2	25.0	25.3	26.8	26.0	25.3
Excluding interest	*14.0*	*19.0*	*18.7*	*19.2*	*19.9*	*19.6*	*19.3*
Wages and salaries	5.9	8.1	7.7	7.7	7.4	7.2	6.8
Interest	5.2	6.2	6.3	6.1	6.9	6.4	6.0
Capital expenditure	5.4	4.9	4.7	4.3	3.2	3.4	3.6
Primary balance	**4.2**	**-2.9**	**-2.7**	**-3.3**	**-2.4**	**-2.2**	**-1.7**
Overall balance	**-1.0**	**-9.1**	**-9.1**	**-9.4**	**-9.3**	**-8.6**	**-7.7**

a. Only major items are reported.
Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

http://*dx.doi.org/10.1787/447428415487*

On the revenue side, customs duties and tax rates have been significantly reduced. The average customs tariff was cut from 14.6 to 9.1 per cent in 2004, and the highest income tax rate was cut by half to 20 per cent in the 2005/06 budget. In the same year, company tax was sharply reduced and harmonised at 20 per cent (except for oil companies). Despite the lower rates, tax exemptions were abolished and the tax base broadened. Tax revenue rose 17 per cent in 2005/06, whereas the government was expecting a drop of 12 per cent. Better tax and customs collection and the vigour of the private sector also contributed to this performance. Total revenue increased to 21.1 per cent of GDP in 2005/06 (20.6 per cent in 2004/05) and should continue to rise in 2006/07 and 2007/08, helping to ease the budget deficit.

Monetary Policy

Under flexible exchange rates, the main job of the Central Bank of Egypt (CBE) is to maintain price stability. It has become more independent and active since 2005, setting up a new framework for intervention using the interbank interest rate and taking many steps to liberalise the various markets. It issues its own bonds, with maturities ranging from one day to two years, which it trades on the interbank market twice a week. In June 2005, it established a corridor within which the interest rate can fluctuate. The ceiling and floor rates are set by the monetary policy committee. The interest rate, after being cut to encourage investment, was raised again in December 2006, from 8.75 per cent to 10.75 per cent, to curb inflationary pressure.

Banking supervision has been improved and a wholesale reorganisation of commercial banks undertaken to make the sector more efficient. Financial intermediaries seem to have better performed their role of supplying funds to businesses. Loans to the private sector rose 8.5 per cent in 2005/06 (+3.6 per cent in 2004/05).

Inflation expectations are mixed. Restoration of confidence in the economy plus higher foreign exchange reserves ($26 billion at the end of 2006) may even increase the value of the Egyptian pound. Consumer price index inflation eased sharply to 4.1 per cent in 2005/06 (from 11.4 per cent in 2004/05), and real interest rates turned positive for the first time in many years. Some inflationary pressures were observed, however, and the inflation rate is expected to climb back to about 6.5 per cent in 2006/07 and 6.1 per cent in 2007/08. The renewed rise in inflation is largely due to the effects of bird flu on prices for farm products, which make up a sizeable share of the basket of items used to calculate prices, and to cuts in subsidies, which pushed up prices for energy (petrol rose 30 per cent) and other items such as water.

External Position

Egypt is busily signing trade agreements in all directions. This strategy, helped by the country's geo-strategic position at the crossroads of Africa, Europe and Asia, has boosted trade in goods and increased foreign investment. Egypt belongs to the Common Market for Eastern and Southern Africa (Comesa) and has signed preferential trade agreements with many Arab states (Sudan, Lebanon, Morocco, Tunisia, Libya, Jordan, Iraq and Syria) as part of the Greater Arab Free Trade Area (GAFTA). A trade and investment framework agreement (TIFA) was signed with the United States in 1999 and an economic partnership agreement (EPA) with the European Union (EU) in 2001. QIZs were set up in 2004 under an agreement with Israel that in certain conditions allows items produced inside these areas to have duty-free access to the US market.

Egypt is also looking for new bilateral trade partners, such as Russia and Turkey, as well as strengthening ties with longstanding partners such as Libya. Its priorities are trade diversification and opening up markets to foreign trade. As the first African country to establish diplomatic relations with China in 1956, it has stepped up co-operation and partnerships with Beijing. While the TIFA accord with the United States is conditional on political reforms, the business possibilities with China are huge, and in five or six years' time China could replace the United States as Egypt's main trading partner by volume. Egypt is currently negotiating with China and Italy to allow virtually all China's exports to Europe to pass through the Suez Canal (only 60 per cent do so at present) at a cut price.

Egypt's main trade partners in 2005/06 were the European Union ($11.9 billion – 24.4 per cent of Egypt's total trade) and the United States ($11.4 billion – 23.3 per cent), but trade with China was growing fast and reached $1.39 billion (from less than $1 billion in 2004/05). The balance was heavily skewed in favour of China, whose exports to Egypt were $1.34 billion (48.6 per cent more than in 2004/05), while trade the other way amounted to only $45.4 million.

Egypt and China signed 11 bilateral economic and technological co-operation agreements and memorandums in June 2006, especially involving oil and gas. China wants, among other things, to ensure that it has enough natural resources for its booming economy, and Egypt, whose main source of revenue is tourism, would like to attract some of the 100 million

Chinese who travel each year. Chinese investors have also invested in Egyptian firms to the tune of $2.7 billion, and Beijing is considering reducing tariffs on imports from Egypt. The two countries have agreed to build factories to make electric cables, cement, glass, aluminium and chemical products, and plan to focus next on energy, textiles, ready-to-wear clothing, electronics and construction materials. The Chinese vehicle firm Cherry, for example, is building an assembly plant in Egypt, scheduled to come on stream in 2007. A $500 million Chinese industrial zone in Egypt is also in the works.

Trade with Russia amounted to $813.5 million in 2005/06, but in the first eight months of 2006 it increased 52 per cent year-on-year and reached $953.3 million. Egypt began producing Russian Lada vehicles in December 2005 and will soon turn out Russian Gasel and Sobol minibuses.

The trade deficit fell in 2005/06 from 11.5 to 11.2 per cent of GDP as a result of strong GDP growth and higher world oil prices. Oil revenue almost doubled (93 per cent) in 2005/06 to $10.2 billion, up from $5.3 billion in 2004/05, but oil imports rose 35 per cent as well. Volume exports in 2005/06 were up 27 per cent for non-oil items and 44 per cent for oil products. Egypt is a net exporter of oil products and textiles and a net importer of food (mainly cereals) and chemical, electrical and metal goods. It also has comparative advantages in exporting cotton, fruit and vegetables, medicinal and aromatic plants, and cut flowers. The share of raw materials in exports has fallen sharply while that of high-tech manufactures has risen, which makes Egypt less vulnerable to raw material price fluctuations on world markets.

The trade deficit is expected to rise in the next two years because of the sharp projected rise in imports (29.5 per cent of GDP in 2006/07 and 30.2 per cent in 2007/08) and the fall in exports (16.5 per cent and 14.8 per cent of GDP for the same two years). Imports of intermediate and capital goods will be needed to sustain increased domestic investment and productive activity. The current account surplus is expected to shrink in 2006/07 and then go into deficit in 2007/08 as the higher trade deficit cancels out the invisibles surplus (mainly due to tourism). The Suez Canal was the country's third-largest revenue source ($3.6 billion) in 2005/06, after tourism ($7.2 billion) and remittances by foreign workers abroad (more than $5 billion). About 2 million Egyptians live outside the country.

FDI has risen spectacularly in recent years and switched from oil to other sectors, such as construction, communications and natural gas. It rose from $435 million in 2003/04 to $4.13 billion in 2004/05 and $9.1 billion in 2005/06. This surge was led by US investments, which more than doubled, from $2.04 billion in 2004/05 to $4.55 billion in 2005/06, and accounted for half of total FDI. European investment (in second position) increased by 360 per cent in 2005/06 to reach $2.94 billion. Chinese investment was only $0.8 million in the 2005/06 figures, but is expected to be very much greater in the coming years. Egypt's direct investments abroad, or capital outflow, also soared, from $232.7 million in 2004/05 to $2.99 billion in 2005/06.

Table 3 - **Current Account** (percentage of GDP)

	1997/98	2002/03	2003/04	2004/05	2005/06(e)	2006/07(p)	2007/08(p)
Trade balance	-13.9	-8.2	-9.7	-11.5	-11.2	-13.0	-15.4
Exports of goods (f.o.b.)	6.0	10.2	13.0	15.4	17.2	16.5	14.8
Imports of goods (f.o.b.)	-19.9	-18.4	-22.7	-26.9	-28.4	-29.5	-30.2
Services	4.1	6.2	9.3	9.0	7.1	8.4	7.8
Factor income	1.4	0.1	-0.3	-0.3	0.5	0.4	-0.1
Current transfers	5.4	4.5	4.9	6.0	5.7	5.0	4.7
Current account balance	**-2.9**	**2.6**	**4.2**	**3.2**	**2.1**	**0.9**	**-2.9**

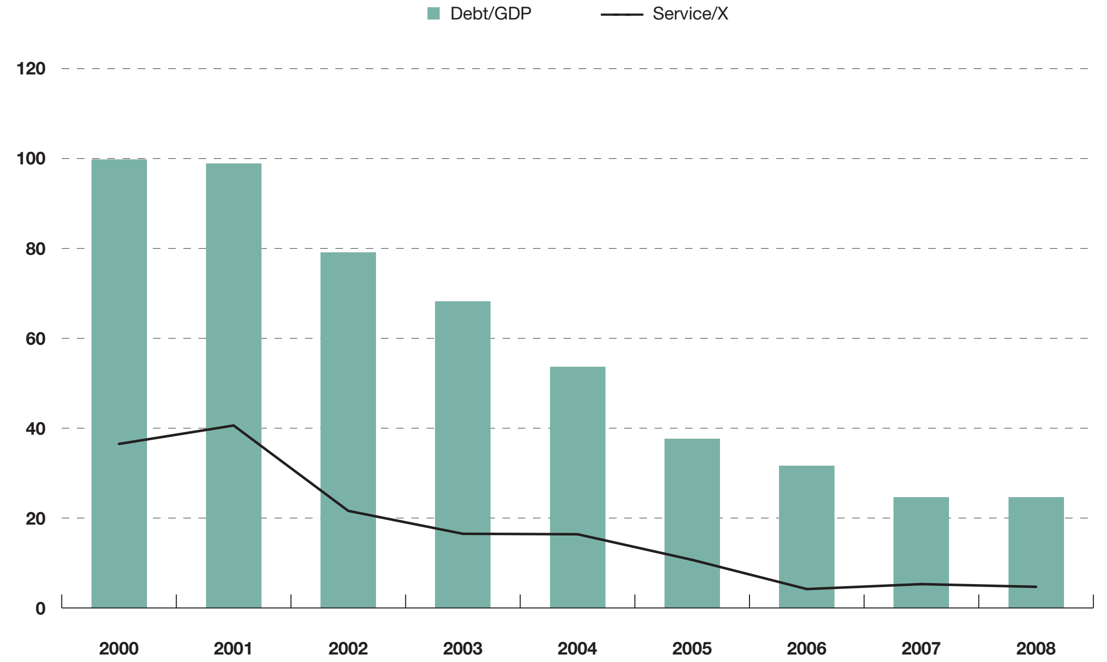
Source: Central Bank data; estimates (e) and projections (p) based on authors' calculations.

http://dx.doi.org/10.1787/306287660158

Investor confidence is also reflected by the amount of net portfolio investment in Egypt, which more than tripled to $2.8 billion in 2005/06 (from $831 million in 2004/05). Egyptian securities raised $2.69 billion in 2005/06, a more than 103-fold increase over 2004/05 ($25.9 million).

The external debt was $29.7 billion in September 2006. The main creditors were the United States, Japan, France and Germany, and only 17.1 per cent of total debt was multilateral. The low cost of servicing domestic and external debt (the latter consists mostly of long-term and soft loans) is a big advantage for the economy. Debt indicators are also healthy. The external debt amounted to 27.6 per cent of GDP in 2005/06 (down from 31.1 per cent in 2004/05), while debt service fell from 9.4 per cent of goods and services exports to 8.5 per cent.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

http://dx.doi.org/10.1787/341277703630

Structural Issues

Recent Developments

Current and future structural reforms mostly aim to sustain healthy economic growth and boost the private sector's capacity to create jobs. Major progress was made in 2006 in reform of the tax and customs departments, management of public finances, monetary policy, privatisation and financial sector reorganisation. The private sector is still hampered by red tape and poor management of services such as port facilities.

A total of 170 of the 314 state firms earmarked under the 1991 privatisation law are still to be divested, but the programme has begun to speed up: in 2005/06, 46 firms were transferred to the private sector, up from 28 in 2004/05. The proceeds of these 74 divestments (13.8 billion EGP in 2005/06 and 5.64 billion in 2004/05) were the highest since the privatisation programme began in 1991, and comprised more than 52 per cent of the proceeds between 1991 and 2006 and a quarter of all the firms up for sale.

President Hosni Mubarak has said the country will develop nuclear energy for peaceful purposes and build four nuclear power plants. He has asked China and Russia to help and has tried to reassure the international community by saying Egypt will import the enriched uranium required rather than produce it itself. Egypt began a nuclear development programme in the 1950s and has a research centre north of Cairo with two reactors, one Russian and the other Argentine. The Palestinians are expected to start buying electricity from Egypt in 2007 with completion of a 200 KW, 50-mile long high-tension line to the Gaza strip.

In transport infrastructure, a 33-kilometre third line is being added to Cairo's metro network; on completion of the new line, scheduled for 2020, the metro system will have 100 kilometres of track and carry 5 million passengers a day (a third of the city's population). The government is also spending 8.5 billion EGP ($1.48 billion) on modernising the railways, as a quarter of the locomotives are more than 30 years old and half of them need to be upgraded to carry the 1.5 million passengers the network serves each day.

In telecommunications, a consortium led by the United Arab Emirates firm Etisalat was awarded Egypt's third mobile phone licence in July 2006 for a reported sum of 16.7 billion EGP ($2.9 billion), with the government getting 6 per cent of its future revenue.

The banking sector has been the main target of reforms and restructuring. The chief aim of the 50 billion EGP ($8.7 billion) Financial Sector Reform Programme (FSRP) due to end in 2008 is to set up an efficient and competitive financial system, with more effective intermediation and risk management, and to boost the security and solidity of both bank and non-bank financial institutions, with closer monitoring by the CBE.

Under the FSRP, a wide-ranging consolidation of the banking sector was undertaken, with capital reorganisation, reduction in the number of banks and privatisation of the large state-owned Bank of Alexandria. The latter, which attracted bids from 12 European and Arab banks and was awarded to the Italian bank Sanpaolo, is now the country's biggest privately-owned bank, ahead of the National Société Générale Bank (NSGB) and the Commercial International Bank (CIB), with 188 branches, 6 per cent of all deposits ($5.4 billion) and $6.9 billion in assets. The $1.6 billion sale of the bank was the biggest privatisation of 2006. To facilitate its sale, $1.2 billion worth of non-performing loans to the public sector was repaid in January 2006. The bank was the smallest of the four state-owned banks. Of the three others, the huge National Bank of Egypt is not being privatised and the Misr Bank and the Bank of Cairo are due to merge at some point.

In 2006, the government also sold the shares it held in 13 commercial banks, and several Egyptian banks came under foreign control, such as the MIBank (bought by a subsidiary of the French Société Générale) and the Egyptian American Bank (EAB), which was taken over by Crédit Agricole-Indosuez. In September, France's biggest bank, Crédit Agricole, launched an Egyptian subsidiary, Crédit Agricole Égypte (CA-E), which has about 2 per cent of the market; the parent company aims to double its market share in three to five years, making it one of the biggest privately-owned banks.

The government also wants to reduce the number of banks by increasing their required minimum capital. Seven voluntarily merged in 2006, six were forced to merge, six were wound up and one new bank opened. The sector, which has been called overcrowded, shrank from 57 to 39 banks, and the goal for 2007 is 22.

The last problem concerns non-performing loans. For state-owned banks, the investment ministry is supposed to use income from privatisation to reimburse some of these loans. For privately-owned banks, it is vital to set up a department to manage non-performing loans, and this unit should report directly to the CBE. About half of all non-performing loans are thought to have been eliminated by the banks in the past two years.

Access to Drinking Water and Sanitation

The water resources and irrigation ministry has drawn up a national plan to improve management of water from the Nile and tackle many other problems. First, the rapid growth of the population and of industry requires ever-increasing amounts of water from a limited supply. Egypt depends largely on the Nile to meet these needs, and despite the huge reservoir formed by Lake Nasser, the supply of water does not increase. Under 1959 agreements with Sudan, Egypt gets 55.5 cubic kilometres of water a year. This works out to an annual 800 m^3 per person in 2005 and only about 600 m^3 in 2015, less than the annual 1 000 m^3 considered as the water poverty line and the regional average of 1 200 m^3. Second, the country has to protect the river against pollution and waste. The Nile is often below minimum quality standards. Third, the population is highly concentrated around the river valley and delta, and 97 per cent of Egyptians live on 4 per cent of the country's land. To ease pressure on the river, the government is to set up industrial zones and major agricultural projects in the desert (such as the Toshka project), but the ambitious programme needs a lot of water. The national 2003-17 water plan is an integrated approach involving suppliers, users and other stakeholders, needing investment of 145 billion EGP and incurring costs of 41 billion EGP.

Infrastructure and connection work for the water and sanitation network is handled by the Cairo and Alexandria Potable Water and Wastewater Organisation (CAPWO) in the Cairo and Alexandria areas and by the National Organisation for Potable Water and Sanitary Drainage (NOPWASD) in the rest of the country. Most of the infrastructure is in bad condition, either broken or antiquated. Meters no longer work, and this hampers collection of customer charges. The network needs huge investment.

The water and sanitation sector performs quite well compared with those of other African states. In 2004, 86.1 per cent of the population (97.5 per cent in towns and cities and 82.1 per cent in the countryside) was connected to the drinking water network. Some governorates (provinces) are much worse off, such as Bani Suwayf (72.1 per cent) and Minufiyah (75.4 per cent), but country has already reached the Millennium Development Goal (MDG) of halving the number of people without access to water and sanitation between 1990 and 2015. Where sanitation is concerned, the access rate is 93.6 per cent of the population (99.6 per cent urban and 78.2 per cent rural), though only 53.6 per cent of households were connected to mains sewage in 2004 (96.6 per cent in urban areas). Less than half the wastewater collected is treated, and pollution and poor water quality are very serious problems. The government's main priority is to increase sanitation access in the countryside, since the high rate of access to water without sanitation is costly and damages water quality and the environment. The estimated cost of providing all Egyptians with sanitation is about 60 billion EGP ($10 billion). The government has just released 20 billion EGP for rural sanitation work over six years, with 1 billion of it coming from the proceeds of privatisation.

The government is very active in water and sanitation, heavily subsidises both and continues to set prices to the consumer. It plans to reduce this heavy burden on the budget, though such a measure would be highly unpopular. A cubic metre of water costs an average 0.23 EGP ($0.04) for consumption of up to 10 m^3 a month, a rate that is among the lowest in the world and does not cover operating or maintenance costs. As a result, the many bodies responsible for water and sanitation had accumulated a deficit of 7.6 million EGP by the end of 2002/03, which led to the introduction of a major reform. The sector also suffers from fragmented management, as authority is divided between a dozen ministries and state bodies, hampering decision-making. There used to be no policy at all for the sector. In April 2004, the Holding Company for Water and Wastewater (HCWW) was set up with 14 regional subsidiaries to centralise management of water distribution and sewage treatment. An advisory body to examine requests for consumer rate changes was also set up. By the end of 2006, only Cairo's rates had been increased.

The HCWW has nonetheless improved water management, issuing quarterly reports on technical and commercial indicators, computerising customer billing, providing a help desk and website to allow centralised handling of customer complaints and gather statistics. An awareness-raising campaign has been launched to induce the public to prevent waste and pollution, and especially to make people understand that water has a price. The HCWW also plans a programme to detect leakages and to train middle managers in new methods of water management.

Political Context and Human Resources Development

President Mubarak has promised to amend the national constitution to make it still easier for political parties to nominate presidential election candidates. The amendment is due to be put to a referendum in 2007. The last constitutional amendment was in May 2005, after a referendum endorsed allowing more than one candidate to stand in presidential elections and approved a switch to direct universal suffrage. However, a party must hold 5 per cent of the seats in parliament before it can nominate a presidential candidate, and independent candidates must be backed by 250 members of the country's representative organisations. Thus the ruling party's domination of parliament and local councils makes it impossible for any independent candidate to stand, including candidates from the powerful fundamentalist Muslim Brotherhood. The Brotherhood, which won 20 per cent (88) of the seats in the last elections for the People's Assembly (the lower house), is the main opposition group but is only tolerated by the authorities, not recognised as a political party. President Mubarak, in power since 1981, has been re-elected until 2011.

Mubarak has promised that 2007 will see new constitutional reforms to speed up democratisation, yet the political climate is hardening. Thirteen requests for recognition by political parties, including one Islamist grouping, were rejected in early 2007, and many members of the Muslim Brotherhood were arrested in 2006. The government is worried about the rise of Islamist groups, especially at the last parliamentary elections, and unrest among Arab Muslim Egyptians as expressed through demonstrations and increasingly active support for Islamist leaders. To cope with this movement, the government needs to improve social services and reduce inequality to limit the possibilities for these leaders, while at the same time keeping to serious budget constraints.

Parliament voted in June 2006 to limit the powers of the justice minister and give the judiciary more independence. The measure allows the prosecutor-general to act independently of the ministry, gives the Supreme Judicial Council the right to monitor appointment of judges, provides the judiciary with an independent budget and gives judges the right to appeal against decisions of the judiciary's disciplinary committee.

An estimated 20.2 per cent of Egyptians live below the national poverty line of 1 450 EGP a year ($242). In 2004, 23 per cent of the poor (4.7 per cent of the population) were under-nourished. Social indicators and progress varied greatly in 2004 between the governorates of Upper Egypt (34 per cent of whose inhabitants were poor) and those of Lower Egypt (where only 13.9 per cent were poor). Pockets of poverty are highly localised and thus are masked in the calculation of average indicators.

Although the growing population adds 700 000 to 800 000 people to the labour market each year, the official unemployment rate fell in 2005/06. New jobs in the private sector reportedly reduced joblessness there to 10 per cent, from 11.2 per cent the previous year. The unemployment rate is much higher among young people (37.3 per cent of those between 20 and 25), people having finished secondary education (65.9 per cent) and those having university education (25.3 per cent). Part-time and short-term jobs accounted for between a third and a half of all salaried employment. The government's strategy is to encourage growth of the private sector and small businesses, the main job-creators, especially in the services sector.

Egypt has a very good chance of reaching several of the MDGs, such as those on poverty and education, and has already achieved some of them (access to drinking water and sanitation). The least progress has been made in gender equality. Women, hit by civil service job cuts, are now down to 25 per cent of the national workforce and are concentrated in a few segments of the labour market, mostly healthcare (46 per cent of the national female workforce) and education (40 per cent). The number of women wearing the Islamic veil increases each year; in 2006, 80 per cent of all women did so. The latest demographic and health survey (DHS), in 2005, showed that 95.8 per cent of adult woman in 2004 had undergone female circumcision, at an average age of 10. This ancient tradition of the pharaohs is followed throughout the country and among all social classes.

Health and education indicators improved significantly overall. Life expectancy rose from 55 years in 1976 to 70.6 years in 2004. Infant mortality fell from 108 per thousand in 1961 to 22.4 in 2004. Access to healthcare was around 100 per cent in both urban and rural areas, as was vaccination of children against the main childhood illnesses. A very low proportion of the population is infected with HIV (0.03 per cent), but the 2005 DHS showed that only 18.3 per cent of adults (between 15 and 49) knew about tests to detect it.

Egypt is among the bottom nine countries in the world for literacy, with only 40.8 per cent of the population able to read and write in 2005. The literacy rate for urban women in 2004 was 63.6 per cent, and that in the countryside 29.6 per cent. Only 13.5 per cent of rural women had access to secondary or higher education. The illiteracy rate should fall in the next few years with increased school enrolment. In 2003/04, 90.9 per cent of children were in primary or secondary education, compared with only 42 per cent in 1960. Seven per cent of children between five and 14 were working in 2004. The pupil/teacher ratio in primary education was a quite high 40.9, and as a result, two-thirds of pupils take private lessons to keep up. More than 85 per cent of children were being educated in state schools, 6.1 per cent in private ones and 8.1 per cent at Al-Azhar Koranic schools. Leaving aside those who go on to higher education at Al-Azhar University, the number of university students increased from 1.6 million in 2001 to 2 million in 2006.

