# Egypt


**key figures**

| | |
|---|---|
| • Land area, thousands of km² | 1 001 |
| • Population, thousands (2005) | 74 033 |
| • GDP per capita, \$ PPP valuation (2005) | 4 100 |
| • Life expectancy (2000-2005) | 69.6 |
| • Illiteracy rate (2005) | 40.8 |

All tables and graphs in this section are available in Excel format at:
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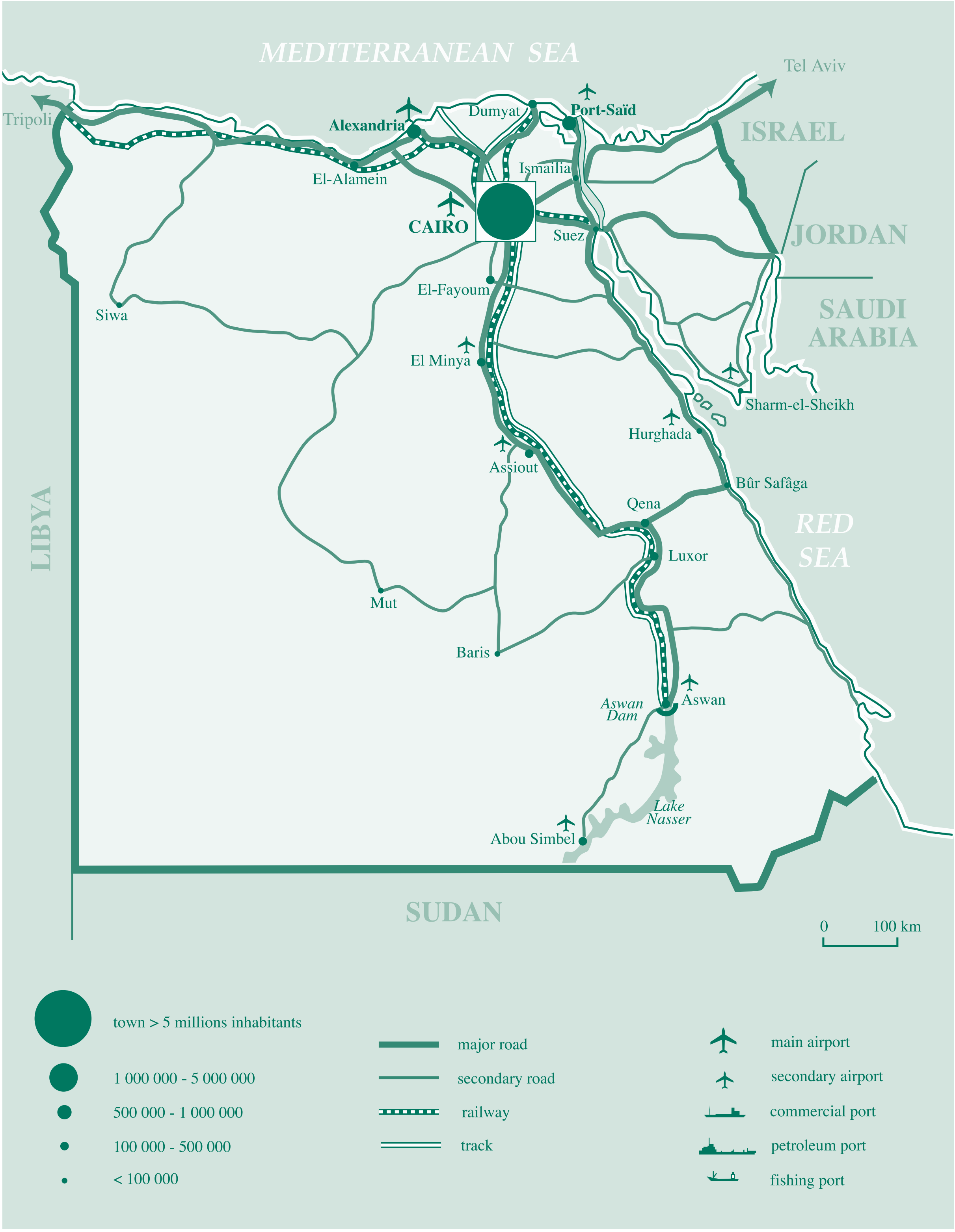
# Egypt



# Egypt

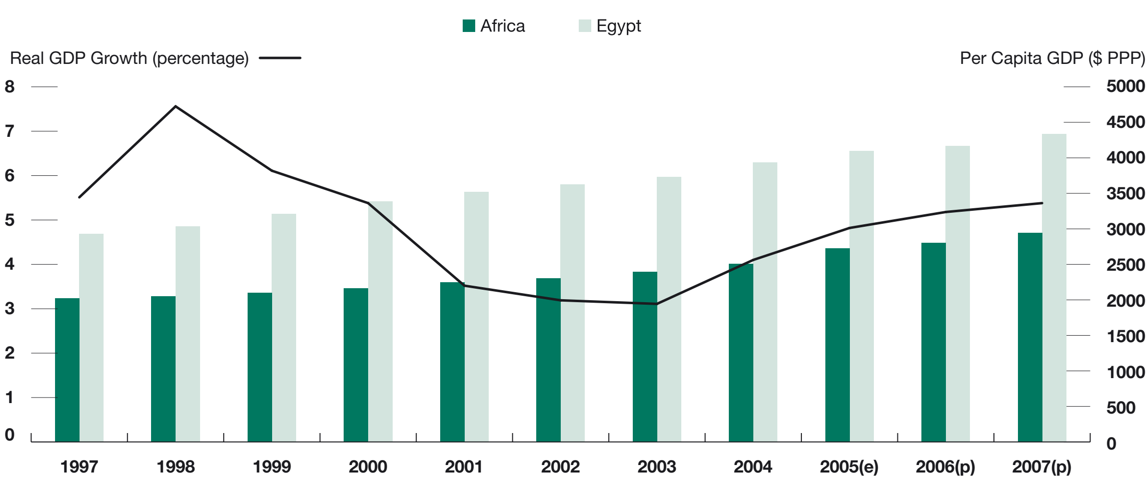
**A**n ambitious effort to open up and liberalise the economy initiated in mid-2004 has begun to produce results. GDP growth in 2004/05 was almost 5 per cent (with 5.2 per cent predicted for 2005/06 and 5.4 per cent in 2006/07), and the main macroeconomic indicators were performing well[1]. The energy, transport and tourism sectors were the drivers of growth. Although access to credit is still a problem for the private sector, the business climate has significantly improved, privatisation is pushing ahead, and domestic and foreign investment is on the rise, suggesting good long-term growth prospects. The recent foreign exchange shortages and double-digit inflation have been dealt with. The government will further boost its credibility if it can streamline the banking sector, especially by privatising the country's four biggest banks, and cut the budget deficit (8.6 per cent of GDP in 2004/05) and public debt (9.2 per cent).

The government seems determined to continue reforms to get the private sector more involved in the economy, a crucial issue not just for the country's international competitiveness but also for job creation. Reducing unemployment (nearly 10 per cent of the working population) will require GDP growth of 7-8 per cent over several years. Gender inequality, regional disparities and pockets of poverty are other serious problems, though average social indicators are steadily improving. The year 2005 was also a major election year, with parliamentary elections and the first direct-vote multiparty presidential election. The campaigning stirred up much political debate about ending the state of emergency, election methods, progress towards democracy and the rise in popularity of the Islamist party.

**The opening-up of the economy and liberal economic reforms resulted in record foreign investment in 2005 and long-term growth prospects are promising.**



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




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

1. Egypt's fiscal year runs from 1 July to 30 June. The figures are based on this, and growth rates are calculated with reference to the previous fiscal year.

## Recent Economic Developments

Real GDP growth accelerated to 4.8 per cent in 2004/05 (4.1 per cent in 2003/04), largely because of higher world oil prices and increased natural gas production, along with greater domestic demand generated by the government's reforms. The economy withstood external shocks rather well, including political instability linked to the Middle East situation and the end of the Multifibre Arrangement. Growth is expected to reach 5.2 per cent in 2005/06 and 5.4 per cent in 2006/07.

Agriculture's contribution to GDP, which has been falling for several decades, stood at 15 per cent in 2004/05. The sector grew 3.4 per cent over the period thanks to good rainfall, major new irrigation projects and exporters' efforts in major European markets under the European Union (EU) association agreement. Output of wheat soared 32.5 per cent and that of rice (3.2 per cent), fruit (3.8 per cent) and vegetables (10.8 per cent) also rose, while millet was down 15.3 per cent and hops 8.2 per cent. Cotton production by volume, which has sharply declined in recent years, fell again to 260 000 tonnes (from 265 000 tonnes in 2003/04). The 2005/06 national plan earmarks 1.4 billion Egyptian pounds to irrigate at least another 110 000 *feddans* (42 600 hectares) of land in the desert and the Southern Valley.

Oil and gas accounted for 14.6 per cent of GDP in 2004/05 and earned $5.3 billion in export revenue. Oil is still the economy's main source of income, but its importance has been declining for several years as that of gas increases. The country produced about 600 000 barrels of crude a day in 2004/05 and had proven reserves of 2.8 billion barrels, which were expected to shrink to 2.5 billion barrels in 2005/06 as production outstripped new finds. Gas production was 102 million cubic metres a day in 2004/05, up 6.6 per cent on the previous year, with proven reserves of about 1 850 billion cubic metres. Exploration and development of the oil and gas sector were expected to absorb more than 20 per cent of the country's total investment in 2005/06.

Industry accounted for 18.2 per cent of GDP in 2004/05 (up 8 per cent), led by agro-food (sugar and beverages), textiles/clothing (cotton and wool yarn) and construction materials. Construction was also buoyant, thanks to domestic demand for infrastructure and housing. Cement output was 32.5 million tonnes (up from 29.5 million in 2003/04). The private sector is expected to provide 8.5 billion of the total 11.9 billion Egyptian pounds of industrial investment planned for 2005/06.

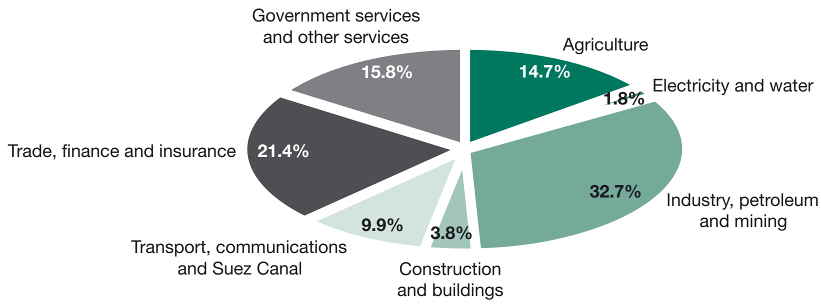
The services sector contributed 47.4 per cent of GDP in 2004/05. Income from the Suez Canal increased 16 per cent in 2004/05 due to increased world trade, especially with India and China (40 per cent of the canal's revenue comes from ships trading with Southeast Asia), and a 35 per cent rise in Panama Canal charges, which caused commercial traffic to reroute through Suez. Charges for use of the canal were increased 3 per cent in July 2005.

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

| | 1996/97 | 2001/02 | 2002/03 | 2003/04 | 2004/05(e) | 2005/06(p) | 2006/07(p) |
|---|---|---|---|---|---|---|---|
| **Gross capital formation** | **18.2** | **18.3** | **17.0** | **16.8** | **17.4** | **17.5** | **18.1** |
| Public | 5.5 | 4.0 | 3.9 | 3.8 | 3.6 | 3.5 | 3.5 |
| Private | 12.7 | 14.2 | 13.1 | 13.0 | 13.8 | 14.0 | 14.6 |
| **Consumption** | **88.1** | **86.1** | **85.6** | **83.6** | **84.2** | **80.4** | **81.2** |
| Public | 10.1 | 12.5 | 12.8 | 12.8 | 12.7 | 12.0 | 11.9 |
| Private | 78.0 | 73.6 | 72.9 | 70.8 | 71.5 | 68.4 | 69.3 |
| **External sector** | **-6.3** | **-4.4** | **-2.6** | **-0.4** | **-1.6** | **2.1** | **0.7** |
| Exports | 19.5 | 18.3 | 21.6 | 28.9 | 30.5 | 32.7 | 31.4 |
| Imports | -25.7 | -22.7 | -24.2 | -29.2 | -32.1 | -30.6 | -30.7 |

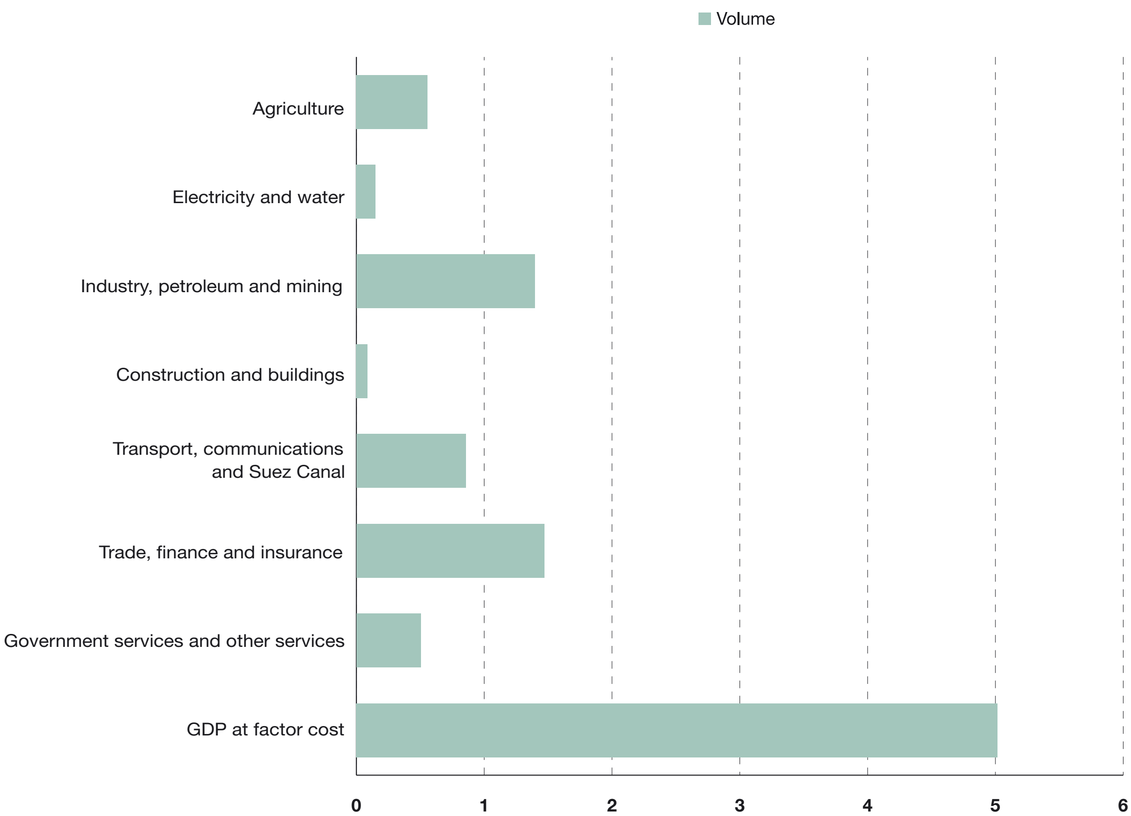
**Source:** Central Bank data; estimates (e) and projections (p) based on authors' calculations.

Figure 2 - **GDP by Sector in 2004** (percentage)




**Source:** Authors' estimates based on Central Bank data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)




**Source:** Authors' estimates based on Central Bank data.



More than 8.6 million tourists visited Egypt in 2004/05, pumping $7 billion into the economy. The Sharm el-Sheikh attacks in July 2005 that killed 88 people hurt the country's image in markets such as Italy and Israel, but the overall number of tourists rose 6 per cent between January and December 2005, probably helped by the effect of the Asian tsunami on the infrastructure of rival tourist destinations.

Whereas growth in 2002/03 and 2003/04 was driven by external demand, in 2004/05 it was mainly due to a recovery in consumption and investment. Falling inflation, taxes and interest rates helped to boost private consumption 15 per cent in 2004/05 over 2003/04 (3.5 per cent in real terms), though it had not yet returned to the level seen in 2001/02. A bigger budget deficit in 2004/05 also stimulated domestic demand, but the government will have to trim spending in the next few years. Domestic investment demand continued to grow strongly, with real growth of 8.8 per cent in 2004/05 (15.4 per cent in nominal terms), due to modernisation in manufacturing and construction. Total investment amounted to 17.4 per cent of GDP in 2004/05 and is expected to reach 17.5 per cent in 2005/06 and 18.1 per cent in 2006/07 because of increased private investment.

The private sector's share of total investment rose to 54 per cent in 2004/05 (47 per cent in 2003/04) and should rise further in coming years. The Dubai real estate giant Emaar Properties is due to build a $4 billion high-class residential complex in Cairo with 30 000 apartments totalling 4 million square metres. The project is scheduled for completion by 2010.

The domestic savings rate was 15.8 per cent of GDP in 2004/05 (down from 16.4 per cent in 2003/04). External demand rose slightly to 30.5 per cent of GDP (28.9 per cent in 2003/04), driven by the rising share of services in exports.

## Macroeconomic Policies

### *Fiscal Policy*

The national budget shows a fast-growing deficit (8.8 per cent of GDP in 2004/05) due to greater expenditure and falling revenue. Two-thirds of the 2004/05 deficit was underwritten by bank loans, mainly from the central bank. The government is expected to reduce the deficit (to 7.7 per cent in 2005/06 and 7.5 per cent in 2006/07) by cutting its spending.

Egypt adopted the IMF's new budget classification system (Government Finance Statistics – GFS) in 2004/05, in line with international standards. This makes budget comparison with recent years difficult and also statistically increases the deficit. The 2004/05 deficit of 8.8 per cent becomes 9 per cent under the new definitions.



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

| | 1996/97 | 2001/02 | 2002/03 | 2003/04 | 2004/05(e) | 2005/06(p) | 2006/07(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants[a]** | **25.1** | **20.8** | **20.7** | **20.8** | **19.0** | **18.5** | **18.6** |
| Tax revenue | 13.2 | 11.8 | 12.9 | 12.8 | 12.6 | 12.3 | 12.5 |
| Grants | 2.8 | 1.0 | 0.7 | 0.6 | 0.5 | 0.4 | 0.4 |
| **Total expenditure and net lending[a]** | **26.1** | **26.7** | **26.8** | **26.7** | **27.8** | **26.2** | **26.1** |
| Current expenditure | 20.6 | 22.6 | 22.8 | 22.7 | 23.9 | 22.4 | 22.3 |
| *Excluding interest* | *14.6* | *16.5* | *16.4* | *16.1* | *17.9* | *16.8* | *16.7* |
| Wages and salaries | 6.0 | 7.5 | 7.6 | 7.5 | 7.3 | 6.7 | 6.5 |
| Interest | 6.0 | 6.0 | 6.4 | 6.6 | 6.0 | 5.6 | 5.6 |
| Capital expenditure | 5.5 | 4.0 | 4.0 | 3.8 | 3.8 | 3.7 | 3.6 |
| **Primary balance** | **5.0** | **0.2** | **0.3** | **0.6** | **-2.8** | **-2.1** | **-1.9** |
| **Overall balance** | **-1.0** | **-5.9** | **-6.1** | **-6.0** | **-8.8** | **-7.7** | **-7.5** |

a. Only major items are reported.
**Source:** Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

Public spending rose to 27.8 per cent of GDP in 2004/05 (from 26.7 per cent in 2003/04). The share of civil service wages and pensions, debt interest and subsidies has been growing in recent years; these three items accounted for 54 per cent of public spending in 2004/05, as against 48 per cent in 1999/2000. Capital expenditure, in contrast, fell to 12.7 per cent (from 18.9 per cent in 1999/2000).

Subsidies more than doubled between 1999/2000 and 2004/05, but the government intends gradually to replace them (except for those on the *baladi* bread staple) by social transfers in cash and to reduce them by better targeting with the help of a smart card for the poorest families. Government spending should fall to about 26 per cent of GDP in 2005/06 and in 2006/07.

Budget revenue fell to 19 per cent of GDP in 2004/05 (from 20.8 per cent in 2003/04) owing to the reduction of customs duties in September 2004, the introduction of a new tax code in June 2005 and the halving of personal and company income tax. The government hopes that streamlining procedures and strengthening the tax and customs authorities will raise more revenue to make up for these shortfalls. Total revenue is expected to be 18.5 per cent of GDP in both 2005/06 and 2006/07.

### Monetary Policy

Since the adoption of a floating exchange rate in January 2003, monetary policy has been geared to controlling inflation, stabilising the economy and encouraging savings. The steadying of inflation in the first half of 2004/05 was an early result of this sensible policy, but other banking and financial challenges remain, such as boosting commercial banks' prudential ratios and introducing new financial instruments to increase savings and facilitate investment. Loans to the public sector grew 27 per cent in 2004/05, reflecting banks' reluctance to take risks when about a quarter of all their loans are non-performing.

The foreign exchange market was unified and liberalised with the December 2004 launch of an interbank foreign exchange market. The Egyptian pound then stabilised and its value even rose slightly against the US dollar, to just under 5.8 to the dollar in December 2005 (6.24 a year earlier). Exporters no longer have to deposit 75 per cent of their foreign currency earnings in the central bank, and this measure at once greatly increased currency reserves. Dollarisation of the economy fell below 25 per cent again in July 2005.

The appreciation of the Egyptian pound made it possible to check inflation, which had reached double figures for a few months in 2004. It fell to 4.6 per cent in December 2005 (18.2 per cent in October 2004). Inflation should average 8.8 per cent in the 2004/05 financial year, 7.5 per cent in 2005/06 and 5.3 per cent in 2006/07.

### External Position

In the past few years, the Egyptian government has embarked on trade liberalisation at the unilateral, bilateral and regional levels. Tariff reforms in September 2004 cut the average weighted rate from 14.6 to 9.1 per cent, reduced the number of tariffs from 27 to 6 and abolished fees and surcharges. Egypt belongs to the Common Market for Eastern and Southern Africa (COMESA) and the Greater Arab Free Trade Area (GAFTA). It has also signed the Agadir Accord with Tunisia, Morocco and Jordan which liberalised trade among the four countries on 1 January 2005. An association agreement with the EU came into force on 1 January 2004. Egypt also has special relations with the United States under the Trade and Investment Framework Agreement (TIFA) and recently began negotiating with other bilateral partners such as Turkey and Russia.



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

| | 1996/97 | 2001/02 | 2002/03 | 2003/04 | 2004/05(e) | 2005/06(p) | 2006/07(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -13.5 | -8.6 | -8.1 | -10.0 | -11.4 | -12.8 | -13.9 |
| Exports of goods (f.o.b.) | 7.0 | 8.1 | 10.1 | 13.4 | 15.2 | 12.7 | 11.6 |
| Imports of goods (f.o.b.) | -20.5 | -16.7 | -18.2 | -23.5 | -26.6 | -25.4 | -25.5 |
| Services | 6.9 | 4.3 | 6.2 | 9.7 | | | |
| Factor income | 1.3 | 0.1 | -0.1 | -0.3 | | | |
| Current transfers | 5.5 | 4.9 | 4.4 | 5.0 | | | |
| **Current account balance** | **0.2** | **0.7** | **2.4** | **4.4** | | | |

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

Fearing a crisis in the textile industry after the Multifibre Arrangement quota system ended in January 2005, the government signed other agreements, involving the country's recently-established qualified industrial zones (QIZs). A December 2004 agreement with Israel allows QIZ products to be exported duty-free and without quotas to the United States. At the end of 2005, nearly 400 firms were licensed for the QIZs and 250 were already in operation, especially in the textile sector.

Egypt's chief exports of goods are oil, gas, oil products, cotton, textiles and chemical and metal products; its main imports are industrial machinery, transport equipment and consumer goods. The trade deficit has worsened since 2002/03 as imports have risen sharply (32 per cent by value in 2004/05). The deficit increased to 11.4 per cent of GDP in 2004/05 (10 per cent in 2003/04) and is expected to grow further in 2005/06 (to 12.8 per cent) and 2006/07 (to 13.9 per cent). However, thanks to trade in services, particularly transport (the Suez Canal) and tourism, the current account remained positive at 3.2 per cent of GDP in 2004/05 (down from 4.4 per cent in 2003/04).

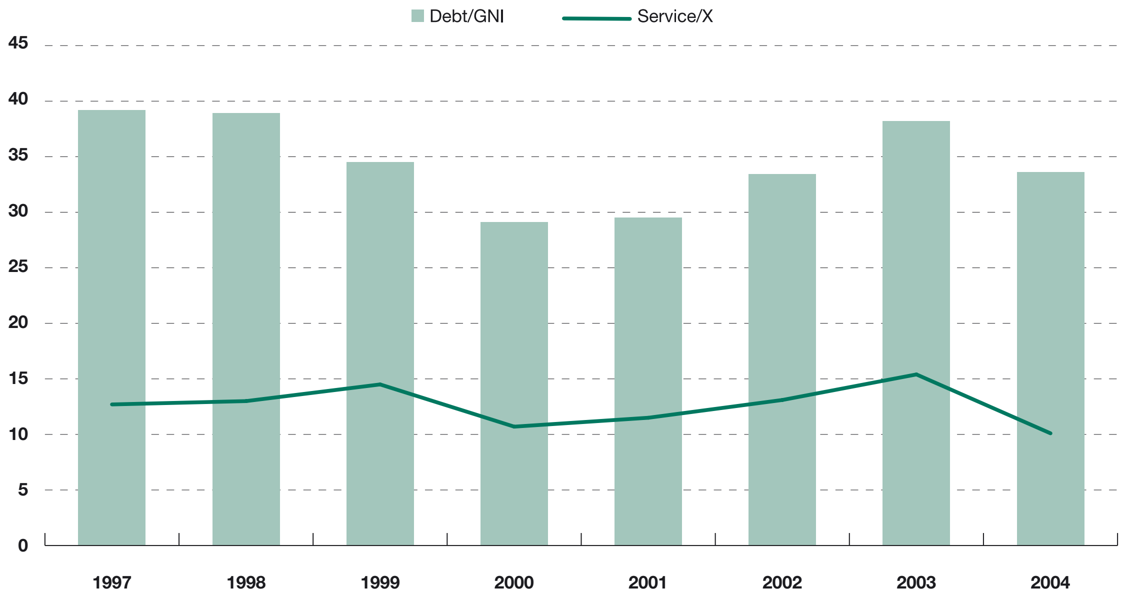


Oil and gas export earnings were boosted by soaring world prices. Oil is the country's second biggest source of foreign exchange, bringing in $5.3 billion in 2004/05. Production has been falling steadily for a decade, however, and Egypt will have to import oil by about 2015. On the other hand, the country became an exporter of liquefied natural gas (LNG) in July 2003 with the first deliveries to Jordan through a pipeline that was extended to Lebanon and Syria in 2005, will reach Cyprus and Turkey in 2006 and later Bulgaria, Hungary, Romania and Austria. Spain has signed a contract to buy 4.4 billion cubic metres of LNG a year for the next 25 years. Another contract, with Gaz de France, was to take effect in 2005, and Egypt aims to penetrate the US market by 2010. Israel is also buying from 1.7 to 3 billion cubic metres a year for 15 years under a June 2005 agreement that will deliver gas through a 100-kilometre undersea pipeline. In July 2005, Cyprus and Egypt signed an agreement on extracting oil and gas in the Mediterranean, with an exchange of experts and drilling techniques and purchase of Egyptian gas by Cyprus as soon as its power stations are fitted with gas turbines.

All the country's traditional resources performed very well in 2004. Tourism soared to 8.6 million visitors in 2005 (4.6 million in 2001). The Suez Canal, the third biggest foreign exchange earner, took in a record of more than $3.3 billion in tolls in 2004/05 (up from $2.8 billion in 2003/04), and canal traffic is expected to double by 2030, particularly as a result of increased trade in oil and gas. Remittances by Egyptians working abroad were up 44.3 per cent year-on-year in 2004/05, at $4.3 billion.

Egypt, like the rest of Africa, is still only marginally attractive to foreign investors, but liberalisation, market opening and government incentives are starting to show results. The capital account was in surplus in 2004/05 for the first time (by nearly $3.4 billion, after a $5 billion deficit in 2003/04) due to a huge rise in foreign direct investment (FDI) and portfolio investment. The annual flow of FDI (only a tiny $237 million in 2003) rose to $1.25 billion in 2004 (9.9 per cent of gross fixed capital formation). Annual fluctuations in the past were mainly due to completion of privatisation operations or investments in oil exploration and production. The energy sector will require enormous investment of some $85 billion by 2030, with foreign companies having to provide most of it. Two agreements were signed in August 2005, worth $47 million, to explore 4 297 square kilometres in the Western Desert and about 26 square kilometres in the Al Amal offshore block in the Gulf of Suez. The major events in the industrial sector in 2005 were the Italcementi Group's purchase of the country's biggest cement firm, Suez Cement, which has about 22 per cent of the market, and the ASEC Cement Company, the country's fifth largest with annual production capacity of some 4 million tonnes of clinker. Several Arab investors announced big tourism and real estate projects. Pakistani, Chinese and Indian firms seem interested in investing in Egypt, and the Indian Farmers Fertiliser Cooperative and Egypt's El Nasar Mining Company have announced they will put $350 million into a fertiliser plant.

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)




**Source:** IMF and World Bank.



The external debt was nearly $29 billion (30 per cent of GDP) in 2005, down from $31.1 billion in December 2004, and debt service amounted to 9.4 per cent of exports of goods and services. The bulk of the debt (93.6 per cent) took the form of medium- and long-term bilateral and multilateral loans.

## Structural Issues

### *Recent Developments*

Structural reforms have been quite successful, and in the next few years the reform programme will aim to stimulate domestic and foreign investment. Laws on competition, taxes, customs duties and tourism were passed by parliament in its 2004/05 session, and other measures are being considered to modernise bankruptcy and mortgage laws. Substantial tax reductions came into effect at the start of the 2005/06 financial year, with company tax cut by half, from 40 to 20 per cent of profits, except for industrial export firms (to 32 per cent) and oil firms (up from 40 to 55 per cent). Tax exemptions were abolished.

Egypt is the main beneficiary of the EU's MEDA programme, the financial arm of the Euromed partnership, and received more than €1 billion over the 1995-2004 period to make its industrial products more competitive as the country opens up to the European market. The EU has pledged €243 million for 2005/06.

The government has launched major efforts to cut spending with a programme to gradually abolish subsidies and price controls and another to continue privatisation, which was begun in 1994 but has made little progress in recent years. The state still has shares in 695 firms, 176 of which are large companies employing 401 000 people in various sectors, with an annual wage bill of 4.5 billion Egyptian pounds ($730 million). The four state-owned banks (the National Bank, Misr Bank, the Bank of Cairo and the Bank of Alexandria) accounted for about 57 per cent of all bank deposits in 2004/05, made 50 per cent of all loans and owned two-thirds of all bank branches nationwide.

The new government has created an investment ministry and broadened the privatisation programme to include once "untouchable" strategic sectors. Income from privatisation was a record 5.64 billion Egyptian pounds in 2004/05.

Exclusive state ownership of Telecom Egypt ended on 29 November 2005 with a public offering of 20 per cent of the operator's capital. Its privatisation was proposed in 1999/2000 but postponed because of an uncertain world telecom market. Telecom Egypt is capitalised at 17 billion Egyptian pounds, and its customer base rose from 6.7 million in 2001 to 9.5 million in 2004. It has also bought a 25 per cent share in Vodafone Egypt, and is going halves with the Egyptian firm Orascom Telecom in setting up Algeria's new fixed-line phone network, launched on 22 February 2006. Half of the shares sold are reserved for institutional investors, 45 per cent for private individuals and 5 per cent for the firm's employees. Trading in the shares began on 7 December 2005 on the Cairo, Alexandria and London stock exchanges. The sector is opening up further, with a third mobile-phone operator due to start up in 2007 using the third-generation (3G) standard. Privatisation will continue with sale of some of the state-owned shares in two oil sector firms, petrochemical company Sidi Krir (25 per cent of its holding) and the semi-public firm AMOC (Alexandria Mineral Oils Company) (at least 20 per cent of its holding).



The government also wants to withdraw gradually from the financial sector. Regarding the large state-owned banks, Misr Bank and Bank of Cairo are set to merge, probably under the name of Misr. The Bank of Alexandria will be first on the block, in early 2006. Government shares in all semi-public banks will be sold, and one of the four main insurance companies will be privatised.

Privatisation is seen as key for the private sector's long-term growth, but it will not suffice by itself. The business climate greatly improved in 2004, but Egypt is still rated low on the list of emerging economies. Aware of the need to improve governance and fight embezzlement, in June 2005 the government put five heads of state-owned firms on trial for misappropriating nearly $145 million.

A wholesale reorganisation of the four state-owned banks and of commercial banks is to be carried out by 2010. The new banking law passed in June 2003 raised the minimum capital requirement to 500 million Egyptian pounds for local banks and $50 million for subsidiaries of foreign ones to prevent excessive banking activity in the country and encourage banks to merge. The European Central Bank and four European central banks belonging to the Eurosystem are expected to help Egypt's central bank supervise the banking sector under a €2.5 million scheme funded by the European Commission as part of the MEDA programme.

The country's stock exchanges have performed spectacularly since January 2004. The CASE-30 index (based on the 30 most active stocks) soared more than 400 per cent in 2004, and the total value of all firms quoted rose from 42.4 per cent of GDP in 2003 to 52.6 per cent in 2004 and more than 62 per cent in 2005. Of the 761 companies listed, however, market liquidity depended on just 30 firms that accounted for more than 80 per cent of shares traded.

### *Transport Infrastructure*

Egypt's transport infrastructure is quite good compared with the rest of Africa. The road network totals 92 370 km, 81 per cent of them paved. The port of Alexandria and Cairo airport both come third in their respective continental rankings, while the Nile is Africa's most heavily used river. The 163-km Suez Canal, opened in 1869 and nationalised in 1956, links the Mediterranean and the Red Sea, between Port-Said and Suez, and enables ships to reach Europe and Asia without having to go round Africa via the Cape of Good Hope. The canal was used by 17 224 ships in 2004 carrying 646 million tonnes of cargo. The total freight capacity of the country's Mediterranean and Red Sea ports is about 34 million tonnes a year. The railway carried 418 million passengers and 123 million tonnes of goods over 8 038 km of track in 2003/04. The country has eight international airports (22.6 million passengers in 2004) and 11 domestic ones (1.4 million passengers in 2004). The transport sector contributed 50.8 billion Egyptian pounds (9.1 per cent) to GDP and accounted for 13.6 billion Egyptian pounds in investment in 2004/05 (12.4 per cent of total investment).

Transport infrastructure problems relate to the quality, maintenance and security of equipment. The lack of investment is especially serious in the railways. Rates for passenger and goods transport do not cover costs, and the network therefore runs a substantial deficit that prevents spending on maintenance, making rail less competitive than other forms of transport. Roads carried more than 90 per cent of total domestic traffic (in millions of tonnes per kilometre) in 2004/05 and railways less than 10 per cent. Lack of control over lorry traffic, especially overloading, damages the roads. About 6 000 people are killed and 30 000 injured each year in road accidents, the country's second biggest cause of deaths. Speeding, failure to observe traffic regulations, the poor condition of the roads and the country's antiquated stock of vehicles are the most common cause of accidents, which are reckoned to cost an annual $520 million (3 per cent of GDP).

The government and aid donors have begun a three-pronged effort to upgrade transport infrastructure. First, the domestic network will be gradually opened up to the private sector. After an initial failure to do this in the late 1990s, the programme for 2002-17 includes converting 3 590 km of existing roads into motorways and building 1 055 km of new motorways. The new motorway linking Cairo and Alexandria has just opened. Second, traffic in the capital is very congested, so a 90-km ring road is to be built, along with a third subway line linking Giza to the airport. Third, Egypt's competitive entry into the world economy requires better connections with the outside world. The sum of $200 million has been earmarked for late 2006 to deepen the Suez Canal to 23.38 metres (from the present 20.13) by 2012 so that fully-loaded 360 000 tonne supertankers can use it (the current limit is 200 000 tonnes). Container ships have become the canal's main users, followed by bulk carriers and tankers. Private investors have helped build a new airport at Marsa Alam, on the Red Sea, and new terminals at Cairo and Luxor airports. Management of Cairo's international airport was handed over on 20 December 2004 to Fraport, which runs Frankfurt airport, and management of five tourist-oriented airports in southern Egypt has been contracted out to the French firm Aéroports de Paris (ADP).

All these efforts are welcome, but their effects are limited by institutional complexity and weak funding of transport infrastructure. The roads are run jointly by the roads and bridges authority of the transport ministry, the governorates and the housing and development ministry. This arrangement is meant to balance local and national development interests, but it is inefficient, with contradictory funding and division of responsibilities. The lack of a law on public-private partnership continues to hinder government efforts to get the private sector to invest more in major public works.

## Political and Social Context

The year 2005 began with hopes of speeding up the democratic transition process begun by President Hosni Mubarak, who has been in power since 1981. The country's first-ever direct-vote multiparty presidential election was held in September and won by Mubarak with an official 88.6 per cent of the vote. Voter turnout was only 23 per cent, however, and the election was not accompanied by other democratic steps such as limiting the number of presidential terms, abolishing the state of emergency and adopting a nationwide list system for parliamentary elections. The three-stage parliamentary vote, based on individual constituencies, was held between 9 November and 7 December for 444 seats in the 454-member People's Assembly (ten members are appointed by the president). Although the election was overwhelmingly won by the ruling party, independent candidates linked with the Muslim Brotherhood, whose party is barely tolerated but not recognised, captured 88 seats.

Egypt has a high rate of population growth owing to high fertility (3.1 children per mother) and an increase in life expectancy, which grew by six months in 2004/05 year-on-year. Women born in 2003/04 can expect to live to the age of 72.3 and men to 67.9. Job creation lags far behind this demographic pressure (the population has increased by 30 million in 20 years). From 1980 to 2004, an average of only 291 000 jobs were created annually for half a million new job-seekers. Official figures put the unemployment rate at nearly 10 per cent in 2004/05, but estimates based on a broader definition of temporary employment and under-employment were two to three times higher. Restructuring of government firms is expected to lead to layoffs and increased unemployment, at least in the short term. The country's only system of unemployment benefits is a facility limited to formal sector workers, lasting at most nine months and mired in red tape.

According to the World Bank, 43.9 per cent of Egyptians lived on less than $2 a day in 2004/05 and have not really benefited from the country's renewed growth, although this growth has produced a middle class. Based on the official poverty line of 1 450 Egyptian pounds a year, the poverty rate was 20 per cent in 2004/05 (15 per cent in 2000/01). The government is concerned about the increasing impoverishment of the population, and the 2005/06 national plan focuses on protecting the very poor. President Mubarak's election-time programme for 2005-11 provided for creating 4.5 million jobs through private sector incentives. The new labour code adopted in 2003 makes hiring and firing easier.



Progress has been made in reducing gender inequality in education, though the Millennium Development Goals (MDGs) cannot all be achieved in all parts of the country by the 2015 target date. Average gender disparities have been eliminated in secondary education, and the government expects to wipe them out in primary education by 2015. However, for every 100 literate men there are only 85 literate women. Regional disparities are very large and cannot significantly be reduced in time in the poorest regions, especially border areas and Upper Egypt. Women still play very little part in economic and political activity. Only 13 per cent of company heads were women in 2005, and only 2.6 per cent of members of parliament. There is some chance that the other MDGs will be met; those concerning access to drinking water and sewage facilities have already been achieved.

The country's health needs are swelling, with the population expected to hit 112 million in 2025 even without taking account of rising life expectancy. Government health spending in 2004/05 was 3.8 per cent of GDP, or $56 per capita, and the state has invested $624 million in the past five years to upgrade hospitals (including $150 million to buy respiratory aid equipment). Tax on modern equipment (for radiology and cancer) was cut 5 per cent to help private clinics expand and specialise. Demand for medical equipment grew 12 per cent in 2004/05 to $671 million, $638 million of it imported.

HIV/AIDS affects only 0.03 per cent of the adult population, and eight men to every woman, but the disease is starting to spread, especially among young people working in tourism. The health ministry recorded 1 039 HIV carriers and 453 persons living with AIDS between 1986 and 2004.

The illiteracy rate stood at 40.8 per cent of the population in 2004/05, but it has been falling steadily for several years. The 2005/06 national plan earmarks 4.4 million Egyptian pounds for investment in education, 77 per cent of it by the government. The aim is to boost child enrolment and improve educational quality amid overcrowded classrooms (an average of 39.1 children per class in 2004/05). Koranic schools attract more than 8 per cent of children. The country has 13 state-funded universities, 5 private ones, the Al Azhar Islamic university and 125 technology institutes.