Egypt

key figures

• Land area, thousands of km²	1 001
• Population, thousands (2002)	70 507
• GDP per capita, $ (2001/2002)	1 203
• Life expectancy (2000-2005)	68.8
• Illiteracy rate (2002)	43.1

Egypt

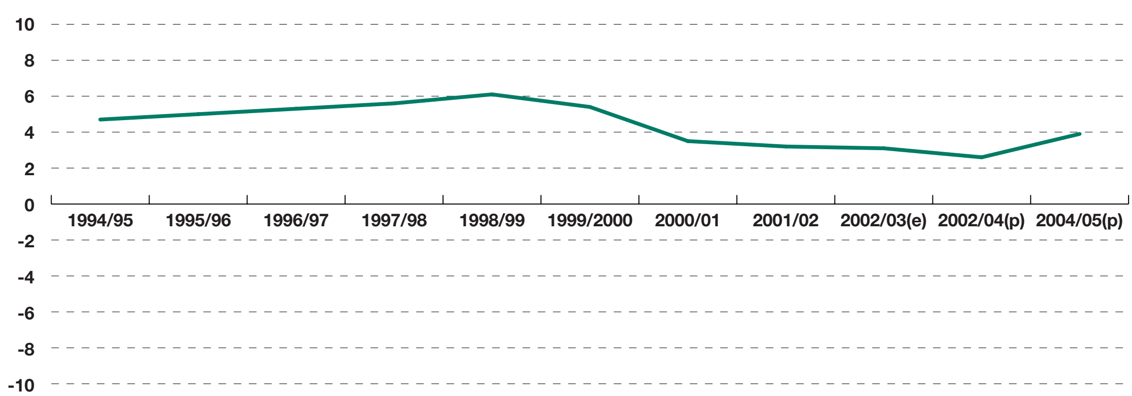
ECONOMIC GROWTH IN EGYPT is expected to slow to 2.6 per cent in 2003/04 down from 3 per cent in 2002/03. Regional instability, mainly due to the Israeli-Palestinian conflict, the war in Iraq and terrorist attacks, has kept the economy depressed since 1998/99, with much smaller growth than prior to this period. There are signs of recovery however, and 2004/05 could see growth return to about 4 per cent.

Tourism has rebounded after a big drop in 2001/02 and despite the Iraq war, oil revenue has risen sharply with higher world prices. Suez Canal revenue set a record in 2003 mainly thanks to increased military traffic. The natural gas sector is booming and will generate new export earnings, while cement and metal products have done very well since mid-2003.

The introduction of a partly flexible foreign exchange system in January 2003 caused a sharp unofficial devaluation of the Egyptian pound.

The introduction of a partly flexible foreign exchange system in January 2003 was a major event and caused a sharp unofficial devaluation of the Egyptian pound. Foreign currency shortages persist however, and the pound's weakness has had little impact on boosting export volumes so far, though it has boosted inflation. With the job market worsening and tight

Figure 1 - **Real GDP Growth**



Source: Domestic authorities' data; projections based on authors' calculations.

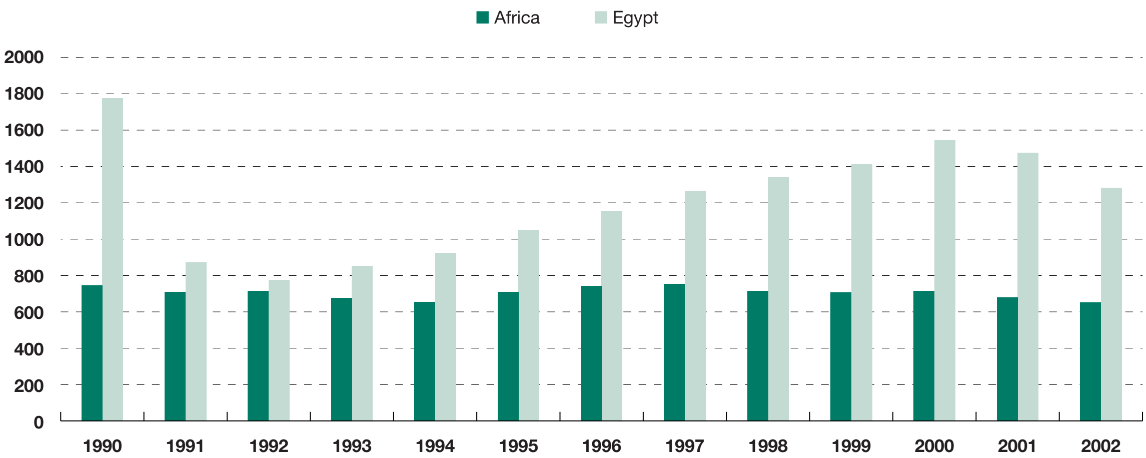
budget conditions linked to social spending goals, the government is trying to improve the business climate by pushing on with privatisation and reform of the financial sector.

Recent Economic Developments

GDP volume growth, which had returned to 4 or 5 per cent since the 1991 adjustment programme, has declined in recent years to 3.5 per cent (2000/01), 3.2 per cent (2001/02) and 3.1 per cent (2002/03) and is forecast to be 2.6 per cent in 2003/04. With a 2 per cent population growth rate, real per capita GDP growth is less than 1 per cent. However, the 2004/05 financial year may see growth increase again to nearly 4 per cent.

Agricultural output has been steady for several years and was 3.4 per cent in 2001/02, though cotton production is expected to fall to 285 000 tonnes in 2002/03, from 315 000 in 2001/02. Increased cereals and fruit production has eased the domestic shortage in a sector traditionally heavily dependent on imports. High population growth and limited water resources mean

Figure 2 - GDP Per Capita in Egypt and in Africa (current $)



Source: IMF.

national production cannot keep up with local demand (except for meat and milk) and the country imports a large amount of food (9 per cent of all imports in 2002/03).

Agriculture's share in GDP and employment has been falling since the 1970s, but farming is still a key sector and has become more productive since the mid-1980s. It accounted for 11 per cent of export earnings in 2001/02, mainly for cotton, but also potatoes, garlic, onions, lemons and medicinal plants. Horticultural exports to Europe have grown in recent years.

There is much hope that the association agreement concluded with the European Union, which aims for free trade by 2010, will open up new markets for farm products in the Euromed zone. The country is also counting on the ability of its food-processing sector to increase its exports of fruit, vegetables and food products.

Industry and mining (excluding oil) contributed 19 per cent of GDP in 2001/02 and employed nearly 14 per cent of the workforce. Over 90 per cent of firms in the sector were small-and medium-sized and not very competitive internationally.

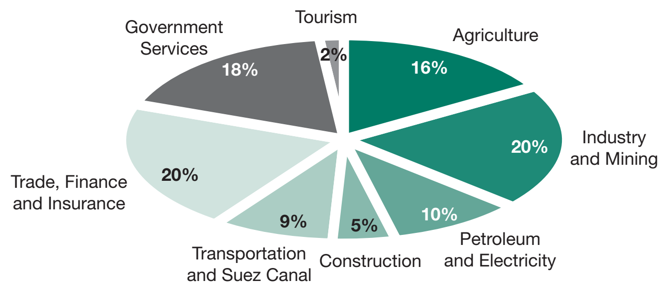
Cement production jumped 6.7 per cent by volume between 2001/02 and 2002/03 and the metal goods sector fared just as well. But the food-processing industry slowed though it continued to attract foreign investors. Since 2002, they have bought the Family Nutrition Company (taken over by Kraft) and Al Ahram Beverages (by Heineken). Pharmaceutical firms were squeezed between government price controls and dependence on importing costly goods in foreign currency.

Energy production (about 10 per cent of GDP) continues to play a very big part in the economy, since Egypt has huge oil and gas reserves and the sector generates significant revenue for the government. Production and export volume of crude and oil products continued to decline in 2001/02, though new discoveries offset the fall in the Gulf of Suez production. The natural gas sector is booming.

Services account for a relatively high 50 per cent of GDP, but the sector is very vulnerable to regional turmoil. Tourism is still the main source of foreign earnings despite the drop after the 11 September 2001 attacks. Arrivals were down more than 20 per cent between the attacks and March 2002. Though they subsequently recovered, the war in Iraq led to a 22 per cent decrease in arrivals in March 2003 (year-on-year). Again though, the sector appeared to bounce back quickly that summer. Lack of western tourists had been made up for by increasing numbers of visitors from Eastern Europe and the Gulf states, though per capita spending is less.

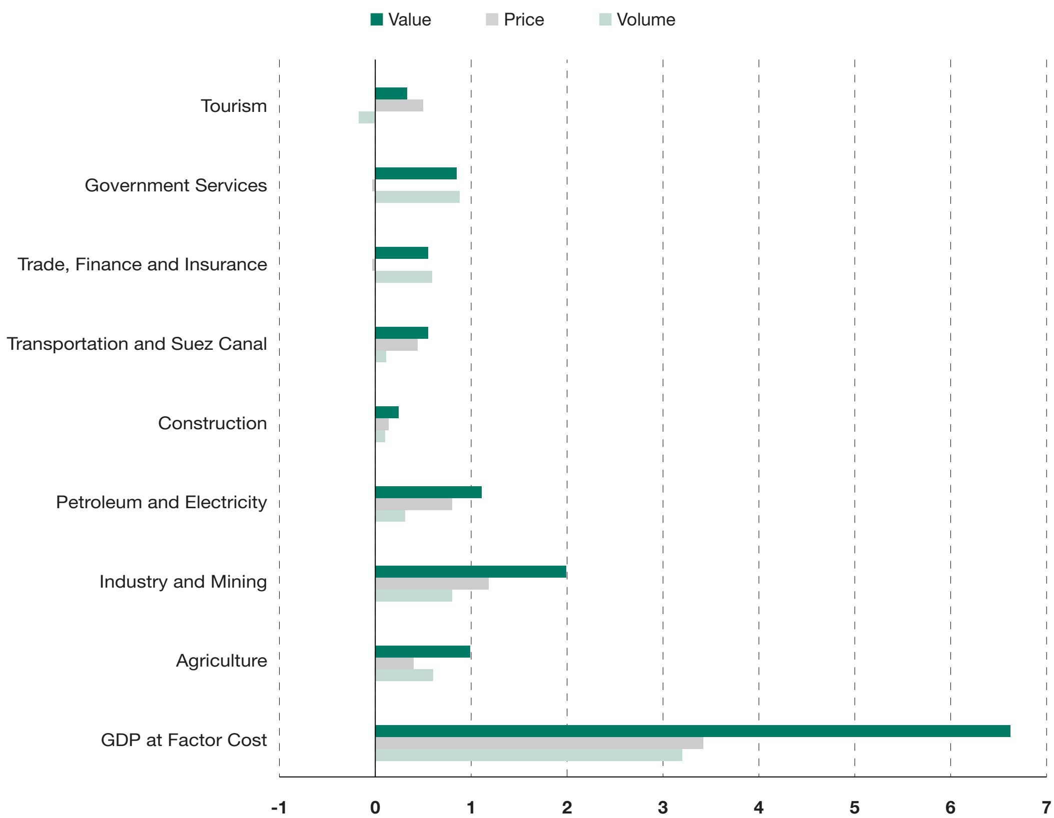
Suez Canal revenue had been expected to fall because of the Iraq war and higher insurance premiums linked

Figure 3 - **GDP by Sector in 2001/02**



Source: Authors' estimates based on domestic authorities' data.

Figure 4 - **Sectoral Contribution to GDP Growth in 2001/02**



Source: Authors' estimates based on domestic authorities' data.

to increased risk, but revenue increased 23.7 per cent in 2002/03 to a record $2.25 billion. This was partly due to increased military traffic, but also to recent work in deepening the canal as well as to a 10 per cent increase in tanker traffic. Taxes and profit transfers by the state oil company and the Suez Canal Authority accounted for more than 7 per cent of total government revenue in 2002/03.

Egypt depends heavily on foreign savings to fund its investments. The low credibility of the banking system, dollarisation of the economy and effective devaluation

Table 1 - **Demand Composition** (percentage of GDP)	1995/96	1999 /2000	2000/01	2001/02	2002/03(e)	2003/04(p)	2004/05(p)
Gross capital formation	**16.9**	**19.6**	**18.3**	**18.1**	**17.4**	**18.2**	**18.5**
Public	5.6	6.0	5.2	4.6	4.8	5.1	5.2
Private	11.3	13.6	13.0	13.5	12.5	13.2	13.4
Consumption	**89.1**	**87.1**	**86.6**	**85.6**	**84.8**	**78.2**	**77.5**
Public	10.6	11.2	11.3	11.8	11.5	11.0	11.0
Private	78.5	75.9	75.3	73.7	73.3	67.3	66.6
External sector	**-6.0**	**-6.6**	**-4.9**	**-3.7**	**-2.2**	**3.5**	**4.0**
Exports	21.2	16.2	17.5	18.2	21.5	29.7	30.1
Imports	-27.2	-22.8	-22.3	-21.8	-23.7	-26.2	-26.1

Source: Ministry of Foreign Trade; projections based on authors' calculations.

of the national currency has not encouraged people to use savings accounts. Investment fell from over 20 per cent of GDP in 1998/99 to 17.4 per cent in 2002/03.

Macroeconomic Policy

Fiscal and Monetary Policy

The budget deficit was 5.8 per cent of GDP in 2001/02 (5.6 per cent in 2000/01 and 3.9 per cent the previous year) and has been growing since 1996/97. It rose further in 2002/03, to an estimated 6.2 per cent, and is expected to top 6 per cent in 2003/04 and 2004/05. This is a challenge to the government and a threat to economic recovery. However, if the social security fund surplus is included, the 2002/03 figure falls to 4.8 per cent. Public debt was more than 70 per cent of GDP in March 2003.

A more than 10 per cent annual increase in public spending, plus a shortfall in funds available, has worsened the budget balance for the past two years. Apart from preserving social welfare spending – the biggest 2002/03 budget item at E£50.3 billion ($9.8 billion), 30 per cent of total expenditure – budget priorities are boosting government revenue, improving financial management, restructuring the public debt and encouraging growth and exports. The budget deficit is structural rather than temporary. Interest due on government debt was 18 per cent of total expenditure in 2002/03. About a quarter of the budget goes on wages and salaries and a sizeable and often disputed chunk

Table 2 - **Public Finances** [a] (percentage of GDP)	1995/96	1999/2000	2000/01	2001/02	2002/03(e)	2003/04(p)	2004/05(p)
Total revenue [b]	**27.1**	**22.2**	**21.2**	**20.7**	**21.1**	**20.7**	**20.8**
Tax revenue	17.0	14.6	14.3	13.6	14.6	14.4	14.3
Grants	2.8	0.5	0.4	1.0	0.7	0.5	0.6
Total expenditure and net lending [b]	**28.4**	**26.1**	**26.8**	**26.5**	**27.4**	**26.8**	**27.1**
Current expenditure	22.8	20.5	22.5	22.4	23.3	22.5	22.7
Excluding interest	*15.6*	*15.0*	*16.7*	*16.4*	*16.7*	*16.0*	*15.9*
Wages and salaries	6.2	6.5	7.0	7.4	7.7	7.1	7.0
Interest	7.1	5.5	5.8	6.0	6.6	6.6	6.8
Capital expenditure	5.6	4.9	4.2	4.0	4.0	4.3	4.3
Primary balance	**5.8**	**1.6**	**0.3**	**0.2**	**0.3**	**0.5**	**0.4**
Overall balance	**-1.3**	**-3.9**	**-5.6**	**-5.8**	**-6.2**	**-6.1**	**-6.4**

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Ministry of Foreign Trade data; projections based on authors' calculations.

is earmarked for subsidising staples such as sugar, bread, transport and energy.

The 2003/04 budget approved by parliament will not improve the situation as it contains E£159.6 billion ($31.2 billion) of expenditure, to make an overall E£29 billion ($5.6 billion) deficit (up from the current E£22.2 billion – $4.3 billion), with spending growing at twice the rate of revenue. The projected 4.5 per cent revenue increase in 2003/04 is tied to higher income and company taxes (+6 per cent), customs duties (+8.7 per cent), sales tax (+9.6 per cent), as well as Suez Canal revenue, privatisation proceeds and 9 per cent higher profits from state-owned firms.

Reform of income tax, customs duties and other levies is moving very slowly however, and the projected extra revenue seems over-optimistic. The government plans to raise money by issuing E£27.7 billion ($5.4 billion) worth of treasury bonds in 2003/04. The June 2003 banking legislation established the central bank's independence in choosing monetary instruments to achieve the common goals set by a co-ordination committee. The new law also stated that, in principle at least, the exchange rate should be allowed to float in addition to setting some prudential rules for monetary control. However, a growing budget deficit financed by bank loans could endanger the central bank's control of the money supply. Restrictions on use of exchange reserves for open market operations seriously hamper the bank's ability to conduct an independent monetary policy.

In a bid to revive the economy and improve liquidity, the central bank pursued an expansionist monetary policy between September 2001 and December 2002 by cutting the discount rate and the minimum reserve ratios for bonds and liquidity. However, under the new flexible exchange system, the central bank announced a more energetic monetary policy to fight inflation. So, since the pound was floated in January 2003, interest rates have gone up and the money supply has shrunk, as the bank's medium-term restrictive policy aims to halt the pound's slide. Since then the credit interest rate has been 10.5 per cent and the debit rate nearly 13 per cent. The money supply (M2) grew 9.3 per cent in 2002/03, less than the average annual rate for the past five years. Dollarisation (the percentage of foreign currency deposits in total liquidity) was 27.2 per cent in April 2003, which was high and rising. Banks were very cautious in the uncertain conditions opting to invest treasury bonds rather than loans to the private sector. Lending focused on the least risky sectors (electricity, oil, natural gas, telecommunications and food processing) and small and medium-sized firms were cut out of traditional credit schemes.

The fall in the value of the pound helped push the official inflation rate up to 3 per cent in 2002/03 and 5.2 per cent in 2003/04, after being only 2.4 per cent in 2001/02. Consumer price subsidies for 15 staples helped control inflation but also increased the budget deficit. Inflation should be back down to 2.7 per cent in 2004/05.

After a decade of being strictly pegged to the US dollar, the Egyptian pound was devalued three times in 2001, but it remained under pressure. Though the currency was floated in January 2003, this was not total as restrictions on pound external transactions remained. However the pound sank 25 per cent in relation to the dollar (E£6.15 in December 2003) and even more against the euro (E£7.70 in December 2003), which is the currency used for most imports.

Despite the substantial 48 per cent fall against the dollar over three years, foreign exchange is very hard to obtain. None can be got on the interbank market, so the parallel market continues to serve many firms and individuals at a steady 20 per cent above the official rate. In March 2003, the parallel market rate was about E£6.80 before it fell to just 5 per cent above the official rate (E£6.50) in August that year.

In March 2003, the government introduced "requisitioning" of foreign currency from exporters, obliging them to bank 75 per cent of the proceeds of their foreign currency transactions within a week. The remaining 25 per cent is supposed to be used to pay for imports with more permitted in documented special cases. This arrangement does not work very well and has not really increased the banks' currency reserves.

However, the balance of payments showed enough foreign currency reserves in June 2003 to cover more than 10 months of imports. The reserves crisis is thus more a problem of availability of foreign currency to business, rather than one of liquidity, posing a serious obstacle to economic growth.

External Position

Egypt is quite a self-contained country but exports should top 11 per cent of GDP in 2004/05 (up from nearly 7 per cent before 2000/01). Total trade (imports and exports minus services), which were a quarter of GDP before 2000/01, should also grow in the next few years to more than 30 per cent.

Imports are increasingly pushing out local products and the government is trying to reverse the trend. Items concerned are mostly equipment and materials for local industry, such as machinery and vehicles, and consumer goods such as livestock, food and beverages. Exports are mainly raw materials such as crude oil, raw cotton and other crops, as well as oil products, textiles, metal goods and cement, but they are at the mercy of world prices and the range of products sold is still narrow.

The association agreement signed with the European Union on 25 June 2001 is due to come into force at the end of 2004, after ratification by the Egyptian, European and EU member-state parliaments. This accord creates an area of dialogue, co-operation and trade between EU countries and the 12 southern Mediterranean states.

Egypt has signed regional agreements with African and Arab countries in an effort to boost exports. It has been a member of the Common Market for Eastern and Southern Africa (COMESA) since 1998 and all Egyptian tariffs against other members should be completely abolished in 2004. It also signed a preliminary agreement in January 2003 to set up a free trade area with Tunisia, Morocco and Jordan as part of the Euromed integration process.

The trade liberalisation policy and complying with World Trade Organisation rules should lower the country's very high customs duties (up to 40 per cent) on imported cars, spare parts, alcoholic beverages and agricultural products. Non-tariff barriers, such as quality controls, still apply to many consumer items. Tax and customs reform has been postponed by parliament until 2004.

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

	1995/96	1999/2000	2000/01	2001/02	2002/03(e)	2003/04(p)	2004/05(p)
Trade balance	-14.3	-11.5	-10.4	-8.9	-8.3	-9.1	-9.2
Exports of goods (f.o.b.)	7.0	6.4	7.8	8.4	10.3	11.4	11.3
Imports of goods (f.o.b.)	-21.3	-17.9	-18.2	-17.3	-18.6	-20.5	-20.5
Services	7.9	4.6	5.0	4.3			
Factor income	0.8	1.1	1.2	0.3			
Current transfers	5.3	4.7	4.1	5.0			
Current account balance	**-0.3**	**-1.2**	**0.0**	**0.7**			

Source: Egyptian Central Bank; projections based on authors' calculations.

The trade balance improved in 2002/03 despite more costly foreign currency priced imports. While import volume was greatly limited by the economic slowdown and the problem of getting foreign exchange, exports by value (in E£) got a boost from higher oil prices and depreciation of the pound and were 10.3 per cent of GDP in 2002/03 (up from 8.4 per cent the previous year).

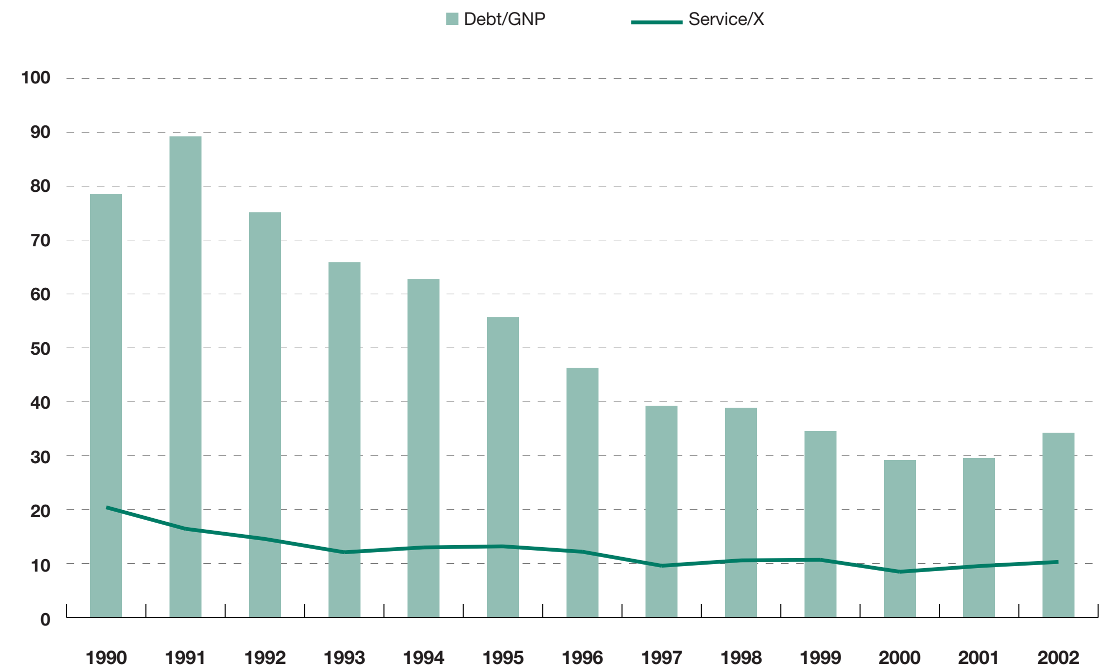
The better services balance was due to the revival in tourism and Suez Canal revenues (which were a record $2.25 billion in 2002/03). But net investment declined as the external debt and its servicing increased in 2002. The current account balance had a surplus of 2.4 per cent of GDP in 2002/03, but because of higher imports and less military traffic through the Canal this may fall in 2003/04.

The government is trying to attract foreign investors by increasing transparency, providing equal treatment for investors and safeguarding their rights. A new labour law in 2003 allows more flexible hiring and firing of workers, a key point for foreign investors.

But regional instability and recent poor economic performances have kept foreign capital away, so despite a rise in direct investment (to $700 million in 2002/03) and less capital flight, the inflow of external funding was only 0.9 per cent of GDP in 2002/03 (0.5 per cent in 2001/02), leaving a capital account deficit of $2 786 million in 2002/03. Net direct investment was positive but far behind the levels reached in the later 1990s and portfolio investments, barely positive in 2001/02, were negative in 2002/03.

Thanks to the exceptionally high 50 per cent debt relief granted by the Paris Club in 1991, Egypt has only a small external debt. The country receives more US public development aid than any other and is overall one of the most financially-aided countries of Africa. Most of the external debt is public and in the form of medium and long-term soft loans.

Figure 5 - **Stock of Total External Debt** (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank.

Both external debt and servicing steadily fell between 1991 and 2001. However, to finance the budget deficit the government issued $1 500 million worth of Eurobonds in June 2001. This significantly increased both its debt and servicing commitments in 2002/03. From 28 per cent of GDP in 2001/02, debt rose to 31.2 per cent in 2002/03, and servicing increased from 8.7 to 10.5 per cent of goods and services exports in the same period. Total medium-and long-term external debt was $28 835 million in December 2002.

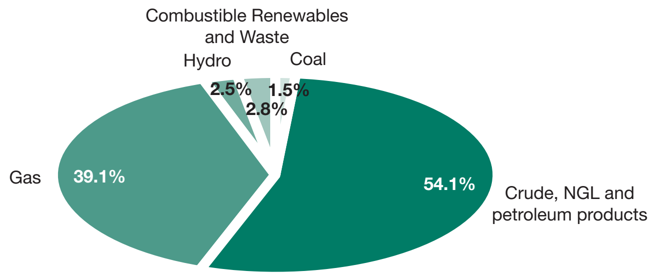
Structural Issues

Egypt has managed to stabilise its economy, with partly liberalised trade and steady progress towards a market economy. But structural reform is held up in several areas.

The energy sector plays a very key part in the economy, as the country has large oil and gas reserves. Directly and indirectly, these are a big source of government revenue, through taxes, exports and transport. The industry accounts for 20 per cent of GDP and oil products are 40 per cent of export earnings. The country is self-sufficient in energy but demand is rising fast, with primary energy consumption rising from 61 per cent of national production in 1990 to 80 per cent in 2001.

The rural population uses mainly commercially-produced energy such as kerosene, liquefied natural gas (LNG) and electricity, which are cheap and meet most needs. About 95 per cent of the population had electricity in 1994, including all schools and clinics. Very cheap natural gas means that the cost is very low ($0.02/kWh in 2003). Non-commercial energy consumption includes animal dung cakes, cotton stalks and straw, but since there are few wooded areas, it only amounted to 3 per cent of total energy consumption in 1994 and involved mainly the poorest households (income below $60/month).

Figure 6 - **Structure of Domestic Energy Supply in 2001**



Source: International Energy Agency.

Energy subsidies (mainly butane, diesel and natural gas) were estimated by the finance ministry at E£16.7 billion ($3.2 billion) in 2003/04. Energy in Egypt is therefore extremely cheap, often below market prices, but these subsidies burden the national budget, particularly given the depreciation of the pound and the growing demand for energy. The cost of a litre of top-grade petrol at the pump, at E£1 ($0.16), is well below the world price. Diesel, much of it imported, costs E£0.40, which is below cost price.

Pricing is a major problem in the oil and electricity sectors and combined with the growing costs for equipment and machinery (particularly those in foreign currency), fixed prices cause losses and have begun to impede profitability.

The oil industry is the biggest element of the economy, even though volume production peaked in 1996 (922 000 barrels a day) and has steadily fallen since then (631 000 barrels a day in 2002). However, 15 recent new discoveries will boost production to more than 800 000 barrels a day, and proven oil reserves were put at just under 3 billion barrels in 2001. The country has eight refineries that can handle about 726 000 barrels of crude a day. The Suez-Mediterranean (Sumed) pipeline, with a daily capacity of 2.5 million barrels, was built as a land alternative to the Suez Canal to move oil from the Persian Gulf and earned $1.96 billion in 2002.

National consumption of oil products is steadily growing, with crude oil up from 456 000 barrels in 1991 to 585 000 in 2001 and oil products up from 19.8 million tonnes to 22.5 million tonnes over the same period. The government is trying to discourage use of oil in favour of gas so as to maintain export earnings (a quarter of oil production is exported).

Following large new discoveries, the gas sector is now very promising. Reserves were estimated at 58 000 billion cubic feet in 2002, but can now probably be put at 120 000 billion (equivalent to 20 billion barrels of oil).

The natural gas currently extracted is in the Mediterranean, off the Nile Delta, and in the Western

Desert. The country consumes all of it but demand for gas has risen quickly with firms using thermal energy accounting for 63 per cent of consumption (81 per cent of them having switched from oil to gas). Private companies are trying to make gas available to all and Cairo's public buses run on compressed natural gas (CNG). Gas consumption rose from 7.1 million tonnes in 1991/92 to 17.8 million in 2000/01.

A 290 km pipeline links the Western Desert gas fields at Obeiyed and Khalda to Alexandria. Plans to build others to take gas to Libya, Israel and the Palestinian Authority are under way. A subterranean pipeline to Jordan opened in July 2003 and, at least initially, liquid gas (LNG) should be exported to Turkey.

Electricity generation capacity was estimated at 17.5 GW in 2001 and should reach 23 GW by 2010 with the construction of new gas-fired thermal plants. The sector's big problem is the cost of upgrading infrastructure. Volume production grew from 41.4 billion kWh in 1990 to 83 billion in 2001/02, enabling the country to export 255 million kWh in 2001/02. Having been evenly split in the 1980s, about 80 per cent of production is now gas-fired thermal and the rest is hydro.

Efforts are being made to make the grid more accessible and reliable, aiming to reduce wastage and export surplus current. In 1998, interconnection with Jordan and Libya was completed and links with other neighbouring countries are being studied, as well as a very ambitious project to exploit Egypt's strategic location and link Africa, Europe and Asia.

Investment in the electricity sector – put at E£3.3 billion ($647 million) in 2002/03 – aims to boost capacity by 6.1 billion kWh, increase consumption by 5.5 billion kW/h and hook up 500 remote villages. More accessible and reliable current for all villages is a priority.

Egypt also wants to expand its renewable energy capacity by using solar and wind power, both to diversify energy sources and protect the environment. The country has major water and air pollution problems, with carbon emissions rising 170 per cent between 1980 and 1998. By 2010, solar and wind power should be about 3 per cent of total energy consumption.

The government has declared that it will step up privatisation in order to both demonstrate its commitment to reforming the economy to foreign investors and to reduce the internal deficit. However, though 314 firms were earmarked for privatisation in 1991, only 194 of these have been disposed of (including 33 that were liquidated), raising E£16.6 billion ($3.2 billion). The Ministry of Public Enterprise plans to privatise 35 more by the end of 2004, including seven metalworking firms and seven pharmaceutical companies.

The main firms in the energy sector are still state owned. The Egyptian Electric Holding Company (EEHC) produces and distributes electricity, the Egyptian General Petroleum Company (EGPC) controls the oil sector and the Natural Gas Holding Company (NGHC) is responsible for gas policy. Egypt has chosen partial privatisation of energy so as to ensure the strong demand is more effectively met. However the government is pinning a lot of hope on the private sector through Build-Own-Operate-Transfer (BOOT) arrangements to expand exploration and increase the amount of electricity available.

A new telecommunications law in February 2003 should eventually enable this sector to be opened up, but meanwhile Telecom Egypt retains a monopoly on the country's 7 million fixed phone lines, though in May 2003 over 1 million internet connections and 4.9 million mobile phone subscribers were supplied by several operators.

Major infrastructure projects are under way (E£19.9 billion in the 2002/03 budget), including giant hydraulic works such as the Toshka project in the south, and canals in Middle Egypt and Sinai, and the extension of urban water supply and purification plants. The government also plans to recover 1.4 million hectares of arable land by 2017 and to build 260 000 housing units and 22 industrial cities in desert areas. By 2002/03, the first stage of construction had been completed in 19 of these cities, but the cost and size of these projects make them controversial.

The government also plans to invest E£5.8 billion ($1.1 billion) – including £E2.1 billion ($411 million) in public funds – in 2002/03 to expand the transport network to link industrial and agricultural activity nationwide. This includes plans to upgrade, extend, develop and make safer the railways, main roads, bridges, ports and air traffic.

The financial sector was liberalised and deregulated, but banks are not really more competitive as a result and perform poorly. Banking is dominated by four publicly-owned firms which account for half of the sector's activity but also hold a significant number of bad debts.

Corruption and fraud scandals recently surfaced leading to several managerial teams being replaced. The June 2003 banking law tightened prudential rules and allowed some liabilities and bad debts to be restructured. Of the country's 60 or so banks, four private ones are unable to increase their capital to meet the prudential ratio set in Basel in March 2003 making some bank failures and/or mergers likely. The central bank wants to see fewer and more sound banking and financial institutions in operation.

The national Cairo and Alexandria Stock Exchange (CASE) had 1 123 firms listed in June 2003, making it Africa's second biggest (after Johannesburg), though only about 100 of these were actively traded. The 20 largest firms accounted for 45 per cent of the exchange's capitalisation and for 71 per cent of shares traded in first-quarter 2003. After a slack year in 2002, the CASE soared in 2003 when the pound was floated and the Iraq war brought to a rapid end.

Political and Social Context

President Hosni Mubarak has ruled the country for more than 22 years and the next elections will be in October 2005. The ruling National Democratic Party (NDP) has an overwhelming majority in parliament and voter turnout is usually very low. At the last parliamentary elections in 2000, national voter participation was only 24 per cent and just 12.6 per cent in Cairo. Participation in local politics is higher with 42.4 per cent turnout in the 2002 local elections. Only 1.6 per cent of those elected were women. The government is trying to push decentralisation and is introducing mandatory local participation in all human development programmes in the coming years.

Despite great progress in improving social conditions over the past decade, much remains to be done to eradicate extreme poverty, sharp gender inequality and differences between provinces in health, education and standards of living. The country is economically divided between north and south with a concentration of manufacturing and commerce sustaining the north while poverty deepens in the south. Upper Egypt (in the south) is the poorest region, and in 2000/01 a fifth of its inhabitants survived on less than $2 a day. Between 1995/96 and 1999/2000, the poverty rate fell by 2.7 per cent thanks to economic growth and the government's expansionist budget policies but the recent economic slowdown may have reversed this trend.

To reduce poverty, the government will have to focus on developing the south. The poorest households currently receive small social security payments (about E£3.50/month) and consumer staples are subsidised. The efforts of the social affairs ministry however, are hampered by lack of funds. Combating poverty and inequality is listed as the third objective of the government's fifth Social Plan (2002/03-2007/08), after developing human capabilities (literacy and education) and employment.

The official unemployment rate rose slightly in 2001/02, to 9.9 per cent (9.3 per cent the year before), but these figures probably underestimate joblessness, considered a major problem. Job-seekers increase by between 500 000 and 700 000 every year but few jobs are created, steadily pushing up the labour surplus, especially among new graduates. Of the estimated 20.2 million people in the workforce in 2002 (6.9 million in the informal private sector and 5.1 million in the formal private sector), the government employs 5.3 million and state-owned firms, 900 000. In 2002/03, female participation in the workforce was just 25 per cent, and just 1.8 per cent in Dar el Salam, the poorest town in Sohag province.

Though only 3.8 per cent of the national budget in 2002/03 was spent on health, indicators have been rapidly improving in recent years. Life expectancy rose from 56 years in 1980 to over 68 in 2002, while infant mortality fell from 120 per 1 000 live births to 31.4, mostly due to introduction in 2002 of oral rehydration which sharply cut deaths from diarrhoea. Nearly all children are vaccinated but healthcare is more available in towns and for the wealthy, though population pressure causes hospital overcrowding. The government is the main provider and funder of health services.

Egypt has notably improved its higher education enrolment rate and there were over a million students at 12 universities and 20 campuses in 2000, in line with government policy of admitting all secondary school graduates. Education is free and universal. Primary enrolment topped 99 per cent in 2002 but beyond this basic education, enrolment rates are closely linked to standards of living, poverty, regional differences and gender disparity.

Enrolment of girls is low at secondary and university levels (23.5 per cent in 2001) and in the 12-15 age group female illiteracy is twice that of boys. Egypt will have to improve educational quality. The fast-rising population exerts constant pressure on state-run schools (in terms of classroom overcrowding and teaching quality) and families spend a lot of money on private tuition. The private sector accounts for 7 per cent of basic, 22 per cent of secondary and 20 per cent of university education. Koranic schools, supervised by Al Azhar University, provide 8.2 per cent of primary and secondary education and 13 per cent of higher education.

