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EGYPT

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	97/98	98/99	99/00	1/
Income, Production and Employment:				
GDP (Current Prices)	83.8	89.7	94.0	
Real GDP Growth (pct) 2/	5.7	6.0	5.0	
GDP by Sector:				
Agriculture	17.5	17.4	16.7	
Manufacturing	32.2	31.5	33.5	
Services	42.3	43.3	42.2	
Government	7.8	7.9	7.5	
Per Capita GDP (US$)	1,310	1,406	1,430	
Labor Force (millions)	17.0	18.3	18.5	
Unemployment Rate (pct)	8.9	8.3	7.4	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	12.3	11.4	8.8	
Consumer Price Inflation (period average)	4.0	2.9	2.5	
Exchange Rate (LE/US$ annual average)				
Market Rate	3.39	3.396	3.6	
Balance of Payments and Trade:				
Total Exports FOB 3/	5.128	4.445	6.388	
Exports to U.S. 3/	0.698	0.660	0.4449	5/
Total Imports FOB 3/	16.899	16.969	17.861	
Imports from U.S. 3/	3.060	3.000	1.719	5/
Trade Balance 3/	-11.7	-12.5	-11.7	
Balance with U.S.	-2.361	-2.360	-1.274	5/
External Public Debt	28.1	28.2	27.8	
Fiscal Balance/GDP (pct)	-1.0	-1.3	-4.2	
Current Account Balance/GDP (pct)	-3.4	-1.9	-1.2	
Debt Service Payments Ratio 4/	13.0	11.0	7.2	
Gold and Foreign Exchange Reserves	20.3	18.0	15.1	
Aid from U.S.	2.115	2.075	2.1	

1/ Statistics are based on Egypt’s fiscal year starting July 1 and ending June 30.
2/ Percentage changes calculated in local currency.

3/ Merchandise trade.
4/ Ratio of external debt service to current account receipts.
5/ Estimates from January to June 2000.

1. General Policy Framework

Egypt, with a population of 67 million and a per capita income of $1,430, is a major developing country. Its productive economy is segmented into the state sector (estimated at 26.9 percent of GDP) and the private sector (with about 73.1 percent of GDP). The Ministry of Finance estimates the informal sector is equivalent to 25 percent of the GDP in 1999. Foreign assistance, including some $2 billion from the United States, has funded a significant portion of Egypt's infrastructure development. Private investment in key infrastructure areas has increased dramatically in the past two years.

Egypt's economic stabilization program started in 1991 and is still ongoing. It has produced measurable growth in several sectors of the economy. The real GDP growth rate has climbed annually, moving from two percent in 1991 to six percent in 1999. Inflation decreased during the same period from 20 to 2.8 percent. Foreign currency reserves have increased and stood at $15.7 billion in 1999. Recently, however, the pace of macroeconomic growth has slowed. The Government of Egypt was forced to revise its budget deficit figures for 1998/99 upward from 1.3 percent to 4.2 percent of GDP. Tariff protection has been reduced with most average favored nation (MFN) duties dropping from a high of 42 percent in 1991 to 27 percent at the start of 2000. Many nontariff barriers have been removed, and Egypt has pledged to implement the new WTO customs valuation procedures in July of 2001. The official unemployment rate is 7.4 percent, but other sources put the figure higher.

Services are the fastest growing sector of the economy, accounting for 32 percent of GDP (including government services). Tourism, the Suez Canal, trade, and banking are the largest service sub-sectors. Egypt is an exporter of petroleum, light manufactures (including textiles), and agricultural products. It imports machinery, refined oil products, and food products. Since 1995 Egypt's exports have remained at around 5 to 6 billion dollars, while imports increased from 13 to 18 billion dollars. In 1999 Egypt's exports to the United States totaled about $600 million, while it imported some $3 billion from the United States.

In 1997 and 1998 Egypt's foreign exchange earnings declined from several key sources (particularly tourism, Suez Canal receipts, worker remittances, and petroleum exports). As a result, Egypt's current account balance went from a small surplus to an almost $3 billion deficit at the end of 1998. In 1999 some of the sources of foreign exchange earnings started to recover with tourist visitor numbers at record levels, Suez Canal receipts stabilizing, and petroleum prices rising. This has brought a corresponding improvement in the current account balance.

The Egyptian government's expenditures were around $26 billion in 1999/00, some 29 percent of GDP, with the fiscal deficit around 4.2 percent of GDP. The deficit was financed through issuance of government securities, borrowing from the pension fund through the National Investment Bank, and foreign assistance. Fiscal revenues are mainly comprised of tax revenue, including income tax receipts and customs tariffs. Egypt has plans to widen the base of the sales tax by including wholesale and retail trade, but implementation has been delayed. Delays in completing tax reform may have wider implications for further reductions in tariffs given the importance of customs revenues in overall government revenue.

The reform-oriented cabinet, appointed by President Mubarak in October 1999, has pledged to continue the pace of reform. The cabinet has taken several measures that would improve Egypt's investment climate. They include a new IPR law that should be submitted to Parliament this year. The Egyptian government recently passed a data protection decree, and approval is pending for the first application made by a U.S. company on an exclusive marketing rights decree approved earlier this year. Up to 20 percent of the Egyptian government's shares in Egypt Telecom are expected to be sold to private investors through the Egypt and London Stock Exchanges, possibly within the next year. Parliamentary elections will take place in October and November 2000.

2. Exchange Rate Policy

Law 38 of 1994 and the executive regulations issued under Ministerial Decree 331 of 1994 regulate foreign exchange operations in Egypt. Responsibility for exchange rate policy lies with the Egyptian government and is administered by the Central Bank of Egypt in consultation with the Ministers of Finance and Economy and Foreign Trade.

As of June 2000, Central Bank foreign exchange reserves stood at $15.1 billion. The Egyptian government notes officially that the free market guides the rates of exchange set by the Central Bank, other approved banks, and dealers. The Central Bank actively monitors the exchange rate in order to assure the Egyptian pound's stability. The exchange rate throughout 1999 averaged 3.39 Egyptian pounds (LE) to $1.00. Strong demand for foreign exchange in mid-2000 caused the dollar exchange rate to rise to a rate of LE 3.7 for $1.00 by October. The Central Bank intervened by putting dollars into the banking system, but it did so with smaller and less frequent infusions than in the past, signaling Egyptian government willingness to allow the pound to float toward a realistic value with reduced government intervention. The rates offered by bureaus of exchange, which account for approximately 6 percent to 10 percent of daily foreign exchange transactions, are as high as 3 percent above the standard commercial rate.

While in principle foreign currency transfers are unrestricted, the business community has reported frequent delays in the processing of requests to convert Egyptian pounds to foreign currency. Exports in recent years may have been affected by the real appreciation of the Egyptian pound vis-a-vis other developing countries' currencies. The Egyptian government may be seeking to make Egyptian exports more attractive by moving less aggressively to prop up the pound.

3. Structural Policies

In general, prices for most products are market based, although the Egyptian government provides direct and indirect subsidies on key consumer goods to benefit Egypt's poor (including bread, which stimulates the demand for U.S. wheat). Pharmaceutical prices are set by the Ministry of Health. Railway fares, electricity, petroleum and natural gas prices are gradually being deregulated to reflect actual costs.

Under its trade liberalization program and in accordance with its WTO obligations, Egypt has made progress in reducing tariffs. In keeping with its WTO commitments, in 1998 Egypt reduced the maximum tariff rate for most imports from a high of 50 percent to 40 percent. Many cases of high tariffs persist, however, such as those affecting the import of automobiles, automobile spare parts and U.S. poultry products. A ban on fabric imports was lifted in 1998, and tariff rates on many categories of textile imports are being reduced in accord with WTO commitments, although tariffs for some areas of textiles remain at high levels. Egypt is in the process of implementing the Harmonized System of product classification, an undertaking it plans to complete in July 2001. Although the government recognizes the need to eliminate non-tariff barriers to trade, businesses report that red tape and cumbersome bureaucracy remain significant problems. This situation should improve with further modernization (e.g., computerization) of the Customs Service and implementation of WTO customs valuation procedures in 2001.

The Egyptian government has adopted a value-added tax (VAT) that is applied for most sales transactions (staple food items are exempted). Other reforms include lowering marginal tax rates, simplifying the tax rate structure, and improving administration of tax policy. Despite such efforts, businesses consistently note the need for reform and modernization of Egypt's tax system, describing its current administration as slow, unpredictable, and lacking in transparency. USAID is currently assisting the Egyptian government to overhaul the tax system, and government expects to present a new sales tax law to Parliament in 2001.

4. Debt Management Policies

In early 1991 official creditors in the Paris Club agreed to reduce by 50 percent the net present value of Egypt's official debt in three tranches of 15, 15 and 20 percent. The IMF conditioned release of the three tranches on successful review of Egypt's reform program. The United States also forgave $6.8 billion of high-interest military debt. As a result, Egypt's total outstanding foreign debt has declined significantly and stands at about $28 billion in 2000. The majority of Egypt's foreign debt is official, concessional, and medium- and long-term. The debt service ratio in 2000 is estimated at 7.2 percent (ratio of external debt service to current account receipts).

In 1996 Egypt and the IMF agreed to an ambitious package of structural reform measures through 1998. The IMF approved a $291 million precautionary stand-by agreement for Egypt. This agreement paved the way for the release of the final $4.2 billion tranche of Paris club relief, reducing Egypt's annual debt servicing burden by $350 million. In September 1998, Egypt declared that it would not sign a third program with the IMF. The relationship with the Fund and the Egyptian government has thus assumed a consultative aspect only.

5. Aid

The United States is Egypt's largest provider of foreign assistance, having committed almost $2 billion in FY 2000. The assistance package is divided into economic support funds ($695 million) and military assistance ($1.3 billion). U.S. economic support assistance levels to Egypt will be gradually reduced over a 10-year period to a level of about $400 million per annum. Both governments are committed to working together to maximize the positive impact assistance has on Egypt's transition to a private-sector-led, export-oriented economy. A significant portion of the funds in both assistance categories is used by Egypt to acquire U.S. goods and services. For example, around $200 million of exports were financed in FY 1999 through USAID's Commodity Import Program. A similar amount is available in FY 2000. An additional $200 million was used to finance technical assistance and services. The Department of Agriculture provided credit guarantees in FY 2000 to support U.S. agricultural exports through GSM 102 ($20 million) and the Export Enhancement Program ($9 million).

6. Significant Barriers to U.S. Exports

Egypt became a member of the World Trade Organization (WTO) in June 1995. Trade should be facilitated by increased transparency and improved notification to the WTO and major trading partners of changes the Egyptian government makes to bring Egypt's trade regime into WTO compliance.

Services Barriers: The Egyptian government controls many service industries. Recent government policies allow private sector involvement in ports, maritime activities, and airports, an opening that has led to significant interest and activity in the private sector. Private firms dominate advertising services. Egypt has modified its laws and regulations in accordance with its WTO financial services commitments.

Banking: Foreign bank branches, including those from a number of U.S. banks, have been permitted to conduct full service retail banking operations since 1993. In 1996 Parliament passed a bill amending the banking law and allowing foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In another significant development, Law 155 was passed in 1998. It provided the constitutional basis needed for privatization of the four largest public sector banks. There is no clear timeline for the government's oft-postponed plans to privatize a public sector bank.

Securities*:* International brokers are permitted to operate in the Egyptian stock market. Several U.S. and European firms have established operations or purchased stakes in brokerage firms. Equity for the sale of state-owned enterprises is raised partly through the Egyptian stock exchange.

Insurance: The passage of a new insurance law in 1998 marked a potentially significant milestone for the sector and the national economy. The law permits foreign insurance companies to own up to 100 percent of Egyptian insurance firms. In 1999 the Egyptian government approved the first application by a U.S. firm for majority ownership. Previously, foreign ownership was restricted to a minority stake. There are five private sector insurance companies, three of which are joint ventures with U.S. firms. The Egyptian government has pressed foreign firms seeking to enter Egypt's non-life insurance markets to do so by purchasing an existing Egyptian insurance firm.

Telecommunications: In October 1999 a new Ministry of Communications and Information Technology was created to manage telecom and IT policy. Telecom Egypt is the nation's fixed-line monopoly. There are many private sector operators in internet and cellular and pay telephone systems. In recent years Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. Government plans to sell up to 20 percent of Telecom Egypt before November 2000 have been delayed by unfavorable market conditions. The mobile system has expanded significantly in the last four years as the result of increased GSM capacity. In 1996 a government-owned firm (Arento) was created with an initial GSM capacity of 90,000 lines. The establishment of two private sector companies in 1998 (Mobinil and Misrphone) has boosted the GSM system to one million lines. As of October 2000, the Egyptian government had not signed the WTO Basic Telecommunications or Information Technology agreements.

Maritime and Air Transportation: Maritime transport lines and services operated until recently as government monopolies. Law 22 of 1998 opened these areas to the private sector. This law permits the establishment of specialized ports on a build-own-operate basis. Under the new business environment created by Law 22, the private sector is becoming increasingly involved in container handling. In addition, Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights and international charter services, although the national carrier remains, by far, the dominant player in the sector. Private firms have also become active in airport construction.

Standards, Testing, Labeling, and Certification: While Egypt has decreased tariffs and bans on the importation of many products, other non-tariff barriers have increased. Many items removed from the ban list were added to a list of commodities requiring inspection for quality control before customs clearance. This list now comprises 131 categories of items including meat, fruits, vegetables, spare parts, construction products, electronic devices, appliances, transformers, household appliances, and many consumer goods. Agricultural commodities have been increasingly subject to quarantine inspection, so much so that some importers have begun arranging inspection visits in the United States to facilitate Egyptian customs clearance. Product specification also can be a barrier to trade. For example, Egyptian Standard Number 1522 of 1991 concerning inspection of imported frozen meat set an unattainable maximum 7 percent content of fat. In September 2000 Egypt imposed a duty of 45 percent on imported milk powder as a provisional safeguard measure to protect local milk producers.

Imported goods must be marked and labeled in Arabic with the brand and type of the product, country of origin, date of production and expiry date, and any special requirements for transportation and handling of the product. An Arabic language catalog must accompany imported tools, machines and equipment. The government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates. In addition, according to a 1998 Ministerial Decree, imports of automobiles are restricted to the current model year in any given year. Many of these standards are at odds with WTO agreements prohibiting non-technical barriers to trade. Only bona fide health and safety standards based on scientific evidence are mandatory under WTO; all other standards must be voluntary.

Investment Barriers: The General Authority for Free Zones and Investment (GAFI) has responsibility for regulating foreign investment. The Egyptian government implemented Law 8 of 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Egypt and the United States have signed a Bilateral Investment Treaty and an Investment Incentive Agreement which extends political risk insurance (via the Overseas Private Investment Corporation) for American private investment. In addition, the Egyptian government is a signatory to the International Convention for the Settlement of Investment Disputes.

Government Procurement: The Egyptian government passed a government procurement law in 1998 which is intended to increase transparency, assure equal opportunity among bidders, and protect contractor rights. The law mandates that decisions on bids are to be explained in writing, and more weight will be accorded to technical considerations in awarding contracts. The law also requires the immediate return of bid bonds and other guarantees once the tender is awarded. Egypt is not a signatory to the WTO Government Procurement agreement.

Customs Procedures: In 1993 Egypt adopted the Harmonized System of customs classification. Tariff valuation is calculated from the so-called "Egyptian selling price," which is based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have a value no lower than that noted on the invoice from the first shipment. As a result of this presumption of increasing prices and the belief that under-invoicing is widely practiced, customs officials routinely and arbitrarily increase invoice values from 10 to 30 percent for customs valuation purposes. Modernization (computerization) of customs operations and implementation of the WTO customs valuation procedures in July 2001, should reduce the time required to clear goods and make the valuation process more efficient and more accurate.

7. Export Subsidies

At present Egypt has no direct export subsidies. Certain exporting industries may benefit from duty exemptions on imported inputs (if released under the temporary release system) or receive rebates on duties paid on imported inputs at the time of export of the final product (if released under the drawback system). Under its commitments to the World Bank, the Egyptian government has increased energy and cotton procurement prices. It has also reduced indirect subsidization of exports by removing many of the privileges previously enjoyed by public sector enterprises (e.g., subsidized inputs, credit facilities, and preferential energy prices and customs rates).

8. Protection of U.S. Intellectual Property

IPR Law*:* In the spring of 2000 the Egyptian government drafted a new Intellectual Property Rights law. A final draft of the law was released to the public in September and was approved by Cabinet in October. It is anticipated that the law will be submitted to the next session of Parliament for adoption. The law addresses IPR issues in such areas as patents (and includes data protection), trademarks (including industrial designs), and copyrights (with enhanced protection to sound and motion picture recordings and computer software). The Egyptian government has made an effort to make the new law conform with WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements.

Watch List Designation: Due primarily to exclusion of pharmaceutical products from adequate patent protections, the United States Trade Representative placed Egypt on the "Priority Watch List" in 1997. Egypt has remained on the Priority Watch List each year since, including 2000. Two significant IPR regulations, a data exclusivity decree and an exclusive marketing rights decree, have been drafted but had not been implemented by the Egyptian government as of November 2000. These decrees would provide significant new protections to U.S. products in Egypt.

9. Worker Rights

a. *The Right of Association:* Egyptian workers may join trade unions but are not required to do so. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most union members (about 27 percent of the labor force) are employed by state-owned enterprises. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The ETUF, although semiautonomous, maintains close ties with the governing National Democratic Party. Despite the ETUF leadership assertion that it actively promotes worker interests, it generally avoids public challenges to government policies.

b. *The Right to Organize and Bargain Collectively: A* proposed new labor law provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, leaving few issues open to negotiation. Larger firms in the private sector generally adhere to such government-mandated standards.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is illegal and not practiced.

d. *Minimum Age for Employment of Children:* In 1996 Parliament adopted a new "comprehensive child law" drafted by the National Council for Childhood and Motherhood. The minimum age for employment was raised from 12 to 14 years. Child workers are also required to obtain medical certificates and work permits before they are employed. Nongovernmental organizations estimate that some 1.5 million children below the age of 15 work in Egypt, most in seasonal agricultural activities. The Egyptian government has not conducted a comprehensive survey of child labor since the late 1980s. Egypt is a signatory to International Labor Organization (ILO) Convention 138 addressing child labor and is expected to sign ILO Convention 182 in 2001.

e. *Acceptable Conditions of Work:* The government and public sector minimum wage is approximately $33 per month for a six-day, 42-hour workweek. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The Ministry of Manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

f. *Rights in Sectors with U.S. Investments:* The five worker rights above are applied in goods-producing sectors in which U.S. capital is invested in the same manner as in other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		1,485
Total Manufacturing		573
Food & Kindred Products	(1)	
Chemicals & Allied Products	91	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	14	
Electric & Electronic Equipment	-2	
Transportation Equipment	(1)	
Other Manufacturing	2	
Wholesale Trade		48
Banking		177
Finance/Insurance/Real Estate		0
Services		-81
Other Industries		11
TOTAL ALL INDUSTRIES		2,213

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.