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MINISTRY OF FINANCE

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ACRONYMS

CASE	Cairo and Alexandria Stock Exchanges
CBE	Central Bank of Egypt
CIDA	Canadian International Development Agency
CMA	Capital Market Authority
CPI	Consumer Price Index
EISA	Egyptian Insurance Supervisory Authority
FDI	Foreign Direct Investment
FY	Fiscal Year (Egypt's fiscal year starts July and ends June)
GDDS	General Data Dissemination Standard
IMF	International Monetary Fund
LE	Livre Egyptien (Egyptian Pound)
MCSD	Misr for Clearance, Settlement and Central Depository
MFA	Multifiber Arrangement
MOF	Ministry of Finance
MOP	Ministry of Planning
NA	Not Available
NPLs	Non Performing Loans
OPIC	Overseas Private Investment Corporation
PER	Public Expenditure Review
QIZs	Qualified Industrial Zones
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights. *A member's quota in the IMF is denoted in SDRs. The quota determines the amount of a member's subscription, its voting right, its access to IMF financing and its shares of the allocation of the SDRs.*
US$	US Dollar
UST	US Treasury
WFP	World Food Program
WPI	Wholesale Price Index
YTM	Yield to Maturity

I. OVERVIEW OF THE ECONOMY

I. OVERVIEW OF THE ECONOMY

A. RECENT TRENDS

The solid economic recovery in 2003/2004 is pursuing its course into 2004/2005

The Egyptian economy has established a good track record in terms of macroeconomic stability over the past fifteen years. In contrast, growth performance was less even, averaging some 3.2 percent between 2000/2001 and 2002/2003, the lowest growth rate in more than a decade. The slowdown was due to a series of external economic shocks at the beginning of the millennium: the fallout of September 11, oil price shocks, the bursting of the equity price bubble, the abrupt slowdown of world trade in 2001, and regional conflict.

In 2003/2004 economic activity witnessed a turnaround. Economic growth accelerated, rising to 4.3 percent in real terms. In the first half of 2004/2005 real GDP peaked at some 4.7 percent. (Tables II.1; III.B.1.11a&b.) Economic activity is expected to maintain a faster pace during the second half of the fiscal year, and forecasts are for a strong recovery around 5 percent in the course of 2004/2005. (Ministry of Planning website: www.mop.gov.eg.)

The recovery in 2004 was led by external demand

Most of the growth momentum since 2002 was derived from the external sector. External demand grew by an average of 16.7 percent in real terms, consistently driven by export revenues, increased receipts from the Suez Canal, resurgent tourism, and improved confidence. During the same period, domestic demand grew more timidly at an average of 9.6 percent as a result of sluggish private consumption and uneven capital formation. (Figure II.1; Table III.B.1.9.)

However growth in 2005 will be mostly driven by domestic demand, specifically consumption demand

The recent slump in world trade could dampen growth in external demand during 2004/2005. Nevertheless economic growth is expected to accelerate, underpinned by an upturn in domestic demand that should gather speed sharply as a spill-over of the external impulse of the past years. (Figure II.1; Tables III.B.1.9, III.B.1.12). This should push real economic growth rates to 5.1 percent. (Ministry of Planning website: www.mop.gov.eg.)

Because the Egyptian economy is still in the early stages of recovery, it is projected that consumption demand will drive domestic demand in 2004/2005 in response to the pick up in economic activity and increases in disposable income following recent trade and fiscal reform initiatives.

Investment demand will continue to grow, albeit at a slower pace. (Figure II.2; Table III.B.1.9.) The stronger the contribution of domestic demand to growth, the more likely it will trigger strong secondary effects on investment consumption. The projected slowdown in investment growth should therefore be temporary as capital formation increases in response to a number of policies that will reinvigorate domestic demand and economic growth. While external demand is important, it is the strength of growth in domestic demand that essentially determines the resilience of economic growth and reduces concerns about external vulnerability.

Towards this end, the Government implemented significant tariff reductions in September 2004, followed by a second round of cuts in December. Other measures include customs reforms, a new tax code that reduces personal and corporate taxes by 50 percent and ongoing efforts to modernize Egypt's budget classification, treasury cash management and tax administration.

Private sector growth will dominate the uptake in consumption demand

Although private sector growth was negatively affected by the economic slowdown during the early years of the millennium, the acceleration of consumption demand in 2003/2004 (which is projected to carry into 2004/2005) owed mainly to a stronger private sector as public sector consumption weakened. In real terms, public consumption growth has decelerated from 3.2 percent to 3.1 percent between 2002/2003 and 2003/2004, and is expected to dip to 2.8 percent in 2004/2005. In comparison, final consumption grew by 2.4 percent and 2.7 percent respectively over the past two years. Private consumption grew at 2.2 percent and 2.7 percent respectively during the same period, and should gain even more momentum in 2004/2005, reaching 5.3 percent in real terms, and driving consumption growth rates to 5 percent. (Figure II.3; Table III.B.1.9.)

The macro-economy will be more favorable to private sector led growth in 2005.

Real growth in public sector GDP has been maintained at 2.9 percent since 2002. Private sector GDP, however, grew by 4.3 percent in 2003/2004 compared to 3 percent in 2002/2003 (Table III.B.1.12), and is projected to grow by 5.4 percent by June 2005, raising the share of the private sector in GDP from 63.7 percent to 71.7 percent. (Ministry of Planning website: www.mop.gov.eg.)

Inflation rates are falling…	In February 2005, CPI inflation fell to 6.9 percent compared to 9.5 percent in January, maintaining a single digit rate for the second month in a row. Following the flotation of the Egyptian pound at end-January 2003, the CPI growth rate had increased steadily to reach 8 percent in January 2004. By April 2004 CPI growth rates had spiraled to 12.2 percent. The recent drop in the inflation rate suggests that the exchange rate pass-through is working itself out. This is more evident in the case of wholesale prices whose growth rates were more than halved from a high of 18 percent in June 2003 to 7.7 percent February 2005. [(Tables I.1; III.B.1.1 & III.B.1.3); Figure II.4.] In addition, ongoing monetary policy reforms—including steps towards anchoring inflation expectations— will enable the Central Bank to deal with inflationary pressures more efficiently.
as the pound stabilizes …	The Egyptian pound has stabilized and the official and parallel markets have been unified. (Table I.1; Figure II.5.)
in response to a number of factors:	
tightening of monetary policy,	The stability of the foreign exchange market was aided by a tightening of monetary policy. Broad money (M2) growth rates declined from 16.1 percent in January 2004 to 13.2 percent last January. M2 growth rates had reached a record high of 19.9 percent in December 2003. (Table I.1; Figure II.6.)
the establishment of an interbank market,	The establishment of a formal well functioning interbank market for foreign exchange helped create a very liquid foreign exchange market.
and the elimination of surrender requirements	The Prime Minister issued Decree No. 2059/2004 rescinding Decree No. 506/2003 that required exporters to surrender 75 percent of their foreign exchange proceeds. This step helped enhance the liquidity of the market because it gave confidence to the international community that Egypt will pursue sound economic policies that preclude the need to use such a restriction.
The fiscal deficit has recently increased but is under control	While the budget deficits have been on an upward trend, their size was determined for the most part by economic conditions. And in spite of these conditions, the relative size of the deficit has started to decline. In 2003/2004, the unconsolidated budget deficit was 6

percent of GDP, compared to 6.1 percent in 2002/2003. The consolidated deficit (excluding social insurance funds (SIFs)) went down from 8 percent of GDP in 2002/2003 to 7.4 percent in 2003/2004. [(Tables I.1; III.A.3a, 3b); Figure II.7.]

Most of the fiscal deficit increases were caused by the economic downturn between 2000/2001 and 2002/2003. (Figure II.1.) In 2004 revenues grew by 15.2 percent, outpacing expenditure growth rates at 12.8 percent. (Figure II.8.) The recent pick up in total revenues is evident in a consistent growth in income and sales taxes during the past two years. Income tax revenue grew by 7.2 and 16 percent respectively, while sales tax proceeds grew by 10.7 and 13.1 percent. In contrast, customs revenue growth rates dropped from 21.8 to 5.4 percent over the same period. (Figure II.9; Tables III.A.3a, 3b.)

The rate of growth of revenues continues to outpace that of expenditure in 2004/2005. During the first half of the fiscal year revenues grew by 17.6 percent compared to 14.8 percent for expenditures, despite a 16 percent fall in customs duties following the September 2004 tariff rate reductions.

Non-tax revenue from the Suez Canal and the Central Bank has increased steadily over the past years. In June 2004 these earnings rose by 18.8 percent compared to 9.5 percent a year earlier. During the first half of 2004/2005, they surged by 20.7 percent indicating that external demand has not yet waned.

In 2003/2004 domestic interest payments grew by 9.3 percent compared to 8.6 percent in 2001/2002. In contrast, growth in foreign interest payments dropped from 0.6 percent to 0.5 percent (Figure II.10; Tables III.A.3a&b.)

The rise in domestic interest payments reflects increased reliance on non-inflationary financing of the budget. During September 2004, the stock of treasury bills and bonds outstanding was LE 81.1 billion compared LE 76.8 billion during the previous quarter and LE 53 billion in June 2002. With more reliance on non-inflationary financing since 1999/2000, government and total public debts have increased. As a percent of GDP, government debt was 61.7 percent of GDP in June 2004 compared to 58.4 percent in June 2002. During the same period, total public debt was 91.7 percent of GDP compared to 87.1 percent. (Figure II: 11; Table III.A.13.)

However, as the expected economic recovery takes hold and growth rates strengthen, domestic debt ratios will go down. Egypt's debt dynamics will benefit from expected strong nominal GDP growth, negative real interest rates, the resumption of privatization and the stabilization of the exchange rate. Furthermore, better tax compliance under the new simplified tax system could help improve the fiscal position and public indebtedness.[1]

The improvement in the competitiveness of the Egyptian economy will be further spurred by recent trade reforms

Exports growth rates have been on an upward trend since 2001/2002. (Figure II.12.) The competitiveness of Egypt's exports was prompted by the devaluation of the pound in 2003. Ongoing trade and fiscal reforms are also expected to stimulate export-oriented growth. Higher investment demand associated with the recent recovery in economic growth rates was reflected in a rise in imports.

The expected deceleration in global growth and the recent appreciation of the pound could, however, slightly dampen the demand for merchandize exports.

while the current account surplus continues

The rise in the current account surplus during the past four years has been driven by a significant improvement in the services balance. The fall in the value of the Egyptian pound has made Egypt an attractive tourist destination. (Figure II.13; Table III.B.3.1)

The robust growth in imports in response to lower tariffs could increase pressures on the trade deficit. However the services surplus should remain unaffected (the appreciation of the pound should not have a significant impact on either tourism or the Suez Canal receipts), and should more than make up for any pressures on the trade balance. Thus the current account should also remain in surplus. Figures for the first half of 2004/2005 indicate a continued surplus of 1.4 percent of GDP.

Turning to the stock market, the trend throughout the year has been bullish

Thus as 2005 began, the foundations for a sustained economic expansion were already in place. In response, a positive market sentiment has prevailed, pushing the stock market up. The bullish performance (Figure II:14) was also driven by the continued improvement in the external accounts.

The CASE30 index has witnessed a growth rate of 78 percent since July. The annual growth rate in 2004 was 119 percent. The CASE30’s share of the total market capitalization has risen sharply

[1] Fitch Ratings. January 2005. Arab Republic of Egypt: International Credit Update.

from 30 percent in 2003 to 45 percent in 2004, reaching 54 percent during January – March 2005. Their share of the total value traded jumped to 61 percent two weeks by the end of 2004, and was 64 percent during the first quarter of the current calendar year.

Market capitalization has grown by almost 35 percent over the past year. The average value of trade per day also increased from LE 116 million in 2003 to LE 169 billion during 2004, jumping by the end of March 2005 to LE 466 billion. Foreign participation in the market is 17 percentage points higher in 2004 than its value in 2003, and was 32 percent by March 2005.

The upturn in equity prices forestalls a business recovery in anticipation of the imminent upturn in activity and profits. It should also help to hold down the cost of capital and support increased investment and growth.

Optimism and restored confidence in the economy suggest that there is significant scope in attracting FDI to Egypt

The sharp decline in FDI in 2000/2001 reflects the contraction of FDI worldwide. (Figure II.15.) There is substantial scope in attracting FDI to Egypt, however. The recent policy initiatives in the areas of trade reform, taxation and revived privatization have been directed towards that objective. Privatization will extend to the banking sector as part of a broader financial sector restructuring plan. Recent leadership changes in the General Authority for Investment (GAFI) also bode well for foreign direct investment (FDI). GAFI is intent on improving conditions for existing investors in order to attract new inflows. In addition, new optimism should reverse the downward trend of the past years. In the first half of the year 2004/2005 FDI has reached US$935.3 million compared to US$89.2 million in the same period for last year.

B. GOVERNMENT FINANCES

1. Most Recently Enacted Budget Levels (July-December 2004) Compared to the 2004/2005 Budget Proposal

1.1 Revenues

Comparing the budget proposal of 2004/2005 to the most recently enacted levels (July-December 2004) (Table I.B.1) we find that less than 50 percent of the revenue projections were executed. Compared to the same period last year, higher revenue targets were however achieved in 2004/2005 due to stronger growth rates and high inflation that has started to subside only recently. A notable exception is customs duties. The percentage implemented during the first half of the current fiscal year is one percentage point lower than the comparable period of 2003/2004. The change was a result of the drop in customs receipts following the September tariff reductions that had not been taken into account for during the planning of the budget last year. It remains to be seen whether the negative impact on customs revenues will continue during the remainder of the projection period. Two forces—lower tariff rates and the recent appreciation of the pound—will reduce the cost of imports, increasing their volume and recouping some of the lost earnings, which could serve to enable the projected customs receipts to be met by June 2005.

Table I.B.1: Budget Execution: Budget Proposal Compared to the Most Recently Enacted Level – Selected Items

L.E. Millions	2003/04 Budgeted	Jul-Dec 2003/04 Enacted	% Enacted	2004/05 Budgeted	Jul-Dec 2004/05 Enacted	% Enacted
TOTAL REVENUES	94,885	38,824	40.9	110,706	45,817	41.4
Current Revenues	93,679	38,421	41.0	107,556	44,895	41.7
Tax Revenues	67,124	27,106	40.4	75,132	30,999	41.3
Income Tax	26,772	10,763	40.2	32,167	13,610	42.3
Goods & Services	26,671	10,704	40.1	31,219	12,665	40.6
International Trade	13,505	5,576	41.3	11,567	4,661	40.3
Other	176	63	35.8	179	63	35.2
Non Tax Revenues	26,555	11,315	42.6	32,424	13,896	42.9
Capital Revenues	1,206	403	33.4	3,150	922	29.3
TOTAL EXPENDITURE	122,794	53,797	43.8	146,406	62,621	42.8
Current Expenditure	105,392	47,482	45.1	126,006	55,016	43.7
Wages & Salaries	35,172	16,684	47.4	40,060	18,590	46.4
Defense	12,145	7,071	58.2	13,090	7,529	57.5
Interest	30,985	10,899	35.2	37,906	12,675	33.4
Domestic	28,422	9,416	33.1	33,980	10,763	31.7
Foreign	2,563	1,483	57.9	3,926	1,912	48.7
Other	27,090	12,828	47.4	34,950	16,222	46.4
Capital Expenditure	17,402	6,315	36.3	20,400	7,605	37.3
OVERALL DEFICIT / SURPLUS	-25,784	-13,833	53.6	-32,448	-15,915	49.0

1.2 Expenditures

Looking at the expenditure levels provided for the current year (2004/2005), we find that expenditures executed during the first half of the fiscal year are lower than during the corresponding period of 2002/2003, boding well for meeting projected budgeted expenditures. A notable reduction in executed expenditures, compared to last year, concerns interest payments, both domestic and foreign, an outcome of lower interest rates (see Figure II.6) and a stronger pound (see Figure II.5).

1.3 The Deficit

The budget deficit to date is only 49 percent of the projected deficit. Accelerated growth during the first half of the year had a slightly positive effect on revenues compared to last year. Together with a slightly better expenditure performance, the enacted budget deficit to date is 4.6 percentage points lower than the corresponding semester last year. This bodes well for a budget deficit that could be on track.

2. BUDGET EXECUTION IN 2004/2005 COMPARED TO 2003/2004

2.1 Revenues

Revenue execution in 2003/2004 mostly underperformed compared to the previous year. All projected tax revenues were overly optimistic, particularly custom duties, despite steady growth during the year. The sizable depreciation of the pound increased the cost of imports, thus serving to reduce projected customs receipts. Corporate taxes collected were only 95.5 percent of projected collections compared to 102.5 percent in 2002/2003. The uncertainty associated with regional developments may have had a negative impact on collected corporate tax revenues.

A notable exception to weak revenue performance in 2003/2004 was non-tax revenues from the Suez Canal, EGPC and the Central Bank that were executed at 108 percent of projected earnings. The sharp unanticipated increase in these earnings owes largely to increased military traffic in the Suez Canal during the regional developments at the time.

2.2 Expenditures

All enacted expenditures in 2003/2004 were off track compared to the previous year. Two significant deviations relate to foreign interest payments and capital expenditures (116 percent and 105 percent of projected payments respectively compared to 76 percent and 98 percent in 2002/2003), and were caused by the depreciation of the pound.

2.3 The Deficit

The enacted deficit in 2003/2004 was 111.2 percent of the budgeted deficit, as predicted by the execution rate of 53.6 percent during the first semester. (Table I.B.1.)

Table I.B.2: Budget Execution: 2003/04 Compared to 2002/03 – Selected Items

L.E. Millions	2002/03		% Enacted	2003/04		% Enacted
	Budgeted	Enacted		Budgeted	Enacted	
TOTAL REVENUES	82,237	83,530	101.6	94,885	96,253	101.4
Current Revenues	81,181	81,449	100.3	93,679	93,601	99.9
Tax Revenues	57,021	57,486	100.8	67,124	64,793	96.5
Income Tax, *of which*	22,102	23,189	104.9	26,772	26,903	100.5
Individual Taxes	*8,724*	*9,470*	*108.6*	*10,197*	*11,080*	*108.7*
Corporate Taxes	*13,378*	*13,719*	*102.5*	*16,575*	*15,823*	*95.5*
Good and Services	23,358	22,782	97.5	26,671	25,757	96.6
International Trade	11,374	11,354	99.8	13,505	11,970	88.6
Other	187	161	86.1	176	163	92.6
Non Tax Revenues	24,160	23,963	99.2	26,555	28,808	108.5
Capital Revenues	1,056	2,081	197.1	1,206	2,652	219.9
Grants	3,487	2,954	84.7	2,300	3,412	148.3
TOTAL EXPENDITURE	110,957	111,786	100.7	122,794	127,511	103.8
Current Expenditure	94,133	95,226	101.2	105,392	109,189	103.6
Wages and Salaries	31,554	31,549	100.0	35,172	35,950	102.2
Defense	11,115	11,215	100.9	12,145	12,400	102.1
Interest	27,100	26,849	99.1	30,985	31,706	102.3
Domestic	24,000	24,498	102.1	28,422	28,740	101.1
Foreign	3,100	2,351	75.8	2,563	2,966	115.7
Other	24,364	25,613	105.1	27,090	29,133	107.5
Capital Expenditure	16,824	16,560	98.4	17,402	18,322	105.3
OVERALL DEFICIT / SURPLUS	-25,834	-25,429	98.4	-25,784	-28,659	111.2

C. Challenges and Opportunities Ahead

The decisive reforms taken by the new Cabinet are generating a mutually reinforcing growth momentum that promises higher growth for the Egyptian economy. To date there is no evidence that macroeconomic imbalances will emerge in 2005. Nevertheless there could be risks to this momentum. In the December 2004 issue of the Monitor, we discussed a number of future longer-term tests that the economy could face, which would require proactive and efficient policy responsiveness in dealing with the needed changes. In addition to those, we note in this issue a number of short-term challenges pertaining to adjustments in consumption and investment, improving the investment environment, consolidating the fiscal deficit and the recent appreciation of the Egyptian pound.

The principal task in the near-term will be to ensure that economic policy facilitates the necessary adjustments to consumption and investment that arise from the change in relative world prices of essential commodities. Policies must also be directed toward a steady and robust development of all demand components in order to achieve a secured recovery. Weak or alternating increases in the drivers of demand will not trigger the necessary multiplier effects on the other demand factors. In addition, policy reforms that improve the investment environment and reduce the cost of trade combined with agreements such as the QIZ and other preferential trade agreements that broaden export markets remain a top priority of the Government.

With respect to the fiscal developments, there is a risk, at first glance, that the budgetary position might deteriorate gravely as the Government continues to accelerate economic, social and trade reforms, in order to sustain higher growth rates, and increase investment and job creation. As discussed in the previous issue of the Monitor, implemented reductions in customs duties and planned taxation reform measures carry short-term costs in terms of lower tax revenue. However, even with the short-term reduction in tax revenue and higher deficit, the fiscal and trade reforms could well prove to be less serious than assumed. First, according to Fitch Ratings, "Egypt's debt dynamics benefit from strong nominal GDP growth and primary surpluses of about 3 percent of GDP, so the Government can incur a slightly higher deficit without jeopardizing the debt/GDP ratio.[2]" Second, the acceleration of privatization could provide supplementary budget support in the immediate term. Hence in the short term, the concerns about a gravely deteriorating budgetary position are exaggerated.

In the medium run fiscal reform measures should start a virtuous circle of stimuli to the economy. The drop in tax receipts will be more than recouped by a widening of the tax base and "taxable capacity." Customs revenues would also increase as import volumes pick up in response to lower tariffs. In addition, lower customs duties will reduce the cost of investment and consumption as imports rise strongly stimulated by the reduction in tariffs. This is expected to support domestic investment, production and stronger growth. The planned transformation of the tax authority, which will include greater automation leading to a less discretionary application of the rules, could raise additional income while the effective tax burden is reduced at the same time. Economic activity will be further reinforced in response to the rapid pace of current reforms and increased confidence in government policy. The budget will also be bolstered by complementary efforts by the Ministry of Finance to rationalize expenditure in conjunction with the World Bank and IMF.

Another fiscal burden relates to implementing the Government's social agenda to mitigate the effects of the numerous policy reforms on the Economic Team's agenda. To make reforms more sustainable, the government will continue to complement the impending economic reforms with a strong and effective social development program that includes an enhanced social safety net. This program will carry an inevitable short-term fiscal cost, adding to the challenges ahead.

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[2] Fitch Ratings. December 15, 2004. Fitch Revises Egypt's Outlook to Stable. Press Release.

Concerning the exchange rate, the recent appreciation of the pound could dampen the demand for Egyptian exports. Also as discussed in the December 2004 issue of the Monitor, there are signs that global growth is decelerating. World GDP growth will slow to 4.2 percent in 2005 and 4 percent in 2006 compared to 5 percent in 2004[3]. This decline may constrain the demand for Egypt's merchandize exports. On the other hand, Egypt's non-oil exports will still benefit from the strong euro (one third of Egypt's exports are destined for the EU).

The robust growth in imports in response to lower tariffs could increase pressures on the trade deficit. However the services surplus should remain unaffected and should more than make up for any pressures on the trade balance, keeping the current account in surplus. The appreciation of the pound should not have a significant impact on either tourism or the Suez Canal receipts. European tourists represent the majority of tourists arriving in Egypt, and continue to benefit from a strong Euro. Suez Canal earnings will actually benefit from higher oil prices. Hence, the diversity of foreign exchange income in the current account provides resilience to external shocks.[4]

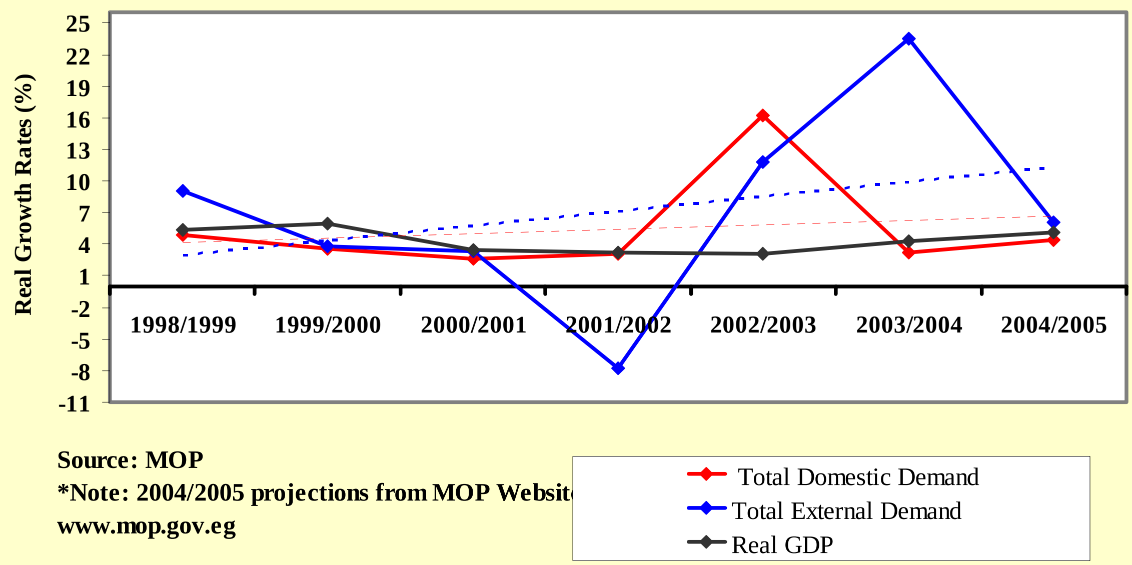
The need for rapid and comprehensive economic transformation has become an integral part of the vocabulary of the Economic Team of the July 2004 Cabinet. There is growing support for the announced policy changes and the renewed credibility of the recently appointed economic team bodes well for positive economic effects. The Economic Team will continue to show the way ahead by clarifying the future policy agenda and continuing to pursue and set in motion complementary, dynamic and constantly adapting reforms.

[3] EIU (Economist Intelligence Unit). January 2005. Country Forecast.
[4] Fitch Ratings. January 2005. Arab Republic of Egypt: International Credit Update.

II. THE ECONOMY AT A GLANCE

- **Table II.1: Selected Economic and Financial (June 1990 - December 2004)**

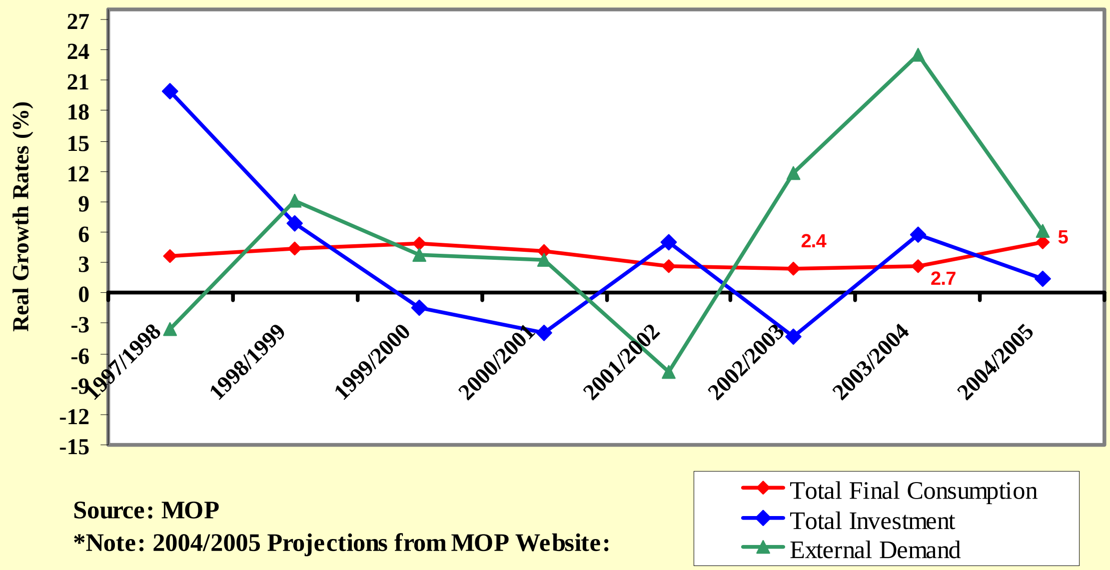
Figure II.1: Real GDP, Total Domestic and External Demand (1998/1999- 2004/2005)



Source: MOP
*Note: 2004/2005 projections from MOP Website
www.mop.gov.eg

After a slowdown at the beginning of the millennium, the economy has started to recover. Economic growth was 4.3 percent in real terms in 2003/2004. This improvement is primarily driven by export revenues, increased receipts from the Suez Canal and resurgent tourism. Domestic demand is expected to gather speed in 2004/2005 as a spill-over of the external impulse.

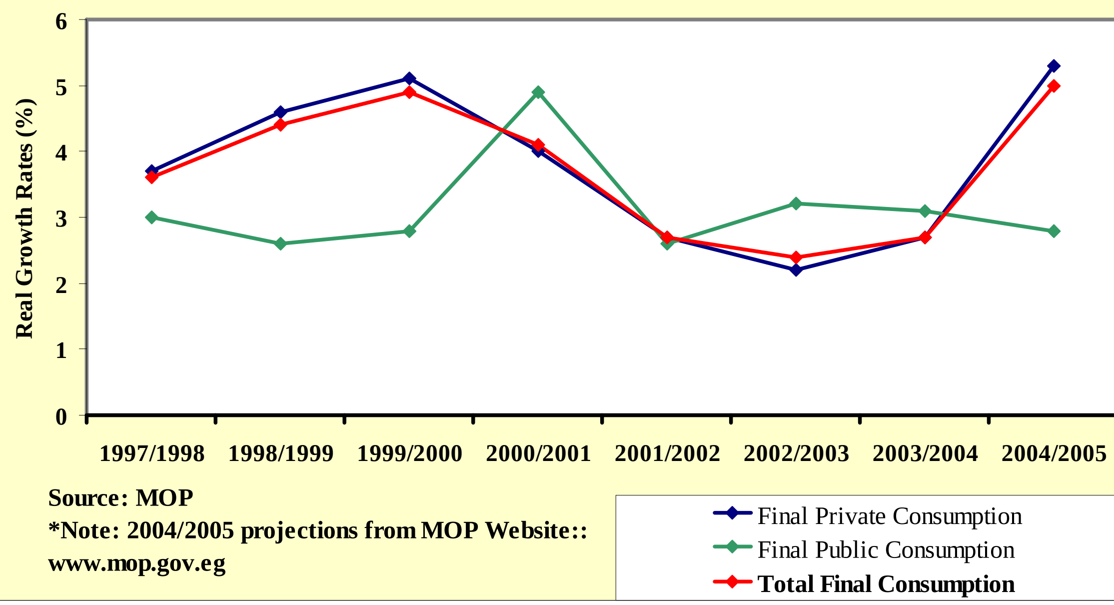
Figure II.2: Domestic and External Demand (1997/1998- 2004/2005)



Source: MOP
***Note: 2004/2005 Projections from MOP Website: www.mop.gov.eg**

Consumption growth will lead domestic demand in 2004/2005. Investment demand will also continue to grow, albeit at a slower pace. While the expected deceleration in global growth and the recent appreciation of the pound could dampen growth in merchandize exports, there should be no significant impact on either tourism or the Suez Canal receipts.

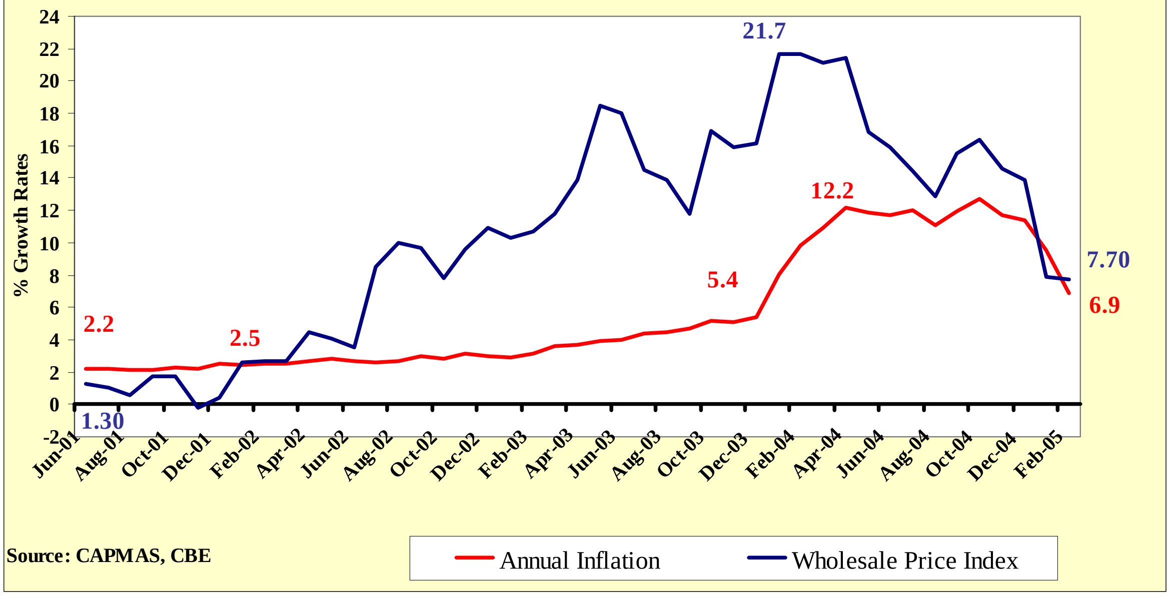
Figure II.3: Public and Private Consumption (1997/1998- 2004/2005)



Source: MOP
***Note: 2004/2005 projections from MOP Website::**
www.mop.gov.eg

Private sector growth was negatively affected by the economic slowdown during the first two years of the millennium. However, the recovery in consumption demand in 2003/2004 owed mainly to a stronger private sector as public sector consumption weakened. This trend is expected to continue in 2004/2005.

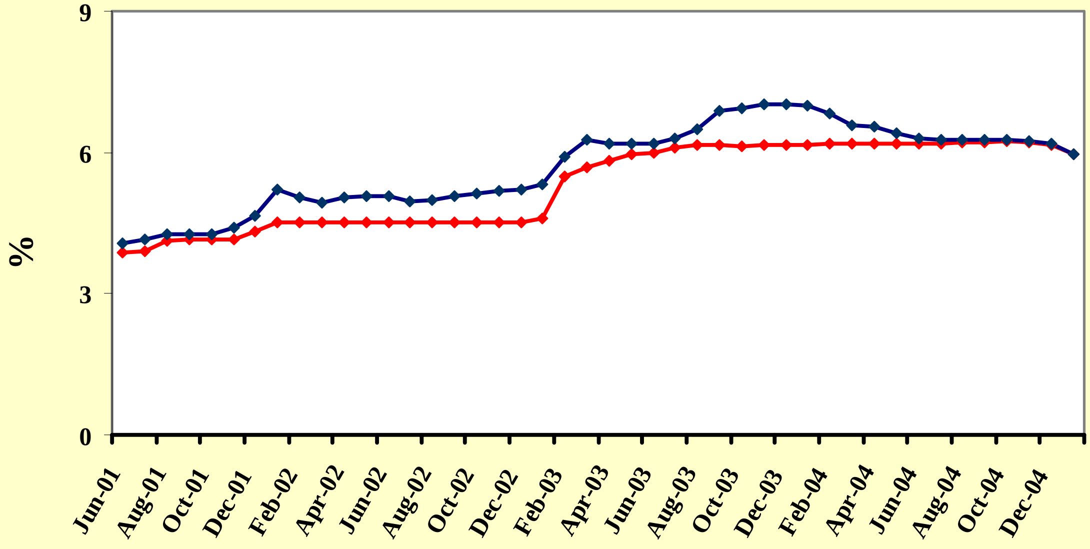
Figure II.4: Percent Changes in Consumer and Wholesale Price Indices (June 2001- February 2005)



Source: CAPMAS, CBE

Domestic prices have recovered strongly, with a lag, to the depreciation of the pound. Inflation has started to subside as the pass-through subsequently worked itself out. This was more evident in the case of wholesale prices.

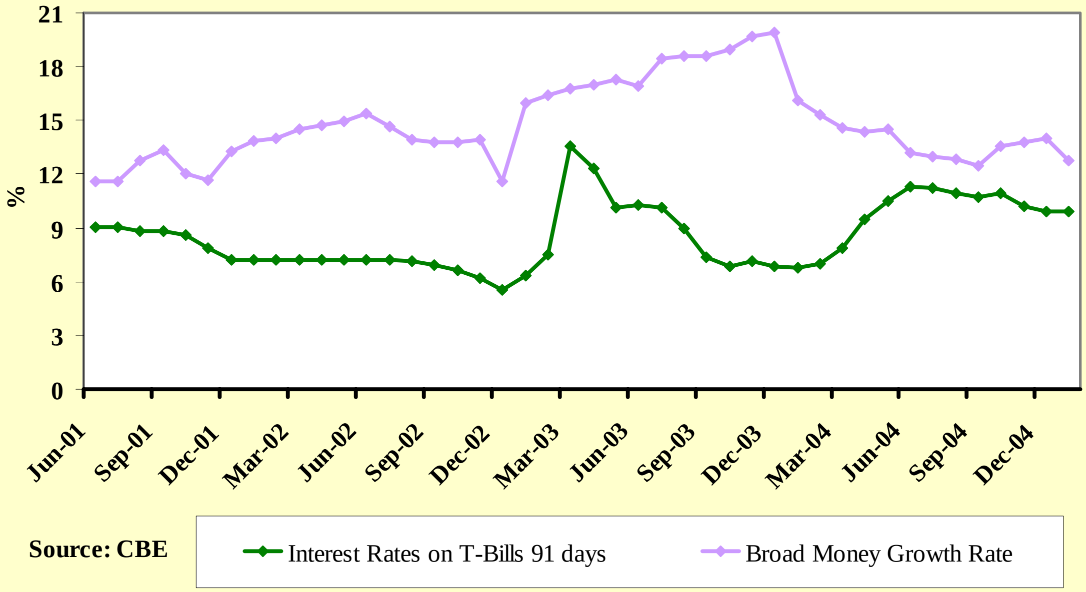
Figure II.5: Official & Parallel Market Exchange Rates (June 2001-January 2005)



Source: CBE

The Egyptian pound has stabilized and the official and parallel markets converged by the end of 2004. The parallel market disappeared in 2005 as the two rates were unified following the launch of the interbank market in December.

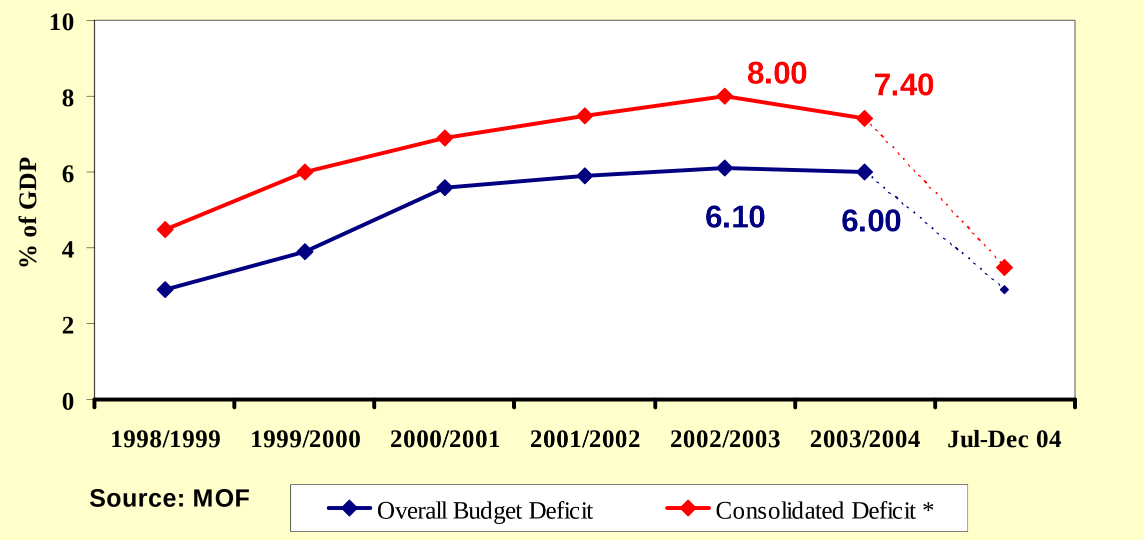
Figure II.6: Interest Rates on T-Bills and Broad Money Growth Rates (June 2001- January 2005)



Source: CBE

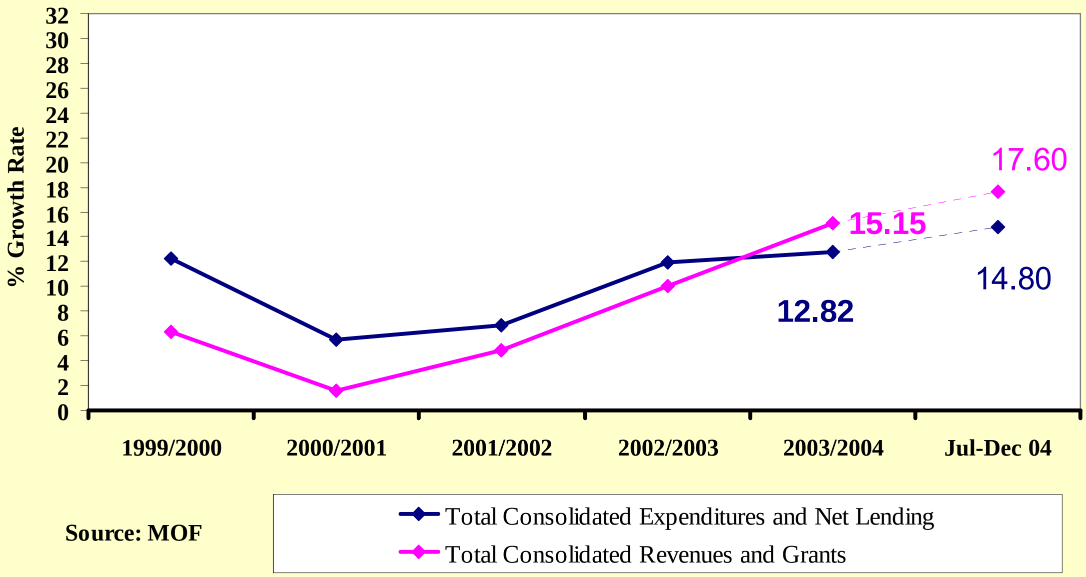
The foreign exchange market has stabilized, partially in response to a tightening of monetary policy.

Figure II.7: Overall Budget and Consolidated Deficits* (1998/1999-2003/2004)



In 2003/2004 the unconsolidated budget deficit was 6.0 percent of GDP, compared to 6.1 percent in 2002/2003, while the consolidated deficit (excluding social insurance funds (SIFs)) went down from 8 percent of GDP in 2002/2003 to 7.4 percent in 2003/2004.

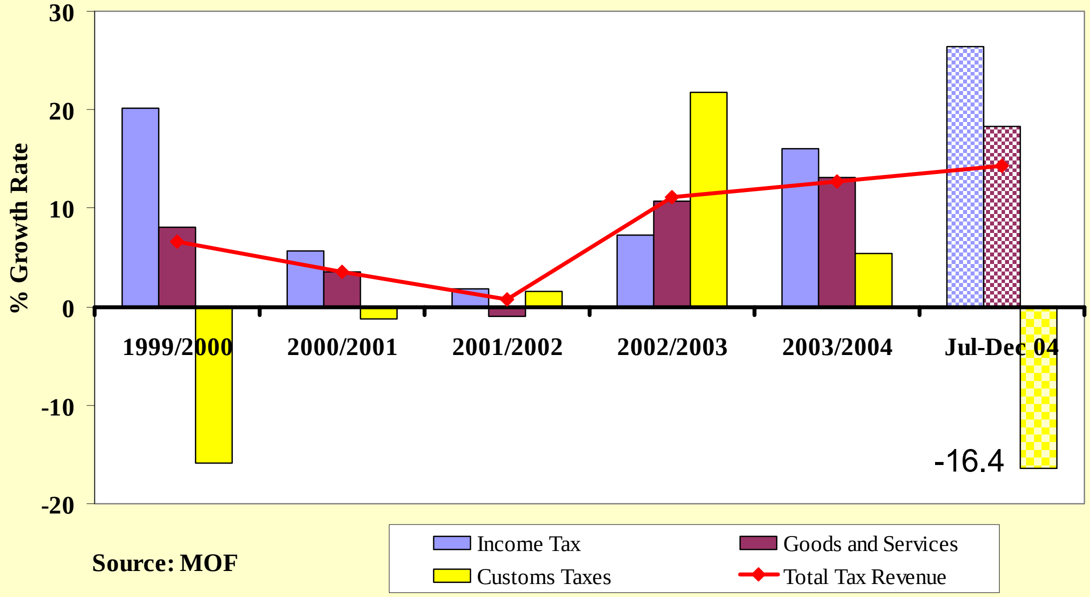
Figure II.8: Total Consolidated Expenditures and Net Lending; Total Revenues and Grants (1999/2000-2003/2004)



Source: MOF

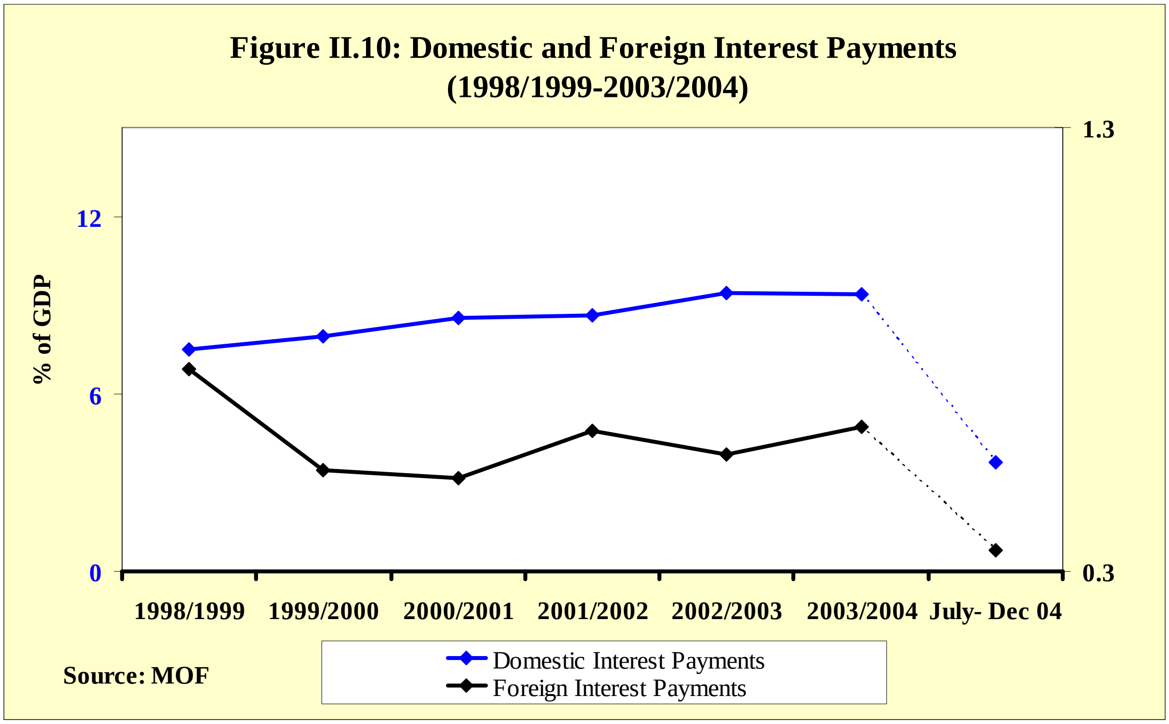
In more recent years, revenue growth rates have picked up, while expenditure growth rates are starting to slow down. This trend continues to a lesser degree into 2004/2005 due to the loss in customs duties following the September 2004 tariff reductions.

Figure II.9: Tax Revenues and Main Components (1999/2000-2003/2004)



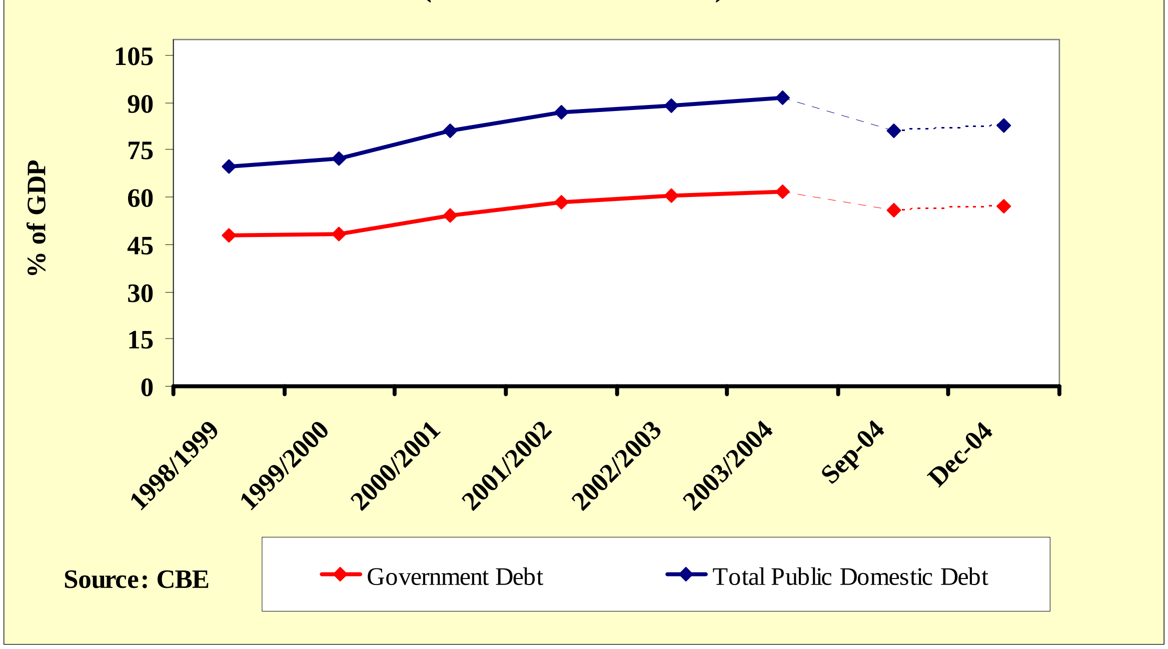
Source: MOF

The recent pick up in total revenues is evident in a consistent growth in income and sales taxes during the past two years. The trend continues strongly into 2004/2005 despite a 16.4 percent fall in customs duties following the recent tariff reductions.



The rise in domestic interest payments reflects increased reliance on non-inflationary financing of the budget.

Figure II.11: Total Public Domestic and Government Debts (1998/1999-2003/2004)



With more reliance on non-inflationary financing since 1999/2000, government and total public debts have increased.

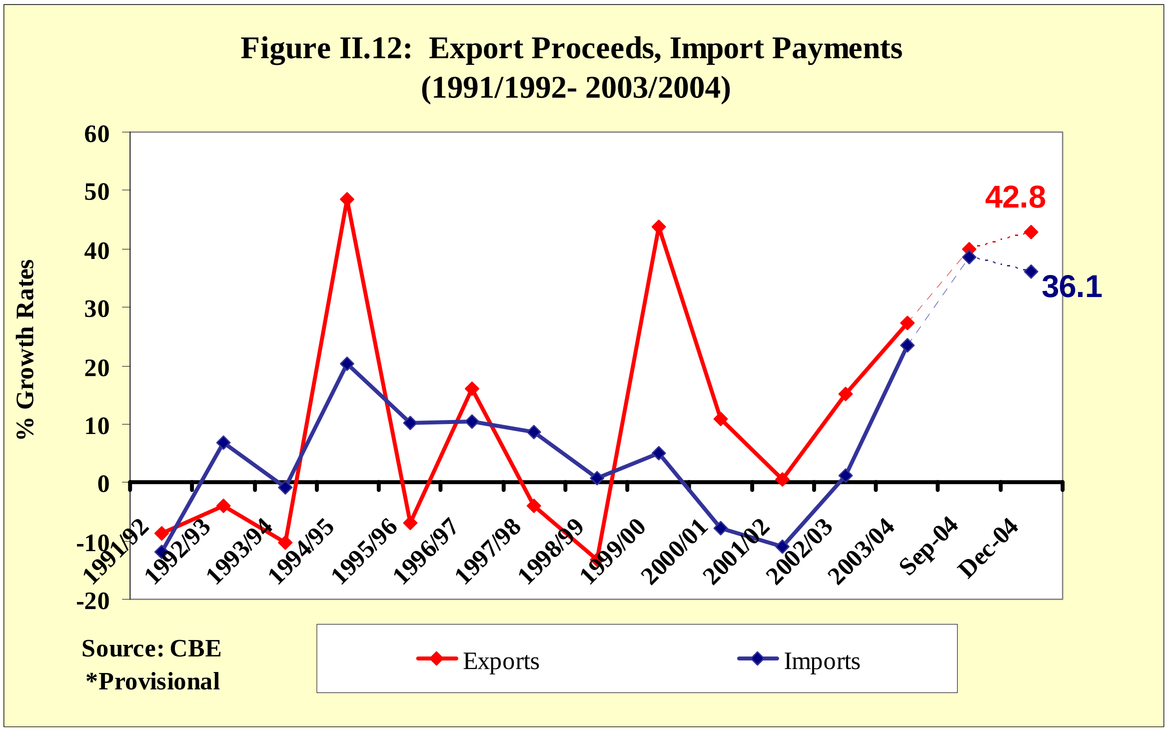
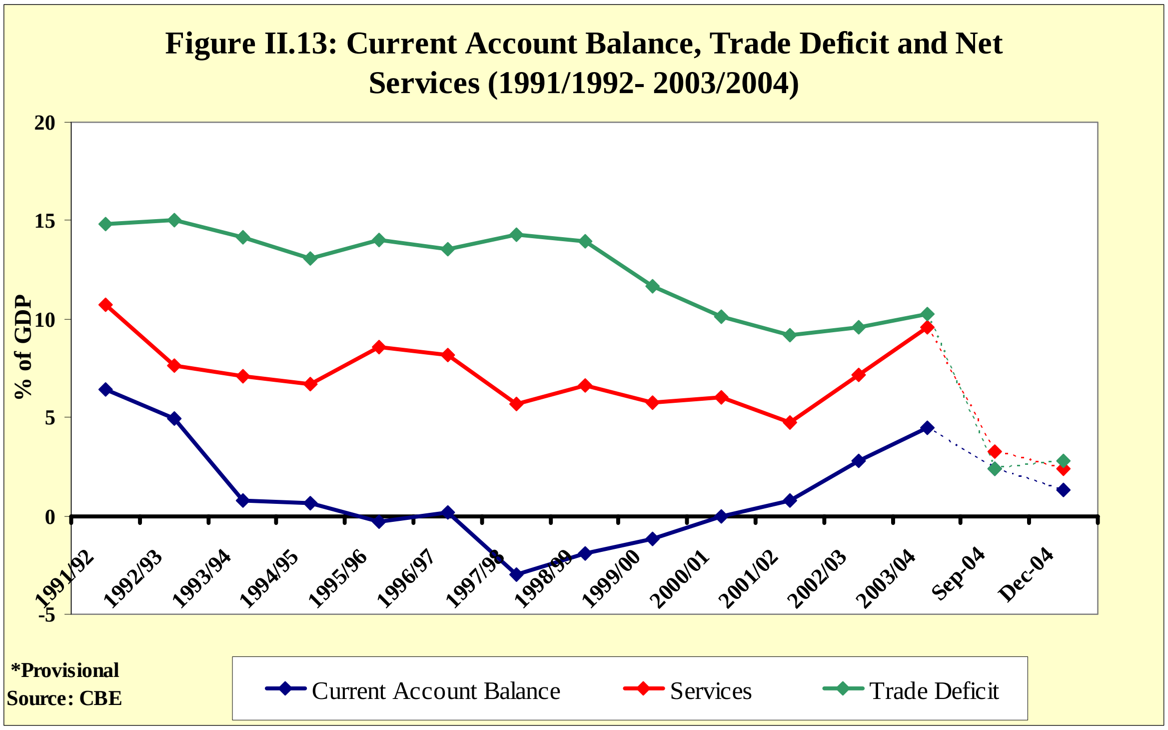
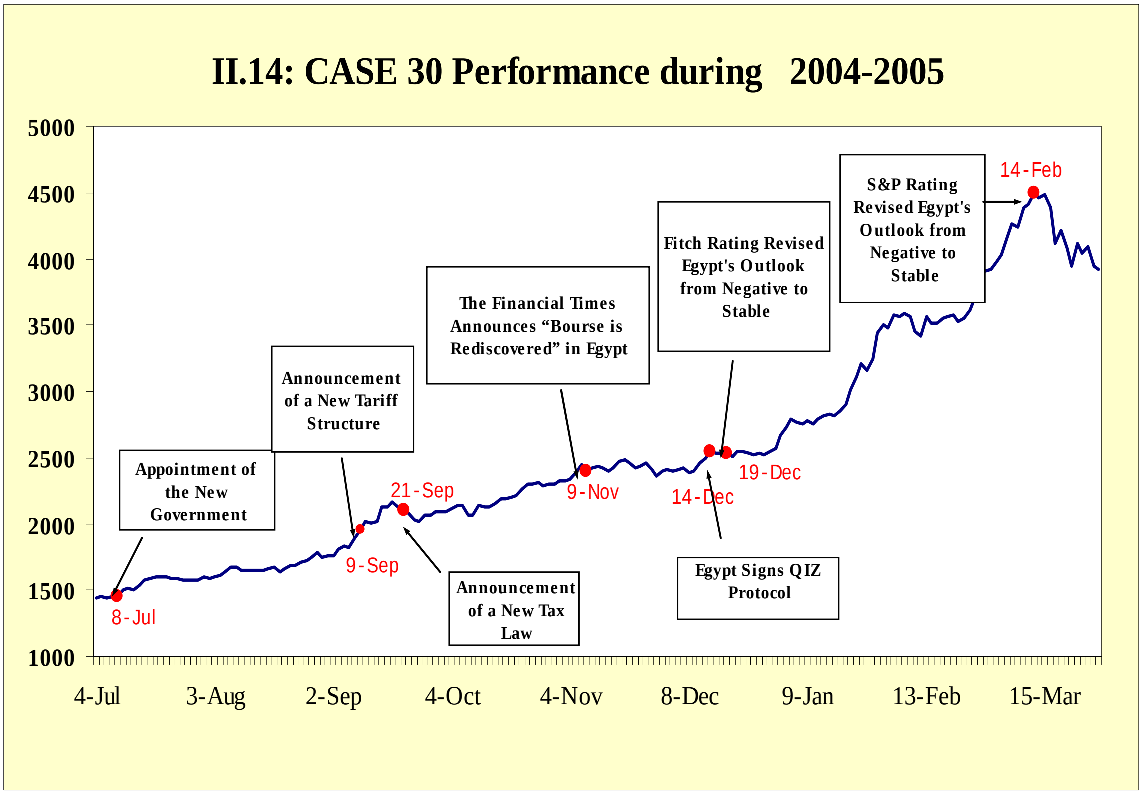


Figure II.12: Export Proceeds, Import Payments (1991/1992- 2003/2004)

Exports growth rates have been on an upward trend since 2001/2002. The competitiveness of Egypt's exports was spurred by the devaluation of the pound in 2003. Higher investment demand associated with the recent recovery in economic growth rates was reflected in a rise in imports. During the first quarter of 2004/2005, imports further picked up in response to lower tariff rates.



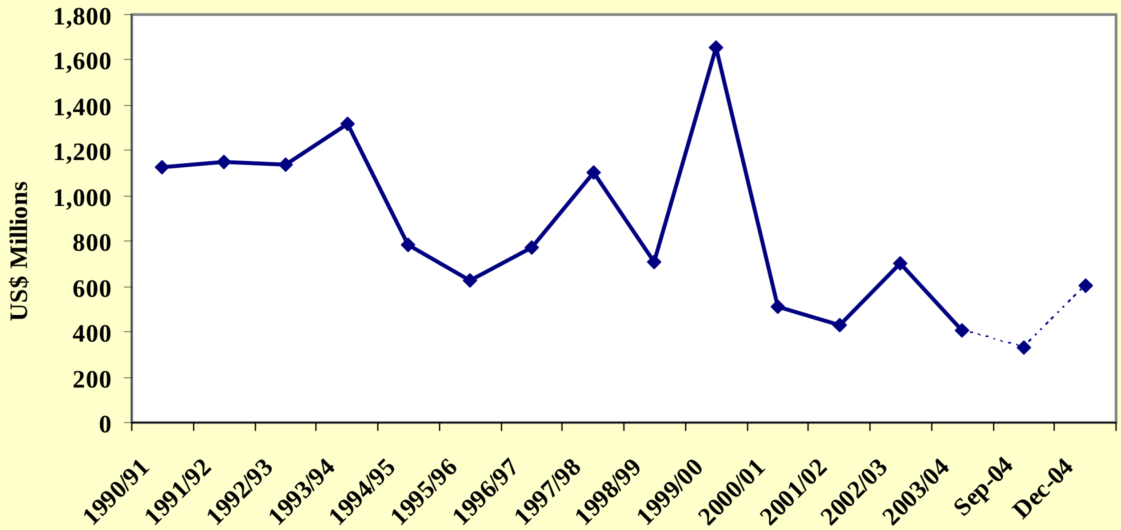
The rise in the current account surplus during the past four years has been driven by a significant improvement in the services balance. The fall in the value of the Egyptian pound has made Egypt an attractive tourist destination.



II.14: CASE 30 Performance during 2004-2005

The bullish performance of the stock market was driven by the improvement in the external accounts and the recent reform steps taken by the July 2004 Cabinet.

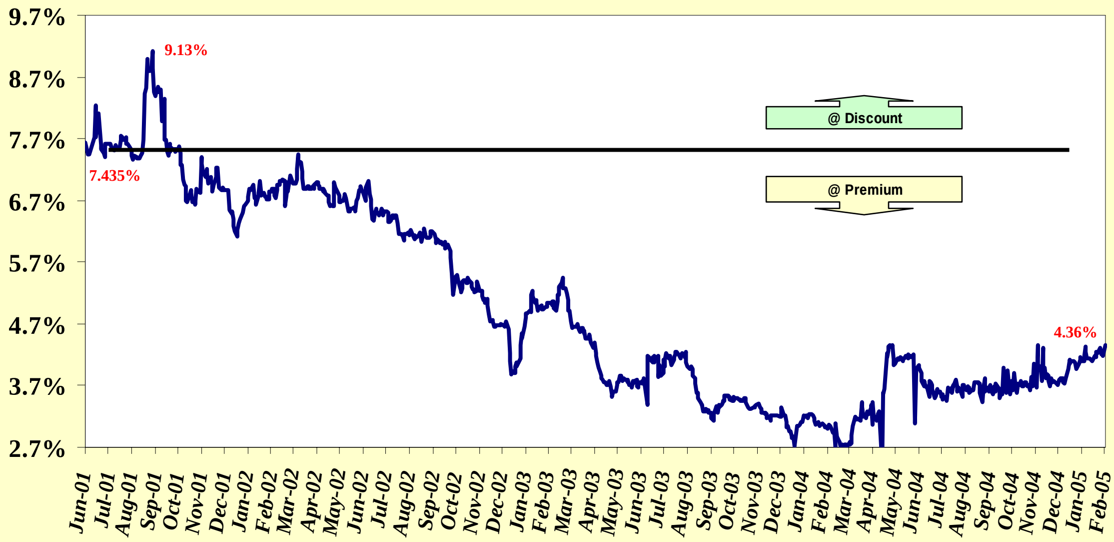
Figure II.15: FDI (1990/1991 -2003/2004)



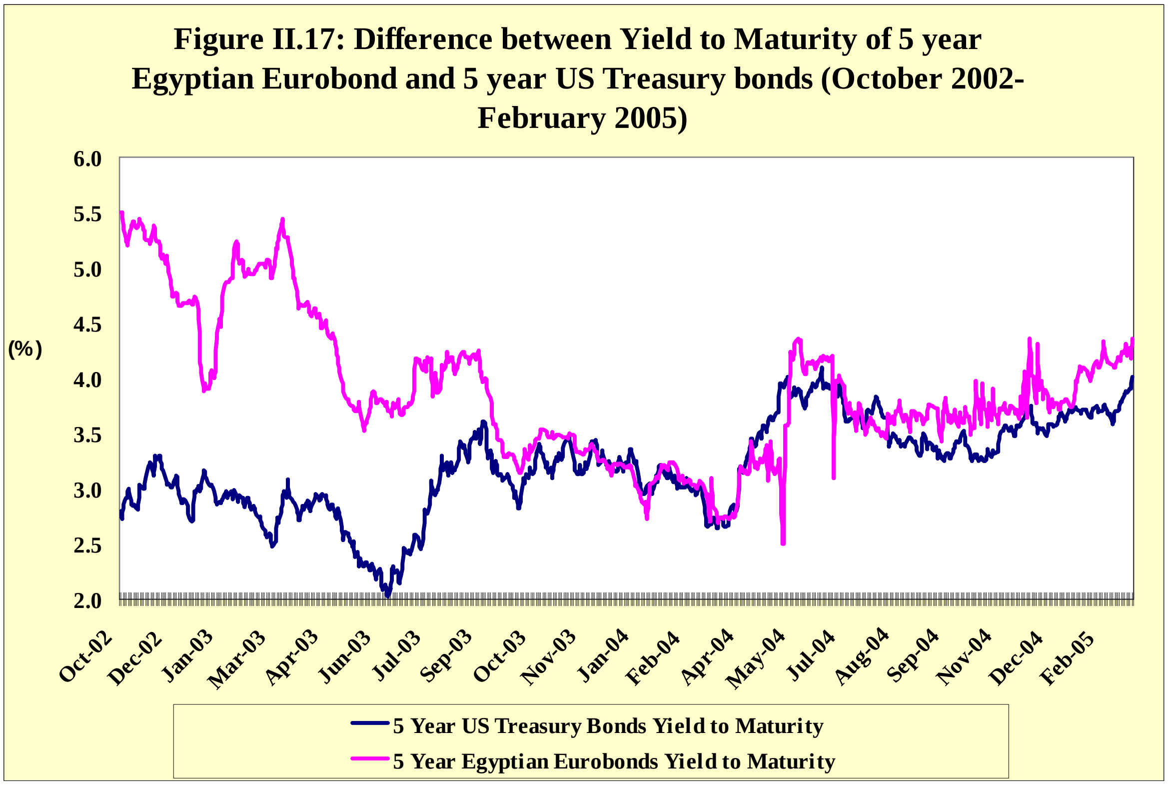
Provisional
Source: CBE

The sharp decline in FDI in 2000/2001 reflects the contraction of FDI worldwide. There is substantial scope in attracting FDI in Egypt. The recent policy initiatives in the areas of trade reform, taxation and privatization have been directed towards that

Figure II.16: Yield To Maturity of 5 Year Egyptian Eurobond (June 2001- February 2005)



The YTM on the 2006 issue has increased from 3.814% in December 2004 to reach 4.356% in February 2005. This increase in YTM has been associated with a price decline from US$106.125 in December 2004 to US$104.25 in February 2005. Meanwhile the 5 year-UST bond YTM has also been increasing from 3.706% in December 2004 to 4.008% in February 2005. (See Figures No. II.16, II.17.)

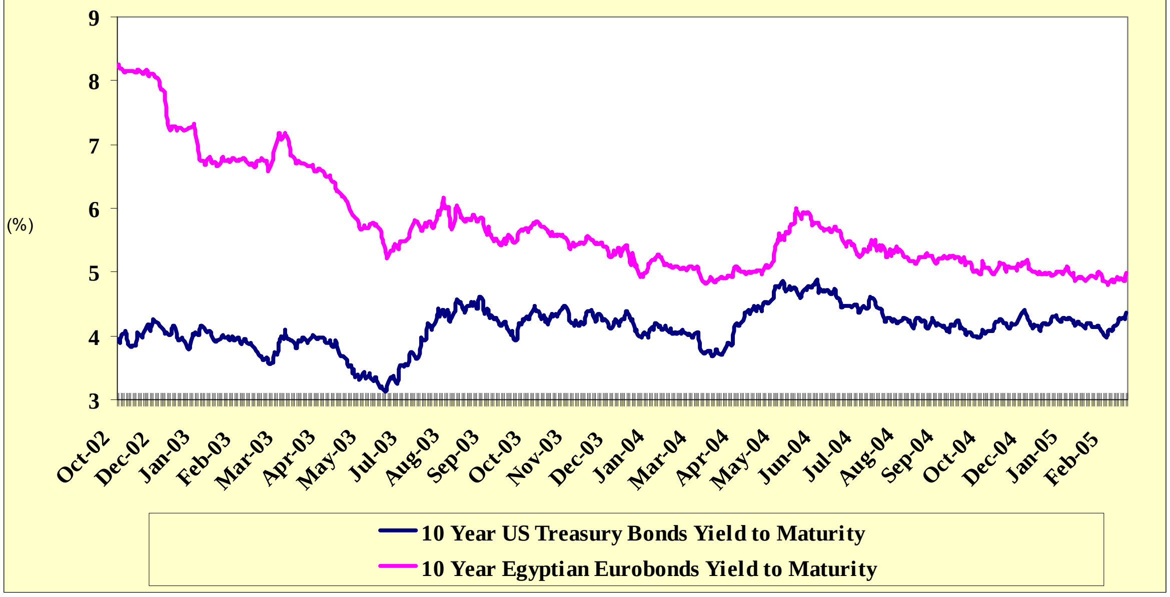


The yield to maturity (YTM) on the 2006 issue was above that of the 5-year UST bond in 2002 and most of 2003. Starting December 2004, the YTM on the 2006 issue has increased to surpass that of the 5-year UST bond and has continued to grow over the first

Figure II.18: Yield To Maturity of 10 Year Egyptian Eurobond (June 2001- February 2005)

The YTM on the 2001 issue has been almost stable throughout the previous quarter ranging between 5.002% in December 2004 and 4.99% in February 2005, which in turn has caused the price to be almost the same ranging between US$120.625 in December 2004 and U

Figure II.19: Difference between Yield to Maturity of 10 year Egyptian Eurobond and 10 year US Treasury bonds (October 2002- February 2005)



The YTM on the 2011 issue has been above that of the 10 year UST bond since its issuance and till the end of February 2005; however the gap has been narrowing.

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f. Insurance Sector Data
g. Privatization Data

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1.1 MACROECONOMIC DATA

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a. INFLATION DATA

b. SECTOR DATA

C. GDP DATA

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- *GDP in Public and Private Sectors, Factor Cost Current Prices*
- *GDP in Public and Private Sectors, Constant Prices*
- *Total Production, Factor Cost Current Prices*
- *Total Production, Constant Prices*

❖ GDP, RESOURCES AND USES

❖GDP IN PUBLIC AND PRIVATE SECTORS , FACTOR COST CURRENT PRICES

- *Quarterly and Semi-annual Data*
- *Annual Data*

❖GDP IN PUBLIC AND PRIVATE SECTORS, CONSTANT PRICES

- *Quarterly and Semi-annual Data*
- *Annual Data*

❖ TOTAL PRODUCTION, FACTOR COST CURRENT PRICES

- *Quarterly and Semi-annual Data*
- *Annual Data*

❖ TOTAL PRODUCTION , CONSTANT PRICES

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APPENDIX C: RECENT ECONOMIC DEVELOPMENTS

APPENDIX C

RECENT ECONOMIC DEVELOPMENTS

1. DOMESTIC DEVELOPMENTS

1.1 CONSTITUTIONAL REFORM

President Hosni Mubarak announced on February 26 that he would introduce reforms toward increased democracy. He asked Parliament to prepare for multi-party elections. This step requires that Parliament amend article 76 of the Constitution to allow for direct, multi-candidate elections for the first time in Egypt's history. A committee to oversee the elections would be formed. The final details of the amendments are currently being drafted by Parliament.

Under the current system that will soon be abolished Parliament selects a candidate whose name is then submitted for a general yes/no referendum.

1.2 MONETARY POLICY

Strongly committed to price stability, the Egyptian government is slowly creating a stable macroeconomic environment—an essential pre-requisite for improved economic performance. As regards monetary policy, monetary management has seen improved coherence with the appointment of a new Central Bank Governor in December 2003. Interest rates on Treasury bills and other savings instruments, have been allowed to rise. In a move towards greater predictability of monetary policy, the Central Bank is introducing greater sophistication by avoiding direct intervention, and introducing a range of new instruments to influence monetary conditions.

On December 23, 2004 the Central Bank launched the interbank foreign currency market, signaling its commitment to a market-based exchange rate. Inter-bank trading increased sharply and the Egyptian pound appreciated by its most significant amount since the float was introduced in 2003. Local currency overnight interest rates were also bid lower.

Law 88/2003 makes the Central Bank responsible for the implementation of monetary policy and bank oversight. To define the targets of monetary policy within the general economic policy of the State, Presidential Decree No. 17/2005 established a coordinating council chaired by the Prime Minister. The council includes the Governor of the Central Bank and two Deputy Governors, the Ministers of Finance, Planning and Investment, and six other members with international experience in economics, banking and finance.

The Central Bank has established a monetary policy committee to closely monitor the implementation of monetary policy and its effects on the economy. The committed is chaired by the Governor and includes his two Deputies and six members of the Board of Directors. The committee meets every two weeks to study and discuss the reports of the Central Bank's Monetary Policy Unit. Four new initiatives are in preparation at the Central Bank.

- The development of a new operational target for monetary policy that ensures the achievement of its intermediate and final targets.
- Application of the standards of the IMF Code of Good Practice of monetary policy.
- Posting of monetary statistics (according to IMF SDDS) on the Central Bank website to disseminate information more widely and improve the transparency of monetary policy.
- Introduction of an electronic payment system to expedite the settlement process between the Central bank and other banks as well as enable banks to manage their funds more efficiently.

1.3 Banking Sector Reform

The Central Bank has formed a committee to develop the banking sector and has established a department for banking sector restructuring in the Central Bank of Egypt (CBE). The committee is chaired by the Deputy Governor. A plan has now been prepared to deal with three key issues. The first deals with mergers and privatization and addresses the problems of weak banks in the banking sector. The second tackles the restructuring of the public sector banks from the financial and administrative perspectives. The third addresses the problems of non-performing loans in the banking sector. The plan, currently under way, was approved by President Mubarak in September 2004.

Progress to date includes:

1.3.1 Mergers and Privatization to Address the Problem Banks

- Misr Exterior Bank was merged into Banque Misr on September 16, 2004. Accordingly, Banque Misr replaces Misr Exterior Bank with respect to rights and obligations.
- The process of examination and assessment of the Islamic International Bank for Investment and Development was initiated in preparation for its merger into the Faisal Islamic Bank of Egypt.
- Public sector banks were instructed to sell their shares in joint venture banks by December 31, 2005. A set of rules and guidelines for selling transactions were set to aid these banks through the process.
- The stake of Banque du Cairo Barclays International was sold to the UK Barclays Bank. Concurrently, the CBE announced the selling of Banque Misr's stake in Misr International Bank.
- A directive was issued to the board of Bank of Alexandria to prepare, in cooperation with the Central Bank, for its forthcoming privatization. In this respect, a working plan and a timetable are to be set for the privatization process.

Specialized experts from internationally recognized financial houses were invited to present their technical offers for examination and assessment purposes.

- A decision was issued, setting July 15, 2005 as the deadline for banks to raise their paid-up capital to LE 500 million. Review of the banks' plans in this respect, as well as the follow up of their implementation, are to be conducted.
- Rules and executive measures were set for voluntary mergers among banks.

1.3.2 Restructuring and Risk Management of Public Sector Banks

- A unit has been established in the Central Bank for this purpose.
- A national plan has been set to restructure public sector banks at all levels and to establish new departments that keep abreast with modern technology. The plan has been referred to the top management of banks. The plan is divided into a number of practical phases bound by specific timetables. The Unit shall undertake its supervisory role to ensure a timely and adequate implementation of the plan.
- The six public sector banks have been requested to make the necessary arrangements for the appointment of an international team of expertise to evaluate loan portfolios and their risk systems, in collaboration with the Banking Sector Restructuring Unit in the Central Bank. In this context, an agreement has been concluded with the EC to provide finance for the evaluation of risk systems, electronic systems and human resources, and compliance with relevant international best practices, in the National Bank of Egypt and Banque Misr. Similarly, an agreement is currently under way with the EC to assign, under its own funding, a team of experts to undertake the tasks in the two banks.

1.3.3 Non-Performing Loans (NPLs) in Banks

- On September 28, 2004, a unit for following up on NPLs was established in the Central Bank. Similar units have been established in the public sector banks.
- The internal system regulations were finalized with respect to the fast voluntary arbitration and reconciliation mechanism. Upon the approval of the CBE Board of Directors, this mechanism will be publicly announced. It is noteworthy that the regulations set for this mechanism indicate that the timing for the reconciliation ranges from one and a half to two months, while arbitration from two to four months.
- A database was established covering defaulting customers of public sector banks (public business sector/private sector).
- A plan dealing with NPLs in the public sector was established, in cooperation with the Ministry of Investment.

1.4 Public Debt Management

The Egyptian Ministry of Finance is responsible for issuing government debt and for making fiscal policy decisions. Fiscal policy decisions include determining the appropriate level of taxes, government spending and hence government debt. The Ministry of Finance is currently in the process of developing an efficient government securities market with a view to minimizing public debt cost and risk.

Towards this end, the Government of Egypt launched on July 4, 2004 the Primary Dealer System for transactions in public bills and bonds. The program's authority rests on Ministerial Decree 480/2002. The principal provisions of the program include the designation of 13 banks, including Citibank, to be Primary Dealers. All bills and bonds have been dematerialized and all transactions are managed electronically within a system that links the Primary Dealers with the Central Bank, the Stock Exchange and the clearing house Misr Clearing and Settlement Depository (MCSD).

The new system also changed the bond auction rules from a "subscription" to a "competitive" style auction in which the coupon is set at the average yields of accepted bids.

A quarterly calendar of issuance is now published regularly, providing data on bond activity during the quarter. Since 2004, debt issuance by the Treasury amounted to:

First Quarter	(LE35 Billion)[5]
Second Quarter	(LE 37 Billion)[1]
Third Quarter	(LE 36.5 Billion)

During the fourth quarter ending December 2004, Treasury issued a series of medium term bonds maturing in 2008, 2011 and 2014 respectively. The view is to build a yield curve. On January 18, 2005, the Government issued its first ever 20 year fixed rate bond bearing a coupon of 11.4 percent. The issue was oversubscribed with a bid to cover ratio 2.6:1. Furthermore, the concept of "bond re-opening" was introduced to create liquid benchmarks over time. During the second half of 2005, the Central Bank and the Capital Market Authority will introduce bond lending and short selling to improve both primary and secondary market pricing.

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[5] Bid to cover ratio was approximately 3:1.

1.5 THE EUROBOND

In July 2001, Egypt issued a sovereign Eurobond worth US$1.5 billion in two tranches (5 and 10 year-maturity). The 5-year bond, due to mature in July 2006, has a nominal value of US$500 million. It was issued with a spread of 275 basis points over 5 year US Treasury (UST) bonds and offered a fixed coupon of 7.625%. The 10-year Eurobond is due to mature in July 2011 and has a nominal value of US$1 billion. It was issued with a spread of 335 basis points over 10-year UST bonds and offered a fixed coupon of 8.75%.

The issues marked Egypt's first international bond issuance and firmly established Egyptian credit in the international capital markets. The issues were received with very strong demand: they were oversubscribed by international investors and are now held by international, regional and domestic investors. Both issues were lead managed by Morgan Stanley and Merrill Lynch and commanded a BBB+ investment grade rating by Standard and Poor's.

- **Eurobond performance**

The two Eurobonds have performed well since their issuance. Following an improvement in sentiment and increased investors' appetite for Egyptian credit, both issues have outperformed comparable UST bonds. Spreads for the 2006 and 2011 bonds have tightened dramatically to reach 60 and 97 basis points respectively. The price of the 2006 maturity reached a high of 108 versus an actual of 104, slowly converging to par value. As for the 2012 maturity, its market price is 121, close to the all time high of 122.625, or a yield to maturity (YTM) of 4.97 percent. (See Figures No. II.17, II.18.)

1.6 SOVEREIGN RATINGS

1.6.1 Fitch Ratings

On December 15, 2004, Fitch Ratings revised the outlook on Egypt's long term local currency rating of BBB to stable from negative. The other ratings affirmed the long term foreign currency BB+ with a stable outlook and short-term B. The country ceiling was affirmed at BB+.

The change in outlook owed to the positive change in the direction and pace of economic policy since July 2004, as well as "the decisiveness of the new government and the speed with which it has acted." The new Government introduced major measures intended to stimulate private sector growth and increase foreign investment. These include significant tariff reductions and the announcement of a simplified tax system effective July 2005.

1.6.2 Standard and Poor's

In February 2005, Standard and Poor's revised Egypt’s long term foreign and local currency outlooks to stable. Long term local currency ratings were lowered to BBB-. Standard and Poor's note the major rating factors as sound external liquidity underpinned by:

- Current account surpluses.
- Healthy reserves.
- Renewed progress with structural reforms.
- Moderate net public external debt and debt service payments.

1.7 PRIVATIZATION

The Government is applying a new approach to the privatization program. It will now offer a number of Law 203 companies for sale before completing their restructuring. In doing so, the price will reflect the buyer’s commitment to future investment, assumption of the liabilities of the company and his commitment regarding the workers’ future. This approach relieves the Government of the substantial investment costs required to upgrade and restructure these companies before their sale. An example of this new approach is the recently completed sale of the Alexandria Tire Company (Trenco) to the French firm Michelin for US$10 million. Michelin has pledged to invest US$40 million in the plant.

Other privatizations include:

- The sale of a 36 percent stake in Bisco Misr in January, which raised US$17.4 million.
- The sale of the National Bank of Egypt's shares in NSGB to Societe Generale last February. This transaction raised US$ 92.9 million.
- The sale of Suez Cement Company to Ciments Francais and investors consortium in March 2005:

  Ciments Francais, Italcementi Group sub-holding for international activities, along with a consortium of local and international investors has purchased a 33.4 percent stake in Suez Cement Company, Egypt's leading cement producer. This transaction will enable Ciments Francais to raise its shareholding in Suez Cement from 39.9% to more than 54%. The offer price, which includes a majority premium, has been set to LE 97 per share. The transaction amounts to approximately US$360 million. The Suez Cement shares will remain quoted on the Cairo and Alexandria Stock exchanges.
- The Ministry of Investment has already divested 17 of the 170 assets planned for sale during 2005, which is more than what was sold throughout the whole of 2004. These sales have to date generated over LE1 billion in foreign direct investment.

This approach should speed up the process of privatization and speed up the process of restructuring as there are more investment funds available in the private sector than in the government sector for corporate restructuring.

- **Summary of Privatization Achievements (Law 203 companies as of February 2005)**

Majority Privatization (more than 51% sold)	**139**
Majority IPOs	38
Anchor Investor	35
ESAs	33
Liquidation	33
Partial privatization/leases	**74**
Minority IPOs	16
Asset sales	58
Total	**213**
Total original Law 203 portfolio *...........................*	*314*
Total Proceeds (LE billion)	**17,404**

1.8 TELECOM EGYPT ISSUES ITS FIRST CORPORATE BOND

Telecom Egypt issued its first corporate bond at the beginning of February 2005 at US$346.6 million. The proceeds of this bond will be used to restructure debt and make new investments.

Throughout the global downturn of the past five years in the telecom industry, Egypt Telecom managed to revamp its infrastructure and improve its technology and services. They also diversified their activities by investing in data telecommunications.

The telecom market in Egypt still has more substantial potential for future growth. At present there are some 7.5 millions users, or a penetration rate of about 9 percent, expected to increase to 12 percent and 20 percent in 2007 and 2012 respectively.[6]

1.9 INSURANCE SECTOR

The Egyptian insurance sector is composed of 4 public sector companies (3 direct and 1 specialized reinsurance). The direct

[6] Oxford Business Group, February 21, 2005

insurance companies are Misr Insurance, Al Chark Insurance and the National Insurance companies, while the specialized company is Egyptian Reinsurance. In addition, there are 16 private companies, and 1 insurance co-operative society, 614 private pension funds (operating mainly in life and retirement insurance sector), 3 Governmental Insurance Funds, and 5 insurance pools.

The private sector companies are: Suez Canal Insurance, Al Mohandes, Delta, Pharaonic (AIG), Arab Misr Insurance Group (AMIG), Pharaonic American Life (ALICO), Commercial International Life Insurance (CIL), the Egyptian Company for Export Guarantee (ECG), ACE CIIC, Allianz Egypt, Egypt Saudi Insurance Home, Allianz for Life Insurance-Egypt, Royal and Sun Alliance, NSGB Life, ACE Life and BUPA Egypt Insurance.

Oversight and related institutions include the Supreme Council of Insurance, the Egyptian Insurance Supervisory Authority (EISA), the Insurance Federation of Egypt, the Cargo Supervision & Surveying Office of Egypt, and the Institute of Insurance Studies.

1.9.1 Market Indicators: (As at 30/9/2004)

- Market share is 65.4 percent public sector and 34 percent private sector.
- The total direct premiums are L.E. 1147 million for both Life and non- life insurance.
- Total investments are L.E. 15.96 billion.
- Total assets reached L.E. 19.2 billion.
- Shareholders equity amounted to L.E. 3.51 billion
- Policyholders’ rights reached L.E. 11.99 billion.

1.9.2 Recent Developments

In a step towards privatization, procedures for the valuation of the four state-owned insurance companies by international investment banks are under development. In 2001, the World Bank completed an assessment of the Egyptian Insurance Supervisory Authority. The assessment included a review of the legal framework and legislation applying to the insurance sector. The review concluded that the Egyptian Insurance Supervisory Authority complies with the IAIS 17 core principles at the time for effective regulation and supervision. A new review is currently underway to re-assess the insurance supervisory system in light of the increase in the number of the core principles to 28.

The four state owned insurance companies have been rated by A. M. Best based on the financial strength of the companies, their operational performance, and market profile. The ratings are as follows:

- Misr Insurance Company (A-)
- Al Chark Insurance Company (A-)
- The National Insurance Company (NR-4)
- The Egyptian Reinsurance Company (B++)
- Al Mohandes Insurance Company, a private sector company, also solicited the services of A. M. Best and was assigned B++.

In February 2002 Ministerial Decree No. 15 was issued for combating money laundering and ensuring that institutions transacting in insurance and reinsurance in the Egyptian market take the necessary procedures to prohibit any unlawful use of money within Egypt. In February 2003, EISA issued "Rules for Combating Money Laundering in the Egyptian Insurance Market." In February 2004, Egypt was removed from FATF list of non-cooperative countries in the combating of money laundering.

The GOE is committed to developing and strengthening the supervisory role of EISA including promoting corporate governance with a view to ensure the existence of a strong insurance regulator. Towards this end, Ministerial Decree No.157 was issued in November

2003 to apply Corporate Governance principles in the Egyptian insurance market, through establishing an audit committee from the Board of Directors of public and private sector companies operating in the market. EISA is also receiving technical assistance from USAID and the Commercial Law Development Program (CLDP) of the U.S. Department of Commerce (USDOC) with a view to addressing regulatory and supervisory issues. The USIAD project "Reform of the Insurance Market" (RIM) was completed in 2000 and a new project "Modernizing Egyptian Insurance Supervision" (MEIS) is now being implemented. Under the CLDP, there is a public awareness campaign to enhance public awareness and interest in the insurance sector, as well as study tours and training programs for EISA staff to help them gain experience in different fields of insurance regulation, development and conducting campaigns

Concerning private pension funds, Law No. 54 / 1975 governing these funds is being amended, and is expected to be presented to Parliament next year. Amendments to the law aim at increasing the number of participants, encouraging long-term savings, and improving the asset management of the private pension funds.

1.9.3 Other Developments

- In 1995, the Insurance Supervision and Control Law No.10 / 1981 was revised and amended to enable foreign insurers to operate in the market through a 49 percent maximum share in joint ventures with Egyptian companies. Issued capital was increased as well as the solvency margins. In addition, the amendments included the deregulation for rates of all classes of insurance.
- In 1998, Law No. 10 / 1981 was amended by Insurance Law No. 156 of 1998 to eliminate foreign equity ceilings, thus allowing for full private sector ownership. The requirement for an Egyptian managing director on the board was removed in order to encourage the transfer of foreign managerial know-how.

- Decree No.157 concerning new insurance accounting standards that comply with international standards and ensure transparency was issued in May 1999.
- In August 2001 Ministerial Decree No. 599 was issued, amending Decree No. 45 / 1999 of the Executive Regulations. The new decree aimed at improving the procedures of claims settlement.
- Ministerial Decree No. 621 was issued by the end of year 2001 to oblige insurance companies to submit financial forms to EISA in an electronic form. The decree has been in force since January 2002.
- Ministerial Decree No. 890 concerning the Unified Model Standard of the Articles of Association of the state-owned insurance and reinsurance companies was issued in 2003.

1.9.4 Potential for Growth

The insurance market in Egypt has a significant growth potential for further development and efficiency gains. Total insurance premiums in Egypt represented only 1.1 percent of GDP in 2003/2004. In similar economies this percentage is between 4 to 5 percent. The Egyptian market thus offers considerable scope for development in terms of individual spending on insurance products, the industry's share in GDP, and the introduction of other new insurance products and incentives. In addition, a steady improvement in incomes as economic growth rates increase will help increase contractual savings including insurance premia.

To achieve this potential, the Government of Egypt is pledged to reform the insurance sector through legislation and organizational development. Elements of the Government’s efforts include:

- Presentation to Parliament of a new Private Health Insurance draft law.
- Encourage alliances between insurers and banks (bank assurance).

- Enhance EISA's supervisory role and its institutional capacity.
- Monitor and regulate the performance of intermediaries and carry out comprehensive market conduct training.
- Introduce further legislative changes.

The Government is also in the process of creating an insurance information center that will increase transparency and credibility and hence, public confidence.

1.10. EGYPT SUBSCRIBES TO THE IMF'S SPECIAL DATA DISSEMINATION STANDARD (SDDS)

On January 31, 2005 Egypt became the 59th subscriber to the IMF's Special Data Dissemination Standard (SDDS). This not only represents a major step for Egypt's official statistics and for its data users, but it also represents the July 2004 Cabinet's strong commitment to transparency and to implementing international best practices in statistics. These practices include the dissemination of timely and comprehensive statistics, thereby contributing to the pursuit of sound macroeconomic policies and the improved functioning of financial markets.

Data provided by countries according to this standard are made publicly available on the IMF's Dissemination Standards Bulletin Board (DSBB). The DSBB now provides comprehensive documentation in English on Egypt's statistical practices for SDDS data categories, hyperlinked to actual country data included in the Mandatory National Summary Page maintained by the Ministry of Planning[7].

The SDDS was established by the IMF in 1996. It is intended to guide member countries in their provision of their economic and financial data to the public. The SDDS identifies four dimensions of data dissemination:

- Data: coverage, periodicity and timeliness.
- Access by the public.

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[7] See IMF website: http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=EGY

- The integrity of the disseminated data.
- The quality of the disseminated data.

1.11 EGYPT ACCEPTS THE OBLIGATIONS OF ARTICLE VIII OF THE IMF'S ARTICLES OF AGREEMENT

Since 1991, Egypt has refrained from imposing restrictions on the making of payments and transfers for current international transactions. Effectively Egypt has been compliant with the obligations of Article VIII, although it had not formally accepted its obligations. On January 2, 2005, the Government of Egypt notified the IMF[8] that it has accepted the obligations of Article VIII[9], Sections 2, 3 and 4. By accepting the obligations of Article VIII, Egypt undertakes to continue not to impose restrictions on the making of payments and transfers for current international practices, and from engaging in any discriminatory currency arrangements or multiple currency practices without IMF approval. By accepting these obligations, Egypt gives confidence to the international community that it will pursue sound economic policies that preclude the need to use such restrictions, and signals that it will contribute to a multilateral payments system free of restrictions.

A total of 163 of the IMF 184 member countries have now accepted the obligations of Article VIII, Sections 2, 3 and 4.

1.12 THE WORLD BANK APPROVES A $20 MILLION LOAN TO SUPPORT EGYPT'S EARLY CHILDHOOD EDUCATION PROJECT

The World Bank's Board of Directors approved in February 2005 a $20 million loan to partially support the Government's Early Childhood Education Project that focuses particularly on disadvantaged children. The Project seeks to increase access to kindergartens in 18 governorates and will help the Government move towards the goal of expanding coverage of early childhood education from 13 percent today to 60 percent by 2010 .

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[8] Egypt joined the IMF on December 7, 1945. Its quota is SDR 943.7 million (about US$1.45)

[9] See IMF website: http://www.imf.org/external/pubs/ft/aa/aa08.htm

The total cost of the project is US$108 million, which will also be financed by the Government of Egypt, the Canadian International Development Agency (CIDA), the World Food Program (WFP) and other international donors .

One component of the project will focus on enhancing quality, by supporting the development of curriculum and educational materials, teacher training, and provision of food.

1.13 OPIC Provides US$300 Million in Insurance to Apache to Help Egypt Shift from Oil to Natural Gas

The Overseas Private Investment Corporation (OPIC) made a commitment in January 2005 to provide US$300 million in political risk insurance to the U.S. company Apache that is helping Egypt shift the emphasis of its energy production from oil to more environmentally-friendly natural gas. OPIC's board of directors had approved the project in April 2004 .

Apache Corporation will use the OPIC insurance to develop various oil and gas concessions in Egypt. Natural gas discoveries in the Western Desert have already played a significant role in helping Egypt to convert much of its thermal power generation capacity from oil to natural gas, and in providing the resources necessary to meet growing local energy needs as well as expanding Egypt's hydrocarbon exports as large discoveries of gas emerge in the Western Desert and Nile Delta. The oil and gas sector accounts for 8 percent of GDP.

1.14 Annual Meeting 2005 of the World Economic Forum in Davos

Business, political and social leaders met in Davos, Switzerland for five days at the end of January 2005 to discuss Immediate action on the tough issues of poverty, climate change, education, equitable globalization and good global governance. Specifically, participants at the Annual Meeting called for the implementation of a series of concrete measures designed to yield immediate and long-lasting results, including the adoption of technology to reduce the emission of greenhouse gases, the creation of a fund to accelerate financial aid to the poorest nations and the removal of trade barriers that deprive developing countries of the dividends of global economic growth. Participants were urged in the closing session to exercise “self responsibility, global responsibility ... and responsibility to the next generation."

Early in the five-day Meeting, participants gathered in a town hall meeting to single out the six issues they consider most critical to the world today and to identify the key challenges related to each. At the top of their list, they placed poverty, followed by equitable globalization, climate change, education, the Middle East and global governance.

Among the recommendations made by participants was the implementation of a proposed international financing facility that would deliver aid to the neediest countries at a more rapid and predictable rate. To foster equitable globalization and make trade fairer, participants urged negotiators to complete the Doha Agenda of trade talks to enshrine principles of reciprocity, free trade and the liberalization of trade in services.

For any of these measures to work, however, the world’s poor nations must be at the forefront of this agenda, participants agreed. Offering assistance to the developing world has to be done in a way that recognizes and preserves the dignity of the people. Rather than approach the poor as a problem, developed nations and companies need to view them as an opportunity, a source of new markets, labor and innovation.

An Egyptian delegation consisting of the Prime Minister, the Ministers of Finance, Petroleum, Trade, Investment and Information Technology participated in the 2005 Meeting.

2. GLOBAL ECONOMIC DEVELOPMENTS

2.1 ECONOMIC GROWTH AND TRADE

The previous issue of this report presented the IMF's economic growth projections for the world, regions and selected countries for the remainder of 2004 and 2005 (IMF: World Economic Outlook, September, 2004). The IMF forecasted that the global economy would continue to recover from the recessionary conditions at the beginning of the millennium although overall growth would ease slightly from its high in 2004. Preliminary data from a sample of economies suggest that actual growth rates are generally consistent with those forecasted by the IMF. However, fourth quarter data from the Euro area suggest that the world economy is likely to be less buoyant during the second half of 2004, and the trade momentum should soften because of slower than expected growth in Germany and Italy. Similarly, Japan has found it difficult to accelerate growth and may come in well under the earlier forecast. Also the World Economic Survey points to a deterioration of expectations regarding the future of the economic situation. ECFIN's quarterly survey in the euro-area manufacturing sector also shows a moderate weakening in companies' export expectations in the third quarter of 2004.[10]

Quarterly data from the United States (September/December 2004) now suggest that its annual growth will be 0.1 percent higher than that projected by the IMF for 2004. The slowdown in the US economy is primarily due to a softening of private consumption owing partly to the substantial increase in energy prices, but mostly to the weakening effect of the fiscal and monetary policy mix in 2001-2003.[11]

Two notable exceptions to the forecasts are China and India. For China, the IMF had projected a slow down to 7.5 percent in 2005 from the 9 percent forecast for 2004. This was based on expectations of rising interest rates, rising oil prices and the effects of measures

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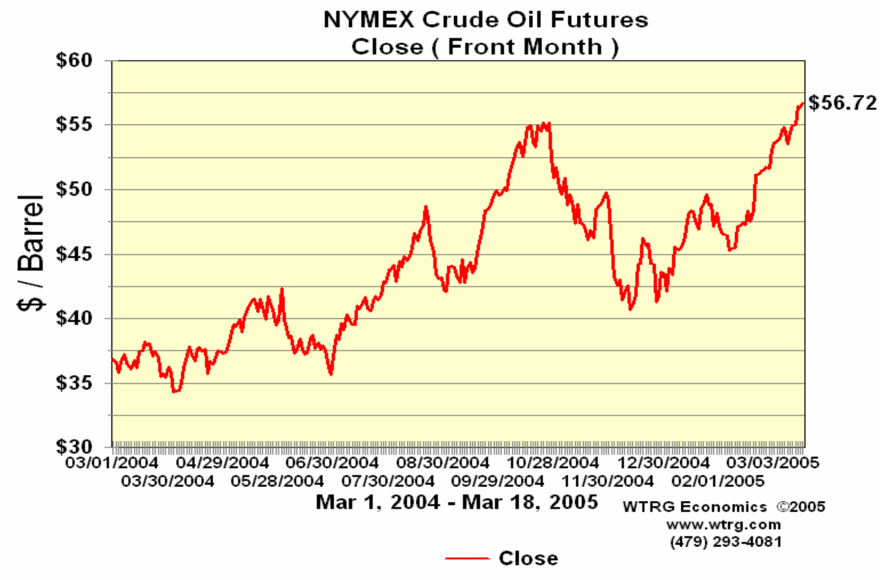
[10] European Commission, Directorate for Economic and Financial Affairs. 2004. Quarterly Report on the Euro Area. Volume 3 No. 3.
[11] Ibid.

taken by the Chinese authorities to prevent the economy from overheating. However, a preliminary estimate of China's growth in industrial output during the period of January/February, 2005, is 16.9 percent (annualized). When combined with other elements of China's economy, the overall growth in GDP may exceed the IMF's forecast. Similarly, preliminary information from India suggests the forecasted rate of 6.7 percent will be exceeded. Both China and India have become significant components of the world's total demand for raw materials and industrial inputs. China, for example, consumes between 40 to 50 percent of the world's production of cement and is the second largest consumer of petroleum products. If the growth in these two economies continues to be strong for the remainder of the year, and global recovery stays on track, demand in a number of important commodity markets will remain high with consequent upward pressure on prices. At this time, oil, steel and cement have captured attention because in these markets demand has already pushed production to near capacity. Given the lead-time for capacity expansion, near-term shortages with price spikes could become an important feature of these markets in 2005. If the prices of these fundamental inputs to production do not stabilize, the prices of most intermediate and final goods could rise, producing a cost-push inflation. Agricultural commodities such as cotton and wheat show a more stable pricing structure since the capacity to supply these commodities is more responsive to demand in the short run.

The following figures illustrate the recent trends in selected world traded commodities.

Figure III.C.1



After rising rapidly in the second half of 2004, oil prices peaked in mid-December at around US$ 55 per barrel. This represented a record high in current dollar terms, although it was not the record high in real terms. Prices declined in the second half of December and into early January but started up again to reach a new dollar

Figure III.C.2

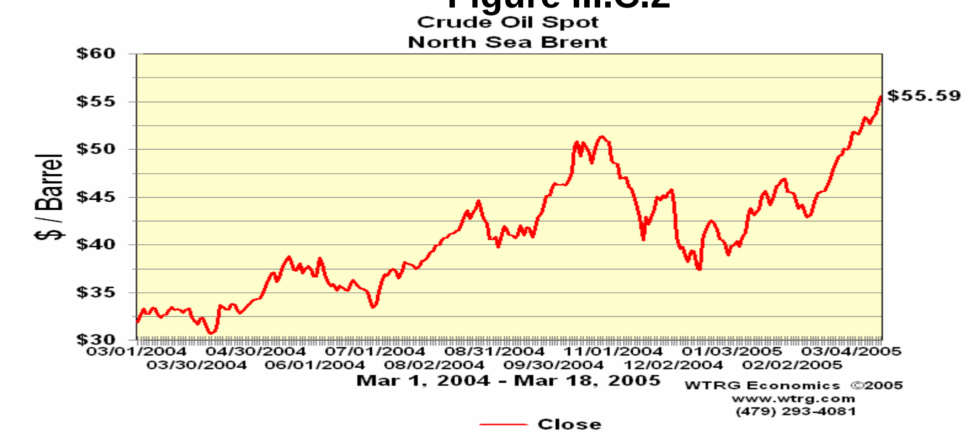
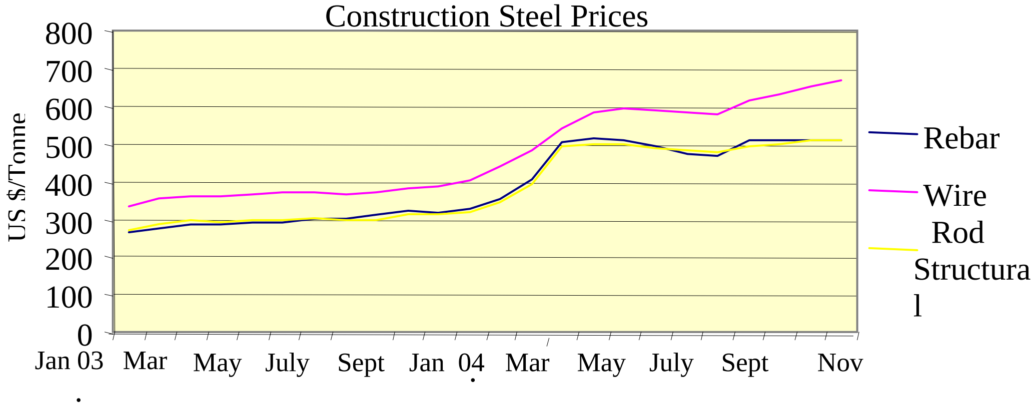
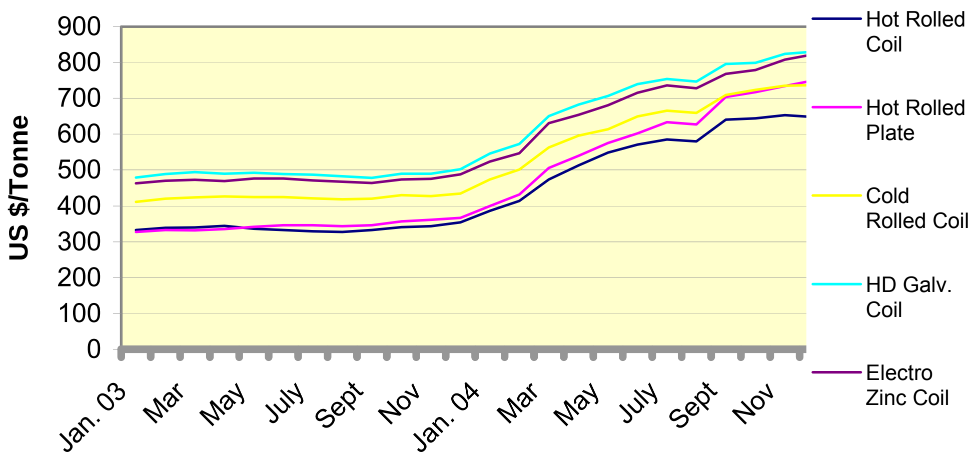


Figure III.C.3
Construction Steel Prices



The rapid rise in the price of steel in early 2004 was one of the factors that promoted concern at that time that inflation was about to reemerge. For rebar and wire rod (mesh), the prices have held steady since April 2004. However,

Figure III.C.4
Fabrication Steel Prices



The prices of steel generally used for manufactured products have not yet leveled off. All of these prices have essentially doubled since January of 2003

Figure III.C.5
Wheat

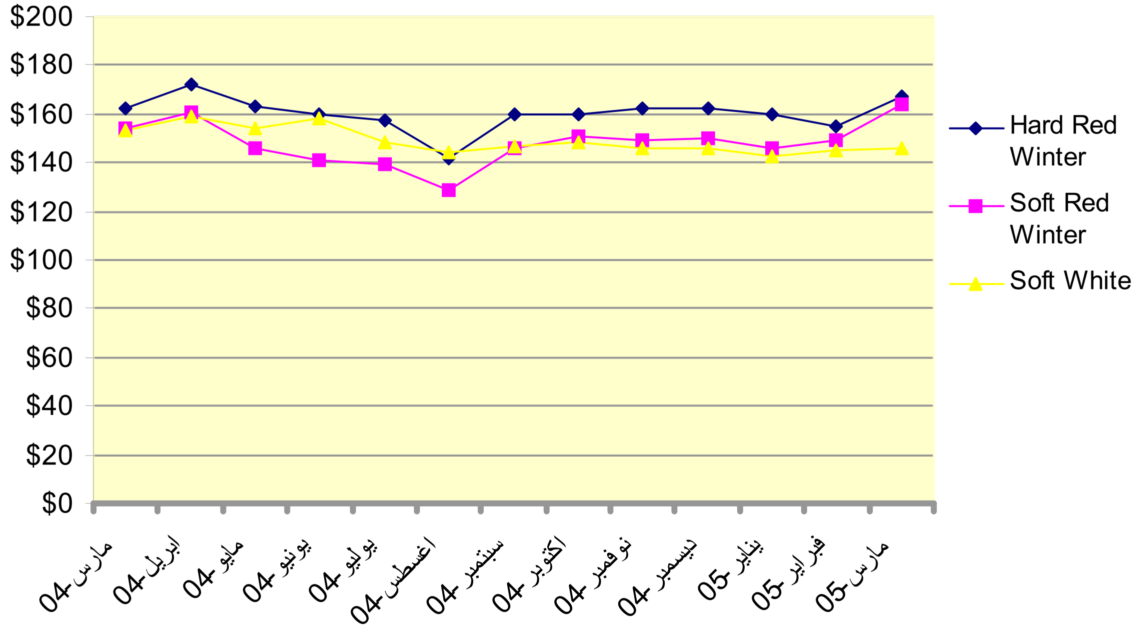


Figure III.C.6
Upland Spot Cotton Prices

Cotton producers have responded to the price rises in 2003. Increased production has resulted in a steady decline in prices throughout 2004. Data for early 2005 suggest a stable price for the near term.

Source: USDA

2.2 GLOBAL ISSUES AS THEY RELATE TO EGYPT

2.2.1 The Rising Price of Oil

The prolongation of higher oil prices is expected to further dampen global growth. World growth should pick up again as the price of oil subsides in 2006. In the meantime growth will be supported by domestic demand supported capital formation and a more gradual pick up in private consumption.[12]

The main concerns for the Egyptian economy are: increased prices for imports due to higher shipping costs; increased prices of imported commodities that embody a large energy input in their production; and the potential for reduced demand for Egypt's non-petroleum exports in Europe and the United States, if a sustained increase in oil prices results in a recession in these economies. Internationally, there is substantial media attention to the recent movement of oil prices with various economists postulating different scenarios for global growth. Ultimately, however, to stabilize oil prices, either demand for oil has to weaken or production has to expand.

In the near term (the next six months), there is some potential to increase oil production and some members of OPEC have announced plans to do so. However, refining capacity cannot be expanded in the near term and the prices of petroleum end products will rise as utilization of existing refining capacity approaches 100 percent. Egypt's demand for oil and energy intensive products is relatively small compared to world demand. Consequently, to stabilize prices in the near term, the demand for oil arising from large economies such as the United States and China (the number 1 and number 2 consuming countries) must fall.

Demand for oil is reduced in the near term when the industrial products that contain a large energy input lose a portion of their market because of their high prices. (Consumer demand for products such as gasoline is less elastic in the near term than industrial demand.) As

[12] European Commission, Directorate for Economic and Financial Affairs. Autumn 2004. European Economy: Economic Forecasts.

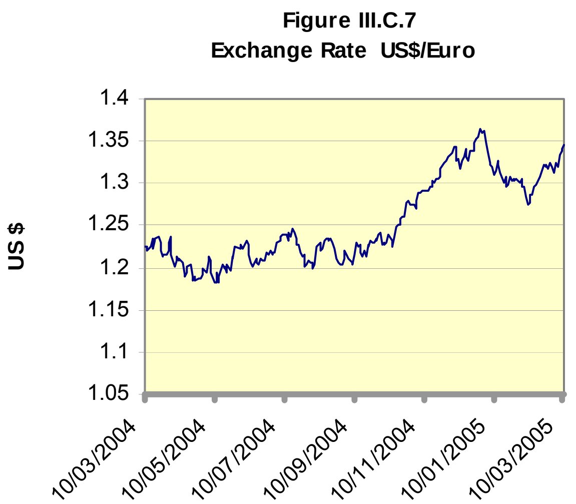
inventories of these—now more expensive products—build, factory production is slowed and less energy is purchased. At the economy wide level, this development is recessionary and has negative consequences for employment, family income and consumption. At the international level, it has negative consequences for trade. Egypt may find it more difficult to expand exports, particularly to its main trade partners (Europe and the United States). Furthermore, as consumer demand abroad declines, investments are postponed and the total amount of FDI shrinks. The shrinkage in total FDI that occurred during the last world recession resulted in a reduction of FDI for Egypt of over one billion US dollars per year in 2001 and 2002.

While exporting may be more difficult and FDI may become scarce, Egypt's economy is less vulnerable than other relatively small emerging economies because of the diversified nature of the foreign exchange income of its current account. Even with higher airfares, the package cost of a vacation in Egypt remains very attractive compared to other important tourist destinations. Consequently, the rising price of oil may not introduce serious macroeconomic imbalances in the Egyptian economy.

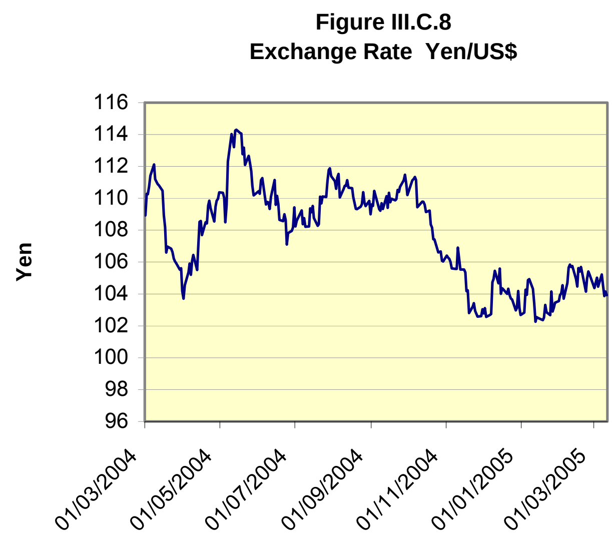
2.2.2 The Devaluation of the US Dollar and Global Macroeconomic Imbalances

After its peak in mid-December, the dollar price of Euros declined until the second week in February 2005. Since then the dollar has devalued again reaching the mid-December level in mid-March. The Yen/dollar rate, on the other hand, appears to have stabilized for the time being. The Egyptian pound has hardened somewhat against both the dollar and the Euro.

The decline in the value of the dollar is tied to the large U.S. trade deficit. This deficit is one contributing factor to current global macroeconomic imbalances that could act as a brake for future growth. Another factor is the fixed exchange rate between the Chinese Yuan and the dollar. If the Yuan were permitted to float, its value would likely rise relative to the dollar, easing demand for China's industrial exports. This, in turn, would help stabilize the price of oil as slower industrial growth in China would lower its demand for oil.

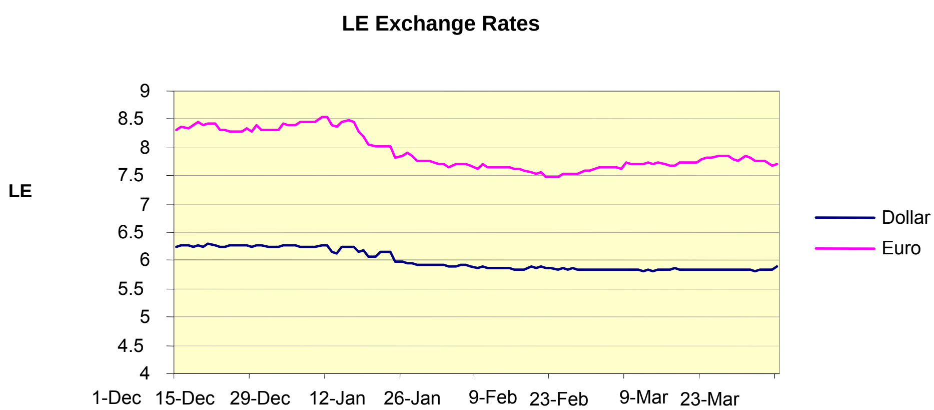


Source: US Federal Reserve



Source: US Federal Reserve

Figure III.C.9



Source: www.oanda.com

APPENDIX D: ECONOMIC LEGISLATION

Status of Recent Economic Legislation

	Law	Status
1.	Financial Leasing Law No. 95/1995, amended by Law No. 16/2001	Enacted.
2.	Central Depository Law No. 93/2000	Enacted.
3.	Mortgage Law No. 148/2001	Enacted.
4.	Money Laundering Law No. 80/2002	Enacted.
5.	Intellectual Property Rights Law No. 82/2002	Enacted.
6.	Special Economic Zones Law No. 83/2002	Enacted.
7.	Civil Association and Establishments Law No. 84/2002	Enacted.
8.	Export Promotion Law No. 155/2002	Enacted - Executive Regulations awaiting approval.
9.	Telecommunication Law (UTL) No. 10/2003	Enacted.
10.	Unified Labor Law No. 12/2003	Enacted.
11.	Central Bank, the Banking System and Monetary Law No. 88/2003	Enacted.

12.	Law Number 15/2004 concerning Electronic Signature	Enacted.
13.	Small and Medium Enterprises Law No.141/2004	Enacted.
14.	Competition Law No. 3/2005	Enacted – Executive Regulations under preparation.
15.	Draft Income Tax Law	Sent to parliament.
16.	Draft Unified Corporate Law	Pending discussion.
17.	Draft Capital Markets Law	Pending discussion.
18.	Presidential decree No. 231 of the year 2004 concerning organization of Ministry of Investment	Enacted.
19.	Presidential decree No. 300 of the year 2004 issuing the Customs Tariffs	Enacted.

Overview of Selected Recent Economic Legislation

- During the past decade, Egypt has implemented an economic and structural reform adjustment program. An important goal of the reform program was to shift the economy towards a market-oriented economic policy. This required dramatic legislative changes to enable the economy to meet the challenges of the new global economy in which Egypt has become an active participant. The needed legislative changes were implemented gradually in order to preserve the stability of the market and the economy as a whole. The following is an overview of some of the recent laws in the economic field.

Law No. 80 / 2002 for Anti-Money Laundering

- Parliament has passed the law No. 80 of 2002, concerning the fight against money laundering crime. The law defines in Article (1) the terms used in it, namely, money, money laundering, financial institutions, proceedings, the unit, and the competent minister.

- The law determines in Article (2) crimes from which the laundered money is derived. These crimes include planting, processing, importing, exporting, trafficking, or smuggling of illicit drugs and plants, hijacking of transport instruments, terrorism as defined in Article (86) of the Egyptian Penal Code, trafficking in weapons and bombs without authorization, embezzlement and bribery, money theft, prostitution, crimes related to antiquities, environmental crimes related to dangerous waste, and organized crimes referred to in international agreements to which Egypt is a party.

- The law establishes "An independent unit" within the Central Bank of Egypt aims at receiving, examining, and investigating notification from financial institutions concerning suspicious money transactions and notify the Prosecutor General's Office in case a crime is detected. The unit is headed by the Assistant to the Minister of Justice. Unit staff is now receiving technical training in Egypt, U.S.A., and Italy.

- The law puts an obligation on financial institutions and their employees to report to the Unit on suspicious money transactions, to maintain records of domestic and international transactions, to update the data and make them available, upon request, to the judiciary and other authorities concerned with the enforcement of the law.

- The law provides for sanctions in terms of imprisonment up to 7 years and fines equal to two times the amount of the money laundered for any person how commits or attempts to commit a money laundering crime as defined in Article (2) of the law. In case the crime is committed by a legal person, the sanctions mentioned above apply to its representative provided that he new about the crime and infringed the duties of his job. However, the law exempts any person from sanctions provided that he informs the authorities about the crime before it is discovered.

- One of the important provisions stipulated in the law is international cooperation in combating money laundering. In this regard, Article (18) states that the Egyptian judicial authority should provide legal and judicial assistance in the field of extradition of the accused or convicted persons and the transfer of objects resulting from the crime of money laundering. Cooperation should also be provided for the execution of final judgments issued by foreign judicial authorities. This judicial cooperation may be based on bilateral or multilateral agreements, or according to the reciprocity principle.

- The law was amended in 2003 by Law No. 78 so as to add to the crimes specified in Article 2 fraud crimes and money derived thereof. In addition, the executive regulations were issued by Prime Ministerial Decree No. 951/2003.

LAW NO. 82 / 2002 FOR INTELLECTUAL PROPERTY RIGHTS

- The law consists of 205 articles divided into four books .

    - The first book: deals with patents, utility models, and undisclosed information. The book is divided into three chapters: the first chapter deals with the patent and the utility models, the second deals with the layout-designs (topographies) to the integrated circuits, and the third deals with the protection of undisclosed information.

- The second book: deals with trade marks, commercial data, geographical indicators, designs, and industrial models. The book is divided into two chapters the first of which deals with trade marks, commercial data, and geographical indicators, and the second deals with the designs, and the industrial models.
- The third book: copyrights and the relating rights.
- The fourth book: botanical kinds.

■ All articles set forth in the law respond to a large extent, if not in full, to Egypt's obligations under the TRIPS agreement.

Law No. 83 / 2002 for Special Economic Zones

Goals

■ In its efforts to attract national and foreign direct investment to Egypt, the government has drafted and passed the special economic zones law in 2002. The law provides for the establishment of special economic zones that have the ability to compete with their analogs all over the world.

Structure

■ The law comes in 59 Articles divided into four chapters. The first chapter sets forth the general provisions of the law such as definitions, the establishment of the economic zone and its authority (by a presidential decree), the resources of the authority and its budget, the management board and its mandate, and the establishment of the principal development company.

■ The second chapter presents the special systems used in the economic zone. In this regard, the law stipulates that the economic zone's authority substitutes the Companies Authority and the Commercial Registrar Office. It also stipulates that a special customs system is to be set by a management board decision to serve the economic zone with simple and speedy procedures, and a special customs circuit to implement these procedures. Moreover, the law provides for the issuance of a special taxation system to be decided by a management board decision. It establishes a high committee for taxes within the economic zone to carry out the application of the special system. In addition, the law regulates the work provisions, the relationship between workers and employers, and the social insurance within the economic zone.

- The third chapter is dedicated for incentives, exemptions and guarantees. As for incentives, the law applies a 10 percent tax of the net annual income of natural and legal persons working in the economic zone. It also applies a 5 percent tax on salaries and wages of workers in the economic zone. As for exemptions, enterprises in the economic zone are exempt from taxes on loans and bonds interests, and credit facilities. They are also exempt from sales tax and taxes on profits that come out of mergers or division of companies. The law, moreover, exempts the enterprises from customs tax and sales tax on instruments, equipments, raw materials, and spare parts necessary to carry out their activities within the economic zone. However, these elements would be subject to customs tax and sales tax if imported to the domestic market. As for guarantees, the law prohibits the nationalization, the confiscation, and the sequestration of any of the enterprises working in the economic zone or its money.

- Finally, the fourth chapter provides for the establishment of a disputes settlement center in the economic zone. The law gives it the capacity to settle any conflict that takes place in the economic zone between two parties working or residing therein or between a party and the economic zone's authority. The centre may reach the settlement through conciliation or arbitration. This settlement is binding and immediately enforceable if accepted by the parties concerned.

Law No. 155 / 2002 for Export Promotion

- The government has given considerable attention to the issue of exports, which has become vital for the development of the Egyptian economy. That was clear from the Presidential Decree that created a new Ministry responsible for Foreign Trade in 2001.

- In line with this policy, the government has drafted and passed a law for export promotion in 2002. The law sets forth in Article (1) that the Minister of Foreign Trade is responsible for issuing the rules and regulations necessary for the promotion of Egyptian exports, opening new markets for them, and raise their competitiveness in the global markets. To facilitate the achievement of these goals, the law provides in Article (2) for the establishment of the "Export Promotion Fund" under the Minister of Foreign Trade, with an autonomous budget.

- The law also provides for the establishment of a "Central Unit" within the Ministry of Finance. This unit will include representatives from both the Customs Authority and the General Authority for Import and Export Control (GOIEC). The Unit is to be headed by an expert from the Ministry of Finance and a deputy from the Ministry of Foreign Trade, and jointly supervised by the Ministers of Foreign Trade and Finance. The Unit carries out the execution of the draw-back and the tax-rebate systems provided for in the Customs Law, in addition to other mandates specified by the law.

- The law further states that GOIEC is the competent authority for the supervision of exports and imports, as specified in Laws No. 59/ 1960; No. 113/ 1966; No. 10/ 1966; No. 53/ 1966; No. 118/ 1975; and No. 119/ 1983.

- Without contradiction to the provisions of Customs Law No. 66 of 1963 and its executive regulations, the law prohibits in Article (6) putting any obligation on exporters and importers to pay fees or present guarantees other than those decided by the Minister of Foreign Trade after the Prime Minister's approval. The law, moreover, states in Article (7) that legal proceedings regarding any violation of the provisions of the law can not start without permission from the Minister of Foreign Trade.

Law No. 10 / 2003 concerning Telecommunications

- The law concerning telecommunication was approved by the Parliament and issued by the President in February 2003. The law is a comprehensive piece of legislation dealing with all kinds of telecommunication methods, except those excluded for national security reasons.

- The law comes in seven chapters, the First of which sets definitions for the terms and expressions used in the law. In addition, it states the basic rules that should be followed in providing the telecommunication services. These rules include; transparency of information, protection of free competition, providing a comprehensive service, and the protection of users' rights.

- The Second Chapter stipulates the rules governing the "National Authority for Telecommunication". Though the National Authority is under the Minister of Telecommunication, it has its own public legal personality and acts through its board of management. The Authority is competent, in accordance with the provisions of the law, to regulate and promote all the telecommunication services provided nation-wide. It also has the mandate to encourage national and foreign investment in this field.

- The Third Chapter is concerned with licenses and authorizations. As for licenses, article (21) of the law provides that no one shall establish or operate a telecommunication network, provide telecommunication services to a third party, pass international phone calls, or advertise for any of these acts without obtaining a license from the National Authority for Telecommunication. The license is rendered according to the provisions stipulated in the law and its executive regulations and decisions.

- With regards to authorizations, article (44) of the law prohibits the importation, manufacturing, or assembling of any instrument used in telecommunication without obtaining the authorization of the National Authority for Telecommunication, and in accordance with the standards and specifications designated by it. After receiving the application and before issuing the authorization, the National Authority should seek the approval of other public institutions and authorities specified in the law.

- The Fourth Chapter deals with the management of phantom (spectrum) frequency and issuing the licenses for its use. Article (49) of the law considers the phantom frequency a limited natural resource. The National Authority for Telecommunication is, again, the entity responsible for regulating and managing all the affairs relating to phantom frequency use in accordance with the provisions of the law.

- The Fifth Chapter deals with the Egyptian Company for Telecommunication. Article (60) of the law sets a transitional period (until 31 of December 2005) in which the National Authority for Communication shall issue a single authorization for each activity or service carried out by the company. After such period, the Company is required to seek license form the National Authority for any new service it delivers on equal footing as other providers.

- The Sixth Chapter sets forth the rules governing the concerns of national security and public mobilization. The Seventh Chapter then provides for the sanctions applied in case of violation or breach of any of the provisions of the law. These sanctions include; detention, imprisonment, fines, and confiscation of the tools and instruments used. All of the sanctions are to be inflicted by a court decision.

Law No. 12/2003 for the Unified Labor Law

- The law puts rules targeting the relations between the workers and employers in private sector as well as in public sector. This does not include the civil servants in the administrative institutions of the country.

- The new law substitutes the existing labor law in order to provide stability in business relations, protect workers' rights, and avoid problems resulting from the application of the previous law.

- The law is divided into six books: the first book set forth definitions and general provisions of the law. The second book deals with the individual business relations. The third book deals with the training and the vocational guidance. The fourth book deals with the groups' business relation. The fifth book deals with the safety and the health of workers and work environment. And the sixth book deals with work inspection and sanctions.

- The law provides for the establishment of "the emergency compensation fund" and organizes the damages that the workers deserve in case of the dismissal of the worker or the closure of the enterprise.

- The law also provides for the establishment of "the national council for wages" with a mandate to suggest a minimum level of wages.

Law No. 88 / 2003 for the Central Bank, Banking System and Monetary

Goals of the Law

- The Law aims at achieving four main goals the first of which is to create a legal infrastructure suitable for the proper functioning of the banking sector and to guarantee its independence. The second is to adopt the recent international standards set by the W.T.O which in turn increase the competitiveness of the banking sector on a free market basis. The third is to set the legal framework necessary for the management of foreign currency sector. The last goal is to reduce contradictions or conflicts between the provisions of different laws that govern the banking sector by providing a unified and well drafted piece of legislation.

- Therefore, the law contained a provision abolishing all the existing laws governing the central bank, the banking system, banks secrecy and foreign exchange, and replaced them all.

The law is based on the following principles

1. Maintaining and ensuring the independence of the Central Bank in carrying out its activities.

2. Creating provisions for disclosure of and transparency about the Central Bank activities.

3. Maintaining the essence of the existing legal structure in the banking sector and complementing it with the necessary amendments.

4. Studying the comparative law and the experience of other countries in this field.

5. Considering the desired flexibility in the law in order to follow the changes in the market.

6. Applying the BASEL Standards in controlling and supervising the banks.

Structure of the Law

- As to the structure of the Law, it is divided into six chapters. The first chapter is devoted to the Central Bank. The provisions of this chapter states the goals of the central bank and its competence, the management of the bank, the financial system followed by the bank and, finally, the relationship between the central bank and the government in addition to the rules of disclosure.

- The second chapter is concerned with the banking sector. the provisions contained in this chapter covers the establishment and registration of banks, the supervision over banks management, the ownership of shares of banks and the censorship over banks and the securing of savings.

- The third chapter is related to the management of the public sector banks. In general terms, public sector banks operates according to the rules governing other banks except otherwise stated by law.

- The fourth chapter sets the provisions of bank accounts secrecy. The law provides that an Egyptian bank may not disclose any information relating to a customer's account, deposit, safe or related transaction in the absence of either:

    - The written permission of the customer, his heirs or his legal representative, or

    - A decision rendered by a competent tribunal (whether judicial or arbitral).

- Moreover, the law stipulates that any authority which is legally authorized to view information relating to a customer's account, deposit or safe is also prohibited from disclosing any information unless either of the above mentioned criteria has been met.

- In addition, the law provides that a court order that allows certain information relating to a customer's account to be disclosed may be obtained in only the following two cases:

    - If there is sufficient grounds that a criminal act has been committed by the customer;
    - or to authorize a bank to release a bank statement for a given customer in order to execute a garnishment order.

- The fifth chapter deals with the pledge of property and assets to banks without. the law states that the pledge shall not contradict the provisions regulating this matter in other relevant laws. The sixth chapter, then, regulates the issuance of banknotes and foreign currency exchange.

- The seventh and last chapter sets forth the penalties and sanctions regarding the violations of any of the provisions of the law. These sanctions include imprisonment and/or fines vary between a maximum and minimum limits according to the act committed.

- On 12 January 2005 a Presidential Decree No. 17 for 2005 was issued establishing a Council for Monetary Policy.

The Council aims at achieving the stability of prices and the safety of the monetary system in the framework of the general economic policy of Egypt.

Law No.141/2004 Concerning the Promotion of Small Enterprises

- In its efforts to enhance the business environment in Egypt, the Government has prepared a draft law for the promotion of small enterprises which was approved by the parliament in June 2004. The law aims at providing incentives and facilitating the procedures necessary to establish and start a small enterprise. This law and the Investment Law No. 8 of 1997 are considered the two arms pushing economic activities in order to achieve the required development.

- The law defines both small and micro-small enterprises. According to article (1), a small enterprise is defined as any establishment or company practicing an economic activity, whether a product or a service, with two conditions; a maximum paid capital of one million Egyptian Pounds and a number of employees (workers) not more than fifty persons. As to micro-small enterprise, it is defined by article (2) as any establishment involving the activity of one or more of the members of the family in their residence to provide a product or a service.

- With regards to the establishment of small and micro-small enterprises, article (3) of the law states that all licenses and authorizations necessary for the establishment and operation of a small and micro-small enterprises shall be through a designated unit to be established in the General Authority for Investment and Free Zones (GAFI). The said unit will comprise representatives of all relevant public authorities delegated to issue the necessary licenses and authorizations.

- The law designated the Social Fund for Development as the coordinator between all the governmental bodies concerned with small and micro small enterprises. This also includes the coordination between these governmental bodies and other international institutions whether governmental or non-governmental.

- Moreover, the law includes some provisions regulating the financing of small and micro-small enterprises. In addition to the funds provided by the social fund, the law provides for the establishment of trust funds in each Governorate to finance small and micro-small enterprises through civil associations and institutions. The funds may be derived from the government or from the grants and donations of national and international financing institutions.

- The law also provides for a three years tax exemption starting after one year of the registration of the enterprise. Moreover, it designates an area not less than 10% in industrial, agricultural, touristic and urban zones for small and micro-small enterprises.

Law No.3 / 2005 Concerning the Protection of Competition

- In June 2004, the government has referred the draft competition law to the parliament for approval and it has been approved and adopted in February 2005. The following is an overview of the provisions of the law and the competition commission.

The Law

- The law applies to all natural and legal persons engaged in economic activities, no matter the legal form under which they were established. However, Article 9 of the law explicitly states that "upon request from the concerned persons, the commission may exclude acts committed by private sector entities running a public utility where these acts lead to public interest or to consumer benefits that override the negative consequences of restraining competition. This should be in accordance with the procedures stated in the executive regulations of the law.

- Article 10, in addition, gives the Prime Minister the discretion to fix the prices of certain basic goods or conclude agreements to this aim after consultations with the competition commission.

- Concerning anti-competitive agreements, the law sets out in Articles 6 and 7 prohibitions in respect of several forms of agreements that it deems anti-competitive per se, among which are: price fixing of goods and services under transaction; market sharing or segmentation; collusive arrangements in the tendering process; and putting restrictions on the production, distribution or marketing of goods and services.

- The law also prohibits in article 8 the abuse of dominant position which is defined in article 4 as "a situation in which a person has the ability to effectively influence the price or the amount of a product in the relevant market by having market share more than 25%, without his competitors being able to eliminate his influence.

- As with regards to mergers and acquisitions, the law dedicates article 11 for this issue, stating the general rules and leaving the details to the executive regulations. The article provides that persons operating in the relevant market are required to notify the competition commission as soon as they conclude mergers or acquisitions.

- The law also stipulates that sanctions apply in respect of all prohibited activities that have an effect in Egypt, even if committed abroad. The sanctions for committing any of the prohibited activities are fines not less than 30 thousand Egyptian pounds and not exceeding ten millions Egyptian pounds.

- A point worth noting here is that Article 21 grants the designated Minister (who is the Prime Minister according to the law) or the person he delegates the power to settle with the wrongdoer. The effect of such a settlement would be for any court case to cease and be dropped.

The Competition Commission

- The law has a provision for the establishment of a Competition Commission under the designated minister (the PM) and specifies its structure, staff requirements and authority. It also outlines the rights and proceedings of the Competition Commission to apply the law. Article 11 grants the commission the ability to:

- Receive and investigate complaints, and to initiate its own investigation.
- Receive notifications of mergers and acquisitions.
- Collect information necessary for concluding its investigation from a variety of sources.
- Create a complete and updated data base on economic activity.
- Conduct training courses to create awareness of all stakeholders of competition matters.
- Give opinions on decrees, laws and amendments relevant to or has an effect on competition.

- Publish guidelines, reports, and studies concerning competition.

- Make decisions and take necessary procedures to stop anti-competitive practices.

■ The law, however, provides that the decisions of the competition commission are subject to judicial review so as to ensure the consistent and correct application of the law.

Draft Capital Markets Law

■ The draft law aims towards creating a balance between enhancing the supervisory agencies' powers on one hand and simplifying participation in the market on the other. The draft law deals with several major aspects including :

- The Capital Market Authority's (CMA) regulatory framework as the supervisory authority over the Cairo and Alexandria Stock Exchange (CASE). The draft law has stressed the CMA's independence and granted it the authority and legal instruments necessary to enable it to carry out its duties in a manner parallel to that adopted by advanced markets.

- The draft law presents a new regulatory system for company obligation for information disclosure, periodically and when new extra ordinary circumstances that arise may affect securities prices. This obligation hinders the abuse of insider information in trading that generates prohibited profit.

- The draft law portrays shareholders rights in companies listed on the Egyptian Stock Exchange through on-going disclosure of information and business plan to achieve greater transparency and fairness between investors.

- The draft law illustrates tender offer rules to attain equality between minority and majority shareholders, by furnishing the right of every shareholder to sell their shares at the highest price at the prevailing market condition.

- Firms involved in the securities field are authorized to establish their own union, which is considered the first step along the way to achieve self-regulatory organization (SROs) status.

- The draft law has also provided additional rules paving the way for the Cairo and Alexandria Stock Exchange to develop into a self-regulatory organization (SRO). Most importantly, empowering the CMA granting the right to establish collective judicial claims on behalf of victims' parties resulting from violation of the capital market law, regulations and practices.

- The draft law enforces penalties on individuals which try to abuse insider information, manipulation of share prices and/or disseminate flawed information about capital market participants .