Country Profile 2003

Egypt

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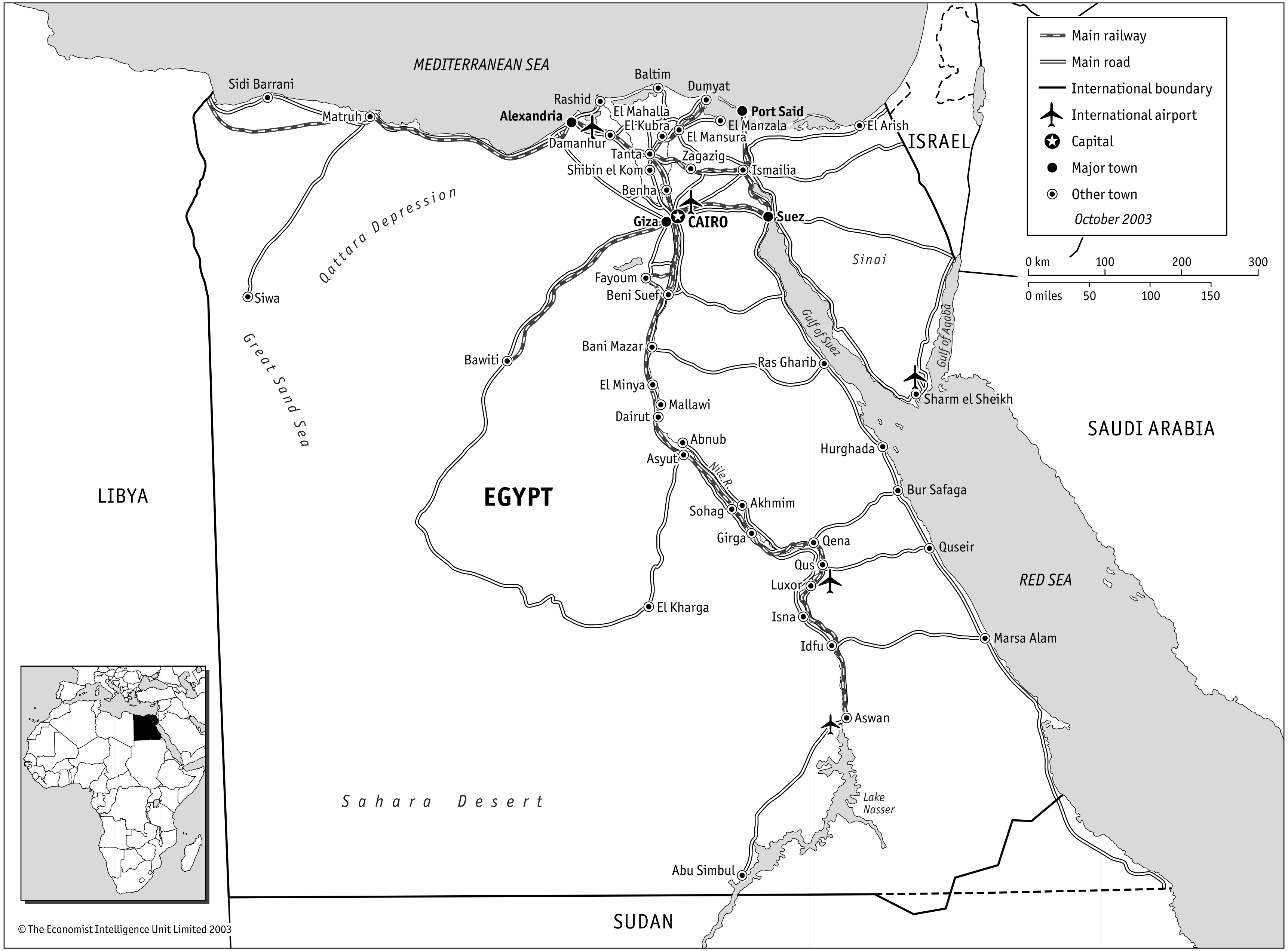

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Aswan
Abu Simbul
Main railway
Main road
International boundary
International airport
Capital
Major town
Other town
October 2003
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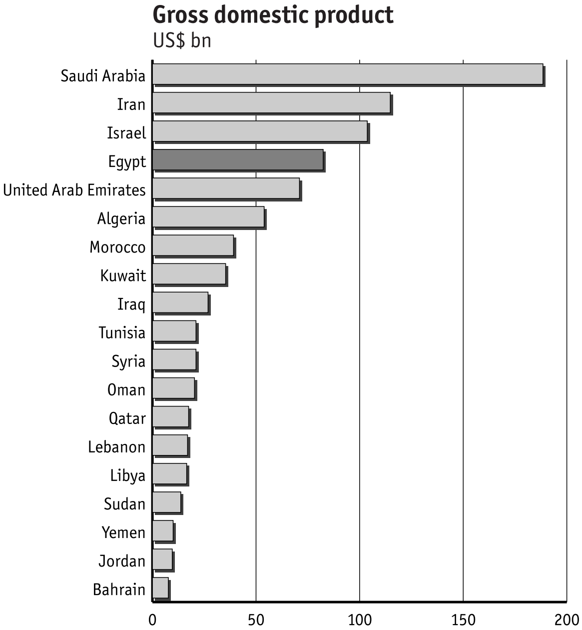
Comparative economic indicators, 2002



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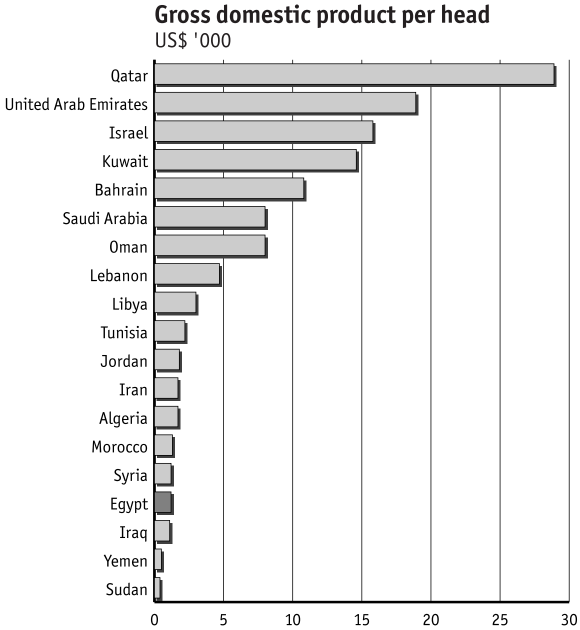

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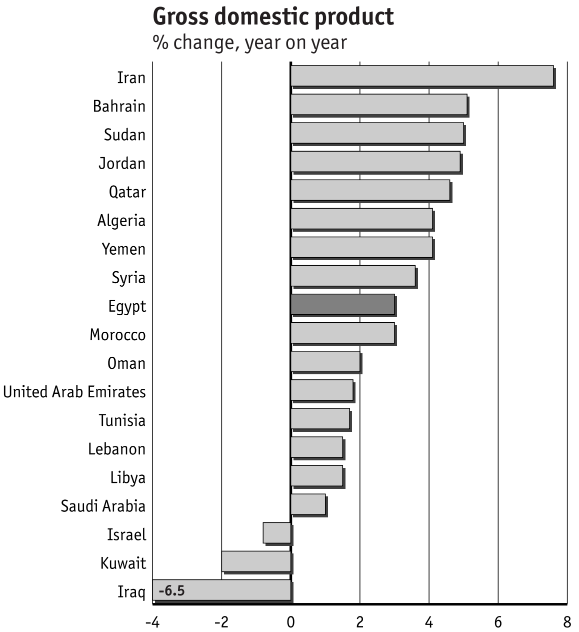

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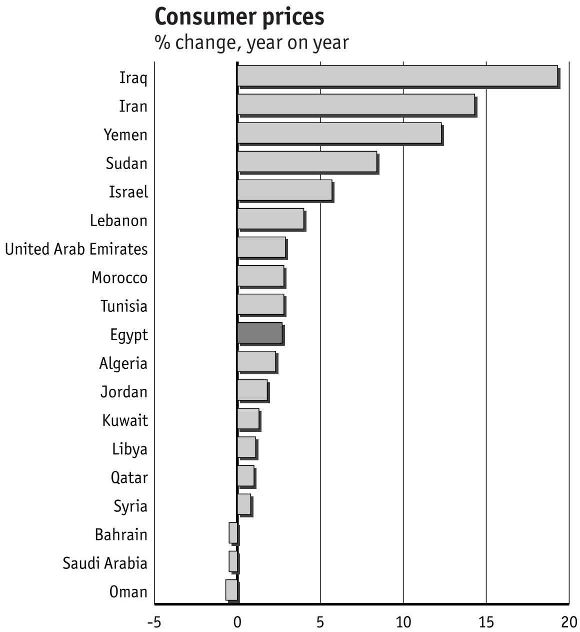

Sources: Economist Intelligence Unit estimates; national sources.

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Membership of organisations

Arab Monetary Fund

The Arab Monetary Fund (AMF), based in Abu Dhabi, was established in 1977 by 20 Arab states. It was hoped that this would presage greater integration of Arab economies, while AMF financing promoted the goal of greater inter-Arab trade flows. Its success has been limited, but the AMF serves as a provider of loans to members, especially for balance-of-payments support. Its original articles define other goals such as promoting the use of the Arab accounting dinar (AAD) as a unit of account akin to the IMF's special drawing rights (SDRs), and working towards the establishment of a single Arab currency. Another aim is to promote the development of Arab financial markets. Iraq, Somalia and Sudan have all been suspended from the AMF for defaulting on debt repayments.

League of Arab States

More commonly known as the Arab League, the League of Arab States was formed in 1945 to strengthen relations between Arab states and to co-ordinate policies for the good of the whole Arab nation. Its membership has stood at 22 since Comoros was admitted in 1993. Palestine is treated as a full member of the organisation. The League, which has observer status at the UN General Assembly, is based in Cairo. It has attempted to mediate in several regional conflicts, and was the overseer of the Arab boycott of Israel. It has been criticised as an ineffective talking shop; one of its handicaps is a system whereby unanimous decisions are deemed binding on all members, but majority decisions are binding only on those states that voted for them.

The Arab world has become increasingly divided in recent years, further negating the effectiveness of the League. US and UK policy toward Iraq was a major cause of tension within the Arab world from the second half of the 1990s, with some countries strategically allied with the West taking a signally different position from Kuwait's staunch support for Iraq's comprehensive containment. However, when from the second half of 2002 the prospect of a US-UK ground invasion to overthrow the regime of the Iraqi president, Saddam Hussein, became increasingly likely, a common Arab stance opposing any military action against Iraq and in support of the lifting of UN sanctions was agreed at the April 2002 Arab League summit in Beirut. This stance was strongly criticised by Kuwait, given the implied criticism that was made of it in the resolution, but the success of the US-led military campaign to overthrow the Iraqi government helped to minimise the tensions that had been expected within the Arab League and has led to some co-operation between it and the new Iraq Governing Council set up under US, but UN-recognised, auspices.

The issue of Israel's policy toward the Palestinians and whether to develop or even to maintain relations with the Jewish state is now resuming its centrality as a source of difference in foreign policy among Arab League members. However, this issue now overlaps with Arab states' concerns about US policy in the region in general, and different responses have been made to a perceptibly more "pro-Israel" approach toward the Middle East peace process.

Organisation of Arab Petroleum Exporting Countries

The Organisation of Arab Petroleum Exporting Countries (OAPEC) groups ten Arab oil producers and includes three countries that are not members of OPEC: Bahrain, Egypt and Syria. Established in 1968 to co-ordinate members' oil policies, it also conducts technical training, feasibility studies, market reviews and provides information on member countries. Several joint Arab projects are sponsored by OAPEC, including the Arab Petroleum Investment Corporation (Apicorp) and the Arab Maritime Petroleum Transport Company (AMPTC).

African Union

The African Union (AU), which superseded the 39-year-old Organisation of African Unity (OAU), is based in the Ethiopian capital, Addis Ababa. The AU was launched formally in July 2002 at a meeting of African heads of state in the South African city of Durban. Modelled on the EU, it includes ambitious plans for a pan-African parliament, an African central bank, a single currency, a court of justice and an African investment bank. Apart from the plan for a parliament, these goals are unfeasible for the foreseeable future. It has also outlined official goals to establish common defence, foreign and communications policies based loosely on those of the EU. The OAU was criticised for ineffectiveness as little action resulted from its policy decisions, and it is not clear how the new AU will differ.

Common Market for Eastern and Southern Africa

Based in Lusaka, Zambia, the Common Market for Eastern and Southern Africa (Comesa) is the successor organisation to the regional Preferential Trading Area (PTA), and came into force on December 8th 1994 after its 12 member states ratified the integration treaty. A weaker rival to the Southern African Development Community (SADC), Comesa now has 20 members: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. The Comesa region has a total population of around 385m and a combined estimated GDP of US$165bn.

The original PTA, launched in 1981, aimed to liberalise trade and to encourage co-operation in industry, agriculture, transport and communications. Comesa's principal aims build on these ideals: to eliminate the structural and institutional weaknesses of member states and to promote the political security and stability necessary for sustained development both individually and collectively as a regional bloc. These goals are to be achieved through monetary union, with a single currency and a common central bank. The creation of a free-trade area on October 31st 2000 was to be a major step towards achieving them, but by early 2003 only nine of the 20 members had agreed to participate fully: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe, while Rwanda, Burundi and Comoros had committed to join by year-end. These nine have removed all barriers to intra-regional trade, but retain tariffs on imports from outside Comesa. To encourage other members to join the free-trade area a fund was created in 2002 to compensate those countries facing revenue loss, the source and extent of funding for which is uncertain. Although the targets of achieving a customs union by 2004 and full monetary union by 2025 are still in place, neither is likely to be attained.

Basic data

Land area	997,739 sq km, of which only 4% is inhabited and cultivated territory
Population	69.2m (67.3m resident; January 1st 2003) Cairo, Giza and Kalyoubia governorates, including Greater Cairo: 16.7m Alexandria: 3,691,000 Port Said: 522,000 Suez: 469,000
Climate	Hot and dry, with mild winter
Weather in Cairo (altitude 116 metres)	Hottest month, July, 21-36°C (average daily maximum and minimum); coldest month, January, 8-18°C; driest months, July, August, 0 mm average rainfall; wettest month, December, 5 mm average rainfall
Language	Arabic
Measures	Metric system. Local measures are also used, especially for land area: feddan=0.42 ha or 1.04 acres; cereal crops: ardeb=198 litres or 5.6 US bushels; 8 ardebs=1 dariba; cotton: Egyptian bale=720 lb (325.5 kg), qantar (metric)= 50 kg (replacing the traditional qantar equivalent to 44.93 kg)
Currency	Egyptian pound (E£)=100 piastres. End-2002 (Dec 31st) exchange rate: E£4.50:US$1 (IMF); black-market rate closer to E£5.20:US$1. Exchange rate on November 17th 2003: E£6.14:US$1
Time	2 hours ahead of GMT (summer time, 3 hours ahead)
Public holidays 2004	January 1st, February 1st (Eid al-Adha—Feast of the Sacrifice), February 21st (Islamic New Year), April 25th (Sinai Liberation Day), May 1st (Labour Day), May 2nd (Birth of the Prophet) May 3rd (Sham al-Nessim), June 18th (Liberation Day), July 23rd (Revolution Day), October 6th (Armed Forces Day), October 24th (Suez Day), October 15th (Beginning of Ramadan), November 14th (Eid al-Fitr—end of Ramadan), December 23rd (Victory Day)

Politics

Egypt is an Arab republic with a limited democratic system, headed by the president, Hosni Mubarak, who was re-elected to his fourth six-year term in September 1999. The government, led by the prime minister, Atef Obeid, is supported by the majority National Democratic Party (NDP) in parliament.

Political background

The present borders of Egypt are almost identical to those in pharaonic times, the country's heartland being the Nile Valley and the delta where Egyptian civilisation emerged over 5,000 years ago. The pharaonic era lasted for around 30 centuries until the Assyrian conquest in 671 BC. Persian conquest followed, and then rule by the Greek, Roman and Byzantine empires. With the advance of Islam in the seventh century AD, Arab armies conquered Egypt, unopposed by the country's Coptic Christians, and Egypt gradually became Arabic-speaking and Islamic. Ottoman Turks conquered Egypt in 1517.

By the late 18th century Egypt had been caught up in the war between Britain and France. Napoleon invaded in 1798, but by 1801 the French had surrendered to British and Ottoman forces. After a power struggle, Mohammed Ali, an Albanian officer in the Ottoman army, took control. Widely regarded as the founder of modern Egypt, he opened up the country to the West.

After a nationalist coup was crushed in 1881 Egypt effectively came under the control of British officials, becoming a British protectorate in 1914. Nominal independence was secured in 1922, but Britain reserved the right to protect the Suez Canal and to defend Egypt. Widespread anti-British strikes and riots led to the evacuation of British troops in 1947. In 1948 Egypt, Iraq, Syria and Jordan undertook military action to protect the rights of Palestinians after the founding of the state of Israel. The conflict left the coastal Gaza Strip of Palestine under Egyptian administration.

After 1952

After the 1952 revolution, when a group of young army officers sent King Farouk into exile, Gamal Abdel-Nasser moved quickly to assert his leadership of the new republic, and replaced General Neguib, Egypt's first president, in 1954. By the time Nasser died in office in 1970, his authoritarian rule had transformed the country through the introduction of state central planning and ownership, alongside social welfare services, the promotion of industrial development, land redistribution and the nationalisation of banks, companies and of the Suez Canal Company.

Egypt became the recognised leader of the Arab world, and Arab unity was the main plank of the country's foreign policy. Dependent on Soviet economic and military support as the West intensified its support for Israel, under Nasser Egypt fought two major wars against Israel in 1956 and in 1967 that resulted in the loss of the Gaza Strip and Sinai.

Recent political developments

The Camp David accords

Nasser was succeeded by his vice-president and fellow revolutionary, Anwar Sadat, who went to war against Israel in co-operation with Syria in October 1973. Egypt's military gain—an initial withdrawal by Israel from part of Sinai—brought the US into action to broker a solution. Mr Sadat proceeded to renew relations with the US in 1974 after a seven-year break, and terminated Egypt's treaty of friendship with the Soviet Union in 1976. Despite considerable criticism from other Arab countries, he took the unprecedented step of visiting Israel in 1977 to revive the peace process, which resulted in a summit meeting in the US in September 1978 and the drawing up of the Camp David accords. The accords provided the basis for the comprehensive peace treaty between Egypt and Israel signed in Washington in March 1979, which led to the Israeli withdrawal from Sinai, finally completed in April 1982. However, the second part of the accords—widening the peace process to include other Arab parties—failed to be implemented following Arab condemnation of Egypt's separate peace, and Egypt was expelled from the Arab League.

Internal unrest

The implementation of a more liberal regime under Mr Sadat did not prevent discontent and the outbreak of riots in January 1977, when bread prices were raised following a proposal by the IMF to reduce the subsidy bill. Much of the unrest was inspired by the Islamic revival that had spread after the 1979 Iranian revolution. In September 1981 the president ordered a crackdown on dissent. On October 6th 1981 Mr Sadat was assassinated by members of the Islamist group, al-Jihad. Eight days later his vice-president, Hosni Mubarak, was sworn in as Egypt's fourth president.

International realignments

Mr Mubarak has maintained the major thrust of his predecessor's policies, including limited political liberalisation, but has tried to overcome some of the costs involved. He has made it a priority to end Egypt's isolation within the Arab world while remaining committed to the peace treaty with Israel. This approach has resulted in occasional diplomatic distancing from the US, and differences over US policy in the region have led to slightly strained ties since the election of George W Bush as US president in 2000. Nonetheless the US is Egypt's chief ally and source of foreign aid.

Diplomatic relations with the Soviet Union were resumed in 1984. Rebuilding ties with the Arab world took much longer, but Egypt rejoined the Arab League in May 1989. Egypt's pivotal role in forging an Arab coalition to counter Iraq's invasion and annexation of Kuwait in August 1990 strained relations with Jordan, Yemen, Sudan, Algeria and Tunisia, but Egypt painstakingly rebuilt ties with all of them. Following the outbreak of the *intifada* (uprising) in September 2002, Along with fellow US allies Saudi Arabia and Jordan, Egypt has made strenuous efforts to halt Israeli-Palestinian violence and to revive the Middle East peace process.

Renewed authoritarianism

At home the maintenance of law and order has been a priority as the government has pushed through an IMF-regulated economic reform programme and concentrated its energies on crushing Islamist militancy. Between March

1992 and March 1999 more than 1,200 people were killed in attacks by militant groups. However, although the militant threat has receded, the state is determined to retain tight political control and has proved intolerant of meaningful public participation in political life. Islamist violence has forced the government to pay more attention to the underlying causes of popular discontent: poverty, unemployment, social injustice and the rigid and underfunded education system. Nevertheless, there is concern that Egypt's traditionally tolerant secular society is being threatened by the government's reversion to more authoritarian rule and tendency to pander to the conservative religious trend in its attempt to ward off the threat of militant Islam.

Important recent events

November 1997

Gamaat Islamiya militants kill 58 foreign tourists and four Egyptians in Luxor in the bloodiest and most brutal attack ever on Egypt's tourism industry.

March 1999

Gamaat Islamiya leaders at home and abroad announce an unconditional ceasefire.

January 2000

In Egypt's worst confessional violence 21 Coptic Christians and one Muslim are killed and over 40 people injured in armed attacks triggered by a minor dispute in the Upper Egyptian village of Al-Kosheh.

May 2000

Hundreds of students at Cairo's Islamic University, Al Azhar, riot over the state reprinting of a reportedly blasphemous book. The Islamist-oriented Labour Party is suspended after its newspaper, *Al Shaab*, is widely blamed for inciting the violence.

November 2000

Egypt withdraws its ambassador from Tel Aviv, signalling its anger at what it perceives as use of disproportionate force against the Palestinians.

February 2001

The Muslim Brotherhood takes control of the governing board of the influential Bar Association in elections, despite government efforts to prevent a repeat of the Brotherhood's previous stranglehold on professional associations.

April 2002

Uncharacteristically large and intense public protests take place, reflecting public anger at Israeli actions in Gaza and the West Bank, and at the perceived US bias towards Israel. Egypt cuts all but diplomatic ties with Israel, a largely symbolic act to protest Israel's perceived use of excessive violence in the West Bank and Gaza Strip.

September 2002

The eighth Congress of the National Democratic Party (NDP) caps two years of grassroots reorganisation, including the first top-level reform in the ruling party since its inception.

March 2003

A spontaneous demonstration briefly threatens to lurch out of control as news breaks of the US-led invasion of Iraq. The security forces restore order, but criticism of the government during antiwar protests breaks taboos, with occasional chants voiced against the president himself.

September 2003

The NDP makes wider participation in political life a central tenet of its platform. The president encourages greater activity by opposition parties, unions and civil society. His son, Gamal Mubarak, is credited with being the inspiration for the pledges.

Constitution, institutions and administration

The 1971 constitution provides for the separation of powers between the executive, the legislature and the judiciary. Islamic law is officially the principal source of legislation, but the Napoleonic Code is a more significant progenitor. The head of state is the president, who is nominated by a two-thirds majority of the Majlis al-Shaab (People's Assembly) and elected by referendum. He has executive authority, including the ability to veto legislation, and enjoys vast powers of patronage. Presidential appointees include the vice-presidents, the prime minister and ministers, provincial governors, armed forces and security heads, major religious figures and High Court judges. The president is supreme commander of the armed forces.

The People's Assembly

The People's Assembly which comprises 444 directly elected members, one-half of whom are in theory farmers and labourers, although in practice this is not observed, and ten members nominated by the president, exercises legislative power. Presidential decrees also have the force of law. The president may dissolve the Assembly only if he gains support for such a course in a referendum, and a minister can be required to resign if the Assembly passes a vote of no confidence in him. Should that happen against the president's wishes, the matter may be put to a referendum. The ruling NDP emerged from the October-November 2000 parliamentary election, the first under full judicial supervision, with its usual commanding majority, but only after elected independents rejoined the party following the poll. Since they feel less obliged to follow the party line and as there is now a greater opposition presence in parliament, more critical debate has ensued. However, the Assembly's ability to change the government or to amend legislation is still severely limited.

The president appoints one-third of the members of the Shura Council, a mainly ineffective 264-member consultative body; one-half of its elected members face election every three years and all members sit for six years. Elections for the council, which is dominated by the NDP, were last held in May-June 2001.

The judiciary

Egypt's overloaded judiciary is independent, but the government tends to circumvent rulings not to its liking, often by employing the state of emergency regulations that have been in force since Mr Sadat was assassinated, which allow the police almost unlimited powers of search and arrest, and control of the media. "Fast track" military courts are used to try Islamist cases as these are considered to be more effective in achieving convictions than civilian trials, which can take years, in part because of legislative complexities.

The executive

Although formally accountable to parliament, the prime minister is the president's primary lieutenant and is responsible for implementing his policies throughout Egypt's all-pervasive bureaucracy. Important decisions are made by the president in consultation with ministers and advisers. The main ministries are defence, foreign affairs, information, economy and the interior.

Political forces

The ruling party

The NDP has been in power since it was established by Mr Sadat in 1978. Possessing only a vague ideology—it stands for a middle way between socialism and capitalism—factionalism is rife. It holds large majorities in both the People's Assembly and the Shura Council, and effectively controls local government, the mass media, organised labour and the massive public sector. Following the poor showing of the NDP in parliamentary elections in 2000, the party has undergone reform led by the president's son, Gamal Mubarak. Backed by a coterie of liberal-minded supporters, Gamal Mubarak has been elevated to positions that leave him second in power only to his father. The aim is to make the party more relevant to ordinary Egyptians and to create an alternative forum for debate over government policy.

The 16 recognised opposition parties pose little challenge to the NDP, reflecting the ineffective and unrepresentative nature of traditional opposition parties rather than being a strong mandate for the ruling elite, which is widely regarded as remote and tired, and which is beset by allegations of corruption, cronyism and incompetence.

Legal opposition groups

The main legal opposition party is the centre-right New Wafd, founded in 1978 by members of the original Wafd, which was outlawed in 1952. New Wafd has evolved into a party of professionals championing the advancement of the private sector and political liberalisation, including the open election of the president. The Socialist Labour Party, established by Mr Sadat in 1979 as a tame opposition party soon moved into outright opposition, championing the public sector, criticising the alliance with the West and the peace with Israel, and making the application of *sharia* (Islamic law) the central plank of policy. Often electorally allied with the Muslim Brotherhood, it was Egypt's only legal Islamist-oriented political party. It has been suspended since May 2000.

The Socialist Liberal Party, formed from a right-wing faction of the Arab Socialist Union (ASU) on Egypt's return to a multiparty system in 1976-77 and originally the leading party of the "loyal" opposition, has become increasingly marginalised. It has embraced most political tendencies during its history, but since 1998 has been embroiled in a succession crisis following the death of its founder and leader, Mustafa Kamal Mourad. The left-wing National Progressive Unionist Party (Tagammu) also originated in the ASU. The party opposes rapprochement with Israel and advocates strengthening the public sector, and it has recently focused on attacking privatisation. The Democratic Arab Nasserist Party, licensed in 1993, is a more radical version of Tagammu. The first new party licence for 22 years was awarded to the National Accord Party in March 2000. Lacking a coherent platform and mainly comprised of discontents from other opposition parties, its formation highlights the government's usual tactic of "divide and rule". The party was suspended a year and a half later by the Political Parties Committee on the grounds of internal bickering, although the party's increasingly Islamist flavour cannot have helped its cause. Egypt's newest political party, Democratic Generation, received a licence in February 2002. Formed by disaffected socialists of the frozen Labour Party, it has an incoherent platform that calls for the unification of Egypt, Libya and Sudan and the establishment of a strong Arab system to confront the West.

The Islamist trend

The main challenge to the regime comes from the Islamist trend, which draws on a significant groundswell of popular support. The largest, best-funded and best-organised Islamic group is the Muslim Brotherhood, founded in 1928 and dissolved by Nasser in 1954. The group is illegal as the constitution bans political parties based on religion or race, but in the past it was generally tolerated. However, since January 1995 the government has moved against it, accusing it in effect of being the civilian wing of militant Islamist groups. The government's firm rejection of any assimilation of the Islamist opposition in the political process has raised concern that repression of the mainstream may merely breed a more violent fringe. The Brotherhood seeks to work within the existing political system to make Egypt a strict Islamic state based on *sharia*. Standing as independents, it had some success in the most recent parliamentary elections. Despite government efforts to discourage its participation and to the surprise of many observers, the Brotherhood emerged from the 2000 elections with 17 seats, the biggest opposition grouping.

Extremist Islamists, mostly members of Gamaat Islamiya and al-Jihad, were responsible for the 1992-99 insurgency aimed at overthrowing the regime and instituting an Islamic state. Drawing followers mainly from the young lower and middle classes, the powerbase of the militants lay in the slums of Cairo and in Upper Egypt, where poverty and unemployment are widespread. Many militants became radicalised by fighting with the mujahideen in Afghanistan. In addition, facing determined government resistance in Egypt, several of the groups' leaders later took refuge there. The al-Jihad leader, Ayman Zawahiri, joined forces with Osama bin Laden, the head of the militant group al-Qaida, in Afghanistan in 1998, formally merging the two organisations in June 2001; many members of the rank and file and leadership of al-Qaida are believed to be Egyptian. However, no serious extremist attacks have taken place in Egypt since the 1997 Luxor massacre, when Gamaat militants killed 58 foreign tourists and four Egyptians. Many militants died or fled the country amid the ruthless and sustained campaign waged by state security forces for most of the 1990s. Moreover, the Luxor attack prompted widespread public revulsion, and as a result the movements lost support. They were weakened further by internal divisions over the wisdom of pursing a policy of violence. Gamaat Islamiya announced an unconditional ceasefire in March 1999 that is still in force. In June 2000 al-Jihad, which had not conducted attacks inside the country since 1993, also announced its commitment to halt military operations in Egypt.

Main political figures

Hosni Mubarak

Egypt's president is the central figure in domestic, foreign and economic policy. A cautious politician who advocates only incremental change, he has maintained political stability and boosted the country's standing abroad. Under public pressure to introduce more pluralism, he has lately backed the reformist trend within the ruling party and within limits, wider political participation. However, he is determined not to allow Islamists any political foothold. Unlike his predecessors he has staunchly refused to name a vice-president and therefore an heir-apparent—Anwar Sadat and Mr Mubarak had both succeeded from the position of vice-president—despite the commonly held view that naming a successor would lay to rest any concerns over the future stability of the regime. As a result, considerable speculation exists about who his successor will be.

Atef Obeid

Appointed prime minister in October 1999, the former minister of public enterprise has been in cabinet since 1984. Like his predecessor, Kamal al-Ganzouri, he is a consummate political insider and therefore a safe choice, and also has a more urbane and liberal disposition. However, the prolonged poor performance of the economy is increasingly blamed on government mismanagement rather than just on regional political tensions, and calls for a change of premier are mounting.

Habib al-Adli

Appointed as interior minister in the immediate aftermath of the Luxor massacre in 1997, the former director of state security has proved to be more efficient than his predecessors in part because of the greater competence of his team of aides. The government's prime strategist in the fight against Islamism, Mr Adli's success will be judged by his ability to contain Islamist violence and to muzzle the opposition while trying to avoid provoking an international outcry at the methods used.

Mohammed Hussein Tantawi

A Mubarak loyalist, the defence minister is in the background politically, and despite holding the top post in the armed forces, he is deemed unlikely to succeed the president. Reportedly in ill-health, he is personally reluctant to seek the highest office and is therefore more likely to play the role of kingmaker.

Omar Suleiman

The highly able chief of general intelligence is one of the most powerful figures in the country, and is often sent by the president to resolve problems with its neighbours. His political profile having grown noticeably of late, he is considered a strong contender for the succession, particularly if a crisis situation were to arise.

Osama al-Baz

The president's long-standing and trusted adviser, particularly on foreign policy, the Nasserist-leaning first under-secretary at the Ministry of Foreign Affairs and director of the Presidential Bureau of Political Affairs wields immense influence. He has secured a role of continuing political importance for Egypt within the Arab world, and his quiet diplomatic style has ensured that he rather than the foreign minister, Ahmed Maher, tends to deal with issues related to Israel.

Ahmed Maher

A retired diplomat, Mr Maher was appointed foreign minister in May 2001, replacing the popular and outspoken Amr Moussa, who became secretary-general of the Arab League. The appointment of the experienced, calm and competent Mr Maher, who previously served as ambassador in Moscow and Washington, and has participated in peace negotiations with Israel, represents more a change of style than substance. Foreign policy strategy is largely the preserve of Mr Mubarak, assisted by Mr Baz and Mr Suleiman, and in many cases the role of foreign minister is to articulate this policy to the world.

Gamal Mubarak

The president's younger son has played an increasingly prominent role in the political arena over the past three years, sparking rumours that he is being groomed for succession. He has spearheaded reform of the sclerotic ruling party, the National Democratic Party (NDP), aiming to improve participation and to deliver "good governance". At the September 2002 NDP congress he was appointed head of the newly formed policy secretariat, which is responsible both for all policy issues and the NDP's relationship with the government. Together with his position as a member of the party's steering committee, he has become the dominant figure within it after his father. In the past year government policy decisions, particularly in the economic sphere, have increasingly been attributed to the NDP.

Fathi Sorour

Second in protocol terms to the president, under the constitution the speaker of the People's Assembly would assume power if the president were to be incapacitated or killed until a successor was chosen. A shrewd lawyer and former education minister, Mr Sorour is charged with keeping the People's Assembly in line with the government, a task at which he appears to excel.

The armed forces

The armed forces, although less prominent in political life under Mr Mubarak than under his predecessors, are still the ultimate arbiters of power. They have shown strong backing for the regime, including ruthlessly crushing a mutiny in February 1986 by some 20,000 conscripts of the Central Security Forces, and have indicated a willingness to act should Islamist violence seriously threaten the status quo. The military sees its role as essentially that of guarantor of the state. Despite his reluctance to appoint a vice-president, a post that has previously always been recruited from among the military, Mr Mubarak has been careful to ensure that the armed forces have retained their privileges.

Election results

November 1990

People's Assembly: National Democratic Party (NDP), 383 seats; National Progressive Unionist Party, six seats; independents, 55 seats.

October 1993

Presidential referendum: Hosni Mubarak received 96% of the vote.

November 1995

People's Assembly: NDP, 417 seats, including 99 NDP members who stood as independents; Wafd, six seats; National Progressive Unionist Party, five seats;

Democratic Arab Nasserist Party, two seats; Liberal Party, one seat; independents, 13 seats, including one Muslim Brother.

October 1999

Presidential referendum: Mr Mubarak received 96.3% of votes.

October-November 2000

People's Assembly: NDP, 388 seats, including 213 who stood as independents; Wafd, eight seats; National Progressive Unionist Party, six seats; Nasserists, three seats; Liberal Party, one seat; independents, 37 seats, including 16 Muslim Brothers; two disputed seats were later won by NDP candidates in by-elections held in June 2002.

International relations and defence

Close neighbours

Egypt sees itself as a regional powerbroker and following the recent demise of several influential leaders in the Arab world, Mr Mubarak has become the unquestioned senior Arab statesman. Despite concern over the nature of Colonel Muammar Qadhafi's rule, relations with Libya have deepened as Egypt views its neighbour as the provider of an important source of employment for its labour force, and as a useful buffer against Islamist extremism within the region. Tense in the wake of alleged complicity in an assassination attempt on Mr Mubarak in June 1995, relations with Sudan warmed considerably following the June 2000 ousting from the inner circle of power of the country's Islamist leader and parliamentary speaker, Hassan al-Turabi. However, Egypt was taken aback by the fact that it did not have a say in the treaty signed in July 2002 between the Sudanese government and the southern Sudanese People's Liberation Army, which allows for the possibility of a referendum on the issue of the secession of the south after a six-year interim period. Egypt considers the issue to be of strategic importance for its own interests: its main concern is the security of its share of water from the River Nile, but it also fears that it would have little sway over an independent Christian and animist state in the south. It is also concerned that without the balance of the south, the north would become more militantly Islamist, but Egypt can do little to alter the process without appearing to disrupt an attempt to end Sudan's 19-year civil war.

As part of its effort to reduce regional volatility, Egypt has improved relations with both Turkey and Iran. Egypt's role in the 1990-91 Gulf crisis strengthened its relationships with Gulf states considerably, particularly with Saudi Arabia. Egypt's entry to Comesa in June 1998 and its participation in that body's free-trade area, launched in October 2000, serves to highlight its push to revive neglected trade ties with Africa. A major focus of foreign policy is to open up new export markets, but the emphasis on upgrading relations with Africa also has another dimension: the Nile runs through nine other states, and Cairo is likely to have to make water agreements with all of them.

Western powers

Egypt's main international relationship is with the US, its largest aid donor, although a perceived US bias towards Israel, hardline US policies towards "regime change" both in Iraq and the Palestinian Territories, and the US's renewed focus on democracy, human rights and civil society in the Arab world have led to tensions. Ties with Europe, Egypt's largest trading partner, are gaining higher priority as Egypt looks to balance its ties with the US. Egypt may join the proposed EU-Mediterranean free-trade zone to be established by 2010.

Security risk in Egypt

Egypt is a stable and safe country for foreign companies and visitors. Despite the often repressive methods employed by its leaders to retain control, there have been no coups, and the country has been governed by the same elite since the 1952 revolution, which survived even the assassination of Anwar Sadat, after which the vice-president, Hosni Mubarak, took over. Aside from occasional manifestations of anger almost invariably over threats to living standards, Egypt has seen surprisingly little social unrest. Kidnappings and organised crime are unknown, and Egypt's crime rate is one of the lowest in the world. In the 1990s militant Islamist attacks increased the risk to personal security, but they have never targeted foreign companies, choosing to attack foreign tourists instead. Militants have stuck to the unilateral ceasefires declared in 1999-2000.

Armed conflict

War was once a major security risk, but since the 1979 peace treaty with Israel relations have been cool, although peaceful. Israel is still perceived as the main external threat to Egypt's security. Nevertheless, another major war against Israel appears to be highly unlikely. Egypt has close relations with other Arab nations and is a leading Arab political power.

Attacks by militant Islamists have been a major security problem, but even at its height in the first half of the 1990s insurgency did not threaten political stability, and foreign businesses were not affected. Even the few bombings that took place in the mid-1990s were of Egyptian, not Western, banks. Increasingly, attacks took place away from Cairo and in the rural south, far from the country's business centres. However, the main extremist group, Gamaat Islamiya, targeted foreign tourists as part of its strategy of hurting the regime by damaging the economy, but the death of 58 tourists in a massacre at Luxor in November 1997, the worst militant attack in Egypt's history, marked a watershed. Weakened by public revulsion over Luxor, as well as by the ruthless and targeted state counterattack, improved co-ordination between Egypt and the West for the tracking and extradition of militant leaders in exile, and major internal divisions, Gamaat Islamiya announced an unconditional ceasefire in March 1999. The other major Islamist extremist group, al-Jihad, which had targeted senior government officials, but not ordinary citizens or tourists, and had not carried out an attack inside the country since 1993, announced its commitment to halt military operations in Egypt in June 2000.

Ceasefires by militant Islamist groups are expected to continue to hold, although recent events have given rise to some concern to the contrary. Public anger has risen markedly over the Israeli government's actions against the Palestinians and because of the US-led military campaign in Iraq, which is popularly viewed as motivated by the desire to secure oil and to protect Israel. The organisational ability of militant groups within Egypt is believed to be severely limited, but one-off attacks by disaffected individuals or by dissident elements loosely connected to Islamist networks abroad are a possibility.

Social unrest

Although around 40% of Egyptians live either on or below the poverty line, there is little social unrest and the crime rate is low, to some degree owing to the ruthless and all-pervasive security force that is rarely hampered by human rights considerations. This long-established style of policing is reinforced by emergency laws that have been in force for 56 of the past 64 years. Under state of emergency legislation the police have almost unlimited powers of search and arrest, while public gatherings are banned and military courts are permitted to try civilian cases.

Order has also been secured by the government's determination to maintain a social safety net that guarantees the availability of affordable foodstuffs, in particular bread, and other basic needs such as fuel and electricity. However, with currency depreciation the net has become increasingly costly and difficult to manage, and in September 2003 Egypt witnessed a shortage of bread for the first time in 25 years.

Mass demonstrations are uncommon and riots rarer still, although since April 2002 the upsurge in violence in the Palestinian Territories has led to regular protests. In March 2003 as news filtered through that a US-led attack on Iraq had been launched, the largest spontaneous mobilisation since the bread riots of 1997 took place in Cairo, which was only brought under control after several hours of rioting in the city centre. Demonstrations usually take place on or around university campuses, or outside mosques. Although often prompted by external issues, they are fuelled by pent-up frustrations at internal problems such as chronic unemployment, poverty and the lack of public participation in political life. Demonstrations can include an anti-US element owing to that country's support for Israel, but so far this has not translated into any threat to Western personnel or property.

In April 2003 parliament finally passed the Unified Labour Law, under discussion since 1994. It gives workers the right to bargain collectively and to strike for social or financial reasons, although strikes have to be approved by two-thirds of members represented by the main union involved, and the employer and the relevant authorities have to be notified 15 days in advance. The provision offers some liberalisation as previously under the law strikes had been held to be illegal public disturbances, not legitimate bargaining tools in contractual disputes. However, the process of embarking on industrial action is complicated and time-consuming, and in practice severely limits the right to strike. Large-scale labour unrest is likely to continue to be extremely rare.

Confessional violence between Egypt's Muslim majority and Coptic Christian minority is rare and has no foreign element.

Violent crime

Egypt has no tradition of kidnappings of foreign nationals for political or commercial objectives. What violent crime does takes place does not involve foreigners, and is often has to do with family "honour" codes. The government is highly committed to maintaining the safety of foreign visitors and foreign property in Cairo, and this policy of zero tolerance is understood by all citizens. Nevertheless, petty theft does occur, particularly in crowded tourist areas, but not above levels in other countries.

Relations with Israel

Although another major war against Israel would appear to be unthinkable, Israel is still perceived as the main external threat to Egypt's security. Egypt fears that tensions resulting from the continuation of violence in the Palestinian Territories and the impasse in the Middle East peace process could usher in conditions that might fuel militant Islamism. When progress was made in the peace process in the early 1990s, diplomatic and trade ties were warmer, and during that time several joint projects, notably in hydrocarbons and tourism, moved ahead. However, the election of successive hardline governments in Israel, which have rejected the "land for peace" formula, the basic tenet of regional peace negotiations since 1991, has slowed normalisation. Egypt continues to provide diplomatic support to the beleaguered Palestinian Authority, but since the election of Ariel Sharon to the Israeli premiership in February 2001, the scope for Egypt to play its traditional role of mediator has been severely reduced. Egypt withdrew its ambassador to Tel Aviv in November 2000 as a protest against what it perceives as Israel's excessive use of force against the Palestinians, and cut all but diplomatic ties in April 2002. Nevertheless, Egypt sees no alternative but engagement, and despite major setbacks to the process the government has worked tirelessly in support of the "road map" launched by the US president, George W Bush, in mid-2003.

Military modernisation

In 1983 Egypt launched the first of three five-year military modernisation plans aimed at replacing its Soviet-dominated inventory with Western, primarily US, equipment by 2005. The first plan concentrated on rebuilding military infrastructure destroyed in the 1973 war. The second and third plans focused on improving aerial strength and producing a leaner and more mechanised army. The US assisted in the creation of an automated air defence command and control system, which became operational in October 1994. Egypt is in the process of upgrading its ageing fleet. These modernisation plans are being funded largely by the US$1.3bn/year in military assistance allocated by the US to Egypt and which it has announced will not be subject to cuts.

The armed forces

In 2001 active armed forces numbered some 443,000 members, according to the London-based International Institute for Strategic Studies. Some 322,000 of these were career soldiers, the majority of whom—250,000—were in the army. Conscription is selective, and service is for three years. In 2001 the army had 320,000 soldiers in total. The navy numbered 19,000, of whom 12,000 were conscripts; the air force, 29,000; and the air defence command, 75,000. Reservists numbered 254,000, while paramilitary forces included 250,000 in the Central Security Forces and 60,000 in the National Guard.

Resources and infrastructure

Population

Annual population growth rate settles at around 2%

Egypt's population stood at 69.2m in January 2003, according to the latest official estimates, with 67.3m resident citizens and some 1.9m others working abroad. The population is expected to reach 85m by 2013 and 123m by 2029. Reducing the population growth rate presents a major challenge for the government. The domestic growth rate slowed slightly in 2002, to 1.99%, compared with 2.04% in 2001, as a result of a fall in the birth rate according to the Central Agency for Public Mobilisation and Statistics (CAPMAS, the national statistical agency). Almost one-half of the population is under 20 years, while only 6% are over 60 years. With such a youthful population, the pressures on the labour market and social services are considerable. According to CAPMAS, the labour force grew by 2.6% during 2002, to 20.2m. Of this total, some 18.2m are employed, including 5.3m civil servants, 900,000 working in state enterprises, 5.1m in the formal private sector and 6.9m in the informal private sector.

The crude death rate had fallen to 6.4 per 1,000 by 2002, down from 19 per 1,000 in 1965. The crude birth rate had also dropped from over 40 per 1,000 in the mid-1960s to 26.3 per 1,000 in 2001. Life expectancy at birth is currently around 67 years.

According to the latest census that gives a breakdown, in 1986 94.1% of the population was Muslim, almost all of whom were Sunni Muslims, and 5.9% Coptic Christians, but it is often claimed that Christians account for around 8-10% of the population. In addition, roughly 50,000 Egyptians belong to other Christian sects, and there is also an extremely small and declining Jewish community.

Migration

Remittances from expatriates are a major source of foreign exchange receipts. According to the latest census, 1.9m Egyptians live abroad as temporary migrants, compared with 2.2m in 1996 and 2.3m in 1986. This decline reflects the mid-1990s economic downturn in Arab oil producing countries, the exodus from Iraq and Kuwait during the 1990-91 Gulf conflict, and the decline in job opportunities in Arab states. Few Egyptians left Iraq or the Gulf in the 2003 Iraq War. The latest figures available show that on January 1st 2001 there were 824,000 permanent migrants.

Education

Enrolment success

In 1960 there were only 2.7m primary school students, but by fiscal year 2001/02 (July 1st-June 30th), numbers had risen to 7.2m. The number of students enrolled in secondary education had risen from 550,000 to 1.2m by 2001/02 and the number in higher education from 134,000 to 1.5m over the same period. Although these increases are partly accounted for by population growth, they also reflect the government's commitment since the 1960s to provide free education for all, although in recent years some payment has been necessary. In 1997 the percentage of six-year-olds enrolled for the first time in the first year of primary school was 95% overall, compared with 72% in 1980. According to the World Bank, the primary school enrolment rate stood at 93% in 1993-99, compared with 63% in 1970-75.

High population growth places severe demands on the underfunded education system. According to CAPMAS, a major school building programme to raise the number of primary schools to 15,653 in 2001/02, up from 14,654 in 1993, succeeded in lowering the average number of primary school students per class to 41 in 2001/02, compared with 44 in 1996/97, although numbers can often be far higher in densely populated and poor areas. The government's bias towards high cost urban and tertiary education has resulted in unequal access to education for different groups within the country, with women in Upper Egypt the most deprived. As the state system is overloaded, some 70% of students take extra private lessons. CAPMAS estimates that this costs Egyptian families at least E£2bn/year, although private estimates run considerably higher.

The proportion of Egyptians with university degrees rose from 4.3% in 1986 to 7.3% in the late 1990s. There are 13 state universities, five private universities, the Islamic university of Al Azhar and 125 technical institutes.

Skills shortages

The rigid education system, with its emphasis on rote learning over critical thinking and its ranks of poorly paid and trained teachers, is failing to supply the labour market with the necessary skills. This failure has led to imbalances. Some 55% of the unemployed have completed secondary education, but demand in the job market for workers with such educational attainments is only around 4% of the total. Illiteracy has fallen gradually, but according to the World Bank was still high in 2000, at 33% for men and 56% for women.

Health

Egyptian nationals have a constitutional right to free healthcare and all communities are served by some kind of health institution. However, only 14% of women receive regular prenatal care and only 55% of children under five years have had any medical attention. According to CAPMAS, there were 6.3 doctors and 13 nurses per 10,000 people in 2002, compared with 5.6 and 9 respectively in 1990. Hospital beds numbered 20 per 10,000 people in 2001.

Health campaigns

The infant mortality rate had dropped from 150 per 1,000 live births in 1970-75 to 30 per 1,000 live births in 2001, according to CAPMAS. Much of the decline can be attributed to the drop in diarrhoea-associated deaths as the use of oral rehydration therapy increased by 34% between 1990 and 1994 following a massive project funded by the US Agency for International Development (USAID) launched in 1984. Over 95% of children are immunised against common childhood diseases.

Uneven services distribution

The vast majority of health institutions are state-run under the supervision of the Ministry of Health, and services are to a large extent still free or subject to nominal fees irrespective of income. However, rapid population growth has swallowed most of the country's health resources. Priority has been given to curative programmes and the construction of large hospitals, especially in major cities, although child vaccination and anti-epidemic programmes have also been given prominence. However, lack of resources has resulted in inefficiency and the inequitable distribution of services. Some 30% of hospital beds are in Cairo, while outlying villages in Upper Egypt and the urban slums of Cairo and Alexandria are poorly served, which has led to a marked lack of public confidence in the quality of state services, and some 60% of primary healthcare visits now take place in the private sector.

Natural resources and the environment

Land use

Egypt's total land area is just under 1m sq km, of which only 35,190 sq km is settled and cultivated. About 95% of the land is uninhabitable desert, so that over 97% of the population lives in the narrow strip of the Nile Valley that runs the length of the country, and in the Nile Delta. Population density in non-desert areas is therefore high, at about 870/sq km. The governorates of Cairo, Giza and Kalyoubia, which include Greater Cairo, contained 16.7m inhabitants in 2002. Cairo has a population density of about 31,700/sq km, and in some urban districts the density reaches more than 100,000/sq km. Government concerns about overcrowding in the Nile Valley and the destabilising social problems that could result were the main impetus behind the Southern Valley development project that aims to reclaim a large swathe of desert by pumping water from Lake Nasser.

Environmental protection

The government and the public are slowly becoming aware of the need for environmental protection, and the country's first environmental action plan was produced in 1992 with assistance from the World Bank. With very little rainfall, the country relies on the Nile to meet nearly all of its water needs. Egypt is currently categorised by the World Bank as under "water stress" and heading towards water scarcity; the action plan notes that about 90% of Egypt's used water goes untreated, while 80% of industrial wastewater is probably discharged unmonitored. Air pollution is also appalling. According to the World Bank, the air in Cairo has the world's highest lead content, eight times over the internationally accepted safety level. Egyptian industries are estimated to dump at least ten tonnes/minute of solid waste, 33% of which goes into uncontrolled landfills, canal banks and drains, 1% of which is hazardous.

The action plan paved the way for a new Environmental Conservation Law in 1994 that amalgamated existing legislation and penalties, and added new provisions covering hazardous waste and environmental management. After a lengthy grace period, it came into effect at the end of February 1998. The law also enhanced the powers of the Egyptian Environmental Affairs Agency (EEAA), the priority of which is to combat industrial pollution. However, limited resources, weak political power and official concern that jobs may be lost if regulations are too strictly enforced have reduced its effectiveness. The 1994 law makes environmental impact assessments mandatory for all proposed projects, but owing to a shortage of manpower these are to be introduced gradually. Priority areas include oil, tourism, large industrial projects and infrastructure.

Transport, communications and the Internet

Railways

The rail system, which has 9,400 km of track, is the oldest in the region, and if its potential to carry containerised transport from Egyptian ports to continental Africa and to increase the share of domestic freight transport moved, currently 7%, is to be realised, modernisation would be required. The rail network carries some 800m passengers/year, or 2.3m passengers/day excluding the estimated 10,000 passengers/day who ride on top of carriages without a ticket, and some 12m tonnes/year of goods. Nevertheless, with very cheap third-class trains serving more than 80% of passengers, revenue only covers around 63% of expenses. Egyptian National Railways receives E£1.4bn/year in government subsidy, and is considered to be underfunded.

Pressure for modernisation and reform followed Egypt's worst-ever rail disaster on February 20th 2002. According to official statistics, at least 361 people were killed and some 60 seriously injured when fire swept through seven packed third-class carriages of a Cairo to Luxor train. The train was not equipped with fire alarms, fire extinguishers or emergency brakes. According to the public prosecutor, maintenance standards on the national rail system were inadequate, as were warning systems and supervisory capacity.

Cairo's 4.5-km metro line opened in 1987. It completes a 45-km regional line between El-Marg and the industrial centre of Helwan, which by 1997 was carrying up to 1.4m passengers/day, making it one of the most intensively used systems in the world. Work began in June 1993 on a second, 18.8-km line from Shoubra El-Kheima to Tahrir Square and under the Nile to Giza. The fourth and final phase of the second line, a 3-km extension from Cairo University to El Umraniya in the Giza suburbs, was completed in October 2000, increasing line capacity to 1.8m passengers/day. A third, 29-km line is planned and will run from Imbaba to Cairo airport. The government invited bids on a build-operate-transfer (BOT) basis for a rapid transport system to link Cairo to satellite industrial conurbations such as 6th October City and Sadat City, but no further progress has yet been made. A 46-km metro rail system for Alexandria is under review.

Roads

Following an extensive modernisation and expansion programme in the 1980s, Egypt had 42,000 km of paved roads by 1999, but many are in poor condition. A 113-km Greater Cairo ring road is nearing completion. Jointly financed with Japan, the four-lane, 9.5-km Mubarak Peace suspension bridge over the Suez Canal near Ismailia that links Sinai with the rest of Egypt was inaugurated in 2001, when a nearby railway bridge was also completed. The first suspension bridge over the River Nile, the 1-km, E£120m Aswan Bridge was officially opened in December 2002. The Mediterranean coastal road is also being renovated as it forms part of the link between North Africa and Europe's Mediterranean road network via the Gibraltar crossing. Some 85% of domestic freight and 60% of passenger movements are by road. Road safety is of major concern as Egypt has one of the highest incidences of traffic fatalities in the world, with an official death toll of 6,000 people in 2002.

Air services

The sector is dominated by the state airline, EgyptAir, which carried some 4.4m passengers and 75,231 tonnes of freight in 2001. However, its share of international air traffic through Egypt is at most 25% owing in part to a reputation for poor service and unreliability, while the high cost of air freight has limited its expansion. Operating costs have also risen sharply as a result of higher insurance expenses and more stringent security requirements that followed September 11th 2001 suicide attacks in the US, and the depreciation of the Egyptian pound. Performance is highly dependent on tourism, and passenger numbers fell by 60-80% on internal flights during the US-led attack on Iraq, leading the state airline to report losses of E£321m in 2002/03. In order to improve efficiency, in 2002 the president, Hosni Mubarak, initiated a thorough overhaul of the aviation sector, creating a new Ministry of Civil Aviation, in addition to which in June 2002 EgyptAir became a holding company with six affiliates, its top-level management undergoing a reshuffle. Although EgyptAir's domestic monopoly has been progressively curtailed, notably by the award of licences to private domestic operators, it is still protected by the fact that international airlines are prohibited from operating charter flights to Cairo airport.

Airports exist in major tourist and population centres, but EgyptAir's control of the main concessions such as ground handling and catering has led to costly and poor quality services. Following presidential intervention in March 2001, a comprehensive plan for airport modernisation and development to allow for the projected rise in tourist numbers has been under way. Contractors are being sought to build a US$350m-400m third terminal at Cairo airport. The government has also announced a US$2bn, four-year programme to upgrade 16 of its 19 airports and to build seven new airports on a BOT basis. Egypt's first private airport, at Marsa Alam on the Red Sea, opened in 2001. However, the government now appears to favour a return to conventional financing, and both the new Cairo terminal and the new terminal planned at Sharm Al Sheikh airport will be financed through World Bank loans.

Waterways and ports

Egypt's navigable waterways total about 3,100 km, divided almost equally between the River Nile and canals, and carry about 4% of domestic freight. Alexandria is the main port, handling about 22m tonnes/year, but has attracted criticism for its crumbling infrastructure and inefficient administration. Egypt's seaports have a total cargo handling capacity of 52m t/y and process some 85-90% of Egypt's international trade.

The government's first experiments with privately run ports are at Ain Sukna on the Red Sea south of Suez, and at East Port Said at the mouth of the Suez Canal. Ain Sukna, equipped and operated under a 30-year BOOT concession by a consortium led by Stevedoring Services (US), was officially opened in October 2002. East Port Said, to be operated on the same terms by ECT International (Netherlands) in partnership with Maersk (Denmark), has been delayed by budgetary constraints. Although Ain Sukna is intended for international trade and to serve a nearby industrial zone, the government aims to capitalise on East Port Said's strategic location. As every container ship on the Asia-Europe route passes through Egypt's catchment area, the new port has the opportunity to become the transshipment hub of the eastern Mediterranean. Both ports are to have adjacent special economic zones.

The Suez Canal

The Suez Canal is an important source of foreign exchange. Revenue rose to a record high of US$2.3bn in 2002/03, a 24% rise on the US$1.9bn recorded in 2001/02. The Suez Canal Authority had expected revenue to fall by 10% in the event of war in Iraq as vessels would take alternative routes because of security fears and high war risk insurance premiums. However, in the event revenue was boosted by larger than usual numbers of warships transiting the canal as these pay premium rates. Traffic has also been bolstered by the US$441m expansion project currently in progress that aims to deepen the canal to allow for ships with a draught of 72 ft by 2010, and is already allowing the transit of bigger oil tankers through the canal. There has also been greater co-operation with the Suez-Mediterranean (Sumed) pipeline, which was proving to be a major competitor in the oil-related business. Oil tonnage through the canal increased by 10% in 2002/03. Oil traditionally represents 25% of Suez Canal revenue, the rest being dry cargo. A US$1.5bn, five-year project to create a new bypass channel that would reduce crossing times from 14 hours to 11 hours, will be completed in 2006.

Suez-Mediterranean pipeline

In operation since January 1977, the Sumed pipeline provides an alternative to the Suez Canal route for oil between the Red Sea and the Mediterranean. Owned jointly by Egypt, which has a 50% share, but which also receives transit dues estimated at 27% of the crude transport costs, along with Abu Dhabi, Saudi Arabia and Kuwait (15% each), and Qatar (5%), the pipeline carries the loads of tankers in the up to 500,000 dead-weight (dwt) range with draughts of up to 75 ft that are too deep to pass through the Suez Canal. The pipeline's operating capacity was expanded to 2.3m barrels/day (117m t/y) in 1994. Storage capacity had increased to 7m barrels by mid-1996 and the pipeline has been working at full capacity since then. Egypt has an extensive network of oil product pipelines for domestic distribution. There are also crude lines to supply refineries and to convey oil to export terminals, as well as gas links connecting producing fields to consumers.

Telecommunications

The modernisation, expansion and liberalisation of telecommunications services and related infrastructure is a national development priority. A US$1.1bn, three-year plan to make the country a regional information technology (IT) hub was announced in 2000. Egypt signed the World Trade Organisation (WTO) Basic Telecommunications Agreement in June 2002, thereby committing itself to greater liberalisation of the sector. The telecoms network has undergone extensive modernisation in recent years. Egypt became the 59th member of the WTO IT Agreement in April 2003, which commits it to removing all tariffs, duties and charges on IT imports by January 2005. Between 1981 and September 2003 exchange capacity at the state-owned land line monopoly, Telecom Egypt, increased from 510,000 lines to 7m lines. Some 1m lines/year. are expected to be added under a plan to boost fixed line penetration from the current 12.3% to 14%, and to improve teleaccessibility from 40% to 90% by 2010.

MobiNil, a consortium comprising France Telecom Mobile International, Motorola (US) and four local partners—Orascom Telecom, the Al Ahram press group, Motorola's agent in Egypt, Systel, and Alcatel's agent, Raouf Abdel-Messih—took over the state mobile phone network from Telecom Egypt in May 1998, although Orascom Telecom later bought out Motorola. The consortium inherited 83,500 subscribers and a waiting list of around 25,000 others. By September 2003 subscriptions had risen to 2.8m. A second private consortium, Vodafone Egypt, comprising Vodafone (UK), AirTouch (US) before its merger, Mobile Systems International (UK), CGSAT (France), the local Alkan Group, the state-owned Banque du Caire, and the investment house EFG-Hermes, launched operations in November 1998, and by June 2003 had 2.5m subscribers. Nevertheless, mobile teledensity is still low, at 7.3%. Telecom Egypt had wanted to launch a third national mobile operator in 2003 with a strategic partner once the period of exclusivity for MobiNil and Vodafone Egypt ended in November 2002, but its plans faltered owing to a lack of international interest and because of cost considerations. A compromise has been found under which Telecom Egypt will relinquish its licence in return for E£2bn in compensation from existing operators, a sum based on the E£1.97bn licence fee. In return the two operators will receive the freed-up spectrum to allow them to expand, and Telecom Egypt will then purchase a 25.5% stake in Vodafone Egypt.

New legislation in 1998 removed Telecom Egypt's monopoly and made it a joint stock company. Officially valued at US$6bn-7bn, an initial public offering of 20% plus 5% to the company's Employees Shareholder Association, has been delayed since October 2000 because of poor market conditions. The local Alkan trading group introduced a satellite telecoms system in October 1996.

Internet

Egypt's IT industry had been one of the fastest growing in the world, having expanded by 17% in 2001 compared with 35% in 2000. New investment in IT rose to E£1.1bn in 2001, up from E£620m in 2000 and E£290m in 1999. Internet use is constrained by cost, language, inadequate infrastructure and skills shortages, while e-commerce, still in its infancy, is beset by legal and regulatory hurdles. However, with strong support from the government, which plans to turn the country from an IT laggard into an IT hub, Egypt is witnessing an IT boom. Over 120 Internet service providers (ISPs) are in operation, and Internet use is estimated to be growing by 100% annually. Internet users numbered around 1m by early 2003, compared with 600,000 in 2002 and 300,000 in 1999, but the true number is difficult to determine because many Egyptians who do not own computers use cyber cafés, while others use prepaid Internet cards that are not included in the statistics. This rapid growth has been assisted by the launch of a subscription-free Internet service in January 2002.

There are an estimated 2m personal computers (PCs) in Egypt at present, but the number is expected to rise significantly over the next few years in response to the government's new "affordable PC" initiative launched in September 2002 that allows locally assembled computers to be purchased using monthly instalment plans.

A massive, five-year e-government programme that aims to modernise state administration was launched in 2002 and is expected to continue at least until 2012. Under the national IT plan the government had been aiming to raise software exports from US$100m in 2002 to US$1bn within three years, rising to US$2.5bn by 2009, and to establish a series of dedicated IT parks or "smart villages". The first "smart village", a E£2bn, 450-acre project in Giza, opened in September 2003. It aims to produce 30,000 job opportunities and exports of up to US$600m/year. State-financed IT training programmes certified by multinational IT companies have allowed over 5,500 new graduates to enter the sector since 2000.

Mass media

Under Mr Mubarak the opposition press has enjoyed greater freedom of expression, although constraints persist and journalists have been imprisoned. With a circulation of around 850,000, the semi-official daily *Al-Akhbar* is Egypt's best-selling newspaper, followed by the more establishment-oriented

Al-Ahram, with a circulation of 500,000. Although the press is subject to the control of the Higher Press Council, the four main publishing houses, the Al-Ahram Group, Dar al-Hilal, Dar Akhbar al-Yom and Dar al-Gomhouriya control most of the press, competing as commercially independent units. Of the opposition press, comprising some three dailies and 40 magazines or periodicals, *Al-Wafd*, the mouthpiece of New Wafd, is by far the most popular, and has a circulation of around 50,000. *Al-Shaab*, the Socialist Labour Party's paper, which has been suspended since May 2000, is the voice of the Islamists, while *Al-Ahali* represents left-wing and often satirical views, and *Al-Ahrar* the liberals. Economic news and views are covered in the state *Al-Ahram al-Iqtisadi* or the private *Al-Alam Al-Yom*. Newspaper penetration is still low, at around 40 copies/day per 1,000 people. With illiteracy rates still high, television is the most influential mass medium. More than 89% of households possessed a television in 2000, while 70% of Egyptians are believed to listen to the radio.

The Arab Television Service started broadcasting in 1960 and there are currently two national and six regional channels in operation. Using the pan-Arab satellite, Arabsat, in December 1990 the Egyptian Satellite Channel began transmission of Egyptian programmes throughout the Arab world. In 1991 the US Cable News Network started transmission in Egypt on a subscription basis. In April 1996 Egypt launched its first satellite, Nilesat, which offers 84 television channels and 400 radio stations. A second satellite was launched in August 2000. The first private satellite stations, Al-Mehwar and Dream, began transmission in November 2001, and the first private FM radio stations, Nile FM and Negoum FM, began broadcasting in June 2003. There are eight state-run radio networks. A new duty-free broadcast Media Production City has been established in 6th October City near Cairo as part of Egypt's plan to challenge the dominance of Saudi and Western satellite broadcasters.

Energy provision

The switch to gas

Demand for power has continued to rise rapidly as a result of demographic and economic growth. The shortcomings of hydroelectric power, which used to provide over 25% of Egypt's electricity, were highlighted in 1988 during the water crisis that followed eight years of drought in the catchment areas of the River Nile. In response the government launched a crash programme to build power stations that would depend mainly on locally produced natural gas, with the additional bonus that oil would be saved for export. Installed capacity now stands at 17,000 mw, of which 80% is based on natural gas and the rest split between hydroelectric and thermal power. However, the Ministry of Electricity and Energy is implementing plans to bring on stream 12,875 mw of new power generating capacity over the next ten years. In the first phase financed by development agencies, 4,500 mw will be added by mid-2007, based on an assumed annual increase in demand of 7.5%. Electricity demand has grown by an annual 6-7% during the past five years. In the second phase 8,375 mw will be added by mid-2012, assuming annual demand growth of 6.6% from 2008.

Egypt's first build-own-operate-transfer (BOOT) power plant, at Sidi Kreir, began operation in January 2002, and two 680-mw BOOT plants at Ain Sukna and at East Port Said have since come on stream. However, the government has now reverted to conventional financing methods (see Economic policy). A US$300m scheme linking the power grids of Egypt, Jordan and Syria was inaugurated in March 2001 as part of a six-nation power sharing project that also involved Lebanon, Turkey and Iraq. The US$150m link from Egypt to Jordan via a Taba-Aqaba submarine cable was completed in October 1998. The wider grid will join with the unified European electricity grid and that of the six Gulf Co-operation Council states.

Other energy sources

Nuclear plans in the 1980s, including a US$1bn nuclear power station at El-Dabaa, were shelved owing to cost and safety considerations. In November 1997 an Argentinian-built US$100m, 22-mw research nuclear reactor became operational, replacing the 2-mw facility built by the Soviet Union at Inshas, north-east of Cairo, in 1961. Egypt's first power station using wind energy to generate electricity is at Hurghada, and has a capacity of 5 mw. The construction of a 300-mw wind farm at Zaafarana, which would be offered for private investment on a BOOT basis, is also under consideration.

The economy

Economic structure

Main economic indicators, 2002

Real GDP growth (%)	3.0
Consumer price inflation (av; %)	2.7[a]
Current-account balance (US$ m)	848.9
Exchange rate (av; E£:US$)	4.6
Population (m)	70.5[a]
External debt (year-end; US$ m)	28,767.0[a]

[a] Economist Intelligence Unit estimate.

Source: Economist Intelligence Unit, CountryData.

Egypt has the largest population and after Saudi Arabia is the second largest economy in the Arab world. The economy is dominated by services, which including public administration account for about one-half of GDP. Tourism and the Suez Canal are important service sectors, although tourism has not fulfilled its potential in recent years as a result of militant Islamist violence and regional conflicts, but nevertheless it has shown considerable resilience, having recovered strongly after both the September 11th 2001 suicide attacks in the US and the war in Iraq in 2003. The Suez Canal has suffered as a result of the substantial decline in oil traffic, but has performed strongly in 2003, benefiting from the upturn in traffic as naval vessels, mostly from the US, made their way to the Gulf.

Agriculture's contribution to GDP is gradually diminishing, but it is still an important activity. Even though only 3% of the total land area is arable land, agriculture accounted for 16.4% of GDP in fiscal year 2002/03 (July 1st-June 30th) and 28% of total employment in 2000/01, according to the latest Ministry of Planning figures. Manufacturing industries are also important, accounting for 19.7% of GDP in 2002/03, and are heavily concentrated in Cairo and the Nile Delta, while industry and mining accounted for nearly 14% of total employment in 2000/01. Petroleum and natural gas are also mainstays of the economy, accounting for 8% of GDP in 2002/03 and nearly 40% of merchandise exports, despite the gradual decline in crude oil production. There is a large informal sector, which the minister of finance has put at some 30% of total economic activity.

Consumption is the major expenditure component of GDP, accounting for 85% of the total in 2001/02, compared with 18% for gross fixed investment and 16% for exports of goods and services.

Comparative economic indicators, 2002

	Egypt [a]	Libya [a]	Tunisia [b]	Morocco [a]	Algeria [a]
GDP (US$ bn)	82.4	14.2	21.1	38.4 [b]	54.1
GDP per head (US$)	1,169	2,554	2,153 [a]	1,297	1,678
GDP per head (US$ at PPP)	3,638	10,933	6,503 [a]	4,044	4,656
Consumer price inflation (av; %)	2.7	1.1	2.8	2.8 [b]	2.3 [b]
Current-account balance (US$ bn)	0.8 [b]	6.9	-0.7	0.8	6.9
Current-account balance (% of GDP)	1.1	48.3	-3.5	2.0	12.8
Exports of goods fob (US$ bn)	7.3 [b]	11.7	6.9	7.7 [b]	19.8
Imports of goods fob (US$ bn)	-14.7 [b]	-3.6	-9.0	-10.8 [b]	-10.6
External debt (US$ bn)	28.8	4.4	12.6 [a]	16.9	21.7
Debt-service ratio, paid (%)	9.9	6.1	13.9 [a]	18.5	15.0

[a] Economist Intelligence Unit estimates. [b] Actual.

Source: Economist Intelligence Unit, CountryData.

Economic policy

Economic development plans

Gamal Abdel-Nasser, who ruled Egypt between 1954 and 1970, instituted five-year development plans, but these became increasingly irrelevant as the country moved towards a market-driven economy. April 1997 marked the last time the government laid out a long-term vision for economic development, when it set out its socioeconomic development plans for the next 20 years. These aimed to expand Egypt's populated area from 4% to 25% by 2017 through the establishment of new industrial and agricultural communities in the Sinai and the Southern Valley of the Western Desert. Other targets included boosting real average GDP growth to 7.6% each year until 2017, the creation of 550,000 jobs/year, and an increase in annual industrial growth from 9% to 11%.

Economic imbalances

The current president, Hosni Mubarak, inherited chronic economic problems when he came to power in 1981. With repayment arrears mounting on its massive foreign debt, Egypt had no choice but to seek rescheduling. In 1987 a SDR250m, 18-month stand-by arrangement was concluded with the IMF, the Paris Club agreed to reschedule US$6.5bn, and separate arrangements were made with Arab lenders. However, the accords faltered owing to a lack of political will to carry through the required economic reform. In 1991 vast cash infusions from donors and the promise of debt relief in the aftermath of the

Gulf war gave the government the confidence to embark on a comprehensive economic reform and structural adjustment programme. In May 1991 a SDR400m, three-year stand-by accord was signed with the IMF, followed by a US$300m structural adjustment loan from the World Bank. A Paris Club agreement concluded same month covered an estimated US$27bn-28bn in official and government-guaranteed civilian and military debt, and linked debt relief to progress on economic reform.

Economic policymakers

Hosni Mubarak

The president began to show greater interest in economic matters in the 1990s when he embarked on a gradualist reform programme that envisaged a major role for the private sector, but as economic difficulties have grown, and as regional tensions have mounted, he has increasingly emphasised the priority to be given to maintaining social stability. Other major goals include upgrading technology and integrating Egypt within the global community. Concerns persist that the president's visionary venture, the massive Southern Valley development project, will prove to be a highly expensive mistake.

Atef Obeid

The post of prime minister is in essence an economic one. Having headed missions to the World Bank and IMF, and having been responsible for the sale of state companies to private investors, Mr Obeid was expected to accelerate the pace of economic reform. However, impeded by the morass of vested interests and bureaucratic inertia, he has found it difficult to get things done and has attracted widespread criticism for his management style in the opposition press and in parliament. Criticism has mounted following the failed float of the Egyptian pound in January 2003. However, the prime minister depends to a large extent for his mandate on the president, and in light of Mr Mubarak's concerns over the social impacts of economic change in difficult economic and political conditions, Mr Obeid has only limited scope in promoting meaningful reform.

Youssef Boutros-Ghali

The foremost economic liberal in the cabinet and a major architect of Egypt's macroeconomic successes, Mr Boutros-Ghali was by far the most powerful minister in the economic team until he relinquished the economy brief in a reshuffle in late 2001, although he retained responsibility for foreign trade. The double portfolio was probably too much for one man to manage, and his new position allows him to concentrate on boosting exports, which were identified after the reshuffle by Mr Mubarak as a matter of "life or death" for Egypt. A technocrat who had previously lacked a political support base, he now sits on the General Secretariat of the National Democratic Party (NDP), is a member of parliament and is the highest ranking Coptic Christian in government.

Medhat Hassanein

The finance minister is a former professor of economy and finance at the American University in Cairo. A former commercial consultant, he also established his own commercial ratings agency, giving him a sharper grasp of finance, planning and presentation than his recent predecessors. He has improved fiscal transparency, but in a notoriously difficult ministry that has responsibilities for strong, independent affiliate agencies such as the tax and customs authorities, he has battled to impose a reformist agenda.

Mahmoud Abul-Ayoun

Having succeeded Ismail Hassan as governor of the Central Bank of Egypt from the position of deputy in October 2001, in theory his executive authority has been strengthened by legislation that makes him directly answerable to the president in matters of monetary policy and the exchange rate, bypassing the ministers of economy and finance who had previously had a say. However, it is by no means obvious how much influence the governor has over policy matters. For example, the floating of the Egyptian pound was announced by the prime minister, while the moral suasion on banks not to let the pound fall too far, signalling the abandonment of the float, appears also to have originated from Mr Obeid's office.

Business leaders

A group of leading local businessmen exemplify the strengthened alliance between government and big business. Often close to the president's younger son, Gamal Mubarak, they have direct access to the president, sit in parliament and on the leadership bodies of the NDP, serve on the business councils set up with the US and the UK, participate in most of foreign joint ventures and often wield more real power than ministers.

The Social Fund for Development

In order to alleviate the impact of privatisation, public-sector reform and the deregulation of prices on the poor, a US$613m Social Fund for Development (SFD) was established in 1991, and a US$746m second phase began in January 1997. Regulated by the World Bank and funded by the EU, the UN Development Programme (UNDP) and bilateral donors, the SFD is designed to support labour-intensive projects for specific groups and to provide physical infrastructure and public services in the poorest regions. With government hiring almost frozen during the 1990s until 170,000 government jobs were offered in the mid-2001, the SFD small loans and public works programme had become the only government job creation scheme and has created 50,000-70,000 jobs/year, almost one-quarter of all non-agricultural jobs created annually.

Macroeconomic successes in 1991-98

The reform programme agreed in 1991 led to the successful stabilisation of the macroeconomy, although progress was halting on public-sector reform, privatisation and the liberalisation of trade and investment policy. Egypt completed its IMF and World Bank programmes in March 1993, and a new three-year IMF extended fund facility concentrating on structural reform was approved in September that year. Progress on the economic reform programme was hindered by a major disagreement over IMF demands for a 20-30% devaluation of the Egyptian pound, but the stand-off was resolved in late 1995 when the Fund chose instead to emphasise accelerated structural adjustment.

A new two-year stand-by arrangement was signed in October 1996 that focused on the continuation of prudent macroeconomic policy and the deepening of structural reform. One public-sector commercial bank and one state insurance company were to be privatised by the end of 1998, and the implicit subsidy on petroleum products was to be eliminated by July 1999, with gas and electricity tariffs to be raised to meet long-run marginal costs. Egypt successfully completed the IMF stand-by on September 30th 1998, although bank and insurance privatisation did not occur and energy subsidies are still in place. However, owing to Egypt's solid macroeconomic indicators, another formal IMF accord was not considered to be necessary.

Economic problems ensue

However, by 1998 the economy was facing problems, in part as a result of the more difficult external environment following turbulence created by the 1997-98 Asian crisis. Imports increased because of a sharp decline in international commodity prices, while exports fell as domestic producers failed to compete. Egypt's major sources of hard currency—oil, workers' remittances and tourism—were hit by the downturn in oil prices, the subsequent recession in Gulf economies and the fallout from the November 1997 Luxor massacre respectively.

Following the widening of the current-account deficit in 1998, monetary policy was constrained by the government's determination to maintain the value of the Egyptian pound against the US dollar at around E£3.40:US$1. US dollar selling by the Central Bank of Egypt removed pounds from the system, causing money supply growth to fall. This policy controlled inflation successfully, but led to a drawdown in foreign exchange reserves, and a rise in interbank interest rates to a high of 17% in early 2000. Credit growth to the private sector slowed to around 7.4% in 2000/01, down from 13% in 1999/2000 and 24.6% in 1998/99, and the local business sector fell into recession.

Alarmed by the rapid decline in foreign exchange reserves, the continuing shortage of US dollars, weak Egyptian pound liquidity and the re-emergence of a parallel foreign exchange market for the first time in a decade, in May 2000 the government quietly abandoned the pound's peg to the US dollar. The currency was allowed to depreciate by some 12% throughout the rest of 2000, before a new managed peg exchange rate regime was introduced in January 2001. However, the new system was not properly implemented and it was only in August that the government signalled a more decisive approach to resolving its exchange rate difficulties when it devalued the currency by 6.4%, pushing the official exchange rate below the black-market rate for the first time since it had re-emerged.

Exchange rate difficulties persist

The respite was short-lived. The September 11th attacks seriously damaged Egypt's main foreign currency earners, in particular tourism, and the black market soon re-emerged. The Central Bank devalued the pound by 8.4% in December 2001 and by 0.2% in January 2002, but failed to stamp out the informal market. The authorities expressed concern that Egypt could face a large financing deficit that anticipated low portfolio and direct investment inflows would be unable to meet. To fill this gap, Egypt won pledges of balance-of-payments support of US$2.1bn at a February meeting of the country's principle donors. The funding was conditioned on IMF approval, while the Fund itself promised some US$500m in the form of a compensatory financing facility. As a precondition for handing over this support, it was widely believed that the IMF had pushed for the government to allow greater exchange rate flexibility. However, it was unwilling to take the steps required, and in the event Egypt's requirements were far more modest than expected. The external position turned out to be far more benign than had been anticipated, as a tiny current-account deficit was recorded in 2001/02 as imports fell sharply. However, foreign currency shortages persisted, constraining imports of goods for use in production and ensuring continued high interest rates, further depressing private-sector activity.

With the US-led attack on Iraq looming, which would cause further damage to Egypt's external position, in January 2003 the government finally moved to resolve these long-standing exchange rate difficulties by announcing the float of the Egyptian pound. However, the authorities balked at the prospect of further rapid depreciation after the pound fell by 14% on the first day and stepped in to reassert control by applying informal pressure on the banking sector. The black market continued to operate. Although the authorities allowed the currency to fall fairly rapidly in the ensuing months in an apparent attempt to cause the official and parallel market rates to converge, these efforts appeared to have been abandoned in September. An effective cap was put on the depreciation of the currency and the differential between the official and black-market rates widened. The pound had fallen to E£6.15:US$1, about 25% since the start of 2003. The depreciation has caused considerable rises in living costs.

2003/04 budget proposals

The Majlis al-Shaab (People's Assembly) ratified the 2003/04 budget in June. In line with past practice, the details that have emerged are not comprehensive. The budget is also prone to amendment once published in the *Official Gazette*, and spending plans are often revised down. Spending is once more budgeted to rise strongly, by 11% overall to E£158.6bn, driven by strong increases in wages and other current spending. Wages are budgeted to rise by 10% to E£38.5bn, and other current spending by 14%, to E£83.4bn. Reducing growth in these items is difficult in the current poor economic climate. The government is still determined to award public-sector workers pay rises well above the rate of inflation, partly to compensate for the lack of earning opportunities in both the private sector and the informal economy, where public-sector employees and civil servants have often sought to bolster their meagre government salaries. Growth in other current spending is also difficult to rein in. Spending on subsidies is budgeted to rise strongly, and was boosted again late in 2003 as shortages of bread occurred for the first time in 25 years. The government is concerned that the budget, rather than citizens, should shoulder the burden of price rises brought about by devaluation. For example, it will be unwilling to raise the price of subsided *baladi* bread, yet the cost of importing the 6m tonnes/year of wheat used in the programme will increase in Egyptian pound terms. The subsidy total refers only to overt spending as in his May Day speech Mr Mubarak said that direct and indirect subsidies will cost the state E£24bn in 2003/04. The depreciation of the Egyptian pound will make foreign interest payments more costly, while interest payments on domestic debt will go up in line with the rapidly expanding debt stock.

Despite optimistic forecasts for tax revenue, boosted by a gradual recovery in economic growth and income from the Suez Canal, overall revenue growth is budgeted to lag behind spending growth, at 4.5%. The government is therefore forecasting a much wider deficit in 2003/04 than in 2002/03. The total deficit is expected to expand to E£42.1bn, up from E£31.5bn. The government forecasts nominal GDP at E£436bn (9.7% of projected GDP). However, certain financing items are also included in the total deficit figure, which would give a net deficit of E£27.7bn in 2003/04 (6.4% of projected GDP), up from E£17.4bn in 2002/03.

State budget
(E£ bn; fiscal years ending Jun 30th)

	2002/03	2003/04	% change
Total spending	**143.0**	**158.6**	**10.9**
Wages	34.9	38.5	10.3
Other current spending	73.1	83.4	14.1
Pensions	11.6	13.8	19.0
Subsidies	6.7	8.0	19.4
Interest payments on public debt	28.4	33.1	16.5
Domestic	26.0	30.0	15.4
Foreign	2.4	3.1	29.2
Investment spending	20.4	19.9	-2.5
Capital transfers	14.7	16.9	15.0
Total revenue	**111.5**	**116.5**	**4.5**
Sovereign revenue	72.2	77.6	7.5
General income tax	31.0	32.9	6.1
Custom duties	13.9	15.0	7.9
Sales tax	20.6	22.7	10.2
Current revenue	25.5	27.7	8.6
Petroleum	4.5	4.1	-8.9
Suez Canal	4.1	5.1	24.4
Investment revenue	6.3	5.4	-14.3
Capital transfers	7.5	5.8	-22.7
Total balance	**-31.5**	**-42.1**	**33.7**
Saving pools	12.6	13.1	-
Local and foreign loans	1.5	1.3	-
Treasury bills & bonds	17.5	27.7	-

Source: Press reports.

Revision to fiscal reporting

Although uncertainties persist over the presentation of budgets for parliamentary approval, outturn data have become markedly more transparent since the introduction in 2002 of a three-tier method drawn up by the government with the assistance of the IMF. Under this framework three budget balance lines are presented each fiscal year. The first, for the "budget sector", reports direct government revenue and expenditure, while the second adds in lending and other operations of the National Investment Bank (NIB), which loans money to public projects on behalf of the government, and of the General Authority for Supply of Commodities (GASC), the state importer of basic foodstuffs, mainly wheat, which sells them to the public at subsidised prices. This second line gives the widest deficit as the NIB often acts as an agent of government spending, while the GASC also acts as a drain on government finances. The third line, the consolidated figure, adds financing received from social insurance funds (SIFs) to the second definition, and produces the narrowest budget deficit total as SIFs, which cover about one-half of the workforce, generate large operating surpluses, for example, of around 6% of GDP in 1999/2000, owing to the young profile of the population.

Fiscal outturn

(E£ m; fiscal years ending June 30th)

	2001/02[a]	2002/03[a]	% change	2001/02[b]	2002/03[b]	% change	2001/02[c]	2002/03[c]	% change
Total revenue & grants	**78,968**	**85,854**	**8.7**	**90,862**	**99,294**	**9.3**	**104,042**	**115,467**	**11.0**
Total revenue	75,255	82,585	9.7	87,149	96,025	10.2	100,329	112,198	11.8
Current revenue	74,060	81,435	10.0	85,954	94,875	10.4	99,134	111,048	12.0
Tax revenue	51,726	57,550	11.3	51,726	57,550	11.3	51,726	57,550	11.3
Income taxes	21,625	23,214	7.3	21,625	23,214	7.3	21,625	23,214	7.3
Goods & services	20,580	23,066	12.1	20,580	23,066	12.1	20,580	23,066	12.1
International trade	9,323	11,079	18.8	9,323	11,079	18.8	9,323	11,079	18.8
Other	198	191	-3.5	198	191	-3.5	198	191	-3.5
Non-tax revenue	22,334	23,885	6.9	34,228	37,325	9.0	47,408	53,498	12.8
Capital revenue	1,195	1,150	-3.8	1,195	1,150	-3.8	1,195	1,150	-3.8
Grants	3,713	3,269	-12.0	3,713	3,269	-12.0	3,713	3,269	-12.0
Total expenditure & net lending	**101,153**	**111,228**	**10.0**	**119,142**	**132,071**	**10.9**	**113,665**	**127,382**	**12.1**
Total expenditure	100,739	110,595	9.8	112,610	124,968	11.0	106,506	120,162	12.8
Current expenditure	85,472	94,180	10.2	97,343	108,553	11.5	91,239	103,747	13.7
Wages & salaries	28,238	31,621	12.0	28,238	31,621	12.0	28,500	31,928	11.0
Defence	10,218	11,155	9.2	10,218	11,155	9.2	10,218	11,155	9.2
Interest	22,903	26,517	15.8	35,095	41,243	17.5	20,352	24,140	18.6
Domestic	20,570	23,496	14.2	32,762	38,222	16.7	18,019	21,119	17.2
Foreign	2,333	3,021	29.5	2,333	3,021	29.5	2,333	3,021	29.5
Other	24,113	24,887	3.2	23,792	24,534	3.1	32,169	36,524	13.5
Capital expenditure	15,267	16,415	7.5	15,267	16,415	7.5	15,267	16,415	7.5
Lending minus repayments	414	633	52.9	6,532	7,103	8.7	7,159	7,220	0.9
Balance	**-22,185**	**-25,374**	**14.4**	**-28,280**	**-32,777**	**15.9**	**-9,623**	**-11,915**	**23.8**
% of GDP	-5.8	-6.3	-	-7.4	-8.1	-	-2.5	-2.9	-
Total financing	22,185	25,374	14.4	28,280	32,777	15.9	9,623	11,915	23.8
Foreign	2,537	-5,171	-303.8	2,537	-5,171	-303.8	2,537	-5,171	-303.8
Domestic	23,601	32,509	37.7	29,823	39,912	33.8	10,141	19,081	88.2

[a] Budget sector. [b] Budget sector, National Investment Bank (NIB) and General Authority for Supply of Commodities (GASC). [c] Budget sector, NIB, GASC and social insurance funds (SIFs).

Sources: Ministry of Finance; Central Bank of Egypt.

Fiscal performance

The new system followed calls for greater transparency in public finances, which have deteriorated since the mid-1990s. A careful fiscal stance had cut the budget deficit from 20% of GDP in 1990/91 to around 1% of GDP between 1994/95 and 1997/98, but defence spending and capital investment were still opaque, and particular concern arose over the NIB. The government revised the budget deficit for 1998/99 to 4.2% of GDP, up from 1.3%, to reflect spending overruns in the investment budget on major national infrastructure projects that had been recorded off-balance sheet. The consolidated 1999/2000 budget deficit was then also revised up from 3.6% of GDP to 4.7% of GDP after the downward revision to 1999/2000 GDP, and owing to higher expenditure. The 2000/01 budget-sector deficit was 5.5% of GDP, widening to 5.8% in 2001/02 and to 6.3% of GDP in 2002/03, partly owing to the settlement of state arrears to private- and public-sector contractors, prompted by efforts to improve market liquidity and to foster economic recovery. The government continues to spend strongly on wages and to provide subsidies to compensate for sluggish private-sector growth, while the growing debt stock has caused interest payments to rise rapidly. Revenue has been constrained as the tax take has suffered amid slow economic growth.

Domestic debt

External government borrowing eased over the 1990s as the administration increasingly chose to fund the deficit by the sale of Treasury bills and bonds. However, domestic debt has risen steeply over the past few years as the fiscal deficit has widened. Excluding claims on economic authorities, central government debt, both domestic and external, stood at E£341bn in 2001/02 (89% of GDP) and E£303bn (85% of GDP) in 2000/01. The government has acted to reduce its T-bill exposure and to lengthen the maturity of domestic debt by issuing a series of government bonds.

Privatisation

Privatisation will continue to be a major long-term economic policy issue. In 1991 new legislation established the basis for privatisation, removing 314 public-sector enterprises from the control of government ministries and restructuring them as affiliates under 16—now down to ten—independent holding companies. In principle, the holding companies operate as private-sector firms with full financial and managerial accountability. The Public Enterprise Office, also established in 1991, is in charge of overseeing public-sector reform and privatisation under the supervision of the prime minister. However, since January 1996 a ministerial-level privatisation committee has taken overall responsibility for the privatisation programme.

The first majority initial public offering (IPO), 75% of Medinet Nasr Housing and Development, in May 1996, was oversubscribed. It was followed by a series of successful public offerings made through the stock exchange. In 1997 the government began to tackle problem companies with massive overstaffing, huge debts and large unsold inventories. Debt rescheduling agreements were reached with public banks, and with union consent an early retirement programme was initiated in March 1997. Since mid-1999, however, privatisation has slowed significantly, hampered by political concerns, poor market conditions, cumbersome bureaucratic procedures and inflexibility on pricing, as a result of which the programme has mainly been confined to liquidations and the sale of small firms to their employees, as well as the odd high-profile sale, notably of cement companies to international producers.

Several sectors are still off-limits, notably the Egyptian General Petroleum Corporation and the Suez Canal, and a 40% limit has been set for strategic sectors such as pharmaceuticals and flour mills. The government has tentatively relaxed its ban on the privatisation of utilities, but in practice sales are rare. An IPO of a 20% stake in the state telecommunications monopoly, Telecom Egypt, has been postponed repeatedly since October 2000 owing to poor market conditions. In 1998 the government opened up the state-run mobile phone network to two private operators. The generation and distribution activities of the seven state-owned electricity distribution companies have been separated and a regulator established as part of pre-privatisation restructuring. However, the sector's debt burden of E£15bn continues to be a major constraint to privatisation. The government has stated its intention to sell stakes in Telecom Egypt and in state electricity and oil distribution companies, but no progress has been made. According to the latest comprehensive figures available, by the end of June 2002 the government had completed 132 majority and 57 part-privatisations of the total 314 public enterprises slated for privatisation, garnering revenue of E£14.4bn. These transactions include the sale of majority stakes in 38 companies and minority stakes in 16 companies through a public offerings, the liquidation of 32 unviable companies, 28 anchor investor sales, 20 company leases, 21 asset sales and 30 company sales to employee shareholder associations. As a result, the share of public enterprises in total employment had been reduced from 7% in 1991 to 2.5% by mid-2002 the privatisation of public enterprises originally planned to be completed by year-end is behind schedule. Only ten deals valued at E£346m were completed in 2002, compared with an annual average of 25-30 transactions between 1996 and 2000.

BOOT/BOT projects

In the late 1990s the government turned increasingly to build-own-operate-transfer (BOOT) schemes or variants thereof in order to develop Egypt's infrastructure. For the state, such schemes offer the benefits of private-sector financing and efficiency, and are less politically sensitive than privatisation as the state retains overall control. The country's first BOOT scheme, a US$450m, two-component, 325-mw thermal power plant built by InterGen (US) on the northern coast at Sidi Kreir, began commercial operation in January 2002, the first time that private firms had been allowed to participate in power generation. Two 680-mw BOOT power plants located at major port and industrial zone projects at Ain Sukna on the Gulf of Suez and at East Port Said undertaken by Electricité de France have also since come on stream. The government had planned to offer a further 15 power stations with a total capacity of 7,650 mw to the private sector between 2001 and 2010 using the BOOT model. However, this is now unlikely as amid a persistent shortage of US dollars and following the devaluation of the Egyptian pound, the Egyptian Electricity Holding Company (EEHC) has become more wary of BOOT projects involving US dollar-denominated purchasing contracts. The EEHC pays independent power producers in US dollars for electricity received, although consumers are charged in Egyptian pounds, which led to an outlay of about US$300m under the first three schemes. EEHC reverted to traditional financing for its next power plant, the 750-mw, combined cycle Cairo North operation, securing donor financing from the European Investment Bank, the Islamic Development Bank and the Arab Fund for Economic and Social Development.

Contracts for Egypt's first private-sector airports under the build-operate-transfer (BOT) system at El Alamein, Farafra, Bahariya, Marsa Alam and Ras Sidr have been signed. However, only Marsa Alam has progressed, and the airport there opened in October 2001. Egypt's first private ports, which will also be run on a BOT basis, are located at Ain Sukna and at East Port Said (see Transport, communications and the Internet). Six BOT roads have been approved officially, and investors will be allowed to undertake secondary development on land bordering the new roads. However, progress has also been slow.

In a move aimed at instituting greater central control and co-ordination for major projects, a ministerial committee was established in June 2001 to assess the plethora of upcoming BOT projects, particularly with regard to economic feasibility and the securing of appropriate means of financing. Investors have complained that the terms of several proposed BOT projects, notably for ports, roads and water, have proved difficult to understand and it has not always been apparent how some would prove to be economically viable. It would appear that the government is now prepared only to sanction BOOT-type projects such as airports and ports that produce foreign exchange earnings.

Banking privatisation

New legislation in 1998 enabled banks to be privatised, but progress has been stalled by the government's reluctance to relinquish control as public-sector banks are important tools of government policy. They offer unprofitable banking services to remote areas, financing for agricultural crops, are major partners in large national infrastructure projects such as that in the Southern Valley, and are the most significant buyers of T-bills and bonds. Moreover, it is only recently that the government has begun to tackle the problem of the large portion of non-performing loans in the state banking sector. The current focus is therefore on strengthening management at the four major state banks and their affiliates, including radical restructuring rather than divestiture. To this end, several younger Egyptian bankers with international experience have been appointed to senior management positions since March 2002. In addition, the phased reduction of holdings by public-sector banks in joint ventures with foreign partners has taken place, while several international banks, including Société Générale, HSBC and Barclays, have acquired controlling majority stakes in their Egyptian partner banks in joint ventures.

Economic performance

Following the start in 1974 of the open door economic policy (*infitah*) under Anwar Sadat, Mr Mubarak's predecessor, that aimed to reduce state control over the economy, GDP growth reached an average of 9.4% over the next five years. Estimates of real GDP growth in the 1980s vary: the IMF recorded an annual average of 7% in the first half of the 1980s and 4.3% between 1986/87 and 1991/92, while Egyptian sources give higher figures.

The impact of the structural adjustment programme

Egypt's economic performance since the late 1980s has been erratic. The World Bank estimates that real GDP growth slowed from an annual average of 2.5-3% between 1988/89 and 1990/91, and to 0.4% in 1991-93 as demand was reined in by spending cuts, real interest rates increased sharply and exports dropped as traditional markets in the former Soviet Union and eastern Europe were lost. At the same time output was hampered by political uncertainty, delays to the reform of public enterprises and privatisation, and reduced subsidy for inputs.

The IMF estimates that real GDP growth reached an annual average of around 5% between 1995 and 1998, fuelled by local private investment and public investment in infrastructure, before rising to 6% in 1998/99 in response to expansionary macroeconomic policy, rapid credit growth and heavy state spending. However, growth has slowed since then as regional political difficulties have deterred investment and efforts to defend the Egyptian pound have kept interest rates high, while amid widening budget deficits, credit growth to the private sector has declined.

Gross domestic product
(% real change; fiscal years ending Jun 30th)

	2002	1998–2002 (annual av)
GDP	3.0	4.6

Sources: World Bank; Economist Intelligence Unit.

Performance across economic sectors has been uneven. Growth in tourism has fluctuated sharply depending on the political situation, and the sector was knocked back by the Luxor attack in November 1997, the attacks of September 11th 2001 in New York and Washington, and the US-led war in Iraq, but each time it has recovered strongly. Agriculture has grown steadily, albeit modestly, at around 3-4% a year, and Egypt therefore continues to be a large-scale food importer. In recent years growth in industry and mining has been constrained by the heavy burden of public-sector debt, low productivity and weak demand. Sectors such as transport, communications and electricity are being opened up gradually to private investment.

Despite liberalisation, the public sector still plays an important role in the economy, accounting directly or indirectly for around one-third of total GDP and employing some 30% of the total workforce. According to the IMF, divestiture of companies during the 1990s, legislation for which was drawn up to allow for the privatisation of 314 state-owned industrial enterprises excluding companies or utilities in the financial sector, which was combined with early retirement programmes, reduced the share of such companies in national employment from 7% in 1993/94 to under 3% in 1999/2000. However, public-sector wages account for 8% of GDP.

Inflation

Consumer price inflation was modest until 1973, but rose to annual average rates of 11-14% in 1973-80, peaking at 28.5% in December 1989. Inflation was by no means wholly imported, and reflected the influence of domestic conditions. Inflation stayed high until 1995 as prices were affected by measures designed to reduce the budget deficit such as the phased removal of subsidies and increases in electricity prices. Nevertheless, weak demand, trade liberalisation, a stable exchange rate until May 2000, tight fiscal and monetary policy, the maintenance of price controls on a range of basic commodities, and the economic downturn of the late 1990s allowed inflation to fall from 7.2% in 1996 to 2.3% in 2001. However, in 2003 inflation has re-emerged as a major economic policy challenge. The devaluation of the Egyptian pound following the float in January has raised the cost of imports, and hard currency shortages have resulted in some goods becoming scarce, again putting pressure on prices. Although not yet reflected in official data, anecdotal evidence suggests that prices have risen sharply over the course of the year.

Inflation
(% change)

	2002	1998-2002 (annual av)
Consumer prices (av)	2.7	3.0

Sources: IMF, *International Financial Statistics*; Economist Intelligence Unit.

Subsidies

The gradual elimination of subsidies and price controls was to be a central plank of the economic reform programme. Although the government chose not to implement its IMF commitment to raise energy prices to market levels by mid-1999, subsidies on basic foods were cut back in the 1990s, leaving bread, sugar and cooking oil as the only subsidised items for low-income consumers.

The sluggish performance of the private sector, however, has led the government to boost subsidy spending. It allocated E£8bn for such spending in the 2003/04 budget, a 19% increase on 2002/03, and has been forced to raise the amount further to protect the bulk of the population against price rises since the start of 2003 and to ensure the availability of basic goods.

Wages and living standards

With such a large public sector, the government is necessarily deeply involved in the labour market. Government estimates put the number of Egyptians employed within the country at around 18m in 2000/01, while another 1.9m work abroad. As around 800,000 people join the labour market every year, finding employment is a major problem.

A long-standing government guarantee to provide work for all university graduates has produced an 11-year waiting list for state jobs and a large surplus of underemployed, badly paid civil servants. Successive budgets have raised state wages and pensions, but only recently have these gone up by more than the rate of inflation. Private-sector jobs are better paid, but limited in number. Even the highest wages and salaries in Egypt are low by international standards. Newly introduced labour legislation sets a minimum wage rise of 7% on the wage on which social insurance is calculated. As the maximum this wage can be currently stands at a low E$1,125, the new law is unlikely to have a significant impact.

According to the World Bank, the poverty rate fell from 23% in 1995 to 17% in 2000 as the economy grew strongly. However, in September 2003 the World Bank director for Egypt warned that because of the economic slowdown, poverty could be on the rise again. There is great affluence at the other end of the social scale, and in 1994 Egypt was one of four countries singled out in the UNDP's *Human Development Report* as being "in danger of joining the world's list of failed states because of wide income gaps between sections of their populations".

Unemployment

Unemployment is still an acute problem. Official numbers show a steady rise in unemployment, up from a low of 7.9% in 1999/2000 to 9.9% in 2002/03. Although the trend is plausible, reflecting the economic downturn of recent years, most independent estimates put it much higher, at around 15-25%. Moreover, unemployment among graduates is considered to be even higher, at almost 40% for men and over 50% for women. Underemployment is estimated to affect between one-third and one-half of all workers.

Regional trends

North-south disparities

The north of the country is more prosperous than the south. Home to roughly 15m people, the southern, mostly rural provinces of Upper Egypt, which stretch from Beni Suef, 120 km south of Cairo, to the Sudanese border, have traditionally been neglected by the politically dominant north, where the major cities are located and the vast majority of economic activity takes place.

Rural immigration

The UNDP estimates that 46.8% of all economic and social establishments and 23% of the total labour force are located within the governorates of Cairo and Alexandria, a concentration that encourages large-scale rural migration to urban centres. Concentrated government investment in a few urban centres perpetuates the imbalance not only between urban and rural regions, but also between different urban areas, while significant capital outflows and labour migration from rural governorates exacerbates underdevelopment, proving highly detrimental both to agricultural production and industrial development. However, the 1996 population census revealed for the first time in contemporary history that the rural exodus to the city had slowed. Cities in 1996 were home to 43% of the population, down from 44% ten years earlier.

Local government

In theory Egypt has a comprehensive system of local government, but in practice power is still in the hands of central government. The country's 26 governorates are divided into 133 districts, each of which contains one major town and between four and eight village councils representing a main village and several smaller satellites. Working parallel to the central government, every governorate, district and village council has an appointed executive officer; an appointed executive council, composed of ex officio advisers who control financing and administration; and a popular council consisting of representatives elected by residents. Governorates and districts have administrative staff. Local communities depend on central financial subsidy, and the degree of local democracy hinges on individual governors. These officials, appointed by the president for an undefined period and removed from office by presidential decree, are responsible to the prime minister in his role as chairman of the Supreme Council for Local Administration. Governors of the most important provinces, notably Cairo, Giza and Alexandria, have ministerial rank. Since 1994 the government has appointed village mayors and deputy mayors.

Economic sectors

Agriculture

Production patterns

The share of agriculture in nominal GDP fell from 25.6% in fiscal year 1985/86 (July 1st-June 30th) to 16.5% of GDP in 2001/02, but the sector is still the country's largest employer, accounting for 27% of the labour force, down from 34% in 1990/91, and contributing 20% of commodity exports.

Cotton problems

Egypt is a major producer of premium-long and extra-long staple cotton. Cotton is the country's largest agricultural export and was for many years the most extensively subsidised commodity. However, the sector has suffered from inconsistent state policy, inflexible export pricing and a government more interested in propping up the massively overstaffed—1m workers—and debt-ridden state-owned spinning and weaving industries through the provision of cheap cotton. Cotton production and exports have declined, and the proportion of cultivated land sown to cotton has consequently dropped sharply, down from 924,000 ha in 1962 to 302,400 ha in 2002/03. From March 1996 the import of lower grade short-staple cotton from all cotton producing countries was allowed, leaving higher value cotton strains free for export, and in the 1998/99 season the government fully liberalised the cotton trade by refusing to set a cotton purchase price and by allowing private traders to participate. The harvest fell from 345,700 tonnes in 1996/97 to 206,300 tonnes in 2000/01, before recovering slightly to 285,000 tonnes in 2002/03.

The effect of reform

Since 1986 controls have been removed from almost all crops. Controls still in place affect sugarcane produced by large state-run factories in Upper Egypt; rice cultivation, which is restricted in some areas owing to water shortages; and cotton, specific varieties of which have to be cultivated in designated areas. Farmers now have an alternative to public-sector entities when marketing crops other than sugarcane in Upper Egypt. By 1994 almost all subsidy for fertilisers, seeds and pesticides had been eliminated, although energy continued to be provided at reduced rates. The result has been impressive gains in output, with wheat and rice crops reaching record levels and self-sufficiency has been achieved in several important commodities. Some 95% of local production is consumed domestically, despite the increased emphasis on cash crops for export, notably horticultural produce. Nevertheless, population growth will ensure that Egypt remains one of the world's largest food importers, with food products traditionally making up about 10-15% of annual imports. Egypt is one of the world's major wheat purchasers, buying around 6.5m tonnes/year.

Land use

An estimated 3.5m farmers cultivate holdings of an average size of 2 *feddans* (0.84 ha). Production is therefore intensive and yields are among the highest in the world, despite the irregular and insufficient supply of water for irrigation. Only 3% of the total land area is arable, of which about one-third is serviced by main and secondary drains, although many are in dire need of repair. Drainage has proved insufficient to counter waterlogging and high soil salinity, the unforeseen consequences of a rise in the water table following construction of the Aswan High Dam. In addition, only 2% of the 8m *feddans* of cultivated land are irrigated by modern methods. Irrigation water is provided free by the government. Egypt's cropped area stands at 14.5m *feddans*.

Land reclamation

In response to the pressures on arable land, some 1m *feddans* of desert had been reclaimed by 1995, bringing the surface area of cultivable desert land to about 3m *feddans*, with another 3.4m *feddans* to be secured by 2017. However, the area under cultivation has been more or less constant as agricultural land is lost to urban and industrial expansion at around 30,000 *feddans*/year.

Fertiliser use

Fertiliser use is among the highest in the world, at an annual 465 kg/*feddan*. Fertiliser production is under the control of six private-sector companies that produce over 6.6m t/y and supply around 90-95% of local demand. With the exception of a limited subsidy on potash, subsidy on fertiliser has been eliminated, and the state distribution monopoly has been terminated. Co-operatives and private dealers are now allowed to deal directly with fertiliser supplies.

Livestock

Although livestock production is dominated by small farmers, who raise 80% of Egypt's estimated 6.4m strong livestock herd, the number of modern dairy and beef farms has increased over the past few years. Livestock is mainly kept for dairy production, but nevertheless 80% of domestic red meat consumption, which stood at 549,000 tonnes in 2002, is produced locally. The scattered nature of the national herd is a major constraint on the development of the sector as most producers are small and lack information on modern farming methods, while the elimination of subsidised feed in 1990 and the gradual easing of import restrictions have discouraged farmers from raising livestock.

The poultry industry, in which the public sector has invested heavily, is greatly affected by international supplies and prices since most of its components are imported, and sharp fluctuations in production and prices have put many producers out of business. A nine-year ban on poultry imports was lifted in July 1997, but import duty was set at 80% to protect the local industry.

Fisheries

According to national figures, the fish catch was 724,000 tonnes in 2001, about 35% of which was marine. Egypt exports some 2,900 t/y of fine quality fish. The government is aiming to increase annual production by encouraging the use of the country's inland lakes and waterways for intensive aquaculture.

Mining and semi-processing

Oil production

Mining is dominated by the extraction of crude oil. Reserves are modest, at 3.7bn barrels. Crude oil production has declined appreciably since 1996, when it reached a high of 922,000 barrels/day because of the depletion in Egypt's ageing oilfields in the Gulf of Suez. Production fell to 628,153 b/d in 2002, down from an average of 639,478 b/d in 2001 and 700,000 b/d in 2000. Since Egyptian crude is very heavy, the bulk of oil output, 67%, is refined domestically. Apart from the already mature fields in the Gulf of Suez, which produce about 80% of the country's oil, exploration activity is focused on frontier areas such as the Western Desert near the Libyan border, the offshore Mediterranean and Sinai.

Exploration is undertaken by foreign companies in partnership with the state-owned Egyptian General Petroleum Corporation (EGPC). British Petroleum (BP) and Italy's Ente Nazionale Idrocarburi (ENI) have by far the largest presence. EGPC has awarded several exploration permits to local firms, the first in 1992 to Forum Exploration, the contribution of which to the sector is marginal.

Export growth has been constrained by lower production and an increase in domestic consumption resulting from the high population growth rate. Domestic consumption stood at around 460,000 b/d in 2001, compared with 412,000 b/d in 1997. As a result, petroleum exports, the main export earner—(US$3.1bn in 2002/03—are set to decline, and Egypt may no longer be a net oil exporter within a decade.

Gas potential

Proven natural gas reserves are estimated at 60trn cu ft, and potential reserves are put at another 40trn cu ft-60trn cu ft. Government policy is to encourage the use of natural gas, especially in power stations, in order to free more oil for export. At present 65% of Egypt's gas production of 3bn cu ft/day, mainly from the Nile Delta and the Western Desert, is used for electricity generation. The rest serves as feedstock for fertiliser production and other industries. In an effort to free up oil for export, the Ministry of Petroleum intends to increase the use of gas significantly. Franchise agreements have been signed with four private-sector firms to extend the gas transmission and distribution network.

Gas reserves, already extensive, are growing by around 10% annually, but oil export volumes are in decline and as joint venture contracts with foreign producers require EGPC to purchase gas from its foreign partners in US dollars, the search for export markets is becoming more urgent. Sales of Egyptian gas to Israel have long been mooted, but little progress seemed to have been made despite an announcement by the Israel Electric Corporation (IEC) in January 2001 that it had selected East Mediterranean Gas (EMG), a joint venture between EGPC, the Israeli Merhav Group and an Egyptian businessman, Hussein Salem, to supply its power stations with at least 1.7bn cu metres/year of natural gas over ten years, representing 56% of IEC's projected needs as gas sales to Israel appeared to be politically unpalatable for the Egyptian government. Plans had also been disrupted by Israel's lack of gas infrastructure, and pressure from gas producers there for the development of local reserves.

Despite the tense political climate, EGPC surprised observers by resuming negotiations with IEC in September 2003, offering a renewable contract to supply up to 7bn cu metres/year for 20 years. EMG continues to view the Israeli pipeline as part of a larger regional gas export scheme, envisaging an undersea link running from El Arish in northern Sinai along the eastern Mediterranean coasts of Israel, Lebanon and Syria to the Turkish port of Ceyhan, which would include distribution facilities to each country. However, as ties with Israel are weak at present, Egypt has instead focused on an ambitious US$1bn, 850-km "Arab" regional pipeline, stretching from El Arish to the Jordanian port of Aqaba, with a small undersea link that would allow it to avoid Israel and then to run north through Jordan to Syria, possibly on to Turkey, with an extension running from Syria to Lebanon and an undersea link from Syria to Cyprus. Progress has been slow, and there are concerns over whether Egypt has sufficient gas to supply this export scheme, two planned liquefied natural gas (LNG) plants, as well as to meet domestic needs. Nonetheless, Egypt began exporting gas to Jordan in August 2003, having signed a 30-year agreement in June 2001 to supply 1.1bn cu metres/year of gas from 2003, rising to an estimated 2bn cu metres/year by 2008. Egypt hopes to export a total of 10bn cu metres/year once the pipeline is completed in 2005.

Two LNG export schemes based on the Mediterranean coast are also moving ahead that could allow Egypt to become the world's sixth largest LNG exporter by 2007. Union Fenosa (Spain) and ENI are to buy gas from the national grid to feed a US$1.3bn liquefaction plant at Damietta with a capacity of 5m t/y, which is expected to be operational by the end of 2004. BG Group (UK) and Petronas (Malaysia) are also establishing a US$1.1bn liquefaction plant at Idku. The plant is to have at least three trains, each of which will produce 3.6m t/y, fed by the companies' large uncommitted gas reserves from the offshore West Delta Deep Marine tract. Gaz de France has committed to take the total output of the first train on a 20-year contract from mid-2005, while BG Gas Marketing will take the output of the second train. The plant will operate as a tolling facility so that other gas producers can use the LNG facilities to get their gas to market. BP, ENI and Shell had also planned gas export projects, but at present lack the necessary gas reserves to go ahead.

Coal mining

Egypt's coal reserves, located mainly in Sinai, are estimated at 50m tonnes. The deep mine at Maghara in Sinai, which was closed during the 1967 war, was reopened in late 1996 after extensive redevelopment. However, the quality of the coal is poor, and the project, which aims to increase output from 125,000 t/y to 600,000 t/y within five years, is now viewed officially as uneconomical.

Phosphates and other minerals

Other mining activities include the extraction of iron ore at the Baharia Oasis in the Western Desert, and limestone and phosphate mining near Bur Safaga and Quseir on the Red Sea. Production at the massive Abu Tartur phosphate mines north-west of El Kharga has been delayed by cost and management problems. Despite government efforts to seek private-sector management in order to recoup the US$1.5bn spent on developing the mine, and over twice that sum on infrastructure the scheme appears to be failing. Egypt also possesses appreciable deposits of manganese, gold, zinc, tin, lead, copper, potash, sulphur and uranium, although the remote location of deposits and high costs for extraction and transport have limited exploitation. An Australian mining company, Gippsland, signed a US$40m, 30-year agreement with the Geological Survey and Mining Authority in October 2001 to form a joint venture to exploit tantalite deposits at Abu Dabbab in the Eastern Desert. With reserves estimated at 48m tonnes, Egypt's tantalite deposits are the fourth largest in the world.

Manufacturing

Manufacturing accounted for 19% of GDP in 2001/02 and in 2000/01 employed 13.8% of the workforce. Between the 1970s and the early 1980s industrial production grew at an annual rate of 10% or more after the oil price explosion of 1973-74 encouraged Gulf countries to invest in Egypt, but has since slowed. Anecdotal evidence suggests that while industrial production in the once-dominant public sector has declined in recent years, private-sector production has increased sharply in response to privatisation and liberalisation. According to the Ministry of Economy and Foreign Trade, by 2001/02 the private sector accounted for some 65.5% of manufacturing output. The vast majority of private industries are small units, and some 93% of employment is in enterprises of 15 people or less. However, the sector as a whole has been in decline since 1999 as domestic economic conditions have deteriorated. Egyptian industries produce a wide range of goods. Food processing and textiles account for the bulk of manufacturing value added (MVA), and food processing has been the focus of several foreign acquisitions since mid-2002. However, the share of MVA accounted for by furniture, ceramics and pharmaceuticals, along with branches of metallurgy and engineering, has increased gradually, and recently the government has also been keen to promote the computer software industry. In addition, in order to take advantage of Egypt's expanding natural gas feedstock, the government launched an ambitious petrochemicals plan in early

2003. This plan, which relies heavily on foreign investment and financing from development agencies, envisages up to 14 plants requiring investment of US$10bn over 20 years to produce 15m t/y of petrochemicals worth around US$7bn at current world prices. These new projects are expected to create over 100,000 jobs, both direct and indirect, to displace petrochemicals imports of US$3bn/year and to generate export revenue of some US$4bn/year.

Franchises and licences

Although Egypt is a leading cotton producer, textile output has been dogged by overstaffing, outdated technology and a lack of quality control owing to the state monopoly on most spinning and weaving activity. State firms account for 30% of total manufacturing employment. By contrast, the ready-made garment industry, 90% of which is owned by the private sector, has boomed, and manufacturing for international franchises largely for export is growing in popularity.

The decision to end the public-sector monopoly on the production of passenger cars in 1991 led to renewed growth in vehicle assembly. Several foreign firms have begun local production either through joint ventures or licensing agreements. However, over one-half inputs used in the assembly process are imported, which raises costs significantly, particularly in light of the depreciation of the Egyptian pound in the past few years. There are 14 vehicle assembly plants in Egypt, but most operate at around 30-35% capacity. The economic downturn since 1998-99 has affected consumer spending, and domestic car production fell to 45,173 units in 2002, a drop of 19.5% on the 56,097 units produced in 2001. A record 76,066 units were produced in 1999.

Refined products

Egypt is the largest producer of refined products in Africa, after South Africa. Its nine refineries produced 26.8m tonnes in 2000, and with the start-up of the US$1.5bn, 100,000 b/d Middle East Oil Refinery (Midor) in 2001, refining capacity rose by 17%, to 677,760 b/d, to meet rising domestic demand. After a difficult start, when Gulf producers refused to do business with the refinery because of the 20% shareholding held by the Merhav Group (Israel), the National Bank of Egypt (NBE) increased its 16% shareholding to 38% by buying out Merhav, along with the 2% held by the domestic Hussein Salem Group, thereby dissolving the largest Arab-Israeli business partnership. Following talks that lasted for more than a year, in mid-2003 NBE sold its stake to the Libyan government for US$430m. The remaining shares are held by EGPC and its subsidiaries (60%), and by the Suez Canal Bank (2%).

Industrial locations

Major sites devoted to heavy industry include the iron and steel works at Helwan outside Cairo, the Alexandria National Iron and Steel Company near Alexandria, the aluminium works at Nag Hammadi, and the chemical complex at Aswan. Since the late 1970s the government has attempted to relieve urban congestion by encouraging industrial investment in new communities located on non-agricultural land such as 6th October City and 10th Ramadan City, and it no longer issues licences for new industrial projects in Alexandria and Greater Cairo. There are seven operational free zones that offer special incentives and are subject to minimal regulation. As part of the government's drive to raise both exports and foreign investment, new Chinese-style special economic zones that are self-governing under an independent free-zone authority, were established in new legislation in June 2002.

The arms industry

Egypt has a fairly extensive defence industry that employs around 75,000 workers, producing both armaments and various industrial goods for use in the civilian sector. Arms exports peaked at US$1bn in 1982, but have since levelled off at US$300m-500m/year. The industry is divided into two branches. The Arab Organisation for Industrialisation, established in 1975 with a US$1bn contribution from Saudi Arabia, Qatar and the UAE, all of which formally withdrew in October 1994, has nine factories. The much larger National Organisation for Military Production has 24 major plants and a contract to assemble the US's main battle tank, the M1-A1, under an arrangement with a US company, General Dynamics Corporation.

Construction

The needs of Egypt's massive infrastructure and growing population, and large inflows of foreign assistance since the 1980s to finance major projects, had kept the highly developed construction industry growing at an annual rate of over 20%. However, it has suffered a sharp slowdown since 1999 as a result of cuts in state funding for infrastructure projects, the non-payment of government bills, the credit squeeze, and overbuilding, particularly in the luxury sector. The industry grew by just 2% in 1999/2000, by 2.1% in 2000/01 and by 2.5% in 2001/02. Nevertheless, the activation of the first domestic mortgage law and the prospect of several new state infrastructure projects may lift growth.

Nearly all basic construction requirements are produced locally, but supply is erratic and costs have soared in recent years, mainly owing to the removal of subsidies and rising fuel and energy costs. Egypt produced 28.6m t/y of cement in 2002/03, up from 26.8m t/y in 2001/02. The economic downturn at home resulted in a small drop in domestic sales, which fell from 26.5m t/y to 26.4m t/y, but the devaluation of the pound boosted exports, which rose to 2.6m t/y in 2002. Since 1998 there has been something of a revolution in the cement industry as the state sold off majority stakes in four firms to foreign companies, plus a minority stake in one other, and sold off another firm to an Egyptian consultancy. Some of the world's biggest cement operations such as Lafarge (France), Holderbank (Switzerland), which took a stake in a private-sector start-up, and Cemex (Mexico) were attracted by the booming construction industry in the 1990s and the state's grand infrastructure ambitions.

Wastewater schemes and housing

Much of the demand for construction has arisen from state infrastructure projects. At E£6bn, the Greater Cairo Wastewater Project, which aims to modernise Cairo's inadequate system with funding from the US and the UK, is one of the world's largest such schemes. The EU-financed wastewater scheme in Helwan to the south of Cairo will complete the project. A US$500m US-funded wastewater scheme in Alexandria, covering 75% of the city, was completed in August 1994, while the US$226m civil works contract for the Nag Hammadi barrage was awarded in May 2002. The government intends to establish 44 new cities and communities, and to construct 5.3m housing units by 2017. It hopes to curb urban congestion by housing around 6m people in new communities in the desert and by developing the Suez Canal area, the north-western coast, the Southern Valley, the Red Sea, Sinai and Lake Nasser regions.

Future projects

In September 2000 the prime minister, Atef Obeid, said that the government's programme to modernise and to enlarge infrastructure through private-sector implementation is valued at E£20bn/year. Future construction projects and those already under way include the massive Southern Valley development project; a major power plant construction programme; a build-own-operate-transfer (BOOT) port at East Port Said; industrial projects in oil refining, fertiliser and petrochemicals; a third metro line for Cairo and a line for Alexandria; a US$350m Grand Egyptian Museum at Giza; and the upgrading of existing airports, including a third terminal for Cairo airport and a new terminal for Sharm El Sheikh airport. Tourism has been a major contributor to construction growth. According to the Ministry of Tourism, some E£38bn has been invested in tourism projects in southern Sinai alone.

The Southern Valley development project

The massive Southern Valley development project, often known the New Valley (Toshka) project, was inaugurated in January 1997. Strongly backed by the president, Hosni Mubarak, the highly ambitious plan aims to create an alternative delta parallel to the Nile Valley involving large-scale land reclamation linked to industry, tourism and mining projects, and the creation of new urban communities to relieve congestion in the Nile Valley. When completed the project will use 5bn cu metres/year of water from Egypt's Nile water allowance of 55.5bn cu metres/year. It is intended to cultivate 800,000-2.2m *feddans* (336,000-924,000 ha). The government estimates that the project will cost E£300bn over 20 years to 2017. State funds will provide 20-25% of the total for major infrastructure work, and the rest will come from the private sector. However, in response to financing constraints and public concern about the cost of the project, Toshka has been subject to much greater funding controls since the present government came into power in October 1999.

It appears that the project has now been scaled down, and will focus initially on reclaiming 540,000 *feddans* of desert land. Under the initial plans, publicly funded projects included a E£1.5bn-2bn, 21-unit pumping station at Toshka on the western shore of Lake Nasser inaugurated by Mr Mubarak in January 2003 that can lift 25m cu metres/day of water; the E£4bn main canal, named after the ruler of Abu Dhabi, Sheikh Zayed, which was finished in 2000; four 28-km branch canals currently under construction; major roads; and electricity projects. Overall, the project will take at least 20% of electricity output from the Aswan High Dam. In the first phase the canal will be extended by 30 km into the Western Desert, and in the second by another 350 km, reaching the Paris Oasis.

The Southern Valley scheme is part of a much larger national programme to increase the amount of habitable land from 4% to 25%. The programme, which has been constrained by cost considerations, includes 150,000 rain-fed *feddans* on the north-western coast, as well as in areas along the River Nile, the border area with Sudan, and other areas that are fed by ground water such as East Oweinat in the Western Desert. The E£5.8bn El Salam canal, inaugurated in October 1997, will carry water from the Nile near Dumyat under the Suez Canal to south of El Arish in Northern Sinai, irrigating 620,000 *feddans* of desert land on the way. The goal is to enable 1.5m people to settle in this currently uninhabited area.

Financial services

The Central Bank

Under the Unified Banking Law ratified by parliament in June 2003, the Central Bank of Egypt is responsible for the implementation of monetary policy, but responsibility for setting inflation targets lies with the Monetary Policy Co-ordination Council established in the legislation. In a move announced by Mr Mubarak in October, the Central Bank will be answerable only to the president. This clear-cut apportioning of duties is likely to put an end to the slightly ad hoc previous system, whereby policy had seemed to be determined by a committee of senior ministers. The new law also covers the raft of monetary tools announced in November by the Central Bank governor, Mahmoud Abul-Ayoun, that are expected to allow more sophisticated monetary management. The Central Bank currently directs monetary and credit policy through a mixture of direct and indirect means.

Banking reform

The law is intended to prompt consolidation in the banking sector, which is considered to be overbanked. It raises the minimum capital requirement for Egyptian banks to E£500m, up from E£100m, and that for foreign banks to US$50m, up from US$15m. Banks have one year to comply, although the Central Bank is able to extend the period to a maximum of three years. Nevertheless, as many banks are not expected to have sufficient resources to fulfil the new obligations, mergers within the sector are likely. The legislation also raises the minimum capital requirement for foreign exchange bureaux to E£10m, up from E£1m. The tighter lending guidelines first issued by the Central Bank in November 2002 are also included.

In March 1993, branches of foreign banks were allowed for the first time to conduct business in Egyptian pounds provided that they agreed to abide by local capital requirements. In June 1996 the restriction on foreign banks holding a majority stake in joint venture banks was removed.

Public-sector dominance

There are 62 banks operating in Egypt: 28 commercial banks, including four state-owned commercial banks—the National Bank of Egypt, the Bank of Alexandria, the Banque du Caire and the Banque Misr; 31 investment and business banks; and three specialised banks—one industrial bank, one real estate bank and one agricultural bank, the Principal Bank for Development and Agricultural Credit. In terms of ownership, there are seven public, commercial and specialised banks, 35 private and joint venture banks and 20 offshore banks. These operate via a network of just over 2,200 banking units throughout the country. Commercial banks are the most important subsector, holding about 78% of total industry assets. The four state-owned commercial banks dominate the sector, accounting for nearly 57% of total assets, and hold 70% of deposits and 59% of loans. However, private-sector commercial banks have gradually increased their market presence and by 2000 accounted for 18.9% of credit services, compared with 7.6% in 1995. The dominance of the public sector is even greater when the National Investment Bank (NIB) is included. The NIB held the long-term resources mobilised by the social security system of E£20bn at the end of 2001/02 and about 25% of total bank deposits. Banking practices are conservative and the services offered are often basic, although retail services have expanded considerably in recent years as corporate economic activity has slowed. Egypt's first electronic cheque clearing house was inaugurated in Cairo in June 2002, shortening cheque clearance time to between one and three days, compared with the previous 20-25 days, and more of these facilities are expected throughout the country. Credit card use is growing, but Egypt is largely a cash economy. Short-term lending makes up about 80% of the portfolios of major banks. State banks suffer from low capitalisation, have a high percentage of poorly performing loans made both to public enterprises and to well-connected individuals, massive overstaffing and stifling bureaucracy. However, new board and management teams with international and private-sector experience have recently been appointed to revamp state banks as a result of the serious problem of bad debt that has already damaged confidence in the banking system.

The slowdown in the economy that followed the rapid growth of credit extension has led several high-profile businessmen to default on large bank loans, an issue that has become highly politicised. Officially, non-performing loans stand at around E£50bn or 14-16% of total loan exposure, but most independent estimates put the total exposure at over 20%. Between 1991 and 1998 the stability of the Egyptian pound, high real interest rates and an attractive differential between Egyptian pound and US dollar deposit rates led to sharp rises in local currency deposits. Economic difficulties since 1998 have, however, hit the banking sector hard. As well as the rise in the proportion of non-performing loans and the tight monetary conditions that have reduced banks' scope for lending, banks have been put under pressure informally by the Central Bank to limit fluctuations in the exchange rate and to restrict credit facilities to importers.

A law criminalising money laundering for the first time was passed in May 2002. However, new legislation in 2003 cleared up a major ambiguity by giving judges discretion to decide whether to give informants immunity from prosecution. Egypt has also submitted a detailed implementation plan to the Paris-based Financial Action Task Force on Money Laundering (FATF), but by November 2003 Egypt was still on the FATF's list of "non-co-operative countries and territories".

The stockmarket

As a prelude to the privatisation of state-owned enterprises, the government revived the long-moribund stock exchanges of Cairo and Alexandria in 1992, when legislation reorganised the sector, providing incentives to investors and granting the Capital Markets Authority wide regulatory powers. The system of individual brokers was replaced with one based on licensed stock brokerage firms. By 1994 Egypt had one of the world's best-performing stockmarkets, which grew by 158% in US dollar terms according to the independent Egyptian Financial Group index. However, performance since then has been inconsistent and has depended mainly on the pace of the government's privatisation programme and the health of global financial markets, a major factor for international investors. The market rose by 1.9% in 2002, compared with declines of

31.2% in 2001 and 41.2% in 2002 according to the broadly based independent Hermes Financial Index. The Egyptian bourse fell by 1.6% on Standard and Poor's/International Finance Corporation Index of Emerging Markets in 2002, compared with a massive decline of 44.2% in 2001, making it a moderate performer among its peers, including Russia, Turkey, Jordan and Pakistan. One notable trend was that with investors seeking reliable returns amid a weak domestic economy, trading in fixed income securities comprised 55% of the total, even though these represent just 14% of market capitalisation.

Bourse performance was affected not only by the difficult domestic environment, but also by the uncertain global environment post-September 11th and by worries about regional political stability as the US-led war on Iraq loomed and as Israeli-Palestinian violence worsened. Foreigners were responsible for 19% of market transactions in terms of value traded, compared with 16% in 2001. Market capitalisation had inched up to E£120.2bn by the end of 2002, up from E£111.3bn at the end of 2001 and E£119.8bn at the end of 2000. By the end of 2002 the market had a price/earnings ratio of 7.09, compared with 7.69 in December 2001 and 18.4 at the market's peak in February 1997. The dividend yield was 15.4%, compared with 16.6% at the end of 2001; both ratios are based on the 50 most active companies. The market has rallied strongly in 2003. The upturn was initially sparked in January by the announcement of the new foreign exchange regime, and was rekindled when the war in Iraq started in March as uncertainties over US intentions were dispelled, and the Hermes Financial Index rose by an impressive 108% between the start of 2003 and November 6th.

In the late 1990s investor confidence was affected by a run of unfortunate events such as the Luxor massacre and economic crises Asia and Russia, while in the past few years anxieties have been expressed about regional stability. Enthusiasm has also waned because of uncertainty over the government's economic management abilities, notably of the exchange rate, as well as owing to the slowdown in privatisation, information disclosure and the level of protection given to minority rights.

Egypt's market is still small in global terms and not always visible to large institutional investors. The 30 most liquid companies account for around 80% of value traded. In May 2001 Egypt was included in the prestigious Morgan Stanley Capital International emerging market free index, the benchmark for US fund managers and a major source of global funds. A new automated trading system implemented in the same month was expected to encourage greater speed and flexibility in trading, thereby increasing market depth and liquidity in the medium to long term. In an effort to lift equity trading volumes, the 5% daily limit on share price movements was lifted in July 2002, although trading is halted if a stock moves by 20%. Also in the same month the authorities announced plans to allow margin trading under which investors can borrow from brokers to purchase shares using existing holdings as collateral.

Insurance

The highly underdeveloped insurance market is dominated by four public-sector insurance companies, one of which is a reinsurance company. These firms hold a total market share of around 75%, although 11 other companies also operate. Annual premiums account for just 1.1% of GDP. The domestic insurance market was closed to foreign companies until May 1995, although they had been able to operate as minority partners in eight free zones. However, new legislation in 1998 removed the 49% cap on foreign holdings for domestic insurers, abolished the nationality stipulation for general managers and allowed the privatisation of public-sector insurers, although investors taking a stake of more than 10% have to obtain approval from the slightly conservative Egyptian Insurance Supervisory Authority The market is still closed to foreign insurance intermediaries, but some recent liberalisation of the sector has led to the entry of several major international insurers, including Legal & General (UK), Royal Sun Alliance (UK) and the American International Group (US), which bought Pharoanic Insurance in early 2001. Valuation of the four public-sector insurance companies was completed by mid-2001, but no decision has yet been made on whether to privatise them.

Other services

Tourism

Egypt has the potential to earn larger sums from tourism, but the growth of the sector has been hampered by outbreaks of violence both domestically and within the region. Nevertheless, tourism overtook oil as the country's main source of foreign exchange in 1988. The sector is a major employer, providing a living for around 2.2m people at its peak. Its impact on GDP is considerably greater than the 2% attributed to "restaurants and hotels" in national accounts data.

Islamist violence directed against foreign tourists led to a sharp downturn after October 1992, although the sector recovered strongly from 1995. In 1996/97 4m tourists visited Egypt, spending an estimated US$3.7bn. The massacre at Luxor in November 1997 plunged the sector into steep recession, but it rebounded faster then expected, and a record 5.5m tourists visited Egypt in 2000, generating revenue of US$4.3bn, compared with 4.8m visitors and US$4bn in receipts in 1999. Encouraged by this success, private companies started a series of coastal resort developments. Overall hotel room capacity grew to 127,000 in 2002, compared with 117,000 in 2001 and a mere 19,000 in 1982. Capacity is expected to rise to 250,000 within the next few years as several major projects come on stream. The sector grew by an annual average rate of 12.5% between 1993 and 2000, and the official expectation is that similar growth would continue in the next five years, attracting 9.5m visitors by 2005, with visitors spending 66.5m nights and generating around US$7.6bn in revenue.

September 11th and the Iraq war hold back tourism

Regional instability since 2000 makes it unlikely that this goal will be attained. The September 11th 2001 suicide attacks in the US once again sent the sector into sharp decline. Although arrivals recovered strongly in 2002, to 5.2m visitors, up by 11.7% on 2001, the war in Iraq triggered another decline, and visitor numbers fell by 22% in March 2003 on the total for March 2002. The sector has since staged a strong recovery and recorded record arrivals in July-August. Several reasons account for the strong upturn, including aggressive marketing by the government in major European markets and the Gulf, the maintenance of financial incentives to foreign charter operators, while the depreciation of the Egyptian pound against the US dollar and other currencies has improved Egypt's price competitiveness over rival Mediterranean destinations such as Greece and Turkey. Egypt has also benefited from reluctance among Gulf Arabs to holiday in the West as it is difficult for them to obtain visas, in addition to which they fear harassment and in some cases are angry over the policies adopted by Western countries towards the Middle East. This trend, brought about by the September 11th attacks in 2001, was reinforced by the war in Iraq in 2003. Revenue has lagged the recovery in numbers since September 11th, however, because of heavy discounting, including the move by some resort hotels into the cheap Russian charter market, rates for which are estimated to be around 30-40% lower.

Egypt has traditionally relied on its archaeological heritage to attract tourists, but in recent years it has diversified successfully into beach tourism around the Red Sea and Sinai coasts in order to increase the prospect of repeat visits.

The external sector

Trade in goods

Foreign trade, 2002/03
(%)

Major exports		**Major imports**	
Fuel, mineral oils & products	38.9	Fuel, mineral oils & products	6.7
Cotton	2.4	Raw materials	18.1
Raw materials	3.5	Intermediate goods	29.7
Semi-finished commodities	8.0	Investment goods	21.4
Finished commodities	36.8	Consumer goods	17.5
Other goods	10.3	Durable, non-durable & other goods	20.0

Source: Central Bank of Egypt, *Annual Report*.

Egypt has had an external trade deficit almost without interruption since before the second world war. The deficit has widened steadily, albeit erratically, in recent decades, as the country's population has outstripped its productive capacity, particularly for food. Concern at the expansion of the trade and current-account deficits in 1998 as oil prices fell and as importers stockpiled in response to cheap commodity prices led the government to implement a series of restrictive trade measures in order to tighten trade financing and import clearance, and to manage foreign currency allocation more closely. Since 1998 the trade gap has narrowed, mainly owing to the drop in imports and assisted by the more competitive exchange rate. The widespread shortage of hard currency has made funding imports difficult, and the economic slowdown has reduced demand, while government control of the public-sector banks that dominate the banking industry has ensured that the import bill declines.

The composition of exports

The composition of merchandise exports has changed markedly in the past few decades. Between 1965 and 1990 the share of agricultural commodities in total exports dropped from 71% to 20%, while that of fuel, minerals and metals rose from 8% to 41%, reflecting the increasing importance of petroleum and petroleum products. Manufactured goods also rose as a share of exports, mainly on account of greater output of textiles and clothing. A major thrust of economic reform has been to stimulate non-oil exports. The US Agency for International Development has blamed the weak export performance on the lack of competitiveness on exchange rates, the lack of modern technology, low quality finished products, the inefficient transport system, poor marketing, feeble industrial capacity and labour productivity, and the inadequate policy environment, including the highly bureaucratic and inward looking trade regime. However, Egypt does have some comparative advantages such as its large labour force, competitive wage rates, the large local market, which is attractive to foreign investors, its ability to support a wide variety of crops, proximity to Europe and the rest of North Africa, as well as preferential access to the EU.

Entry of the private sector

Local private trading companies, especially exporters, lack international marketing experience, and foreign trading companies are banned. Until recently the private sector was barred from exporting or importing almost all major commodities. This ban has been relaxed gradually, but trading in all items bar cotton exports has only been open to the private sector since 1992. Private-sector cotton exports were authorised in October 1995.

Imports

Egypt lacks most raw materials and continues to import large quantities of capital goods and inputs as investment rises and economic activity expands. Food accounts for more than 20% of the total import bill.

Main trading partners
(% of total)

	1998	1999	2000	2001	2002
Exports fob to:					
US	12.2	12.3	13.0	8.3	18.6
Italy	10.0	10.0	15.2	9.1	13.8
UK	3.5	2.5	9.4	2.4	8.5
France	3.9	3.8	5.4	3.9	4.0
Imports cif from:					
US	12.6	14.4	16.9	14.4	17.1
Germany	8.9	8.7	7.4	7.5	7.6
Italy	6.7	6.6	7.1	5.0	6.8
France	5.6	4.9	6.0	4.0	6.6

Source: IMF, *Direction of Trade Statistics*.

The reliance on aid to finance a large proportion of imports has led shifts in political alliances to be reflected in aid and trade patterns. Before 1973 when Egypt was co-operating with the Soviet Union, 55% of its exports went to Soviet bloc countries, which in turn supplied 30% of its imports. By contrast, in 2001/02 (July 1st-June 30th) OECD countries supplied more than 60% of imports, followed by the EU (36%) and the US (25%) according to data from the Central Bank of Egypt.

The collapse of the country's traditional markets in the former Soviet Union and eastern Europe hit domestic exporters hard, but trade with regional partners, particularly Libya and Saudi Arabia, has revived, reflecting Egypt's active role in regional affairs.

The impact of the WTO

In June 1995 Egypt acceded to the World Trade Organisation (WTO), the successor to the General Agreement on Trade and Tariffs (GATT). According to the Ministry of Economy and Foreign Trade, 90% of Egypt's trade is with WTO member states. Officials have argued that membership of the WTO will not affect Egypt unduly as its economic reform programme either meets new WTO guidelines for trade liberalisation and the removal of non-tariff barriers or else goes beyond them. Egypt benefits from several concessions, including better access to markets in developing countries, and it has a longer period in which to adapt to WTO rules. Nevertheless, it is acknowledged that some negative effects are likely to arise. The prime concern is the probable negative impact that the removal of subsidies to food producers in developed countries would have on Egypt's already large food import bill. However, the removal of such subsidies is expected to help domestic agricultural products to become more competitive in international markets. There is also concern about the effect of trade liberalisation on the long-protected industrial sector as domestic products would need to become more competitive, both in terms of prices and quality, and local marketing skills would also need to improve.

If the necessary improvements are made, Egypt would be expected to enjoy greater opportunities and to obtain higher prices for its textiles, cotton and food exports. The publishing and film industries would also be expected to benefit from the intellectual property rights (IPR) agreement within the WTO. Fears have been expressed that new domestic IPR legislation passed in May 2002 to ensure compatibility with the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement would push up pharmaceutical prices, and that local pharmaceuticals firms could find themselves in trouble over patent infringements. However, according to officials at the Ministry of Foreign Trade, 90% of domestic pharmaceuticals do not contain patent-protected elements as more than 20 years has elapsed since these components were originated. Moreover, the Uruguay Round agreement allows for a ten-year transition period until January 2005.

EU Association Agreement

After five years of negotiations and months of stalling, Egypt finally signed the Euro-Mediterranean Association Agreement with the EU in June 2001. According to Egypt, the agreement with its largest trading partner will improve bilateral relations, raise exports to Europe, encourage European investment in Egypt, and will have the effect of modernising industry because the quality of domestic products will have to improve to compete successfully in the European market. The IMF comments that the progressive elimination of all tariffs on over one-third of Egypt's imports will significantly increase competition in domestic markets, resulting in lower costs, as well as promoting productivity gains in local industries. The Egyptian parliament ratified the accord in April 2003, by which stage five European countries had also approved it. Ratification by the remaining European states is expected to be completed in time to allow the accord to come into force in 2004.

The wide-ranging accord, concluded for an unlimited period, covers political, security, economic, social and cultural ties between Egypt and the EU. In particular, it will act as a necessary precursor to Egypt's entry into the planned Euro-

Mediterranean Free-Trade Area in 2010. Under the agreement domestic producers gain immediate duty-free access to EU markets comprising 350m consumers. In turn, Egypt will phase out customs duties on EU industrial goods in stages. Tariffs on raw materials and capital goods for industry will be eliminated within three years of the agreement coming into force, those on semi-finished goods after 13 years, and those on luxury goods and cars after 15 years. Agricultural products will continue on a quota system, which is a major bone of contention as Egypt has charged the EU with placing restrictions on the country's most competitive goods. However, the EU says it has greatly improved concessions for Egyptian agricultural exports by increasing the tariff quotas granted for Egypt's main exports of rice, oranges and cut flowers, has added tariff quotas for products currently not enjoying preferential treatment such as potatoes, and has extended the export calendar. Agricultural concessions are to be reviewed three years after the agreement comes into force. In return, Egypt is to reduce its tariffs on several EU agricultural exports, mainly meat and dairy products. Processed agricultural products enjoy reciprocal concessions. To prepare Egypt for free trade, the EU is funding a €250m industrial modernisation programme, but major concerns persist at home about the effects that the agreement will have on the ageing and inefficient industrial sector, much of which is unlikely to be able to compete with EU industrial goods once protection is removed.

Invisibles and the current account

Current account, 2002
(US$ m unless otherwise indicated)

Merchandise exports fob	7,132
Merchandise imports fob	12,878
Trade balance	**-5,747**
Exports of services	9,153
Imports of services	6,629
Income: credit	698
Income: debit	965
Current transfers: credit	4,002
Current transfers: debit	42
Current-account balance	**470**

Source: IMF, *International Financial Statistics*.

In 1990 Egypt recorded its first current-account surplus (US$185m) since 1968. The surplus expanded rapidly in the following three years, despite the wide trade deficit. However, a revision in the IMF method of calculating transfers, whereby cash transfers are recorded in the capital account rather than in current account if they are linked to or conditioned on the acquisition or disposal of a fixed asset, led to a large drop in current transfers, down from US$7bn in 1993 to US$4.6bn in 1994, and the consequent narrowing of the current-account surplus from US$2.3bn to just US$31m. From 1995 Egypt began to register current-account deficits as imports rose rapidly. The deficit widened dramatically to US$2.4bn in 1998 (2.8% of GDP), up from US$600m in 1997, mainly owing to a sharp deterioration in the trade balance, the drop in tourism in the wake of the Luxor massacre and the negative effects of the Asian economic crisis. The deficit eased significantly in 1999-2000, and the current account pushed into surplus in 2001/02 owing to improved export receipts, including higher oil prices, the more competitive exchange rate since May 2000, and particularly as import growth slowed. The main positive contributors to the current-account balance were the large inflows on the non-merchandise account and positive net transfers. The non-merchandise surplus was boosted by stable Suez Canal earnings, increased payments from the Suez-Mediterranean pipeline and the rapid growth in tourism, although that sector is also prone to steep peaks and troughs.

Public transfers

Net public transfers have traditionally been high. After its devastating defeat in the 1967 war with Israel, Kuwait, Saudi Arabia and Libya agreed to provide Egypt with E£95m/year, and subventions from Arab oil producing countries rose to over US$1bn/year in 1973-79. When Egypt signed a peace treaty with Israel, this financial support was discontinued, but the US stepped, becoming the largest donor and awarding over US$2bn/year. After ties with the Arab world were restored in 1987, aid from Gulf countries and lending agencies grew rapidly, and Egypt was rewarded with around US$2bn in cash injections and a US$7bn debt write-off for its pivotal role in forming the Arab coalition to liberate Kuwait in 1990. Egypt also received significant grants from Western countries and the EU. As a result, the level of gross development assistance from OECD and OPEC member countries soared from US$1.8bn in 1989 to a peak of US$5.4bn in 1990. Since then, disbursements have contracted, reflecting Arab budgetary constraints and lower but still substantial levels of aid from the US, although EU financial support has risen in the run-up to the establishment of the EU-Mediterranean free-trade zone by 2010. In February 2002 Egypt won aid pledges from international donors of a massive US$10.3bn for 2002-04, including US$2.1bn for immediate disbursement for balance-of-payments needs. No breakdown of donors or types of assistance has yet been released by the government, but US$2.1bn pledged for balance-of-payments support has not materialised as the conditions attached proved to be unpalatable.

Workers' remittances

The continuing strength of remittances from expatriate workers has offset declining public transfers, keeping net transfers high. A major contributor to the current account, remittances rose steadily from US$3bn in fiscal year 1987/88 (July 1st-June 30th) to over US$6bn in 1993/94 in response to the stable Egyptian pound, new opportunities for investment in financial instruments such as high yielding Treasury bills, and attractive returns on local currency deposits. Remittances dropped to US$3.3bn in 1994/95 owing to the changed method of calculation, but rose again in 1998/99, to US$3.8bn. However, since then remittances have fallen, dipping below US$3bn in 2000/01, the latest figures available, reflecting some expatriate concern at the exchange rate regime, and a reluctance to send remittances through official channels when attractive informal market rates are available.

Capital flows and foreign debt

That a large current-account deficit was recorded in 1998 was a shock to the Central Bank of Egypt as not since 1993 had deficit financing been a major problem. Small deficits on the current account and manageable principal repayments on the external debt had been comfortably financed by a combination of inward direct investment, further medium- and long-term debt inflows, and towards the end of the decade growing portfolio investment, all of which had allowed a rapid and substantial build-up in foreign reserves. However, the financing requirement for 1998 reached US$3.4bn, of which inward direct investment and fresh debt inflows covered only one-half. Indeed, the situation was compounded by outflows of portfolio investment as foreign investors fled emerging economies for calmer equity markets, all of which required a drawdown in foreign reserves, although most of the shortfall was covered by a drawdown in commercial banks' foreign assets (most commercial banks are state-owned). Diminishing current-account deficits since 1998 have allowed the financing deficit to be met with greater ease, despite concerns after September 11th and in the run-up to the war in Iraq that Egypt's external position would deteriorate. The financing deficit has stayed at manageable levels largely because of the sharp contraction in imports, obviating the need for a sharp rise in concessional borrowing.

External debt

In the 1980s Egypt was forced to borrow heavily from abroad to fund the fiscal deficit and to meet the growing balance-of-payments shortfall. Borrowing rose to such an extent that external debt peaked at the equivalent of 183% of GDP (US$44.1bn) in 1987, but the situation improved significantly in the early 1990s after a round of debt relief and rescheduling as a result of Egypt's role in the 1990-91 Gulf crisis. As well as an estimated US$7bn debt write-off from Arab states on debt that was not being serviced, the US wrote off US$7.1bn in military debt, of which some US$2.6bn represented interest arrears and penalty charges that were proving to be a major burden as the debt had been contracted at high fixed interest rates, mostly in the 12-14% range, but in some cases as high as 18%, and annual interest payments had reached around US$1.3bn.

The policy on official borrowing agreed with multilateral donors appears to have been strictly applied in the 1990s so that new borrowing, nearly all of which is concessional, has stayed at around the same level as debt repayments in any given year. By 2001 external debt stood at US$29bn (33% of GDP), of which over 86% was public medium- and long-term debt. Private debt was negligible, while short-term debt amounted to about US$3.8bn, and the ratio of debt service to exports of goods and services fell from 26% in 1989 to 9% in 2001.

After years of delay and prevarication owing to concerns about global financial turmoil, Egypt finally sold its first sovereign international bond in June 2001, raising US$1.5bn, three times the original target. The first tranche, a US$500m, five-year 7.625% coupon Eurobond, was fully subscribed, and the second US$1bn, ten-year, 8.75% coupon tranche was oversubscribed sixfold. The issue was also intended to set a benchmark for domestic corporate borrowing in the international market, but further sales are unlikely in the near term as Egypt has been downgraded to below investment grade by major credit rating agencies.

Portfolio flows

During the 1990s Egypt began to rely increasingly on inflows of direct and portfolio investment. Portfolio investment rose significantly between 1995 and 1997 in response to the reorganisation of capital markets and the faster pace of privatisation, but since 1998 the economic downturn has affected investor appetite for Egypt's stockmarket (see Financial services), and inflows have fallen significantly.

Foreign direct investment

Historically, petroleum has received the bulk of foreign direct investment (FDI), although the process of privatisation and liberalisation that picked up speed in the mid-1990s prompted FDI in a range of industries, in particular cement, telecommunications and tourism. Nevertheless the level of foreign investment that Egypt attracts falls far short of that reaching the most successful developing economies. Owing to concerns over liquidity and the management of the exchange rate, added to the underlying constraint of stifling bureaucracy, FDI declined to about US$500m in 2001, before rising slightly to US$650m in 2002, down from more than US$1bn in 1998-2000. As a result, Egypt is still dependent for capital inflows on multilateral and bilateral funding.

Foreign reserves and the exchange rate

Large inflows of capital from 1991 in response to the stable exchange rate and high rates of interest for the first time in two decades led to the rapid accumulation of foreign exchange reserves. However, these started to be depleted from 1998 as the Central Bank gradually addressed the lack of US dollar liquidity in the currency market. In December 2002 reserves were US$13.2bn, excluding gold, according to the IMF's *International Financial Statistics*. Although this figure was down on the US$18.7bn in reserves recorded in 1997, it still represents a major turnaround from the late 1980s, when reserves were maintained largely by virtue of exceptional financing and capital inflows from political allies. Official reserves include foreign currency deposits by commercial banks at the Central Bank, in part in fulfilment of reserve requirements. According to the IMF, reserves excluding these deposits would have amounted to US$9bn in May 2001, a position the Fund described as "still comfortable".

US dollar liquidity problems

There is a common perception that the government has mishandled the severe US dollar liquidity crisis in the local economy since 1999. The lack of flexibility on the exchange rate because of the rigid adherence to Egypt's US dollar peg became of increasing concern to the international markets following Asian and Latin American financial crises in 1997-98. The perception was that the pound was overvalued: the IMF estimated a real effective appreciation of 29% between February 1991 and mid-1995, followed by a further 37% appreciation between mid-1995 and July 2000. By August 1999 matters had come to a head when amid a scarcity of foreign currency, US dollar rates at money changers soared to the highest level for five years, reaching E£3.73:US$1, compared with the bank rate of E£3.42:US$. Businesses were unable to obtain sufficient US dollars, and foreign investors became concerned about the ability to repatriate profits. The Central Bank blamed the shortage on speculation by money changers and on overlending by banks. With their foreign assets run down, commercial banks became increasingly reliant on the Central Bank for foreign currency, and with the Central Bank operating an informal queuing system, bought US dollars as and when they were on offer, which had the effect of constricting local currency liquidity, in turn causing interest rates to rise.

Aside from closing down foreign exchange bureaux that it accuses of "speculation", the government has since made several attempts to resolve the issue. It has carried out one-off devaluations and in January 2001 introduced a managed peg exchange rate system under which the pound was to be allowed to trade within a small band adjusted regularly in response to market forces, but in the event the system was not implemented. Most notably, the government announced a float of the currency in January 2003, but after the pound fell 14% on the first day, the authorities balked at prospect of allowing a rapid decline in its value and began to exert informal pressure on banks to slow the depreciation. A fairly rapid fall in the pound was subsequently permitted in an apparent attempt to converge the official rate with the black-market rate, but the government became anxious that the steady fall in the official rate was being matched by its constant depreciation on the black market. The gap proved to be difficult to bridge, and in September attempts to unify the two rates appear to have been abandoned. Between the start of 2000 and November 2003 the official rate of the pound fell by 44%, while the black-market rate stood 50% below the official rate at the start of 2000.

Exchange rates

(E£ per currency unit unless otherwise indicated; av; Sep 2003)

US$	6.14
€	7.11
¥100	5.53
£	10.22
Swfr	4.61

Source: Central Bank of Egypt.

Exchange controls

Few formal exchange controls have been in place since July 1996, and none are expected to be introduced, but the Central Bank has imposed some informal restrictions on import financing. In order to tackle price rises and shortages in other commodities, in September 2003 the government introduced a fixed exchange rate of E£5.35:US$1 for customs duties on private-sector imports of seven major commodities: flour, wheat, maize, sugar, edible oils, lentils and fava beans. Egypt has full current-account convertibility, but certain restrictions exist on the capital account.

Appendices

Sources of information

National statistical sources

The reliability and timeliness of official economic data have improved significantly in recent years. The Ministry of Foreign Trade and the Central Bank of Egypt now publish monthly statistics on the Internet that cover most areas of the macroeconomy and the financial markets. The Central Bank also produces annual and quarterly reports and a *Monthly Statistical Bulletin* that provides details on money, banking and trade indicators, but little on sectoral production. The Central Agency for Public Mobilisation and Statistics (CAPMAS) provides an annual *Statistical Yearbook* and publishes a consumer price index. The Ministry of Planning publishes *The Five-Year Plan for Economic and Social Development*, the figures in which bear little relation to reality. Several state agencies publish annual reports providing varying degrees of detail, including the Suez Canal Authority, the National Bank of Egypt and the Social Fund for Development. Aid-financed reports are sometimes produced by state entities such as the National Population Council and the Environmental Affairs Agency, which are usually of a high quality.

Independent sources include the US embassy in Cairo, which covers much of the economy, producing annual *Economic Trends* and *Agricultural Situation* reports, some of which are included in the annual *Country Commercial Guide*. The American Chamber of Commerce in Cairo publishes a journal, *Business Monthly*, and periodic sectoral reports. Leading local investment houses and brokerage firms such as EFG-Hermes and HC Securities produce daily market reports, economic, sectoral and corporate reports, and periodic guides to the capital markets. International interest in the local financial markets has waned over the past few years, but Merrill Lynch, Nomura, and HSBC among others still issue regular reports. The Cairo and Alexandria stock exchanges produce a range of publications both in Arabic and English, including daily and monthly Arabic bulletins, a monthly English bulletin and an annual *Factbook*. The independent Egyptian Centre for Economic Studies publishes *Industrial Barometer* twice a year that aims to gauge economic trends, along with various working papers and conference proceedings.

Business Monthly, journal of the American Chamber of Commerce in Egypt, Cairo www.amcham.org.eg

Cabinet Information and Decision Support Centre, *Main Economic Indicators* (monthly), Cairo www.economic.idsc.gov.eg

Central Agency for Public Mobilisation and Statistics, *Statistical Yearbook, Arab Republic of Egypt*, Cairo

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Carana Corporation, *Privatisation in Egypt* (quarterly review), Cairo www.carana.com/PCSU

Central Bank of Egypt, *Annual Report*, *Economic Review* (quarterly) and *Monthly Statistical Bulletin*, Cairo www.cbe.org.eg

Institute of National Planning, *Egypt Human Development Report*, Cairo

Ministry of Communication and Information Technology, *The National Plan for Communication and Information Technology*, Cairo

Ministry of Economy, *The Monthly Economic Digest*, Cairo www.economy.gov.eg

Ministry of Economy, *Investing in Egypt, 2001*, Cairo

Social Fund for Development, *Annual Reports and Bulletins*, Cairo

Suez Canal Authority, *Annual Reports*, Cairo

International statistical sources

US embassy, *Egypt: Economic Trends* (annual), Cairo

Cotton Outlook, Liverpool

IMF, *International Financial Statistics*

International Energy Agency, *Monthly Oil Market Report*

International Institute for Strategic Studies, *The Military Balance*, 2000/2001

OECD, *Geographical Distribution of Financial Flows to Aid Recipients*

UN Development Programme, *Human Development Report* (annual); *Egypt Human Development Report*

World Bank, *Global Development Finance*; *Trends in Developing Economies*; *World Development Report*; *Country Memorandum*

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Galal Amin, *Whatever Happened to the Egyptians?* American University in Cairo Press, Cairo, 2000

Albert Hourani, *A History of the Arab Peoples*, Faber & Faber, London, 1991

Edward William Lane, *The Manners and Customs of Modern Egyptians*, Dent, London, 1908

Anthony McDermott, *Egypt from Nasser to Mubarak: a flawed revolution*, Croom Helm, London, 1988

Max Rodenbeck, *Cairo: the city victorious*, Picador, 1998

P J Vatikiotis, *The History of Egypt*, Weidenfeld and Nicolson, London, 1980

Web sites

www.egyptinc.com
Ministry of Economy and Foreign Trade site, with news as well as statistics

www.carana.com/PCSU
Privatisation Support Unit site, the best source of news on the privatisation programme with information on economic liberalisation in general

www.ahram.org.eg/weekly
News and views from the English-language newspaper *Al-Ahram Weekly* with an excellent archive search facility

www.sis.gov.eg
The State Information Service site, containing links to all official sites

www.amcham.org.eg
American Chamber of Commerce in Egypt site, the best organised and most informative business grouping

www.eces.org.eg
Egyptian Centre for Economic Studies site, an independent think-tank producing in depth studies on major economic issues

Reference tables

These reference tables provide the most up-to-date statistics available at publication.

Population
(m; mid-year)

	1998	1999	2000	2001	2002
Total	65.24	66.49	67.78	69.12	70.51
% change, year on year	1.9	1.9	1.9	2.0	2.0

Source: IMF, *International Financial Statistics*.

Population, labour force and unemployment
(m unless otherwise indicated)

	1998/99	1999/2000	2000/01	2001/02	2002/03[a]
Population	64.6	65.9	67.2	67.9	69.2
Labour force	18.2	18.9	19.3	19.7	20.2
Employment	16.8	17.2	17.6	17.9	18.2
Unemployment	1.5	1.7	1.8	1.8	2.0
Labour force/population (%)	29.1	29.6	29.6	29.8	30.0
Unemployment rate (%)	8.1	9.0	9.2	9.0	9.9

[a] Provisional.

Source: Central Bank of Egypt.

Workers by sector
('000)

	1996/97	1997/98	1998/99	1999/2000	2000/01
Agriculture	4,747	4,820	4,904	4,985	5,069
Industry & mining	2,038	2,182	2,297	2,412	2,533
Petroleum	43	44	46	49	53
Electricity	120	124	128	130	134
Construction	1,140	1,215	1,295	1,377	1,461
Transportation & Suez Canal	704	732	760	789	821
Trade, finance & insurance	1,679	1,745	1,816	1,888	1,967
Tourism	145	145	147	150	155
Real estate	219	223	227	231	236
Social services	1,413	1,467	1,528	1,591	1,658
Public utilities & social insurance	3,577	3,647	3,726	3,817	3,897
Total workers	**15,825**	**16,344**	**16,874**	**17,419**	**17,984**[a]

[a] Divergence with data given in Population, labour force and unemployment table present in source.

Source: Ministry of Planning.

Transportation

(no. unless otherwise indicated)

	1982	1999
Quays	108	141
Port capacity (m tonnes)	26.6	52
Liners	n/a	9,400
Commercial vessels	70	119
Airports	n/a	19
Flights	n/a	166,886
Air passengers (m)	n/a	13.2[a]
Rail cargo carriages	n/a	13,006
Rail passenger carriages	n/a	3,750
Railway lines (km)	4,935	9,400
Paved roads (km)	15,298	42,000
Registered vehicles (m)	n/a	3.1[b]

[a] 1997. [b] 2001.

Sources: Ministry of Transportation; Ministry of Interior; State Information Service.

Suez Canal traffic

	1997	1998	1999	2000	2001
Oil tankers					
No.	2,256	2,137	1,987	2,563	2,764
Net tonnage (m tonnes)	78	90	68	105	117
Average tonnage ('000 tonnes)	35	42	34	n/a	n/a
Other ships					
No.	12,175	11,335	11,503	11,578	11,222
Net tonnage (m tonnes)	291	296	317	334	339
Average tonnage ('000 tonnes)	24	26	28	n/a	n/a
Total					
No.	14,431	13,472	13,490	14,141	13,986
Net tonnage (m tonnes)	369	386	385	439	456
Average tonnage ('000 tonnes)	26	29	28.5	n/a	n/a

Source: Central Bank of Egypt.

Electricity generation

('000 of mwh)

	1998/99	1999/2000	2000/01	2001/02	2002/03
Generated electricity	67,865	72,908	78,006	79,859	80,967
Utilised electricity	56,557	60,547	64,794	69,743	74,281
Industrial	21,701	23,303	24,553	25,188	26,425
Commercial & household	21,751	23,418	25,169	27,333	29,318
Other	13,101	13,692	14,925	16,967	17,683

Sources: Ministry of Electricity and Energy; Holding Company for Misr Electricity.

Money supply

(E£ m unless otherwise indicated; end-period)

	1998	1999	2000	2001	2002
Currency in circulation	31,502	35,310	37,902	40,548	45,281
Demand deposits	19,335	20,506	21,747	23,515	27,021
Money (M1) incl others	**58,577**	**59,066**	**62,195**	**67,078**	**75,781**
% change, year on year	20.3	0.8	5.3	7.9	13.0
Quasi-money	162,795	174,844	198,804	228,413	257,031
Money (M2)	**221,372**	**233,910**	**260,999**	**295,491**	**332,812**
% change, year on year	10.8	5.7	11.5	13.2	12.6

Source: IMF, *International Financial Statistics*.

Interest rates

(%; period averages unless otherwise indicated)

	1998	1999	2000	2001	2002
Deposit rate	9.4	9.2	9.5	9.5	9.3
Lending rate	13.0	13.0	13.2	13.3	13.8
Discount rate (end-period)	12.0	12.0	12.0	11.0	10.0

Source: IMF, *International Financial Statistics*.

Gross domestic product

(market prices)

	1997/98	1998/99	1999/00	2000/01	2001/02
Total (E£ bn)					
At current prices	287.4	307.6	340.1	358.7	381.7
At constant (1996/97) prices	268.9	285.8	300.4	310.9	320.1
% change, year on year	4.9	6.3	5.1	3.5	3.0
Per head (E£)[a]					
At current prices	4,405	4,626	5,018	5190	5413
At constant (1996/97) prices	4,122	4,298	4,432	4498	4540
% change, year on year	3.0	4.3	3.1	1.5	0.9

[a] Derived using IMF population figures.

Sources: IMF, *International Financial Statistics*; World Bank.

Gross domestic product by expenditure

(E£ bn at constant 1996/97 prices; % change year on year in brackets unless otherwise indicated)

	1997/98	1998/99	1999/00	2000/01	2001/02
Private consumption	209.0	219.7	231.4	234.4	240.1
	(9.7)	(5.1)	(5.3)	(1.3)	(2.4)
Government consumption	27.1	28.2	29.3	30.4	32.3
	(3.8)	(4.1)	(3.9)	(3.8)	(6.2)
Fixed investment	55.5	56.5	54.3	58.3	58.4
	(-4.6)	(1.8)	(3.9)	(7.4)	(0.2)
Stockbuilding	0.5	2.3	1.8	1.6	1.4
Exports of goods & services	48.3	52.7	54.7	56.5	50.6
	(-3.6)	(9.1)	(3.8)	(3.3)	(10.4)
Imports of goods & services	71.5	73.6	71.1	70.3	62.7
	(8.0)	(2.9)	(3.4)	(1.1)	(10.8)
GDP	**268.9**	**285.8**	**300.4**	**310.9**	**320.1**
	(4.9)	(6.3)	(5.1)	(3.5)	(3.0)

Source: World Bank.

Gross domestic product by sector

(E£ m; factor cost; current prices)

	1997/98	1998/99	1999/2000	2000/01	2001/02[a]
Agriculture	45,182	48,935	52,845	56,861	60,955
Industry & mining	48,798	55,225	61,211	65,129	69,770
Petroleum & products	15,534	12,995	23,300	25,747	27,835
Electricity	4,264	4,586	4,936	5,300	5,825
Construction	13,730	14,555	15,140	15,760	16,470
Transportation[b]	24,507	26,300	27,949	30,380	32,958
Trade, finance & insurance	58,079	65,876	70,624	73,373	76,962
Hotels & restaurants	3,332	3,682	4,925	5,357	4,413
Housing & real estate	4,860	5,412	6,003	6,880	7,782
Utilities	1,038	1,179	1,305	1,444	1,601
Social insurance	185	214	236	260	285
Government services	20,662	22,481	24,190	26,779	29,279
Social & personal services	19,552	20,915	23,740	25,330	29,010
Total GDP	**259,723**	**282,355**	**316,404**	**338,600**	**363,144**

[a] Forecast. [b] Includes revenue from Suez Canal.

Source: Ministry of Planning.

Prices

(1990=100; average % change in brackets)

	1998	1999	2000	2001	2002
Consumer prices	116.8	120.4	123.7	126.5	129.9
	(4.2)	(3.1)	(2.7)	(2.3)	(2.7)
Wholesale prices	114.4	115.4	117.5	118.7	126.3
	(1.4)	(0.9)	(1.8)	(1.0)	(6.4)

Source: IMF, *International Financial Statistics*.

Agricultural production

(E£ m)

	1997/98	1998/99	1999/2000[a]	2000/01[b]
Cereals	12698	12,952	13,661	14,023
Legume	673	797	776	833
Fibres	3,087	2,077	2,276	1,832
Oil seed	386	400	480	565
Sugar	1,497	1,722	1,992	2,212
Vegetables & onions	10,905	12,275	12,168	12,176
Fruits	7,396	8,220	9,285	11,201
Animal feed	6,319	7,203	7,557	8,588
Other	510	712	893	862
Total	**17,431**	**19,193**	**20,539**	**21,724**

[a] Preliminary. [b] Expected.

Source: Central Bank of Egypt.

Cotton production

	2001/02	2002/03
Acres planted in cotton ('000)	725	710
Tonnes produced ('000 tonnes)	314	300[a]

[a] Expected.

Source: *Cotton Outlook*.

Major agricultural imports

(US$ m)

	1998/99	1999/00	2000/01	2001/02	2002/03
Wheat & flour	664	373	533	489	564
Maize	394	463	397	395	378
Sugar	88	15	55	48	83
Vegetable & animal oils	481	374	346	373	398
Dairy products & eggs	182	171	142	112	99

Source: Central Bank of Egypt.

Petroleum and natural gas production and consumption

(m tonnes oil equivalent)

	1996/97	1997/98	1998/99	1999/2000	2000/01
Production					
Crude oil	41.8	40.3	39.5	37.0	32.4
Gases & derivatives	12.9	13.3	14.5	18.0	22.8
Crude refinery throughput	28.3	29.5	29.0	27.8	25.6
Local consumption					
Petroleum products	20.6	23.0	23.9	23.5	22.5
Gas	10.3	10.5	11.5	14.3	17.8
Reserves					
Crude oil	421.1	415.6	419.5	407.0	n/a
Gas & derivatives	702.6	777.8	889.7	1,010.0	n/a

Source: Egyptian General Petroleum Corporation.

Trade in oil and refined products
(US$ m)

	1996	1997	1998	1999	2000
Exports	2,723	2,449	1,221	1,807	3,682
Imports	1,409	1,588	1,114	1,960	3,450
Balance	**1,314**	**861**	**107**	**-153**	**232**

Source: Ministry of Petroleum.

Industrial production
(‘000 tonnes unless otherwise indicated)

	1998/99	1999/2000	2000/2001	2001/02
Cotton yarn	305	280	260	263
Silk & artificial fibres	29	95	96	97
Ready-made garments (m)	222	242	261	235
Cars (units)	43,000	48,167	54,000	58,000
Buses (units)	4,200	4,872	4,950	5,286
Trucks (units)	n/a	n/a	19,190	20,196
Washing machines (‘000)	334	385	780	793
Refrigerators (‘000)	568	570	800	816
Aluminium	185	195	132	154
Cement	22,900	26,000	25,101	26,778
Phosphates	1,450	1,450	1,450	1,641
Phosphate fertilisers	1,430	1,550	1,167	1,283
Nitrogenous fertilisers	7,225	8,100	9,637	10,388
Soap	437	450	486	497

Source: Ministry of Planning.

Industrial production by commodity groups
(E£ m at constant 1996/97 prices unless otherwise indicated)

	1997/98	1998/99	1999/2000[a]	2000/01[b]
Food stuffs	36,587	38,528	40,005	41,667
Spinning & weaving	33,943	36,562	38,730	41,097
Chemicals	26,354	29,173	32,123	35,314
Metals	10,398	11,024	11,732	12,677
Engineering	18,100	20,154	21,659	23,324
Metallurgy	958	1,069	1,112	1,167
Total production	**126,340**	**136,510**	**145,361**	**155,246**
Total production growth (%)	7.0	8.0	6.5	6.8

[a] Preliminary. [b] Expected.

Source: Central Bank of Egypt.

Tourist arrivals by region of origin

('000 unless otherwise indicated)

	1997	1998	1999	2000	2001
Western & southern Europe	2,202	1,564	2,946	3,473	2,753
% of total	56	48	61	63	59
Middle East	893	986	897	890	868
% of total	23	30	19	16	19
Americas	257	218	277	341	214
% of total	7	7	6	6	5
Eastern Europe	192	188	278	332	418
% of total	5	6	6	6	9
Asia Pacific	260	161	254	320	249
% of total	7	5	5	6	5
Africa	120	131	151	147	146
% of total	3	4	3	3	3
Total incl others	**3,961**	**3,250**	**4,797**	**5,506**	**4,648**
Total no. of tourist nights	26,579	20,151	31,002	32,788	29,813

Sources: Central Bank of Egypt; Central Agency for Public Mobilisation and Statistics.

Principal stockmarket indicators

(E£ m unless otherwise indicated; year-end)

	1998	1999	2000	2001	2002
No. of companies listed	861	1,033	1,076	1,110	1151
No. of companies traded	551	663	659	643	671
Total value of traded shares	23,363	42,056	54,012	31,796	34,167
Value of listed shares	18,500	35,821	45,789	24,660	25,790
Value of unlisted shares	4,863	6,235	8,223	7,136	8,377
Volume of traded shares (m)	571	1,074	1,108	1,260	833.7
No. of transactions ('000)	687,213	905,200	1,286,311	1,147,931	n/a
Market capitalisation	83,140	112,331	119,778	111,338	120,200

Source: Capital Markets Authority.

Foreign trade

(E£ m)

	1998	1999	2000	2001	2002
Exports fob	10,606	12,086	16,274	16,343	21,184
Imports cif	54,771	54,399	48,645	50,660	56,480
Trade balance	**44,165**	**42,313**	**32,371**	**34,317**	**35,296**
Suez Canal dues	6,109	6,015	6,223	7,546	8,978

Source: IMF, *International Financial Statistics*.

Exports

(US$ m)

	1999/2000	2000/01	2001/02[a]
Fuels, mineral oil & products	2,283.6	2,649.6	1,933.6
Crude petroleum	902.0	1,165.6	686.4
Petroleum products	1,370.9	1,466.8	1,217.2
Charcoal & types thereof	7.8	15.9	3.9
Cotton	166.7	144.5	83.2
Raw materials	153.7	162.6	184.8
Potatoes	13.5	9.8	6.7
Citrus fruits	3.7	2.1	7.0
Medicinal plants	14.6	36.1	29.2
Raw aluminium	19.3	0.0	0.0
Semi-finished commodities	282.8	398.5	440.5
Carbon	10.0	10.6	19.5
Essential oils & resins	2.2	2.0	11.0
Aluminium, not mixed	38.4	82.8	46.4
Cotton yarn	101.0	121.3	147.0
Finished commodities	2,603.7	2,788.4	2,955.7
Rice	41.9	78.5	78.5
Pharmaceutical products	32.2	59.2	82.5
Fertilisers	113.7	64.2	48.4
Carpets & other floor covering	61.4	59.8	83.8
Articles of iron or steel	89.7	272.3	257.5
Aluminium articles	31.7	47.3	124.5
Ready-made clothes	224.6	232.8	187.2
Cotton textiles	80.9	115.2	108.9
Undistributed commodities	897.2	934.6	1,045.6
Total exports	**6,387.7**	**7,078.2**	**6,643.4**

[a] Provisional.

Source: Central Bank of Egypt.

Imports
(US$ m)

	1999/2000	2000/01	2001/02
Fuels, mineral oil & products	1,052	954	520
Petroleum products	988	892	453
Charcoal & types thereof	58	61	65
Raw materials	2,688	3,679	3,277
Crude petroleum	1,399	2,280	1,976
Wheat	373	533	489
Maize	463	397	395
Tobacco	206	147	143
Cotton	25	30	22
Intermediate goods	4,210	3,972	3,702
Animal & vegetable fats	374	346	373
Chemicals	397	391	448
Plastics	547	504	410
Wood	429	388	321
Paper, corkboard	443	444	373
Iron & steel products	747	553	551
Aluminium & articles	59	79	55
Rubber & articles	143	133	122
Investment goods	5,639	3,696	3,023
Computers	183	147	124
Motors, generators, transformers & spare parts	206	105	96
Passenger vehicles	14	18	12
Spare parts for cars	528	348	275
Electric appliances for telecommunications	547	318	299
Other machines & electric appliances	1,748	1,062	844
Optical appliances	364	281	236
Consumer goods	2,996	2,865	2,779
Durable	603	681	750
Refrigerators, freezers	73	71	74
Televisions & parts	50	43	46
Cars	171	157	135
Non-durable goods	2,393	2,183	2,030
Milk & products, eggs & honey	171	142	112
Refined sugar	15	55	48
Pharmaceutical products	523	469	583
Insecticides	73	45	32
Ready-made clothes	222	205	145
Cotton textiles	17	17	13
Undistributed commodities	1,276	1,275	1,343
Total	**17,860**	**16,441**	**14,644**

Source: Central Bank of Egypt.

Balance of payments, IMF series

(US$ m)

	1998	1999	2000	2001	2002
Merchandise exports fob	4,403	5,237	7,061	7,025	7,132
Merchandise imports fob	14,617	15,165	15,382	13,960	12,878
Trade balance	**-10,214**	**-9,928**	**-8,321**	**-6,935**	**-5,747**
Exports of services	8,141	9,494	9,803	9,042	9,153
Imports of services	-6,492	-6,452	-7,513	-7,037	-6,629
Inflows of interest, profit & dividends (IPD)	2,030	1,788	1,871	1,468	698
Outflows of IPD	-1,075	-1,045	-983	-885	-965
Current transfers: credit	5,166	4,564	4,224	4,056	4,002
Current transfers: debit	-122	-55	-52	-98	-42
Current-account balance	**-2,566**	**-1,635**	**-971**	**-388**	**470**
Net direct investment	1,031	1,027	1,184	498	619
Net portfolio investment	-600	595	266	1,461	-679
Other capital	1,470	-3,045	-3,096	-1,770	-3,277
Capital-account balance	**1901**	**-1421**	**-1646**	**190**	**-3,337**
Net errors & omissions	-722	-1,558	587	-1,146	2,142
Overall balance	**-1,387**	**-4,614**	**-2,030**	**-1,345**	**-725**
Reserve assets	535	4,027	1,306	507	725
Use of IMF credit & loans	-	-	-	-	-
Exceptional financing	852	587	724	838	782

Source: IMF, *International Financial Statistics*.

Balance of payments, national series

(US$ m)

	1998/99	1999/2000	2000/01	2001/02	2002/03[a]
Merchandise exports fob	4,445	6,388	7,078	7,121	8,205
Petroleum	1,000	2,273	2,632	2,381	3,161
Non-petroleum	3,445	4,115	4,446	4,740	5,044
Merchandise imports fob	17,008	17,860	16,441	14,637	14,821
Trade balance	**-12,562**	**-11,474**	**-9,363**	**-7,517**	**-6,616**
Exports of services	11,025	11,426	11,696	9,618	10,441
Imports of services	5,056	5,796	6,109	5,740	5,552
Private transfers (net)	3,772	3,747	2,973	3,109	2,946
Official transfers (net)	1,097	932	769	1,144	664
Current-account balance	**-1,724**	**-1,163**	**-33**	**614**	**1,883**
Net direct investment	711	1,656	509	428	701
Net portfolio investment	-174	473	261	45	187
Capital- & financial-account balance[b]	**919**	**-1,199**	**-542**	**-964**	**-2,734**
Net errors & omissions	-1,312	-664	-296	-107	1,397
Overall balance	**-2,117**	**-3,027**	**-871**	**-456**	**546**

[a] Provisional. [b] Includes other investment and net borrowing.

Source: Central Bank of Egypt.

External debt, World Bank series

(US$ m unless otherwise indicated; debt stocks as at year-end)

	1997	1998	1999	2000	2001
Public medium- & long-term	26,804	27,622	26,102	24,350	25,243
Private medium- & long-term	131	384	481	573	619
Total medium- & long-term debt	**26,935**	**28,006**	**26,583**	**24,923**	**25,861**
Official creditors	25,729	26,749	25,544	23,807	23,249
Bilateral	21,837	22,553	21,501	19,928	19,568
Multilateral	3,892	4,195	4,043	3,879	3,681
Private creditors	1,076	874	558	543	1,994
Short-term debt	2,993	4,262	4,294	4,104	3,373
Interest arrears	5	2	1	1	1
Use of IMF credit	0	0	0	0	0
Total external debt	**29,928**	**32,268**	**30,877**	**29,027**	**29,234**
Principal repayments	955	959	1,202	1,091	1,099
Interest payments	1,022	929	910	728	834
Short-term debt	262	227	231	113	150
Total debt service	**1,977**	**1,888**	**2,112**	**1,819**	**1,932**
Ratios (%)					
Total external debt/GDP	38.9	38.7	34.3	28.9	29.4
Debt-service ratio, paid[a]	10.0	9.8	11.0	8.4	8.9
Short-term debt/total external debt	10.0	13.2	13.9	14.1	11.5
Concessional long-term debt/total long-term debt	75.3	72.5	72.8	72.6	68.3

Note. Long-term debt is defined as having original maturity of more than one year.

[a] Debt service as a percentage of earnings from exports of goods and services.

Source: World Bank, *Global Development Finance*.

Net official development assistance[a]

(US$ m)

	1996	1997	1998	1999	2000
DAC countries	1,933	1,496	1,472	1,298	1,139
US	725	542	810	667	635
Germany[b]	442	397	112	104	65
Japan	201	125	85	132	86
Multilateral	212	388	267	211	136
IDA	67	141	39	14	26
EC	98	197	190	151	73
Arab countries	54	97	212	71	-
Total incl others[c]	**2,199**	**1,982**	**1,951**	**1,579**	**1,328**
Grants	1,858	1,597	1,845	1,531	1,437

[a] Disbursements. Official development assistance is defined as grants (excluding any technical co-operation grants) and loans with at least a 25% grant element, provided by OECD and OPEC member countries and multilateral agencies, and administered with the aim of promoting development and welfare in the recipient country. IMF loans, other than Trust Fund facilities, are excluded, as is aid from the former Eastern bloc. [b] West Germany only until June 1990. [c] Components may not add up to total because of rounding.

Source: OECD Development Assistance Committee, *Geographical Distribution of Financial Flows to Aid Recipients*.

US aid to Egypt

(US$ m; US fiscal years)

	2002	1998	1999	2000	2001
Economic grant aid	615	815	775	735	655
Military grant aid	1,300	1,300	1,300	1,300	1,300
Total (obligation basis)	**1,915**	**2,115**	**2,075**	**2,035**	**1,955**

Source: US embassy, Cairo.

State budget 2002/03[a]

(E£ bn)

	2001/02	2002/03	Change (%)
Current spending	**98.0**	**107.7**	**10.0**
Wages	31. 9	34.8	9.0
Other current spending	66.2	72.9	10.0
Pensions	10.3	11.6	13.0
Education	19.7	21.4	8.0
Health care	6.9	7.7	7.0
Subsidies	6.2	6.7	9.0
Interest on domestic debt	22.9	26.0	13.0
Interest on foreign debt	2.3	2.4	4.0
Capital spending	**28.8**	**33.9**	**18.0**
Investments	15.3	19.3	26.0
Capital spending	13.5	14.6	8.0
Total spending	**126.9**	**141.6**[b]	**12.0**
Current revenue	**94.3**	**97.6**	**-3.4**
Tax revenue	69.1	72.2	4.0
General income tax	29.4	31.0	5.0
Custom duties	13.8	13.8	0.0
Sales tax	19.9	20.6	4.0
Other duties	n/a	6.6	n/a
Non-tax revenue	25.2	25.4	1.0
Petroleum Authority (EGPC)	4.7	4.5	-4.0
Suez Canal Authority (SCA)	3.7	4.1	11.0
Central Bank of Egypt (CBE)	5.0	4.8	-4.0
Economic authorities	0.7	0.6	-14.0
Capital revenue	**11.8**	**13.8**	**-14.5**
Investments	4.1	6.3	54.0
Capital transfers	7.7	7.5	-3.0
Total revenue	**106.1**	**111.5**	**5.0**
Total balance	**-20.8**	**-30.2**	**-45.0**
Total balance/GDP (%)	**n/a**	**7.5**	**n/a**
Finance			
Saving Pools	10.2	11.5	n/a
Foreign loans & facilities	0.9	1.5	n/a
Net balance	-9.6	-17.2	n/a
Net balance/GDP (%)	n/a	4.3	n/a

[a] Many subcomponents of table do not add in source. [b] Excludes the additional E£1.386bn requested by parliament for the development of rural areas.

Source: Press reports.

Exchange rates
(end-period)

	1998	1999	2000	2001	2002
E£:US$	3.388	3.405	3.69	4.49	4.50
E£:SDR	4.7704	4.6734	4.8077	5.6427	6.1178

Source: IMF, *International Financial Statistics*.

Foreign reserves
(US$ m unless otherwise indicated; end-period)

	1998	1999	2000	2001	2002
Foreign exchange	17,888	14,278	12,913	12,891	13,151
SDRs	160	41	48	35	91
Reserve position in the IMF	76	165	156	-	-
Total reserves excl gold	**18,124**	**14,484**	**13,118**	**12,926**	**13,242**
Memorandum items					
Gold[a]	541	475	511	488	571
Gold (m fine troy oz)	2.432	2.432	2.432	2.432	2.432

[a] National valuation.

Source: IMF, *International Financial Statistics*.

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