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**TAPRII**  
TECHNICAL ASSISTANCE  
FOR POLICY REFORM

# ECONOMIC GROWTH BULLETIN

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## I. ECONOMIC GROWTH IN THE NEWS

### MACROECONOMY

**Gross Domestic Product:** GDP grew to 6.85% for the first quarter of 2007-8 as compared to 7.2% in the fourth quarter of FY 2006-7, and 7.1% for the year as a whole.

**Balance of Payment and Balance of Services:** Central Bank of Egypt (CBE) announced that Egypt's balance of payments had a surplus of \$1.2 billion for FY 2007-8, against a surplus of \$1.1 billion during the same period last year. Underlying this was a surplus of \$1.7 billion in the capital and financial account, and a deficit of \$.1 billion in the current account. Egypt's services surplus remained at \$3 billion in July-September 2007, as it did over the same period the previous year.

**Foreign Reserves:** According to CBE, net foreign reserves rose to \$32.21 billion at the end of January 2008, up from \$31.68 billion during the previous month.

**Budget Deficit:** The Ministry of Finance announced that the overall budget deficit is projected to reach LE 58.77 billion (7.0% of GDP) for FY 2007-08. It was LE 54.7 billion (7.5% of GDP) for FY 2006-07.

**Inflation Rate:** Inflation rate increased to 11.5% year-on-year in January 2008 from 6.9% in December 2007. The rise is attributed to higher international food prices, leading to an acceleration in domestic food inflation, which in turn has touched off non-food inflation.

### FISCAL

**Higher Energy Subsidy:** Government of Egypt has recently approved an

additional LE 19.7 billion in fuel subsidies for FY 2007-8. Rising international oil and gas prices have, according to GOE, necessitated the increase in subsidy. This comes in contrast to GOE's new industrial energy policy enacted in July 2007 that will gradually eliminate energy subsidies for a number of energy-intensive industries by 2010.

**Removal of Indirect Price-Determined Subsidies on Fertilizers:** Subsidies will be paid directly to poor farmers needing financial support. Ceiling prices on fertilizers will be eliminated to remove distortions in the fertilizer markets.

**Imposition of Annual Gas Tax:** GOE will introduce an annual gasoline consumption tax to help defray the cost of fuel subsidies. The tax will be based on engine capacity and will be assessed during the car's annual registration process.

### MONETARY AND FINANCIAL

**Overnight Deposit Rates Unchanged:** CBE maintained overnight deposit and lending rates at 8.75% and 10.75%, respectively.

**Re-appointment of Central Bank Governor:** President of Egypt has issued a decree renewing the appointment of Farouk El Okdah as the Governor of the Central Bank of Egypt for a second four-year term. During his first term in office, the Governor has been active in pushing financial sector reforms and has overseen a doubling of net foreign reserves to \$31 billion.

**Issuance of T-Bills and Bonds:** Ministry of Finance plans to issue LE 57 billion in T-Bills and Bonds during the

first quarter of 2008 to help finance the country's fiscal deficit, which stood at 7.5% of GDP in 2006-7.

**Rise in Electricity Prices:** In a surprise move, Egypt raised electricity prices by 7-11% for households, businesses, and agriculture. The rate increase took effect in December 2007 and was contrary to what was stated in July during the passing of the new electricity law. The law noted that local and international companies would be allowed to compete for electricity generation and distribution licenses and that the price of electricity was not expected to rise.

**Sale of Banque du Caire Sale with 12 International Banks Interested:** GOE plans to sell 51-67% of Banque to Caire to a strategic investor by May 2008. To date, Egypt's third largest bank has garnered interest from 12 international banks. The CBE is expected to short-list four to six institutions to carry out due diligence on the bank.

**Settling of Nearly LE 55 Billion in Non-Performing Loans (NPLs):** According to local press reports, Egypt's two largest state-owned banks, National Bank of Egypt and Banque Misr, have settled close to LE 55 billion in NPLs over the past four years, 80% of which was recovered.

**Egyptian Credit Bureau 'I-SCORE' Secures License from CBE:** Egypt's first credit bureau 'I-SCORE' secured a license after meeting CBE regulations. Owned by roughly 25 private and state banks and the Social Fund for Development, the bureau will provide credit information on borrowers with banks, mortgage finances companies, and leasing companies.

**Suez Canal Fees to Increase in 2008:** The Suez Canal Authority announced that it will increase transit fees for ships

passing through the Canal by an average of 7.1%. The last increase took place in April 2007. It is expected that canal revenues, Egypt's largest revenue earner after tourism and worker remittances, will reach a record \$4.6 billion in 2007.

**Egypt Plans to Reform Subsidy Program:** Efforts are underway to develop plans to reform national subsidy programs so as to better reach target beneficiaries. Reforms will be cross-cutting and efforts will be made to better target those in true need of government subsidies.

## INVESTMENT

**Foreign Direct Investment:** CBE announced that foreign direct investment for the period of July-September FY 2007-8 reached \$3 billion against \$3.2 billion during the same period of the previous year. The slight decrease is traceable to a drop in investment inflows. A growing percentage of FDI continues to be in the area of greenfield investments.

**Bank of Alex Shares to be Offered in IPO:** GOE intends to release 15% of Bank of Alex shares via an IPO once final year end results are announced.

## TRADE

**Trade Indicators:** According to a CBE statement, merchandise exports for FY 2007-8 grew by 10.7% from the same period last year to stand at \$6 billion, while merchandise imports increased by \$2.7 billion or 32.3%, to reach \$11.2 billion. The increase in exports is attributed to a 19.6% increase in non-oil exports, namely finished goods and raw materials. The increase in imports was a result of both a 32.8% increase in non-

oil imports and a 29.5% rise in oil imports.

**Bilateral Trade with US on the Rise:** Despite the absence of a Free Trade Agreement with the US, bilateral trade has jumped from just over \$4 billion in 2004 to well over \$6 billion in 2006. The increase is due in large part to the favorable Qualified Industrial Zone agreement Egypt has signed with the US.

**Turkey Inaugurates First Industrial Park in Egypt:** Following the signing of a free trade agreement in 2005, Turkey established the first ever industrial park in Egypt in January 2008. With a total of \$1.5 billion in investments, the industrial park Polaris is expected to attract \$4 billion over the coming four years. Since signing the FTA, bilateral trade has jumped to \$1.5 billion in 2007, a 32.4% from the prior year.

## LEGAL/REGULATORY

**Price-fixing Charges Against Twenty Cement Companies:** Executives of twenty cement companies will be tried on criminal charges of price-fixing. The Antitrust and Competition Protection Commission (ACPC) issued a report after a 14-month investigation that alleges the cement companies conspired to raise the price of cement and restrict marketing. If convicted, the companies could face fines of LE 30,000 to LE 10 million.

**Ministry of Trade and Industry Introduces Amendments to Competition Law:** Amendments stipulate harsher fines and stricter regulations for companies accused of anti-competitive behavior.

**Sharm El Sheikh Home to New International Arbitration Center:** The newly opened Sharm El Sheikh International Arbitration Center (SHIAC) adheres to the overarching UN international commercial law and can rule in French, German, or British law. SHIAC will serve local demands as well as address regional arbitration needs.

## SECTORS

**Steel and Cement Production Rise in First Quarter 2008:** Reaching 10.1 million tons, cement production increased 4.8% from the same time the previous year. While exports have dropped 39% to 1.1 million tons due to a recent government imposed export duty on cement, the sector is expected to add another 18-20 million tons of cement capacity by 2011. Production of steel rebar grew 7% to 836,000 tons with a 38% increase in sales. Cost of steel rose to LE 4,200 per ton, up from LE 3,350 per ton in March 2007.

**Tourist Arrivals Jump 37% and Revenue Increases 64%:** Tourist arrivals for the month of November increased by 37% year-on-year to 1.1 million. It is estimated that tourism revenue for the same period has jumped 64% year-on-year to \$1.05 billion

**WiMAX Network to Cover Egyptian Police Stations and Offices:** Ministry of Interior Affairs recently selected Aperto Networks to provide equipment for Egypt's first WiMAX network to cover government offices across the country. The WiMAX solution will include base stations and subscriber units to provide wireless technology for integrated data, voice and video services across long distances.

## II. USAID ACTIVITIES IN THE NEWS

### TRADE

**Import Export Law:** USAID provided assistance to the Ministry of Trade and Industry in the revision of the current Executive Regulations of the Import and Export Law (118/1975). The ultimate objective of this activity is to bring these regulations into closer alignment with international norms and best practices. The proposed revisions would streamline import/export procedures, clarify roles of different border clearance agencies, and comply with WTO and other international agreements.

**Food Safety:** USAID assisted the GOE in drafting a law establishing the new Egyptian Food Safety Authority. The Law was approved by the three concerned Ministers (Trade, Agriculture, and Health) and should be presented to the Cabinet this summer. Currently, responsibility for Egyptian food safety is scattered among three ministries and is generally viewed as ineffective. The new authority will serve as the sole organization responsible for food control. This will lead to many positive results, including business friendly environment for food businesses, better food standards, increase in exports, and compliance with international norms.

**Ports:** As part of USAID's trade facilitation efforts, TAPRII has started to work with the Ministry of Transport on several tasks: development of a comprehensive master plan for all Egyptian ports, an assessment for the port operations at the Damietta Port, and the establishment of a Port Regulatory Body.

**Evaluation:** An end of project evaluation for USAID's Assistance for Trade Reform Project was carried out by the Mitchell Group.

### FINANCIAL SECTOR

**CBE Payment Systems:** The Payments Systems Department in the Central Bank of Egypt (CBE) is working on developing standards, policies and procedures to modernize the CBE retail payments system. These policies and procedures (including licensing procedures) are necessary for the CBE to regulate payment clearing organizations. TAPR II is assisting the CBE in defining the best business model, business solutions and strategy, needed legislation changes, and roles and responsibilities of stakeholders.

**Islamic Banking:** An international expert on Islamic banking has visited Egypt through the TAPR II project to meet with Egyptian Bankers and prepare a preliminary assessment on the demand for Islamic products in the banking sector. The expert also held a seminar at the Egyptian Banking Institute (EBI) to educate bankers on the nature of Islamic products and how they differ from the usual bank loan products. Furthermore, the expert prepared a list of recommendations and a work plan on the required steps that should be undertaken by the CBE and EBI to develop and regulate Islamic banking in Egypt. PPS is following up with EBI and the CBE on the implementation of the plan.

**Private Pension Funds Supervision:** As part of its effort to adopt risk based supervision techniques for pension funds, the Egyptian Insurance

Supervisory Authority (EISA) has decided to impose solvency valuation as an integral part of the actuarial valuation process of the funds. TAPR II worked with EISA staff to prepare a document laying down the principles and methodology of solvency valuation of pension funds and to train selected staff on the actuarial and administrative issues related to solvency valuation. Using the new methodology, TAPR II is assisting EISA in surveying 60 of the big pension funds to assess their solvency situation and to determine necessary next steps to deal with any serious solvency problems.

**EISA Reorganization:** Aiming at strengthening EISA's role in regulating the insurance sector, TAPR II assisted EISA in developing a new organizational structure, redrafting job descriptions for staff, and training staff. The new organization structure and job descriptions have been adopted by EISA. Based on the new structure, several teams are being formed to lead on-site and off-site supervision of insurance companies based on risk-based systems.

**Social Insurance Modernization Plan:** The Ministry of Finance (MOF) is committed to modernize the existing social insurance system in Egypt, which consists of two public pension funds. Based on a request from the ministry, TAPR II has put together a roadmap and modernization plan to improve the performance of the system in terms of core business processes, HR and financial management, IT and regulatory reform. Meanwhile, quick wins have been identified and are being implemented by TAPR II to improve the efficiency of the system. These relate mainly to: (1) establishment of a customer call center; (2) development of more convenient payment locations where pensioners can cash their

pensions; (3) provision of IT training to the Funds' staff; (4) formulation of a strategy and implementation plan for e-archiving; and (5) drafting amendments to executive regulations.

**Model Registration Office in Mokattam:** Property registration has been identified as one of the main problems hindering the development of the mortgage market. To help the GOE to simplify and significantly reduce the time of registration, the EFS project is helping the Ministry of Justice and the Egyptian Survey Authority to establish a model registration office in Mokattam. In this office, registration will be fully automated and the business process simplified. The office should go live and accommodate registration requests by the end of July 2008.

**USAID- Supported MFIs:** In December 2007, the MIX, a public, web-based worldwide microfinance information platform, published the Global Composite Ranking of the Top 100 Microfinance Institutions (MFIs) for the year 2006. This ranking included three USAID-supported MFIs in Egypt. Dakahliya Businessmen Association for Community Development (DBACD) was ranked 45<sup>th</sup> in the overall ranking of the MFIs and 80<sup>th</sup> in terms of Efficiency Ranking. Egyptian Small Enterprise Development Foundation (ESED) was ranked 80<sup>th</sup> in the Outreach Ranking. The LEAD Foundation was 67<sup>th</sup> in terms of Portfolio Quality and 100<sup>th</sup> rank in terms of Efficiency. In addition, Forbes Magazine recently published the list of the top 50 MFIs in terms of scale, efficiency and risk, which included one USAID-supported MFI in Egypt: DBACD, ranked 28<sup>th</sup>.

**MFIs Mapping:** USAID's Egypt Microenterprise Finance Project (EMF) and the Egyptian Microfinance Network (EMFN) cooperated to develop the first Map of Microfinance Institutions (MFIs)

in Egypt based on the recommendation of the *National Strategy for Microfinance in Egypt*. The purpose of the Map is to assist key stakeholders in the Egyptian microfinance industry, principally the MFIs, in identifying un-served and underserved markets.

EMF also conducted the first survey of salaries and incentives schemes offered by MFIs in Egypt. Eleven MFIs participated. The data will provide a detailed understanding of the current labor market for skilled microfinance professionals in Egypt.

**External Audit Training:** USAID's Egypt Microenterprise Finance Project (EMF) conducted a workshop for external audit firms and partner MFIs aimed at increasing the efficiency and effectiveness of the MFIs external auditing process. The workshop highlighted the unique aspects of microfinance operations and their impact on the preparation of the financial reports. This is a key step towards increasing the transparency of Egypt's microfinance sector and institutionalizing the external audit process as one of the main tools to assess the performance of MFIs.

## MACROECONOMICS

**Ongoing Tax Reform:** The Egyptian Tax Administration has requested USAID's assistance in developing a balanced scorecard for the new Egyptian Tax Authority (ETA), which was recently created by merging the Sales and Income Tax Departments. This scorecard will provide a means for driving and tracking the progress made in the ETA in implementing its strategic development plan.

TAPR II is also providing technical assistance to the new Egyptian Tax Authority on a number of human

resource fronts such as developing new performance appraisal systems and designing a leadership development program. Analysis of the current staff performance appraisal systems within the Income and Sales Tax Department was completed in Nov-Dec 2007, and high-level recommendations for the design of a new Employee Appraisal Program (EAP) was developed, presented to, and agreed by, the Commissioner in December 2007. The detailed design of the new EAP was completed in January 2008. The Leadership Development Program (LDP) followed a similar course with analysis of the current leadership programs taking place in Nov-Dec 2007, an assessment of leadership needs was completed in January 2008 and future leadership development policies, processes and practices were agreed by the Commissioner in March 2008.

## LEGAL/REGULATORY

**Consumer Protection:** With USAID support the Consumer Protection Agency and Al Ahram Regional Center for Journalism provided training to 30 journalists on consumer protection on November 18 – 22, 2007. USAID had previously supported the establishment of the Egyptian Consumer Protection Agency (CPA). The objective of the training was to improve the media's awareness and understanding of recent efforts by the GOE to enhance consumer protection, including passage of a consumer protection law and establishment of the Consumer Protection Agency. The training emphasized the crucial roles that the media and civil society can play in strengthening consumer protection.

**Dispute resolution:** In an effort to expedite dispute resolution among shareholders in joint stock companies, the General Authority for Foreign

Investment (GAFI) decided to establish a mediation center as an alternative to the normal approach of settling such disputes in court. USAID is assisting GAFI to establish such a mediation center. Specifically, USAID has conducted a number of training sessions for the selected mediators. GAFI is working in the issuance of the decree for the establishment of this center, which is expected to be issued in the coming months.

**Evaluation:** An end of project evaluation for USAID's Intellectual Property Reform Activity was carried out by the Mitchell Group.

## **PRIVATE SECTOR**

**Egyptian National Competitiveness Council:** TAPR-II project sponsored Professor Robert Klitgaard's visit from January 21<sup>st</sup> to 26<sup>th</sup>, 2008 at the request of the Egyptian National Competitiveness Council. Professor Robert Klitgaard is President of the Claremont Graduate University. During his visit, Professor Klitgaard spoke to numerous group on topics relating to institutional reform and anti-corruption efforts.

## **HUMAN RESOURCES**

**Business Education:** On Tuesday 20<sup>th</sup> November 2007; the Faculty of Economics and Political Science at Cairo University in cooperation with USAID jointly held a workshop entitled "Housing Market: Facts and Policies". Engineer Ahmed El Maghraby, Minister of Housing inaugurated the workshop. A number of recognized economic and housing experts participated in the workshop along with

real estate developers from the private sector and individuals from the financial community. The first session focused on the demand for housing in Greater Cairo based on a recent study undertaken by TAPR II for both the Ministries of Housing and Investment. The second session analyzed the GOE's housing policies and identified areas of possible reform. The third and last session touched on the role of mortgage finance in the housing market and featured a panel discussion by representatives from the private sector. The event received wide newspaper coverage in daily newspapers.

**Legal Education:** In January 2008, the Indiana University School of Law – Indianapolis (Indy Law) started teaching its commercial law LL.M. courses in Egypt, in conjunction with the Cairo and Alexandria University Faculties of Law, the two oldest and most prestigious law schools in the Arabic-speaking world. Indy Law is offering Egyptian students the same courses and the same American LL.M. degree as in Indianapolis. Some of Cairo's and Alexandria's internationally trained professors are teaching in the LL.M. program as adjunct Indy Law faculty. In addition to providing a grant for Indy Law's start-up costs, USAID assisted Cairo and Alexandria Universities to upgrade physical facilities, libraries, and computerization. USAID is also financing advanced legal training in the U.S. for junior faculty members from Cairo and Alexandria. The partner universities plan for the LL.M. to be a permanent program and are reaching out to stakeholders in the Middle East and the U.S. to raise funds for when the USAID grant comes to an end.