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TAPRII
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FOR POLICY REFORM

ECONOMIC GROWTH BULLETIN

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I. ECONOMIC GROWTH IN THE NEWS

MACROECONOMY

Gross Domestic Product: GDP growth fell to 7.5% in Q3 FY 2007-08, from 8.1% in Q2 FY 2007-08.

Balance of Payment and Balance of Services: Central Bank of Egypt (CBE) announced that Egypt's balance of payments had a surplus of \$3.1 billion for July-December FY 2007-8, against a surplus of \$2.9 billion during the same period last year. Underlying this was a surplus of \$3.1 billion in the capital and financial account, and a deficit of \$2 billion in the current account. Egypt's services surplus stood at \$6.8 billion in July-December FY 2007-8, compared with \$5.6 billion over the same period the previous year.

Foreign Reserves: According to CBE, net foreign reserves rose to \$33.7 billion at the end of March 2008, up 28.1% from March 2007.

Budget Deficit: The Ministry of Finance announced that the overall budget deficit reached LE 31.8 billion (3.8% of GDP) for the first half of FY 2007-8, up from LE 10.8 billion (1.5%) for the same period in FY 2006-7.

Inflation Rate: Inflation rate increased to 16.4% year-on-year in April 2008 from 14.4% in March 2008. 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.

Egypt Joins OECD: Egypt recently became the first Arab and North African country to join the Organization for Economic Cooperation and Development (OECD). The organization provides a platform for policy makers, private sector, think tanks, and civil society to subscribe to

best practices in economic development.

FISCAL

Higher Tax Revenues: Minister of Finance announced that tax revenues rose to LE 10.5 billion during the first half of FY 2007-8 up from LE 7.6 billion during the same period in the previous year. Collections of sales tax has increased to LE 23.2 billion for the first 10 months of FY 2007-8, up 30% from the same period in FY 2006-7.

GOE Announces 30% Increase in Public Sector Salaries: Slated to take effect in May 2008, President Mubarak announced government and public sector employees will now earn 30% more in salaries.

GOE Announces Fuel Price Hike and Increase in Taxes: Under new legislation, Parliament approved a price hike of 40-50% on fuel prices, an increase in sales tax on cigarettes, higher vehicle registration fees, and the removal of tax breaks for heavy industry. The increases are designed to help off-set the estimated LE 14 billion cost of increasing salaries for government workers while maintaining critical food and bread subsidies.

GOE Announces Energy Hike for Power-Intensive Industries: Natural gas and electricity prices for energy-intensive industries will rise in July 2008 to help relieve pressure on the government budget. The price of natural gas would rise to \$2.22 per million BTUs from \$1.85 per million BTUs, while electricity prices would increase by 20%. Another increase in the cost of natural gas will occur in January 2009, taking the price to \$2.65 BTUs as Egypt

gradually phases out subsidies on energy and electricity.

MONETARY AND FINANCIAL

Overnight Deposit Rates Unchanged: CBE maintained overnight deposit and lending rates at 9% and 11%, respectively for February-March 2008. In April 2008, CBE raised both rates to 9.5% and 11.5% respectively.

Egypt's First Lease-Backed Securitization: Corporate Leasing Company completed Egypt's first lease-backed securitization transaction recently. Backed by a portfolio of 516 lease contracts, Egyptian Securitization Company issued bonds for LE 360 million which were rated "AA" by the local Moody's affiliate. The bonds carry a fixed coupon of 9.75% payable on a monthly basis with a tenor of roughly 2 years.

Suez Canal Raises Tariff Rates: Starting in April 2008, the Suez Canal Authority will begin its scheduled transit tariff increase. The fees will rise by 4.2% to 14.1%, with an average increase of 7.1%. Canal receipts rose to \$414 million in January 2008 year-on-year from \$350.2 million in January 2007. In FY 2006-7, Suez Canal revenue represented 3.3% of GDP and 11% of government revenue, Egypt's third largest source of foreign currency.

INVESTMENT

Foreign Direct Investment: CBE announced that foreign direct investment for the first half of FY 2007-8 reached \$7.8 billion against \$7.2 billion during the same period of the previous year. The slight increase is traceable to an increase in the net flows in the oil sector.

Appointment of new Vice Chairman for General Authority for Investment (GAFI): Mohammed Mustafa was appointed as Vice Chairman for GAFI for a one year term by Prime Ministerial Decree No. 924/2008 on April 12, 2008.

Streamlining Business Start-Up Procedures: The International Finance Corporation (IFC) along with Egypt's Industrial Development Agency (IDA) signed a memorandum of understanding aimed at creating an integrated platform for business start-up across the nation. Under this agreement, the IDA will receive a \$1.2 million grant to develop decentralized and streamlined industrial license procedures nationwide.

Related to this initiative, the IFC signed an agreement with the Ministry of Housing to simplify building licenses and permits.

Due Diligence on Banque du Caire Sale Begins: CBE recently short-listed five buyers and gave them permission to begin due diligence studies on Banque du Caire. CBE expects the sale of Banque to Caire to top that of Bank of Alexandria which was sold for \$1.6 billion.

TRADE

Trade Indicators: CBE reports that merchandise exports for the first half of FY 2007-8 grew by 22.8% from the same period last year to stand at \$13.1 billion, while merchandise imports increased by \$7.1 billion or 41.2%, to reach \$24.4 billion. The increase in exports is attributed to a 26.2% increase in non-oil exports, namely finished goods and raw materials. The increase in imports was a result of both a noticeable rise in non-oil and oil imports.

Egypt Bans Cement Exports for Six Months: To steady market prices of cement, GOE has placed a ban on

cement exports that will last until September 2008.

Egypt Bans Rice Exports for Six Months: To help curb market prices of rice locally, GOE has placed a ban on rice exports until September 2009. Annual production of rice is roughly 4.6 million tons, with a local consumption of 3.2 million. The balance is generally exported.

Government Cuts Tariffs and Reduces Customs Duties: President Mubarak issued a presidential decree in April amending custom duties on 111 items. Under this decree 'strategic products' such as rice, edible oils, some dairy products and items for those with chronic disease have been completely exempted from customs duties. The move is aimed at alleviating the pressure on domestic prices, on foodstuffs in particular.

LEGAL/REGULATORY

Trial Against Twenty Cement Companies for Price-Fixing Begins: The trial of twenty cement company executives began in February and was quickly adjourned due to procedural recess.

Steel Merchants Probed for Price Hikes: Eleven steel merchants are currently under investigation for allegedly increasing the cost of steel unjustifiably. Prices for steel have soared since the start of 2008 selling at record highs with some fingers now pointing to wholesalers and retailers for this significant increase. Amendments to the Competition Law stipulate harsher fines and stricter regulations for companies accused of anti-competitive behavior.

Capital Requirements of Limited Liability Companies Reduced:

Minister of Investment issued a decree amending executive regulations of Law No. 159/1981 to reduce the capital requirements of limited liability companies from LE 1,000 to LE 200. The move is designed to further encourage the establishment of small-medium enterprises.

Ministry of Investment Introduces Economic Courts Law: Egyptian parliament recently adopted the passing of a new Economic Courts Law. The new law aims to enhance the business environment by providing consistent and internationally recognized litigation procedures for settling economic disputes.

Ministry of Investment Introduces Amendments to Insurance Law: Amendments include transformation of control technique to be based on risk management, enhancement of the role of the insurance federation, reorganization of insurance brokerage professional, and increase in companies minimum capital requirements from LE 30 million to LE 60 million.

Two New Governorates Established: President Mubarak issued Republican Decree No. 115 on April 17, 2008, to establish two new governorates: Helwan and October 6 City. The decree effectively redrew administrative borders of Greater Cairo governorates to create the two new governorates. Egypt now has 28 Governorates.

SECTORS

Egypt Announces a Reduction in Rice Production in Favor of Corn: Egypt has decided to reduce the land allocations for planting rice and promote growing corn. Corn requires less water to produce and would ease Egypt's dependency on imports.

Steel Magnate, El Ezz, Raises Price of Steel Again: The consumer price of steel has leaped to LE 5,630 per ton, the fifth such increase since the beginning of 2008. Linking the significant increases to upsurges on the international markets, Ezz Steel indicates that prices of raw billet could see a 40% increase this year.

Price of Fertilizer Leaps to LE 2,800 per Ton: Fertilizer prices jumped 75%

in 2008 to LE 2,800 per ton. Current international price of fertilizer is LE 2,530 per ton. State-owned Bank for Development and Agricultural Credit is the sole distributor of fertilizers. Farmers have found the process of securing fertilizer through the government to be expensive and bureaucratic, therefore driving them to the black market.

II. USAID ACTIVITIES IN THE NEWS

TRADE

Food Safety: The Ministry of Trade and Industry, the lead Ministry for the establishment of the new food safety authority, started the appointment process for a new team whose responsibility will be mainly to prepare all the procedures, requirements, and plans for the establishment of the new Agency. The team is expected to be on board by June/July 2008. The new team will be closely assisted by TAPR II consultants.

Ports: As part of USAID's trade facilitation efforts, TAPR II has conducted an assessment of the port operations at the Damietta Port. The report identified a number of areas for new policy considerations. One of these is for the Port authorities to develop a proactive program to assist tenants and operators increase berth and terminal productivity.

MONETARY AND FINANCIAL

TA to the CBE: TAPR II provided technical assistance to the CBE to assess the business requirement and selection of a financial and IT package to streamline and unify core banking business procedures; develop a chart of accounts; formulate an IT strategy; and create a manual that contains the management and administration of the Business Technology department which offered best practices, policies and procedures to business areas such as asset management, security, operation, procurement, and communications.

Private Pension Fund Supervision:

TAPR II assisted the Egyptian Insurance Supervisory Authority (EISA) in surveying 46 private funds covering over 2.3 million participants and 10 billion LE in assets (which represent over 50% of all pension participants and pension assets in Egypt). A plan was developed with EISA to deal with the insolvent funds.

LEGAL/REGULATORY

Import/Export Executive Regulations: Benefiting from the technical assistance provided by TAPR II, the Ministry of Trade and Industry is in the process of drafting the new import/export executive regulations. The new regulations should be ready within two months. The ultimate objective of this activity is to bring these regulations into closer alignment with international norms and best practices.

Intellectual Property Rights: TAPR II is assisting the Egyptian Patent Office (EPO) to be an international search and examination authority under the Patent Cooperation Treaty (PCT). The EPO is in the process of drafting the requested application that should be submitted by July 08 to the PCT Assembly in Geneva.

PRIVATE SECTOR

Commercial Registry: TAPR II is currently assisting the Commercial Registry Authority (CRA) in its modernization process. A comprehensive reform plan was initiated and approved by the Ministry of Trade and Industry for this project. The objective of the assistance is to upgrade, facilitate, and connect the Business Registry in all governorates.

The new system will adopt the best international practices in business registration. The project is progressing well and the GOE is committed to this process. TAPR II published the RFP for the IT system and will work on the procurement process. The CRA is working on the renovations of the offices across the 26 governorates.

Dispute Settlements: General Authority for Investment (GAFI) is in the

process of establishing a mediation center to work on the dispute settlement among shareholders. TAPR II is working closely with the GOE in starting up this center and has prepared associated manuals, procedures, and trainings. GAFI is working on the procedural aspects in order to inaugurate the center by January/February of 2009.