
I. ECONOMIC ENVIRONMENT

(1) INTRODUCTION

1. Egypt's economic stabilization programme, initiated in 1990/91, has produced significant results in most macroeconomic areas.¹ Strict fiscal and monetary policy resulted in a halving of the rate of inflation between 1991/92 and 1993/94; economic growth, after declining initially, picked up in 1993/94 and has been maintained, despite external shocks, at a real rate of around 5%; and unemployment has fallen since 1993/94. Growth has been mainly driven by increased domestic demand, with export growth playing a smaller role. The Government's goal is to meet the challenge of a rapidly growing labour force with GDP growth of some 8% a year.

2. Higher export growth, at some 10% a year, and increased private investment, is expected to underpin future GDP growth. There is considerable evidence that private investment has risen; much of this is taking place in the non-tradeable sectors, where reform has been concentrated. With declining foreign exchange revenues from traditional but volatile sources, notably tourism, workers remittances, the Suez Canal, and petroleum, there is a perceived need to expand Egypt's exports; growth since 1991/92 has been erratic and closely dependent on the performance of petroleum exports. There is also a need for significant deepening of the reform programme, particularly to address the lack of external competitiveness especially in traditional sectors such as textiles and clothing, in order to move the economy to a higher growth trajectory.

(2) RECENT ECONOMIC DEVELOPMENTS

(i) Economic growth and structure

3. In 1990, Egypt faced a growth rate that had fallen to just over 1%, compared to 6.6% in 1985, rising inflation at 17%, a budget deficit of over 6% of GDP, declining per capita income, and a debt to GDP ratio approaching 150%. In addition, as noted by the first Trade Policy Review of Egypt, the economy, which had become dependent on expansionary economic policies financed by foreign borrowing, experienced a further economic shock from the Gulf crisis in 1990, leading to severe consequences for employment and foreign exchange earnings.²

4. An ambitious stabilization and economic restructuring programme launched in 1990/91 is bearing fruit through resumed economic growth and macroeconomic stability. The Egyptian economy has grown at an average annual rate of around 4% since 1991/92 and by around 5% since 1993/94 (Table 1.1). The stabilization programme led to a contraction in public spending and growth fell to 0.3% in 1991/92. However, as private investment has responded to economic reform, especially since 1992/93, growth has accelerated (Chart 1.1 and Table 1.1). GDP growth in 1997/98 was expected to have been around 5%. Economic growth appears to have resulted in an improvement in employment and per capita incomes: unemployment fell from 10% to 8.8% between 1992/93 and 1996/97 and per capita income rose from US\$767 to an estimated US\$1,340 between 1991/92 and 1997/98.

¹ Egypt's fiscal year runs from June to July.

² GATT (1993).

Table I.1
Economic performance, 1991-97
(Per cent and LE billion)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 ^a
	Annual percentage change						
GDP at factor cost	0.3	2.5	3.9	4.7	5.0	5.3	5.0
Income and absorption							
Consumption	..	3.6	3.7	4.2	4.3	4.3	..
Private	..	3.2	3.4	3.9	4.0	4.1	..
Public	..	5.9	5.8	6.0	6.8	5.6	..
Gross capital formation	..	1.8	15.0	4.7	6.2	10.5	..
	Per cent of GDP						
Savings and investment							
Gross domestic investment	18.2	16.2	16.8	16.9	16.9	18.1	19.5
Gross national savings	17.0	16.4	16.6	16.9	16.6	18.3	17.0
Current account balance (including official transfers)	6.4	5.8	0.8	0.7	-0.3	0.8	-2.4
Trade balance	15.2	15.2	14.2	13.3	14.3	13.7	-14.7
Competitiveness indicators							
Inflation ^b	21.1	11.1	9.0	9.4	7.3	6.2	3.8
Nominal exchange rate (Egyptian pounds per U.S. dollar – end of period)	3.32	3.33	3.38	3.39	3.39	3.39	3.39
GDP deflator (1991/92 = 100)	100.0	109.9	117.6	131.0	140.3	148.6	..
Real effective exchange rate (% change) ^c	..	14.7	3.7	-0.5	6.8	10.7	..
Monetary survey							
Private sector credit ^d (LE billion)	33.4	40.6	49.9	64.5	84.5	107.7	..
	Per cent						
Narrow money (M1) ^e	21.1	24.5	28.3	31.6	35.1	39.1	..
Broad money (M2)	104.6	121.8	136.9	152.1	168.0	193.4	..
"Dollarization" ^f	37.3	26.7	23.4	25.1	22.9	19.4	17.8
Interest rate (annual 3-month T-bills)	18.6	16.3	14.0	11.0	10.5	9.9	8.8
Unemployment	9.2	10.0	9.8	9.6	9.2	8.8	..

.. Not available.

a Provisional.

b Period average.

c Rebased by the WTO Secretariat from data provided by the authorities (1991/92 = 100).

d Stock at end June.

e M1 is equal to currency in circulation plus LE current deposits.

f Ratio of foreign currency liquidity to total liquidity (stock at end June).

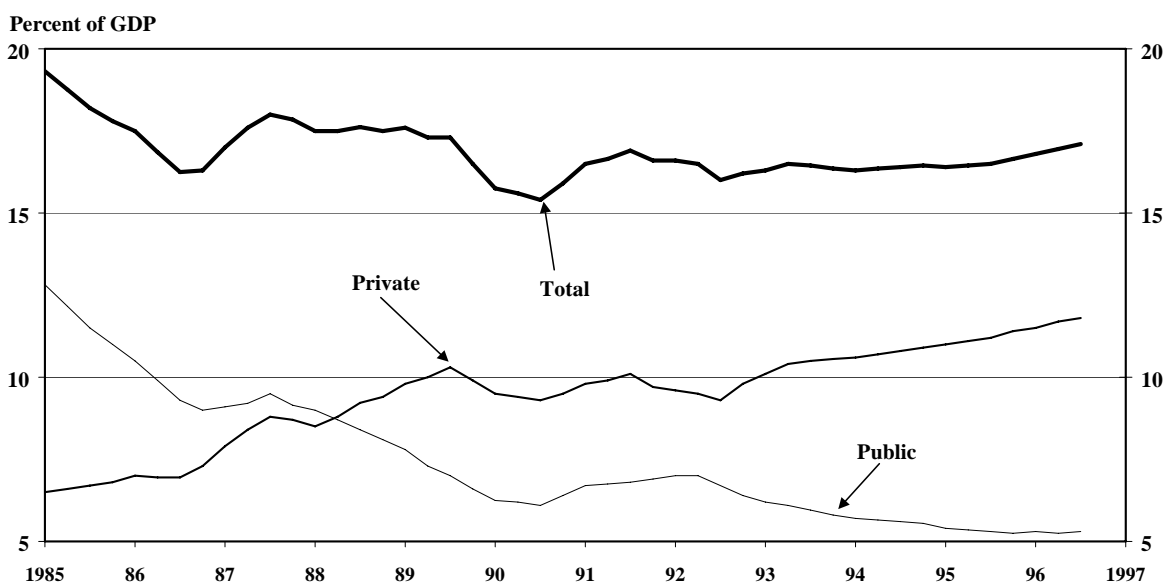
Source: Central Bank of Egypt (1997), *Annual Report, 1996/97*; Central Bank of Egypt (1998), *Monthly Statistical Bulletin*, various issues; and data provided by the Egyptian authorities.

5. The sectoral composition of GDP shows a declining contribution by petroleum, from almost 10% of GDP in 1991/92 to 6.6% in 1996/97 (Table 1.2). The combined share of agriculture and

manufacturing increased during this period from 33% to 36%, while the share of services remained relatively stable at some 51%. GDP growth, driven mainly by domestic demand, has shown up principally in the manufacturing and services sectors, although agriculture, with an average growth of 3%, performed well between 1992/93 and 1996/97.

Chart I.1

Investment rates, 1985-97 (fiscal years)^a



a Egyptian fiscal year runs from July to June.

Source: WTO Secretariat estimates based on IMF Occasional Paper No. 163 (1998), Washington D.C.

6. Growth is mainly attributed to higher investment demand since 1992/93. Gross domestic investment, which initially fell in response to contractionary policies, rose steadily to reach around 18% of GDP in 1996/97, mainly due to growing private sector investment and participation in the economy (Chart 1.1). Moreover, the private sector's contribution to GDP rose from 62% in 1992/93 to over 66% in 1996/97, much of the increase taking place in manufacturing and petroleum (58% to 74%).³ In contrast to the pre-reform period, when investment tended to be financed by deficit financing and foreign borrowing, the economy has started to rely more on private savings and to some extent on foreign investment (section (4)); the total external debt to GDP ratio declined to 39% in 1996/97 from 75% in 1991/92.⁴

7. However, the IMF notes that current rates of investment remain lower than their pre-reform levels (averaging almost 25% during the high investment period in the early 1980s) and than the developing country average; however, investment composition has changed drastically, in favour of the private sector. The lower investment may in part be due to excess spare capacity and improved productivity resulting from economic reform.⁵ Nevertheless, the Government believes that a further recovery in investment and growth in savings is crucial to accelerate growth. Reliance on foreign borrowing has declined since the early 1990s, and Egypt has started to invest increasingly out of

³ Central Bank of Egypt (1997).

⁴ Subramanian (1997).

⁵ IMF (1998).

domestic savings and workers' remittances. Domestic savings had declined from a peak of 21% during the pre-reform period to 16% in 1992/93 before beginning to rise again. The Government is aiming at a savings rate of at least 25% (compared to around 18% in 1996/97), accompanied by higher investment, to sustain its target of 8% a year GDP growth.⁶

Table I.2
Basic economic and social indicators, 1991-98
(US\$ billion and per cent)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 ^a
GDP (US\$ billion)							
At market prices	41.7	46.6	51.1	59.1	66.1	75.0	80.5
Per capita (US\$)	767	841	909	1,037	1,144	1,250	1,340
At constant prices	30.4	31.0	32.0	33.5	35.2	37.3	..
	Per cent						
Composition of GDP							
Agriculture	16.5	16.7	16.9	16.8	17.2	17.7	..
Manufacturing and mining ^b	16.6	16.7	17.2	17.4	17.7	18.1	..
Petroleum and natural gas	9.9	9.5	8.2	7.9	6.9	6.6	..
Services (including production and social services)	50.1	50.2	50.3	50.9	51.1	50.5	..
Construction	5.1	4.9	5.2	5.0	5.2	5.3	..
Electricity	1.7	2.0	2.1	2.0	1.9	1.8	..
Share in employment							
Agriculture	33.4	33.0	32.4	31.9	31.4	30.8	..
Manufacturing and mining ^b	12.7	13.4	13.5	13.7	13.7	13.7	..
	Annual percentage change						
Economic growth							
Agriculture	-1.4	2.5	3.8	2.9	3.1	3.4	..
Manufacturing and mining ^b	-0.4	2.9	4.2	7.7	7.5	8.4	..
Production services	..	2.0	2.5	5.0	5.9	6.4	..
Social services	..	4.0	3.9	5.1	5.1	6.2	..
Memorandum Items (1996)							
Population (million)	60.60						
				Education (per cent)^c			
Urban population (%)	44.8			Primary			100.0
Employment (%)	90.6			Secondary			74.0
Birth rate	26.0						
Life expectancy at birth	65.0						

.. Not available.

a Provisional.

b Including refined petroleum and petroleum products.

c Data for 1995.

Source: Central Bank of Egypt, *Annual Report*, various years; and data provided by the Egyptian authorities.

⁶ *Africa Economic Digest*, 8 March 1999.

8. Unemployment has been a concern of successive governments. Increased economic growth has led to the creation of new employment opportunities mainly in manufacturing, social services and services.⁷ However, the Government's privatization programme, which will shed some excess labour employed by public sector companies before they are privatized, is likely to create new redundancies in the short run (Chapter III(4)(iii)). At a current (1996/97) rate of 8.8%, unemployment is lower than in 1992/93; however, the ability to sustain this level or to reduce it further remains a concern for the Government, in particular the ability of the economy to absorb new labour-market entrants, which are projected to be around 2.8% each year.⁸

(ii) Fiscal stabilization

9. Efforts to reduce the fiscal deficit have been successful, with the deficit falling from 5.5% of GDP in 1991/92 to 0.9% in 1996/97 (Table 1.3). In 1997/98, the fiscal deficit increased slightly to 1%. The decline in the budget deficit has been mainly due to restraint in government expenditure, including a reduction of subsidies and transfers and a cut in investment for electricity and tourism. Egypt's interest payments on foreign debt were also substantially reduced as a result of debt forgiveness and rescheduling in 1991.⁹ Central government revenues as a percentage of GDP rose until 1993/94 but have been declining since. The new budget for 1999/2000 proposes an increase in government spending on civil service wages and infrastructure, and continued support for food subsidies. Budgetary expenditures are set to rise to LE 102 billion (US\$30 billion), compared to LE 88 billion (US\$26 billion) in 1998/99, some 29% of GDP.¹⁰

10. The impact of the declining budget deficit has been positive on interest rates and the availability of credit. "Crowding out" of the public sector that had resulted in low historical rates of private investment were reduced; as a result credit doubled, to the private sector in particular, between 1992/93 and 1995/96, boosting private sector investment. In addition, consolidation of the fiscal deficit has enabled public sector savings to increase; these increased from 2.5% to 3.7% between 1992/93 and 1995/96.¹¹

11. Fiscal revenues are mainly comprised of tax revenue, including income tax receipts and customs tariffs (with the latter accounting for around 3.2% of GDP), and contributions from the Egyptian General Petroleum Company (EGPC) and the Suez Canal Authority (around 20% of total government revenue). Egypt raises relatively less than neighbouring countries through taxes (around 16% of GDP in 1996/97).¹² This is partly because of the exclusion of wholesale and retail trade and a number of services from the general sales tax, and because of its relatively low standard rate of 10%. Personal and corporate income taxes contribute around 3.6% of GDP, compared to an average of 5.4% for neighbouring countries; this is due, in part, to the extensive corporate tax incentives provided by Egypt. Egypt has plans to widen the base of the sales tax by including wholesale and retail trade, although implementation has been delayed. Delays in completing tax reform may have wider implications for further reductions in tariffs, given the importance of customs revenues in overall government revenue.

⁷ Central Bank of Egypt (1997).

⁸ World Bank (1997).

⁹ Subramanian (1997).

¹⁰ *Africa Economic Digest*, 8 March 1999.

¹¹ The increase is mainly due to a reduction in budgetary subsidies and current transfers as well as the improved financial performance of public sector companies (World Bank, 1997).

¹² IMF (1998). The comparison is made with government budgets in Algeria, Israel, Iran, Jordan, Morocco, Pakistan, Syria, Tunisia, and Turkey.

Table I.3
Fiscal operations, 1991-98
(Per cent of GDP unless otherwise indicated)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97 ^a	1997/98 ^a
Total revenue (LE billion)	43.4	46.7	52.6	55.7	60.9	64.5	68.1
Central Government	25.8	26.5	27.2	25.2	24.6	23.0	22.3
of which:							
Tax revenue	17.5	17.4	18.1	17.1	17.1	16.0	16.1
Customs duties	3.3	3.2	3.5	3.5	3.5	3.2	3.3
Non-tax revenue	8.3	9.1	9.1	8.1	7.5	6.9	6.2
Local Government Revenue	1.0	1.1	1.1	1.0	0.9
Expenditure (LE billion)	51.0	52.2	56.3	58.3	63.9	66.8	70.8
Current expenditure	26.0	26.3	26.6	23.8	23.2	21.3	20.4
of which:							
Wages and salaries	5.8	6.2	6.4	6.2	6.3	6.1	6.2
Interest	6.8	8.5	9.5	7.4	7.2	6.2	5.5
Subsidies and transfers	5.5	2.8	1.9	1.9	1.9	1.6	1.5
Social fund	..	0.1	0.2	0.3	0.2
Capital expenditure	7.8	7.0	5.9	5.3	5.3	5.3	5.5
Investment	8.5	7.1	6.2	5.6	5.6	5.6	5.7
Net capital and investment funds	-0.7	-0.1	-0.3	-0.3	-0.3	-0.3	-0.2
Overall balance	-5.5	-3.5	-2.1	-1.3	-1.3	-0.9	-1.0

.. Not available.

a Provisional.

Source: Central Bank of Egypt, *Annual Report*, various years; and data provided by the Egyptian authorities.

(iii) Balance of payments

12. Egypt has traditionally run a large merchandise trade deficit, which has been balanced by net inflows from workers' remittances and services, especially tourism and Suez Canal dues. The trade deficit grew from LE 20.1 billion (US\$6.2 billion) in 1991/92 to LE 33.3 billion (US\$9.8 billion) in 1996/97 and is expected to have grown further to LE 40 billion (US\$11.8 billion) for 1997/98 (Table I.4).

13. While imports have increased steadily, by over 10% a year since 1993/94, export growth has been erratic and closely dependent on petroleum export revenues, which account for some 50% of the total. In the period 1991/92 to 1993/94 exports declined, but then rose by some 52% in 1994/95, with the surge largely due to a record cotton crop; however, export growth has been more subdued since, and more dependent on petroleum exports.

14. Exports in recent years may also have been affected by the real appreciation of the Egyptian pound since economic reform was initiated. The exchange rate of the Egyptian pound was unified in October 1991. Responsibility for exchange rate policy lies with the Government of Egypt and is administered by the Central Bank of Egypt in consultation with the Minister of Economy. The external value of the Egyptian pound is determined in the foreign exchange market; the Central Bank of Egypt, however, intervenes if the value of the pound fluctuates above or below the bands specified by the Government. (In late 1998, the band was 3%, around a central rate of about LE 3.39 per U.S. dollar.) The intervention currency is the United States dollar. There are no exchange or currency controls and foreign currency transfers are unrestricted.

increased steadily to reach LE 21 billion (US\$6.2 billion) in 1996/97. Tourism revenues, which contracted in 1997/98 by around 28% are expected to have rebounded to a great extent by late 1998.¹⁴ Another important source of revenue is workers remittances, which grew significantly between 1991/92 and 1992/93, to US\$3.8 billion, but averaged around US\$3.2 billion a year in the subsequent period to 1996/97. Preliminary data for 1997/98 shows a slight increase in remittances to some US\$3.5 billion. The current account surplus has been declining and is expected to show a deficit of over 2% in 1997/98, from a surplus of almost 1% in 1996/97.

17. Egypt's overall balance of payments had been positive but declining between 1991/92 and 1995/96 (from US\$6 billion to US\$0.6 billion). There was an increase in the balance to US\$1.9 billion in 1996/97, mainly due to an increase in net portfolio investment inflows; a small negative balance of US\$0.1 billion was registered in 1997/98, with net portfolio outflows in the second and third quarters. Initial improvements in the balance of payments also resulted from one-off, exogenous factors such as debt forgiveness and rescheduling, which improved the balance of payments (on a flow basis) by around US\$15.5 billion between 1990/91 and 1995/96, an annual improvement of around US\$2.2 billion.¹⁵ A substantial build-up of official reserves, equivalent to almost 17 months of imports in 1996/97, also provides Egypt with some degree of insulation from volatile changes in financial flows.

(3) DEVELOPMENTS IN TRADE

(i) Overview

18. Egypt's share in world exports declined from around 0.2% in the mid-1980s to 0.08% in 1993 and further to 0.07% in 1996. The share of exports and imports of goods and non-factor services in Egypt's GDP has also declined, from almost 90% in 1985 to under 50% in 1996/97.¹⁶ Although trade reform has been carried out in a gradual manner, the trading sector has yet to respond significantly, with both exports and imports as a share of GDP remaining relatively steady (Chart I.2).

19. Intra-industry trade, which refers to trade within the same product category, accounted for some 10% of Egypt's total merchandise trade. The degree of Egypt's intra-industry trade with the world increased gradually between 1992 and 1997, although it remains relatively low. The increase can mainly be attributed to Egypt's greater intra-industry trade with its principle trading partner, the European Union (Chart I.3); intra-industry trade with the rest of the world (excluding the EU) declined between 1992 and 1995, before rising in 1997. The gradually increasing intra-industry trade with the EU suggests increased integration between Egyptian and EU producers, with Egypt's preferential access to the European Union market under the Cooperation Agreement playing a role. It is likely, that as preferential access to the EU's markets improves under the Euro-Mediterranean agreement currently being negotiated, the intra-industry effects on Egypt's trade with Europe will increase.

¹⁴ Economist Intelligence Unit (1998).

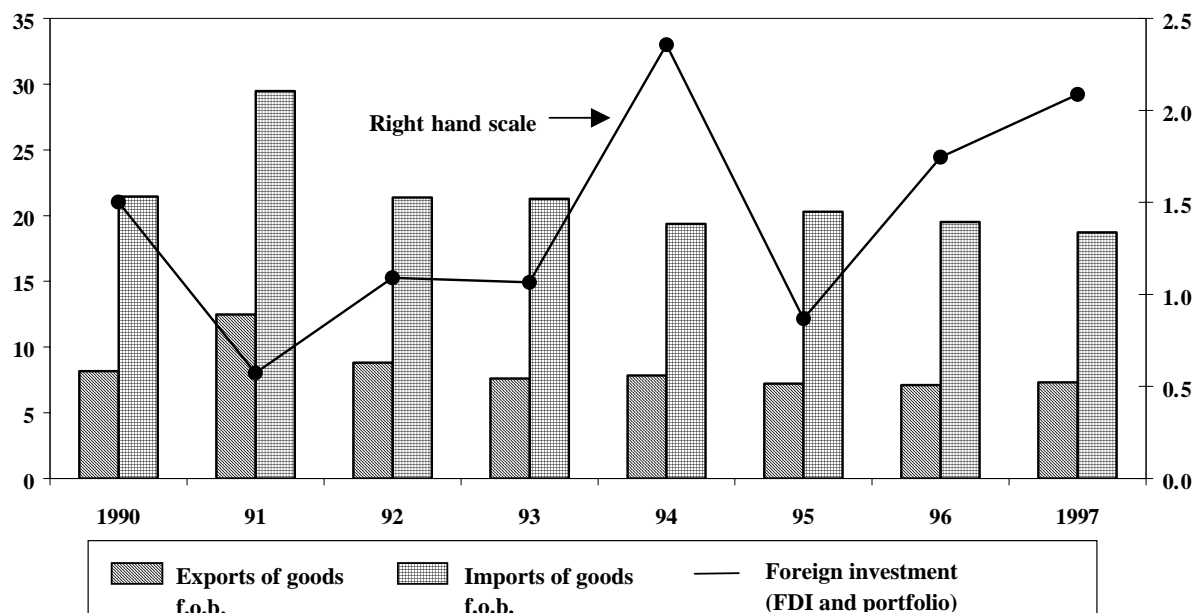
¹⁵ Subramanian (1997).

¹⁶ Subramanian (1997).

Chart I.2

Relative importance of foreign trade and investment, 1990-97

Per cent of GDP



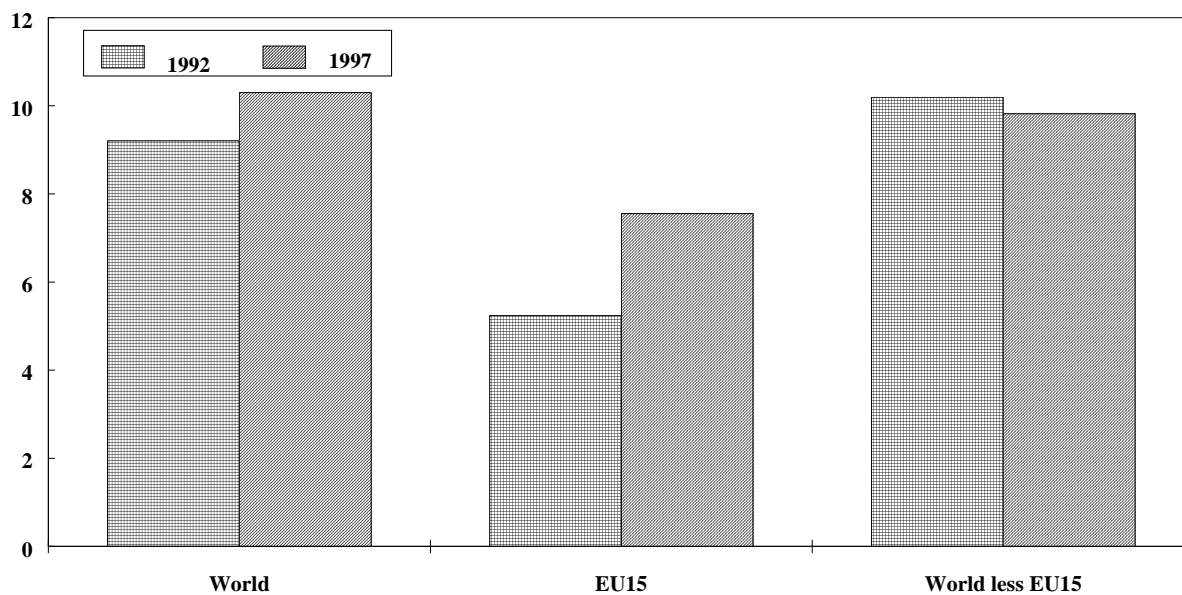
Note: For 1995 and 1997 foreign investment does not include portfolio investment assets.

Source: International Monetary Fund, *International Financial Statistics* (various issues).

Chart I.3

Intensity of Egypt's intra-industry trade with selected regions, 1992 and 1997

Per cent



Source: UNSD, Comtrade database (Rev.1).

(ii) Merchandise trade

(a) Composition of merchandise trade

20. Exports of primary products, of which the bulk is petroleum and petroleum products, account for around 60% of Egypt's total merchandise exports. This share has declined from 65% in 1992, mainly due to a decline in agricultural and food exports (Chart I.4 and Table AI.1). The overall share of manufactured exports grew from 35.4% in 1992 to 40.3% in 1997, but such exports have experienced sharp fluctuations during this period, mainly due to variations in exports of textiles and clothing, which account for around 50% of manufactured exports. The share of textiles and clothing in overall merchandise exports grew from 18.4% in 1992 to 20.3% in 1997.

21. Egypt's main imports are machinery and transport equipment, whose share accounts for over a quarter of all imports. The main change in sectoral share since the previous Trade Policy Review of Egypt in 1992 has been that of food products, which declined from 29.4% in 1992 to 26.4% in 1997. The overall share of agricultural imports declined from 35.7% to 32.4% during this period, primarily reflecting slower growth in the volume of food imports.

(b) Direction of merchandise trade

22. The main destination for Egyptian exports is Europe, with the EU accounting for a growing share (39.7% in 1992 to 41.5% in 1997), compensating in part for the decline in traditional markets in Eastern Europe (6.4% in 1992 to 3.0% in 1997) (Chart 1.5 and Table AI.3).¹⁷ Italy and the Netherlands account for the largest share of Egypt's exports to the EU, although Italy's share declined from 14.2 to 11.2% of total exports during this period.

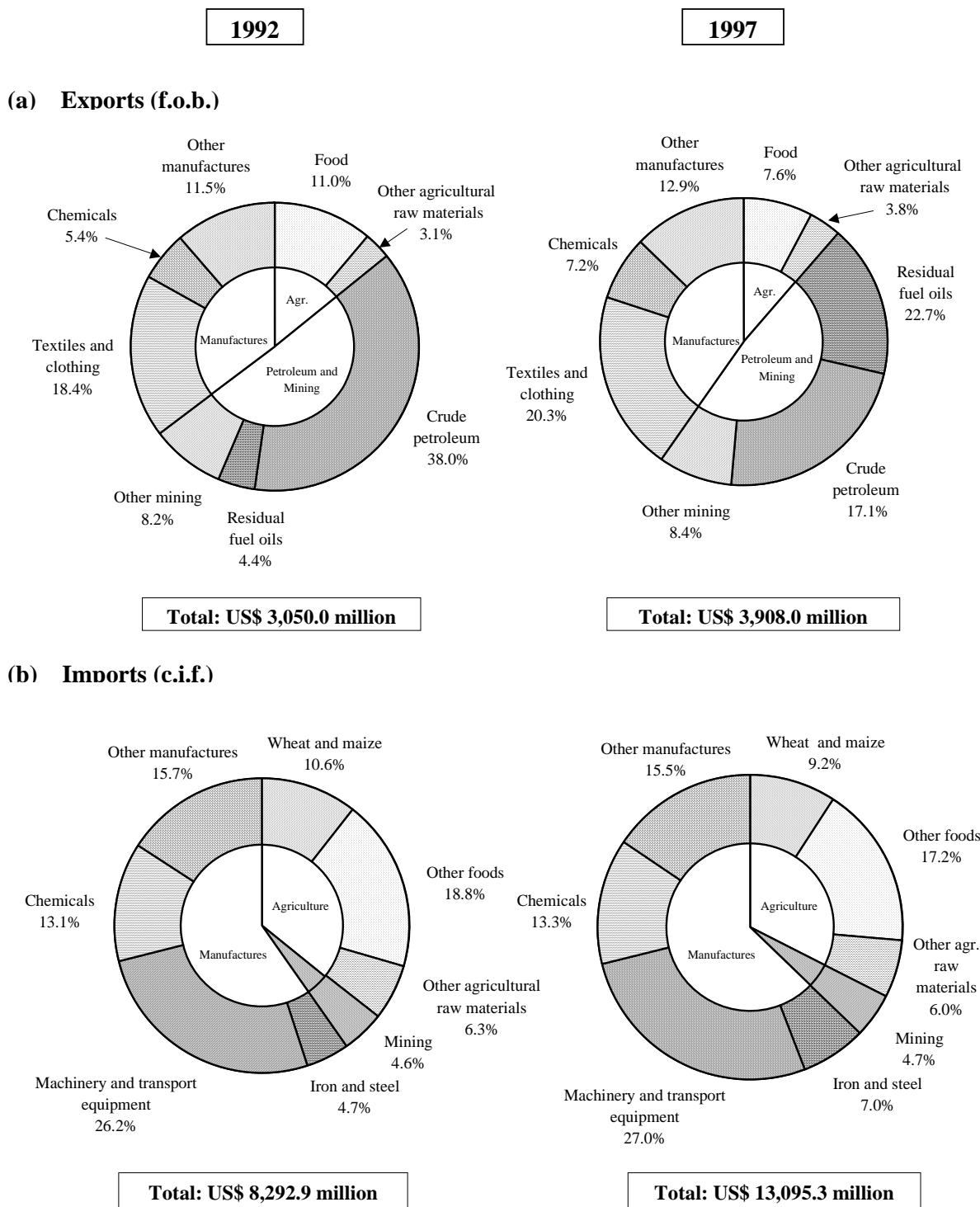
23. Egypt's exports to its neighbours in the region have declined, with exports to the Middle-East falling from 22.6% in 1992 to 17.7% in 1997; Israel and Saudi Arabia are the main regional export destinations. The American market, especially the United States, has accounted for a growing share of Egypt's merchandise exports; however, exports to East Asia have been subject to significant change during the period.

24. There have been few changes in the pattern of Egypt's imports by major trading partner since 1992 (Chart I.4 and Table AI.4). Around half of merchandise imports originate in European countries, although as a share of the total, EU imports declined from 41% in 1992 to 38% in 1997. Germany and Italy are the main European exporters to Egypt.

¹⁷ Trade figures for the EU for the whole period (1992-97) refer to all 15 current EU member States.

Chart I.4
Merchandise trade by product, 1992 and 1997

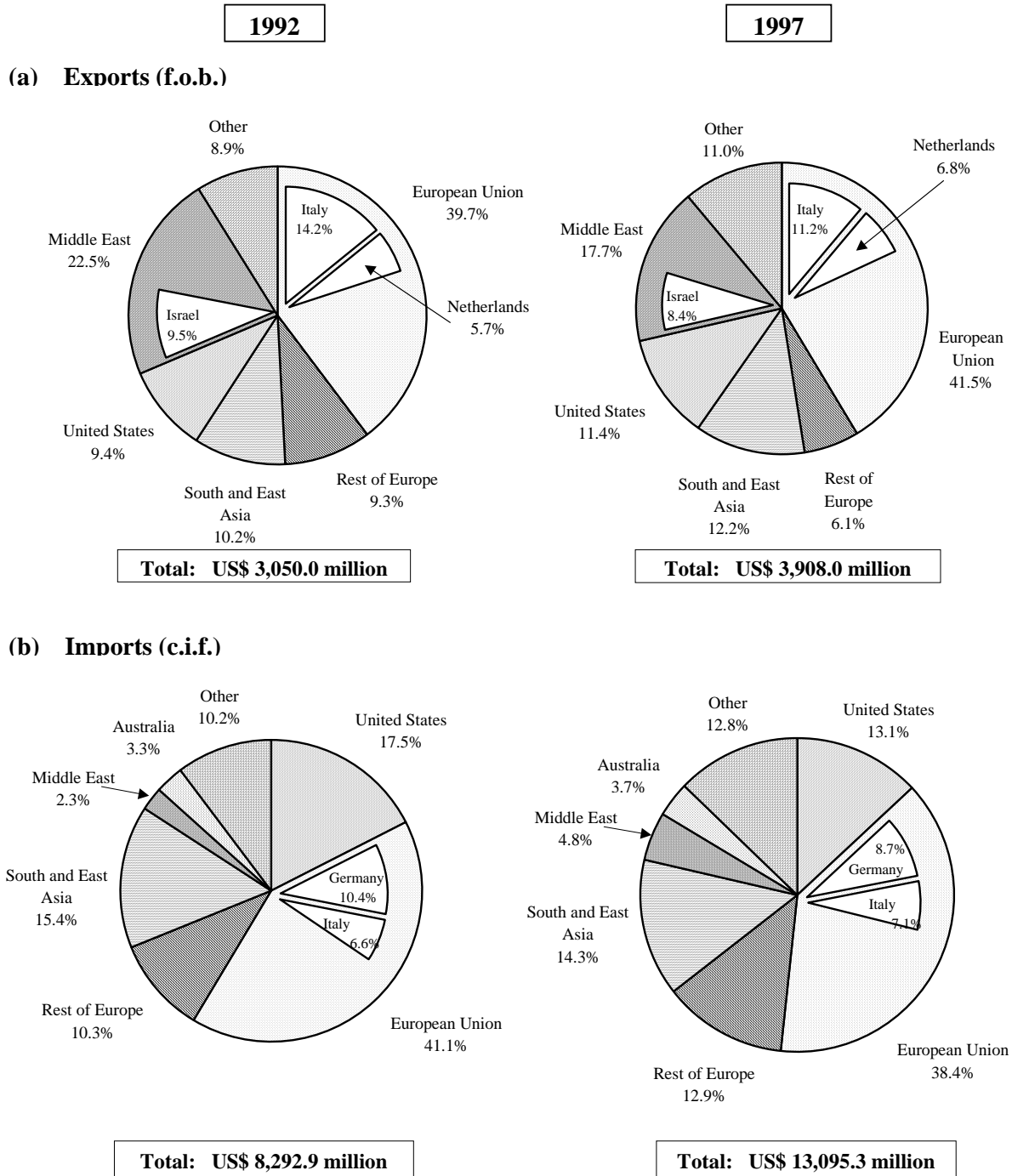
Per cent



Source: UNSD, Comtrade database (SITC Rev.1).

Chart I.5 Merchandise trade by partner, 1992 and 1997

Per cent



Note: Figures for the European Union in 1992 include all 15 current Member States.

Source: UNSD, Comtrade database (SITC Rev.1).

(iii) Trade in services

25. Egypt has traditionally maintained a surplus on its external services account. The surplus is mainly due to receipts from tourism and the Suez Canal, although the importance of the latter has been declining. Between 1992/93 and 1996/97 receipts on services trade grew in value from US\$9.8 billion to US\$11.2 billion. In 1996/97, the bulk of this came from tourism, around 32%, rising from around 24% in 1992/93. Suez Canal receipts declined from around 20% in 1992/93 to around 10% in 1996/97.

26. Egypt's main payments for services include those for travel, which accounts for around 25% of total payments, and investment.

27. No data were available on the main countries providing services to Egypt or on the main recipients of Egyptian services.

(4) TRENDS IN FOREIGN INVESTMENT

28. Foreign investment flows, the bulk of which was foreign direct investment (FDI) until 1996/97, have remained volatile and mainly restricted to the non-tradeable sectors. According to Central Bank data, the total stock of FDI declined from US\$1.3 billion in 1993/94 to US\$0.8 billion in 1996/97, before rising to around US\$1.1 billion in 1997/98.¹⁸ As a percentage of GDP, foreign investment averaged around 1.3% a year between 1992 and 1996, peaking at some 2.4% in 1994, before declining again (Chart 1.2).

29. The main foreign investor in Egypt is the United States, which accounted for around 84% of FDI inflows in 1997/98, down slightly from 1995/96, followed by the European Union (Table I.5). Investment by neighbouring countries, notably Saudi Arabia, has begun to increase in recent years, although this still forms under 5% of total FDI inflows. Provisional data for 1997/98 indicate that FDI stock was around US\$1.1 billion at the end of the fourth quarter.¹⁹

Table I.5
Foreign direct investment inflows and outflows, 1995–98
(US\$ million and per cent)

	1995/96	1996/97	1997/98 ^a
Total FDI inflows (US\$ million)	141.1	139.5	204.6
Of which:			
United States	87.0	85.6	84.3
Germany	3.3	2.2	1.4
France	4.1	1.5	1.7
United Kingdom	1.6	1.6	0.7
Japan	2.1	1.3	9.2
Korea, Rep. of	0.6	0.7	0.1
Saudi Arabia	0.3	0.8	2.7
Total FDI outflows (US\$ million)	-0.2	0.0	26.5

a Preliminary, July-December 1997.

Source: Central Bank of Egypt, *Economic Review*, various years.

¹⁸ Central Bank of Egypt (1998).

¹⁹ Central Bank of Egypt (1998).

30. The main sectors in which FDI has taken place include petroleum and gas, tourism and financial services. Although declining recently, FDI has also taken place in the free zones, to avail of tax and other incentives provided for investors in the free zones (Chapter III(2)(xv)).

31. Although FDI formed the bulk of foreign investment inflows into Egypt until 1996/97, its share in total foreign investment has declined as a result of increased portfolio investment. Several factors have contributed to a rise in portfolio investment, which grew from US\$20 million in 1995 to US\$1.5 billion in 1996/97; these include a relaxation in investment regulations, and stepped up privatization, a significant amount of which has taken place through the stock market. Portfolio investment, however, has tended to be extremely volatile. After peaking in 1996/97, provisional data for 1997/98 shows negative net portfolio investment inflows of US\$250 million, partly due to the general uncertainty surrounding investment in emerging market economies in the aftermath of the Asian financial crisis.²⁰

32. With the passage of a new Law of Investment Guarantees and Incentives (Law 8/1997), which consolidates investment rules and incentives and liberalizes investment, FDI in Egypt is expected to grow. Egypt's privatization programme, which has recently been accelerated, as well as a decision to allow private and foreign investment in several services through build-own-operate-transfer (BOOT) schemes are likely also to attract both foreign direct and portfolio investment.

(5) OUTLOOK

33. Egypt's stabilization programme, which was based on orthodox measures, including a reduction of the fiscal deficit and tight monetary policy, has been successful. With a population growth rate of over 2%, however, the Government is aiming for annual GDP growth of 8% by the year 2000, while maintaining inflation at around 4% per year. Despite recent exogenous shocks, such as the fall in oil prices, the Government expects the current account balance to remain manageable. Much of the boost to GDP is expected to come from higher export growth and continued increase in investment. The Government's export promotion strategy is aimed at increasing exports by 10% per year until the year 2002, rising to 15% per year over the subsequent five years.

34. Although investment, in particular private investment, has been growing, much of it appears to be taking place in the non-tradeable sector. Export growth, however, has been relatively erratic, closely shadowing developments in the petroleum market. The share of non-petroleum exports, moreover, has not increased despite economic reform, suggesting the need for a deepening of trade and industrial reform in important sectors such as textiles and clothing, which have thus far remained relatively untouched. Dependence on a few sources of earnings, notably petroleum exports, the Suez Canal, tourism and workers' remittances, also continues to make Egypt susceptible to exogenous shocks unless the trade base is diversified and economic reform extended to all sectors of the economy.

²⁰ Central Bank of Egypt (1998).