

After the crisis

The outlook for the Egyptian economy

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Egypt Investment Opportunities
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Global: Recoverology

Bounce-back theory: “V”

- The sharper the contraction, the stronger the recovery

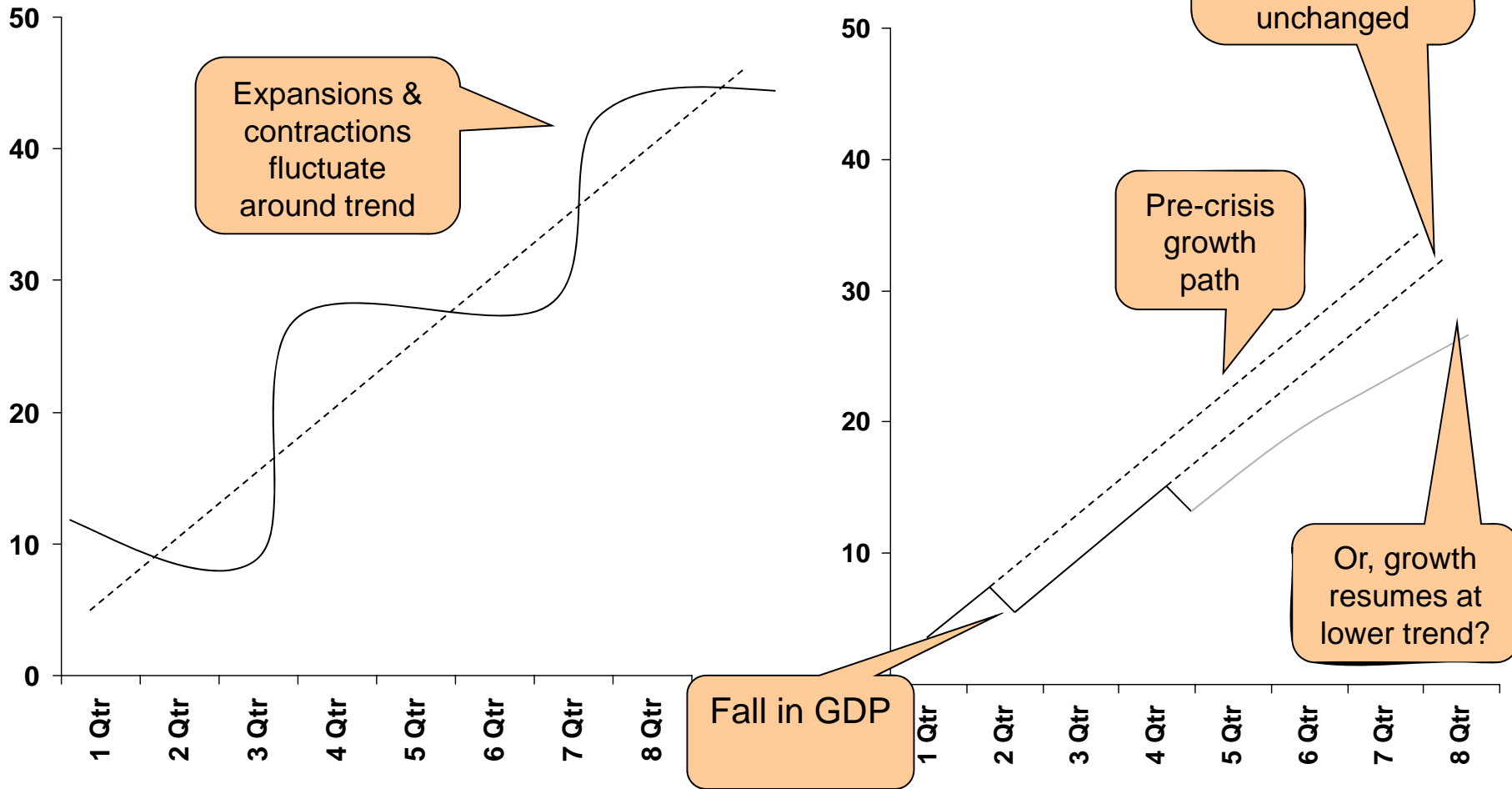
Financial-impairment theory: “U”, “L”

- Recoveries following financial crises are much slower than normal recoveries

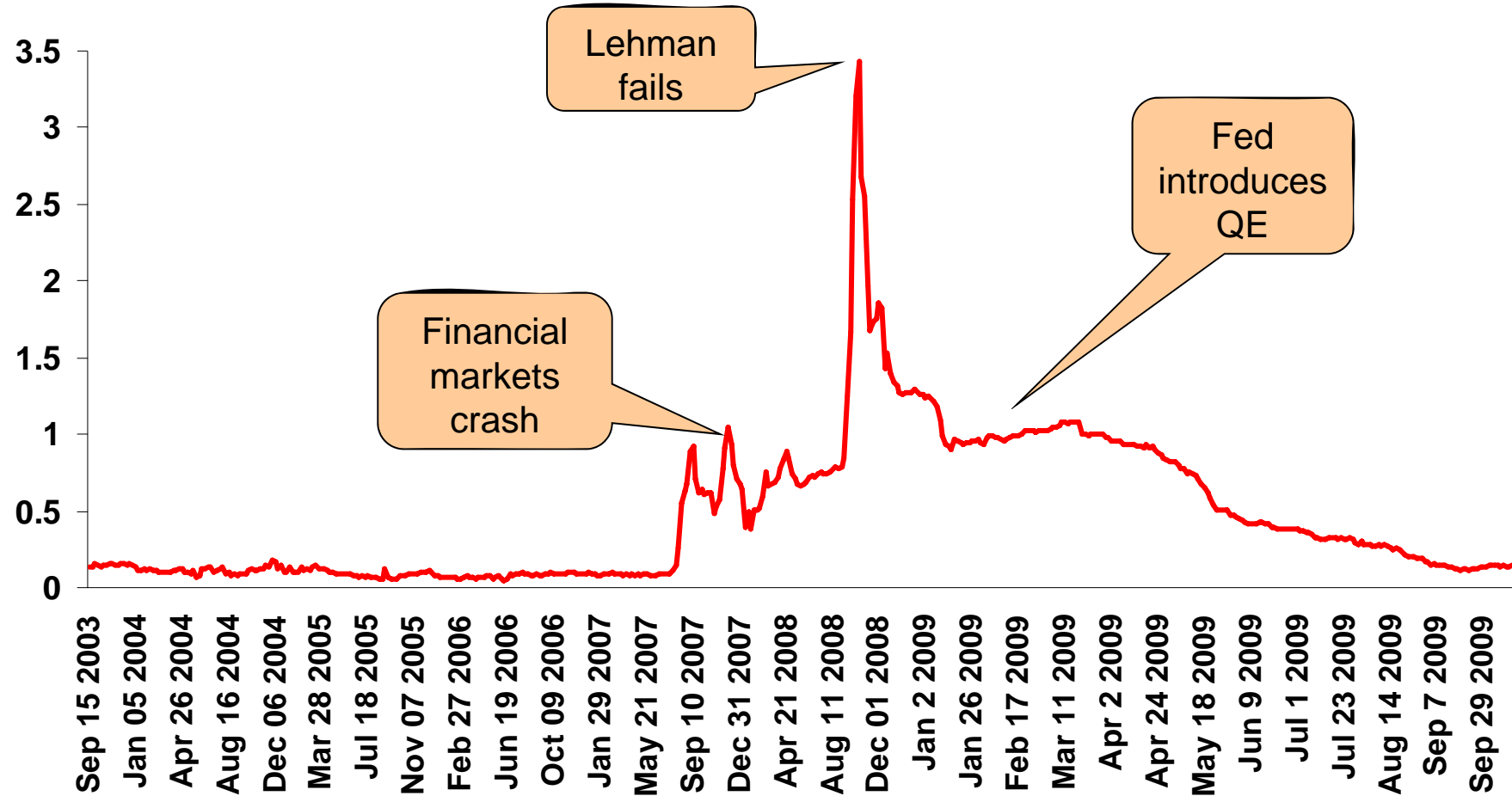
Borrowed-time theory: “W”

- Stimulus boosts economy at the cost of weakness later

The new normal?

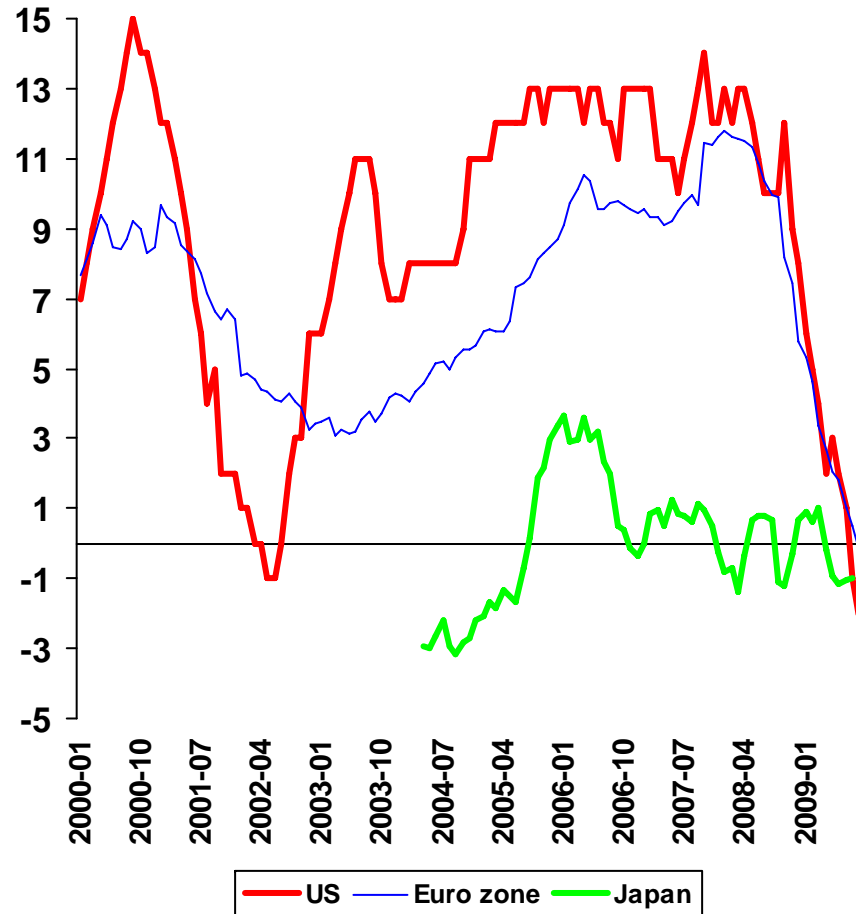


The stress-o-meter continues to de-stress ...



3-month LIBOR/3-month overnight index swap (OIS) spread, percentage points. **A higher spread denotes more market stress.** Sources: Haver Analytics; Economist Intelligence Unit.

... but the banks still ail



Some banks too big to fail

- Public sector guarantees now explicit
- Moral hazard running riot
- “Heads we (banks) win, tails you (taxpayers) lose”

Sector distortions acute

- Fewer competitors
- Bigger market share for survivors
- Risk aversion remains high

US commercial bank loans; euro zone MFI loans; Japan private-sector lending. % change, year on year.
Source: Fed; Haver Analytics.

Egypt:

US: A job-less, spending-less recovery?

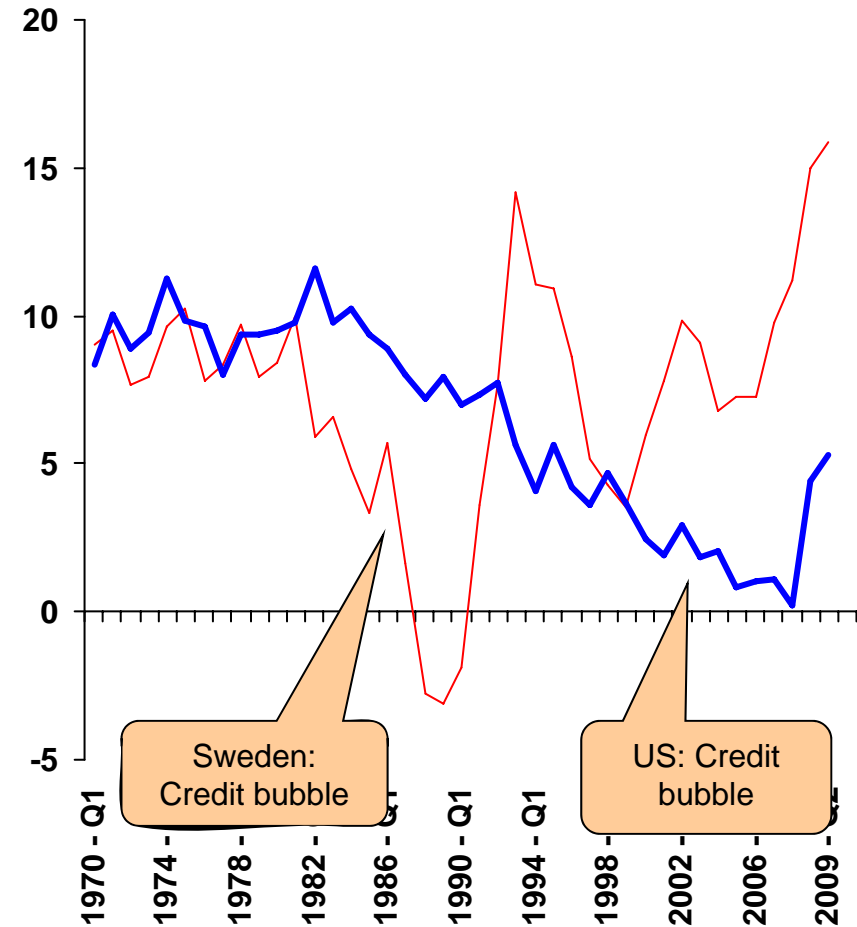
Q3—growth resumes, BUT

- Driven by clunkers, inventories
- Jobless rising, hours worked still falling, wages stagnant

US households remain over-stretched

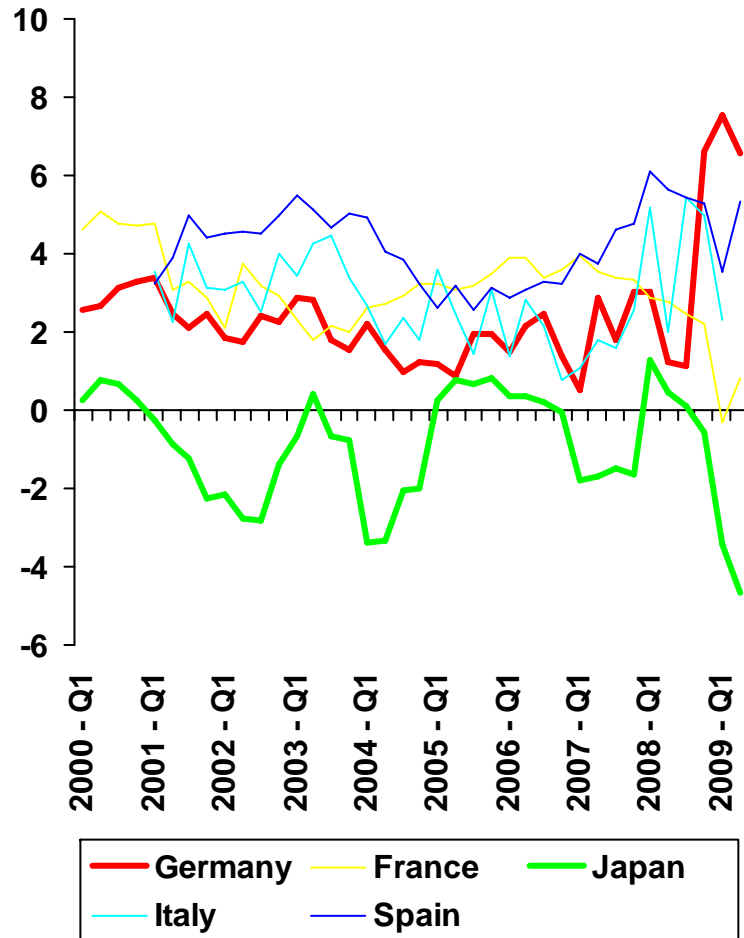
- Credit bubble has led to dramatic increase in liabilities
- Ageing will require greater savings
- Net wealth has fallen by 150% of annual disposable income

So—US savings need to rise further



Household savings rate, % of disposable income. Source: OECD, *Economic Outlook*.

Euro zone: Recovery to lag behind the US



Germany benefiting from world trade thaw

- Industrial orders rise on month in May-Aug (but levels still low)
- New govt to cut taxes

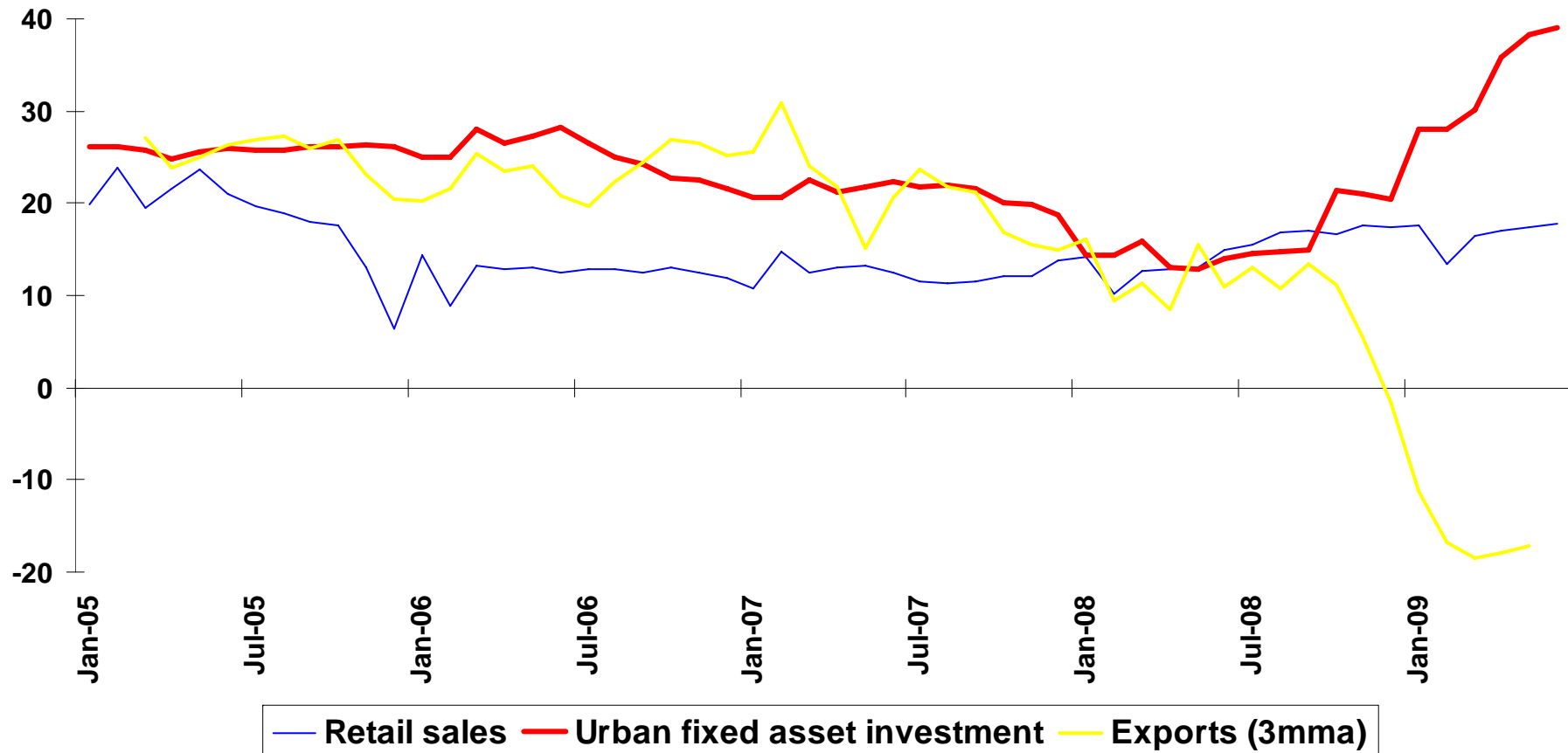
BUT

- Double-dip likely in Germany as unemployment rises
- Watch prices—wages downwardly rigid
- Watch fiscal and economic strains among the weaklings—**Ireland, Greece, Spain** etc
- Strong euro headwind

Wages. % change, year on year. Sources: Eurostat; Ministry of Health, Labour & Welfare.

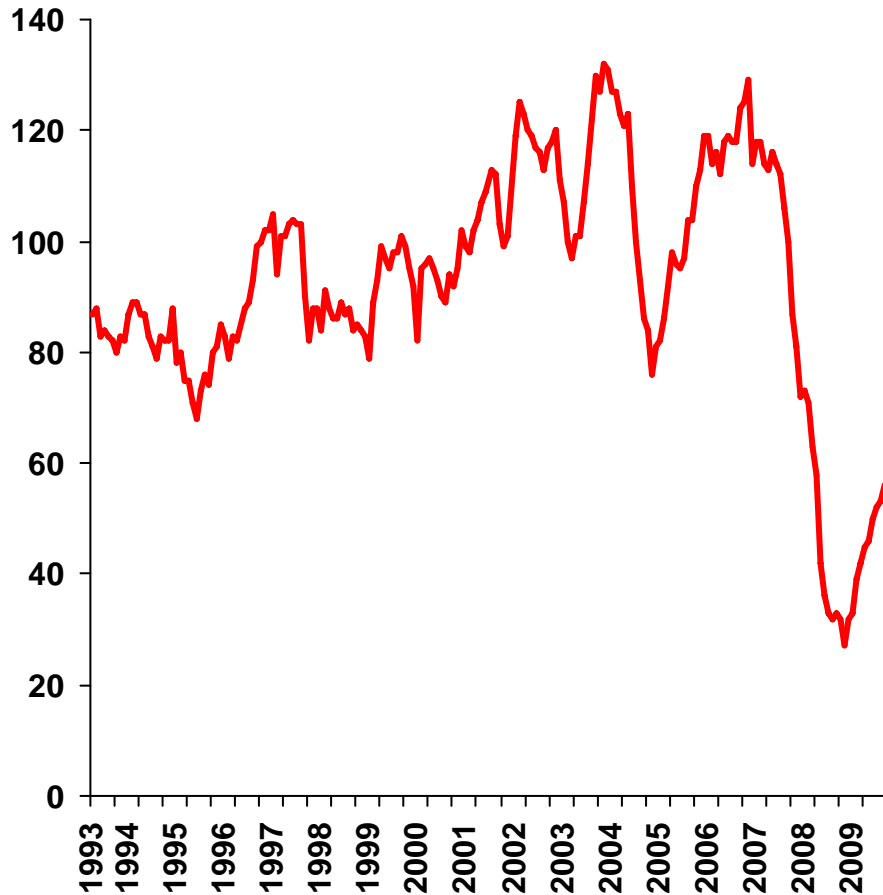
Egypt:

China: Lifting everyone's boats



% change, year on year. Source: Haver Analytics.

UK: First in, last out



Supply lowest since 1978 (RICS)

- Some trapped in neg equity
- New mortgage rates are high

Affordability ratio still high

- Around 5x income, well above long-term 4.4 ratio

Mortgage availability constrained

- 2,230 deals available; cf 26,600 in Aug 2007
- First time buyer LTV ratio under 70%; no 125% loans

Banks won't lend until market picks up; market won't pick up without banks lending

UK bank mortgage approvals, '000s. Source: Bank of England.

What's changed since July

The cyclical upswing has started

- Inventory adjustment (but tells you little about final demand)
- Upgrades to most regions, except East/Central Europe
- Also, watch the **levels** not just the **growth rates**

QE and fiscal boosts are now feeding through

- **QE** fuels the weaker US\$, boosts commodity prices, **boosts emerging markets**
- While QE continues, the bubbles will keep inflating
- **Some market stress indicators are now at pre-crisis levels**
- Corporate profitability is holding up for some, but often bottom rather than top line driven
- The risk of **another Lehman-style failure** has been **reduced**

Multi-speed policy returns?

- Israel, Australia already raised rates
- **Fed to raise rates in Q3 2010**—ECB, BOJ, BOE to hold fire until 2011
- Will the banks be strong enough to support a strong sustained recovery

Egypt: International assumptions



Economic growth (%)



- The global economic picture continues to improve, although growth remains well below its peak.
- World GDP growth will rise steadily over the forecast period.
- There is a real **risk of a fallback in growth in 2011**, as the positive effect of the stimulus wanes against a background of still fragile corporate and household sentiment.
- GDP growth in China will remain above 8%, leading to **price pressures on commodities**.
- Monetary policies will remain loose until end-2010, after which a tightening will take place.
- Dated Brent Blend will average just under US\$80/barrel over the next five years.

Egypt: International assumptions



Economic growth (%)

	2009	2010	2011	2012	2013	2014
US GDP	-2.3	1.7	1.3	1.9	2.3	2.5
World GDP	-2.5	2.0	2.3	2.8	3.0	3.1
World trade	-9.4	3.5	4.6	5.2	5.7	5.9

Inflation indicators

US CPI	-0.8	0.9	1.3	1.6	1.9	2.1
Oil (Brent; US\$/b)	62.0	74.0	67.0	80.0	82.5	89.5
Non-oil commodities (measured in US\$)	-24.1	5.7	1.2	3.7	4.8	2.9

Financial indicators

€ 3-month interbank rate	1.3	1.1	2.5	3.6	4.4	4.5
US\$ 3-month commercial paper rate	0.2	0.3	1.4	3.2	4.7	5.3
¥ 3-month repo rate	0.4	0.3	0.6	1.1	1.7	2.0

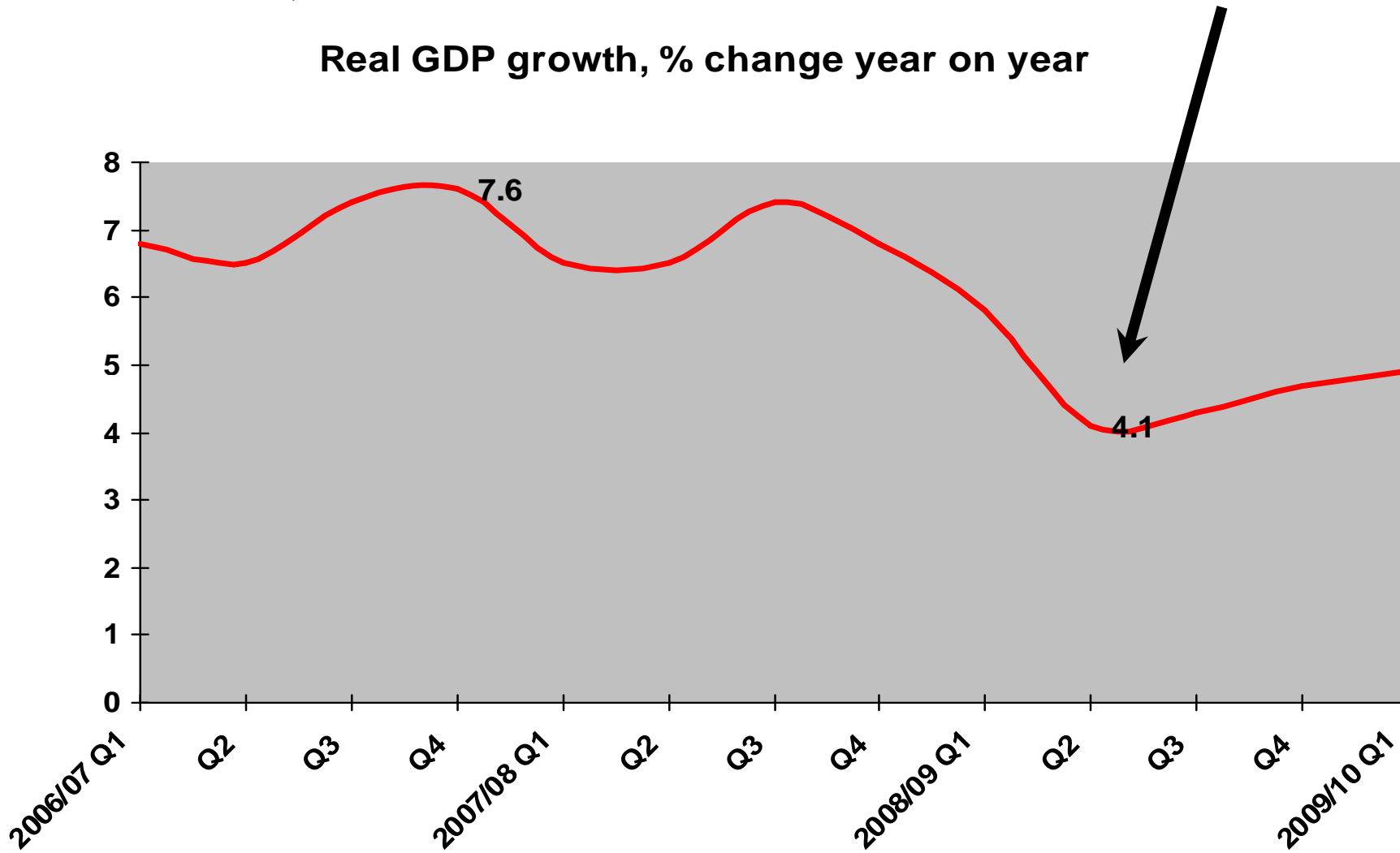
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Egypt

Five-year forecast summary

Crisis, what crisis ?

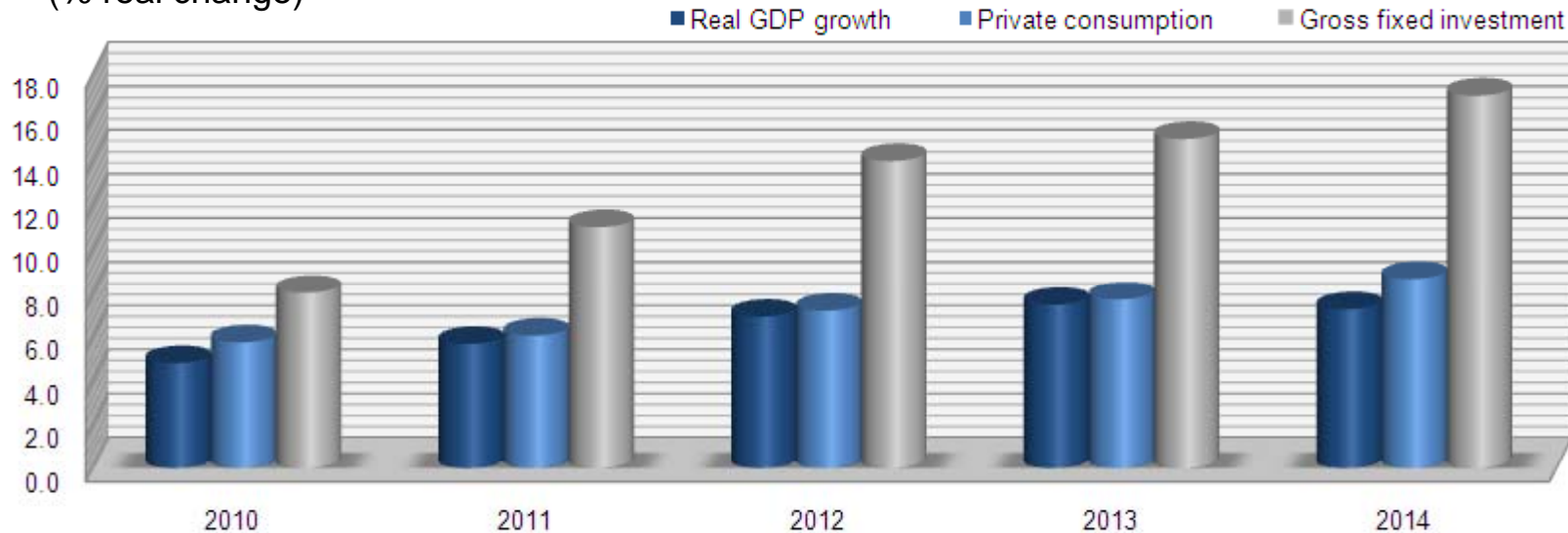
Real GDP growth, % change year on year



Egypt: Economic outlook



Economic outlook (% real change)



- ▶ The outlook for economic growth in Egypt remains robust.
- ▶ Ongoing economic reforms, including tax cuts, are boosting investor confidence and lifting private consumption, and these trends will continue over the next five years.
- ▶ Economic growth has been dented by the recession in Europe, which will continue to affect overall export growth, but we expect to see a firm recovery from 2011.
- ▶ From 2011 export growth will also be supported by a competitive exchange rate and expansion in the industrial and energy sectors, and robust domestic demand.

The risks abound

Short-term upward bias

- Fiscal stimulus continues
- External demand is recovering faster than anticipated
- Internal dynamic of the economy
- Ongoing microeconomic reform
- **But this entails inflationary risks**

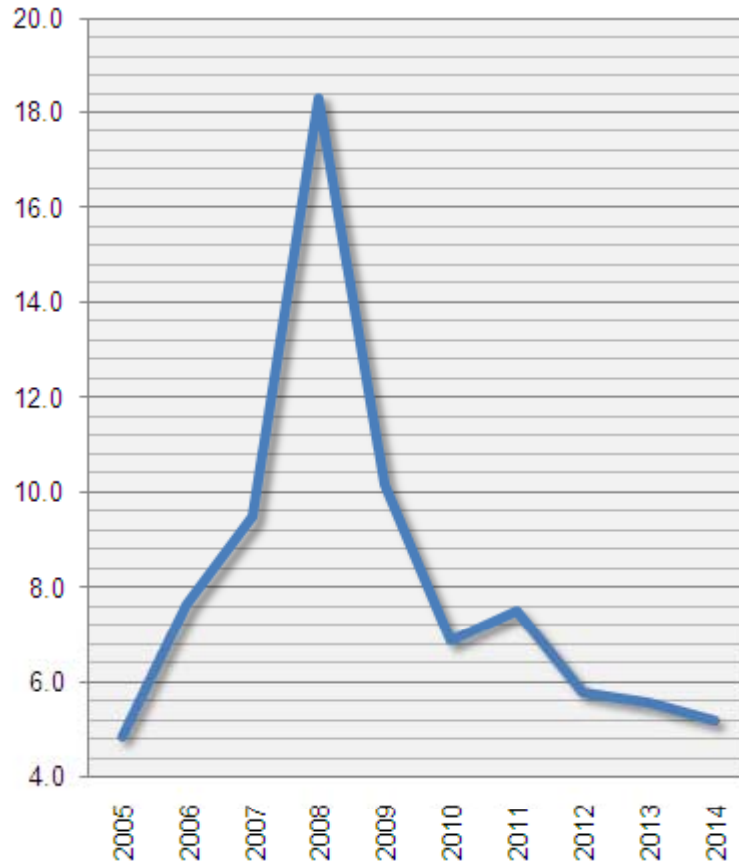
Long-term, the potential may not be reached

- Election calendar may derail necessary reforms
- Insufficient support for the SME sector
- Need to strengthen the social safety net can drain resources
- Access to the labour market remains limited for the young and lesser-skilled
- Failure to rein in the fiscal deficit can sap the economy
- Europe may remain on a low-growth path for a long time
- **Growth of 7-8% may not be attained**

Egypt: Wage and price inflation



Consumer price inflation (%; annual average)

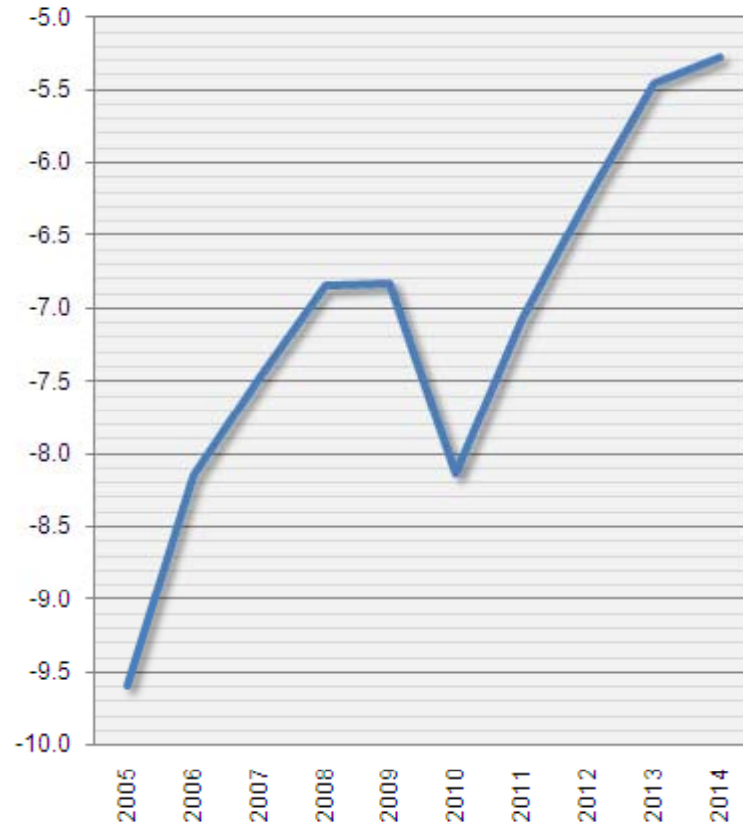


- ▶ After peaking at 18.3% in 2008, inflation will have fallen to an estimated average of 10.2% in 2009 on the back of lower global commodity prices and domestic activity.
- ▶ The consumer price index basket was overhauled in 2004, reducing the weighting of subsidised goods and services, but the index does not adequately reflect price movements in the Egyptian economy.
- ▶ Another rebasing was carried out in September 2007, but the full weightings of the index have still not been published. However, the overall statistical framework is much improved and official data are more reliable.
- ▶ A more robust monetary policy framework and better policy transmission mechanisms should mean that the rate of inflation falls to around 5.2% in 2014.
- ▶ Downward price rigidities in local product markets will prevent the rate of inflation from falling below 5% despite the improved policy framework.

Egypt: Fiscal policy



Central government budget balance (% of GDP)



- ▶ The government's fiscal policy will remain strongly expansionary for most of the forecast period.
- ▶ The 2009/10 budget contains an additional E£7bn (US\$1.25bn) fiscal stimulus on top of the E£15bn package implemented in 2008/09 to boost economic growth, focusing particularly on infrastructure development and export support.
- ▶ Such spending programmes could be repeated over the next five years, especially in the run-up to the presidential election in 2011.
- ▶ Revenue growth is likely to slow in 2009/10. A large proportion of tax receipts are derived from global trade, in the form of revenue from either the Suez Canal or customs duties. This leaves Egypt vulnerable to downturns in global trade flows.
- ▶ A new property tax from January 2010 should help to compensate for some of the fall in tax receipts.
- ▶ Overall, the budget deficit will widen in 2009/10, to just over 8% of GDP, lower than the budgeted 8.5% of GDP, as economic growth is likely to be above the government's initial projections.
- ▶ Assuming the economy recovers as forecast, the budget deficit will narrow steadily over the remainder of the forecast period.

Egypt: Fiscal policy



Central government budget balance (% of GDP)

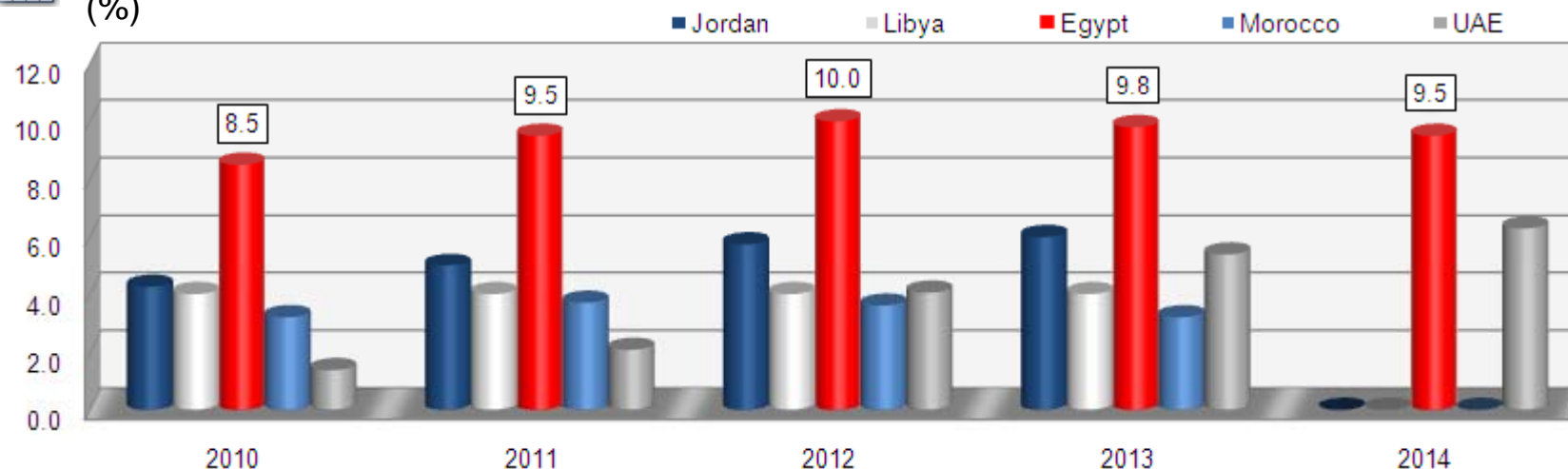
2005	-9.6
2006	-8.2
2007	-7.5
2008	-6.9
2009	-6.8
2010	-8.1
2011	-7.1
2012	-6.2
2013	-5.5
2014	-5.3

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Egypt: Monetary policy



Money market interest rate (%)



- The Central Bank of Egypt (CBE) has begun to move towards making inflation-targeting its main policy goal, but this is unlikely to happen until the very end of the forecast period.
- The CBE has been cutting rates since the beginning of 2009 on the back of a gradual deceleration in the rate of inflation. The latest cut was on September 17th, when the CBE reduced its overnight deposit and lending rates by a further 25 basis points each, to 8.25% and 9.75%, respectively.
- With economic growth having picked up in recent months, the CBE is likely to keep interest rates on hold for some time, provided the rate of inflation continues to decelerate.
- Inflation is likely to increase again in 2010-11, on the back of rising energy prices, prompting the CBE to tighten its policy from the second half of 2010. Policy will then remain tight for the remainder of the forecast period.

Egypt: Monetary policy



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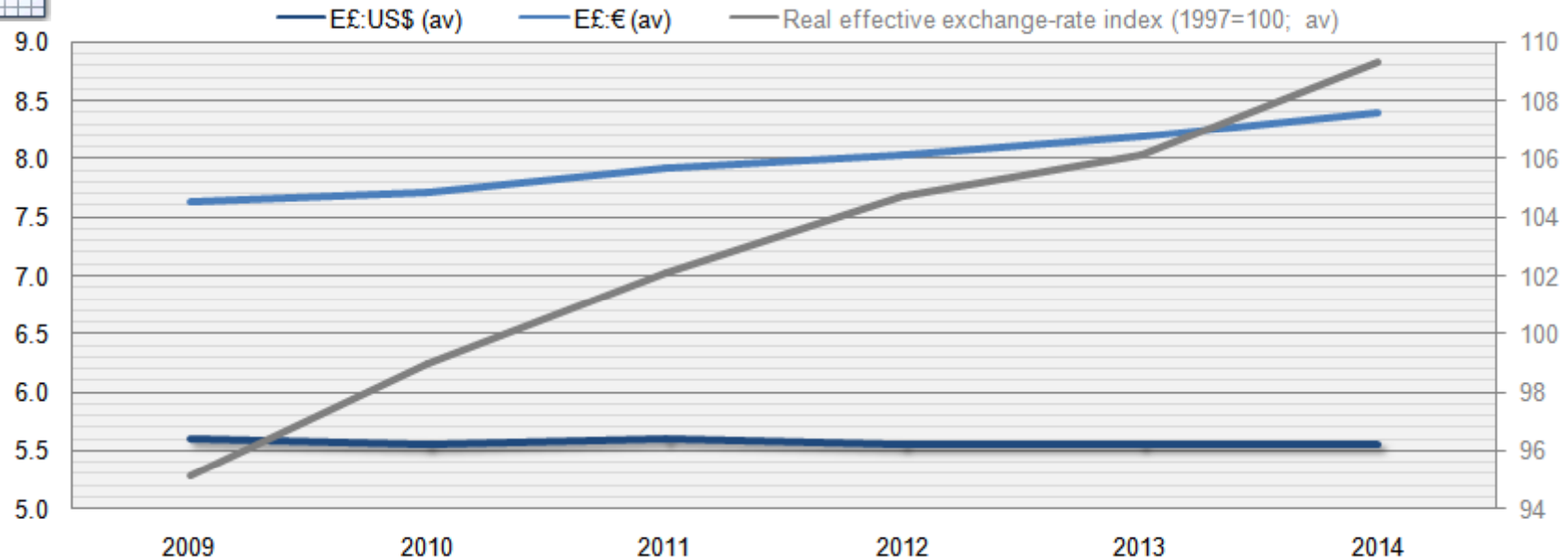
	2010	2011	2012	2013	2014
Jordan	4.3	5.0	5.8	6.0	–
Libya	4.0	4.0	4.0	4.0	–
Egypt	8.5	9.5	10.0	9.8	9.5
Morocco	3.2	3.7	3.6	3.2	–
UAE	1.4	2.1	4.1	5.4	6.3

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Egypt: Exchange rates



Exchange rates



- ▶ The Egyptian pound strengthened between 2005 and mid-2008.
- ▶ In the second half of 2008 significant portfolio and other capital outflows and a strengthening of the US dollar led to some depreciation of the pound, which ended 2008 at E£5.50:US\$1, having peaked at E£5.29:US\$1 in mid-2008.
- ▶ The pound will appreciate during the second half of 2009 and in 2010 because Egypt's interest rates are higher and its economy more robust than much of the rest of the world.
- ▶ Capital inflows will be more moderate than in recent years, but rising Suez Canal receipts and a return of tourism will lift foreign-exchange reserves.
- ▶ The pound will stabilise from mid-2010 and the Central Bank is likely to attempt to maintain a stable exchange rate at around E£5.55:US\$1 from 2011 onwards.
- ▶ Against the euro, the pound will depreciate on average over the forecast period.

Egypt: Exchange rates



Exchange rates

	2009	2010	2011	2012	2013	2014
E£:US\$ (av)	5.60	5.56	5.60	5.55	5.55	5.55
E£:US\$ (end-period)	5.60	5.54	5.58	5.55	5.55	5.55
E£:¥100 (av)	5.83	5.87	6.04	6.10	6.17	6.24
E£:€ (av)	7.63	7.71	7.92	8.03	8.20	8.41
Real effective exchange-rate index (1997=100; av)	95.1	99.0	102.1	104.7	106.1	109.3
Purchasing power parity E£:US\$ (av)	2.21	2.38	2.53	2.69	2.85	3.00

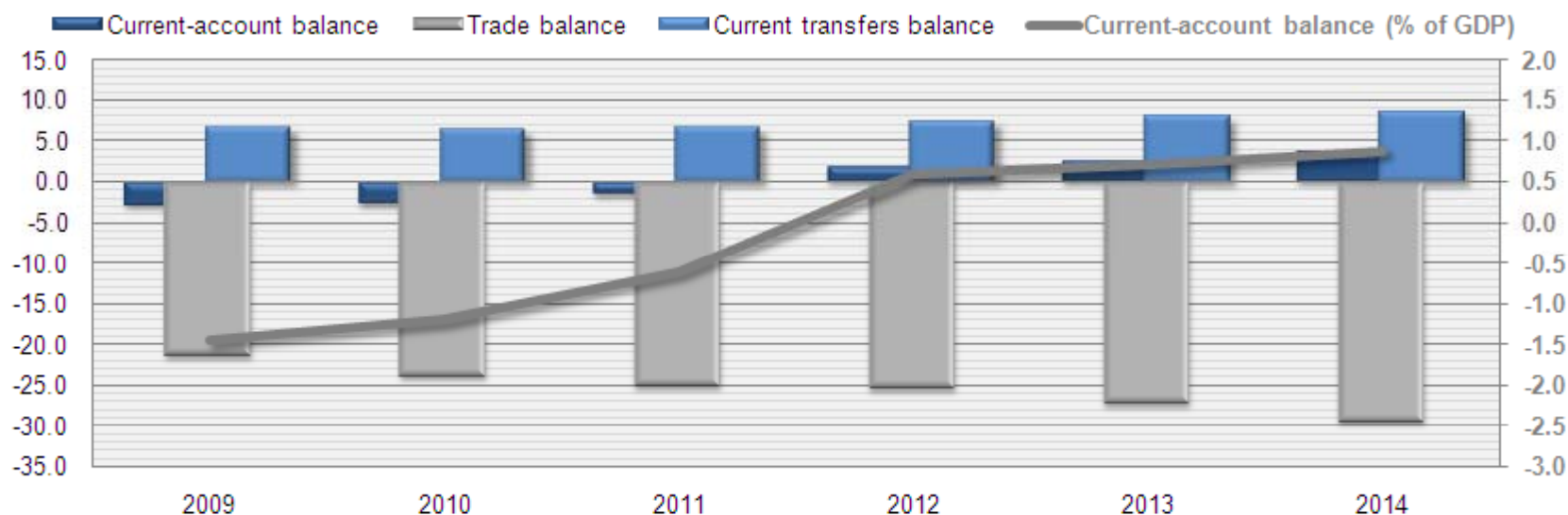
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Egypt: External sector



External sector

(US\$ bn unless otherwise indicated)



- ▶ Egypt's current account will remain in deficit in 2009-11 as the wide trade deficit outweighs a smaller surplus on the services balance than in recent years.
- ▶ Export earnings will drop in 2009, but will start to recover again in from 2010, supported by rising domestic production and a competitive currency. Falling international commodity prices will help to constrain import costs in 2009, and the overall trade deficit will narrow.
- ▶ From 2012, the current account will return to surplus, helped by a gradually widening surplus on the services account, mainly owing to tourism receipts.
- ▶ The transfers balance will narrow in 2009-10, reflecting a falling number of Egyptians working abroad. From 2011, transfers will rise again as global economic activity picks up.

Egypt: External sector



External sector

(US\$ bn unless otherwise indicated)

	2009	2010	2011	2012	2013	2014
Current-account balance	-2.9	-2.7	-1.5	1.8	2.5	3.7
Current-account balance (% of GDP)	-1.4	-1.2	-0.6	0.6	0.7	0.9
Goods: exports fob	22.9	24.3	26.1	31.0	36.4	41.6
Goods: imports fob	-44.3	-48.3	-51.3	-56.4	-63.8	-71.1
Trade balance	-21.5	-23.9	-25.2	-25.4	-27.3	-29.5
Services balance	10.9	13.5	15.1	17.3	18.9	21.3
Income balance	1.0	1.3	1.9	2.5	3.0	3.4
Current transfers balance	6.7	6.4	6.6	7.4	7.9	8.5

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Foreign direct investment

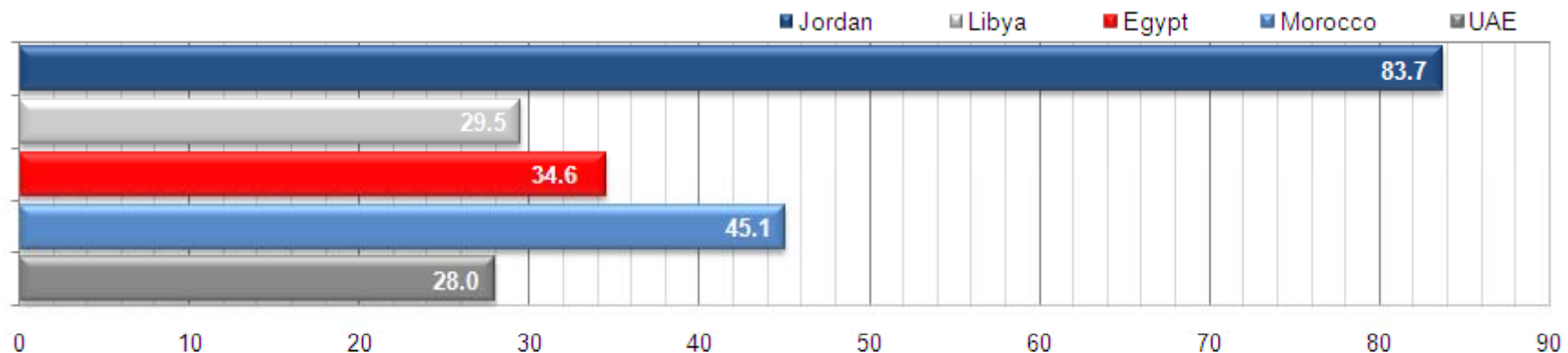
Egypt: Foreign direct investment

Stocks and flows

- ▶ According to domestic sources, net inflows FDI—including investment in the petroleum sector and privatisation proceeds— reached US\$13.2bn in 2007/08, a record high. In 2006/07 net FDI inflows were US\$11bn.
- ▶ FDI inflows were US\$8.1bn in fiscal year 2008/09 (July 2008-March 2009), down from US\$11.3bn in the same period a year earlier.
- ▶ Strong inflows in recent years have boosted the stock of FDI in Egypt, which climbed to US\$49.2bn at end-2007, up from US\$37.7bn at end-2006. The stock of FDI is estimated to have reached US\$59bn at end-2008 (37.7% of GDP).



Inward foreign direct investment stock, 2010
(% of GDP)



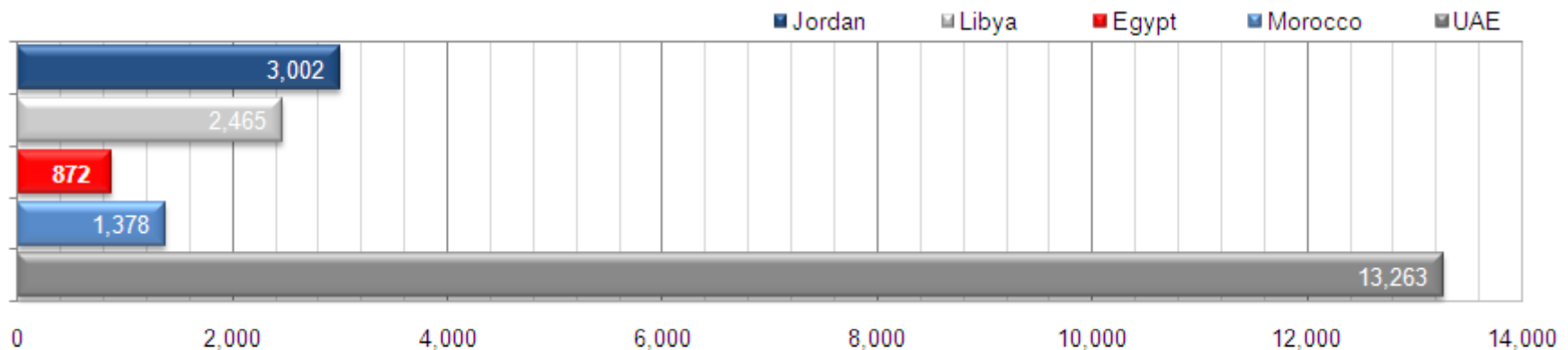
Egypt: Foreign direct investment

Determinants

- ▶ The reformist policies implemented by the government of the prime minister, Ahmed Nazif, have greatly facilitated FDI inflows. The pace of the reform process has been uneven and, in certain areas, frustratingly slow, but FDI inflows have increased substantially in recent years as businesses have been attracted by Egypt's growth potential and the wide range of investment opportunities.
- ▶ A strong commitment to improving the business environment by initiating tax reform, tackling administrative bureaucracy, combating corruption, introducing more efficient business regulations and supporting a range of investment incentives will play a major part in determining the levels of foreign investment.
- ▶ The General Authority for Investment and Free Zones, a one-stop shop, is seeking to improve the quality of FDI by widening the focus away from a traditional reliance on oil sector investments.



Inward foreign direct investment stock per head, 2010
(US\$)



Egypt: Foreign direct investment

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Inward foreign direct investment stock per head

(US\$)

	Jordan	Libya	Egypt	Morocco	UAE
2010	3,002	2,465	872	1,378	13,263

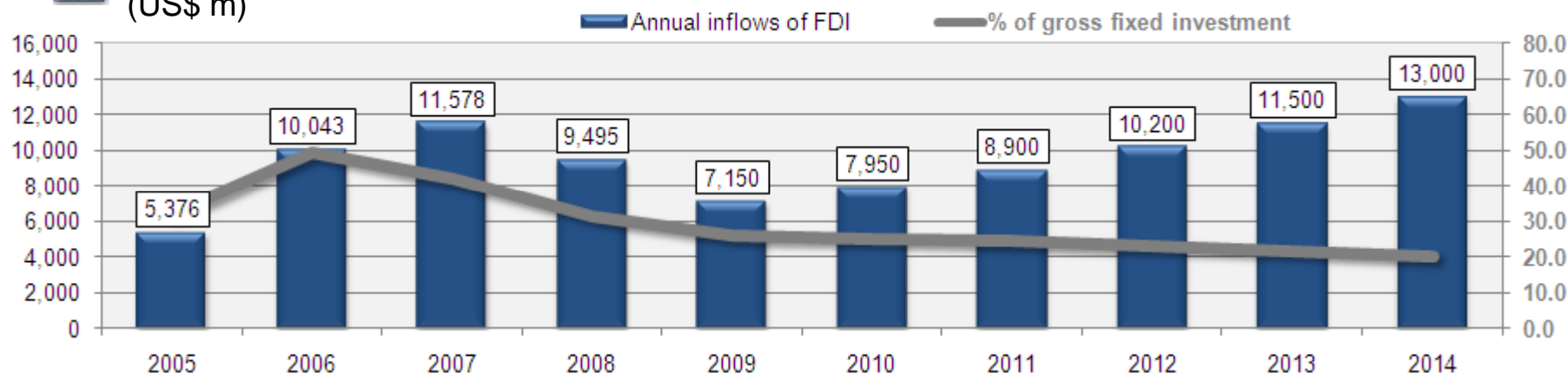
Egypt: Foreign direct investment

Potential

- ▶ The government's reform drive is specifically aimed at attracting more FDI. The improved performance of the Egyptian economy, assisted by more coherent policymaking, is helping to achieve this aim.
- ▶ The government is targeting two separate groups. The first includes energy, transport, tourism, finance, communications and some manufacturing industries such as food processing and textiles.
- ▶ The second group, involving mining, pharmaceuticals, other types of manufacturing and retailing, will require more regulatory and procedural changes, including increased land availability.
- ▶ The government also hopes to persuade foreign investors to participate in the rehabilitation and expansion of Egypt's transport and communications infrastructure, especially telecoms and the ports.
- ▶ There are opportunities in the fast-expanding tourism sector for manufacturers of hotel equipment, project managers, and building and construction experts to upgrade regional infrastructure.



Annual inflows of foreign direct investment
(US\$ m)



Egypt: Foreign direct investment

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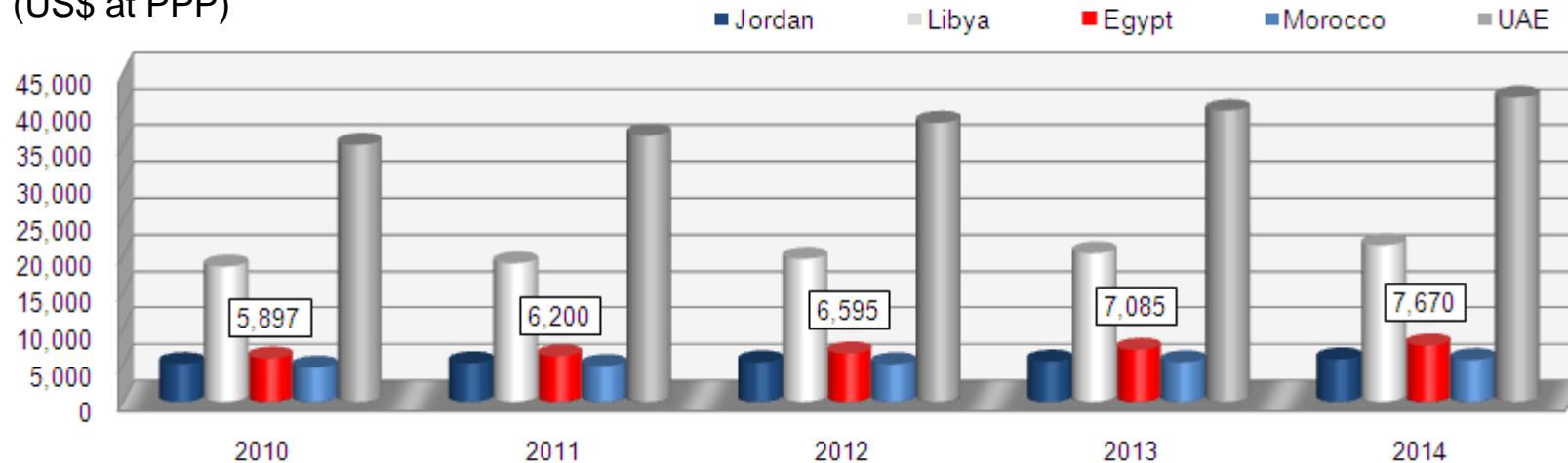
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Annual inflows of FDI	5,376	10,043	11,578	9,495	7,150	7,950	8,900	10,200	11,500	13,000
% of gross fixed investment	32.2	49.7	42.0	31.4	25.9	25.2	24.4	23.1	21.8	20.1

Market opportunities

Egypt: Market opportunities



GDP per head (US\$ at PPP)



- ▶ The attractiveness of Egypt as a market for consumer goods will increase, with GDP per head at market exchange rates projected to rise steadily throughout the forecast period, from a low base.
- ▶ As the most populous Arab country, Egypt is an important market, with huge potential, and one that will continue to grow fast.
- ▶ The population is easily accessible, helped by the fact that it is located in an extremely concentrated geographical area, making logistics relatively simple for a large country.
- ▶ The GDP per head figures mask deep income disparities between the rich and the poor, and a large part of the population still relies on government subsidies.
- ▶ A sizeable and growing minority has spending power comparable to people in the industrialised world, implying rising demand for high-value consumer goods.

Egypt: Market opportunities



GDP per head (US\$ at PPP)

	2010	2011	2012	2013	2014
Jordan	5,149	5,258	5,380	5,490	5,785
Libya	18,554	18,994	19,596	20,359	21,477
Egypt	5,897	6,200	6,595	7,085	7,670
Morocco	4,669	4,871	5,126	5,389	5,690
UAE	35,151	36,433	38,149	39,813	41,710

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The business environment forecast

Egypt: Business environment rankings

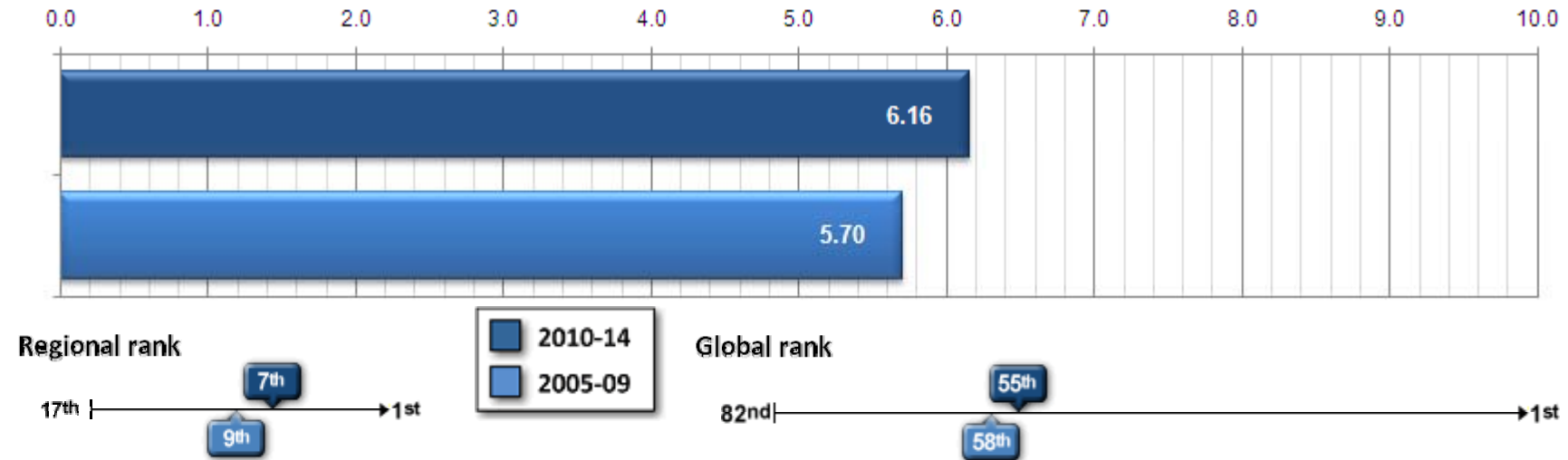
	Value of index ^a		Global rank ^b		Regional rank ^c	
	2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
Overall position	5.70	6.16	58	55	9	7
Political environment	5.0	5.2	55	54	9	9
Political stability	5.1	5.1	58	62	6	9
Political effectiveness	4.9	5.2	44	44	8	8
Macroeconomic environment	5.2	6.1	77	71	16	16
Market opportunities	6.7	6.2	15	31	4	8
Policy towards private enterprise & competition	5.5	6.3	46	39	5	4
Policy towards foreign investment	6.9	6.9	41	46	6	5
Foreign trade & exchange controls	6.4	7.3	57	50	5	5
Taxes	5.6	6.5	49	34	9	9
Financing	5.9	6.6	44	30	8	3
The labour market	5.4	5.2	61	72	7	13
Infrastructure	4.5	5.5	66	61	12	10

^a Out of 10. ^b Out of 82 countries. ^c Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Methodology

Egypt: Business environment outlook

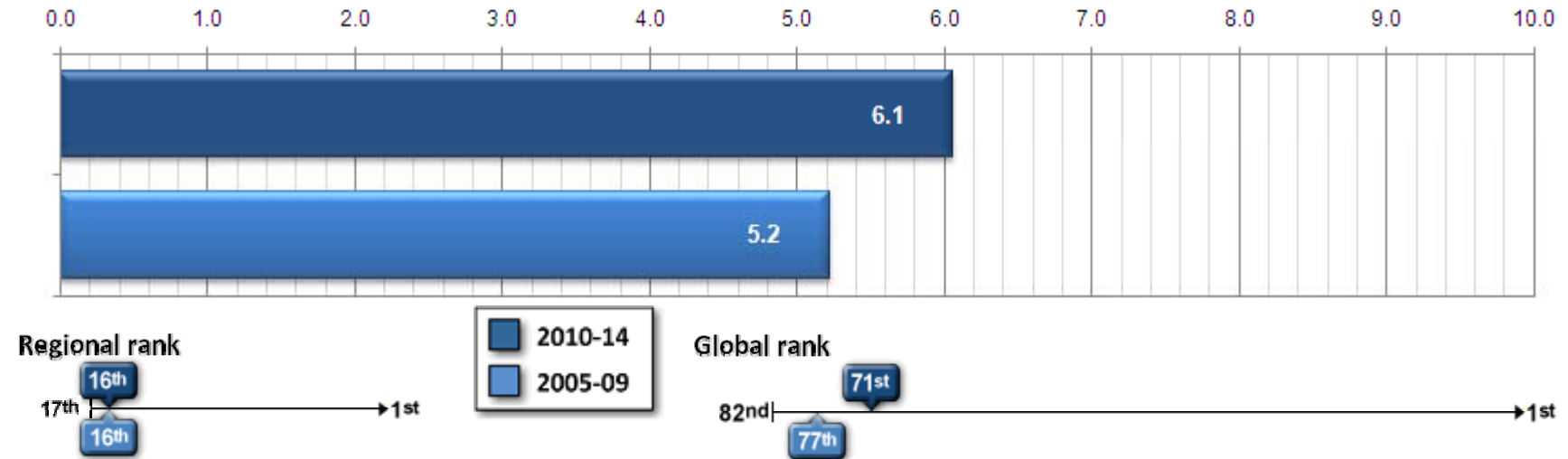
Value of index



- ▶ The Economist Intelligence Unit's business environment rankings assess a country's relative attractiveness as an investment location, both globally and regionally.
- ▶ Egypt's business environment score improves to 6.16 for the forecast period (2010-14) from 5.70 for the historical period (2005-09), and both its global and regional rankings rise, to 55th (out of 82 countries) and 7th (out of 17).
- ▶ Progress on economic reform is expected to continue in 2010-14, leading to an improvement in competition and investment policies, and in the financing environment.
- ▶ However, the president, fearing the socioeconomic fallout from rapid reform, may limit the cabinet's room for manoeuvre, especially with regard to the labour market.

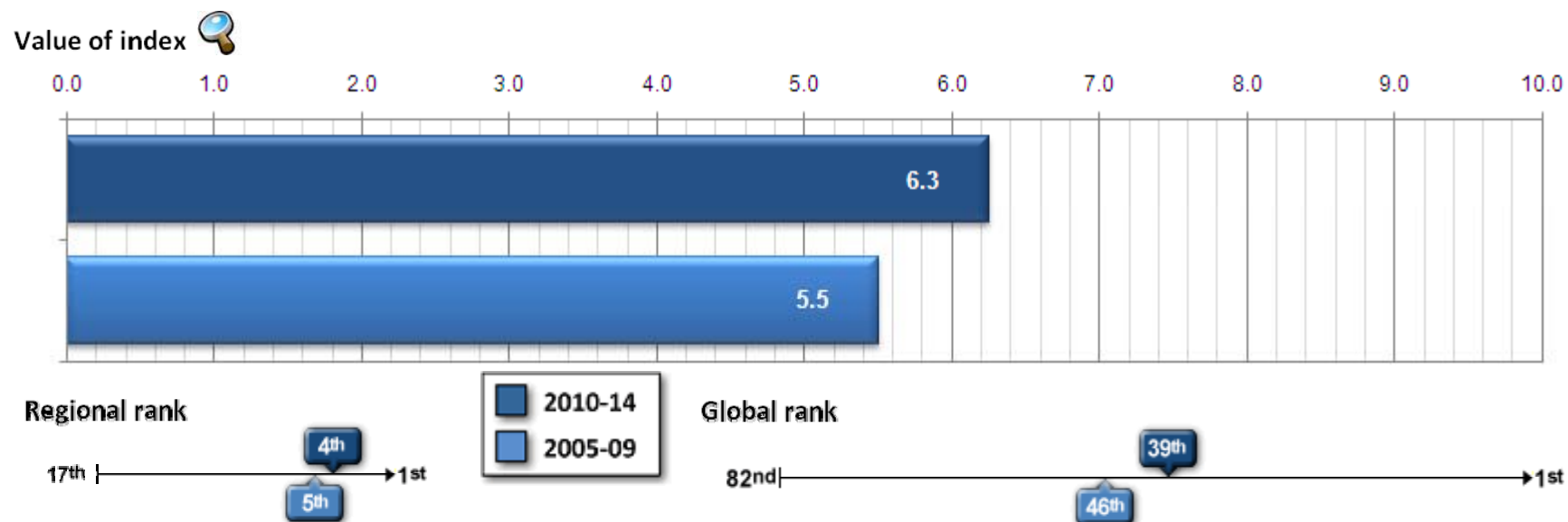
Egypt: Macroeconomic environment

Value of index



- ▶ Egypt's macroeconomic environment is expected to improve markedly over the forecast period on the back of ongoing economic reform.
- ▶ The pace of reform has slowed in the past two years, but is expected to pick up again from 2010 as the government looks to new measures to stimulate investment and economic growth.
- ▶ Egypt is weathering the global economic recession better than many other countries, both developed and emerging. Reforms aimed at facilitating business development will continue to stimulate robust GDP growth and Egypt will continue to attract high levels of inward foreign direct investment (FDI).
- ▶ The improved economic environment will continue to sustain investor confidence. Robust growth will also help to reduce unemployment. External debt service levels will be comfortable.

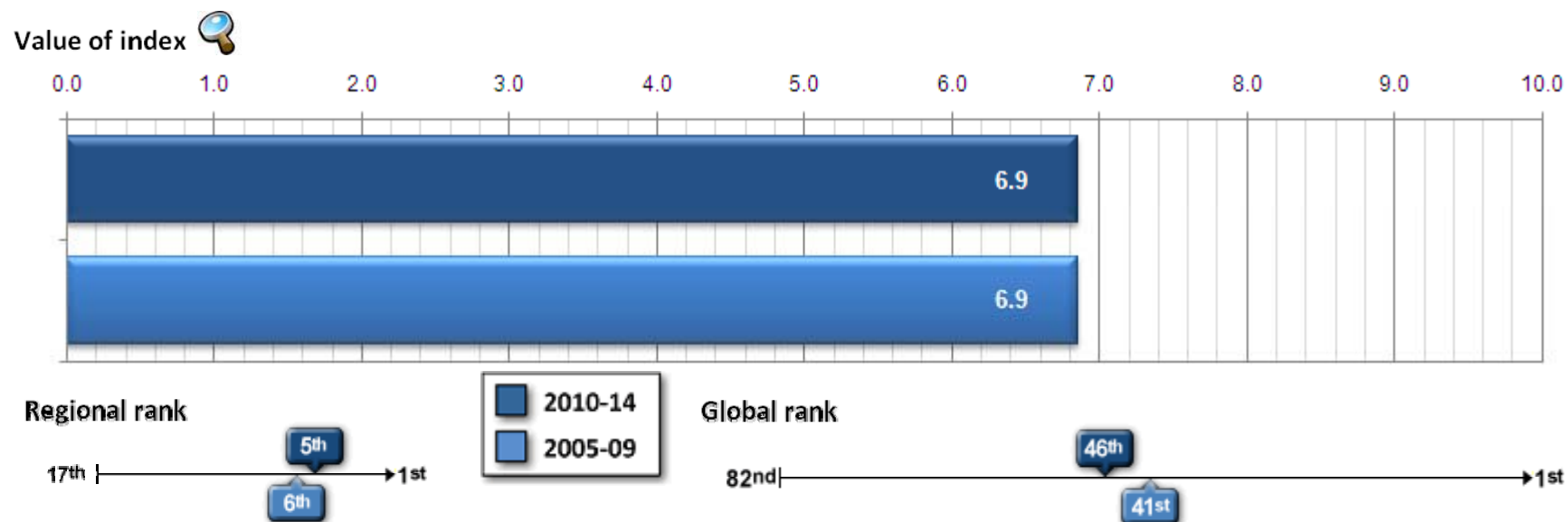
Egypt: Policy towards private enterprise & competition



2010-11: The government launches a new privatisation scheme for smaller, non-strategic industrial companies in 2010. The Council for Commercial Centres, a new body set up by the Ministry of Trade and Industry, will look at ways to help to improve internal trade, with a focus on the acquisition and pricing of land and the reduction of barriers to entry.

2012-14: Stakes in larger state-owned industrial enterprises and utilities are sold. The government retains controlling stakes in some sensitive industries, and others remain in effect off-limits. The market for electricity is opened up fully for competition.

Egypt: Policy towards foreign investment



2010-11: Significant progress is made in overhauling commercial legislation. Bureaucracy remains obstructive despite the government's efforts at implementing reform owing to overstaffing in many ministries and public offices.

2012-14: Foreign participation in the economy is actively encouraged in order to help to establish benchmarks and best practices. Efforts to reduce bureaucratic barriers begin to yield results, especially in key ministries such as finance, investment and trade. Barriers to exit are removed, improving the ease of doing business in Egypt.

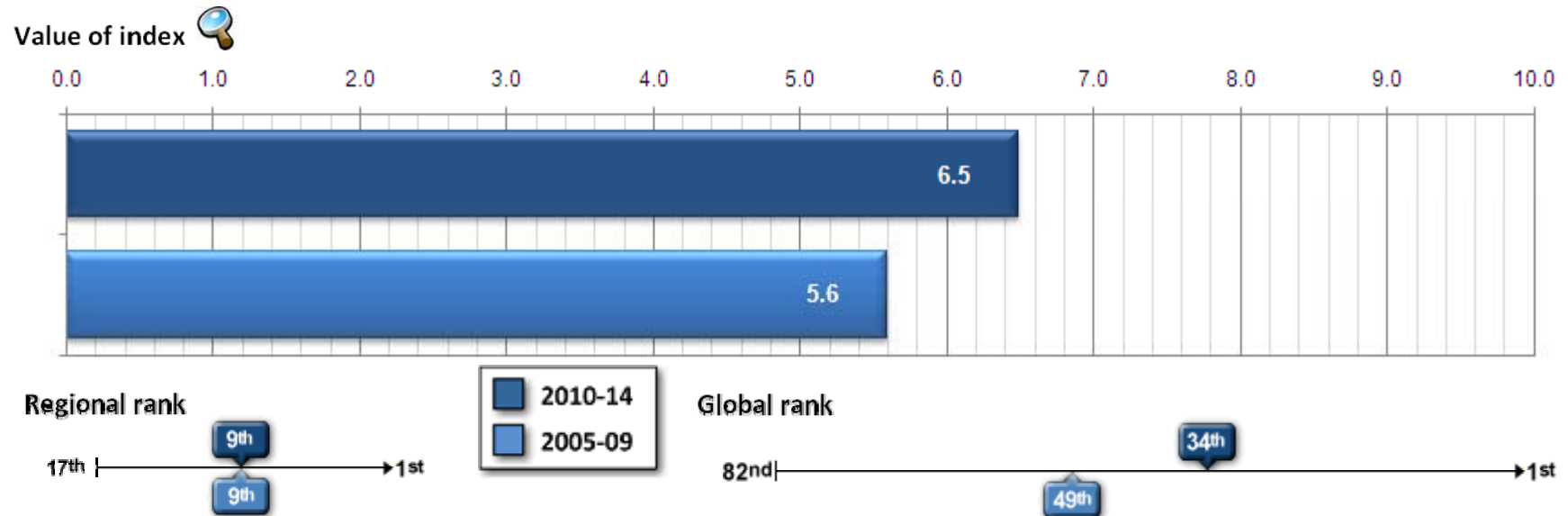
Egypt: Foreign trade and exchange controls



2010-11: Import tariffs continue to be lowered and steps are taken to address non-tariff barriers. Egypt accelerates the process of adhering to EU norms. An OECD programme to enhance public governance will facilitate procedures for importers.

2012-14: Non-tariff barriers continue to be eased. More efficient monetary policy tools allow the authorities to employ greater flexibility in the management of the currency. Egypt and the US are likely to forge a free-trade agreement.

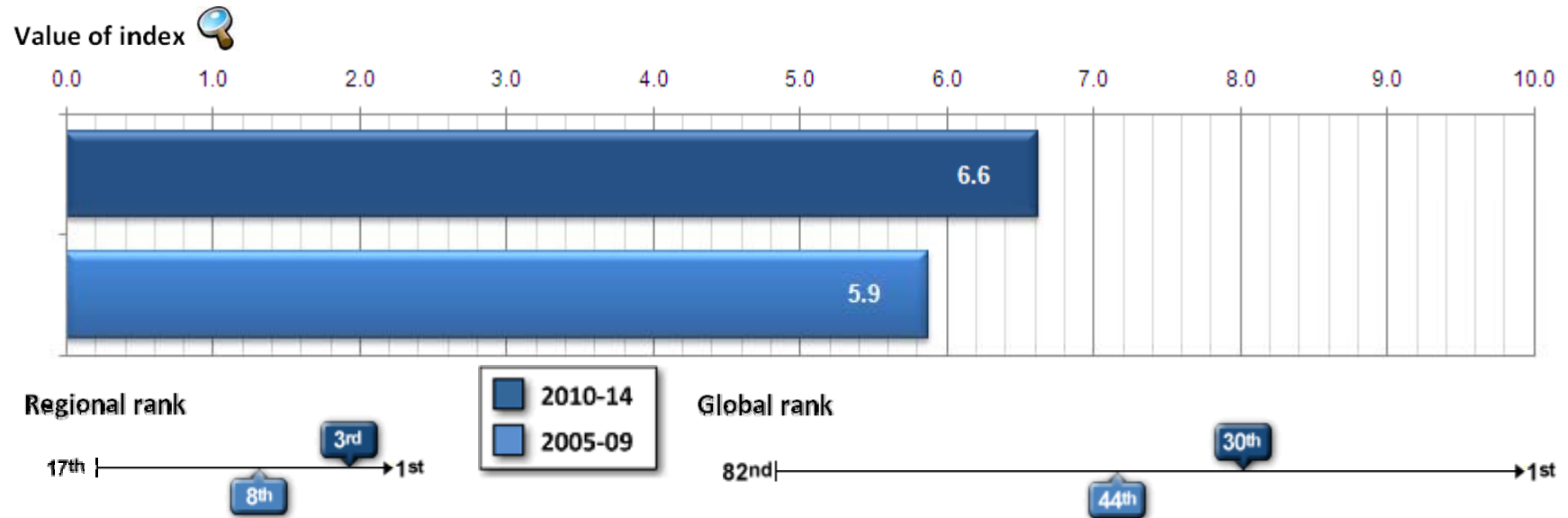
Egypt: Taxes



2010-11: Efficiency improvements are made to tax administration. Some firms face a more uncertain tax environment following the removal of tax exemptions for energy-intensive sectors. A new 10% property tax comes into force in 2010.

2012-14: Efforts continue to improve tax administration and prevent tax fraud and evasion. However, the government also comes under renewed pressure to amend the tax regime in order to boost revenue. A new sales tax regime—possibly in the form of a value-added tax (VAT) scheme—is expected to come into force in 2012.

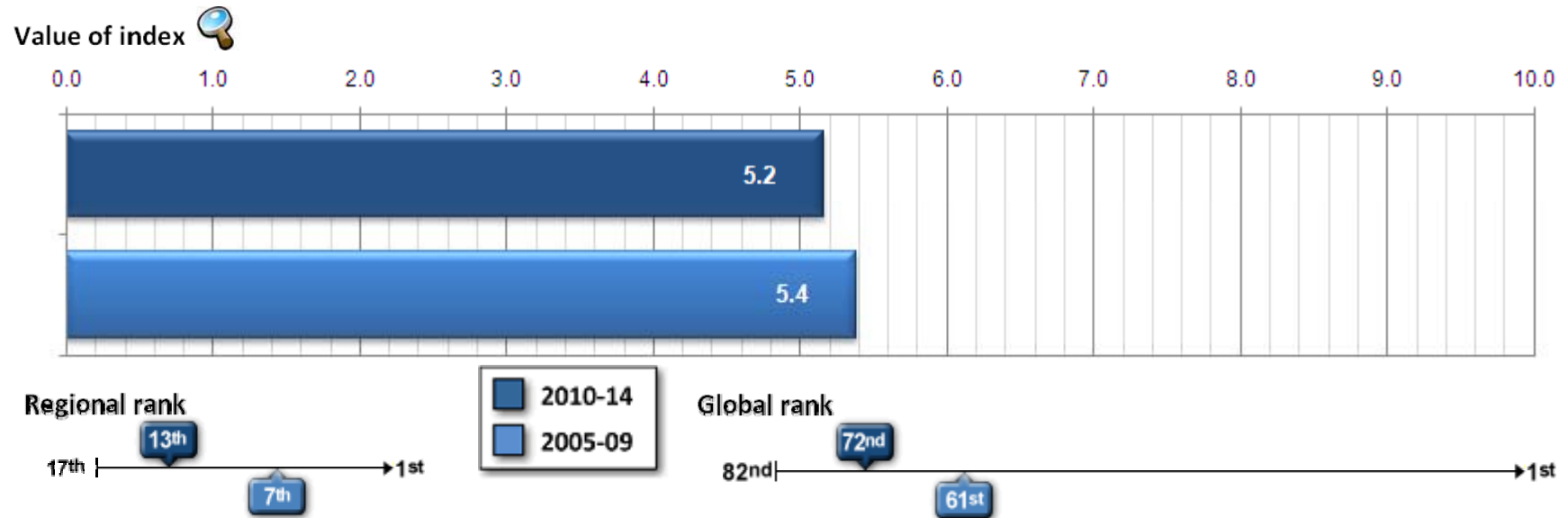
Egypt: Financing



2010-11: New equity and debt offerings on the stock exchange pick up. Derivates are allowed from 2010. The domestic banking sector remains liquid and relatively sheltered from the global credit crunch. The market for retail banking becomes more sophisticated, with more products offered to private clients, especially in terms of consumer credit.

2012-14: Deeper foreign interest in the stock exchange is stimulated by sales of stakes in major utility companies as well as by robust economic growth. There is greater participation in the stock exchange of private pension funds and insurance companies as the government launches its pension reform.

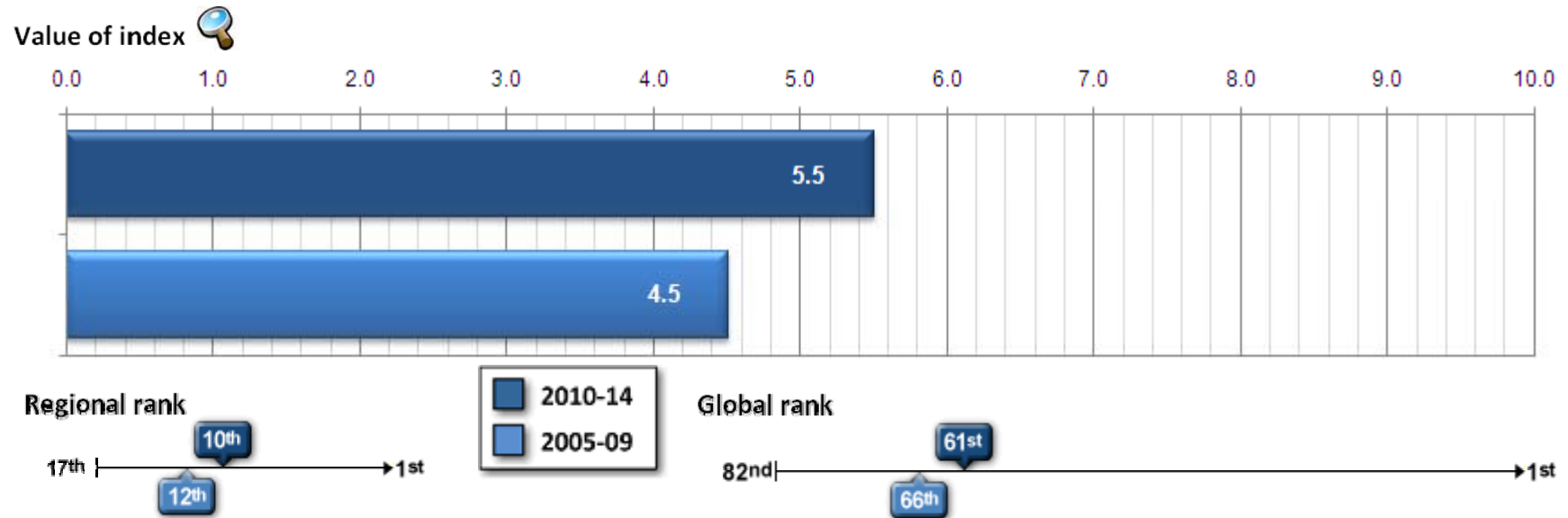
Egypt: The labour market



2010-11: Plentiful and cheap labour, with around 600,000 new entrants to the labour market each year, many of them untrained and low-skilled. Restrictions remain on hiring and firing, and the threat of sporadic strike action continues.

2012-14: A more competitive and flexible labour market gradually evolves. Government programmes to improve skills and training begin to take effect. More foreign involvement in training programmes.

Egypt: Infrastructure



2010-11: A wide-ranging programme to upgrade infrastructure is implemented, with ports, airports, roads and railways to benefit. Foreign investors are actively invited to participate in the process of developing Egypt's infrastructure through public-private partnerships.

2012-14: The government returns to the use of build-operate-transfer schemes for major infrastructure projects. Schools, hospitals and local infrastructure are upgraded. New roads are built linking the Nile Valley to the Red Sea, boosting regional development.

Resources

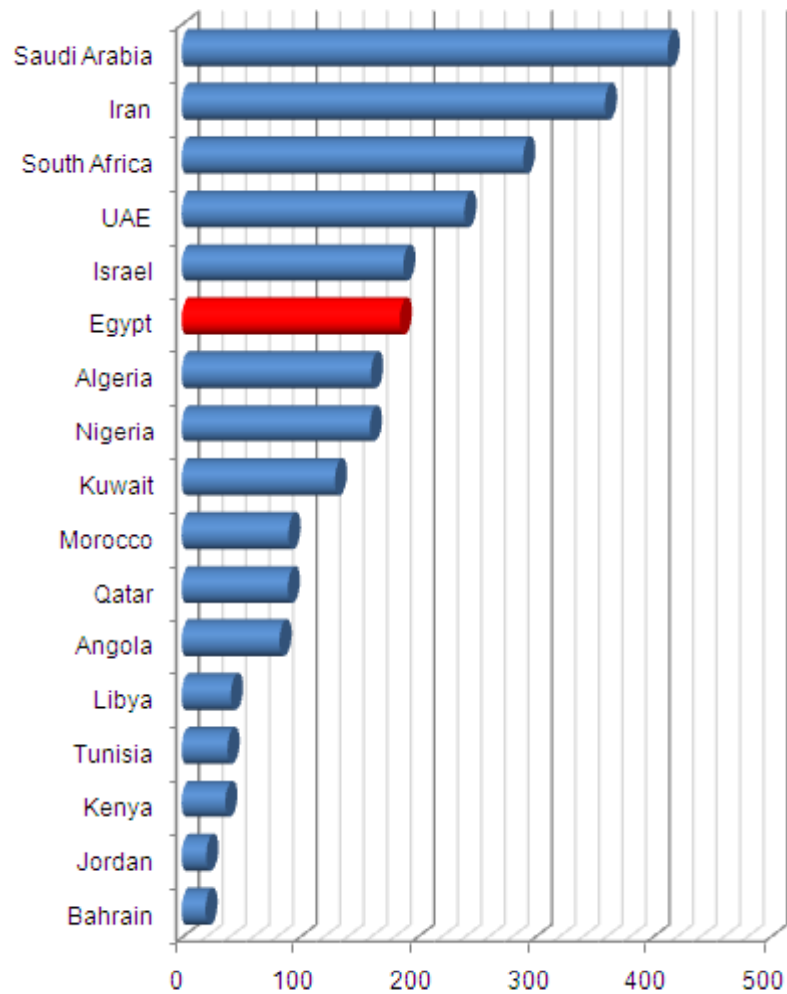
Egypt: Map



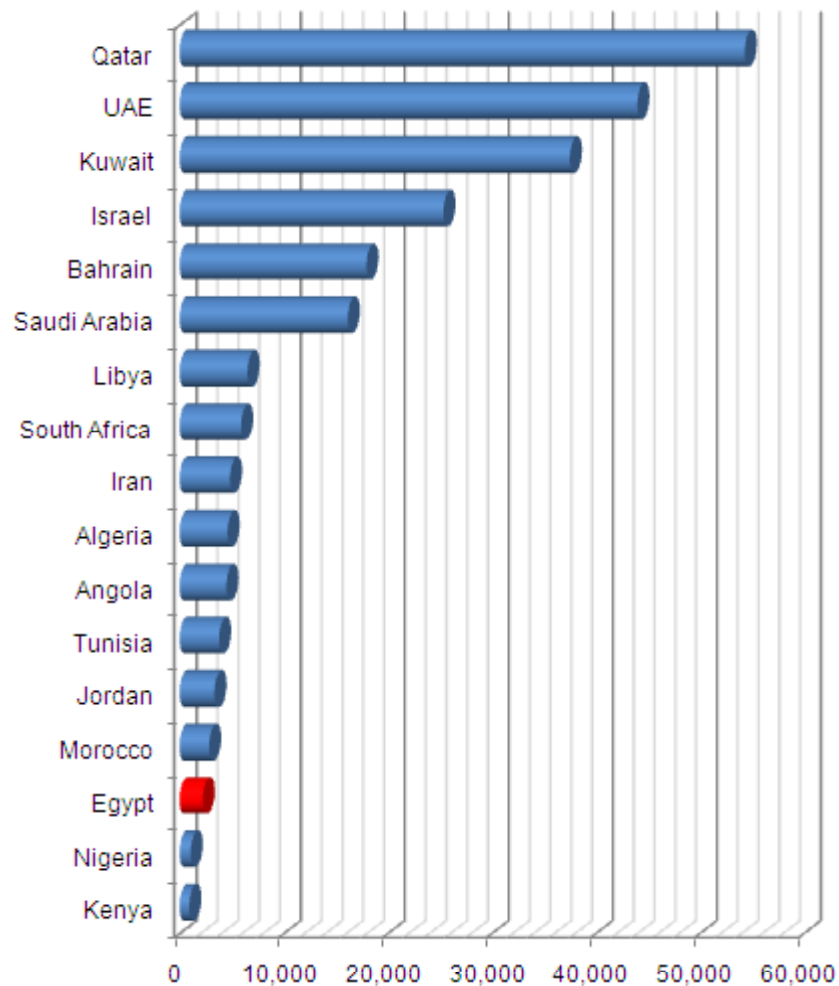
Egypt: Comparative GDP, 2008



Gross domestic product
(US\$ bn; market exchange rates)



Gross domestic product per head
(US\$; market exchange rates)



Egypt: Comparative GDP, 2008



Gross domestic product (US\$ bn; market exchange rates)

Saudi Arabia	413.2
Iran	359.9
South Africa	290.4
UAE	240.4
Israel	188.5
Egypt	185.6
Algeria	161.1
Nigeria	160.1
Kuwait	130.4
Morocco	90.9
Qatar	90.4
Angola	83.3
Libya	41.9
Tunisia	39.1
Kenya	37.2
Jordan	21.0
Bahrain	20.3



Gross domestic product per head (US\$; market exchange rates)

Qatar	54,332.6
UAE	44,014.9
Kuwait	37,522.6
Israel	25,363.7
Bahrain	17,975.0
Saudi Arabia	16,175.5
Libya	6,532.6
South Africa	5,919.8
Iran	4,851.7
Algeria	4,612.5
Angola	4,503.4
Tunisia	3,800.3
Jordan	3,356.6
Morocco	2,843.8
Egypt	2,231.9
Nigeria	1,072.5
Kenya	933.7

Egypt: Basic data

Land area 997,739 sq km, of which only 5% is inhabited and cultivated territory

Population 74m (January 2008, excludes Egyptian residents abroad)

Climate Hot and dry, with mild winter

Language Arabic

Currency Egyptian pound (E£)=100 piastres.

Time 2 hours ahead of GMT (summer time, 3 hours ahead)

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)

Public holidays January 1st 2009 (New Year's Day); March 9th (birthday of the Prophet Mohammed); April 25th (Sinai Liberation Day); April 27th (Shem al-Nessim); May 1st (Labour Day); June 18th (Liberation Day); July 23rd (Revolution Day); August 22nd (Beginning of Ramadan); September 21st (Eid al-Fitr); October 6th (Armed Forces Day); October 23rd (Suez Day); November 28th (Eid al-Adha—Feast of the Sacrifice); December 18th (Islamic New Year); December 23rd (Victory Day)

Business environment rankings: Methodology

Outline of the model

The business rankings model measures the quality or attractiveness of the business environment in the 82 countries covered by *Country Forecasts* using a standard analytical framework. It is designed to reflect the main criteria used by companies to formulate their global business strategies, and is based not only on historical conditions but also on expectations about conditions prevailing over the next five years. This allows the Economist Intelligence Unit to utilise the regularity, depth and detail of its forecasting work to generate a unique set of forward-looking business environment rankings on a regional and global basis.

The business rankings model examines ten separate criteria or categories, covering the political environment, the macroeconomic environment, market opportunities, policy towards free enterprise and competition, policy towards foreign investment, foreign trade and exchange controls, taxes, financing, the labour market and infrastructure. Each category contains a number of indicators that are assessed by the Economist Intelligence Unit for the last five years and the next five years. The number of indicators in each category varies from five (foreign trade and exchange regimes) to 16 (infrastructure), and there are 91 indicators in total.

Almost half of the indicators are based on quantitative data (eg, GDP growth), and are mostly drawn from national and international statistical sources for the historical period (2005-09) and from Economist Intelligence Unit assessments for the forecast period (2010-14). The other indicators are qualitative in nature (eg, quality of the financial regulatory system), and are drawn from a range of data sources and business surveys adjusted by the Economist Intelligence Unit, for 2005-09. All forecasts for the qualitative indicators covering 2010-14 are based on Economist Intelligence Unit assessments.

The main sources used in the business rankings model include CIA, *World Factbook*; Economist Intelligence Unit, *Country Risk Service*, *Country Finance*, *Country Commerce*; Freedom House, *Annual Survey of Political Rights and Civil Liberties*; Heritage Foundation, *Index of Economic Freedom*; IMF, *Annual Report on Foreign Exchange Restrictions*; International Institute for Management Development, *World Competitiveness Yearbook*; International Labour Organisation, *International Labour Statistics Yearbook*; UN, *Human Development Report*; US Social Security Administration, *Social Security Programs Throughout the World*; World Bank, *World Development Report*; World Development Indicators; World Economic Forum, *Global Competitiveness Report*.

[Back to Rankings](#)

Business environment rankings: Methodology

Calculating the rankings

The rankings are calculated in several stages. First, each of the 91 indicators is scored on a scale from 1 (very bad for business) to 5 (very good for business). The aggregate category scores are derived on the basis of simple or weighted averages of the indicator scores within a given category. These are then adjusted, on the basis of a linear transformation, to produce index values on a 1-10 scale. An arithmetic average of the ten category index values is then calculated to yield the aggregate business environment score for each country, again on a 1-10 scale.

The use of equal weights for the categories to derive the overall score reflects in part the theoretical uncertainty about the relative importance of the primary determinants of investment. Surveys of foreign direct investors' intentions yield widely differing results on the relative importance of different factors. Weighted scores for individual categories based on correlation coefficients of recent foreign direct investment inflows do not in any case produce overall results that are significantly different to those derived from a system based on equal weights.

For most quantitative indicators the data are arrayed in ascending or descending order and split into five bands (quintiles). The countries falling in the first quintile are assigned scores of 5, those falling in the second quintile score 4 and so on. The cut-off points between bands are based on the average of the raw indicator values for the top and bottom countries in adjacent quintiles. The 2005-09 ranges are then used to derive 2010-14 scores. This allows for intertemporal as well as cross-country comparisons of the indicator and category scores.

Measurement and grading issues

The indices and rankings attempt to measure the average quality of the business environment over the entire historical or forecast period, not simply at the start or at the end of the period. Thus in the forecast we assign an average grade to elements of the business environment over 2010-14, not to the likely situation in 2014 only.

The scores based on quantitative data are usually calculated on the basis of the numeric average for an indicator over the period. In some cases, the "average" is represented, as an approximation, by the recorded value at the mid-point of the period (2007 or 2012). In only a few cases is the relevant variable appropriately measured by the value at the start of the period (eg, educational attainments). For one indicator (the natural resources endowment), the score remains constant for both the historical and forecast periods.

[Back to Rankings](#)

Egypt: Indicator scores in the business rankings model

	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Political environment				
1. Risk of armed conflict	3	3.2	4	3.5
2. Risk of social unrest	2	2.8	2	2.7
3. Constitutional mechanisms for the orderly transfer of power	3	2.2	2	2.4
4. Government and opposition	3	3.2	3	3.3
5. Threat of politically motivated violence	3	2.6	3	2.9
6. International disputes or tensions	3	2.6	3	2.8
7. Government policy towards business	4	3.1	3	3.2
8. Effectiveness of political system in policy formulation and execution	3	2.7	3	2.6
9. Quality of the bureaucracy	3	2.2	3	2.2
10. Transparency and fairness of legal system	2	1.8	2	2.1
11. Efficiency of legal system	2	2.5	3	2.4
12. Corruption	2	2.4	3	2.4
13. Impact of crime	3	3.3	3	3.4

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model

	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Macroeconomic environment				
1. Inflation*	4	3.8	4	4.1
2. Budget balance as % of GDP*	1	3.9	2	4.1
3. Government debt as % of GDP*	1	4.2	3	4.4
4. Exchange-rate volatility*	5	4.6	4	4.1
5. Current-account balance as % of GDP*	5	4.2	5	4.2
6. Quality of policymaking	3	2.9	3	2.9
7. Institutional underpinnings	2	3.0	3	2.9
8. Asset prices	2	3.2	2	2.8

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model

	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Market opportunities				
1. GDP, US\$ bn at PPP*	4	2.6	4	2.8
2. GDP per head, US\$ at PPP*	2	2.8	2	2.9
3. Real GDP growth*	5	4.1	4	3.8
4. Share of world merchandise trade*	2	2.1	2	2.2
5. Average annual rate of growth of exports*	5	2.5	4	2.6
6. Average annual rate of growth of imports*	5	3.5	5	3.4
7. The natural resource endowment*	2	3.9	2	3.9
8. Profitability*	5	4.2	5	3.9
9. Regional integration	3	2.8	3	2.9
10. Proximity to markets	3	2.4	3	2.2

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model



	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Policy towards private enterprise and competition				
1. Degree to which private property rights are protected	3	3.0	4	3.3
2. Government regulation on setting up new private businesses	3	2.8	4	2.9
3. Freedom of existing businesses to compete	3	2.5	3	2.7
4. Promotion of competition	3	2.2	3	2.5
5. Protection of intellectual property	3	2.4	3	2.4
6. Price controls	3	2.9	3	3.0
7. Distortions arising from lobbying by special interest groups	3	2.4	3	2.4
8. Distortions arising from state ownership/control	3	2.4	4	2.4
9. Minority shareholders	3	2.7	3	2.9

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model



	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Policy towards foreign investment				
1. Government policy towards foreign capital	4	3.0	4	3.4
2. Openness of national culture to foreign influences	3	3.2	3	3.4
3. Risk of expropriation of foreign assets	4	3.5	4	3.4
4. Availability of investment protection schemes	4	3.1	4	3.1
5. Government favouritism	3	2.9	3	2.8

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model



	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Foreign trade and exchange controls				
1. Capital-account liberalisation	3	3.2	4	3.3
2. Tariff and non-tariff protection**	3	2.8	4	3.3
3. Ease of trading	3	2.9	4	3.1
4. Openness of trade*	5	2.8	3	3.3
5. Restrictions on the current account	3	3.5	4	3.9

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model



	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Taxes				
1. The corporate tax burden**	4	3.3	5	3.9
2. The top marginal personal income tax*	4	3.8	4	4.0
3. Value-added tax*	4	4.1	4	4.1
4. Employers' social security contributions	2	3.7	2	3.8
5. Degree to which fiscal regime encourages new investment	3	2.5	3	2.8
6. Consistency and fairness of the tax system	3	2.5	3	2.6
7. Tax complexity	2	3.2	3	3.4

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model



	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Financing				
1. Openness of banking sector	3	2.9	4	3.1
2. Stockmarket capitalisation	3	3.2	3	3.1
3. Distortions in financial markets**	4	3.2	4	3.2
4. Quality of the financial regulatory system	2	2.4	3	2.9
5. Access of foreigners to local capital market	4	2.6	4	2.7
6. Access to medium-term finance for investment	3	2.8	3	2.4

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model



	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
The labour market				
1. Labour costs adjusted for productivity*	3	3.8	3	3.9
2. Availability of skilled labour*	2	2.3	2	2.6
3. Quality of workforce	2	2.5	2	2.8
4. Quality of local managers	2	2.6	2	2.8
5. Language skills	2	3.0	3	3.2
6. Health of the workforce*	3	2.9	3	3.1
7. Level of technical skills	3	2.9	3	3.1
8. Cost of living*	4	3.1	2	2.6
9. Incidence of strikes**	5	3.5	4	3.5
10. Restrictiveness of labour laws	3	2.9	3	2.9
11. Extent of wage regulation	3	2.8	3	3.0
12. Hiring of foreign nationals	3	2.8	4	2.9

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Egypt: Indicator scores in the business rankings model



	2005-09		2010-14	
	Egypt	Regional average ^a	Egypt	Regional average ^a
Infrastructure				
1. Telephone density*	3	2.7	3	3.1
2. Reliability of telecoms network**	5	3.0	2	3.4
3. Telecoms costs*	2	3.0	3	3.4
4. Mobiles*	2	3.2	4	4.1
5. Stock of personal computers*	3	3.0	4	3.3
6. Internet use*	2	2.8	3	3.4
7. Broadband penetration*	3	2.7	3	3.4
8. R&D expenditure as % of GDP*	2	2.2	2	2.5
9. Research infrastructure	3	2.4	3	2.4
10. The infrastructure for retail and wholesale distribution**	3	2.5	3	2.9
11. Extent and quality of the road network**	2	2.8	3	3.0
12. Extent and quality of the rail network**	2	2.1	2	2.2
13. Quality of ports infrastructure	4	3.2	4	3.5
14. Quality of air transport	3	3.3	3	3.5
15. Production of electricity per head*	2	3.0	3	3.2
16. Rents of office space*	3	2.9	3	2.9

^a Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.