

Country Report *Egypt*

1. Structural data

Geographical

extension:	1,002,000 km ²
Population size:	81.53 million (2008)
Population density:	81 inhabitants / km ²
Per-capita GDP:	approx. USD 2,450 (2009)
Currency:	Egyptian pound (EGP)
Exchange rate:	EGP / USD 5.52 (April 2010)



2. Political situation

Even though Egypt formally possesses democratic institutions, the country is far from being a functioning democracy - at least by western standards. For example, the principle of checks and balances ("division of power") does admittedly exist on paper, but there is not a sufficient check on the executive in de facto terms. Human rights, although guaranteed in the constitution, are severely curtailed. Key positions in the administration, political and military spheres are filled by candidates from the governing NDP (National Democratic Party). Egyptian politics is dominated by President Mohamed Hosni Mubarak, who has held the presidency since 1991. He was re-elected at the last presidential elections, held in 2005, with 89% of the vote, but the turn-out came to less than 23%. At the most recent parliamentary elections, also held in 2005, his NDP secured a safe majority - 311 out of a total of 444 seats. The most important opposition grouping is the Muslim Brotherhood, which is committed to a style of politics dominated by Islamic principles. In view of the fact that this party is officially prohibited and is cracked down on by the authorities, its representatives were forced to contest the 2005 election as independent candidates but nevertheless picked up 20% of votes cast. Since then, the state has been taking an even tougher line on the organisation. The next parliamentary elections are scheduled to take place this November, with the governing NDP expected to win again. Polling in Egypt is repeatedly accompanied by unrest, most recently at the elections to 88 of the 264 seats in the upper house in June 2007 and at the local elections in April 2008. Electoral manipulation and electoral fraud are almost "par for the course" during the country's elections.

Events on the political stage are already being overshadowed by the presidential election which is due to take place in 2011. Given that 81-year-old Mr. Mubarak

had to be operated on in March at a hospital in Germany, it is being speculated whether he will decide not to stand yet again. It is conceivable that the governing party will nominate his son, Gamal Mubarak, as its presidential candidate. The opposition has a potential candidate in the popular former head of the International Atomic Energy Agency, Mohammed el Baradei, who is already drumming up support for a reforming alliance. However, it is questionable whether such a promising opposition candidate will actually be allowed to stand by the government and whether the elections will prove fair and honest.

On the foreign-policy front, Egypt is taking its bearings by the West: the United States regards it as its most important ally in the region and supports it with the help of development aid. For domestic-policy reasons as well, the Egyptian government is attempting to mediate between the two Palestinian groupings Hamas and Fatah and Israel, but so far without success. On account of its proximity to the Palestinian territories and of the support it receives from Israel in terms of containing weapons smuggling across the border separating it from the Gaza Strip, which does not meet with undivided approval in the population's eyes, Egypt is subject to a latent risk of fundamentalist attacks and unrest. The most recent incident was a minor attack by Islamic extremists in the old city of Cairo in 2009. In the event of an escalation of the situation in the Gaza Strip - of the kind last observed during Israel's military offensive at the end of 2008 - greater political tensions in Egypt would be a likely consequence.

3. Macroeconomic development

Thanks to the tail-wind from the economic-policy reform tack, the Egyptian economy has made noticeable progress over the past few years. A real GDP growth rate of approximately 7% was registered each year between 2006 and 2008. In the wake of the global slump in cyclical activity, economic growth in Egypt slowed down to 4.7% last year. A rate of expansion of around 5% is being forecast for the present year. From 2011 onwards, annual growth in the vicinity of 6% is once again being projected. Having spiked up to 16.2% last year, the inflation rate is heading down marginally in the interim. Consumer-price inflation of 12% is being anticipated in 2010.

Egypt can point to a comparatively well-diversified economic structure, with growth deriving from the expansion in both the industrial and the service sectors. Services contribute virtually half of GDP, the principal factors here being tourism and Suez Canal fees. Although agriculture still claims a significant share of 14% in gross value added, the extraction of natural resources (share of GDP: approx. 13%) bulks almost as large in the interim. The most important raw materials are crude oil (estimated reserves: 4.3 billion barrels) and crude gas (estimated reserves: up to

1,900 billion cubic metres). Oil production is running at more than 700,000 barrels per day and gas production at round 60 billion cubic metres per annum. According to estimates, oil reserves will already start running out in 2020, but reserves of gas will last longer.

In the past, companies and private households benefited from massive subsidisation of oil, gas and petrol (gasoline) prices. Aggregate subsidies corresponded to approximately 7% of GDP as recently as in 2007. Since that time, the government has been gradually cutting back on them, its objective being to raise energy prices to the world-market level by 2014. This is also taking pressure off the government budget, which is chronically in deficit. The reduction in subsidies, along with cuts in tariffs on industrial goods from the EU, is going to force Egyptian industry to make major adjustments, but will boost growth and competitiveness in the medium term.

4. Foreign trade

Exports of crude oil and natural gas accounted for more than 40% of aggregate exports in 2008. Metal products, textiles and foodstuffs also play a major role on the export side. Another significant economic factor is the tourist sector, which welcomed more than 12.5 million foreign guests and generated foreign exchange to the tune of very nearly USD 11 billion last year. Suez Canal fees are a further important source of foreign exchange. Where tourist revenues were only slightly down in year-on-year terms in 2009, Suez Canal fees plunged by 20% to USD 4.3 billion on account of the sharp contraction in world trade. Foreign trade is broadly diversified in regional terms: Egypt's three main customer countries are Italy, India and the Netherlands while its main supplier countries are the United States, the People's Republic of China and Saudi Arabia. Germany comes fourth in Egypt's league-table for imports with a share of 5.9%. To date, Germany purchases only comparatively few products from Egypt. But trade ties between the two countries are complemented by significant tourist relations: German tourists spend approximately EUR 1 billion per year in Egypt, which largely compensates for Egypt's trade deficit vis-à-vis the Federal Republic.

After recording marginal surpluses in the preceding years, Egypt's current account slid into the red in 2009 owing to the sharp decline in revenues from oil exports and tourism. In view of the recovery in global cyclical activity, a rebound in revenues from merchandise exports, tourism and Suez Canal fees is on the cards again for the years ahead. On account of the dismantling of import restrictions by the EU, the volume of Egyptian exports of industrial goods in particular could well increase further. Nevertheless, a small current-account deficit is still being anticipated for 2010 and 2011 as a result of growing imports.

Egypt has got over the international financial crisis well. It is true that foreign investors significantly reduced their exposure to Egyptian shares and government bonds. However, the Egyptian pound only depreciated slightly last year in spite of these burdens. Despite temporary interventions to shore up the local currency at the end of 2009, the stock of foreign-currency reserves is now back up to the level at year-end 2008. In spite of the poor global economic environment, direct investment corresponding to approximately 4% of GDP was registered last year, which more than made up for the deficit on the current account.

5. Financial status

Egypt's foreign indebtedness has come down considerably, corresponding to only 17% of GDP (indeed a little less) at the end of 2009 (by way of comparison, the 2004 figure worked out at 32%). The share claimed by short-dated foreign debt is very slight. Furthermore, interest and redemption payments falling due can be covered by a very small proportion of export revenues. The volume of currency reserves is higher than the volume of external liabilities in the interim. While foreign indebtedness can be regarded as hardly problematic, heavy budget deficits and the public-debt level continue to be causes for concern. The public-debt ratio is still very high at about 75% of GDP, although it was actually still standing at 113% of GDP back in 2005. Provided that oil and gas subsidies are scaled back according to plan and that economic growth remains robust, the public-debt ratio could fall to approximately 60% of GDP by 2015 and it would therefore be possible for the successful consolidation of public finances witnessed in recent years to be continued.

6. Assessment

The Egyptian economy will probably continue to display stable growth in the years ahead, provided that it proves possible to preserve political stability. The key factor here is a smooth handing-over of power from President Mubarak to his successor.

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