EGYPT

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
GDP (Current Prices)	68.3	76.2	83.8
Real GDP Growth (pct) 2/	5.0	5.3	5.0
GDP by Sector:			
Agriculture	7.0	7.3	N/A
Manufacturing	7.3	7.9	N/A
Services	20.5	26.1	N/A
Government	3.1	3.3	N/A
Per Capita GDP (US$)	1,058	1,184	1,294
Labor Force (millions)	17,365	N/A	N/A
Unemployment Rate (pct)	9.1	8.8	8.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.5	15.1	12.3
Consumer Price Inflation (period average)	7.1	6.2	3.8
Exchange Rate (LE/US$ annual average)			
Market Rate	3.39	3.39	3.39
Balance of Payments and Trade:			
Total Exports FOB 3/	4.608	5.300	5.5
Exports to U.S. 3/	0.713	0.694	N/A
Total Imports FOB 3/	14.106	15.500	16.700
Imports from U.S. 3/	3.146	3.840	N/A
Trade Balance 3/	-9.5	-10.2	-11.2
Balance with U.S.	-2.433	-3.146	N/A
External Public Debt	29.7	27.2	26.2
Fiscal Balance/GDP (pct)	1.3	0.9	1.0
Current Account Balance/GDP (pct)	-0.3	0.2	-2.4
Debt Service Payments/GDP	14.3	13.6	14.2
Gold and Foreign Exchange Reserves	18.8	20.6	20.2
Aid from U.S.	2.115	2.115	2.115

1/ Statistics are based on Egypt's fiscal year starting July 1 and ending June 30, and IMF data released in September.

2/ Percentage changes calculated in local currency.

3/ Merchandise trade.

1. General Policy Framework

In a year which has witnessed successive shocks to emerging economies around the world, Egypt can claim, thus far, to have been an island of stability. Largely unintegrated into the global economy, Egypt has not been as vulnerable to capital flight and the evaporation of foreign direct investment as other emerging markets. In addition, the country has been well served by macroeconomic reform policies launched in 1991: inflation is officially listed at around four percent (down from over twenty percent at the start of the decade); foreign reserves are steady at around $20 billion; the Egyptian Pound is stable; and government spending has been disciplined (the budget deficit last year was 0.9 percent of GDP).

The government does not view these factors as grounds for complacency. The Asian financial crisis and the economic effects of two terrorist acts in 1997 (at the Egyptian Museum and Luxor) appear to have reinforced the government's determination to continue tackling a daunting array of structural reforms. Leading foreign and Egyptian businessmen consistently cite a number of areas as meriting additional priority attention by the government, including:

-- Cutting red tape and simplifying bureaucracy, possibly though measures such as the creation of a meaningful and effective one-stop-shop to assist investors;

-- Pressing ahead with the privatization program, concentrating on measures to expand the role of anchor investors and to achieve progress in such lagging, but crucial, areas as banking and insurance;

-- Strengthening intellectual property rights protection, a major concern of high tech sectors such as software and pharmaceuticals and a key factor affecting technology transfer;

-- Continuing efforts to lower tariffs, improve customs services and remove non-tariff barriers (such as health regulations blocking the import of U.S. beef and regulations blocking poultry imports);

-- And, sustaining momentum in strengthening and modernizing the legal and regulatory framework for business by passing new legislation (such as a revised patent law), and through speedy implementation of recent legislation on government procurement and laws allowing an expanded role for the private sector and foreign investor in the banking and insurance sectors.

Continued success in implementing structural reforms will be crucial for Egypt to increase its saving and investment rates, which will in turn help the government achieve its objective of sustainable annual GDP growth of seven to eight percent. GDP grew at around 5 percent over the past two years, a noteworthy increase over the 3.5 percent average of the previous three years. Still, the significant distance between current performance and government objectives underscores the challenges still facing Egypt's policymakers and business community.

Last year, the government undertook several measures to encourage foreign direct investment. Legislation was passed authorizing an expanded role for the private sector and foreign investors in the banking and insurance sectors, a development which could lead to improved formation and utilization of savings. However, the government has yet to move decisively to implement the legislation. A law was also passed allowing private investment in airports and all maritime activities. There are no significant restrictions on the movement of capital in and out of the country.

The government continues to maintain fiscal discipline. The budget deficit was 0.9 percent of GDP in 1996/97, down from 20 percent in the early 1990s. In an effort to increase and diversify its revenue and expand government income, the government has submitted for parliamentary approval three bills aimed at expanding its general sales tax with a value-added tax.

Privatization remains a central component of the government's economic reform program, although the process has proceeded slowly in 1998 as the government tackles the job of selling less attractive firms. Fourteen firms have been privatized; of these, three were initial public offerings and two were sales to anchor investors. The nine other sales were liquidations. While evaluations of publicly-held banks are underway and the government remains committed to divesting majority holdings in all joint venture banks, there were no sales of the government's still considerable holdings in the banking sector in the last several months. To date, the total privatization effort has involved the sale of interests in 84 companies with a market value of about $5 billion, which represents about 7 percent of GDP, and about 35 percent of the current market value of the initial privatization portfolio. Out of the original portfolio of 314 companies, the government has sold controlling interests in 68 and minority interests in another 16.

2. Exchange Rate Policy

Law 38 of 1994 and the executive regulations issued under Ministerial Decree 331 of 1994 regulate foreign exchange operations in Egypt. Central bank foreign exchange reserves stood at $20.1 billion in June 1998. The government notes officially that the free market guides the rates of exchange set by the Central Bank of Egypt, other approved banks, and dealers. However, the central bank appears to actively monitor the exchange rate in order to assure the Egyptian Pound's stability.

3. Structural Policies

In general, prices for most products are market based, although the government does provide direct and indirect subsidies on key consumer goods to benefit Egypt's poor (including bread, which stimulates the demand for U.S. wheat). Pharmaceutical prices are set by the

Ministry of Health. Railway fares, electricity, petroleum products and natural gas prices are gradually being deregulated to reflect actual costs.

Under its trade liberalization program and in accordance with its WTO obligations, Egypt has made progress in reducing its tariffs. The maximum rate for WTO-bound tariffs was recently reduced from 50 percent to 40 percent. Many cases of high tariffs persist, however, such as those affecting the import of automobiles, automobile spare parts and U.S. poultry products. Egypt does not maintain export quotas or require pre-approval for imports. It is in the process of implementing the harmonized system of classification. Although the government recognizes the need to eliminate procedural barriers to trade, businesses report that red tape and cumbersome bureaucracy remain significant problems.

The government instituted a General Sales Tax (GST) in 1991 and is now moving towards adoption of a value-added tax. Since 1991 taxes on certain consumer goods not covered by the GST (alcoholic and soft drinks, tobacco and petroleum products) were raised and converted to Ad Valorem Taxes (VAT). A unified income tax has been adopted which aims at reducing marginal tax rates, simplifying the tax rate structure, and improving administration of tax policy. Despite such efforts, businesses consistently note the need for reform and modernization of Egypt's tax system, describing its current administration as cumbersome and frequently unpredictable.

4. Debt Management Policies

In early 1991, official creditors in the Paris Club agreed to reduce by 50 percent the net present value of Egypt's official debt, phased in three tranches of 15, 15 and 20 percent. Release of the three tranches was conditioned on successful review of Egypt's reform program by the IMF. At about the same time, the United States forgave $6.8 billion of high-interest military debt. As a result, Egypt's total outstanding debt declined to about $ 28 billion, and the debt service ratio fell from over 50 percent in 1989 to 8.9 percent in 1997/98.

In October 1996, the government and the IMF agreed to an ambitious package of structural reform measures through 1998, and the IMF approved an SDR 291 million ($404 million) precautionary standby arrangement for Egypt. This agreement paved the way for the release of the final $4.2 billion tranche of Paris Club relief, reducing Egypt's annual debt servicing burden by $350 million. In September 1998, Egypt declared that it would not sign a third program with the IMF. The relationship between the Fund and the government will take a consultative aspect.

5. Aid

The United States is Egypt's largest provider of foreign assistance, having committed $2.1 billion in FY 1999. The assistance package is divided into economic support funds ($775 million) and military assistance ($1.3 billion). U.S. assistance levels to Egypt will be gradually reduced over the next several years. Both governments are committed to working together to maximize the positive impact assistance has on Egypt's transition to a private sector-led, export-oriented economy. A significant portion of the funds in both assistance categories are used by Egypt to acquire U.S. goods and services. For example, around $250 million of exports were financed in FY 1998 through USAID's Commodity Import Program. The Department of Agriculture, in separate programs (GSM 102), financed in FY 1998 about $200 million in U.S. exports to Egypt.

6. Significant Barriers to U.S. Exports

Egypt participated in the Uruguay Round negotiations and became a member of the World Trade Organization (WTO) in June 1995. Trade would be facilitated by improved notification to the WTO and major trading partners of changes the government makes to bring Egypt's trade regime into WTO compliance.

Import Barriers: Egypt does not require import licenses. For food and non-food imports with a shelf-life, the government mandates that they should not exceed half the shelf-life at time of entry into Egypt. The importation of commodities manufactured using ozone-depleting chemicals is prohibited.

Services Barriers: The government runs many service industries. Recent government policies allow private sector involvement in ports, maritime activities and airports, an opening which has spurred significant interest and activity in the private sector. Private firms dominate advertising, accounting, car rental and a wide range of consulting services. Egypt modified laws and regulations in accordance with its WTO financial services commitments.

Banking: Existing foreign bank branches have been permitted to conduct local currency operations since 1993. Two U.S. bank branches have licenses to do so. In June 1996, the parliament passed a bill amending the Banking Law and allowing foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In another significant development, Law 155 was passed in June 1998. It provided the constitutional basis needed to permit the privatization of the four public sector banks. (Privatizing publicly-held banks will be a complex and politically sensitive undertaking; the government has not yet named a public-sector bank for privatization.) In a move to eliminate a tax loophole and orient banks' portfolio managers to more economically productive investments, the government passed the Income Tax Law 5 of 1998. This law eliminated a loophole that allowed banks and financial institutions to deduct interest earned on government securities, as well as to deduct the interest paid on funds borrowed to purchase such securities. Application of the law is delayed as the government produces the regulations and procedures needed for its implementation.

Securities: International brokers are permitted to operate in the Egyptian stock market. Several U.S. and European firms have established operations or purchased stakes in brokerage firms.

Insurance: The passage of a new Insurance Law in June 1998 marked a potentially significant milestone for the sector and the national economy. The law permits foreign insurance companies to own up to 100 percent of Egyptian insurance firms. The first application by a U.S. firm for majority ownership is currently pending with the Ministry of Economy. Previously, foreign ownership was restricted to a minority stake. Four public-sector companies (one of which is a reinsurance company) dominate the insurance market. There are five private sector insurance companies, three of which are joint ventures with U.S. firms. Two of the joint ventures are operating in the free zones.

Telecommunications: Law 19 of 1998 transferred the national communications authority from the direct control of the Ministry of Telecommunications to a joint stock company and established a regulatory body for the sector. In recent years Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. The mobile system has expanded significantly in the last three years as the result of increased GSM capacity. In 1996, a government-owned firm (ARENTO) was created with an initial GSM capacity of 90,000 lines. The establishment of two private sector companies in 1998 (Mobinil and Misrphone) further boosted the GSM system by 130,000 lines. The government recently announced that it would join the WTO Basic Telecommunications Agreement and the Information Technology Agreement (ITA) at the earliest possible opportunity. Government officials attribute the decision to become a signatory to these agreements to improvements in the telecommunications sector by the privatization process.

Maritime and Air Transportation: Maritime transport lines and services operated until recently as government monopolies. Law 22 of 1998 opened these areas to the private sector. this law permits the establishment of specialized ports on a build-own-operate basis. Under the new business environment created by Law 22, the private sector is becoming increasingly involved in container handling. In addition, Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights, although the national carrier remains, by far, the dominant player in the sector. Private firms have also become active in airport construction.

Standards, Testing, Labeling and Certification: While Egypt has decreased tariffs and bans on the importation of many products, other non-tariff barriers have increased. Items removed from the ban list were added to a list of commodities requiring inspection for quality control before customs clearance. This list now comprises 131 items, including meat, fruits, vegetables, spare parts, construction products, electronic devices, appliances, transformers, household appliances, and many consumer goods. Agricultural commodities have been increasingly subject to quarantine inspection, so much so that some importers have begun arranging inspection visits in the U.S. to facilitate Egyptian customs clearance. Product specification also can be a barrier to trade. For example, Egyptian Standard No. 1522 of 1991 concerning inspection of imported frozen meat hinders exports of U.S. beef through imposition of a nearly unattainable maximum 7 percent fat level. The lack of clear standards for determining if processing is done according to Islamic rules restricts U.S. poultry parts exports.

Imported goods must be marked and labeled in Arabic with the brand and type of the product, country of origin, date of production and expiry date, and any special requirements for transportation and handling of the product. An Arabic-language catalog must accompany imported tools, machines and equipment. The government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates. Many of these standards violate the WTO agreement which prohibits "Nontechnical Barriers to Trade" (NTB). Only bona fide health and safety standards based on scientific evidence are mandatory under WTO; all other standards must be voluntary.

Investment Barriers: The General Authority for Free Zones and Investment (GAFI) has sole responsibility for regulating foreign investment. The government implemented Law 8 of 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Egypt signed a Bilateral Investment Treaty with the United States in 1992. It is also a signatory with the United States in an Investment Guarantee Agreement which extends political risk insurance (via OPIC) for American private investment. In addition, the government is a signatory of the International Convention for the Settlement of Investment Disputes.

Government Procurement: The government passed a new government procurement law this year (Law 89 of 1998) in an effort to increase transparency, assure equal opportunity among bidders and protect contractor rights. The law mandates that: a bid may not be transformed into a tender (a main defect of a prior law dating from 1983); decisions on bids are to be explained in writing; and more weight will be accorded to technical considerations in awarding contracts. The law also requires the immediate return of bid bonds and other guarantees once the tender is awarded. Egypt is not a signatory to the WTO Government Procurement Agreement. Initial analysis of the new Law 89 indicates that it violates the "national treatment" clause of the general principles of the WTO.

Customs Procedures: In 1993, Egypt adopted the harmonized system of customs classification. Tariff valuation is calculated from the so-called "Egyptian selling price" which is based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have a value no lower than that noted on the invoice from the first shipment. As a result of this presumption of increasing prices, and the belief that under-invoicing is widely practiced, customs officials routinely and arbitrarily increase invoice values from 10-30 percent for customs valuation purposes. Multiplication of authorities for commodity clearance and inspection increases the complexity and costs of exporting to Egypt. As customs procedures are becoming increasingly automated through the use of computers, customs officials will no longer be able to exercise such subjective judgment over valuation of imports.

7. Export Subsidies Policies

Egypt has no direct export subsidies. Certain exporting industries may benefit from duty exemptions on imported inputs (if released under the temporary release system) or receive rebates on duties paid on imported inputs at the time of export of the final product (if released under the drawback system). Under its commitments to the World Bank, the Egyptian Government has increased energy and cotton procurement prices and has abolished privileges enjoyed by public sector enterprises (subsidized inputs, credit facilities, reduced energy prices and preferential custom rates), thus reducing the indirect subsidization of exports.

8. Protection of U.S. Intellectual Property

Egypt is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2000. Egypt is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the Madrid Agreement Concerning the International Registration of Marks (Stockholm Act of 1967).

In April 1998, the U.S. Trade Representative maintained Egypt on the Special 301 “Priority Watch List” due to a lack of progress in patent protection and in the enforcement of copyright protection.

Under Egypt’s patent regime, the existing Patent Law (Law 132 of 1949) provides protection below international standards. It contains overly broad compulsory licensing provisions and excludes from patentability substances prepared or produced by chemical processes if such products are intended for food or medicine. The patent term is 15 years from the application filing date, compared with the international standard of 20 years. A five-year renewal may be obtained only if the invention is of special importance and has not been adequately worked to compensate patent holders for their efforts and expenses. Compulsory licenses, which limit the effectiveness of patent protection, are granted if a patent is not worked in Egypt within three years or is worked inadequately.

Egypt has drafted, but not passed, legislation designed to improve patent protection by providing product versus process patents, increasing the protection period to 20 years, and offering fair prerequisites for compulsory licensing. However, the government has indicated its intention to delay pharmaceutical patent protection until the year 2005 despite substantial assistance from the U.S. Government to help Egypt prepare modern legislation.

In the area of copyrights, Egypt passed amendments to its Copyright Law in 1994 and, over the past few years, made progress in the enforcement of copyrights. Law 29 of 1994 amended the Copyright Law (Law 38 of 1992) to ensure that computer software was afforded protection as a literary work, allowing it a 50-year protection term. Law 38 of 1992, an amendment to the out-of-date 1954 Copyright Law, increased penalties against piracy and provided specific protection to computer software. A 1994 decree also clarified rental and public performance rights, protection for sound recordings, and the definition of personal use. However, since late 1996, slackened enforcement activity and the imposition of low, non-deterrent penalties for infringement has lead to increasing levels of piracy, especially in the area of computer programs and videos.

For its trademark regime, Egypt is considering completely revising its laws in order to enhance significantly legal protection for trademarks and industrial designs. The current Trademark Law, Law 57 of 1939, is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than $100 per seizure, not per infringement. Application for judgments and enforcement must be made separately in each of the 26 governorates.

Egypt has no specific trade secrets legislation. Protection of commercially valuable information is possible through contractual agreement between parties. Breach of contractual terms of protection can be remedied in legal proceedings under either the civil or criminal code, depending on the severity of the damage caused.

Lastly, there is no separate legislation protecting semiconductor chip layout design, although Egypt signed the Washington Semiconductor Convention.

9. Worker Rights

a. Right of Association: Egyptian workers may, but are not required to, join trade unions. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most members (about 25 percent of the labor force) are employed by state-owned enterprises. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The ETUF, although semi-autonomous, maintains close ties with the governing National Democratic Party. Despite the ETUF leadership assertion that it actively promotes worker interests, it generally avoids public challenges to government policies.

b. The Right to Organize and Bargain Collectively: The proposed new labor law provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, allowing few issues open to negotiation. Larger firms in the private sector generally adhere to such government-mandated standards.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is illegal and not practiced.

d. Minimum Age for Employment of Children: In March 1996, the Egyptian Parliament adopted a new "Comprehensive Child Law" drafted by the National Council for Childhood and Motherhood. The minimum age for employment was raised from 12 to 14. Provincial governors may authorize "seasonal work" for children between 12 and 14. Education is compulsory until age 15. An employee must be at least 15 to join a labor union. The Labor Law of 1981 states that children 14 to 15 may work six hours a day, but not after 7 p.m. and not in dangerous activities or activities requiring heavy work. Child workers must obtain medical certificates and work permits before they are employed. Recent estimates by the Egyptian Government put the number of child laborers at 2.7 percent of the total working population of 17 million. Local non-governmental organizations put the number of children working as much higher, although verification is impossible. The majority of working children are employed on farms. Children also work as apprentices in auto and craft shops, in construction, and as domestics. Most are employed in the informal section. The government has difficulty enforcing child labor laws due to a shortage of inspectors. Economic pressures, rural tradition, the inadequacy of the education system, and lack of government control in remote areas pose significant, but not insurmountable, barriers to addressing child labor issues in the near future.

Egypt is a signatory to the 1997 Oslo Action Plan calling for the immediate removal of children from hazardous occupations and the eventual elimination of child labor. Under the existing "Generalized System of Preferences" (GSP) afforded to Egypt by the U.S., exporters must abide by international labor standards which prohibit the use of child labor. There is also increasing pressure from a rapidly growing consumer's movement and new legislative requirements within the developed countries, notably the U.S. and the EU, to boycott goods manufactured with child labor. This may give much needed momentum to solving Egypt's child labor problems.

e. Acceptable Conditions of Work: The government and public sector minimum wage is approximately $20 a month for a six-day, 48-hour workweek. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The average family can survive on a worker's base pay at the minimum wage rate.

f. Rights in Sectors with U.S. Investment: The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The Ministry of Manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,263
Total Manufacturing		283
Food & Kindred Products	(1)	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	8	
Industrial Machinery and Equipment	28	
Electric & Electronic Equipment	(2)	
Transportation Equipment	(1)	
Other Manufacturing	(2)	
Wholesale Trade		-54
Banking		134
Finance/Insurance/Real Estate		0
Services		-4
Other Industries		-52
TOTAL ALL INDUSTRIES		1,570

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,00 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.