

COUNTRY PROFILE: ARAB REPUBLIC OF EGYPT**DATED: AUGUST 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No Restrictions

Recent Political Highlights

- ❑ President Hosni Mubarak has been in power since 1981. He was elected for a fifth six-year term in September 2005.
- ❑ Thirty-four constitutional changes voted on by parliament in March this year gave police wide spread powers of arrest and surveillance; the president power to dissolve parliament and the judicial monitoring of elections. Only 27% of the registered voters went to the polls and it was officially announced that 75.9% of those who participated in the referendum approved of the constitutional amendments.
- ❑ The Muslim brotherhood, Egypt's largest opposition force, has suspended its bid for legalisation as a political party following mass arrests of its members. Brotherhood officials, including businessmen who fund the group are on trial in a closed-door military tribunal accused of terrorism and money laundering. The crackdown has led the brotherhood to abandon efforts to win liberalisation of Egypt's laws and gain the right to openly recruit, meet and run for political office. Amnesty International released a report this year criticising Egypt for torture and illegal detention. The report calls on Egypt to bring its anti-terrorism laws into accordance with human rights statutes and on other nations to stop sending detainees to Egypt.

Recent Economic Highlights

- ❑ A rapidly growing population, limited arable land and dependence on the Nile all continue to overtax resources and stress the economy. Egypt is the second-most populous country on the African continent, with an estimated 80 million people. The fast growing working population is the major cause of high unemployment, which is estimated at 11%.
- ❑ Egypt's economy depends mainly on agriculture, media, petroleum exports and tourism. With a flurry of recent discoveries, Egypt has revived its status as a petrol-state and is now the world's sixth-largest exporter of natural gas. The government is looking to use the cheap gas to fuel development in related sectors such as petrochemicals, although firms seem more interested in exporting to more lucrative markets abroad. India's, Reliance Industries Ltd, has agreed to invest \$10bn in Egypt's oil refining, petrochemicals and plastic industries.
- ❑ Under the 1959 water-sharing agreement with Nile basin neighbours, Egypt's annual allocation of Nile water is 55.5bn cm³. The soaring population, sprawling urbanisation and state-sponsored water-intensive mega projects have put a considerable strain on the system. The per capita share of water has shrunk to less than 790cm³, slipping below the UN's per capita requirement of 1,000cm³. In 2025, per capita water resources are expected to drop to about 337cm³ per year, implying that if current water management prevails, 60% of the agricultural land will not be irrigated.
- ❑ Egypt remains an attractive holiday hotspot and the government plans to create an additional 15,000 beds annually. The country's construction industry is on an upswing based on the investment boom in tourism, real estate and petrochemicals. Average room rates in Egypt remain the lowest in the region making the country a competitive holiday destination. Egypt is extending its future appeal by diversifying its tourism offerings and attracting more tourists looking for city breaks, medical and wellness tourism. In 2006, the number of tourists increased by 9% to 8.7 million.
- ❑ Egypt registered a strong economic growth in 2006 across both oil and non-oil sectors, supported by economic policy reforms that target FDI, exports and local investments. GDP grew 6.8% in 2006 and is likely to slow down to 5.8% in 2007 as a result of interest rate hikes that are expected to curb inflationary pressures. Inflation is expected to increase from 4.1% in 2006 to 6.2% this year. FDI in Egypt has increased considerably in the past few years due to economic liberalisation measures and reached \$6bn in 2006. Egypt is forecast to overcome South Africa as the highest earner of FDI in the African continent in 2007.
- ❑ In a strategy aimed at mopping up budget deficits and reducing inefficiency in its local market, Egypt will gradually scrap gas and electricity subsidies for energy intensive industries over a period of three years. The Egyptian Trade Ministry said the subsidies are largely to blame for the country's budgetary deficits and would be removed and the pricing of key commodities set afresh based on international rates. The reduction in subsidies will save the government \$2.66bn over the coming three years. The subsidies were projected to reach 6.9% of GDP this year. Kenyan manufacturers have welcomed the move as they have been facing stiff competition from their counterparts in Egypt, especially on pricing finished products. Kenya and Egypt both belong to the 13-member Comesa Free Trade Area.
- ❑ Egypt is setting out its stall as a world-class IT outsourcing base, taking on India, which has led emerging markets in the field so far. Egyptian officials and industry representatives emphasise the country's multi-lingual workforce, the same or similar time zone to Europe and relative proximity to North America. All these factors make it a distinct and cost-effective destination for call centres. Call centres, account and payroll management are but the two areas where the government hopes Egypt can find its niche.

Latest Trade Developments

- ❑ Main exports: crude oil and petroleum products, cotton, textiles, metal products and chemicals.
- ❑ Main imports: machinery and equipment, foodstuffs, chemicals, wood products and fuels.
- ❑ Major trading partners: Italy, US, Syria, Germany, Spain, France, China, UK and Saudi Arabia.
- ❑ South African exports to Egypt amounted to R226.2m in 2006 and R95.8m in the year-to-date-to-May 2007.