

AFRICAN DEVELOPMENT BANK



EGYPT

COUNTRY STRATEGY PAPER UPDATE

2006 UPDATE

REGIONAL DEPARTMENT - NORTH 1

JULY, 2006

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ANNEXES

Annex 1	Macroeconomic Indicators
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ADB	:	African Development Bank
ADF	:	African Development Fund
APPR	:	Annual Portfolio Performance Review
BOP	:	Balance of Payments
CPIP	:	Country Portfolio Improvement Plan
CPRR	:	Country Portfolio Review Report
CSP	:	Country Strategy Paper
DRC	:	Democratic Republic of Congo
EGCO	:	Egypt Country Office
ESW	:	Economic and Sector Work
EU	:	European Union
FATF	:	Financial Action Task Force
FSRP	:	Financial Sector Reform Programme
GDP	:	Gross Domestic Product
IMF	:	International Monetary Fund
LE	:	Egyptian Pound
LoC	:	Line of Credit
MIC	:	Middle Income Country
PBDAC	:	Principal Bank for Development and Agricultural Credit
PIU	:	Project Implementation Unit
SME	:	Small and Medium Enterprises
UA	:	Unit of Account
TAF	:	Technical Assistance Fund
USAID	:	United States Agency for International Development

Currency Equivalents

(June 2006 Exchange Rates)

Currency Unit = Egyptian Pound (EGP)

1 UA = EGP 8.44977

1 US \$ =EGP5.7542

1 UA = US \$ 1.49418

Government Fiscal Year

July 1 – June 30

I. INTRODUCTION

1.1 The Country Strategy Paper (CSP) for Egypt for the period 2000 - 2002 (Doc. ADB/BD/WP/2000/148), was approved by the Board of Directors in November 2000. The strategy supported the government goals of fostering employment-creating economic growth and sustainable poverty reduction through investing in the private sector, human resources development and physical infrastructure. In July 2005, an update (Doc. ADB/BD/WP/2000/148/Add.1) was prepared. The 2005 update validated the continuation of the Bank's strategy.

1.2 A new CSP, covering the period 2006 – 2010 has been prepared. However, further processing of the document had been delayed in order to conform with the new CSP format for ADB countries recently endorsed by the Committee on Operations and Development Effectiveness (CODE). In the meantime, three projects which are included in the 2006 lending programme have reached an advanced stage of processing, and are likely to be submitted for Board consideration before the finalisation of the new CSP. Thus, the aim of this CSP update is to provide the strategic context within which the projects will be submitted to the Board for consideration. In addition, it gives an overview of recent economic and policy developments in the country. The analysis is based on data and information collected during missions to the country in 2006 and reports prepared by the Government, the International Monetary Fund (IMF) and the World Bank, as well as frequent updates received from the Egypt Country Office.

II. RECENT ECONOMIC AND POLICY DEVELOPMENTS

2.1 Recent Macroeconomic Developments

2.1.1 Real GDP growth for 2004/05 was estimated at 4.9% and it accelerated to 5.9% in the first half of 2005/06. Inflation, which had risen rapidly since the beginning of 2004 reaching 11.4% in December 2004 as a result of the depreciation of the exchange rate and loose monetary policy, is now declining. In December 2005, annual average inflation fell to 3.1%. With inflation declining, monetary policy was eased slightly in 2005. Broad money (M2) growth rate edged up from 13.2% in 2003/04 to 13.6% in 2004/05 and the Central Bank is moving towards a policy of inflation targeting. The fiscal deficit remains high. However, the budget deficit for 2005/06 is projected at 8.3% of GDP down from 9.2% of GDP in 2004/05. To reinforce fiscal discipline, the Government is intensifying fiscal reform including the streamlining of subsidies and enforcement of tighter control of the budget.

2.1.2 The foreign exchange market has been unified following the launch of the inter-bank foreign exchange market in December 2004. The exchange rate of the Egyptian pound has thus stabilised and the official and parallel market rates unified. External debt remains manageable but there are concerns about fiscal sustainability as public debt continues to increase at a rapid pace due to rising domestic debt. Domestic debt reached 68.8% of GDP in 2004/05 while external debt was only at 31.2% of GDP. The low external debt ratio reflects prudent external borrowing policy. Total debt service ratio was 9.4 % in 2004/2005 compared to 10.8% in 2003/04. The current account recorded a surplus of 3.3% of GDP in 2004/05 compared to 4.3% of GDP in 2003/04 owing to strong growth in invisible receipts and merchandise exports. Reflecting the healthy balance of payments position, Egypt's foreign reserves strengthened to US\$22.86 billion in May 2006 equivalent to about 9.4 months of import cover.

2.2 Key Development Challenges

The key development challenges in Egypt include: (i) relatively high poverty and unemployment rates; (ii) high fiscal deficit; (iii) weak financial system; (iv) low savings and investment ratios; and (v) loss of trade preferences in the clothing and textile sub-sector. The level of poverty is currently estimated at 19.6% and unemployment was estimated at 9.5% in 2004/05. Generating sufficient new jobs to absorb the growing unemployed while at the same time producing the required high level and skilled personnel to drive the industrial modernisation and competitiveness programme is thus paramount. Also, the budget deficit and domestic debt in Egypt -while still manageable- are relatively high, cannot be sustained at current levels without compromising Egypt's economic potential. In this regard, the Government is in the process of preparing a medium-term fiscal consolidation strategy that puts public debt as a share of GDP on a firmly declining path. This will include a comprehensive expenditure reduction programme aimed at rationalizing the size of government, increasing the productivity of expenditure, and improving the targeting of pro-poor spending. The financial sector is also faced with important challenges given low levels of competition, relatively high intermediation costs, limited innovation, and dominance of state ownership. The banking system is burdened by high levels of non-performing loans, while the non-bank segment is characterised by underdeveloped bond, insurance, and mortgage markets; thin trading in equities; weak corporate governance; and weak infrastructure for effective payment systems. Other challenges include: raising the savings and investment ratios sufficiently to restore real GDP growth to forecast levels capable of reducing poverty. Coping with the impact of globalisation in the form of loss of preferential market access as a result of the phasing out of the Multi Fibre agreement in January 2005 is also a recent challenge. The programmes being proposed in this CSP update (see paragraph 5.4) aim at assisting the Government address some of these development challenges.

2.3 Recent Economic Policy Developments

2.3.1 Since the current cabinet was appointed in July 2004, a number of significant structural and institutional reforms have taken place reflecting attempts by the Government to address some of the above development challenges and the past dialogue of the Bank and other development partners with the Government. These reforms have impacted positively on the Bank's relations with the country. The key reforms focus on:

- (i) **Tariffs:** The average weighted tariff level was reduced to 9.1% in September 2004 from 14.6% and the number of tariff bands were cut to 6 from 27. Customs procedures were also streamlined.
- (ii) **Taxes:** The top rate of income tax was halved to 20% in the 2005/06 budget. Corporation tax was also sharply reduced and unified at 20% (except for oil companies). Tax exemptions are being phased out.
- (iii) **Exchange rate:** An inter-bank market in foreign exchange was opened in December 2004.
- (iv) **Subsidies:** Diesel price was raised by 50% in September 2004. The prices of natural gas, water and electricity were also raised.
- (v) **Fiscal policy:** For the first time, the budget for 2005/06 was prepared under current IMF Government Finance Statistics standards and subsidies are included explicitly.
- (vi) **Monetary policy:** The Monetary policy framework was enhanced during 2005. Monetary Policy Committee held first meeting in June and formalised policy of using short-term interest rates to control inflation.

- (vii) **Privatisation:** Within the last two years, the Government revitalised the privatisation programme. Consequently, proceeds from privatisation were LE5.64 billion in 2004/05 compared to LE1.99 billion realised in the previous four years of 2000/01 to 2003/2004. The programme which accelerated further in 2005/06, generated proceeds amounting to LE14.31 billion as of March 2006, which is partly being used to finance the Financial Sector Reform Programme (FSRP).

2.3.2 The Government has also launched a comprehensive financial sector reform programme (FSRP). The FSRP addresses key identified weaknesses in the banking and non-bank financial sectors including the insurance sector, capital market and the mortgage industry. It is a programme which was designed by the Government and the cooperating development partners bought into it. In this context, the Bank worked closely with the World Bank since 2002 in the precursor to the FSRP relating to a policy-based loan which did not materialise but underscored the need for financial sector reforms as a high priority area for structural reform in view of their centrality in private sector development. The Bank also closely consulted with other development partners that are involved in the financial sector such as the EU and USAID in order to ensure harmonisation among donors and alignment with government development priorities. A wave of mergers occurred ahead of the imposition of a new minimum capital adequacy requirement in mid-July 2005. Banks that failed to meet this deadline were forced to merge while others sought additional capital from shareholders or new strategic investors. Foreign banks have increased their role as government stakes in joint venture banks have been sold off. In September 2004, the Bank of Alexandria was selected to be fully privatised and in September 2005, the Government also announced that Banque Misr and Banque du Caire would be merged.

2.3.3 The authorities have also passed either new or revised legislations in quite a number of areas. These include: (i) Financial Leasing Law; (ii) Mortgage Law; (iii) Intellectual Property Rights Law (IPR); (iv) Anti-Money Laundering Law. (v) Unified Labour law; (vi) Unified Banking Law, (vii) a revised Investment Law, and (viii) Law 141/2004 for Small Enterprise Development. The IPR law brings Egypt closer in line with its obligations under the WTO. The Labour law makes important improvements in the flexibility of the labour market while the Banking Law, inter alia, strengthened banking supervision and clarifies the process of monetary policy formulation. The revised investment law provides tax reductions and exemptions for up to 20 years for investors in priority sectors such as infrastructure, oil field services, tourism, manufacturing and all export-oriented activities. The passing of the Anti-Money laundering Law in 2004, led to the removal of Egypt by the international Financial Action Task Force (FATF) from the list of countries failing to adopt sufficient action to curb money laundering;

2.3.4 The economic and legal reforms pursued by the Government since July 2004 and their good implementation have gone a long way towards improving the business environment and ensuring the effectiveness of the legal system. This has also created an environment conducive to economic growth. The robust macroeconomic environment, the comprehensive economic and structural reform agenda already initiated and the commitment by the Government to stay the course has been welcomed by all development partners. The IMF concluded its 2006 Article IV Consultations on 23 June 2006. The IMF noted that the consultations were conducted against the backdrop of accelerating economic growth, low inflation, strong balance of payments and foreign reserves positions and, more broadly, growing confidence in the direction and depth of economic policies. Banking sector reform and privatisation are moving ahead at a pace exceeding expectations. In the fiscal area, there has been progress in strengthening the tax and customs regimes and bringing more transparency and efficiency to budgetary operations.

However, the IMF staff report expressed concerns over the high budget deficit and domestic public debt in Egypt noting that while still manageable, they cannot be sustained at current levels without compromising Egypt's economic potential. The World Bank's Board also approved the Country Assistance Strategy covering the period 2006 - 2009 on 16 June 2005. The strategy focuses on facilitating private sector development, enhancing the provision of public services and promoting equity with a programme in the range of about \$2 - 2.8 billion during this period.

2.4 Impact of Higher Oil Prices

Higher oil prices are a double-edged sword for Egypt. On one hand, they mean the country will earn more from its oil exports and (as gas prices tend to track oil prices) from its increasingly important gas exports. On the other hand, high oil prices also push up the fuel import bill, as Egypt still imports some of its domestic fuel needs because of a shortage of domestic refining capacity. Egypt is a net exporter of refined products in volume terms, but needs to import key consumer fuels. The country also began exports of liquefied natural gas (LNG) from its first terminal in January 2005. As an oil and gas producing country, Egypt stands to benefit from higher crude oil prices which will push Egypt's oil revenues upward. It is estimated that in 2004/05 petroleum exports amounted to US\$5.5 billion, an increase of 39.5% compared to 2003/04 whereas imports amounted to US\$2.4 billion representing an increase of 38%. Egypt also stands to benefit indirectly from the Gulf's windfall in the form of increased remittances from Egyptians working in the oil-rich Persian Gulf states. This could lead to more investment in Egypt. Domestic oil prices in Egypt are price controlled. Higher oil prices have thus not translated into higher inflation. They may, however, exert a toll on the budget deficit owing to increased subsidies on oil.

2.5 Impact of Avian Flu Outbreak

The occurrence of the disease in Egypt was confirmed in February 2006. As of 16 June 2006, farms in 16 governorates were affected with H5N1 and sixteen (16) human infection cases had been reported, with six (6) fatalities. Poultry raising is widely distributed in rural and semi urban areas, with homestead poultry constituting 25 - 30% of the total poultry sector worth about LE 850 million. The total number of birds affected is estimated at 50 million. Statistics indicate that 10 million birds were culled up till March 2006. Investment in the poultry sub sector in Egypt is estimated to be LE 16 billion and it employs about 1.5 million people. The occurrence of avian flu has thus rendered the industry susceptible to losses. Egypt is currently making efforts to contain the spread of the bird flu and requires international support, collaboration and assistance to effectively monitor outbreaks and control the spread of the disease. The key areas that need support include provision for the compensation of smallholder farmers, equipping and maintaining functional laboratories and preparing long-term strategic plans and programs to contain and control the spread of the epidemic.

III. BANK GROUP ASSISTANCE PROGRAMME

3.1 Bank Group Portfolio Management

3.1.1 The Bank Group started its lending operations in Egypt in 1974 and has so far approved 48 operations comprising 34 projects, 3 studies, 1 policy based loan, 2 institutional support projects, 2 emergency operations and 6 lines of credit. As at 31 March 2006 (see Annex 2), the Bank Group's total loan approvals to Egypt amount to UA 1,837.75 million, comprising UA 1,644.80 million from ADB resources, UA 179.68 million from ADF resources, and UA 12.92 million from TAF resources. In addition, a multinational study grant of UA 3.056 million was approved for a study of Power Interconnection between Egypt and DRC. Also, emergency assistance grants of US\$500,000 each were approved to assist the Government to combat locus invasion and avian flu respectively.

3.1.2 Out of the total amount approved to date, UA 316.42 million has been cancelled consisting of UA 312.52 million from ADB resources and UA 3.90 million from ADF resources. Thus, the cumulative Bank Group commitments net of cancellations in Egypt amount to UA 1,520.98 million. The sectoral distribution of the approved operations is as follows: power sector (49.7%), Finance (23.4%), social sector (8.3%), agriculture and rural development (7.4%), private sector (6.5%), 3.4% for multi-sector operations and 1.1% for industry (see fig. 5). In the transport sector, one study has been financed.

3.1.3 **Ongoing operations:** There are seven on-going operations with total commitment amounting to UA318.61 million. The disbursement rate for the ongoing projects currently stands at about 5%. This is explained by the fact that about 90% of the commitment is accounted for by two projects which were approved in July and October 2005. The loan agreements for both projects entered into force only in May and June 2006 respectively and they are yet to start disbursing. If we remove these two projects, the rate of disbursement on the remaining ongoing projects comes to about 43%.

3.2 Implementation Experience

3.2.1 The implementation of Bank Group projects in Egypt has undergone remarkable improvement. The two recently approved operations have become effective within a year compared to an average of two years in the past. However, project implementation progress is still affected by procurement and disbursements delays due to inability of some PIUs to comply with Bank Group's rules of procedure. Another problem area has been non-adherence by some PIUs to reporting requirements relating to quarterly progress and annual audit reports.

3.2.2 Assessment under the Bank-wide 2004 Annual Portfolio Performance Review (Doc. ADB/BD/WP/2006/20/Rev.1) revealed that there were no problem projects but that 4 out of 8 ongoing projects were at risk. A Country Portfolio Review Report (CPRR) (Doc. ADB/BD/WP/2005/96) completed in May 2005, however indicated that the overall performance of the portfolio has improved with only 2 projects at risk. The improvement in performance as assessed in the CPRR was attributed to the completion of the institutional support project and a marked improvement in the rate of disbursement for the LoC to PBDAC. As part of 2005 CPRR, a Country Portfolio Improvement Plan (CPIP) was prepared. The focus of the CPIP is on improving poor procurement performance, enhancing adherence to reporting requirements, strengthening PIU performance and improving the quality of disbursement applications.

Role of the Egypt Country Office

3.2.3 This portfolio improvement plan is being continuously monitored by the Egypt Country Office (EGCO) and the Bank's supervision missions. . The opening of EGCO in September 2000 has contributed significantly to the improved performance of the Bank's portfolio and has facilitated improved communication between the Bank on the one hand and the Government and PIUs on the other. EGCO's interventions were central to PIUs enhanced adherence to reporting requirements and hence the clearance of overdue audit reports, and improvement in the quality of disbursement applications. Furthermore, EGCO has contributed to the strengthening of the Bank's lending programme in Egypt and improved follow-up and supervision of on-going operations. To further enhance its effectiveness, EGCO was, in 2005, strengthened by the recruitment of three local professionals (socio-economist, private sector expert and infrastructure specialist) and four support staff (executive secretary, disbursement, procurement, and information technology specialists), a measure that will go a long way towards further improving portfolio quality. As a result of its strengthened staffing position, EGCO is one of the three pilot field offices to benefit from some delegated approval powers with respect to procurement and disbursement, a measure that will further minimise procurement and disbursement delays and hence improve portfolio performance significantly.

3.3 Areas Requiring Dialogue and New Development Initiatives

The Bank's ability to engage in effective dialogue with the Government and other development partners on issues relating to on-going operations, and development issues in general, has been enhanced since the opening of EGCO. In the short- to medium-term, dialogue will focus on some of the development challenges highlighted in paragraph 2.2 namely: (i) fiscal sustainability in the context of the proposed Government fiscal consolidation strategy; and (ii) financial sector reforms in the context of the FSRP. In addition, the Bank is finalising the preparation of a Private Sector Country Profile and a Country Governance profile. The completion of these profiles will engender new opportunities for dialogue between the Bank and the authorities in the area of private sector development and good governance. The newly approved initiatives designed to enhance the framework and delivery of the Bank's development assistance in the MICs, in particular elimination of commitment fee on sovereign loans and the use of the MIC Trust Fund as well as the local presence engendered by the opening of the country office has enhanced the perception of the competitiveness of the Bank's lending products and Bank's performance in general. This enhanced perception of the Bank as a key development partner is already generating additional business for the Bank in Egypt. Enhanced ESW, in the context of the full CSP, will further offer new opportunities for dialogue based on deeper knowledge of the economy and issues.

IV. GOVERNMENT'S DEVELOPMENT AGENDA

4.1 The government's development agenda is presented in its Long-Term Development Vision 2022 within which 5-year medium-term plans and annual plans are implemented. The current five-year plan covers the period 2002-2007. The Government's objective is to continue the strategy of private sector-led growth and modernization of the Egyptian economy and its integration into the global economy. The main elements of this strategy are: (i) export promotion to enhance balance of payments and augment job opportunities; (ii) deepening and modernisation of the industrialization process focusing on capital goods and high value production in accordance with Egypt's competitive advantage; (iii) reducing unemployment and focusing on employment-oriented, labour-intensive techniques and promotion of small and medium sized

enterprises; (iv) directing development towards desert land and correcting spatial imbalances; (v) poverty reduction and equity consideration; (vi) gender equality and women's participation in the development process. The fifth five-year plan is underpinned by key goals and expected outcomes summarised in Box 1:

Box 1: Key goals and expected outcomes of the Government's Medium-term Development Agenda

- Attaining an annual average real GDP growth rate of 6.2% during the plan period;
- Increasing the investment rate from 16.9% of GDP in 2000/2001 to 20% by 2006/2007;
- Raising the saving rate to reach 17.3% of GDP by 2007;
- Reducing the domestic resource gap (budget deficit) from 6.5% of GDP in 2001/02 to 2.5% by 2006/07;
- Reducing the trade deficit from LE38.8 billion in 2001/02 to LE 34.8 billion in 2006/07 by boosting exports at an average annual growth rate of 13% against 5.3% for imports;
- Achieving a current account surplus of LE 4,263 billion (3.4% of GDP) in 2006/07
- Creating 750,000 job opportunities per annum between 2002– 2007 thus enhancing the chances of poverty reduction.

4.2 The pursuit of this development agenda and the achievement of the expected outcomes are being guided by the Ten-Point Action Programme contained in the Government's Statement presented to Parliament by the Prime Minister in December 2004. The Ten-point program covers the following areas: (i) Investment and Employment; (ii) Enhancing Economic Performance; (iii) Support to Social Development; (iv) Developing Education and Scientific Research; (v) Developing Health Services and Controlling Population Growth; (vi) Protection of Natural Resources; (vii) Developing the Civil Service; (viii) Developing Basic Public Services; (ix) Building an Information Society; and (x) Developing the Political and Legislative Environment.

V. BANK GROUP STRATEGY AND 2006 LENDING PROGRAMME

5.1 **Strategy:** Within the context of the Government's Development Agenda and the 2004 Ten-Point Action Programme, the overall thrust of the Bank's strategy during the one-year period covered by this update will be to continue to support the promotion of private sector-led growth and the modernisation of the Egyptian economy as well as its integration into the global economy, as articulated in the previous CSP. Thus, the Bank's intervention strategy will continue to focus on support for social and physical infrastructure development critical for poverty reduction and efficient business environment, as well as financial sector reforms expected to provide the anchor for economic growth, private sector development and poverty reduction. Direct investments to viable private sector projects and lines of credit (LoCs) to the banking sector for exports, tourism and SMEs development will also be provided. Thus, in essence, public sector investments would reinforce improved environment for private sector development.

5.2 In the private sector, specific interventions will focus on three areas: i) sectoral reforms, in particular privatisation, through budget support and targeted technical assistance; ii) support to SMEs through direct and indirect financing (loans and equity; quasi-equity), and the promotion of new financial instruments (e.g. leasing, factoring, franchising); and iii) the development of private infrastructure and energy through co-financing, public-private partnerships, and technical assistance. In the area of franchising, the Bank has commenced the development of a support programme, expected to be presented to the Board at the beginning 2007. The Bank will play a catalytic role in assisting the Egyptian Franchising Development Association through technical assistance, and local financial partners, in particular the Social Fund for Development and the Commercial International Bank, through adequate financial instruments, in order to assist the franchising sector to develop further and create SME jobs.

5.3 The Bank is in the process of finalising a new results-based CSP for Egypt covering the period 2006-2010. The dialogue mission to discuss the CSP with the Government and other country stakeholders was undertaken in February 2005. The document has been revised to conform with the new results-based format and also to incorporate recent developments and will be further discussed with the Government before board presentation. The strategy in the full CSP will be along the lines articulated above, and has been developed through participatory approach and validated by the Government and other country stakeholders during the dialogue mission and will be revisited during the forthcoming final discussion of the revised document with the Government in early August 2006.

5.4 **2006 Lending Programme:** Management plans to present three operations to the Board for consideration during 2006 and early 2007. These are: (i) Financial Sector Reform Programme (USD500.00 million equivalent to UA334.63 million); (ii) Social Fund for Development: Micro and Small Enterprises Support Project (UA60.00 million); and (iii) Integrated Community Development Programme (UA44.00 million). These operations are in line with the strategic focus articulated above and are geared at assisting Government address some of the key development challenges highlighted in paragraph 2.2 above. A sound and efficient financial system is central to economic growth and poverty reduction by facilitating savings mobilisation and access to finance by private enterprises. It therefore represents a key component of the Government's strategy to enhance economic performance and create employment. The Micro and Small Enterprises Support Programme will foster job creation through support to micro and small enterprises while the Community Development Programme will improve human capital development through increased access of the poor to basic social services (health, education, water supply and waste water disposal) and enhance the participation of NGOs and private sector operators in the provision of these services through the provision of loans.

5.5 The FSRP was appraised in March 2006. The Micro and Small Enterprises Support Programme was appraised in April 2006 and the Integrated Community Development Project is scheduled for appraisal before the end of 2006.

VI. CREDITWORTHINESS AND EXPOSURE

The Bank's country risk assessment is based on 5 clusters measuring: (i) macroeconomic fundamentals, policy implementation and performance; (ii) the sustainability of external debt; (iii) socio-political outlook; (iv) conduciveness of the business environment for private sector development; and (v) Bank Group portfolio performance as it relates to debt service record and project implementation. The 2006 assessment rated Egypt as a very low risk country and adjudged to be performing well above the African average on all clusters. Furthermore, at 1.7%,

the Bank's exposure to Egypt is far below the country's exposure limit of 11%. Based on this assessment, Egypt's average annual sustainable annual lending programme is estimated in the range of UA 411 million (low case), UA587 million (base case), and UA885 million (high case) per year. The lending programme for 2006 is thus conveniently accommodated within the sustainable lending limit and will still leave a lending gap. Also, the 2005 CPIA rating exercise ranked Egypt in the second quintile among the countries with medium policy performance. The country is considered a relatively good performer in terms of all the four clusters relating to economic management, structural policies, policies for social inclusion/equity, and public sector management and institutions. The main area of concern in the CPIA also relates to the budget deficit and the concomitant domestic public debt which were adjudged to be high and capable of compromising the country's economic potential.

VII. CONCLUSION AND RECOMMENDATION

7.1 The Board is invited to note the consensus among development partners regarding the significance of the economic and institutional reforms that the authorities have been implementing since July 2004 and the Government's determination to stay the course of reforms. This augurs well for enhanced Bank assistance to the country with a view to reinforcing the growth momentum.

7.2 The Board is also invited to take note of this CSP update and the three projects that are likely to be presented for Board consideration before the finalisation of the full CSP.

Annex 1
EGYPT - SELECTED ECONOMIC AND FINANCIAL INDICATORS, 2000/01 - 2004/05

	2000/01	2001/02	2002/03	2003/04	2004/05
Population (thousands)	64,652	65,986	67,300	68,600	70,000
Population Growth (%)	2.1	2.1	2.0	1.9	2.0
Real Economy (change in %)					
Real GDP	3.4	3.2	3.0	4.3	5.0
CPI (year on average)	2.4	2.4	3.2	9.5	4.3
Unemployment rate (in %)	9.2	9.0	9.9	10.0	9.5
Gross National Savings (% of GDP)	17.8	17.2	17.5	19.8	19.4
Gross Domestic Investment (% of GDP)	18.3	18.2	17.0	16.6	17.7
Public Finance (% of GDP)					
Total Revenue and Grants	28.2	27.5	27.7	26.8	23.6
Overall expenditure	30.4	30.0	30.1	29.2	29.4
<i>of which:- Current Expenditures</i>	25.1	24.1	24.5	25.1	24.4
<i>- Capital Expenditures</i>	4.2	4.0	4.0	3.9	3.7
Overall/Deficit/Surplus	-	(9.6)	(8.9)	(8.4)	(9.2)
Money, Interest Rate and Exchange Rate					
M2/GDP (in %)	79.4	86.8	92.0	89.7	92.1
M2 (annual change in %)	11.6	15.4	16.9	13.2	13.6
Money Multiplier	4.07	4.46	4.31	3.67	2.78
Velocity of circulation	1.33	1.23	1.17	1.18	1.15
Interest rate (in %)	9.08	7.79	8.31	8.41	10.25
Nominal exchange rate (LE/US\$) average	3.85	4.34	5.13	6.18	6.02
Balance of Payments (in % of GDP)					
Exports of Goods	7.6	8.2	10.10	13.3	15.5
Imports of Goods	17.6	16.8	18.20	23.3	27.2
Balance on Goods	(10.0)	(8.6)	(8.1)	(9.6)	(11.2)
Current Account	(0.04)	0.7	2.4	4.4	3.3
International Reserves (in months of imports)	10.4	11.6	12.0	9.7	9.6
Public Debt					
Domestic Debt (% of GDP)	54.0	58.0	60.0	60.0	68.6
Total External Debt Stock (EDT) in USD million	26,560	28,661	29,396	29,872	28,949
EDT/GDP (in %)	28.5	32.8	36.1	38.0	31.2
EDT/Exports of Goods and Services (in %)	141.5	171.2	157.6	127.5	104.8
Total Debt Service/Exports of Goods & Services (in %)	8.3	11.0	11.8	10.8	9.4

Source (s): Ministry of Finance, Ministry of Planning & Central Bank of Egypt

EGYPT

SUMMARY OF BANK GROUP OPERATIONS

30 JUNE, 2006

	APPROVALS			CANCELLED	NET COMMITMENT	DATE APPROVED	DATE SIGNED	DATE ENTRY INTO FORCE	DISBURSEMENTS		DEAD LINE FINAL DISB.	STATUS
	AMOUNT (UA Million.)								AMOUNT (UA MIL)	%		
	ADB	ADF	TAF									
<u>AGRICULTURE (8)</u>												
El-Beheira Rural Dev.	10.00	0.00	0.00	0.23	9.77	12-Dec-81	26-Jan-82	28-Dec-84	9.77	100.00	30-June-97	Completed.
	0.00	7.37	0.00	0.00	7.37	12-Dec-81	26-Jan-82	09-Jun-85	7.37	100.00	30-June-97	Completed
Drainage v	18.62	0.00	0.00	1.40	17.22	20-Nov-85	04-Apr-86	06-May-88	17.21	99.94	31-Dec-98	Completed.
	0.00	9.21	0.00	0.50	8.71	20-Nov-85	04-Apr-86	06-May-88	8.16	93.69	31-Dec-98	Completed
2nd Agric. Dev	31.15	0.00	0.00	22.08	9.07	20-Nov-85	04-Apr-86	08-Dec-88	9.07	100.03	31-Dec-98	Completed.
	0.00	9.21	0.00	0.44	8.77	20-Nov-85	04-Apr-86	14-Dec-88	8.77	100.05	30-Jan-98	Completed
Drainage Water Study	0.00	0.00	2.03	0.00	2.03	01-Dec-92	12-May-93	10-Feb-94	1.86	91.81	30-Jan-98	Completed
Reh. of Agric. Drainage Systems.	0.00	19.34	0.00	0.00	19.34	15-Dec-92	13-May-93	27-Apr-94	19.19	99.22	31-Dec-02	Completed
LOC to PBDAC	10.69	0.00	0.00	0.00	10.69	24-Mar-99	01-Dec-00	22-Apr-02	10.69	100.00	31-Dec-05	Completed
	0.00	6.00	0.00	0.00	6.00	24-Mar-99	01-Dec-00	22-Apr-02	6.00	100.00	31-Dec-05	Completed
	0.00	0.00	1.00	0.00	1.00	24-Mar-99	01-Dec-00	22-Apr-02	0.57	57.00	31-Dec-06	Ongoing
El_Beheira II	5.39	0.00	0.00	0.00	5.39	26-Nov-97	07-Mar-98	19-Dec-00	4.10	76.07	31-Dec-05	ongoing
	0.00	6.52	0.00	0.00	6.52	26-Nov-97	07-Mar-98	19-Dec-00	3.64	55.83	31-Dec-06	Ongoing
	0.00	0.00	1.00	0.00	1.00	26-Nov-97	07-Mar-98	19-Dec-00	0.29	29.00	31-Dec-06	Ongoing
The Buhyyah Canal Irrigation Improvement	9.86	0.00	0.00	9.86	0.00	28-Nov-01	30-Sep-02	n.a.	0.00	0.00	30-Dec-08	Cancelled
Sub-Total	85.71	57.65	4.03	34.52	112.87				106.69	94.53		
<u>TRANSPORT (1)</u>												
Two Canals Study	0.00	0.00	1.57	0.00	1.57	06-Jan-93	12-May-93	18-Jan-94	1.46	92.99	12-Oct-95	Completed
Sub-Total	0.00	0.00	1.57	0.00	1.57				1.46	92.99		

POWER (14)												
Power I	5.00	0.00	0.00	0.00	5.00	22-Nov-74	08-Dec-74	09-Jun-75	5.00	100.00	09-Jun-77	Completed.
Power II	5.00	0.00	0.00	0.03	4.97	14-Oct-75	26-Feb-76	30-Jun-77	4.97	99.98	20-Jan-86	Completed.
Power III	5.00	0.00	0.00	0.00	5.00	31-Dec-77	30-Mar-78	25-Aug-78	5.00	100.00	22-Dec-82	Completed.
Rural Elect. I	0.00	7.37	0.00	0.00	7.37	26-Sep-79	01-Feb-80	24-May-81	7.37	100.00	30-Dec-85	Completed.
Shoubrah El-Kheima	10.00	0.00	0.00	0.00	10.00	23-Sep-80	19-Dec-80	18-Nov-81	10.00	100.00	31-Dec-86	Completed.
Rural Elect. II	0.00	7.37	0.00	2.87	4.50	25-Jun-81	09-Jul-81	30-Mar-82	4.50	100.00	31-Dec-95	Completed.
Shoubrah El-Kheima Interc.	21.39	0.00	0.00	0.21	21.18	26-May-83	16-Oct-83	26-Apr-84	21.18	100.00	02-Jan-90	Completed.
Shoubrah El-Kheima (Unit 4)	43.50	0.00	0.00	7.46	36.04	28-Aug-85	10-Mar-86	16-Feb-87	36.04	100.00	31-Dec-89	Completed.
Damietta Power	103.00	0.00	0.00	2.74	100.26	19-Dec-86	30-Oct-87	07-Jun-88	100.26	100.00	31-Dec-97	Completed.
Cairo West	210.00	0.00	0.00	0.01	210.00	23-Aug-88	19-Dec-88	21-Dec-89	208.83	99.45	30-Jun-99	Completed.
Cairo West Supplementary	42.10	0.00	0.00	10.85	31.25	27-Jan-92	01-Sep-92	12-Jul-93	31.25	100.01	30-Jun-99	Completed.
El-Arish Power	53.53	0.00	0.00	3.52	50.01	18-Dec-89	07-Mar-90	10-Mar-91	50.01	100.01	31-Jan-98	Completed.
El-Kureimat Power	250.00	0.00	0.00	127.92	122.08	17-Dec-90	30-May-91	03-Mar-92	122.07	99.99	31-Dec-00	Completed.
Solar Thermal Energy Power Study	0.00	0.00	1.57	0.00	1.57	06-Jan-93	12-May-93	14-Feb-95	1.51	96.18	30-Jun-03	Completed.
El-Kureimat Combine Cycle power	146.92	0.00	0.00	0.00	146.92	27-Jul-05	18-Oct-05	05-May-06	0.00	0.00	31-Dec-10	Ongoing
Sub-Total	895.44	14.74	1.57	155.61	756.14				607.99	80.41		
FINANCE (6)												
1st Line of Credit to IDB	5.00	0.00	0.00	0.01	4.99	18-Aug-77	04-Oct-77	15-Apr-78	4.99	99.91	30-Jun-82	Completed.
2nd Line of Credit to IDB	10.00	0.00	0.00	0.12	9.88	25-Apr-80	20-Jun-80	30-Dec-80	9.88	99.99	30-Jun-94	Completed.
3rd Line of Credit to IDB	10.00	0.00	0.00	0.00	10.00	12-Dec-81	26-Jan-82	02-Aug-82	10.00	100.00	30-Jun-94	Completed.
4th Line of Credit to IDB	60.00	0.00	0.00	19.20	40.80	12-Dec-84	11-Feb-85	20-Aug-85	40.80	100.00	31-Dec-90	Completed.
Line of Credit to NBE	102.65	0.00	0.00	0.00	102.65	23-Oct-02	27-Mar-03	22-May-03	102.65	100.00	31-Dec-06	Completed.
Line of Credit to ED BE	58.65	0.00	0.00	11.73	46.92	23-Oct-02	27-Mar-03	22-May-03	46.92	80.00	31-Dec-06	Completed.
2 nd Line of Credit to NBE	140.25	0.00	0.00	0.00	140.25	04-Oct-05	21-Nov-05	09-Jun-06	0.00	0.00	31-Dec-09	On-going
Sub-Total	386.55	0.00	0.00	31.05	355.50				215.24	60.55		
INDUSTRY (3)												
Polyester Filament	8.00	0.00	0.00	1.49	6.51	20-Aug-79	04-Oct-79	28-Jul-81	6.51	99.98	31-Dec-81	Completed.
Polyester Filament II	10.45	0.00	0.00	1.35	9.10	29-Dec-86	14-Mar-88	10-May-89	9.10	99.98		Completed.
Inst. Sup. to NIS & EOS	0.00	0.00	1.57	0.00	1.57	25-May-92	01-Sep-92	15-Mar-93	1.54	98.09	30-Jun-00	Completed.
Sub-Total	18.45	0.00	1.57	2.84	17.18				17.15	99.81		

<u>SOCIAL (10)</u>												
Ind. Voc. Training	0.00	7.37	0.00	0.00	7.37	22-Nov-78	31-Jan-79	11-Jun-81	7.37	100.00	31-Dec-84	Completed.
Bilharzia Control I	0.00	7.37	0.00	0.00	7.37	18-Dec-80	18-Mar-81	15-Feb-82	7.36	99.88	30-Jun-94	Completed.
Bilharzia Control II	0.00	7.37	0.00	0.01	7.37	10-Jun-82	07-Jan-83	26-Aug-83	7.36	99.97	30-Jun-00	Completed.
Bilharzia Control III	0.00	6.20	0.00	0.29	5.91	23-Mar-89	01-Dec-89	10-Jul-90	5.91	100.00	30-Jun-00	Completed.
Upgrading Industrial Sec. School	17.33	0.00	0.00	0.28	17.05	23-Mar-89	01-Dec-89	01-Dec-90	17.05	100.01	30-Jun-00	Completed.
	0.00	22.11	0.00	0.00	22.11	23-Mar-89	01-Dec-89	01-Dec-90	22.11	100.00	30-Jun-00	Completed
	0.00	0.00	0.68	0.00	0.68	23-Mar-89	01-Dec-89	01-Dec-90	0.67	98.53	30-Jun-00	Completed
Emergency School Recon.	0.00	24.87	0.00	0.00	24.87	23-Jun-93	26-Nov-93	07-Oct-94	22.43	90.19	30-Jun-02	Completed
Social Fund II	0.00	15.00	0.00	0.00	15.00	26-Nov-97	07-Mar-98	19-Dec-00	15.00	100.00	31-Dec-06	Completed
Women Empowerment	0.00	6.00	0.00	0.00	6.00	26-Nov-97	07-Mar-98	19-Dec-00	1.33	22.17	31-Dec-06	Ongoing
	0.00	0.00	0.20	0.00	0.20	26-Nov-97	07-Mar-98	19-Dec-00	0.17	85.00	31-Dec-06	Ongoing
Health Sec Reform	0.00	11.00	0.00	0.00	11.00	29-Oct-98	11-Jul-00	14-Nov-01	2.67	24.27	30-Jun-07	Ongoing
	0.00	0.00	1.00	0.00	1.00	30-Oct-98	11-Jul-00	14-Nov-01	0.93	93.00	30-Jun-07	Ongoing
Upgrading Industrial Schools (Phase II)	10.83	0.00	0.00	10.83	0.00	28-Nov-01	30-Sep-02	n.a.	0.00	0.00	31-Dec-08	Cancelled
Sub-Total	28.16	107.29	1.88	11.41	125.92				110.36	87.64		
<u>MULTI-SECTOR (2)</u>												
SAL	100.00	0.00	0.00	50.00	50.00	24-Sep-91	21-Apr-92	30-Nov-92	50.00	100.00	30-Jun-94	Comp. with 50% loan cancelled.
Inst. Sup. to MIC	0.00	0.00	2.30	0.00	2.30	27-Jan-92	21-Apr-92	14-Oct-93	2.30	100.00	31-Dec-05 31.00	Completed
Sub-Total	100.00	0.00	2.30	50.00	52.30				52.30	100.00		
<u>EMERGENCY ASST.</u>	0.40	0.00	0.00	0.00	0.40	26-Nov-92	N/A	N/A	0.40	100.00	N/A	Completed.
<u>EMERGENCY ASST. (Locust Control)</u>	0.33	0.00	0.00	0.00	0.33	02-Feb-05		N/A	0.35	0.00		ongoing
Sub-Total	0.73	0.00	0.00	0.00	0.73				0.75	102.79		
<u>PRIVATE SECTOR OPERATIONS (5)</u> (USD million)												
Car Assembly Plant (JAC)	14.00	0.00	0.00	14.00	0.00	24-Feb-94	N/A	N/A	0.00	0%	N/A	Cancelled
Windsor Turin Garden City Hotel	14.00	0.00	0.00	0.00	14.00	21-May-97	11-May-99	04-Feb-00	14.00	100%	30-Jun-00	On-going
Alexandria National Iron & Steel Company	33.00	0.00	0.00	33.00	0.00	15-Dec-98	27-May-99		0.00	0%	25-Oct-01	Cancelled
	15.82	0.00	0.00	0.00	15.82	- do -	- do -	- do -	15.82	100%	25-Oct-01	Divested
LoC to HSBC	50.00	0.00	0.00	0.00	50.00	08-Dec-99	06-Jul-00	06-Jul-00	50.00	100%	30-Apr-01	Completed
Loc to Suez Canal Bank	70.00	0.00	0.00	0.00	70.00	18-Oct-01	29-Jan-02	20-Mar-02	70.00	100%	30-Jun-03	On-going
Sub-Total	196.82	0.00	0.00	47.00	149.82				149.82	100%		
Grand Total	1644.80	179.68	12.92	316.42	1520.98				1210.72	79.60		

MULTINATIONAL												
DRC/Egypt Power			3.04		3.04	12-Jun-90	10-Jul-90	16-Mar-93	2.20	72.37	31-Dec-95	

NET COMMITMENTS: ADB =	1332.49	1837.40	104.38	DISB.	=	1042.87	78.26	289.62
NET COMMITMENTS: ADF =	175.57			DISB.	=	156.54	89.16	19.03
NET COMMITMENTS: TAF =	12.92			DISB.	=	11.30	87.49	1.62
NET COM.: GRAND TOTAL =	1520.98			DISB.	=	1210.72	79.60	310.26