

OVERVIEW OF THE EGYPTIAN ECONOMY AND BUSINESS ENVIRONMENT

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ECONOMIC REFORMS 2004-2010

SECTION I. REFORMS IMPLEMENTED BETWEEN 2004-2006

A NEW GOVERNMENT FOR 2006

A new Government was sworn in on December 31, 2005. In the new government, the number of ministers shrank from 34 to 30. Key economic ministers remain largely unchanged, but a couple of portfolios have been expanded. The Ministry of Finance has been added the responsibility of pension's reform. The portfolio of the Ministry of Trade and Industry has also been expanded to include domestic trade issues such as anti-competitive practices.¹ The newly created Ministry of Social Welfare has been assigned to oversee the provisioning of welfare services, including the management of subsidies². The Ministries of Investment and International Cooperation did not see any restructuring or added responsibilities.

The maintenance of the Economic Cabinet of July 2004 bodes well for maintaining the rapid pace of bold economic reforms that started eighteen months ago. The core Economic Team that continues within the new Government has established a positive track record as a cohesive, reform-oriented group. This Economic Group was able to deal with long-standing sensitive and difficult issues such as income taxes, tariff rates, overhauling tax and customs administrations, the exchange rate, privatization, and banking sector reforms, including the sale of state-owned and joint venture banks. At the same time, real growth rates were increased to more than 5 percent within a stable foreign exchange and inflation milieu³. These reforms have established a solid economic foundation that will enable the new Economic Cabinet to continue its daunting reform agenda. The agenda includes building more growth and creating more jobs, while at the same time addressing difficult issues such as banking sector reforms, continued fiscal consolidation, treasury cash management, improving tax administration, further tax reforms (property, value added and stamp taxes), pension reform, and the strengthening the social safety net.

The following pages detail the reforms that the government has been implementing since July 2004. Many of these reforms are ongoing and thus are taking place over the medium term. Reforms planned until 2010 are detailed in Section II. Appendix contains an overview of the status of recent economic legislation.

1. BUDGET REFORM

IMPROVING BUDGET CLASSIFICATION

The current budget classification is being revised according to international standards and practices that would allow the comparison of budgetary information of Egypt with other countries. The revised classification is consistent with the IMF 2001 Government Finance Statistics Manual (GFSM) and the classification of the Functions of Government (COFOG) of the OECD of the United Nations. The new law that provides for these changes is currently being revised by the Ministry of Finance.

The principles of a sound system of budget classification comprise an economic, functional and administrative classification. Additional classifications serve to enhance transparency and accountability, and analyze budgetary information by program, projects, or funding source.

¹ Previously under the prerogative of the dissolved Ministry of Supplies and Domestic Trade

² Ibid.

³ EFG – Hermes. Cabinet Reshuffle: Reform Trend Confirmed. December 30, 2005.

The objectives of improving budget classifications are to set up a sound budget classification system, enhance transparency and legislative oversight of the budget, and facilitate the generation of useful information and hence the measurement of fiscal policy.

The revised classification will more clearly distinguish: (i) between revenue, expenditures and transactions in financial assets and liabilities; and (ii) between transfers and exchange transactions.

The revised appropriation structure will distinguish: (i) between transfer payments and other expenditure; (ii) between interest and non-interest costs; and (iii) between transactions related to financial assets and government borrowing and other transactions.

The Ministry of Finance is also currently working towards more effective cash and debt management through establishing a Single Treasury Account.

Law 97/2005 enacted the budget for 2005/2006 according to the IMF 2001 GFS4 classification. The new system, which is consistent with international standards, will ensure more consistent reporting during the year. Under the new system the budget will in the medium term be guided by macroeconomic and financial objectives and constraints.

Under the new standard, which re-classified many budget lines, indirect petroleum subsidies are explicitly treated as budget lines. (This applies only to the 2005/2006 budget which makes the year incomparable to previous series.) The adoption of the new classification distinguishes between the economic, administrative and functional classification. There is a clear distinction between revenues, expenditures and financing transactions, as well as between transfers and exchange transactions. The fiscal policy stance is monitored on the basis of the cash/surplus deficit and the overall fiscal balance.

The new accounting procedure brings greater transparency to the budget and public sector economic activity. This will permit better analysis of resources and expenditures to improve efficiency and to ensure that the budget remains focused on the social and economic priorities of the Government.

Under the new standard, which re-classified many budget lines, indirect petroleum subsidies are explicitly treated as budget lines. (This applies only to the 2005/2006 budget which makes the year incomparable to previous series.) Thus the published 2005/2006 budget deficit appears larger than that projected at the start of the fiscal year because petroleum subsidies are treated for the first time as explicit items in the budget. This means that the published nominal deficit for 2005/2006 will not be directly comparable to the prior years' published figures which did not treat gas and oil subsidies in the same way.

GOVERNMENT FINANCES AND PROJECTIONS

The newly established macro-fiscal unit in the Ministry of Finance is now working on the 2007 budget that should include medium term projections and fiscal sustainability analysis. It will coordinate with the Ministries of Planning and the Central Bank who are also involved in the forecasting.

BUDGET AUTOMATION

An Automated Government Expenditure System (AGES) has led to more efficient preparation of the budget. The Ministry of Finance is now working the second phase of automation which will require online linkage of other ministries' budget preparation, and hence automated issuance of end of year closing accounts. AGES is designed to be compatible with the GFS budget classification.

2. BANKING SECTOR REFORM

The Central Bank has formed a committee to develop the banking sector and has established a department for banking sector restructuring in the Central Bank of Egypt (CBE). The committee is chaired by the Deputy Governor. A plan has now been prepared to deal with three key issues. The first

deals with mergers and privatization and addresses the problems of weak banks in the banking sector. The second tackles the restructuring of the public sector banks from the financial and administrative perspectives. The third addresses the problems of non-performing loans in the banking sector. The plan, currently under way, was approved by President Mubarak in September 2004.

Progress to date includes:

Mergers and Privatization to Address the Problem Banks

- Misr Exterior Bank was merged into Banque Misr on September 16, 2004. Accordingly, Banque Misr replaces Misr Exterior Bank with respect to rights and obligations.
- The process of examination and assessment of the Islamic International Bank for Investment and Development was initiated in preparation for its merger into the Faisal Islamic Bank of Egypt.
- Public sector banks were instructed to sell their shares in joint venture banks by December 31, 2005. A set of rules and guidelines for selling transactions were set to aid these banks through the process.
- The stake of Banque du Cairo Barclays International was sold to the UK Barclays Bank. Concurrently, the CBE announced the selling of Banque Misr's stake in Misr International Bank.
- A directive was issued to the board of Bank of Alexandria to prepare, in cooperation with the Central Bank, for its forthcoming privatization. In this respect, a working plan and a timetable are to be set for the privatization process. Specialized experts from internationally recognized financial houses were invited to present their technical offers for examination and assessment purposes.
- A decision was issued, setting July 15, 2005 as the deadline for banks to raise their paid-up capital to LE 500 million. Review of the banks' plans in this respect, as well as the follow up of their implementation, are to be conducted.
- Rules and executive measures were set for voluntary mergers among banks.

Privatization and consolidation of the banking sector

- The banking sector privatization program aims at the divestiture of up to 100 percent of state ownership in one state-owned bank (SOB) namely Bank of Alexandria and the divestiture of all SOB holdings in joint venture banks.
- The pre-sale preparation phase for the privatization of the bank of Alexandria is being finalized, including:
 - auditing the bank in accordance with international accounting standards;
 - conducting a complete Vendor Due Diligence;
 - preparing Data Room materials and procedures; and
 - preparing all the promotional and marketing material including the Information Memorandum by Citigroup acting as the Egyptian Government Sell Side Advisor.
- The announcement for soliciting offer is expected by January 2006.
- As for the divestiture of SOB holdings in joint venture banks, three of the five banks were sold (Cairo Barclays, NSGB and MI Bank), while the other two (CIB, EAB) will be transacted shortly. Three other deals were concluded namely the sale of Misr America Bank to Arab African International Bank, Egyptian Commercial Bank to the Greek bank Piraeus Bank, and Suez Canal Bank to Arab International Bank. At the time of writing this report, another deal was concluded namely the sale of Misr Romania to the Lebanese Bank Blom.

- On the consolidation front, the deadline for raising the minimum capital requirement of banks to of LE 500 million was set at mid-July 2005. In September 2004, when the banking reform plan was approved, the number of banks and branches of foreign banks operating in Egypt totaled 57 banks. As of November 2005, this number has been reduced to 46 banks and it is expected to reach 35 banks by the first quarter of 2005/2006.
- The board of directors of the Central Bank of Egypt has approved and effected the implementation of articles 79 and 41 of law 88/2003 (Central Bank and Banking Sector Law) which deals with the procedures and regulation of forced and voluntary mergers among banks.
- Privatization process of Bank of Alexandria is undergoing. Specialized international audit and legal firms have been selected to carryout the bank's financial and legal due diligence which is currently being finalized. In addition, the Government of Egypt has retained Citigroup as its advisor in the selling process of the Bank of Alexandria.
- The financial and legal due diligence of Nile Bank and Islamic International Bank for Investment and Development have been concluded in preparation for applying article 79 of the banking law (forced mergers)
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- Decisions were made allowing the merger procedures to commence for:
 - Mohandes Bank and Togaryoon Bank in National Bank of Egypt
 - Egyptian Arab Land Bank and Housing and Development Bank
- Barclays Bank has acquired the remaining stake of Banque Du Caire in Cairo Barclays to raise its ownership to 100% of the bank.
- Arab African International Bank (AAIB) acquired a 100% stake of the paid-in-capital of Misr America International Bank (MAIB).
- The Merger of Credit Agricole Indosuez-Egypt and Credit Lyonnais branch in Egypt has taken place resulting in the creation of a new entity (Calyon-Egypt).
- Piraeus Bank has acquired 79.7% of Egyptian Commercial Bank.
- Societe Arab International De Banque (SAIB) has concluded the acquisition of Port Said Development Bank.
- Egyptian American Bank has acquired the branched of American Express bank in Egypt.
- National Bank of Egypt has divested it stake in national Societe General Bank (NSGB) selling it to Societe General Bank (France)
- National Bank of Egypt has divested it stake in Suez Canal Bank selling it to Arab International Bank.
- Banque Misr and other major shareholders have agreed to sell their combined 70% stake in Misr International Bank (MIBank) to NSGB who offered to buy up to 100% of MIBank.
- Bank of Alexandria (BoA) and AMEX have selected Credit Suisse First Boston (CSFB) as their sell-side advisor in selling their combined majority stake in Egyptian American Bank and the process is in progress.
- Eleven banks did not abide with the minimum capital requirement set by the CBE as of deadline date July 14th, 2005 and are currently being merged into other banks. Four branches of foreign banks have also missed the deadline where three of the ceased operations (Jamal Trust, National Bank of Sudan and National Bank of Pakistan) and the fourth (Rafidain Bank) is

not allowed to carry out any banking transaction except of settling workers' remittances from Iraq.

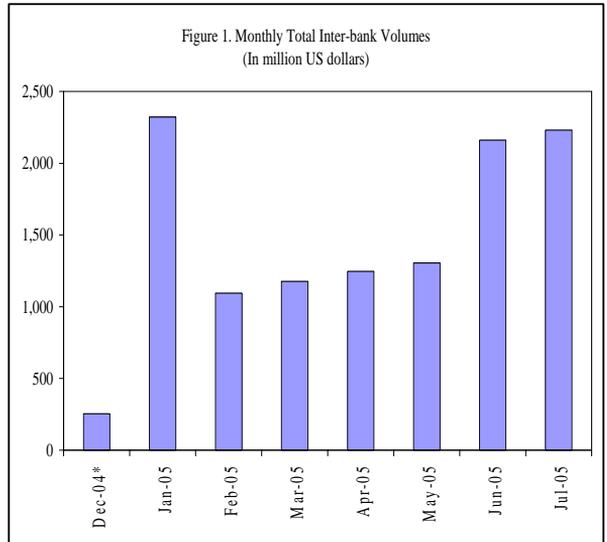
NON-PERFORMING LOANS (NPLs) IN BANKS

- An NPL management unit within the CBE was established to carry out the responsibility of setting a national policy for dealing with NPLs, setting up an NPL data base monitoring recovery efforts, & introducing a conciliation/ arbitration mechanism for NPLs.
- The NPL Unit in the CBE has instructed all banks operating in Egypt to establish an independent Workout Unit to be staffed with qualified personnel (banking/legal). The Unit in the CBE will be monitoring the achievements of the Workout Units through monthly reports that are pre-designed in order to have a clear, adequate, and objective plan that is time lined for NPL resolution. The aggregate monthly pre-designed reports cover collection settlement agreements, type of recovery, and write-offs. Also meetings have been conducted with state owned banks' senior management along with workout unit senior staff in order to detect any problems that would hinder the operating team from achieving the set goals.
- The BRU is working with the Ministry of Investment and Ministry of Finance to finalize an agreement to substitute the Public Enterprises debt by bonds issued by the Public Enterprises holding companies of each non-performing affiliate and guaranteed by the Ministry of Finance. A committee was established in August 2005 that is headed by CBE Deputy Governor. The committee members are representatives from the Ministry of Investment, the four public sector banks, and the holding companies. The view is to identify the public enterprises that are regular in order to be excluded from the above mentioned agreement.
- The Conciliation & Arbitration process has been finalized and approved by CBE Board of Directors. A team of qualified bankers and lawyers have been assigned the task of managing the Conciliation & Arbitration Administration under the umbrella of the BRU. The Process has been communicated to all banks that are operating in Egypt, and launched to the market, and started to deal with some cases that have been presented for conciliation and arbitration.

RESTRUCTURING OF PUBLIC SECTOR BANKS

- A unit has been established in the Central Bank for this purpose.
- A national plan has been set to restructure public sector banks at all levels and to establish new departments that keep abreast with modern technology. The plan has been referred to the top management of banks. The plan is divided into a number of practical phases bound by specific timetables. The Unit shall undertake its supervisory role to ensure a timely and adequate implementation of the plan.
- The six public sector banks have been requested to make the necessary arrangements for the appointment of an international team of expertise to evaluate loan portfolios and their risk systems, in collaboration with the Banking Sector Restructuring Unit in the Central Bank. In this context, an agreement has been concluded with the EC to provide finance for the evaluation of risk systems, electronic systems and human resources, and compliance with relevant international best practices, in the National Bank of Egypt and Banque Misr. Similarly, an agreement is currently under way with the EC to assign, under its own funding, a team of experts to undertake the tasks in the two banks.
- A detailed restructure plan has been prepared by the BRU. The plan was presented to state-owned banks' Senior Management during January 2005 in the form of standardized templates to simplify and unify the restructuring approach to the banks in order to control and monitor their achievements and adherence to target dates.

- The plan is designed in two phases, whereby phase I focuses on hiring/appointing key management positions & qualified personnel in business/support units with specific target dates. Phase II emphasizes on time lined actions/targets for each business/support unit to put the banks on the right track. This phase continues on an ongoing basis in the form of a 5-year plan/budget. On regular basis banks submit their templates in accordance with the restructuring Plan as BRU's methodology is to control and monitor the process through monthly and quarterly reports.



- BRU and the European Commission in Egypt (EC) have finalized the Terms of Reference and the international consultants; appointment in order to imitate the restructuring of Bank Misr and National Bank of Egypt in risk management, information technology/MIS and, human resources. International consultants are expected to start work during September and October 2005 respectively.
- Audit of the four largest state owned banks: As per the Restructuring Plan, international audit firms should be assigned to conduct full audit review on the four public sector banks as per international Audit Standards.
- A full audit review for Bank of Alexandria by an international audit firm is currently being finalized. The other three banks (National Bank of Egypt, Bank Misr, and Banque Du Caire) assigned international audit firms to conduct full audit reviews. The audit firms should start by early September, 2005, and are expected to complete the review by end-December 2005.

UPGRADING OF BANKING SUPERVISION

- The Central Bank of Egypt (CBE) is embarking on a project to upgrade the Banking Supervision Capabilities. The main objective is to establish a proactive future-oriented and highly analytical bank supervision framework that meets International Standards. This will enhance banking supervision's contribution to securing a stable financial system in Egypt than can fulfill its role of financial intermediation and thereby sustain economic growth and overall stability of the country. In this context, discussions are in process with the European Central Bank to provide long-term technical assistance for upgrading Banking Supervision according to International Best Practice. This is a two year project and is targeted to start by end 2005.
- Domestic Foreign Exchange Market: Egypt made the transition to a unified flexible exchange rate regime in December 2004 with the establishment of a formal inter-bank market for foreign exchange and the elimination of the surrender requirement followed by the acceptance of the obligation of the IMF Article VIII.5 The foreign-currency inter-bank market, which had been introduced on a trial basis in October, was formally launched on December 23. Before formally launching the inter-bank market, streamlining transactions in the foreign exchange market and getting rid of the backlogs and commercial banks' short position were important prerequisites.⁶ This was achieved between December 2003 and late 2004, supported by an improved Current

⁵ Egypt accepted the obligation of Article VIII, Sections 2,3, and 4, on January 2, 2005.

⁶ The backlogs of commercial transaction amounted to US\$ 1bn representing banks' short positions.

account balance and tighter monetary policy.⁷ Consequently, there was increased confidence among market players (commercial banks and businesses) allowing for a successful launch of the inter-bank market. This was reinforced by abolishing the surrender requirement and making the foreign exchange bureaus part of the foreign exchange system.⁸

- Launching the foreign currency inter-bank market had a pronounced effect on the pound. More broadly, favorable trends in the balance of payments, a developing de-dollarization process, and improved confidence in the government's reform agenda contributed to the pound's rally.⁹ The pound appreciated by about 5¼ percent between December 2004 and February 2005 before leveling off. This reflects the initial market reaction to the policy measures adopted at the beginning of the year before eventually settling down to a new market-determined equilibrium rate. Furthermore, the disappearance of the black market-confirms that the exchange rate is a market-determined rate. The favorable market conditions allowed a stronger reserve position, which increased to US\$ 20 billion in July 2005.¹⁰
- The CBE is determined to protect the credibility of the foreign exchange market reforms to avoid the re-appearance of the parallel market and its consequent distortions. It acknowledges that a market-determined flexible exchange rate improves macroeconomic management, increases the economy's resilience to shocks, and credibility vis-à-vis international investors. Therefore, the CBE will continue to tolerate short-term fluctuation in the exchange rate to fully reap the benefits of a flexible exchange rate system. Intervention in the foreign exchange market has been limited to only smoothing excessive volatility caused by short-term capital flows. There has been no intra-day intervention in the inter-bank market.

3. MONETARY POLICY AND THE ROLE OF THE CENTRAL BANK

Between 1998 and 2001, Egypt followed a tight monetary policy to protect an overvalued currency. Egypt's dollar exchange rate peg had been a long adopted anti-inflation strategy which resulted in high interest rates. The continuation of the peg recently put pressure on the fiscal deficits, and negatively affected investment and the country's competitiveness in the export sector. The deterioration in the balance of payments at that time exerted downward pressure on the overvalued domestic currency, and as a result, the government adopted a flexible exchange rate. This meant that the peg to the US dollar could no longer be used as an anchor for monetary policy. Instead, monetary policy will be switched to targeting inflation along the lines adopted in various European countries. The CBE is in the process of developing a new framework for monetary policy. In preparation for this new policy framework, the organizational structure of the CBE has been changed to allow for the establishment of a separate Monetary Policy Unit reporting directly to the Governor. To prepare the short-term money market for the application of this new policy, additional open market tools were developed and introduced. These include: accepting short-term deposits of banks by the CBE for one week, 14 days, and 28 days, changing the reserve requirement maintenance period, and excluding treasury bills of less than 15 days maturity from the numerator of the reserve requirement. . In a move towards greater predictability of monetary policy, the Central Bank is introducing greater sophistication by avoiding direct intervention, and introducing a range of new instruments to influence monetary conditions.

⁷ Interest rates in the inter-bank market were raised to reach 14 percent in October 2004' and banks' increased the interest rates on the long-term deposits to 12 percent.

⁸ The exchange bureaus' capital requirements were lowered from US\$ 10 billion to US\$ 5 billion.

⁹ There has been a significant portfolio shift by economic agents from foreign to domestic currency assets.

¹⁰ NIR increased from US\$ 14.4 billion in July 2004 to US\$ 21.1 billion in August 2005.

The government is committed to the strengthening of the CBE as an independent institution and to modernization of the monetary policy infrastructure. With regard to the former, a new law was ratified and issued in July 2003 confirming the independence of the CBE. With regard to the latter, a new unit has been established in the Ministry of Finance to develop a secondary market for government securities. At present there is no secondary market.

The main responsibilities of the CBE are to:

- formulate monetary, credit, and banking policy and supervise its implementation,
- maintain the stability of the Egyptian currency,
- supervise banks,
- issue banknotes,
- regulate and manage the foreign exchange market,
- act for the government in managing public debt and advising government before concluding local and foreign loans and credit facilities,
- manage the State reserves of gold and foreign exchange, and
- supervise the national payment system.

Strongly committed to price stability, the Egyptian government is slowly creating a stable macroeconomic environment—an essential pre-requisite for improved economic performance. Interest rates on Treasury bills and other savings instruments have been allowed to rise

On December 23, 2004 the Central Bank launched the interbank foreign currency market, signaling its commitment to a market-based exchange rate. Inter-bank trading increased sharply and the Egyptian pound appreciated by its most significant amount since the float was introduced in 2003. Local currency overnight interest rates were also bid lower.

Law 88/2003 makes the Central Bank responsible for the implementation of monetary policy and bank oversight. To define the targets of monetary policy within the general economic policy of the State, Presidential Decree No. 17/2005 established a coordinating council chaired by the Prime Minister. The council includes the Governor of the Central Bank and two Deputy Governors, the Ministers of Finance, Planning and Investment, and six other members with international experience in economics, banking and finance.

The Central Bank has established a monetary policy committee to closely monitor the implementation of monetary policy and its effects on the economy. The committee is chaired by the Governor and includes his two Deputies and six members of the Board of Directors. The committee meets every two weeks to study and discuss the reports of the Central Bank's Monetary Policy Unit. Four new initiatives are in preparation at the Central Bank.

- The development of a new operational target for monetary policy that ensures the achievement of its intermediate and final targets.
- Application of the standards of the IMF Code of Good Practice of monetary policy.
- Posting of monetary statistics (according to IMF SDDS) on the Central Bank website to disseminate information more widely and improve the transparency of monetary policy.
- Introduction of an electronic payment system to expedite the settlement process between the Central bank and other banks as well as enable banks to manage their funds more efficiently.

Monetary Policy Committee (MPC)

To strengthen the monetary policy framework, the CBE is working to develop a cohesive and credible monetary policy framework that effectively anchors inflation expectations in the context of a flexible exchange rate that relies on a proactive interest rate policy.

The new framework for implementing monetary policy depends on steering the overnight inter-bank rate as operational target. The CBE provides two standing facilities (an overnight lending facility and an overnight deposit facility) as its main policy instruments. The rates of these instruments are the outer bounds of a corridor within which the overnight inter-bank rate fluctuates. The CBE continues to manage market liquidity through its open market operations.

The Monetary Policy Committee of the Central Bank convenes on the first Thursday of each month for the purpose of deciding on its policy rates and issues a communiqué immediately following its meetings. The first communiqué was issued on June 5, 2005.

Monetary Policy Stance

The CBE adopted a non-expansionary monetary policy that was reflected in higher inter-bank interest rates (from about 6 percent at the beginning of 2004 to about 12 percent at the beginning of 2005). This non-expansionary monetary policy contributed to the containment of inflationary pressures.

In line with the reduction of the inflationary pressures, the monetary policy committee decided to set its key interest rates, the overnight deposit rate and the overnight lending rate, at 9.5 percent and 12.5 percent, respectively.

Box 1: Monetary Policy Statement

June 2, 2005

Monetary Policy Objective

Law no. 88 of 2003 of the "Central Bank, Banking Sector and Monetary System" entrusts the Central Bank of Egypt (CBE) with the formulation and implementation of monetary policy, with price stability being the primary and overriding objective. The CBE is committed to achieving, over the medium term, low rates of inflation which it believes are essential for maintaining confidence and for sustaining high rates of investment and economic growth. The Government's endorsement of the objective of price stability and its commitment to fiscal consolidation is quite important for achieving this objective.

Monetary Policy Framework

The CBE intends to put in place a formal inflation targeting framework to anchor monetary policy once the fundamental prerequisites are met. This will further enhance the predictability and transparency of the monetary policy in Egypt. In the transition period, the CBE will meet its inflation objectives by steering short term interest rates, keeping in view the developments in credit and money supply, as well as a host of other factors which may influence the underlying rate of inflation. The CBE strongly believes that real negative interest rates are inconsistent with the ongoing effort to reduce inflation rates. The continued reduction of the inflation rates that Egypt has witnessed in recent months is important in order to guide long-term inflation expectations.

Monetary Policy Implementation

Monetary policy decisions are taken by the CBE's Monetary Policy Committee (MPC) which has nine members comprising of the Governor of the CBE, the two Deputy Governors, and six members of the Board of Directors. Decisions are implemented through a set of policy instruments and procedures. The CBE will use two standing facilities (an overnight lending facility and an overnight deposit facility) as its main policy instruments, providing the outer bounds of a corridor within which the overnight inter-bank rate will fluctuate. The CBE will continue to manage market liquidity through its open market operations.

Monetary Policy Decisions

The MPC will normally convene on the first Thursday of each month for the purpose of deciding on its policy rates and will issue a communiqué immediately following its meetings. Should a Thursday fall on a public holiday, the MPC will meet on the following business day.

Transparency

By the end of January 2005, Egypt subscribed to the IMF's special data dissemination standards (SDDS), and CBE publishes its data on the IMF's Dissemination Standards Bulletin Board (DSBB).

On January 31, 2005 Egypt subscribed to the IMF's Special Data Dissemination Standard (SDDS). The CBE now publishes its data on the IMF's Dissemination Standards Bulletin Board (DSBB).

This not only represents a major step for Egypt's official statistics and for its data users, but it also represents the July 2004 Cabinet's strong commitment to transparency and to implementing international best practices in statistics. These practices include the dissemination of timely and comprehensive statistics, thereby contributing to the pursuit of sound macroeconomic policies and the improved functioning of financial markets.

Data provided by countries according to this standard are made publicly available on the IMF's Dissemination Standards Bulletin Board (DSBB). The DSBB now provides comprehensive documentation in English on Egypt's statistical practices for SDDS data categories, hyperlinked to actual country data included in the Mandatory National Summary Page maintained by the Ministry of Planning¹¹.

The SDDS was established by the IMF in 1996. It is intended to guide member countries in their provision of their economic and financial data to the public. The SDDS identifies four dimensions of data dissemination:

- Data: coverage, periodicity and timeliness.
- Access by the public.
- The integrity of the disseminated data.
- The quality of the disseminated data.

In an attempt to bring greater predictability to monetary policy, and move away from direct intervention, the CBE introduced more consistency into monetary management. The CBE abandoned the exchange rate as the nominal anchor and developed a cohesive monetary policy framework that effectively anchors inflation expectation. The newly adopted monetary policy framework is periodically reviewed and evaluated by the International Monetary Fund during technical assistance missions and progress has been satisfactory. Several institutional and operational changes were initiated to help facilitate monetary policy formulation and assessment, and lay the ground for formally adopting an inflation - targeting regime over the medium-term. After a long period of being reactive under a fixed exchange rate regime, the design of monetary policy has changed to allow more proactive action by the CBE. The Coordinating Council on Monetary Policy (CCMP), head by the Prime Minister, was established to ensure that government policies are consistent and properly coordinated to support proactive monetary policy. In its inaugural meeting in April 2005, the CCMP decided that price stability be the overriding objective of monetary policy to ensure sustained economic growth. Against this background, the CBE designed an interest rate corridor to guide the overnight interest rate, which is the operational target.

A semi-structural model, which accounts for inflation expectation and a proactive interest rate policy, was developed to provide benchmarks for monetary policy decision, deciding on the level and month during the Monetary Policy Committee's (MPC) Meeting. To ensure the transparency of monetary policy and proper communication to the market, the MPC publishes a press statement after each meeting on the CBE's external web-site.

¹¹ See IMF website: <http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=EGY>

These endeavors have been successful: the corridor has been accepted as the policy rate and has become a key determinant of market interest rates, volatility in the overnight interest rates has declined, and the market has become responsive to MPC statements.

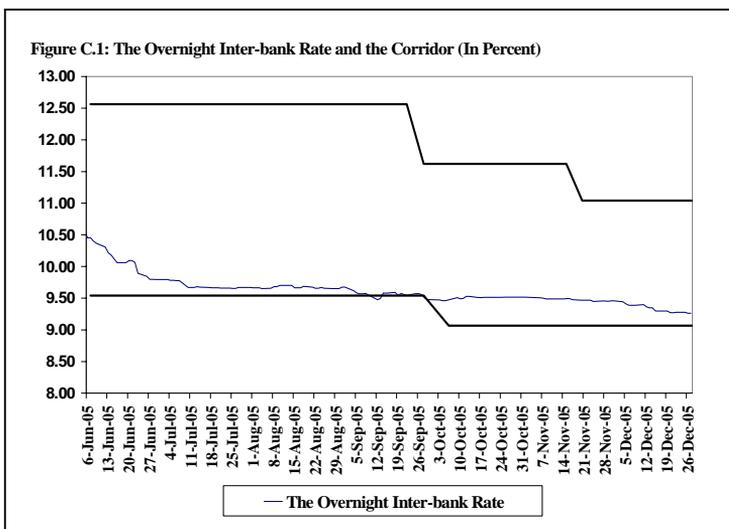
The CBE is committed to further improving the conduct of monetary policy in the period ahead to ensure that monetary policy objectives are met and clearly communicated to the market. Steps taken in this direction were both operational and institutional.

1. Operational steps:

- During the transition to a formal inflation targeting regime, the CBE will meet its inflation objectives by steering short term interest rates and monitoring the monetary and credit developments on a regular basis.
- It will continue to closely monitor all developments in the economy, specially the factors affecting inflation, and will not hesitate to adjust the key CBE rates in either direction if necessary to insure price stability over the medium term.
- The instruments of the CBE include reverse repurchase operations and two standing facilities, an overnight lending and a deposit facility. The interest rates on the standing facilities, the lending and the deposit rates, are the two key CBE interest rates. These rates provide a ceiling and a floor for the overnight rate in the money market. By setting the rates on the standing facilities, the MPC determines the corridor within which the overnight rate can fluctuate. Effectively, steering the overnight rate within this corridor is the operational target of the CBE. Initially, the width of the corridor has been set at three percentage points (Figure C.1). The width of the corridor was reduced by 25 bps in September and by an additional 25 bps in October.
- For the first time in August 2005, the CBE issued its own securities to manage market liquidity. The maturity of these securities varies between 7 days and 91 days.

2. Institutional steps:

- The Coordinating Council on Monetary Policy (CCMP), head by the Prime Minister, was set up in April. Members of the CCMP include the Governor and Deputy Governor of the CBE, Minister of Finance, Minister of Investment, and a number of academicians. In its first



meeting, the objectives of monetary policy were announced and the importance of CBE independence was discussed. The CCMP meets once every quarter.

- To carry out its better-defined mandate, the CBE established a Monetary Policy Committee (MPC), which convenes on the first Thursday of each month to decide on key policy rates. The MPC consists of nine members: the Governor, the two Deputy Governors, and six members of the CBE's Board of Directors. To enhance transparency, bolster the credibility of the CBE, and

help anchor inflation expectations, the MPC's decisions are communicated to the market through a policy statement released on the CBE's external web-site after each meeting.

The Monetary Policy Unit (MPU) was established as an independent body within the CBE, expected to play a key role in providing objective monetary policy analysis, assessment, and modalities of communication with the market through its research and other functions. It is also tasked to develop and continue to improve the semi-structural model that provides a cohesive framework for monetary policy, consistent with a flexible exchange rate policy. The structure and functions of the MPU were outlined in several technical assistance reports prepared by the International Monetary Fund and the United States Financial Services Volunteer Corp.¹² The CBE followed these recommendations closely and currently the MPU consists of three divisions: monetary policy implementation, monetary policy stance, and monetary policy strategy. The CBE is also actively recruiting to strengthen the MPU's technical staff. An expert from the IMF was recruited to head the MPU's Monetary Policy Stance Division and a resident IMF expert is joined the MPU in October to assist the staff in the Monetary Policy Implementation Division.

4. Customs Reform

In order to more fully integrate the national economy into the global economy, the government, with the cooperation of the IMF and USAID, has introduced comprehensive customs reforms. The areas covered by these reforms include: administrative and procedural, tariff structure, duty relief, customs valuation and release span, human resource and risk management, automation, and ex-ante goods release.

As part of the government's program of economic policy and customs reform and trade facilitation, the Ministry of Finance established the Model Customs and Tax Center (MCTC) in 2003. The objectives of the MCTC include facilitating customs procedures and alleviating taxpayers' burdens. The MCTC is a modern tax administration center that coordinates the work of three Departments (Customs, Sales, and Income). The advantage of the MCTC include simplified procedures, dealing with the three departments at one location, pre-clearance of goods, less frequent visits by tax officials and quarterly statements that clarify companies' balances with each department. MCTC applies the laws of each department, respectively.

Tariffs have been adjusted continuously since Egypt joined the WTO and more recently as a result of the Egypt-EU partnership agreement. Most recently, President Mubarak, in his meeting with the economics group, announced that all customs fees (primary or annual) on imports will be cancelled. Presently, these fees range from 1.0 percent to 3.0 percent. He further announced that there would be substantial simplification for customs procedures, cancellation of all the deficiencies in the current tariff to support national industry, and a reduction in tariffs.

The Presidential Decree issued on September 7, 2004 outlines the new customs tariff schedule (see table below). As the table shows, tariffs have now been reduced on average by 38.4 percent. The largest reductions are in Primary Industrial Materials, Fuel and Crude Oil, and Spare Parts and Parts for Transportation.

Bold tariff and customs measures: The government has slashed tariffs and continues to streamline red tape. The weighted average tariff rate was reduced from 14.6 percent to 9 percent and all surcharges and service fees were abolished.

¹² Stephen Axilord from the Federal Reserve represented the United States Financial Services Volunteer Corp.

Table 1: Weighted Average Tariffs before and after Reductions (Presidential Decree No.300/2004)

	Weighted Average	
	Before Reduction	After Reduction
TOTAL IMPORTS	14.60	9.10
Industrial supplies not elsewhere specified, primary	11.80	1.80
Parts and accessories for capital goods	17.30	7.70
Food and beverages, primary, mainly for industry	2.80	2.10
Food and beverages, primary, mainly for household consumption	19.20	8.50
Fuels and lubricants, primary	1.40	0.27
Capital goods (except transport equipment)	12.11	7.4
Parts and accessories for transport equipment	29.50	11.70
Industrial supplies not elsewhere specified, processed	15.80	8.70
Fuels and lubricants, processed motor spirit	10.30	7.50
Fuels and lubricants, processed motor spirit (not elsewhere specified)	9.70	5.60
Food, and beverages, processed, mainly for industry	4.30	3.50
Consumer goods not elsewhere specified, non-durable	15.50	13.80
Food and beverages, processed, mainly for household consumption	20.40	8.60
Consumer goods not elsewhere specified, semi-durable	32.60	26.40
Consumer goods not elsewhere specified, durable	34.80	30.60
Goods not elsewhere specified	23.50	21.70
Passenger motor cars	84.60	63.10
Transport equipment and parts and accessories thereof, other	39.00	28.00

Source: Ministry of Finance

The structure of customs had been complex and the rate schedule was ambiguous. This had led to disputes and delays in processing imports. As a first step towards greater transparency, distortions have been eliminated and tariffs have now been set according to standard principles. Tariff brackets have been reduced from 27 to only 6. The reductions in tariffs and elimination of exemptions have served to curtail the discretionary assessments of imported goods, resulting in further transparency and credibility of the system. The automation of customs is also an integral part of these reforms.

Table 2: New Tariff Rates for Some Commodities (Presidential Decree No.300/2004)

Sector	Item	Tariff rate (Before change)	Tariff rate (After-change)
Agriculture	Agricultural tractors	33% and 13%	5%
	Tractor spare parts and necessities	30% and 23% and 13%	2%
	Tractor tires	33%	5%
	Fertilizers	33% and 13% and 8%	2%
Transportation	Utility cars (up to 1600 cc)	104% and 44%	40%
	Components and spare parts	33% and 23%	12% and 5%
	Tires	37%	22%
Construction and Building	Cement	33% and 23%	2%
	Limestone	13%	2%
	Reinforced steel bars	8%	5%
	High durability ships for the high seas	8%	0%
Social Dimension	Fish (certain types)	33%	5%
	Grains	33%	5%
	Tea	33%	5%
	Sugar (raw)	5%	2%

Wheelchair products for the disabled, and their parts	8%	0%
Household, health tools and kitchenware	44%	12%
Chemicals	8%	2%

Source: Ministry of Finance

A new Presidential Decree (No. 410/2004) further lowered tariffs on inputs with a view to increase the competitiveness of the domestic industry. For example, tariffs on inputs used in the car industry such as wires and rubber used in tires dropped from 12 percent to 2 percent. All tariffs on inputs for medical equipment, printing, foodstuffs, and poultry were slashed by 50 percent. Tariffs on inputs for the garments industry fell from 40 percent to 22 and 12 percent. Significant reductions on inputs for the leather industry were also introduced. Tariffs on inputs for the steel industry were eliminated.

Initially, the reductions are expected to lower customs revenue by some LE 3 billion. However, this is a stimulus reform. Reduced customs revenue will be offset by increased tax revenues arising from the expected export led economy. Wide growth will be stimulated by the reduced costs of importing essential raw materials and intermediate and capital goods. The reduction in tariffs and streamlining of customs procedures will help enhance Egypt's competitiveness in the global market. It will also help reinvigorate the business environment, give momentum to the domestic industry and hence give the needed push to growth and job opportunities. In addition, the recent increases in some energy prices (electricity, fuel oil and, natural gas) that have brought domestic energy prices closer to their international prices also provide a budget offset to reduced customs revenue.

Other customs reforms include the following:

- Strengthening the institutional capacity of the Customs Authority to enhance its role as a trade facilitator and service oriented institution.
- Streamlining procedures to be at par with international standards and conventions (e.g., pre-arrival clearance)
- Introducing up to date techniques such as risk management and post audit.
- Expanding the electronic handling of documents.
- Streamlining customs procedures and minimizing discretionary exemptions and import controls.

World Bank: Egypt first among world countries in customs procedures reform

Egypt was listed among the world's top 10 reformers in the World Bank's Global Competitiveness report, following a year in which the government drastically reduced customs duties and tax rates and accelerated the privatization program. Egypt holds the first place at world level in Customs Procedures Reform. This owes to the facilitation of commercial documentation procedures, and the reduction in the number of customs approvals from 26 to 5 only.

The World Bank has announced that Egypt holds the first place at world level in Customs Procedures Reform. Egypt has facilitated commercial documentation procedures, and reduced the number Of Customs approvals from 26 to 5 only.

The World Bank stated, in its report on the climate of business and investment, that Egypt's steps come within the framework of a more comprehensive reform strategy, which has resulted into elimination of 21 Customs restrictions and facilitation of inspection at borderlines,.

The report indicates that an exporter in Egypt needs seven days to obtain the documents necessary for exportation. This period rises in Iran and Syria to 12 days, and decreases to three days, as a minimum, in some countries.

CENTER FOR LARGE IMPORTERS TO BE SET UP TO SERVE 200 IMPORTERS

A Customs center shall soon be established for major importers, including 200 importers, importing 80% of Egyptian imports, bringing in 70% of Customs revenue. The Center will facilitate transactions, with an accountant assigned to each three importers, to expedite resolving problems that they may face, provide consultation as regards expediting release of their imports and follow-up these imports to reduce release time as much as possible.

The center is going to rely on personal accounts in banks, and expand reliance on electronic visa cards and correspondence through internet. The Egyptian Customs Authority (ECA) and the National Bank of Egypt, in cooperation with Egypt's Banks Company, which includes 33 banks, have made an agreement to have importers pay the Customs duties due on imports through the network of these banks spread out all over Egypt. Collection of the revenues shall be input simultaneously into ECA's account with the Central Bank by means of a computerized system specially designed for that purpose and a work mechanism agreed upon by MOF and the National Bank of Egypt and other operating banks, to facilitate transactions for importers and reduce release time, which does not exceed two hours at present. Advanced Customs centers have been established at the Ports of Alexandria, Suez and Cairo to complete Customs documentary procedures, determine Customs tariffs, and issue release permit.

RISK MANAGEMENT

The risk management directorate, which has been established in the Egyptian Customs Authority has all necessary information on exporters and importers who stick to importation of compliant goods and have a clean record of transactions with ECA, indicating trust in such stakeholders and thus they are shown on the green channel.

PROVISIONAL RELEASE

The Customs Commissioner asserted that Customs offices have already started applying the provisional release system, with release procedures completed within a day or two.

POST AUDIT SYSTEM

The Customs Commissioner has announced that there are open facilitations for applying the post release audit system, provided that the importer has accurate documents, invoices, and registers available.. ECA is careful to apply the exchange rate on the date of submitting the Customs declaration, to avoid any discrepancy with regard to value of imported consignments. Random estimation of Customs tax has completely disappeared, but the law obliges the importer to maintain the documents for 5 years.

NEW EXECUTIVE REGULATIONS FOR THE CUSTOMS LAW

The Ministry of Finance will soon issue the executive regulations of the new Customs law. The new executive regulations are clear and easy to understand, eliminating all accumulated problems and negative aspects created by Customs laws applied since 1963. More important, they will contribute to eliminating personal interpretations.

By the beginning of next year, all Customs directorates at the national level shall be connected by means of an electronic network. Electronic operation has already been implemented at the ports of Alexandria, Port Said, Suez, Ein El Sokhna, Cairo and Damietta. This has had positive impacts, the most important of which has been the reduction of Customs procedures from 17 days to two hours only, according to testimony of the International Bank for Development and Reconstruction.

The changes also included simplifying Customs procedures for calculation and collection of taxes and duties, inspection of cars, issuance or renewal of free zones trip tickets, reduction of Customs procedures for exports, and operation of the exports complex around the clock.

COORDINATION WITH MINISTRY OF HEALTH

The Ministries of Finance and Health have agreed that the Ministry of Health will examine one random sample out of each ten consignments, to reduce the consignments period of stay at Customs.

COORDINATION WITH LEBANESE CUSTOMS

Minister of Finance Youssef Boutros-Ghali has reached an agreement with the Lebanese Minister of Finance to set a uniform mechanism for Customs clearance in the two countries, so that procedures completed in one country shall be valid in the other. As soon as Egyptian Customs Authority is fully computerized, the organization shall be linked to Lebanese Customs and Customs coordination shall start, to facilitate trade between the two countries. This is expected to take place by the beginning of the New Year.

5. Financial Sector Reforms

The CBE has worked diligently in recent years to modernize and increase the soundness of the Egyptian banking sector, which is a major component of the Egyptian financial sector. In that regard, the CBE has moved in four directions: legislative reform; prudential regulations for better banking practices; corporate governance; and modernization of the informational infrastructure to support management decisions. As a result, extensive financial sector reforms are being implemented in all of these areas.

For example, privatization of management in the four state-owned banks has been implemented. Changes include both executive as well as non-executive board members. The new directors are required to improve performance and increase the soundness of their banks. The CBE also exercised its rights to protect depositor's interests and introduce changes in the management of some private and joint venture banks. Other examples include development of a credit risk information system, publication of prudential regulations, e-banking legislation, modernization of the payment system, and establishment of an independent anti-money laundering unit.

In addition to the above, as part of Egypt's commitments to the WTO there are no restrictions on foreign equity participation in Egyptian banks. WTO commitments in the securities industry also provide for national treatment of foreign companies. Foreign brokers are permitted to have stakes in Egyptian brokerage companies. A Primary Dealers System will allow financial institutions such as banks and bond dealers to underwrite primary issues of government bonds and participate in the secondary market for government securities.

The current number of 55 banks will be brought down to 20 through mergers. The aim is to merge small and weak banks to ensure the growth of a strong private banking sector with a proven management and performance track record. Improvements will be made in credit risk management, information technology and in the development of human resources. In addition, state insurance companies will undergo major restructuring with private sector participation. New insurance regulations will require international accounting principles and commercial codes and will serve to ensure the compliance of the sector with internationally accepted standards.

6. INSURANCE SECTOR REFORM

The Egyptian insurance sector is composed of 4 public sector companies (3 direct and 1 specialized reinsurance). The direct insurance companies are Misr Insurance, Al Chark Insurance and the National Insurance companies, while the specialized company is Egyptian Reinsurance. In addition, there are 16 private companies, and 1 insurance co-operative society, 614 private pension funds (operating mainly in life and retirement insurance sector), 3 Governmental Insurance Funds, and 5 insurance pools.

The private sector companies are: Suez Canal Insurance, Al Mohandes, Delta, Pharaonic (AIG), Arab Misr Insurance Group (AMIG), Pharaonic American Life (ALICO), Commercial International Life Insurance (CIL), the Egyptian Company for Export Guarantee (ECG), ACE CIIC, Allianz Egypt, Egypt Saudi Insurance Home, Allianz for Life Insurance-Egypt, Royal and Sun Alliance, NSGB Life, ACE Life and BUPA Egypt Insurance.

Oversight and related institutions include the Supreme Council of Insurance, the Egyptian Insurance Supervisory Authority (EISA), the Insurance Federation of Egypt, the Cargo Supervision & Surveying Office of Egypt, and the Institute of Insurance Studies.

Recent Developments

In a step towards privatization, procedures for the valuation of the four state-owned insurance companies by international investment banks are under development. In 2001, the World Bank completed an assessment of the Egyptian Insurance Supervisory Authority. The assessment included a review of the legal framework and legislation applying to the insurance sector. The review concluded that the Egyptian Insurance Supervisory Authority complies with the IAIS 17 core principles at the time for effective regulation and supervision. A new review is currently underway to re-assess the insurance supervisory system in light of the increase in the number of the core principles to 28.

The four state owned insurance companies have been rated by A. M. Best based on the financial strength of the companies, their operational performance, and market profile. The ratings are as follows:

- Misr Insurance Company (A-)
- Al Chark Insurance Company (A-)
- The National Insurance Company (NR-4)
- The Egyptian Reinsurance Company (B++)
- Al Mohandes Insurance Company, a private sector company, also solicited the services of A. M. Best and was assigned B++.

In February 2002 Ministerial Decree No. 15 was issued for combating money laundering and ensuring that institutions transacting in insurance and reinsurance in the Egyptian market take the necessary procedures to prohibit any unlawful use of money within Egypt. In February 2003, EISA issued "Rules for Combating Money Laundering in the Egyptian Insurance Market." In February 2004, Egypt was removed from FATF list of non-cooperative countries in the combating of money laundering.

The GOE is committed to developing and strengthening the supervisory role of EISA including promoting corporate governance with a view to ensure the existence of a strong insurance regulator. Towards this end, Ministerial Decree No.157 was issued in November 2003 to apply Corporate Governance principles in the Egyptian insurance market, through establishing an audit committee from the Board of Directors of public and private sector companies operating in the market. EISA is also

receiving technical assistance from USAID and the Commercial Law Development Program (CLDP) of the U.S. Department of Commerce (USDOC) with a view to addressing regulatory and supervisory issues. The USIAD project "Reform of the Insurance Market" (RIM) was completed in 2000 and a new project "Modernizing Egyptian Insurance Supervision" (MEIS) is now being implemented. Under the CLDP, there is a public awareness campaign to enhance public awareness and interest in the insurance sector, as well as study tours and training programs for EISA staff to help them gain experience in different fields of insurance regulation, development and conducting campaigns

Concerning private pension funds, Law No. 54 / 1975 governing these funds is being amended, and is expected to be presented to Parliament next year. Amendments to the law aim at increasing the number of participants, encouraging long-term savings, and improving the asset management of the private pension funds.

Other Developments

- In 1995, the Insurance Supervision and Control Law No.10 / 1981 was revised and amended to enable foreign insurers to operate in the market through a 49 percent maximum share in joint ventures with Egyptian companies. Issued capital was increased as well as the solvency margins. In addition, the amendments included the deregulation for rates of all classes of insurance.
- In 1998, Law No. 10 / 1981 was amended by Insurance Law No. 156 of 1998 to eliminate foreign equity ceilings, thus allowing for full private sector ownership. The requirement for an Egyptian managing director on the board was removed in order to encourage the transfer of foreign managerial know-how.
- Decree No.157 concerning new insurance accounting standards that comply with international standards and ensure transparency was issued in May 1999.
- In August 2001 Ministerial Decree No. 599 was issued, amending Decree No. 45 / 1999 of the Executive Regulations. The new decree aimed at improving the procedures of claims settlement.
- Ministerial Decree No. 621 was issued by the end of year 2001 to oblige insurance companies to submit financial forms to EISA in an electronic form. The decree has been in force since January 2002.
- Ministerial Decree No. 890 concerning the Unified Model Standard of the Articles of Association of the state-owned insurance and reinsurance companies was issued in 2003.

Potential for Growth

The insurance market in Egypt has a significant growth potential for further development and efficiency gains. Total insurance premiums in Egypt represented only 1.1 percent of GDP in 2003/2004. In similar economies this percentage is between 4 to 5 percent. The Egyptian market thus offers considerable scope for development in terms of individual spending on insurance products, the industry's share in GDP, and the introduction of other new insurance products and incentives. In addition, a steady improvement in incomes as economic growth rates increase will help increase contractual savings including insurance premia.

To achieve this potential, the Government of Egypt is pledged to reform the insurance sector through legislation and organizational development. Elements of the Government's efforts include:

- Presentation to Parliament of a new Private Health Insurance draft law.
- Encourage alliances between insurers and banks (bankassurance).

- Enhance EISA's supervisory role and its institutional capacity.
- Monitor and regulate the performance of intermediaries and carry out comprehensive market conduct training.
- Introduce further legislative changes.

The Government is also in the process of creating an insurance information center that will increase transparency and credibility and hence, public confidence.

Market Indicators: Comparing the last two quarters (30/9/2004 - 31/3/2005)

<u>L.E. Billion</u>	<u>Sep-04</u>	<u>Dec- 04</u>	<u>Mar- 05</u>
Total direct premium	1.14	2.24	3.47
Total investment	15.96	16.06	16.30
Total assets	19.2	19.5	19.9
Shareholders equity	3.5	3.1	3.3
Policyholder's rights	11.9	12.5	12.7
Market share % of public sector	65.4	70.2	71.8
Market share% of private sector	34.6	29.8	28.2

The insurance market in Egypt has a huge and promising growth potential, considering the low insurance density (premium per capita) and low penetration rate (premiums per gross domestic product). Insurance density in Egypt averaged a 12.7% increase, reaching L.E. 62.1 in 2005, compared to L.E. 55.1 in 2004.

On average, 0.8% (less than 1%) of the Gross Domestic product is spent on insurance. In June 2005, the insurance premium volume amounted to L.E.4289 million, representing increase of 12.8% over the previous year. Of total, L.E.1522 million (35.5%) was generated by life business and L.E. 2767 million by non-life business.

The insurance market in Egypt has witnessed significant steps towards development and reforms, since 1998, new entrances in the market and opening to foreign insurers. Many foreign insurers showed a great interest, and now are in the market: AIG, Allianz, ACE, Bupa (British health insurer) and currently we have four companies in the process of being licensed to act as Takaful Insurers.

In order to intensify the competition in the market and provide the customer with world-class products, and stimulate the demand, rate regulation by the supervisory authority was abolished in 2000, also there was gradual reduction in compulsory reinsurance cessions up to year 2003.

In addition, an internal control committee was set up in each insurance and re-insurance company to adopt the principles of Corporate Governance to comply with the international standards.

In supporting the improvement of the financial sector efficiency which will in turn support fiscal reforms and private sector-led economic growth, the Ministry OF Investment has selected a Financial Advisor to assist the MOI in restructuring and privatizing the four State-Owned Insurers as a part of liberalization program of the insurance market. This liberalization program will also include insurance regulatory reform, strengthening supervision, strengthening the sector and private pension reform.

It assumed that the privatization program will be handled in two stages; the first will involve restructuring, strategy and identification, and the second will include valuation and privatization implementation.

Moreover, the establishment of an independent real estate company is expected to acquire and manage the real estate portfolios of the four State-Owned Insurers.

7. TRADE REFORM

QUALIFIED INDUSTRIAL ZONES (QIZs)

On December 14, 2004 Egypt, the United States and Israel signed a trade cooperation agreement. The QIZ agreement will enable Egyptian textiles and garments to gain free market access to the U.S. market. In order for a jointly produced Egyptian Israeli product to benefit from duty free treatment in the United States, Egyptian and Israeli companies should together contribute two thirds of the minimum 35 percent (11.7 percent from each side) of local content required under the QIZ legislation.

Five factories and eight industrial cities in Cairo, Alexandria and Port Said benefit from the agreement.

The signing of the agreement comes conveniently before the phasing out of the Multi-Fiber Agreement (MFA). By end-December 2004, the United States will eliminate the quotas that it has established under the Multi-Fiber Agreement (MFA) that have allowed Egyptian producers of textiles and garments to export duty free into the United States. With the phasing out of the MFA, Egypt loses the benefit of quota access to the U.S market, while low cost suppliers in Asia will no longer confront a significant barrier to their exports. Egyptian producers would thus be more likely to lose market share to more competitive producers elsewhere in the world. As a result, Egypt stands to lose over US\$135 million in textile and garment exports to the United States when the quotas are eliminated with a potential loss of nearly 15,000 jobs.¹³

The QIZ agreement gives the Egyptian clothing industry the chance to counter the cost advantage of the Asian producers and increase exports to the United States. Although some 32 percent of Egypt's exports of garments go to the United States, these exports represent less than 1 percent of US imports of textiles and garments. Under the QIZ program, Egypt could double or triple its sales to the United States. This could lead to additional exports of US\$1 billion a year¹⁴ and jobs for 250,000 workers.¹⁵

8. PRIVATIZATION REFORM

The government realizes that the transformation to a liberalized market economy will be fostered by the growth of the private sector. Accordingly, the core of structural reform has been to promote such growth. To that end, the government has enacted a series of measures to give the private sector greater freedom to innovate and expand. The role of the state in growth and development has therefore steadily declined. For example, the private sector grew by 4.8 percent in 2003/04, compared to a growth rate of 3.5 percent for the public sector.

While the pace of privatization has slowed somewhat in the last five years, this must be viewed in the context of regional instability and a plunge in foreign investment, particularly portfolio investment. Foreign investment fell from \$US 218 billion in 1996 to \$US 47 billion in 2002 – a decline of 78 percent. It has since picked up, rising to \$US 163 billion in 2004.

The pace of privatization in Egypt is expected to accelerate this year. The government has approved, in principle, the sale of a number of wholly or partly-owned state enterprises and joint venture banks. Another positive factor is the recent ruling by the constitutional court that upholds the right of the

¹³ Ministry of Foreign Trade and Industry (Assistance for Trade Reform Project (ATR)). Changing International Trade Rules for Textiles and Apparel: Egyptian Market Access. 2004

¹⁴ Ministry of Foreign Trade and Industry (Assistance for Trade Reform Project (ATR)). Impact of QIZs on the Egyptian Economy. 2004

¹⁵ Al-Ahram Daily Newspaper. December 27, 2004.

government to transfer public ownership to the private sector. As a result of the court's decision, the domestic debate has shifted from the pace of privatization to specific policy and technical issues concerning methods of sale and creative solutions to deal with problem enterprises.

Presidential Decree 231 creating the Ministry of Investment reinforced the government's commitment to privatization. A key responsibility of the Ministry is to "Expand... the ownership base of public enterprise companies through implementing the privatization program, (and) transfer of ownership to the private sector,..."

In September 2004, a five year plan for preparing the public sector banks for privatization was approved. The plan stipulates that all public sector shares in joint-venture banks would be sold within two to three years and that at least one of the four big public sector banks would be sold within three to four years. In addition one state insurance company will be privatized in 2005.

The Ministry of Investment announced on September 20, 2004 an offering of public shares in the 10 following companies in the sectors of housing, pharmaceuticals, food industries, chemical industries, and textiles:

- Madinet Nasr Housing
- Egyptian Construction- Mokhtar Ibrahim
- El Maamoura Housing
- Alexandria for Metal Oils – Amoc
- Medical Professions Pharmaceuticals
- Rowad Misr for Touristic Investment
- Paints and Chemicals-Pachin
- Misr for Mechanical and Electrical Projects – Kahromica
- El Delta Sugar
- El Nasr Garments and Textiles.

Prime Ministerial Decree 1684/2004 created a quintet-partite committee to approve the valuation of the public share in the joint ventures prior to its sale. This committee includes representatives of the central Bank of Egypt, Central Auditing Agency, Ministry of Finance, Capital Market Authority, and the society for Accountants and Auditors.

Privatization achievements at December 2004:

- Proceeds: To date, the total privatization effort involved the sale of interests in 208 companies out of an original portfolio of 314 companies, bringing to date proceeds worth LE 17.256 billion.
- Savings: The number of loss-making enterprises declined from 108 to 61 companies. The divestiture of loss-making companies saved LE 600 million of annual losses.
- Profit: Profits in 70% of the companies increased by 26%.
- Employment in public sector enterprises was reduced from 1.3 million in 1991 to 400,000 in 2003.

The Government is applying a new approach to the privatization program. It will now offer a number of Law 203 companies for sale before completing their restructuring. In doing so, the price will reflect the buyer's commitment to future investment, assumption of the liabilities of the company and his commitment regarding the workers' future. This approach relieves the Government of the substantial investment costs required to upgrade and restructure these companies before their sale. An example of this new approach is the recently completed sale of the Alexandria Tire Company (Trenco) to the French firm Michelin for US\$10 million. Michelin has pledged to invest US\$40 million in the plant.

Other privatizations achievements as of September 2005:

- The sale of a 36 percent stake in Bisco Misr in January, which raised US\$17.4 million.
- The sale of the National Bank of Egypt's shares in NSGB to Societe Generale last February. This transaction raised US\$ 92.9 million.
- The sale of Suez Cement Company to Ciments Francais and investors consortium in March 2005:
- Ciments Francais, Italcementi Group sub-holding for international activities, along with a consortium of local and international investors has purchased a 33.4 percent stake in Suez Cement Company, Egypt's leading cement producer. This transaction will enable Ciments Francais to raise its shareholding in Suez Cement from 39.9% to more than 54%. The offer price, which includes a majority premium, has been set to LE 97 per share. The transaction amounts to approximately US\$360 million. The Suez Cement shares will remain quoted on the Cairo and Alexandria Stock exchanges.
- The Ministry of Investment has already divested 17 of the 170 assets planned for sale during 2005, which is more than what was sold throughout the whole of 2004. These sales have to date generated over LE1 billion in foreign direct investment.
- This approach should speed up the process of privatization and speed up the process of restructuring as there are more investment funds available in the private sector than in the government sector for corporate restructuring.

Summary of Privatization Achievements (Law 203 companies as of February 2005)

Majority Privatization (more than 51% sold)	139
Majority IPOs	38
Anchor Investor	35
ESAs	33
Liquidation	33
Partial privatization/leases	74
Minority IPOs	16
Asset sales	58
Total	213
<i>Total original Law 203 portfolio</i>	<i>314</i>
Total Proceeds (LE billion)	17,404

PRIVATIZATION OF STATE-OWNED BUSINESS ENTERPRISES

Since July 2004, the Ministry of Investment has adopted an advanced strategy in asset management based on three main piles. First, structuring and maintaining public ownerships as long companies and assets are still publicly owned until they are sold. Second, sale and ownership transfer processes on assets, companies, and joint ventures. Third, administration governance processes.

Restructuring efforts have contributed in preparing the maximum number of companies and assets to be sold which led to accelerate the selling plans in sectors that achieved big losses (like Textiles sector that witnessed more than 5 sale processes since July 2004 and the sale of Samanood factory during 2005/2006. With regard to other loss-making units, Metals Manufacturing sector and Chemicals Manufacturing sector witnessed three sales transactions of factories and production lines to anchor investors but with keeping the same employment and unchanging the purpose of using the land.

On the other hand, the program positively affected the trading activity in the Stock Market. Huge transactions were settled through IPO in the market during 2005/2006 (only six months), the most important were IPO for 20% of AMOC, 13.5% of Eastern Company, and 20% of Egypt Telecom.¹⁶

With regard to attracting Arab and foreign investments, the first half of the current fiscal year 2005/2006 witnessed achieving value for non-Egyptian sales transactions reached 3.9 billion LE, compared to 3.5 billion LE during the full year 2004/2005.

Total revenues from IPOs during the first half of the current fiscal year 2005/2006 reached 5.1 billion LE which exceeds the total revenues during the full last fiscal year that reached 5.6 billion LE. Moreover, total revenues of IPOs during the last 18 months since July 2004 recorded 15.5 billion LE which is equal to 46% of the total revenues have been achieved since 1991.

The IPO plane during the coming half of the current fiscal year (until June 2006) includes offering 41 companies and assets of public enterprises in addition to stakes in 43 joint ventures.

Plans for divestment in early 2006 include selling initially 20 percent of the government's stakes in eight state-owned flour mills either through public offering or an anchor investor. Another company planned for sale through public offering in the new year is Chemical Industries Development Company. The stake to be offered ranges between 10 and 35 percent.

9. TAX REFORM

Main elements of the proposed income tax code

Less than two months after the appointment of the new Cabinet, Minister of Finance Youssef Boutros-Ghali presented a new tax code during the annual conference of the National Democratic Party, held September 2004. Parliament is expected to pass the new law during 2004/2005.

The new tax law makes the Egyptian tax system more transparent for foreign companies. It cuts personal and corporate income taxes, and unifies tax exemptions and legislation. It introduces a 50 percent reduction in personal and corporate taxes to a maximum rate of 20 percent. It also proposes to restructure income tax brackets into three categories, with tax rates of 10, 15 and 20 percent. Existing tax exemptions for annual earnings of under LE 5,000 would double. Annual incomes under LE 10,000 would pay no tax. Working spouses would be eligible for an exemption of LE 5,000 each on wages. Civil servants would get a personal exemption of LE 2,000. Additionally the draft bill grants a general amnesty for past tax evasion or other offences, and provides for many transitional provisions in order to encourage Egypt's informal economy to legalize its status.

The law also provides for phasing out tax exemptions for newly established companies. Companies listed on the Stock Exchange would also lose the tax exempt status of their paid-in capital. There will also be a different tax regime introduced for the first time for copyrights.

In addition to rate reductions, the draft law proposes to streamline tax administration and merge all tax legislation into one law. The law is intended to encourage the voluntary submission of returns by taxpayers, the timely payment of taxes, and greater compliance of citizens who previously evaded taxes whether because of high rates or cumbersome procedures. A key element of the law is the introduction of self-assessment for taxpayers. This places the burden of proof for tax evasion on Tax Authority who will now limit their inquiry to a sample of some 5 to 10 percent of all taxpayers. The elimination of what had been viewed as discretionary assessments aims to build trust between taxpayers and the tax authority.

The Ministry anticipates a significant improvement in the cost effectiveness of the Tax Authority and a reduction in costs to enterprises and individuals associated with the payment of taxes. The new system raises revenue from a limited number of tax rates and will therefore substantially reduce administration and compliance cost. Avoidance of numerous taxes that yield limited revenue will also facilitate tax

¹⁶ *Telecom Egypt IPO More Than Ten Times Oversubscribed*

assessment and avoid the impression of excessive taxation. The new law also introduces high deterrent penalties against tax fraud.

The proposed rate reductions and administrative changes will, in the medium term, stimulate the economy. Higher profits for businesses will encourage faster economic growth, thus expanding the tax base and ultimately increasing tax revenues. This should partially make up for the shortfall in tax revenues, estimated at between LE 3.2-3.5 billion. GDP growth rates should increase by 2-2.5 percent giving rise to at least LE 2 billion in additional revenues.

A broad tax base with limited exemptions enables revenue to be raised with relatively low rates. The erosion of the tax base through exemptions requires higher tax rates to make up for the loss in revenue. Higher rates only serve to increase the likelihood of tax evasion. Hence, expected improved tax compliance under the new reforms should also cover a large part of the loss in tax receipts.

Proceeds from an ambitious privatization program that includes 172 state-owned companies, a public sector bank and the stake of the government in joint venture banks will also be used to finance the temporary increase in the budget deficit.

Over the longer term the government will be building up the administrative capacity of the state to collect taxes.

Sales Tax Expansion

Phase 2 of the General Sales Tax will be implemented shortly, extending the tax coverage to certain untaxed services. This will make the General Sales Tax universal except for a negative list that includes the health, education and food sectors.

EXECUTIVE REGULATIONS OF THE NEW TAX LAW TO BE ISSUED IN DECEMBER 2005

The executive regulations of the new tax law are going to be issued on December 28, including all implementation aspects of the law, to make the picture clear for all stakeholders.

LARGE TAXPAYER CENTER INAUGURATED ON SEPTEMBER 19, 2005

A large taxpayers' center (LTC) was inaugurated by the Prime Minister on September 19. It will be exemplary concerning transactions between taxpayers and the tax administration, with regard to speed, accuracy and ease of transactions, and performance through advanced technological systems. The LTC serves 2000 taxpayers whose volume of work exceeds LE 7 million.

The LTC follows a customer-focused approach to tax administration. There are six strategic objectives that support the tax administration transformation vision and help drive overall reform:

- Improved taxpayer service through appropriate administration of tax law and regulations, including segmentation of taxpayers by size (total turnover).
- Foster trust and compliance by applying the principles of self-assessment and shifting the burden of proof from the taxpayer to the Tax Authority, coupled with credible compliance measures.
- Medium term tax administration reforms include merging the income and sales tax departments to increase operational efficiency, ensure fair and balanced treatment of customers and employees, and improve the quality of revenue administration. A single

integrated organization responsible for the administration of both income and sales tax that provides proactive taxpayer service will reduce taxpayer compliance costs.

- Focus on taxpayer needs by providing efficient and effective taxpayer service through a taxpayer-focused organization that offers end-to-end tax administration services.
- Create value for taxpayers through integrated and enabling technologies that provide value for taxpayers and create demand for additional similar services) such as unified taxpayer files, electronic filing and payment.
- Drive cultural change and maintain reform commitment through a high-performance organization that uses efficient private sector work practices.

Ongoing tax reforms will support broader fiscal reform efforts aimed at enhancing macroeconomic stability.

10. New Economic Legislation

During the past decade, Egypt has implemented an economic and structural reform adjustment program. An important goal of the reform program was to shift the economy towards a market-oriented economic policy. This required dramatic legislative changes to enable the economy to meet the challenges of the new global economy in which Egypt has become an active participant. The needed legislative changes were implemented gradually in order to preserve the stability of the market and the economy as a whole. The following is an overview of some of the recent laws in the economic field.

Law No. 80 / 2002 for Anti- Money Laundering

- Parliament has passed the law No. 80 of 2002, concerning the fight against money laundering crime. The law defines in Article (1) the terms used in it, namely, money, money laundering, financial institutions, proceedings, the unit, and the competent minister.
- The law determines in Article (2) crimes from which the laundered money is derived. These crimes include planting, processing, importing, exporting, trafficking, or smuggling of illicit drugs and plants, hijacking of transport instruments, terrorism as defined in Article (86) of the Egyptian Penal Code, trafficking in weapons and bombs without authorization, embezzlement and bribery, money theft, prostitution, crimes related to antiquities, environmental crimes related to dangerous waste, and organized crimes referred to in international agreements to which Egypt is a party.
- The law establishes "An independent unit" within the Central Bank of Egypt aims at receiving, examining, and investigating notification from financial institutions concerning suspicious money transactions and notify the Prosecutor General's Office in case a crime is detected. The unit is headed by the Assistant to the Minister of Justice. Unit staff is now receiving technical training in Egypt, U.S.A., and Italy.
- The law puts an obligation on financial institutions and their employees to report to the Unit on suspicious money transactions, to maintain records of domestic and international transactions, to update the data and make them available, upon request, to the judiciary and other authorities concerned with the enforcement of the law.
- The law provides for sanctions in terms of imprisonment up to 7 years and fines equal to two times the amount of the money laundered for any person who commits or attempts to commit a money laundering crime as defined in Article (2) of the law. In case the crime is committed by a legal person, the sanctions mentioned above apply to its representative provided that he knew about the crime and infringed the duties of his job. However, the law exempts any person from sanctions provided that he informs the authorities about the crime before it is discovered.

- One of the important provisions stipulated in the law is international cooperation in combating money laundering. In this regard, Article (18) states that the Egyptian judicial authority should provide legal and judicial assistance in the field of extradition of the accused or convicted persons and the transfer of objects resulting from the crime of money laundering. Cooperation should also be provided for the execution of final judgments issued by foreign judicial authorities. This judicial cooperation may be based on bilateral or multilateral agreements, or according to the reciprocity principle.
- The law was amended in 2003 by Law No. 78 so as to add to the crimes specified in Article 2 fraud crimes and money derived thereof. In addition, the executive regulations were issued by Prime Ministerial Decree No. 951/2003.

Law No. 82 / 2002 for Intellectual Property Rights

- The law consists of 205 articles divided into four books .
- The first book: deals with patents, utility models, and undisclosed information. The book is divided into three chapters: the first chapter deals with the patent and the utility models, the second deals with the layout-designs (topographies) to the integrated circuits, and the third deals with the protection of undisclosed information.
- The second book: deals with trade marks, commercial data, geographical indicators, designs, and industrial models. The book is divided into two chapters the first of which deals with trade marks, commercial data, and geographical indicators, and the second deals with the designs, and the industrial models.
- The third book: copyrights and the relating rights.
- The fourth book: botanical kinds.
- All articles set forth in the law respond to a large extent, if not in full, to Egypt's obligations under the TRIPS agreement.

Law No. 83 / 2002 for Special Economic Zones

Goals

- In its efforts to attract national and foreign direct investment to Egypt, the government has drafted and passed the special economic zones law in 2002. The law provides for the establishment of special economic zones that have the ability to compete with their analogs all over the world.

Structure

- The law comes in 59 Articles divided into four chapters. The first chapter sets forth the general provisions of the law such as definitions, the establishment of the economic zone and its authority (by a presidential decree), the resources of the authority and its budget, the management board and its mandate, and the establishment of the principal development company.
- The second chapter presents the special systems used in the economic zone. In this regard, the law stipulates that the economic zone's authority substitutes the Companies Authority and the Commercial Registrar Office. It also stipulates that a special customs system is to be set by a management board decision to serve the economic zone with simple and speedy procedures, and a special customs circuit to implement these procedures. Moreover, the law provides for the issuance of a special taxation system to be decided by a management board decision. It establishes a high committee for taxes within the economic zone to carry out the application of the special system. In addition, the law regulates the work provisions, the relationship between workers and employers, and the social insurance within the economic zone.

- The third chapter is dedicated for incentives, exemptions and guarantees. As for incentives, the law applies a 10 percent tax of the net annual income of natural and legal persons working in the economic zone. It also applies a 5 percent tax on salaries and wages of workers in the economic zone. As for exemptions, enterprises in the economic zone are exempt from taxes on loans and bonds interests, and credit facilities. They are also exempt from sales tax and taxes on profits that come out of mergers or division of companies. The law, moreover, exempts the enterprises from customs tax and sales tax on instruments, equipments, raw materials, and spare parts necessary to carry out their activities within the economic zone. However, these elements would be subject to customs tax and sales tax if imported to the domestic market. As for guarantees, the law prohibits the nationalization, the confiscation, and the sequestration of any of the enterprises working in the economic zone or its money.
- Finally, the fourth chapter provides for the establishment of a disputes settlement center in the economic zone. The law gives it the capacity to settle any conflict that takes place in the economic zone between two parties working or residing therein or between a party and the economic zone's authority. The centre may reach the settlement through conciliation or arbitration. This settlement is binding and immediately enforceable if accepted by the parties concerned.

Law No. 155 / 2002 for Export Promotion

- The government has given considerable attention to the issue of exports, which has become vital for the development of the Egyptian economy. That was clear from the Presidential Decree that created a new Ministry responsible for Foreign Trade in 2001.
- In line with this policy, the government has drafted and passed a law for export promotion in 2002. The law sets forth in Article (1) that the Minister of Foreign Trade is responsible for issuing the rules and regulations necessary for the promotion of Egyptian exports, opening new markets for them, and raise their competitiveness in the global markets. To facilitate the achievement of these goals, the law provides in Article (2) for the establishment of the "Export Promotion Fund" under the Minister of Foreign Trade, with an autonomous budget.
- The law also provides for the establishment of a "Central Unit" within the Ministry of Finance. This unit will include representatives from both the Customs Authority and the General Authority for Import and Export Control (GOIEC). The Unit is to be headed by an expert from the Ministry of Finance and a deputy from the Ministry of Foreign Trade, and jointly supervised by the Ministers of Foreign Trade and Finance. The Unit carries out the execution of the draw-back and the tax-rebate systems provided for in the Customs Law, in addition to other mandates specified by the law.
- The law further states that GOIEC is the competent authority for the supervision of exports and imports, as specified in Laws No. 59/ 1960; No. 113/ 1966; No. 10/ 1966; No. 53/ 1966; No. 118/ 1975; and No. 119/ 1983.
- Without contradiction to the provisions of Customs Law No. 66 of 1963 and its executive regulations, the law prohibits in Article (6) putting any obligation on exporters and importers to pay fees or present guarantees other than those decided by the Minister of Foreign Trade after the Prime Minister's approval. The law, moreover, states in Article (7) that legal proceedings regarding any violation of the provisions of the law can not start without permission from the Minister of Foreign Trade.

Law No. 10 / 2003 concerning Telecommunications

- The law concerning telecommunication was approved by the Parliament and issued by the President in February 2003. The law is a comprehensive piece of legislation dealing with all kinds of telecommunication methods, except those excluded for national security reasons.
- The law comes in seven chapters, the First of which sets definitions for the terms and expressions used in the law. In addition, it states the basic rules that should be followed in providing the telecommunication services. These rules include; transparency of information, protection of free competition, providing a comprehensive service, and the protection of users' rights.
- The Second Chapter stipulates the rules governing the "National Authority for Telecommunication". Though the National Authority is under the Minister of Telecommunication, it has its own public legal personality and acts through its board of management. The Authority is competent, in accordance with the provisions of the law, to regulate and promote all the telecommunication services provided nation-wide. It also has the mandate to encourage national and foreign investment in this field.
- The Third Chapter is concerned with licenses and authorizations. As for licenses, article (21) of the law provides that no one shall establish or operate a telecommunication network, provide telecommunication services to a third party, pass international phone calls, or advertise for any of these acts without obtaining a license from the National Authority for Telecommunication. The license is rendered according to the provisions stipulated in the law and its executive regulations and decisions.
- With regards to authorizations, article (44) of the law prohibits the importation, manufacturing, or assembling of any instrument used in telecommunication without obtaining the authorization of the National Authority for Telecommunication, and in accordance with the standards and specifications designated by it. After receiving the application and before issuing the authorization, the National Authority should seek the approval of other public institutions and authorities specified in the law.
- The Fourth Chapter deals with the management of phantom (spectrum) frequency and issuing the licenses for its use. Article (49) of the law considers the phantom frequency a limited natural resource. The National Authority for Telecommunication is, again, the entity responsible for regulating and managing all the affairs relating to phantom frequency use in accordance with the provisions of the law.
- The Fifth Chapter deals with the Egyptian Company for Telecommunication. Article (60) of the law sets a transitional period (until 31 of December 2005) in which the National Authority for Communication shall issue a single authorization for each activity or service carried out by the company. After such period, the Company is required to seek license form the National Authority for any new service it delivers on equal footing as other providers.
- The Sixth Chapter sets forth the rules governing the concerns of national security and public mobilization. The Seventh Chapter then provides for the sanctions applied in case of violation or breach of any of the provisions of the law. These sanctions include; detention, imprisonment, fines, and confiscation of the tools and instruments used. All of the sanctions are to be inflicted by a court decision.

Law No. 12/2003 for the Unified Labor Law

- The law puts rules targeting the relations between the workers and employers in private sector as well as in public sector. This does not include the civil servants in the administrative institutions of the country.

- The new law substitutes the existing labor law in order to provide stability in business relations, protect workers' rights, and avoid problems resulting from the application of the previous law.
- The law is divided into six books: the first book set forth definitions and general provisions of the law. The second book deals with the individual business relations. The third book deals with the training and the vocational guidance. The fourth book deals with the groups' business relation. The fifth book deals with the safety and the health of workers and work environment. And the sixth book deals with work inspection and sanctions.
- The law provides for the establishment of "the emergency compensation fund" and organizes the damages that the workers deserve in case of the dismissal of the worker or the closure of the enterprise.
- The law also provides for the establishment of "the national council for wages" with a mandate to suggest a minimum level of wages.

Law No. 88 / 2003 for the Central Bank, Banking System and Monetary

Goals of the Law

- The Law aims at achieving four main goals the first of which is to create a legal infrastructure suitable for the proper functioning of the banking sector and to guarantee its independence. The second is to adopt the recent international standards set by the W.T.O which in turn increase the competitiveness of the banking sector on a free market basis. The third is to set the legal framework necessary for the management of foreign currency sector. The last goal is to reduce contradictions or conflicts between the provisions of different laws that govern the banking sector by providing a unified and well drafted piece of legislation.
- Therefore, the law contained a provision abolishing all the existing laws governing the central bank, the banking system, banks secrecy and foreign exchange, and replaced them all.

The law is based on the following principles

- Maintaining and ensuring the independence of the Central Bank in carrying out its activities.
- Creating provisions for disclosure of and transparency about the Central Bank activities.
- Maintaining the essence of the existing legal structure in the banking sector and complementing it with the necessary amendments.
- Studying the comparative law and the experience of other countries in this field.
- Considering the desired flexibility in the law in order to follow the changes in the market.
- Applying the BASEL Standards in controlling and supervising the banks.

Structure of the Law

- As to the structure of the Law, it is divided into six chapters. The first chapter is devoted to the Central Bank. The provisions of this chapter states the goals of the central bank and its competence, the management of the bank, the financial system followed by the bank and, finally, the relationship between the central bank and the government in addition to the rules of disclosure.
- The second chapter is concerned with the banking sector. the provisions contained in this chapter covers the establishment and registration of banks, the supervision over banks management, the ownership of shares of banks and the censorship over banks and the securing of savings.

- The third chapter is related to the management of the public sector banks. In general terms, public sector banks operates according to the rules governing other banks except otherwise stated by law.
- The fourth chapter sets the provisions of bank accounts secrecy. The law provides that an Egyptian bank may not disclose any information relating to a customer's account, deposit, safe or related transaction in the absence of either:
 - The written permission of the customer, his heirs or his legal representative, or
 - A decision rendered by a competent tribunal (whether judicial or arbitral).
- Moreover, the law stipulates that any authority which is legally authorized to view information relating to a customer's account, deposit or safe is also prohibited from disclosing any information unless either of the above mentioned criteria has been met.
- In addition, the law provides that a court order that allows certain information relating to a customer's account to be disclosed may be obtained in only the following two cases:
 - If there is sufficient grounds that a criminal act has been committed by the customer; or
 - To authorize a bank to release a bank statement for a given customer in order to execute a garnishment order.
- The fifth chapter deals with the pledge of property and assets to banks without. the law states that the pledge shall not contradict the provisions regulating this matter in other relevant laws. The sixth chapter, then, regulates the issuance of banknotes and foreign currency exchange.
- The seventh and last chapter sets forth the penalties and sanctions regarding the violations of any of the provisions of the law. These sanctions include imprisonment and/or fines vary between a maximum and minimum limits according to the act committed.
- On 12 January 2005 a Presidential Decree No. 17 for 2005 was issued establishing a Council for Monetary Policy. The Council aims at achieving the stability of prices and the safety of the monetary system in the framework of the general economic policy of Egypt.

Law No.141/2004 Concerning the Promotion of Small Enterprises

- In its efforts to enhance the business environment in Egypt, the Government has prepared a draft law for the promotion of small enterprises which was approved by the parliament in June 2004. The law aims at providing incentives and facilitating the procedures necessary to establish and start a small enterprise. This law and the Investment Law No. 8 of 1997 are considered the two arms pushing economic activities in order to achieve the required development.
- The law defines both small and micro-small enterprises. According to article (1), a small enterprise is defined as any establishment or company practicing an economic activity, whether a product or a service, with two conditions; a maximum paid capital of one million Egyptian Pounds and a number of employees (workers) not more than fifty persons. As to micro-small enterprise, it is defined by article (2) as any establishment involving the activity of one or more of the members of the family in their residence to provide a product or a service.
- With regards to the establishment of small and micro-small enterprises, article (3) of the law states that all licenses and authorizations necessary for the establishment and operation of a small and micro-small enterprises shall be through a designated unit to be established in the General Authority for Investment and Free Zones (GAFI). The said unit will comprise representatives of all relevant public authorities delegated to issue the necessary licenses and authorizations.

- The law designated the Social Fund for Development as the coordinator between all the governmental bodies concerned with small and micro small enterprises. This also includes the coordination between these governmental bodies and other international institutions whether governmental or non-governmental.
- Moreover, the law includes some provisions regulating the financing of small and micro-small enterprises. In addition to the funds provided by the social fund, the law provides for the establishment of trust funds in each Governorate to finance small and micro-small enterprises through civil associations and institutions. The funds may be derived from the government or from the grants and donations of national and international financing institutions.
- The law also provides for a three years tax exemption starting after one year of the registration of the enterprise. Moreover, it designates an area not less than 10% in industrial, agricultural, tourist and urban zones for small and micro-small enterprises.

Law No.3 / 2005 Concerning the Protection of Competition

- In June 2004, the government has referred the draft competition law to the parliament for approval and it has been approved and adopted in February 2005. The following is an overview of the provisions of the law and the competition commission.

The Law

- The law applies to all natural and legal persons engaged in economic activities, no matter the legal form under which they were established. However, Article 9 of the law explicitly states that “upon request from the concerned persons, the commission may exclude acts committed by private sector entities running a public utility where these acts lead to public interest or to consumer benefits that override the negative consequences of restraining competition. This should be in accordance with the procedures stated in the executive regulations of the law.
- Article 10, in addition, gives the Prime Minister the discretion to fix the prices of certain basic goods or conclude agreements to this aim after consultations with the competition commission.
- Concerning anti-competitive agreements, the law sets out in Articles 6 and 7 prohibitions in respect of several forms of agreements that it deems anti-competitive per se, among which are: price fixing of goods and services under transaction; market sharing or segmentation; collusive arrangements in the tendering process; and putting restrictions on the production, distribution or marketing of goods and services.
- The law also prohibits in article 8 the abuse of dominant position which is defined in article 4 as “a situation in which a person has the ability to effectively influence the price or the amount of a product in the relevant market by having market share more than 25%, without his competitors being able to eliminate his influence.
- As with regards to mergers and acquisitions, the law dedicates article 11 for this issue, stating the general rules and leaving the details to the executive regulations. The article provides that persons operating in the relevant market are required to notify the competition commission as soon as they conclude mergers or acquisitions.
- The law also stipulates that sanctions apply in respect of all prohibited activities that have an effect in Egypt, even if committed abroad. The sanctions for committing any of the prohibited activities are fines not less than 30 thousand Egyptian pounds and not exceeding ten millions Egyptian pounds.

- A point worth noting here is that Article 21 grants the designated Minister (who is the Prime Minister according to the law) or the person he delegates the power to settle with the wrongdoer. The effect of such a settlement would be for any court case to cease and be dropped.

The Competition Commission

- The law has a provision for the establishment of a Competition Commission under the designated minister (the PM) and specifies its structure, staff requirements and authority. It also outlines the rights and proceedings of the Competition Commission to apply the law. Article 11 grants the commission the ability to:
 - Receive and investigate complaints, and to initiate its own investigation.
 - Receive notifications of mergers and acquisitions.
 - Collect information necessary for concluding its investigation from a variety of sources.
- Create a complete and updated data base on economic activity.
- Conduct training courses to create awareness of all stakeholders of competition matters.
- Give opinions on decrees, laws and amendments relevant to or has an effect on competition.
- Publish guidelines, reports, and studies concerning competition.
- Make decisions and take necessary procedures to stop anti-competitive practices.
- The law, however, provides that the decisions of the competition commission are subject to judicial review so as to ensure the consistent and correct application of the law.

Law No. 91 / 2005 Concerning the Income Tax

- Less than two months after the appointment of the new Cabinet, Minister of Finance Youssef Boutros-Ghali presented a new income tax law during the annual conference of the National Democratic Party, held in September 2004. The draft law was circulated and discussed by all stakeholders and then sent to Parliament for approval. The Parliament has passed the new law and the President has signed and issued it in the Official Gazette in June 2005.
- The new income tax law makes the Egyptian tax system more transparent for both national and foreign companies looking to invest in Egypt. It cuts personal and corporate income taxes, and unifies tax exemptions and legislations. It introduces a 50 percent reduction in personal and corporate taxes to a maximum rate of 20 percent. It has also restructured income tax brackets into three categories, with tax rates of 10, 15 and 20 percent. Existing tax exemptions for annual earnings of under LE 5,000 would double. Working spouses would benefit from the new law as each of them would be eligible for an exemption of LE 5,000 on wages. Civil servants would get a personal exemption of LE 4,000 annually.
- Additionally, the law grants a general amnesty for taxpayers in all cases before courts the subject of which is the disagreement between the taxpayer and the Tax Authority on the tax estimation, provided that the disagreed tax amount does not exceed LE 10,000. Moreover, the law provides for a settlement process in tax evasion cases or other offences upon request from the concerned person within one year of the entry into force of the law. These provisions are seen essential in order to encourage Egypt's informal economy to legalize its status.

- The law also provides for phasing out tax exemptions for newly established companies. Companies listed on the Stock Exchange would also lose the tax exempt status of their paid-in capital.
- In addition to rate reductions, the law provides for streamlining tax administration and merge all income tax legislations into one law. The law is intended to encourage the voluntary submission of tax returns by taxpayers, the timely payment of taxes, and greater compliance of citizens who previously evaded taxes whether because of high rates or cumbersome procedures. A key element of the law is the introduction of self-assessment for taxpayers. This places the burden of proof for tax evasion on Tax Authority which will now limit its inquiry to a sample of some 5 to 10 percent of all taxpayers. The elimination of what had been viewed as discretionary assessments aims at regaining the missing trust between taxpayers and the Tax Authority.
- The Ministry anticipates a significant improvement in the cost effectiveness of the Tax Authority and a reduction in costs to enterprises and individuals associated with the payment of taxes. The new system raises revenue from a limited number of tax rates and will therefore substantially reduce administration and compliance cost. Avoidance of numerous taxes that yield limited revenue will also facilitate tax assessment and avoid the impression of excessive taxation. The new law also introduces high deterrent penalties against tax fraud.
- The proposed rate reductions and administrative changes will, in the medium term, stimulate the economy. Higher profits for businesses will encourage faster economic growth, thus expanding the tax base and ultimately increasing tax revenues. This should partially make up for the shortfall in tax revenues, estimated at between LE 3.2-3.5 billion. GDP growth rates should increase by 2-2.5 percent giving rise to at least LE 2 billion in additional revenues.
- A broad tax base with limited exemptions enables revenue to be raised with relatively low rates. The erosion of the tax base through exemptions requires higher tax rates to make up for the loss in revenue. Higher rates only serve to increase the likelihood of tax evasion. Hence, expected improved tax compliance under the new reforms should also cover a large part of the loss in tax receipts.
- Proceeds from an ambitious privatization program that includes 172 state-owned companies, a public sector bank and the stake of the government in joint venture banks will also be used to finance the temporary increase in the budget deficit.
- Over the longer term the government will be building up the administrative capacity of the state to collect taxes. In addition, a plan was set, immediately after the issuance of the law, to create awareness of taxpayers in order to encourage them to take part in the reform. This plan depends to a large extent on press and media campaigns directed to all classes of society.

Draft Capital Markets Law

- The draft law aims towards creating a balance between enhancing the supervisory agencies' powers on one hand and simplifying participation in the market on the other. The draft law deals with several major aspects including :
 - The Capital Market Authority's (CMA) regulatory framework as the supervisory authority over the Cairo and Alexandria Stock Exchange (CASE). The draft law has stressed the CMA's independence and granted it the authority and legal instruments necessary to enable it to carry out its duties in a manner parallel to that adopted by advanced markets.
 - The draft law presents a new regulatory system for company obligation for information disclosure, periodically and when new extra ordinary circumstances that arise may affect

securities prices. This obligation hinders the abuse of insider information in trading that generates prohibited profit.

- The draft law portrays shareholders rights in companies listed on the Egyptian Stock Exchange through on-going disclosure of information and business plan to achieve greater transparency and fairness between investors.
- The draft law illustrates tender offer rules to attain equality between minority and majority shareholders, by furnishing the right of every shareholder to sell their shares at the highest price at the prevailing market condition.
- Firms involved in the securities field are authorized to establish their own union, which is considered the first step along the way to achieve self-regulatory organization (SROs) status.
- The draft law has also provided additional rules paving the way for the Cairo and Alexandria Stock Exchange to develop into a self-regulatory organization (SRO). Most importantly, empowering the CMA granting the right to establish collective judicial claims on behalf of victims' parties resulting from violation of the capital market law, regulations and practices.
- The draft law enforces penalties on individuals which try to abuse insider information, manipulation of share prices and/or disseminate flawed information about capital market participants.

II. REFORMS TO BE IMPLEMENTED BETWEEN 2006-2010

Benchmark	Date
A. Ministry of FINANCE	
I. MACRO-FISCAL UNIT	
1. Establish a Tax Policy Analysis Unit at the Ministry of Finance	December 2006
2. Set up revenue estimation models.	June 2007
II. TAXES	
1. Draft General Guide to Income Tax Self-Assessment for the newly establish LTC	April 2006
2. Appoint a single tax commissioner for the income and sales tax departments	June 2006
3. Implement the integration of Income and Sales Tax Administration Departments with function-based structure and modern business processes.	Multi-year, beyond 2008
4. Strengthen the Large Tax Payer Center (LTC)	Multi-year, beyond 2008

5. Develop self-assessment/ selection criteria for corporations and individuals (LTC)	June 2006
6. Launch a number pilot of offices for medium size tax payers	Multi-year, beyond 2008
7. Strengthen tax administration for medium size tax payers	Multi-year, beyond 2008
8. Establish and Internal Audit Unit at the Ministry of Finance	2007
9. Establish an Inspector General Department at the Ministry of Finance (IGTA)	2007
10. Issue a new Property and Agriculture Tax Law. ◆ implement new valuation procedures and IT system	July 2006 Multi-year, beyond 2008
11. Issue a new Stamp Duties Law	2007
12. Issue a new Sales Tax Law	2007
13. Establish a Small Taxpayer Regime based on presumptive taxes	2007-2008
II. BUDGET PROCESS	
1. Develop a comprehensive reform plan for budget preparation, execution and reporting: <ul style="list-style-type: none"> • Change budget legislation • Develop a reform plan for budget formulation, execution and reporting that would establish an integrated modern information system. 	2007
2. Develop a reporting framework for the consolidated general government based on the new budget classification and GFSM 2001 framework that includes all off budget activities.	2007
3. Establish a modern cash management system, including a Treasury Single Account to strengthen the link between the budget execution and the government's cash needs. <ul style="list-style-type: none"> • Prepare Action Plan • Redesign the treasury functions of the Ministry of Finance. • Establish payments and accounting responsibilities for the line ministries and the Central Bank. • Implement Single Treasury Account 	2007-2009

III. DEBT MANAGEMENT UNIT	
Set up a Debt Management Unit. Design will include mission, structure, staffing, and training needs.	2007
IV. CUSTOMS	
1. Strengthen the Large Importer Center	2006-2008
2. Review of the Customs tariff to determine further areas of rate reductions and simplification and the national fiscal impacts and to ensure consistency with HS language and continued relevance to national priorities.	2007
3. Extend the Customs Website and ensure that key documents are available in English and French	2007
4. Develop a risk management model and systems, and data warehouse	2007
5. Review Executive Regulations to ensure compliance with international standards and to provide for post-release payment of duties and taxes.	2007
6. Review the Customs Law and executive regulations, and the import and export executive regulations, as appropriate, to support the implementation of IPR border enforcement measures.	2007
V. EXPENDITURE POLICY	
1. Develop a strategy for pension and subsidy reform	2007
2. Issue a new Pension Law	2006/2007
B. CENTRAL BANK	
1. Move towards a formal inflation targeting framework	2007-2010
2. Develop an action plan to strengthen monetary policy operations	2007
3. Develop an action plan to strengthen the Central Bank's near medium macroeconomic forecasting and analytical capabilities, with a view to strengthening monetary policy transmission mechanisms and enhancing financial intermediation	2007

4. Strengthen monetary policy transmission mechanisms and enhance financial intermediation	Multi-year, starting 2006
5. Establish a Risk Management Unit, and asset management operation, including an investment process	2007
6. Develop a local money market with repo trading, short selling of local securities under prevailing market condition, and enhancing the procedural work flow through automation	2007
C. DATA ISSUES	
1. Revise the CPI in terms of its information content on the basis of the latest 2004/05 household expenditure survey.	2007
2. Develop new inflation measures	2008-2010
3. Develop a Producer Price Index (PPI) to replace the Wholesale Price Index (WPI)	2010
4. Develop an inflation expectation survey that is conducted and results quantified.	2010
5. Develop high frequency indicators of real activity that are consistent with annual GDP data	2008
6. Balance of Payments Statistics: <ul style="list-style-type: none"> • Better identification and recording of FDI • Further strengthening of BOP Statistics. 	Multi-year, starting 2006

APPENDIX 1

STATUS OF RECENT ECONOMIC LEGISLATION

	Law	Status
1.	Financial Leasing Law No. 95/1995, amended by Law No. 16/2001	Enacted.
2.	Central Depository Law No. 93/2000	Enacted.
3.	Mortgage Law No. 148/2001	Enacted - Executive Regulations issued.
4.	Money Laundering Law No. 80/2002	Enacted.
5.	Intellectual Property Rights Law No. 82/2002	Enacted - Executive Regulations issued.
6.	Special Economic Zones Law No. 83/2002	Enacted.
7.	Civil Association and Establishments Law No. 84/2002	Enacted.
8.	Export Promotion Law No. 155/2002	Enacted - Executive Regulations awaiting approval.
9.	Telecommunication Law (UTL) No. 10/2003	Enacted.
10.	Unified Labor Law No. 12/2003	Enacted.
11.	Central Bank, the Banking System and Monetary Law No. 88/2003	Enacted.
12.	Law Number 15/2004 concerning Electronic Signature	Enacted.
13.	Small and Medium Enterprises Law No.141/2004	Enacted.
14.	Presidential decree No. 231 of the year 2004 concerning organization of Ministry of Investment	Enacted.
15.	Presidential decree No. 300 of the year 2004 issuing the Customs Tariffs	Enacted.
16.	Income Tax Law No. 91/2005	Enacted - Executive Regulations under preparation.
17.	Competition Law No. 3/2005	Enacted - Executive Regulations issued.
18.	Draft Unified Corporate Law	Pending discussion.
19.	Draft Capital Markets Law	Pending discussion.