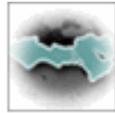




C O U N T R Y B R I E F



Middle East & North Africa Region (MENA) - Egypt

Egypt Airports Development Project

In March 2004, the World Bank's Executive Board of Directors approved a loan of US\$335 million for the Airports Development Project in Egypt. The project will assist the Government of Egypt in enhancing the efficiency of airport management and doubling the capacity of passenger terminals at Cairo and Sharm El Sheikh International Airports by financing new passenger terminals. In addition, the project aims at improving airport service quality in line with international standards and promoting private sector participation in airport management and service delivery in a competitive market.

With nearly fifty percent of Egypt's passenger traffic passing through Cairo International Airport, and actual passenger traffic close to the maximum capacity of nine million passengers, Cairo International Airport is not equipped to absorb additional traffic without a rapid deterioration in service standards. This is especially critical since three-quarters of passengers arrive from international destinations. The expansion of cargo traffic is also being constrained by congested facilities.

Similarly, rapid growth in passenger traffic due to increased tourism in the Red Sea resort of Sharm El Sheikh, has made the expansion program for the airport in the southern tip of the Sinai peninsula vital for meeting international air transport demand and boosting foreign exchange earnings.

Development Progress

Over the last decades, Egypt has considerably improved the well-being of its people. Social indicators for health and education continue to improve. Between the early 1970s and 2005, life expectancy at birth increased from 53 to 70 years, the number of children dying in the first year of life declined from 110 to 26 (per 1,000 live births), and primary school enrollment increased from 63 percent to 101 percent. During the same period, Egypt's population increased from 36 million to 76 million. Yet, poverty remains an issue with 17 percent of the population (mainly in Upper Egypt and rural areas) living with less than \$1 per day.

The Egyptian economy continues to grow. Real economic growth rose to 6.9 percent in FY06 and will be about 7 percent in FY07 (third quarter growth was an annualized 7.2%) after the anemic 3% during FY01-03. Total investment is around 18-19% of GDP, but private investment has been rising to over 12 percent of GDP. FDI rose to \$6.1 billion in FY06 (5.7% of GDP) from \$3.9 billion (4.4% of GDP) in FY05 and may exceed \$10 billion in FY07. Large capital inflows helped build foreign exchange reserves to \$29.6 billion as of July 2007. Although employment is growing, unemployment rate remains around 10% because of mismatch between the education system and the domestic labor market.

Current challenges

Rising inflation is of concern. After falling for most of 2005 to some 3% in December 2005, CPI inflation crept up since March 2006 to reach 12.4% (annualized) in December 2006 before falling to 8.4% in June 2007. The prices of half the CPI basket are controlled, and with exchange rate being kept within a narrow band, the money stock rises with capital inflows.

Fiscal deficit and public domestic debt remain an area of concern. Total domestic debt was at 90% of GDP in September 2006, but is expected to fall with economic growth. Lower budget deficits and interest rates will also help. The Government recognizes the risks of deficits and plans to reduce them gradually by 1 to 1.5% of GDP every year for the next five years. However, this may face significant banking sector restructuring costs, and transition costs of pension reform. Proceeds from the sale of various assets, cellular licenses, etc., are significant, and the earlier tax reforms may now yield more revenues.

High Unemployment. The unemployed are mostly young, educated and non-poor who await better entry level jobs. While employment is growing, share of working age population is rising and will reach 67 percent in 2020. New entrants (about 600,000 annually) need to be absorbed into the labor market and it is thought that present rates of investment (about 20% of GDP) are insufficient to generate the GDP growth rates of 6-7 percent to sustainably address unemployment. Government overstaffing and the low proportion of formal private sector employment create a situation that is not easily remedied. The quality of schooling and measure to increase formality in the labor market would raise productivity and wages. This situation, however, is not unique to Egypt.

Poverty. Although abject poverty is low, economic growth has not dented the head count measure of those below the roughly \$2/day line which rose from 16.7 percent in FY00 to 19.6 percent in FY05. With large numbers clustered around the poverty line, small changes have large effects on the head count measure. The poor are mostly in rural areas of Upper Egypt and lack land and obvious employment opportunities.

World Bank Assistance

The World Bank endorsed, on June 16, 2005, a **Country Assistance Strategy (CAS)** for Y2006-FY2009, that substantially increased the program of the World Bank lending and non-lending assistance. Major pillars of the CAS are:

- *Facilitating private sector development.* The World Bank Group (IBRD, IFC, MIGA, FIAS) will direct its support to achieving three specific outcomes: (i) a financial sector that is more efficient and responsive to private sector needs; (ii) an international trade regime that features lower transaction costs; and (iii) a business climate that features lower transaction costs for starting, running and shutting down business operations.
- *Enhancing the provision of public services.* The Bank Group will devote its support to ensuring that: (i) fiscal and monetary policy are consistent with macroeconomic stability; (ii) there is an increase in the supply and improvement in the efficiency of infrastructure services (including power, transport, communications); (iii) quality and relevance of education is improved at all levels; (iv) air and water quality are improved and water resources are managed efficiently; (v) coverage, quality and financial sustainability of the social insurance system is improved; and (vi) public sector agencies become more accountable.
- *Promoting Equity.* The Bank Group's support will aim to: (i) improve the coverage and effectiveness of safety nets; (ii) reduce disparities between Upper and Lower Egypt; (iii) improve access and quality of healthcare for the poor; and (iv) reduce gender disparities.

As of August 31, 2007, the Bank had approved, for Egypt, 115 projects valued at about US\$6.3 billion (excluding cancellations) of which about US\$5.5 billion have been disbursed. The current portfolio has undisbursed balance of US\$745.8 million. One project (Pumping Stations Rehabilitation III) closed on August 31, 2007, leaving the current portfolio with 14 active projects with total net commitment value of about US\$1.2 billion. Sectoral composition (by value) of the current portfolio is as follows: 48.7 percent for infrastructure, 30.7 percent for agriculture, 17.6 percent for social sector (education & health), and 3 percent for financial sector.

All dollar figures are in US dollar equivalents.

October 2007

For more information, please contact:

In Washington: Dina El Nagggar, Phone: 1 (202) 473-3245; Fax: 1 (202) 522-0003;

Email: delnagggar@worldbank.org

Xavier Devictor, Phone: (202) 458-7237; Fax: (202) 477-1603;

Email: xdevictor@worldbank.org