



## 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 few years, Egypt has implemented a series of important economic reforms which have led to **a solid macroeconomic performance**. Real economic growth rose to 6.9 percent in FY06, 7 percent in FY07 and a projected 6.2 percent in 2008 after the anemic 3 percent during FY01-03. Total investment is around 18-19 percent of GDP with private investment rising to over 12 percent of GDP. Foreign Direct Investment reached US\$11 billion in FY07 (8.8 percent of GDP, up from 5.7 and 4.4 percent in FY06 and FY05 respectively) and may exceed this figure in FY08. Large capital inflows helped build foreign exchange reserves equivalent to 10 months of imports. Egypt was ranked among the top- 10 reformers under Doing Business in 2009 for the third consecutive year. Government efforts are focusing on equity and social policies, while maintaining the pace of implementation of pro-growth measures.

**Reforms are paying off even though significant challenges remain.** Social indicators have improved dramatically over the last decade (e.g., between 1995 and 2005, infant mortality and malnutrition among under-5 children both decreased by half, and life expectancy increased from 53 to 71 years between 1970 and 2005). Recent reforms have resulted in a substantial reduction of poverty from 23.4 percent of the population living with less than \$1 per day in 2005 to 18.9 percent of the population in 2008, with improvements broadly shared across the population (increases in incomes have benefited all but the poorest decile) and across regions (although they have benefited rural Upper Egypt only marginally). Unemployment, which partly reflects the mismatch between the education system and the domestic labor market, has started to decrease and now stands at about 9.3 percent of the labor force (not including underemployment).

#### Current challenges

**Inflation and food crisis.** Inflation accelerated to 23.1% in July (annualized), a 19-year high, largely driven by imported inflation (food prices) and a continued large public deficit. The Government is committed to stabilize and reduce the budget deficit and improve food security.

**Fiscal deficit and public domestic debt.** The overall deficit (of the central Government) stands at 7.4 percent of GDP down from 8.2 percent of GDP in FY06, and Government spending remains at about 34 percent of GDP.

**Unemployment.** While employment is growing, the share of working age population is rising and is expected to reach 67 percent in 2020. New entrants (about 600,000 annually) need to be absorbed into the labor market.

#### World Bank Group Assistance

The current World Bank Group (IBRD, IFC, MIGA) assistance to Egypt is anchored in a Country Assistance Strategy (CAS) initially for the period FY2006–09 which was extended to cover an additional two fiscal years, until end-FY2011 in June 2008. To support Egypt's development and reform agenda, the CAS is focused on:

Facilitating private sector development. World Bank Group assistance directs 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 World Bank Group supports efforts aimed at 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 are 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 World Bank Group supports efforts aimed at: (i) improving the coverage and effectiveness of safety nets; (ii) reducing disparities between Upper and Lower Egypt; (iii) improving access and quality of healthcare for the poor; and (iv) reducing gender disparities.

As of September, 2008, the Bank has approved 118 projects for Egypt (77 under IBRD and 41 under IDA), valued at about \$8.8 billion, of which about US\$1.3 billion remain undisbursed. The current IBRD portfolio includes 16 projects with a total commitment of US\$2 billion. The sectoral composition of the current portfolio (by value) is as follows: 44 percent for infrastructure, 28 percent for financial and private sector development, 17 percent for agriculture and 11 percent for social sectors.

Egypt is one of the two largest exposure countries for **IFC** in the MENA region with a total committed portfolio of US\$497 million for 34 projects for its own account. Its portfolio includes operations in the financial sector, power, export-oriented manufacturing, ports, oil and gas, metals, agribusiness and IT. IFC's PEP-MENA TA work in Egypt has also been strongly supported by the government to strengthen financial markets, simplify business start-up procedures, SMEs, corporate governance and providing transaction advice for public-private partnerships (PPPs) in health, education and infrastructure.

**MIGA's** most important contribution to date has been to support and enable investments by an Egyptian telecom company in two telecom projects in Pakistan and Bangladesh, with a combined gross exposure of US\$152 million – an example of South-South investment.

All dollar figures are in US dollar equivalents. **September 2008**

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