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**Amun Oracle
Report
February 2000**

**TAPR
for
USAID
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INTRODUCTION

This report is the eleventh in the continuing series of scores and opinions gathered from Amun Oracle respondents. The Sector Policy Division, USAID/Cairo, formed the Amun Oracle in 1995 as a means of tracking progress of GOE economic reform initiatives begun in 1991. The name, Amun Oracle, is taken from the ancient Oracle of Siwa, which Alexander the Great consulted before starting his conquests.

The Amun Oracle's reporting system relies on scores and opinions garnered from questionnaires distributed to knowledgeable Egyptians in the business community twice each year, in January and July. The January report looks at both Egypt's progress during the last six months and progress since the beginning of the present economic reform program in 1991. The July report views progress only during the previous six-month period. A roundtable discussion takes place each time. Panelists at the roundtable discuss the questionnaire and pertinent economic reform issues. The tenth roundtable, for example, discussed the liquidity problem and ways to improve small and medium enterprises' (SMEs) access to credit.

Respondents to the questionnaires give scores and opinions on 24 policy areas. The areas fall within three main categories: stabilization policies, structural adjustment policies, and social policies. Within the stabilization policies category, there are six categories; foreign exchange market and exchange rate policies figure prominently. Structural adjustment policies cover twelve policy areas. Examples are financial sector policies and private sector entry/exit costs. Within social policies there are six policy categories, including education and poverty reduction. Scores can range from a positive rating of +10 to a negative rating of -10. A rating of +10 means that the respondent believes the GOE has taken a significant step forward; that is, it has taken a significant positive policy initiative or improved implementation of existing policies in a significant way. A rating of -10 means that the respondent believes the GOE has taken a significant step backwards, that is, it has taken a significant negative policy initiative or implementation of existing policies has declined in a significant way. Respondents also offer projections of key macroeconomic indicators, such as the inflation rate and the exchange rate.

Scores and opinions are, of course, subjective in nature. Still, due to the expertise of the respondents, the collective scores, projections, and opinions have been found to be reliable indicators of the state of economic reform. Opinions and recommendations from those directly affected by GOE policies can be a useful tool for evaluating, as well as fine tuning policy initiatives. Scores and projections appear in the annexes.

I. SUMMARY

Respondents to the January 2000 questionnaire continue to express concern about the GOE's monetary policy and management of the money supply. In general, respondents would like to see a more transparent decision-making process and more opportunities for those outside the government to participate in it.

In predicting the progress of key macroeconomic indicators for the years 2000 and 2001, respondents project:

- a GDP growth rate of approximately 5.4% and 5.9% respectively;
- inflation of 4% for both years;
- an exchange rate ranging between LE 3.4 and LE 3.7 to the US dollar;
- a commercial lending rate of approximately 14.5% and 14.4% respectively;
- balance in the fiscal account for both years;
- an unemployment rate, based on current definitions, of approximately 8% for both years;
- a current account balance of -\$0.1 and -\$1.6 billion, respectively; and
- a trade gap of approximately -\$12.9 and -\$11.9 billion, respectively.

II. SCORES FOR THE PREVIOUS SIX-MONTH PERIOD

Sixteen policy areas were scored as "**Minor Step Forward.**" They are: overall fiscal policy, fiscal deficit, taxes, expenditure, overall privatization and public enterprise reform, privatization, public enterprise reform, economic pricing, exports, overall private sector reforms, private sector operations, social safety net, basic education, basic health services, poverty reduction, and reduction of pollution.

Six policy areas were scored as "**No Change.**" They are: interest rate and monetary policy, financial sector policies, overall

foreign trade policies, private sector entry/exist costs, private sector competitiveness, and bureaucratic and administrative reform.

Two policy areas were scored as "**Minor Step Backwards**." They are foreign exchange market and exchange rate system, and imports. This is the third consecutive Amun Oracle Report that foreign exchange market and exchange rate system has scored in the negative range. Imports scored in the negative range for the second time in a row.

III. SCORES FOR PROGRESS TO DATE

Stabilization Policies: Respondents believe the GOE has, since 1991, taken "**Modest Steps Forward**" (50) in stabilization policies. Respondents endorse the GOE's overall stabilization policy agenda, but remain very concerned about the management of monetary policies. Also, many respondents believe reform of the tax system and administration has not received adequate attention.

Structural Adjustment Policies: These policies were given an overall average score of "**Modest Steps Forward**" (40). Again, respondents are supportive of the policy agenda, but would like to have more involvement in the policy decision-making process.

Social Policies: These policies scored "**Minor Steps Forward**" (30). One respondent suggested a nationwide plan to involve unemployed manpower for export-oriented projects.

IV. COMMENTS FOR THE TWENTY-FOUR POLICY AREAS

Stabilization Policies

The Foreign Exchange and Market Rate System and Interest Rate and Monetary Policies: The majority of respondents believe the GOE is attempting to maintain an artificially fixed exchange rate. Most respondents agree that the severity of the problem has subsided, but the fundamental problem remains unaddressed. One respondent commented that with a low inflation rate of approximately 2.9% the interest rate should not exceed 4-5%, not the present 10%. A number of respondents recommend devaluation of the LE and reducing attempts to peg the LE to the US dollar.

Fiscal Policies: This policy area has four subcategories: overall fiscal policy, fiscal deficit, taxes, and expenditure.

Respondents agreed that macroeconomic stabilization policies overall are moving in the right direction. One respondent commented that GOE policies helped Egypt avoid more serious financial problems stemming from low oil prices and the temporary steep decline in tourism. Respondents expressed concern about the use of short-term loans to finance long-term projects. Also, respondents continue to emphasize the lack sufficient reform to the tax system and administration. One respondent said the previous cabinet's decision to exempt export companies from taxes was an excellent move, but the new cabinet has not implemented it. Another recommended that there be a drive to educate people about the importance of paying taxes.

Structural Adjustment Policies

Financial Sector Policies: Respondents agree that positive steps have been taken in this policy area since 1991. The revival of the stock exchange, the brokerage markets, and the encouragement of foreign banks was cited as examples of positive initiatives.

Privatization: This category consists of three subcategories: overall privatization and public enterprise reform, privatization, and public enterprise reform. The move to privatize electricity and cement are viewed as positive initiatives. The transfer of public enterprises to private sector has helped the financial status of these companies, but the lack of management changes has impeded greater progress.

Economic Pricing: One respondent said that in this policy area, water, followed by transportation, lag significantly. Another respondent commented that the change in custom duties on sugar imports was justified. The respondent pointed out that the adverse effect on the most important crop in a number of Upper Egypt governorates, provided ample justification for the GOE's decision.

Foreign Trade Policies: This category consists of three subcategories: overall foreign trade policies, imports, and exports. Respondents agree that tariff reduction should continue and border controls should be streamlined. One respondent recommended that Egypt's permanent exhibitions abroad be privatized. It was the respondents' general opinion that new regulations, such as Decree 619 and the need to cover 100% of a letter of credit are impeding imports. One respondent said that resorting to administrative controls of trade through the unfounded requirement of an import's origin is a serious obstacle. Another recommended that the Central Bank rescind import restriction policies. One respondent recommended the development of a database that would assist producers in

obtaining information on export markets.

Private Sector Policies: This category consists of four subcategories: overall private sector reforms, entry/exit costs, operations, and competitiveness. Respondents agree that there have been many improvements to the private sector business environment since 1991. Still, further reduction of transaction costs and bureaucracy should continue. One respondent commented that competition in the marketplace is still weak. A number of respondents commented that the new labor law would give a boost to the private sector. Also, respondents recommend accelerated judicial reforms to help deal quickly and efficiently with bad checks. One respondent said that the private sector itself must initiate steps to separate ownership from management, increase transparency, ensure a balanced financial structure, and improve professional ethics and standards. The respondent concluded that, if this is not done, the Egyptian private sector would be unable to compete internationally.

Social Policies

Social Safety Net: Respondents observe some improvement in this area and are supportive of work being done by the Fund for Social Development.

Provision of Basic Education: One respondent commented that the introduction of computers into schools is a positive step. The increase in access to education for females is another positive step. Areas to improve upon are the curriculum and teacher training.

Provision of Basic Health Services: Respondents observe improvement in the area of health services. One respondent suggested that employment and health objectives be linked. For example, ovens for drying agricultural products could be introduced to family planning centers. Rural women could then make use of both services.

Poverty Reduction: One respondent commented that it is time for the business community to become involved in this area.

Administrative and Bureaucratic Reforms: It is agreed that progress has been made in this area since 1991, but there remains ample room for improvement. One respondent pointed out that the paperwork and approvals necessary for establishing a business have decreased. Another respondent commented that centralized decision-making continues to impede real reform in this area.

Reduction of Pollution: Respondents are overall supportive and pleased with GOE initiatives in this policy area. One respondent commented that the Ministry of Environment has initiated a number of air quality improvement programs since 1991. Respondents are pleased with initiatives that require industry to abide by laws safeguarding the environment. One respondent said that Cairo's recent air pollution episode, referred to as the black cloud, was a first. Another respondent said that outside Cairo the solid waste problem requires serious attention.

IV. SUMMATION OF AMUN ORACLE ROUNDTABLE

Comments from the Minister of Planning and International Cooperation, H.E. Dr. Ahmed El Dersh's, contained in his reply to the Amun Oracle of July 1999 report were shared with panelists. H.E. Dr. El Dersh commented at length on the report and said that the report provides useful feedback to the GOE. H.E. Dr. El Dersh brought to the panelists' attention a number of GOE programs designed to make credit more accessible to small and medium enterprises. The Insurance Cooperative and the Credit Guarantee Corporation were cited as examples of initiatives taken in this area. In reply to the Amun Oracle discussion of the GOE's monetary policy, H.E. Dr. El Dersh replied that the GOE is watchful of policies that would adversely affect Egypt's low inflation rate.

The proposed real estate mortgage law, the exchange rate and liquidity situation, Egypt's recession, potential for free zones to boost Egypt's exports, pace of privatization, and the new cabinet were all topics discussed at this roundtable.

Panelists overwhelmingly support a real estate mortgage law. The law will facilitate medium and long-term credit to the housing sector, stimulate many sectors of the economy, and make housing more accessible to lower income groups. Panelists however, qualified their overall positive reaction to a law by pointing out that of equal importance is the need for continued reform of the financial sector and legal and regulatory institutions. If passed now, banks, panelists believe, are not equipped to manage long-term credit. The establishment of a real estate funding institute was recommended. In addition, panelists would like to see the creation and debate of the initial framework of proposed laws be more transparent and include participation from interested groups from outside the government. One panelist commented that there is no sense of whether the law, as currently developed, corresponds to community needs.

A large majority of panelists agreed that Egypt is in a recession, but that they also sense a positive undercurrent in elements of the marketplace. The present high demand for people with English, information technology (IT), and management skills, and increased liberalization in the banking sector reflect positive albeit slow activity in the marketplace. The IT sector was highlighted as a sector that is booming. A think tank that would assist to optimize use of the many investment opportunities currently available in the IT sector was recommended.

The group was split on the issue of whether or not free zones have the potential to significantly expand Egypt's exports. A number of participants said that Egypt would fair better by concentrating on improving Egypt's overall competitiveness. That Egypt's many trade agreements do not allow for free zones was cited as a drawback to new free zones significantly expanding exports. Panelists who opine that free zones are a good option emphasized that new free zones would be successful only if they do not operate like Egypt's established free zones. Panelists commented that Egypt's present free zones do not perform properly and are little more than tax havens.

Liquidity, foreign exchange problems, and access to credit remain of foremost importance for the panelists. These topics were the focal point of discussion at the Amun Oracle July 1999 roundtable. Panelists agreed that the first step to improving the exchange rate and liquidity situation is to acknowledge that there is a problem. Lack of transparency and the continued centralization of decision making and information, the panelist opine, will not help Egypt move onto a more competitive plain, neither domestically nor internationally. This opened a discussion of the accuracy of Egypt's statistics on the GDP growth rate and budget deficit. A number of panelists questioned their accuracy and said potential investors do as well. Again the need for greater transparency was stressed.

Another concern expressed is that GOE mega projects are crowding the private sector out of credit and that the required 100% letter of guarantee has unnecessarily compounded the liquidity problem. In dealing with Egypt's monetary policy panelists agree that the GOE's economic team is very good. Panelists however, recommend that the team and the Central Bank of Egypt work more closely together as the two at times issue contradictory statements.

One panelist said that the GOE pledged not to spend more than what is stated in the budget. The panelist said that this is a

positive sign. Panelists acknowledge that the GOE's aim of maintaining a low inflation rate is indisputable, but also feel that a better balance could be attained. A better balance would ease the adverse affects of poor liquidity, high interbank rates, and lack of credit on businesses. Also panelists feel that the pace of addressing and dealing with problem areas needs to quicken. The sooner problems are acknowledged the more options there are available; by waiting, options steadily decrease.

The new cabinet's attention to IT, a mortgage law, strengthening the safety net, opening up the banking sector to foreign banks, attention to the budget deficit, the passing of the new personal status law, and attention to the environment are all viewed as positive initiatives taken by the new cabinet. Initiatives viewed as negative are the government's failure to acknowledge openly liquidity and exchange rate problems, and the promise to employ large numbers in the government. Panelists view the promise as unrealistic and contradictory to the drive for greater competitiveness.

CONCLUSION

This Amun Oracle recommends that the problems of liquidity and the exchange rate be acknowledged and addressed promptly and openly. There is strong support for a real estate mortgage law, but transparency and participation in the shaping and deliberation of the proposed law needs to increase, as does continued reform of financial and legal sectors. Though panelists agree the economy is in recession they also sense an approaching upswing.

Annex 1

Scores for the Previous Six-Month Period July 1, 1999 - December 31, 1999 Compared to the Eight Previous Six-Month Periods

Scores reported are the averages tabulated after the highest and the lowest scores are removed. The scoring scale for the six-month period is as follows:

+10	: at least one major or significant step forward
7 to 9	: an important step forward
4 to 6	: a modest step forward
1 to 3	: a minor movement forward
0	: no change
-1 to -3	: minor or slight movement backwards
-4 to -6	: a modest step backwards
-7 to -9	: a serious step backwards
-10	: at least one major or significant step backwards

	January 1995	July 1995	January 1996	July 1996	January 1997	July 1997	January 1998	July 1998	January 1999	July 1999	January 2000
A. Stabilization Policies											
1. Foreign Exchange Market and Exchange Rate System	2.0	1.4	1.7	1.0	1.0	0.3	3.0	2.5	-0.3	-3.4	-3.1
2. Interest Rate & Monetary Policies	2.3	3.0	3.7	3.2	3.0	2.5	5.4	4.0	2.4	0.0	-0.1
3. Fiscal Policy											
a. Overall	0.4	1.3	1.8	2.7	3.4	3.1	4.1	3.4	1.9	1.0	0.5
b. Fiscal Deficit	2.3	2.8	3.2	3.0	4.4	4.0	4.6	4.3	2.2	0.8	0.9
c. Taxes	0.5	0.6	0.3	2.0	3.4	2.4	2.1	1.9	0.6	0.7	0.8
d. Expenditure	0.5	0.6	0.4	1.0	1.6	1.3	2.7	2.8	1.6	1.6	0.5

B. Structural Adjustment Policies	January 1995	July 1995	January 1996	July 1996	January 1997	July 1997	January 1998	July 1998	January 1999	July 1999	January 2000
1. Financial Sector Policies	3.1	2.6	1.9	2.8	3.3	3.4	2.8	3.3	1.7	0.3	0.3
2. Privatization and Public Enterprise Reform:											
a. Overall	3.0	2.6	0.8	2.8	3.3	3.5	3.8	3.2	2.2	1.1	2.2
b. Privatization	2.8	2.3	0.9	3.3	4.0	3.5	4.0	3.9	2.6	1.5	1.8
c. Public Enterprise	2.7	2.2	0.6	1.4	1.3	2.0	1.5	1.4	1.3	0.8	0.8
3. Economic Pricing Policies	1.6	2.3	2.9	2.8	3.1	3.1	4.2	4.0	1.9	0.8	1.2
4. Foreign Trade Policies											
a. Overall	1.6	1.2	1.0	1.5	2.2	3.4	3.7	3.5	1.3	-1.5	0.1
b. Exports	1.2	0.4	0.7	1.1	1.4	1.3	3.4	2.9	0.4	1.1	1.4
c. Imports	3.0	1.6	0.9	1.2	3.3	3.4	3.3	3.6	1.0	-2.8	-1.4
5. Private Sector:											
a. Overall	0.8	0.8	1.4	2.0	2.4	2.4	3.6	3.4	2.3	1.1	1.1
b. Entry/Exit	1.0	0.3	0.3	1.6	1.7	1.6	3.5	3.0	1.6	0.8	0.4
c. Operations	1.0	0.1	0.1	1.4	3.0	1.6	2.8	2.9	1.0	0.7	0.8
d. Competitiveness	1.2	0.4	0.5	1.3	1.6	1.7	2.5	2.7	1.2	0.3	0.4
C. Social Policies											
1 Social Safety Net	1.0	0.1	0.0	0.3	0.6	1.5	2.5	2.4	1.8	0.9	1.3
2. Basic Education	1.0	0.4	0.7	0.3	0.8	0.9	1.0	1.6	0.7	1.7	0.8
3. Basic Health Services	1.0	0.0	0.0	0.2	0.7	1.0	0.8	1.7	1.1	1.5	1.6
4 Reduction of Poverty	0.2	-0.3	-0.9	-0.6	-0.8	0.0	0.3	1.0	0.7	0.7	0.6
5. Administrative/ Bureaucratic Reforms	0.0	-0.2	-0.4	1.6	1.5	1.0	1.2	0.8	0.8	0.6	0.4
6. Reduction of Pollution*	-----	-1.0	-0.8	-0.3	0.3	0.3	2.1	2.7	1.9	3.0	1.6

* This policy was added only in the July 95 survey.

Annex 2

Scores for Progress to Date 1991 to the Present

Scores reported are the averages tabulated after the highest and the lowest scores are removed. The scoring scale for Progress to Date is as follows:

+100	:	at least one major or significant step forward
70 to 90	:	an important step forward
40 to 60	:	a modest step forward
10 to 30	:	minor movement forward
0	:	no change
-10 to -30	:	minor or slight movement backwards
-40 to -60	:	a modest step backwards
-70 to -90	:	a serious step backwards
-100	:	at least one major or significant step backwards

A. Stabilization Policies:	January 1995	January 1996	January 1997	January 1998	January 1999	January 2000
1. Foreign Exchange Market Rate System	79.00	76.67	75.57	69.80	82.0	62.9
2. Interest Rate & Monetary Policies	72.08	76.11	73.85	67.30	88.0	67.6
3. <u>Fiscal Reform</u>						
a. Overall	59.17	61.56	59.30	60.90	81.0	55.3
b. Fiscal Deficit	76.25	81.25	80.10	71.00	84.0	70.6
c. Taxes	53.13	56.25	49.23	52.30	49.0	17.6
d. Expenditure	43.57	40.50	35.86	47.50	55.0	28.2

B. Structural Adjustment Policies	January 1995	January 1996	January 1997	January 1998	January 1999	January 2000
1. Financial Sector Policies	63.33	58.89	57.57	58.00	68.0	45.6
2. <u>Privatization and Public Enterprise Reform:</u>						
a. Overall	40.42	38.33	42.80	50.50	74.0	58.8
b. Privatization	32.14	35.71	46.50	53.90	75.0	58.2
c. Public Enterprise	42.86	39.29	32.10	37.30	53.0	39.4
3. Economic Pricing Policies	70.42	72.22	65.25	68.50	68.0	48.8
4. <u>Foreign Trade Policies</u>						
a. Overall	56.88	56.11	51.21	61.20	57.0	46.5
b. Exports	50.00	42.75	38.83	57.60	37.0	17.6
c. Imports	54.38	60.13	50.12	61.80	57.0	32.9
5. <u>Private Sector</u>						
a. Overall	43.75	41.33	48.42	59.50	57.0	35.9
b. Entry/Exit	33.57	38.13	39.10	58.20	54.0	41.2
c. Operations	41.43	41.13	39.27	51.90	50.0	31.8
d. Competitiveness	39.17	39.13	29.96	48.70	48.0	30.0
C. Social Policies						
1. Social Safety Net	41.08	27.78	23.12	33.50	44.0	34.7
2. Provision of Basic Education	43.57	31.11	24.28	26.00	11.0	20.0
3. Provision of Basic Health Services	37.28	27.56	23.98	26.40	23.0	26.5
4. Reduction of Poverty	30.00	18.33	19.05	28.50	25.0	20.0
5. Administrative/ Bureaucratic Reforms	27.86	18.89	23.29	30.50	23.0	17.6
6. Reduction of Pollution*	----	13.33	12.39	28.50	19.0	31.2

* This policy was added only in the July 95 survey.

Annex 3

PROJECTIONS FOR 1999/2000

Macroeconomic Variables	January 1995	July 1995	January 1996	July 1996	January 1997	July 1997	January 1998	July 1998	January 1999	July 1999	January 2000
1. GDP Growth Rate (%)	2.6	2.6	2.8	2.6	4.7	5.0	5.0	5.1	5.3	5.3	5.4
2. Inflation (%)	11.0	10.5	8.9	8.8	7.2	7.2	5.9	6.1	3.8	4.0	4.0
3. Exchange Rate (US/LE)	3.8	3.6	3.5	3.4	3.4	3.4	3.4	3.4	3.6	3.5	3.5
4. Commercial Lending Rate	14.5	13.9	15.0	15.0	15.3	14.5	13.3	13.6	14.1	14.1	14.5
5. Fiscal Budget Deficit (% of GDP)	3.3	2.7	1.8	1.6	1.2	1.1	1.0	1.0	1.2	1.1	-0.1
6. Unemployment Rate (% of Labor Force)	12.1	13.5	12.6	11.2	9.8	9.9	8.9	9.1	9.6	9.2	7.9
7. Current Account* Balance (\$billions)	-----	-----	-----	-----	-0.2	-0.2	-0.6	-0.5	-2.2	-1.8	-0.1
8. Trade Gap**(Merchandise Exports-Imports in \$billions)	-----	-7.9	-8.0	-7.8	-9.6	-10.0	-10.2	-9.9	-13.0	-11.9	-12.9

* Current Account Balance was only added in the January '97 survey.

** Trade Gap was only added in the July '95 survey.

PROJECTIONS FOR 2000/2001

VARIABLES	AVERAGE	MEDIAN
1. Real GDP Growth Rate (%)	5.9	6.0
2. Inflation (%)	4.4	4.0
3. Exchange Rate (LE/US\$)	3.7	3.7
4. Commercial Lending Rate at End of Period (%)	14.4	15.0
5. Fiscal Budget Deficit (% of GDP)	0.3	1.0
6. Unemployment Rate (% of Labor Force)	7.7	7.8
7. Current Account Balance (\$ billions)	-1.6	-2.0
8. Trade Gap (Merchandise Exports-Imports in \$ billions)	-11.9	-12.0

