Statement by Girmai Abraham  
Date of Meeting: July 3, 2001

**Egypt: Country Assistance Strategy**

Egypt's key social and economic fundamentals are solid with basic indicators portraying a robust growth track record. Inflation is strictly controlled, debt prudently managed and reserves are at a comfortable level despite the recent decline. These are reinforced by the recently introduced flexible foreign exchange regime with the abandonment of the fixed peg, and an impressive privatization record. The social indicators also look equally sound with good prospects for meeting the IDGs.

The country is resolutely striving to full integration in the global market through the pursuit of an outward-oriented private sector-led development strategy. To this end, major steps have been taken to join several integration schemes, including Association with the EU, and membership in the COMESA, the Nile Basin Initiatives, and the WTO. Egypt is also at an advanced stage in meeting key international standards necessary for enhancing its competitiveness in world markets and gaining recognition of the rating agencies. It is against this background that the role of the Bank Group in Egypt should be articulated.

Egypt is confronted with two sets of challenges: correcting macro-economic situation, which has experienced some slippages recently, and deepening structural reforms. Of particular importance is releasing the pressure on the balance of payments and keeping the fiscal deficit under control to avoid any overheating of the economy. We are pleased with the recent steps taken by the Government to address the internal and external imbalances, which we hope will be sustained.

On the structural reform front, paucity of data on poverty, regional imbalance, gender equality, removal of administrative barriers, civil service and tax reforms pose major challenges. Of great concern also, is the high rate of unemployment, with 550 thousand new entrants into the labor market each year. Since employment prospects in the public sector are limited, Egypt would have to rely more on the private sector and to generate employment for its rapidly growing labor force. This has to be supported by an adequate flow of concessional loans and grants and FDI, sufficient to bridge the gap between domestic savings and investment requirements.

Improving the quality of the environment, particularly in the areas of air and water
pollution, salinity and soil erosion, is an area where considerable assistance is needed as these issues are closely related to poverty reduction and urban/rural balance.

Performance during the last CAS was broadly satisfactory. Portfolio performance has been impressive with very low number of projects at risk. Among the Bank Group, IFC has been the most proactive, making way for a vibrant private sector, while MIGA’s role is yet to be seen. With respect to IBRD, it is apparent that the cost of doing business remains the main reason for Egypt’s reluctance to borrow from the Bank. Given the 40 percent grant element threshold Egypt has set to its borrowing, and in view of its recent graduation from IDA and available concessional assistance from other sources, the Bank needs to explore innovative approaches for its engagement in Egypt. In this connection, it is surprising to see the repeated tone in the document that Egypt should change the way it conducts its business. Rather, I believe it is the Bank that should look into ways that might help it become more competitive vis-à-vis other partners. Furthermore, IFC, supported by a proactive MIGA, should gradually assume a leading role in the development efforts of Egypt. As the IBRD is not expected to meet the 40 percent grant threshold, non-lending activities seem to be the appropriate areas of its focus, particularly in areas related to poverty, institutional capacity building, environment, financial sector development, the Nile Basin Initiative, and enhancing competitiveness.

I am in broad agreement with the proposed three lending scenarios and the triggers. However, I have the following concern and questions:

First: In paragraph 80, we note the Bank’s concerns with the way the constitutional requirements of its loans are met. I believe that this is an internal matter to be governed by the country’s sovereign rules.

Second: I do not see any convincing argument for the Bank to ask the Government “to begin to tap less concessional sources of financing and increase its nominal debt stock” (Para 62). I would appreciate some elaboration from Staff on this matter.

Finally, I would like to commend Staff for a job well done and wish the Egyptian authorities all success in their continued endeavors to fully integrate their economy into the global economy. I would also like to commend the Country Management Unit for its vital and constructive role, not only in monitoring the economy and Bank portfolio, but also for the high quality of its dialogue with the Government.