TRADE AND ECONOMIC OVERVIEW

Egyptian government leadership has recognized that fundamental reforms are necessary to deal with Egypt's economic problems. In repeated and intensive consultation with the World Bank and IMF, the government has been developing an economic reform strategy that will correct macroeconomic imbalances and reorient the economy towards market mechanisms and the private sector. Starting in late 1990 and early 1991, the government took important measures to reduce the government budget deficit and discipline monetary policy. Interest rates were decontrolled, the banking system was strengthened, and a liberalized, market-based foreign exchange system was installed and is operating effectively.

The government designed the legal basis for subjecting public sector companies to market tests of efficiency and for allowing the sale of some companies to private investors. Decontrol of public sector prices and liberalization of foreign trade and private investment is underway and continues to date. The accomplishments of the 1990's are positive and provide for economic reorientation in order for Egypt to continue developing a prosperous economy.

Economic policy in 1994 will focus on reforms in the microeconomic sphere, in particular privatisation and the restructuring of public-sector enterprises, trade liberalization, and the promotion of the private sector through the deregulation of the business and investment environment. However, these reforms are more politically sensitive than the fiscal and monetary changes emphasised in Egypt's previous International Monetary Fund agreement. Thus, the reform timetable is much more at risk of being derailed by government worries about political stability.

Egypt is a member of various international organizations, such as the United Nations, the World Bank, the International Monetary Fund, the General Agreement on Tariffs and Trade, and the arab League. Although Egypt exports oil, it is not a member of the Organization of Petroleum Exporting countries (OPEC). Egypt has a preferential trade agreement with the EC providing for substantial tariff reductions on a wide variety of exports to Europe.

Trade liberalization is a sensitive issue, particularly as this policy is facing politically powerful lobbying groups. But further tariff reforms are nevertheless expected to be implemented in 1994. The current 80 percent maximum tariff should be reduced to 70 percent by the end of 1993 and 60 percent by the end of 1994 before being cut to 50 percent at the end of 1995. The government has promised to lift all non-tariff barriers to trade, including the twenty-six items left on the import ban list. But the unexpected appearance of other non-tariff trade barriers, such as the government's current use of quality control regulations to protect local industries, will remain a problem throughout the forecast period.