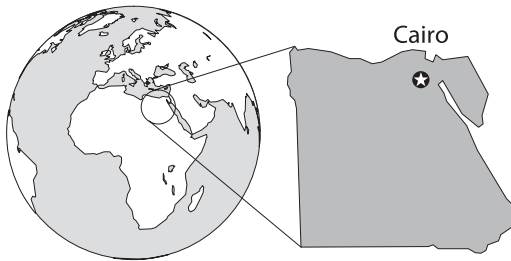


# EGYPT



Rank: 85

Regional Rank: 11 of 17

**E**gypt's economy is 59.2 percent free, according to our 2008 assessment, which makes it the world's 85th freest economy. Its overall score is 4 percentage points higher than last year, the largest improvement of any country. Improvements in business, financial, and trade freedom were significant. Egypt is ranked 11th out of 17 countries in the Middle East/North Africa region, and its overall score is above the regional average.

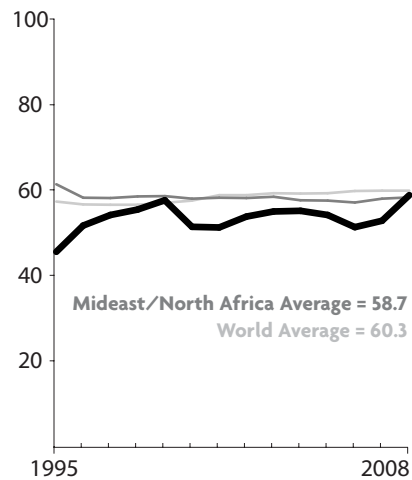
Despite recent reforms, Egypt remains weak in most of the 10 economic freedoms, scoring above average only in fiscal freedom, government size, and labor freedom. The top income and corporate tax rates are very low, and government tax revenue relative to GDP is not high. Total government expenditures are moderately low.

Egypt could improve in several areas, but nowhere is it extremely below average. Its lowest relative score is in financial freedom, which is 12 points below average. Corruption and weak property rights are also serious problems; corruption is common, and the fair adjudication of property rights cannot be guaranteed.

**BACKGROUND:** Egypt is the most populous Arab country and a major force in Middle Eastern affairs. Although President Hosni Mubarak's government has undertaken incremental reforms to liberalize the socialist economic system that has hampered economic growth since the 1950s, the government continues to maintain heavy subsidies on food, energy, and other key commodities. Economic reform has become a higher priority under Prime Minister Ahmed Nazif, a technocrat who took office in 2004 and has placed liberal reformers in key positions. In 2005, the government reduced personal and corporate tax rates, cut energy subsidies, and privatized several enterprises.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

**The economy is 59.2% free**



## QUICK FACTS

**Population:** 74.0 million

**GDP (PPP):** \$321.1 billion  
4.5% growth in 2005  
3.7% 5-yr. comp. ann. growth  
\$4,337 per capita

**Unemployment:** 9.5%

**Inflation (CPI):** 8.8%

**FDI (net flow):** \$5.3 billion

**Official Development Assistance:**  
Multilateral: \$328.5 million  
Bilateral: \$1.2 billion (51.4% from the U.S.)

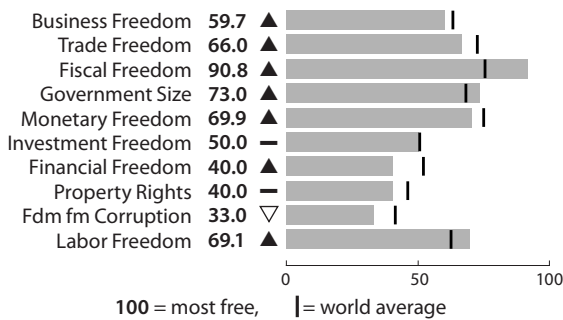
**External Debt:** \$34.1 billion

**Exports:** \$30.7 billion  
Primarily crude oil and petroleum products, cotton, textiles, metal products, chemicals

**Imports:** \$34.3 billion  
Primarily machinery and equipment, foodstuffs, chemicals, wood products, fuels

2005 data unless otherwise noted.

## EGYPT'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 59.7%

The overall freedom to start, operate, and close a business has benefited from efforts to improve the business climate. Starting a business takes an average of nine days, compared to the world average of 43 days. Obtaining a business license requires more than the world average of 19 procedures and 234 days. The government has established a “one-stop-shop” for investment and has moved to revamp regulation. Closing a business can be burdensome.

### TRADE FREEDOM — 66%

Egypt’s weighted average tariff rate was 12 percent in 2005. Reform continues slowly, and import restrictions, service market access restrictions, some high tariffs, burdensome and non-transparent sanitary and phytosanitary measures, cumbersome bureaucracy and non-transparent regulations, weak enforcement of intellectual property rights, and non-transparent customs administration add to the cost of trade. An additional 10 percentage points is deducted from Egypt’s trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 90.8%

Egypt has low personal income and corporate tax rates. Both the top income tax rate and the top corporate tax rate are 20 percent. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 10.8 percent.

### GOVERNMENT SIZE — 73%

Total government expenditures, including consumption and transfer payments, are moderate, but subsidy spending has caused significant fiscal deficits. In the most recent year, government spending equaled 30 percent of GDP. Despite setbacks, privatization is proceeding.

### MONETARY FREEDOM — 69.9%

Inflation is relatively high, averaging 5.7 percent between 2004 and 2006. Relatively unstable prices explain most of the monetary freedom score. The government controls prices for some basic foods, energy (including fuel), transport, and medicine and subsidizes basic food items, sugar and pharmaceuticals, and public transportation. An additional 15 percentage points is deducted from Egypt’s monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 50%

All investment projects must be reviewed to gain legal status and qualify for incentives. Investment in certain sectors, such as tourism, mining, and oil, falls under Law 8, and approval is nearly automatic. Foreigners may own 100 percent of Law 8 investment projects and may repatriate capital. Foreign investment in Sinai, military products, and tobacco requires approval from the relevant ministries; foreign ownership of the main agricultural land is almost always prohibited. Residents and non-residents may hold foreign exchange accounts. There are no restrictions on payments and transfers. Bond issues require the Capital Market Authority’s approval.

### FINANCIAL FREEDOM — 40%

There were 43 licensed banks in 2006, including 36 local financial institutions and seven foreign banks, and the four large state-owned banks controlled about 50 percent of assets. The smallest state bank was approved for sale in 2006, and the government has sold its shares in some private banks. Non-performing loans are significant, and new banks face constraints. Bankers are reluctant to lend privately because of loan scandals and the lack of an institution capable of judging credit-worthiness. In 2004, Egypt was removed from a blacklist of countries that were insufficiently combating money laundering. There were 21 insurance companies in 2006, including four dominant state-owned firms and another state-owned reinsurance company. Capital markets are large for the region, and the stock exchange has been the world’s best-performing emerging-market exchange for two years.

### PROPERTY RIGHTS — 40%

The government sometimes circumvents the judiciary by using fast-track military courts. On average, it takes six years to decide commercial cases, and appeal procedures can extend court cases beyond 15 years. Local contractual arrangements are generally secure. Islamic law is officially the main inspiration for legislation, but the Napoleonic Code exerts a significant influence. Judicial procedures tend to be protracted, costly, and subject to political pressure. The enforcement of intellectual property rights is seriously deficient.

### FREEDOM FROM CORRUPTION — 33%

Corruption is perceived as significant. Egypt ranks 70th out of 163 countries in Transparency International’s Corruption Perceptions Index for 2006. Bribery of low-level civil servants seems to be a part of daily life, and there are allegations of significant corruption among high-level officials.

### LABOR FREEDOM — 69.1%

The government has adopted a new labor code in recent years. Relatively flexible employment regulations could be improved to enhance employment opportunities and productivity growth. The non-salary cost of employing a worker can be high, but restrictions on working hours are relatively flexible.