



OXFORD ANALYTICA

EGYPT

FISCAL TRANSPARENCY

Country Report 2006

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EGYPT



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2006	2005	2004	2003
Clarity of roles	•••	•••	••	••
Availability of information	•••	••	••	••
Budget preparation	•••	•••	••	••
Accountability	••	••	••	••
Score	2.75	2.50	2.00	2.00

OUTLOOK & COMMENTARY

The Egyptian government has continued its reform programme this year, enhancing transparency of the budget and government activities. Further reforms are due to be finalised in the coming year.

Budget preparation is carried out according to the IMF Government Financial Statistics Manual 2001, and medium-term budgeting is also now employed. For the first time the Ministry of Finance has published the forthcoming budget online. With the budget, it has also published data on the current and previous three fiscal years, comparing actual government spending against the budget.

A single treasury account will be created by the end of the year, closing down 48,000 separate government accounts. All government revenues will be deposited into one account at the Central Bank of Egypt, significantly enhancing transparency of government operations, and improving management of funds and debt. A macro-fiscal unit inside the Ministry of Finance has also been working on fiscal sustainability, and, with the assistance of the IMF, is due to publish a report on debt management in June 2007.

Although Egypt subscribes to the IMF Special Data Dissemination Standards, further improvements to fiscal data are required in order to make them reliable and freely available.

EXECUTIVE SUMMARY

2.75 Enacted

The Egyptian government has continued to demonstrate its complete commitment to the ambitious reform programme started two years ago. Many of these rapid reforms have enhanced fiscal policy transparency, and further improvements are scheduled for the coming years.

In 2006, the transparency of government activities has been enhanced by the increased number of Ministry of Finance (MoF) publications, including the publication of the 2006/07 state budget, which compares actual budget aggregates with budget forecasts and allocations over the past three fiscal years. Furthermore, the MoF has begun to publish a *Financial Monthly* report, which provides time series data on a wide number of economic indicators together with summaries of budgetary activities. Budget preparation is carried out according to the IMF Government Financial Statistics Manual (GFSM) 2001 standard, and both the 2005/6 and 2006/7 budgets were prepared under a medium term framework with the aid of a new macro-fiscal unit. The new unit's remit covers fiscal sustainability analysis, but it has also been working on a debt statement with the assistance of the IMF, due for release in June 2007. However, the budget is still prepared under a cash accounting basis, although the MoF hopes to move to accrual accounting in the next five years.

A single treasury account will be set up by the end of the year, closing down some 48,000 government accounts, and depositing all government revenues into one account at the Central Bank of Egypt (CBE). The single account will increase transparency of cash management and should also enable the government to target the reduction of the Public Sector Borrowing Requirement.

The privatisation programme has continued in 2006, although at a slower rate. Of the four state banks, two are due to merge, although there are concerns that the work to rationalise non-performing loans belonging to one of the banks, has not been completed. Sanpaolo IMI Bank of Italy bought an 80% stake in the Bank of Alexandria in October 2006. The remaining bank, the National Bank of Egypt, is likely to remain under government control (for the time being) until the banking sector climate improves. In other sectors, Suez Steel was sold off in September 2006, and Telecom Egypt offered 20% of its stock in an IPO in December 2005. However, although the easier privatisations (e.g. telecoms) have been achieved, more politically sensitive ones remain including electricity generation, petroleum distribution and pharmaceuticals.

The role of the National Investment Bank (NIB) is being redesigned, as it will soon be restructured into a development bank. Previously, the NIB's task was to finance government capital expenditure projects with funding sourced from pensions, among others. However, as of this year, the MoF has been borrowing from pension funds directly.

Egypt has subscribed to the IMF Special Data Dissemination Standard (SDDS) since 2005. However, there is room for improvement in terms of the periodicity and timeliness of all fiscal data. For example, historical data is still inadequate, unemployment and labour market data are unreliable, and there remains a 45-day lag in the release of quarterly fiscal data.

Egypt's overall score has improved from 2.50 in 2005 to 2.75

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES



Enacted

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions and responsibilities of government

The structure and the general responsibilities of the different levels of government are set out in the Egyptian Constitution¹ and subsequent presidential decrees and amendments concerning the restructuring of ministries. The constitution specifies the divisions between the legislative, executive and judicial authorities, as well as local government and civil community institutions. A 2005 amendment to Article 76 of the Constitution provides that the head of state, the president, is elected in direct public elections contested by more than one candidate. Previously, the president was nominated by a two-thirds majority of the parliament and elected by referendum. The presidential term is six years and may be extended to an unlimited number of additional consecutive terms.² The president has the power to veto legislation, and presidential decrees have the force of law. Among other things, the parliament approves the budget and development plans.

Since the launch of an economic reform programme in 1991, the government sector in Egypt has become more distinct from the rest of the public sector. At the same time, the role of the private sector in the economy has grown and, as a result of more recent reforms, clarity regarding economic and fiscal objectives has increased.

In July 2004, a notable change was made in high-level government personnel with the appointment of Prime Minister Ahmed Nazif and a cabinet principally comprised of younger figures, including some well-regarded economic liberals. The government was brought in with a mandate to speed up the pace of reform, widely considered to have slowed in the years preceding 2004, and it included as the minister of finance, a former minister of foreign trade and long-standing economic reformist, Yousef Boutros-Ghali. The minister installed an eight-person team of highly experienced individuals, mainly drawn from the private sector, to assist in rolling out the reform programme. Furthermore, the minister of finance, the governor of the central bank, and the minister of foreign trade appear to share a similar vision and approach to reform. There has also been improved clarity over the division of responsibility between the Ministry of Finance (MoF), the Ministry of Foreign Trade and Industry, the Ministry of Investment, and the Central Bank of Egypt.³

The government, on assuming power, set fiscal reform as one of the major planks of its reform programme and has since been implementing a rapid reform programme. The IMF have commented that: “The ongoing efforts to modernize Egypt's budget classification and treasury cash management, improve tax administration, and reform the income tax clearly demonstrate the priority the government has assigned to fiscal policy in its reform agenda.”⁴

In May 2006, the creation of a single treasury account -- named ‘The Treasury Account’ -- was approved by parliament, and it will be set up to deposit all government revenues into one account in the CBE. It will include all MoF accounts and those for administrative and local government units. The law also forbids the opening of any accounts for these agencies, without the prior approval of the minister of finance.⁵ Historically, the government opened separate accounts for each new project in both public and commercial banks, and this made transparent cash management difficult. The single account will increase transparency and should also enable the government to target

the reduction of the Public Sector Borrowing Requirement. Commentators added that the creation of the account should also lead to better supervision of off-budget expenditures and revenues. The establishment of the single account will involve the closing of around 48,000 government accounts; they were targeted to close by the end of 2006.⁶

Coordination and management of budgetary activities

Fiscal policy operations in Egypt are highly centralised, and there are limited data available on the fiscal position of sub-national levels of government. However, the minister of finance has indicated that he aims to devolve some of the responsibilities for budget coordination and management in the medium term. Egypt's economic ministries and organisations have been the subject of a succession of reorganisations over the past five years. In a 2004 reorganisation, the Ministry of Foreign Trade (MoFT) became the Ministry of Foreign Trade and Industry (MoFTI). While the general mandate of the MoF -- to manage government finances, fiscal planning and budgetary activities -- is essentially clear, the MoF still needs to continue its improvements in dissemination of data and information.

In 2005, a macro-fiscal unit was set up with the assistance of the IMF with a remit to carry out medium term budget projections and fiscal sustainability analysis. It is in its early stages at present, but this year's budget was presented on a three year basis -- as promised -- and debt sustainability analysis carried out with IMF assistance is due for release in June 2007.⁷

Also in 2005, the first phase of an 'e-governance' budget automation project was implemented. With the consultation of a private company, an Automated Government Expenditure System (AGES) has been put into place to help the MoF prepare the budget more efficiently. As a result, the accuracy and speed with which the budget is now prepared have increased considerably. Further stages will include online linkage of other ministries' budget preparations, actual expenditure recording and tracking, and automated issuance of end of year closing accounts. AGES has also been designed to work in tandem with the new GFSM 2001 budget classification and has made medium-term budget forecasting feasible.⁸

Relations between government and public sector agencies

There is still some lack of clarity over the regulation of some public sector agencies, although one of the most prominent cases of ambiguity involving the National Investment Bank (NIB) will soon be resolved, as it transforms into a government development bank. Previously, the NIB's task was to finance government capital expenditure projects; it was funded mainly by pension funds, but also by post office savings accounts and investment certificates from the National Bank of Egypt. However, as of this year, the MoF borrows directly from such funds (mainly pension), bypassing the NIB. The NIB also now has a separate line in the central bank accounts. Its audits though, are not available to the public.⁹

At present, responsibilities for fiscal and monetary responsibilities and activities between the government and the CBE require some clarification. The basic relationship is set down in the Central Bank Law, which stipulates that the CBE is the Treasury's debt agent. Officially, the MoF and the CBE are largely autonomous and coordinate at the cabinet level. Hitherto, however, there have been no permanent mechanisms or mandatory procedures for direct coordination between them, although there have been some improvements in coordination in past years.¹⁰

Government involvement in the private sector

There is now a clearer differentiation between the public and private sectors. In the past there were no publicly disclosed rules or guidelines for government involvement in the private sector, whether in terms of regulation or of equity ownership, but further privatisations have improved the situation. The Ministry of Investment is responsible

for the privatisation programme¹¹ and, over the last two years, a total of 87 state assets have been sold off, raising 3.6 billion US dollars.¹²

However, privatisation of the banking system has slowed in 2006. Of the four public sector banks, the Banque Du Cair and Banque Misr are still in the process of merging. In theory, the process should be finalised over the next year, although there are concerns that the merger will not go ahead as work on rationalising non-performing loans and organising redundancies has not been carried out. On the one hand, Banque du Cair is in a dire state -- 60% of its loans are non-performing, and it is unlikely they will be recovered -- and commentators believe that Banque Misr does not have the management capacity to take on another bank.¹³ Sanpaolo IMI Bank of Italy, acquired the Bank of Alexandria, the smallest of the four banks, when it bought an 80% stake on 17 October 2006 for 1.6 billion US dollars.¹⁴ The remaining bank, the National Bank of Egypt, is likely to remain under government control for the time being, until the banking sector climate improves.¹⁵

The selling off of state-owned enterprises has continued this year with some successes. Suez Steel was sold to an Egyptian firm, Ataqa, in September 2006, and Telecom Egypt offered 20% of its stock in an IPO in December 2005. However, although the easier privatisations (e.g. telecoms) have been achieved, more politically sensitive ones remain such as electricity generation, petroleum distribution and pharmaceuticals. Furthermore, the government was unable to secure investors for the sale of a 50% stake in the Alexandria Mineral Oils Company.¹⁶

Egypt's first anti-trust law was passed in June 2005, and was successfully implemented this year. A Competition Authority has been established with the help of the UK Competition Commission, and seven cases have already been referred to it, the most prominent one being one related to the cement and steel sectors. Although the law has been welcomed by the private sector, commentators noted that utilities and infrastructure are exempted and mergers and acquisitions do not come before the Competition Authority.¹⁷

There should be a clear legal and administrative framework for fiscal management

Legal framework for budgetary activities

The current legal framework for budgetary activities is set out in Law No. 53 of 1973, and subsequent amendments and budgetary regulations. The ministry is required to review the budgets submitted to it by relevant public agencies and to "consult with the CBE in order to ensure coordination between fiscal, monetary, and credit policies within the framework of both the approved annual plan targets and the overall policies of the state."¹⁸ The MoF is authorised to issue treasury bonds, through consultation with the CBE, and to issue relevant executive regulations as required.¹⁹ On this basis, the administrative framework for fiscal management is largely determined by the MoF.

Budgetary reform is progressing under the new government: Law 97/2005, passed in 2005, provides for budgets to be prepared according to the IMF Government Finance Statistics Manual (GFSM) 2001.²⁰ The government hopes to adopt further legal and administrative frameworks for fiscal management in the coming years.

Legal framework for taxation

After many years of unfulfilled promises, there was major reform of Egypt's tax system in 2004 and 2005, further demonstrating the government's commitment to large-scale economic reform. Firstly, the Income Tax Law No. 91/2005 has made the tax system more transparent for both national and foreign investors, cutting personal and corporate income taxes and unifying tax exemptions and legislations. The MoF has also set up a large taxpayers' centre, to collect the 80% of company taxes that come from 2,000 of Egypt's largest firms.²¹ Secondly, customs reforms in 2004 reduced the average tariff-rate from 14% to 9%, and they have also simplified customs

administration. The tax system is now far more efficient and less corrupt. Consequently, from 2004/5 to 2005/6 tax revenues have increased by five billion Egyptian pounds (800 million US dollars) to 29 billion Egyptian pounds (5 billion US dollars), although the tax base still only covers 20% of the population. The government is now addressing this problem.²²

Further efforts to rationalise the tax system are still required, and a draft sales tax law is due to be passed in May 2007. It features measures to alleviate the tax burden on small investors and addresses flaws in the current law. Publicly available information on all tax changes is of a good standard, as the government has invested in public awareness programmes; query forms and simple descriptions of all the different taxes are also to be provided on the new MoF website and on the sales tax website.²³ Further reforms are required on stamp duties and real estate taxes.²⁴

Ethical standards for public servants

A code of practice does exist -- hard copies are publicly available --, but the extent to which it is followed in practice is limited.

2. PUBLIC AVAILABILITY OF INFORMATION

●●● Enacted

The public should be provided with full information on the past, current and projected fiscal activity of government.

In 2005, the MoF established a comprehensive and well-designed website for its activities, which has been further developed over the past year. Explanations of intentions and policies are clear, with the state budget now being published online, and regular press releases and periodicals are now uploaded to the site. However, there are still some important links which are not 'live'.²⁵ Publications disseminating fiscal information are the *Monthly and Quarterly Economic Digest* published by the MoFTI and the *Quarterly Egyptian Economic Monitor* and a quarterly *Selected Economic and Financial Indicators*, published by the MoF. This year, the MoF also began publishing the *Financial Monthly* online which is a monthly statistical publication providing national accounts statistics, summaries of budgetary activities, information on domestic prices, government debt, and the fiscal, monetary and financial sectors. Hard copies are available, and all are available on the MoF website.²⁶ Fiscal data are derived from the MoF. The Cabinet Information and Decision Support Centre also publishes a monthly *Egyptian Economic Bulletin (EEB)*.²⁷ The EEB contains data on overall macroeconomic and sectoral performance.

Central government operations

Although the availability of some types of data has improved, the overall level and quality of information published on central government operations remains inadequate. The MoF publishes summary information on national budget operations, including revenues and expenditures on its website.²⁸ However, the website does not provide an explanation of policy developments or economic targets.

Commentators stated that a new television channel for parliament has helped to increase transparency. It broadcasts all sessions, and the budget is discussed frequently in parliament.²⁹

Significant advancements in budget transparency were made this year with the publication of the 2006-7 budget on the MoF website; it includes budgets by both economic classification and functional classification. The budget according to economic classification compares actual government spending with budgetary allocations over the past three fiscal years, while the budget according to functional classification summarises actual spending over the past three fiscal years, comparing budgetary allocations for the current and coming year. Hard copies are also available in English and Arabic.³⁰

Public sector operations

The availability of information on public sector operations has improved over the past few years only insofar as information has sometimes been disseminated about public institutions or state-owned enterprises which have been marked for reform or privatisation. Commentators have expressed the need for more systematic information on public sector companies such as published financial statements. Whether or not availability of information improves over the near term will depend largely on the progress the new government makes in its reform and privatisation plans.

Major public institutions and state-owned enterprises include the General Authority for Petroleum, the General Authority for Supply Commodities, the Electricity, Suez Canal, and Ports Authorities; and the General Authority for Industrialisation. Historically, the government has covered any losses made by these entities, although in law they are separated from the national budget.³¹

A commitment should be made to the timely publication of fiscal information.

The IMF Special Data Dissemination Standard (SDDS), to which Egypt successfully subscribed in January 2005, is the main framework for government commitment to the timely publication of fiscal information. Data are available on the IMF's SDDS bulletin board and the Ministry of Planning (MoP) website.³² However, commentators have noted that while meeting SDDS requirements is commendable, there remains much room for improvement in terms of the periodicity and timeliness of the data.³³ For example, historical data are still inadequate, unemployment and labour market data are unreliable, and the IMF highlights that since subscription there remains a 45-day lag in the release of quarterly fiscal data.³⁴

Debt reporting

The reporting of debt data is considerably better than for most other fiscal data. The CBE is the principal debt reporting body, compiling domestic and external debt data from internal sources, the MoF and the NIB. The CBE publishes these data in its *Monthly Statistical Bulletin*, which is reproduced in the publications of other ministries, in particular the *Quarterly Economic Digest* and *Monthly Economic Digest*. Data are given for external debt by type, cumulative arrears, the profile of external short-term debt, and the profile of both public and publicly guaranteed medium- and long-term debt. Similar data are given for domestic debt, including the level of government borrowing from the NIB. Five year historical data are also available from the MoF's *Financial Monthly* report.³⁵ This year the MoF has also begun publishing an issuance calendar, although calendars are available online as far back as 2004-5.³⁶

Advance release calendars

As part of the introduction of SDDS, an advance release calendar for fiscal information has been in place since mid-2004. However, the usefulness of the calendar will remain limited, until the MoF begins to disseminate data directly, rather than indirectly through publications of the MoFTI.

3. OPEN BUDGET PREPARATION, EXECUTION AND REPORTING

●●● Enacted

Fiscal policy objectives, macroeconomic framework and risks

Fiscal policy objectives

New fiscal policies are disseminated through the press statements from the MoF, though not in a consistent or regular way, and there are no written fiscal policy objectives included in published budget documentation.

Over the recent past the government has sought to develop the capital market in Egypt to improve its deficit financing options, and in 2004 it began to introduce long-term treasury bonds. Despite these efforts, however, the budget deficit remains significant. For 2005-06, the consolidated budget deficit was expected to be around 8%, although the government plans to reduce this by 1% per annum over the next five years.³⁷

Macroeconomic framework

The main official macroeconomic framework for the country can be found in the MoFTI's *Quarterly Economic Digest*.

Fiscal risks

The limited published budgetary documentation does not currently provide an assessment of fiscal risks. Information is not available on how extra-budgetary transactions are handled, although it is clear that there are many such transactions. Some extra-budgetary expenditures or 'leaks' have been admitted by the government, but there is little public confidence that these represent the total of such leaks. In its Article IV consultations with Egypt in 2004, the IMF noted that off-budget expenditure was set to drive up the fiscal deficit during 2004-05.³⁸ However, with continuing fiscal reform, the situation should begin to improve.

Fiscal sustainability

Although government officials sometimes discuss aspects of fiscal sustainability, at present few official economic publications contain a detailed assessment of sustainability. Public debt is substantial and growing -- made up of a combination of debt in the National Investment Bank and outstanding government securities. However, the newly established macro-fiscal unit within the MoF has been mandated to assess fiscal sustainability, and it has been working with the IMF on a debt management exercise.³⁹

As part of the decentralisation process for public expenditure and revenue mobilisation, four public expenditure reviews (PERs) were commissioned in July 2004 for the ministries of education, health, transport and water. All nine reports resulting from this exercise have been published by the International Bank for Reconstruction and Development, and some of the recommendations are being implemented. These PERs form the base for medium-term plans to move to performance-based budgeting -- with pilot projects in the health and education ministries -- but as yet no further work has been done in this area.⁴⁰

The government recently reformed the social security funds (SSF), as the previous system was unsustainable. Egypt has now moved from a publicly managed, defined benefits scheme to a privately managed, defined contributions scheme and has ceased to pay excess funds to the National Investment Bank. This latter action allowed the government to filter money into other projects with few legal impediments.⁴¹

Budget presentation

The main channel for public presentation of the budget is Egypt's parliament. Articles 86 and 115 of the constitution stipulate that the budget must be submitted to parliament two months prior to the close of the fiscal year (1 July to 30 June). Each provision must be approved separately, and the final parliamentary session discussing the budget must not close until the budget is approved. The parliament can only make modifications to the draft budget with the approval of the government. If the new budget is not ratified before the start of the new fiscal year, the old budget will be used until the new budget is ratified.⁴²

However, as already indicated, presentation of the budget remains unsatisfactory. Even after parliament has approved the budget, a limited amount of information is disseminated to the public, even to government ministries and institutions.

However, in some respects transparency has improved in the past two years. The budget classification system is now prepared in accordance with GFSM 2001, and indirect subsidies are also included as separate lines in the budget.⁴³ A Governments for Development initiative has also been introduced which aims to train parliamentarians to read and understand the budget, enabling them to ask relevant questions in parliament.⁴⁴

Data reporting

Since 2005, the budget is prepared using a medium-term framework according to the IMF GFSM 2001. In 2005, the government also published five year historical data set out by economic classification on government spending against the budget, and these data are now publicly available on the MoF website.⁴⁵ Commentators have stated that problems remain in budget reporting, specifically that reporting is still cash-based rather than accrual-based.⁴⁶

Budget execution and monitoring

The Office of Management and Budget at the MoF oversees and monitors budget execution. There continues to be a lack of transparency in budget targets, and budget figures debated in the parliament continue to be more generous than the final figures published in the *Official Gazette*. However, with the assistance of the World Bank the MoF is working on decentralising spending control, although the precise methodology is undecided as yet.⁴⁷ Progress will need to be made in improving budget execution and monitoring practices through increased reporting, in a more systematic use of standards and common methodologies, and in initiatives in performance-based budgeting.

Accounting basis

Accounting standards are specified by the MoF and the Egyptian Society of Accountants and Auditors, which is a member of the International Accounting Standards Committee (IASC) and the International Federation of Accountants. Past budget data are reported on a gross basis. The overall balance of the general government budget is reported in the MoFTI's *Monthly Economic Digest* as a 'Summary of National Budget Operations'.⁴⁸ This shows quarterly revenues from: central government, tax, transferred profits, other non-tax sources, local government, public

service authorities investment self-financing and sales of assets or other capital revenue. Currently, the budget is reported in a cash basis, although the MoF plans to move to an accrual basis in the medium term.⁴⁹

Procurement and employment

Transparency in government procurement remains poor. The procurement law allows government departments considerable discretion to confine procurement to preferred suppliers; in addition the prime minister is able to determine the terms and conditions of tenders for certain public entities. Information on the total annual value of procurements is not publicly disseminated. The government has been working with the World Bank to implement a new procurement system, but the MoF has been unable to implement the new system due to financing problems. Implementation is now hoped to be achieved with USAID support in 2007/8.⁵⁰

Egypt's civil service is still disproportionately large, and it is perceived as inefficient. Some efforts have been made in recent years to introduce incentive schemes to increase productivity. However, any cuts would be likely to encounter considerable popular resistance, at least from the urban middle classes.⁵¹

Fiscal reporting

The constitution requires that the final accounts of the national budget be presented to parliament within a calendar year after the end of the fiscal year.⁵² Parliamentary scrutiny of economic and financial affairs -- including the budget -- has improved, but remains weak. The improvement is partly the result of an increase in the number of members of parliament with business and financial experience, but also of the government being more open to discussion.

The MoF does not publicly disseminate any final annual fiscal report, although final accounts are now publicly available through the MoF website, and information on the consolidated fiscal operations of the general government is available through the *Monthly Statistical Bulletin* released by the CBE. Commentators state that due to inconsistencies it would be better if the MoF were the only source of fiscal data and the CBE did not release data as well.⁵³ Statements and announcements from the minister of finance are reported on an ad hoc basis by the MoF website, the Government Information Service, the local media and other independent publications such as the *Egypt Capital Markets Daily*. However, the overall level of reporting remains poor.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

●● Intent declared

Data quality standards

The introduction of the SDDS in 2005 has yet to bring a significant improvement in data quality, and it is likely to be several years before data-users are confident that official fiscal data accurately reflect revenue and expenditure trends and overall macroeconomic developments. As of 2005, published fiscal data were still not accompanied by sufficient assurances of quality, and both the IMF and independent data-users have expressed dissatisfaction regarding published fiscal data, especially with regard to labour markets and unemployment data. Concerns also remain regarding consistency in the data compilation methodologies used by different ministries and government agencies. The subscription to the SDDS therefore needs to be followed up by initiatives to improve data quality.⁵⁴

The IMF has also noted that there is a need for more improvement in the government's statistics strategy. Such shortcomings impede the quality of economic analysis and policy formulation. Priority is needed for national accounts, price information and balance of payments as well as GDP, employment, and wages data.⁵⁵

Independent scrutiny of fiscal information

Independent audit

The Central Auditing Agency (CAA) is responsible for the ex post review of the final budget accounts. The CAA is tasked with reviewing government funds and those of other public bodies, and its responsibilities are set out in Law No. 144 of 1988. The Law specifies that the CAA is an independent body, with corporate public stature. The CAA has been brought under the wing of the prime minister's office, and has been actively engaged in the government's efforts to privatise the public sector and to work towards financial transparency.

The CAA audits the accounts that line ministries send to the MoF. Parliament then reviews the final report of the CAA, which focuses primarily on accounting irregularities. The CAA's full annual report is not distributed outside government circles, making it difficult to assess the quality of scrutiny of fiscal information. However, selected extracts are published in the media.⁵⁶

The CAA has taken steps to bring public sector accounting and auditing into line with internationally accepted standards. In addition, the new government has said that it plans to introduce a new law on accounting and auditing standards, and the MoF is considering setting up its own internal audit department.⁵⁷

National statistics agency

The Central Agency for Public Mobilisation and Statistics (CAPMAS) is the national body for statistics.⁵⁸ The head of CAPMAS reports to the MoP, although the agency is otherwise formally independent. Within CAPMAS, the National Accounts office is directly responsible for national accounts data, and it reports directly to the minister of finance.

In recent years, CAPMAS has made significant improvements in data dissemination. As an example, in 2004 a public relations office was established at CAPMAS and at the National Information Centre. Improvements have also been made in specific statistical areas. CAPMAS has been preparing quarterly economic reports and developing a reliable national consumer price index. With technical assistance from the IMF, it has also begun work on construction of a producer price index, although trade and social services figures need to be added before it is complete. However, steps have yet to be taken to increase public confidence in the quality of statistics. Such steps could include strengthening the independence of CAPMAS or inviting independent experts to provide a comprehensive assessment of CAPMAS's methodology and outputs.⁵⁹

Extensive training on accounting has taken place across five main ministries. The 1993 System of National Accounts (SNA) has been adopted, and a seven-year time series is available for 1995-2002. Equivalent data are being produced for 2003 onwards. Steps are also being taken to improve future capacity by hiring and training younger staff.⁶⁰

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Egypt between 6 and 9 November 2006:

Ministry of Finance

8 November 2006

Amina Ghanem	Advisor to the Minister	Ministry of Finance
Hany Kadry Dimian	Advisor to the Minister	Ministry of Finance
Azza Moh Reda	Senior Economist	Ministry of Finance
Mohammed Assaad	Advisor to the Minister	Public Debt Management

Central Bank of Egypt

9 November 2006

Mohammed Hassan	Monetary Policy Advisor to the Governor	Central Bank of Egypt
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ADDITIONAL INTERVIEWS

7 November 2006

Reham El Desoki	Senior Economist, Research Department	EFG-Hermes (brokerage and investment bank)
Martin Hetherington	Head of Economic and Political Section	British Embassy in Cairo
Hanaa Ramzy	Economic Officer	British Embassy in Cairo
Khaled Sewelam	Business Studies and Analysis Manager	American Chamber of Commerce

8 November 2006

Safaa Eweda	Under Secretary	Ministry of Economic Development
Sahar Nasr	Senior Financial Economist	World Bank
Simon Kitchen	Economist	CIBC

9 November 2006

Cyrus Sassanpour	Senior Resident Representative	IMF
Martin Steindl	Project Officer Governance	IFC
Maged El Deen	Corporate Finance Directive	PriceWaterhouseCoopers
Abdel Ibyari	Senior Consultant	PriceWaterhouseCoopers

NOTES

- ¹ Part 5, Articles 73-184, Egyptian Constitution 1971.
- ² Egyptian Constitution; www.pogar.org/countries/constitution.asp?cid=5
- ³ Interviews in Cairo, 14-21 November 2005.
- ⁴ Press release on Article IV Consultation 2005, 16 February 2005 at www.imf.org/external/np/sec/pr/2005/pr0529.htm
- ⁵ See MoF Press Release: www.mof.gov.eg/English/MOFNews/Press/news-e-1-12-6-06.htm
- ⁶ Interviews in Cairo, 14-21 November 2005, and 6-9 November 2006.
- ⁷ Interviews in Cairo, 14-21 November 2005, 6-9 November 2006.
- ⁸ Raya newsletter, Issue 22, Fall 2005, at www.rayacorp.com/Uploads/Issue22.pdf, p12
- ⁹ Interviews in Cairo, 6-9 November 2006.
- ¹⁰ Interviews in Cairo, 14-21 November 2005.
- ¹¹ See Ministry of Investment: www.investment.gov.eg/MOI_Portal/
- ¹² See IMF Survey -- Country Focus: 'Egypt on the move', 2006, available at www.mof.gov.eg/English/MOFNews/WhatisNew/Egypt+on+the+Move++IMF+Survey.htm
- ¹³ Interviews in Cairo, 6-9 November 2006.
- ¹⁴ 'Privatisation and PPP boost investment' Oxford Analytica Daily Brief, 19 October 2006.
- ¹⁵ Interviews in Cairo, 6-9 November 2006.
- ¹⁶ 'Privatisation and PPP boost investment' Oxford Analytica Daily Brief, 19 October 2006, and interviews in Cairo, 6-9 November 2006.
- ¹⁷ Interviews in Cairo, 14-21 November 2005, and 6-9 November 2006. See also Egyptian Competition Authority: www.eca.org.eg/EgyptianCompetitionAuthority/Main.aspx
- ¹⁸ Law No. 53 of 1973, amended by Law No. 11 of 1979, executing regulations No. 323 of 1983 and Law No. 40 of 1996 in respect of the state budget.
- ¹⁹ Articles 1-2 and 7-8, Law no. 4 of 1995 authorising the minister of finance to issue treasury bonds; see also Article 8, Annual State Budget Law.
- ²⁰ Interviews in Cairo, 14-21 November 2005.
- ²¹ See www.ltc.gov.eg/index_en.asp
- ²² Interviews in Cairo, 14-21 November 2005, and 6-9 November 2006, and 'Ministry of Finance Activities and Achievements' at www.mof.gov.eg/english/pdf/activity.pdf
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- ²⁵ See: www.mof.gov.eg/English/
- ²⁶ See Publications: www.mof.gov.eg/English/
- ²⁷ Egyptian Monthly Economic Bulletin, available at: www.economic.idsc.gov.eg/
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- ²⁹ Interviews in Cairo, 14-21 November 2005.
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- ³¹ As established by Law No. 11 of 1929.
- ³² Available at: <http://dsbb.imf.org/Applications/web/sddshome/>
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- ³⁴ IMF Article IV Consultation 2005 at www.imf.org/external/pubs/ft/scr/2005/cr05177.pdf, and IMF Article IV Consultation 2006 at www.imf.org/external/pubs/ft/scr/2006/cr06253.pdf
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⁵² Article 118, Egyptian Constitution.
⁵³ Interviews in Cairo, 14-21 November 2005.
⁵⁴ Interviews in Cairo, 14-21 November 2005, and 6-9 November 2006.
⁵⁵ IMF Article IV Consultation 2006 at www.imf.org/external/pubs/ft/sctr/2006/cr06253.pdf, p.39
⁵⁶ Interviews in Cairo, 6-9 November 2006.
⁵⁷ Interviews in Cairo, 14-21 November 2005.
⁵⁸ See: www.capmas.gov.eg/eng_ver/homeE.htm
⁵⁹ Interviews in Cairo, 14-21 November 2005, and 6-9 November 2006.
⁶⁰ Interviews in Cairo, 14-21 November 2005.