FOR AGENDA

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May 24, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Arab Republic of Egypt - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with the Arab Republic of Egypt. A draft decision appears on page 21.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Short (ext. (5)7118).

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INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the
1984 Consultation with the Arab Republic of Egypt

Approved by A. S. Shaalan and Subimal Mookerjee

May 22, 1984

Contents | Page

Contents

I. Introduction

The 1984 Article IV consultation discussions with the Arab Republic of Egypt were held in Cairo during the period March 28-April 6, 1984. The Egyptian representatives included the Ministers of Finance, Economy, Investment and International Cooperation, Agriculture, and Industry; the Governor of the Central Bank; and senior officials of these and other ministries and public organizations. The staff representatives were Messrs. P. Chabrier (Head, MED), R. H. Floyd, K. Nashashibi, C. Sassanpour, B. K. Short (all of MED), and E. J. Zervoudakis (ETR), and Mrs. B. J. Watson (Secretary, ETR). Mr. Shaalan, Director of the Middle Eastern Department, attended some of the policy meetings.

The Egyptian authorities informed management and staff prior to the current consultation that they regarded it as an occasion to maintain a dialogue with the Fund pending possible discussions on an economic adjustment program after parliamentary elections on May 27. Accordingly, the discussions were focused on the short- and medium-term trends in the economy, the need for adjustment, and possible remedial measures.

Egypt continues to avail itself of the transitional arrangements of Article XIV.

II. Overall Background

Following years of economic centralization, steps were taken after 1973 to encourage a more open, market-oriented economy through the introduction of a free foreign exchange market for private transactions and the provision of incentives for private and foreign investment. The surge in petroleum exports, workers' remittances, Suez Canal receipts, and development assistance which accompanied this change in focus relieved the balance of payments pressures which had previously constrained the economy. As a result, Egypt succeeded in raising the level of investment to 25 percent of GDP in the six years to 1981/82 (fiscal year ended in June) and the real growth rate to 9 percent per annum. Although the rate of inflation remained relatively modest, it increased from 7 percent in 1973 to 16 percent in 1981/82. 1/ In addition, Egypt was able to weather the recent world recession better than most other developing countries.

1/ For over a year the Ministry of Planning has been engaged in an extensive revision of the national income accounts. References to GDP and its components should be viewed cautiously as only indicative of trends. The rate of inflation tends to be understated by the consumer price index which is outdated and is weighted in favor of items whose prices are controlled or subsidized.

The strong growth of external receipts obscured structural weaknesses in the pattern of production, the budget, and the balance of payments. Continued government intervention in some sectors (notably agriculture and industry) resulted in a structure of relative prices which encouraged consumption--domestic savings accounted for only two thirds of investment--and a shift of resources from commodity production to services. The strong economic growth after 1973 was thus largely concentrated in oil production, commerce, construction, and services. In addition, a large share of non-oil investment went for rehabilitation of infrastructure and expansion of services rather than new production capacity in agriculture and manufacturing.

Agricultural output grew by less than 2 percent a year after 1973. This performance reflected a relatively low share (8 percent) of agriculture in total investment and the fact that the occasional adjustments in procurement prices of traditional crops (cotton, wheat, rice) did not keep pace with the increases in production costs or in the prices of alternative crops. 1/ Such pricing policies and the subsidization of imported foodstuffs depressed farm incomes and encouraged rural to urban migration. The volume of agricultural exports stagnated after 1973 while Egypt's dependence on food imports grew, causing the trade balance in agricultural products to shift from an annual surplus of $300 million in the early 1970s to a yearly deficit of $2.5 billion (25 percent of external current account receipts) in the early 1980s. The industrial sector, which attracted 25 percent of gross fixed investment in 1975-1981/82, recorded an average growth of output of 6.2 percent per annum. However, this relatively high growth rate concealed the fact that regulations giving limited discretion to managers over pricing, employment, and other aspects of management severely affected the profitability of some public sector companies, while others, benefiting from subsidized inputs and high levels of effective protection, showed profits despite economic inefficiency.

The lack of flexibility in official pricing practices together with the open access to subsidized consumer goods has increased the burden of subsidies on the economy over the years. So far in the 1980s, total implicit and explicit subsidies on foodstuffs and petroleum products alone have been, on average, the equivalent of 20 percent of GDP. Together with the low profitability of many public sector enterprises and rigidities in both budget revenue and expenditure, these subsidies have caused large fiscal deficits. The generally expansionary financial policies maintained since 1973 have been an important factor for the steady increase in the rate of inflation and for the growth in import demand.

1/ Valued at free market exchange rates, current farmgate prices for cotton and wheat are about one third and one half, respectively, of international prices.

The balance of payments structure has remained weak despite the rapid growth in oil exports, Suez Canal receipts, workers' remittances, and external assistance; in fact, the behavior of these categories of foreign exchange receipts is highly dependent on external developments. Moreover, food imports increased steadily while non-oil export receipts fell by 20 percent between the mid-1970s and 1982/83, as a result of domestic price distortions and the generally overvalued exchange rate of the Egyptian pound. Further indications of the weakness of the external sector are the low level of the Central Bank's external reserve position, the increase in net foreign currency liabilities of commercial banks, and the level of the external debt.

The civilian external debt outstanding 1/ stood at $24 billion (220 percent of current account receipts) in June 1983, of which 43 percent was from commercial sources (Table 1). In addition, Egypt is reported to have incurred substantial external debts on commercial terms for the import of military equipment. Excluding obligations that are not being formally met (see p. 17), debt servicing payments are projected at $2.9 billion in 1983/84, the equivalent of 24 percent of estimated current account receipts. If interest paid on residents' foreign currency deposits with domestic banks is added, servicing obligations in foreign currency are projected at $3.4 billion in 1983/84, or 28 percent of current account receipts.

The structural imbalances of the economy came into sharper focus when, in the less favorable external environment of the early 1980s, budget and external constraints led to a sharp slowdown in the growth of public investment outlays and the rate of real growth tapered off somewhat. The need for structural changes over the medium-term was clearly recognized by the authorities when they formulated the 1982/83-1986/87 Development Plan. The Plan aims at increasing the domestic savings ratio from an average of 16 percent in the four years prior to the Plan to 19 percent during the Plan while maintaining a level of investment at about 26 percent of GDP. Priority is assigned to accelerating the growth of output in agriculture and industry by increasing the proportion of investment going to agriculture to 11 percent, and maintaining that going to industry at 25 percent. However, the Plan did not spell out specific policy prescriptions as these were to be formulated annually in conjunction with the government budget.

In their discussions of the staff report for the 1983 Article IV consultation with Egypt on July 27, 1983, Executive Directors stressed the need for greater emphasis on investment in the commodity producing sectors in the context of a medium-term adjustment program underpinned by precise, structural corrective measures. They urged that government finances be substantially strengthened and that greater reliance be placed on pricing and exchange rate actions to improve the structure of

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1/ Public and publicly guaranteed medium- and long-term debt plus short-term foreign liabilities of the Egyptian banking sector.

Table 1. Egypt: External Debt Indicators, 1980/81-1983/84

	1980/81	1981/82	1982/83	Projected 1983/84
	(In millions of U.S. dollars)			
Civilian external debt outstanding 1/	19,766	21,966	24,018	24,800
Medium- and long-term 2/	13,530	14,870	16,630	17,400
Short-term 3/	6,236	7,096	7,388	7,400
Servicing of civilian external debt	2,503	2,904	2,540	2,862
Medium- and long-term	1,624	1,790	1,755	2,070
Amortization	(1,213)	(1,336)	(1,312)	(1,529)
Interest	(411)	(454)	(443)	(541)
Short-term (interest)	879	1,114	785	792
Interest on foreign currency deposits of residents	398	502	443	491
Servicing obligations in foreign currency	2,901	3,406	2,983	3,353
	(As a percent of current account receipts)			
Civilian debt outstanding 1/	189	213	220	208
Servicing of civilian external debt	24	28	23	24
Servicing of obligations in foreign currency	28	33	27	28
	(As a percent of current receipts through Central Bank and Commercial Banks)			
Civilian debt outstanding 1/	227	247	270	254
Servicing of civilian external debt	29	33	29	29
Servicing of obligations in foreign currency	33	38	34	34
	(In millions of U.S. dollars, unless otherwise noted)			
Memorandum items:				
Foreign assets of banking system 4/	8,150	8,440	9,710	10,350
Estimated interest thereon	917	1,115	794	834
Average interest rate on external debt (percent per annum)	7.5	7.9	5.6	5.6
Percentage of external debt from commercial sources	44	46	44	43
Usable foreign reserves of Central Bank 1/5/	407	472	434	556 6/
(In months of imports)	(0.5)	(0.6)	(0.6)	(0.7)
Net foreign currency liabilities of deposit money banks 1/	211	1,122	580	1,140 7/

Sources: Central Bank of Egypt; IBRD Debt Reporting System; and staff estimates and projections.

1/ End of period.

2/ Public and publicly-guaranteed; no reliable information is available on non-guaranteed private debt.

3/ Short-term foreign liabilities of the banking system.

4/ Foreign assets of Central Bank, commercial banks, and business and investment banks.

5/ Usable reserves are holdings of SDRs, reserve position in the Fund, and claims on foreign correspondents excluding earmarked amounts.

6/ December 1983.

7/ End of January 1984.

production and the balance of payments. They expressed the hope that a timetable would soon be set to simplify the exchange and trade system and placed particular emphasis on significant adjustments in the low levels of energy prices and procurement prices for agricultural commodities.

The steps which the Egyptian authorities have taken or are considering in these and other policy areas are discussed below.

III. Recent Developments and Short-Term Prospects

In 1981/82, the current account deficit of the balance of payments widened to $2.4 billion (8 percent of GDP) and the rate of increase of the CPI accelerated to 16 percent. In response, fiscal and credit policies were tightened, more realistic exchange rates were applied to some transactions, and the growth of imports by the public sector was restrained. As a result, the external current account deficit was reduced to $1.3 billion (4 percent of GDP) in 1982/83 despite a fall of 14 percent in exports. The increase in the CPI (19 percent) was faster than in 1981/82, but part of this acceleration reflected discretionary actions. Real GDP grew by 7 percent.

The 1983/84 budget aimed at reinforcing the financial policy stance introduced in 1982/83. The overall budget deficit was to be reduced from 18 percent of GDP in 1982/83 to 16 percent of projected GDP as discretionary measures equivalent to 4 percent of GDP were announced in the budget (Table 2). Revenue was estimated to increase by 18 percent on the basis of substantial reductions in customs duties exemptions, increases in several tariff and profit tax rates, and continuation of the encouraging progress made in tax administration in 1982/83. Consumer subsidies were to be reduced by LE 420 million (1.5 percent of GDP) through an increase in the price of subsidized bread and the introduction of a new rationing system aimed at limiting the number of beneficiaries. However, the growth of current expenditures was estimated at 19 percent because of large increases in the wage bill, defense outlays, and interest payments on the public debt. The growth of investment outlays was to be held at 5 percent, with little increase in the shares of investment in agriculture and industry.

On the basis of data for the first half of 1983/84, the staff has estimated that the overall fiscal deficit could reach LE 5.6 billion (20 percent of GDP) and the bank financed deficit LE 2 billion (7 percent of GDP). The main factors for the higher deficit are lower than budgeted non-oil revenues (mainly due to overestimation of business profit taxes and customs duties), higher than budgeted investment expenditures resulting from additional authorizations of foreign-financed outlays, and an estimated increase in subsidy outlays of about LE 0.7 billion as indicated by the Supply Authority's increased recourse to bank credit in the first half of 1983/84. This last development is in large part due to the decision of the authorities not to increase the price of bread given their concern about possible adverse social reactions. The Egyptian representatives stated that a build-up of inventories to take advantage of favorable food prices abroad also explained the increase in credit to the Supply Authority. As these stocks would soon be sold, they believed that the overall budget deficit could be limited to LE 5.1 billion (18 percent of GDP). In the absence of sufficient information, the mission was unable to ascertain the extent of the build-up in inventories as well as the timing of their sales.

Table 2. Egypt: Summary of Fiscal Developments, 1980/81-1983/84

	1980/81	1981/82	Prov. Actuals 1982/83	Budget Est. 1983/84	Staff Est. 1983/84
	(In millions of Egyptian pounds)				
Total revenue, of which	7,275	8,333	9,059	10,679	10,237
Oil sector	(2,065)	(1,650)	(1,601)	(1,494)	(1,549)
Suez Canal	(302)	(384)	(484)	(498)	(496)
Current expenditure, of which:	6,216	7,601	8,606	10,273	10,761
Subsidies	(2,166)	(2,192)	(2,054)	(1,686)	(2,409)
Wages and salaries	(1,453)	(1,985)	(2,254)	(2,935)	(2,835)
Interest	(457)	(509)	(891)	(1,236)	(1,236)
Defense	(1,039)	(1,366)	(1,743)	(2,133)	(2,133)
Investment expenditure	3,767	4,671	4,682	4,920	5,054
Overall deficit (-)	-2,708	-3,939	-4,230	-4,514	-5,578
Financed by					
Foreign financing (net)	627	786	871	889	1,183
Domestic nonbank	2,313	409	1,649	1,825	1,885
Banking system	-232	2,744	1,710	1,800	1,988
	(As percent of GDP)				
Revenue	45.0	42.4	38.4	37.8	36.2
Total expenditure	61.8	62.5	56.4	53.7	55.9
Overall deficit	16.8	20.1	17.9	16.0	19.7
Banking system financing	--	14.0	7.3	6.4	7.0

Sources: Ministry of Finance and staff estimates.

The expansion of net domestic credit has decelerated from 44 percent in 1981/82 to 24 percent in calendar 1983. This deceleration reduced the growth of liquidity (M2) to 27 percent in 1983 from 44 percent in 1981/82, despite a larger overall external surplus. As in previous years, recourse by the public sector to bank credit was the major factor for the growth in overall credit; it mainly reflected the weaker financial position of the Supply Authority and of some public sector companies. Meanwhile, the growth of credit to the private sector remained substantial (31 percent) in 1983. Reflecting mainly the impact of the expansionary financial policies, as well as increased cost pressures (in particular wages), and more depreciated exchange rates, the increase in the consumer price index was 20 percent between March 1983 and March 1984.

Real GDP is officially estimated to increase by 7.2 percent in 1983/84, i.e., about the same rate of growth as in 1982/83. Growth rates in agriculture and industry are estimated at 2.9 percent and 9.3 percent, respectively, and a slackening in the rate of economic activity in services is envisaged. The slower rate of overall growth apparent in the past few years partly reflects constraints on public sector imports of intermediate and investment goods, the modest growth in public investment outlays in nominal terms, and shortages of some skills and other bottlenecks in several industries and in construction. Meanwhile, on the basis of import data, the growth of consumption has continued to be strong.

On the external side, the current account deficit of the balance of payments is projected to decline to $0.9 billion (2 percent of GDP) in 1983/84; this reduction is due entirely to an increase in the net surplus in services which, in turn, reflects a 23 percent increase in workers' inward remittances between 1982/83 and 1983/84 (Table 3 and Appendix III, Table 5). Exports are projected to increase by 10 percent, on account of both higher petroleum production and a 20 percent increase in non-oil exports in large part due to higher international prices for cotton and improved financial incentives to exporters of other commodities. Imports are projected to grow by only 5 percent, mainly because public entities now have to obtain foreign exchange at rates close to those on the free market and public sector banks have been delaying opening letters of credit for imports. The growth of imports through the free market, which consist largely of consumer goods, has continued to be strong, however. As in 1982/83, a substantial overall surplus is projected. However, such overall surpluses must be viewed in the context of the recent restraint on the growth of public sector imports which cannot be maintained indefinitely, of the need for the commercial banks' foreign assets to rise in line with their foreign currency liabilities to residents, 1/ and of the emergence of a large positive errors and omissions item reflecting certain unexplained transactions, possibly of a nonrecurring nature.

Table 3. Egypt: Balance of Payments Summary, 1980/81-1983/84

(In millions of U.S. dollars)

	1980/81	1981/82	1982/83	Projected 1983/84
Exports	3,985	4,144	3,555	3,900
Imports	-9,063	-9,109	-8,681	-9,080
Trade balance	-5,078	-4,965	-5,126	-5,180
Services (net)	3,464	2,605	3,814	4,309
(Workers' remittances)	(2,855)	(2,082)	(3,166)	(3,900)
Current account	-1,614	-2,360	-1,312	-871
(As a percent of GDP)	(6.7)	(8.0)	(3.7)	(2.0)
Capital account	1,157	1,184	1,331	923
Errors and ommissions	295	1,253	870	588
Overall balance	-133	77	889	640

Source: Appendix III, Table 5.

1/ Egyptian deposit money banks have deposit liabilities in foreign currency to residents--about $5.8 billion at the end of 1983--mainly arising from inflows of workers' remittances which were not converted into Egyptian pounds. Banks have claims on residents denominated in foreign currency but these are well below the level of their liabilities. To offset the net foreign currency obligations to residents as well as to have a liquid reserve of assets in foreign currency, the banks' net foreign assets must increase in pace with residents' foreign currency deposits. In fact, since mid-1981 they have had net liabilities of varying amounts.

Egypt's exchange system has remained fragmented. There are three distinct markets (or pools) for foreign exchange. 1/ The rate in the Central Bank pool has remained unchanged at LE 0.70 = US$1 since 1979, while the official rate in the commercial bank pool has been raised once from LE 0.70 = US$1 to LE 0.83 = US$1 in August 1981. The free market rate has depreciated from LE 0.77 = US$1 in January 1979 to a range of LE 1.22-1.25 = US$1 in March 1984. In order to alleviate some of the distortions caused by the highly overvalued official exchange rate in the commercial bank pool (relative to the free market rate) and to eventually unify the commercial bank pool and the free market pool, several changes have been introduced in the commercial bank pool since early 1983. In April 1983, exchange surrender requirements for most export receipts effected through that pool were abolished, and a premium buying rate close to the free market rate was introduced by public sector commercial banks for inward workers' remittances. Concurrently, an increasing amount of import payments through the commercial bank pool took place at exchange rates close to the free market rates. In February 1984, public sector banks were allowed to purchase foreign exchange at the premium rate of LE 1.12 = US$1 from the domestic market as well as abroad so as to limit the leakage of tourism and export receipts to the free market; this permission was extended to all banks on March 31, 1984. Effective April 7, 1984, all commercial banks were allowed to effect virtually all their sales of foreign exchange at a premium rate of LE 1.18 = US$1 (LE 1.17 = US$1 since May 5, 1984) to public sector entities with authorizations in the foreign exchange budget and for imports of essential inputs by the private sector; the authorities also decided to make available about $300 million of the public sector banks' foreign assets over the coming three to four months to support that rate against a surge in private importers' demand for foreign exchange.

Notwithstanding the adjustment of commercial bank exchange rates closer to the free market rate, the real effective exchange rate of the Egyptian pound (constructed by using weighted averages of the exchange rates in the three pools based on non-oil trade) appreciated by 24 percent between August 1981 (the date of the last official exchange rate change) and March 1984 (Chart 1).

1/ Cotton and petroleum exports, Suez Canal dues, imports of certain food essentials and agricultural inputs, and a large portion of capital transactions by the public sector are effected through the Central Bank Pool. The commercial bank pool covers workers' remittances, minor exports, tourist receipts, and public sector imports not qualifying for the Central Bank pool. The free market shares common sources of supply with the commercial bank pool (workers' remittances, tourism, and export receipts) and satisfies the demand for most visible and invisible transactions by the private sector. In 1982/83, about 45 percent of current account transactions took place through the Central Bank pool, 30 percent through the commercial bank pool, and the remainder through the free market pool.

IV. Policy Discussions

The Egyptian authorities are faced with problems both short-term and structural in nature requiring action to reduce the underlying inflationary pressures, while redressing the fundamental imbalances in the budget, the external payments position, and the pattern of growth. Determined action in these areas is all the more important in the light of the fall of public investment in real terms in the past few years, of the need to improve infrastructure (in particular housing, public utilities, and transportation) and to adequately maintain existing assets, and of the prospective weakness in world petroleum markets which will inevitably have an adverse impact on the flow of workers' remittances as well as Egypt's oil exports and Suez Canal receipts. Egypt will also have to create productive job opportunities to absorb the new entrants in the labor market without the safety valve offered until recently by employment growth in neighboring oil producing economies.

As background to the discussions, the mission prepared a medium-term scenario which suggested that, without vigorous adjustment measures, the external current account deficit would widen, implying the need for further large drawings on commercial loans and, therefore, increases in the civilian external debt outstanding and its servicing (Table 4 and Appendix III, Tables 6 and 7). While such medium-term projections are highly sensitive to changes in assumptions, the results still suggested that the achievement of a viable external payments position, as called for in the Plan, required early adoption of a comprehensive set of policies aimed at increasing domestic savings and incentives for higher production in agriculture and industry. In the absence of such action, the external resource constraint would act as a limiting factor on economic growth and employment creation in the years ahead. These views are similar to those expressed by the World Bank which are described in Appendix IV.

The Egyptian representatives were more optimistic than the mission about the future growth of emigrants' remittances and exports, as well as about the potential for restraining nonessential imports. They indicated that the need for further policy changes had been recognized and that adjustment measures were being contemplated for implementation in the near future. However, they stressed that, in order to be successful, adjustment policies had to be supported by the public at large and therefore their implementation could only be gradual.

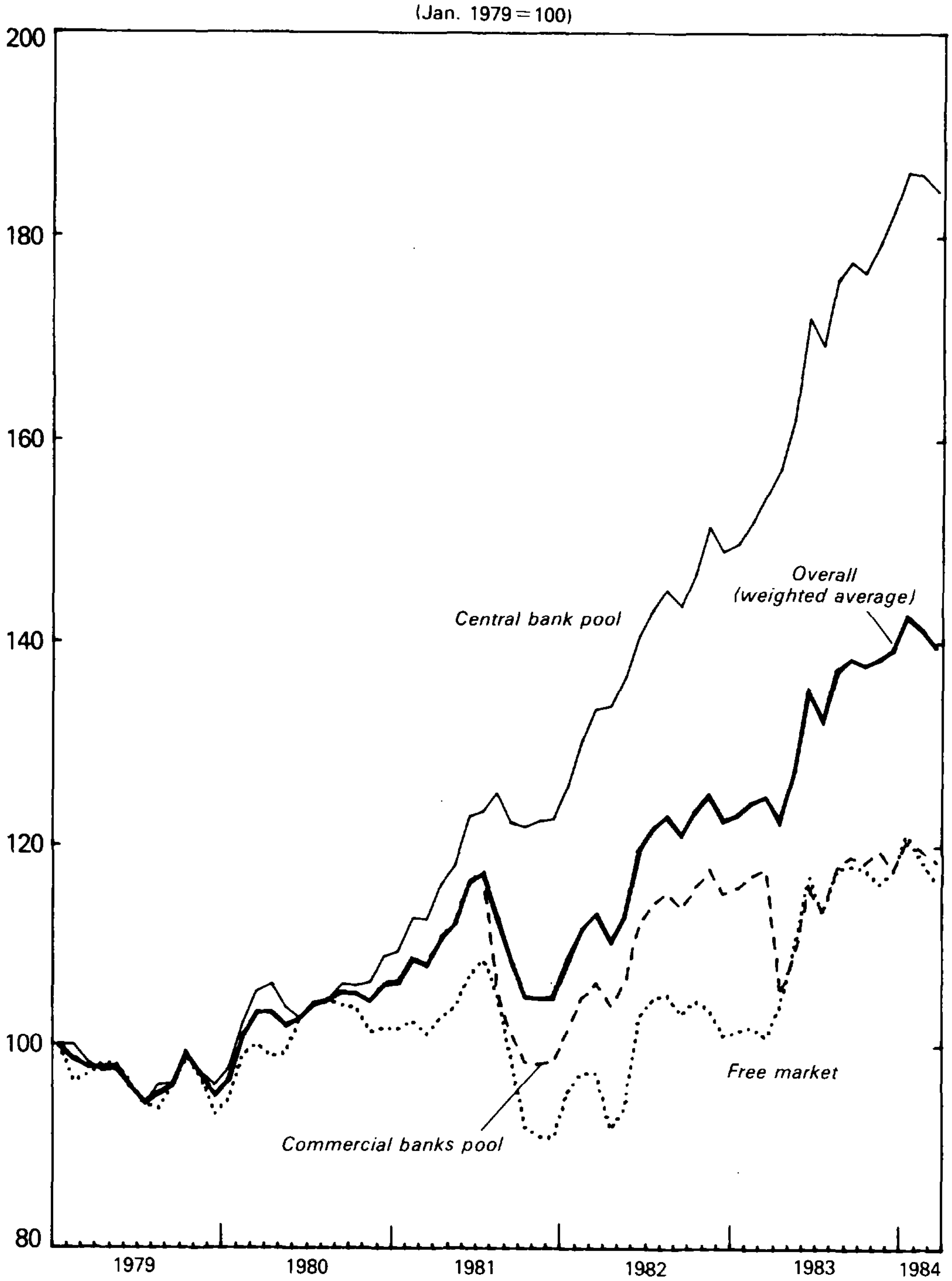
1. Production and pricing policies

The mission welcomed the framework provided by the Plan for the development effort and the emphasis placed on agriculture and industry for the future growth in the economy. Given the tendency for the cost of projects to be underestimated, it was important to establish clear priorities for projects while reinforcing present efforts to mobilize domestic savings. The Egyptian representatives noted that the World Bank was at present helping in preparing a review of planned

CHART 1
EGYPT

REAL EFFECTIVE EXCHANGE RATE INDICES[1], JAN. 1979 - MAR. 1984

(Jan. 1979 = 100)



[1]Non-oil trade weighted indices of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation.

Table 4. Egypt: Medium-Term External Scenario, 1983/84-1988/89

(In billions of U.S. dollars; unless otherwise noted)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
			Balance of Payments			
Current account balance	-0.9	-1.1	-1.6	-2.2	-2.7	-3.4
Capital account (including balancing item)	1.5	1.1	1.0	1.2	1.3	1.6
Overall balance	0.6	--	0.5	-1.0	-1.4	-1.8
Net foreign asset position of banking sector (improvement = -)	-0.6	-0.7	-0.6	-0.6	-0.7	-0.7
Net balance of payments financing	--	0.7	1.1	1.6	2.1	2.5
			External Debt Implications			
Civilian external debt outstanding 1/	24.8	25.8	27.3	29.3	32.2	35.1
Medium- and long-term	17.4	18.4	19.9	21.9	24.8	27.7
Short-term	7.4	7.4	7.4	7.4	7.4	7.4
Servicing of civilian external debt	2.9	3.5	3.9	4.2	4.7	5.4
Interest on foreign currency deposits of residents	0.5	0.5	0.5	0.5	0.5	0.5
Total servicing obligations in foreign currency	3.4	4.0	4.4	4.7	5.2	5.9
			(In percent of current receipts)			
Civilian debt outstanding 1/	208	203	204	214	222	231
Servicing of civilian debt	24	28	29	31	32	36
Total servicing obligations in foreign currency	28	31	34	34	36	39

Source: A detailed balance of payments projection, including the staff assumptions behind the scenario, are given in Appendix III, Tables 6 and 7.

1/ End of period.

investments which would clarify priorities. In response to an observation by the mission that current economic growth rates, including those for industry and agriculture, were lower than the targets in the Plan, the Egyptian representatives observed that the recent shortfall was due to constraints on public sector investment caused by shortages of both skilled construction workers and foreign exchange. However, given the emphasis on the completion of projects underway, in the revitalization of existing operations, and on increased training facilities for skilled labor, they felt confident that the Plan's objectives with regard to economic growth and the relative shift in production from services to industry and agriculture would be accomplished over the Plan period.

Important improvements in policies and procedures were recently introduced in order to encourage foreign and domestic private investments in productive sectors, in contrast with the past concentration of such investment in services. Thus, foreign investors were now being invited to engage in joint ventures with Egyptian partners in modern manufacturing facilities; all relations with foreign investors had been centralized in one ministry; and proposals for foreign-financed projects were being appraised within 60 days. The Egyptian representatives credited these steps for an 18 percent increase in the number of joint ventures in operation in 1983.

In order to support the intended relative shift of production to the commodity producing sectors and achieve the investment targets, the Egyptian representatives agreed with the mission that relative prices should give the proper signals to investors and producers, especially since about one quarter of planned investment was to be undertaken by the private sector. However, they explained that the level of procurement prices for major agricultural crops was set on the basis of several considerations, including the profitability at the farm level, the input costs to subsidized commodities (e.g., cotton which goes into textiles), and the impact on the fiscal position. They added that, in order to increase output, producer prices for traditional crops should be adjusted gradually to the prevailing international prices; also, the successful extension of modern cultivation techniques and mechanization now underway would also help ensure adequate profitability and higher output. In the industrial sector, average prices charged by public sector companies had risen by 6 percent in 1982/83, but lower increases were expected for 1983/84 as a whole. The Egyptian representatives explained that the industrial public sector, which produced one fifth of the total goods consumed each year in Egypt, was being used as a buffer to restrain the rate of inflation. An interministerial committee had been formed to assess the financial impact on public sector companies of these pricing policies and a list of products was being compiled whose prices should be raised soon after the elections. They also noted that a review of the operations of public corporations and entities was also in order, as these were affected by rigid regulations regarding employment, investment financing, and wage practices. 1/ A reorganization of industrial public sector companies had taken place recently which was aimed at improving their management by granting each unit greater responsibility with respect to employment practices, product mix, etc. The mission expressed the hope that these initiatives would give managers greater autonomy to set prices and make other operational decisions.

The growth of domestic consumption of petroleum products has averaged 12 percent a year for several years in response to the low retail prices for petroleum products, the expansion of electric service, and delays by some large users in converting their operations from fuel oil to natural gas. At the free market exchange rate, retail prices of petroleum products averaged only 18 percent of ex-refinery prices in southern Europe in December 1983, implying an annual subsidy of about LE 3 billion or the equivalent of about 10 percent of GDP. The IBRD has recently recommended that domestic petroleum prices be raised to world levels within ten years. Gas and electricity prices should also be adjusted simultaneously to maintain comparability in relative prices. The mission urged the authorities to initiate soon such a schedule of price changes which would slow the growth of domestic consumption (thus adding to the exportable surplus), reduce cost/price distortions, and enlarge the Government's domestic revenues. The Egyptian representatives noted that electricity rates had been increased an average of 30 percent since December 1983, in order to raise the Electricity Authority's rate of return to 5 percent as provided for in existing loan contracts with the World Bank. However, while consideration was being given to price adjustments for other energy products, they cautioned that measures affecting the cost of living could not be taken in too many areas at once.

2. Fiscal policy

Fiscal policy has largely evolved as a consequence of the pursuit by the Government of a number of objectives, including safeguarding the living standards of low-income groups. In recent years revenue growth has been slowed by the relatively inelastic tax system and the generally weak financial performance of public enterprises. Current outlays have risen because of the steady growth of subsidies, defense expenditure, the wage bill, and debt servicing. Accordingly, containing the growth of the budget deficit has necessitated not only the introduction of new revenue measures in each year but also a reduction in real terms of investment expenditures over the past three years.

1/ The main issues relating to the operations of public corporations and entities are described in the Recent Economic Developments report. The IBRD is at present conducting a study of the public sector industrial enterprises with the aim of proposing concrete measures to improve their operations and efficiency.

For these reasons, the staff encouraged the authorities to give priority to achieving an immediate reduction in the overall deficit and to restructuring government finances.

In order to enhance the elasticity of revenues, the mission suggested the adoption of more flexible pricing policies in the public sector; the introduction of a manufacturers sales tax; the conversion of most remaining specific duties to ad valorem rates; and the use of the actual exchange rate--rather than the Central Bank rate--for customs valuation purposes, accompanied by a rationalization of the tariff structure where necessary. The growth of expenditures could be slowed by (i) limiting the rising cost of budget subsidies, for instance, by reducing the number of subsidized consumer goods to a few basic essentials and confining access to these goods to low-income groups or by raising the prices of subsidized items while adopting some device to protect the poorer sections of the population; (ii) exerting restraint with respect to the size of the annual wage adjustments and reviewing the current practices of guaranteeing public sector employment to university graduates and discharged army personnel; and (iii) eliminating the recent practice of giving cabinet approval during the course of the fiscal year to additional foreign-financed investment outlays that were not specifically authorized in the budget.

The Egyptian representatives expressed the hope that some of the measures suggested by the mission could be implemented in the 1984/85 budget which would be prepared after the elections for consideration by the People's Assembly by end-August 1984. In particular, a freeze of public sector employment at present levels was under consideration as was the possible elimination of some subsidies. In the meantime, the 1983/84 budget expenditure authorizations would be continued unchanged on a monthly basis into the new fiscal year, with the exception of some wage increases.

3. Monetary and credit policies

The mission indicated that further deceleration of the rate of credit expansion would help to improve the balance of payments and contain inflationary pressures. In the light of credit developments in June-December 1983, which suggested that growth rates of credit could be turning up again, it was important that domestic credit developments be watched closely; this was particularly so because an increase in credit equivalent to 9 percent of the stock of domestic liquidity at the end of 1983 could still be accommodated under the so-called 65 percent loan-to-deposit ratio. The Egyptian representatives said that domestic credit policies would remain cautious, relying on the continued use of the loan-to-deposit ratio supplemented by partial ceilings on the growth of credit to wholesale and retail trade as well as to households. Also, recent amendments to the Banking Law had been introduced which had strengthened the Central Bank's control over commercial banks' operations.

As regards credit control instruments, the mission noted that the loan-to-deposit ratio's coverage was not comprehensive in terms of sectors, and that the maximum credit consistent with the ratio had grown by 33 percent in 1983. This suggested that the ratio itself was less effective than a straightforward ceiling as an instrument of credit control. The Egyptian representatives explained that bank credit could not achieve the maximum growth rate permitted by the ratio without a very rapid expansion in credit to agriculture and industry. They would not be concerned if extension of credit to these preferred sectors led to a higher growth rate for overall credit but would take corrective measures if it came from credit expansion to other sectors.

The level of deposit interest rates in March 1984 (which ranged, on deposits, from 5 percent per annum for one week's maturity to 13 percent per annum for five years' maturity) was lower than the domestic rate of inflation and the expected yield on foreign currency deposits (i.e., the interest rate plus the expected depreciation rate of the Egyptian pound). In the latter case, competitive interest rates were necessary not only to attract workers' remittances from abroad but also to encourage their conversion into instruments denominated in Egyptian pounds as well as to discourage short-term capital outflows. Some characteristics of the loan interest rate structure also needed attention. First, after taking account of the noninterest bearing reserve requirement, the effective interest cost to banks of longer maturity deposits exceeded the maximum set on certain categories of loans. Second, interest rate maxima on loans did not vary according to maturity. Finally, the low interest rate ceiling for loans to industry and agriculture (13 percent) could encourage banks to lend to other sectors at higher interest rates. The Egyptian representatives said that the level of interest rates could be considered low but they were satisfied with their structure. The weighted average cost to banks of all deposits was relatively low, and, while there was an interest incentive for banks to divert credit away from industry and agriculture, this was not a problem at present. Finally, with regard to the term structure of interest rates, the Egyptian representatives noted that banks typically renew short-term loans as they mature, so that, in practice, borrowers had access to long-term funds.

4. External sector policies

The mission commented that the measures taken since the end of 1982 had introduced greater realism in the exchange system, although they had added to the number of exchange rates and been implemented in an informal and piecemeal manner; for instance, no written official notification had been issued to the banks with regard to the recent changes in the exchange rate system. The recently established premium rates for commercial banks seemed to be too appreciated considering the reported free market rates and the pent-up demand for public sector imports. In the circumstances, instead of either absorbing any excess demand for foreign exchange by using the public sector banks' foreign assets or reducing it by tighter import licensing, it seemed desirable to narrow the gap between the commercial bank and free market rates through flexible adjustment of the former rate and to support this policy by tighter credit policies and higher interest rates. Also, in the interest of exchange system simplification, the mission suggested transferring transactions in the commercial bank pool that continue to take place at the official rate (including 50 percent of export proceeds from five agricultural commodities) to the more depreciated premium rates.

The Egyptian representatives said that the adequacy of the premium buying rate had to be assessed in the light of the convenience of effecting transactions through banking channels rather than through exchange dealers. The premium selling rate was fairly close to the current free market rate and, in their view, more depreciated than the rate implied by the underlying supply and demand conditions. Although, in the future, the premium rates would be set in the light of demand and supply conditions, in the initial phase any run-up of the free market exchange rate would be counteracted by tighter import licensing and stricter administrative surveillance to discourage illegal transactions. They expected that an increasing flow of foreign exchange to commercial banks would allow commercial banks to handle a greater share of private sector imports and invisible payments until the free market would eventually be taken over by the banks. The spread between the buying and selling premium rates--which was now 5.2 percent--would then be narrowed.

The Egyptian representatives said that full unification of the commercial bank pool and free market had to be gradual and that the recent measures should be seen as interim steps toward such an objective. As regards the possibility of including the Central Bank pool in this unification, they noted that the Central Bank rate was basically an accounting rate since the volume of cotton and petroleum exports as well as food imports depended mostly on domestic prices that were largely fixed on the basis of other considerations rather than on the level of the exchange rate. The mission suggested, however, that the maintenance of an overvalued exchange rate in the Central Bank pool constrained greater realism in pricing policy and that the expected slower growth of petroleum exports, along with higher demand for foreign exchange to service the external public debt and to import foodstuffs, would exert increasing pressures in the Central Bank pool. Failing total unification of the system, the mission suggested that, for the reasons mentioned above, Central Bank pool transactions should be gradually shifted to the premium rates in the commercial bank pool and, concomitantly, that their domestic prices be set at a level closer to world prices.

The recent exchange rate changes were being reinforced by concerted efforts to promote exports through measures aimed at improving the quality and packaging of goods for export, at more efficient marketing, and at reducing bureaucratic interference. Present procedures for granting tax rebates on the import content of exports were being simplified and consideration was being given to establishing facilities for short-term export credit as well as for longer term credit to finance export-oriented investment projects through the recently established Export Development Bank.

The Egyptian representatives stated that cotton yarn exports were being adversely affected by quotas in some industrial countries. On the other hand, Egypt was presently unable to fill its export quotas for garments and cloth to these markets because of strong domestic demand and the highly competitive environment for textile exports.

The mission noted that in view of the present size and servicing burden of the external debt, cautious policies in terms of debt contracting needed to be followed. For this, precise regulations should be established governing the contracting of external debt by all entities; for instance, public units and ministries should not be allowed to undertake investments financed by short-term external loans on commercial terms outside the normal budgetary processes. The Egyptian representatives noted that an expert from the Central Banking Department panel had been requested to help improve external debt compilation and monitoring. A comprehensive approach to external debt management was being evolved and it remained Egypt's intention to pursue prudent borrowing policies, with most loans being contracted on concessional terms.

Noting that commercial banks' net foreign currency liabilities had increased from $0.4 billion in April 1983 to $1.1 billion in January 1984, the mission cautioned that liquidity problems could arise if there were large withdrawals of foreign currency deposits by residents or a reduction of credit facilities by foreign banks. This called for active exchange rate and interest rate policies. The Egyptian representatives said that the net liabilities in foreign currency were only 21 percent of private sector foreign currency deposits with commercial banks, which indicated that there was room for further increase in exposure.

Egypt is not meeting its current debt servicing obligations to some Arab oil producing countries as well as to the Islamic Republic of Iran. The Egyptian representatives said that interest payments due to the first group of countries were being capitalized and that this arrangement was presently acceptable to these creditors. In the case of the debt owed to the Islamic Republic of Iran, the Egyptian representatives stated that they were prepared to enter into bilateral negotiations on this matter with that country.

Egypt maintains bilateral payments agreements with two Fund members (China and Sudan). The mission encouraged their early termination.

5. Statistics

Although considerable progress has been made in recent years, the mission noted that there remain several areas (national income accounts, balance of payments, external debt, public sector investment, subsidies, price indicators) where either the quality or timeliness of statistics can be improved (Appendix VI). In addition, available data did not always seem to flow smoothly from one part of the Government to another.

V. Staff Appraisal

In the ten years since the introduction of the open-door policy and of more market-oriented policies, Egypt has benefited from rapidly growing foreign exchange receipts which have enabled it to step up its investment effort and maintain a high rate of economic growth. However, the rapid increases in foreign exchange receipts from oil exports, emigrants' remittances, Suez Canal charges, and external assistance--which typically have not reflected the competitiveness of the economy--have rendered less apparent the adverse effects on the pattern of growth and the balance of payments of pervasive cost-price distortions and structural problems in government finances.

The emphasis in the current Five-Year Plan on stimulating production in agriculture and industry relative to services, and on generating more domestic savings is fully appropriate. The recent implementation of a number of policy measures in the tax and credit areas and greater realism in exchange rate management indicate the concern of the authorities about the necessity for policy changes. However, most recent economic and financial trends seem to indicate that the objectives of the Plan in terms of generation of domestic savings and shift of resources from consumption to investment are not being achieved. The staff believes that, in view of the less favorable prospects for some of Egypt's major sources of foreign exchange, the balance of payments and external debt situation are likely to weaken in the absence of more vigorous adjustment measures. Under such conditions, it would be difficult to sustain high rates of economic growth, reduce inflationary pressures, and maintain the proper environment for domestic and foreign investors while bringing about the improvements in basic infrastructure and public services necessitated by the rapidly growing population. Although demand management policies could be adopted that would reduce the budget deficit and moderate the pressures on both the balance of payments and prices in the short-term, the staff believes that these pressures would soon re-emerge unless fundamental policy adjustments aimed at correcting the underlying, longer-term structural problems were adopted. The staff welcomes the intention of the authorities to take further corrective actions after the elections.

Realistic and flexible pricing policies are the key element to achieving the growth and balance of payments objectives of the Plan. In particular, producer prices for major crops need to be steadily increased toward their international levels so as to encourage the production of exportables and to substitute domestic output for imports. Prices charged by public entities, in particular energy prices, should be gradually raised to their international levels in order to reduce consumption, making more production available for export, and to put public corporations on a sound financial basis. As regards consumer subsidies, the staff is aware of the constraints faced by the authorities, particularly in the light of recent disturbances in neighboring countries resulting from adjustments in the prices of essential consumer goods. However, the issue of consumer subsidies needs to be tackled in a pragmatic way in order to reduce their growing burden on the budget. The authorities could, for instance, consider limiting the number of subsidized items to a few essentials or devise other ways to limit the amount of subsidies while safeguarding the living standards of the part of the population with low incomes.

Resolute measures, on both the expenditure and revenue side of the budget, are a high priority not only to achieve an immediate reduction in the deficit but also to restructure government finances. On the revenue side, there are several steps that could be introduced to increase the elasticity of the tax system and raise more revenue. Constraining the growth of public expenditure could be achieved through a revision of government employment practices, moderation in wage adjustments, and greater discipline in investment spending.

The authorities have succeeded in slowing the growth of monetary and credit expansion but current rates of expansion still exceed what the staff considers appropriate to the needs of the economy. Particular attention should be directed to slowing the growth of monetary reserves created by the Central Bank's financing of public sector deficits so that the genuine credit needs of the commodity producing sectors can be met within prudent overall credit growth limits. In addition, the loan-to-deposit ratio allows slippage and alternatives to control the growth of credit should be considered. Interest rate policy should aim at costing capital realistically, increasing saving in assets denominated in Egyptian pounds, and supporting the exchange rate.

Recent measures to remove administrative bottlenecks and improve financial incentives to exporters are evidence that the authorities attach high priority to reviving exports and restructuring the balance of payments. The positive response of non-oil exports and of emigrants' remittances to recent exchange rate changes indicates that realistic exchange rate levels can have a beneficial and prompt effect on the balance of payments. Appropriate exchange rate flexibility in the expanded commercial bank pool should be maintained and supported by active credit and interest rate policies. Such policies are also needed to keep the confidence of short-term foreign lenders and of residents holding foreign currency deposits with Egyptian banks. The authorities should also press forward with unification of the exchange system in order to expand the traded goods sector and improve the allocation of resources. In view of the number of rates in existence and the lack of firm plans on the part of the authorities to undertake unification of the exchange system the staff does not recommend approval by the Executive Board of the multiple currency practices.

The outstanding level of the external debt is high and its servicing has become an important item in the balance of payments. Therefore, great caution needs to be exerted in external debt policies. An immediate step should be the compilation of comprehensive debt statistics and the formulation of precise overall guidelines on external debt contracting in the light of prospective balance of payments developments and external debt sustainability.

The adjustment strategy described above should be formulated within a medium-term framework with a precise schedule for policy implementation, in particular for the correction of cost/price distortions. The authorities have stressed that adjustment must be gradual for the process to gain widespread acceptance by the public. The staff believes that the magnitude of the existing distortions and structural imbalances as well as the likely deterioration in the external accounts dictate that the adjustment effort be vigorous enough in its initial phase so that progress in reorienting production and in strengthening the fiscal and external accounts be made each fiscal year. Failing this, distortions will grow further with the result that more painful measures will be necessary later.

The period immediately ahead offers an appropriate environment that will increase the chance for success of such an adjustment effort. On the external side, the world economy is recovering, thereby offering opportunities for diversification and growth of non-oil exports. In addition, world inflation is expected to remain low, therefore moderating the increases in domestic prices. On the domestic side, the economy does not appear to face any immediate balance of payments difficulties so that the authorities have a broader choice of instruments to apply and can employ them with greater flexibility. Thus, the post-election period presents a good opportunity to embark in an orderly manner on such a structural adjustment. The strategy recommended by the staff, which is similar to that advocated by the World Bank, basically aims at achieving a more efficient allocation of resources through a judicious combination of economic policies. The resulting improved structure of the balance of payments will, in turn, help meet the Government's objectives of employment and long-term growth. Only through such a strategy can the important social gains already achieved be maintained and expanded.

It is recommended that the next Article IV consultation with the Arab Republic of Egypt be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to the Arab Republic of Egypt's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Egypt, in the light of the 1984 Article IV consultation with Egypt conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes the recent measures to improve the efficiency of the exchange system. The Fund considers, however, that the system remains complex and believes that further steps should be taken at an early date toward the complete unification of the existing rates. The Fund hopes that Egypt will terminate the two remaining bilateral payments agreements with Fund members as soon as possible.

Arab Republic of Egypt - Fund Relations
(As of end of April 1984)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership Status

(a) Date of membership:	Original member, 1945
(b) Status:	Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota:	463.40
(b) Total Fund holdings of Egyptian pounds:	512.72 (110.64 percent of quota)
(c) Fund credit:	49.31 (10.64 percent of quota)
Of which: extended Fund facility:	49.31 (10.64 percent of quota)
(d) Reserve tranche position:	--
(e) Current Operational Budget (maximum use of currency):	--
(f) Lending to the Fund:	--

III. Current Stand-by or Extended Arrangement and Special Facilities

(a) Current stand-by or extended arrangement: None

(b) Previous stand-by and extended arrangements:

Arrangement	Date	Duration	Amount	Utilization
Stand-by	April 20, 1977	April 19, 1978	125	105
Extended Fund	July 28, 1978	July 27, 1981	600	75

(c) Special facilities: No use in last two years

IV. SDR Department

(a) Net cumulative allocation:	135.92
(b) Holdings:	7.0 (5.2 percent of net cumulative allocations)
(c) Current Designation Plan:	--

V. Administered Accounts (amounts)

(a) Trust Fund loans		
	(i) Disbursed:	183.72
	(ii) Outstanding:	170.67
(b) SFF Subsidy Account		
	(i) Donations to Fund:	--
	(ii) Loans to Fund:	--
	(iii) Payments by Fund:	--

VI. Overdue Obligations to the Fund: --

B. Nonfinancial Relations

VIII. Exchange Rate Arrangement:

The exchange market consists of three distinct elements--the Central Bank pool (handling most government-related transactions), the commercial bank pool (covering workers' remittances, minor exports, tourist receipts, and public sector imports not qualifying for the Central Bank pool), and the free exchange market. Transactions with the Central Bank are at the official rate of LE 1 = US$1.42857. Since August 1, 1981 the rate in the commercial bank pool has officially been set at LE 1 = US$1.20239. However, commercial banks have recently been allowed to use a premium rate of LE 1 = US$0.89286 for most purchases of foreign exchange and a premium rate of LE 1 = US$0.84746 for most sales of foreign exchange. Rates in the free market have recently been about LE 1 = US$0.81.

The multiple currency practices involved in Egypt's exchange system were approved until May 31, 1983.

IX. Last Article IV Consultation:

Discussions were held by the staff in Cairo during March 19-25, 1983. The Staff Report (SM/83/103) was discussed by the Executive Board on July 27, 1983.

Consultations with Egypt are on a standard 12-month cycle.

The Executive Board's decision (Decision No. 7475-(83/112)), adopted July 27, 1983, was as follows:

> 1. The Fund takes this decision relating to the Arab Republic of Egypt's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Egypt, in the light of the 1983 Article IV consultation with Egypt conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes the recent measures to improve the efficiency of the exchange system. The Fund considers, however, that the system remains complex and believes that further steps should be taken at an early date toward the complete unification of the existing exchange rates. The Fund welcomes the termination of the two bilateral payments agreements with Fund members and hopes that Egypt will terminate the two remaining agreements with Fund members as soon as possible.

X. Technical Assistance

(a) CBD

1. In September 1983, a CBD mission visited Cairo to review the system for supervising banks and the program for training bank inspectors.

2. A CBD expert has been requested to develop a centralized debt data and management system.

(b) FAD

None within last two years.

(c) Other

1. Two ETR/MED technical assistance missions have visited Cairo (in June 1981 and in November 1982) to review the exchange system and make recommendations for unifying the commercial bank pool and the free market.

2. In March 1983 a STAT technical assistance mission visited Cairo to review the methods used to compile monetary statistics.

3. In November 1983 the IMF Institute conducted a seminar in Cairo on Fund policies and Egyptian policy issues.

4. In November 1983 a STAT/ETR mission visited Cairo to review balance of payments methodology.

XI. Resident Representative/Advisor: None

Arab Republic of Egypt: Basic Data

	Annual Average 1975-1981/82	1981/82	1982/83	Proj. 1983/84	Plan 1982/83-1986/87
	(Annual percent changes)				
Real GDP at factor cost	8.4	...	7.0	7.2	8.1
Agriculture	1.4	...	3.0	2.9	3.7
Industry and mining	6.2	...	7.2	9.3	10.3
Petroleum	25.4	...	14.5	14.5	12.2
Consumer price index	13.6	16.0	18.6	20.0 1/	...

	Actuals 1981/82	Prelim. 1982/83	Proj. 1983/84
	(Annual percent changes)		
External sector (on the basis of U.S. dollars):			
Exports, f.o.b.	4.0	-14.2	9.7
Oil exports, f.o.b.	(6.1)	(-18.6)	(5.3)
Imports, c.i.f.	0.5	-4.7	4.6
Suez Canal receipts	16.5	5.3	4.5
Tourism	-23.2	-22.6	-1.3
Workers' remittances	-27.1	52.1	23.2
Current account receipts	-1.3	6.1	9.0
Real effective exchange rate (depreciation-)	2.7	13.2	10.0
Terms of trade (1979 = 100)	114.0	110.1	112.2
Change in terms of trade	-1.7	-3.4	1.7
Government budget:			
Revenues (excluding foreign grants)	14.5	8.7	13.0
Oil revenues	-20.1	-0.4	-5.8
Non-oil revenues 2/	28.3	11.0	17.2
Total expenditures	22.9	8.3	19.0
Wages, salaries, and pensions	40.0	14.3	24.3
Investments	24.0	0.2	7.9

1/ March 1983-March 1984.
2/ Includes investment self-financing.

Arab Republic of Egypt: Basic Data (concluded)

	1981/82	1982/83	1983
		(Annual percent changes)	
Money and credit:			
Domestic credit	44	27	24
Public sector (net)	(32)	(20)	(26)
Government (net)	[40]	[16]	[13]
Private sector	(66)	(27)	(31)
Domestic liquidity (M2)	44	33	27
Velocity (GDP ÷ end of period M2)	1.49	1.35	...
Interest rate (annual rate, three-month deposits, end of period)	8.5	8.5	8.5
		(Percentage change over stock of domestic liquidity at beginning of period)	
Domestic credit	42	26	23
Public sector (net)	(26)	(14)	(17)
Government (net)	[28]	[12]	[10]
Private sector (net)	(26)	(12)	(13)

	Actuals 1981/82	Prelim. 1982/83	Budget Est. 1983/84	Staff Est. 1983/84
		(As percent of GDP)		
Government budget:				
Revenue 1/	42.4	38.4	37.8	36.2
Expenditure	62.5	56.4	53.7	55.9
Budget deficit (before foreign grants)	-20.1	-17.9	-16.0	-19.7
Domestic financing	(16.6)	(13.8)	(12.8)	(15.5)
Domestic bank financing	[14.0]	[7.3]	[6.4]	[7.0]
Domestic arrears	[-3.7]	[--]	[--]	[1.8]
Foreign financing (including grants)	(4.0)	(3.7)	(3.1)	(4.2)
Statistical discrepancy	(-0.5)	(0.5)	(--)	(--)

1/ Excludes foreign grants.

Table 5. Egypt: Balance of Payments Summary, 1980/81-1983/84

(In millions of U.S. dollars)

	1980/81	1981/82	1982/83	Staff Projections 1983/84
Trade balance	-5,078	-4,965	-5,126	-5,180
Exports (f.o.b.)	3,985	4,144	3,555	3,900
Petroleum	(2,857)	(3,032)	(2,468)	(2,600)
Other	(1,128)	(1,112)	(1,087)	(1,300)
Imports (c.i.f.)	-9,063	-9,109	-8,681	-9,080
Public sector	(-7,109)	(-7,334)	(-6,378)	(-6,530)
Private sector	(-1,954)	(-1,775)	(-2,303)	(-2,550)
Services (net)	3,464	2,605	3,814	4,309
Receipts	6,455	6,156	7,376	8,020
Suez Canal dues	(780)	(909)	(957)	(1,000)
Workers' remittances	(2,855)	(2,082)	(3,166)	(3,900)
Investment income	(1,321)	(1,583)	(1,267)	(1,360)
Tourism	(512)	(393)	(304)	(300)
Other	(987)	(1,189)	(1,683)	(1,460)
Payments	-2,991	-3,551	-3,562	-3,711
Investment income	(-1,550)	(-1,837)	(-1,666)	(-1,721)
Other	(-1,441)	(-1,714)	(-1,896)	(-1,990)
Current account balance	-1,614	-2,360	-1,312	-871
Capital account	1,157	1,184	1,331	923
Project and commodity loans (net)	1,062	897	946	843
Drawings	(1,444)	(1,371)	(1,307)	(1,365)
Repayments	(-382)	(-474)	(-361)	(-522)
Suppliers' credits (net)	51	-20	-65	-50
Drawings	(882)	(842)	(886)	(957)
Repayments	(-831)	(-862)	(-951)	(1,007)
Direct investment	230	250	247	200
Business and investment banks	-136	305	—	-200
Other (net)	-50	-248	203	130
SDR allocations	29	--	--	--
Balancing item	295	1,253	870	588
Overall balance	-133	77	889	640
Monetary movements (increase in assets -)	133	-77	-889	-640
Central Bank (net)	-37	-910	-242	...
Assets	(317)	(-598)	(-24)	(...)
Liabilities	(-354)	(-313)	(-219)	(...)
Commercial banks (net)	170	833	-647	...
Assets	(-653)	(18)	(-857)	(...)
Liabilities	(823)	(815)	(210)	(...)

Sources: Central Bank of Egypt; Egyptian General Petroleum Corporation; and staff estimates.

Table 6. Egypt: Medium-Term Balance of Payments Projections, 1983/84-1988/89

(In billions of U.S. dollars; unless otherwise noted)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Balance of payments						
Exports, f.o.b.	3.9	4.3	4.6	4.8	5.1	5.4
(Petroleum)	(2.6)	(2.9)	(3.0)	(3.0)	(3.1)	(3.2)
Imports, c.i.f.	-9.1	-9.7	-10.4	-11.1	-11.9	-12.8
(Public sector)	(-6.5)	(-7.1)	(-7.6)	(-8.3)	(-8.9)	(-9.6)
Services (net)	4.3	4.2	4.2	4.2	4.1	3.9
(Workers' remittances)	(3.9)	(4.0)	(4.0)	(4.1)	(4.2)	(4.2)
Current account balance	-0.9	-1.1	-1.6	-2.2	-2.7	-3.4
Project and commodity loans, suppliers' credits, and other capital (net)	0.7	0.4	0.4	0.4	0.5	0.7
Direct investment	0.2	0.2	0.2	0.2	0.2	0.3
Capital account	0.9	0.6	0.6	0.6	0.7	1.0
Balancing item	0.6	0.5	0.5	0.6	0.6	0.6
Overall balance	0.6	--	-0.5	-1.0	-1.4	-1.8
Monetary movements	-0.6	--	0.5	1.0	1.4	1.8
Central Bank (net)	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2
Commercial banks (net)	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5
Balance of payments financing (net)	--	0.7	1.1	1.6	2.1	2.5
(Drawings)	(--)	(0.7)	(1.1)	(1.8)	(2.5)	(3.4)
(Repayments)	(--)	(--)	(--)	(-0.2)	(-0.4)	(-0.9)
Memorandum items:						
Usable reserves of the Central Bank of Egypt	0.55	0.74	0.89	1.66	1.27	1.49
(In months of imports)	(0.7)	(0.9)	(1.0)	(1.1)	(1.3)	(1.4)

Sources: Data provided by the authorities; IBRD Debt Reporting System; and staff estimates and projections.

Table 7. Egypt: Medium-Term External Debt Projections, 1983/84-1988/89 1/

(In billions of U.S. dollars; unless otherwise noted)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Civilian external debt outstanding (end of period)	24.8	25.8	27.3	29.3	32.2	35.1
Medium- and long-term 2/	17.4	18.4	19.9	21.9	24.8	27.7
Short-term 3/	7.4	7.4	7.4	7.4	7.4	7.4
Debt outstanding in percent of						
Current account receipts	208	203	204	214	222	231
Current account receipts through the Central Bank and commercial banks	254	241	242	255	264	274
Servicing of foreign currency obligations (during period)	3.4	4.0	4.5	4.7	5.2	5.9
Civilian external debt	2.9	3.5	3.9	4.2	4.7	5.4
Medium- and long-term	(2.1)	(2.7)	(3.1)	(3.5)	(4.0)	(4.7)
Amortization 4/	[1.5]	[2.0]	[2.2]	[2.4]	[2.7]	[3.1]
Interest 5/	[0.5]	[0.7]	[0.9]	[1.1]	[1.3]	[1.6]
Short-term 6/	(0.8)	(0.8)	(0.8)	(0.7)	(0.7)	(0.7)
Residents' foreign currency deposits 7/	0.5	0.5	0.5	0.5	0.5	0.5
Total servicing in percent of						
Current account receipts	28	31	34	34	36	39
Current account receipts through the Central Bank and commercial banks	34	37	40	41	43	46
Servicing of civilian external debt in percent of						
Current account receipts	24	28	29	31	32	36
Current account receipts through the Central Bank and commercial banks	29	33	35	37	39	42
Memorandum items:						
Foreign assets of banking systems 8/	10.4	11.0	11.7	12.3	13.0	13.8
Interest earnings on them	0.8	1.0	1.0	0.9	1.0	1.0
Average interest rate on external debt (percent per annum)	5.6	6.0	6.6	6.6	6.8	7.1
Percentage of external debt from commercial sources	43	43	44	46	48	50
Current account receipts	11.9	12.7	13.4	13.7	14.5	15.2
Current account receipts through Central bank and commercial bank pools	9.8	10.7	11.3	11.5	12.2	12.8

Sources: Data provided by the authorities; IBRD Debt Reporting Systems; and staff estimates and projections.

1/ Based on commitments as of end-1982 available from IBRD DRS; and new commitments implying a constant real level of loan disbursements from official sources; a rise in suppliers' credits in line with public sector imports; and borrowing from financial institutions to finance the projected balance of payments deficits and replenish the Central Bank's usable reserves.

2/ Public and publicly guaranteed; no reliable information is available on private nonguaranteed debt.

3/ Short-term foreign liabilities of the banking system.

4/ Medium- and long-term debt only. In respect of new commitments, loans from official sources are assumed to have a grace period of six years; loans from financial institutions are assumed to have a grace period of two years and a maturity of six years; repayments of suppliers' credits are assumed to be made in four equal installments starting in the year of disbursement.

5/ With respect to new commitments, the interest rate is assumed to be 6 percent for loans from official sources and 12 percent (10 percent from 1986/87) for loans from commercial sources.

6/ Interest only; the interest rate on the short-term liabilities of the banking system is assumed to be 11 percent (9 percent from 1986/87).

7/ Interest on the foreign currency deposits by private residents with domestic banks; the interest rate is assumed to be 8 percent (6 percent from 1986/87).

8/ End of period.

ARAB REPUBLIC OF EGYPT

Summary of World Bank Staff Assessment of Supply Side Policies 1/

The Bank has expressed concern about the implication of persistent structural imbalances. First, wide-spread price distortions--including energy prices, exchange rates, and interest rates as well as agricultural procurement prices and retail prices for industrial production--have shifted resources from agriculture and industry to trade and services. Within industry, the price structure has encouraged capital- and energy-intensive investment. Price distortions have also contributed to the stagnation of non-oil export receipts, the encouragement of consumer imports, and the expansion of credit by borrowers taking advantage of low interest rates. Second, The impact on public sector saving of the slower growth of government receipts from oil exports, Suez Canal traffic, and foreign aid combined with the continued growth of government current expenditure point to the need for fiscal measures to mobilize domestic resources in order to prevent the level of real investment from falling.

The Bank considers the 1982/83-1986/87 Development Plan as thorough in its coverage and degree of detail. For the first time, the Plan contains a detailed project list linking total investment with sectoral and project level investments. There is also a clear recognition of the underlying structural problems facing the Egyptian economy and of the need for major policy reforms if the investment and growth targets are to be met. The Plan puts significant emphasis on maintenance and replacement investments, and there is somewhat greater emphasis on investments in the productive sectors. Both steps are in the right direction. Given the scarcity of investable funds, the appropriate choice of projects based on economic profitability considerations is of paramount importance. Also, additional efforts need to be made to improve productivity in different sectors.

A consistency check on output targets and investment allocations shows that, given the rate of growth of investment, an overall growth rate of about 8.0 percent per year is achievable without any change in productivity. The major issue underlying the plan relates to its resource requirements. The magnitude of these resource gaps would, of course, depend on policies taken to mobilize resources and address the many structural problems facing the Egyptian economy. Using the Plan's investment targets, but projecting resource availabilities on the basis of existing policies and the current outlook, leads to growing fiscal and external "financing gaps." The magnitude of these resource gaps indicates the unsustainability of the planned investment program without major policy reforms.

1/ IBRD - Arab Republic of Egypt. Current Economic Situation and Growth Prospects. Report No. 4498 EGT, October 5, 1983.

While welcoming the measures taken over the last 18 months to come to grips with the structural problems facing the economy, the Bank has called for a comprehensive package of major policy reforms to reach the investment and growth targets set out in the Plan. To mobilize domestic resources, the Bank recommends improving government finances by increasing the efficiency and cost effectiveness of consumer subsidies; phasing out industrial subsidies by giving greater autonomy to unit managers; reforming the tax system; and especially adjusting relative prices to redress the distorted cost-price structure. In addition, the Bank has also noted the importance of relative prices in giving appropriate incentives to investors and producers. In this regard, attention has been called to the importance of steadily raising energy prices toward world levels, increasing procurement prices for crops with high economic returns, establishing a unified and flexible exchange rate for all price sensitive transactions including imports, and making domestic interest rates more sensitive to competitive yields.

Egypt: Statement of World Bank Group's Loans,
Credits, and Investments, March 31, 1983

(In millions of U. S. dollars)

	Bank	IDA	IFC	Total
20 loans and credits fully disbursed before 1975	393.4	257.8	--	651.2
Agriculture	99.0	193.0	--	292.0
Transportation	95.0	--	--	95.0
Industry and agroindustry	258.2	45.0	51.2	354.4
Telecommunications	64.0	53.0	--	117.0
Petroleum and gas	190.0	50.0	--	240.0
Electricity	109.0	157.0	--	266.0
Financial institutions for onlending	200.0	--	--	200.0
Social development	112.2	175.7	--	287.9
Construction	--	--	30.0	30.0
Tourism	--	32.5	5.1	37.6
Technical assistance	--	6.9	--	6.9
Total	1,520.8	970.9	86.3	2,578.0
Repaid	103.6	1.7	12.0	117.3
Total committed	1,417.2	969.2	74.3	2,460.7
Undisbursed	770.9	398.0	15.4	1,184.3
Total outstanding	646.3	571.2	58.9	1,276.4

Source: IBRD.

Egypt - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		Latest Date in May 1984 IFS
Real Sector	- National Accounts	Year ending June 1983
	- Prices	December 1983
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Central Bank	December 1983
	- Deposit Money Banks	December 1983
	- Other Financial Institutions	December 1983
External Sector	- Merchandise Trade: Values	July 1983
	- Merchandise Trade: Prices	n.a.
	- Balance of Payments	1982
	- International Reserves	January 1984
	- Exchange Rates	March 1984

During the past year, the reporting record of the IFS correspondent has been generally good.

2. Outstanding Statistical Issues

Government Finance: Data in the Government Finance Statistics Yearbook are uncurrent, the latest data relate to 1979 and no data have been reported on government debt. No response has been received to the GFS questionnaire during the last two years. Attempts to reconcile the data available to the Bureau with those provided to the Middle Eastern Department suggest that there are coverage differences.

Monetary Accounts: The Egyptian authorities have not yet commented on the report of the technical assistance mission on money and banking statistics that was sent in October 1983, which recommended an increase in the institutional coverage of the commercial banks section and some reclassification of various items. There is an unresolved valuation problem in measuring the foreign currency assets and liabilities of the deposit money banks vis-a-vis the private sector.

International Banking Statistics: Egypt has agreed to participate in the Fund's project on international banking statistics, although the geographic analysis thus far provided covers only the external accounts of four state-owned banks.

External sector:

(1) Merchandise Trade: At present, only indices of volume and unit values for cotton exports and volume data for crude and refined petroleum exports are reported to the Bureau. It would be useful if volume and unit value (or price) indices for aggregate trade were also available.

(2) Balance of Payments: The principal shortcomings in Egypt's balance of payments are discussed in the report of a recent technical assistance mission which took place in November 1983. In particular, there is a need to extend the coverage of the data to ensure consistency in the application of the residency criterion in compiling the data.