FOR AGENDA

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October 30, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Arab Republic of Egypt—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 2002 Article IV consultation discussions with the Arab Republic of Egypt (SM/02/326, 10/18/02), which is tentatively scheduled for discussion on **Wednesday, November 13, 2002.** At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Arab Republic of Egypt indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Allum (ext. 38535) and Mr. Söderling (ext. 39707) in MED.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, November 7, 2002; and to the African Development Bank, the European Commission, the European Investment Bank, the Food and Agriculture Organization, the Islamic Development Bank, and the United Nations Development Programme, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

Selected Issues and Statistical Appendix

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Approved by the Middle Eastern Department

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CHAPTER I. OVERVIEW [1]

1. **This selected issues paper addresses fiscal and external performance in Egypt, focusing on issues of sustainability**. Imbalances in the fiscal and external sectors were central to poor macroeconomic performance in the 1980s, but were addressed under a sequence of Fund arrangements in the 1990s that supported concerted fiscal consolidation, structural reform including in the external sector, and debt relief under the aegis of the Paris Club.

2. **While fiscal performance was put on a more sound footing in the 1990s, outcomes have deteriorated in recent years**. By the mid- to late-1990s, Egypt had achieved a primary fiscal surplus of 4–5 percent of GDP, which contributed to a steady reduction of the debt-GDP ratio.[2] Moreover, the budget's claim on bank financing had been reduced to relatively modest levels—for example, to 1½ percent of GDP in 1996/97, equivalent to about 15 percent of total bank credit expansion. This performance deteriorated subsequently, however, partly reflecting the recent slowdown in economic growth. Although the consolidated general government continues to record a primary surplus of about 3 percent of GDP, large below-the-line financing transactions have contributed to sharp increases in the ratio of net public debt to GDP. Government borrowing from the banking system has also expanded significantly, amounting to 5½ percent of GDP in 2001/02, or about one-half of total bank credit expansion. To the extent that strong economic policies support a recovery in growth, fiscal performance can be expected to improve in the period ahead. At the same time, however, a number of strains in fiscal performance unrelated to the broader growth picture have emerged, including rapid growth of wage and pension benefits, a squeeze on current spending that may prove unsustainable, a decline in revenue buoyancy, and (over the longer term) a prospective deterioration in the demographics underlying the pension system.

3. **Given recent developments, a review of Egypt's fiscal sustainability is timely**. These issues are addressed in Chapters II and III. Given the crucial importance of the pension insurance system for Egypt's longer-term fiscal performance, Chapter II (by Christiane Röhler) provides an overview of the institutional arrangements for pension insurance in Egypt. Two Social Insurance Funds (SIFs)—the Government Fund, and the Public and Private Sector Fund—administer the public pension system. The primary framework of the pension system is designed to operate on a funded basis although benefits are granted on a defined benefit basis. In practice, Egypt's pension system looks more like an unfunded social insurance system, whose status should be judged by the balance of contributions to expenditures. In spite of high contributions, a large share of benefits is covered by annual transfers because (among other reasons) annual cost of living adjustments

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[1] This chapter has been prepared by Peter Allum.

[2] The fiscal data prior to 1998/99 remain subject to some uncertainty, given remaining discrepancies between the financing and debt data. For 1998/99, a review of the fiscal data in 2000 resulted in an upward revision of the fiscal deficit, while the debt data were broadly unchanged.

are legislated to be funded out of general revenue, and a comprehensive insurance scheme covering about one-third of total contributors in casual employment requires only token contributions. In addition, the majority of the surplus of the Funds is invested with the National Investment Bank (NIB), a nonbank development institution that provides financing for government approved investment projects. Thus, the budget is indirectly responsible for debt service on most of the SIFs' investments.

4. **The pension system is likely to be a source of rising fiscal pressure**. In spite of Egypt's young population, pension contributions already fall short of pension expenditures. Because of demographic developments, the share of the elderly in the total population will increase significantly over the next 25 years. This will result in increasing pension expenditures, even if the average pension does not grow in real terms. As pension benefits are an important source of income for a large share of the population, any reform to the pension system would have to be addressed with care. However, a declining dependency ratio resulting from lower fertility rates and further development of the formal economy would provide room for such reforms.

5. **Egypt's long term fiscal outlook is modeled in Chapter III, which considers prospects for the budget and pension system through 2025**. This chapter (by Christiane Röhler and Ludvig Söderling) suggests that current fiscal policies are not sustainable, even with a strong recovery in economic growth. While the rise in net public debt as a share of GDP is projected to be somewhat less rapid over the medium term than over the past four years, net public debt would rise steadily from less than 60 percent of GDP at present to 65 percent of GDP in four years' time, to over 80 percent of GDP in a little over a decade. While this deterioration is not rapid, it represents perhaps the most optimistic scenario. Alternative fiscal scenarios show that the debt dynamics would deteriorate much more quickly if economic growth remained at rates seen over the past decade, rather than strengthening as assumed in the favorable baseline scenario. In addition, the debt dynamics would look less favorable if the government was required to take over the debts of certain public enterprises, or if real interest rate proved to be higher than in the baseline scenario.

6. **To restore fiscal sustainability, Chapter III recommends a combination of early consolidation of budget sector performance, combined with measures to strengthen the pension system**. The need for additional fiscal measures, over and above those projected for 2002/03, amounts to about 2 percent of GDP under the favorable baseline scenario, but could rise to more than 3 percent of GDP with economic growth more closely in line with that of the past decade. In addition, it is assumed that the operations of the pension system are strengthened through reforms to the benefit and contribution regime. These reforms are assumed to improve the net operating position of the social insurance funds by a little over one percent of GDP on an annual basis. These combined measures would be sufficient to stabilize net public debt at close to current levels. However, as the debt ratio is already moderately high, consideration could also be given to even larger fiscal adjustment with a view to reducing vulnerability and enhancing policy options in case of future economic shocks.

7. **Egypt's external competitiveness is the focus of Chapter IV** (prepared by Charis Christofides). In the late-1980s, external imbalances contributed to a decline in official reserves to low levels and the emergence of large external payments arrears. Under the adjustment and reform program launched in early-1991, these imbalances were tackled through strengthened macroeconomic policies, debt relief from Paris Club and other creditors, financial liberalization, and structural reform. Egypt's multiple rate exchange regime was also successfully unified following an initial depreciation. These measures were broadly successful in addressing Egypt's external imbalances, and were associated with strong remittance and private capital inflows and a slowing of import growth. This permitted a sizeable rebuilding of international reserves as the authorities intervened in the foreign exchange market to resist an appreciation of the pound against the U.S. dollar.

8. **Concerns about external sustainability reemerged in the mid- to late-1990s following a substantial real currency appreciation under the de facto peg to the U.S. dollar**. As recently as 1997, the immediate policy challenge was how to manage the strength of the pound resulting from a surge in capital inflows. From 1998, the external environment changed sharply, bringing issues of external sustainability back to the fore. Egypt experienced a series of shocks to its balance of payments, including a fall in tourism after a domestic terrorist incident in late-1997, a reversal of capital flows following the 1997–98 Asian crisis, and a decline in oil prices which adversely affected Egypt's net oil exports (at that point in surplus). While the exchange rate peg was maintained for a two-year period, the rate was permitted to depreciate relative to the U.S. dollar starting in 2000.

9. **Chapter IV reviews the experience of the 1990s and the implications for exchange rate management today**. The first part of the chapter considers the impact of the real exchange rate appreciation of the 1990s on Egypt's external performance. It finds that export market shares remained broadly unchanged through the 1990s, despite the real appreciation. While this is a relatively positive finding, it is less encouraging that no progress was made in restoring the loss of market share that occurred in the 1970s and 1980s. Tourism exports are an exception in this regard, seeing strong growth through the 1990s. On imports, the results are less favorable, with some indications that the real exchange rate appreciation contributed to a sharp rise in import penetration in the late-1990s, exacerbating the external shocks noted above.

10. **The second part of Chapter IV considers whether the depreciation of the last two years has been sufficient to restore external sustainability**. This is more difficult to judge, requiring identification of the key factors influencing external performance and an assessment of the likely performance of those factors over the period ahead. A range of analytical approaches suggest that the recent depreciation has made an important contribution to restoring external sustainability, but the results are not sufficiently robust to determine the appropriate level of the exchange rate at present. The chapter underlines, in light of this, the importance of maintaining exchange rate flexibility, so that the pound can adjust further, as needed, to ensure that external imbalances do not hamper the restoration of sustained strong economic growth.

CHAPTER II. EGYPT'S PENSION SYSTEM

I. INTRODUCTION

11. **This chapter reviews the institutional arrangements for state pensions in Egypt.** Section II discusses the origin of the current pension system and describes the types of coverage available to workers in Egypt. It also examines whether the system should be viewed as funded or unfunded, and discusses the generosity of the current provision arrangements. Section III discusses the financial condition of the two state pension funds, and considers the longer term outlook for their operations.

II. THE EGYPTIAN PENSION SYSTEM

A. Overview of the Pension System

12. An Egyptian pension system was initiated in 1950, at which time it was a noncontributory system financed from general revenue. Presently, pension insurance is mandatory in the formal sector, and most employees are insured through the government operated social insurance system.[3] Pension benefits are provided for old age, early retirement, disability, and for survivors of retirees. Coverage is provided through two Social Insurance Funds (SIFs): (a) the Government Fund (GF), covering civil servants, and (b) the Public and Private Sector Fund (PPF), covering employees of the public enterprises and private sector, as well as miscellaneous groups of employees covered under special pension laws.[4]

13. **Pension obligations include two components—a funded element, paid out of the accumulated contributions invested by the SIFs, and an unfunded portion, paid by the SIFs, but reimbursed by the budget**. The SIFs run a surplus on the funded component of pensions, and are required to invest virtually all of this surplus with the National Investment Bank (NIB), a nonbank development institution that finances the investment projects of the government as well as of other public sector entities. In addition to managing its funded obligations, the SIFs administer benefit payments funded by the budget.

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[3] Law 64/1980 allows larger companies to opt out of the government pension system if their schemes are better than the public scheme. Eight such alternative pension schemes operate, but no new schemes are being authorized. In addition, voluntary complementary pension schemes that provide supplementary pensions for workers in public and private enterprises exist (Law 54/1975). Most of the complementary plans are defined-benefit plans. Neither alternative nor complementary systems receive transfers from the treasury, and thus are not further discussed.

[4] The SIFs collect pension contributions as well as all contributions for unemployment insurance, workers' compensation, and health insurance. Unemployment benefits, and pension benefits under the worker's compensation system are also administered by the SIFs, while the share of social insurance contributions dedicated to medical treatment is transferred to the health insurance system.

14. **While the funded pension component shows a surplus (contributions exceed benefits), the combined funded and unfunded pension benefits exceed pension contributions**. As a result, the overall system operates at a deficit, financed by transfers from the budget (see Statistical Appendix Table 27). This position is surprising, given Egypt's young population, which should permit its pension system to operate at a surplus.[5] Given its current operating deficit, concerns arise as to the outlook for the current system as demographics give rise to further increases in benefits relative to contributions.

B. Coverage of Insured Workers

15. **As of June 2001, about 18 million contributors, or 92 percent of the estimated labor force, were registered with the SIFs** (Table II.1). About 8 million contributors were covered by the main pension system (Law 79/1975), and another 2 million under the expanded provisions for contractors, the transportation sector, and bakeries. Almost 6 million workers with only casual employment were covered by an unfunded comprehensive pension scheme (Law 112).

16. **In 2000/01, benefits were being paid with respect to about 4.3 million covered workers, or 6½ percent of the total population**. As these benefits reach both current pensioners with their dependent family members and covered survivors, the number of people benefiting from pensions is considerably larger. It is estimated to be about 11.6 million, or almost 18 percent of the population (Table II.2).[6]

17. **Pension benefits are guaranteed by the Egyptian constitution[7] and numerous laws regulate their provision**. The key provisions of the laws providing pension coverage are highlighted below. In addition, these laws contain special provisions for certain groups and are supplemented by decrees and regulations.

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[5] Under a funded system, this surplus would be dedicated to asset accumulation to finance future benefit payments.

[6] The number of surviving beneficiaries for each pension case where the primary pensioner has passed away is estimated at about 2¼ persons (Table II.3)

[7] Constitution (of 1971, amended 1980) Article 17: "The State shall guarantee social and health insurance services and all the citizens have the right to pensions in cases of incapacity, unemployment and old-age, in accordance with the law."

Table II.1. Egypt: Social Insurance Funds - Contributions, 1996/97–2000/01

(In millions of Egyptian pounds; unless otherwise stated)

	1996/97	1997/98	1998/99	1999/00	2000/01
Government fund					
Total contributions	4,886	5,527	5,938	6,785	7,199
Social security contributions	4,171	4,657	4,963	5,673	6,145
Other	715	870	975	1,112	1,054
Growth rate (in percent)	...	13.1	7.4	14.3	6.1
Number of contributors ('000s)	3,781	3,802	4,000	4,290	4,437
Public and private sector fund					
Total contributions	6,224	4,814	5,326	5,302	5,301
Social security contributions	3,945	4,494	4,958	4,900	4,894
Other	2,279	320	368	402	407
Growth rate (in percent)	...	-22.7	10.6	-0.4	0.0
Number of covered ('000s)	13,021	13,145	13,452	13,240	13,423
Public sector (Law 79/1975)	1,260	1,109	1,045	965	915
Private sector (Law 79/1975)	4,190	4,421	4,646	4,502	4,692
Regular	1,917	2,110	2,287	2,340	2,512
Contractors	1,203	1,210	1,221	980	927
Transportation	1,034	1,065	1,100	1,142	1,212
Bakeries	36	36	38	40	41
Self employed (Law 108/1976)	1,716	1,756	1,820	1,837	1,876
Workers abroad (Law 50/1978)	21	22	23	16	18
Casual workers (Law 112/1980)	5,834	5,837	5,918	5,920	5,922
Total of Social Insurance Funds					
Total contributions	11,111	10,341	11,264	12,087	12,500
Social security contributions	8,116	9,152	9,921	10,573	11,039
Other	2,995	1,190	1,343	1,514	1,461
Growth rate (in percent)		-6.9	8.9	7.3	3.4
Number of contributors ('000s)	16,802	16,947	17,452	17,530	17,860
Of which:					
Law 79/1975 regular	41.4	41.4	42.0	43.3	44.0
Law 79/1975 total	54.9	55.1	55.5	55.7	56.2
Law 112	34.7	34.4	33.9	33.8	33.2
Population ('000s)	59,400	60,700	62,000	63,300	64,700
Contributors as a share of population (in percent)	28.3	27.9	28.1	27.7	27.6

Sources: Social Insurance Funds; and IMF staff estimates.

Table II.2. Egypt: Social Insurance Funds— Benefits, 1996/97–2000/01

	1996/97	1997/98	1998/99	1999/00	2000/01
	(in millions of Egyptian pounds)				
Government fund (GF)					
Total benefits (in millions of Egyptian pounds (LE))	2,687	3,107	3,754	4,071	4,542
Pensions	2,444	2,811	3,229	3,673	4,195
Other	242	296	525	398	347
Growth rate of total benefits	...	15.6	20.8	8.4	11.6
Public and Private Sector Fund (PPF)					
Total benefits (in millions LE)	4,120	5,225	5,689	6,879	8,547
Pensions	3,837	4,632	5,330	6,276	7,011
Other	283	594	359	603	1,536
Growth rate of total benefits		26.8	8.9	20.9	24.2
Total for Social Insurance Funds					
Total benefits (in millions of LE)	6,807	8,332	9,443	10,950	13,089
Pensions	6,282	7,443	8,559	9,949	11,205
Other	525	889	884	1,001	1,884
Growth rate of total benefits	...	22.4	13.3	16.0	19.5
Number of pensioners' GF (1000s)	1,446	1,532	1,641	1,671	1,752
Living pensioners	402	431	493	475	502
Survivors	1,044	1,102	1,149	1,196	1,249
Total of pension cases, PPF ('000s)	2,686	2,818	2,958	3,117	3,275
By law					
Law 79	917	991	1,081	1,176	1,269
Public	...	...	...	819	879
Private	...	...	...	357	390
Law 108	251	269	285	303	325
Law 50	3	3	5	5	5
Law 112	1,047	1,111	1,173	1,243	1,302
Law 112 #5 (Sadat pension)	468	444	414	390	375
By status of pensioner	...	...	...	...	
Living pensioners	...	...	...	...	1,530
Heir cases	...	...	...	...	1,745
Number of survivors receiving benefits from heir cases	...	...	...	...	3,714
Pension increases on base wage	10	10	10	10	10
Law 112 monthly pension	45	57	63	80	80
Sadat monthly pension	37	47	52	68	68
Population (tsd)	59,400	60,700	62,000	63,300	64,700
Estimated pension cases as a share of population	6.0	6.2	6.4	6.5	6.7
Estimated household members as a share of population	15.3	15.9	16.6	17.0	17.9
Population growth rate	...	2.2	2.1	2.1	2.2
Growth rate of estimated pension cases	...	5.3	6.0	4.1	5.1
Growth rate of estimated pension household members	...	6.1	7.1	4.5	7.3

Sources: Ministry of Finance, Social Insurance Funds; and IMF staff estimates.

The main pension system (Law 79/1975)

18. Law 79/1975 establishes old age, early retirement, and disability pensions as well as survivors' benefits for civil servants and employees in public sector entities and in the formal private sector.[8] In Egypt, wages are paid in a complex system of basic and variable components, and pension contributions and benefits are calculated separately for each (see Box 1; and Table II.4). Contributions are set at 25 percent of basic and assessable variable wages (10 percent employee, and 15 percent employer). In addition, contributions of 5 percent on basic wages are collected for the remuneration system (Law 43/1984) that pays lump sum benefits upon retirement or early death.[9] Details on the required social security contributions by type of employment are provided in Table II.1. As indicated in Table II.2, these contribution rates are higher than those in many developed countries.

19. The regular retirement age in Egypt is 60 years for both men and women, but early retirement is possible with some pension reduction.[10] The old age pension on the basic wage requires a minimum contribution period of 10 years, while 20 years of contribution are required to qualify for early retirement. Pensions on basic wages are calculated in relation to the average income of the last two years of employment and the number of years of contribution.[11] The regular maximum pension of 80 percent of previous earnings is reached with 36 years of contributions; pensions can reach 100 percent of average wages for very low wage earners. In addition, a bonus on the basic wage pension is granted in regard to the share of variable wages that stem from past cost of living adjustments. The pension on this outstanding wage increment (see Box 1) is funded by the budget. Law 79/1975 does not provide for an annual cost-of-living pension adjustment, but *ad hoc* increases on the basic wage pension have been granted annually which also are paid out of general budget revenue.[12]

20. Pensions on variable wages can be paid after age 50, with a minimum of 20 years of contribution. The variable wage pension is calculated on the basis of the average monthly salary during the whole contribution period, some inflation adjustment, and the years of service.[13] No inflation adjustment is granted on the variable wage pension.

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[8] Law 79/1975 is supplemented by other laws and decrees which establish pension contributions on variable wages, and which extend the coverage to contractors, bakery employees and transportation workers.

[9] In addition to these contributions, the Ministry of Finance pays a contribution subsidy of 1 percentage points of covered wages.

[10] Discounts on the calculated pension are based on the claimants age: 15 percent if less than 45 years; 10 percent if less than 50 years; and 5 percent if less than 55 years.

[11] The formula is: monthly benefit = average basic wage during the last 2 years * 1/45 * Years of Service.

[12] The annual cost of living increases on the basic pension as of July 1 of each year were as follows: 1987: 20 percent; 1988–91: 15 percent; 1992: 20 percent; and since 1993: 10 percent.

[13] The formula is monthly benefit = average monthly variable salary * [1+ (0.02 * yos)] * 1/45 * yos; where yos = years of service.

Box 1: Egypt's Wage Structure and its Relation to Pension Contributions and Benefits

Egypt maintains a complex system of wage payments in its public sector.[1/] Workers receive a "basic wage" according to grade and seniority, together with a "variable wage." The latter comprises certain cost of living adjustments (or increments), as well as incentive payments and overtime allowances. Moreover, for the purpose of pension contributions, any excess of the basic wage over a ceiling (currently LE 625) is considered to be a variable wage. The table below shows the composition of the government wage bill in recent years.

Egypt: The Structure of Wages and Salaries

(In millions of Egyptian pounds; unless otherwise stated)

	1998/99	1999/00	2000/01
Government wages, salaries, and other compensation	16,932	19,060	21,902
Basic wages of government employees	7,930	8,926	9,584
Basic wage as percent of total remuneration	46.8	46.8	43.8

Sources: Ministry of Finance; and Social Insurance Funds. Ministry of Finance data for government wages (excluding employer contributions). Social insurance fund data for basic wages.

The complexity of the wage structure stems mainly from the method by which cost of living adjustments are granted. The current grade scale, which was introduced in 1984, does not provide for automatic cost of living adjustments. A first discretionary adjustment (increment) was granted in 1987, which was calculated on the level of each employees' basic wage, but credited to his remuneration as a variable wage. Further cost of living adjustments were implemented in subsequent years, leaving a fixed basic wage, on which the increases were based, but a rising variable wage component.

Since the basic wage, on which the cost-of-living increment are based, represented a progressively smaller share of total remuneration, a mechanism was introduced during 1992-94 to transfer cost-of-living adjustments from the variable to the basic wage. Under this system, at any given year, the increment credited to the variable wage five years earlier is moved to the basic wage, while the current-year increment is added to the variable wage. At any given time, therefore, the variable wage includes cost-of-living increments for the most recent five-year period.

Pension contributions are made on both basic and variable wage components (Table II.1), with the exception that no contributions are made on increments remaining in the variable wage. Equally, while pensions comprise both a "basic" and "variable" element, related to the basic and variable wage components, respectively, the SIFs are not obliged to pay a pension in regard to the portion of the variable wage that comprises increments. Instead, the government grants a pension bonus in regard to these increments, funded from general revenues.

1/ The term "wage payment" is used as a generic term for all wage and salary payments. The description relates mainly to the system in the government, but the structure of basic wages and scale of grades is uniform for the public service. The most recent wage schedule was adopted in July 1984 (Law 53/1984).

21. Disability pensions are paid in the event of total and permanent incapacity for any gainful employment. The minimum contribution period is three consecutive months or any six months. Benefits are related to monthly average wages during the last year of earnings. The benefit formula is similar to the old age pension, but with more generous minimum rules in the calculation and bonuses on the years of service and on the final amount.[14] The maximum pension is 80 percent of the average monthly wage.

22. Survivor benefits are paid if the deceased met the conditions for disability pension or was a pensioner at death. Coverage is extended to widows, invalid widowers, unmarried daughters and unmarried dependent sisters (no age limit), sons and dependent brothers (with an age limit), parents, and divorcees without income. The pension of the deceased is divided among the survivors according to a legal schedule.

23. In addition to the monthly payments, number of lump sum benefits exist.

- The end-of-service remuneration scheme pays a lump sum equivalent to one month of average monthly basic salary for the last two years per year of service. In the case of total disability or death, a minimum of ten times the average basic monthly salary is paid.

- If the minimum contribution period was not met, or the maximum period exceeded, a lump sum benefit is payable upon retirement or death. It is calculated as 15 percent of average annual wage during the last two years per year of contribution

- Lump sum benefits are also paid for certain events, e.g., to surviving daughters and sisters on marriage, brother's and sons upon reaching age 21, and for funeral expenses.

Employers and the self-employed (Law 108/1976)

24. Employers and self-employed persons are insured for old age, early retirement, disability and survivors benefits under law 108/1976. Contributions are 15 percent of income according to a chosen income class; some plausibility tests on the choice of income class apply. Retirement age is 65 with a minimum of 10 years of contributions. Early retirement can be taken at any age with 20 years of accumulated contribution. Old age benefits are related to the average monthly income class during the whole contribution period and the years of service.[15] The maximum benefit is 80 percent of the average monthly income class.

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[14] The formula is Monthly benefit = Maximum [AW *1/45*(yos+3), AW*0.5] * ½ + 0.8 AW * ½ ; where yos = years of service, and AW = average monthly wage during the last year.

[15] The formula is: monthly average income class "years of service" 1/45.

Workers abroad (Law 50/1978)

25. Egyptians who have worked abroad are covered by a voluntary insurance scheme for old age, disability, and survivor benefits. Insured workers pay 22.5 percent of monthly wage according to one of 17 income classes. Contributions can be made in regular installments or lump sum. Qualifying conditions for benefits are similar to Law 79/1975. Benefits are based on the average wage class during the whole contribution period.

Casual workers (Law 112/1980)

26. This largely unfunded scheme provides old age, disability, and survivor benefits to the casually employed working population not covered by other laws. The latter include, for example, small farmers, fishermen, workers without a fixed place of employment, and domestic servants. The contribution rate is a flat LE 1 per month, unchanged since 1992. The retirement age is 65, and a minimum of 120 months of contributions is required, though this can be paid in a single lump sum (LE 120). Benefits are payable at a flat rate of LE 80 per month (as of 2001). In addition, under Article 5 a completely unfunded pension—the "Sadat" pension—is paid to low-income individuals over the age of 65. The Sadat pension is paid at a flat rate, currently LE 68 per month. The benefits under Law 112 are funded mainly from the budget, but also from some licensing fees and similar income.

C. Funded vs. Unfunded Coverage

27. **While the legal prescriptions of the above pension laws and the institutional arrangement of independent SIFs envision the pension system as being funded, the practical operations have much in common with an unfunded social insurance system**. As discussed above, although the SIFs are responsible for administering and paying all pension benefits, only a part is financed from their invested incomes, with a large part covered by transfers from the budget. The latter element is legally defined to include:

- cost-of-living adjustments to the basic pension;
- benefits under the underfunded comprehensive insurance scheme (Law 112);
- basic pensions in regard to the wage increment in the variable wage not yet transferred to the basic wage at the point in time of retirement;
- the 1 percentage point contribution subsidy on total wages; and
- a general guarantee of benefits, which in the past has resulted in social insurance bonds being issued to the SIFs to compensate for actuarial shortfalls.

28. **Transfers from the budget to cover the above elements of the pension system are large**. At present, the SIFs are legally required to finance about 40 percent of total benefit payments using their own resources. The remaining 60 percent is the responsibility of the budget—though it appears that some fraction of this share is presently paid by the SIFs,

pending the relevant transfers from the budget. As a result, slightly more than half of the pension regime operates on an unfunded basis. This primarily reflects the unfunded nature of the annual cost-of-living increases, as these rapidly accumulate to represent a large part of each worker's pension.[16]

29. **There are a number of other ways in which the regime differs from a classically funded system wherein pension assets are independently invested, and returns on investments determine benefit payments**. The SIFs have no control over the disposition of their surpluses, which are transferred, by law, to the National Investment Bank (NIB). These funds are invested by the NIB in public projects with the budget sector, public economic authorities or public enterprises. Currently, about 50 percent of the claims of the NIB are directly against the budget sector and this share has been rising. Although the NIB requires a financing plan for each project which it funds, the funds are not invested according to commercial standards, to yield the highest return, but rather to achieve the development objectives of the government.

30. **Equally, there is no fixed link between the performance of the investments and the funds available to meet benefit obligations**. The budget effectively guarantees the SIFs' investments in the NIB, and would meet any shortfall in the event of losses. Equally, the rate of return on the SIF investments is politically, rather than market-determined. The SIF investments with the NIB yield a fixed rate of return that is administratively adjusted from time to time, with little or no relation to the performance of the NIB investments. Given the importance of this rate of return in determining the operating surpluses of the SIFs, the latter is effectively an outcome of policy decisions rather than the SIFs' investment decisions.

31. For all these reasons, the current pension system for analytical purposes may be better viewed as an unfunded system, whose policy options and choices are driven by the cash flow balance of pension expenditures to pension contributions. The implications for the operating performance of the pension system is discussed further below, as well as in Chapter III.

D. How Generous are Pension Benefits?

32. **Pension benefits under law 79/1975 offer a generous replacement rate**. Pension benefits are tax exempt, and only minimal contributions for the health care system are required. As social security contributions are no longer applicable post-retirement, a replacement rate of 80 percent of a worker's last gross wage can imply a replacement rate in excess of 100 percent in regard to the net wage. However, as the law does not provide for automatic cost-of-living pension increases, there is no guarantee that the real value of the

[16] With recent cost-of-living increases of 10 percent per annum, the unfunded component rises to more than 50 percent of the overall pension after 8 years.

pension will be maintained over time. While special legislation has been adopted on an annual basis providing for such cost-of-living increases this could, in principle, be discontinued.

33. **Notwithstanding the potentially high replacement rate, benefits can be low in relation to contributions**. As the pension law does not require an annual adjustment to the pension (such adjustments are funded from general revenue), life-time contributions and the income generated from investment—on average—only need to fund this nominally fixed and in real terms declining pension. A careful study of this issue is beyond the scope of this paper as with Egypt's defined benefit plan this would involve an analysis of life-cycle wage patterns. By international standards, Egypt's contribution rates are high, while annual adjustments to pensions are in line with standard international practice (Table II.5). At the same time, however, Egypt's system offers generous survivor benefits. While the wide range of relatives eligible for survivors' benefits is in accordance with Egyptian traditions and customs, effective benefits are broader in coverage than in many other countries.

34. The contributions under Law 112 are only token contributions. The minimum contribution of LE 120 to reach eligibility is recovered after 1 ½ months of benefits. The flat benefit of LE 80 per month provides approximately sufficient income for one person to be considered non-poor (at the lower poverty level).[17]

III. Current Status and Outlook for the Social Insurance Funds

A. Contribution Receipts

35. **Contributions received by the government fund increased at a 10 percent average annual rate in the four years to 2000/01**, reflecting increases in civil service salaries and employment levels. Although the government fund covers only one-quarter of the total insured workers under the two schemes, it receives more than one-half of total contributions (Table II.3).

36. **In contrast, contributions received by the Public and Private Sector Fund (PPF) remained little changed in the 3 years to 2000/01, following weak growth in the first part of the 1990s**. This stagnation of receipts reflects a decline in employment in the public enterprise sector as a result of early retirement schemes and other streamlining in the context of privatization. It may also reflect a slowing of employment growth in the private sector on account of the broader economic slowdown, combined with delays in payments by employers facing cash flow difficulties.[18] The overall level of contributions is also lower, in relation to benefits, as the PPF operates the heavily-subsidized comprehensive pension scheme for casual workers (under Law 112). While nearly 45 percent of PPF contributors are enrolled in this scheme, they account for less than 2 percent of PPF contribution receipts.

[17] *Poverty Reduction in Egypt: Diagnosis and Strategy*, Vol. 1: Diagnosis; World Bank, 2002.

[18] The deferral of contributions was formalized for certain companies following the disruption of tourism and other sectors following the events of September 11.

Table II.3. Egypt: Number of Pension Cases, Beneficiaries, and Average Monthly Pensions

(As of June 2001)

	Number of cases ('000s)			Number of survivor beneficiaries ('000s)					Average	Average monthly pension June 2001			
	Living	Heirs	Total	Widows	Children	Parents	Siblings	Total survivors	per case	Living	Heirs	per case	Survivor
Government fund													
Law 79	502	...	...	469	693	66	21	1,249	...	456	...	...	155
Public and private sector fund													
Total	1,530	1,745	3,275	1,542	2,076	78	18	3,714	2.13	210	141	173	66
Law 79	746	523	1,269	434	693	66	16	1,209	2.31	347	310	332	134
Law 108	146	179	325	160	259	13	1	432	2.42	81	99	91	41
Law 50	4	1	5	1	2	0	0	3	2.80	226	293	238	105
Law 112	601	701	1,302	648	1,003	n.a.	n.a.	1,650	2.35	79	69	74	29
Law 112 #5	34	341	375	300	120	n.a.	n.a.	419	1.23	65	53	54	43
Total for Social Insurance Funds													
	2,033	...	...	2,010	2,769	145	39	4,964	...	271	...	...	89

Sources: Egypt Social Insurance Funds: and IMF staff estimates.

37. **Over the long term, if the contribution structure is not changed, and if the share of wage income to GDP remains broadly constant, contribution receipts can be expected to rise broadly in line with nominal GDP**. However, the balance of receipts between the two funds may shift over time. The long-term economic scenarios discussed in Chapter III project an expansion of receipts by the public and private fund relative to those of the government fund, as new job growth is stronger in the private sector than the public sector. This is reinforced by an assumed convergence of salary growth in the public sector with that in the private sector.

B. Benefit and Other Payments

38. **Total pension benefit payments have been rising sharply, and in excess of contributions**. Over the four years to 2000/01, benefit payments rose at an average rate of 18 percent (14 percent for the government fund and 20 percent for the public and private sector fund) (Table II.4). This reflected increases in both the number of recipients, as well as higher benefits per recipient. The number of benefit cases increased by about 5 percent per annum for both schemes, with somewhat faster growth for the government fund than the PPF. This exceeded overall population growth, with the number of benefit cases rising from 6.0 percent to 6.7 percent of the population. The implied increase in benefits per pension case (about 13 percent) substantially exceeded consumer price inflation over the same period (4 percent).

39. **Reflecting the higher salaries and contributions, average benefit payments by the government fund substantially exceed those paid by the public and private fund** (Table II.5). The average monthly pension is LE 270 for a living pensioner, ranging from an average of LE 450 for civil servants to LE 80 for the self-employed and casual workers (under Laws 108 and 112). The replacement rate for civil servants is relatively high, as the average wage cost for a government employee in 2000/01 was LE 413 per month.[19]

40. **Over the long term, demographics will further fuel benefit growth, even if pension benefits per individual grow at a more modest pace**. Projections for Egypt's demographic structure developed by the International Labor Office suggest that the number of pensioners will increase relative to the labor force, with the old age dependency ratio rising from about 12 percent today to nearly 17 percent by 2025.[20] This reflects both a higher life expectancy, as well as the maturing of Egypt's relatively young population. Assuming that the share of wage income remains constant, even if the average pension grows with the average wage, pension expenditures will grow faster than GDP.

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[19] The government wage bill (including employer contribution to the social insurance system) was LE 25,217 and the employment of the budget sector was reported as 5,084 thousand. As the number of contributors into the government fund was reported to be only 4,437 thousand, this government employment number likely includes a large number of low paid casual workers.

[20] Defined as those over 65 years old as a share of the working age population aged 15 to 65 years.

Table II.4: Egypt: Social Security Contributions Under Law 79/1975 by Type of Employment

(In percent of wage)

								Private Sector											
	Type of	Government of monthly wage			Public Enterprises of monthly wage			Regular of January wage			Transportation of January wage			Contractors of January wage			Bakeries		
Insured event	wage	Employer	Worker	Total	Employer	Worker	Total	Employer	Worker	Total	Employer	Worker	Total	Employer	Worker	Total	Employer	Worker	Total
Old age, disability, survivors	Basic	15	10	25	15	10	25	15	10	25	15	10	25	15	10	25	15	10	25
	Variable	15	10	25	15	10	25	15	10	25	...	...	...	...	...	...	...	...	...
Remuneration (end of service lump sum)	Basic	2	3	5	2	3	5	2	3	5	...	...	...	...	...	...	...	...	...
	Variable	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...		...
Work injury	Basic	1	...	1	2	...	2	3	...	3	3	...	3	3	...	3	3	...	3
	Variable	1	...	1	2	...	2	3	...	3	...	...	...	...	...	...	...	...	...
Sickness	Basic	3	1	4	3	1	4	4	1	5	...	...	...	...	...	...	4	1	5
	Variable	3	1	4	3	1	4	4	1	5	...	...	...	...	...	...	...	...	...
Unemployment	Basic	...	...	...	2	...	2	2	...	2	2	...	2	...	...	...	2	...	2
	Variable	...	...	...	2	...	2	2	...	2	...	...	...	...	...	...	...	...	...
Total	Basic	21	14	35	24	14	38	26	14	40	20	10	30	18	10	28	24	11	35
	Variable	19	11	30	22	11	33	24	11	35	...	...	...	...	...	...	...	...	...
Of which : contributions related to pensions (old age, remuneration system, and share of work injury)																			
	Basic	17.5	13	30.5	18	13	31	18	13	31	16	10	25	16	10	25	16	10	25
	Variable	15.5	10	25.5	16	10	26	16	10	26	...	...	...	...	...	...	...	...	...

Source: *Egypt: Report to the Government of Egypt on Social Protection* , International Labor Office.

Table II.5. Egypt: Standard Contribution Rates and Entitlement Rules for the Main Old Age Pension, Disability and Survivors Systems for Selected Developed Countries 1/

Country	Contribution rate			Current normal retirement age
	Employer	Worker 2/	Total	
Austria	12.3	10.3	22.5	65 (women: 60)
Belgium	8.9	7.5	16.4	65 (women: 62, to be increased to 65)
France	9.8	6.7	16.5	60
Germany	9.6	9.6	19.1	65
Italy 3/	23.8	8.9	32.7	57 (65 if minimum pension not achieved)
Netherlands	6.7	19.2	25.9	65
Norway	14.1	7.8	21.9	67
Sweden 4/	10.2	7.0	17.2	flexible from 61
United Kingdom 5/	11.9	10.0	21.9	65 (women: 60, to be increased to 65)
United States	6.2	6.2	12.4	65
Egypt				
Pension benefits under law 79 (government, public sector, and regular scheme for private sector)				
Basic wage	15.0	10.0	25.0	60
Variable wage	15.0	10.0	25.0	50 (minimum)
Remuneration scheme (lump sum benefit upon retirement)				
Basic wage	2.0	3.0	5.0	

Source: United States Social Security Administration.

1/ The basis of contributions differ between countries and in some countries contributions are levied on multiple bases. Choices include: insurable or assessable earnings, worker's income, and payroll. No distinction is made in this table with regard to the different bases.

2/ For some countries includes separate coverage for survivors insurance.

3/ Retirement rules for those entering the labor force after 1996.

4/ New scheme for those born after 1954.

5/ Dual social insurance and social assistance scheme. Includes sickness, maternity, and unemployment insurance. insurance.

41. **It is noteworthy that the overall dependency ratio (young plus old as a share of working age population) is projected to decline from a current 74 percent to less than 60 percent by 2025, despite the rising old age dependency ratio**. This reflects a projected decline in the birthrate, so that the proportion of the population that is aged under 15 declines over time. To this extent, Egypt's working population will face a diminishing burden in supporting infants and children (handled by intra-family transfers) but a rising burden in supporting retired workers (under the formal pension system). Similarly, the number of family members who are dependent on support by a pensioner should decline on average.

42. **SIF operating costs have recently increased broadly in line with the growth of nominal GDP**. With benefits having increased at a considerably faster pace, operating costs have declined from the equivalent of 4 percent of benefits in 1991 to a current level of about 2½ percent. Nevertheless, this ratio remains high, as the SIFs have little overhead in administering the investment of the funds.

C. The Operating Performance of the SIFs [21]

43. **The operating balance of the SIFs shows a large surplus, largely due to the transfers from the budget, and interest income on investments with the NIB** (Statistical Appendix Table 27).[22] However, receipts from outside the government (primarily insurance contributions) fall short of benefits and operating expenditures, and the SIFs in the aggregate moved into a deficit (on this definition) from 2000/01 (Table II.6). Reflecting the faster growth of benefit payments than contribution receipts, benefits exceeded contributions by 0.6 percent of GDP in 2001/02. This overall picture masks significant differences between the two funds. While the government fund continues to run a comfortable (albeit declining) surplus of contributions over benefit expenditures, the PPF has been unable to cover its pension expenditures using contributions alone for the last four years (Table II.6).

44. **To meet the above shortfalls, the SIFs have been forced to rely increasingly on financing from the government**. This comprises, in principle, transfers from the budget and/or payment of interest by the NIB on the SIFs' investments. In practice, the gap has been closed with budgetary transfers. While the SIFs accrue interest on the investments with the NIB equivalent to almost 4 percent of GDP, this interest has, to date, been automatically reinvested in the NIB, and has not been available to meet SIF obligations.

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[21] This section relies on the information in Statistical Annex table 27 and 28. Data on the financial operations and status of the Social Insurance Funds were received both from the Ministry of Finance and the Social Insurance Funds. When there were differences in the data between these two sources, the data of the Ministry of Finance were used where possible.

[22] The SIFs' investments with the NIB are currently close to 40 percent of GDP, or about 10 years of current pension expenditures.

Table II.6. Egypt: Social Insurance Funds—Social Security Revenue and Benefit Expenditures, 1998/99–2001/02

	1998/99	1999/00	2000/01	2001/02
	(In millions of Egyptian pounds (LE))			
Social Insurance Funds (SIFs)				
Social security revenue	11,264	12,087	12,500	13,218
Pension expenditure	9,443	10,950	13,089	15,428
Revenue less expenditure	1,821	1,137	-589	-2,210
Transfers	5,497	6,423	8,291	9,041
Share of transfers in pension expenditure (percent)	58.2	58.7	63.3	58.6
Government Fund				
Social security revenue	5,938	6,785	7,199	8,000
Pension expenditure	3,754	4,071	4,542	6,169
Revenue less expenditure	2,184	2,714	2,657	1,831
Public and Private Sector Fund				
Social security revenue	5,326	5,302	5,301	5,218
Pension expenditure	5,689	6,879	8,547	9,259
Revenue less expenditure	-363	-1,577	-3,246	-4,041
	(In percent of GDP)			
SIFs				
Social security revenue	3.7	3.6	3.5	3.5
Pension expenditure	3.1	3.2	3.6	4.1
Revenue less expenditure	0.6	0.3	-0.2	-0.6
Transfers	1.8	1.9	2.3	2.4
Memorandum item: nominal GDP	302,100	338,700	361,800	379,725

Sources: Ministry of Finance; and IMF staff estimates.

45. **Looking to the future, in the absence of reforms, the prospects for faster growth of benefit payments than contributions would require either (a) increased transfer from the budget, or (b) a shift by the NIB to paying interest earnings to the SIFs, rather than automatically reinvesting them**. Both would have budgetary consequences. Rising transfers from the budget would add directly to the government's financing needs, while a reduced rate of reinvestment by the NIB would have an equivalent indirect effect, through the NIB's reduced ability to conduct net lending to the public sector. These pressures would be exacerbated if the strong real increases in pension payments continue in the period ahead. As the budget is already under pressure, it has limited capacity to finance growing transfers to the pension system. For this reason, reform of the current regime appears unavoidable.

D. Prospects for Reform

46. While the authorities have begun to consider options for reforming Egypt's pension system, this paper does not explore this issue in detail. It can be noted, however, that **there is ample leeway to develop a well-designed successor system, as the financing needs of the current system, while rising over time, are expected to prove manageable over the near term**. At the same time, with the budget financing a progressively larger share of SIF benefit payments, the tension between the goal of a funded system and the practice of an unfunded regime is likely to grow. This is an additional incentive for reform.

47. **Egypt's relatively young population represents an asset for pension reform**. As the aging of the population is expected to occur relatively slowly, there is ample time to phase in changes to the benefit regime. Given that the basic contribution rates are already high, there is little scope for increases in this area. However, the relatively low contribution rates for certain groups of workers (casual workers and the self-employed) merit review. The system would be strengthened by bringing workers currently in the informal sector into the pension arrangements for the formal sector.

CHAPTER III. LONG-TERM FISCAL SUSTAINABILITY [23]

I. INTRODUCTION

48. **Over the past 4 years, the net debt of the consolidated general government increased from 48 percent to 57 percent of GDP**. This partly reflects a rise in the fiscal deficit at the level of the budget sector on account of the economic slowdown, which is projected to be reversed over the period ahead. However, it also reflects an underlying deterioration in fiscal performance, decline in the operating balance of the Social Insurance Funds (SIFs), and large below-the-line fiscal outlays. These developments raise questions about the sustainability of current fiscal policies, the focus of this chapter.

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[23] Prepared by Christiane Röhler and Ludvig Söderling

49. **To address this issue, a model has been constructed to simulate the evolution of public finances over the next 25 years, including the impact of demographic change on the pension system**. For the purpose of this analysis, sustainability is defined loosely as a fiscal path that stabilizes the debt-GDP ratio at a level not significantly higher than the current level of 57 percent. Section II presents an overview of recent fiscal developments and future challenges in Egypt. The macroeconomic assumptions and results of the baseline scenario are laid out in Section III, together with a number of alternative scenarios. Conclusions are presented in Section IV.

II. Challenges to Fiscal Sustainability

A. Coverage of the Fiscal and Debt Data

50. **The sustainability analysis covers the activities of the consolidated general government**, including (i) the budget sector (central and local government and the public service authorities)[24]; (ii) the National Investment Bank (NIB); (iii) the General Authority for the Supply of Commodities (GASC); and (iv) the public pension system.[25] Data on the activities of the consolidated general government are available from 1998/99 onwards under the fiscal reporting framework established starting in 2000.[26]

51. **The analysis does not seek to model the financial position of the economic authorities, public enterprises, and public financial institutions**.[27] However, to some extent, the activities of these public entities are reflected in the fiscal operations of the general government. For example, the general government accounts reflect (i) the investments of the public economic authorities and public enterprises that are financed by the NIB; (ii) profit transfers to the budget from the public economic authorities and public enterprises; and (iii) budgetary receipts of privatization revenues. The net public debt data include the net liabilities of the general government and, in addition, the publicly guaranteed external debt of the public economic authorities and public enterprises.

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[24] Public service authorities are government bodies that are not expected to cover their costs, e.g., universities and educational institutions, or regulatory agencies.

[25] No attempt will be made to quantify the actuarial pension liabilities of the Social Insurance Funds (SIFs). A description of Egypt's pension system is provided in Chapter II.

[26] For further details on the fiscal reporting system, see the 2001 Article IV staff report (SM/01/303, pp. 6-10).

[27] Economic authorities are public sector bodies that are expected to cover their costs, e.g., the Suez Canal Authority (SCA), the Egypt General Petroleum Company (EGPC), the Cairo Public Transportation Authority, the Railway Authority, or the Port Authorities. In contrast to economic authorities, public enterprises are incorporated under the companies' law.

52. The analysis also does not capture the activities of the Social Fund for Development (SFD), which was established in the early 1990s to help alleviate the consequences of the privatization program. While the SFD administers a range of social programs, these are primarily grant-financed and do not influence public indebtedness.[28]

B. Public Debt Developments, 1998/99–2001/02

53. **In June 2002, gross domestic debt amounted to about 63 percent of GDP** (Table III.1). The budget sector accounted for about two-thirds of these liabilities, with the remainder accounted for by the NIB; the SIFs do not issue debt. The budget sector's domestic liabilities are almost entirely to the banking sector, in the form of bank credits or bank holdings of treasury bills and bonds. The domestic debt of the NIB is largely in the form of independently issued investment certificates (mostly held outside the banking sector), as well as the savings of the postal savings system, which are invested with the NIB. Most domestic public debt is nontradable, with limited secondary market activity even for treasury bills. Only a small share of domestic public debt is denominated in foreign currency, comprising, in particular, bank recapitalization bonds of about US$ 2 billion (2½ percent of GDP).

54. **In June 2002, domestic financial assets amounted to about 35 percent of GDP, reducing net domestic debt to 28 percent of GDP**. Domestic financial assets include government deposits with the banking system (22½ percent of GDP, of which about one-half are foreign currency-denominated) together with balances at the central bank in "blocked accounts" amounting to 12½ percent of GDP.[29] For current purposes, no allowance is made in measuring net domestic debt for the investment claims of the NIB on the economic authorities or public enterprises.

55. **With Egypt's external debt equivalent to 29 percent of GDP, overall net public debt amounts to about 57 percent of GDP** (Table III.1).[30]

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[28] Projected funding for SFD projects during 2003–07 (Phase III) is projected at about LE 7 billion (or almost 2 percent of 2001/02 GDP).

[29] The foreign currency-denominated blocked account balances reflect prepayments by public enterprises in respect of publicly guaranteed liabilities to Paris Club creditors. These prepayments occur when the enterprises service their debts on the original contractual terms, rather than on the more favorable terms provided by the Paris Club debt restructurings of the 1990s. The debt prepayments are made in local currency to the CBE, which accepts the obligation to meet the equivalent foreign currency obligations to the Paris Club as they fall due on the rescheduled terms.

[30] Comprises medium- and long-term debt contracted or guaranteed by the general government. Pending further information, external debt of the general government is measured excluding short-term debt.

Table III.1. Egypt – Consolidated General Government Debt, June 2002[1]
(In percent of GDP)

	June 2002
Total net debt	56.6
Net domestic debt	28.0
Gross domestic debt	62.8
NIB, *of which*:	18.9
Investment certificates	14.6
Postal savings	4.0
Budget sector, *of which:*	44.2
Treasury bills and bonds	14.0
Bank recapitalization bonds	2.5
Credit from central bank	25.0
Less: holdings of debt by SIFs	-0.6
Domestic assets (essentially budget sector)	34.8
Bank deposits	22.4
Of which: foreign currency	13.2
Blocked accounts	12.4
SIFs assets	0.6
External debt	28.7

Source: Data Provided by Egyptian authorities.
1/ Preliminary estimates.

56. **Egypt's net public debt in June 2002 was 9 percentage points of GDP higher than four years earlier**. About one-quarter of the increase in nominal indebtedness reflected financing of the fiscal deficit (Table III.2). The bulk of the increase, however, reflected below-the-line outlays, associated with arrears settlement, asset accumulation by the NIB, debt assumption by the government, and errors and omissions (which show up as a discrepancy between the fiscal accounts and the financing flows).[31] Currency depreciation since 2000 played only a small role in increasing net indebtedness, as revaluations to foreign currency debt were partly offset by revaluations to foreign currency deposits with the banking system. Publicly guaranteed debt has declined in relation to GDP, with repayments outpacing new guarantees.

[31] The statistical discrepancies could derive from unrecorded expenditures or net asset accumulation, or over-recorded revenues. Further work on the size and nature of the discrepancy is ongoing, as financing calculations are preliminary.

Table III.2. Egypt: Developments in Public Debt, 1998–2002

(In percent of GDP; unless otherwise stated)

	June 1998	June 1999	June 2000	June 2001	Est. June 2002	4 years to June 2002
Net debt ratio	47.7	48.2	47.2	52.9	56.6	...
Change in net debt ratio	...	0.5	-1.0	5.7	3.7	8.9
Contributing factors to change in net debt ratio:						
Net change in public debt (LE terms)	...	4.2	4.2	8.7	5.8	23.0
Currency depreciation	...	0.0	0.1	0.8	1.0	1.9
General government fiscal deficit	...	0.1	1.2	2.2	2.5	6.0
Below-the-line transactions	...	3.8	2.5	6.2	4.0	16.6
Supplier's credit and arrears repayment	...	0.7	0.8	1.9	2.3	5.7
NIB asset accumulation	...	1.7	1.3	2.7	1.0	6.7
Privatization proceeds	...	-0.3	-0.6	-0.1	-0.1	-1.1
Debt assumption	...	1.9	0.0	0.9	0.0	2.8
Above/below-the-line discrepancy		-0.2	0.9	0.9	0.8	2.4
Publicly guaranteed debt	...	0.3	0.4	-0.5	-1.9	-1.6
New debt guarantees	...	0.4	0.2	-1.4	-1.2	-2.0
Blocked accounts	...	-0.1	0.2	0.9	-0.7	0.3
Nominal GDP growth	...	-3.8	-5.2	-3.0	-2.5	-14.5
Other	...	0.0	0.0	0.0	0.3	0.3
Memorandum items:						
Nominal GDP (in billions of LE)	278.1	302.1	338.7	361.8	379.7	...
Exchange rate LE/$ (CBE central rate, end of period)	3.39	3.40	3.45	3.85	4.51	...

Sources: Egypt Ministry of Finance and Central Bank; and IMF staff estimates

1/ External debt includes both public and publicly guaranteed debt, valued at the Central Bank central exchange rate.

C. Baseline Fiscal Projections Through 2025

57. To assess fiscal sustainability through 2025, detailed assumptions are required for the operations of the budget as well as the pension system. These are developed below.

Revenue and grants receipts

58. **The recent unfavorable trend in revenue collection has been a key contributing factor to the deterioration in the fiscal accounts over the past three years**, with a decline in revenue collections from 30.4 percent to 27.4 percent of GDP between 1998/99 and 2001/02 (Table III.3). As discussed below, further challenges lie ahead.

59. **While taxes on international trade currently amount to 2½ percent of GDP, a significant decline is projected over the long term**, reflecting tariff reductions under trade agreements with the European Union (EU), Arab countries, and other trading partners. An association agreement signed with the EU in June 2001 provides for the dismantling of all duties on industrial imports from the EU within 12–15 years, together with a reduction of tariffs on a number of agricultural products. This will reduce the average tariff rate on EU imports from about 27 percent in 2001 to a long-term figure of about 10 percent. The EU currently supplies about one-third of total imports, a proportion that is likely to increase once the treaty comes into effect. Furthermore, trade agreements have been established with other countries in the region, in particular, the Greater Arab Free Trade Agreement (GAFTA), the Common Market for Eastern and Southern Africa (COMESA), and a number of bilateral agreements notably with Iraq, Jordan, Lebanon, Libya, Morocco, Syria, and Tunisia. While trade tax collections are projected to rise to almost 3 percent of GDP in 2002/03 on account of a recovery in imports, a gradual decline is projected thereafter, to less than 1 percent of GDP by 2025 (Table III.3).[32]

60. **The outlook is also unfavorable for specific taxes**. Egypt currently raises a relatively large amount of revenue from specific taxes and administrative fees. While periodic increases have been implemented for these taxes (e.g., on cigarettes in 2002), the frequency and magnitude of such adjustments has not been sufficient to prevent a gradual erosion of revenue receipts, by 0.7 percent of GDP between 1998/99 and 2001/02. In the baseline scenario, stamp taxes are assumed to grow at half the pace of nominal GDP through 2025, resulting in a further 0.4 percentage point decline in relation to GDP.

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[32] This reflects assumptions of a 10 percent effective tariff on non-EU imports (20 percent of total) and EU agricultural imports (another 20 percent of total), and a zero tariff on EU nonagricultural imports.

Table III.3. Egypt: Summary of General Government Operations:
Baseline Scenario, 1998/99–2024/25 1/

(In percent of GDP; unless otherwise stated)

	Actuals		Projections			
	1998/99	2001/02	2002/03	2006/07	2015/16	2024/25
Total revenue and grants	30.4	27.4	28.7	28.4	27.6	27.2
Total revenue	29.8	26.4	27.8	28.0	27.2	26.8
Current revenue	29.1	26.1	27.5	27.7	26.9	26.5
Tax revenue	15.4	13.6	14.6	14.6	14.4	14.1
Income taxes	5.5	5.7	5.5	5.5	5.3	5.2
Goods and services	6.2	5.4	6.2	6.4	8.0	8.0
International trade	3.7	2.5	2.8	2.7	0.9	0.8
Other, not included elsewhere	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	13.7	12.5	12.9	13.1	12.6	12.4
Capital revenue	0.7	0.3	0.3	0.3	0.3	0.3
Grants	0.5	1.0	0.9	0.5	0.5	0.5
Total expenditure and net lending	30.5	29.9	30.9	32.7	33.7	36.9
Total expenditure	28.1	28.0	28.8	31.2	32.1	35.3
Current expenditure	22.3	24.0	24.8	26.8	27.7	30.9
Wages and salaries 2/	6.5	7.5	7.7	8.9	8.2	8.2
Defense 3/	2.7	2.7	2.6	2.6	2.6	2.6
Interest	4.8	5.4	5.6	5.9	7.2	9.5
Domestic	4.0	4.7	4.8	5.3	6.4	8.3
Foreign	0.8	0.6	0.8	0.6	0.8	1.2
Goods and services	1.4	2.0	1.9	1.9	1.9	1.9
SIF benefits	3.1	4.1	4.5	5.0	5.3	6.2
Other subsidies and transfers	3.8	2.4	2.5	2.5	2.4	2.5
Capital expenditure	5.8	4.0	4.0	4.3	4.3	4.3
Lending minus repayments	2.4	1.9	2.1	1.6	1.6	1.6
Deficit/surplus	-0.1	-2.5	-2.2	-4.3	-6.0	-9.6
Total financing 4/	0.1	2.5	2.2	4.3	6.0	9.6
Foreign financing 5/	-0.7	1.3	-0.5	0.4	1.6	2.4
Domestic bank financing	3.1	4.1	4.0	4.9	5.3	8.0
Domestic nonbank financing	-2.9	-2.2	-0.7	-1.0	-0.8	-0.8
Arrears repayment 6/	-0.4	-1.5	-0.5	-0.2	...	...
NIB financing from securities	2.1	1.6	1.2	1.1	1.1	1.1
NIB financing - other	-1.7	-1.0	-0.9	-0.9	-0.9	-0.9
Other	-2.9	-1.3	-0.5	-1.0	-1.0	-1.0
Other financing transactions	0.3	0.1	0.0	-0.1	...	...
Privatization receipts	0.3	0.1	0.1	0.0	...	...
Assumption of debt	0.0	0.0	-0.1	-0.1	...	...
Discrepancy 7/	0.2	-0.8	-0.6	0.0	0.0	0.0
Memorandum items:						
Net public debt	48.2	56.6	58.7	65.4	82.7	114.3
Nominal GDP (in billions of LE)	302.1	379.7	409.5	552.7	1,087.4	2,017.5

Sources: Central Bank of Egypt, Ministry of Finance; and IMF staff estimates.

1/ Budget sector, NIB, GASC, and Social Insurance Funds.
2/ Includes social security contributions
3/ Includes wages, and goods and services; excludes grant financed expenditures.
4/ Actual financing numbers are preliminary.
5/ Includes total of Eurobond outstanding, i.e. includes shares held by the domestic banking system.
6/ For investment spending, that is recorded on accrual basis.
7/ The nature of the discrepancy is an open issue; further work is ongoing, including the measurement of

61. **Income tax receipts are adversely affected by broad-ranging exemptions**. While Egypt's revenues from corporate income taxation are comparable to other countries in the region, collections are hampered by an extensive system of exemptions and tax holidays. In particular, the 1997 Investment Law provides for income tax holidays for a broad range of approved activities, ranging from 5 years to 10 or 20 years depending on the location of the business. Moreover, companies located in free zones enjoy full relief from income taxes, while companies operating under the new law on economic zones pay a reduced corporate income tax.[33] Such exemptions, unless addressed, will make it difficult to further increase corporate income tax collection to offset potential revenue shortfalls in other areas. As a result, corporate taxes (other than on the Suez Canal) are projected to remain broadly unchanged in relation to GDP.

62. **Fiscal receipts from the Suez Canal are projected to decline in relation to GDP**. The budget currently receives the equivalent to about 4½ percent of GDP from income taxes and profit transfers from three large public institutions: the Central Bank of Egypt (CBE), the Suez Canal Authority (SCA) and the Egypt General Petroleum Company (EGPC). It is assumed that receipts from the CBE and EGPC will remain broadly unchanged in percent of GDP, while receipts from the SCA will decline by about one-half percentage point of GDP through 2025, reflecting capacity limits on the growth of trade through the Suez Canal.

63. **A number of important reforms are underway to strengthen tax administration and tax policy**. These include: (a) the launch of the Model Customs and Tax Centre (MCTC), which will provide a one-stop shop covering income tax, sales tax, and customs administration for about 300 large taxpayers; (b) the recently initiated customs administration and tariff reform; and (c) plans to be introduced later this year to reform the income tax regime. While these reforms are assumed to result in significant efficiency gains in tax administration and important improvements in the business climate, they are not projected to yield a net increase in the revenue-GDP ratio.

64. **The decline in trade taxes is assumed to be broadly compensated by increases in sales taxes**. Starting in 2007/08, when trade tax collections are assumed to begin to decline, Egypt is assumed to institute offsetting increases in sales taxes (under a value-added tax, which is assumed to be fully in place by that date). The additional revenue from sales taxes is projected to gradually increase as trade taxes decline, reaching 2 percent of GDP by 2025.

65. **Despite the assumed shift to higher sales taxation, revenue collections are projected to decline in relation to GDP over the long term**. Revenues peak in the baseline scenario at 28 percent of GDP in 2006/07, declining to under 27 percent of GDP by 2025.

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[33] There are two types of free zones: private free zones, which pertain to particular projects, and public free zones, which service a number of projects in an approved location. The new economic zones are to be administered somewhat differently from free zones. In particular, they will include some port facilities, thereby providing some business advantages over free zones.

With a parallel decline in grant receipts to levels of the late-1990s, total revenues and grants decline by 1½ percentage points of GDP between 2002/03 and 2024/25, notwithstanding the 2 percentage point increase in sales taxes.

Outlook for expenditures

66. **Expenditures are projected to rise significantly in relation to GDP over the medium to long term, reflecting increases in both interest and non-interest outlays**. A key area of pressure is the public wage bill, which has grown at an average annual rate of nearly 13 percent over the past three years, reflecting both modest increases in government employment and sizeable increases in real wages. The baseline scenario assumes that public sector wages will continue to increase by about 10 percent per annum through 2006/07, in accordance with current wage policies, converging subsequently with economy-wide wage growth.[34] The government is projected to continue hiring at about the current rate of 1.7 percent per annum throughout the projection horizon, which would reduce the government's share of total employment from 29 percent in 2002 to 25½ percent by 2025. On these assumptions, the wage bill is projected to rise from a current 7½ percent of GDP to almost 9 percent of GDP in 2006/07, declining subsequently to a little over 8 percent of GDP by 2025 (Table III.3).

67. **Pension benefit payments are also projected to rise through the medium to long term**. Benefit payments increased by nearly 1 percent of GDP between 1998/99 and 2001/02. Further strong growth is expected through 2006/07 on account of continued large real benefit adjustments, while growth beyond that point reflects a rising number of pensioners in relation to the working population (Table III.4). As a result, pension benefits are projected to rise by more than 1½ percent of GDP by 2025.

68. **The outlook for interest payments depends critically on the debt path**. Over recent years, increases in the debt-GDP ratio have boosted interest payments from 4.8 percent of GDP in 1998/99 to a projected 5.6 percent of GDP in 2002/03, notwithstanding declines in international and domestic interest rates over this period. Under the baseline fiscal scenario, further increases in the debt ratio contribute to a rise in interest payments to almost 10 percent of GDP by 2025 (Table III.3).

69. While higher interest and wage expenditures have been offset in recent years by lower capital expenditures, the scope for further savings is limited. Capital expenditures have been reduced from almost 6 percent of GDP to 4 percent of GDP over the past 4 years, and a small recovery is projected in the baseline scenario. At the same time, current spending on nonwage, non-interest goods and services is at a low level, and reductions do not appear feasible.

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[34] Real wages are projected to parallel labor productivity growth of 2-2 ½ percent per year.

Table III.4: Egypt: Pension System Projections, Baseline Scenario, 1998/99–2024/25

(In percent of GDP; unless otherwise stated)

	Actuals				Projections			
	1998/99	1999/00	2000/01	2001/02	2002/03	2006/07	2015/16	2024/25
Government fund								
Social security revenue 1/	2.0	2.0	2.0	2.1	2.3	2.6	2.4	2.4
Pension expenditures	1.2	1.2	1.3	1.6	1.8	2.0	2.3	2.5
Social security revenue less expenditure	0.7	0.8	0.7	0.5	0.5	0.6	0.1	-0.1
Public and Private Sector Fund								
Social security revenue 1/	1.8	1.6	1.5	1.4	1.3	1.6	1.8	1.8
Pension expenditures	1.9	2.0	2.4	2.4	2.7	3.0	3.0	3.7
Social security revenue less expenditure	-0.1	-0.5	-0.9	-1.1	-1.4	-1.4	-1.2	-1.8
Social Insurance Funds (combined)								
Social security revenue less expenditure	0.6	0.3	-0.2	-0.6	-0.9	-0.8	-1.1	-2.0
Social security revenue 1/	3.7	3.6	3.5	3.5	3.6	4.2	4.2	4.2
Pension expenditures	3.1	3.2	3.6	4.1	4.5	5.0	5.3	6.2
"Own resource" balance 2/	0.4	0.3	-0.1	-1.0	-1.1	-1.0	-1.3	-2.1
Financing of "own resource" balance of SIFs	-0.4	-0.3	0.1	1.0	1.1	1.0	1.3	2.1
Transfers from the budget	1.8	1.9	2.3	2.4	2.5	...	...	...
Net transfer to the NIB	-1.1	-0.9	-0.9	-0.3	-0.3	...	...	...
Interest income from the NIB	3.4	3.5	3.7	3.7	4.0	...	...	...
Surplus to the NIB	-4.5	-4.4	-4.6	-4.0	-4.2	...	...	...
Other financing 3/	-1.1	-1.3	-1.3	-1.1	-1.1	...	...	...
Memorandum items:								
Nominal GDP (in millions of LE)	302,100	338,700	361,800	379,725	409,525	552,731	1,087,363	2,017,503
Nominal GDP growth (in percent)	8.6	12.1	6.8	5.0	7.8	8.1	7.1	7.1
Nominal average wage growth (in percent)	...	...	...	...	5.5	4.5	5.2	5.5
Government wage growth (official rate)	10.0	10.0	10.0	10.0	10.0	10.0	5.2	5.5
CPI growth (in percent)	3.8	2.8	2.4	2.5	3.4	2.5	3.0	3.0
Population ('000s)	62,000	63,300	64,700	66,038	67,404	72,904	84,824	94,971
Population growth rate (in percent)	2.1	2.1	2.2	2.1	2.1	1.9	1.3	1.2
Labor force ('000s)	18,400	18,900	19,470	19,700	20,313	22,728	27,702	32,197
Labor force growth rate (in percent)	3.4	2.7	3.0	1.2	3.1	2.6	1.8	1.6
Covered population, SIFs ('000s)	17,452	17,530	17,860	17,868	18,172	20,307	25,839	30,144
Growth rate of elderly (60+) (in percent)	3.8	3.7	4.7	4.4	4.2	3.7	3.7	3.3
Dependency ratio 4/	77.0	75.7	74.8	73.8	72.8	69.2	62.9	56.7
Old age dependency ratio 5/	11.2	11.2	11.5	11.7	11.8	12.5	14.3	16.8
Growth rate of pensioners' government fund	4.5	4.3	4.8	...	5.2	4.4	3.2	2.1
Growth rate of pensioners' public private fund	4.9	5.4	5.1	...	2.7	3.2	3.1	4.4

Sources: Ministry of Finance, Social Insurance Funds; International Labor Office; and IMF staff estimates

1/ Largely pension contributions. Does not include transfers from the budget, or SIF investment income.
2/ Includes among others operating expenditures; excludes all payments from and to the budget sector and the NIB.
3/ Includes bank financing and accounts receivable from the budget sector.
4/ Defined as number of old (age 60+) plus young (age 1–14) in relation to working age population (age 15–60), in percent.
5/ Defined as number of old (age 60+) in relation to working age population (age 15– 60), in percent.

The pension system[35]

70. **The fiscal projections above imply deterioration in the financial performance of the state pension system.** The pension funds are projected to benefit from a small rise in social security contributions in relation to GDP through 2006/07, with no further increase thereafter.[36] Against this, pension benefits are projected to continue to rise in relation to GDP. As a result, a current shortfall of about 1 percent of GDP in the SIFs' own resources balance is projected to double through 2025 (Table III.4). In the absence of reforms to the benefit or contribution structures, this would require the budget to make increased transfers to the SIFs to fund the pension benefit increases, or require the NIB to shift from absorbing SIF resources to making net repayments. The latter would reduce the NIB's ability to finance new projects.

Contingent liabilities and other financing

71. **Further below-the-line outlays are projected to continue over the medium to long term, albeit at a slightly lower level than in the recent past**. The combined impact of arrears repayments, NIB asset accumulation, debt assumption, and other outlays amounted at on an average, to 4.5 percent of GDP during the four years to 2001/02. Although this was partially offset by privatization proceeds amounting, on average, to 0.3 percent of GDP, the outlook for future privatization proceeds is less favorable given the substantial progress already made in selling the most profitable public companies, leaving mainly smaller or loss-making companies on the books.[37] Although the magnitude of future below-the-line operations is inherently difficult to predict, the baseline projections assume that net outlays (payments less privatization and other proceeds) will average about 2 percent of GDP per annum, about half the level over the past 4 years.

72. Publicly guaranteed debt (external public enterprises' debt guaranteed by the government) is expected to remain constant in dollar terms as repayments are assumed to match new guarantees.

[35] Developments in the SIFs are discussed in detail in Chapter II.

[36] This reflects a rise in the calculated labor share of GDP through 2006/07 as a result of the projected large real wage increases in the public sector.

[37] The Egyptian government has received about LE 15 billion in privatization proceeds since the beginning of the privatization efforts in 1994.

III. Baseline and Alternative Fiscal Projections

A. Baseline Fiscal Scenario

73. **The baseline fiscal projections assume supportive macroeconomic policies, together with accelerated structural reform, including the early adoption of a unified and liquid foreign exchange market**. This framework is assumed to generate a recovery in private sector confidence and an increase in real GDP growth to the 5–5 ½ percent range by 2006/07 (Table III.5).[38] This is a relatively favorable scenario, in that real GDP growth stabilizes at a growth rate about 1 percentage point higher than over the past decade (an increase of broadly one standard deviation). The exchange rate is expected to depreciate moderately in connection with the near-term unification of the foreign exchange market, and remain stable thereafter.

74. Real growth is projected to remain above 5 percent through 2010, driven by continuing labor force and productivity growth, slowing thereafter (with labor force growth) to an average of about 4 percent from around 2015. Inflation is expected to remain below 3 percent, and the reference nominal interest rate on treasury bills is projected at about 9 percent (a 3.5 percentage point premium over international rates), implying a real interest rate of around 6 percent, broadly in line with recent outcomes and somewhat higher than projected real GDP growth.

75. Reflecting the fiscal assumptions outlined in Section II, **the primary fiscal surplus is projected to decline from the current level of about 3 percent of GDP to a virtual balance by 2025,** mainly driven by the widening deficits of the pension system and the budget sector. The deterioration in the budget sector principally occurs in the first five years of the simulation period (after a significant improvement in 2002/03), chiefly as a result of the increase in the wage bill.

76. **The declining primary balance, in conjunction with the negative below-the-line operations sets in motion a debt spiral, with public debt increasing from about 57 percent of GDP in 2001/02 to nearly 115 percent 25 years later** (Tables III.3; and III.5). Reflecting the rising debt stock, interest payments approach 10 percent of GDP in 2025, resulting in an overall fiscal deficit of also close to 10 percent of GDP. Domestic financing of the budget sector remains around 4½ percent of GDP until about 2010, then gradually increases to 8 percent of GDP by 2025.[39]

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[38] The first five years of the baseline scenario corresponds to the baseline medium-term macroeconomic framework presented in the staff report for the 2002 Article IV consultations (SM/02/326).

[39] It is further assumed that two-thirds of financing of the budget come from the domestic banking system, with the remainder obtained externally.

Table III.5. Egypt: Fiscal Operations of Consolidated General Government: Baseline Scenario, 1998/99–2024/25

(In percent of GDP; unless otherwise stated)

	Actuals		Projections				Change 2002/03 to 2024/25
	1998/99	2001/02	2002/03	2006/07	2015/16	2024/25	
Total revenue, of which:	30.4	27.4	28.7	28.4	27.6	27.2	-1.5
International trade taxes	3.7	2.5	2.8	2.7	0.9	0.8	-2.0
Non-interest expenditures, of which:	25.7	24.6	25.3	26.8	26.5	27.4	2.1
Wages	6.5	7.5	7.7	8.9	8.2	8.2	0.5
SIF benefits	3.1	4.1	4.5	5.0	5.3	6.2	1.7
General government primary balance 1/	4.7	2.8	3.4	1.6	1.1	-0.1	-3.5
Budget sector plus GASC	3.2	2.3	3.2	1.4	1.5	1.1	-2.1
NIB	1.2	1.5	1.3	1.2	0.9	0.9	-0.4
SIF	0.4	-1.0	-1.1	-1.0	-1.3	-2.1	-1.0
Interest expenditure	-4.8	-5.4	-5.6	-5.9	-7.2	-9.5	-3.9
General government overall balance	-0.1	-2.5	-2.2	-4.3	-6.0	-9.6	-7.4
Memorandum items:							
Debt stabilizing primary balance 2/	7.8	6.8	3.5	2.8	3.4	3.5	0.0
Net public debt	48.2	56.6	58.7	65.4	82.7	114.3	55.6
Real GDP growth	6.0	2.0	3.7	5.5	4.0	4.0	0.3
CPI	3.8	2.5	3.4	2.5	3.0	3.0	-0.4
Population (in millions) 3/	62.0	66.0	67.4	72.9	84.8	95.0	27.6

Sources: Egyptian authorities; and IMF staff estimates.

1/ Calculated net of intragovernment flows.
2/ Calculations take into account below-the-line transactions but not changes in the debt stock due to exchange rate effects or payments by nongeneral government entities on publicly guaranteed debt.
3/ Population based on: *Egypt: Report to the Government on SocialProtections*, International Labor Office 2000.

77. **In reality, the above scenario would likely become unsustainable well before 2025**. As the strain on public finances becomes evident, this would undermine confidence in macroeconomic management, curtailing access to foreign capital and raising the risk premium. Increases in domestic financing would also either crowd out private borrowing, jeopardizing the growth recovery, or lead to excessive monetary expansion, rising inflation, and exchange rate instability, also unfavorable to growth. To the extent that fiscal pressures lead to the reemergence of payment arrears vis-à-vis suppliers, this would also undermine confidence and growth.

B. Alternative Scenarios

78. A number of alternative scenarios have been created, to identify the measures necessary to put Egypt back on a sustainable fiscal path and to gauge the impact of a number of potential risks to the economy. The immediately following paragraphs describe the measures needed to restore fiscal stability, with a broadly stable debt-GDP path. Subsequent paragraphs discuss risks to this scenario.

Achieving a stable debt-GDP path

79. **Scenario 2 assumes that the fiscal deterioration in the budget sector is addressed through additional fiscal measures equivalent to 2 percent of GDP** (Table III.6) These are phased in over a 3–4 year period starting in 2003/04, effectively extending the government's plans for a modest fiscal consolidation in 2002/03. This would be sufficient to limit the overall fiscal deficit to 4 percent of GDP, and interest expenditures to around 5½–6 percent of GDP. As a result, the debt ratio would rise by just 10 percentage points of GDP, to 68 percent of GDP in 2025, compared to nearly 115 percent under the baseline scenario. The above scenario falls short, however, of stabilizing the debt ratio. The rising deficit in the SIFs caused by an aging population contributes to a decline in the primary balance in the last decade of the scenario, resulting in a rising debt-GDP ratio beyond 2015.

80. **Scenario 3 assumes that the performance of the pension fund is also strengthened through reforms to contribution and benefit policies** (Table III.6). These measures, which strengthen the SIF's own resources balance by about 1 percentage point of GDP, combined with the budget consolidation described above, are sufficient to broadly maintain the primary deficit at a level that avoids increases in debt relative to GDP. Domestic bank financing is projected to decline, in this scenario, to about 2½ percent of GDP by 2025 compared with 8 percent of GDP in Scenario 1. This "stable debt" scenario is used as a baseline for the alternative scenarios outlined below.

Table III.6. Egypt: Scenarios with Additional Fiscal Measures, 1998/99–2024/25

(In percent of GDP)

	Actuals		Projections			
	1998/99	2001/02	2002/03	2006/07	2015/16	2024/25
Scenario 2 - Additional fiscal adjustment						
Primary balance	4.7	2.8	3.4	3.6	3.1	1.9
Overall balance	-0.1	-2.5	-2.2	-2.1	-2.3	-4.2
Debt stock	48.2	56.6	58.7	60.4	58.5	68.2
Debt stabilizing primary balance	7.8	6.8	3.5	2.9	3.3	3.2
Scenario 3 – Debt stabilizing scenario: additional fiscal adjustment and SIFs measures						
Primary balance	4.7	2.8	3.4	3.6	3.4	3.0
Overall balance	-0.1	-2.5	-2.2	-2.1	-2.0	-2.5
Debt stock	48.2	56.6	58.7	60.4	57.6	60.3
Debt stabilizing primary balance	7.8	6.8	3.5	2.9	3.4	3.3

Sources: Egyptian authorities; and IMF staff estimates.

Slower economic growth

81. As noted above, the baseline scenario assumes that real GDP growth exceeds the average over the past decade by about 1 percentage point (1 standard deviation).[40] **With less favorable policies, this increase might not be achieved, the implications of which are explored in Scenario 4** (Table III.7). While revenues, along with a large part of expenditures, are assumed to rise more gradually on account of the slower economic growth, the policy of granting 10 percent annual wage and benefit increases over the next few years is assumed unchanged, resulting in a further increase in these items of expenditure in relation to GDP. As a result, the primary surplus in 2006/07 is reduced by about one-half of one percent of GDP relative to Scenario 3. At the same time, with slower nominal GDP growth, a larger primary surplus would be needed to stabilize the debt ratio. Reflecting these factors, debt begins to rise more quickly than in Scenario 3, reaching over 85 percent of GDP by 2025, compared to 60 percent of GDP in Scenario 3.

[40] See the 2002 Article IV staff report (SM/02/326; 10/18/02, Box 2, page 24)

82. **In the lower growth scenario, an additional fiscal adjustment effort exceeding 1 percent of GDP would be required to restore debt stability.**[41] That is, the total fiscal consolidation over the next few years would need to exceed 3 percent of GDP. This would need to be achieved despite rising pressures on social spending in the low growth scenario on account of increases in unemployment.

Table III.7. Egypt: Scenario with Slower Real GDP Growth, 1998/99–2024/25

(In percent of GDP; unless otherwise indicated)

	Actuals		Projections			
	1998/99	2001/02	2002/03	2006/07	2015/16	2024/25
Scenario 4: slower real GDP growth						
Primary balance	4.7	2.8	3.3	3.1	2.7	2.1
Overall balance	-0.1	-2.5	-2.4	-2.2	-3.8	-5.5
Debt stock	48.2	56.6	59.5	63.5	72.1	87.2
Debt stabilizing primary balance	7.8	6.8	4.1	3.3	3.8	3.6
Memorandum items:						
Real GDP growth (in percent)						
Debt-stabilizing scenario (Scenario 3)	6.0	2.0	3.7	5.5	4.0	4.0
Slow growth (Scenario 4)	6.0	2.0	2.7	4.2	3.5	3.9

Sources: Egyptian authorities; and IMF staff estimates.

Additional realization of contingent liabilities

83. **This scenario considers the implications of increased below-the-line fiscal outlays.** Since the remaining public enterprises slated for privatization have substantial nonperforming debt on their books, a portion of the latter may need to be assumed by the government.[42] In addition, the FSSA report suggests that strengthened capitalization in the large state banks may be warranted, to address portfolio weaknesses related to restructured loans. The ongoing audit of the NIB could also identify nonperforming loans on its books requiring recapitalization efforts by the budget. Although the risks from these sources are difficult to quantify, rough approximations can provide an idea of their potential impact on debt sustainability.

[41] As a rule of thumb, a sustained 1 percentage point of GDP improvement in the primary balance reduces the public debt in 2025 by about 25 percentage points of GDP.

[42] For example, about 40 percent of all debt by the remaining Law 203 companies is accounted for by 15 highly distressed textile companies.

84. **At end-June 2002, outstanding bank claims on public enterprises stood at about 8 percent of GDP**. If the government absorbs half of that debt over the next few years, the long-term increase in the debt-GDP ratio would be somewhat larger than the immediate 4 percentage points, as the additional interest costs accumulate slightly faster than nominal GDP (Table III.8).

Table III.8. Egypt: Scenario with Debt Assumption, 1998/99–2024/25

(In percent of GDP)

	Actuals		Projections			
	1998/99	2001/02	2002/03	2006/07	2015/16	2024/25
Scenario 5: assumption of public enterprise debt						
Primary balance	4.7	2.8	3.4	3.6	3.4	3.0
Overall balance	-0.1	-2.5	-2.2	-2.4	-2.3	-2.9
Debt stock	48.2	56.6	58.7	64.5	62.1	65.5
Debt stabilizing primary balance	7.8	6.8	3.5	2.9	3.4	3.3

Sources: Egyptian authorities; and IMF staff projections.

85. **The FSSA report estimates that the budgetary cost of bank recapitalization might be as large as 2½–3 percent of GDP**. If this were combined with the above public enterprise bailout, net public debt would be increased by about 9 percentage points of GDP by 2025. In general, one-off debt increases of this nature are less destabilizing to public finances than a sustained deterioration in macroeconomic conditions, such as lower real GDP growth or higher real interest rates (see below).

86. **Losses in the NIB would have a somewhat different impact on the fiscal sustainability analysis**. The NIB has claims of about LE 70 billion on non-government entities, equivalent to 19 percent of GDP. It is possible that this figure includes nonperforming loans that are currently not recognized. If these claims were written off, the shortfall in the NIB's books could be addressed by writing down its liabilities to the pension system, or by issuing government paper to the NIB to restore its assets. In either case, the transactions would be intragovernmental in nature, with no impact on the net liabilities of the consolidated general government. The real impact of the nonperforming loans would be on long term economic growth, as it would imply that pension savings have been used to finance public investments with a sub-par return, rather than projects that would have increased economic activity and employment, and strengthened Egypt's capacity to support the future cost of its pension obligations.

Higher real interest rates

87. **Real interest rates have an important influence on fiscal sustainability.** Scenario 6 considers a further 2 percentage point increase in real interest rates relative to the baseline scenario (Table III.9). The primary balance strengthens marginally, reflecting higher interest earnings by the NIB on its investments. This is insufficient, however, to match the increase in the debt-stabilizing primary balance, which rises by 1–1½ percent of GDP. As a result, net public debt rises relative to the stable-debt baseline, reaching 87 percent of GDP in 2025. Moreover, this scenario does not include the likely adverse impact of higher real interest rates on real GDP growth, which would exacerbate the adverse debt dynamics.

Table III.9. Scenario with Higher Real Interest Rates, 1998/99–2024/25

(In percent of GDP; unless otherwise indicated)

	Actuals		Projections			
	1998/99	2001/02	2002/03	2006/07	2015/16	2024/25
Scenario 6: higher real interest rates						
Primary balance	4.7	2.8	3.4	3.8	3.8	3.4
Overall balance	-0.1	-2.5	-2.2	-3.5	-4.1	-5.7
Debt stock	48.2	56.6	58.7	65.0	72.2	87.3
Debt stabilizing primary balance	7.8	6.8	3.5	4.1	4.7	4.9
Memorandum items:						
Real interest rates (3-month treasury bill)						
Debt-stabilizing scenario (Scenario 3)	4.8	5.7	4.9	6.5	6.1	6.1
Higher interest rates (Scenario 6)	4.8	5.7	4.9	8.5	8.1	8.1

Sources: Egyptian authorities; and Fund staff estimates.

Exchange rate impact

88. **Currency depreciation is estimated to have favorable consequences for fiscal sustainability**. The increase in the domestic currency value of foreign currency debt as a result of currency depreciation would be largely offset by revaluations to foreign currency deposits with the banking system and to the blocked accounts (Table III.1). At the same time, the budget is estimated to benefit, on balance, from a currency depreciation, as increases in the domestic currency value of foreign currency receipts (mainly trade taxes, receipts from the Suez Canal Authority, and foreign grants) would offset the relatively small impact on expenditures (foreign currency interest payments, and imported public goods).[43]

[43] The relative price elasticity of imports is assumed to be less than unity. Therefore, a depreciation (appreciation) of the currency results in an increase (decrease) in imports in local currency terms.

89. Scenario 7 assumes a 20 percent sustained depreciation of the nominal exchange rate.[44] Largely reflecting the increased local currency value of revenues and grants, the primary balance improves by over one-half of one percent of GDP in the long run. This more than offsets the increased interest bill, resulting in a gradual reduction of the debt stock relative to the stable-debt scenario (Table III.10). This scenario ignores the broader impact of currency depreciation. Where the currency is initially overvalued, this would improve growth performance over the projection period with favorable consequences for fiscal sustainability.

Table III.10. Egypt: Scenario with Depreciated Exchange Rate, 1998/99–2024/25

(In percent of GDP; unless otherwise indicated)

	Actuals		Projections			
	1998/99	2001/02	2002/03	2006/07	2015/16	2024/25
Scenario 7: exchange rate depreciation						
Primary balance	4.7	2.8	3.4	4.4	4.0	3.6
Overall balance	-0.1	-2.5	-2.2	-1.7	-0.8	-0.9
Debt stock	48.2	56.6	58.7	59.9	50.4	46.6
Debt stabilizing primary balance	7.8	6.8	3.5	2.8	3.3	3.2

Sources: Egyptian authorities; and IMF staff projections.

IV. Conclusions

90. **The fiscal projections developed for this paper suggest that current fiscal policies may not be sustainable, even with a strengthening of economic activity**. The baseline scenario, essentially a no policy-change scenario, shows net public debt rising to 115 percent of GDP by 2025, driven by a declining revenue collection relative to GDP, a rising public wage bill, and deterioration, over the longer term, in the state pension system.

91. **However, debt could be stabilized at close to current levels with modest, early fiscal consolidation**. Specifically, reinvigorated policy implementation to support sustained strong growth would need to be accompanied by: (a) further fiscal consolidation over the next few years and (b) structural reform of the pension system. In designing these policies, consideration should be given to reducing the net public debt ratio below the present level of about 60 percent of GDP, which remains on the high side. This would better position the fiscal accounts to weather future shocks.

[44] The real exchange rate depreciates by somewhat less than this amount.

92. **The case for a more bold adjustment is reinforced by the sensitivity of the debt scenarios to less favorable economic conditions than those in the baseline.** In particular, the debt dynamics are sensitive to lower real GDP growth and higher real interest rates.

93. **More positively, the budget appears able to withstand shocks associated with public enterprises bailouts, and is not vulnerable to currency depreciation.** Currency depreciation is projected to strengthen fiscal prospects over the medium to long term. At the same time, the budget appears capable of financing even relatively large bailouts of public enterprises or the banking system without triggering fiscal instability. However, since the latter would add to Egypt's already relatively high debt-GDP ratio, this is a further reason to orient medium term fiscal policy toward achieving a somewhat lower debt ratio.

Chapter IV. Analysis of External Competitiveness[45]

I. Introduction

94. **Egypt's real exchange rate (RER) appreciated by 70 percent between early 1991 and mid-2000 under the *de facto* currency peg to the U.S. dollar.**[46] The potential loss in competitiveness was large, both in absolute terms, and relative to real exchange rate movements seen in other countries in the region, many of which were also pegged to the dollar for some or all of this period.[47]

95. **The subsequent depreciation of the Egyptian pound between mid-2000—when it departed from the dollar peg—and end-2001, combined with a weakening of the U.S. dollar during 2002, reversed about one-half of the pound's earlier real appreciation.** Despite this, equilibrium has not been restored to the exchange market: foreign currency remains scarce in the official market, and further nominal depreciation is limited by the operation of the official currency band. Under these conditions, a more depreciated parallel currency market has emerged, in which the exchange rate is some 5–10 percent more depreciated (as of October 2002) than in the official market.

96. **Given the continuing pressure on the pound (albeit more modest than in early 2002), it is unclear whether the Egyptian pound has returned to an appropriate level or whether further improvements in competitiveness are warranted.** This chapter addresses this issue. Section II reviews developments in Egypt's RER, and its possible impact on recent

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[45] Prepared by Mr. Charalambos Christofides.

[46] Based on real effective exchange rates calculated under the IMF *Information Notice System* (INS). From April 1991 to June 2000.

[47] For 16 countries in the Middle Eastern Department for which data are available, their largest episodes of real appreciation (of any length) during the 1990s averaged only a little over 20 percent. Three countries saw comparable real appreciations to that in Egypt: Iran (71 percent from 1995H2 to 2000H2), Sudan (73 percent from 1992H2 to 1994H1), and Yemen (103 percent from 1995H1 to 2000H2).

balance of payments performance. Section III discusses the desirable or equilibrium real exchange rate (ERER), how this is determined, and how it might be measured. Section IV presents conclusions.

II. Egypt's Real Exchange Rate and External Developments

A. Measures of the Real Exchange Rate

97. The RER is a measure of price relativities between domestic and foreign markets, or between domestic nontraded goods and traded goods. Since a wide range of price measures might be relevant for these purposes, there is no single ideal measure of the RER. Indeed, data availability is a major consideration in developing countries.[48] This section considers two alternative measures of Egypt's RER, and conducts a preliminary review of the possible impact of the RER on external performance.

98. **A commonly used measure of the RER is that compiled under the IMF's INS.** The INS estimates, which are available for a wide range of countries including Egypt, are based on the relative levels of the consumer price index (CPI) at home and abroad, with the latter calculated as a trade-weighted basket of foreign CPIs, revalued by the relevant bilateral exchange rates. This measure of the RER, which was used to derive the statistics in the opening paragraphs of this chapter, is illustrated in Figure IV.1 (top panel), together with Egypt's nominal effective exchange rate and exchange rate against the U.S. dollar.

99. **Egypt's RER has seen two periods of strong appreciation during the last two decades, during 1980–84 and 1991–2000** (Figure IV.1). Both periods were associated with pegs to the U.S. dollar, combined with appreciation of the U.S. dollar against other currencies. Periods of RER depreciation (1985–90, and 2000–02) were, by contrast, associated with greater flexibility against the U.S.dollar and, at times, with episodes of dollar depreciation (1985–87, and 2002).

100. **An alternative measure of the RER, based on relative domestic prices, is charted in the lower panel of Figure IV.1.** This is constructed by separating the domestic CPI into nontraded and traded goods categories, and constructing a weighted average of the former to the latter. This measure attempts to measure the relative incentives for domestic companies to serve the domestic nontraded goods market as against the traded goods sector. Given the difficulties in defining traded goods, the measure in Figure IV.1 defines these as food, beverages, and tobacco, while nontraded goods comprise the remainder, including rent/power/fuel, furniture/housing services, medical care, transportation, and education/culture/recreation.

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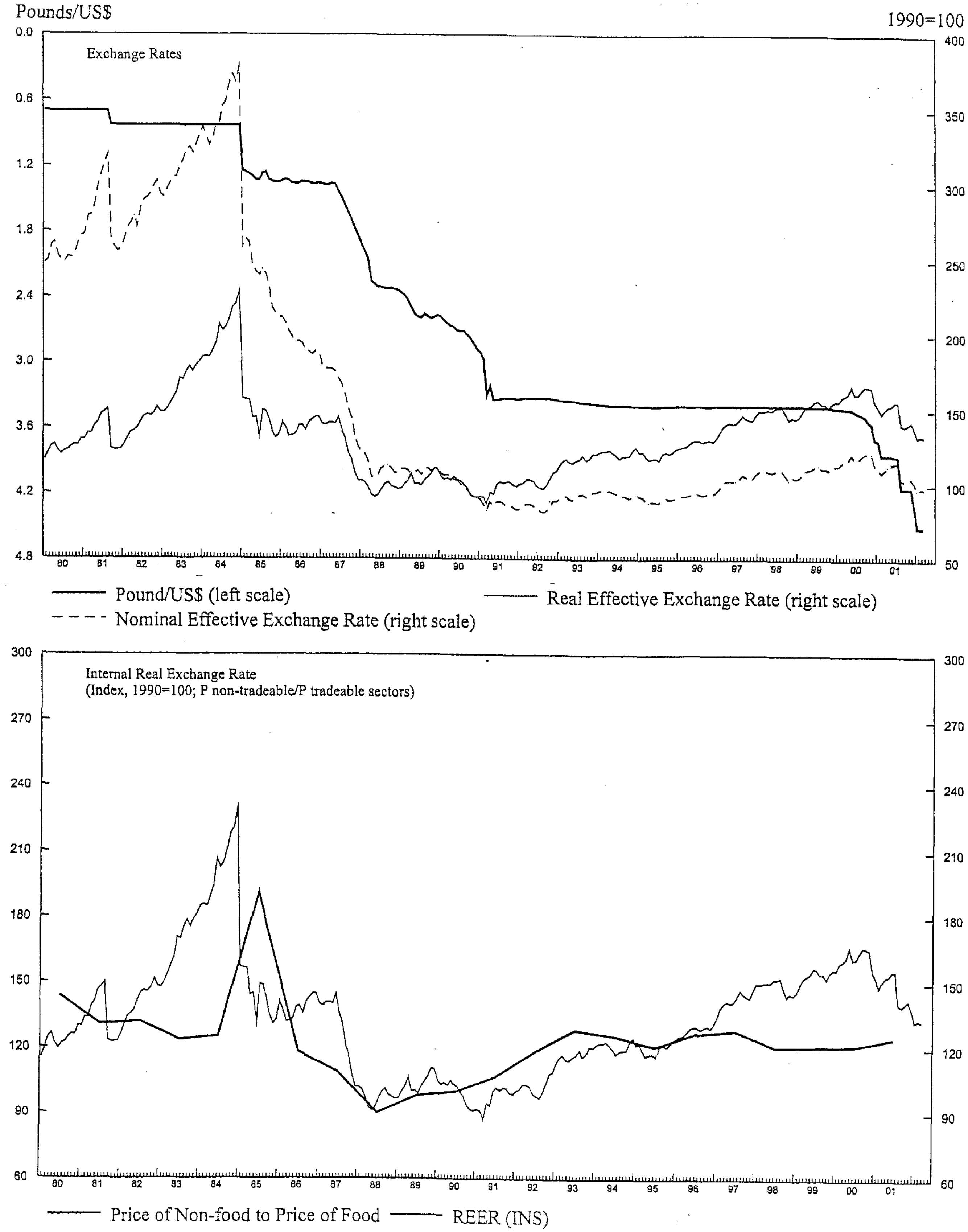
[48] As explained in Lipschitz and McDonald (1991), several alternative indicators should ideally be used to assess price competitiveness. However, in Egypt's case, the options are limited, as reliable data are not available on the profitability of tradable vs. nontradable industries and on unit labor costs.

Figure IV.1: Egypt: Real Exchange Rate Measures, 1980-2002



Sources: Egypt authorities; IMF INS; and Fund staff calculations.

1/ An upward movement indicates an appreciation of the pound.

101. **This measure shows some similarities with the INS RER measure**. In particular, after rising sharply in 1984–85, the RER fell to record lows around 1988–90, before appreciating through the 1990s. The appreciation during the 1990s was much less pronounced under this measure, however, totaling 21 percent between 1990 and 2000, compared to 56 percent under the INS measure. This may reflect measurement error in constructing the domestic CPI-based RER index, arising from uncertainties in defining traded goods. Alternatively, the difference may arise from a compression of profit margins on imported goods from the mid-1990s, so that prices of the latter increased by less than would have been expected given movements in the nominal effective exchange rate. Given these possibilities, the remainder of this chapter focuses on the INS measure of the RER.

B. Impact of Real Exchange Rate Movements on External Performance

Trade performance

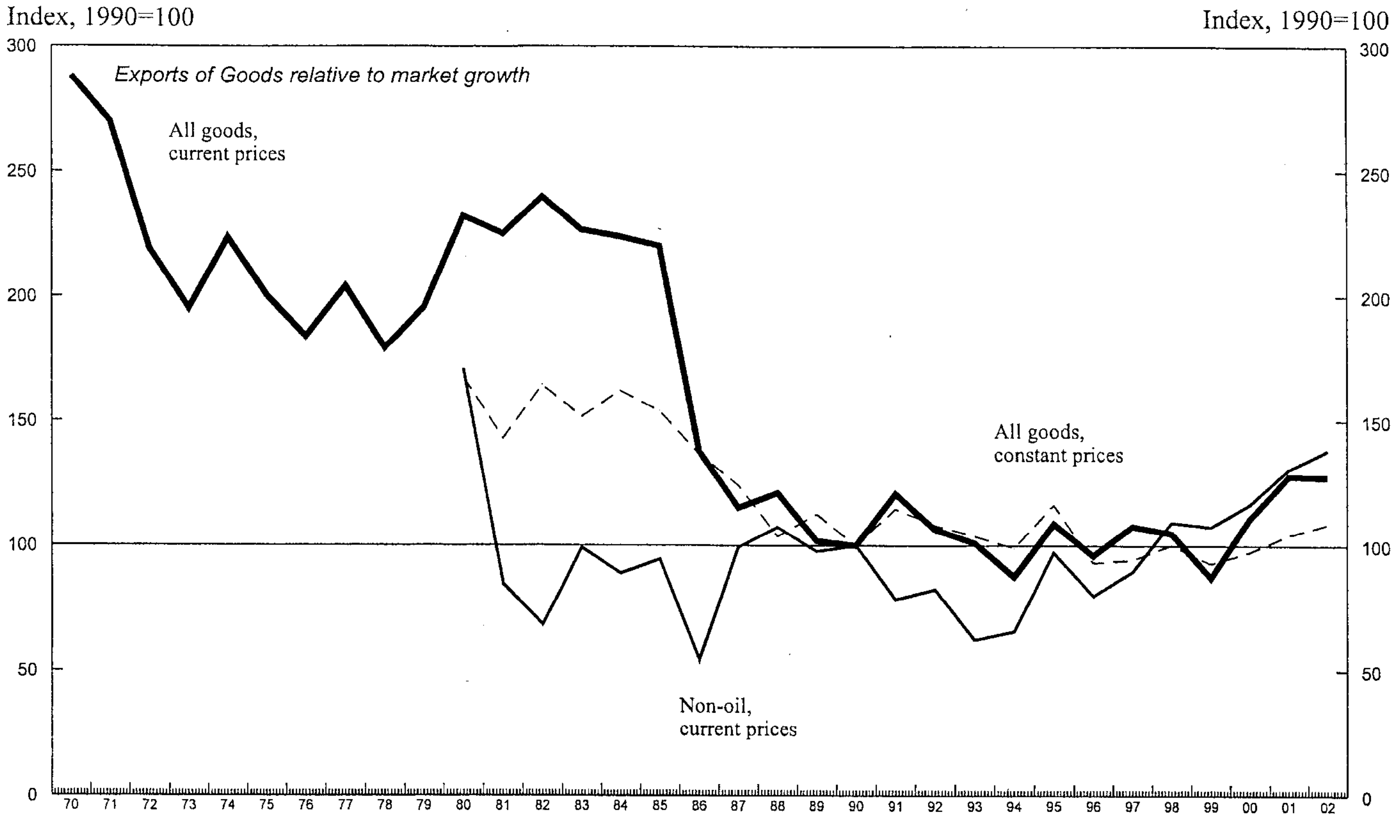
102. **Having reviewed RER indicators, this section reviews their possible impact on trade performance**. As a first step, trade share indices are calculated for both exports and imports. Two approaches have been used. Under the first, Egyptian trade flows are measured in volume terms, which, in principle, should eliminate shifts in market share arising from changes in the terms of trade. Export markets are defined as a weighted average of Egypt's traditional export partners.[49] The conversion to trade volumes used for this approach, however, is likely to be approximate, as Egypt does not compile trade deflators. Accordingly, a second market share index is calculated based on trade flows measured in current prices. For current purposes, the latter index measures world markets on an unweighted basis.

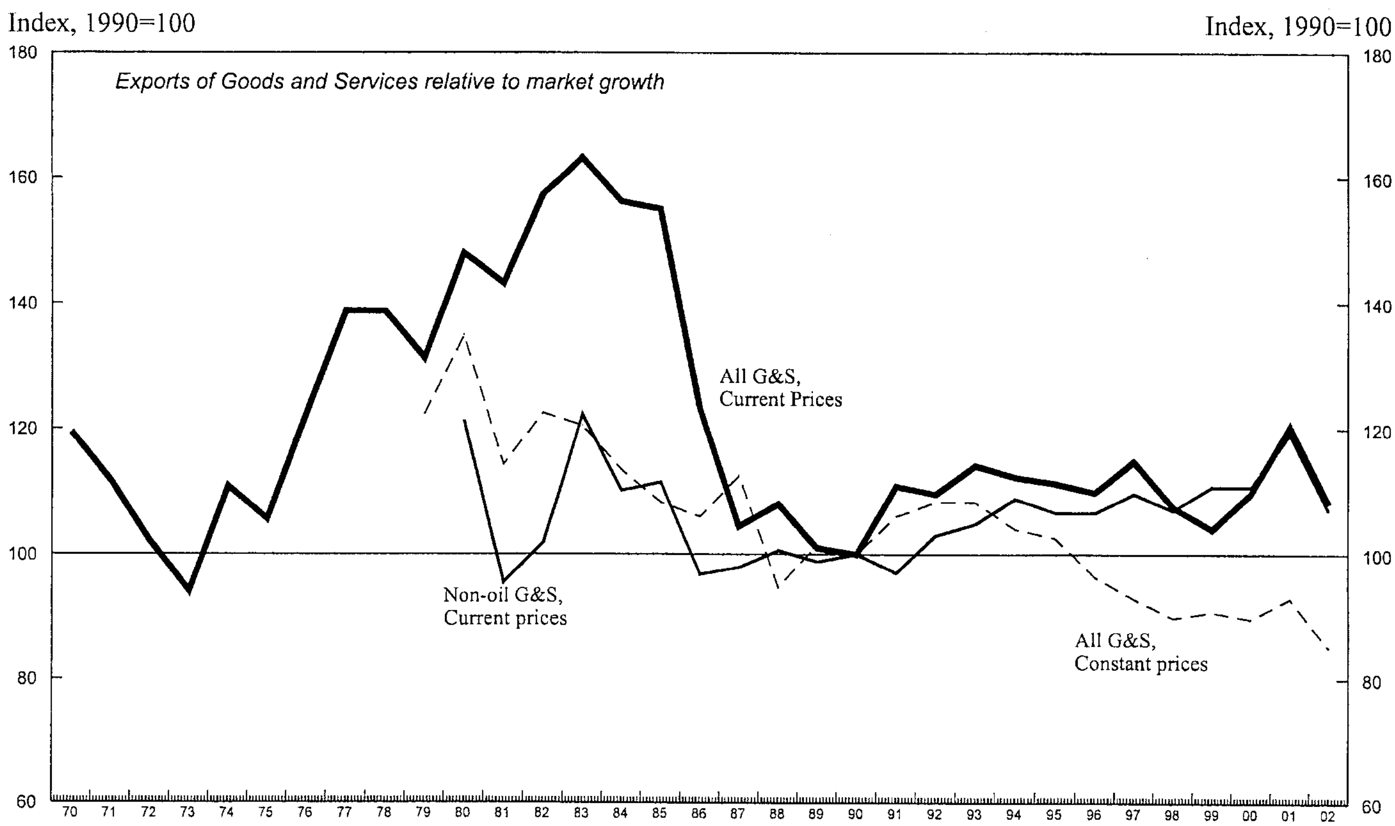
103. **Three measures of market share for exports of goods are presented in the upper panel of Figure IV.2**. None of the series show a clear loss in market share from Egypt's RER appreciation in the 1990s. For total merchandise exports, measured in current or constant prices, market share was broadly constant during the 1990s, strengthening marginally during 2000–01, even before the departure from the currency peg led to any noticeable improvement in competitiveness.[50] Broadly the same trend is seen in the market share index for non-oil trade, except that market shares declined in the early-1990s, and showed a stronger upturn, starting around 1998. To the extent that the RER was influential for export performance, the impact of the appreciation during the 1990s appears to have been offset by other factors.

[49] Estimates of Egyptian trade volumes and partner country growth are taken from the World Economic Outlook (WEO) database.

[50] Compared to 1999, the RER in 2000 was actually 5½ percent more appreciated, while that in 2001 was only 3½ percent more depreciated.

Figure IV.2: Egypt: Export Market Shares, 1970-2002





Sources: Egypt authorities, WEO, and Fund staff calculations.

104. **Notwithstanding this, it is noteworthy that no progress was made during the last decade in reversing the large decline in market share during the 1970s and 1980s evident in the current price index**. As a result, Egypt's market share in 2001 was just half that three decades earlier. To this extent, the RER appreciation of the 1990s had a real cost, in that some of this earlier loss of market share might have otherwise been regained through the stabilization and reform efforts of the 1990s.

105. **Consideration should also be given to market shares including the exports of service, which, in Egypt's case, exceed exports of goods**. The lower panel of Table IV.2 shows three measures, on the same basis as described above. The trends are less uniform, however, than for goods alone. Market share defined in constant prices rose slightly in the early 1990s, but then declined through the remainder of the decade. This measure is possibly suspect, given the difficulty in accurately measuring service prices. The alternative current price measures, covering both all goods and services, and the non-oil component, show a small increase in market share from 1990 through 2001.

106. **One area of clear strength has been the tourism sector**. Activity has been volatile with weak years in 1991 (after the Desert Storm campaign), 1993–94 and 1998 (after domestic security incidents), and in 2001 (after 9-11). However, there has been a clear underlying gain in market share through both the 1980s and 1990s (Figure IV.3, lower panel), with Egypt rising from the 40th leading global destination in 1980 to the 34th in 1997.[51] There is little evidence that this expansion was slowed by Egypt's RER appreciation in the latter decade. This may reflect the flexibility of prices in the tourism sector, particularly as regards accommodation.

107. **Two measure of import penetration are presented in Figure IV.3**. Import penetration for both goods, and goods and services was flat or slightly declining during the first half of the 1990s, before increasing sharply during 1997–99. This rise was partially reversed during 2000–01. The rise in import penetration during 1997–99 may have reflected the progressive effect of the RER appreciation,[52] though other factors may also have played a role, including the reduction of import tariffs during 1996–98. The decline in import penetration from 2000 is more difficult to explain, as imports would have benefited little from depreciation of the RER at that point. It seems likely that imports declined, in part, on account of foreign currency shortages in the official market.

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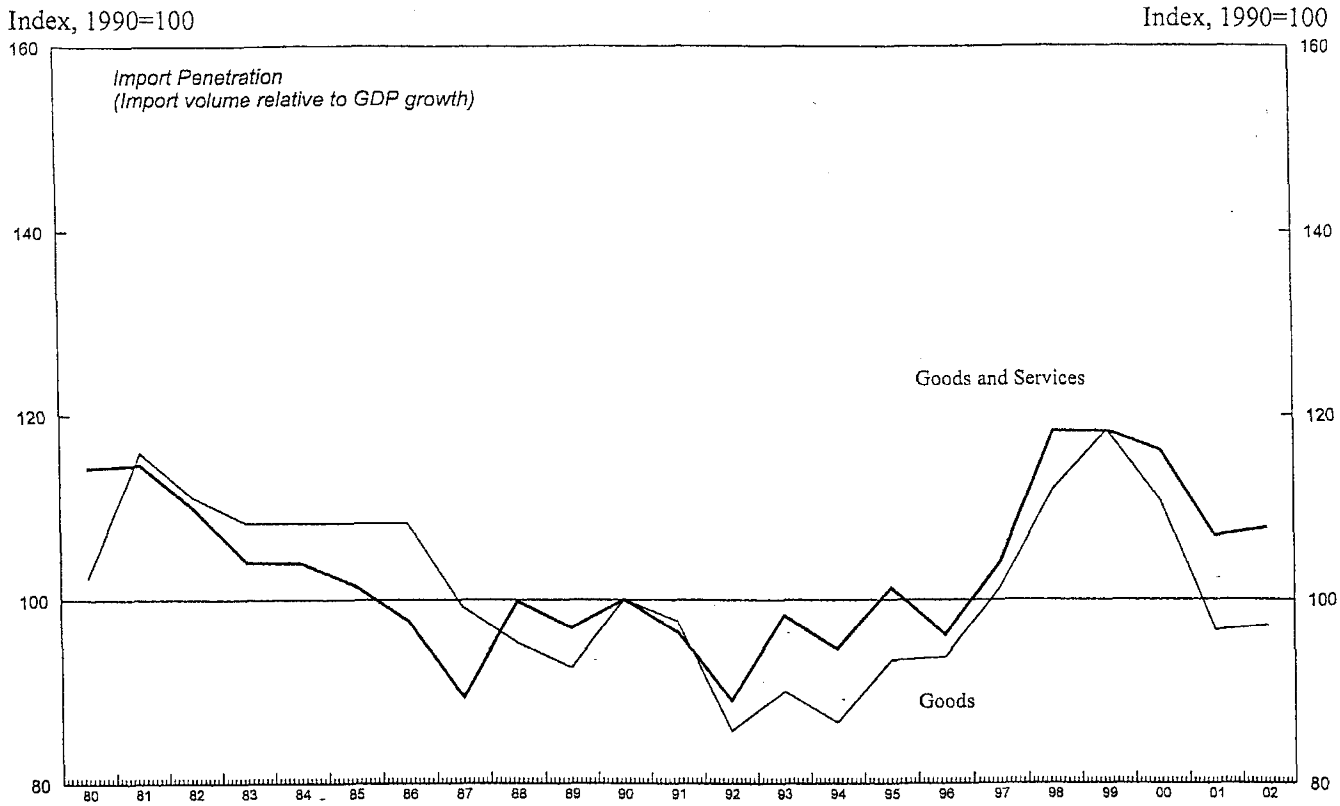
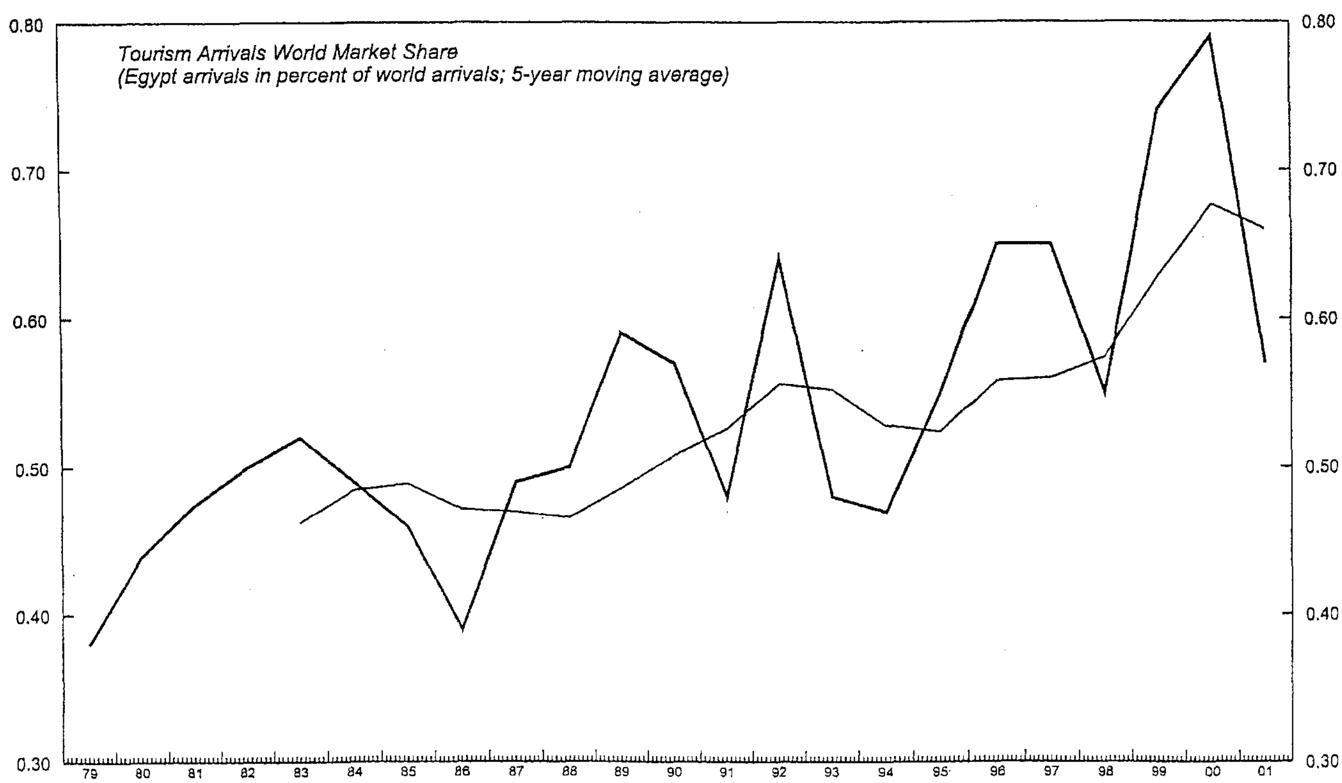
[51] Market shares are calculated using information on tourism arrivals collected by the World Tourism Organization.

[52] The authorities have noted that Egyptian importers accumulated large stocks of imported goods following the depreciation against the U.S. dollar of a number of Asian currencies in 1997-98. This is a real exchange rate effect, reflecting the appreciation of the Egyptian pound (with the U.S. dollar) against the Asian currencies.

Figure IV.3: Egypt: Import Penetration and Tourism Market Share, 1980-2002





Sources: Egypt authorities, WEO, and Fund staff calculations.

108. **The impact on external performance of RER movements can also be considered at the level of the overall current account.** As illustrated in Figure IV.4, the current account balance (measured as a share of GDP) appears to reflect movements in the RER (illustrated here on an inverse scale). To estimate the impact of 1990s appreciation of the RER, a regression has been estimated including the RER and domestic and foreign output gaps.[53]

109. The estimated regression equation, utilizing data from 1982–2001, is as follows:

$$CA(t) = 0.29 + 0.28\ CA(t\text{-}1) - 0.05\ dRER(t) - 0.07\ dRER(t\text{-}1) + 0.53\ YD(t) - 0.54\ YF(t) \qquad (1)$$

where CA is the current account in percent of GDP, dRER is the logarithmic change in the RER, YD is the domestic output gap, and YF the foreign output gap, both gaps measured in percent of potential GDP.[54]

110. **While this equation fits the data relatively well, including over the 1990s, it finds that the current account deficit is influenced only by the change in the RER, and not by the level.** By implication, the appreciation of the 1990s would have no sustained impact on the current account, even if the RER stabilized at a significantly more appreciated level. This finding is implausible, and likely reflects a failure to adequately capture the full range of influences on Egypt's current account performance. Moreover, more sophisticated empirical work is limited by the small data set.

III. What is the Right Exchange Rate?

111. The preceding section reviewed developments in Egypt's RER, and their impact on external performance. A brief survey of the evidence suggests that a relationship does exist, but that it is not necessarily straightforward: other factors are relevant. **Consistent with this finding, this section considers a number of approaches to estimating the equilibrium level of the RER, given other influences on external performance.**

[53] A similar approach was recently taken to the analysis of competitiveness in the Philippines (Christofides, (2000)).

[54] The equation achieves an R-squared of 0.70, an R-bar squared of 0.59, and a DW statistic of 2.02. The estimated coefficients tend to have t-statistics between 1–2. The relation between the level of the RER and the current account was found to be statistically insignificant. A similar result was found for the Philippine case in Christofides (2000).

Figure IV.4: Egypt: Current Account and Real Exchange Rate, 1980-2002

Sources: IMF INS; WEFA; and Fund staff estimates.

1/ An upward movement in the exchange rate denotes depreciation.

112. At the outset, it is useful to review how the RER is determined. The RER is an equilibrating mechanism: when the balance of payments is in surplus (deficit), the RER tends to appreciate (depreciate). The resulting changes in the profitability of supplying the home and foreign markets gives rise to equilibrating changes in the balance of payments.[55] As such, the RER is potentially affected by factors influencing balance of payments performance both directly (via exports, imports, debt service, etc.), or indirectly through their impact on domestic demand and financial conditions. Key influences on the RER are summarized in Box 2.

Box 2. Factors Influencing the Real Exchange Rate

Balance of payments factors. The following influence the RER through their direct impact on external performance:

- **Terms of trade**: through its influence on the trade balance;
- **Oil production**: lower oil production implies increased net oil imports, requiring an RER depreciation to rebalance the external accounts;
- **Foreign demand**: through its influence on exports of goods and services;
- **Trade regime**: tariff and nontariff barriers have an important impact on trade performance;
- **Debt service**: proxied by the external debt-GDP ratio;
- **Capital flows**: either as an exogenous influence, or reflecting interest differentials; and
- **Capital controls**: through their impact on capital flows.

Domestic demand factors. Shifts in aggregate demand influence balance of payments performance and the RER. For example, a higher investment-GDP ratio, or a higher fiscal deficit will contribute to a rise in net imports. At the same time, the associated increase in activity will tend to raise interest rates (for a given money supply), raising capital inflows. The net impact on the balance of payments and on the RER will depend on the relative balance of these factors.

Monetary factors. An increase in the money supply reduces interest rates while stimulating net import demand. The RER will tend to depreciate as a result.

Supply factors. Faster productivity growth will tend to strengthen net export performance, resulting in an offsetting appreciation of the RER.

[55] The transmission mechanism depends upon the exchange regime. Under a pegged exchange rate, the RER adjusts through prices alone: balance of payment surpluses (deficits) tend to expand (contract) the money supply, increasing (decreasing) domestic prices relative to those abroad. Under a floating exchange rate, RER adjustment works through both prices and the nominal exchange rate. A balance of payments surplus (deficit) tends to appreciate (depreciate) the nominal exchange rate; this, together with aggregate demand effects, tend to increase (reduce) domestic prices relative to those abroad.

113. **In monitoring real exchange rate movements, it is important to distinguish between short- and medium-term changes**. Reflecting changes in the factors highlighted in Box 1, a country's RER is often subject to large swings from one period to another: this is true for both industrial and developing countries. However, these movements commonly reflect temporary factors (such as an exceptional period of capital inflows, or an unsustainable fiscal deficit), and tend to unwind as the causal factors return to more normal levels. For policy purposes, it is useful to distinguish between these short-term movements in the RER, and where the latter might be expected to settle in the absence of shocks. In Egypt's context, for example, this would help establish whether the exchange rate might be expected to stabilize at close to current levels (perhaps as reflected in the parallel market), or whether the current rate reflects temporary factors that would be expected to unwind, leaving the RER to appreciate or depreciate from its current levels.

114. The sustainable or equilibrium real exchange rate (ERER) holds, in principle, when the balance of payments and domestic goods markets are in balance, and when the key determinants of the RER are at sustainable levels.[56] In algebraic terms, the RER can be imagined as determined by equation 2, where the F's represent exogenous influences on the RER. Each of the F's, in turn, reflects an equilibrium component, F*, and a deviation from equilibrium, X (equation 3). The ERER is then defined as holding when each of the F's is at its equilibrium level, F* (equation 4).[57]

$$RER = F(F1, F2, F3,...,Fn) \qquad (2)$$

$$Fi = Fi^* + Xi \qquad (3)$$

$$ERER = F(F1^*,F2^*,F3^*,...,Fn^*) \qquad (4)$$

115. Estimation of the ERER is, unfortunately, far from straightforward. Apart from the need to identify the key influences on the RER (the F's), the form of the relationship must be identified. In addition, a judgment needs to be made as to the "equilibrium" values of the explanatory variables, which may not be obvious when variables are subject to wide variation. A country's terms-of-trade (TOT), for example, may change substantially over time. Thus, the equilibrium TOT might be defined as (a) the current level—especially if the series is a random walk; (b) the average for a past period; or (c) the projected level for a certain point in the future. Similar uncertainties arise in considering how to incorporate

[56] This concept has also been described as the "fundamental equilibrium exchange rate" (FEER) and the "desired equilibrium exchange rate" (DEER), see Williamson (1994).

[57] Without providing a systematic review of this literature and its many country applications, one can mention the contributions in Williamson (1994) and Edwards (1989).

certain policy variables, such as the nature of the import regime. Should the ERER be calculated based on the current nature of the regime, or on the assumption that the regime will be liberalized over the period ahead?

A. Modeling the Equilibrium Real Exchange Rate Directly

116. **This section describes a number of attempts to measure Egypt's equilibrium exchange rate**. Mongardini (1998) modeled developments in the ERER during 1987–96 using the approach adopted in Edwards (1989). The study considered a range of factors that potentially influence external performance, domestic demand, and supply. For external performance, the explanatory variables comprised Egypt's terms of trade, capital inflows (as a share of GDP), external debt-service, and a dummy variable for the 1990–91 regional conflict. Demand effects were included through the fiscal deficit, government consumption, and credit expansion, while supply effects were proxied by a measure of productivity growth. The equilibrium exchange rate was calculated by solving the estimated equation, after excluding short-run effects from fiscal and credit policy.

117. **Based on his empirical work, Mongardini concluded that the ERER appreciated substantially during the 1990s, largely as a result of the reduction in debt-service costs arising from the phased Paris Club debt relief.**[58] While the RER was estimated to have been slightly overvalued through the decade (i.e., more appreciated than the ERER), the deviation was not typically large, amounting to approximately 5 percent at end-1996.

118. **While Mongardini's results have not been updated, the estimated over-valuation of the RER possibly increased to as much as 30 percent by mid-2000**. This reflects the additional 25 percent real appreciation between end-1996 and mid-2000, which probably added to the overvaluation at end-1996, given that no additional debt relief was provided after end-1996, and productivity growth probably slowed in the latter part of the decade as the pace of privatization and other reforms eased.[59] Subsequently, the RER has depreciated significantly, to a level 6 percent below its end-1996 level. To this extent, the possible overvaluation in 2000 based on an ad hoc extension of the Mongardini model may have been largely eliminated.

119. **A second set of estimates of Egypt's ERER have been compiled extending the work of Fanizza et al (2002)**. Fanizza's work, which draws on an approach adopted by Lane (1999) and Milesi-Ferreti (2000), focused on Tunisia, but utilized a panel econometric

[58] Rising Egyptian productivity during the 1990s was also estimated to have contributed to the ERER appreciation. This effect, combined with that from debt-service, was only partly offset by a deteriorating terms-of-trade, rising government consumption, and declining capital flows (at least through 1996), all of which would have contributed to depreciation of the ERER.

[59] One difficulty in extending the Mongardini model lies in replicating the derivation of monthly economic data, which in many cases were extrapolated from annual estimates.

framework that estimated a common structural equation for explaining movements in the RER for groups of countries. The advantage of this cross-country approach is that it uses a broader range of information on RER movements and the related explanatory variables, making coefficient estimates less sensitive to individual country data weaknesses.[60] Also, the Fanizza study draws on data going back to 1980 (and in some cases, to 1970), a longer time period than Mongardini. The Fanizza model is more Spartan in specification than Mongardini, using just three explanatory variables. Two influence external performance—countries' terms of trade and their net foreign asset positions (the latter through debt-service effects), while the third, relative GDP per capita, and reflects both supply and demand influences.

120. Figures IV.5 present the evolution of Egypt's RER against its terms-of-trade and two alternative measures of its net external asset position. While its terms-of-trade have been broadly stable in the 1990s, there has been a significant strengthening in its net foreign asset position, consistent with an appreciation of the ERER.

121. Figure IV.6 suggests that the estimated ERER appreciated during the 1990s, though, in contrast with the Mongardini study, the estimated appreciation is considerable less than for the RER itself. Thus, the RER moves from a position of being significantly undervalued in the early 1990s (compared with overvalued in the Mongardini study), to being overvalued only temporarily in the late 1990s. The precise degree of overvaluation depends on the sample period for which the estimations are estimated. **Focusing on the estimates based on the last two decades' data, the RER is estimated to have been overvalued by about 7 percent in 2000. This estimate of overvaluation would also appear to have been addressed by the real depreciation of 19 percent between 2000 and mid-2002**.

B. The Macroeconomic Balance Approach

122. **An alternative approach to estimating the ERER is used below, termed the "macroeconomic balance approach," developed in the IMF by the Coordinating Group for Exchange Rates (CGER).**[61] This focuses on a country's current account balance, in particular, the extent to which it is consistent with its equilibrium position or "norm". In assessing the prevailing current account position, temporary domestic and foreign demand-related influences are excluded, as are the lagged influences of past exchange rate movements.[62]

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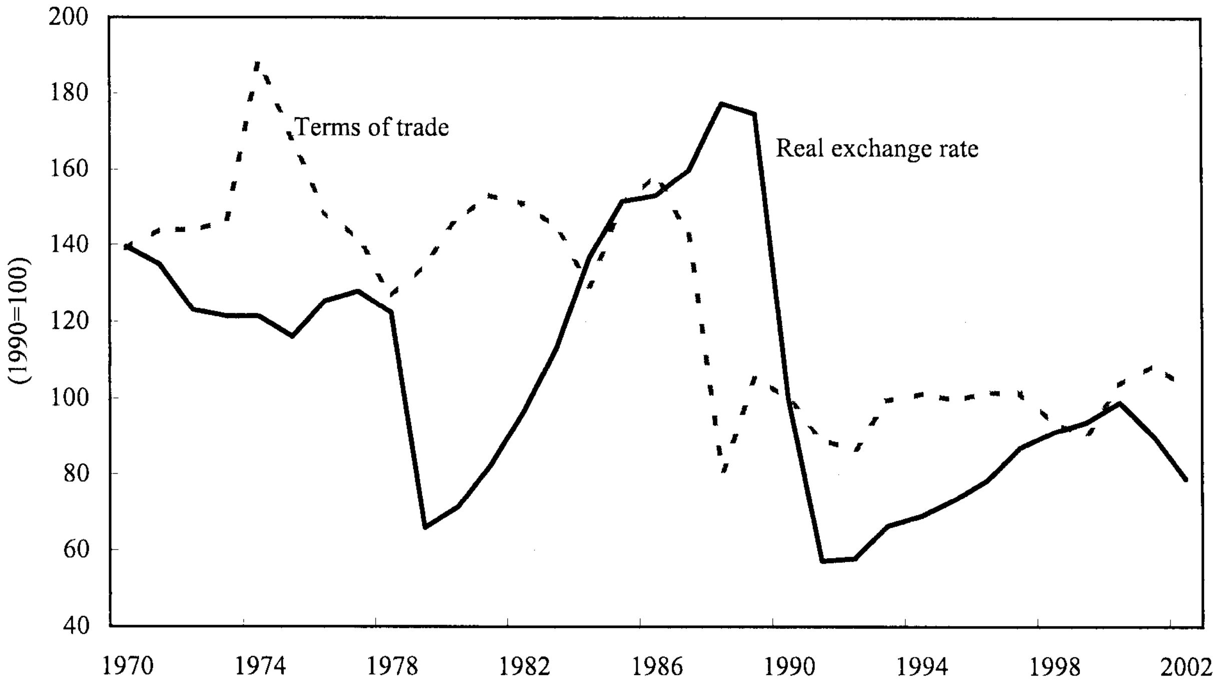
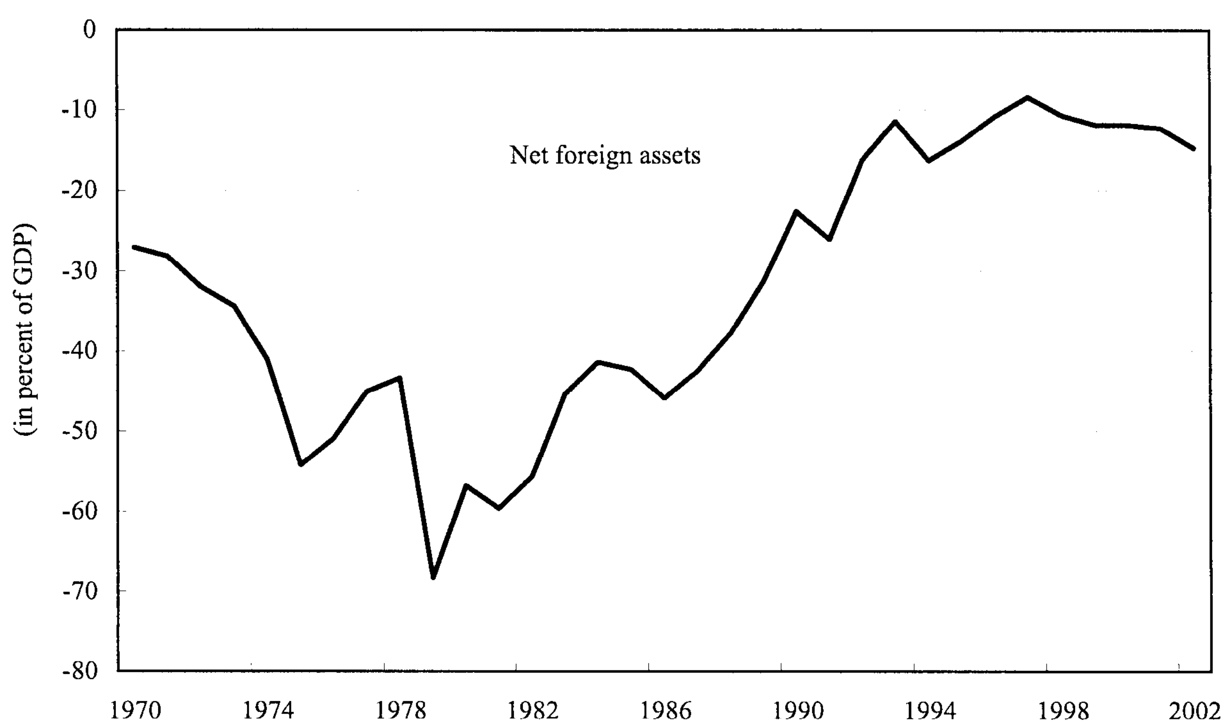
[60] Of course, like all panel country studies, these advantages come at the cost of assuming some kind of homogeneity of coefficients across different countries. To the extent that this assumption is not validated in the data, the results need to be interpreted with caution.

[61] Isard and Faruqee (1998); and Chinn and Prasad (2000).

[62] Effectively, domestic and foreign output are assumed to be in line with productive potential, eliminating any output gaps.

Figure IV.5. Egypt: Influences on the Real Exchange Rate, 1970-2002





Source: IMF

123. **The resulting "adjusted" current account balance is then compared to the "norm"**. The latter can be calculated in a number of ways. Under one approach, the norm is calculated based on an estimated equation that models domestic savings-investment behavior. Alternatively, the norm might be determined as the level consistent with a sustainable external asset position (either a constant debt-GDP ratio, or convergence with a given benchmark debt-GDP ratio). Where the adjusted current balance differs from its norm, this implies the need for RER adjustment. The necessary RER change is calculated based on estimated balance of payments elasticity.

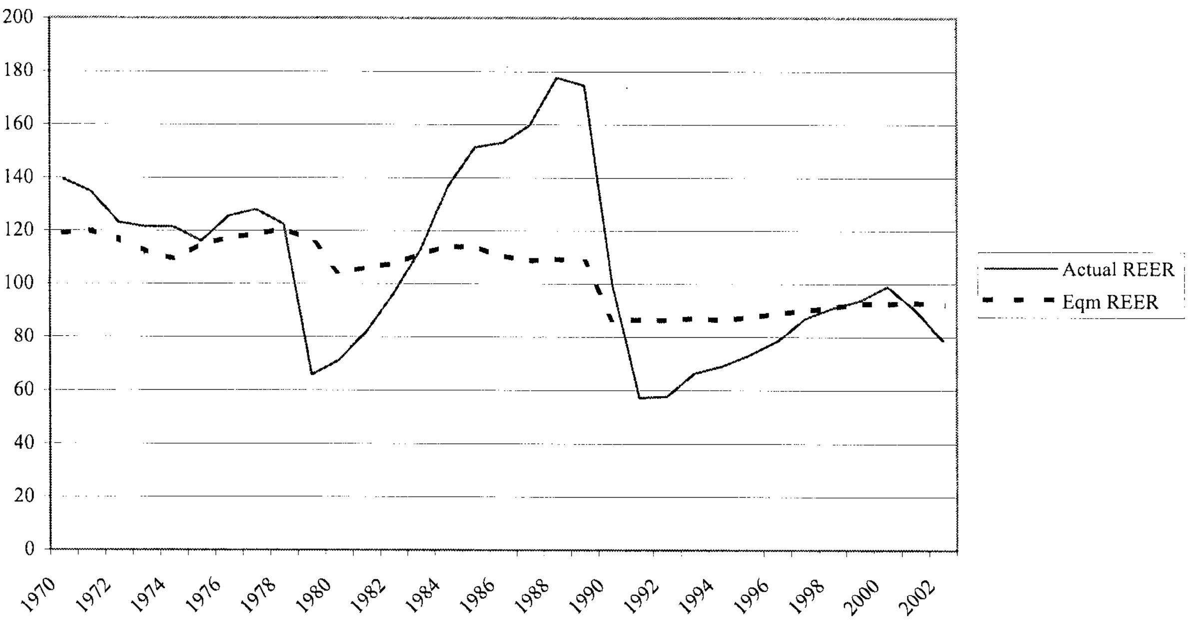
124. **As a first step, an adjusted current account balance has been calculated, excluding the impact of temporary deviations between actual and potential output at home and abroad**. The actual and adjusted current balances are shown in Figure IV.7. This process is conducted by solving equation 1 for the long-run coefficients, i.e.,

$$CA = 0.39 + 0.74\ YD - 0.75\ YF - 0.07\ dRER(t) - 0.1\ dRER(t\text{-}1) \quad \text{.............................} (5)$$

125. As Figure IV.7 illustrates, a large part of the movement in Egypt' current account balance in recent years has reflected domestic and foreign demand effects, with the adjusted balance (middle panel) estimated to have closer to zero throughout the 1980s and 1990s. Specifically, the strengthening of economic demand in Egypt through the 1990s accounts for much of the deterioration in the current account balance over that period, leaving less scope to explain the latter in terms of RER misalignment. Indeed, while the unadjusted current account position shows a deficit of 1.2 percent of GDP in 2000, the adjusted measure shows a surplus of 1.4 percent of GDP, after excluding relative demand effects. A further increase in the adjusted current account position to a surplus of 2.0 percent of GDP is estimated for 2001.

Figure IV.6. Egypt: Actual and Equilibrium REER
Panel data estimation

Middle-East sample, 1970-2002



Middle-East sample, 1980-2002

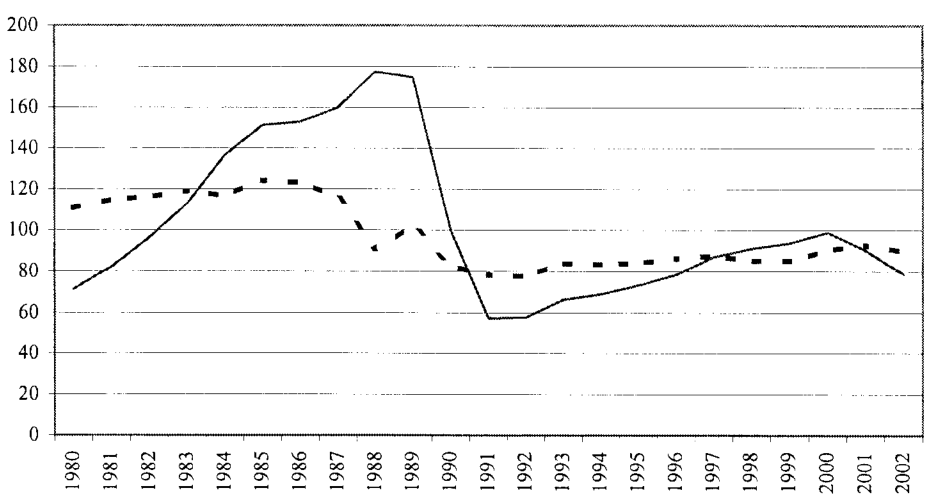
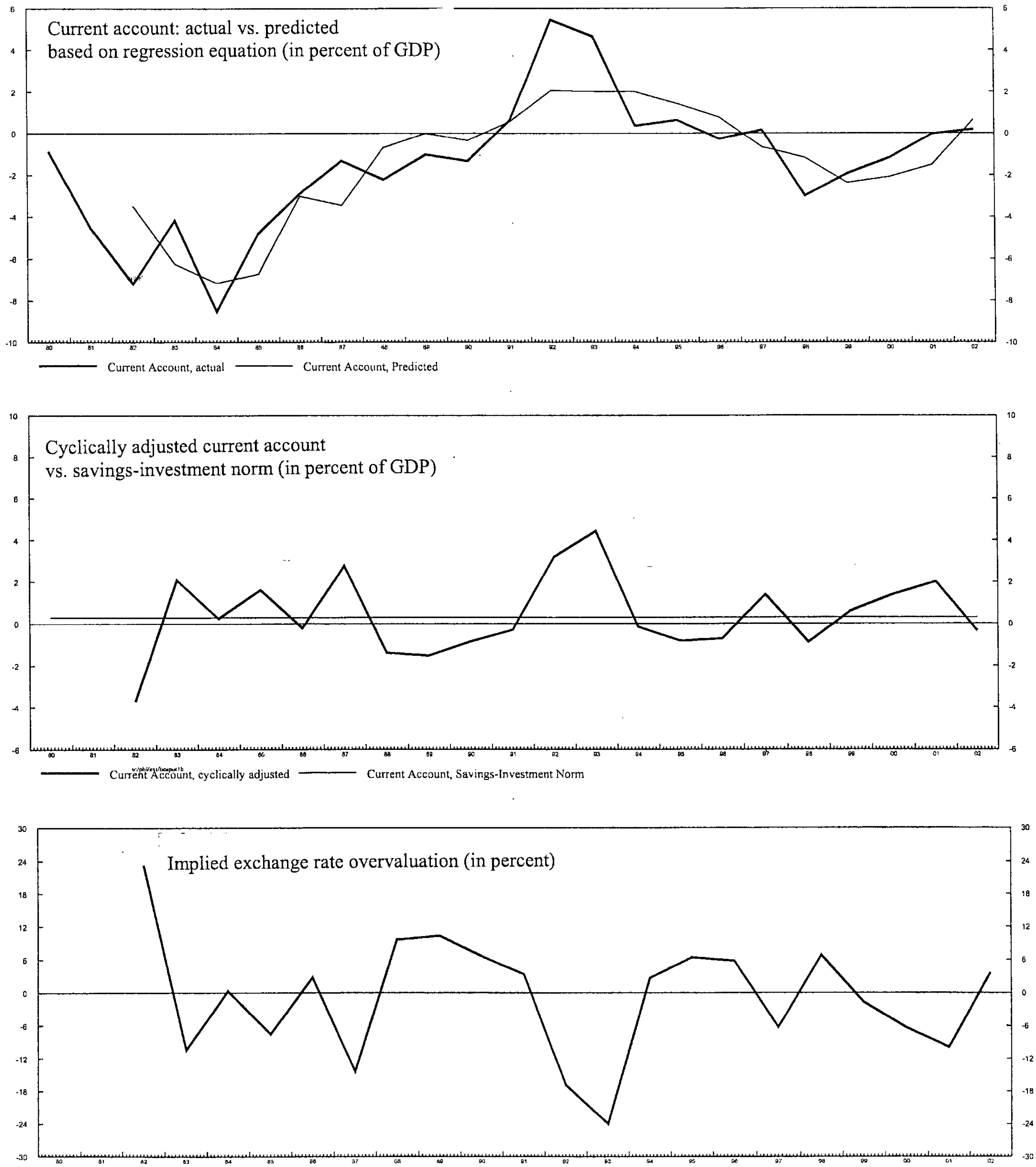


Figure IV.7: Egypt: Actual, Warranted, and Cyclically-Adjusted Current Account Balances, and Implied Equilibrium Exchange Rate, 1980-2002

(Macroeconomic Balance Approach)



Sources: IMF staff; Egyptian authorities; and EIS.

1/ Predicted current account on the basis of regression estimates.

2/ According to the macroeconomic balance approach.

126. A range of norms can be considered, against which to compare the adjusted surpluses reported above. For most developing countries, it might be expected other things equal, that the current account would be in modest deficit financed by capital inflows. The arguments for this are well known: a lower level of development implies the existence of relatively higher rates of return to capital, which provides an incentive for savings inflows from more developed economies. There may also be good demographic reasons with less developed economies having younger populations, and lower savings rates, than in the industrial world. Assuming that capital inflows to Egypt are limited to an amount that stabilizes its ratio of net foreign liabilities (NFL) to GDP, the current balance norm would be a deficit of about 1 percent of GDP. However, as Egypt's NFL-GDP ratio is relatively low (13 percent), a somewhat larger current account deficit (perhaps up to 2 percent of GDP) would be consistent with maintaining a still low NFL-GDP ratio. Norms might also be based on past outcomes. On this basis, Egypt has seen a current account surplus over the past decade, averaging about 0.7 percent of GDP. Relatively close to this is the estimated current account position derived from an extrapolation over the medium term of the current account equation developed by Chinn and Prasad (2000), which would imply a surplus of 1 percent of GDP. On this basis, plausible current account norms could range from a surplus of 1 percent of GDP to a deficit of up to 2 percent of GDP.

127. **As the adjusted current account balances in 2000–01 exceed the norms considered above, the macroeconomic balance approach implies that the RER was undervalued during this period** (Figure IV.7, lower panel). This is difficult to reconcile with the balance of payments shortfalls, and the decision to depart from the currency peg to the U.S. dollar (which presumably implied some initial exchange rate overvaluation). Given these difficulties, less weight is given to the findings of the macroeconomic balance approach when applied over the recent period.

C. Macroeconomic Modeling Approach

128. A third broad approach is to use a comprehensive balance of payments model to simulate the changes in the RER that would be needed to restore balance of payments equilibrium over a medium-term horizon. This permits a richer analysis of the dynamics of the balance of payments, in that judgments can be taken on a wide range of factors, such as the outlook for tourism, world interest rates, oil prices, FDI, and other capital flows, while ensuring that the projections meet criteria for external sustainability, in terms of official reserve levels, external financing, etc. This flexibility is also, to some extent, a drawback, in that a wide range of paths for the RER might be derived, based on different assumptions regarding critical components of the balance of payments.

129. A baseline balance of payments scenario developed for the 2002 Article IV consultation assumed that the exchange regime would be unified during the first half of 2002/03, restoring liquidity to the official market. The currency market would be supported by a 20 percent rise in tourism earnings, reflecting an almost full recovery from 9–11, combined with strong growth in non-oil exports (following the recent RER depreciation) and the start of an upturn in foreign direct investment as confidence returns.

Against this, non-oil imports are projected to recover strongly (12 percent), as the return of liquidity to the foreign currency market more than offsets the effect of the recent improvements in trade competitiveness. On the assumption that the authorities support the foreign currency market with modest levels of intervention (about US$0.5 billion for the full year), **this scenario suggests that equilibrium could be restored to the currency with only a modest further depreciation of the official exchange rate, to close to the level currently prevailing in the parallel market**. Moreover, looking forward over the medium term, this exchange rate would be consistent with continuing favorable external performance, with the balance of payments moving into a small surplus, allowing some replenishment of official reserves.[63]

IV. Conclusions

130. **The various approaches for analyzing movements in Egypt's real exchange rate in this chapter produce some common findings**. First, it appears uncontroversial that Egypt's equilibrium real exchange rate appreciated during the 1990s. A key factor behind this was the improvement in Egypt's external debt position as a result of phased debt relief provided by Paris Club and other creditors during 1991–96. A secondary, and more uncertain factor, was the strengthening of Egypt's external performance as a result of productivity improvements linked to structural reforms during the 1990s.

131. **The extent of the ERER appreciation of the 1990s is uncertain, however, as is the extent to which the RER appreciation resulted in overvaluation in the late 1990s**. The Mongardini and Fanizza models differ, in some respects, on these issues. However, they both offer some support for the view that Egypt's real exchange rate was not far from its equilibrium level in the mid-1990s. Moreover, both suggest that with strong appreciation of the RER in the late-1990s, the RER became overvalued, and perhaps significantly so, by 2000. Both models would also suggest that the depreciation during 2001–02 has done much to eliminate this overvaluation.

132. **Looking at the current level of the exchange rate, the evidence is more uncertain, and the models are not sufficiently well determined to permit a precise valuation assessment**. Current market conditions, including a more depreciated parallel exchange market, suggests that the official exchange rate would depreciate further, given the opportunity. However, it is not clear by how far, or to what extent this would involve a degree of overshooting, with a subsequent appreciation as confidence returns to the market.

[63] See Table 6 of the staff report for the 2002 Article IV consultation (SM/02/326), (October 18, 2002).

133. **The prospective of balance of demand and supply in the foreign exchange market is uncertain.** Tourism earnings certainly remain below their potential (assuming a return of confidence in regional stability), while some pick up in FDI and other capital flows might also be expected as confidence returns. Against this, the decline in merchandise imports during 2001–02 exceeded earlier projections, and likely reflected, in part, currency shortages in the official market. Thus, to the extent that exchange market liquidity is restored, this can be expected to go hand-in-hand with higher currency demand to finance imports. Given these opposing influences, the path for the Egyptian pound is likely to depend crucially on confidence in the new regime. Unless this is restored, supplies of currency to the market would be unlikely to recover quickly, resulting in further pressure for currency depreciation.

134. **Looking beyond the near-term outlook for the balance of payments, a critical issue for the medium term is the pace of trade liberalization.** Egypt remains a relatively closed economy, with import tariffs that are high by regional standards, as well as important nontariff obstacles to trade. Reflecting this, Egypt's export performance in recent decades has fallen behind many developing and industrial countries, leading to a decline in its export market share by more than one-half since 1970. To reverse this decline, it will be important to liberalize Egypt's trade regime. This would likely need to be accompanied by some depreciation in Egypt's RER to maintain external balance in the process.[64]

135. **Given the uncertain path of the equilibrium exchange rate over the period ahead, it will be important for Egypt to implement and maintain a more flexible exchange rate regime. This flexibility would also help Egypt weather new external shocks.**

[64] Pressures for depreciation of the RER could, however, be partly offset to the extent that structural reforms strengthen trade performance and attract a sustained higher level of capital inflows.

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Table 1. Egypt: Gross Domestic Product at Factor Cost by Economic Sector, 1995/96–2000/01

(In millions of Egyptian pounds; at current prices)

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Commodity sectors	104,684	118,992	127,508	136,296	157,432	170,797
Agriculture	36,968	41,882	45,182	48,935	52,845	58,861
Industry and mining	37,936	43,383	48,798	55,225	61,211	65,129
Petroleum and products	14,760	17,461	15,534	12,995	23,300	25,747
Electricity	3,980	4,172	4,264	4,586	4,936	5,300
Construction and building	11,040	12,094	13,730	14,555	15,140	15,760
Productive services sectors	69,850	77,560	85,918	95,859	103,498	109,110
Transport 1/	21,500	22,695	24,507	26,300	27,949	30,380
Trade, finance, and insurance	45,109	51,035	58,079	65,876	70,624	73,373
Restaurant and hotels	3,241	3,830	3,332	3,682	4,925	5,357
Social services sectors	39,651	43,808	46,297	50,201	55,474	60,694
Real estate	3,816	4,375	4,860	5,412	6,003	6,880
Public utilities	843	915	1,038	1,179	1,305	1,445
Social insurance	140	165	185	214	236	260
Government, social, and personal services	34,852	38,353	40,214	43,396	47,930	52,109
Nominal GDP at factor cost	214,185	240,359	259,723	282,356	316,404	340,600

Source: Ministry of Planning.

1/ Includes Suez Canal.

Table 2. Egypt: Gross Domestic Product at Factor Cost by Economic Sector, 1995/96–2000/01

(In millions of Egyptian pounds; at constant prices)

	At 1991/92 Prices		At 1996/97 Prices			
	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Commodity sectors	76,361	79,589	123,909	130,918	137,145	139,961
Agriculture	24,470	25,310	43,393	44,910	46,437	47,969
Industry and mining	26,970	29,228	46,786	51,308	55,336	57,815
Petroleum and products	14,365	13,650	15,765	15,824	15,858	14,024
Electricity	2,658	2,830	4,515	4,888	5,246	5,586
Construction and building	7,898	8,571	13,450	13,988	14,268	14,567
Productive services sectors	50,674	53,933	81,460	87,665	93,504	97,159
Transport 1/	16,116	16,767	23,802	24,874	25,842	26,572
Trade, finance, and insurance	31,949	34,199	54,338	58,807	62,431	65,579
Restaurant and hotels	2,609	2,967	3,320	3,984	5,232	5,008
Social services sectors	26,334	27,976	45,992	48,676	50,341	53,402
Real estate	2,819	3,008	4,645	4,965	5,313	5,890
Public utilities	532	575	990	1,076	1,159	1,253
Social insurance	111	118	180	198	214	230
Government, social, and personal services	22,872	24,275	40,177	42,437	43,655	46,029
Real GDP at factor cost	153,369	161,498	251,361	267,259	280,989	290,522
Rate of growth (in percent)	5.0	5.3	4.6	6.3	5.1	3.4

Source: Ministry of Planning.

1/ Includes Suez Canal.

Table 3. Egypt: GDP and Expenditure Components at Current Market Prices, 1995/96–2000/01

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
	(In billions of Egyptian pounds)					
Domestic demand	239.0	273.3	305.4	327.5	361.2	379.0
Consumption	201.0	226.6	246.7	265.5	299.1	317.7
Private sector	177.0	200.5	218.4	234.8	266.1	281.2
Public sector	24.0	26.1	28.3	30.7	33.0	36.5
Investment	38.0	46.7	58.7	62.0	62.1	61.3
Fixed capital formation	37.0	47.7	58.2	59.5	60.0	59.4
Changes in stocks	1.0	-1.0	0.5	2.5	2.1	1.9
Net exports	-14.0	-16.1	-27.3	-25.4	-22.5	-17.2
Exports of goods and services	46.0	50.1	46.6	46.3	55.1	62.9
Imports of goods and services	60.0	66.2	73.9	71.7	77.6	80.1
Statistical discrepancy	4.3	0.0	0.0	0.0	0.0	0.0
Nominal GDP at market prices	229.3	257.2	278.1	302.1	338.7	361.8
	(Annual percent change)					
Gross domestic product	12.0	12.2	8.1	8.6	12.1	6.8
Domestic demand	14.4	14.4	11.7	7.3	10.3	4.9
Consumption	15.6	12.7	8.8	7.6	12.7	6.2
Investment	8.3	22.9	25.7	5.6	0.2	-1.3
Fixed capital formation	11.8	28.9	22.0	2.2	0.8	-1.0
Changes in stocks 1/	0.4	-0.4	0.2	0.8	0.6	0.5
Net exports 2/	-2.0	-0.9	-4.4	0.7	1.0	1.6
	(In percent of GDP)					
Consumption	87.7	88.1	88.7	87.9	88.3	87.8
Private sector	77.2	78.0	78.5	77.7	78.6	77.7
Public sector	10.5	10.1	10.2	10.2	9.7	10.1
Investment	16.6	18.2	21.1	20.5	18.3	16.9
Fixed capital formation	16.1	18.5	20.9	19.7	17.7	16.4
Changes in stocks	0.4	-0.4	0.2	0.8	0.6	0.5
Exports of goods and services	20.1	19.5	16.8	15.3	16.3	17.4
Imports of goods and services	26.2	25.7	26.6	23.7	22.9	22.1

Sources: Ministry of Planning; and Fund staff estimates.

1/ In percent of GDP.

2/ Contribution to nominal GDP growth.

Table 4. Egypt: GDP and Expenditure Components at Constant Market Prices, 1995/96–2000/01

	At 1991/92 prices		At 1996/97 prices				
	1995/96	1996/97	1996/97	1997/98	1998/99	1999/2000	2000/01
			(In billions of Egyptian pounds)				
Domestic demand	170.6	180.2	273.3	292.1	306.7	316.8	324.7
Consumption	134.8	140.6	226.6	236.1	247.9	260.7	264.8
Private sector	116.5	121.3	200.5	209.0	219.7	231.4	234.4
Public sector	18.3	19.3	26.1	27.1	28.2	29.3	30.4
Investment	35.8	39.6	46.7	56.0	58.8	56.1	59.9
Fixed capital formation	35.3	39.6	47.7	55.5	56.5	54.3	58.3
Changes in stocks	0.6	0.0	-1.0	0.5	2.3	1.8	1.6
Net exports	-7.1	-7.0	-16.1	-23.2	-20.9	-16.4	-13.8
Exports of goods and services	45.3	49.4	50.1	48.3	52.7	54.7	56.5
Imports of goods and services	52.4	56.4	66.2	71.5	73.6	71.1	70.3
Real GDP at market prices	163.5	173.2	257.2	268.9	285.8	300.4	310.9
			(Annual percent change)				
Domestic demand	4.7	5.6	...	6.9	5.0	3.3	2.5
Consumption	4.3	4.3	...	4.2	5.0	5.2	1.6
Private sector	4.0	4.1	...	4.2	5.1	5.3	1.3
Public sector	6.3	5.6	...	4.0	4.1	3.9	3.8
Investment	6.2	10.5	...	19.9	5.0	-4.6	6.8
Fixed capital formation	6.9	12.2	...	16.4	1.8	-3.9	7.4
Changes in stocks 1/	-0.1	-0.3	...	0.6	0.7	-0.2	-0.1
Exports of goods and services	8.4	9.1	...	-3.6	9.1	3.8	3.3
Imports of goods and services	6.4	7.8	...	8.0	2.9	-3.4	-1.1
Real GDP at market prices	5.1	5.9	...	4.6	6.3	5.1	3.5

Sources: Ministry of Planning; and Fund staff estimates.

1/ Contribution to GDP growth.

Table 5. Egypt: Labor Market Indicators, 1994/95–2000/01

(In millions of Egyptian pounds; unless otherwise indicated)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Population	57.1	58.2	59.4	60.7	62.0	63.3	64.7
Labor force	16.5	16.9	17.4	17.8	18.4	18.9	19.5
Employment, *of which:*	14.9	15.3	15.9	16.3	16.9	17.4	17.8
Civil service 1/	4.3	4.5	4.7	4.9	4.9	5.0	5.1
Unemployment	1.6	1.6	1.5	1.5	1.5	1.5	1.6
Participation rate							
(In percent of population)	28.9	29.0	29.3	29.3	29.7	29.9	29.8
Unemployment rate							
(In percent of labor force)	9.6	9.2	8.8	8.5	8.2	7.9	9.0
Average civil service wage 2/							
LE	2,899	3,132	3,242	3,510	3,976	4,441	4,960
pecent change	7.1	8.0	3.5	8.3	13.3	11.7	11.7

Sources: Ministry of Planning and CAPMAS.

1/ Central and local government and public service authorities.
2/ Based on wage bill and employment numbers.

Table 6. Egypt: Production of Major Agricultural Crops, 1994/95–2000/01

(In millions of Egyptian pounds)

	Agricultural Year Ending October 31						
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Current Prices							
Total non-animal production	29,606	34,693	38,154	40,592	43,332	46,160	46,471
Cereals	9,293	10,019	11,069	12,030	11,925	13,364	12,479
Legume	484	565	658	705	462	574	620
Fibers	1,436	2,244	2,897	2,785	1,388	1,430	1,379
Oil seeds	360	448	447	407	428	543	539
Sugar	1,194	1,346	1,361	1,550	1,668	1,788	1,935
Vegetables and onions	5,762	7,108	7,342	7,276	8,664	8,752	8,647
Fruit	5,505	6,861	8,308	8,556	8,950	9,899	9,443
Animal feed	4,826	5,306	5,427	6,291	8,453	8,960	10,501
Other	746	796	647	992	1,394	850	928
Animal and fishery production	14,147	15,464	17,578	20,045	21,567	23,801	26,336
Animal	12,299	13,332	15,006	16,895	17,576	18,935	20,646
Fishery	1,848	2,132	2,570	3,150	3,991	4,866	5,690
Total agricultural production	43,753	50,157	5,573	60,637	64,899	69,961	72,807
Production value growth (percent)	17.9	14.6	11.1	7.9	7.6	7.8	4.1
	At 1991/92 Prices			At 1996/97 Prices			
Constant Prices							
Total non-animal production	22,701	23,318	24,355	39,058	39,899	40,151	41,004
Cereals	8,030	7,830	8,251	11,752	11,371	12,361	12,477
Leguminous plants	495	538	572	692	446	547	600
Fibers	1,389	1,307	1,838	2,934	2,002	1,972	1,772
Oil seeds	314	344	314	394	404	502	490
Sugar	855	866	877	1,413	1,525	1,636	1,674
Vegetables and onions	4,028	4,690	4,735	7,257	8,089	8,084	7,712
Fruit	3,384	3,874	4,078	7,866	8,226	8,822	9,022
Animal feed	3,574	3,231	3,148	5,823	6,569	5,565	6,463
Other	632	638	542	927	1,267	662	794
Animal and fishery production	10,406	11,015	11,568	18,580	19,654	21,309	22,616
Animal	9,032	9,495	9,954	15,860	16,408	17,456	18,311
Fishery	1,374	1,520	1,614	2,720	3,246	3,853	4,305
Total agricultural production	33,107	34,333	35,923	57,638	59,553	61,460	63,620
Growth rate of production	3.5	3.7	4.6	3.4	3.3	3.2	3.5

Source: Ministry of Planning.

Table 7. Egypt: Production of Selected Major Agricultural Crops, 1994/95–2000/01

(Production in thousands of metric tons, area planted in thousands of feddans; yield in metric tons per feddan; price in Egyptian pound per metric ton)

	Agricultural Year Ending October 31						
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Wheat							
Production	5,722	5,738	5,942	6,093	6,347	6,564	6,255
Price	560	633	667	680	689	693	701
Area	2,512	2,421	2,486	2,421	2,379	2,463	2,342
Yield	2.28	2.37	2.39	2.52	2.67	2.67	2.67
Corn							
Production	5,178	5,825	5,806	6,337	6,143	6,474	6,842
Price	514	537	551	579	605	607	613
Area	2,079	2,086	1,938	2,087	1,945	2,006	2,078
Yield	2.49	2.79	3.00	3.04	3.16	3.27	3.29
Summer Rice							
Production	4,789	4,895	5,480	4,450	5,816	6,000	5,227
Price	656	703	718	760	730	582	592
Area	1,401	1,405	1,550	1,225	1,559	1,569	1,340
Yield	3.42	3.48	3.54	3.63	3.74	3.85	3.90
Seed cotton							
Production	640	907	920	628	617	554	823
Price	3,462	3,247	3,003	2,215	2,220	2,320	2,223
Area	710	921	859	789	645	518	731
Yield	0.90	0.99	1.07	0.80	0.96	1.07	1.14
Sugar cane							
Production	14,105	13,959	13,726	14,353	15,254	15,706	15,572
Price	90	90	95	100	95	95	95
Area	306	300	291	291	307	319	312
Yield	46.22	46.53	47.16	49.24	49.85	49.25	49.91
Vegetables							
Production	13,030	14,457	14,363	15,214	15,126	16,137	15,482
Price	494	545	900	...	...	...	...
Area	1,342	1,441	1,388	1,546	1,512	1,561	1,656
Yield	9.71	10.03	10.25	9.84	10.52	10.34	9.35
Fruit 1/							
Production	6,243	6,604	6,352	6,479	7,001	7,152	7,523
Price	728	896	2,000	...	...	...	...
Area	1,146	1,048	1,053	1,061	1,106	1,088	1,137
Yield	6.89	7.37	6.29	6.11	6.35	6.57	6.62
Total cultivated area	9,222	9,470	9,592	9,355	9,353	9,446	9,511
Production value (at current prices, in billions of Egyptian pounds)	23.30	28.20	41.47	...	...	...	...
Production value (at 1996/97 prices, in billions of Egyptian pounds)	37.10	40.82	41.47	40.54	43.31	44.11	44.51
Growth rate of production (percent)	9.41	10.01	1.61	-2.24	6.82	1.84	0.90

Source: Ministry of Agriculture and Land Reclamation.

1/ Includes dates.

Table 8. Egypt: Gross Value of Industrial Production at Constant Prices, 1994/95–2000/01

	At 1991/92 Prices			At 1996/97 Prices			
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	Prel. 2000/01
	(In millions of Egyptian pounds)						
Food products	21,375	22,506	23,465	36,587	38,528	40,005	40,600
Spinning and weaving	18,556	19,990	21,868	33,943	36,562	38,730	40,600
Chemicals	14,286	15,050	15,956	26,354	29,173	32,123	33,900
Metals	6,003	6,358	7,295	10,398	11,024	11,732	12,500
Engineering	8,619	9,736	10,731	18,100	20,154	21,659	22,800
Metallurgy	423	444	473	958	1,069	1,112	1,100
Total	69,262	74,084	79,788	126,340	136,510	145,361	151,500
	(Growth rate; in percent)						
Food products	...	5.3	4.3	5.1	5.3	3.8	1.5
Spinning and weaving	...	7.7	9.4	6.1	7.7	5.9	4.8
Chemicals	...	5.3	6.0	10.3	10.7	10.1	5.5
Metals	...	5.9	14.7	3.0	6.0	6.4	6.5
Engineering	...	13.0	10.2	9.7	11.3	7.5	5.3
Metallurgy	...	5.20	6.5	36.9	11.6	4.0	-1.1
Total	...	7.0	7.7	7.1	8.0	6.5	4.2

Source: Ministry of Planning.

Table 9. Egypt: Gross Value of Industrial Production at Current Prices, 1994/95–2000/01

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
	(In millions of Egyptian pounds; at current prices)						
Food products	28,600	31,900	34,800	38,200	41,100	43,200	44,400
Spinning and weaving	24,400	27,900	32,000	35,700	39,200	43,500	46,600
Chemicals	19,400	21,400	23,900	27,200	31,000	35,800	38,000
Metals	7,500	8,500	10,100	10,500	11,900	13,100	14,300
Engineering	11,100	13,400	16,500	18,800	21,500	23,600	25,600
Metallurgy	500	600	700	1,000	1,200	1,200	1,200
Total	91,500	103,700	118,000	131,400	145,900	160,400	170,100
	(Growth rate; in percent)						
Food products	...	11.5	9.1	9.8	7.6	5.1	2.8
Spinning and weaving	...	14.3	14.7	11.6	9.8	11.0	7.1
Chemicals	...	10.3	11.7	13.8	14.0	15.5	6.1
Metals	...	13.3	18.8	4.0	13.3	10.1	9.2
Engineering	...	20.7	23.1	13.9	14.4	9.8	8.5
Metallurgy	...	20.0	16.7	42.9	20.0	0.0	0.0
Total	...	13.3	13.8	11.4	11.0	9.9	6.0

Source: Ministry of Planning.

Table 10. Egypt: Value of Companies and Productive Units Privatized, 1993–June 2002

(In millions of Egyptian pounds)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	Jan-Jun. 2002
Method of privatization										
Complete or majority sale through stock offering	0	0	85	1,650	2,519	1,342	0	47	670	0
Sale to a major investor	0	433	0	453	447	276	2,665	2,345	349	12
Sale to employees	0	227	139	0	79	351	75	0	69	11
40 percent sale through stock offering	0	4	188	338	125	0	0	0	0	0
Companies that sold part of its units comprising less than 50 percent of its value	0	0	804	0	221	76	0	0	0	0
Sold as factories and producing units	0	0	0	350	6	316	45	84	38	69
Total	0	664	1,216	2,791	3,397	2,361	2,785	2,476	1,126	92

Source: Ministry of Public Enterprises.

Table 11. Egypt: Indicators of Financial Performance of the Remaining Public Enterprises, 1994/95–2000/01 1/

(In billions of Egyptian pounds; unless otherwise specified)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Operating revenues	55.5	55.1	53.6	46.6	33.8	31.1	29.6
Wages and salaries (LE billion)	5.8	6.1	6.0	4.1	4.9	4.5	4.5
Earnings before interest and tax	9.1	9.8	6.7	6.6	5.5	3.4	2.9
Interest	4.1	4.1	4.1	3.4	3.0	2.6	2.6
Profits of profitable companies 2/	3.6	3.9	4.1	3.7	5.4	2.3	2.2
Losses of losing companies	-2.4	-3.3	-2.5	-2.1	-1.6	-2.1	-2.3
Net profits	1.1	0.7	1.5	1.7	3.8	0.2	-0.1
Number of profitable companies	202	184	180	165	168	134	117
Number of losing companies	88	106	82	59	41	59	62
Number of companies left as under Law 203	290	290	262	224	209	193	179
Net assets 3/	88.3	90.3	94.9	53.6	63.1	65.4	62.5
Total debt 4/	70.4	74.9	74.4	54.3	59.0	54.4	25.0
Long-term loans	14.6	15.4	14.4	9.0	14.0	11.7	11.2
Short-term loans	20.4	24.5	24.9	15.3	17.0	14.6	13.8
Trade credit	35.4	35.0	35.0	30.0	28.0	28.1	...
Carried loss balances	-9.8	-12.0	-13.3	-15.4	-10.3	-11.7	-13.7
Net equity 5/	10.1	8.6	12.0	9.2	6.6	5.7	3.3
Number of employees ('000)	964.4	914.0	757.0	715.0	625.0	520.0	450.0
Nominal wages (LE per year)	6,006.6	6,637.9	7,962.9	5,781.8	7,832.0	8,654.0	9,939.0
Nominal wage growth	10.2	10.5	20.0	-27.4	35.5	10.5	14.8

Source: Ministry of Public Enterprise.

1/ Includes law 203 companies, excludes economic authorities, publicly-owned financial companies, and EGPC.

2/ After tax.

3/ Net of provisions for depreciation and for accounts receivables.

4/ Includes trade credits and about 50 percent of accounts payable.

5/ Includes reserves.

Table 12. Egypt: Production and Distribution of Crude Petroleum, 1994/95–1999/2000 1/

(In millions of metric tons)

	API	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
By concession area		45.60	45.30	43.31	41.98	41.18	39.00
GUPCO (Gulf of Suez)	33°	17.72	16.90	15.38	14.14	13.86	11.75
PETROBELL (Sinai)	29°	12.13	11.47	10.46	9.95	9.76	9.36
General Petroleum Company (East and West Desert)	24°–25°	1.44	1.35	1.36	1.55	1.78	2.00
GUPCO-Abul-Gharadig (West Desert)	38°	0.39	0.39	0.34	0.31	0.37	0.38
WEPCO (West Desert)	38°	0.10	0.11	0.12	0.13	0.11	0.09
GUPCO-Shuab Ali (Gulf of Suez)	32°	1.23	1.20	1.24	1.22	1.21	0.95
SUCO (Gulf of Suez)	32°	3.68	3.43	3.22	3.00	2.79	2.4
EPEDECO (East Desert)	24°	0.26	0.27	0.28	0.26	0.26	0.25
AGYPETCO (West Desert)	38°	2.47	2.43	2.29	2.46	2.41	2.76
TOTAL (Gulf of Suez)	...	0.08	0.06	0.02	0.02	0.06	0.04
BAPETCO	...	1.25	1.19	0.90	0.68	0.59	0.4
Condensates	...	1.30	1.31	1.53	1.69	1.67	2.42
TOTAL (South Ramadan)	...	0.02	0.01	0.02	0.02	0.01	0.00
New discoveries 2/	...	3.53	5.18	6.15	6.55	6.3	6.2
Output of old discoveries		42.07	40.12	37.16	35.43	34.88	32.80
By share	...	45.60	45.30	43.31	41.98	41.18	39.00
Egypt	...	33.28	33.11	31.86	28.86	27.18	27.09
Excess cost recovery 3/	...	3.76	3.70	4.00	2.15	1.20	4.13
Profit oil	...	28.13	28.06	26.5	25.16	24.20	20.96
EGPC production	...	1.39	1.35	1.36	1.55	1.78	2.00
Partner companies	...	5.05	4.94	4.78	4.73	4.66	4.48
Net cost recovery 4/	...	7.27	7.25	6.67	8.39	9.34	7.43
By destination	...	45.60	45.30	43.31	41.98	41.18	39.00
Domestic refining 5/	...	23.83	25.00	24.6	24.80	23.76	21.22
Exports	...	21.72	20.30	18.71	17.18	17.42	17.78
Egyptian share	...	9.40	8.11	7.26	4.06	3.42	5.87
Partners' share 6/	...	12.32	12.19	11.45	13.12	14.00	11.91
Changes in stocks	...	0.05	0.00	0.00	0.00	0.00	0.00

Source: Egyptian General Petroleum Corporation.

1/ Includes condensates and LPG.
2/ Geisum, Gypetco, El Amal, Esso Khalda, Alamein, Zaphco, Magapetco, Atepco, and Karo.
3/ Cost recovery oil in excess of actual development costs; this oil, or its value equivalent, reverts to EGPC.
4/ Cost recovery oil used to cover actual costs; this oil is exported by the partner companies and is included in partner companies' exports.
5/ Excludes crude imported for refining.
6/ Includes crude sales to Egypt.

Table 13. Egypt: Output and Utilization of Petroleum, 1994/95–1999/2000

(In millions of tons)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Output and utilization of crude, and condensates	45.6	45.3	43.3	42.0	41.2	39.0
Available to partners	12.3	12.2	11.5	13.1	14.0	11.9
Partners' share	5.1	4.9	4.8	4.7	4.7	4.5
Cost recovery	11.0	11.0	10.7	10.5	10.5	11.6
Minus excess cost recovery	-3.8	-3.7	-4.0	-2.2	-1.2	-4.1
Available to EGPC	33.3	33.1	31.9	28.9	27.2	27.1
EGPC share	29.5	29.4	27.9	26.7	26.0	23.0
Excess cost recovery	3.8	3.7	4.0	2.2	1.2	4.1
Utilization of EGPC crude oil and condensates	33.3	33.1	31.9	28.9	27.2	27.1
Crude export	9.4	8.1	7.3	4.1	3.4	5.9
Refinery throughput	23.8	25.0	24.6	24.8	23.8	21.2
Change in stocks	0.1	0.0	0.0	0.0	0.0	0.0
Refined products output and imports	26.1	27.5	28.4	30.4	30.7	30.2
Refinery input from EGPC	23.8	25.0	24.6	24.8	23.8	21.2
Refinery input from partners	3.1	3.0	3.6	4.7	5.2	6.6
Refinery losses and fuel	-1.0	-1.1	-1.0	-1.0	-0.9	-0.9
Change in stocks of crude	0.0	0.0	0.0	0.0	0.0	0.0
Imports of products	0.2	0.6	1.2	1.8	2.6	3.2
Use of products	26.1	27.5	28.4	30.4	30.7	30.2
Domestic consumption	17.1	19.5	19.7	22.5	23.2	22.6
Exports	8.7	8.0	8.7	7.9	7.5	7.6
Products	6.0	5.2	5.6	5.5	4.5	4.8
Bunker	2.7	2.8	3.1	2.4	2.9	2.7
Memorandum item						
Output of natural gas	9.7	10.2	10.4	10.6	11.9	14.6

Source: Egyptian General Petroleum Corporation.

Table 14. Egypt: Imports of Petroleum Products, 1994/95–1999/2000

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
			(In thousand tons)			
Gas, oil, and diesel	74	380	720	958	1,598	2,021
Jet fuel	0	0	0	0	0	29
Butane gas	98	160	273	529	726	833
Ethylene	28	28	25	38	29	30
M.T.B.E.	...	...	130	172	158	203
T.E.L.	...	...	...	...	0.4	0.4
P.V.C	...	...	...	...	...	...
Aviation fuel	0	1	1	1	1	0
Gasoline	...	...	...	84	72	27
Lab oils	15	25	32	49	36	52
Total	215	594	1,181	1,832	2,620	3,195
			(In millions of U.S. dollars)			
Gas oil and diesel	11.8	68.7	142.7	151.4	178.3	427.0
Jet fuel	...	...	...	...	0.0	7.0
Butane gas	28.9	40.5	84.5	116.7	138.5	260.0
Ethylene	14.6	13.5	14.6	18.1	10.4	19.0
M.T.B.E.	...	...	35.9	44.1	32.1	72.0
T.E.L.	...	...	...	...	3.4	3.0
P.V.C.	...	...	...	...	...	...
Aviation fuel	0.0	0.4	0.4	0.4	0.3	0.0
Gasoline	...	...	...	15.8	11.2	8.0
Lab oils	4.7	10.4	10.3	13.5	9.0	16.0
Total	60.0	133.5	288.4	360.0	383.2	812.0
			(Unit value; U.S. dollars per ton)			
Gas oil and diesel	159.5	180.8	198.2	158.0	111.6	211.3
Jet fuel	...	...	...	...	...	...
Butane gas	294.9	253.1	309.5	220.6	190.8	312.1
Ethylene	521.4	482.1	574.8	471.4	358.6	633.3
M.T.B.E.	...	...	276.2	256.4	203.2	354.7
T.E.L.	...	...	...	...	8,500.0	7,500.0
P.V.C.	...	...	...	...	...	...
Aviation fuel	...	333.3	400.0	...	300.0	...
Gasoline	...	...	...	188.1	155.6	296.3
Lab oils	313.3	416.0	321.9	275.5	250.0	307.7

Source: Egyptian General Petroleum Corporation.

Table 15. Egypt: Exports of Petroleum Products, 1994/95–1999/2000 1/

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
			(In thousand tons)			
Butane gas	0	0	0	0	0	0
Naphtha	2,452	2,602	2,911	3,041	3,003	2,971
Fuel oil	3,621	2,460	2,219	1,954	1,366	1,249
Slack wax	26	29	29	32	21	32
Wax crystals	5	4	5	3	3	4
Alkyel benzine	21	18	18	15	14	9
Caustic soda	8	14	2	14	14	26
Jet fuel	215	422	419	470	516	533
Gasoline	33	0	0	0	0	0
Bunker oil	2,267	2,807	3,087	2,318	2,510	2,723
Diesel/gas oil	284	306	257	236	242	209
Fuel oil	1,983	2,501	2,830	2,082	2,268	2,519
Other	3	0	0	4	4	16
Total	8,650	8,356	8,690	7,851	7,451	7,563
			(In millions of U.S. dollars)			
Butane gas	0	0	0	0	0	0
Naphtha	382	401	554	475	360	677
Fuel oil	353	236	236	176	92	166
Slack wax	3	4	4	6	4	5
Wax crystals	2	2	3	2	1	2
Alkyl Benzine	14	13	13	10	12	8
Caustic Soda	1	3	0	2	2	2
Jet fuel	34	93	116	98	96	161
Gasoline	6	0	0	0	0	0
Bunker oil	251	301	346	229	187	379
Diesel/gas oil	52	60	58	43	35	51
Fuel oil	199	242	288	186	152	327
Other	0	0	0	2	1	9
Total	1,046	1,052	1,271	1,000	755	1,409
			(Unit value; U.S. dollars per ton)			
Total	121	126	146	127	101	186

Source: Egyptian General Petroleum Corporation.

1/ Data compiled on a delivery basis.

Table 16. Egypt: Exports of Crude Petroleum, 1994/95–1999/2000 1/

(Quantities in thousand metric tons; values in millions of U.S. dollars; unit values in U.S. dollars per metric ton)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Suez blend						
Quantity	2,413	1,831	1,658	592	...	...
Value	275	212	209	72	...	...
Unit value	114	116	126	122	...	...
Belayim blend						
Quantity	1,314	1,411	1,028	479	...	...
Value	141	155	131	53	...	...
Unit value	107	110	127	111	...	...
Mixed Gharib and EPEDCO						
Quantity	1,940	1,885	2,057	1,841	2,139	2,384
Value	180	189	242	150	133	338
Unit value	93	100	118	81	62	142
Excess cost recovery						
Quantity	2,995	2,803	3,325	2,149	1,100	4,054
Value	341	348	461	261	103	672
Unit value	114	124	139	122	94	166
SUCO						
Quantity	1,710	1,489	960	714	519	129
Value	177	161	116	69	33	18
Unit value	103	108	121	96	64	138
Ras al Bihar and Ziet Bay						
Quantity	346	412	80	0	0	...
Value	42	53	13	0	0	...
Unit value	115	128	164	...	...	...
Gaisum						
Quantity	0	50	0	0	0	...
Value	0	6	0	0	0	...
Unit value	0	110	...	...	...	...
Esso						
Quantity	232	0	0	0	0	...
Value	25	0	0	0	0	...
Unit value	107	0	...	...	...	...
El Zaafarana						
Quantity	...	...	...	...	276	80
Value	...	...	...	...	20	11
Unit value	...	...	...	...	72	133
Total quantity	10,950	10,667	9,968	6,117	4,034	6,647
Total value	1,180	1,205	1,272	634	289	1,038
Total unit value	108	113	128	104	72	156

Source: Egyptian General Petroleum Corporation.

1/ Egypt's share only; data compiled on a delivery basis.

Table 17. Egypt: Production and Domestic Consumption of Refined Petroleum Products, 1994/95–1999/2000

(In thousands of metric tons)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Production						
Gasoline and naphtha	4,429	4,674	4,934	5,220	5,182	5,156
Kerosene	1,199	1,269	1,260	1,151	1,072	1,011
Jet fuel	880	847	860	876	939	920
Gas oil and diesel	5,441	5,767	5,760	6,115	6,007	5,989
Fuel oil	12,210	12,555	12,685	13,284	12,773	11,785
Asphalt	691	727	714	806	954	957
Butane gas 1/	1,254	1,378	1,429	1,444	1,440	1,521
Slack wax	26	28	32	29	23	33
Others	564	596	570	592	638	635
Total	26,694	27,841	28,244	29,517	29,028	28,007
Change (percent)	3.6	4.3	1.4	4.5	-1.7	-3.5
Domestic consumption						
Gasoline and naphtha	1,930	1,972	2,024	2,117	2,207	2,300
Kerosene	1,380	1,298	1,228	1,160	1,077	1,005
Jet fuel	370	445	416	408	418	457
Gas oil and diesel	5,300	5,850	6,223	6,777	7,249	7,767
Fuel oil	6,730	7,669	7,767	9,328	9,237	8,077
Asphalt	670	705	690	775	917	921
Butane gas 1/	1,290	1,475	1,645	1,868	2,082	2,277
Slack wax	1	1	1	1	1	1
Others	659	632	606	660	704	683
Total	18,330	20,047	20,600	23,094	23,892	23,488
Change (percent)	8.2	9.4	2.8	12.1	3.5	-1.7

Source: Egyptian General Petroleum Corporation.

1/ Butane gas figures include butagas produced from natural gas.

Table 18. Egypt: Petroleum Sector Foreign Exchange Receipts and Payments, 1994/95–1999/2000

(In millions of U.S. dollars)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
A. Public sector (1-2-3)	1,514	1,339	1,172	428	-97	-236
1. Export receipts	2,459	2,418	2,706	1,823	1,196	2,605
Crude petroleum	1,176	1,202	1,268	634	289	1,038
Refined products and services	1,207	1,134	1,345	1,082	816	1,458
Sumed pipeline	76	82	94	107	91	109
2. Payments for crude and products	849	983	1,460	1,324	1,231	2,798
Crude petroleum and natural gas	759	832	1,156	947	833	1,970
From partners	759	832	1,156	947	833	1,970
From abroad						
Refined products	90	152	305	377	398	828
3. Payments for other goods and services	96	95	74	71	62	43
Spare parts and chemicals	68	61	40	39	34	27
Transportation and crude oil	28	35	34	32	28	16
B. Local payments by partner companies 1/	287	350	363	435	645	673
C. Net position (A+B)	1,801	1,689	1,536	863	548	437

Source: Egyptian General Petroleum Corporation.

1/ Comprises payments for local currency purchases and does not include the value of royalty crude. Tax payments are made by the Petroleum Authority on behalf of partner companies and are not included in the figures shown here, except tax payments by WEPCO (Phillips), which operates under an earlier concession agreement.

Table 19. Egypt: Suez Canal Operations, 1994/95–2000/01

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Number of transits	15,642	14,841	14,601	13,982	13,253	13,721	14,379
Of which :							
Oil tankers	2,625	2,369	2,313	2,173	1,972	2,274	2,768
Net tonnage of transiting vessels (million tons)	363	356	358	381	387	400	462
Of which :							
Oil tankers	104	89	75	88	79	78	122
Cargo transited (million tons)	294	285	287	287	288	334	384
Of which :							
Petroleum and products	51	29	32	32	26	35	63
Total receipts (US$ million) 1/	1,926	1,881	1,804	1,760	1,765	1,870	1,936

Source: Suez Canal Authority.

1/ Receipts from tolls only. Does not include receipts from services.

Table 20. Egypt: Consumer Price Index for Urban Population, June 1995–June 2002

(Twelve-month price change in percent; unless otherwise specified)

Groups/Sections	1995/96 Commodity Weights 1/	June 1995	1996	1997	1998	1999	2000	2001	June 2002
All items 2/	100.0	9.9	8.3	4.8	3.6	2.9	2.5	2.2	2.7
Food, beverage, and tobacco	50.4	12.8	10.2	4.0	3.0	3.4	1.8	0.9	4.2
Clothing and footwear	9.7	8.5	9.8	6.6	2.4	2.0	1.8	2.2	2.5
Rent and utilities	9.4	7.4	2.0	2.4	0.5	0.2	3.0	0.3	0.0
Furniture and equipment	5.0	4.5	2.1	1.3	0.6	1.8	0.0	1.1	2.2
Medical care	4.1	5.3	11.2	4.3	3.0	2.1	1.8	2.0	1.4
Transport and communication	5.9	1.9	4.6	6.7	2.0	0.7	3.6	0.0	2.3
Recreation and education	9.1	8.8	10.1	7.4	8.2	3.6	7.7	12.4	0.5
Personal care, restaurants, hotels	6.4	9.8	9.3	10.9	10.2	5.9	1.8	3.5	0.3

Source: CAPMAS.

1/ Weights compiled from the 1981/82 household survey were applied to June 1995 (SM/96/245). Weights compiled from 1990/91 household survey were applied July 1995–June 1998 (SM/97/288). Beginning July 1998, weights from the 1995/96 household have been applied.

2/ The all urban index is a population weighted average of 5 regional urban indices.

Table 21. Egypt: Summary of Budget Sector Operations, 1998/99–2000/01

	Actual		
	1998/99	1999/2000	2000/01
	(In millions of Egyptian pounds)		
Total Revenue and Grants	71,072	75,399	76,139
Total Revenue	69,423	73,626	74,568
Current Revenue	67,207	72,504	72,776
Tax Revenue	46,543	49,621	51,358
Income taxes	16,740	20,104	21,235
Goods and services	18,584	20,085	20,793
International trade	11,048	9,295	9,184
Other (not included elsewhere)	171	137	146
Nontax revenue	20,664	22,883	21,418
Capital revenue	2,216	1,122	1,792
Grants	1,649	1,773	1,571
Total expenditure and net lending	79,995	88,600	96,121
Total expenditure	78,724	86,464	95,942
Current expenditure	61,183	69,758	80,843
Wages and salaries 1/	19,562	22,180	25,217
Defense 2/	8,107	8,516	9,731
Interest	16,406	18,597	20,907
Domestic	14,081	16,800	19,074
Foreign	2,325	1,797	1,833
Goods and services	3,809	5,878	9,578
Subsidies and transfers	13,299	14,587	15,410
Capital expenditure	17,541	16,706	15,099
Lending minus repayments	1,271	2,136	179
Deficit/Surplus	-8,923	-13,201	-19,982
Total financing 3/	8,923	13,201	19,982
Foreign financing 4/	-2,001	-1,487	-1,946
Domestic bank financing	9,127	9,019	23,672
Domestic non-bank financing	60	6,876	5,436
NIB	10,115	9,948	12,179
Arrears repayment 5/	-1,342	-4,012	-4,644
Other	-8,713	940	-2,099
Other financing transactions	917	1,980	-2,838
Privatization receipts	917	1,980	498
Assumption of debt	0	0	-3,336
Discrepancy 6/	820	-3,187	-4,342

Table 21. Egypt: Summary of Budget Sector Operations, 1998/99–2000/01

	Actual		
	1998/99	1999/2000	2000/01
	(In percent of GDP)		
Total Revenue and Grants	23.5	22.3	21.0
of which: Current revenue	22.2	21.4	20.1
Total expenditure and net lending	26.5	26.2	26.6
Of which: Wages and salaries	6.5	6.5	7.0
Of which: Capital expenditure	5.8	4.9	4.2
Of which: Interest expenditure	5.4	5.5	5.8
Primary balance	2.5	1.6	0.3
Overall balance	-3.0	-3.9	-5.5
	(In millions of Egyptian pounds)		
Memorandum item:			
Nominal GDP	302,100	338,700	361,800

Sources: Central Bank of Egypt; Egypt Ministry of Finance; and Fund staff estimates.

1/ Includes social security contributions.
2/ Includes wages, and goods and services; excludes grant financed expenditures.
3/ Financing numbers are preliminary.
4/ Includes total of Eurobond outstanding, i.e. includes shares held by the domestic banking system.
5/ For investment spending, that is recorded on accrual basis.
6/ The nature of the discrepancy is an open issue; further work is ongoing, including the measurement of financing items and revaluation effects.

Table 22. Egypt: Budget Sector Revenue and Grants, 1998/99–2000/01

	Actual		
	1998/99	1999/00	2000/01
	(In millions of Egyptian pounds)		
Revenue and Grants	71,072	75,399	76,139
Current Revenue	67,207	72,504	72,776
Tax Revenue	46,543	49,621	51,358
Taxes on income	16,740	20,104	21,235
Of which: Individual	5,467	6,066	6,296
Of which: Corporate excludes CBE, SCA, EGP(	6,175	6,734	6,045
Goods and services	18,584	20,085	20,793
Of which: GST on imports	5,282	5,673	6,233
Of which: "Table 1" goods	4,365	4,365	5,149
Of which: Stamp taxes	3,342	2,800	2,958
International trade	11,048	9,295	9,184
Nontax revenue	20,664	22,883	21,418
Of which: Profit transfer excludes CBE, SCA, EGP	1,138	1,876	2,188
Of which: Administrative fees and charges	6,503	7,853	7,253
CBE tax and nontax revenue	4,345	5,142	5,355
SCA tax and nontax revenue	4,817	5,529	6,249
EGPC tax and nontax revenue	4,299	5,126	5,721
Capital revenue	2,216	1,122	1,792
Grants (mainly external)	1,649	1,773	1,571
	(In percent of GDP)		
Revenue and Grants	23.5	22.3	21.0
Current Revenue	22.2	21.4	20.1
Tax Revenue	15.4	14.7	14.2
Taxes on income	5.5	5.9	5.9
Of which: Individual	1.8	1.8	1.7
Of which: Corporate excludes CBE, SCA, EGP(	2.0	2.0	1.7
Goods and services	6.2	5.9	5.7
Of which: GST on imports	1.7	1.7	1.7
Of which: "Table 1" goods	1.4	1.3	1.4
Of which: Stamp taxes	1.1	0.8	0.8
International trade	3.7	2.7	2.5
Nontax revenue	6.8	6.8	5.9
Of which: Profit transfer excludes CBE, SCA, EGP	0.4	0.6	0.6
Of which: Administrative fees and charges	2.2	2.3	2.0
CBE tax and nontax revenue	1.4	1.5	1.5
SCA tax and nontax revenue	1.6	1.6	1.7
EGPC tax and nontax revenue	1.4	1.5	1.6

Table 22. Egypt: Budget Sector Revenue and Grants, 1998/99–2000/01

	Actual		
	1998/99	1999/00	2000/01
Capital revenue	0.7	0.3	0.5
Grants (mainly external)	0.5	0.5	0.4
	(In percent of non-oil imports)		
General sales tax on imports	9.7	10.7	12.5
International trade taxes	20.4	17.5	18.4
Memorandum items:			
Nominal GDP	302,100	338,700	361,800
Non-oil imports (in millions of LE)	54,277	53,095	49,876
Non-oil imports as percent of GDP	18.0	15.7	13.8

Sources: Egypt Ministry of Finance; and IMF staff estimates.

Table 23. Egypt: Budget Expenditures and Net lending, 1998/99–2000/01

	Actual		
	1998/99	1999/2000	2000/01
	(In millions of Egyptian pounds)		
Total expenditure and net lending	79,995	88,600	96,121
Current expenditure	61,183	69,758	80,843
Wages and salaries 1/	19,562	22,180	25,217
Of which: Employer contributions to the SIF	2,630	3,120	3,315
Defense 2/	8,107	8,516	9,731
Interest	16,406	18,597	20,907
Domestic	14,081	16,800	19,074
Of which: to NIB	7,580	8,707	10,169
Foreign	2,325	1,797	1,833
Goods and services	3,809	5,878	9,578
Transfers to SIFs	5,509	6,467	8,291
Other transfers and subsidies	7,790	8,120	7,119
Capital expenditure	17,541	16,706	15,099
Lending minus repayments	1,271	2,136	179
	(In percent of GDP)		
Expenditure and net lending	26.5	26.2	26.6
Current expenditure	20.3	20.6	22.3
Wages and salaries 1/	6.5	6.5	7.0
Of which: Employer contributions to the SIF	0.9	0.9	0.9
Defense 2/	2.7	2.5	2.7
Interest	5.4	5.5	5.8
Domestic	4.7	5.0	5.3
Of which: to NIB	2.5	2.6	2.8
Foreign	0.8	0.5	0.5
Goods and services	1.3	1.7	2.6
Transfers to SIFs	1.8	1.9	2.3
Other transfers and subsidies	2.6	2.4	2.0
Capital expenditure	5.8	4.9	4.2
Lending minus repayments	0.4	0.6	0.0
Memorandum item:			
Nominal GDP	302,100	338,700	361,800

Sources: Egypt Ministry of Finance; and IMF staff estimates.

1/ Includes social security contributions.

2/ Includes wages, and goods and services; excludes grant financed expenditures.

Table 24. Egypt: Summary of General Government Operations, 1998/99–2000/01 1/

	Actual		
	1998/99	1999/2000	2000/01
	(In millions of Egyptian pounds)		
Total Revenue and Grants	91,812	97,672	101,051
Total Revenue	90,163	95,899	99,480
Current Revenue	87,947	94,777	97,688
Tax Revenue	46,543	49,621	51,358
Income taxes	16,740	20,104	21,235
Goods and services	18,584	20,085	20,793
International trade	11,048	9,295	9,184
Other (not included elsewhere)	171	137	146
Nontax revenue	41,404	45,156	46,330
Capital revenue	2,216	1,122	1,792
Grants	1,649	1,773	1,571
Total expenditure and net lending	92,032	101,834	109,069
Total expenditure	84,906	92,950	105,086
Current expenditure	67,365	76,244	89,987
Wages and salaries 2/	19,773	22,421	25,482
Defense 3/	8,107	8,516	9,731
Interest	14,524	16,303	18,833
Domestic	12,199	14,506	17,000
Foreign	2,325	1,797	1,833
Goods and services	4,264	6,052	11,077
Subsidies and transfers	20,696	22,952	24,864
Capital expenditure	17,541	16,706	15,099
Lending minus repayments	7,126	8,884	3,983
Deficit/Surplus	-220	-4,161	-8,018
Total financing 4/	220	4,161	8,018
Foreign financing 5/	-2,001	-1,487	-1,946
Domestic bank financing	9,351	6,648	23,890
Domestic non-bank financing	-8,662	138	-7,706
Arrears repayment 6/	-1,342	-4,012	-4,644
NIB financing from securities	6,485	7,585	8,678
NIB financing - other	-5,071	-4,460	-9,640
Other	-8,734	1,025	-2,100
Other financing transactions	917	1,980	-2,838
Privatization receipts	917	1,980	498
Assumption of debt	0	0	-3,336
Discrepancy 7/	614	-3,117	-3,382

Table 24. Egypt: Summary of General Government Operations, 1998/99–2000/01 1/

	Actual		
	1998/99	1999/2000	2000/01
	(In percent of GDP)		
Total Revenue and Grants	30.4	28.8	27.9
of which: Current revenue	29.1	28.0	27.0
Total expenditure and net lending	30.5	30.1	30.1
Of which: Wages and salaries	6.5	6.6	7.0
Of which: Capital expenditure	5.8	4.9	4.2
Of which: Interest expenditure	4.8	4.8	5.2
Primary balance	4.7	3.6	3.0
Overall balance	-0.1	-1.2	-2.2
	(In millions of Egyptian pounds; unless otherwise stated)		
Memorandum items:			
Deficit for the broad budget 8/	-13,831	-20,252	-24,914
(as a percent of GDP)	-4.6	-6.0	-6.9
Nominal GDP	302,100	338,700	361,800

Sources: Central Bank of Egypt; Egypt Ministry of Finance; and Fund staff estimates.

1/ Budget sector, NIB, GASC, and Social Insurance Funds.
2/ Includes social security contributions.
3/ Includes wages, and goods and services; excludes grant financed expenditures.
4/ Financing numbers are preliminary.
5/ Includes total of Eurobond outstanding, i.e. includes shares held by the domestic banking system.
6/ For investment spending, that is recorded on accrual basis.
7/ The nature of the discrepancy is an open issue; further work is ongoing, including the measurement of financing items and revaluation effects.
8/ Budget sector, NIB, and GASC.

Table 25. Egypt: Operating Statement of the National Investment Bank, 1998/99–2000/01

(In millions of Egyptian pounds)

	Actual		
	1998/99	1999/2000	2000/01
Revenue	17,127	19,041	21,112
Investment income - interest	17,062	18,968	21,032
Government	7,990	9,147	10,636
Economic authorities	6,473	6,505	6,020
Other	2,599	3,316	4,376
Other revenue	65	73	80
Expenditure	16,609	18,915	21,767
Interest	16,609	18,915	21,745
Social security funds	10,258	11,724	13,357
Investment certificates	5,119	5,604	6,187
U.S. dollar development bonds	64	64	76
Post office savings	758	1,026	1,356
Other	410	497	769
Other expenditure	0	0	22
Operating balance	518	126	-655
Lending minus repayment	-15,608	-16,748	-16,109
Government	-10,115	-9,948	-12,179
Economic Authorities	-4,820	-2,088	-3,492
Other	-673	-4,712	-438
Domestic financing	15,090	16,622	16,764
Bank	476	-1,383	1,223
Nonbank	14,614	18,005	15,541
Social security funds	13,200	14,880	16,503
Other debt financing	6,485	7,585	8,678
Investment certificates	4,412	5,343	5,727
U.S. dollar development bonds	96	-87	92
Post office savings	1,977	2,329	2,859
Other (not included elsewhere)	-5,071	-4,460	-9,640
Discrepancy	0	0	0
Memorandum item:			
Nominal GDP	302,100	338,700	361,800

Sources: Ministry of Finance; and IMF staff estimates.

Table 26. Egypt: National Investment Bank Balance Sheet, 1998/99–2000/01

	At end-June		
	1998/99	1999/2000	2000/01
	(In millions of Egyptian pounds)		
Assets	164,729	189,788	213,420
Government	78,999	88,947	101,126
Economic authorities	39,387	41,475	44,967
Other investments	14,537	19,249	19,687
Soft loans	5,250	5,622	5,868
Public companies	7,063	11,237	11,232
Joint ventrue compnaies	667	697	756
Other investments	1,557	1,693	1,831
Balances with the banking system	2,966	4,349	3,126
Other investments	28,840	35,768	44,514
Liabilities	164,729	189,788	213,420
Social security funds	104,957	119,837	136,340
Invesmtent certificates	39,993	45,336	51,063
Of which : accumulated interest	5,689	6,329	7,097
U.S. dollar development bonds	1,131	1,044	1,136
Post office savings	8,117	10,446	13,305
Other	10,531	13,125	11,576
	(As a percent of GDP)		
Assets	54.5	56.0	59.0
Government	26.1	26.3	28.0
Economic authorities	13.0	12.2	12.4
Other investments	4.8	5.7	5.4
Soft loans	1.7	1.7	1.6
Public companies	2.3	3.3	3.1
Joint ventrue companies	0.2	0.2	0.2
Other investments	0.5	0.5	0.5
Balances with the banking system	1.0	1.3	0.9
Other investments	9.5	10.6	12.3
Liabilities	54.5	56.0	59.0
Social security funds	34.7	35.4	37.7
Invesmtent certificates	13.2	13.4	14.1
Of which : accumulated interest	1.9	1.9	2.0
U.S. dollar development bonds	0.4	0.3	0.3
Post office savings	2.7	3.1	3.7
Other	3.5	3.9	3.2
Memorandum item:			
Nominal GDP	302,100	338,700	361,800

Sources: Central Bank of Egypt, Ministy of Finance; and Fund staff estimates.

Table 27. Egypt: Social Insurance Funds, Operating Statement, 1998/99–2000/01

	Actual		
	1998/99	1999/2000	2000/01
	(In millions of Egyptian pounds)		
Revenue	28,462	31,795	36,526
Social security revenues	11,264	12,087	12,500
Social security contributions	9,921	10,573	11,039
Government	4,963	5,673	6,145
Other	4,958	4,900	4,894
Other	1,343	1,514	1,461
Government	975	1,112	1,054
Other (not included elsewhere)	368	402	407
Investment income	10,911	12,502	13,650
NIB	10,258	11,725	13,357
Government	653	777	293
Other (not included elsewhere)	0	0	0
Transfer from Treasury	5,497	6,423	8,291
Other	790	782	2,085
Of which: Government	281	266	227
Expenditure	10,110	11,365	14,831
Pension benefits	9,443	10,950	13,089
Government fund	3,754	4,071	4,542
Other	5,689	6,879	8,547
Operating expenditure	247	278	303
Wages	211	241	265
Other	36	37	38
Other	419	137	1,439
Operating balance	18,353	20,430	21,695
Lending minus repayment	-13,882	-14,793	-16,378
NIB	-13,500	-14,930	-16,503
Government	-21	85	-1
Other	-362	52	126
Domestic financing	-4,471	-5,539	-6,340
Bank	-91	-1,148	-1,415
Receivables from government	-4,209	-4,167	-5,003
Receivables other	-171	-224	78
Errors and omissions	0	-98	1,023
Memorandum item:			
Nominal GDP	302,100	338,700	361,800

Sources: Ministry of Finance; and IMF staff estimates.

Table 28: Egypt: Consolidated Balance Sheet for the National Authority for Social Insurance, 1998/99–2000/01

	1998/99	1999/2000	2000/01
		(In millions of Egyptian pounds)	
Assets	132,332	152,816	175,824
National Investment Bank	105,257	120,187	136,340
Government securities	3,344	3,259	3,260
Bonds	3,029	1,609	3,029
Other	315	1,650	231
Other investments	1,239	1,187	1,061
Banking system	4,603	5,751	7,166
Time depoistis	4,172	5,315	6,606
Cash in banks	431	436	560
Accounts receivable	17,652	22,147	27,496
Government	13,830	17,997	23,000
Other	3,822	4,149	4,496
Other (not included elsewhere)	237	285	501
Liabilites	132,332	152,816	175,824
Reserves	130,213	150,369	172,737
Other (not included elsewhere)	2,119	2,447	3,087
Provisions	...	1,742	...
Accounts payable	...	705	...
		(In percent of GDP)	
Assets	43.8	45.1	48.6
National Investment Bank	34.8	35.5	37.7
Government securities	1.1	1.0	0.9
Bonds	1.0	0.5	0.8
Other	0.1	0.5	0.1
Other investments	0.4	0.4	0.3
Banking system	1.5	1.7	2.0
Time depoistis	1.4	1.6	1.8
Cash in banks	0.1	0.1	0.2
Accounts receivable	5.8	6.5	7.6
Government	4.6	5.3	6.4
Other	1.3	1.2	1.2
Other (not included elsewhere)	0.1	0.1	0.1
Liabilites	43.8	45.1	48.6
Reserves	43.1	44.4	47.7
Other (not included elsewhere)	0.7	0.7	0.9
Memorandum item:			
Nominal GDP	302,100	338,700	361,800

Sources: Ministry of Finance; and IMF staff estimates.

Table 29. Egypt: General Government Debt, June 1998–June 2001 1/

	June			
	1998	1999	2000	2001
	(In millions of Egyptian pounds)			
Net debt	132,792	145,630	159,895	191,433
Domestically issued gross debt	134,285	144,885	166,163	205,274
Banking system - loans	10,146	21,304	34,907	9,485
Domestic currency	10,142	21,302	34,792	9,386
Foreign currency	4	2	115	99
Securities and debt instruments issued by the budget sector	84,706	77,684	77,689	133,545
Treasury bills (face value)	38,000	25,558	25,393	29,334
Treasury bonds (traded)	7,000	13,000	13,000	13,000
CBE bonds 2/	25,130	25,130	25,130	76,130
GASC bonds	3,300	2,700	2,700	2,700
Social Insurance bonds	3,029	3,029	3,029	3,029
Housing bonds	144	143	142	139
5 percent government bonds	1,021	1,026	1,092	1,166
Bank recapitalization bonds (US$ denominated)	7,082	7,098	7,203	8,047
Securities and instruments issued by the NIB	42,756	49,241	56,826	65,504
Investment certificates	35,581	39,993	45,336	51,063
Of which: accumulated interest	4,887	5,689	6,329	7,097
Post office savings	6,140	8,117	10,446	13,305
Development bonds (US$ denominated)	1,035	1,131	1,044	1,136
Less: holdings of domestic debt by the Social Insurance Funds	-3,323	-3,344	-3,259	-3,260
Deposits in the domestic banking system	-53,200	-50,099	-57,744	-67,354
Domestic currency	-18,627	-20,716	-25,453	-30,796
Foreign currency	-34,573	-29,383	-32,291	-36,558
External public and publicly guaranteed debt (medium and long term)	88,806	88,331	88,817	91,938
Blocked accounts at the CBE in respect of Paris Club debt	-37,099	-37,488	-37,340	-38,425
	(In percent of GDP)			
Net debt	47.7	48.2	47.2	52.9
Gross debt	80.2	77.2	75.3	82.1
Foreign currency denominated debt (net)	9.1	9.8	8.1	7.3
Domestically issued debt, denominated in foreign currency	2.9	2.7	2.5	2.6
Deposits in domestic banking system, denominated in foreign currency	-12.4	-9.7	-9.5	-10.1
External public and publicly guaranteed debt	31.9	29.2	26.2	25.4
Blocked accounts at the CBE in respect of Paris Club debt	-13.3	-12.4	-11.0	-10.6
Memorandum item:				
Nominal GDP	278,100	302,100	338,700	361,800

Sources: Egypt Ministry of Finance and Central Bank; and IMF staff estimates.

1/ External debt includes both public and publicly guaranteed debt. It is measured at the Central Bank exchange rate.
2/ Non-tradable bonds issued in conversion of loans from the CBE.

Table 30. Egypt: Selected Monetary Developments, June 1996–June 2002 1/

(Twelve-month change; in percent)

	Broad Money	Narrow Money	Quasi Money	Reserve Money 2/	Currency M0	NDA	Claims on the Private Sector: Total	Claims on the Private Sector: Local Currency	Claims on the Private Sector: Foreign Currency	Claims on Public Companies	Claims on Government (net)
Jun-96	10.5	10.3	10.6	8.4	9.9	15.1	27.2	28.2	24.4	14.1	11.7
Jun-97	15.1	10.5	16.5	12.4	9.3	14.5	27.5	25.3	33.6	12.4	14.6
Jun-98	8.6	11.2	7.8	4.5	14.3	20.0	25.5	27.7	19.8	-8.5	14.6
Jun-99	11.5	11.2	11.6	11.6	11.4	24.0	24.6	31.2	6.6	7.4	31.4
Jun-00	11.5	11.2	11.6	11.6	11.4	24.0	24.6	31.2	6.6	7.4	15.5
Jul-00	9.2	6.7	9.9	9.6	4.9	11.9	12.4	17.2	-4.1	-11.7	26.8
Aug-00	9.5	5.3	10.7	9.7	5.9	11.6	11.9	16.4	-3.5	-12.3	25.7
Sep-00	9.7	5.1	10.9	12.2	6.7	10.9	11.7	15.1	-0.2	-12.6	23.8
Oct-00	10.5	6.2	11.7	9.4	5.4	11.0	10.8	14.2	-1.2	-12.0	28.2
Nov-00	10.6	3.9	12.5	15.2	6.6	12.3	11.7	13.7	4.3	-14.0	33.1
Dec-00	11.0	7.0	12.2	20.8	7.3	13.3	10.5	12.4	3.3	-14.0	38.0
Jan-01	11.4	6.2	12.9	20.7	6.9	14.0	10.0	12.0	2.2	-15.0	36.0
Feb-01	11.9	8.7	12.7	27.6	11.0	14.8	9.6	11.4	2.6	-14.2	38.7
Mar-01	10.9	7.5	11.8	23.1	7.5	13.4	9.3	10.7	3.4	-11.5	33.9
Apr-01	11.2	7.4	12.2	23.1	7.1	13.4	8.9	10.3	2.9	-11.7	33.1
May-01	12.0	8.9	12.8	22.3	9.3	14.7	9.1	10.1	4.8	-9.9	36.6
Jun-01	11.6	9.9	12.1	21.5	8.9	14.7	9.5	10.5	5.7	-9.9	37.9
Jul-01	11.6	10.8	11.9	21.4	9.1	12.8	10.2	11.1	6.7	4.2	13.5
Aug-01	12.6	8.8	13.6	22.8	8.7	14.4	10.6	11.1	8.6	6.7	10.7
Sep-01	13.3	12.0	13.6	23.2	8.7	15.2	10.8	12.2	5.0	6.7	12.5
Oct-01	12.0	8.3	13.0	20.0	8.7	14.9	10.7	12.1	4.8	5.6	10.8
Nov-01	11.6	9.8	12.1	11.5	9.1	14.1	10.3	11.6	4.8	6.1	8.9
Dec-01	13.2	8.1	14.5	16.8	6.8	14.6	11.6	11.5	12.3	6.9	3.4
Jan-02	13.8	12.3	14.2	15.0	9.8	15.3	12.1	11.2	16.0	9.2	4.7
Feb-02	13.8	12.3	14.2	9.9	10.8	15.2	11.5	10.6	15.6	8.5	7.7
Mar-02	14.4	12.2	14.9	13.1	9.7	16.0	11.9	11.2	15.2	6.5	13.0
Apr-02	14.7	14.0	14.9	13.2	12.0	17.0	12.1	11.2	15.9	6.7	16.0
May-02	14.9	13.8	15.2	13.0	11.8	16.8	11.7	11.2	13.9	7.2	14.3
Jun-02	15.5	14.2	15.9	12.8	10.9	17.0	11.3	10.7	14.3	6.8	17.8

Sources: Central Bank of Egypt; and Fund Staff estimates.

1/ Banking system; at actual exchange rates.

2/ Including foreign currency deposits of commercial banks with the Central Bank of Egypt.

Table 31. Egypt: Monetary Survey, June 1996–April 2002 1/

(In millions of Egyptian pounds; end-period stock at current exchange rates)

	June						April
	1996	1997	1998	1999	2000	2001	2002
Net foreign assets	47,588	55,524	44,517	28,971	22,916	18,391	17,389
Net international reserves	90,714	94,031	81,616	66,459	60,263	58,909	66,368
Other	-43,126	-38,507	-37,099	-37,488	-37,347	-40,518	-48,979
Net domestic assets	120,434	137,902	165,449	205,093	231,806	265,910	298,014
Net claims on government sector	25,911	30,042	34,387	45,067	52,004	74,316	85,589
Central and local government and GASC	33,757	37,159	39,088	48,471	55,253	77,286	90,256
Of which: GASC	-507	-752	-1,001	-1,067	-690	-343	-824
Net claims on public authorities (excluding GASC)	-7,846	-7,117	-4,701	-3,404	-3,249	-2,970	-4,667
Claims on public sector companies	28,560	32,111	29,395	31,564	32,355	29,159	31,321
Of which: Cotton financing	4,030	6,511	4,939	4,826	5,279	2,381	3,447
Claims on private sector	84,503	107,746	135,232	168,511	191,023	209,225	229,528
National currency	61,815	77,428	98,908	129,788	154,040	170,143	185,909
Foreign currency	22,688	30,318	36,324	38,723	36,983	39,082	43,619
Net other items	-18,540	-31,997	-33,565	-40,049	-43,576	-46,790	-48,424
Capital accounts	-35,999	-41,005	-47,731	-52,745	-56,414	-61,835	-70,164
Of which: Central bank revaluation	33,354	28,166	26,035	25,123	24,695	22,236	27,338
Other	17,459	9,008	14,166	12,696	12,838	15,045	21,740
Liquidity 2/	168,022	193,426	209,966	234,064	254,722	284,301	315,403
Money	38,470	42,509	47,254	52,532	54,258	59,618	64,373
Quasi-money	129,552	150,917	162,712	181,532	200,464	224,683	251,030
Memorandum items:							
Liquidity in:							
National currency	129,509	155,906	172,350	194,288	207,650	224,466	242,109
Foreign currency	38,513	37,520	37,616	39,776	47,072	59,835	73,294
Dollarization (in percent) 3/	22.9	19.4	17.9	17.0	18.5	21.0	23.2

Sources: Central Bank of Egypt; and Fund staff estimates.

1/ This table consolidates the balance sheets of the central bank, the commercial banks, the business and investment banks, and the specialized banks.

2/ Includes currency and deposits of private business sector, public sector companies, and households.

3/ Ratio of foreign currency liquidity to total liquidity.

Table 32. Egypt: Balance Sheet of the Central Bank of Egypt, June 1996–April 2002 1/

(In millions of Egyptian pounds; end of period)

	June						April
	1996	1997	1998	1999	2000	2001	2002
Foreign assets (net)	18,329	29,245	29,924	22,774	13,620	13,000	10,929
Foreign assets	62,531	68,584	67,806	60,366	51,059	53,596	60,001
Foreign liabilities	-44,202	-39,339	-37,882	-37,592	-37,439	-40,597	-49,072
Medium- and long-term liabilities (foreign currency)	-371	0	0	0	0	-2,094	-4,004
Blocked account	-42,755	-38,506	-37,099	-37,488	-37,347	-38,425	-44,975
Use of Fund credit	-161	0	0	0	0	0	0
Other	-915	-833	-783	-104	-92	-78	-93
Domestic credit	46,635	47,945	51,617	60,888	77,786	99,404	118,765
Claims on government sector	31,887	32,129	36,914	52,507	67,300	89,295	108,695
Central and local government	31,009	32,246	36,131	51,580	66,193	88,114	107,277
Public authorities	878	883	783	927	1,107	1,181	1,418
Claims on commercial banks	7,264	7,473	8,271	1,546	3,314	3,101	3,177
Claims on other financial institutions	7,484	7,343	6,432	6,835	7,172	7,008	6,893
Unclassified assets	3,767	4,420	4,760	6,179	7,493	10,667	14,431
Assets = Liabilities	68,731	81,610	86,301	89,841	98,899	123,070	144,125
Reserve money	46,517	53,158	55,959	61,827	65,688	70,007	71,930
Currency outside banks	23,637	25,826	29,515	32,869	35,036	38,154	41,068
Vault cash	2,270	2,473	2,361	2,398	2,594	2,572	2,701
Commercial banks' deposits (national currency)	19,063	23,126	21,815	23,973	25,791	26,573	26,222
Other financial institutions' deposits (national currency)	1,547	1,733	2,268	2,587	2,267	2,708	1,939
Government sector deposits	30,928	31,599	31,039	26,411	28,022	33,241	45,177
Central and local government	28,914	29,398	28,569	22,365	24,662	29,839	41,918
Public authorities	2,014	2,201	2,470	4,047	3,360	3,402	3,259
Financial institutions' deposits (foreign currency)	5,218	4,985	4,785	5,968	8,492	20,157	28,238
Commercial banks' deposits	4,425	4,284	4,045	4,673	6,577	15,284	22,742
Other financial institutions	793	701	740	1,295	1,915	4,873	5,496
Capital accounts	-14,413	-8,766	-6,236	-5,101	-4,431	-1,601	-2,358
Regular	4,500	4,959	5,358	5,581	5,823	6,194	10,539
Cumulative revaluation losses	-33,354	-28,166	-26,035	-25,123	-24,695	-22,236	-27,338
Debt forgiveness	14,441	14,441	14,441	14,441	14,441	14,441	14,441
Unclassified liabilities	483	633	755	737	1,127	1,266	1,140

Source: Central Bank of Egypt.

1/ Valuation of items denominated in foreign currency is at the Central Bank of Egypt accounting exchange rate, which has been equal to the free-market rate since October 8, 1991.

Table 33. Egypt: Consolidated Balance Sheet of Commercial Banks, June 1996–April 2002 1/

(In millions of Egyptian pounds; end of period)

	June						April
	1996	1997	1998	1999	2000	2001	2002
Foreign assets (net)	23,195	22,738	15,396	6,635	7,000	2,524	1,447
Foreign assets	27,762	29,629	25,256	18,891	18,398	17,496	17,298
Foreign liabilities	-4,567	-6,891	-9,860	-12,256	-11,398	-14,972	-15,851
Reserves	20,753	25,244	24,339	25,246	27,132	28,953	29,175
Cash	2,080	2,258	2,107	2,089	2,247	2,172	2,264
Deposits with central bank (national currency)	18,673	22,986	22,232	23,157	24,884	26,782	26,911
Deposits with central bank (foreign currency)	4,477	4,400	4,065	4,788	6,626	15,214	23,242
Domestic credit	137,816	164,111	186,669	205,246	223,578	245,708	275,800
Claims on government sector	43,891	48,713	51,883	43,626	44,078	53,582	64,968
Central and local government	41,095	45,097	46,932	38,804	38,454	46,652	57,338
Public authorities	2,796	3,616	4,951	4,823	5,624	6,930	7,630
Claims on public sector companies	27,894	30,782	27,661	29,672	30,808	27,693	29,353
Claims on private sector	60,613	78,475	99,526	124,672	142,146	156,088	170,557
National currency	44,835	56,396	73,003	95,449	113,483	124,416	134,961
Foreign currency	15,778	22,079	26,523	29,223	28,663	31,672	35,596
Claims on other financial institutions	5,418	6,141	7,599	7,275	6,546	8,345	10,922
Unclassified assets	7,135	7,369	8,336	10,259	11,159	14,032	15,676
Assets = Liabilities	193,376	223,862	238,805	252,173	275,494	306,431	345,340
Demand deposits 2/	12,033	13,337	13,931	14,612	15,046	16,962	17,891
National currency	10,127	11,537	12,374	12,866	12,676	13,250	13,439
Foreign currency	3,423	3,394	3,369	3,739	3,853	5,372	5,781
Less: checks in course of collection	-1,517	-1,594	-1,812	-1,992	-1,483	-1,660	-1,329
Time and savings deposits 2/	115,558	134,695	143,250	155,893	168,430	188,299	207,800
National currency	86,110	106,056	114,949	126,213	133,876	144,965	154,111
Foreign currency	29,448	28,639	28,301	29,680	34,555	43,334	53,689
Other financial institutions' deposits	1,406	1,700	2,574	2,670	2,771	3,423	3,742
Government sector deposits	22,338	24,960	27,294	28,069	34,060	37,774	46,825
Central and local government	9,793	11,946	15,567	18,869	23,165	26,191	31,950
Public authorities	12,545	13,014	11,727	9,200	10,895	11,583	14,875
Counterpart funds	3	3	2	44	43	39	43
Credit from central bank	8,535	9,058	8,973	2,440	4,387	3,993	4,158
Capital accounts	24,183	27,721	32,548	36,329	38,719	42,316	44,704
Bonds	200	600	600	900	900	700	600
Unclassified liabilities	9,121	11,787	9,633	11,215	11,139	12,925	19,578

Source: Central Bank of Egypt.

1/ The valuation of foreign currency items is at the free market rate.

2/ Includes deposits of private business sector, public sector companies, and households.

Table 34. Egypt: Consolidated Balance Sheet of Business and Investment Banks, June 1996–April 2002 1/

(In millions of Egyptian pounds; end of period)

	June						April
	1996	1997	1998	1999	2000	2001	2002
Foreign assets (net)	6,867	4,300	-81	309	3,019	3,453	5,761
Foreign assets	8,099	7,514	6,311	5,514	7,044	6,890	9,148
Foreign liabilities	-1,232	-3,214	-6,392	-5,204	-4,025	-3,437	-3,387
Cash	140	174	174	217	243	278	271
Domestic credit	24,878	29,424	35,084	38,877	41,899	46,740	53,146
Claims on government sector	6,075	6,973	6,979	5,939	6,380	7,012	8,489
Central and local government	3,729	4,632	4,601	3,516	3,823	4,346	5,798
Public authorities	2,346	2,341	2,378	2,423	2,557	2,666	2,691
Claims on public sector companies	662	1,326	1,730	1,889	1,543	1,114	1,644
Claims on private sector	13,886	16,426	20,228	24,668	26,948	28,892	32,246
National currency	6,976	8,187	10,428	15,167	18,628	21,482	24,223
Foreign currency	6,910	8,239	9,800	9,501	8,320	7,410	8,023
Claims on banks	4,255	4,699	6,147	6,381	7,028	9,722	10,767
Unclassified assets	3,607	3,995	4,689	5,002	5,591	6,133	6,683
Assets = liabilities	35,492	37,893	39,866	44,406	50,752	56,604	65,861
Deposits 2/	12,302	14,483	16,897	22,070	26,084	29,726	36,209
Demand deposits	1,466	1,996	2,214	3,182	3,518	3,735	4,661
National currency	705	1,217	1,200	2,061	2,180	2,220	2,326
Foreign currency	761	779	1,014	1,121	1,338	1,515	2,335
Time and savings deposits	10,836	12,487	14,683	18,888	22,566	25,991	31,548
National currency	5,144	6,984	8,970	12,339	14,463	15,490	19,092
Foreign currency	5,692	5,503	5,713	6,549	8,103	10,501	12,456
Government sector deposits	3,946	3,438	3,401	2,971	4,124	4,498	4,446
Central and local government	2,004	1,970	2,194	1,968	2,853	3,346	3,362
Public authorities	1,942	1,468	1,207	1,003	1,271	1,152	1,084
Funds due to banks	9,513	8,012	6,796	6,058	5,507	6,058	7,368
Capital accounts	5,411	6,244	6,707	7,102	7,741	8,592	9,889
Bonds	200	800	1,075	1,075	1,338	1,138	1,538
Unclassified liabilities	4,119	4,916	4,990	5,129	5,959	6,591	6,413

Source: Central Bank of Egypt.

1/ The valuation of foreign currency items is at the free market rate.

2/ Includes deposits of private business sector, public sector companies, and households.

Table 35. Egypt: Consolidated Balance Sheet of Specialized Banks, June 1996–April 2002 1/

(In millions of Egyptian pounds; end of period)

	June						April
	1996	1997	1998	1999	2000	2001	2002
Cash	50	42	80	92	104	123	165
Foreign assets (net)	-804	-758	-722	-747	-723	-587	-750
Assets	96	51	36	26	32	82	8
Liabilities	-900	-809	-758	-773	-755	-668	-758
Commodities	512	289	522	197	105	139	72
Claims on government sector	2,855	3,077	2,937	2,846	2,430	2,120	2,061
Central and local government	610	845	743	691	83	48	50
Public authorities	2,245	2,232	2,194	2,155	2,347	2,072	2,011
Claims on public sector companies	4	3	3	4	3	352	324
Claims on private sector	10,004	12,845	15,478	19,171	21,929	24,246	26,725
Claims on banks	164	270	326	491	377	602	600
Unclassified assets	1,618	1,619	1,958	1,753	1,305	1,621	4,560
Assets = Liabilities	14,403	17,387	20,582	23,807	25,530	28,616	33,757
Deposits 2/	4,494	5,088	6,374	8,621	10,125	11,160	12,436
Demand	1,335	1,351	1,595	1,870	658	766	754
Time and savings	3,159	3,737	4,779	6,752	9,468	10,393	11,682
Government sector deposits	1,584	1,852	2,592	2,399	1,978	2,181	2,177
Central and local government	1,468	1,594	1,988	1,850	1,929	2,157	2,154
Public authorities	116	258	604	549	48	24	23
Funds due to banks	3,782	5,255	6,267	6,121	6,188	6,863	8,028
Capital accounts	1,905	2,082	3,118	3,733	4,130	4,733	5,032
Bonds	11	291	291	591	830	819	788
Unclassified liabilities	2,628	2,820	1,941	2,342	2,278	2,862	5,296

Source: Central Bank of Egypt.

1/ Includes the Principal Bank for Development and Agricultural Credit, the Arab Land Bank, the Credit Foncier Egyptien, and the Industrial Development Bank.

2/ Includes deposits of private business sector, public sector companies, and households.

Table 36. Egypt: Net Credit from the Central and Commercial Banks to Public Sector Entities, June 1996–April 2002 1/

(Stock at end-period; in millions of Egyptian pounds)

	June						April
	1996	1997	1998	1999	2000	2001	2002
Public authorities	-10,885	-10,716	-8,462	-7,497	-7,524	-6,875	-9,086
Supply authority	-507	-752	-463	-536	-563	-229	-796
Petroleum authority	-4,252	-3,389	-2,531	-2,792	-1,462	-332	587
Suez Canal authority	-415	-385	-460	-579	-522	-837	-857
Telecommunications authority	-532	-485	-715	-46	-40	-1	0
Electricity authority	859	903	1,070	1,626	1,914	2,268	1,944
Railroads authority	949	632	1,003	1,050	1,081	842	768
Other authorities	-6,987	-7,240	-6,366	-6,220	-7,931	-8,586	-10,733
Public sector companies	11,358	12,469	12,087	16,062	18,882	15,905	17,302
Spinning and weaving	4,232	4,136	3,887	4,464	5,002	5,375	6,078
Construction	5,101	4,563	3,991	4,168	5,007	4,711	3,921
Supply and distribution	164	-242	498	790	785	695	625
Metals	4,640	5,176	4,344	5,061	5,048	4,729	5,088
Foreign trade	676	679	833	792	945	933	844
Sea transport	-2,341	-2,024	-1,307	-972	-844	-731	-720
Tourism and hotels	-143	-816	-524	-231	-112	-119	-114
Foodstuffs	1,093	729	1,445	2,144	2,540	2,268	2,271
Petroleum	-2,307	-1,885	-1,882	-1,731	-1,488	-1,383	-1,270
Cotton financing	4,030	6,511	4,939	4,826	5,278	2,381	3,447
Other companies	-3,787	-4358	-4,137	-3,218	-3,278	-2,953	-2,868

Source: Central Bank of Egypt.

1/ A negative sign indicates net deposits. Excludes bills payable abroad and securities.

Table 37. Egypt: Distribution of Credit Extended by Commercial Banks to the Private Sector, 1995/96–2000/01

(Change in Lending during period; in millions of Egyptian pounds)

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
By economic sector						
Agriculture	280	568	439	764	545	-323
Industry	3,369	4,936	6,615	7,179	8,583	5,070
Trade	5,212	4,903	5,428	5,258	1,710	2,357
Services	2,971	4,087	4,953	7,413	4,747	4,080
Households	1,467	1,992	1,736	1,580	533	791
Total 1/	13,298	16,487	19,171	22,193	16,120	11,974
By institutional classification of borrower						
Corporate business sector	5,319	10,950	13,186	16,740	15,936	13,008
Unincorporated businesses	7,145	4,832	6,090	6,677	760	397
Cooperative societies	-9	88	39	150	244	-254
Households	1,467	1,992	1,736	1,580	533	791
Total 1/	13,922	17,862	21,051	25,147	17,474	13,942

Source: Central Bank of Egypt.

1/ Totals differ between the two classifications because credit to the corporate business sector includes issues of securities that cannot be classified by economic sector.

Table 38. Egypt: Structure of Interest Rates, 1997/98–2001/02

(In percent per annum; end of period)

	Three-month treasury bills 1/	Central bank discount rate 2/	Lending rate 3/	Three-month deposit rate 4/	Over night interbank rate
Yearly average					
1997/98	8.8	12.3	13.2	9.6	9.1
1998/99	8.8	12.1	13.0	9.2	10.6
1999/00	8.9	12.0	13.0	9.3	12.5
2000/01	9.1	11.8	13.4	9.5	10.4
2001/02	7.9	11.0	13.4	9.5	8.6
2000					
January	9.0	12.0	13.1	9.4	13.0
February	9.0	12.0	13.2	9.4	15.1
March	9.1	12.0	13.1	9.3	12.8
April	9.0	12.0	13.2	9.6	9.9
May	9.0	12.0	12.9	9.5	10.7
June	9.0	12.0	13.1	9.3	11.5
July	9.1	12.0	13.1	9.3	11.4
August	9.0	12.0	12.7	9.4	9.0
September	9.0	12.0	13.3	9.7	10.0
October	9.0	12.0	13.2	9.5	9.1
November	9.0	12.0	13.1	9.6	10.5
December	9.1	12.0	13.5	9.5	11.0
2001					
January	9.1	12.0	13.7	9.4	9.6
February	9.1	12.0	13.2	9.5	11.3
March	9.1	12.0	13.8	9.8	12.8
April	9.1	11.0	13.5	9.3	11.8
May	9.1	11.0	13.9	9.6	10.9
June	9.1	11.0	13.5	9.4	7.6
July	9.0	11.0	12.9	9.6	10.3
August	9.0	11.0	13.1	9.4	7.1
September	8.8	11.0	13.0	9.5	7.7
October	8.7	11.0	12.8	9.5	6.3
November	8.2	11.0	12.9	9.5	5.1
December	7.3	11.0	13.4	9.3	9.0
2002					
January	7.2	11.0	13.7	9.5	13.8
February	7.2	11.0	13.7	9.5	9.9
March	7.2	11.0	13.7	9.5	7.9
April	7.2	11.0	13.9	9.5	8.0
May	7.2	11.0	13.8	9.5	7.0
June	7.2	11.0	14.1	9.4	10.6

Sources: Central Bank of Egypt; and staff estimates.

1/ Simple average of rates achieved at weekly auctions during month.
2/ Rate on last Thursday of the month.
3/ Simple average of weekly average rates on bank credit of one year or less.
4/ Simple average of weekly average rates. Maximum rates since October 1994.

Table 39. Egypt: Structure of Banking System, 1998–2001

(As of end-June)

	1998	1999	2000	2001
Commercial Banks	28	28	28	28
Investment and business banks	11	11	11	11
Specialized banks	4	4	3	3
Branches of foreign banks	20	20	20	20
Total	63	63	62	62
Banks accounting for				
25 percent of total assets	2	2	2	2
75 percent of total assets	13	14	13	13

Source: Central Bank of Egypt.

Table 40. Egypt: Equity Holdings of Public Sector Banks and Insurance Companies in Joint Venture Banks

(As of March 31, 2002)

Joint Venture Bank	National Bank of Egypt	Banque MISR	Banque du Caire	Bank of Alexandria	Total Public Bank Share	National Investment Bank	MISR Insurance	El Shark Insurance	Egypt Reinsurance	Total Public Bank and Insurance Company
Alexandria Commercial and Maritime Bank	...	...	...	...	...	12.3	8.8	...	...	21.1
Egyptian Commercial Bank	...	...	...	9.7	9.7	...	...	...	...	9.7
Banque du Caire et de Paris	...	...	19.8	...	19.8	...	...	...	...	19.8
Cairo Barclays Bank	...	...	40.0	...	40.0	...	...	...	...	40.0
Cairo Far East Bank	...	...	19.2	...	19.2	...	...	20.0	...	39.2
Commercial International Bank (CIB)	19.6	...	...	...	19.6	...	...	...	...	19.6
Credit Inter. D. Egypt	...	...	...	...	...	...	...	...	...	...
Egypt Arab African Bank	...	...	...	...	...	...	...	...	...	...
Egyptian American Bank	...	...	...	20.0	20.0	...	...	...	...	20.0
Egyptian Gulf Bank	...	...	...	...	...	...	24.9	...	...	24.9
Egyptian Saudi Finance Bank	5.2	...	6.0	7.4	18.6	...	5.8	8.2	...	32.6
Bank of Commerce and Development	17.0	16.0	16.5	9.7	59.2	22.2	...	2.4	2.4	86.2
Export Development Bank of Egypt	11.4	11.4	11.4	10.1	44.3	30.8	...	...	...	75.1
Housing and Development Bank	...	...	...	...	...	...	...	...	14.1	14.1
Islamic Bank For Investment and Development	20.0	20.0	20.0	20.0	80.0	...	...	...	...	80.0
MISR America International Bank	...	...	...	...	...	...	50.0	...	...	50.0
MISR Exterior Bank	...	19.0	...	...	19.0	...	...	...	...	19.0
MISR International Bank	...	20.0	...	...	20.0	...	4.0	...	...	24.0
MISR Iran Development Bank	...	...	...	29.7	29.7	...	39.7	...	...	69.4
MISR Romania Bank	...	18.0	...	...	18.0	...	...	...	...	18.0
National Bank for Development	...	...	...	...	...	5.2	0.7	1.3	0.1	7.3
National Societe General Bank	18.0	...	...	...	18.0	...	...	...	...	18.0
Suez Canal Bank	...	...	...	...	...	...	11.8	...	0.2	12.0
Alwatany Bank of Egypt	...	...	...	...	...	...	...	3.7	...	3.7
Delta International Bank	...	...	...	7.6	7.6	...	...	8.4	...	...
Egyptian Workers Bank	...	5.1	4.7	...	9.8	...	...	...	...	9.8
United Bank of Egypt	...	...	...	...	...	...	10.7	...	...	10.7
HSBC-Egypt	...	...	...	...	...	...	...	...	5.1	5.1
Mohandes Bank	...	...	...	...	...	12.5	...	8.3	...	20.8
Societe Arabe International de Banque	...	...	...	...	...	...	20.0	1.0	...	21.0
Union Arab Bank for Development and Investment	...	...	...	...	...	50.0	...	...	...	50.0

Source: Central Bank of Egypt.

Table 41. Egypt: Stock Exchange Indicators, 1997–June 2002

	1997	1998	1999	2000	2001	Jan–Jun 2002
Value of Trading (in millions of Egyptian pounds)	24,220	23,364	39,086	53,476	31,796	18,117
Listed shares and bonds	20,282	18,501	32,851	45,789	24,660	13,575
Unlisted shares and bonds (over the counter)	3,937	4,863	6,235	8,210	7,136	4,542
Volume of trading (millions of shares)	373	571	1,074	1,108	1,260	424
Listed shares and bonds	287	440	841	1,029	1,184	348
Unlisted shares and bonds (over the counter)	86	131	233	79	76	76
Number of traded companies	416	551	663	659	643	553
Number of listed companies at year end	650	861	1,033	1,076	1,110	1,136
Nominal capital (in millions of Egyptian pounds)	18,291	33,836	47,077	74,638	73,634	76,080
Price-earnings ratio	12	9	8	7	8	7
Market capitalization (in millions of Egyptian pounds)	70,873	83,140	112,331	120,982	112,258	118,673

Source: Data provided by the authorities.

Table 42. Egypt: Balance of Payments, 1994/95–2000/01 1/

(In millions of U.S. dollars)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	Prel. 2000/01
Trade balance	-7,853	-9,498	-10,220	-11,770	-12,563	-11,471	-9,354
Exports	4,958	4,609	5,345	5,129	4,445	6,388	7,078
Petroleum	2,176	2,226	2,578	1,728	1,000	2,273	2,632
Other	2,782	2,383	2,767	3,401	3,445	4,115	4,446
Imports	12,811	14,107	15,565	16,899	17,008	17,860	16,432
Services (net)	4,042	5,792	6,193	4,691	5,970	5,630	5,578
Receipts	9,556	10,636	11,241	10,454	11,026	11,426	11,696
Transportation	3,091	2,711	2,535	2,457	2,637	2,635	2,704
of which Suez Canal dues	2,058	1,885	1,849	1,777	1,771	1,781	1,843
Tourism	2,299	3,009	3,646	2,939	3,235	4,314	4,317
Investment income	1,626	1,829	2,052	2,081	1,933	1,833	1,850
Other	2,540	3,087	3,008	2,978	3,221	2,645	2,826
Payments	5,514	4,844	5,048	5,763	5,056	5,796	6,118
Of which:							
Interest	1,237	1,196	995	716	789	770	728
Workers' remittances	3,279	2,798	3,256	3,718	3,772	3,747	2,973
Current account excluding official transfers	-532	-908	-771	-3,361	-2,821	-2,096	-802
Official transfers	919	724	890	882	1,097	932	769
Current account including official transfers	387	-184	119	-2,479	-1,725	-1,163	-33
Capital account	430	1,017	2,041	3,387	919	-1,199	-542
Medium- and long-term loans net	131	-358	-363	268	-448	-627	-671
Drawings	892	529	493	1,072	360	430	345
Amortization	761	887	856	804	808	1,056	1,016
Foreign direct investment (net)	735	612	723	967	655	1,614	482
Other 2/	-437	764	1,681	2,152	712	2,186	-352
Errors and omissions	-61	-261	-247	-1,043	-1,312	-665	-278
Overall balance	755	572	1,913	-135	-2,117	-3,027	-853
Financing	-755	-572	-1,913	135	2,117	3,027	853
Memorandum item							
Current account (including official transfer) (as percent of GDP)	0.7	-0.3	0.3	-3.0	-1.9	-1.2	0.0

Sources: Central Bank of Egypt; and Fund staff estimates.

1/ Data from 1996/97 onwards also include free zone trade.

2/ Including commercial bank NFA and short-term capital.

Table 43. Egypt: Principal Merchandise Exports, 1998/99–2000/01 1/

(In millions of U.S. dollars)

	1998/99	1999/2000	2000/01
Mineral fuels, oils, and products, *Of which:*	1,017	2,283	2,650
Crude petroleum	239	902	1,166
Petroleum products	761	1,371	1,467
Charcoal and types thereof	14	8	16
Cotton	208	167	144
Raw material	254	154	163
Semi-finished commodities, *Of which:*	419	283	398
Carbon	37	10	11
Essentials oils	8	2	2
Aluminium, not mixed	118	38	83
Cotton yarn	195	101	121
Finished commodities, *Of which:*	1,676	2,604	2,788
Rice	123	42	79
Preserved and dried vegetables	19	3	3
Dried onion	15	3	0
Pharmaceutical products	60	32	59
Fertilizers	52	114	64
Carpets and other floor covering	69	61	60
Articles of iron or steel	123	90	272
Aluminium articles	78	32	47
Ready-made clothes	328	225	233
Cotton textiles	86	81	115
Undistributed commodities	871	897	935
Total exports	4,445	6,388	7,078

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

1/ Data for periods before 1998/99 are not available on a comparable basis.

Table 44. Egypt: Commodity Composition of Imports, 1998/99–2000/01

(In millions of U.S. dollars)

	1998/99	1999/2000	2000/01
Mineral fuels, oils, and products, *Of which:*	486	1,052	954
Petroleum products	395	988	892
Charcoal and types thereof	82	58	61
Raw material, *Of which:*	2,346	2,688	3,679
Crude petroleum	742	1,399	2,280
Wheat	643	373	533
Maize	394	463	397
Tobacco	185	206	147
Iron, raw	142	14	14
Cotton	3	25	30
Intermediate goods, *Of which:*	5,341	4,209	3,972
Animal, vegetable fats, oils, and products	481	374	346
Organic and inorganic chemical substances	362	397	391
Plastic and articles thereof	551	547	504
Wood and articles	639	429	388
Paper, corkboard paper, and articles thereof	415	443	444
Iron and steel products	1,312	747	553
Aluminium and articles	115	59	79
Rubber and articles	150	143	133
Investment goods	5,575	5,639	3,696
Consumer goods	2,902	2,996	2,865
Durable consumer goods	582	603	682
Non durable consumer goods	2,319	2,393	2,183
Undistributed commodities	358	1,276	1,266
Total imports	17,008	17,860	16,432

Source: Central Bank of Egypt.

1/ Data for periods before 1998/99 are not available on a comparable basis.

Table 45. Egypt: Direction of Trade, Exports and Imports, 1994–2001

(In percent of total)

	1994	1995	1996	1997	1998	1999	2000	2001
Exports								
Industrial countries	57.5	63.1	60.2	55.7	52.1	49.1	64.1	62.2
European Union	44.3	45.8	45.6	41.5	37.4	35.0	48.2	45.6
United States	10.6	15.2	13.0	11.4	12.2	12.3	13.1	14.5
Japan	1.4	1.3	1.2	2.3	1.7	1.3	2.1	1.2
Other	1.2	0.9	0.4	0.5	0.8	0.6	0.8	0.9
Developing countries	40.2	35.1	38.4	38.9	37.6	36.0	26.1	26.4
Africa	3.7	3.7	3.3	3.1	2.6	3.1	2.4	3.3
Asia	11.9	8.7	5.5	9.9	7.2	10.5	10.1	8.8
Europe	7.0	6.4	7.4	6.3	7.0	4.9	4.1	3.7
Middle East	17.5	16.0	21.8	19.2	20.1	16.6	8.6	9.6
Other	0.3	0.4	0.3	0.5	0.6	0.9	0.9	1.1
Other	2.3	1.8	1.4	5.4	10.3	14.9	9.8	11.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports								
Industrial countries	69.3	65.0	65.7	62.1	56.4	59.1	61.6	59.7
European Union	40.6	38.9	36.2	38.2	36.3	35.9	36.6	32.6
United States	17.1	18.8	20.0	13.1	12.6	14.4	17.1	19.4
Japan	4.2	2.7	2.6	3.4	3.0	3.3	3.7	3.0
Other	7.4	4.6	6.8	7.4	4.5	5.6	4.2	4.7
Developing countries	24.7	29.7	30.1	33.1	34.2	33.7	32.3	33.5
Africa	1.3	1.6	1.6	1.4	1.1	1.4	1.2	1.4
Asia	8.2	11.5	10.5	10.8	12.1	12.5	14.4	14.1
Europe	8.7	9.9	10.0	10.6	11.0	10.3	8.6	9.3
Middle East	3.5	3.9	3.9	5.2	5.3	6.1	5.6	6.1
Other	2.9	2.9	4.1	4.9	4.6	3.5	2.4	2.6
Other	6.0	5.3	4.2	4.8	9.4	7.2	6.1	6.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: International Monetary Fund, *Direction of Trade Statistics*.

Table 46. Egypt: Services Account of the Balance of Payments, 1994/95–2000/01

(In millions of U.S. dollars)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	Prel. 2000/01
Services (net)	4,042	5,792	6,193	4,690	5,970	5,630	5,578
Receipts	9,556	10,636	11,240	10,455	11,026	11,426	11,696
Transportation	3,091	2,711	2,535	2,457	2,637	2,635	2,704
Of which: Suez Canal	2,058	1,885	1,849	1,777	1,771	1,781	1,843
Travel	2,299	3,009	3,646	2,941	3,235	4,314	4,317
Investment income 1/	1,626	1,829	2,052	2,080	1,933	1,833	1,850
Government Services	293	285	216	303	308	110	190
Other	2,247	2,802	2,791	2,673	2,913	2,535	2,636
Payments	-5,514	-4,845	-5,049	-5,764	-5,056	-5,796	-6,118
Transportation	-245	-203	-242	-362	-377	-457	-429
Travel	-1,129	-1,335	-1,333	-1,307	-1,104	-1,028	-1,054
Investment income	-1,485	-1,291	-1,085	-868	-928	-901	-778
Of which: Interest paid	1,237	1,195	995	716	789	770	728
Government	-327	-437	-511	-856	-511	-467	-588
Other	-2,329	-1,579	-1,877	-2,371	-2,136	-2,943	-3,269

Sources: Central Bank of Egypt; and Fund staff estimates.

1/ Includes imputed interest earning on deposits held abroad.

Table 47. Egypt: Tourist Activity, 1994/95–2000/01

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	Prel. 2000/01
				(In thousands)			
Arrivals	2,832	3,549	4,087	3,396	4,266	5,311	5,347
Middle East	829	721	870	943	996	902	868
Africa	145	117	121	119	150	149	145
Americas	203	261	250	229	244	315	325
Western Europe	1,335	1,983	2,273	1,723	2,432	3,346	3,334
Eastern Europe	120	202	195	188	242	296	369
Asia	197	263	282	192	200	300	304
Other	3	2	96	2	2	3	2
Nights spent	17,684	22,796	25,990	21,462	25,692	34,046	32,701
Middle East	6,044	5,484	5,776	5,550	5,370	5,175	5,017
Africa	1,116	953	839	844	874	965	934
Americas	1,226	1,557	1,585	1,446	1,422	1,927	1,979
Western Europe	7,552	12,222	15,246	11,556	15,788	23,149	21,601
Eastern Europe	614	1,031	986	925	1,285	1,493	1,717
Asia	1,107	1,525	1,537	1,123	939	1,320	1,441
Other	25	24	21	18	14	17	12
				(Nights per visitor)			
Average length of visit, *of which:*	6.2	6.4	6.4	6.3	6.0	6.4	6.1
Western Europe	5.7	6.2	6.7	6.7	6.5	6.9	6.5
				(In millions of U.S. dollars)			
Expenditure estimates 1/							
Central Bank	1,331	1,323	1,652	1,437	1,292	1,413	1,434
Ministry of Tourism	2,299	3,009	3,646	2,939	3,235	4,314	4,317
				(In U.S. dollars)			
Expenditure per tourist night 1/							
Central Bank	75	58	64	67	50	42	44
Ministry of Tourism	130	132	140	137	126	127	132

Sources: Ministry of Tourism; Central Bank of Egypt; and Fund staff estimates.

1/ Central Bank estimates derived from bank reporting. Ministry of tourism data based on biennial survey of visitor spending conducted by CAPMAS and Ministry of Tourism.

Table 48. Egypt: External Debt, 1995/96–2000/01 1/

(In millions of U.S. dollars; at end of period, unless otherwise stated)

	1995/96	1996/97	1997/98	1998/99	1999/2000	Prel. 2000/01
Medium- and long-term public- and publicly-guaranteed debt	29,739	27,226	26,226	26,010	25,774	23,880
Suppliers' and buyers' credits	21	11	6	5	4	...
Multilateral loans	3,826	3,832	4,302	4,325	4,275	4,310
IBRD	996	883	828	771	710	635
IDA	1,080	1,097	1,235	1,253	1,277	1,248
Other	1,750	1,852	2,239	2,301	2,288	2,427
Bilateral loans	25,892	23,383	21,918	21,680	21,495	19,570
Short-term debt 2/	1,295	1,541	1,719	1,830	1,628	2,207
Private sector debt	10	7	131	384	381	473
Total debt	31,044	28,774	28,076	28,224	27,783	26,560
Total debt service obligations	1,934	1,850	1,476	1,449	1,539	1,628
Amortization 3/	823	855	804	793	911	1,010
Interest	1,111	995	672	656	628	618
Total debt service obligations (as a percent of current account receipts)	10.7	9.3	7.6	7.5	7.1	7.5
Current account receipts 4/	18,042	19,842	19,301	19,243	21,554	21,748

Sources: Central Bank of Egypt; and Fund staff estimates.

1/ Disbursed debt outstanding at end-period, including outstanding principal and interest in arrears as well as late interest.

2/ Excludes liabilities under bilateral payments agreements and contingent liabilities and blocked account obligations of the banking system and short-term debt contracted outside the banking system. In and after 1993/94, based on short-term debt stock reported by the Central Bank of Egypt.

3/ Medium- and long-term public and publicly guaranteed debt, including use of Fund resouces.

4/ Excluding official grants.

Table 49. Egypt: External Debt Service Obligations, 1995/96–2000/01

(In millions of U.S. dollars; unless otherwise stated)

	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
Before rescheduling						
Amortization 1/	2,155	2,013	1,310	862	874	865
Interest	721	673	518	475	469	436
Medium- and long-term debt	714	666	510	467	461	428
Short-term debt	7	7	8	8	8	8
Total debt service obligations	2,876	2,686	1,828	1,337	1,343	1,301
(In percent of current account receipts)	15.9	13.5	9.5	6.9	6.2	...
After rescheduling						
Amortization 1/	823	855	804	793	911	1010
Interest	1,111	995	672	656	628	618
Medium- and long-term debt	1,104	988	664	648	620	610
Short-term debt	7	7	8	8	8	8
Total debt service obligations	1,934	1,850	1,476	1,449	1,539	1,628
(In percent of current account receipts)	10.7	9.3	7.6	7.5	7.1	7.5
Current account receipts 2/	18,042	19,842	19,301	19,243	21,554	21,747.5

Sources: Central Bank of Egypt; and Fund staff estimates.

1/ Medium- and long-term public and publicly guaranteed debt, including use of Fund resources.

2/ Excluding official grants.

Table 50. Egypt: Balance on Clearing and Other Accounts, June 1995–June 2001 1/

(In millions of Egyptian pounds)

	1995	1996	1997	1998	1999	2000	2001
Bilateral payments agreements 2/							
Sudan	252.1	249.8	247.9	246.4	243.1	240.2	237.2
Other agreements 3/	1,003.5	748.5	688.3	626.2	563.2	513.5	462.3
Algeria	-0.3	-0.3	-0.3	-0.3	-0.3	0.0	0
Bulgaria	-14.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
France	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Greece	-2.7	-2.6	-0.1	-0.1	-0.1	-0.6	-0.4
Guinea	3.0	3.0	3.1	3.2	3.3	3.4	3.5
Indonesia	3.0	2.2	1.5	0.8	0.0	0.0	0
Mali	65.8	0.0	0.0	0.0	0.0	0.0	-0.1
Romania	-0.1	0.0	0.0	0.0	0.0	0.0	0
Saudi Arabia	-1.2	-1.2	-1.2	0.0	0.0	0.0	0
Syria	-2.2	-2.1	-2.1	-2.1	-2.2	-2.1	-2.1
Turkey	-0.2	-0.3	0.0	0.0	0.0	0.0	0
Former U.S.S.R.	957.9	755.2	692.9	630.2	568.0	518.3	466.9
Former Yugoslavia	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3
Total	1,255.6	998.3	936.2	872.6	806.3	753.7	699.5

Source: Central Bank of Egypt.

1/ Balance that are normally to be settled in goods and services.

2/ Bilateral payments agreements in affect in December 2000.

3/ Includes balances related to past bilateral agreements, repayment of certain loans, and agreements on compensation for assets nationalized in the early 1960s.

Table 51. Egypt: Medium- and Long-term, Public and Publicly Guaranteed External Debt Outstanding, June 1995–2001 1/

(In millions of U. S. dollars)

	June					
	1996	1997	1998	1999	2000	2001
Multilateral debt	3,826	3,832	4,302	4,325	4,275	4,310
IDA	1,080	1,097	1,235	1,253	1,277	1,248
IBRD	996	883	828	771	710	635
African Development Bank	617	689	647	605	551	487
Arab Fund for Economic and Social Development	500	583	696	740	815	945
European Investment Bank	341	348	634	698	683	652
Other	292	232	262	258	239	343
Non Paris Club bilateral debt	661	533	450	534	549	541
China	110	83	76	74	82	76
Slovak Republic	...	15	11	0	0	0
Czech Republic	...	37	0	0	0	0
Other	551	392	363	460	467	463
Paris Club post-cutoff date debt	5,270	4,874	4,424	4337	4653	4249
United States	1,150	1,158	1,062	1017	967	911
Japan	1,160	1,093	884	997	1249	1096
France	1,014	854	902	739	698	636
Germany	1,037	949	932	911	873	810
Italy	554	521	502	478	463	428
Other	355	299	142	195	403	368
Paris Club restructured debt 2/	19,914	17,964	17,034	16,800	16,292	14,779
United States	5,041	4,999	4,939	4,854	4,714	4,531
France	5,194	4,571	4,407	4,153	3,766	3,351
Japan	2,740	2,622	2,135	2,452	2,813	2,342
Germany	2,403	1,834	1,769	1,686	1,545	1,390
Spain	1,043	999	970	939	914	862
Other	3,493	2,939	2,814	2,716	2,540	2,303
Suppliers' and buyers' credits 3/	16	5	2	2	0	0
Total (excluding arrears)	29,687	27,208	26,212	25,998	25,769	23,879
Arrears 4/	51	18	14	12	5	1
Of which: non-Paris Club bilateral debt	46	12	10	8	...	1
Total (including arrears)	29,738	27,226	26,226	26,010	25,774	23,880

Source: Central Bank of Egypt.

1/ Medium- and long-term public- and publicly-guaranteed debt.

2/ Debt restructured in accordance with the second stage under the Paris Club Agreed Minute of May 25, 1991.

3/ Includes commercial bank debt.

4/ Interest and principal in arrears.