

INTERNATIONAL MONETARY FUND

December 23, 1947

TO: Members of the Executive Board  
FROM: The Secretary  
SUBJECT: Survey of the Economy of Egypt

The attached memorandum has been prepared by the Research Department for the use of the Executive Board.

Att: (1)

Other Distribution:  
Department Heads



RD-418

## INTERNATIONAL MONETARY FUND

Research Department

This paper does not  
contain confidential  
information.Survey of the Economy of Egypt

Prepared by Aly Gritly

November 4, 1947

1. Population

During the last fifty years, the population of Egypt has nearly doubled. In March 1947, it was approximately 19 million (see Table I). Between the two censuses of 1927 and 1947, the rate of growth was roughly 1.7 per cent per annum.

Although an accurate estimate of the net reproduction rate is not possible, available indices suggest that it is well above unity, and is likely to remain so for some time to come. Thus, between 1937 and 1939, the crude birth rate averaged 43 per thousand, while the crude death rate was 26.5 per thousand, indicating a natural increase of about 16.5 per thousand. Moreover, compared to the countries of western Europe, the population of Egypt is comparatively young.<sup>1/</sup> Assuming the rates of fertility and mortality to remain constant over the next two decades, the population is expected to exceed 25 million by 1970, and any reduction in the very high infant mortality rate, 200 per thousand live births, would increase it still further.<sup>2/</sup>

Table IPopulation Growth  
(1907-1947)

<u>Year</u>	<u>(in millions)</u>	<u>Increase</u>
1897	9.7	
1907	11.2	1.5
1917	12.7	1.5
1927	14.2	1.5
1937	15.9	1.7
1947	19.0	3.1

In 1937, the four towns with a population exceeding 100,000 accounted for 13 per cent of the population, and their relative share has been rising at the expense of rural districts. The share of effective demand concentrated in these towns is disproportionately large, owing to the concentration of industry and trade and the residence of absentee landlords, while the purchasing power of the countryside is very low.

- <sup>1/</sup> In 1937, the ratio of the age groups below 30 to total population was 60 per cent.
- <sup>2/</sup> Migration and immigration are, at present, insignificant. However, in recent months, a few thousand Armenians left for the U.S.S.R.

### Occupational Distribution

The occupational distribution of the working population in the last two prewar censuses is shown in Table II.

Between 1927 and 1937, both the number of workers engaged in industry and the percentage of industrial workers to active population declined slightly. The increase in workers in factory industries between the two census years did not counterbalance the decline in the building trades during the depression of the early thirties and in the traditional crafts which were severely affected by foreign competition, as well as by the growth of local factory industries. The rise in the absolute and relative share of the agricultural population should be noted.

Table II

Occupational Distribution  
of the Active Population  
(figures in thousands)

<u>Occupation</u>	<u>1927</u>	<u>Percentage of working Population</u>	<u>1937</u>	<u>Percentage of working Population</u>
Agriculture	3,526	67	4,308	71
Building, Industry and Mining	617	11	609	10
Transport	131	22	138	19
Commerce	407		460	
Services, public and private	566		576	
		<u>100</u>		<u>100</u>

## 2. The Main Features of the Economy

### Agriculture

The total area of Egypt is 386 thousand square miles (i.e., 247 million acres), of which less than 3 per cent is arable, the rest being desert bordering the valley of the Nile.

In the late thirties, the total cultivated area was about 5,300,000 acres. However, owing to favorable climatic conditions and the gradual replacement of basin irrigation by perennial irrigation from the Nile and the network of canals built during the last eighty years, it is possible, over a wide area, to grow two or even three crops annually on the same plot of land. Hence, in 1939, the so-called "crop area" amounted to about eight and one-half million acres, or approximately 160 per cent of the arable area.

Only a small percentage, i.e., less than one-half per cent of the land is state-owned, and it is the avowed policy of successive govern-

ments to sell state land in small lots to the public. Private ownership of land is highly concentrated (see Table III). Thus, in 1943, 70 per cent of landowners owned one acre or less, and their aggregate holdings amounted to 13 per cent of the total area. On the other hand, .4 per cent of landowners held estates of over 50 acres, and their combined holdings represented 37 per cent of the total area. During recent decades, the number of midget holdings has been steadily increasing, while that of holdings exceeding 50 acres has been stable. Owing to the pressure of population on the soil, the price of land, as well as land rentals, has been rising steadily, and the stickiness of rent in times of falling prices aggravates the position of small tenants. The burden of rural indebtedness, which was very heavy in the twenties, was further aggravated by the catastrophic fall in the price of cotton in the early thirties. In order to stop the recurrent waves of foreclosure, the Government had to order a partial scaling down of mortgage indebtedness and a reduction in interest rates. The wartime rise in prices and farm incomes has, however, alleviated this burden, and the volume of repayment in recent years has been considerable. Thus, loans outstanding at the two leading mortgage banks fell from £.E. 19 million in 1938 to £.E. 11 million in 1944.

Table III

Distribution of Land Ownership  
1943

	<u>number of owners</u>	<u>%</u>	<u>total holding</u> (feddans)	<u>%</u>
One acre and less	1,776,769	70.2	733,997	12.6
Over 1 to 5 feddans	599,170	23.7	1,210,291	20.6
" 5 to 10 "	84,531	3.3	569,426	9.7
" 10 to 20 "	40,999	1.7	561,184	9.5
" 20 to 30 "	11,796	.4	286,012	4.9
" 30 to 50 "	9,301	.3	357,225	6.2
Over 50 feddans	<u>11,959</u>	<u>.4</u>	<u>2,141,756</u>	<u>36.5</u>
	2,534,525	100.0	5,859,891	100.0

(1 feddan = 1.038 acres = 4200.8359 metres)

Despite the phenomenal increase in population since the turn of the century, the arable area only showed a slight increase. Moreover, between 1913 and 1939, the index of agricultural production rose by only 10 per cent, while that of agricultural prices declined by 10 per cent. Owing to the failure of both physical and value productivity in agriculture to keep pace with the growth of population, the national income per head has been falling steadily.

To remedy this situation, the Government is contemplating a more intensive utilization of the water supply, and the building of dams and reservoirs on the upper reaches of the Nile. The extension of irrigation and drainage would increase the cultivated area by one-third, and enable

1/ Average .41 feddan.

the reclamation of the northern lakes. Furthermore, it is possible to raise the yield of existing crops by such measures as the introduction of scientific farming, the combating of pests, a more rational use of fertilizers, and animal husbandry. Again it is possible to increase the crop area in upper Egypt by the use of oil-driven pumps to raise water from the Nile during the summer months. But the only solution for the problem of agrarian overpopulation in Egypt seems to lie in a program of extensive industrialization involving the shifting of two million agricultural workers, together with the natural increase in population, from primary to secondary and tertiary occupations over the next two decades.

#### Land Utilization

Table IV

Percentages of Total Acreage  
under Various Crops

	<u>1929-30</u>	<u>1938-39</u>	<u>1943-44</u>
Cotton	24.12	19.07	9.2
Maize	21.15	18.17	20.3
Sorgo	3.02	4.84	7.8
Rice	4.00	6.42	6.6
Wheat	16.98	16.98	17.7
Beans	4.91	4.51	4.6
Barley	3.85	3.56	3.6
Sugar Cane	0.62	.85	1.0
Berseem and other crops	20.97	24.73	28.4
Orchards	0.38	0.87	.8
	<u>100.00</u>	<u>100.00</u>	<u>100.0</u>

A glance at the distribution of land utilization (Table IV) reveals that, during the thirties, the system of crop rotation remained substantially the same. The only departure from the traditional pattern occurred during the great depression when the sharp fall in the price of cotton, the raising of import duties on cereals, and the granting of subsidies to wheat growers led to an expansion of the area under cereals, which, however, was not maintained when more normal conditions returned. The relative importance of the various varieties of cotton has changed radically as a result of technical research and of changes in demand (Table V). Thus, in the thirties, the short-staple Ashmouni and the medium-staple Gizeh came to replace the long-staple Sakel and are now in turn threatened by a new variety, Karnak, a long staple with a yield approximating that of the lower varieties.

1/ At present, little use is made of agricultural machinery except on the big estates.

Table V

Percentages of Cotton Acreage  
under Various Varieties

	<u>1930</u>		<u>1939</u>	
	Area (000's acres)	Percentage	Area (000's acres)	Percentage
Sakellaridis	827	40	70	.4
Ashmouni-Zagora	936	44	776	47.8
Gizeh	---	.3	601	37.7

During the recent war, the pattern of land utilization was drastically changed in order to increase the production of foodstuffs. Thus, in 1943, the area under cotton was half the prewar average, while that under cereals and other crops expanded. In the postwar period, the government has limited the production of Karnak, owing to the decline in the demand for that variety and the increase in demand for the lower varieties used in the production of "utility" clothes.

Agricultural Production

Cotton is the principal cash crop, and the efforts to diversify agriculture in the interwar period were not very successful. However, it is hoped to increase other exports of agricultural produce by improving their quality. Cereal production before the war was adequate to maintain the prevailing low standards of nutrition. The following table gives details of Egypt's agricultural production in 1938.

Table VI

Agricultural Production  
1938  
(in thousand tons)

sugar cane	2,295
cotton	375
onions	191
wheat	1,250
maize	1,570
sorgo	470
barley	233
rice	700
beans	280
helba	48
lentils	52

Productivity per acre in Egyptian agriculture is very high, and in cotton the yield is double the world average. Productivity per man is, however, extremely low. In the late thirties, there was evidence of increased yields, but during the war, the lack of fertilizers led to a

reversal of this trend, except for cotton where the introduction of a new variety increased the yield per acre considerably. Between 1937 and 1944, the yield per acre of cotton rose by 18 per cent, while that of wheat, maize, onion, and sugar cane fell by 35, 22, 25, and 20 per cent respectively.

### Industry

Table VII

#### Industrial Production 1945

Sugar	190,000 tons
Chemicals	120,000 "
Beer	9,000,000 gallons
Manufactured foodstuffs, preserves, dehydrated foods	50,000 tons
Cement	450,000 "
Paper	30,000 "
Glassware	12,000 "
Cotton Yarn	30,000 "
Cotton Piece Goods	30,000 "
Other textiles	3,000 "
Cordage	15,000 "
Oilseed	75,000 "
Petroleum	1,450,000 "

The introduction of large-scale mechanized industry in Egypt began in the last quarter of the nineteenth century; the process of industrialization was slow, owing to the availability of alternative fields of investment for foreign capital in mortgage banking, trade, transport, and public utilities. The low purchasing power of the population, the absence of a class of skilled workers, the free trade regime then in force, and the lack of an adequate capital market were stumbling blocks. However, the emergence of an investing class and the creation of an Egyptian investment bank, the Bank Misr, after the first World War gave an impetus to industrial investment. The continuous depression of agriculture and the granting of state aid, in the shape of tariff protection and preferential treatment for local products in Government contracts, helped divert the attention of the entrepreneurial class to industry. During the recent war, the virtual cessation of foreign imports, the large demands of the Allied Forces, and the encouragement of exports to neighboring countries helped the expansion of existing industries and the creation of new ones.

According to the industrial census of 1937, the total capital invested in industry was E.E. 31 million. The capital of joint stock companies engaged in manufacturing industry amounted in 1944 to E.E. 18 million, as against E.E. 8 million in 1921. In 1942, there were 103,000 workshops employing approximately 300,000 workers.<sup>1/</sup> The numerical preponderance of

<sup>1/</sup> The number of factory workers rose to 360,000 in 1945. Thirty-four per cent of these workers were in workshops employing less than 5 workers.



small units is evidenced by the fact that in 1937, there were only 2700 firms employing ten or more workers compared with 48,000 firms employing no labor other than that of the proprietor. The capital of the majority of industrial units was small, and there were only 800 firms with a capital exceeding E.E. 2000.

The main industries are those concerned with the processing of local raw materials: cotton ginning and pressing, cottonseed crushing, sugar manufacture, etc. In the thirties, the cement, textile, and paper industries were expanded. Among the promising industries introduced during the recent war are light metallurgy, food canning, and the manufacture of dehydrated foods.

Industry is mainly located in the Delta, especially in the immediate vicinity of Cairo and Alexandria, but it is to be expected that the generation of hydroelectric power from the Assuan Dam will result in some decentralization. Owing to the limited number of entrepreneurs with access to large funds, the mechanized sector of Egyptian industry is highly concentrated, and the extent of vertical and lateral integration both in firms and plants is higher than in the more advanced industrial countries. The extent of concentration is evidenced by the fact that, in 1937, the 312 firms with a capital of E.E. 10,000 and above accounted for 85 per cent of the total capital of industrial concerns. Industrial wages are very, the average wage in January 1946 being E.E. 1.23 for a working week exceeding 50 hours, although there was a large dispersion as between groups of workers and between different localities.

In the postwar period, the formation of industrial companies has proceeded apace. During the second quarter of 1947, thirteen companies were formed with a capital aggregating E.E. 1,700,000. A huge steel plant with a capital of 80 million dollars and an estimated annual production of 200,000 tons is shortly to be built near Assuan with American participation. A fertilizer plant, with an annual capacity of one-quarter million tons, is being built at Suez, with the help of a loan of \$6 million from the Export-Import Bank. Moreover, many major U.S. concerns are planning the establishment of branch factories to supply the Middle East. Early this year, the Government decided to form a finance corporation for industry with a capital of E.E. 1.5 million and extensive borrowing powers to help finance new ventures and recapitalize existing ones. But the prospects of industrialization will depend on the availability of foreign exchange and the supply of equipment in western Europe and the U.S.A.

#### Mining

No comprehensive survey of Egypt's mining resources has ever been undertaken. At present, large quantities of phosphates and manganese are mined in the Red Sea area. But the major recent development is the fivefold increase of oil production since 1938 (see RD-395, pp. 19-21).

1/ A sample survey of weekly wages for January 1946 shows that 33.8 per cent of workers were in the wage group E.E. 1.0 to E.E. 1.99, 12.6 per cent in the group E.E. .8 to E.E. .99, and 18.4 per cent in the group E.E. .6 to E.E. .79.

### 3. Foreign Trade

#### Exports

Between 1936 and 1939, Egypt's exports averaged E.E. 34 million annually. The principal exports were cotton and cottonseed, which together accounted for roughly 75 per cent of the total. Other agricultural products, such as onions, rice, and eggs, made up most of the remainder. Exports of manufactured goods included sugar, cigarettes and textiles, especially to the Sudan and the nearby Arab countries. The development of industries in the thirties caused a slight change in the commodity structure of exports, reducing the proportion of goods exported in crude form. For instance, the amount of raw cotton consumed by local mills increased sixfold between 1930 and 1939, and the amount of seed crushed on the spot rose appreciably. A continuance of this trend would reduce the surplus of such goods available for exports.

Owing to excessive reliance on cotton, Egypt's foreign exchange receipts were subject to severe fluctuations in response to changes in the world price of cotton, on which local supply conditions had little effect, save in the case of long staple. Thus, the value of raw cotton and cottonseed, which averaged E.E. 50 million annually between 1920-1924, fell between 1925 and 1929 to E.E. 44. But the most drastic fall occurred during the great depression when, between 1930 and 1934, the average annual value of cotton and cottonseed fell to E.E. 19.8 million<sup>1/</sup>

During the recent war, the quantum of exports fell appreciably owing to the disruption of world communications, the contraction of civilian production in belligerent countries, and the shift in local production to satisfy the expanded domestic consumption (see Table VIII). Thus, in 1943, cotton exports fell to 3.2 million kantars valued at E.E. 18 million, and in 1944 to 2.8 million kantars valued at E.E. 19.4 million, as against 7.9 million kantars valued at E.E. 21.2 million in 1938. The physical volume of exports in these years was considerably less than the quantities purchased by the governments of the U.K., India, and France, which stored a large part of their purchases in Egypt pending the cessation of hostilities. The British Government, for example, bought the whole of the 1940-41 cotton crop and half the 1941-42 crop in this way.

<sup>1/</sup> Cotton production rose from an average of 6.1 million kantars in 1920-24 to 7.6 in 1925-29 and to 7.1 in 1930-34. As the index of import prices only fell slightly, the terms of trade moved sharply against Egypt.

Table VIII

Foreign Trade  
(millions of £.E.)

	<u>Exports</u>	<u>Imports</u>
1936	33.9	31.5
1937	39.3	38.0
1938	29.4	36.8
1939	33.2	34.0
1940	28.3	31.3
1941	22.6	33.1
1942	19.3	55.3
1943	26.6	39.1
1944	30.0	50.6
1945	45.2	59.0
1946	69.0	83.2
7 months 1947	45.6	56.3

After the end of the war, both the quantum and the value of exports rose appreciably. In 1946, the quantum was probably 25 per cent below that of 1939, while the value was double the prewar average.<sup>1/</sup> Cotton exports during the two seasons 1945-46 and 1946-47 rose to 4.0 million and 6.4 million kantars respectively. Consequently, the carryover at the beginning of the present season (1947-48) was 25 per cent below the carryover at the beginning of the 1946-47 season. No doubt part of these exports represents the movement of cotton previously sold to foreign governments and paid for in sterling, which went to swell the now blocked balances.

Geographical Distribution (see Table IX)

Throughout the thirties, the United Kingdom was Egypt's principal customer. Thus, in 1937, it took 31.3 per cent of total exports, and was followed by France (10.7 per cent), Germany (8.3 per cent), the U.S.A., Italy, and Japan, with approximately 6 per cent each. In 1945, the U.K. was again the largest buyer (28 per cent), followed by India (21 per cent) and France (18 per cent). In 1945, exports to the sterling area amounted to 65 per cent of the total; the dollar area received 12 per cent and other currency areas, 23 per cent.

In 1946, Britain's share in exports fell to 18 per cent, while that of India fell to 14 per cent. Other substantial buyers were Italy (16 per cent) and the U.S.A. (8 per cent). As was natural for a country whose principal exports are industrial raw materials and foodstuffs, Egyptian prewar exports to other Middle Eastern countries were insignificant. However, the wartime development of Egyptian industry, the efforts of the Middle East Supply Center in fostering intra-regional trade, and the

<sup>1/</sup> During 1946, the main exports were cotton (£.E. 48 million) and rice (£.E. 6 million).

highly inflated prices prevailing in these countries in terms of E.E. led to some increase in Egypt's exports to Middle Eastern countries, especially Palestine. Trade with the Sudan has also increased despite large transport costs.

Table IX

Geographical Distribution of Egypt's  
Foreign Trade, 1937, 1945 and 1946  
(in percentages)

	Imports			Exports		
	1937	1945	1946	1937	1945	1946
United Kingdom	21.8	19	30	31.3	28	18
British Empire	5.5	25	13	6.0	32	22
U.S.A.	5.6	14	11	6.6	8	9
Belgium	6.0		3	2.0	2	2
Japan	4.0	—	—	6.2	—	—
Germany	11.0	—	—	8.3	—	—
France	4.5	—	4	10.7	18	8
Italy	8.6	—	7	6.0		16
Iran		8	4			
Iraq		8	6			
Turkey		8	6			
Palestine		4	1		3	3
Other countries	<u>33.0</u>	<u>14</u>	<u>15</u>	<u>22.9</u>	<u>9</u>	<u>22</u>
	100	100	100	100	100	100

Imports

During the years 1936-39, the value of imports averaged E.E. 34 million annually. The principal imports were textiles, tobacco, iron and steel, machinery, petroleum, and fertilizers (see Table X).

Table X

Principal Imports  
1938  
(in thousands E)

Food, drink and tobacco	4.313
Fuel	4.505
Medicines and soap	1.209
Fertilizers	3.009
Paper	.914
Textiles	7.214
Metals	3.935
Machinery	3.246
Vehicles	2.071
Timber	<u>1.754</u>
Total Imports	37.000

During the war, the quantum of imports declined sharply, but their value rose as a result of worldwide scarcities and the increase in freight and insurance charges. In the last two years, the quantity of imports increased but is still below prewar levels.

The introduction of a modest measure of protection in 1931, to certain industries, such as textiles, sugar, paper, and chemicals, and the gradual development of industrialization produced certain changes in the composition of Egypt's imports. The import of the coarser varieties of textiles, soap, furniture, cement, and sugar, etc., declined while that of capital goods, transport equipment, and raw materials for industry expanded. This trend may be confidently expected to continue with the development of new industries and the expansion of existing ones. The imposition of comprehensive import controls in July 1947 and the overwhelming need for conserving foreign exchange will act as additional stimuli.

#### Geographical Distribution (see Table IX)

In 1937, the U.K. was the leading supplier with 21.8 per cent of imports, followed by Germany (11.0 per cent), Italy (8.6 per cent), and the U.S.A. (5.6 per cent). In 1945, the U.K. and the British Empire accounted for 44 per cent of imports while the share of the U.S.A. was 14 per cent. A salient feature of Egypt's postwar foreign trade is the increased importance of Middle Eastern countries as sources of supply. In 1945, Iran, Iraq, Turkey, and Palestine accounted for 28 per cent of imports as against 3 per cent in 1937. In 1946, the resumption of trade with France and Italy reduced the relative shares of the U.K., the U.S.A., and Middle East. It is unlikely that trade with the U.S.A. will remain at its present high level unless the U.K. agrees to release part of Egypt's sterling balances for payment to the dollar area, or unless the U.S.A. raises the import quota on Egypt's cotton<sup>1/</sup>

#### 4. Balance of Payments and Exchange Resources

No official statement of Egypt's balance of payments has ever been published. The following table for 1946 and 1947 is constructed on the basis of the known elements, namely the import surplus, the changes in official gold and foreign exchange holdings, and interest receipts and payments. The import surplus for 1947 is arrived at by projecting the figures of the first seven months. While before the war there was usually a net payment on account of interest and profits, the wartime accumulation of sterling balances has reversed the situation. The excess of invisible payments over invisible receipts in 1947 is due to the increase in Egyptian tourist expenditure abroad and the decline in foreign military expenditure. The estimated reduction in official holdings for 1947 is arrived at as follows: L.E. 8 million for the period January-July, L.E. 8 million agreed releases until the end of the year, and L.E. 4 million drawing on the working balance.

<sup>1/</sup> According to U.S. trade statistics, Egypt's import surplus with that country was \$27 million during the first seven months of 1947.

Table XI

(in millions of L.E.)

	1946		1947	
	<u>Receipts</u>	<u>Payments</u>	<u>Receipts</u>	<u>Payments</u>
Trade		14		20
Interest	3		3	
Other items, including foreign military expenditure	13			3
	<u>16</u>	<u>14</u>	<u>3</u>	<u>23</u>
Surplus and/or deficit as measured by changes in gold and exchange holdings		✓2		-20

On the basis of available information, it is possible to arrive at a geographical breakdown of the balance of trade. The overall trade deficit for 1946 was divided as follows: sterling area, L.E. 7.8 million; hard currency area, L.E. 2.5 million; other currency areas, L.E. 3.9 million. In the same year, 50 per cent of total trade was with the sterling area, and there is reason to believe that a substantial part of the trade with other countries was also conducted in sterling. Moreover, most of the invisible receipts and payments, such as interest and debt redemption, insurance, etc., were denominated in sterling. For the period January-April 1947, the geographical breakdown of the balance of trade was as follows:

Table XII

(in millions L.E.)

Sterling area	✓2.1
Hard currency area	-2.4
France	✓1.8
Other currencies	-3.

In the interwar period, Egypt was on the sterling exchange standard, and most of her foreign trade was conducted in sterling. Consequently, the country's foreign exchange resources were held in the form of money at call in London, treasury bills, and treasury bonds. These sterling assets acted as a shock absorber to meet any seasonal or cyclical deficit in the balance of payments. During the recent war, Egypt participated in the sterling area dollar pool, and starting from 1945, her requirements of hard currency were met by special allocations agreed upon periodically. When Egypt left the sterling area in July 1947, her official holdings of gold were \$52 million, and there were practically no official dollar holdings. Other foreign exchange holdings, public and private, consisted almost exclusively of sterling assets estimated at L.E. 450 million. Private dollar holdings reported by U.S. banks were approximately \$18 million.

The exchange situation for the period following July 15th, 1947, when Egypt left the sterling area, was governed by the Anglo-Egyptian Financial Agreement of June 30, 1947. This agreement embodied the twin techniques of blocked and transferable accounts. It provided for the blocking of all sterling assets held at the close of business on July 12, 1947 by "banks in Egypt," including all current and deposit accounts, money at call, treasury bills, and sterling securities of all kinds, including those held as cover for the note issue. Unless requisitioned by the Egyptian Government, private Egyptian accounts were left free. In accordance with the Anglo-American Financial Agreement, it was provided that sterling received by "banks in Egypt," in respect of current transactions (as well as the agreed releases), would be available for any payment within the sterling area and for payments for current transactions in any currency area. The agreement also provided for the acceptance by Egypt, in settlement of payments for current transactions, of sterling at the disposal of residents outside Egypt. It was agreed that any net inflow of capital into Egypt from the sterling area would result in an equivalent amount being transferred from Egypt's transferable account to the blocked account and vice versa.

Finally, various releases were made from the blocked accounts. These included: (1) the sterling liabilities of banks in the United Kingdom held at the close of business on June 30, 1947, in respect of confirmed credits opened in favor of banks in Egypt; (2) £8 million release for the period ending December 31, 1947; (3) £12 million as a working balance to meet the contingencies of the transition period; (4) releases for the purchase by Egypt of military supplies and surplus stores; (5) the equivalent of any sums paid by banks in Egypt in currency other than Egyptian pounds to persons residing outside Egypt, in respect of past due coupons or redeemed bonds of Egyptian public debt, or of Egyptian undertakings, payment of which had been delayed by reason of war measures or interruption of communications.

The altered circumstances called for the introduction of more drastic import and exchange controls. The 1947 exchange control law prohibits dealings in foreign exchange, outside the authorized banks. It prohibits the export and import of foreign currencies and securities and requires every individual and entity to submit for sale at the official rate of exchange all income in foreign currency acquired at home or abroad, as well as all foreign exchange holdings other than sterling. The system of import licensing hitherto confined to the hard currency area has now been generalized.

The rate of exchange for telegraphic transfers has been maintained at .974 for the purchase and .976 for the sale of 1 £. Other rates are arrived at by converting the ruling rate in London at the fixed parity rate.

##### 5. Present Exchange Problems

Before the war, there was little pressure upon Egypt to adjust her trading relations to a bilateral balancing of exports and imports with other countries, and with the exception of a few barter and clearing agreements with Germany, most of her prewar trade was conducted on a multilateral basis. During the recent war, Egypt accumulated sterling balances far in excess of her normal prewar holdings, and if circumstances had permitted a fairly rapid liquidation of these balances, Egypt would have been in a very favorable position for replacing wartime deficiencies and building up her productive equipment by a large volume of imports.

In fact, circumstances have not been favorable to such rapid liquidation, and although the overall market prospects for Egypt's exports are now fairly good, the direction both of her exports and her imports remain a matter of first-rate importance. Apart from her still close trading relations with the U.K., France and Italy have, since the war, been substantial purchasers of Egypt's exports. The proceeds from these exports are not, however, freely available for use elsewhere. In the meantime, many of the imports which Egypt now urgently requires cannot conveniently be purchased elsewhere than in the dollar area. Egypt thus shares with other countries the exchange difficulties which arose from the inconvertibility of European currencies and the unbalanced trade relations with the U.S.A.

Since the suspension of sterling convertibility on August 20, 1947, Egypt has experienced acute exchange difficulties with the hard currency area. Official dollar holdings were insignificant, and Egypt continued, even after July 15, to accept transferable sterling in payment for exports to the U.S.A. Thus, between July 14 and August 27, only 25 per cent of Egypt's receipts from sales to the dollar area were paid for in dollars.

For the period September-October 1947, the official program of imports payable in dollars amounted to \$10 million, and consisted entirely of payments for oil from the Middle East, railway rolling stock, coal, and nitrate. Following the suspension of convertibility, the U.K. put at the disposal of Egypt \$6 million as an allocation for the period ending October 31; a subsequent request for \$10 million to cover the period to the end of the year has been turned down, although it is reported that Egypt will be able to make certain payments for the import of wheat<sup>1/</sup> (\$3 million) and fertilizers (\$5 million) out of its sterling releases. Already difficulties are being experienced with the contracts for the turbines for the Assuan Dam electrification scheme, the tender for which has been granted to Swiss and Swedish firms, although a recent report indicates that Egypt has succeeded in obtaining a loan of 17 million Swiss francs.

Hard currency requirements will be greater than before the war on account of freight rates and insurance premia which are still high, the need to pay freights in hard currency, and the payments to U.N.O., as well as the continued rise in U.S. prices. The need to go on with the electrification of the Assuan Dam will make further inroads on hard currency resources. On the other hand, the tourist trade during the present season will be handicapped by the recent outbreak of cholera.

The following points should be taken into consideration in assessing the prospects for Egyptian exports in the coming year. On the supply side, the statistical position of Egyptian cotton is good. Free stocks are declining, and the 1947-48 crop is about 70 per cent of the prewar average. World production is below prewar levels, owing to the overpowering need of China and India to grow more food, and there is a sharp decline in world carryover.

Although world demand is recovering slowly, the hard currency areas are unimportant buyers of Egyptian cotton. The U.S. demand is limited to the annual global quota of long staple (90 thousand bales of which approximately two-thirds is provided by Egypt), while the intake of the textile industries

<sup>1/</sup> In return for rice to be sent to Malaya and British colonies in south-east Asia.



of Switzerland, Sweden, and Portugal is insignificant. The U.K. is reported to have a 52-week stock of cotton, and the British Cotton Board is not in the Egyptian market for substantial amounts despite the dearth of dollars and the current premium on American as compared with Egyptian cotton. Furthermore, the new variety, the long-staple Karnak, is not favored by Lancashire, where the mills are reluctant to make the necessary investment for the conversion of the spindlage capacity to the new type. Finally, the dislocation of the textile industry in central and eastern Europe which were substantial buyers before the war, the shortages of coal and manpower, and the scarcity of acceptable foreign exchange prevent the resumption of exports to them on an appreciable scale.

Certain measures to cope with the situation have already been adopted by the Government. To meet the requirements of overseas spinners, the acreage under long-staple cotton has been restricted for the past season and will be further curtailed in the coming season. The acreage under short staple for 1947-48 will be three times that of the last season, while the acreage under long and medium staple will be half that of the previous year. Moreover, cotton production will be reduced in favor of cereals. In order to renew commercial ties with Europe, a series of barter and payments agreements has been made with Czechoslovakia, Hungary, Italy, Yugoslavia, and Poland. These trade agreements involve the extension of Egyptian credits totalling E.E. 5 million and also provide for export credit insurance. It is understood that payment will be either in goods or in sterling available for payment within the U.K.'s transferable account network. Measures for the diversion of part of the exports of foodstuffs, such as sugar and rice, to the hard currency area are being taken, and negotiations are underway for the upward revision of the American quota on Egyptian long-staple cotton. Henceforth, exports will be subject to license, and exports payable in dollars, Swiss francs or Swedish kronor will have priority over those payable in other currencies. This direction of exports will take time and might involve subsidies to exporters to hard currency areas and the sale of cotton at a discount. Finally, the Government is negotiating with the Suez Canal Company with a view to requisitioning the company's net foreign exchange receipts.

To ensure the import of essential goods, a system of licensing has been introduced, priority being given to imports of machinery, raw materials, and fuel. A beginning is being made with the suppression or drastic reduction of the import of luxuries, except where they are the only goods that could be got in return for exports. In order to conserve foreign exchange resources, the railways, and some of the leading factories, have been converted to the use of locally produced mazut and diesel oil. Foreign travel allowances have been drastically reduced, and steps are being taken to curb the black market. Finally, the embargo hitherto applied to the import of gold from the dollar area has been extended to the rest of the world.

## 6. Money and Prices

In the interwar period, the E.E. followed the vicissitudes of sterling, and its external value, in terms of gold and the U.S. dollar, varied with the changes in the value of the E. The volume of purchasing power in Egypt,

as well as the general level of economic activity, was determined by the level of cotton exports and prices. In common with other agricultural raw material producing countries, the long-term downward trend of agricultural prices and the cyclical fluctuations therein have had severe repercussions on Egypt's economy.

During the second World War, Egypt was a major operational base, and huge military expenditures were financed by the issue of Egyptian currency against sterling assets. The increase in the volume of purchasing power thus engendered, coupled with mounting scarcities, produced an inflationary spiral, which the great rise in idle government deposits with the National Bank, the subsidization of the price of bread, the introduction of price ceilings, the taxation of excess profits, and the raising of internal loans failed to alleviate (see Table XIII).

Table XIII

Money Supply and Price Level

	<u>Note Issue</u> (millions E.E.)	<u>Sight Deposits</u> (millions E.E.)	<u>Cost of Living</u> <u>Index</u> (1937 = 100)	<u>Wholesale</u> <u>Index</u> (1937=100)
12/31/39	26	35	102	100
40	37	49	111	124
41	51	74	137	154
42	75	103	183	206
43	96	175	240	262
44	117	228	272	303
45	141	268	287	323
46	137	268	282	317
7/31/47	123	?	-	-

The note issue, which stood at E.E. 26 million at the end of 1939, rose to E.E. 141 million in December 1945, and sight deposits increased from E.E. 35 million to 268 million. During the period under review, the cost of living index rose from 102 to 287 (1937 = 100), while the wholesale price index rose to 323 (1939 = 100). The rise above prewar level was more marked for imported goods, fuel, and building materials than for foodstuffs. Thus, in December 1945, the price indices for such imported goods as coal, paper, timber, iron, and woolen textiles were 436, 1221, 1007, 1055, and 934 respectively, while the general index of wholesale prices was 323. The gold sovereign was selling last May at approximately 230 per cent of the value of its fine gold content in terms of the par value of the Egyptian pound.

In 1946, there was some decline in the note issue while the volume of credit remained unchanged. This movement was the first sign of the decline of military expenditure and of the increase in imports, but the effect on price indices was negligible. Thus, the cost of living index fell from 287 in December 1945 to 282 in December 1946, and the wholesale

1/ In the latter year, Government deposits were around E.E. 80 million.

index fell from 330 in January to 308 in December. However, the fall was in reality much more pronounced than these figures seem to suggest. Wartime indices had underestimated the magnitude of the rise, based as they were on official price lists rather than black market quotations, which would have been more representative of actual transactions, while the postwar figures were free market quotations.

During 1947, the deflationary trend became more pronounced. The note circulation declined from E.E. 134 million in January to E.E. 123 million in July (8 per cent). By April, the cost of living index and the wholesale price index fell to 277 and 295 respectively. On the whole, it seems that the inflation has been checked, especially as there is no inflationary pressure from the budget.

After the first World War, the fall in the price of cotton, the use of accumulated sterling balances for the repatriation of Egyptian securities held abroad, and increased imports led to a sharp decline in incomes and in the note issue after the peak of 1919. In the aftermath of the recent war, various factors have conspired to prevent a similar rapid deflation of prices. The money supply has remained high in the absence of a large import surplus to absorb purchasing power and to alleviate scarcities. Moreover, during the 1945-46 season, the Government fixed the price of cotton at a level which was higher than the ruling market price with the result that it had to purchase almost all the crop. In the following season, the official buying price was somewhat reduced, but increased world demand kept the price of cotton at a high level.

The downward trend of prices in Egypt and their gradual rise in the U.S. have reduced the degree of overvaluation of the Egyptian E. As measured by wholesale prices (on a 1937 base), the official parity of the Egyptian pound relative to its purchasing power fell from 214 per cent in 1945 to 141 per cent in April 1947. A similar, though smaller, reduction has occurred with respect to relative Egyptian and U.S. consumer prices. The official parity of the Egyptian pound relative to its purchasing power, on the basis of consumer prices, fell from 187 in 1945 to 169 in 1946 and to 149 in April. From the upward course of the quantum of exports, it seems that the overvaluation of the currency is not, at present, adversely affecting Egypt's ability to export. This is because cotton has a world price, and, at present, the scarcity of dollars and the premium on American cotton as compared with Egyptian<sup>1/</sup> are factors increasing the demand for Egyptian cotton.

## 7. Banking

The salient characteristic of the banking system in Egypt is the preponderance of mortgage and agricultural banks. Thus, in 1939, the capital, including debentures, of these banks amounted to E.E. 22 million<sup>2/</sup> as compared with E.E. 6 million for commercial banks. Most of

<sup>1/</sup> \$2 per kantar at the beginning of the current season.

<sup>2/</sup> In 1911, the capital (and debentures) of the mortgage banks was E.E. 52 million.

the mortgage banks are foreign-owned and controlled, and their operations consist almost exclusively in the granting of long and medium-term loans to big landowners. In order to alleviate the plight of agriculture during the great depression, the Government founded an agricultural bank with a capital of E.E. 1 million<sup>1/</sup> and extensive borrowing powers from the Treasury. The bank is mainly engaged in financing the movement of the crops by granting short-term loans to small holders. There is also a state mortgage bank mainly catering to medium and small holders.

With the exception of the Bank Misr, commercial banks in Egypt are branches or affiliates of foreign banking corporations or "Egyptian" companies with foreign capital and under foreign management. Their operations have hitherto been limited to the finance of trade, and most of their advances are made in connection with the movement of cotton. Industrial lending and participation in industrial companies are not practiced except by the Bank Misr, which has very close connections with the Misr group of companies. The National Bank of Egypt is the leading bank and performs some of the functions usually associated with central banks. Thus, it has the exclusive right of note issue and is in charge of the clearing house. The bulk of Government deposits are kept with the National Bank, which also manages the public debt.

However, various factors prevent the National Bank of Egypt from performing the cardinal duty of a central bank, namely the control of credit. In the first place, it carries on an extensive ordinary banking business with branches all over the country in competition with other banks. Secondly, it does not act as lender of last resort, as existing banks draw on the resources of their parent concerns and do their rediscounting in foreign capital markets. In the third place, the Bank had, since 1916, been pledged to transfer funds between the U.K. and Egypt at a fixed exchange rate and, consequently, was not in a position to control internal financial conditions which were subject to fluctuations emanating from abroad. Fourthly, there are no banking laws prescribing cash ratios or giving the National Bank of Egypt authority over other banks in determining the volume of credit. Finally, the absence of an organized bill market and the smallness of the stock exchanges militate against the undertaking of extensive open market operations.

Table XIV shows the distribution of bankers' assets in 1938. The war and its aftermath have brought substantial changes in Egyptian banking. In the first place, the volume of deposits rose sharply, and there was a marked decline in the amount of advances, owing to the ease of financing the movement of cotton from private funds and from funds provided by the state. Thus, the advances of the National Bank of Egypt fell from E.E. 8.3 million in 1938 to E.E. 2.9 million in July 1947, and bills discounted fell from E.E. 1.9 million in 1938 to E.E. 346,000 in July 1947. On the other hand, there occurred a phenomenal increase in holdings of sterling securities. Thus, on July 31, 1947, the banking department of the National Bank of Egypt held E.E. 173 million in government securities, mainly British. Finally, the war and postwar years have witnessed a decline in the importance of Italian and French banks.

---

<sup>1/</sup> Fifty per cent of the bank's capital is held by the mortgage and commercial banks.

Table XIV

Analysis of the Balance Sheets  
of the Five Leading Banks  
1938  
(in thousand £.E.)

Name	Capital and Reserves	Deposits	Securities	Advances	Bills
National Bank of Egypt Banking Department	5,850	22,649	14,478	8,258	1,903
Bank Misr	1,628	17,792	3,713	10,004	1,084
Banco Italo Egiziano	578	1,412	164	1,184	not stated separately
Banque Belge	533	1,682	68	1,483	not stated separately
Commerciale Italiana	540	1,937	—	1,197	140

The branches in Egypt of foreign banks do not publish separate balance sheets for their activities in Egypt.

8. Public Finance

Table XV

The Egyptian Budget 1939-47

<u>Year<sup>1/</sup></u>	<u>Revenue</u>	<u>Expenditure</u>	Deficit(-) or <u>Surplus(+)</u>	<u>General Reserve</u>
1939-40	39	41	- 2	25
1940-41	44	43	+ 1	29
1941-42	56	46	+10	33
1942-43	67	55	+12	39
1943-44	78	72	+ 6	—
1944-45	73	77	- 4	48
1945-46	90	90	0	57
1946-47	97	103	- 6	
1947-48	94	103	- 9	

<sup>1/</sup> The figures for 1939-40 to 1943-44 are actual receipts and payments according to final accounts; those for succeeding years are budget estimates. Since the financial year 1940-41, the budget of Egyptian State Railways has been merged with the General Budget.

During the interwar years, the Egyptian budget grew steadily, owing to the extension of education and sanitation, the growth of the administration and the armed forces, and the assumption of new functions by the Government in the economic field. On the other hand, the wartime expansion (Table XV) is due to the inflationary rise in prices, the granting of high cost of living allowances, the subsidization of the cost of living, as well as the inclusion of the railway budget in the general budget. The rise in the last two years is due to the slating of appropriations for the development plans and the plans for combating disease, poverty and illiteracy. However, the inability to import the requisite machinery has resulted in large unspent appropriations. Thus, although in 1946-47 there was to be an estimated deficit of E.E. 6 million, the returns for the first half of the fiscal year (May-October) showed a surplus of E.E. 14.7 million.

### Revenue

Prior to the abolition of the Capitulatory Regime in 1937, which limited the Government's power to impose taxes, income taxation was unknown, and state revenue was mainly derived from customs receipts (50 per cent) and, to a lesser extent, from the land tax. The virtual dependence on customs duties rendered the tax system regressive in the extreme. In 1939, however, a series of taxes on income from securities, industrial and commercial profits, and income from work was introduced. Moreover, during the war, an excess profits tax was imposed. Together with the reduction of land taxes, the introduction of income taxes is likely to correct the previous glaring anomalies in the tax system. Table XVI gives a rough analysis of Government revenue in recent years.

Table XVI

#### Analysis of Revenue (in million E.E.)

	1939/40	1943/44	estimates 1946/47
Property tax	6.0	5.4	5
Income taxes	2.0	7.6	14
Other "direct" taxes	<u>.3</u>	<u>.3</u>	<u>4</u>
Total direct taxes	8.3	13.3	23
Customs and excises	18.5	24	37 <sup>1/</sup>
Other "indirect" taxes	<u>.8</u>	<u>1.9</u>	<u>1</u>
Total indirect taxes	19.3	25.9	38
Total tax revenue	27.6	39.2	61
Non-tax revenue	<u>11.8</u>	<u>38.6</u>	<u>36</u> <sup>2/</sup>
Total revenue	39.4	77.8	97

<sup>1/</sup> Divided as follows: E.E. 11.7 million, customs duties; E.E. 17.5 million, tobacco duties; and E.E. 8.2 million, excise duties.

<sup>2/</sup> Judicial fees, railways, telegraph and telephones, post office, state-domain and interest on investments.

The new taxes on income now account for about 25 per cent of total tax receipts, but the recent increase in their yield is, of course, a wartime phenomenon due to the large profits realized in commerce and industry. Moreover, the excess profits tax will be abolished after the signing of peace treaties. Yet it may be confidently expected that the tightening of the administrative machinery, as well as the proposed general tax on income, with appropriate exemptions and graduation, will prevent any substantial decline in the yield of the new taxes. Finally, the new inheritance tax will, given the present inequality of wealth, increase the yield of direct taxes. It should be noted that in 1946 and 1947 public revenue amounted to approximately 23 per cent of the national income.

Expenditure

Table XVII

Allocation of Expenditure among the State Services

-----  
Budget Estimate for the Year 1946-47  
(in 000's E.E.)

Civil list	773
Public debt	5,060
Parliament and Council of Ministers	565
Foreign affairs	686
Finance	4,307
Commerce and industry	1,139
Education	11,071
Internal security	5,706
Public health	6,789
Justice	2,100
Public works	10,149
Agriculture	2,605
Communications	12,732
Defense	8,338
Social affairs	1,572
Pensions and indemnities	3,380
High cost of living bonus	10,500
Improvement of civil service cadre	2,877
Bread subsidies	4,050
Combating illiteracy	2,634
Five-year plan	6,109
Other expenditure	1,011

The preceding table shows that the 1946-47 budget was swollen by emergency expenditure arising out of wartime inflation. Thus, appropriations for salary increases to meet the high cost of living and for the subsidization of the price of certain basic foods amounted to E.E. 17 million; these may be confidently expected to disappear with the gradual fall in prices. In the same year, the sum of E.E. 9 million was slated for the new development plans; but owing to the continued scarcity of

imports, it is unlikely that these plans will go on at the anticipated rate. Appropriations for defense do not exceed 8 per cent of total expenditure.

#### The Reserve Fund and the Public Debt

The limitations which the Capitulatory Regime imposed on the Government's power to introduce new taxation led to the establishment of a reserve fund to meet possible budget deficits. The reserve fund, which stood at E.E. 25 million in 1939, rose to E.E. 57 million in 1945 as a result of substantial budget surpluses. In the latter year, it included: E.E. 34 million in cash, E.E. 11.8 million in securities, while the remainder represented participations and loans to the Credit Agricole, industrial advances, loans on cotton, and loans to municipalities. The Government hopes to finance part of the development program by drawing on the reserve fund.

Details of Egypt's public debt are found in Table XVIII. The Egyptian national loan was contracted in the nineteenth century. Originally denominated in sterling, it was changed into E.E., and the rate of interest slightly reduced during the conversion operation of September 1943. A substantial part of this loan represents investments in the state railways, irrigation works, ports, etc. The loan agreements provide for repayment out of redemption funds appropriated annually. The other important outstanding loan is the cotton loan floated in 1946 to finance the purchase of cotton. The per capita figure for public debt is now E.E. 7, and the Government bond yield last July was 2.67 per cent.

Table XVIII

Egyptian Public Debt  
October 31, 1946  
(million E.E.)

<u>National Loan</u> <sup>1/</sup>	
Long-term, 3 1/4 per cent	67
Medium-term, 2 3/4 per cent	11
Short-term, 2 1/4 per cent	5
Short-term, 1 3/4 per cent	3
<u>Cotton Loan</u> , 2 1/4 per cent	30
<u>Treasury Bills</u>	<u>12</u>
	128

<sup>1/</sup> The Government holds approximately E.E. 13 million of the National Debt as part of the Reserve Fund.