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STABILIZATION AND ADJUSTMENT
POLICIES AND PROGRAMMES

COUNTRY STUDY

9

EGYPT

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PREFACE BY THE DIRECTOR

This monograph is part of a series being published by WIDER on the experience of developing countries with stabilization and adjustment programmes in the 1970s and 1980s. Each study analyzes the package of policies implemented by a specific country; its relations with the IMF and World Bank; the effects of the policies on production, employment, the balance of payments and social welfare; and what other policies might have been followed instead.

The intention of the series is to assist developing countries to devise adjustment policies that would, while accomplishing desirable adjustment and growth objectives, simultaneously remain politically viable in the particular country settings studied.

For this purpose it was thought desirable to explore policy alternatives to the adjustment programmes being implemented. Built into the design of the series, therefore - and constituting indeed its special feature - is the requirement that each study include a 'counterfactual' exercise to illustrate the effects of alternative policies. Utilizing econometric models adapted or specifically developed for each country, the probable effects of alternative policy packages are estimated; the object was to see how far the balance-of-payments adjustment and growth goals of a particular programme might have been achieved at a possibly lower social cost with a different policy mix.

Each country study is written by an independent scholar and expert in the relevant country. First drafts of the studies in this series were discussed at the WIDER conference on stabilization and adjustment policies in developing countries which was held 19-22 August, 1986 in Helsinki. Each study has been reviewed by WIDER's research advisers for the project, Professors Gerry Helleiner and Lance Taylor, and revised substantively by the author as necessary; subsequent editing has been conducted under the overall supervision of Mr Robert Pringle, Senior Fellow, who serves also as editorial adviser on WIDER publications.

A companion volume by Professor Taylor summarizing the experience of the countries surveyed will draw broader implications for the theory and practice of stabilization and adjustment policies; this volume will be published by Oxford University Press. The individual country studies in this series will subsequently be grouped into separate volumes, also for eventual publication by Oxford University Press.

Lal Jayawardena
Director
March 1987

I EXECUTIVE SUMMARY

Since joining the International Monetary Fund in 1945 as an original founding member, Egypt has signed four stabilization agreements with the Fund. These agreements were: a credit facility in May, 1962, which collapsed fairly rapidly; a stand-by arrangement in April 1977; an extended fund facility in July 1978; and the new stabilization package agreed in May, 1987, which is supported by a stand-by credit of SDR 250 million. Some of the most important items in the new programme are the following:

A gradual devaluation-cum-unification of the exchange-rate structure, with the establishment of an official free market in foreign exchange; an increase in energy prices; an increase in purchase prices of agricultural commodities; action to reduce the budget deficit to 13 per cent of GDP; an increase in interest rates; and (undisclosed) limits on monetary expansion.

This package must be viewed against a dismal background of a stagnant economy, rapidly-rising inflation (estimated unofficially at 30 per cent in mid-1987) and a budget deficit which the author of the following paper, Dr Abdel-Khalek, reports to have been 27 per cent of GDP in 1985-86 - and possibly even higher in 1986-87.

The real purpose of this programme, which the IMF was persuaded to moderate considerably from its original demands, was to clear the way for a Paris Club rescheduling. Subsequently, about one-quarter of Egypt's medium and long-term debt of about USD40 billion has been rescheduled over ten years, including a five-year grace period.

In the author's judgement, the new package may turn out to be self-defeating, and could well founder through failure to control the budget deficit. This failure would leave behind a legacy of a greatly depreciated currency and

excessive interest rates. The author concludes that Egypt 'may soon find itself facing a crisis situation even more difficult than the one which led to the present package'.

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II STABILIZATION EXPERIENCE IN THE 1970S

Two letters of intent were submitted to the Fund by the Egyptian government in March 1977 and in June 1978. The first furnished the basis of a one-year stand-by arrangement, whereby Egypt was to receive SDR 125 million. The second laid the foundation for an extended facility in the amount of SDR 600 million, to be purchased by Egypt over a three-year period starting 1979. The 1979-81 package may indeed be considered as a continuation of the earlier one, and the combined elements of both packages will be summarized under the following headings: structural reform measures; fiscal policy; monetary and credit policies; and exchange rate, trade, and debt policies.

The structural reform involved planned changes in the organizational structure of the public sector, reducing direct control by government organs and placing the operations of public-sector enterprises on a sounder commercial basis, redefining cost-price relations to eliminate distortions, putting more emphasis on agriculture, and encouraging foreign investment. These elements were in line with the basic institutional and structural changes envisaged under the open-door economic policy (Abdel-Khalek, 1982).

The fiscal policy component of the package included measures aimed to reduce the ratio of the fiscal deficit to GDP, cutting subsidies - particularly for food, energy, and government services - and changing the basis of valuation of customs duties from the official to the commercial exchange rate. Such measures would lead to changes in both relative prices (imported vs. locally produced; food and energy vs. other commodities) and the general price level.

In the field of monetary and credit policies, measures were aimed to cut the rate of credit creation and raising interest rates. Such measures were conceived as means of

combating inflation, encouraging domestic saving through the financial system and shifting from foreign-exchange balances into Egyptian-pound balances.

The main measures in the field of exchange rate and external trade and debt policy were: devaluation-cum-unification of the exchange rate supported by managed floating, terminating bilateral trade-and-payments agreements, liberalizing imports, freeing external transactions and reducing reliance on short-term credit facilities.[2]

The basic feature of the above stabilization packages were similar to those concluded between the IMF and other developing countries (Killick, 1985; and Williamson, 1982), perhaps with some variations reflecting the specificity of the Egyptian example in particular areas (such as the dominant role of the public sector in the economy)

We now discuss the effect of the stabilization policies in the 1970s, focussing on a select list of the measures adopted: devaluation, raising domestic interest rates, credit ceilings, fiscal measures, and structural reform.

1. Devaluation

The development of the exchange-rate system since 1945 and the values of the various rates over the period 1973-85 are given in Annex II and Table 6. Devaluation started, in effect, in 1977-78 when a significant part of convertible currency transactions was shifted from the official rate of LE 0.39 to the dollar (U.S.) to the then commercial rate of LE 0.70 per dollar. At the beginning of 1979, all remaining transactions were subjected to the new rate. This actually implied a maxi devaluation of almost 80 per cent and a number of mini devaluations.

Ceteris paribus, devaluation in theory improves the trade balance if the export and import elasticities are such that the Marshall-Lerner condition is satisfied, and the first place to look for the effects of devaluation would be the balance of trade. Table 2 shows that in the period 1976 to 1983/84 the current account deficit as a proportion of GDP peaked in 1979, reaching 19 per cent. The average for the two years 1978 and 1979 (the period during which devaluation actually took place) was 17 per cent. The evidence in Table 2 indicates a drop in the relative magnitude in the current-account deficit after 1978-79, but it is still higher than pre 1978-79 average. At the same time the deficit rose in absolute terms, as an average, after devaluation.

As for its effect on the balance of payments, the observed decline in the ratio of the current-account deficit to GDP was exclusively due to the rise in the value of oil exports over the period.[3] Table 3 shows that when oil exports are excluded, the resource gap as a proportion of GDP was much larger after devaluation than before. In fact the value of Egypt's non-oil exports fell steadily during the 1970s - both before and after devaluation.

Imports continued to rise. As a proportion of GDP, they jumped from about one-third during 1976-77 to about 45 per cent during 1979-1981/82. Little information is available on the price responsiveness of demand for imports in Egypt and it cannot be concluded, on the basis of the circumstantial evidence provided by the behaviour of the ratio of imports to GDP, that such responsiveness is low.[4] We hypothesize that there was a shift in the import function caused by import liberalization, phasing out trade-and-payments agreements, increased remittances, broadening the scope of the own-import system, and increased capital inflows. Whatever the precise mechanism at work, devaluation itself clearly failed to bring about a lasting improvement in the balance of payments.

This was partly because most important commodities in Egypt are subject to the fix-price rule which, coupled with the system of government procurement of basic agricultural commodities, divorces prices in local currency from foreign-currency prices. In this setting the exchange rate adjustment of basic agricultural commodities fails to provide an incentive for increasing production of exportables. In fact, as will be argued later, devaluation has failed, thanks to this institutional peculiarity, to produce the requisite shift in the internal terms of trade in favour of tradeables. Indeed, devaluation may have jeopardized the objective of encouraging the shift of resources to exportables by raising production costs, and hence reducing the competitiveness of exportables - witness the jump in price indices (Table 7). This is especially true in view of the high import content of the Egyptian output mix (El-Imam, 1976).

Devaluation was clearly inflationary. First, it increased the budget deficit and the resort to inflationary finance, at least in a first-round sense. Total budget deficit rose from LE 2097.7 million in 1978 to LE 2680.1 million in 1979, mainly because of devaluation. Bank finance of the deficit jumped from 16.7 per cent to 44.7 per cent (CBE, 1979, p. 4). Secondly, in view of the tendency of residents to hold significant foreign-currency deposits, devaluation was a source of increasing domestic liquidity, since revalued foreign-currency deposits were used as collateral fo bank credit.[5] In addition to this, the wealth effect of devaluation appears to have been reflected in increased aggregate demand, much of which was naturally directed to imports. As is clear from Table 10, the pound value of private sector foreign-currency deposits rose at a much higher rate after 1979; the average annual growth rate of these deposits rose from 38.5 per cent during 1977-79, to 60.7 per cent during 1979-1981/82.

The nature of the foreign exchange market in Egypt worsened exchage-rate volatility. Despite several attempts throughout the various stabilization experiences at exchange rate unification, the 'law of one price' is far from applicable to the foreign exchange 'market'. In fact as the situation stands in the 1980s, we have at least three markets with three main rates (see Annex I). But the black-market rate constantly pushes the other rates around, engendering speculation. Foreign-exchange trading outside authorized banks (illegal in Egypt), has continued to expand. The result has been a growing preference for expatriate Egyptians to remit through the own-import system (see Table 5-B) - further depressing the value of the pound. This eventually led to the mini-devaluations which have brought down the 'declared rate' from $ 1.45 in 1979 to $ 0.75 per pound by the end of 1985 (see Table 6). In addition the easy use of foreign exchange, particularly the American dollar, both as a store of value and as a means of payment, has put the monetary system of the country virtually on a two-currency basis. This has fostered further monetary instability.

With respect to the real exchange rate, the evidence suggests that domestic inflation relative to Egypt's major trading partners has been lagging behind devaluation during 1980-8.[6] This is particularly true with regard to the 'declared rate' and the black-market rate, which together account for the bulk of the current transactions of the country. If we adopt a puchasing-power-parity interpretation, this suggests that Egypt was not losing competitiveness in international commodity exchange.[7] As export growth was weak, this means that devaluation was either unwarranted or ineffective. For the Marshall-Lerner conditions to apply, however, domestic supply of tradeables has to be elastic and this may be the real issue to be addressed in this context. The apparent pressure on the pound may perhaps be better explained by reverse capital movements. This is the more important in view of the

prevalence of tariff exemption on a large proportion (more than 40 per cent) of imports.

2. Increasing domestic interest rates

As already mentioned, the rationale for this measure was twofold: to increase private saving through the financial institutions, and to encourage the conversion of foreign-exchange balances into Egyptian pounds. Table 4 shows that nominal interest rates on time and savings deposits more than quadrupled between January 1976 and July 1982 and the effective interest return was raised further by the removal of the 40 per cent withholding tax on interest income from deposits. Parallel to this, lending rates were raised. Despite such increases in nominal interest rates, the real interest rates continued to be negative, with the possible exception of 1979 (see Table 9). Nevertheless, taking the consumer price index as given, the data in Table 9 show that there was an improvement in the real return on holding deposits, thanks to the increase in the nominal interest rate. This important development contributed to what McKinnon calls 'financial growth'.[8] This is confirmed by the data in Table 8, which indicate a dramatic rise in the ratio of time and savings deposits to money supply (M_1) from about 25 per cent in 1976-77 to 95 per cent in 1981-82.

But the response of time deposits to interest rate increases was not uniform across various maturities. One recent study (NBE, 1985) concluded that only time deposits with a maturity of one year or more have an interest elasticity significantly larger than one. The Central Bank of Egypt also attributed most of the increase in the private sector's time deposits to the administered increase in interest rates (CBE, 1985, p. 5). The share of one-year-or-more time deposits rose from almost nil in 1976 to one-fifth of non-government time deposits by the end of 1983 (NBE, 1985, p. 26).

More broadly, there has been a manifest change in the division of total private-sector bank deposits between demand and other deposits (we shall call the latter non-demand deposits for short).[9] The share of non-demand to total private sector deposits rose consistently and significantly over the period. From only 46 per cent at the end of 1977, it reached two-thirds by the end of 1979 and 83 per cent by the end of 1983/84 (see Table 10). Raising domestic interest rates has also resulted in a redistribution of private deposits between local currency and foreign currencies. The ratio of private local-currency deposits to total private non-demand deposits rose from a low of 36 per cent in 1977 to 53 per cent in 1979. Despite some decline in the ratio in 1980/81 and 1981/82 it climbed up again to 54 per cent in 1983/84.

But the increase in the interest rates on bank deposits depressed the market value of government bonds (CBE, 1981, p. 30). Given the nature of the capital market in Egypt, bonds are predominantly government securities. Thus, this component of the stabilization package has negatively affected private savings in the form of government bonds, and financial interdependence is therefore weakened rather than strengthened.

These developments put the banking system in a better position to commit itself to financing longer-term projects than before. But the potential made possible by the increased availability of loanable funds appears to have been largely wasted because of the banking system's traditional aversion to less liquid but often more socially-productive lending. Thus, while in 1979 bank loans to industry amounted to more than half of commercial banks' lending, the ratio was less than one-third in 1985. The corresponding ratios for trade and services combined were 40.5 per cent and 55.7 per cent for the two years respectively (see CBE, 1979 and 1985). This pattern seems to run counter to that hyphothesized by McKinnon, who

postulated that an increase in the real interest rate will encourage more productive investment (McKinnon, 1973).

On the other side of the ledger, raising interest rates should drive up the cost of production, on account of working capital. One can only conjecture here, since hard data are lacking. This ensuing rise in production costs will have different implications depending on the organizational form of the enterprise. Private-sector enterprises will try to pass the higher costs on to final consumers. Ultimately, this will result in inflationary tendencies to the extent that interest payment is a significant element of cost. In this case, raising interest rates may actually defeat one of the basic purposes of the stabilization package - reducing the rate of inflation. As to public-sector enterprises, where product prices are government administered (see Annex II), the rise in interest rate will weaken their financial position. It eventually may lead either to heightened demand for subsidy support or increased pressure to raise output prices to avoid the risk of shut-down.[10] In addition, raising interest rates in an economic environment where the government budget deficit is a permanent feature and where the deficit is partly bank-financed, can only compound the problem of fiscal deficit. For example, in 1979 total net bank requirements from the government amounted to LE r.982 billion (CBE, 1980, p. 14). The one-percentage-point increase in the lending interest rate such as that taking place effective January 1, 1979 immediately means increased interest payments of almost LE 700 million. This consideration reveals the dangers involved in the partial implementation of the stabilization package.

In conclusion, several lessons can be drawn with respect to Egypt's experience with raising interest rates as a component of the stabilization package. First, care should be taken in the design of monetary and fiscal policies to ensure that measures will not result mainly in substituting

one financial asset for another, when the intention is to increase total financial assets. Second, the essence of interest-rate measures should be to increase financial intermediation. The crucial factor here is not the high nominal interest rate, but rather the real return on financial assets. This could be achieved by reducing the rate of inflation. We argue that, in McKinnon's terms, Egypt was on the verge of breaking out of financial repression and accomplishing financial growth. But the success eventually faltered because of the failure to gridge the fiscal gap (budget deficit). The objective of raising the real rate of return on financial assets is important, but in view of the institutional characteristics of the Egyptian economy (large bank-financed budget deficit), it should be achieved via reducing the rate of inflation rather than raising the nominal interest rate. The Egyptian experience provides yet another example of the dangers of a piece-meal approach.

3. Credit ceilings

Establishing credit ceilings is perhaps the most critical element of the IMF stabilization package. The theoretical basis for it is provided by the monetarist model of internal and external balance. In practical terms, the IMF puts specific guidelines for credit expansion which are usually instrumental in the Fund's decision to authorize continued withdrawal of credit under the agreement.

The letter of intent of June 10, 1978 clearly stipulated such specific guidelines, as shown in Table 11. They set an annual rate of credit expansion of about 15 per cent, compared to some 25 per cent on the average for the period 1974-78. The growth rate of the domestic assets of commercial banks was 21.8 per cent in 1979 (see CBE, 1979, p. 13), almost three times the real annual rate of growth of GDP of about 8 per cent. Aside from any monetarist paradigm, such a high growth rate of liquidity, and the concomitant high rate of expansion in money supply,[11] compared to real

economic growth, can clearly be harmful to resource allocation and equity. Certainly, experience in other countries under various socio-political regimes, shows the dangers involved in disregarding monetary restraint.[12] In this light, one can appreciate the rationale for general ceilings on net domestic assets of the banking system.

What is more questionable, however, is the associated stipulation of ceilings on net bank credit to the public sector. After all, credit is credit, as far as monetary considerations are concerned. So what is the justification for a differential structure of credit ceilings which involves effectively reducing the share of credit going to the public sector by six percentage points over 15 months? It is not as if bank credit to the public sector had been growing faster than the overall growth of total bank credit: data for 1976-78 show that the annual growth rate of net bank credit to the public sector averaged 17 per cent as against 51 per cent for the private sector (see CBE, 1979, p. 12). Strict technical considerations of designing monetary and credit policy do not themselves explain the differential credit-ceiling guidelines shown in Table 11.[13]

Irrespective of the justification for these credit and monetary policy measures, they clearly have an impact on macro-variables of interest for our study. Such measures should moderate the growth of aggregate demand and the rate of inflation. But it may be rather hard to single out their own effect because other factors have been changing simultaneously.

Clearly, the stipulated credit ceilings will make it easier for the private sector to expand faster than the public sector: shift of resources toward the private sector may be less egalitarian. Although much depends on the nature of government policy and the type of private sector, in Egypt, where a tradition exists of the public sector providing basic goods and services, a shift of resources

away from the government and the public sector probably is less egalitarian.

4. Fiscal measures

Various fiscal measures were included in the Extended Fund Facility (EFF) of 1979-81, including modifying the tax structure to increase the elasticity of the tax system, raising service charges of the government and the public sector, etc. Such measures were aimed to bring down the fiscal deficit from 27 per cent of GDP in 1978 to 16 per cent in 1981.[14]

The goal of reducing the budget deficit may be defended on several grounds. First, it may help to reduce foreign indebtedness, since the budget deficit is partly foreign-financed. Second, it may promote price stability, since part of the deficit is bank-financed. During 1976-78, gross public sector deficit was 40 per cent foreign-financed and 35 per cent bank-financed. This clearly underlined the need for budget restraint, and may provide the rationale for the differential ceiling on net bank credit to the public sector. But it should be noted that in Egypt inflation cannot be exclusively viewed as a demand-pull phenomenon; it is also partly cost-push. In the dynamic context of devaluation-cum-foreign finance, monetary expansion under passive monetary policy may also be an effect as well as a cause of ensuing inflation.

The fiscal deficit in Egypt includes public-sector entities in addition to that of the government in the narrow sense. Thus, on the revenue side, it includes transferred profits and investment self-financing by public sector enterprises. On the expenditure side, it includes the current deficit of public economic authorities and investment expenditure. In this context, a process of reducing the proportion of public-sector deficit should be carefully designed, phased, and implemented such as to avoid

either endangering social equity or undermining the growth prospects of the economy. Against this background, one can discuss the specifics of the fiscal measures embodied in the EFF of 1979-81, and their implications for macro-variables.

The letter of intent of 1978 stipulated that during the programme years subsidy expenditure should grow at a rate significantly below that of overall government expenditure. But for the three years immediately preceding the programme period, it averaged only 14 per cent of total public expenditure (see Table 12). Subsidy expenditure does not bulk large in terms of overall public expenditure, but considering that Egypt imports about 60 per cent of its food consumption, it is very significant from a balance-of-payments point of view - and - from a social-equity viewpoint. Food subsidies account for a significant proportion of the expenditure of low-income groups.[15] As a result, they have contributed to a more egalitarian income distribution (El-Edel, 1982; Korayem, 1982).

But irrespective of rationale for reducing the proportion of subsidies to total public expenditure, the ratio was actually cut. True, the data in Table 12 show subsidy expenditure rising from LE 710 millions in 1978 to LE 1352 millions in 1979, raising it from 13 per cent to 19 per cent of public spending. But the figures for the period starting 1978 are not comparable to pre-1978 ones. Starting 1978, there was the de facto maxi devaluation of the pound of almost 80 per cent, which arithmetically meant a higher value for subsidies in Egyptian pounds. The increase in the pound value due to devaluation is high in the case of food subsidy expenditure in view of its high import content. Whether correction for this devaluation-induced increase in subsidy expenditure would in itself result in a lower proportion of the latter to total government expenditure is open to question; the available data does not allow appropriate correction. But as subsidies stagnated even in nominal terms in 1981/82, and declined in 1982/83 (see Table

12), there clearly was a drop in the ratio of subsidies to government expenditure. Thus, the IMF line was indeed followed, despite the discontinuation of the EFF agreement.

5. Structural reform

The centre-piece of structural reform as conceived by the IMF is the removal of cost-price distortions. It is argued in numerous IMF and World Bank publications that such distortions have restrained output growth and hindered the process of reallocating resources to investment.

As is well known, the structure of relative prices can be manipulated to serve many purposes - economic and non-economic. The emphasis placed by the Fund on market forces as a determinant of allocative efficiency and hence the rationality of the price structure certainly seems excessive in view of the established literature on market failure [16] and the structuralist debate in the 1950s and 1960s. [17]

Consider the debate on energy prices. The IMF and the World Bank have strongly argued that energy is one of the most blatant examples of price distortions in the Egyptian economy. Their argument is that energy is significantly underpriced, in the sense that domestic sale prices of energy products in Egypt are much lower than world energy prices, and they have repeatedly urged that energy prices should be raised towards the international level (IBRD, 1983 and 1985; IMF, 1985).

As this prescription recurs in the Bank and Fund documents on Egypt, it should perhaps be discussed in somewhat greater detail. First, we should demistify the so-called 'international prices' of oil. No convincing justification has been given for adopting such prices as the norm. The fact that Egypt is a price taker on the world oil market does not justify the adoption of such prices as the

measure of the domestic value of oil.[18] Second, the domestic price of oil is a national parameter. It should mesh in with other parameters of the economy. For example, one cannot ignore the effect on per-capita income differentials. Third, the argument for raising the domestic price of energy products could be put on a more solid basis. This is derived from the hard evidence that the real relative price of energy in Egypt has been falling consistently over the past twenty years (see Abdel-Khalek, 1984). It seems logical to put real energy prices back in line with other prices in the economy. Raising it to the level of world prices may, however, result in overshooting, particularly since 85 per cent of the domestic consumption of oil is intermediate. Raising domestic energy prices, given these structural characteristics, may result in a significant reduction in effective protection. To this should also be added the likely contraction caused by the oil price increase because of the 'excise tax' effect.

In this regard, it is significant that the World Bank has advocated a policy package involving both exchange-rate devaluation and domestic oil-price increase simultaneously. The devaluation component of the package is to be designed so as to compensate for the increase in increased domestic costs due to the higher energy prices (IBRD, 1980, p. 79). Such spillover effects would be significant in view of the low price elasticity of energy consumption in Egypt (Abdel-Khalek, 1987). In the context, therefore, of this price rigidity of energy consumption, the effects of the package on aggregate economic activity, on resource allocation to industry and on equity, must be weighed against any possible balance-of-payments benefits.

The upshot is that the domestic price/world price differential for energy is not very meaningful as an indication of price distortion. Adopting IMF and World Bank suggestions in this regard may actually be destabilizing. It would result in tying the Egyptian economy to the gyrations

of the world oil market. It would also endanger the standard of living of the poor.

But our argument against pegging the domestic sale price of energy to world prices should not rule out the need for corrective measures to remove genuine cost/price distortions in the economy. The need for correction and its basis in Egypt's case have already been discussed. Two main areas stand out: basic agricultural products, and public-sector products. In these areas, considerations of revenue generation and consumer subsidization are closely linked. The price-determination rules applying to various factor and commodity markets are given in Annex II. As to agricultural products, private profitability of the basic agricultural products fell over the decade 1974-83. Thus, the ratio of farm-gate price to unit production costs fell by 28 per cent for cotton, 21 per cent for wheat, 46 per cent for broad beans, 5 per cent for rice, and 50 per cent for sugar cane (see Table 13). Cotton, rice and sugar cane are the most important summer crops marketed by the government; they accounted for nearly half of the total cultivated area during 1977-83. Wheat and broad beans are the most important winter crops marketed by the government; they accounted 32.8 per cent of cultivated area during the same period.

But the most important problem of pricing within the agricultural sector relates to the internal terms of trade between tradeables and non-tradeables. The most important tradeables are the crops mentioned above (except sugar cane) in addition to maize. The most important non-tradeables comprise Egyptian clover (berseem), which accounts for 55.3 per cent of the cultivated area of winter crops. It is interesting to note that the devaluation of the 1970s failed to divert agricultural resources from the production of non-tradeables to tradeables (berseem vs. wheat in the case of winter crops). This may be attributed mainly to the rules of price-formation applied in each case.

The EFF package dealing with structural reform emphasized the need to allocate more resources to agriculture. One cannot overestimate the need to strengthen the agricultural base of the Egyptian economy. Agriculture has lagged behind the entire economy over the past decade (Ministry of Agriculture, n.d.; World Bank, 1983; Abdel-Khalek, 1982), its GDP-share having fallen from almost one-third to about one-fifth (see Table 1). The country imports about half of its food requirements and as much as 75 per cent of its wheat. The poor performance of the sector may be explained partly by changing consumption patterns and labour migration, but also partly by the deterioration in the terms of trade of the agricultural sector (see Table 13; and Shura Council, 1985, pp. 47-48).[23] Attracting more resources to agriculture, which is one aspect of the structural-reform component of the stabilization package, clearly requires more favourable terms of trade for the sector.

But manufacturing has also suffered serious cost/price distortions (Shura Council, 1985; World Bank, 1983). It has been losing ground both in terms of its share in GDP (see Table 1) and its contribution to merchandise exports.

The basic structural problem of the Egyptian economy therefore has been that, aside from oil, the commodity-producing sectors have lagged behind. This has undermined the long-run growth potential of the economy, and has made the task of short-run management increasingly difficult. It is in this broader context that one should consider the selection of agriculture as a priority sector in the stabilization package of the 1970s. It may be argued that such priority should be extended to the other commodity sectors, notably manufacturing. In this context certain elements of the stabilization package, namely raising domestic energy prices to the level of world prices, raising interest rates and import liberalization, were inimical to manufacturing. If the intention of the package was to

neglect this sector, then it was certainly well-designed. If on the other hand, the intention was to encourage it, then the package suffered at very least from internal inconsistency. Irrespective of the intention, however, manufacturing lost ground during the stabilization, and this decline cannot be divorced from certain elements of the stabilization package. The IMF package led to a process of de-industrialization.

III EFFECT OF STABILIZATION ATTEMPT ON VARIOUS GROUPS

1. The social matrix: whose meat and whose poison?

Any full discussion of the political economy of stabilization programmes requires identification of the social forces affected, in various ways, by the programme. Measures taken often resemble a zero-sum game benefitting some socio-economic groups at the expense of others. However, some measures may benefit or hurt all groups, though in differing degrees. The final outcome of any policy measure is conditioned by the nature of the various markets and institutions which shape production and distribution relations in society. The role played by the state assumes particular importance in this context.

The identification of the socio-economic groups relevant to the discussion of the political economy of stabilization is particularly hazardous in the case of the Egyptian economy, which can perhaps be viewed more as a constellation of sub-economies strung together, rather than as an integrated whole. The most important factors contributing to this complexity are the varied and changing pricing rules for factors and products (see Annex II), the pattern of ownership, the nature of production, etc.

As a first and rough approximation, one may distinguish the following socio-economic groups: 1. wage labour; 2. the peasantry; 3. public-sector business; and 4. private-sector business.

2. Wage labour

Wage labour refers to sheer labour power, divorced from any ownership of the means of production. Two distinct subgroups must be distinguished in view of the different rules of wage determination and unionization.

(a) Wage labour in the government and the public sector reached 3.7 million in 1984 (CAOM, 1985, p. 7). Of this, 2.4 million were in the government and about 1.3 million in the public sector. Government employees are not unionized. Public sector workers are. But effectively, their unions are state-controlled, and strike action is prohibited by law. Labour in both the government and the public sector account for close to 37 per cent of the total labour force.[20] Wages of this group are largely government-controlled (see Annex II).

(b) Wage labour in the private sector is located in agriculture, construction and private manufacturing and service sectors. On the basis of the Labour Force Sample Survey, it may be estimated at 2.7 million in 1980, representing 26 per cent of total labour force.[21] Wages for this category of labour freely adjust to reflect market conditions. There is unionization of labour in certain sectors, but it is not very effective for wage setting considering the ban on strikes.

3. The peasantry

Peasants are defined as owners of less than five feddans of agricultural land.[22] According to the 1980 official data, they number 3.5 million, representing 95 per cent of land owners and owning 53 per cent of total area owned (5.5 million feddans) (CAPMAS, 1983, p. 74). This socio-economic group produces the bulk of the crops marketed by the government (cotton, rice, wheat, sugar cane, broad beans and onions) and berseem.

4. Public-sector business

This is the backbone of the economy outside agriculture. Public sector companies contributed about one-third of GNP on the average during 1975-79. It is particularly significant in industry and mining, energy, construction,

transport and communications, supply and commerce and finance. Its share of investment averaged 27 per cent (excluding the government) and it employed 11 per cent of the total labour force in the economy, earning 20-25 per cent of total wages. Capital assets in this sector are estimated at LE 12 billion in 1979 (see Table 14).[23]

5. Private-sector business

This is important in certain sectors (notably services and small-scale industry), and is gaining importance in the context of the open-door policy (ifitah). This group includes rather diverse sub-groups: national capitalists in industry and agriculture, compradors and even rentiers. For the purpose of discussing the effects of the stabilization measures, these subgroups should be distinguished.

6. The approximate effects

To establish the various effects of the stabilization programme it is necessary to separate these effects from the effects of other shocks to the system and to take fully into account indirect effects on various socio-economic groups.[24] For lack of a better alternative, our analysis uses data already analyzed covering the period 1974-1983/84.[25] The conclusions of this part of the study are thus tentative and largely speculative by nature.[26]

It may be useful to think of the stabilization measures as falling under the following main categories:[27]

(a) Demand-side measures geared to reduce absorption;

(b) Supply-side measures aiming at restructuring the economy toward producing more tradeables; and

(c) Changes in overall strategy concurrent with the stabilization attempt.

The thrust of the EFF package of the 1970s belongs mainly to categories (a) and (b). For measures belonging to category (a), we focus on devaluation, raising interest rates, credit restriction and reducing the fiscal deficit through cutting down subsidies. Aside from devaluation, which can be viewed partly as a supply-side measure, measures which are supply-side in nature (category b) were only vaguely stated; no performance criteria were stipulated for them. It is difficult, therefore, to be specific about their possible effects on various groups. We end this section by discussing the implications of measures belonging to category (c).

The effect of devaluation, raising interest rates, and reducing subsidies on wage labour in the government and public sector is easy to establish. All three measures caused cost-push inflation against which this group was unable to protect itself due to its weak bargaining position and other institutional considerations shown in the fact that government- and public-sector employment is basically a fix-price sector (see Annex II; Hansen and Radwan, 1982, pp. 70-77, and pp. 146-7). The share of wages in government expenditure dropped to 9 per cent in 1979 compared to an average of about 13 per cent for 1974-78 (Mansour, 1983, p. 25). Over the period 1974-79, annual money salaries in government administration grew at about 10 per cent per annum (Hansen and Radwan, 1982, Table 22), less than the official estimate of the annual rate of inflation of 11-13 per cent (measured by the CPI, see Table 7). Public sector workers fared a little better. The average annual wage rate of labour in public-sector manufacturing rose from LE 599 in 1975 to LE 1068 in 1982, at an average growth rate of 11.1 per cent (Hansen an Radwan, Table 22; and CAPMAS, 1985). Although no is data available for the same period with regard to wages in other public-sector employment, circumstantial evidence suggests that, overall, the wages of public-sector labour grew faster than wages in manufacturing, but perhaps not significantly much faster. We

may conclude, therefore, that real wages of labour in government and public sector probably declined.

The effect on labour in the private sector is not as clear-cut. Both domestic interest rate increases and subsidy cuts had detrimental effects on this group by engendering cost-push inflation. On the other hand, devaluation may have had a mixed effect on them. While causing cost-push inflation, which hurt this group, the change in the black-market exchange rate consequent on devaluation (see Table 6) also accentuated the wage differentials between the domestic and the outside labour markets, contributing to labour migration and hence to a relative shortage of labour. The shortage seems to have contributed to the rapid rise in domestic wage rate in sectors such as construction, agriculture and maintenance-related services.[28] It should be noted, however, that devaluation only encouraged the process of labour migration which was already in full swing anyway. The other demand-side measures, namely reducing the ratio of the public-sector deficit to GDP and restricting credit, may have helped this group to the extent that they moderated inflationary pressures. Available evidence suggests that the lot of this group improved during the 1970s (the real daily wage of agricultural labourers more than doubled between 1975 and 1982 but this was not due to the stabilization measures).[29] As to wage labour in private manufacturing, its annual wage rose by 15.3 per cent between 1970 and 1980, slightly ahead of official inflation figures for the period (CAPMAS, 1985). However, care should be taken not to attribute such developments to the stabilization measures; in fact, had these measures been implemented in full, they would have brought about a deflationary situation detrimental to private-sector labour.

Table 15 shows that from 1975 to 1979 the share of total wages in GDP fell steadily, and although the trend was reversed in 1982/83, the share was then still much lower than in 1975. This pattern holds even after excluding

petroleum and Suez Canal (both are state-owned, and both have a high share of property income). Moreover, after picking up in the first half of the 1970s, real wages fell in absolute terms during 1976-77, and in 1979 they were still below their 1975 level. This was a true wage squeeze, not unrelated to the attempted stabilization.

The peasantry, which mainly produces commodities whose prices are fixed by the government under the system of compulsory delivery, did not gain from devaluation, since production-cost increases wiped out the rise in farm-gate prices (see Table 13). While it may be argued that the subsidy cut had a detrimental effect on this group since subsidies account for a significant proportion of total consumption expenditure of the poorest quartile in rural areas.[30]

Devaluation coupled with import liberalization has dealt a severe blow to the public business sector. As a result of devaluation, the cost of living rose, and at the same time liberalization allowed competitive imports to eat into the home market previously enjoyed by the public sector. The result was rising indebtedness, increased idle capacity, and excessive inventory accumulation. Raising interest rates also compunded the difficulties. Overall, this sector is a clear loser in the stabilization process.

It is not clear whether the private business sector as such lost or gained on balance. This is a very heterogeneous category. It includes the traditional and the modern sectors; national-capitalists, rentiers and compradors as well as firms established under the foreign investment law (Law 43 for 1974, amended by Law 32 for 1977). However, it is clear that the stabilization measures benefited the comprador elements and holders of net foreign-currency assets.

The above discussion was not based on any explicit model of the economy. Its weakest aspect is perhaps the neglect of system-wide repercussions. However, it is interesting to compare the previous results, thus based, with the results of a simulation exercise based on a computable general-equilibrium model of the Egyptian economy (Hansen and Radwan, 1982, pp. 285-7).

Although the model is not directly suitable for analyzing the effect of stabilization measures,[31] several simulations involving stabilization-type measures were conducted for the ILO mission to Egypt in 1980 using it. Of relevance to our present discussion is a simulation involving a 50 per cent cut in consumer subsidies coupled with a 15 per cent increase in government and private wages. The macro effect is slightly contractionary, with real GDP falling by 1.3 per cent. The impact on the import surplus is more pronounced - a 13.5 per cent fall. But there is a 7.4 per cent rise in government deficit. There is also contraction of both sectors output and factor demand, and an increase in the cost of living. Somewhat unexpectedly, income distribution changes in favour of the urban sector.[32] This is probably because the compensating wage increase is by nature concentrated in the urban sector. The outcome of such stabilization-type policy is clearly both contractionary and inegalitarian.

The last point in the assessment of the effect of the stabilization attempt on the various socio-economic groups relates to the changes in overall strategy which amounted to redefining national priorities, and in particular reinstating market forces as both the allocative and distributive mechanism.

The argument in favour of market forces suffers on two accounts: logical and empirical. On logical grounds, the argument is not in line with the established principles of the theory of second best - the removal of some of the

constraints while leaving others intact may lead to a less optimal situation. As an example, trade liberalization by a country which faces large multinational corporations on the world market may clearly do more harm than good. Such was Egypt's experience in the nineteenth century when she was forced to dismantle the monopolies set up by Mohamed Ali. This eventually led to the collapse of his economic edifice.

On empirical grounds, the structural rigidity characteristic of LDCs limits production possibilities considerably. The alternative to the pre-liberalization use of resources may be to become idle, rather than shift to alternative uses. This was the basis for the Linderian thesis that liberalizing trade is not necessarily better - even from a world-welfare point of view (Linder, 1961). It is not true, therefore, that market forces will necessarily produce better results than an interventionist stance.[33] Neither has it been proven beyond doubt that the private sector is better than the public sector as a form of economic organization in all countries and at all times.

IV THE 1987-88 STAND-BY ARRANGEMENTS AND ALTERNATIVES

As already mentioned, the 1977-78 and the 1979-81 stabilization packages were not fully implemented. Thanks to the large capital flows that Egypt received after 1979, it was able to finance its current-account deficit without IMF official support. Annual net inflows for the period 1979-1981/82 averaged 119 per cent of the current-account deficit (see Table 4 and Table 5-A). Another booster was the second jump in oil prices in 1979-80. As a result, Egypt adopted an eclectic attitude towards stabilization. The government continued to implement certain elements of the EFF package such as devaluation, raising domestic interest rates and reducing subsidies. Other elements, notably the budget deficit and credit ceilings, were not observed. On the whole, it may be said that Egypt continued along IMF-suggested policy lines without formal agreement (Korayem, 1986).

But the situation changed drastically in 1984/85. Old debt outstanding, particularly that owed to the Gulf Organization for Development in Egypt (GOWE), fell due. At the same time long-term capital flows tapered off, and in 1981/82-1982/83 they fell short of debt repayment obligations, which approached two-thirds of merchandise exports (see Table 16). In addition to this, oil prices turned suddenly and drastically downward. For 1985/86, it is estimated that the drop in foreign exchange receipts in view of the deteriorating oil situation (both in terms of falling prices and reduced export volume) may reach some US $1200 million. In addition, oil fortunes in the case of Egypt also affect at least two of the country's major sources of foreign exchange: Suez Canal dues and workers' remittances.

This provides the background to the most recent package, formally concluded in May 1987, after a long period of protracted negotiations. Under the terms of the stand-by agreement (IMF, 1987) the Fund supports an economic and

financial programme to be implemented by the Egyptian government, authorizing purchases up to SDR 250 million (about US $327 million). The package runs through November 1988.[34]

The main objectives of the new stand-by programme are:

(i) preparing the ground for sustained economic growth,
(ii) reducing the rate of inflation, and
(iii) stabilizing the current-account deficit of the balance of payments.

To achieve these objectives, various measures are stipulated, covering exchange-rate, monetary and fiscal policies. The most important measures are:

a. Gradual simplification of the exchange-rate structure, and setting the exchange rate according to market conditions. Thus, partial devaluation-cum-unification was the first step taken. Most of transactions previously taking place at the adjustable commercial banks' rate (see Annex I) were shifted to the newly-established official free market for foreign exchange. This measure entailed a devaluation of the Egyptian pound on account of such transactions (about one third of current transactions) by sixty per cent (from L.E. 1.35 to L.E. 2.16 per US dollar at the start of the new system).

b. Increasing domestic energy prices gradually towards parity with international prices. A step was taken in this direction even before the signing of the stand-by agreement. In April 1987 domestic prices of kerosene and gas oil were raised by 60 per cent. Prices of natural gas and fuel oil for industrial uses were also raised significantly.

c. Liberalization of compulsory-delivery quotas and raising the procurement prices for agricultural crops.

d. Adjusting the public investment programme to match the availability of resourses.

e. Reducing the budget deficit from a pre-programme level of over 20 per cent to 13 per cent of GDP for the fiscal year 1987/88.[35]

f. Increasing domestic interest rates towards 20 per cent. An initial step was the increase in debtor rates by up to 2 percentage points, and the introduction of a differential interest rate structure depending on the term of bank loans on top of the existing differential according to sector.[36] It is expected that creditor interest rates will be raised also.

The duration of the programme turned out to be much shorter and the IMF resources made available in support of it much less than what was originally contemplated.[37] In fact the Fund resources for the recent 1987-88 stand-by are only some 40 per cent of those for the EFF programme of 1979-81.

The concern with sustained economic growth is highly important in view of the trend deceleration of the growth of the Egyptian economy since the mid-1980s. Capital formation is projected to drop in absolute terms in 1986/87.[38] Foreign exchange was the main factor constraining investment. As a result of foreign exchange shortages, imports as a whole fell by 9 per cent and imports of capital goods fell by 13.5 per cent in 1985/86.[39] Manufacturing industry was running considerably below capacity due to the unavailability of imported intermediate goods. Imports of fats and oils, mineral products and fuel dropped by a strong 34 per cent between 1984/85 and 1985/86.

Data are not available for calculating the real growth of the economy beyond 1983/84. But we believe, on the basis

of the above evidence, that Egypt's economic growth must have been extremely low, perhaps even negative, in 1985/86 and 1986/87.[40] The concern with growth as expressed in the recent stand-by agreement should be seen against this background.

Also justified is the concern with curbing inflation, in view of the doubling of the inflation rate between 1984/85 and 1986/87.[41] A number of measures are stipulated in the programme to deal with this problem. The most important single component is the reduction of the budget deficit. The target for the fiscal year 1987/88, as already mentioned, is to bring down the relative budget deficit to 13 per cent of GDP. This is a very ambitious undertaking, since it entails more than halving the deficit in just one year. It is noteworthy that the budget deficit stood at a staggering 27 per cent in 1985/86, and may even be higher for 1986/87.[42] At any rate, any reduction in the fiscal deficit will help cool off the economy and reduce inflationary pressures. There is a real risk, however, that the entire programme will prove not to be viable in the (not unlikely) event that the government is unable to put its finances in order. This is all the more likely in view of the fact that the budget-deficit target is not tied to sudden and unforeseen changes in Egypt's oil revenues.

Many of the other components of the stand-by programme may have the opposite effect of raising the inflation rate. Most notable here are devaluation, raising interest rates, increasing domestic energy prices, and raising procurement prices of agricultural crops. These measures should at the same time help reduce domestic absorption. Their net effect on the balance of payments may turn out to be negative if the cost-push effects outweigh the absorption-reducing effects.[43]

Perhaps the most tangible result of the stand-by package is that it paved the way for rescheduling of almost one

quarter of Egypt's foreign debt through the Paris Club. According to the terms of the rescheduling deal, about US $10 billion worth of Egypt's debt arrears through the end of 1986 are to be rescheduled over ten years, including a 5-year grace period.

Although rescheduling helps the country's short-run foreign exchange situation, it introduces serious problems for the medium term when the rescheduled debt falls due. This is the hard lesson of the country's rescheduling experience of ten years ago, through the Gulf Organization for Development in Egypt (GODE).

Naturally, a more detailed assessment of the 1987-88 stand-by package must await more specific details to be made public. But a number of additional remarks are in order in the present context.

1. The duration of the programme is too short to allow for a reasonable increase in aggregate supply, thereby throwing the burden of equilibrium on curtailing aggregate demand. This poses the danger of enforcing a recession. Given the nature of Egypt's current economic problems, it would have been more appropriate to design a reform package under the Fund's recently-established Structural Adjustment Facility.

2. It is highly likely that the present package may be too contractionary. This is supported by the evidence that efforts to reduce the budget deficit focus more on cutting government expenditure than on increasing government revenue. For example, there are reasonable economic and social ground for imposing a capital-gains tax on holders of foreign-exchange assets to raise additional government revenue and to counteract the wealth-effect resulting from devaluation. In addition, care should be taken in imposing credit restraint.

3. This programme is not really very different from the 1979-81 EFF package in terms of content and overall orientation. Like that package, it uses too few policy instruments. But the emphasis in the new programme on raising producer prices for agricultural crops is a good supply-side measure, if it were placed within a longer-term perspective.

4. The package rests on the premise that Egypt's problems are totally of her own doing, thereby neglecting the adverse impact of the external environment (deterioration of the oil market, the hike in the interest rate caused by the economic policies of industrialized countries, and the increase protectionist tendencies). Any package that seriously attempts to tackle the basic problems of the Egyptian economy, and for that matter many LDC's, must take this factor into consideration.

It is our judgment, therefore, that the current package, stressing as it does short-term stabilization rather than longer-term adjustment, may turn out to be self-defeating. The most eminent danger is that it could founder on the budget deficit criterion, leaving behind the legacy of a much depreciated pound and too high interest rates. The adverse distributional effects may turn out to be too dangerous to be acceptable politically.[44] Egypt may soon find itself facing a crisis situation even more difficult than the one which led to the present package. In view of this, as well as the unfavourable short-term prospects of the Egyptian economy, action is badly needed.

As other country experiences indicate, the timing and nature of action are crucial for the results (Ramos, 1985). Clearly, a rejection of the IMF package would call for the introduction of an alternative. The basic elements of an effective stabilization package should fulfil two requirements: first, to stem and eventually reverse the contraction of the economy; second, to protect the level of

living of the poor. It should be realized that equity issues are much harder to face under the strains of contraction. In what follows we offer some preliminary thoughts on the nature and content of an alternative package.

1. Achieving price stability should be assigned high priority. Egypt's experience in the seventies has demonstrated the role of devaluation, interest-rate increase and massive capital inflows as contributing factors to inflation. Overall price stability is crucial both for the balance-of-payments and resource-allocation considerations. It is also important for equity. Instead of arguing for further increases in the nominal interest rate, we should push for reducing the rate of inflation as a means of raising the real rate of return on financial assets.

2. Remedial measures to counter the adverse effects of external shocks, such as violent commodity-price fluctuations, interest rate and exchange-rate changes should be made an integral part of the mechanisms of adjustment; the way forward here has been shown in the IMF agreement with Mexico.[45]

3. The appropriate combination of market forces and the price mechanism with planning and direct controls. We have already argued in this study against complete submission to market forces. The exchange rate is just one vital parameter where such submission may prove extremely harmful. In this context the role of the government remains important. The orthodox stabilization package is pedicated on a "crowding-out" assumption. In Egypt, as in LDCs in general, the role of the govenrment is complementary to, rather than competitive with, that of the private sector. Government expenditure should be increased rather than reduced to counteract the contractionary tendencies.[46] The real issue here is not only <u>what</u> type of government expenditure, but <u>how</u> it is financed. In this context, an adjustment of relative prices to provide adequate incentives for producers of staple food crops is also vital to the attainment external balance.

V CONCLUDING REMARKS

As already noted, commitments by a country under a stabilization agreement usually include some strategy-related stipulations in addition to the specific policy measures in different areas. Such commitments, be they of the broad strategic type or the narrow-measure type, reflect very clearly the intellectual-theoretical stance of the IMF. Monetarism is the cornerstone, as it has been since Mr Jacques Polak made it the established theology of the Fund 30 years ago. It represents a remarkable fixation of view in a world that has witnessed drastic changes.

The Fund insists that its strategic and policy prescriptions are detached from any bias on its part.[47] The analysis in this study shows, however, that the overall policy position of the Fund suffers from basic internal inconsistencies. One such inconsistency is the insistence on devaluation and import liberalization as means to correct the balance-of-payments disequilibrium. Each of these prescribed measures pulls in the opposite direction to the other. Some of the strategic stipulations, usually couched under the euphenism of 'liberalization' and 'decentralization', clearly infringe some of the basic rights of the state already acknowledged through the International Declaration on the Economic Rights and Duties of Nations.

More importantly, measures intended to encourage a shift of more resources to the production of tradeable goods helped to shift more resources to non-tradeables, basically to service sectors, and away from commodity-producing sectors. This has greatly undermined the country's productive capacity and increased its vulnerability to outside forces.

Another interesting result of the analysis is related to the effect of devaluation. In the theoretical model

underlying IMF prescriptions, devaluation should lead to reduced absorption which in turn helps both the balance-of-payments and general price stability. In Egypt's experience, it appears that devaluation has led instead to increased absorption. This may be explained by the wealth effect of the revaluation of foreign-currency assets, which seems to have outweighed the supposedly low spending propensity of the rich (basically holders of foreign-currency deposits). This reveals a crucial point - IMF prescriptions lack the general validity which they are believed to have. They should be tailored much more carefully to the specific circumstances of individual countries. To assist this, the use of more policy instruments may be needed.

Perhaps the most effective instrument suggested by the IMF, in terms of its narrow objectives is the interest rate. The increase in the domestic interest rates has shifted bank deposits towards longer-maturity deposits and local-currency deposits. At the margin, this may be considered a positive development.

As expected, the analysis of the effect of stabilization measures on the various socio-economic groups shows that the thrust of the Extended Fund Facility to Egypt for 1979-81 was against 'labour' and in favour of 'capital'. But within each of these two broad categories, there is evidence of differential effects. Labour in the government and public sector has been a clear victim; the effect on private-sector labour was less clear-cut. In total, labour was a clear loser.

The stand-by agreement with the Fund of May 1987 is similar to previous packages in terms of contents, but involves much less commitment of the IMF's direct resources, and is of much shorter duration. Against this background, an alternative package is needed. Such a package would put more emphasis on selective controls vis-a-vis market forces. It

would also stress the need to increase aggregate supply by adjusting relative prices to provide more incentives for producing staple food crops. The alternative package would also acknowledge the role of the government; in Egypt government expenditure 'crowds in' rather than 'crowds out' private investment. In the technical design of the set of policies, the proposed package underlines the need for a larger number of policy instruments than is usually entertained in Fund-supported packages. But above all, the design of the suggested package is predicated on the vital need to take the international economic environment much more fully into consideration.

FOOTNOTES

1. During 1961-62 the country faced a foreign-exchange crisis as a result of a number of unfavourable developments. There was a cotton crop failure and a fall in rice production which resulted in reduced exports. Between 1960 and 1962 cotton exports dropped by 38 per cent and merchandise exports fell by 20 per cent. At the same time, Egypt had standing commitments on capital account. Faced with the crisis, Egypt signed a stabilization agreement with the IMF effective May 1962.

2. The 1977-78 package stipulated also the gradual elimination of arrears on current payments so that they would completely disappear by the end of 1977. The 1979-81 package did not have a similar stipulation on arrears, since Egypt, thanks to the long-term loan of the Gulf Organization for the Development of Egypt (GODE), converted its short-term debt into longer maturities.

3. The export price of Egypt's oil rose from $ 12.41 a barrel in January 1979, to a peak of $ 38.15 in January 1981. These are weighted-average prices of the three oil varieties produced and exported by Egypt: Morgan blend, Belayim blend and Ras Gharib blend (see IBRD, 1985, Table 9.6). The value of Egypt's petroleum exports jumped from $ 1261 million in 1978 to $ 2825 million in 1979 and to $ 4489 million in 1980/81.

4. A recent study concluded that imported inputs could not be related to price but were wholly explained by output levels. Capital goods imports were found to be more influenced by policy factors. Demand for food imports was inelastic while non-food imports were more of an exogenous variable (see El-Sheikh, 1980, pp. 67-77).

5. Some public-sector banks and many joint banks follow the practice of valuing foreign-currency deposits, for the purpose of granting credit guaranteed by such deposits, at an exchange rate higher than the Central Bank declared rate (LE 1.35 per $) but lower than the black-market rate (currently about LE 1.90 per $).

6. The usual concept in the literature for dealing with this issue is the so-called real effective exchange rate. It has been dismissed by some writers on the grounds that the exchange rate, by definition, is a relative price category, and hence is not amenable to adjustment by relative price movements (see Maciejewski, 1983).

7. It should be emphasized that the worsening trade balance may be attributed to yet another element of the stabilization package, namely the abolition of trade and payments agreements and the liberalization of imports by expanding the open licence system. This process actually started under the stand-by agreement of 1977. Thus by June 1978, out of 25 standing bilateral trade agreements and payments arrangements, 13 were terminated (CBE, 1978, p. 26). By September 1981, there were only 4 such agreements and arrangements remaining, two of which were with IMF members (the Sudan and People's Democratic Republic of China) and two with non-IMF members (the Soviet Union and North Korea), (CBE, 1982, p. 20). The 1985 IMF staff report to the Executive Board stated that the Fund hoped that Egypt would terminate the two remaining bilateral payment agreements with Fund members as soon as possible (see Arab Republic of Egypt-Staff Report for 1985 Article IV Consultation, SM/85/177, June 24, 1985, p. 25.)

8. McKinnon defines financial growth as the increase in the ratio of time and saving deposits to money supply. Financial growth is measured as $((M_2-M_1)/M_1)$ 100. (For details see McKinnon, 1973, Ch. 7.)

9. They include deposits at cooperative and specialized banks, but apparently exclude Postal Saving Deposits (see Central Bank of Egypt, 1982, p. 5).

10. The risk of shut-down should in fact be expected to increase in view of yet another element of the stabilization package i.e. liberalization of imports.

11. Money supply rose at the rate of about 27 per cent during 1974-78 (see NBE, Economic Bulletin, Vol. 34, No. 122, Table 1/4). Money supply is here broadly defined to include government bank deposits in addition to private domestic liquidity.

12. See, for example, the interesting chapter by Seers in Karel Jansen (ed.), Monetarism, Economic Crisis and the Third World (London: Frank Gass, 1983). Seers makes reference to the experience of the USSR and Czechoslovakia in the early years of socialist regimes, and in Chile after Allende.

13. Neither can one argue that the credit ceilings are motivated by the fact that the share of credit to the public sector is much higher than of the private sector; what matters for price stability the relevant growth rates. Perhaps the rationale for the differential ceilings is related to the fact that bank credit to the public sector is correlated with the budget deficit. The lower ceilings on credit to the public sector may thus be justified by the desire to cut the budget deficit.

14. Note that this proportion is derived by applying the unified exchange rate to the 1978 data to ensure comparability with figures for the programme years. But the actual proportion of fiscal deficit to GDP in 1978 was 23 per cent.

15. For example, according to the Household Budget Survey data of 1974/75, 60 per cent of the urban population in Egypt was spending one-fifth to one half of their aggregate budget on the main subsidized food items (see Korayem, 1982). Transfers through the subsidy system contributed about 13 per cent and 18 per cent of the expenditure of the poorest quartile in urban and rural areas, respectively, in 1981/82 (see Alderman and von Braun, 1984).

16. See the classic article by Francis M. Bator, "The Anatomy of Market Failure", QJE (August, 1958), published in William Breit and Harold M. Hochman (eds.), Readings in Microeconomics (New York: Holt, Rinehart & Winston, 1968).

17. See the chapter by Seers in Karel Jansen (1983).

18. It was argued elsewhere that the shadow price or scarcity value of oil for Egypt may perhaps be much higher than the world price (Abdel-Khalek, 1982; Dervis

et.al., 1984). This is based on the oil production/reserve ratio in Egypt relative to that of the world as a whole. The oil depletion rate in Egypt - given proven reserves and the current rate of production - is almost three times that of the world. That should not mean, of course, raising actual prices to the extent thus warranted on this basis, but rather using this shadow value for investment planning and resource allocation.

19. It should be emphasized that the empirical basis for this is partial; it leaves out some agricultural crops such as fruits and vegetables and the cost of agricultural inputs. The latter may be rising as a result of liberalization.

20. World Bank, Arab Republic of Egypt: Issues of Trade Strategy and Investment Planning (Jan. 14, 1983, Report No. 4136-EGT, p. 221). This source gives a ratio of employment in government public sector and public utilities of 38 per cent. Official data indicate that employment in public utilities account for 1 per cent of total employment (see CAPMAS, Statistical Yearbook, Arab Republic of Egypt, June 1984, p. 262). Another source puts the ratio of public employment including the armed forces, at one-third of the labour force (see Bent Hansen and Samir Radwan, Employment Opportunities and Equity in Egypt, Geneva: ILO, 1982, p. 140).

21. According to the Labour Force Survey (LFS of May 1980), total wage labour was 5.567 million. If we assume that wage labour in government and public sector for 1980 was 2.900 million (on the basis of an annual growth rate of 5 per cent this produces the 3.7 million figure quoted in the text for 1984), then wage employment in the private sector amounts to 2.667 million. The total labour force in 1980 was 10.335 million (see CAPMAS, Labour Force Sample Survey, Results of the May 1980 Round, Ref. No. 81/12525-71, Dec. 1981, p. 38).

22. One feddan equals 1.05 acres.

23. A recent figure of LE 30 billion for 1985 has been suggested by some experts.

24. One example is the general equilibrium model built at Cairo University's DRTPC known as GEM3. But the Core of the model's structure, the (I-A) matrix, is almost 10 years old, severely limiting its accuracy.

25. Between 1973 and 1979 Egypt's fiscal year concided with the calendar year. Starting 1980 the start of the fiscal year was changed back to the beginning of July as it was before 1973. Thus, 1980/81 is the year spanning July 1, 1980 - June 30, 1981.

26. The difficulty is compounded by the polarization of views between the so-called "critics" on the one side and Fund itself on the other. (See Carlos Diaz-Alejandro, "A Note on the Impact of Devaluation and the Redistributive Effect", JPE, Vol. 71, 1963, pp. 577-580; G.K. Helleiner, "Stabilization Policies and the Poor", Dept. of Economics, University of Toronto, Working Paper No. B9, April 1985; Omotunde Johnson and Joanne Salop, "Distributional Aspects of Stabilization Programs in Developing Countries", IMF Staff Papers, Vol, 27, No. 1, March 1980: Charles A. Sisson, "Fund Supported Programs and Income Distribution in LDCs", Finance and Development, March 1986; Henry Bienen and Mark Gersovits, "Economic Stabilization and Political Stability", International Organization, Vol. 39, No. 4, Autumn 1985, pp. 729-754; G.K. Helleiner, "Lender of Early Resort: the IMF and the Poorest", ARE, Vol. 73, No. 2, May 1983, pp. 349-553; Lauka T. Katseli, "Devaluation: A Critical Appraisal of the IMF's Policy Prescriptions", Ibid., pp. 359-363).

27. This is similar to the classification given by Helleiner (see G.K. Helleiner, "Stabilization Policies and the Poor", Op.cit., p. 8). It should be noted that he does not particularly use the terms supply-side and demand-side.

28. Devaluation could have also contributed to an environment conducive to wage increases, had it resulted in a significant enough rise in the production of exportables, which did not happen.

29. Unpublished data from the Ministry of Agriculture

30. But on the other hand, cutting subsidies may benefit them if the government also allows more flexibility in setting farm-gate prices for basic food crops - mainly wheat, rice and broad beans.

31. The GEM3 is a 12-sector demand-oriented model with perfect factor substitution and price clearing markets. The model leaves out the effect of capital accumulation on capacity and treats imports as complementary to domestic production. It has neither a money nor a financial sector. In addition the structure is based on out-dated 1976 SAM. Because of these structural and data problems, the model could not be used to analyze the effect of various stabilization measures.

32. The model distinguishes three income groups in each of the rural and urban sectors - the lower 60 per cent, the middle 30 per cent and the upper 10 per cent. This does not exactly correspond to the classification adopted here into socio-economic groups.

33. For a similar conclusion based on the experience of Jamaica, Peru and Portugal, see Norman Girvan, "Swallowing the IMF Medicine in the Seventies", Development Dialogue, 1980: 2, pp. 55-74.

34. It should be clearly emphasized that the specifics of the programme have not been made public. Neither have they all been worked out in detail. Many aspects of the programme are still under discussion between the Fund and the Egyptian government.

35. Available data based on final government accounts rather than budget appropriations indicate a much higher (27 %) ratio of overall budget deficit to GDP for 1985/86. There is no reason to believe that the ratio has fallen significantly in 1986/87. In fact, in view of the deterioration of the country's foreign-exchange earnings and the concomitant fall in government revenue, the ratio may have even increased.

36. Before the recent amendment in May 1987, debtor interest rates were differentially escalating, with a range of 11-13 % on loans to agriculture and industry, 13-15 % on

loans to the household and service sectors, and 16 % minimum on loans for trade. According to the new structure, these old rates continue to apply on loans with maturities less than one year. One percentage point was added to rates for maturity of 1-2 years, and another one percentage point was added for maturity longer than one year.

37. During the earlier phase of the negotiation, it was envisaged that the package will run for 36 months, and the IMF resources in support of the package will range between US $1000-1500 million (MEED, 21 December 1985; and South, April 1986).

38. According to the Central Bank of Egypt (CBE, Annual Report 1985/86) total capital formation in 1981/82 prices is projected to fall from L.E. 5.717 billion to L.E. 5.662 billion.

39. Provisional figures by the Central Bank of Egypt show a decline in total imports from L.E. 7.5 billion in 1984/85 to L.E. 6.8 billion in 1985/86. Imports of machinery and transport equipment, base metals and manufacturers thereof fell from L.E. 2.494 to L.E. 2.158 (CBE, Annual Report 1985/86).

40. Ministry of Planning data on GDP, reported by the Central Bank of Egypt give only expected figures for 1985/86 and projected figures for 1986/87, showing slower growth compared to the record of the first half of the eighties. But these figures do not reflect the difficult foreign-exchange crisis of 1985-87, precipitated by the collapse of oil prices and related foreign-exchange earnings and the collapse of the tourist industry during 1986.

41. The consumer price index for urban areas rose from 10.1 % in 1984/85 to 19.2 % in 1985/86. It should be noted that official CPI data considerably underestimate the rate of inflation, because of several factors (the outdated weights used in constructing the index, and the reliance on official prices). Actual inflation should be much higher, possibly in the neighbourhood of 30 per cent, for 1985/86.

42. In recent years there has been striking divergence between budget appropriations and actual figures. According to final government account, actual overall budget deficit for the years 1983/84-1985/86 was L.E. 5.3, 6.9 and 9.8 billion, against planned figures of L.E. 5.0, 5,4 and 4.9, respectively. Sources of the above data are the published budget documents and the unpublished state final accounts.

43. The inflationary effect of 'correcting prices' by eliminating the so-called cost/price distortions may outweigh the inflationary effect of reducing the rate of credit expansion, and the net effect may be an increase in the inflation rate. This was the lesson of Egypt's own experience. Thus, according to official estimates by the Central Bank of Egypt, the doubling of the inflation rate between 1984/85 and 1985/86 took place despite the lowering of the rate of monetary expansion from 15.3 % to 13.4 % between the two years (CBE, 1985/86).

44. To alleviate the negative distribution effect, the government recently announced a 20 per cent increase in wages and salaries for workers in the public and the private sectors. This will not compensate fully for the increase in the cost of living due to implementing the programme, but it also feeds inflationary expectations.

45. The recent agreement between the IMF and Mexico linking IMF support to the price of oil is an example. But it could naturally be extended to cover interest-rate and exchange rate fluctuations.

46. It is significant to note, therefore, that the 1986/87 budget involves a figure for investment expenditure (LE 5150 million) lower than that for 1985/86 (LE 5430 million). See Ministry of Finance, Fiscal Statement Regarding Draft Government Budget for 1986/87, Cairo, 1986, p. 46.

47. See "The IMF's Role in Developing Countries: an Exchange between Tony Killick, Director of ODI, and the Editor", Finance & Development, Vol. 21, No. 3, Sept. 1984).

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Table 1: GDP Sectoral Shares and Growth Rates
1969/70 - 1984/85
(in 1975 prices)

Sector \ Year	1969/70	1977	1981/82	1984/85	Average growth		Annual rates
					1969/70 1977	1977 81/82	1981/82 84/83
Agriculture	31.1	22.7	17.3	16.6	2.0	2.6	2.9
Industry & Mining	15.6	15.4	13.9	14.6	6.6	6.8	10.3
Petroleum & Products	5.1	5.8	6.9	15.9	8.8	14.5	13.6
Electricity	1.0	1.3	1.1	0.7	10.8	5.4	10.7
Construction	6.2	4.9	5.4	4.5	3.0	12.8	6.7
Commodity sectors I[a]	53.9	44.3	37.7	36.4	3.7	5.4	6.3
Commodity sectors II[a]	59.0	50.1	44.6	52.3	4.2	6.6	7.6
Trans. comm . & stor.	3.5	6.8	6.7	6.1	17.2	9.4	8.9
Suez Canal	0.0	2.5	4.1	2.6	-	24.0	0.4
Trade, Finance & Insur.	14.8	19.3	22.7	19.8	10.8	14.2	8.1
Hotels & Restaurants	1.9	1.7	1.5	1.1	4.4	6.5	6.6
Productive services	20.2	30.3	35.0	29.6	13.1	13.8	7.4
Real Estate	4.5	3.7	3.6	2.0	3.7	8.7	9.5
Public utilities	0.3	0.3	0.3	0.3	8.8	8.1	8.3
Social & personal Ser.	5.5	4.2	4.2	4.2	2.8	9.6	8.3
Public services[b]	10.6	11.4	12.3	11.6	7.8	12.1	6.1
Social services	20.9	19.6	20.4	18.1	5.8	10.9	7.2
Total GDP	100.0	100.0	100.0	100.0	6.7	9.7	7.5

Notes: a I excludes petroleum and products, II includes them
b Public services include social insurance

Sources: 1969/70 - 1981/82, MOP, General Detailed Frame : Five-Year Plan for Economic and Social Development 1982/83 - 1986/87, Vol. I: Main Compenents (Cairo: The Ministry Nov. 1982), Tables (1) and (2).

Table 2: Resource Balance at Current Prices

(1974 - 1983/84)

	GDP	M	X	C		I		Domestic absorption
				CP	CG	IP	IG	
1974	1.00	.37	.21	.74	.21	.05	.17	1.17
75	1.00	.41	.20	.63	.25	.12	.22	1.22
76	1.00	.34	.22	.59	.25	.10	.19	1.13
77	1.00	.33	.22	.62	.20	.07	.22	1.11
78	1.00	.37	.22	.63	.21	.06	.25	1.15
79	1.00	.48	.30	.69	.17	.08	.25	1.19
80/81	1.00	.49	.33	.67	.19	.09	.21	1.16
81/82	1.00	.47	.32	.64	.21	.09	.21	1.15
82/83	1.00	.43	.29	.59	.24	.09	.22	1.14
83/84	1.00	.45	.29	.63	.25	.09	.19	1.16

Source: Based on data from Ministry of Planning, the Central Bank of Egypt and IBRD estimates as reported in IBRD, Arab Republic of Egypt : Current Economic Situation and Medium-Term Prospects (March 18,1985), Table 2.3.

Table 3: Oil Exports, Total Exports and Reasource Gap Excluding Oil Exports 1974-1983/84

(L.E million)

Year	Oil exports	Exports of goods and nfs excluding oil	Resource Gap Excluding Oil Exports	
			value	as % of GDP
1974	98	792	824	19
1975	185	868	1286	25
1976	324	1174	1113	17
1977	400	1476	1294	16
1978	490	1640	1986	20
1979	1978	1799	4342	34
1980/81	3142	2638	5809	34
1981/82	3268	3195	6273	31
1982/83	2916	3832	6089	26
1983/84	3177	4725	7510	27

Source : Same as Table II.

Table 4: Balance of Payments on Capital Account
1974 - 1983/84

(Million US dollar)

	1974	1975	1976	1977	1978	1979	1980/81	1981/82	1982/83	1983/84*
I- Current account balance	-1596	-2426	-1363	-1456	-1361	-1915	-2348	-3501	-2715	-3299
II- Autonomous capital flows	156	495	1091	1207	1528	2527	2280	2315	2512	2928
Direct investment	87	225	444	477	387	1375	836	885	966	897
Official loans (net)	- 21	210	490	803	1028	890	1220	1385	1257	1762
Private loans (net)	90	59	157	- 73	113	262	224	45	289	269
III- Balance on autonomous transactions	-1440	-1931	-272	-249	167	612	- 68	-1186	-203	-371
IV- Medium-term BOP financing	1261	1506	780	1601	809	72	-	-	-	-
grants	1261	986	705	382	291	72	-	-	-	-
loans	-	520	75	1219	518	-	-	-	-	-
V- Balance on non-monetary transactions	-179	-425	508	1352	976	684	- 68	-1186	-203	-371

Notes : * Estimated.

Source : Central Bank of Egypt, IMF and IBRD staff estimates as quoted in IBRD (-,1985), Table 3.2. It should be noted that the World Bank gives another series for the current account balance different from that given above, significantly for some years. See IBRD (-,1983), Table B.8. The older data were disregarded.

Table 5-A: Financing Current Account Deficit 1974 - 198/82

(L.E million)

	Current account deficit		Net transfers		Net capital flows		Change in Net foreign assets	
	Value	%	Value	%	Value	%	Value	%
At official rates								
1974	532.7	100	405.2	76.0	157.7	29.6	- 30.2	- 5.6
1975	968.6	100	421.3	43.5	695.3	71.8	-148.0	-15.3
1976	593.0	100	278.1	46.9	346.0	58.3	- 31.1	- 5.2
1977	493.0	100	174.2	35.3	388.0	78.7	- 69.1	-14.0
1978	498.4	100	135.0	27.1	412.0	82.7	- 48.6	- 9.8
1974 - 78	3085.8	100	1413.8	45.8	1999.0	64.8	-327.0	-10.6
At incentive rates								
1979/80	561.2	100	65.3	11.6	1217.0	217.1	-721.1	-128.7
1980/81	1101.4	100	43.9	4.0	853.9	77.5	+203.6	+ 18.5
1981/82	1889.5	100	35.7	1.9	2163.9	114.5	-310.1	- 16.4
1979/80-1981/82	3552.1	100	144.9	4.1	4234.8	119.2	-827.6	- 23.3

Source: Shura Council, Report of Financial and and Economic Affairs Committee on the Egyptian Balance of Payments 1952-1982/83 (1984). (Arabic), pp. 118-119.

Table 5-B: Remittances and Invisible Receipts

1975 - 1984/85

(L.E. million)

Year	Remittances					Invisible Receipts (4)	(3) as % of(4) (5)
	Monetary (1)	IN	Own-imposts (2)	IN	Total[4] (3)		
1975[1]	171.8	100	51.8	100	223.6	635.2	35.2
1976[1]	238.1	139	155.7	301	393.8	1317.9	29.9
1977[1]	358.2	208	267.2	516	625.4	1784.7	35.0
1978[1]	661.6	385	610.0	1178	1271.6	2410.0	52.8
1979/80[1]	792.6	461	1247.2	2408	2039.8	3459.5	59.0
1980/81[1]	854.4	497	1250.8	2415	2105.2	3834.9	54.9
1981/82[2]	532.7	310	842.7	1637	1375.4	3288.7	41.8
1982/83[2]	846.7	493	1312.0	2533	2158.7	5209.7	41.4
1983/84[2]	1057.0	615	1899.2	3666	2956.2	5873.1	50.3
1984/85[2]	724.3	422	2111.4[3]	4076	2835.7	5839.1	48.6

Notes: IN = Index Number.

1 According to parallel-market exchange rate.

2 According to rates declared by the Central Bank as of August 1981.

3 Excludes resources for own-imposts provided by commercial banks (L.E - 25.9 million for 1984/85).

4 Monetary remittances are those foreign-currency transfers by Egyptians working abroad exchanged for Egyptian pounds through the banking system according to the parallel exchange rate (prior to 1/8/1981) or the rate declared by the Central Bank (starting 1/8/1981). Foreign-currency deposited in banks in Egypt are not included in remittances. The total given in the table therefore is grossly underestimated on this account.

Sources : Remittances: The period 1975-1982/83, Shura Council (-,1984) P. 123 and 129.
The period 1983/84 - 1984/85, Central Bank of Egypt, Annual Report 1984/85.
Invisible Receipts: The period 1975-1981/82, Shura Council (-,1984),P.196 but applying parallel exchange rate.
The period 1982/83-1984/85, Central Bank of Egypt, Annual Report 1984/85.

Table 6: Exchange Rate 1973-1985

US $/L.E.

Date	Official[a]	Parallel[b]		Black Market		
		Nominal	Real	Nominal	Real	as % of parallel
	(1)	(2)	(3)	(4)	(5)	(6)
1/9/73	2.556	1.70	2.23	-	-	
19/2/76	2.556	1.57	2.58	n.a.	n.a.	
20/5/76	2.556	1.50	2.61	n.a.	n.a.	
28/11/76	2.556	1.43	2.62	1.42	2.60	99
31.12/78	2.556	1.43	3.27	n.a.	n.a.	
1/1/79	1.430	1.43	3.27	n.a.	n.a.	
Dec. 1980	1.430	1.43	4.34	1.22	3.70	85
1/1/81	1.430	1.19	3.61	n.a.	n.a.	n.a.
Dec. 1981	1.430	1.19	4.04	0.99	3.36	83
Dec. 1982	1.430	1.19	4.62	0.91	3.54	76
Dec. 1983	1.430	0.89[c]	4.23	0.85	4.04	95
Dec. 1984	1.430	0.81[d]	4.28	0.74	3.91	91
Dec. 1985	1.430	0.75	4.23	0.56	3.16	74

Notes: a) Starting 1/1/1979, official market was replaced by the Central Bank foreign exchange ppol.

b) Starting 1/1/1979, parallel market was replaced by authorized banks, foreign exchange pool.

c) March 1984.

d) January 1985.

Sources : (1) and (2): Shura Council Report of Committee on Financial and Economic Affairs: The Egyptian Balance of Payments 1952-1982/83, pp. 121-130 and Shura Council Report of Committee on Financial and Economic Affairs: The Exchange Rate (6/6/1986), p. 12.

(4) 1980-1983, ibid.,p. 129;1984-1985, National Bank of Egypt, unpublished data.

(3) and (5) derived by multiplying nominal rates in columns (2) and (4) into the CPI for the corresponding year from Table V.

Table 7: Inflation Trends 1965/66 - 1982
(1965/66 = 100)

Year	CPI			WPI	Inflation Rate %	
	R	U	T		CPI	WPI
1965/66	100.0	100.0	100.0	100.0		
1966/67	101.8	104.7	103.0	107.8	3.0	7.8
1967/68	103.6	106.8	105.0	110.2	1.9	2.2
1968/69	107.5	111.1	109.0	112.0	3.8	1.6
1969/70	115.5	114.3	115.0	114.6	5.5	2.3
1970/71	120.0	118.9	119.5	119.1	3.9	3.9
1971/72	119.7	121.8	120.6	119.3	0.9	0.2
1973	133.6	128.2	131.3	128.8	8.9	7.9
1974	152.3	142.1	147.9	147.2	12.6	14.3
1975	170.9	155.9	164.5	158.3	11.2	7.5
1976	191.2	171.9	182.9	170.7	11.2	7.8
1977	210.4	193.8	203.3	186.6	11.2	9.3
1978	238.8	215.3	228.7	214.1	12.5	14.3
1979	253.2	236.6	246.1	235.1	7.6	9.8
1980	316.6	285.5	303.2	285.2	23.2	21.3
1980/81	337.8	302.5	322.6	298.5	6.4	4.7
1981	359.8	315.4	339.8	308.9	5.3	3.5
1981/82	383.6	336.7	362.5	320.4	6.7	3.7
1982	410.1	362.2	388.5	337.5	7.2	5.3
1983	520.1	422.1	475.0*	n.a	22.3	
1984	547.9	505.2	528.2*	n.a	11.2	
1985	601.8	520.6	564.4*	n.a	6.9	

Notes: CPI = consumer price index.
WPI = wholesale price index
* average weighted by share of population: rural 54%, urbon 46 %.

Source : 1965/66 - 1982: CAPMAS, Measuring Inflation Trends in Egypt. (January 1983), Arabic.
1983-1985: CBE, Annual Report 1984/85, mid-year figures (1966/67 = 100)

Table 8: Selected Monetary Indicators (In millions of egyptian pounds).

	1976	1977	1978	1979	1980/81	1981/82	1982/83
Domentic Credit	4565	5422	8673	11419	15192	20859	24022
Claims on government (1)	2896	3382	5955	7627	8303	11031	12485
Claims on private sector	441	647	818	1433	3329	5579	6903
Money & Quasi-money	2411	3185	4114	5211	8342	12044	15432
Currency	1388	1750	2183	2657	3678	4688	6021
Private sector deposits	1023	1435	1931	2554	4664	7356	9411
a. demand deposits	540	782	948	855	1251	1513	1912
b. other deposits (2)	483	653	983	1699	3413	5843	7499
Private foreign currency (3)	-	416	618	792	1734	3402	4015
Public sector deposits	931	1331	1794	3026	4349	4973	5574

Notes: (1) includes central and local governments only, and this excludes public sestor enterprises and public authorities
(2) includes cooperative and specialized banks
(3) includes earmarked deposits

Source : Central Bank of Egypt.

Table 9: Structure of Interest Rates

(Percentages)

Effective from	jan.1	Mar.1	Jun.1	Jan.1	Apr.1	Jan.1	Jan.1	Aug.1	Jul.1	Dec.1
Rate	1976	1977	1978	1979	1980	1980	1981	1981	1982	1983
Central Bank Discount rate	6.0	7.0	8.0	9.0	10.0	11.0	12.0	12.0	13.0	13.0
Commercial banks										
Time & savings deposits										
3 months	2.4	4.0	5.5	6.0	7.0	7.5	8.5	8.5	8.5	8.5
6 months	2.7	4.5	6.0	6.5	7.5	8.0	9.0	9.5	9.5	9.5
1 year	3.0	5.0	6.5	7.0	8.0	9.0	9.5	10.0	11.0	11.0
2 years	3.0	5.0	7.0	7.5	8.5	9.5	10.5	10.5	12.0	12.0
3 years	3.0	5.0	7.0	8.0	9.0	10.0	11.0	11.0	12.5	12.5
5 years	3.0	5.0	7.0	8.5	9.5	10.5	10.5	11.5	13.0	13.0
Savings	2.4	5.0	5.0	6.0	7.0	8.0	8.5	8.5	10.0	10.0
Lending rates.									(1)	
minimm	7.0	8.0	9.0	10.0	11.0	12.0	13.0	13.0	13-15	-
									(2)	
maximm	8.0	9.0	11.0	12.0	13.0	14.0	15.0	15.0	16	-
Cotton or export related										
minimum	6.75	7.75	8.5	9.5	10.0	11.0	11.0	11.0	11.0	11.0
maxmium	6.75	6.75	8.5	9.5	11.0	12.0	13.0	13.0	13.0	13.0
Real interest rate for 3-5 - year time deposit.	-8.1	-6.1	-5.5	0.4	-14.2	-13.2	-1.1	-1.1	-1.8	-1.8

Notes : (1) Industrial sector maximum 13% and service sector 13-15% .

(2) Commercial sector 16% With no maximum.

Source: Nomional interest rate : Central Bank of Egypt.

Real interest rate : is calculatedas the excess of the nominal interest for 3-5 year time deperits over official estimate of infletion rate measured by the consumer price index.

Table 10: Development of Private Sector's Deposits wich Banks

(L.E..million)

End of period	1977	1978	1979	June 1980	1980/81	1981/82	1982/83	1983/84
Private Sector Deposits	1435	1931	2554	3185	4664	7356	9411	11472
1 - demand deposits	782	948	855	995	1251	1513	1912	2061
2 - time & savings) (non-demand)))	653	983	1699	2190	3413	5843	7499	9411
a -local-currency deposits	237	365	907	1054	1679	2441	3484	5097
b - F/C deposits	416	618	792	1136	1734	3402	4015	4314
Shares:								
of non-demand to total	46	51	66	69	73	79	80	82
of local-currency deposits to non-demand	36	37	53	48	49	42	46	54

Notes: Foreign-currency (F/C) deposits include foreign currency bank's deposits with the Central Bank of Egypt.

It is assumed that all foreign currency deposits are non-demand, which approximates reality although it may not be absolutely correct. In 1983/84 foreign-currency demand deposits represented only 10% of total foreign-currency deposits. There is no separate data on each of the two types of deposits before 1981/82.

Source: Central Bank of Egypt

Table 11: **Credit Guidelines in the 1979 - 1981 Stabilization Agreement**

Ceiling on / Date	Net Domestic Assets of Banking System	Net Bank Credit to the Public Sector	(2) as % of (1)
	(1)	(2)	(3)
March 31,1978 =	4173.7	3729.9	89
Spet 30, 1978 ≤	4493.7	3789.9	84
Dec. 31, 1978 ≤	4808.7	4009.9	83
March 31,1979 ≤	4723.7	3999.9	85
June 30, 1979 ≤	4978.7	4114.9	83

Source : Based on terms in the letter of intent dated June 10, 1978.

Table 12: Selected Fiscal Indicators (in million of Egyptian pounds):

	1976	1977	1978	1979	1980/81	1981/82	1982/83
Total public revenue	2015.3	2755.4	3306.3	3683.8	7372.8	8230.6	10160.1
Government current expenditure	1670.0	1701.0	2037.0	2494.7	3691.0	4893.5	6374.2
Public econ authorities							
Current deficit	42.0	55.0	58.0	60.0	67.3	100.4	127.6
Subsidies	434.0	650.0	710.0	1352.0	2166.4	2192.1	2053.6
Net capital expenditure(1)	154.0	214.0	443.0	643.0	864.9	1030.0	1170.7
Investment expenditure	980.0	1549.0	2311.0	2547.0	3675.6	4671.0	5007.0
Total public expenditure	3280.0	4169.0	5559.0	7096.7	10555.2	12887.2	14733.1
Gross public sector deficit	1264.7	1413.6	2252.7	3412.9	3182.4	4656.5	4573.0
External financing	488.0	602.0	882.0	1135.3	1101.9	1212.4	1361.5
domestic financing	776.7	805.6	1370.7	2277.6	2080.5	3444.1	3211.5
non-bank	339.7	334.6	453.7	695.0	1206.4	1261.4	1997.6
bank	437.0	471.0	827.0	1582.6	874.1	2182.7	1213.9
GDP at current market arices	6727.0	8344.0	9795.0	12705.0	17320.0	20221.0	23227.0
Public sector Deficit as % of GDP.	18.8	16.9	23.0	26.9	18.4	23.0	19.0
Subsidies as% of public expenditure.	13.2	15.6	12.8	19.1	20.5	17.0	14.0

Notes : (1) includes imstallment on government debt (domestic plus foreign), net capital transfers to public economic authorities and public-sector companies and miscellaneous.

Source: Ministry of Finance.

Table 13: **Ratio of Farm-Gate Prices to Unit Costs, Constant-Value Prices and International Prices of Government-Marketed Agricultural Crops 1974 - 83.**

Crop \ Year	1974			1979			1983		
	a	b	c	a	b	c	a	b	c
Cotton	152	98	39	185	117	52	109	81	88
Wheat	347	96	45	181	78	83	273	67	82
Broad beans	303	111	99	184	107	180	165	97	n.a.
Winter onions	177	110	26	123	155	32	139	132	33
Rice	137	88	18	133	99	66	131	94	48
Sugar cane	219	168	n.a.	188	199	n.a.	109	158	n.a.
Sesame	225	112	n.a.	166	186	n.a.	197	169	n.a.
Peanut	203	89	n.a.	203	124	n.a.	147	108	n.a.

Notes: a = ratio of farm-gate prices to unit production costs.

b = ratio of farm-gate prices to notional farm-gate prices ensuring constant value in terms of the rural cost of living index. This is in a sense a partial terms of trade.

c = ratio of farm-gate prices to international prices.

Source : Shura Council, Comittee on Financial and Economic Affairs, Report on Price Policies, (15/6/1985), Tables 31, 32 and 33.

Table 14: Relative Magnitude of Public Sector (1975 - 79)

	1975	1976	1977	1978	1979
1- Share in gross output (%)	31.2	31.0	31.9	32.1	29.7
2- Share in total investment (%)					
a) including government	85.6	79.4	80.2	83.0	77.5
b) excluding government	15.6	20.0	34.5	33.3	29.5
3- Share in total employment (%)	10.6	11.4	11.6	11.8	11.6
4- Share in total wages (%)	20.5	22.6	23.6	25.3	27.6
5- Value of capital invested (L.E million)	4239	5371	6231	9551	12027

Source : Shura Council, Committee on Financial and Economic Affairs, Report on Public Sector (1982), pp. 15-18.

Table 15: Nominal Wages, Real Wages and Wage Share.

	CPI (1965/66) = 100	Mominal wages	Real wages	Share of wages in GDP	
				I	II
1965/66	100.0	979.1	979.1		
66/67	103.0	1012.7	983.2	46.5	47.8
67/68	105.0	1032.2	983.0		
68/69	109.0	1105.6	1014.3		
69/70	115.0	1179.7	1025.8		
70/71	119.5	1337.6	1119.3		
71/72	120.6	1414.7	1173.1		
1973	131.3	1592.4	1212.8		
1974	147.9	1887.7	1276.3	45.0	45.9
1975	164.5	2401.2	1459.7	47.4	49.0
1976	182.9	2583.3	1412.4	41.9	44.4
1977	203.3	2828.0	1391.0	39.3	42.7
1978	228.7	3222.6	1409.1	35.8	39.4
1979	246.1	3596.1	1450.3	29.8	36.6
1980/81	322.6	6100.8	1891.1	38.6	49.2
1981/82	362.5	7449.1	2054.9	38.6	46.0

Notes : I = including Petroleum and Suez Canal.
II = excluding Petroleum and Suez Canal.

Sources : CPI : CAPMAS, Measuring Inflation Trends in Egypt (Jan. 1983), p. 4.
Nominal wages and share in GDP: Shura Council, Report on Investment Policies (1985), Annex 34, and p. 80.
Real wages = nominal wages adjusted by CPI.

Table 16: **Long Term Debt and Debt Burden.**

	Current Rec'ts	Merch Exports	Long term Loans	Debt Day's	Debt Burden	
					Merch.	Rec't
OR						
1971	448.9	369.7	153.8	172.2	46.6	38.4
1972	487.8	353.7	178.2	156.2	44.2	32.0
1973	562.7	396.3	136.5	213.9	54.0	38.0
1974	931.5	653.9	204.1	311.8	47.7	33.4
1975	1035.3	612.8	454.7	392.2	47.7	28.2
1976	1403.1	629.7	487.7	381.6	60.6	27.2
1977	1778.1	779.6	1071.9	422.0	54.1	23.7
1978	2124.5	776.2	779.8	472.5	60.9	22.2
UR						
1979/80	5829.4	2369.9	1144.6	996.9	42.1	17.1
1980/81	6544.1	2709.2	1408.4	1426.9	52.7	21.8
1981/82	6221.2	3692.6	1205.4	1637.1	60.8	26.2
1982/83	7226.3	2619.3	1386.8	1737.8	66.3	24.1

Notes

OR = official rate ($ 2.556 per LE) applying to the period 1971-78.

UR = unified rate ($ 1.4286 per LE) applying to 1979/80 - 1982/83.

Source: Shura Council Report of Committee on Financial and Economic Affairs on Investment Policies during the Period 1959/60 - 1982/83 (June 1985), Tables 55, 56 and 58, quoted from Central Bank of Egypt.

ANNEX I

Development of Exchange Rate System 1945-1981

Years	US $/LE	Remarks
1945-1949	4.128	Egyptian pound pegged to the Pound Sterling.
1949	2.871	following devaluation of Pound sterling by 30.5% 1949.
1962	2.300	1962 devaluation according to stabilization programme.
1972	2.556	following the second devaluation of american dollar by 10% in 1972. Egyptian pound followed the dollar in the first devaluation by 7% in the same year.
1973	2.556	Establishment of the parallel-market rate.
1979	1.430	Devaluation and unification of exchange rate.
1981	1.430	Return to multiple rates: (a) Centrel Bank Pool* : = $ 1.430 fixed. (b) Commercial Banks'Pool** = $ 1.19-1.25 adjustable. (c) Accounting exchange rate for clearing accounts and payments agreements with non-IMF members fixed at $ 2.556) (d) Transactions outside banks (black-market), floating.

Notes: * Central Bank Pool: receipts : Exports of cotton ,rice and Petroleum plus Suez Canal and Sumed dues.

Payments: Imports of wheat, wheat flour, sugar, tea, edible oil, fertilizers and pesticides, including shipping and other related charges, plus public debt service and government expenditure abroad.

** Commercial Banks'Pool: All other.

ANNEX II

Price Formation

	Fixprice	Flexprice	Mark Up
I. Commedities A. Agricultural	Cotton, Sugar cane CD: wheat, broad beans, rice, peanuts, sesame, onions. Supply commodities: (flour, oil, sugar, tea, frozen meat).	Maize, sorgum, fruits & Vegetables FR: wheat, broad beans, rice, peanuts, sesame, onions.	
B. Industrial	-energy products. -cotton yarn, low-quality textiles & fabrics. -sugar, edible oil, fat soap, animal fodder, artificial cleaners dairy products, sauce, jam, soft drinks, cigarettes. -fertilzers, tyres, batteries, leather, matches, pencils, paper. -autombiles, busses, trucks, tractors, refregirators, washing machines, air conditioners, light bulps. -Aluminum, concrete iron. -Salt -surface glass, cement.	fine textiles & fabrics of cotton & silk, draperies carpets, perfumes & cosmetics, chocolate, furniture & fixtures non-essential imports.	Imports excep -supply food commedities. -fertilizers, pesticides. -intermediate goods

II. Factors A. Labour	government public enterprises (until the mid-seventies) urban private sector (employ't ajusts)	rural private sector construction migrants labour informal self-employment (employ't adjusts)	
B. Capital	Egyptian-pound assets & liabilities.	foreign-currency assets & liabilities.	
C. Foreign Exchange	Official, Parallel	Black market	

Notes: CD = Compulsory delivery quota
FR = free relention quota.

Sources: Shura council, Committee on Financial and Economic Affairs, Price Policies, Report submitted 15/6/1985.

Bent Hansen and Samir Radwan, Employment Opportunities and Equity in Egypt (Geneva: ICO, 1982)