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### MACROECONOMIC IMPLICATION OF FOOD SUBSIDIES IN EGYPT

#### PART 1

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MACROECONOMIC IMPLICATIONS OF  
FOOD SUBSIDIES IN EGYPT\*

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# Macroeconomic Implications of Food Sub- sidies in Egypt

## Part 1

### Background

#### 1. Introduction:

Food subsidies are part of an exhaustive system of subsidies that is utilized by the Egyptian Government to achieve a multitude of objectives. In the case of food subsidies these objectives are income redistribution, price stability, and improving the level of nutrition. While these social goals have been achieved to some extent, the system of food subsidies and its expected long term development has serious implications for the government budget, the balance of payment, domestic price level, and sectorial policies. These implications call for remedial action that aims at fulfilling these social goals at minimum social cost.

The present paper will review the macroeconomic implications of the food subsidy system in Egypt, and mainly those related to The government budget, and the balance of payment.

#### 2. Development of Food Subsidies:

Direct (or explicit) subsidies are distinguished from indi-  
rect or (implicit) subsidies, while the former type refer to actual  
payments that appear in the government budget, the latter refer to-

1. It may be noted that there are implicit taxes, too, as those related to the fixation by the government of the price of major agricultural exportables at a level that is generally below world market prices.

the opportunities lost because some exportable products, like raw cotton or petroleum products, are sold to other units within the country at less than the world market price. While this latter type of subsidies does not require an actual transfer payment from the government budget, it does impose a penalty through lost revenues.

While direct subsidies have been utilized since the 1930's, they started to appear as a separate item in the government budget during the 1950's. The volume of these subsidies was generally very small because of application to only a few commodities. The total volume of subsidies increased gradually each year with population growth, extension of coverage, and price increases until they reached about L.E. 20 m. in 1970. The dramatic increase in the subsidy bill occurred, however, after 1974 where it reached L.E. 410 m., and continued its almost uninterrupted increase until it reached an estimated L.E. 2000 m. in fiscal year 1981/82. Major factors behind this dramatic increase are the steep increase in world food prices, especially wheat, and the application of the parallel market exchange rate to all imports starting January 1, 1979.

Direct subsidies do not cover food items only, though food subsidies are the dominant item, since they cover also payments out of the state budget to cover the operating losses of various public authorities and corporations. Food subsidies are represented in the state budget through the payments made to allow the General Authority of Supply Commodities (G A S C ) to provide wheat and flour, -

maize, edible fats and oils, sugar, tea, coffee, and other commodities at a price that is often well below cost.

Until 1975, these direct subsidies were included in various sections of the government budget, but since then government subsidy payments are being made through the special fund for subsidies. Table (1) shows the development of subsidy payments paid out of the special fund for subsidies from 1975 up to 1980/81, and where the figures for 1974 were included for comparison. Table (2), on the other hand, shows the total net losses of the GASC during the period 1970/71 to 1980/81. These losses are normally less than total subsidy payments from the special fund for subsidies as shown in table (1), where the difference represents various operating costs and, in some years settlements of arrears.

While the magnitude of food subsidies has risen to a high level recently, this magnitude is expected, in the absence of major policy changes, to increase in the near future as a result of the increase in population and the recent tendencies of the global food prices to increase<sup>1</sup>. Another factor that will tend to increase the magnitude of subsidies is the pressures on the real exchange rate of the Egyptian currency resulting from a high domestic inflation rate compared to Egypt's trading partners. Since a major part of subsidized food items is imported, a further devaluation of the Egyptian currency will lead to an increase in the domestic currency-

1. IFPRI REPORT, 1980. PP. 6 - 11.

Table ( 1 )  
Direct Subsidies Paid from the Special Fund  
for Subsidies and the Treasury Fund, 1974-1980/81<sup>1/</sup>  
 (LE million )

	1974	1975	1976	1977	1978	1979	1980 <sup>*</sup>	1980/81 <sup>**</sup>
General Authority for Supply Commodities	329.1	490.9	321.5	313.4	639.5 <sup>5/</sup>	1023.1 <sup>5/</sup>	472.0	1108.0
Cairo and Alexandria Public transport authorities	4.1	5.9	10.2	11.5	17.6	28.4	11.2	19.9
Agricultural Credit Corporation	8.5	5.0	8.7	0.1	0.1	0.1	0.1	5.3
Agricultural Stabilization Fund 2/	--	81.5	34.2	34.7	38.3	102.4	50.4	94.3
Textile Corporation	12.0	23.7	39.9	16.3	44.3	46.0	26.5	99.5
Petroleum Corporation 3/	0.6	10.7	10.2	12.0	15.9	32.5	29.9	85.0
Cooperative Building Authority	0.1	0.3	0.2	0.4	1.2	2.9	3.0	6.9
Government credit banks	--	--	--	9.9	29.3	17.3	9.1	23.4
Press paper subsidies	--	3.0	2.5	6.6	4.1	5.0	--	--
Industrial output subsidies	--	--	--	--	72.6	49.5	5.0	56.3
Price Adjustment Fund 4/	--	--	--	228.0	--	--	--	--
of which : GASC	--	--	--	124.0	--	--	--	--
Other	<u>55.1</u>	<u>1.1</u>	<u>6.1</u>	<u>16.7</u>	<u>37.0</u>	<u>62.8</u>	<u>32.7</u>	<u>64.5</u>
<b>Total</b>	<b>410.0</b>	<b>622.1</b>	<b>433.5</b>	<b>649.6</b>	<b>900.1</b>	<b>1370.0</b>	<b>639.9</b>	<b>1563.1</b>

Source: Ministry of Finance .

- 1/ The Special Fund for Subsidies was established in 1975, prior to which direct subsidied were included in various sections of the budget .
- 2/ For fertilizers and pesticides; includes Treasury Fund Payments .
- 3/ For bottled gas and kerosene .
- 4/ The Price Adjustment Fund was established in 1977 to finance the cost of phasing in the domestic price impact of commodities imported at the parallel rather than the official exchange rate .
- 5/ Include 330 million LE paid to GASC in 1979 to cover price adjustments in 1978 and 1979. 190 million LE were allocated to 1978 and 140 million LE to 1979 .

\* Actual figures covering the period January 1- June 30, 1980.

\*\* Budgeted figures .

Table (2)  
Trading operations of the General Authority for  
supply Commodities, 1970/1 - 1980/81(L.E Million)

	1970/71	1972	1973	1974	1975	1976	1977	1978	1979	1980	1980/81
<b>Subsidies (losses)</b>	<u>41.8</u>	<u>41.9</u>	<u>136.2</u>	<u>393.2</u>	<u>423.7</u>	<u>281.4</u>	<u>343.2</u>	<u>452.4</u>	<u>996.8</u>		<u>1094.3</u>
Maize	20.9	15.1	79	216.4	260.9	171.6	149.1	222.8	588.3		511.0
Edible fats and oils (rationed)	.8	0.4	4.4	16.5	31.1	23.1	40.6	53.8	38.5		63.7
Sugar (rationed)	10.4	15.8	16.8	55.3	72.2	43.2	54.6	137.4	200.2		125.4
Tea	8	6	19	68.9	20.8	6.1	--	--	--		97.8
Coffee	--	--	--	--	--	--	18.3	12.8	54.6		42.0
Other	--	--	--	--	--	--	5.6	--	--		--
	1.7	4.6	17	36.1	38.7	37.4	75.0	25.6	115.2		254.4
<b>Profits</b>	<u>38.6</u>	<u>30.5</u>	<u>47.2</u>	<u>63.1</u>	<u>15.0</u>	<u>31.2</u>	<u>12.6</u>	<u>29.3</u>	<u>44.5</u>		-
Cottonseed	2	1.4	2.5	2.1	2.01	22.0	2.0	---	---		---
Edible oils (nonrationed)	4.2	2.7	5	8.0	--	---	---	---	---		---
Tea	12.6	17.9	14.4	14.0	11.5	13.2	---	---	---		---
Coffee	.9	1.3	--	0.1	---	---	---	---	---		---
Sugar (nonrationed)	18	6.4	22.6	36.0	---	---	8.6	26.1	44.5		---
Other	.9	.9	2.7	3.0	1.4	16.0	2.0	33.2	---		---
<b>Total net losses(-)</b>	<u>-3.2</u>	<u>-11.3</u>	<u>-89</u>	<u>-330.1</u>	<u>-408.7</u>	<u>-250.2</u>	<u>-330.6</u>	<u>2/-423.1</u>	<u>-952.3</u>		<u>1094.3</u>

Source: General Authority for Supply Commodities

value of the subsidized items.

Faced with these developments and prospects, the Egyptian Government attempted to make partial modifications of the system in order to achieve some reductions in its budgetary cost in January 1977. These modifications were not implemented, however, as a result of the civil disturbances that followed in 17<sup>th</sup> of January 1977. Government attempts to maintain the present system have been made easier as a result of increased government revenues from petroleum due to increased petroleum production and exports, but also due to the almost doubling of the international price of petroleum by mid 1979. Increased government revenues from the Suez Canal, especially after the completion of its widening project at the end of 1980, has also been an additional factor.

It should be noted that the considerable attention that has been given recently to direct subsidies is related to the increasing burden they impose on the government budget is not, however, a true economic cost at all; it is just a transfer payment. In the case of food subsidies, these transfer payments are represented by the net losses the government take on the distribution of the subsidized commodities plus the operating costs of the agencies involved, primarily the GASC, as shown at the top of table (1).

While these direct subsidies are transfer payments, they do (and in this respect implicit subsidies too) have an effect on income-



distribution, relative prices, and resource allocation and mobilization. To overcome the negative aspects of these effects, as well as any undesirable fiscal impact, there is need to analyze the pros and cons of the present system vis-a-vis other possible alternative options in such a way that will help minimize social costs. There is also need for analyzing the implications of such a system for development strategy, that will help to achieve the government objectives without undue separation between economic theory and social issues.

### 3. Budget Implications :

The large and increasing size of food subsidies has been one of the major factors behind fiscal imbalance observed recently in Egypt. This fiscal imbalance can be seen clearly by concentrating on the developments in net government savings in the budget (after subsidies) and the overall public resource gap. A related item is the method of financing the overall public resource gap and consequently its impact on domestic inflation and income distribution. This section reviews the developments of government revenues, government expenditures, expenditure pattern of Egypt, and methods of financing the overall public resource gap during the period 1970/71-1980/81.

#### 3.1. Government Revenues:

The origin of the present Egyptian tax system goes back to the late 1930's, where the tax system was overhauled and reconstructed, albeit to the advantage of the landowners, by Law no. 14, 1939. Since -

then it has been subject to several amendments related to coverage, exemptions and tax rates.<sup>1</sup>

Over these past 30 years, the level of government revenue has increased considerably from L.E. 160 m. in 1950/51 to L.E. 2814 m. in 1979. Taken as a percentage of GDP it has increased from 17.5% in 1950/51 to 22.7% in 1979.

Table (3) shows the development of government revenues during the period 1970/71 to 1980/81. Government revenues is divided to direct taxes, indirect taxes, and non-tax revenue. Direct taxes include (i) personal income taxes which is composed of three categories of taxes on wages and salaries, free professional, and general income taxes; (ii) Business profit taxes which consists of three sub-groups: profit tax, movable capital tax, and others; and (iii) Property taxes which includes inheritance taxes (estate tax and succession duty) and land tax. Indirect taxes consist of the following (i) taxes on goods and services which includes production duties, consumption and other commodity and services excises and additional selective excises (price differentials), (ii) foreign trade taxes which is composed of customs duties and exchange profits due to the use of dual exchange rates between 1976-78 before the shift to the unified exchange rate in 1979, (iii) other taxes which is composed of stamps and others, and (iv) local government revenues. Non tax revenues includes fees and miscellaneous.

1. See in this respect: B. Hansen and G. Marzouk, Development and Economic Policy in the U.A.R. (Egypt), North Holland, 1965, and I.M.F., A Report on the Egyptian Tax System, 1978.

Table 3  
Government Revenue  
(LE million)

	1970/71	1972	1973	1974	1975	1976	1977	1978	1979	1980	1980/81
Direct taxes	162	170	178	197	256	345	460	613	743		
Personal income taxes	28	26	32	33	31	48	55	52	55		
Business Profit taxes	115	120	129	143	195	278	387	538	659		
Property taxes	19	24	17	21	30	19	18	23	29		
Indirect taxes	457	472	499	552	784	996	1530	1563	1841		
Taxes on goods and services	166	181	191	195	229	283	340	360	568		
-Excise and consumer duties	63	68	68	-	82	97	144	155	-		
-Price differential	103	113	123	-	147	186	196	205	-		
Foreign trade taxes	196	194	205	231	400	538	979	920	904		
-Custom duties	196	194	205	231	400	466	588	727	904		
-Exchange Profits	-	-	-	-	-	72	391	193	-		
Other taxes	39	39	43	59	63	86	97	141	213		
- Stamps	34	34	39	-	61	82	89	126	-		
- Others	5	5	4	-	2	4	8	15	-		
Local Government revenue	56	58	60	67	92	89	114	142	156		
Total Government taxes revenue	619	642	677	749	1040	1341	1990	2176	2584		
Non-tax revenue	61	80	77	97	120	101	113	119	230		
Fees	18	17	19	-	26	38	47	54	81		
Miscellaneous	43	63	58	-	94	63	66	65	149		
Total Government revenue	680	722	754	846	1160	1442	2103	2295	2814		
GDP at market Prices	3203	3390	3808	4339	5218	6727	8283	9671	12409		

Source : Ministry of Finance .

Before reviewing the salient features of the developments of various items of government revenues, some general observations are in order.

The first is the dominance of indirect taxes, where it accounted for more than two thirds of government revenues on the average. This means that a small portion of the Egyptian tax system is based on the ability to pay.

The second observation concerns the fact that changes in taxes have been motivated, to a certain extent, by purposes of revenue augmentation rather than allocational or distributional purposes, since the increases in tax revenues usually comes from sources easy to collect types. This does not mean however, that taxes in Egypt have no allocational or distributional effect.<sup>1</sup>

The third, and last, observation is related to the value of government revenue-GDP elasticity which is slightly above 1, the average value for the period under consideration is 1.03. Further increases in this elasticity will depend on the success-of present efforts of the the government to improve tax administration and to change various tax laws now under discussion in the General Assembly to make them more responsive to increases in the values of the variables on which assessment are based.

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1. R.A. El-Edel, Impact of Taxation on Income Distribution- an Exploratory Attempt to Estimate Tax Incidence in Egypt, Paper Presented for the Princeton-Egypt Income Distribution Project, Nov. 1979.

Turning again to the main items of government revenues, it can be easily seen that while the share of personal income tax has been very small, less than 1 % of GDP, its importance has been decreasing recently. Its share in GDP first increased from 0.07 % in 1970/71 to 0.84 % in 1973, but then it has gradually fallen to reach 0.44 % in 1979. This very low proportion indicates the virtual absence of effective direct income taxation to control household spending and increase government revenue. While such developments may have been natural in the pre 1973 period, when very high private incomes were a rare phenomenon, it is necessary that an effective tax collection effort be imposed during the open door policy period, where private incomes of professionals and entrepreneurs have increased quite rapidly. Such measures are urgently required not only to collect additional fiscal revenues, but also for the sake of income distribution and social equity.<sup>1</sup>

On the other hand, while the share of business profit tax has fallen from 3.6 % of GDP in 1970/71 to 3.3% in 1974, it has increased considerably to reach 5.6% and 5.3% in 1978 and 1979 respectively. This increase has been, however, due entirely to the rapid growth of value added in the petroleum sector, and in the Suez Canal revenues after its reopening in 1975. Other public sectors enterprises have had on the contrary, a low financial rate of return and a low share -

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1. This and the following discussion draws, to some extent, on various I.B.R.D. Country Economic Reports on Egypt.

of profits in value added, and the contribution of the rest of the public sector to business profit taxes has, therefore, been very small. For private sector profits, the assessment of taxable profits is weak, with the result that potentially sizable revenues are lost.

The recent increased importance of the business profit tax do not, therefore, reflect an increase in the share of profits, or an increase in the effective tax rate, but simply a shift in the composition of value added. If the share of petroleum and Suez Canal in value added continues to increase, the share of business profit tax will also continue to increase and Vice versa.

The contribution of property taxes to total tax revenue is very low and decreasing in importance. Its share of GDP has fallen from 0.59 % in 1970/70 % 0.23% in 1979. The main reason behind this is that property taxes is determined on land assessment made in the 1950's, inspite of the rapid urban development in Egypt since 1974 and the highly inflationary value of new construction.

Taxes on goods and services is one of the major sources of indirect tax revenues. Its share of GDP has declined from about 5.5% in the early 1970's to around 4.5% in the late 1970's. The excise tax structure has been characterised by a widespread use of specific (as opposed to ad valorem) duties, a narrowly based tax structure, and considerable latitude of public enterprises in sales -

tax assessment and times of payment. In July 1981, the Government passed a new consumption tax law that covers commodities subject to production & consumption excise taxes, price differential and jihad tax. The new law seeks to unify tax rates between domestically produced and imported commodities; unify tax rates on the some commodity which used to exist for lumber, tyres, spinned cotton, and lamps; and to base taxes on imported commodities on their value.

Foreign trade taxes are the major source of indirect tax revenues and its share in GDP has tended to increase considerably due to the rapid growth of imports after 1974 and the progressive devaluation of the Egyptian pound. The exchange profits which emerged during the period 1976-78 were due to the use of dual exchange rates, and were essentially an implicit tax on traditional agricultural exports. If these are excluded, one can notice an increase in the average effective tariff rate from 1974 up to 1977, but there is a decreasing trend after 1977 due to the proliferation of laws and practices emerging in relation to free zones, temporary admission procedures and the exemptions granted to law 43 companies, and which have tended to facilitate avoidance of import duties. Given the importance of foreign trade taxes to government revenues and to the public sector, the continuation of these trends would have serious implications for future fiscal imbalances.

In 1979, the government decided to collect customs in terms of the dollar instead of the Egyptian pound. This had the effect of -

increasing the effective tariff rate by the difference between the exchange rate of the pound in the free market and the unified rate. In 1980, however the government returned to the collection of customs in domestic currency in an attempt to increase the exchange rate of the pound in the free market.

### 3.2. Government Expenditure:

Table (4) shows the development of total public expenditure during the period 1970/71 to 1980/81. Total government current expenditures rose gradually from 26% of GDP in 1970/71 until they reached an all time high of 39.3 % in 1975, but then declined thereafter to reach 30.4 % in 1979. These fluctuations are mainly due to direct subsidies and emergency fund deficits.

While the ratio of total public sector current expenditure to GDP is very high in Egypt, the share of central and local government consumption expenditures, around 20% of GDP, is closer to international averages. Government consumption remained between 20.1 and 21.5% of GDP during the period 1970/71 up 1976. But with the fall in defence expenditure starting 1977, government consumption expenditure fell to 18.6% of GDP in 1979. This share is expected, however, to increase in the future because of the ongoing decentralization of Egyptian administration and because of the wage and salary readjustments which the government enacts once in a while to protect the purchasing power of its employees and make the civil service more attractive to the better trained labor force.



Table ( 4 )  
Total Public Expenditure ( 1970 / 71 - 1980 / 81 )  
( LE Million )

	1970/71	1972	1973	1974	1975	1976	1977	1978	1979	1980*	1980/81**
Central and Local government Expenditure	661	730	765	899	1298	1670	1628	2012	2375	1754	3738
Subsidies											
Food	3	11	89	329	491	322	313	450	880	472	1108
Fertilizer, Pesticides, and cotton a	-	-	-	-	81	34	35	36	150	73	143
Price adjustment	-	-	-	-	-	-	228	190	140	-	-
Other	-	-	-	81	50	78	74	222	200	95	312
Subtotal	3	11	89	410	622	434	650	900	1370	640	1563
Public Authorities deficits	41	62	188	87	93	119	139	185	229	148	344
Emergency Fund deficit	127	211	135	36	284	303	256	370	-	-	-
Total current expenditure	832	1014	1177	1432	2297	2526	2673	3467	3974	2542	5643
Public gross fixed investment	358	414	451	791	1373	1431	1839	2463	2857	1350	3325
Total Public expenditure	1190	1428	1628	2223	3670	3997	4512	5930	6831	3892	8970
GDP at market Prices	3203	3390	3808	4339	5218	6727	8283	9671	12409	-	-

Source: Ministry of Finance.

- Not applicable.

- a. This fund is known as the Agricultural Stabilization Fund and includes Treasury Fund Payments
- b. Established in 1977 to finance the cost of phasing in the domestic price impact of commodities Imported at the parallel rate rather than the official exchange rate.
- c. Since the Fund for subsidies was established in 1975, earlier figures are budget estimates..

\* 1980 figures are actual figures for the period January 1, 1980 to June 30. 1980.,

\*\* Budgeted figures.

Direct subsidies, as a proportion of the GDP rose from negligible amounts until 1973 to 9.4 % in 1974, then reached a high level of 11.9 % in 1975, but then dropped to 6.4 % in 1976, and started to rise again to reach 11 % in 1979. The subsidy payments in 1980/81 are budgeted at L.E. 1563 m., and the budgeted figure for 1981 / 82 is around L.E. 2000 m. The relatively sharp increases in subsidies starting 1979, can be explained by the relatively high international price of wheat which constitute the basic item in the subsidy bill, the shift to the unified exchange rate in January 1979 in calculating the domestic cost of wheat and flour imports, and the increase in the quantities made available of subsidized commodities. If domestic sales prices of subsidized commodities are kept stable, the price differential between these prices-and the international prices will get larger, and this price effect in addition to the quantity effect will lead to growth rates in excess of the growth rate of GDP, leading to a continued increase in the share of subsidies in the GDP. This would not be sustainable in the long run.

The next item in total current expenditure is the public authorities deficits. These deficits (losses) are directly related to the government's price policy, which severely hampers their ability to operate at a profit, although many of them perform exclusive functions. Until 1979 their deficits averaged about 2.1 % of GDP. This trend is likely to continue unless the government takes action to lift price controls.

The last item in total current expenditure is the Emergency Fund deficit which was terminated in 1978 with the termination of the state of war in 1979.

Finally, public gross fixed investment rose slightly from 11.2 % of GDP in 1970/71 to 12.2 % and 11.8 % in 1972 and 73 respectively. Then there was a sharp increase until it peaked to 26.3 % in 1975, and again fluctuated to reach 23 % in 1979. This very high ratio includes large foreign capital transfers and direct foreign investments, and it is expected that these present trends will continue because of the major investments that are under way specially in infrastructure.

### 3.3. Expenditures Pattern of Egypt:

It might be beneficial at this point to discuss the development of expenditure pattern of Egypt as a whole in order to pave the way for the alternative policy options available both with regard to public and private expenditure.

Table (5) shows the expenditure pattern of Egypt, and table (6) and fig. (1) show this pattern in shares of GDP during 1970/71 to 1979. Growth expenditures (gross investments plus government expenditures on education and health) have increased considerably from 18.9 % of GDP in 70/71, until it reached an all time peak in 1975 when it reached 38.9 % but then declined slightly again to reach 34.6 % in 1979. It is important to note that inspite of this violent -

increase, government expenditure on education and health has been falling almost consistently as a share of GDP from 6 % in 1970/71 to 3.9 % in 1979, which will have detrimental effect on the quality of labor force in the long run.

On the other hand defense expenditure have started to decrease from their high level in 1972, when it reached 14.2 % of GDP. While there is some oscillation in the following years, there is a definite downward trend reflecting the decrease in the share of defense expenditures especially since 1977.

Other government expenditures, which covers the costs of ordinary government administration, have increased almost consistently from their already high level in 1970/71 of 7.2 % of GDP to reach 9.7 % in 1979. The growth in this expenditure item will probably be counter productive and the government should do its best to curtail it and thereby reduce its share in GDP.

The share of private consumption in GDP has been oscillating, and after it fell to 65.7 % in 1972, it started to increase until it reached 73.5 % in 1974, then moved down again to reach 58.5 % in 76, and finally started to move up again to reach 65.4 %. Data regarding private consumption are derived as a residual and thus contains many sources of errors and biases, but in any case the government has to control the growth of private consumption, through the use of taxes and subsidies, if it wants to keep growth investment at its presently -

Table ( 5 )

Expenditure Pattern of Egypt 1970/71 - 1979

(L E million)

Year	GDP at market Prices 1	Growth Expenditure 2=3+4	Gross Investment 3	Public Consumption			Private Consumption 8	Total 9	Total expen- diture and 10	Balance of good and 11
				Education and Health 4	Defense 5	Other 6				
1970/71	3203	609	416	193	365	230	788	2252	3356	153
1972	3390	625	418	207	478	256	941	2227	3586	196
1973	3808	721	500	221	417	262	900	2601	4001	195
1974	4339	1219	975	244	340	315	899	3191	5065	726
1975	5218	2026	1741	285	587	426	1298	3280	6319	1101
1976	6727	2230	1910	320	756	594	1670	3936	7516	789
1977	8283	2758	2434	324	599	705	1628	5115	9177	894
1978	9671	3475	3082	393	709	910	2012	6073	11167	1496
1979	12409	4292	3812	480	690	1205	2375	8121	14308	1899

1. Includes emergency fund deficit

a) net factor services.

Table ( 6 )  
Expenditure Pattern of Egypt 1970/71-1980/81  
(% of GDP)

Year	GDP at market prices 1	Growth Expenditure 2=3+4	Gross invest- ment 3	Public Consumption			Private Consumption 8	Total Expen- diture 9	Balance of goods and nfs 10	
				Education and Health 4	Defense 5	Other 6				
1970/71	3203	18.9	12.9	6	11.4	7.2	24.6	70.3	104.8	4.8
1972	3390	18.4	12.3	6.1	14.1	7.6	27.8	65.7	105.8	5.8
1973	3806	18.9	13.1	5.8	11	6.9	23.7	68.3	105.1	5.1
1974	4339	28.1	22.5	5.6	7.8	7.3	20.7	73.5	116.7	16.7
1975	5218	38.9	33.4	5.5	11.2	8.2	24.9	62.9	121.1	21.1
1976	6727	33.1	28.4	4.8	11.2	8.8	24.8	58.5	111.7	11.7
1977	8283	33.3	29.4	3.9	7.2	8.5	19.6	61.8	110.8	10.8
1978	9671	35.9	31.9	4.1	7.3	9.4	20.8	62.8	115.5	15.5
1979	12409	34.6	30.7	3.9	5.6	9.7	19.2	65.4	115.3	15.3
1980										

Source : IBRD Country Economic Reports .

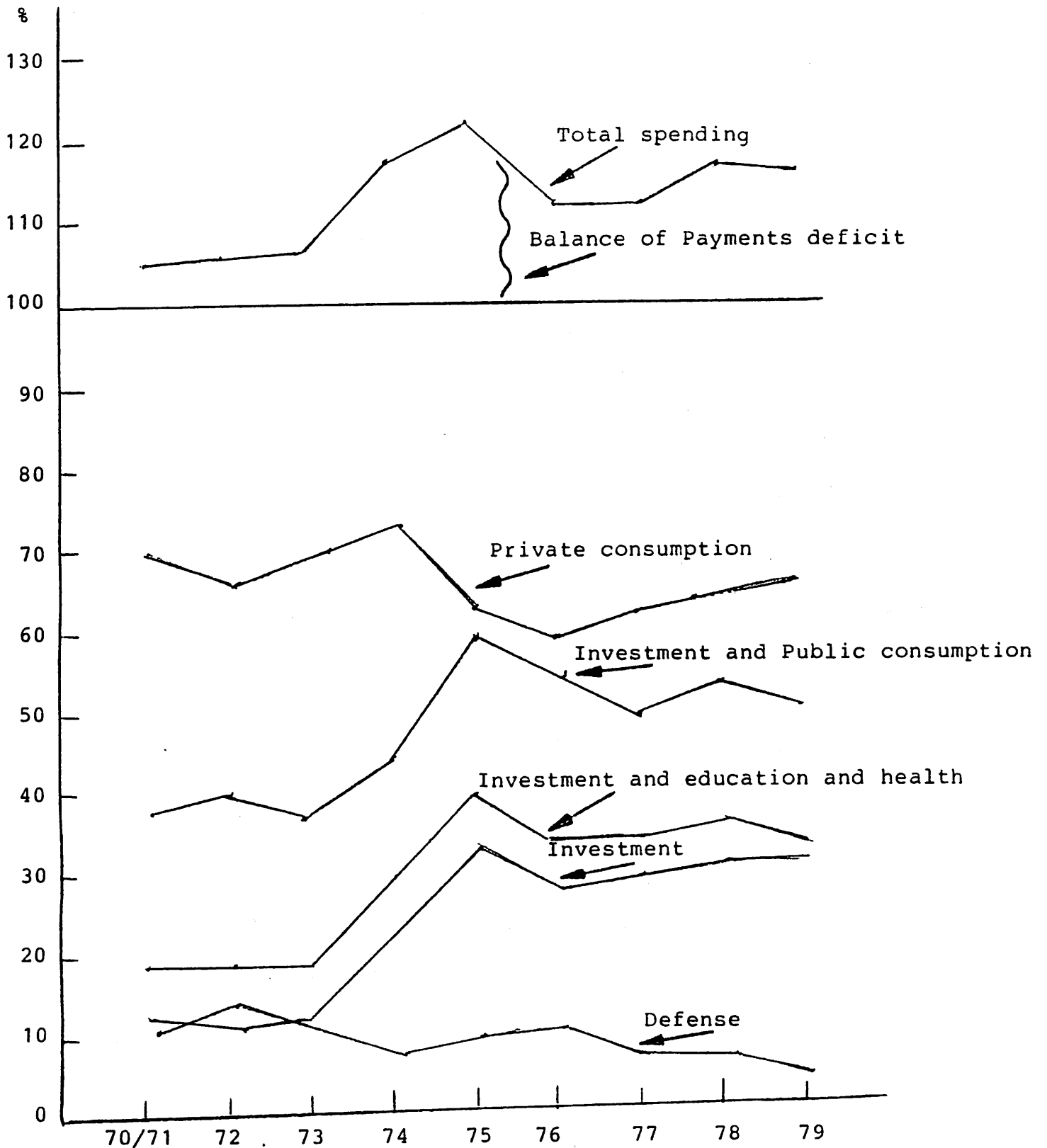


Fig.4.8- Shares of GDP at Current market Prices .

high levels. The other alternative will be to finance such an increase through further deterioration in the balance of goods and non factor services.

The resource gap in the Egyptian economy is represented by the deficit in the balance of goods and non factor services and is financed by the net factor services, foreign aid, and foreign indebtedness. This gap has increased violently from 4.8 % of GDP in 1970/71 to reach 21.1 % in 1975. It may be noted here that this large inflow of foreign resources was the reason behind keeping gross investment and public consumption at their high levels without putting much pressure on private consumption. The resource gap then fell to almost half that level in 1976 and 1977, but then rose again to reach 15.3 % in 1979.

#### 3.4. Overall Public Resource Gap and Methods of Financing:

Government expenditures on subsidies has been blamed for the large and growing budget deficit, that is financed largely by borrowing from the banking system. This in turn strengthens the inflationary pressures in the economy, and thereby defeats one of the purposes of the subsidy system.



Table (7) shows the overall public resource gap, which is the difference between various types of government revenues and expenditures. To reach this we first subtract total government consumption from gross government revenues to reach gross government savings before subsidies. This has been negative up to 1976, but became positive thereafter mainly as a result of increased government revenues from indirect taxes, and direct taxes on public sector income. Net government saving after subsidies, on the other hand, has been negative all around and its magnitude has increased from - L.E. 45 m. in 1970/71 - L.E. 1161 m. in 1979. These tendencies reflect the increasingly heavy burden of subsidy transfers to private consumers.

Total consolidated public savings, however, includes, in addition to net government savings (after subsidies), net public economic sector financial savings, public sector stock accumulation, and social security surplus. For net public economic sector financial savings these have been positive throughout, and, after a declining trend up to 1973, have shown an increasing trend. The most important items here, that have shown dramatic increase are transferred profits and investment self financing. These two items constitute the gross financial surplus of the public economic sector, and the dramatic increase in their magnitude after 1975 reflects-

Table (7) : OVERALL PUBLIC RESOURCE GAP  
(LE million, current Prices)

	<u>1970/71</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1980/81</u>
1. Indirect Taxes	457	472	499	552	784	996	1530	1563	1841		
2. Direct Taxes on Private Income				92	97	122	136	135	147		
3. Direct Taxes on Public sector Income	162	170	178	105	159	223	324	478	596		
4. Total Gross Government Revenue	619	642	677	749	1040	1341	1990	2176	2584		
5. Total Government Consumption	661	730	765	899	1298	1670	1628	2012	2375		
6. Gross Government Savings (before subsidies)	-42	-88	-88	-150	-258	-329	362	164	209		
7. Consumer Subsidies	3	11	89	410	622	434	650	900	1370		
8. Net Government Savings (after subsidies)	-45	-99	-177	-560	-880	-763	-288	-736	-1161		
9. Net Public Economic Sector Financial Savings	165	151	96	287	317	449	496	773	1118		
a. Transferred Profits	101	81	137	188	154	243	384	539	1001		
b. Investment Self Financing	87	100	127	150	210	331	268	473	350		
c. Other Public Sector Revenues	61	80	78	97	120	101	113	119	230		
d. Public Authority Deficits	-41	-62	-188	-87	-93	119	-139	-185	-229		
e. Interest on Public Debt	-43	-48	-58	-61	-74	107	-130	-173	-234		
10. Public Sector Stock Accumulation	n.a	n.a	n.a	174	275	263	337	250	270		
1. Social Security Surplus	188	214	224	245	253	295	353	381	456		
2. Total Consolidated Public Savings (8+9+10+11)	308	266	143	146	-35	244	898	668	683		
3. Public Investment Expenditure	358	414	451	791	1373	1431	1839	2463	2857		
4. Overall Public Resource Gap.	50	148	308	645	1408	1187	941	1795	2174		

Source: IBRD Country Economic Reports .

the growing importance of petroleum revenues and Suez Canal dues, inspite of the increasing financial difficulties faced by other public sector enterprises.

The surplus of the social security system is included in public saving on the grounds that such payments are viewed as a kind of tax collected at source rather than an act of voluntary saving by households.

Total consolidated public savings have shown a decreasing trend from 1970/71 up to 1975, where it reached a negative amount, but then started to inceease afterwards. But inspite of this in-creasing trend, these public savings have been below the level of public investment expenditure, as can be seen at the bottom of table (7) which shows the difference between total consolidated public savings and public investment expenditures, which represen-ts the overall public resource gap.

As can be seen from table (8), the resource gap faced by the consolidated public sector has been large. Foreign financing contributed significantly to the financing of this resource gap rising from almost nil in 1970/71 to reach L.E. 705 m. in 1978 and L.E. 483 m. in 1979. Other sources of finance which include (pos-tal savings and investment certificates, domestic bonds, and others have also grown in importance during the period.

Table (8) : FINACING OVERALL PUBLIC RESOURCE GAP

	1970/71	1972	1973	1974	1975	1976	1977	1978	1979	1980	1980/81
1. Overall Public Resource Gap	50	148	308	645	1408	1187	941	1795	2174		
Source of Finance											
2. Domestic Bank Financing of Public expenditure	79	77	183	219	731	857	471	809	1148		
3. Net Foreign Savings	-	18	51	119	210	488	464	705	543		
4. Other domestic Financing <sup>a</sup>	-29	53	74	307	467	-158	6	281	483		
5. Total (2+3+4)	50	148	308	645	1408	1187	941	1795	2174		

<sup>a</sup> Includes postal Savings, investment certificates, domestic bonds, and other domestic sources, and probably some discrepancis between domestic bank financing in the fiscal and monetary accounts .

These developments, however, did not close the resource gap, and the need for domestic financing of a sizable part of public investment expenditure has been large. This has led to large amounts of bank financing of public expenditure, which increased, almost consistently, from L.E. 79 m. in 1970/71 to L.E. 1148 m. in 1979. This method of financing government deficit has strengthened the inflationary pressures existing in the Egyptian economy, and thereby has led to the deterioration of both the position of fixed income groups, the position of people who keep a major part of their wealth in the form of liquid assets, and the balance of current accounts.

### 3.5. Inflationary Impact:

The rate of inflation has been rising considerably in Egypt during the 1970's. While part of the inflationary pressures in Egypt are of the suppressed type, available price indices show considerable increase during the period under consideration, especially after 1973. The consumer price index<sup>1</sup> for all urban population (1966/67 = 100) has moved from 122.4 for all items in 1973 to 233.5 in 1979, as can be shown from table (9). The consumer price index for all rural population has even moved higher to jump from 131.2 for all item in 1973 to reach 265.8 in 1979 as can be seen from table (10).

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1. We will disregard here the problem of which price index is the appropriate measure of inflation, and the various problems related to the construction of such indices as different types of biases, use of official prices, etc.

Table (9)  
CONSUMER PRICE INDICES  
ALL URBAN POPULATION (1966/67=100)

Item	Commodity weight	End of period								
		1970/71	1971/72	1973	1974	1975	1976	1977	1978	1979
Food and beverages	52.5	117	120.8	130.8	152.9	171.5	209.2	231.3	254.7	277.3
Cereals	11.2	98.9	99.	104.9	119.9	121.3	125.8	135.8	139.3	134.4
pulses	6.6	133.5	147.3	119.5	157.2	192.5	218.1	256.9	273.9	305.4
Meat, fish, & eggs	13.1	126.9	134.1	154.5	179.5	211.5	287.8	316.2	331.8	383.7
Dairy products	5.9	114.4	119.9	137.6	163.4	191.4	240.9	279.6	315.4	336.9
Vegetables	3.8	117.	120.0	164.0	192.3	210.4	276.8	241.3	331.7	336.8
Fruits	2.9	130.5	128.2	152.6	174.2	193.1	230.2	263.6	362.2	392.4
Housing	15.7	108.7	108.5	105.8	106.5	107.6	109.1	109.5	110.2	111.2
Furniture & other durables	1.3	96.8	97.2	97.9	105.9	122.0	136.3	156.3	181.1	187.7
Clothing	8.4	101.5	104.5	113.3	124.2	136.7	147.4	188.1	239.1	247.5
Transport & comm	4.4	119.8	120.5	121.7	123.1	122.9	136.0	144.7	145.1	185.6
Services	9.9	113.2	117.3	121.2	126.2	137.6	144.0	180.8	203.8	244.2
Personal expenses	7.8	114.4	114.6	115.0	117.3	123.8	128.1	133.9	160.7	187.9
All Items	100.0	113.6	116.3	122.4	135.7	148.9	171.2	191.1	212.6	233.5

(\*) Includes the groups " Oils and Fats", "Sugar and Sweets" and "Beverages" in addition to the above selected Groups.

Source : Central Agency for Public Mobilisation and Statistics .

Table ( 10 )

CONSUMER PRICE INDICES  
ALL RURAL POPULATION (1966/67=100) III

Item	Commodity Weight	End of Year								
		1970/17	1971/72	1973	1974	1975	1976	1977	1978	1979
Food and beverages		120.2	119.1	138.3	162.2	185.4	221.8	253.1	275.2	305.2
Cereals		111.7	107.5	127.1	145.4	151.6	157.7	187.6	203.0	210.1
Pulses		121.1	126.7	121.7	160.0	197.1	206.9	248.8	289.4	312.9
Meat, fish, & eggs		133.0	135.7	158.2	181.9	217.4	300.3	323.0	319.5	388.9
Dairy products		118.7	122.7	143.2	177.5	221.5	287.4	321.3	363.7	413.5
Vegetables		129.0	114.3	184.1	194.4	232.6	296.2	337.5	430.4	449.6
Fruits		128.6	126.9	142.3	169.6	208.9	235.9	316.9	382.8	431.6
Housing		111.4	110.8	111.8	116.5	115.4	113.2	111.1	112.5	112.3
Furniture & Durables		112.6	114.2	121.4	138.0	160.1	199.3	225.4	257.9	280.3
Clothing		112.6	116.1	125.4	145.9	168.5	201.8	228.1	251.7	299.7
Transport & comm		125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Sevices		115.2	118.4	120.5	129.3	138.6	157.9	192.0	211.0	242.2
Personal expenses		112.8	112.3	112.8	117.8	119.1	120.1	123.4	121.4	141.4
All Items		117.9	117.6	131.2	149.6	167.9	195.9	220.7	238.4	265.8

\* Includes the groups " Oils and Fats", "Sugar and Sweets" and " Beverages " In addition to the above  
Selectd groups .

Source: Central Agency for Public Mobilisation and Statistics .

a countervailing force to the above mentioned causes. From this point of view, it will also help in improving the competitiveness of Egyptian industry.

#### 4. Foreign Exchange Implications:

A large and increasing part of subsidized commodities is being provided through imports. This, in addition to the tremendous growth in the various types of imports, has led to a continuous deterioration in the Egyptian balance of trade. The government was able to finance these deficits through the surplus of invisibles and factor services, foreign aid, and increasing foreign indebtedness. Future developments in the volume of imports of subsidized commodities will depend upon existing prospects as well as government policies affecting the main items in the balance of payments.

This section starts by discussing the implications of increased dependence on imports to provide subsidized commodities, then the development of the parallel exchange market and the extension of its scope of application will be reviewed, and finally, a discussion of the various developments in the balance of payments, foreign aid, and foreign indebtedness will follow.

##### 4.1. Implications of Increased Dependence on Imports to Provide Subsidized Commodities:

Table (11) shows the quantities of the main subsidised food items whether imported or locally produced. The vast increase in the -



Table (11)  
The quantities of the main subsidised food items, imported  
and Locally produced (1973-1980/81)

Item	Year	1973	1974	1975	1976	1977	1978	1979	1980 (1/1-30/6)	1980/81
<u>Wheat:</u>										
Imported		2373	2877	2950	2758	3297	4103.5	396.8	2062.6	
Locally Produced		211	318	332	269	87	58.3	163.9	138.3	
<u>Refined flour:</u>		452	395	701	541	655	1072.1	1028.6	361.6	
<u>Imported maize:</u>		209	457	506	435	676	714	632.1	399.1	
<u>Beans (foul)</u>										
Imported		(-)	22	116	38	25	22.7	42.6	25.5	
Locally Produced		14	16	26	49	50	77.7	44.2	45.8	
<u>Lentils:</u>										
Imported		12	16	50	67	44	62	56.3	4.8	
Locally produced		12	2.6	0.6	12	11	2.9	6.8	1.9	
<u>Imported:</u>										
<u>Vegetable Oil:</u>		138	162	242	222	225	290	288.9	141.3	
<u>Vegetable and animal fats</u>		28	126.7	150	163	127	165.7	176.5	102.9	
<u>Frozen Meat</u>		(-)	2.5	-	-	65	60.9	68.2	37.7	
<u>Frozen fish</u>		32	32.9	40	47	31	-	29.2	22.6	
<u>Tea</u>		-	-	1	-	48	34.2	40.7	17.6	

Source: Ministry of Supply  
-Subsidy not applicable.

imported quantities of various items is apparent, where quantities of some commodities like refined flour, or vegetable oil more than doubled during the period from 1973 to 1979. The situation for imports of maize is even worse, where imported quantities more than trebled during the same period. Finally, while quantities of wheat imports did not increase as much, its impact on the balance of trade is much larger because of the larger absolute amounts.

Few observations regarding the implications of this increased dependence on imports are in order.

The first is that this increased dependence is not the result of the subsidy system per se, rather it is a result of lagging agricultural productivity in the face of increasing population and rising per capita income. The elimination of subsidy might reduce imported quantities of some commodities due to the reduction in wasteful consumption that may result from present low prices, and to the effect of the increased prices on the quantities demanded. But this latter effect is expected to be very small due to the low price elasticity of demand for such basic consumer commodities.

Secondly, this increased dependence on imports to provide subsidized commodities makes government expenditure and the import bill highly sensitive to international prices. Furthermore, if the expectation concerning the future global real prices of food are correct, this will lead, cet. par., to a deterioration in the Egyptian terms of trade with the -

outside world. This emphasizes once more the need to orient development strategy to stress agricultural development, and to utilize pricing, taxation, and foreign exchange systems to encourage those crops (and sectors of production) where the domestic resource cost per unit of foreign exchange is low to help maximize Egypt's benefits from international specialization and comparative advantage..

Thirdly, the increased dependence on imports has made subsidy payments in the budget dependent on the value of the exchange rate of the Egyptian pound, and thereby dependent on commercial and foreign exchange policies. The shift to the unified exchange rate in Jan. 1979, for example, has resulted in an increase in the domestic currency value of imported commodities and thereby to increase pressures of fiscal imbalance. It should be emphasized, however, that the use of the official exchange rate to determine the domestic currency value of subsidized commodities before 1979 has reduced the burden on the budget but only through transferring it to other segments of the economy, particularly the export sector. Proper economic accounting requires, therefore, the use of the parallel market exchange rates prevalent during 1973 up to the end of 1978 to determine the "real" cost to the economy of the subsidized commodities.

Fourthly it has been argued that this increased dependence on imports will increase the subsidy bill faster than the increase in quantities, because subsidy per ton for imported commodities is -

significantly higher than the subsidy per ton of the same domestic commodity<sup>1</sup>. Table (12) shows the difference in the subsidy per ton of imported and locally produced food items. While this argument is correct in terms of the effects such a policy will have on the government budget, it ignores the effects of such pricing and taxation policies on cropping patterns and resource allocation within the agricultural sector.

Finally, it may be noted that this increased dependence on imports has been facilitated by the increased food aid that Egypt got during the past few years. Estimates of the cost of subsidies has to be adjusted by the value of food aid to reach the net subsidy cost to the governments. Furthermore, since the government usually sells donated commodities (at the reduced subsidized price) the sales revenue of such donated commodities has to be deducted also from the subsidy bill.

#### 4.2. The Foreign Exchange Rate in Egypt:

The parallel market for foreign exchange was created in september 1973, and since then Egypt has had a system of multiple exchange rates for both imports and exports. The exchange rates set by the central Bank have moved as follows:

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1. K. Korayem, The Impact of the Elimination of Food Subsidies on the cost of living of Egypt's Urban Population, I.L.O., Aug. 1980, P.8.

Table (12)

The Subsidy Per Ton of Imported and Locally Produced Food Items  
(1973 - 1980/81 )

Item	Year	1973	1974	1975	1976	1977	1978	1979	1980 (1/1-30/6)	1980/81
<u>Wheat</u>										
Imported		29.27	22.64	77.6	51.73	34.78	47.94	113.44	131.	145.6
Locally produced		6.43	7.42	18.53	35.57	68.78	27.05	40.	40.9	
<u>Refined flour</u>										
Imported		18.	68.36	39.33	47.65	47.88	51.34	132.82	161.8	2.3.
<u>Imported maize</u>										
Imported		21.18	36.08	57.8	53.04	58.98	78.79	64.32	81.4	113.
<u>Beans (foul)</u>										
Imported		-	22.86	42.06	58.03	81.88	81.87	107.06	253.8	190.
Locally produced		21.5	14.56	12.8	22.85	0.2	59.7	35.4	43.9	
<u>Lentils :</u>										
Imported		45.58	134.62	124.08	133.89	208.9	166.27	204.39	407.4	397.
Locally produced		8.	14.61	103.3	3.	32.45	291.	107.4	128.9	
<u>Imported vegetable oil</u>										
Imported		121.43	278.77	297.97	184.5	220.03	283.62	360.29	461.6	430.
<u>Vegetable and Animal fats</u>										
Imported		105.17	107.37	127.24	100.9	2292.62	299.82	391.25	421.	
<u>Frozen meat</u>										
Imported		-	2.	-	-	318.9	138.17	668.22	830.2	85
<u>Frozen fish</u>										
Imported		16.34	84.95	50.77	3.74	14.06	-	69.73	61.4	92
<u>Tea</u>										
Imported		-	-	-	-	482.2	304.25	1381.45	784.1	37

Source : Ministry of Supply ;

- Subsidy not applicable .

Official Rate since February 1973	LE 1 = U S \$ 2.56
Parallel market rate:	
September 1973	LE 1 = U S \$ 1.70
February 1975	LE 1 = U S \$ 1.57
May 1976	LE 1 = U S \$ 1.50
December 1976	LE 1 = U S \$ 1.43
December 1978	LE 1 = U S \$ 1.43

As of January 1, 1979, the official exchange rate has been abolished except for some bilateral transactions. The unified exchange rate since then is LE 1 = US \$ 1.43.

In addition to these developments, there is another foreign exchange market associated with own-exchange imports. Under this scheme, which was introduced in 1974, traders or individuals who hold foreign exchange may transfer these holdings into imports of goods. The rate in this market is very sensitive to forces of demand and supply, and the rate has moved up to LE 1 = US \$ 1.11 more recently because of the apparent shortages of foreign exchange.

During its period of existence, the parallel market has been gradually enlarged. At its inception, all traditional exports were excluded, and on the import side it was largely intended to certain categories of imports, largely services and some intermediate goods.

In May 1976, the parallel market was substantially enlarged, and in January 1, 1977 some other transactions were also transferred to the market. Edible oil and tea, in addition to some other transaction were transferred to the market starting July 1, 1978, and starting January 1, 1979 all supply commodities were transacted at the unified rate.

#### 4.3. Balance of Payment Developments:

Table (13) shows Egypt's balance of payments data for the period 1970-73. Small changes have taken place in the various items of current account up to 1973. There has been a deficit in the current account during 1970-72 period because the deficit in the trade and services items was larger than the unrequited transfers, which were mainly from Arab oil producing countries to compensate Egypt for the closure of the Suez Canal after 1967. The picture started to change in 1973, because of the vast increase in the unrequited transfers after the October war. This has helped to achieve a small surplus in the current account, in spite of the increased deterioration of the trade balance.

The balance of payments situation has changed dramatically during 1974-79 period, as can be seen from tables (14) and (15) which show a somewhat detailed data for the current and capital accounts respectively. Oil exports has shown a continuous increase through out the period, but the dramatic increase occurred in 1979 with the almost-

Table (13)

## Balance of Payments, 1970-73

(In millions of U.S.\$)

	1970	1971	1972	1973
A. Trade Balance	<u>-373.5</u>	<u>-393.5</u>	<u>-472.7</u>	<u>-657.1</u>
Exports, f.o.b	817.4	850.3	813.5	1,002.6
Imports, c.i.f.i	-1,190.9	-1,243.8	-1,286.2	-1,659.7 <sup>1/</sup>
B. Services (net)	<u>-88.1</u>	<u>-92.0</u>	<u>6.9</u>	<u>6.8</u>
Receipts	175.7	182.2	308.5	421.0
Payments	-263.8	-274.2	-301.6	-414.2
C. Unrequited transfers	<u>308.2</u>	<u>279.0</u>	<u>294.9</u>	<u>727.2</u>
Private	3.9	11.0	5.8	6.1
Government	304.3	268.0	289.1 <sup>2/</sup>	721.1 <sup>1/</sup>
D. Current balance (A+B+C)	<u>-153.4</u>	<u>-206.5</u>	<u>-170.9</u>	<u>76.9</u>
E. Capital transactions (net)	<u>4.6</u>	<u>26.0</u>	<u>129.7</u>	<u>-61.2</u>
Long-term loans	24.4	-26.0	79.1	58.7
Suppliers' credits	-11.0	59.8	44.1	-116.9
Others	-8.8	-7.8	6.5	-3.0
F. Errors and omissions (net)	<u>-19.8</u>	<u>7.7</u>	<u>-7.3</u>	<u>-9.9</u>
G. Allocation of SDRs	<u>25.1</u>	<u>20.0</u>	<u>21.6</u>	<u>-</u>
H. Overall balance	<u>-143.5</u>	<u>-153.0</u>	<u>-26.9</u>	<u>5.8</u>
I. Monetary movements (increase in assets-)	<u>143.5</u>	<u>153.0</u>	<u>26.9</u>	<u>-5.8</u>
Commercial banks (net)	32.0	-35.2	-14.7	224.4
Payments agreements and credit facilities (net)	60.5	115.0	78.2	-113.1
Reserves and related items	51.0	79.5	-36.6	-117.1
Central Bank subscription to AIB	-	-6.3	-	-

Source : Central Bank of Egypt/ I.M.F.

<sup>1/</sup>Includes the market value of petroleum grants. Note that import data do not include own exchange imports .



Table (14)

Balance of Payments : Current Account, 1974-1979

( In millions of U.S. \$ )

	1974	1975	1976	1977	1978	1979	1980
<u>Merchandise Exports, f.o.b.</u>	<u>1818</u>	<u>1875</u>	<u>2169</u>	<u>2346</u>	<u>2558</u>	<u>4024</u>	
Oil	251	473	828	1012	1262	2860	
Raw cotton	663	371	312	457	286	348	
Other agricultural products	194	155	231	260	223	198	
Cotton yarn-textiles	366	478	301	300	272	267	
Other manufactures	344	388	497	317	515	351	
<u>Merchandise Imports, c.i.f.</u>	<u>-3618</u>	<u>-4608</u>	<u>4659</u>	<u>-5110</u>	<u>-5998</u>	<u>-7436</u>	
Wheat and flour	-798	-642	-547	-600	-841	-772	
Other agricultural products	-247	-444	-748	-500	-696	-905	
Intermediate goods	-1513	-1939	-1404	-1466	-1673	-1968	
Machinery and transport equip	-506	-865	-1051	-1500	-1700	-2315	
Manufactured Consumer goods	-472	-493	-515	-650	-766	-845	
Foreign oil companies imports	-82	-225	-394	-394	-322	-531	
<u>Trade Balance</u>	<u>-1800</u>	<u>-2733</u>	<u>-2490</u>	<u>-2764</u>	<u>-3440</u>	<u>-3412</u>	
Net Non Factor services	92	95	627	774	927	697	
Tourism	265	332	464	728	702	601	
Suez Canal	-	85	311	428	514	589	
Others	168	211	375	186	325	371	
Payments	-341	-533	-523	-769	-614	-964	
<u>Balance on Goods and Non-Factor</u>	<u>-1708</u>	<u>-2638</u>	<u>-1863</u>	<u>-1991</u>	<u>-2513</u>	<u>-2715</u>	
Net Factor Services	70	122	413	472	1098	1143	
Receipts	276	452	827	1010	1905	2519	
Workers remittances	(189)	(366)	(755)	(897)	(1761)	(2214)	
Investment income	(87)	(86)	(72)	(113)	(114)	(305)	
Payments	-206	-330	-414	-538	-807	-1376	
Interest payments	(-156)	(-190)	(-274)	(-319)	(-415)	(-428)	
Oil Company transfers	(-50)	(-140)	(-140)	(-219)	(-392)	(-948)	
<u>Current Account Balance</u>	<u>-1638</u>	<u>-2516</u>	<u>-1450</u>	<u>-1519</u>	<u>-1415</u>	<u>-1572</u>	

Source : Central Bank of Egypt, I.M.F. and IBRD.

Table (15)

Balance of Payments: Capital Account, 1974-1979

( In millions of U.S. \$ )

	1974	1975	1976	1977	1978	1979
1. Current account balance	-1638	-2516	-1450	-1519	-1415	-1572
2. Transfers	42	90	87	63	54	88
3. Autonomous non-monetary capital	156	495	1091	1205	1528	2181
a. Direct investment	87	225	444	477	387	710
b. Official loans (net)	-21	210	490	803	1028	1034
c. Private loans (net)	90	60	157	-73	113	437
4. Balance of autonomous transactions(1+2+3)	-1440	-1931	-272	-251	167	697
5. Balance of payments-loans and grants <sup>1</sup>	1261	1506	780	1601	809	72
6. Balance of non-monetary transactions	-179	-425	508	1350	976	769
7. Unallocated <sup>2/</sup>	-874	-698	-1184	-435	-504	-462
8. Monetary capital (9 + 10 + 11 )	1053	1123	676	-915	-472	-307
9. Commercial bank	584	89	226	-1005	-494	-101
10. Bilateral payments	-28	-241	-10	-121	-35	-59
11. Central Bank (net) <sup>3/</sup>	497	1275	460	211	57	-147

Source : Central Bank of Egypt, I.M.F., and IBRD.

doubling of petroleum prices at mid year. Other export items have oscillated with the exception of raw cotton, and cotton yarn textiles that are showing a declining trend.

Regarding merchandise imports, there has been some oscillation in the value of wheat and flour imports that reflects changes in international wheat prices, inspite of the almost consistent increase in the imported quantities. The value of imported wheat and flour does not show the tremendous increase in value after importing these commodities at the unified exchange rate in 1979 because the whole table is represented in terms of US \$ .

Other agricultural imports has also increased considerably, by almost four times. Similarly, machinery and transport equipment have also shown similar trends. Manufactured consumer goods have almost doubled, while intermediate goods imports have shown some oscillation.

Egypt's ability to increase various types of imports by these considerable amounts has been made possible through the increased availability of foreign exchange both from internal and external sources. Internal sources are represented by the increased importance of oil exports (because of an increase in both quantities produced and prices) Suez canal dues, tourism, and workers remittances. These developments have helped to reduce the current account deficit from the peak it reached in 1975, inspite of the vast growth in various import items.

External sources of foreign exchange include the success of the Egyptian Government to attract large amounts of foreign assistance that was provided mainly by Arab and western donors and at highly concessional terms. These developments have helped to turn the deficit in the current account to a surplus in the balance of autonomous transactions during 1978 and 79.

Truely, the increased availability of foreign exchange has paved the way for a larger domestic consumption, especially from essential supply commodities, an increase in investment, and a better utilization of existing production capacities. These developments, in turn, have, in addition to the expansion of services, sharply accelerated the rate of economic growth.

Beside the acceleration in the rate of economic growth, the increased availability of foreign exchange have resulted in a consolidation of Egypt's external debt, and strengthened the country's creditworthiness, by helping to solve the pressing liquidity problems that threatened Egypt's financial position in 1975 and 76. Although Egypt's total and long term public debt increased sharply from \$ 2.1 billion in 1973 to an estimated \$ 10.0 billion at end of 1978, the debt service ratio declined, reflecting both the more favorable credit terms and the rapid increase in the foreign exchange earnings.

The major problem, however, is that these same causes of improvement in the balance of payment position, have been at the same time causes for delay in required long term policy measures, increased dependency, and the loss of economic independence. Any sudden change in any of the major sources of foreign exchange, disregarding petroleum whose exports are expected to disappear at the end of 1980's, will have serious repercussions on the domestic economy. Most of the Egyptian imports are food, intermediate or capital goods that cannot be reduced easily in the short run without serious effects on the levels of human nutrition, production, or the rate of growth of the economy. This emphasizes once more the need to increase the economic efficiency of the agricultural sector, to encourage the growth of basic industries to satisfy an increasing share of domestic demand out of domestic output, and to create new avenues for increasing Egyptian exports of manufactured products.



