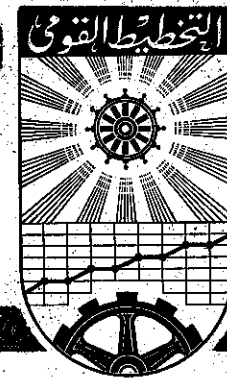


THE INSTITUTE OF  
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CURRENT STATE AND DEVELOPMENT  
POSSIBILITIES OF THE MONEY  
MARKET IN AFRICAN COUNTRIES  
THE CASE OF THE UAR

by

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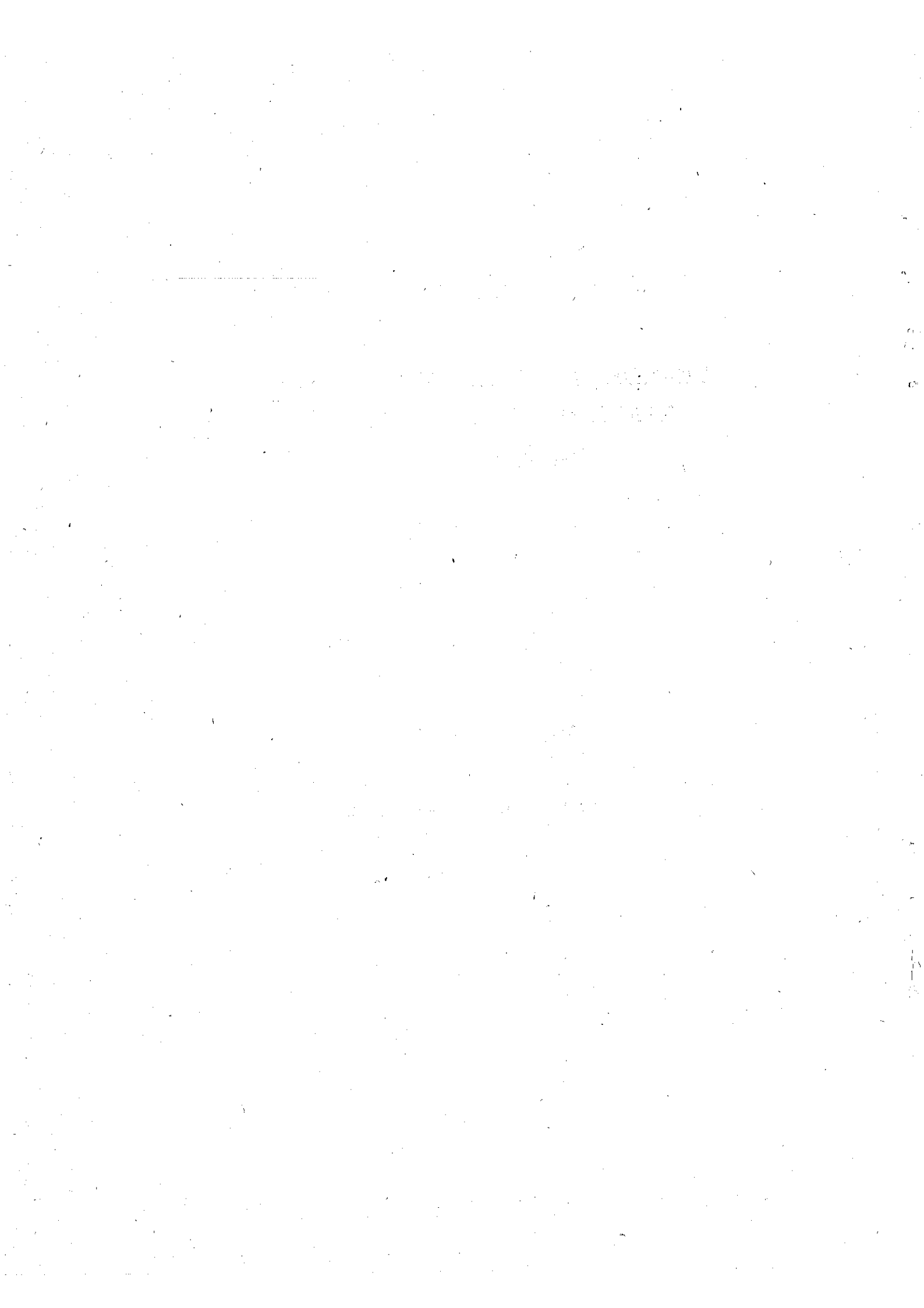
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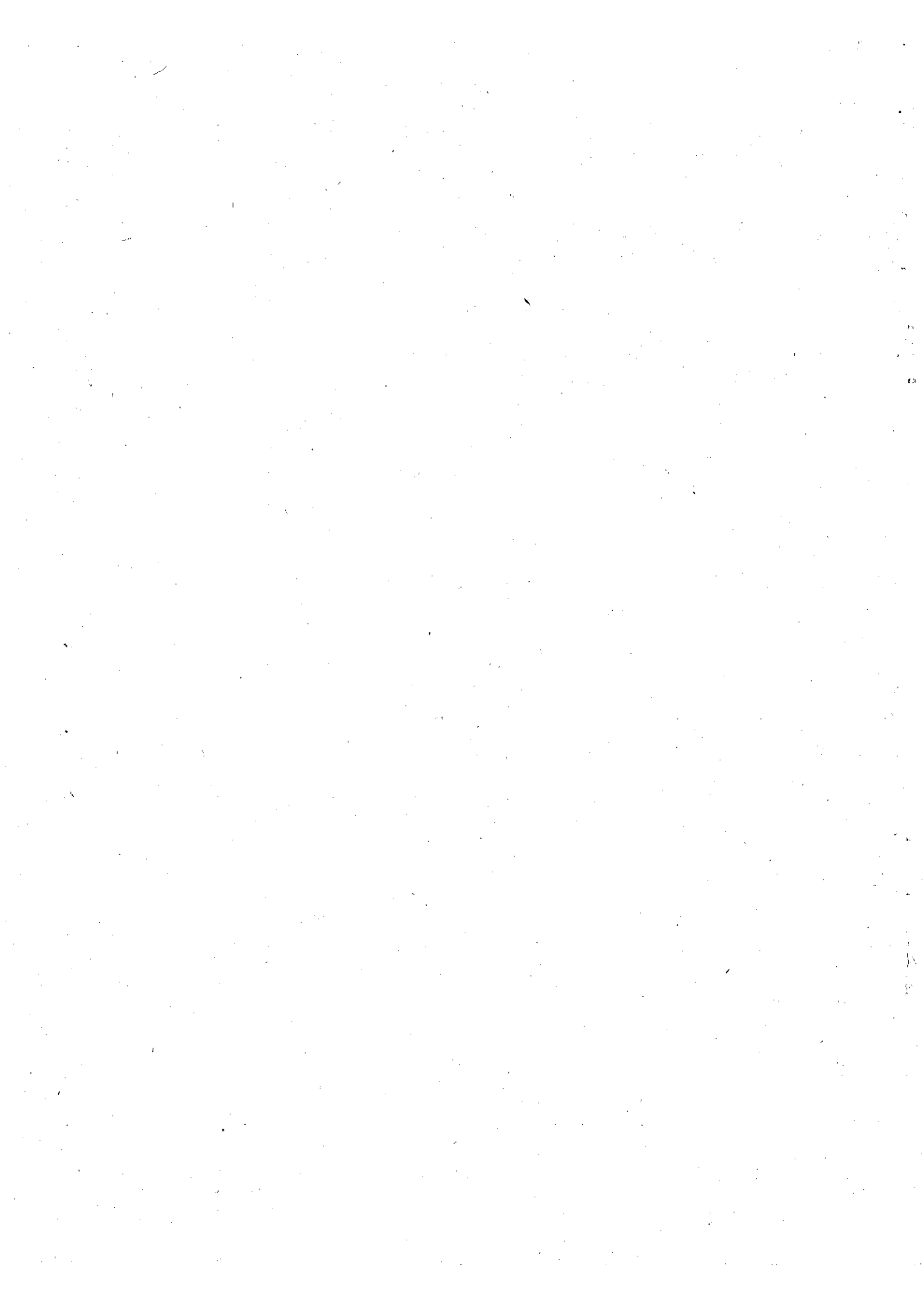
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## I. MAIN FEATURES OF A DEVELOPED MONEY MARKET

### 1.1- DEFINITIONAL:

It is a common practice in economic literature to consider the credit market as composed of two parts: The first is associated with the use of funds for long term purposes, especially those related to fixed capital formation. The second is predominantly a market for funds required to finance working capital, hence ideally concerned with short-run transactions.<sup>(1)</sup> The former is called the capital market, while the second is referred to as the money market. However, there might arise certain cases where a separate discount market is identified, although it is usually considered as an integral part of the money market.<sup>(2)</sup>

The distinction between the two main types of markets goes beyond the nature of uses of funds, to cover specific rates of interest and sources of funds. Careful examination of each of these three aspects reveals a certain degree of overlapping and a good deal of the literature is concerned with setting the rules by which a more or less, clear subdivision can be established. It is not our intention here to take part in this interesting discussion as a means of defining the borderlines of our study. A broad and a rather pragmatic definition of the money market and its scope would enable us to switch over to the main task of considering the development of that market within the framework of the U.A.R. economy.

There is no definite market for money in the sense of a place where purchases and sales are concluded. The money market refers rather to a body of dealers in short-term money, namely, bankers, bill and stock brokers and discount and acceptance houses, etc., who either have money to lend or who seek to borrow money. This body of money dealers is not clearly defined into two unequivocally distinct classes: lenders and borrowers, in the manner by which an ordinary market is divided into two classes, buyers and sellers. Further, dealers in the money market are not by definition different from dealers in the capital market. A distinct feature of this market is that all dealers are ready to sell the use of funds at certain price and to buy the use of money at another price.

The main function of the money market is to avail to those who need funds for a short period, the necessary amounts which would exist at the disposal of others who are ready to part with them for a period which might be as short as one night only. With development of the market it moves from the mere provision for the needs of borrowers to a more direct consideration of the needs of lenders. The creation of the so-called "call money" opens a possibility for the latter to invest a part of their funds in such a way that perfect liquidity is practically preserved. A further stage of development would carry the activities of the market beyond domestic frontiers, and avail its services to foreign dealers.

(1) Considering that the London money market is a model market, it is quite indicative to notice that the Radcliffe Committee was "impressed....by the fact that the market for credit is a single market.....it does not seem that any hard and fast lines are drawn between the supply of short finance and the supply of long finance; and borrowers seem to be ready to switch to some extent from one to another.." Report of Committee on the working of the Monetary System - p. 42 London, HMSO., 1959

(2) See p. 3 below

## 1.2- STRUCTURE:

A fact which hardly requires mention, is that a money market assumes the existence of a developed money economy. The use of money should have for long superseded the stage of barter; and the credit system should have attained the stage of wide acceptance. In particular, the so-called banking habit should have attained that level which would put at the disposition of the banking system, not only those funds which are considered by the population as genuine savings, but also all those balances which they hold in monetary form, for current and future use. Such developments have as a necessary condition the issue of laws of money reform which establish a widely accepted and respected national currency, and which assure a favourable atmosphere for credit creation.

Unlike many other markets, the money market needs an institutional regulator. Thus in England, where the history of the London money market dates back to the 18th century, the Bank of England has been described as the axle on which the whole wheel of the market's business turns.<sup>(3)</sup> In developing countries, it is most likely that the money markets are far from being perfect, if they do ever exist. Even if money is there, the market is without a central bank, i.e., without axle. There is no dispute as regards the importance of the existence of an effective money market as one of the necessary conditions for healthy economic development. It is quite natural, therefore, that as soon as political independence is established, one of the first steps usually taken by those countries is the establishment of a central - and by definition national - bank.

The axle, however, is of a very limited use without the constituent parts which are represented by the joint-stock banks, the discount and acceptance houses, the bill and stock brokers, and the other financial institutions. The structure of the constituent parts differs from one country to the other. Thus it is customary to distinguish the New York discount market from its money market, where operations are based on securities rather than on bills of exchange. On the other hand, the famous London money market depends in an integral way on its discount market. In fact, its main characteristic is the powerful intermediary of discount houses between the Central Bank and the banking institutions. The role of those houses in providing short-term and call money and in transmitting the policies of the Bank of England to the money market in a quick and effective manner need not be emphasized. "In the strict English sense of the term "money market", the London discount houses make up the London money market."<sup>(4)</sup> The action of the Bank of England as lender of last resort to discount houses rather than to commercial banks can be considered as the foundation for the art of central banking. The phenomenon has been long well established by Walter Bagehot's 1873 classic "Lombard Street". In the United States, borrowers from Federal Reserve Banks at the discount rate are commercial banks. The rediscount mechanism is replaced by an important alternative, namely the Federal-Funds market, which enables the member banks to accommodate each other in their cash reserve obligations on a day-to-day basis.

(3) Spalding, William: The London money market - 3rd ed., P. 54 Sir Isaac Pitman & Son, London 1924.

(4) Aschheim, Joseph: Techniques of monetary control - p. 85; The Johns Hopkins Press, Baltimore 1961.

Apart from the London and the New York money markets, few other markets can be classified as money markets in the full sense of the word. Thus the Paris market centered for a long time around the "Banques d'Affaires", or investment banks, hence developing capital rather than money market operations. Its money market does not play as important a role as in the case of the U.K. and the U.S.A., and it is strictly regulated by the Bank of France.<sup>(5)</sup> Even the rediscount houses are affiliated to investment banks, and are thus classified under financial institutions. Bank funds are placed in the money market by the intermediary of brokers. Bank's orders for securities are transmitted to the stock exchange dealers through commission men. A large share of money market funds belong to savings banks, whose relationships with commercial banks are rather limited. Their contribution to the money market is affected through the "Caisse des Dépôts et Consignations" which used to hold the larger part of the reserves of the savings banks. The Caisse devotes a fraction of its resources to demand and short-term loans, and holds a voluminous portfolio of Treasury notes and of Crédit National acceptances. It provides substantial facilities for medium-term credit.

Another sample of developed economies shows a still limited status of the money market. Thus the Canadian system leans heavily on the Chartered Banks and its numerous branch-offices, strictly dealing in the provision of short-term funds for working capital purposes. Apart from this regular banking activity there exists only a rudimentary money market dealing in short-term securities.<sup>(6)</sup> In Australia there has been no great demand for short-term investments at low rates of interest nor did the very necessary middlemen emerge. There is no commercial bill market owing to the limited amount of such bills, which has been even tending to contract. Treasury bills are taken up by the Commonwealth Bank and sold to the commercial banks.<sup>(7)</sup> "In spite of" the slow development of the capital market in Western Germany since the war, the development of the money market has been limited by the fact that commercial banks as a whole did not possess excess reserves. The most important lenders on the money market are the central giro institutions, large deposit banks, and certain public administrations which place in the market part of their funds and of those of allied agencies. The activities of the market do not cover granting short-term credits to non-bank customers, but they are largely confined to the purchase or sale of the so-called "money-market securities", viz., Treasury bills, medium-term treasury bonds, bankers' acceptances and first-class commercial bills endorsed by banks.<sup>(8)</sup>

### 1.3- ACTIVITIES:

Although the operations of the money market are strictly related to the trading of short-term funds for purely monetary purposes, they are made possible only through ultimate uses for economic purposes. Let us therefore attempt a general classification

(5) Beckhart, Benjamin Haggott, ed.: Banking System - 3rd printing, Columbia Univ. Press, 1959, pp. 242

(6) Ibid., p. 125

(7) Ibid., pp. 41 - 42

(8) Ibid., p. 363



according to the ultimate uses of funds.

for

- i- Working capital requirements material production purposes. This is the traditional field of operation of commercial banks through their short- and medium-term loans and overdrafts to their business customers, and they do not create the so-called "money-market securities" in the proper sense. Their role is largely that of the creation of funds which provide the banks, between one operation and the other with amounts which can be put on the market for such short periods that are necessary in order to bridge the positive (or negative) time lag between any two consecutive operations. It is clear that with the expansion of industrial activity, the importance of this type of operations has increased, and, which is more important, evenly distributed over time. Agricultural economies are characterised by bulky operations which mature at specific dates, practically the same for most borrowers.
- ii- Finance of trade and commerce. Probably this is the most important use which was responsible for the creation of a regular money market, through the creation of "bills of exchange" or "commercial bills". Dealers in the old London money market found it quite profitable to seek funds in the wealthy rural areas, and to avail them to the quite active commercial centers. The practice of discounting and rediscounting such bills soon created the discount market, which helped to channel liquid money into commerce and hence eventually into material production sectors. The activity was soon extended to the sector of international trade to enable exporters and importers to carry out prosperous trade activities.
- iii- Finance of current government activities. Bagehot's ingenious invention, the Treasury bill proved to be the most lasting of all. Not only did it help to bridge the time lag between receipts and payments, but it also provided the government with a source of finance which could eventually subjugate the traditional techniques of monetary policy to fiscal policy, especially under the new systems of managed money replacing the gold standard. The importance of the technique was intensified by war operations which justified such a tendency. Later, the increasing role played by the government in economic activity, and in particular reconstruction, anticyclical and development activities, provided the money market with a widely accepted security which played the role played by gilt-edged securities in the capital market. The history of modern money markets is largely the history of treasury bills.
- iv- Finance of stock exchange operations. This is a domain where certain dangers of an expansion in the money market might eventually get intensified through a transmission to the long-term capital market, which should be ideally financed out of genuine savings rather than the creation of credit. However, unless there exists a strict control on the activities of the credit market, short-term funds can create unwarrantedly favourable conditions for capital expansion. A speculative mood created by the desire on the side of dealers in the money market to make profits on a rising stock exchange, might eventually encourage a series of new issues. It is this type of activity which makes it difficult to draw a sharp distinction between the two markets.

## II - EARLY DEVELOPMENTS OF THE UAR MONEY MARKET

### II.1 - The First Half of the 19th Century:

The early developments of Egypt's economic conditions provide an interesting example of the close relationship between the level and nature of economic activity and the development of monetary and financial institutions. The turn of the century brought in the French occupation in place of the already lengthy Turkish one. This was soon terminated and an Albanian ruling family ruled the country on behalf of the Turkish empire. Eventually the British took over until quite recently.

During the Turkish domination the country's economy went on losing its previous prosperity. The maritime route around the Cape deprived the country from transit trade which has been for long an important source of economic activity. The country settled down to a more or less subsistence agriculture economy, with all its savings drained by the imperial power. The system of communication was rather poor and the country was composed of a number of largely isolated provinces, with a not so dense population. The economy was more on the barter rather on the money side.

Motivated by expansionist desires, the new ruler of the country had to seize all possible resources and mobilize them towards the goal of constructing a strong army.

The new economic measures included:

1. The establishment of government monopolies. This was done through the seizure of agricultural land, to be later distributed to members of the ruling family and some collaborators. Further, the government took over the activity of constructing new industries necessitated by the military activities.
2. Expansion of agricultural activity through the introduction of a new system of irrigation, digging canals and construction of barrages.
3. Introduction of long staple cotton to act as a cash crop.

The fact that the bulk of investment activities was carried out by the government left little room for the establishment of financial institutions. The ultimate failure of the military policy led to the close down of many of the new industries, and eventually to the abolishment of government monopolies. The middle of the century witnessed a large scale curtailment of economic activity, and the only lasting effects of the previous developments were the effects of the new irrigation system, and the increasing importance of the new cash crop, cotton.

## II.2 - The Second Half of the 19th Century:

The 1850's proved to be fundamental for future developments since they witnessed the construction of the railway system which connected the elongated valley for the first time, and the start of the Suez Canal project. They also marked the beginning of modern commercial banking which was invited as a result of the increase of government activities and the monetization of its receipts. In 1856 the Bank of Egypt was established by foreign capital with its headquarters in London. During the 1860's and 1870's foreign banks started to establish branches in Egypt, but for purposes which differed from those of the main offices. Their major activity was to extend loans and advances to the Egyptian government. The ruthless extravagance of the alien rulers, accentuated by the persuasion of foreign lenders, led to the increase of the floating debt which was eventually turned into long-term debt at very high rates as high as 20%. Total indebtedness was increased from L.E. 3.3 million in 1862 to L.E. 68.4 million in 1873. The management of the debt required also further banking services to enable the transfer of interest charges, which amounted to about L.E. 5 million annually.

The growing importance of cotton has led to the creation of an organized cotton contract market, thus putting Egypt among the earlier countries in this field. However it provided another channel through which domestic profits leaked instantaneously into foreign hands. Foreign trade increased in importance due to the increasing volume of cotton exports and the revival of transit trade. The American civil war led to large increases in earnings from cotton, thus reinforcing its position as the main crop. Towards the end of the century Egypt's foreign trade increased five-fold as compared with 1836. The foreign bank branches got more involved in financing foreign trade transactions with their respective countries.

The new irrigation system forthcalled both horizontal and vertical expansion in agricultural production, hence increase in the price of land. Large investments were devoted to land reclamation and a land boom started and went on for a considerable time. The new class of big land-owners, together with wealthy merchants and the increased numbers of foreign immigrants helped to form new urban centers. This called for foreign capital to be invested in utilities required by these centers. French capital entered also to start business in industries based on cotton, viz., ginning, pressing, cotton seed oil and soap.

Foreign bank branches helped the start of foreign concessions, and provided foreign companies with all facilities they needed. On the other hand, a number of Europeans found it profitable to establish individual banking business and to provide loans at incredible rates to land-owners. Usurers found their opportunity in the fact that small peasants were in need of working capital for the relatively long period which is required for the maturity of the cash crop, cotton. This group was called the Nec-Monsters (Les Néo Dévorants), who systematically drained out all their fabulous profits to their mother lands. The outcome was lack of confidence

on the part of individuals in the new monetary institutions - apart from the lack of means - and private deposits were quite fractional. In 1913 the most important deposits were those of the Post Office, the Customs and the Debt Fund.

Thus most of the banking institutions were concentrated first in Alexandria, being the principal port, and later in Cairo. The first bank that ventured in the direction of having branches in the provinces was the Casa di Sconto et di Risparmio which was the first bank to be registered as an Egyptian bank, in 1887, with headquarters in Alexandria. Since 1880 mortgage banks started their activity which proved to be quite flourishing, and which fed the spirit of land speculation.

In 1898 the National Bank of Egypt was established with foreign (largely British) capital as a commercial bank, and was given the concession of issuing the first bank-notes Egypt ever knew, and to act as an agent for the government. At that time a lot of foreign gold currencies were in circulation including the Egyptian pound. The English sovereign was highly priced relative to its gold content, which made it dominate circulation, being bad money. This together with the fact that most of the cotton exports were directed towards Lancashire, led the banks get into the habit of importing some L.E. 10 million each year to finance the cotton crop, then re-export them when the season was over. The demand for the new bank-notes which were convertible into gold remained limited, and the total issue did not exceed L.E. 3 million in 1913.

### II.3 - The Sterling-Zone Era:

The fear that the deteriorating world conditions in the summer of 1914 would raise difficulties in financing the forthcoming cotton crop, led to the issue of a law which was meant to provide temporary precautionary measures, but which eventually proved to have a fundamental lasting effect. This law suspended conversion into gold thus establishing the N.B.E. banknotes as legal tender. In December 1914, the Minister of Finance permitted the N.B.E. to deposit its gold reserves (which were still required to back 50% at least of the issue) in England. Thus the Egyptian pound became convertible into Sterling at the rate of 0.975.

In 1916 it proved quite difficult to obtain the necessary gold to issue all note required to finance the cotton crop. The N.B.E. was therefore exempted from the 50% gold reserve condition, and was allowed to use instead British treasury bills. Apart from the automatic transfer of the Egyptian currency to the Sterling exchange standard, this had the immediate effect of exempting Britain from paying for its war expenses in gold. The result was that Egypt accumulated about £ 150 million Sterling reserves during the war years. The fall in the sterling's value with respect to the dollar, led to a similar 30% fall in the value of the Egyptian pound. Together with the difficulties of commodity imports, this led to a rapid inflationary process which brought the wholesale price index from 98 in June 1915 up to 127 in February 1920.

The reaturn of Britain to the gold standard in 1925 would have enabled the country to terminate the above-mentioned temporary conditions. For no obvious reason, however, this was not done, and the currency was based on the gold exchange standard. With Britain leaving the gold standard in 1931, the Egyptian pound was finally tied up to the sterling. This enabled Britain to finance its Second World War expenses by mere issue. But unlike the reserves accumulated during the first world war, the £ 430 million reserves accumulated by 1945, were actually "blocked". Thus, not only did the country suffer unnecessarily during the war years, but also it could not make good its losses through use of its reserves for obtaining the necessary imports. Further, the losses incurred in reselling the accumulated British securities were estimated at about L.E. 200 million.

It was therefore a must that Egypt should leave the Sterling zone which took place in July 1947 and to extend the system of exchange control started at the beginning of the war, to the sterling itself. In 1948 a new law allowed the N.B.E. to use Egyptian treasury bills in place of gold within the 50% limit, while the remaining 50% were to be composed of government bonds or bills, or securities guaranteed by the government. Such developments were made possible by joining the I.M.F. in 1945, and the adoption of the gold parity standard. At that time the Egyptian pound was priced at \$ 4.166 which was the equivalent of its contents of 3.67288 gms. of gold.

#### II.4 - Developments in the Banking and Financial System:

When the wave of irrational government borrowing came to an end in the late 1870's the individual bankers disappeared from the scene. The acute 1907 economic crisis led to the failure of many other banking institutions including the Bank of Egypt and the Casa di Sconto. In the interwar period a few amalgamations took place among the surviving foreign banks, new joint-stock banks were established, and some foreign bank branches were transformed into Egyptian joint-stock banks. The outstanding event was the construction in 1921 of the first purely Egyptian bank, Bank Misr, which gained rapid success exhibited by the rapid increase in the number of customers, the volume of deposits and the number of branches which now exceed 90.

The practice of banks changed with the change in the monetary system. The seasonal aspect of finance still prevailed. But instead of importing gold, the branch banks obtained transfers from their headquarters. This increased the N.B.E.'s sterling reserves thus enabling it to issue a corresponding amount in Egyptian pounds at a fixed exchange rate. Bills drawn by cotton exporters on spinners and weavers in the importing countries (largely England) were discounted in foreign money markets, especially London and Paris. When the season is over, the branch banks would buy back sterling from the N.B.E. to pay back their head offices. Whatever excess deposits they possess was usually invested in foreign short-term securities, awaiting the new cotton season.

Thus, neither during the cotton season, nor after, did the domestic system develop any transactions which could help to start an effective money market. On the other hand, the increase of the number of commercial banks from 7 in the end of the 19th century to 25 in the 1950's led to an increasing competition among them. Attempts to reduce this competition led to the establishment of two clearing houses, one in Cairo in 1928 and another in Alexandria in 1929, and of a Bankers Union in 1936.

The twentieth century brought in other money institutions. Thus the Post Office Saving Banks started in 1901. As mentioned before, the growth of the deposits of those banks led to some increase in the demand for banking services. A similar growth occurred in the activities of insurance companies. On the other hand the activities of mortgage banks were curtailed. The first world war enabled borrowers from those banks to repay many of their debts, and the total volume of loans fell from L.E. 45 million in 1914 down to L.E. 30 million in 1924. The great depression, which hit the country quite severely, put borrowers in a tight position, and the government had to intervene in order to stop compulsory land sales and to act as intermediary to safeguard the interests of both parties. The second world war and the ensuing inflationary conditions led to a further drop in mortgage banks loans. These banks were forced to invest their resources in construction financing, government securities and 3-years loans to commercial banks.

Agricultural credit received more systematic attention. In 1902 the first specialised institution was created by the collaboration of the government and the N.B.E. The Agricultural Bank of Egypt, though making a successful start, was later faced with difficulties owing to the failure of many peasants to repay their debts, and it was liquidated in 1936. Another important institution, the Credit Agricole, was created in 1931, with the government sharing 50% of its capital. This bank patronized the agricultural co-operative movement, and eventually it changed its name to the Agricultural and Co-operative Credit Bank in 1948. In spite of the fact that it was supposed to finance small peasants and co-operative societies, a good deal of its credit facilities crept into the hands of big land-owners.

The history of industrial credit is more recent. In 1922 government confided to Bank Misr a limited amount to finance small-scale industry. However, the Bank concentrated on the creation of large-scale establishments out of its own means. To solve the problem of dearth of capital, the idea of constructing an Industrial Credit Bank was contemplated in 1939. The project was executed after the war in 1947, with 51% of the capital supplied by the government. The task of the bank is to provide short-as well as long-term capital and facilitate the procurement of materials and machinery, for the industrial establishments.

## II.5 - The Treasury Bills:

As indicated before, the most important security in contemporary money markets is the treasury bill. This security came to be known in Egypt or rather a different version of it more than one century ago, and it was associated with the beginning of Egypt's indebtedness. The rulers used to issue a variety of them and to sell them at a discount rate as high as 30% in some cases. Later they were exchanged for long-term debts at another high discount, and a new set of bills was issued. This profitable business was an unmatched source of income for the foreign financiers who found in them a good investment of capital imported from abroad. In other words, instead of helping creating a healthy domestic money market, those bills opened the doors quite wide for the ruin of the country.

This unfortunate condition was terminated by the intervention of creditor countries, the consolidation of all debts, and the subjection of the country to foreign financial control. Since 1880 the government stopped issuing them, and most foreign profiteers had to pack up and go back home.

A new phase is associated with the First World War. The 1914 law of notes issue recognized Egyptian treasury bills as a part of issue reserves. However they did not survive the war, and the N.B.E. was satisfied with the British treasury bills. The government followed a tight financial policy, attempting to accumulate a reserve, and to finance any increase in its expenditure out of that reserve. The only debts incurred were two medium term debts in connection with the intervention in 1933 between mortgage banks and their debtors. Thus neither for financial purposes, nor for monetary purposes (those of notes issue) were bills ever traded in the inter-war period.

Difficulties in trading the 1941 cotton crop led to the intervention of both the Egyptian and British governments to buy it at a fixed price. The so-called "Cotton Loan Bonds" were issued for a period of up to five years, and the home market was capable of financing it. Three months treasury bills were issued since December 1941. One-year bills were issued in March 1943 together with another cotton loan. The success of these loans led the authorities to raise other loans with maturities ranging between two and thirty years, to pay back the national debt outstanding since 1880.

The 1948 law permitted the issue of treasury bills up to L.E. 50 million for purposes of banknote issue, and for the finance of the cotton crop. However, the ceiling was soon raised to 100 owing to the High prices of the cotton crop in that year, the expenses of the military operations in Palestine and the Colera epidemic. Thus between 1943 and 1951 issue-reserves in Egyptian treasury bills and bonds increased from L.E. 11 million to L.E. 84.3 million, whereas British treasury bills and bonds decreased from 127.6 to 77.9 millions.

III. RECENT DEVELOPMENTSIII-(i). The 1950'sIII.1- Creation of the Central Bank:

By 1950 the money market in Egypt was thus composed, with the N.B.E. as its leader. This latter was then a commercial bank competing with other commercial banks, though at the same time enjoying certain central banking features, such as being the bank of issue, the bank of the government, and the bank of banks. This combination of the functions of central banking and the liberties of commercial banking was awkward to the N.B.E. itself as well as to the competing banks. The government also felt the urgent need to have a full fledged central bank, a need already emphasized a long time ago, especially in the London International Monetary and Economic Conference to which Egypt participated in June 1933. However, she was reluctant to confer this status legally to the N.B.E., due to the fact that this latter was mostly foreign owned and managed.

During the period 1946-1950 many alternative projects were considered, ranging between the creation of a new bank to act as Central, and the transformation of N.B.E. into a central bank after complete or partial nationalization. What the law issued in 1951 did actually realize, was the Egyptianization of the N.B.E.'s management and its recognition as the Central Bank. That law forced banks to keep with the N.B.E. a specified ratio of their deposits, and to hold in cash another ratio to be determined by the Minister of Finance. Each commercial bank had to represent a monthly financial statement to the N.B.E., thus making possible, for the first time in the history of the country, the collection of information as regards the financial position of each customer, and the publication of regular monetary statistics. These were minimum requirements for the formulation of what might be considered as a "monetary policy", something that lacked until that date.

The minimum reserve ratio which was fixed at 15% at the beginning was reduced to 12.5% in 1954. On the other hand, the 1951 laws kept the 1948 conditions of note-issue, and the N.B.E. was asked to reinforce the gold reserves in order to "strengthen" the value of the pound. Gold reserves were revalued at the new price determined by the IMF (\$ 35 per ounce), and more gold was purchased. However, the fact that commercial bills were still excluded from the reserves, meant that the note issue was still separated in principle from the actual needs of the market. Further it also meant that the possibility of creating an active rediscount market was still quite limited. The N.B.E. was asked to simplify the procedures for rediscounting commercial bills, and it accepted to rediscount bills of not more than six months.

III.2- The Egyptianization of Banks:

The 1951 law did virtually increase the powers of the N.B.E. very much beyond what was actually happening since 1947. The major



weapon in the hands of the bank was the reserve ratio, rather than the open market operations. It could also exercise certain powers over the commercial banks through the threat to deprive them of facilities of finance on the basis of acceptable securities and on the security of cotton on which advances were forwarded. In any case the main factors governing the new monetary policy remained to be foreign exchange considerations, and the finance of foreign trade, with cotton still dominating the scene and producing heavy seasonal fluctuations in money issue and circulation, resembling those previously financed through importation and exportation of gold. With the New Regime taking over in 1952, and the immediate concern with the economic and political development of the country policies for the stabilization of domestic production, prices and incomes, and development projects financing gradually became important concerns of the Bank.

The whole system was put to a severe test during the Suez Crisis. Apart from Bank Misr and the N.B.E. itself the mostly foreign-owned banks - took a negative attitude towards the finance of domestic activities and of the 1956 cotton crop, on the grounds that they have to preserve a high liquidity ratio to face any possible rush on the banks. This fact brought out clearly one of the main defects of a system tied up to economic interests other than those of the economy which it is supposed to serve. Other defects were already felt through difficulties in obtaining the necessary finances for national concerns on as easy terms as already offered to less economic but foreign establishments. It became quite evident that if any serious economic development within a framework of internal political stability is ever to be achieved, members of the monetary institutions have to cease receiving adverse orders from outside the country. In other words, banks operating in the U.A.R. had to be Egyptianized. For that purpose the Law No. 22 in January, 1957 required all commercial banks operating in U.A.R. to take the shape of joint-stock companies wholly owned by Egyptians. From there a new turning point took place.

### III.3- The 1957 Law of Banks and Credit:

With the Egyptianization of the banking system the need became urgent to introduce radical changes in its mechanism and structure. The fundamental law no. 163 issued in July 1957 set the path for the proper working of the banking system and for the organization of the money market. Article one in that law recognized the N.B.E. as the Central Bank which should regulate the credit and banking policies and supervise their implementation according to the economic plans of the country, in such a way as to ensure the strengthening of the national economy and the stabilization of its currency. It has to advise the government before raising any public debt.

The Bank was authorized to undertake open market operations in securities, whether governmental or guaranteed by the government, and in commercial bills, and to determine the rates of interest and discount in such a way as to safeguard the country against any financial or economic

disturbances. It has to supervise credit institutions and to ensure their sound working. It has also to manage the country's gold and foreign exchange reserves. In the meantime it was allowed to undertake only those big commercial business that would not put it on a competing basis with ordinary commercial banks.

The control of the central bank activities over commercial banks included, besides reserve ratios, the issue of directives, limitation of channels of investment, putting a ceiling to certain types of investment and the types of reserves to be held against certain risky assets. Similar controls were also extended to other than commercial banking institutions, namely those engaged in real-estate, agricultural and industrial credit. On the other hand, the Minister of National Economy was given more powers of supervising the bank's activities.

### III-(ii). The 1960's

#### III. 4- The Nationalization Acts:

During the years 1957-1960 a new phase of Government policy materialized in introducing Government ownership to the banking sector. Several banks were bought or nationalized by the Government, including the NBE and Bank Misr which were nationalized in February 1960. Immediately after their nationalization the Government decided that the NBE <sup>9/</sup> should be turned into a purely commercial bank, while a new Central Bank of Egypt was established and assumed the central banking functions as from January 1961.

This new phase of Government policy was completed in July 1961 when sweeping nationalization laws were issued affecting various economic sectors and including the nationalization of all banks operating in Egypt.

Further developments were introduced in 1963 when all existing commercial banks were amalgamated in five banks <sup>10/</sup>. In 1964 the banking transactions of the public sector, which comprises since the 1961 nationalizations most of the business sectors, were divided among the five commercial banks within a so-called "specialization by sector scheme". This step was introduced in order to help the planning and administrative Government Agencies to improve their means of controlling the financial flows of the public sector.

The merger of the Egyptian commercial banks into five big banks represents an important step towards concentration. It should be noted, however, that geographical concentration in the Egyptian banking system

<sup>9/</sup> At the time of nationalization of the N.B.E., its shares were held by holders of 83 nationalities!

<sup>10/</sup> The National Bank of Egypt, Bank Misr, Bank of Alexandria, Bank of Port Said, and Bank of Cairo.

has always prevailed. Actually most of the banks which existed before 1960 were one unit banks operating in either Cairo or Alexandria. Some had no more than 2-3 branches, and only a few had branches in the country side. In fact the merger into five banks has been accompanied by a desire to correct this geographical concentration, as each of the big banks is presently anxious to establish a complementary network of branches. The following table gives the geographical distribution of all banks branches in 1958 and in 1966.

Table I  
Geographical Distribution of Bank Branches and Representations

	December 1958	June 1966
Cairo	53	74
Alexandria	29	28
Lower Egypt	71	127
Upper Egypt	69	109
	222	338

It is apparent that most of the newly opened branches are not financially profitable per se, though they are contributing to the improvement of each bank's net-work as a whole.

This concentration in the structure of the Egyptian banking system is simply a reflection of the historical concentration of the banking business in Cairo and Alexandria. As shown in the following table the largest part of commercial banks credits is realised in Cairo and Alexandria.

Table II  
Geographical Distribution of Aggregate Utilized Credit Facilities

	Cairo		Alexandria		Other Areas		Total	
	L.E.m.	%	L.E.m.	%	L.E.m.	%	L.E.m.	%
1959	123.2	43.8	103.8	36.9	54.5	19.3	281.5	100
1960	164.2	49.2	106.6	32.0	62.8	18.8	333.6	100
1961	198.0	55.6	102.1	28.7	56.2	15.7	356.3	100
1962	237.6	56.8	121.8	29.1	58.8	14.1	418.2	100
1963	276.1	59.0	137.5	29.4	54.0	11.6	467.6	100

Another indication of the high degree of concentration in the banking system prior to the merger is reflected in the distribution of deposits and credit among various commercial banks. The following table

depositors and credit among various commercial banks. The following table illustrates that among the 25 banks which existed in 1959 four banks held 70% of aggregate deposits and five banks extended 76% of all bank credit.

Table III

Distribution of Aggregate Deposits & Credit  
(In L.E.m. as the end of Feb. 1959).

	D e p o s i t				C r e d i t		
	Number of Banks	Aggregate Deposits	%		Number of Banks	Aggregate Deposits	%
Less than £. 5m.	16	23	9	Less than £ 1m.	7	2	1
From £. 5 - 10m.	3	23	9	From £. 1 - 5m.	11	25	14
From £. 10- 20m.	2	27	12	From £. 5 -10m.	2	14	9
From £. 20- 50m.	2	55	22	More than £. 10m.	5	134	76
More than £. 50m.	2	120	48				
T o t a l	25	250	100	T o t a l	25	175	100

Source: Dr. Aly-Gretly, The Development of the Banking System in Egypt, Cairo, 1960 (in Arabic Language).

The association of Banks which was formed in 1936 to discuss matters of common interest such as the determination of unified banking fees, commissions and interests, was turned after the 1961 nationalization of all banks into a Technical Committee for Banks, with its functions basically unchanged. Besides the two clearing houses which existed in Cairo and Alexandria since 1929, a third one was established in Port-Said in 1961.

III.5-Evolution of the Money Market:

Our survey of the developments of the monetary and banking systems in the U.A.R. has already shown that little room was left to the functioning of a domestic money market during the gold standard epoch. In the period 1916-1947 of the Sterling exchange standard, the local money market was still limited in size, though somewhat better organized than before. The affiliation of the system to foreign and well-organized markets was due to the foreign ownership and management of local banks, as well as to the overwhelming weight of foreign-trade operations, especially cotton exports.

With the N.B.E. assuming in 1947 the responsibility of lender of last resort in the place of foreign head-offices of the local banks, the Egyptian money market ceased to be a part of the international markets. The local banks continued, however, to focus their attention on the financing of Egypt's foreign trade, i.e.; cotton exports. Even Bank Misr which participated during the inter-war period in establishing and financing a score of new industries, ceased to enter any new ventures.

It is only after 1957, when the government launched an industrial program that the banks began to play a more pronounced role in financing economic development. This role was further enhanced since the beginning - in 1960 - of the first five-year comprehensive development plan.

Apart from occasional foreign exchange shortages, the Egyptian money market during the period 1947-1959, was smoothly functioning under the Central Bank's traditional controls. As aforementioned, financing cotton trade was the bank's main occupation and responsibility. This was

simply provided for by the Central Bank's decision to lower the Reserve Ratio during the active season from 15% to 12½% or 10%. He would also be ready to lend the banks whatever funds they may need for this purpose. No other major monetary policy was warranted. The rate of discount and the liquidity ratio stayed at 3% and 30% respectively without any change. During the idle season, the banks invested their funds in Treasury Bills and other gilt-edged securities. Naturally credit facilities were also extended for purposes other than financing cotton trade, but despite the rapid annual growth in such activities they still lagged in importance far behind the cotton trade.

As from 1960 the implementation of the five-year plan changed drastically the face of Egyptian money market. The Government's outlay on current services and development recorded a very rapid growth rate. Hence the liquidity of the banking system increased. This development rendered the policies previously used by the Central Bank less effective. The raise in the Reserve Ratio to 17½% and in the discount rate to 5% which was stipulated in 1962 - under the stabilization scheme worked out with the I.M.F. - did not prove to be very effective. Hence, it was necessary for the Central Bank to go a step further and impose a maximum ceiling for credit extended by each bank to each sector. Even so, the Egyptian experience discerns that in a planned economy the role of the Central Bank is highly complicated, and the effectiveness of his policies depends greatly on the development plan itself.

The role of the commercial banks also becomes more complicated. In order to extend credit to a certain project, the commercial banks have to consider now an extra element, namely the role assigned for this project in the plan. Complex situations may crop if the financing of the project was plan-wise approvable, but not so considered according to traditional financial soundness. There is no simple solution, as yet, for such problems. This situation suggests that in a planned economy the planner should assume a great deal of the responsibilities of Central Bankers.

### III.6- The Size of the Market:

In the U.A.R., as well as in most developing countries, the discount market is rather small in size. The accompanying Table IV indicates that the "Bills discounted" are decreasing in absolute figures as well as in percentage to aggregate loans & discounts.

The second important feature is that cotton loans registered a high and steady rate of growth in absolute figures. As a percentage of aggregate loans & discounts the relative importance of cotton loans has declined notably.

The third and most striking features is the astronomical growth in unsecured loans both in absolute and percentage figures. From 10.1% of aggregate loans & discounts in 1953, this item rose to 54.6% in 1965. Most of the rise occurred after 1960, and most of the unsecured loans were extended to the industrial firms which belong to the public sector. This simply reflects the drastic change which took place, as aforementioned, in the role and scope of banking activity in Egypt since 1960.

TABLE IV - Classification of Loans and Discounts  
1953 - 1965  
 A - In L.E. Million

End of	Loans Secured, by					Un-secured loans	Total Loans	Bills dis-counted	Total Loans & dis-counts
	Cotton	Agri. products	Merchan-dise	Personal Guarantee	Other - wise secured <sup>x</sup>				
1953	39.9	2.0	8.6	8.6	31.4	11.4	101.9	10.6	112.5
1954	50.3	5.4	10.9	9.4	37.2	13.5	126.7	16.5	143.2
1955	40.2	4.2	11.0	10.9	43.6	16.9	126.8	19.4	146.2
1956	59.3	4.1	9.0	11.6	42.0	16.9	142.9	16.0	158.9
1957	65.8	7.4	11.4	21.2	35.5	16.1	157.4	17.8	175.2
1958	63.0	6.2	20.2	25.9	47.2	23.7	186.2	17.8	204.0
1959	76.7	10.9	19.1	29.9	58.1	25.7	220.4	20.1	240.5
1960	70.1	10.8	24.8	36.1	50.0	26.6	218.4	20.6	239.0
1961	62.4	5.2	28.5	46.0	52.4	37.2	231.7	18.6	250.3
1962	58.4	15.1	23.5	55.1	48.7	59.2	261.1	15.2	276.3
1963	68.9	21.2	22.1	61.1	43.9	94.3	311.5	13.8	325.3
1964	96.7	11.8	16.9	66.3	33.5	174.8	400.0	8.8	408.8
1965	78.4	12.6	15.4	84.5	29.9	270.2	491.0	4.2	495.2

x Includes loans and advances against gold, mortgages and other securities

TABLE IV- Classification of Loans and Discounts,  
1953 - 1965  
 B- A percentages of Total

End of	Cotton	Agri. Products	Merchan- dise	Personal Guarantee	Other- wise secured	Un- secured Loans	Total Loans	Bills Dis- counted	Total Loans & Dis- counts
1953	35.5	1.8	7.6	7.6	27.9	10.1	90.5	9.5	100
1954	35.1	3.8	7.6	6.6	26.0	9.4	88.5	11.5	100
1955	27.5	2.9	7.5	7.5	29.8	11.5	86.7	13.3	100
1956	37.3	2.6	5.7	7.3	26.4	10.6	89.9	10.1	100
1957	37.5	4.2	6.5	12.1	20.3	9.2	89.8	10.2	100
1958	30.9	3.0	9.9	12.7	23.2	11.6	91.3	8.7	100
1959	31.9	4.5	7.9	12.4	24.2	10.7	91.6	8.4	100
1960	29.4	4.5	10.4	15.1	20.9	11.1	91.4	8.6	100
1961	24.9	2.1	11.4	18.4	20.9	14.9	92.6	7.4	100
1962	21.2	5.5	8.5	19.9	18.0	21.4	94.5	5.5	100
1963	21.2	6.5	6.8	18.8	13.5	20.9	95.8	4.2	100
1964	23.6	2.9	4.1	16.2	8.2	42.8	97.8	2.2	100
1965	15.8	2.5	3.1	17.1	6.1	54.6	99.2	0.8	100

TABLE IV- Classification of Loans & Discounts  
 C- Index Numbers, 1953 = 100

End of	Cotton	Agri. products	Merchandise	Personal Guarantee	Otherwise Secured	Unsecured Loans	Total Loans	Bills Discounted	Total Loans & Discounts
1953	100	100	100	100	100	100	100	100	100
1954	126.1	270.0	126.7	109.3	118.5	118.4	124.3	155.7	127.3
1955	100.8	210.0	127.9	126.7	138.9	148.2	124.4	183.0	130.0
1956	148.6	205.0	104.7	134.9	149.7	148.2	140.2	150.9	141.2
1957	164.9	370.0	132.6	246.5	113.1	141.2	154.5	167.9	155.7
1958	157.9	310.0	234.9	301.2	150.3	207.9	182.7	167.9	181.3
1959	192.2	545.0	222.1	347.7	185.0	225.4	216.3	189.6	213.8
1960	175.7	540.0	288.4	419.8	159.2	233.3	214.3	194.3	212.4
1961	156.4	260.0	331.4	534.9	166.9	326.3	227.4	175.5	222.5
1962	146.6	755.0	273.3	640.7	155.1	519.3	256.2	143.4	245.6
1963	172.7	1060.0	257.0	710.5	139.8	827.2	305.7	130.2	289.2
1964	242.4	590.0	196.5	770.9	106.7	1533.3	392.5	83.0	363.4
1965	196.5	630.0	179.1	982.6	95.2	2370.2	481.8	39.6	440.2



The classification of commercial bank's aggregate investments (Table V) discerns the increase in their holdings of Treasury Bills and other Government securities.

Table V- Classification of Investments.  
(L.E.m.)

End of	T.B.	Gov. Securities	Other Securities	Total
1952	2.1	7.7	8.8	18.6
1960	3.0	48.1	14.1	65.2
1965	40.9	118.7	5.6	165.2

As for the credit extended by the specialized banks the total of new loans offered in 1964 by all of the three mortgage banks and the Industrial Bank did not exceed half a million Egyptian pounds. In contrast to this extremely limited activities the Agricultural Banks increased their credits from L.E.9.5m. in 1952 to L.E.16.0m. in 1960 and to L.E.80.5m. in 1964.

### III.7- Summary and Conclusions:

The Egyptian money market reflects many characteristics well-known to developing countries. These are reflections of distortions which usually exist in the monetary and banking systems of those countries; and they can be summarised as follows:

1. The limited prevalence of the "banking habit", leading to the relatively short supply of the means which provide the money market with its necessary material. In the period 1952-1961, total means of payments averaged L.E. 383 million, out of which private demand deposits were 45% only, or L.E. 172 million. This is in contrast to a percentage ranging between 75% and 80% in more developed economies. During the years 1962-1965 the growth in means of payment to L.E. 500 was accompanied by a very small increase in deposits, to L.E. 176 million, causing a fall of the percentage to 35% only. The more relevant fact is that private deposits are generally of the nature of savings rather than balances held for immediate use. Thus the turnover of the limited supply of deposits is rendered less effective than in developed economies.
2. A related aspect is the concentration of the use of credit facilities in main trade centers, with the country side obtaining a limited share. This further limits the possibilities of mobilizing resources for short- and long-term credit.
3. The lack of the axle of the money market, viz., the Central Bank. This was only made good quite recently.
4. Even in the existence of the Central Bank, it would be practically helpless if the national currency is tied to a foreign exchange basis, which facilitates automatic transfers beyond the control of the Bank.

5. The predominance of foreign banking institutions deprives the Central Bank from the privilege of acting as lender of last resort, a role assumed by the head-offices abroad. In such circumstances the formulation of a proper monetary policy which will be carried out through influencing the money market is practically impossible.
6. The credit market is largely composed of institutions which concentrate on short-term credit, with scanty houses undertaking the fundamental role of providing the necessary long-term capital for developing the national economy. These latter were only started on the initiative of the government and one single national bank.
7. The large share of the agricultural sector in the -rather low- national income, with a concentration on one main cash crop, meant for exportation. This factor has far reaching effects, since it provides money dealers with a high source of income thus relieving them from looking to other channels throughout the rest of the year. This means that there will be wide changes in the level of credit over the year, and that the banks will get into the habit of holding a high liquidity ratio even during the season, as the price speculation of the big crop is quite enormous.
8. This further fits with the inclinations of the foreign institutions, who would see to it that the country's main crop goes to the importing countries at the terms which are considered favourable to them. The situation becomes quite grave at times of crises, when politics take the lead. This led to the increase of the share of the government in the capital of many banks, their Egyptianisation and finally their complete nationalisation.
9. The narrowness of the money market itself deprives the Central Bank itself from its traditional tools of operation, namely the rediscount policy, and the open market operations. This requires the introduction of more direct methods of control, and the participation of the Central Bank in certain direct activities.

#### IV- Possibilities of Future Developments

##### IV.1- Factors governing the development of the money market:

It is by now evident that the development of a money market depends on a variety of factors:

1. The economic development of the country itself. This would not only cover the rate of development, and the growth of the volume of business, but also the pattern of development as exemplified by the economic structural changes. In particular, it will be affected by the diversification and volume of domestic production, and of exports.
2. The laws governing the ownership and management of the various economic units. This would cover, not only how far foreigners are allowed to govern the domestic economic scene, but also the organization of the productive system itself.

3. The monetary and banking systems, including the structure and practices of the central bank, the commercial banks and other monetary institutions.
4. The types of, and regulations governing, the issue and circulation of money and near money. This would in particular include the growth of the banking habit, the use of commercial bills and the volume of treasury bills.

#### IV.2. The Comprehensive Development Plan:

Development planning in the U.A.R. started in July 1960, with a basic overall target of doubling national income in 10 years. This meant raising the rate of growth from slightly below 5% to more than 7% per annum. The first five years averaged a rate of approximately 6.5%. To restore the economic structure of the country, a process of industrialization is deemed necessary, especially in the face of the fact that the expansion in agricultural production is limited by the limited year, and by the already relatively high yield. The second medium-term (seven-years) plan is paying more attention to basic industries in order to ensure a balanced and self-sustained growth of the economy. On the other hand, the management of accelerated development has led, at the early phases of the planning period, to a rapid growth in administrative activities. Further, it required allocation of more resources to infrastructural activities, especially transport and communications. More resources were also allocated to the basic services of education and health, and other services required to build up a healthy socialist system.

Now, the envisaged rates of growth of various sectors impose a big burden on both the two parts of the credit market. To illustrate the point, let us consult the following table:

Table VI. Credit facilities accorded in September 1959 and 1963 compared with levels of production in the various sectors.  
(Current price L.E. million)

Sector	Production 59/60	Credit Fac. Sept. 59	Credit as % of produc.	Production 63/64	Credit Fac. Sept. 63	Credit as % of Production
Agriculture	581.6	6.2	1.1	677.0	24.1	3.6
Industry	1105.1	80.8	7.3	1538.8	150.1	9.8
Construction	102.1	13.9	13.6	206.3	40.0	19.4
Commerce & Finance	165.3	64.9	39.3	218.9	90.9	41.5
Transport	135.5	5.5	4.1	209.1	17.8	8.5
Other Services	458.3	18.4	4.0	654.1	36.0	5.5
Cotton & re- lated to its exports	(134.5)	47.0	(34.9)	(117.1)	29.7	(25.4)
Total	2547.9	231.2	9.1	3504.2	388.6	11.1

\*/ Credit to Commerce does not include cotton, which is related to its exports.

We have chosen the level of credit facilities in just one (and the same) month, preceding the cotton season by way of illustration. Comparing this to the levels of production in the relevant plan years (July- June) would reduce the effect of seasonal fluctuations. However, to make sure that the cotton trade does not distort the results, we have related it to its exports. Some facts are quite apparent:

1. Total credit facilities have increased faster than the rate of growth of domestic production in current prices. <sup>11/</sup> The increase was practically double that of production. The increase took place in the ratio of credit to production in all economic sectors, though by varying degrees.
2. The increase in the relative weight of sectors requiring larger credit/production ratios, viz., industry and commerce has led to a faster increase in total facilities accorded. This tendency should be expected to remain especially as the growth of industry, and the increase in the scale of production are to increase.
3. Relatively large increases in the credit/production ratios are observed in the sectors servicing the process of production and investment, namely transport and construction. Agricultural production has also exhibited a big rise in its ratio as a result of the increased activities of agricultural production institutions. It has to be remembered that the above table covers only the commercial banks, thus excluding the specialized institutions. Between 1959 and 1964 the Agricultural and Co-operative Credit Public Organization (previously Bank) increased its loans and advances from L.E. 16.0 million to 80.5 million. The Industrial Bank increased its loans from 6.3 to 8.6 only.

Thus it can be safely concluded that the future developments of the economy would activate the money market by rates which exceed by far those of domestic production. This tendency should be calculated carefully if inflationary pressures are to be kept within predetermined levels. As mentioned before (III.6), the process is not a straightforward one, and the Central Bank has to play a more important role; (see below IV).

#### IV.3- The Socialist Structure of the Economy:

In section III we have already indicated the fundamental changes, which occurred during the sixties, as a result of the socialisation acts. These changes affected considerably the laws of ownership and the rules of management, and the shape of the money market is correspondently affected.

To begin at the beginning, the first fundamental change was the start of the Agrarian Reform laws in 1952, to put an end to a long-established feudal system. One immediate effect was the vanishing of the class of big land-owners who, through their powerful influences, monopolized most of the credit facilities which would have normally gone to small peasants, (see II.4 above). A second step was taken by a series of Egyptianisation and nationalisation of key business institutions. Finally the National Charter in 1962 set the rules for the public and private ownership of means of production in such a way as to abolish exploitation.

<sup>11/</sup> It is estimated that production in constant (1959/60) prices increased by 29.2% during that period as compared with 37.5% in current prices, and with 68.1% in credit facilities.

Table VIII- Public Debt (L.E. million)

End of Fiscal Year	National & Develop. Loans	Treasury Bills	Loans for Financing External Debts	Nationalised Instit. Bonds	Agrarian Reform Bonds	Others	Total
1930/31	87.4	-	-	-	-	-	87.4
1940/41	85.0	-	-	-	-	-	85.0
1950/51	108.0	67.0	-	-	-	-	175.0
1951/52	143.0	60.0	-	-	-	-	203.0
1952/53	123.0	135.0	-	-	-	-	258.0
1953/54	123.0	72.0	-	-	-	-	195.0
1954/55	148.0	55.0	-	-	14.5	-	217.5
1955/56	158.0	97.0	-	-	16.3	0.6	271.9
1956/57	158.0	135.0	-	-	17.6	3.3	313.9
1957/58	158.0	150.0	-	-	21.0	3.3	332.3
1958/59	198.0	165.0	-	-	32.5	3.3	398.8
1959/60	182.0	164.0	45.0	20.3	32.5	3.3	447.1
1960/61	232.0	185.0	53.0	22.2	37.1	8.6	537.9
1961/62	232.0	200.0	65.0	22.2	42.1	60.9	622.2
1962/63	232.0	235.0	100.0	296.5	42.5	119.2	1025.2
1963/64	232.0	335.0	100.0	33.4	-	227.0	927.4

(Source - Economic Bulletin of N.B.E. 1965).

Some of the debts are incurred by way of indemnity to ex-proprietors of means of production. These are not circulated, otherwise the increase in liquidity which has been experienced recently would have exceeded all limits. However, since 1959/60 there has been an increase by 27.5% in developmental loans. But the most important factor was the doubling of treasury bills. Related to the expenditures of the ordinary and annexed budgets (or what is now called the services budget), treasury bills stood at 34.5% in 1950/51, at 38.5% in 1959/60, and at 62.0% in 1963/64.

It is clear that the rate at which the public debt more than doubled over the first four years of the plan is not projectable to the future. The debts arising from nationalisation and agrarian reform have already been fading away. Increases in the public expenditure itself are not to take the same momentum gathered during the early years of the management of the economy. Further, the increasing feeling of the dangers of an expansionary policy and the ensuring unwarranted liquidity makes it quite clear that a retardation of increased issue of bills and of other loans (mainly borrowing from the banking system) is highly desirable. However, even with such an expansion taking place, the role played by the treasury bills in activating money market operations was quite limited due to the other factors determining the market, and to the tight policy which the Central Bank is adopting recently.

#### IV.4- The Monetary & Banking Systems:

The existence of the Central Bank has already become a fact, and as indicated before it is assuming direct control on the banking system. On the other hand, the specific specialisation of the commercial banks has led to some variance between the positions of the banking institutions since it exposes them to the economic changes in specific sectors. This limits their ability to manoeuvre and increases their reliance on the Central Bank. The phenomenon has been intensified by the rapid expansion of credit during the early 1960's, as can be seen from the following table.

Table IX- Reserve Ratios of Commercial Banks

	1948- 1953	1954- 1959	1960- 1964
<b>A- August</b>			
Legal ratio	15.0	12.9	15.8
effective ratio	39.6	23.4	18.9
- C.B. loans	-	0.5	6.0
net effective ratio	39.6	22.9	12.9
<b>B- December</b>			
Legal ratio	15.0	10.8	11.7
effective ratio	22.3	18.2	14.9
- C.B. loans	5.5	7.2	13.5
net effective ratio	16.8	11.0	1.4

(Source: Dr. N. Mohareb: Monetary Policy in the U.A.R.- Institute of Banking Studies, 1966).

The two months chosen indicate the peak and trough of the season. It can be seen that the attempt of the Central Bank to raise the reserve ratio has only been met by increased borrowing from the Central Bank itself. In spite of the fact that the discount rate has been raised from 3% to 5%, the lack of resources in the money market has led to the increased reliance on the Central Bank money.

#### IV.5- Summary and Conclusions:

The preceding exposition shows that the recent structural changes in the U.A.R. are not leading to the growth of the money market in its familiar form. The abolition of commercial credit, specialisation of commercial bank and the increased role of the public sector have greatly diminished such possibilities. In the meantime, the fact that the country is doubling its efforts to foster economic development has increased greatly the need for short-as well as long-term credit facilities. If the market for short-term credit did exist one way or the other, the market for long-term credit is found to be in a much poor

state. In particular the mobilization of genuine savings and their channeling towards planned investments has become quite important especially in the face of a high propensity to consume.

In this respect, and in view of the limited activities of bank branches in the country side, the post-office savings banks are of paramount importance. Savings deposits with the banks increased from L.E. 10.5 in 1952 to L.E. 29.5 in 1961, while those with the post-office were 27.5 and 43.4 respectively. Further, institutional savings are, and will remain of paramount importance. One interesting feature of the recent developments in the U.A.R., is the increased activity of the social insurance and pension funds for workers and government employees. With the increase in the share of wage-earners in the national income, these institutions will play a still more important role in the future.

The planning system requires more direct means of monetary control rather than what is provided by the free play of a money market.

There is an increasing feeling for the need for improving techniques of budgeting and of integrating the credit plan with the overall economic plan. More powers are given to the banking system, and to the Central Bank to ensure the implementation of the plan according to schedule. The abolition of commercial credit was but one of the steps taken in that direction. In such circumstances the role of a money market has to diminish, to give way for more direct controls. Better planning and budgeting would, therefore, provide business with the necessary means of credit otherwise sought through money market supplies according to day-to-day changes. The system should be sophisticated enough in order to avoid hazards resulting from unplanned changes.

In such a milieu the increased issue of treasury bills required to finance expanding current government expenditures would simply provide monetary institutions with a means of secured investment. The role of Central Bank money became quite decisive, although not necessarily showing a higher degree of sensitivity to its own price. This calls for more elaborate planning on behalf of the central planning authorities, the Central Bank included.