

Report No. 3253-EGT

Arab Republic of Egypt Recent Economic Developments and External Capital Requirements

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Country Programs Department 1
Europe, Middle East and North Africa

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CURRENCY EQUIVALENTS

Unified Exchange Rate

1 Egyptian Pound (LE) = US\$1.43

1 U.S. Dollar = LE 0.699

Fiscal Year

Until 1979: January 1 - December 31

From 1980: July 1 - June 30

ARAB REPUBLIC OF EGYPT

RECENT ECONOMIC DEVELOPMENTS AND EXTERNAL CAPITAL REQUIREMENTS

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This report is based on the work of an economic mission which visited Egypt in September 1980. The mission consisted of: Kemal Derviř (chief of mission), Amarendra Bhattacharya (responsible for economic updating and principal author of this report), Mansour Oubouzar (general economist), Nancy Stavrou (debt specialist), Marie-Annick Boudier (research assistant) and Jorge de Macedo (consultant for macroeconomic policy).

ECONOMIC INDICATORS

GNP PER CAPITA (1979)-US\$460
(World Bank Atlas Methodology)

MID-1979 POPULATION - 41 Million

GROSS NATIONAL PRODUCT IN 1979

ANNUAL RATE OF GROWTH (% Constant Prices)

	US\$ Mln.	%	ANNUAL RATE OF GROWTH (% Constant Prices)		
			1961-66 1/	1967-74 1/	1975-79 2/
GNP at Market Prices	18,900	100.0	5.4	3.6	8.6
Gross Domestic Investment	5,450	28.8	10.7	5.4	16.9
Gross National Saving	3,890	20.6	3.0	-7.0	35.2
Current Account Balance	-1,570	8.3	.	.	.
Export of Goods, NFS	5,585	29.6	4.3	6.2	6.5
Import of Goods, NFS	8,300	43.9	8.8	9.2	5.0

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1979

	Value Added		Labor Force 3/		V. A. Per Worker
	US\$ Mln.	%	Mln.	%	US\$
Agriculture	3,845	22.5	4.164	39.8	923
Industry 4/	5,965	34.9	2.058	19.7	2898
Distributive Sector	4,060	23.8	1.658	15.9	2449
Services	3,200	18.8	2.579	24.6	1241
Total/Average	17070	100.0	10.459	100.0	1632

GOVERNMENT FINANCE

	General Government 5/		
	US\$ Mln.	% of GNP	
	1979	1975	1979
Current Receipts	6,995	38.9	37.0
Current Expenditure	6,015	39.6	31.8
Current Surplus	980	-0.7	5.2
Capital Expenditures	4,075	22.3	21.6
External Financing (net)	775	15.7	4.1

MONEY, CREDIT and PRICES

	1973	1974	1975	1976	1977	1978	1979
			(Million L.E. outstanding end period)				
Money and Quasi Money	1207	1515	1883	2417	3185	4114	5332
Bank Credit to Public Sector	1852	2338	3527	4123	4775	7855	10009
Bank Credit to Private Sector	102	149	230	251	434	576	1000
			(Percentages or Index Numbers)				
Money and Quasi Money as % of GDP	31.7	36.1	37.2	39.2	43.0	45.7	44.7
Wholesale Price Index (1973 = 100)	100.0	114.3	122.9	132.5	144.9	166.2	182.5
Annual percentage changes in:							
Wholesale Price Index	10.4	14.3	7.5	7.8	9.3	14.7	9.8
Bank Credit to Public Sector	9.6	26.2	50.9	16.9	15.8	64.5	27.4
Bank Credit to Private Sector	10.9	46.1	54.4	9.1	72.9	32.7	34.4

1/ At 1965 Constant Prices.

2/ At 1975 Constant Prices.

3/ Total labor force; unemployed are allocated to sector of their normal occupation.

4/ Manufacturing and Mining, Petroleum, Electricity and Construction.

5/ Local Government comprises a small part of General Government.

. Not Applicable

BALANCE OF PAYMENTS (US\$ million)

	1975	1976	1977	1978	1979
1. Exports of Goods and NFS ^{1/}	2503	3319	3888	4099	5585
2. Imports of Goods and NFS ^{1/}	-5141	-5182	5879	6612	8300
3. Net Factor Income	122	413	472	1098	1143
Workers Remittances	366	755	897	1761	2214
Investment Income	86	72	113	144	305
Interest Payment	190	274	319	415	428
Oil Companies Transfers	140	140	219	392	948
4. Current Account Deficit	-2516	-1450	-1519	-1415	-1572
5. Transfers	90	87	63	54	88
6. Autonomous Non-Monetary Capital	495	1091	1205	1528	2181
a. Direct Investment	225	444	477	387	710
b. Official Loans (net)	210	490	803	1028	1034
- Drawing	(361)	(598)	(931)	(1202)	(1208)
- Repayments	(-151)	(-108)	(-128)	(-174)	(-174)
c. Private Loans (net)	60	157	-73	113	437
- Suppliers Credit (net)	63	88	-84	83	428
- Others (net)	-3	69	11	30	9
7. Balance of Payments Loans and Grants	1506	780	1601	809	72
- Grants	986	705	382	291	72
- Loans	520	75	1219	518	-
8. Unallocated Capital	-698	-1184	-435	-504	-462
9. Monetary Capital	1123	676	-915	-472	-307
a. Commercial Banks	89	226	-1005	-494	-101
b. Bilateral Payments	-241	-10	-121	-35	-59
c. Central Bank (net)	1275	460	211	57	-147
10. Increase in Reserves (-)	24	81	-88	14	-98
Fuel and Related Materials					
Oil Imports	320	263	135	149	243
Oil Exports (Egypt's share)	473	828	1012	1262	2860

RATE OF EXCHANGE

Rate of Exchange (US\$: LE)	1973	1974	1975	1976	1977	1978	1979
Official Exchange Rate	2.5343	2.5556	2.5556	2.5556	2.5556	2.5556	-- 3/
Parallel Market Rate	1.70 (Sept.)	1.70	1.57 (Feb.)	1.50 (May)	1.43	1.43	1.43

^{1/} Includes foreign oil companies.

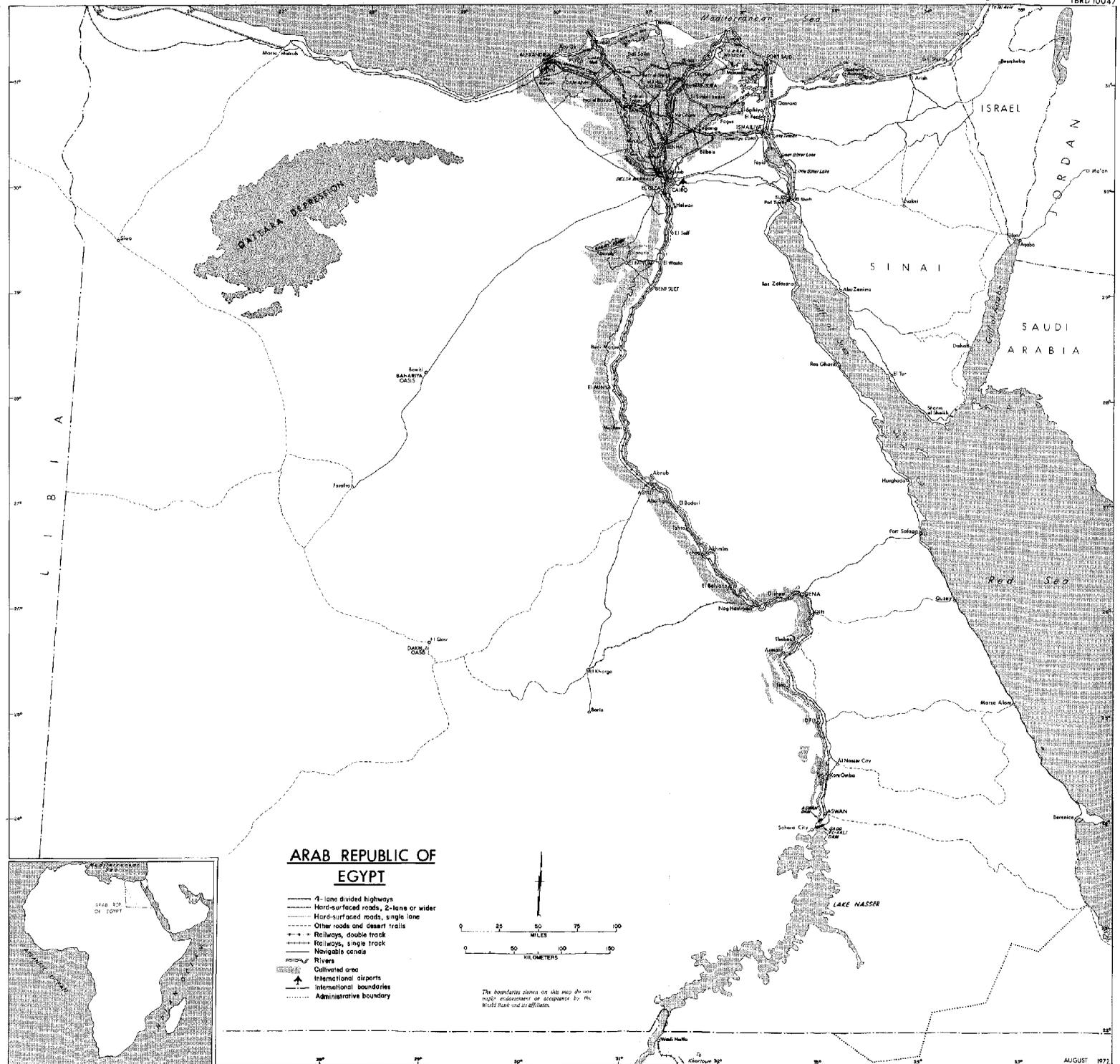
^{2/} Ratio of debt service to exports of goods and services, excluding foreign oil companies exports.

^{3/} As of January 1, 1979, official exchange rate has been abolished except for some bilateral transactions.

MERCHANDISE EXPORTS (AVERAGE 1975-79)

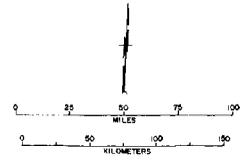
	US\$ Mln.	%
Cotton	355	13.7
Yarn and Textiles	324	12.5
Petroleum	1287	49.6
Other Agriculture	213	8.2
Other Manufactures	416	16.0
Total	2595	100.0
<u>EXTERNAL DEBT (MLT), June 30, 1980</u>		
	<u>US\$ Mln.</u>	
Public debt, incl. guaranteed	12,646	
Repayment on public debt (1979)	843	
Interest on public debt (1979)	428	
<u>DEBT SERVICE RATIO FOR 1979^{2/}</u>	17.8	

EMIDA
December 1, 1980

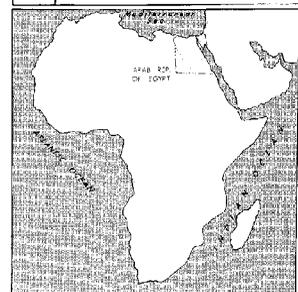


ARAB REPUBLIC OF EGYPT

- 4-lane divided highways
- Hard-surfaced roads, 2-lane or wider
- Hard-surfaced roads, single lane
- - - Other roads and desert trails
- + — Railways, double track
- + — Railways, single track
- Navigable canals
- Rivers
- Cultivated area
- International airports
- International boundaries
- Administrative boundary



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.



SUMMARY AND CONCLUSIONS

In the six years that have elapsed since the October Working Paper in which the Open Door policy was first enunciated, the Egyptian economy has undergone a process of adjustment to being part of an interdependent world economy. As a consequence, the Egyptian economy has benefitted from freer international trade, investment and labor mobility but it has also been exposed to the consequences of increasing world inflation, substantial variability in traded goods prices, variable interest rates and flexible exchange rates among major currencies.

Many of the effects of the increased openness have been favorable. Egypt has been able to obtain a high return on its "natural" resource endowments, notably oil, the labor force, Suez Canal and tourism, and has benefitted from large foreign capital inflows. These factors have had a strong expansionary impact on the economy, allowing for an accelerated pace of investment and consequently more rapid growth.

The most recent external impact has been the dramatic increase in petroleum export earnings resulting from the more than doubling of petroleum prices in 1979. With this surge in petroleum earnings both the balance of payments and the fiscal situation have markedly improved. The basic resource shortages that characterized the Egyptian economy during the seventies consequently appear less constraining today.

In the medium-term though, the extraordinary increase in "natural resource" based earnings experienced in the last few years will be difficult to maintain. Continued rapid development is therefore likely to increasingly depend on the performance of the domestic commodity producing sectors, notably industry and agriculture. Such a change in the structure of growth will require a continued strengthening in Egypt's investment program, with particular emphasis on allocative efficiency and a long-term trade strategy.

The increasing openness and the accompanying structural changes, have made economic management more difficult and changed the environment in which economic policy operates. Inflation has emerged as a principal policy concern. Prior to 1975, Egypt was essentially a fixed price economy. The opening of the economy coincided with an acceleration in world inflation. At the same time, emigration and the rapid expansion of the economy led to supply bottlenecks in several key sectors. Effective demand, especially for consumer goods, also rose sharply following the income gains that resulted from the growth of tourism, remittances and other receipts. All these factors have exerted sharp upward pressures on domestic prices. In addition, the income gains from the open-door policy and rapid expansion of the economy have been unevenly distributed, resulting at times in considerable social tension.

These developments prompted the government to adopt several wide-ranging policy measures in mid-1980 designed to control inflationary pressures and protect real incomes. Using the additional resources

provided by the petroleum sector, the government awarded wage increases to public sector employees, reduced domestic prices of several commodities and embarked on a large scale import program to increase the availability of basic commodities and ease inflationary pressures.

Another area where appropriate macroeconomic management has become more important relates to the growing stock of foreign currency denominated assets. The financial liberalization during the last several years, by enhancing capital mobility, has made it more difficult for the authorities to pursue domestic policies entirely divorced from external circumstances.

Chapter I of this report focuses on these recent economic developments, with special emphasis on events and policy changes that have characterized the past year. Chapter II focuses on external capital requirements within the framework of balance of payments projections for the next two years. An evaluation of longer-term prospects and a detailed analysis of underlying structural trends and possible policy responses are the subject of a separate report entitled "Arab Republic of Egypt: Domestic Resource Mobilization and Growth Prospects for the 1980's 1/." The analysis contained in that report underlines the need for continued foreign assistance and comprehensive policy reforms if the currently favorable resource situation is to provide the basis for rapid and increasingly self-sustaining economic growth.

1/ Report No. 3123-EGT

CHAPTER I

RECENT ECONOMIC DEVELOPMENTS

Developments in GDP

Overall GDP grew by 8.2 percent in 1979 in real terms compared with about 10 percent in 1978. The continued high rate of growth reflects the relatively good performance of the agricultural sector, somewhat slower but still substantial growth in petroleum output, but principally, the rapid growth of the distribution sectors. This trend was continued in 1980, and real GDP growth is expected to have been of roughly the same magnitude as in 1979.

The most important shift in the composition of output has been the growing importance of the petroleum sector, whose share in GDP has increased from 4 percent in 1976 to an estimated 20 percent in 1980. The

Table 1: Trends in GDP and its Components
(annual growth rates constant price estimates)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>% of GDP in 1979</u>
Commodity sectors	4.8	9.6	5.9	57.5
of which:				
Agriculture	-3.0	5.6	3.9	22.5
Industry	6.8	5.5	9.5	12.4
Petroleum	32.0	22.0	10.3	16.0
Distribution sectors	12.7	15.7	12.6	23.8
of which:				
Transp., comm. & storage	16.0	15.2	12.6	4.0
Suez Canal	21.3	17.5	15.4	3.5
Trade and finance	9.8	15.6	12.0	16.3
Services sectors	6.1	7.6	6.6	18.7
Housing	3.6	6.5	9.7	2.4
Tourism	-6.1	13.1	4.1	1.6
Other services	8.2	7.2	7.4	14.7
GDP at factor cost	6.9	10.6	8.2	100.0

Source: Statistical Appendix, Tables 2.1 and 2.3.

underlying factors behind this rise have been the continued increase in petroleum output and the exportable surplus, the higher domestic valuation of exports with the shift in the exchange rate, but most importantly, the 150 percent increase in export prices during 1979.

The continued expansion of economic activity has had a pronounced impact on employment trends. The aggregate growth rate of employment in 1979 was about 3.4 percent, significantly above the current labor force growth rate of 2.9 percent. Relatively faster growth rates of employment were experienced in the trade and services sectors. The labor market continues to be characterized by considerable dualism: widespread under-employment in several sectors, but visible signs of labor scarcity in other categories, especially for skilled labor.

The large and growing volume of net foreign transfers have allowed domestic demand to grow at an even faster pace than output. The share of consumption in GDP has steadily increased to a current level of about 85 percent, with private consumption accounting for most of the increase. The investment rate out of GDP has also increased since 1975 and had reached 31 percent by 1979. A part of this increase, however, reflects a high level of stock financing during the 1977-1979 period, estimated on average at 4 percent of GDP. The share of the private sector in total fixed investment has risen from 20 percent in 1976 to 24 percent in 1979 reflecting a significant increase in investment by the new joint venture companies.

Table 2: Trends in Expenditure and Savings
(as percent of GDP)

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Consumption	81.4	83.6	84.6
Investment	29.4	31.9	30.7
Gross National Savings	24.1	26.4	21.9
Net Foreign Savings	5.3	5.5	8.8

Source: Statistical Appendix, Table 2.2.

The share of national savings in overall investment increased from about 30 percent in 1974 to over 80 percent in 1978, but then dropped somewhat in 1979 due to a weakening in both public and private savings. Despite this weakening, the improvement in the savings performance during the second half of the seventies constitutes a significant achievement. It is important that government policies continue to encourage the

mobilization of national savings, if self-sustaining growth of investment and output is to be realized. A detailed analysis of the domestic resource mobilization performance and prospects is provided in a separate report.^{1/}

Agriculture

Agriculture continues to be the largest sector in the Egyptian economy, accounting for about 22 percent of GDP, and generating about 40 percent of total employment. However, the growth of the sector has been constrained by the extremely limited supply of arable land, rising water tables and increasing soil salinity in some areas, and institutional weaknesses in agricultural credit, cooperatives, extension and research. In addition, government policies of quotas and price controls on crops and inputs have distorted the cropping pattern, depressed agricultural incomes and eroded incentives to the detriment of overall productivity. As a result of these factors, the average growth rate of real value added in agriculture has been around 2 percent during the last decade.

Aided by favorable weather conditions, agricultural growth in 1979 was substantially higher than average for the second consecutive year. According to official estimates real value added in agriculture grew by 5.6 percent in 1978 and 3.9 percent in 1979 compared to the slower long-term average growth rate of 2 percent and a current population growth rate of 2.8 percent. Much of the growth impetus has come from fruits and vegetables. This has been the most dynamic sub-sector in agriculture in recent years due to its generally higher profitability. Citrus production alone increased by 23 percent in 1979. Among the basic crops, cotton and rice output increased substantially, largely due to higher yields. The yield improvement for cotton was especially large and reflects in part the better price incentive provided to the farmer. The large 1979 crop allowed for a 14 percent increase in the volume of cotton exports during the 1979/1980 season. Except for rice, output of other food crops fell substantially in 1979 as a consequence of declining yields.

The area under cotton remained stable in 1980, and output is expected to reach the 1979 level. Wheat output fell further in 1980 with a reduction in the crop area. Among other cereals, rice production is expected to be lower than in 1979 mainly because of a decline in area, but maize output is estimated to have been somewhat higher. On the whole, real growth in agriculture has been substantially lower in 1980, partly due to the high growth rates achieved in the previous two years.

^{1/} Arab Republic of Egypt: Domestic Resource Mobilization and Growth Prospects in the 1980's, Report No. 3123-EGT.

Table 3: Agricultural Production and Yield Indices
(1978 = 100)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980a/</u>
1. <u>Production</u>				
Wheat	88	100	96	93
Maize	87	100	94	100
Cotton	92	100	111	111
Rice	97	100	107	96
Citrus	81	100	123	n.a
Vegetables	91	100	106	108
Red Meat	98	100	103	102
2. <u>Yield</u>				
Wheat	101	100	95	97
Maize	93	100	94	98
Cotton	77	100	111	111
Rice	95	100	105	105

Source: Statistical Appendix, Table 7.1.

a/ Preliminary estimates

With unabated population growth and rapidly rising incomes, the growth of consumption of food items has accelerated especially of products with a high income elasticity of demand such as meat. The growth of domestic food output on the other hand has dropped to well below the population growth rate. Consequently, the balance on agricultural trade, which was in surplus prior to 1975, has shown a progressively larger deficit. In 1980, imports of agricultural products are estimated to have reached \$2.3 billion against exports of only \$0.6 billion.

The rapid growth in consumption has in some instances led to supply shortages, most recently in the case of meat. The underlying trend of consumption growth for meat has been on the order of 7 percent. On the other hand, despite larger areas being devoted to berseem, the growth of meat production has averaged less than 2 percent per annum. The government has been importing large quantities of red meat to close this gap. In 1979, however, beef imports fell 40 percent as the government cut back its import program. As a result, the prices of meat and meat substitutes have

risen sharply, leading to an accelerated slaughter of calves and cows. The government has sought to control meat prices through large scale imports since July 1980, and more recently by attempts to regulate domestic wholesale prices.

The price controls have reduced the supply of domestic meat and so far imports have not been able to fully ease the shortage, partly due to the nature of the distribution system. At present imported meat is sold only through cooperatives and at a subsidized price, which though raised recently from LE 0.68/kilo to LE 0.84/kilo, is less than a third of the market price for domestic meat and substantially below the import cost of LE 1.5/kilo. An effective import program would require a broadening of the distribution system and the elimination of the subsidy. While price increases may be necessary to regulate demand, steps also need to be taken to encourage domestic production without diverting more land to berseem. These include improved breeding, development of a feed industry to allow for longer fattening periods. The encouragement of gradual mechanization in areas such as water lifting could also allow more intensive meat production from existing fodder sources. At the same time production of meat substitutes such as poultry and fish need to be encouraged.

In line with Government policy for providing greater incentives to basic agriculture, procurement prices for several crops were raised substantially in May 1980. The average price increases in recent years, though larger than in the past, have generally been lower than for uncontrolled crops and substantially below the growth in prices and incomes in other sectors. On the input side, price increases for fertilizers and pesticides originally planned for 1980, were not effected, and pesticide costs for cotton farmers were reduced by LE 2 per feddan.

Table 4: Agricultural Procurement Prices
(annual percent increase)

	<u>Average</u> <u>1976-80</u>	<u>1980</u>
Wheat	9.2	20.0
Rice	10.2	15.0
Seed cotton	13.1	10.0 ^{a/}
Sugarcane	13.2	30.0
Beans	14.2	25.0
Lentils	18.6	14.3
Onions	13.1	9.8

^{a/} Giza 45 variety only.

Given Egypt's limited supply of arable land, longer term prospects for Egyptian agriculture will depend on the ability to raise productivity in existing lands and further reclamation of "new" lands. So far efforts to reclaim new lands have proved costly; less than a third of the lands reclaimed until now are actually productive. It is important therefore to maintain a balance between the expansion of the cultivable area and investment in existing lands. While yields in the Nile Valley are high in relation to world averages, there is substantial scope for increases in overall productivity through shifts in the cropping pattern towards crops with low domestic resource costs and by raising yields further through improvements in drainage, input intensification and the adoption of technical change. For this to occur, the government, in addition to strengthening its own investment program in drainage, extension and research, would have to improve the supply of inputs and continue to provide better price incentives to farmers, especially to the growers of basic crops such as cotton and cereals.

Industry

The growth of industrial output (excluding petroleum) in 1979 was somewhat higher than in 1978, around 8 percent in real terms. Available data for 1980 suggest that overall industrial growth in 1980 could be modestly higher. Engineering and metalurgical industries have been the fastest growing sub-sectors. Textiles, which account for over a fifth of industrial output, grew by only 3 percent in volume terms in 1979 reflecting slack export demand and increased competition from imports. The export performance of the textile sector has improved in 1980 resulting in a moderate pick up in output growth. Textiles still constitute the bulk of total industrial exports, but the share of engineering products has been increasing in recent years.

While economic liberalization has helped revitalize the non-public industrial sector which now accounts for about 30 percent of total industrial production, it has created additional problems for the public sector such as the loss of personnel to the higher-paying joint-venture and private companies and greater competition from the new companies and abroad. Project selection and implementation procedures remain an important bottleneck, and there is need for investment planning with greater emphasis on allocative efficiency. Meanwhile, recent policy statements on price controls appear to have further reduced the degree of price autonomy allowed to public enterprises, at least for the time being. A major restructuring of the public sector enterprises to improve their efficiency is currently under review. Such efforts would only be successful if they provided considerably more autonomy and flexibility to the individual enterprise than in the past.

Petroleum

The petroleum sector's importance to the Egyptian economy has grown very rapidly in recent years. Its share in GDP rose from 3 percent in 1975 to 8 percent in 1978, and is estimated at 20 percent in 1980. Exports of crude and petroleum products (excluding foreign oil companies)

Table 5: Production and Distribution of Petroleum
and Petroleum Products
(millions of metric tons)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980 a/</u>
<u>Total Output of Crude Petroleum</u>	20.9	24.4	26.3	29.6
Foreign Companies' Share	3.8	5.6	5.6	5.8
Egyptian Share	17.1	18.8	20.7	23.8
: Used for Refining <u>b/</u>	11.6	12.1	12.5	14.1
: Net Exports	5.5	6.7	8.2	9.7
<u>Domestic Consumption of</u>				
<u>Refined Products c/</u>	8.9	9.6	10.5	11.8
Production <u>b/</u>	10.5	11.4	11.7	13.3
Net Exports	1.6	1.8	1.2	1.5

Source: Statistical Appendix, Tables 9.1 and 9.2.

a/ estimates

b/ difference reflects refining losses and changes in stocks

c/ derived residually and includes changes in stocks

now account for more than half of Egypt's export receipts, while profit transfers and other taxes from the petroleum sector will provide an estimated 30 percent of government revenues in 1980/81. Total crude production was 26.3 million tons in 1979 and reached about 29.6 million tons in 1980. Output growth has averaged about 10 percent in the last two years compared with 17 percent in 1978 and an average of 40 percent in the previous three years. The Egyptian share of total output is currently about 80 percent. With large increases in output, the foreign companies' share is now quite large in absolute terms, amounting to an estimated 6 million tons in 1980, or \$1.3 billion.

The net exportable surplus, in terms of the Egyptian share, rose from 8.9 million tons in 1978 to 9.6 million tons in 1979, and is estimated at 11.2 million tons in 1980. The slower growth of output and the exportable surplus since 1979 has been more than offset by the more than 150 percent increase in world prices, which allowed for large increases in exports and value-added. Total natural gas production is still relatively small (1.3 million tons oil equivalent in 1980), but increasing rapidly. Domestic consumption of petroleum products has been growing at an annual rate of 10 percent reflecting the generally low prices, currently about 18 percent of international prices on average. With domestic production growth likely to decelerate in the future, the growth in consumption could in the longer run substantially reduce export volumes.

Other Sectors

The "distribution" sectors continue to be the most dynamic in the economy. Trade, finance and transportation have recorded the most spectacular growth rates in this group; these sectors are the ones that have benefitted most directly from the liberalization process. Growth in the services sectors have been more erratic with fluctuations in tourist earnings and housing activity. The number of tourist arrivals which had stagnated in 1979 due to a drop in Arab tourists, has recovered in 1980. Tourist arrivals were up 20 percent in the first nine months of 1980 with a renewed flow of Arab tourists. Hotel capacity remains a problem but substantial investments are underway to ease this constraint.

Public Finance

The overall fiscal deficit increased by about LE 100 million in 1979 to reach a level of LE 2168 million. As a percentage of GDP though, the deficit declined from over 21 percent in 1978 to 17.5 percent. In large measure this improvement reflects the unexpected surge in petroleum earnings which provided LE 250 million in additional revenues to the budget and contributed substantially to the growth of GDP itself. Non-petroleum revenues were also higher than had been originally estimated.

On the expenditure side, the subsidy bill rose from 8 percent of GDP in 1977 to 11 percent of GDP in 1979. While the underlying structure of the subsidy system--the need to meet increased demands from population growth and rising incomes, and the maintenance of fixed distribution prices despite continued domestic and international inflation--contributed much to this growth, almost 70 percent of the increase between 1977 and 1979 can be accounted for by a once and for all adjustment in the exchange rate.

Table 6: Summary of Fiscal Operations
(LE Million)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Estimated</u> <u>1980/81</u>
1. Total Government and public sector revenue	<u>2755</u>	<u>3307</u>	<u>4165</u>	<u>6580</u>
a. Total tax revenue	1990	2176	2584	4004
b. Other non-tax revenue	113	119	230	360
c. Transferred profits	384	539	1001	1738
d. Investment self-financing	268	473	350	478
2. Total Government and Public Sector current expenditure	<u>2547</u>	<u>3270</u>	<u>4208</u>	<u>6416</u>
a. Central and local Government	1628	2012	2375	3744
b. Public authority deficits	139	185	229	359
c. Interest on public debt	130	173	234	353
d. Consumer subsidies	650	900	1370	1960
3. Social security surplus	353	381	456	640
4. Total Government and public sector fixed investment	1609	2475	2581	3311
5. Overall deficit	-1048	-2057	-2168	-2507
6. External financing (net)	674	626	543	595
7. Domestic financing	374	1431	1625	1912
a. Bank financing	471	809	1148	1092
b. Non-Bank financing	-97	622	477	820
<u>Memorandum items</u>				
Overall deficit/GDP (%)	12.7	21.3	17.5	13.5
Bank financing/GDP (%)	5.7	8.4	9.3	5.9

Source: Statistical Appendix Table 5.1.

The net external financing of the budget deficit has been declining in recent years, with a consequent increase in the domestic bank financing component. In 1979 domestic bank financing was about 9% of GDP, which though higher than the previous two years, was substantially lower than the 1975-76 period.

The 1980 budget, presented in end-1979 and revised in February 1980, included several proposals to raise revenues and limit the growth of expenditures. The most important of these were: a new sales tax which would have yielded LE 200 million initially on an annual basis, an increase in electricity tariffs, several other price increases for public sector companies, and a reduction in the subsidies of several items including butagas, medicine and wheat and flour. Following considerable social tension in early 1980, some of these measures were dropped as a new government announced a major change in the direction of policy in May 1980. Several new measures were announced, the fiscal year was shifted from January-December to July-June and a new budget presented to the People's Assembly. The declared objective of the new budget and the accompanying measures was to break inflationary expectations, raise incomes of disadvantaged groups and reaffirm the Government's commitment to ample supplies of basic commodities at stable prices.

Underlying these more expansionary policies was the marked and unanticipated improvement in the government's resource balance. As a result of the petroleum price increase, the fiscal revenues from the petroleum sector, already large, rose sharply so that in the spring of 1980 the government had substantially more resources than had originally been built into the 1980 budget.

To achieve the desired stability in the cost of living, several price increases to the consumer, including for electricity, were rolled back. Prices of several other items including processed food and textiles were somewhat reduced, but to levels, however that were still substantially higher than end-1979 prices. Public sector enterprises were instructed not to raise prices without authorization. Import duties were reduced for a wide range of commodities, including consumer durables, and the number of items exempted from such duties was increased. The proposed 4 percent sales tax was not implemented.

At the same time measures were taken to directly raise incomes. The minimum wage was increased by 25 percent, increases in public sector wages, salaries and pensions announced, and the coverage of the social security system extended. Public sector wages and salaries were also exempted from the defense and national security taxes. The starting salaries for graduates were raised, the guarantee of public sector

employment for all graduates renewed and steps taken to accelerate their employment, particularly in the productive sectors. On the producer side, agricultural procurement prices were raised and subsidies increased for pesticides and credit.

However, the policies introduced in February aimed at reducing wheat and flour subsidies, were not dismantled, but rather streamlined through a further decree in June. As a result of the two decrees, the weight and quality (i.e. flour extraction rates) of the various types of bread were changed and the prices for high-quality flour products raised. The only consumer price change for bread itself was an increase in the price of the traditional Balady bread from 1/2 piastre to 1 piastre, but with an improvement in quality and an increase in weight. The net effect of the policies has been to reduce the cost of subsidization by over 12 percent. Opportunities for misuse, however, still exist: by the sifting of flour at the producer level since prices vary by end-use, and for use as animal feed at the consumer level. Currently, a ton of Balady bread costs about the same as a ton of corn, commonly used for feed.

Even with the new policies, the wheat and flour subsidy bill will be large, because of rapidly rising international prices and a growth in consumer demand exceeding 6 percent a year. Wheat and flour imports are likely to exceed 5.5 million tons in 1980 compared to about 4 million tons in 1977. Following the recent policy decision to increase the availability of basic food items, imports of several other food commodities, including most recently meat and poultry, have begun to expand quickly. With international prices for several items such as sugar rising sharply, the fiscal burden of food subsidies alone could reach LE 1350 million for the fiscal year 1980/81.

Despite the large increases in subsidies and the other revenue reducing, expenditure increasing measures taken in 1980, the overall fiscal deficit will not increase much in FY 1980/81 from the 1979 level, and will decline as a percentage of GDP from 17.5 percent in 1979 to about 13 percent in 1980/81. Excluding investment expenditures, the current budget will actually be in surplus. This improved situation is due to the additional resources provided by the petroleum sector and the Suez Canal. The impact of the petroleum price increase was only fully realized in 1980, and since the utilization of the resources from petroleum was apparently low in the first half of the year, petroleum revenues available to the 1980/81 budget were exceptionally large. Suez Canal revenues are also projected to increase following the expansion of the canal. Together, petroleum and the Suez Canal will provide an estimated 37 percent of total public revenue.

The net fiscal contribution of the remaining public economic sector, already small, will probably decline further in 1980/81 because of the measures taken to reduce prices. Low prices are only part of a wider range of problems facing the public economic sector, that include weak organization and management, government controls on wage and employment practices and competition from imports and even the new joint venture companies. The need for institutional reform to improve efficiency and competitiveness is already clearly recognized and a major restructuring of the public sector is currently under review.

According to the proposed reform package, the public sector enterprises would be reorganized under holding companies, the administration of which would be separated from the government. The aim of this reorganization would be to provide greater autonomy to the public economic sector. Also, to improve the liquidity position of public sector firms and to stimulate private investment, public sector enterprises would be allowed to offer equity participation to private investors through the issue of shares. The overall coordination of investment activity in the public sector would be the responsibility of the newly established National Investment Bank. This Bank, when operational, would evaluate projects, mobilize and channel investment funds to the public sector and help ensure the timely completion of projects. Since the Bank would not be subject to annual budgetary constraints, the financing of investment could be carried out more smoothly.

These measures when implemented would be important steps towards the more efficient functioning of the public sector. However, to be successful, they would have to be complemented by a greater degree of price flexibility at the level of the individual enterprise. A greater reliance on prices could in turn have important consequences at the macroeconomic level, through more efficient resource allocation.

Balance of Payments

Despite an acceleration in import growth in 1979, the current account deficit was contained at about the same level as in 1978, because of a more than doubling in petroleum export earnings and the continued growth of workers' remittances and Suez Canal revenues. The overall balance in 1979 showed a continued improvement with a surplus of almost \$700 million compared with a surplus of \$167 million in 1978 and a deficit of \$251 million in 1977. With continued strength in the principal sources of foreign exchange earnings, the current account deficit for 1980 is likely to be lower than in 1979, and consequently much smaller as a percentage of GDP. Together with a higher utilization of banking facilities, this has resulted in a substantial build-up in foreign exchange reserves which rose from \$500 million in end-1979 to a current level of about \$1200 million.

The net contribution of the petroleum sector to the balance of payments has steadily increased, first through import savings and more recently through export earnings, which have been bolstered by the 1979 price increase. The average price of Egyptian oil rose from \$12.5/barrel in January 1979 to \$18.5/barrel in June 1979 and reached \$29.2/barrel by the end of the year. In 1980, the average price of a barrel was about \$30. With export volumes also growing by about 7 percent a year, Egypt's export earnings from petroleum have more than tripled since 1978 to reach an estimated \$2.7 billion in 1980.

Cotton exports, though now a much smaller proportion of commodity exports than in the past, have increased in real terms because of the record harvests in 1978 and 1979. Other commodity exports, including textiles and other industrial exports, fell in nominal terms in 1979 suggesting very large declines in real terms, which apparently was partly due to an interruption of trade with some Arab countries. Trade with several of the Arab countries has been resumed in 1980 and industrial exports have somewhat recovered.

Tourist receipts declined in 1979 with a reduction in the number of Arab tourists. Once again this trend has reversed itself, and earnings from tourism in 1980 should reach \$680 million. Workers' remittances do not appear to have been affected by recent political developments. While the growth rate of remittances has dropped from the exceptionally high levels of 1975-1978, the magnitude of the increase continues to be large. Finally, Suez Canal revenues have increased steadily and provide a stable source of foreign exchange.

The clear improvement in virtually all earnings items in 1980 will allow for a reduction in the current account deficit, despite substantial import growth. While the imports of capital goods recorded the largest increase in 1979, the fastest growing component in 1980 have been food and consumer goods imports.

The pattern of financing of the current account deficit, which has remained at around \$1.5 billion in the last few years, has changed significantly as is evident from Table 7. There has been a rise in the "autonomous" component of the capital account (direct investment, suppliers credits and other private non-monetary operations as well a varying proportion of official flows), i.e. capital flows that do not reflect direct balance of payments support to the government or the Banking system. The sum of these items increased from about \$1.2 billion in 1977 to about \$2.2 billion in 1979. The increase in direct investment in 1979, attributable to both foreign oil companies as well as the joint venture firms, was particularly striking.

Table 7: Summary Balance of Payments
(\$ Million)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	Estimated <u>1980</u>
1. Exports of goods and nfs of which:	<u>3888</u>	<u>4099</u>	<u>5585</u>	<u>7150</u>
Total petroleum exports	1012	1262	2860	3950
Egypt's share of petroleum exports	720	802	1880	2650
Tourism	728	702	601	680
Suez Canal	428	514	589	710
2. Imports of goods and nfs of which:	<u>5879</u>	<u>6612</u>	<u>8300</u>	<u>9670</u>
Foreign oil companies	394	322	531	640
3. Net factor income of which:	<u>472</u>	<u>1098</u>	<u>1143</u>	<u>1335</u>
Remittances	897	1761	2214	2750
Interest payments	319	415	428	580
Transfers of foreign oil companies	219	392	948	1245
4. Current account deficit	-1519	-1415	-1572	-1355
5. Autonomous non-monetary transactions	1270	1582	2269	2450
a. Transfers	63	54	88	260
b. Official loans	803	1028	1034	1030
c. Private loans	-73	113	437	310
d. Direct investment	477	387	710	850
6. Overall balance (4 + 5)	-251	1678.	697	1095
7. Unallocated	-435	-504	-462	-415
8. Special Financing	1601	809	72	--
9. Monetary operations	-915	-472	-307	-630
a. Commercial banks	-1005	-494	-101	280
b. Central bank	90	22	-206	-910

Source: Statistical Appendix, Tables 3.1 and 3.2.

At the same time there has been a decline in special balance of payments financing (loans and grants to the Government) from \$1.6 billion in 1977 to virtually zero in 1979. While largely determined by non-economic considerations, this decline has been more than matched by the increase in autonomous transactions, so that the balance on non-monetary transactions has been in surplus and the net foreign asset position of the monetary institutions, particularly the commercial banks, has accordingly improved.

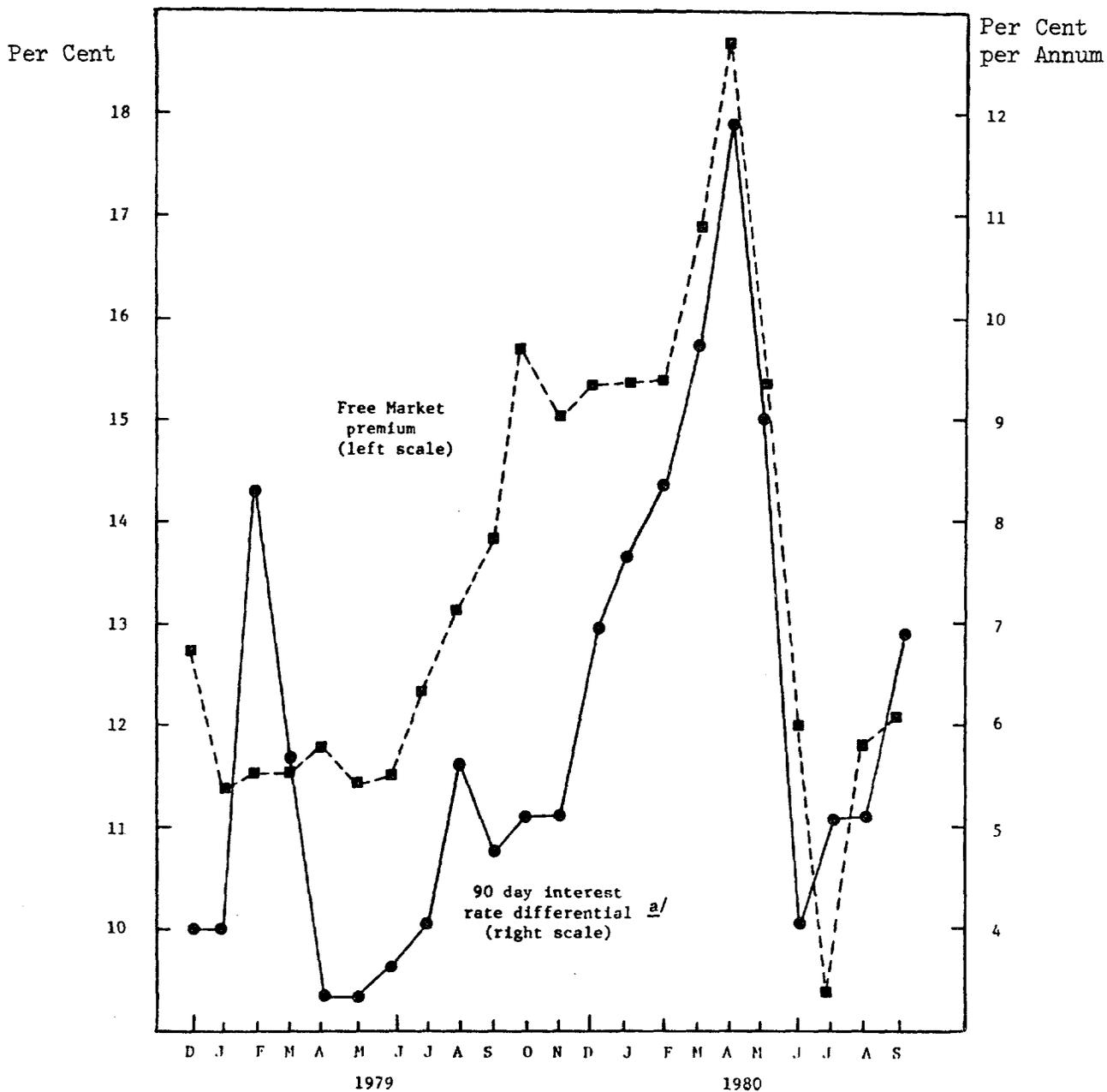
From 1974 to 1976 commercial banks borrowed significant amounts from abroad, but after 1977 they began repaying these loans and placing funds in external financial markets. The magnitude of the net outflow decreased from \$1 billion in 1977 to \$100 million in 1979. Central Bank operations continued to show a net increase in liabilities in 1977 and 1978 but in 1979 the Central Bank recorded a net improvement in its foreign asset position of over \$200 million largely due to a build-up in reserves.

Commercial banks have not been the only item in the capital account showing large net outflows. The "unallocated" item has also been substantially negative. While this item includes errors and omissions, a sizable portion of which might reflect unreported current account payments, a comparison with alternative estimates of the balancing item suggests that a large part is accounted for by unreported capital outflows. These outflows would be consistent with the development of the unofficial "free" foreign exchange market, which allows residents to meet their stock demand for foreign assets. Such demand is determined by wealth, income and relative returns which depend on the expected change in the free market rate and the uncovered interest differential between the foreign and domestic interest rates, both of which are reflected in the premium that has appeared in the "free" market exchange rate.

Chart A plots the uncovered differential between 50-day deposit rates in Egypt and in the euro-dollar market together with the "free" market premium. As shown in the chart, the premium declined after unification of exchange rates, but the interest rate differential against euro-dollar jumped to 7% in February 1979 and this set the premium into an ascending trend that followed quite accurately the increase in foreign interest rates from May 1979 to March 1980 - when there was a modest increase in the domestic deposit rate and both variables peaked. These developments show that financial liberalization, by enhancing international capital mobility, makes it quite difficult for the Egyptian monetary authorities to peg their interest rates much below levels prevailing in the Euromarkets. Attempts to keep domestic interest rates much below world

CHART A

INTEREST RATE DIFFERENTIAL AND THE FREE MARKET PREMIUM



a/ Between domestic and Eurodollar deposit rates.

levels will result in private capital outflows, which could otherwise have financed domestic investment. Policies to mobilize private savings through the development of a domestic capital market must, therefore, be complemented by an interest rate policy that acknowledges the growing sensitivity of capital movements to the relative structure of incentives.

External Debt

Egypt's medium and long-term non-military debt (disbursed only) stood at \$11.3 billion at end-1979 and is estimated at \$12.6 billion at the end of June 1980 (see Statistical Annex, Table 4.1). Bilateral loans constitute 62 percent of the total outstanding debt, while the shares of multilateral institutions and private loans, including suppliers' credits, were 23 percent and 15 percent respectively. The U.S. has now become the major creditor (20 percent), followed by GODE (13 percent), Kuwait (9 percent), Germany (8.5 percent) and Saudi Arabia (8 percent). Debt service payments on medium and long-term debt for 1980 are estimated at about \$1.8 billion in 1980 compared with actual payments of \$1.2 billion in 1979. This substantial increase reflects in part the resumption on the servicing of most Arab debt, but also Egypt's growing debt burden in general. The debt service ratio however will remain moderate at about 20 percent of exports of goods and services (excluding foreign oil company exports).

Monetary Developments

The banking system in Egypt has become quite complex and sophisticated, so that it has become more difficult to arrive at the most appropriate definition of relevant monetary aggregates. Commercial banks included in the government's foreign exchange budget are not apt to behave in the same way as the joint venture banks, while the exclusion of business and investment banks as well as offshore banks from monetary statistics makes it difficult to track the macroeconomic effects of portfolio shifts between domestic and foreign currencies. Table 8 illustrates the increasing share of foreign currency deposits in Egypt. If deposits of specialized banks and offshore banks are included, the stock of foreign currency in Egypt would be much larger. Foreign currency deposits with commercial banks have traditionally been included in the definition of money supply. However, these deposits are not perfect substitutes for domestic money, since domestic deposits are primarily used for transactions purposes while foreign currency deposits are overwhelmingly held as precautionary and speculative balances. Thus, while these deposits have become important instruments of private savings in Egypt, they may not be a primary factor in the determination of the price level.

Table 8: Foreign Currency Deposits

	(percent)		
	<u>1977</u>	<u>1978</u>	<u>1979</u>
Private Foreign Currency Deposits as % of Money Supply	17	19	24
Private Foreign Currency Deposits as % of Total Deposits in Commercial Banks	29	32	33

Source: Statistical Appendix 6.1.

Money supply growth, given in Table 9, includes foreign currency deposits. The net effect of the exclusion of these deposits would be to reduce money supply growth somewhat since these deposits had been a rapidly growing component. In line with the traditional presentation, money supply figures in Table 9 also do not include any public sector deposits. However it may be more appropriate to include at least the public sector companies' deposits, on the basis that the behaviour of these institutions is now more akin to the private sector. Revised monetary accounts, which include public sector companies' deposits but exclude foreign currency deposits from the definition of money supply, are given in Table 6.1 of the Statistical Annex.

Monetary expansion, which has been high since 1976, accelerated perceptibly in 1980. Growth of money supply (including foreign currency deposits) is estimated to have reached 33 percent in 1980 compared with 30 percent in 1979 and 28 percent in 1978. Unlike previous years, however, the major source of monetary expansion has been the external accounts. In the first nine months of 1980, net foreign assets accounted for over 65 percent of the increase in money supply, reflecting the surplus in the overall balance of payments. The growth of net domestic credit to the public sector on the other hand declined sharply, but credit to the private sector has continued to expand at a rapid pace.

Roughly 60 percent of the increase in net foreign assets accrued to the Central Bank in the form of official reserves; the remaining 40 percent comprised an increase in commercial banks reserves. The increase in official reserves has been a welcome phenomenon reflecting an adjustment of actual to desired reserves, resulting in a reserve level equal to about two months of imports. At a time of rapid increase in Central Bank reserves, however, monetary control requires special sterilization policies so that the increase in reserves does not lead to undue inflationary pressures.

Table 9: Factors Affecting Monetary Expansion

(LE Million)

<u>Changes During Period</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Jan.-Sept.</u>	
				<u>1979</u>	<u>1980</u>
Foreign Assets (net)	304	-50	179	69	882
Domestic Assets (net)	431	1098	1373	1048	760
Central and Local Govt.	471	827	1256	1074	509
Other Public Sector	-245	108	-333	-409	-322
Private Sector	179	136	430	306	472
Specialized Banks	26	27	20	77	101
Other Items	33	-142	-334	-278	-304
Money and Quasi-Money	768	906	1218	839	1338

(In percent per annum)

Domestic Assets <u>a/</u>	18	34	33	34	19
Money and Quasi-Money	32	28	30	27	33

Source: Central Bank of Egypt and IMF

a/ Absolute increase as a proportion of the broadly defined money supply in the beginning of the period.

Since a large portion of the increase in reserves has accrued to the public sector, domestic bank credit to the public sector understates the expansionary monetary effect of public sector operations. In the present phase of reserve adjustment, it is important that the government's fiscal and expenditure policies are restrictive enough to counteract the expansionary impact of reserve accumulation. Eventually, unification of the official and own exchange markets and re-establishment of overall balance of payments equilibrium, should reduce the need for special sterilization policies. However, the degree of openness that the Egyptian economy has reached and the increasing financial complexity suggest the need for a quite sophisticated monetary policy as well as close coordination between the various elements of overall macroeconomic policy, including exchange rate management and interest rate policies.

Prices and Competitiveness

The official price indices are heavily weighted by controlled items and have consequently tended to substantially understate inflation. The official consumer price index showed a 10 percent increase in 1979, while actual inflation was closer to 15-20 percent. The impact of the recent food price increases has been pronounced on the official CPI index; the overall index rose by 30 percent on an annual basis in the first nine months of 1980, with prices for meat, vegetables and cereals (following the recent policy changes for bread prices) rising mostly rapidly. The movements of the wholesale price index reflect the substantial increase in traded goods prices associated with world inflation levels close to 10%. Although wage increases in recent years were below the inflation rate, in recent years this has been partly offset by bonuses amounting to 9% and 25% of the wage bill in 1979 and 1980 respectively.

Table 10: Price and Wage Developments
(percent change during period)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>January-Sept.</u>	
				<u>1979</u>	<u>1980</u>
Consumer prices	12.7	11.3	9.9	8.9	22.3
Wholesale prices	10.3	8.2	17.1	10.0 <u>a/</u>	17.1 <u>a/</u>
Wages in manufacturing	8.7	7.3	4.8	n.a.	n.a.

Sources: Statistical Appendix, Tables 11.1 and 11.2
and Ministry of Planning

a/ January-August

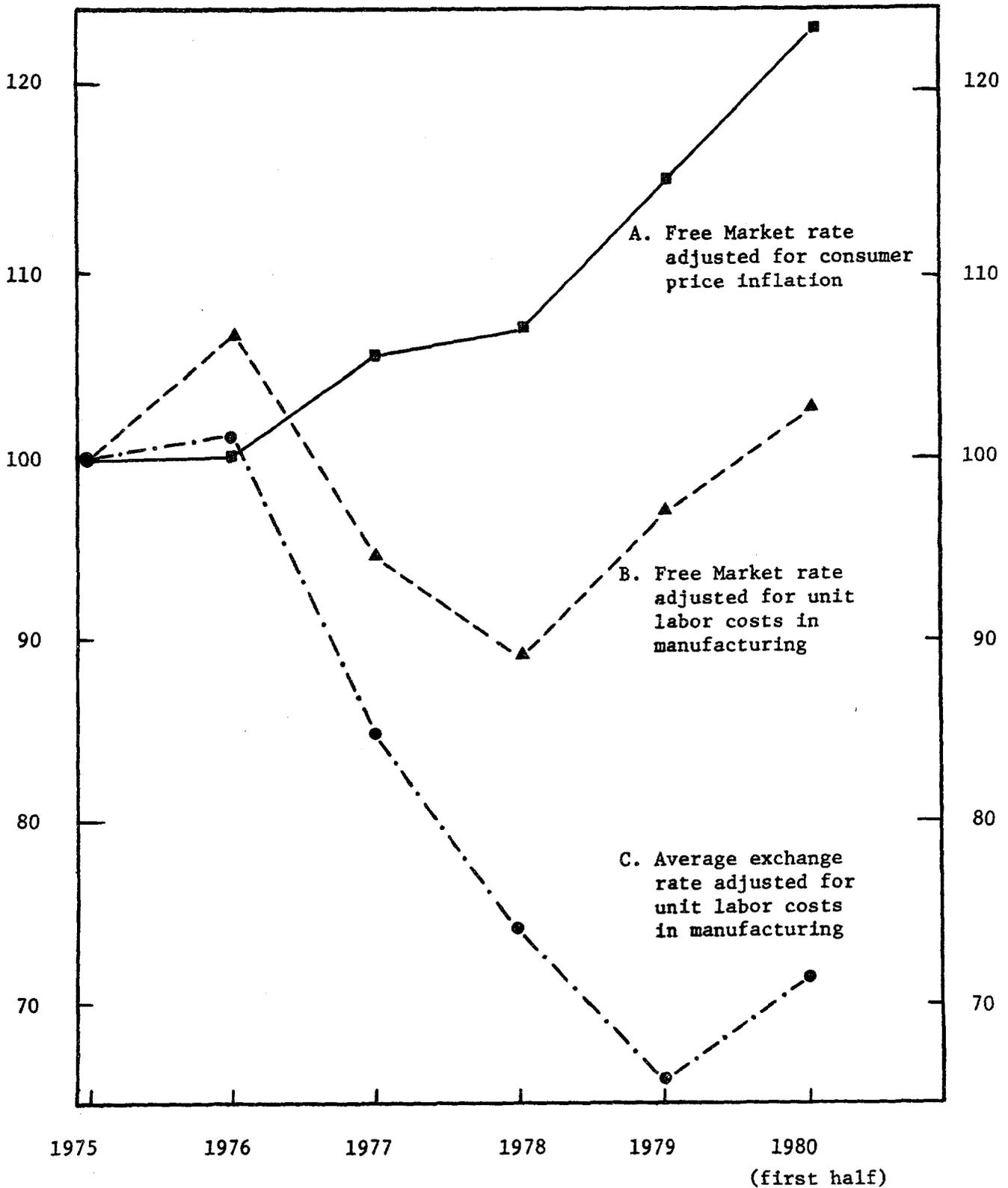
The acceleration in inflation not only puts Egypt well above the industrial countries average but raises problems of competitiveness for Egyptian manufacturing and the budgetary cost of suppressing inflation for subsidized commodities. As a result of the unification of the exchange rate, the effective average exchange rate (obtained by averaging the rates applicable to various current account transactions) depreciated until 1978. Adjusting this average rate for the increase in unit labor costs relation to the U.S., a sharp decline is observed as shown by Line C in Chart B. However, the use of this rate for the manufacturing industry is

quite misleading since virtually all manufacturing exports were valued at the parallel rate by 1977. Using the free market rate as a proxy for the effective rate applicable to competitive exports shows instead that the real depreciation from 1976 to 1978 has been almost entirely offset and that the rate is now higher than it was in 1975 (Line B). A more dramatic picture emerges with respect to the relative price of consumption goods where there has been continuous real appreciation since 1976 (Line A).

The spectacular development of national resource exports, including oil, the Suez Canal and remittances, has therefore beset Egypt with the problem of real appreciation that has been typical of other resource exporters, both industrialized and developing. If the manufacturing export industry were to face increasingly unfavorable incentives, Egypt would face great difficulty in expanding her share of manufactured exports in world markets. Recent developments underline the need for a long-term export promotion policy, including appropriate management of incentives and real effective exchange rates.

CHART B

REAL PRICE OF US DOLLAR IN TERMS OF THE EGYPTIAN POUND (1975 = 100)



Chapter II

EXTERNAL CAPITAL REQUIREMENTS

As described in Chapter I, Egypt's overall resource situation has improved dramatically during the course of the last 18 months. The combination of increased petroleum earnings, large flows of remittances, and increased revenues from the Suez Canal has not only resulted in a much stronger balance of payments, but the contributions from petroleum and the Suez Canal have also allowed for a considerable increase in the government's fiscal resources. On the other hand, the increase in income has led to a substantial increase in effective demand, adding to inflationary pressure and translating into very rapid growth of consumer goods and food imports. It must be stressed that despite a 19 percent growth in the value of imports, Egypt is currently accumulating foreign exchange reserves, reflecting the sudden and somewhat unexpected nature of the rise in foreign exchange earnings. Some reserve accumulation is, of course, not an unwelcome development, since the value of Central Bank reserves at the end of 1980 is still estimated to be below 20 percent of total merchandise imports.

While the current balance of payments position is thus quite comfortable, Egypt is very far from having overcome the basic structural foreign exchange constraint that has always constituted a major problem for economic policy. The current account deficit remains close to 10 percent of GDP and the extraordinary increase in "natural resource" based earnings experienced in the last few years, will be difficult to maintain into the 1980's. On the other hand, the underlying trends which are leading to the quick absorption of the additional resources are likely to continue in the near future. The growth and dynamism of the Egyptian economy have raised expectations, and together with a rapidly expanding population, have led to a higher growth rate in the demand for consumer goods and food. With limited potential for increasing domestic supply at a comparable pace, imports will continue to grow rapidly. Import growth for capital goods and intermediate goods will also continue to be high, given the rapid growth in overall investment on the one hand and the need to alleviate supply bottlenecks of the productive sectors for raw materials and spare parts on the other. Balance of payments developments should, therefore, be kept under careful review and Egypt continues to need large flows of foreign assistance if it is to succeed in achieving the investment rates needed to establish the base for rapid self-sustaining growth in the second half of the next decade.

Detailed balance of payments projections were obtained using a

multisector projection model developed for the Domestic Resource Mobilization Study^{1/}. The discussion here is limited to 1980/81 and 1981/82; prospects for the longer term are discussed in detail in the Domestic Resource Mobilization Report.

The projections are based on continued rapid growth of fixed investment in real terms, comparable to what has been achieved in the recent past, and reflects Egypt's growth objectives. Egypt must use the opportunity afforded by its improved circumstance to renew and strengthen its infrastructure and to expand its productive capacity in agriculture and industry, while at the same time continuing to provide food, housing and employment to a growing population. As argued at length in the Domestic Resource Mobilization study, the long-term challenge facing Egypt derives from the fact that the growth of the "natural resource" based exports, on which Egypt relies so heavily at present, is likely to be slower in the coming decade than in the past. A shift towards a growth strategy that emphasizes the domestic productive sectors is, therefore, imperative. The foundation for such self-sustaining growth in the productive sectors must be laid now, if Egypt is to maintain rapid growth in a period when the external circumstances may be less favorable and the growth of natural resource earnings more moderate. This will require a continued strengthening in Egypt's investment program, with particular emphasis on appropriate incentives and a viable long-term trade strategy.

Current Account Developments

In the immediate future the principal sources of foreign exchange earnings will continue to be: Petroleum, the Suez Canal, tourism and workers' remittances (Table 11). While there is considerable uncertainty

^{1/} The projection model was designed to provide a detailed picture of the pace and pattern of growth based on the interaction of domestic and foreign resources. In the balance of payments component of the model, the demand for consumer goods is linked to the growth of private and public sector incomes and is sensitive to the relative prices of imported and domestic goods. Imports of producer goods are directly linked to domestic production levels and investment. Exports are determined by sectoral export supply functions that attempt to take into account the specific nature of the sectors concerned. Special emphasis is given to the oil and natural gas sector since it accounts for almost one half of export earnings. The import and export equations along with payments and receipts determine the current account balance. Gross foreign exchange requirements are derived taking into account amortization payments, short-term debt obligations and a targetted change in reserves. Reserves are assumed to be maintained at a level adequate to cover about two months of imports.

about the outlook for the petroleum sector in the longer term, at least through 1981/82, both petroleum output and the exportable surplus are expected to continue to increase, at a slower rate than the past, but still allowing for large increases in export earnings. With the completion of the Suez Canal expansion project in late 1980, earnings are expected to rise substantially reaching a level of over \$1 billion on an annual basis. The net outflow of Egyptian workers has slowed and reflects the high levels the proportion of immigrant labor has already reached in the host countries as well as increasing competition from South and East Asian labor. While some real growth in remittances can be expected, the increase will be much lower than the spectacular growth recorded in the past.

Table 11: Total Export Earnings
(\$ Million)

	<u>1980</u>	<u>1980/81 a/</u>	<u>1981/82 a/</u>
<u>Merchandise Exports</u>	<u>5300</u>	<u>5865</u>	<u>6575</u>
Petroleum <u>b/</u> (Egypt)	3950	4405	4860
(foreign oil companies)	(2650)	(2945)	(3190)
Agricultural exports	660	730	860
Manufactured exports	690	730	855
<u>Non-Factor Services</u>	<u>1850</u>	<u>2125</u>	<u>2540</u>
Tourism	680	720	870
Suez Canal	710	870	1070
Other	460	535	600
<u>Factor Services</u>	<u>3175</u>	<u>3410</u>	<u>3850</u>
Workers' remittances	2750	2930	3280
Investment income	425	480	570
<u>Total Foreign Exchange Earnings</u>	<u>10325</u>	<u>11400</u>	<u>12965</u>

a/ Following the change in the fiscal year projections are given on a July-June basis.

b/ Projections are based on an annual production level of crude petroleum and natural gas of about 32 million tons, and average export prices of \$33 and \$37.4 per barrel of crude in 1980/81 and 1981/82 respectively.

Prospects for the growth in tourist receipts are good, but will continue to be constrained by limited facilities. Finally, export growth of agricultural and manufactured goods will be moderate because of limited growth possibilities for these productive sectors in the short-term. In any case, their impact on overall export growth would be limited in the next two years because of the relatively small base of these exports in absolute terms.

Imports, as outlined above, are likely to grow at a continued rapid pace. The growth of imports of consumer goods in the near future, although lower than the surge in 1980, is still expected to remain high with food imports, especially of newer items such as meat, beans and lentils, sugar and tea, growing most rapidly. Imports of intermediate goods and especially capital goods are likely to grow at an even faster pace. The share of imported capital in overall investment is high in Egypt; nor is there much potential for import substitution in the short-run. In fact, the elasticity of capital goods imports with respect to investment has been substantially greater than one during the last decade.

Table 12: Imports and Current Account Balance
(\$ Million)

	<u>1980</u>	<u>1980/81</u>	<u>1981/82</u>
<u>Merchandise Imports</u>	<u>8690</u>	<u>9850</u>	<u>11610</u>
Food & other agricultural commodities	2260	2550	2970
Intermediate goods	2250	2540	2975
Capital goods	2600	3040	3630
Manufactured consumer goods	940	1015	1200
Oil companies' imports	640	705	835
<u>Non-Factor Service Payments</u>	<u>1150</u>	<u>1390</u>	<u>1590</u>
<u>Factor Service Payments</u>	<u>1840</u>	<u>2030</u>	<u>2335</u>
of which:			
Transfers by oil companies	1245	1360	1560
Interest payments	580	645	740
<u>Total Imports of Goods and Services</u>	<u>-11680</u>	<u>-13270</u>	<u>-15535</u>
<u>Total Export Earnings</u>	<u>10325</u>	<u>11400</u>	<u>12965</u>
<u>Current Account Balance</u>	<u>-1355</u>	<u>-1870</u>	<u>-2570</u>

Transfers by foreign oil companies--the imputed value of the oil retained and exported under the production sharing agreement less local currency purchases--will continue to constitute a significant outflow. Interest payments are projected to rise sharply, reflecting the growing debt burden, an increase in the average interest rate and the resumption of interest payments to Arab creditors.

As shown in Table 12, the current account deficit is expected to widen progressively from about \$1.4 billion in calendar 1980 to \$2.6 billion in FY1981/82. As a percentage of GDP, the current account deficit would rise from less than 7 percent in 1980 to about 9 percent in 1981/82.

Foreign Aid Requirements: 1980/81 - 1981/82

Besides the current account deficit, Egypt will have to finance increasing levels of amortization payments. The amortization payments on official debt shown in Table 13 take into account the agreed repayment schedules between Egypt and its Arab creditors. Although many of the Arab credits will be rolled over or extended, the increase in official amortization payments is still substantial.

Table 13: Foreign Exchange Requirements
(\$ Million)

	<u>1980</u>	<u>1980/81</u>	<u>1981/82</u>
<u>Current Account Balance</u>	-1355	-1870	-2570
Amortization: Official	-440	-460	-660
Amortization: Private	-800	-835	-1000
Change in short term debt	280	-200	--
Change in bilateral balances	-60	--	--
Increase in reserves (-)	-790	-620	-450
Residual items	-465	--	--
<u>Gross Foreign Exchange Requirement</u>	<u>-3630</u>	<u>-3985</u>	<u>-4680</u>
Private transfers	50	60	65
Direct foreign investment	850	915	1070
Private loans	1110	1295	1430
Official aid requirement	1620	1715	2115
Memo:			
Debt service ratio	20.1	19.6	21.3

The relatively high level of amortization on private loans is largely due to the higher utilization of suppliers' credits in recent years. On the whole, the debt service ratio on medium and long-term debt is expected to rise from about 20 percent in 1980 to about 22 percent in 1981/82. Egypt's short-term debt is assumed to be reduced by \$200 million in 1980/81, following the build-up in the first half of 1980. Some further reserve accumulation is allowed for during the next two years, to enable Egypt to maintain a level of foreign exchange reserves that would cover about two months of imports. The gross foreign exchange requirement would thus rise from \$3.6 billion in 1980 to \$4.7 billion in FY1981/82.

Direct foreign investment would provide a substantial portion of this requirement. While foreign investment under the framework of the joint-venture companies is expected to grow rapidly, the foreign oil companies will continue to account for the bulk of direct foreign investment. Other private flows (loans, suppliers' credits and transfers), although large, reflect the sizeable refinancing requirements for suppliers' credits. A gap of \$1.7 billion in 1980/81 and \$2.1 billion in 1981/82 would thus have to be covered by official resources.

Table 14: Aid Pipeline and Flows
(\$ Million)

	<u>January-June</u> <u>1980</u>	<u>1980</u>	<u>1980/81</u>	<u>1981/82</u>
Official Aid Requirements	<u>860</u>	<u>1620</u>	<u>1715</u>	<u>2115</u>
Commitment Flows	<u>1240</u>	<u>2420</u>	<u>2550</u>	<u>2810</u>
Grants	250	650	740	770
Project loans	650	1070	1140	1390
Commodity loans	340	700	670	650
Aid Pipeline <u>a/</u>	<u>5570</u>	<u>5990</u>	<u>6455</u>	<u>7150</u>
Grants	<u>1240</u>	<u>1530</u>	<u>1690</u>	<u>2055</u>
Project loans	3580	3660	4015	4355
Commodity loans	750	800	750	740
Disbursement Flows	<u>860</u>	<u>1620</u>	<u>1715</u>	<u>2115</u>
Grants	90	200	290	405
Project loans	320	660	725	1050
Commodity loans	450	760	700	660

a/ End of period.

The official pipeline at the end of June 1980 is estimated at \$5.6 billion, of which roughly \$3.6 billion is for project loans, \$0.8 billion is for commodity loans and \$1.2 billion for grants, most of which were also provided for project financing. Official commitments for 1980/81 and 1981/82 are projected at \$2.6 billion and \$2.8 billion respectively (Table 14). These are the levels that would be required to support the necessary disbursement flows in the two years and also to provide the basis for sustained growth in foreign assistance. The level of projected commitments assumes a continued improvement in the disbursement ratios, especially for project loans and grants.

The balance of payments projections described above underline the importance of foreign assistance in Egypt's development efforts. The aid scenario postulated, both in terms of commitments and disbursements, would appear plausible. It would, however, require continued efforts on the part of donors and Egypt to further streamline and simplify procedures for disbursements and project implementation. In the past, the scarcity of domestic public resources had been a major constraint in the government's ability to implement projects. In that respect the improvement in the fiscal situation should provide an impetus to the timely implementation of projects. For a sustained growth in investment though, it is important that the government continues in its efforts to mobilize domestic resources. Finally, for rapid investment to lead to rapid development, it is necessary that projects be selected carefully within the framework of an appropriate long-term strategy, reflecting Egypt's resource base, dynamic comparative advantage considerations and the evaluation of conditions on world markets. Present circumstances provide the opportunity for laying solid foundations for such a long-term strategy.

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Table 1.1: Population, Rates of Birth, Death
and Natural Increase

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Population (thousands)	38,794	39,819	40,983
Birth rates (per thousand)	37.3	37.1	40.9
Death rates (per thousand)	11.8	10.4	10.0
Rate of natural increase (%)	2.6	2.7	3.1
Growth rate (%)	2.4	2.6	2.9

Source: Central Agency for Public Mobilization and Statistics

Table 1.2: Employment by Sector
(In thousands of persons)

	1977	1978	1979 ^{1/}
Commodity sectors	<u>5,855.6</u>	<u>6,021.0</u>	<u>6,206.3</u>
Agriculture	4,103.5	4,135.0	4,165.0
Industry, petroleum, and mining	1,247.1	1,297.0	1,351.9
Electricity	48.0	51.0	60.2
Construction	457.0	538.0	629.2
Distribution sectors	<u>1,494.9</u>	<u>1,542.5</u>	<u>1,580.9</u>
Transportation, comm. and storage	444.3	448.6	452.5
Trade and finance	1,050.6	1,093.9	1,128.7
Service sectors	<u>2,535.0</u>	<u>2,652.9</u>	<u>2,773.1</u>
Housing	144.8	146.5	155.0
Public utilities	54.6	60.0	64.0
Other services	2,335.6	2,446.4	2,554.1
Total	<u>9,885.5</u>	<u>10,216.4</u>	<u>10,560.3</u>

Source: Ministry of Planning

^{1/} Provisional

Table 2.1: Gross Domestic Product at Current Prices
(LE Million)

	1977	1978	1979
Commodity sectors	<u>4090</u>	<u>4865</u>	<u>6859</u>
Agriculture	2038	2286	2688
Industry and mining	1120	1319	1478
Petroleum	468	626	1908
Electricity and public utilities	106	125	134
Construction	358	509	651
Distribution sectors	<u>1672</u>	<u>2224</u>	<u>2839</u>
Transportation, comm. and storage	322	395	472
Suez Canal	169	294	423
Trade, finance and insurance	1181	1535	1944
Service sectors	<u>1641</u>	<u>1919</u>	<u>2240</u>
Housing	244	262	287
Other services	1397	1657	1953
GDP at factor cost	<u>7403</u>	<u>9008</u>	<u>11938</u>
Net indirect taxes	880	663	471
GDP at market prices	<u>8283</u>	<u>9671</u>	<u>12409</u>

Source: Ministry of Planning and IBRD staff estimates.

Table 2.2: Resource Balance in Current Prices
(LE Million)

	1977	1978	1979
Consumption	<u>6743</u>	<u>8085</u>	<u>10496</u>
Private consumption	<u>5115</u>	<u>6073</u>	<u>8121</u>
Public consumption	1628	2012	2375
Investment	<u>2434</u>	<u>3082</u>	<u>3812</u>
Gross fixed investment	<u>1873</u>	<u>2666</u>	<u>3402</u>
Changes in stocks	561	416	410
Net imports of good and nfs	<u>894</u>	<u>1496</u>	<u>1899</u>
Imports	<u>2770</u>	<u>3626</u>	<u>5804</u>
Exports	1876	2130	3905
GDP at market prices	<u>8283</u>	<u>9671</u>	<u>12409</u>
Net factor income	458	964	804
GNP at market prices	<u>8741</u>	<u>10635</u>	<u>13213</u>
Gross national savings	1998	2550	2717

Source: Ministry of Planning and IBRD staff estimates.

Table 2.3: Gross Domestic Product at Constant 1975 Prices

(Millions LE)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Commodity Sectors	<u>3034</u>	<u>3180</u>	<u>3486</u>	<u>3692</u>
Agriculture	<u>1491</u>	<u>1447</u>	<u>1528</u>	<u>1587</u>
Industry and Mining	<u>948</u>	<u>1012</u>	<u>1068</u>	<u>1170</u>
Petroleum	<u>265</u>	<u>350</u>	<u>427</u>	<u>471</u>
Electricity and Public Utilities	<u>97</u>	<u>108</u>	<u>127</u>	<u>135</u>
Construction	<u>233</u>	<u>263</u>	<u>336</u>	<u>349</u>
Distribution Sectors	<u>1224</u>	<u>1379</u>	<u>1596</u>	<u>1797</u>
Transport, Comm., Storage	<u>245</u>	<u>289</u>	<u>333</u>	<u>375</u>
Suez Canal	<u>142</u>	<u>171</u>	<u>201</u>	<u>232</u>
Trade, Finance, Insurance	<u>837</u>	<u>919</u>	<u>1062</u>	<u>1190</u>
Service Sectors	<u>1259</u>	<u>1336</u>	<u>1437</u>	<u>1545</u>
Housing	<u>225</u>	<u>231</u>	<u>246</u>	<u>270</u>
Tourism	<u>114</u>	<u>107</u>	<u>121</u>	<u>126</u>
Other Services	<u>922</u>	<u>998</u>	<u>1070</u>	<u>1149</u>
GDP at Factor Cost	<u>5519</u>	<u>5895</u>	<u>6519</u>	<u>7054</u>

Table 2.4: Gross Fixed Investment at Current Prices
(LE Million)

	1977	1978	1979
Commodity sectors	<u>1136</u>	<u>1588</u>	<u>2000</u>
Agriculture	146	191	268
Industry and mining	561	765	817
Petroleum	206	201	450
Electricity and public utilities	175	299	389
Construction	48	132	76
Distribution sectors	473	729	952
Transportation, comm. and storage	341	387	634
Suez Canal	102	305	248
Trade, finance, and insurance	30	37	70
Service sectors	264	348	449
Housing	126	136	142
Other services	138	212	307
Gross fixed investment	1873	2665	3401
Public sector	1502	2213	2587
Private sector	371	452	814
Memo:			
Foreign investment	204	218	497
Oil companies	155	136	371
Law 43 companies	49	82	126

Source: Ministry of Planning and IBRD staff estimates.

Table 3.1: Balance of Payments--Current Account

(In Millions of U.S. Dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u> <u>1/</u>
<u>Merchandise Exports, f.o.b.</u>	<u>2346</u>	<u>2558</u>	<u>4024</u>	<u>5300</u>
Petroleum	1012	1262	2860	3950
Egypt	(720)	(802)	(1880)	(2650)
Foreign Oil Companies	(292)	(460)	(980)	(1300)
Raw Cotton	457	286	348	435
Other Agricultural Products	260	223	198	225
Cotton Yarn - Textiles	300	272	267	290
Other Manufactures	317	515	351	400
<u>Merchandise Imports, c.i.f.</u>	<u>-5110</u>	<u>-5998</u>	<u>-7336</u>	<u>8690</u>
Wheat and Flour	-600	-841	-741	-1010
Other Agricultural Products	-500	-696	-905	-1250
Intermediate Goods	-1466	-1673	-1968	-2250
Petroleum	(-135)	(-149)	(-243)	(-310)
Other	(-1331)	(-1524)	(-1725)	(-1940)
Machinery & Transp. Equipment	-1500	-1700	-2315	-2620
Manufactured Consumer Goods	-650	-766	-845	-940
Oil Companies' Imports	-394	-322	-531	-640
<u>Trade Balance</u>	<u>-2764</u>	<u>-3440</u>	<u>-3312</u>	<u>-3390</u>
<u>Net Non-Factor Services</u>	<u>773</u>	<u>927</u>	<u>597</u>	<u>700</u>
Tourism	728	702	601	680
Suez Canal	428	514	589	710
Other Receipts	386	325	371	460
Payments	-769	-614	-964	-1150
<u>Balance on goods & nfs</u>	<u>-1991</u>	<u>-2513</u>	<u>-2715</u>	<u>-2690</u>
<u>Factor Services</u>	<u>472</u>	<u>1098</u>	<u>1143</u>	<u>1335</u>
Workers' Remittances	897	1761	2214	2750
Investment Income	113	144	305	425
Interest Payments	-319	-415	-428	-580
Profit Transfers	-219	-392	-948	-1260
<u>Current Account Balance</u>	<u>-1519</u>	<u>-1415</u>	<u>-1572</u>	<u>-1355</u>

Source: Central Bank of Egypt and IBRD staff estimates.

1/ estimates

Table 3.2: Balance of Payments--Capital Account

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u> ^{1/}
1. Current Account Balance	-1519	-1415	-1572	-1355
2. Autonomous Non-Monetary Capital	1270	1582	2269	2450
a. Transfers	63	54	88	260
b. Direct Investment	477	387	710	850
c. Official Loans (net)	803	1028	1034	1030
Drawings	931	1202	1208	1410
Repayments	-128	-174	-174	-380
d. Private Loans (net)	-73	113	437	310
Suppliers' Credits	-84	83	428	300
Drawings	467	684	998	1100
Repayments	-551	-601	-570	-800
Other (net)	11	30	9	10
3. <u>Overall Balance (1+2)</u>	-249	-167	697	1095
4. <u>Balance of Payments Financing</u>	1601	809	72	--
Grants	382	291	72	--
Loans	1219	518	--	--
5. Unallocated	-435	-504	-462	-465
6. Commercial Banks	-1005	-494	-101	280
7. Central Bank (net)	90	22	-206	-910
Official Loans & Deposits	203	-9	-9	-30
Bilateral Payments	-121	-35	-59	-60
Reserves	-88	14	-98	-790
IMF	96	52	-40	-30

Source: Central Bank of Egypt and IBRD staff estimates.

^{1/} estimates

Table 4.1: EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF
JUNE 30, 1980

Debt Repayable in Foreign Currency and Goods

(In millions of U.S. dollars)

Page 1

Type of Creditor Creditor Country	Debt Outstanding		
	Disbursed	Undisbursed	Total
<u>Suppliers Credits</u>			
Australia	281.6		
Austria	8.5		
Belgium	17.7		
Bulgaria	0.6		
Canada	4.1		
Czechoslovakia	4.8		
Denmark	73.5		
Finland	1.6		
France	187.4		
Germany (Dem. Rep. of)	12.7		
Germany (Fed. Rep. of)	152.4		
Hungary	0.4		
India	4.7		
Italy	17.4		
Japan	43.9		
Netherlands	9.7		
Pakistan	0.1		
Panama	2.4		
Poland	0.2		
Romania	9.7		
Spain	7.2		
Sweden	37.0		
Switzerland	77.2		
Taiwan	0.1		
United Kingdom	47.0		
United States	25.2		
U.S.S.R.	1.9		
Yugoslavia	36.8		
Others	53.9		
<u>Total Suppliers Credits</u>	1119.7	110.0	1,229.7
<u>Financial Institutions</u>			
Austria	31.1		31.1
France	295.1	357.2	652.3
Germany (Fed. Rep. of)	26.9	-	26.9
Switzerland	25.0	18.2	43.2
United Kingdom	.4		.4
Multiple Lenders	318.8		318.8
<u>Total Financial Institutions</u>	697.4	375.4	1,072.8
<u>Bonds</u>			
Multiple Lenders	132.3		132.3
<u>Total Bonds</u>	132.3		132.3

Table 4.1: EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF
JUNE 30, 1980

Debt Repayable in Foreign Currency and Goods

(In millions of U.S. dollars)

Type of Creditor Creditor Country	Debt Outstanding		
	Disbursed	Undisbursed	Total
<u>Multilateral Loans</u>			
African Dev. Bank	17.1	15.1	32.2
African Dev. Fund	.6	36.7	37.3
Arab Fund Ec.Soc. Dev.	192.2	52.2	244.4
Arab Monetary Fund	11.8		11.8
European Investment Bank	7.5	86.2	93.7
Gulf Org. Egypt (GODE)	1,693.8		1,693.8
IBRD	405.5	646.	1,051.6
IDA	308.1	264.4	572.5
IMF Trust Fund	102.6		102.6
Islamic Dev. Bank	21.4	7.3	28.7
OPEC Special Fund	18.0	5.2	23.2
<u>Total Multilateral Loans</u>	<u>2,778.7</u>	<u>1,113.1</u>	<u>3,891.8</u>
<u>Bilateral Loans</u>			
Belgium	6.6	2.3	8.9
Bulgaria	19.8	4.6	24.4
Canada	30.3	59.6	89.9
China	66.1	-	66.1
Czechoslovakia	14.7	-	14.7
Denmark	49.3	10.4	59.7
Finland	.8	2.4	3.2
France	144.9	259.8	404.7
Germany (Dem. Rep. of)	43.9	-	43.9
Germany (Fed. Rep. of)	928.5	333.3	1,261.8
Hungary	2.8	29.0	31.8
Iran	300.0	-	300.0
Iraq	30.2	-	30.2
Italy	48.9	26.7	75.6
Japan	434.8	195.5	630.3
Kuwait	1,157.6	16.2	1,173.8
Libya	137.3	-	137.3
Libya	1.2	-	1.2
Mexico	23.8	45.4	69.2
Netherlands	78.8	40.3	119.1
Norway	5.7	-	5.7
Poland	111.5	-	111.5
Qatar	1.5	-	1.5
Romania	968.3	16.3	984.6
Saudi Arabia	15.6	-	15.6
Spain	1.1	8.4	9.5
Switzerland	312.5	5.9	318.4
United Arab Emirates	32.7	-	32.7
United Kingdom	2,552.3	1,016.3	3,568.8
United States	389.6	285.8	675.4
U.S.S.R.	6.6	-	6.6
Yugoslavia	7,917.9	2,358.4	10,276.3
<u>Total Bilateral</u>	<u>12,646.0</u>	<u>3,956.9</u>	<u>16,602.9</u>
<u>Total External Public Debt</u>			

Table 5.1: Summary of Fiscal Operations
(LE Million)

	1977	1978	1979
Government current revenue	<u>2103</u>	<u>2295</u>	<u>2814</u>
Direct taxes	<u>460</u>	<u>613</u>	<u>743</u>
Indirect taxes	1416	1421	1685
Non-tax revenue	113	142	230
Local government revenue	114	119	156
Social insurance surplus	<u>353</u>	<u>381</u>	<u>456</u>
Public sector surplus	<u>989</u>	<u>1262</u>	<u>1621</u>
Transferred profits	<u>384</u>	<u>539</u>	<u>1001</u>
Self-financing	268	473	350
Stock accumulation	337	250	270
Total public revenue	<u>3445</u>	<u>3938</u>	<u>4891</u>
Government current expenditure	<u>1628</u>	<u>2012</u>	<u>2375</u>
Central government expenditure ^{1/}	<u>1511</u>	<u>1877</u>	<u>2215</u>
Local government expenditure	117	135	160
Subsidies	<u>650</u>	<u>900</u>	<u>1370</u>
Public sector expenditure	<u>269</u>	<u>358</u>	<u>463</u>
Public authority deficit	<u>139</u>	<u>185</u>	<u>229</u>
Interest on external debt	130	173	234
Investment expenditure ^{2/}	<u>1946</u>	<u>2725</u>	<u>2851</u>
Total public expenditure	<u>4493</u>	<u>5995</u>	<u>7059</u>
Overall deficit	<u>-1048</u>	<u>-2057</u>	<u>-2168</u>
External financing (net) ^{3/}	<u>674</u>	<u>626</u>	<u>543</u>
Domestic financing (net)	<u>374</u>	<u>1431</u>	<u>1625</u>
Banking system	<u>471</u>	<u>909</u>	<u>1148</u>
Postal savings	16	25	21
Domestic bonds	16	26	51
Residual financing	-129	571	405

Source: Ministry of Finance and IBRD staff estimates.

- ^{1/} Includes emergency fund deficit and 50 percent of Treasury and Investment Fund expenditures.
- ^{2/} Includes 50 percent of Treasury and Investment Fund expenditures and public stock accumulation.
- ^{3/} Defined as eighty percent of net foreign saving excluding direct investment.

Table 5.2: Government Revenue and Expenditure
(LE Million)

	1977	1978	1979
Current revenue	<u>2103</u>	<u>2295</u>	<u>2814</u>
Direct taxes	460	613	743
Personal income taxes	55	52	55
Business profit taxes	387	538	659
Property taxes	18	23	29
Indirect taxes	1416	1421	1685
Good and services	340	360	568
Excise and consumer duties	(144)	(155)	--
Price differential	(196)	(205)	--
Foreign trade taxes	979	920	904
Custom duties	(588)	(727)	(904)
Exchange profits	(391)	(193)	--
Other taxes	97	141	213
Stamps	(89)	(126)	--
Others	(8)	(15)	--
Non-tax revenue	113	119	230
Fees	47	54	81
Miscellaneous	66	65	149
Local government revenue	<u>114</u>	<u>142</u>	<u>156</u>
Current expenditure ^{1/}	1628	2012	2375
General public services	429	467	800
Defense	599	709	630
Education	244	297	360
Health	80	96	120
Community and social services	30	54	85
Economic services	69	90	110
Agriculture	(62)	(84)	(105)
Irrigation			
Transport and communication	(7)	(6)	(5)
Treasury and investment funds	60	164	50
Local government expenditure	117	135	160

Source: Ministry of Finance and IBRD staff estimates.

^{1/} Includes Emergency Fund Deficit and 50 percent of Treasury and Investment Fund expenditures.

Table 5.3: Public Organizations' Profits and Deficits
(LE Million)

	1977	1978	1979
Transferred profits	<u>384</u>	<u>539</u>	<u>1001</u>
Public authorities	<u>289</u>	<u>373</u>	<u>816</u>
Agriculture and irrigation	1	4	-
Industry	177	192	631
Petroleum	(177)	(192)	(631)
Textiles	--	--	--
Others	--	--	--
Transport and communications	75	134	161
Suez Canal	(58)	(107)	(148)
Others	(17)	(27)	(13)
Other public authorities	35	44	24
Cotton general organization	--	--	--
Central Bank	(20)	(28)	(14)
Others	(15)	(16)	(10)
Public sector companies	<u>96</u>	<u>166</u>	<u>185</u>
Cotton export profits	2	13	84
Others	94	153	101
Public authority deficits	<u>139</u>	<u>185</u>	<u>229</u>
Education and research	63	77	87
Culture and information	28	33	41
Agriculture and irrigation	15	18	22
Transport and communications	15	34	43
Housing and construction	9	14	22
Others	9	9	14
Net transfers	246	355	671

Source: Ministry of Finance and IBRD staff estimates.

Table 5.4: Budget Subsidies
(LE Million)

	1977	1978	1979
GASC	313	640	1023
Price adjustment fund <u>1/</u>	228	--	--
Agricultural stabilization fund <u>2/</u>	35	38	102
Textile corporation	16	44	46
Petroleum corporation <u>3/</u>	12	16	33
Industrial output subsidies	--	73	49
Cairo and Alexandria public transport authority	12	18	28
Press paper subsidies	7	4	5
Government credit grants	10	29	17
Others	17	38	67
Total	650	900	1370

Source: Ministry of Finance and IBRD staff estimates.

1/ 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.

2/ For fertilizer and subsidies; includes Treasury Fund payments.

3/ For bottled gas and kerosene.

Table 5.5: Trading Operations of the General
Authority for supply commodities
(LE Million)

	1977	1978	1978
Subsidies (losses)	<u>343</u>	<u>452</u>	<u>997</u>
Wheat and flour	149	223	588
Maize	41	54	39
Edible fats and oils (rationed)	55	137	200
Sugar (rationed)	--	--	--
Tea	18	13	55
Coffee	5	--	--
Other	75	25	115
Profits	<u>13</u>	<u>29</u>	<u>45</u>
Cottonseed	2	--	--
Edible oils (non-rationed)	--	--	--
Tea	--	--	--
Sugar (non-rationed)	9	26	45
Other	2	3	--
Total net losses (-) <u>1/</u>	-330	-423	-952

Source: General Authority for Supply Commodities.

1/ Not inclusive of administrative costs or settlement of arrears.

2/ Actual net losses were LE 455 million, the balance being met from the Price Adjustment Fund.

Table 6.1: Monetary Survey (Revised Presentation)

(LE million)

<u>End of period</u>	<u>Dec. 1977</u>	<u>Dec. 1978</u>	<u>Dec. 1979</u>	<u>June 1980</u>
Foreign Assets (net)	-645	-2195	-2016	-1292
Foreign Assets	1678	2320	2684	3447
Foreign Liabilities	-2206	-4249	-4481	-4548
IMF Position (net)	-142	-267	-220	-191
Claims on Public Services Sector	3680	6647	8625	9396
Central and Local Government	(3382)	(5955)	(7631)	(8218)
Public Authorities	(297)	(692)	(994)	(1178)
Claims on Households and Enterprises	1742	2026	2653	2897
Public Sector Companies	(1095)	(1208)	(1384)	(1240)
Private Sector <u>1/</u>	(647)	(818)	(1269)	(1657)
Unclassified Assets	328	410	413	524
Assets = Liabilities	5105	6889	9675	11524
Money and Quasi-Money	3507	4356	5548	6474
Currency	1750	2183	2657	2990
Deposits	2353	3028	4187	4958
- Private Sector Demand <u>1/</u>	(782)	(948)	(997)	(1116)
- Private Sector Other <u>1/</u>	(653)	(983)	(1678)	(2053)
- Public Sector Companies	(918)	(1097)	(1512)	(1819)
Private Foreign Currency Deposits <u>2/</u>	596 <u>3/</u>	855	1296	1514
Public Services Sector Deposits	413	697	1514	1860
Central and Local Government	(155)	(265)	(339)	(393)
Public Authorities	(258)	(432)	(1175)	(1467)
Counterpart Funds	142	125	105	83
Capital Account	275	485	641	921
Unclassified Liabilities	350	448	704	673
Interbank Claims (net)	-176	-78	-134	-

Source: Central Bank of Egypt, IMF, and IBRD staff estimates

1/ includes cooperatives and specialized banks

2/ includes earmarked deposits

3/ ratio of private to total foreign currency deposits assumed to be same as December 1978

Table 7-1: Production of Major Agricultural Crops

(Production in thousands of metric tons; area planted in thousands of feddans; yield in metric tons per feddan)

Agricultural year ended October 31	1975/76	1976/77	1977/78	1978/79	1979/80 ^{1/}
<u>Winter crops</u>					
<u>Wheat</u>					
Production	1960	1697	1933	1856	1796
Area planted	1396	1207	1381	1391	1326
Yield	1.40	1.41	1.40	1.334	1.355
<u>Horsebeans^{2/}</u>					
Production	254	270	231	236	213
Area planted	260	292	239	250	245
Yield	0.98	0.92	0.97	0.945	0.869
<u>Onions^{3/}</u>					
Production	240	263	223	157	188
Area planted	31	37	29	23	22
Yield	7.8	7.1	7.7	6.8	8.5
<u>Berseem (clover)</u>					
Area planted	2787	2854	2782	2777	--
<u>Summer and autumn crops</u>					
<u>Cotton</u>					
Production (lint)	396	399	435	484	--
Area planted	1248	1423	1187	1196	--
Yield	0.317	0.280	0.366	0.405	--
<u>Rice (paddy)</u>					
Production	2300	2272	2351	2511	--
Area planted	1078	1040	1025	1040	--
Yield	2.13	2.18	2.29	2.414	--
<u>Maize</u>					
Production	3047	2724	3117	2938	--
Area planted	1891	1765	1878	1885	--
Yield	1.61	1.54	1.66	1.56	--
<u>Millet (sorghum)</u>					
Production	759	648	681	635	--
Area planted	475	408	434	407	--
Yield	1.60	1.59	1.57	1.56	--
<u>Sugarcane</u>					
Production	8446	8721	8296	8791	--
Area planted	242	250	248	249	--
Yield	34.9	34.9	33.5	35.4	--
<u>Groundnuts</u>					
Production	28	30	26	27	--
Area planted	32	36	31	31	--
Yield	0.88	0.83	0.84	0.868	--
<u>Fruits and vegetables</u>					
<u>Citrus fruits</u>					
Production	889	797	990	1216	--
Area planted	178	182	186	190	--
<u>Dates</u>					
Production	417	461	377	406	--
Area planted	35	35	35	--	--
<u>Other fruits</u>					
Production	705	644	718	1777	--
Area planted	135	138	144	150	--
<u>Potatoes</u>					
Production	893	1010	772	1019	--
Area planted	128	152	128	142	--
Yield	7.0	6.6	6.1	7.2	--
<u>Other vegetables</u>					
Production	6029	5791	6357	6755	--
Area planted	801	778	822	873	--

Source: Ministry of Agriculture

^{1/} Preliminary estimates.

^{2/} Excludes crops consumed green (as vegetables and forage).

^{3/} Winter (export) crop only.

Table 7.2: Meat and Poultry Production
(In thousands of metric tons)

	1976	1977	1978	1979
Meat	<u>307</u>	<u>315</u>	<u>321</u>	<u>330</u>
Cattle	121	123	125	127
Buffaloes	130	131	134	139
Sheep	32	37	38	39
Goats	17	17	17	18
Swine	2	2	2	2
Camels	5	5	5	5
Poultry	<u>115</u>	<u>121</u>	<u>115</u>	<u>119</u>
Total	422	436	436	449

Source: Ministry of Agriculture

Table 7.3: Announced Cooperative Purchase Prices for Selected Crops

(In Egyptian Pounds Per Metric Ton)

Agricultural Year Ended October 31	1976/77	1977/78	1978/79	1979/80
Seed Cotton <u>1/</u> (unginned)	219	219	289	<u>2/</u>
Wheat <u>3/</u>	46.70-53.30	46.70-53.30	60.00-70.00	76.70-83.30
Rice (paddy)	50.0	65.0	65.0	75.0
Sugarcane	8.0	9.0	9.8	12.5
Horsebeans	96.80	96.80	129.00	161.30
Winter Onions	33.0	33.0	38.0	43.0
Lentils	156.25	156.25	218.75	250.00
Groundnuts	186.70	186.70	240.00	240.00
Sesame	208.30	208.30	416.70	541.70

Source: Ministry of Agriculture

1/ Average paid price.

2/ Price of Giza 45 (extra-long staple) variety raised by LE 31 per ton.

3/ Prices are for Giza 155 and Mexican varieties respectively.

Table 8.1: Output of Selected Industrial Products
(In thousands of metric tons unless otherwise stated)

	1977	1978	1979	January-June 1979	1980
<u>Spinning & Weaving</u>					
Cotton yarn	210	212	218	110	117
Cotton textiles (million square metres)	905	918	950	478	499
<u>Foodstuffs, etc.</u>					
Sugar	614	629	632	471	477
Cheese	149	161	160	99	110
Preserves, fruits, veg.	41	40	51	20	27
Cottonseed oil	166	169	168	86	94
Oilseed cakes	430	431	433	253	275
Soft drinks (million bottles)	984	1389	1424	634	573
Beer (million liters)	39	42	36	17	19
Cigarettes (billion)	25	27	30	13	15
<u>Chemicals, etc.</u>					
Sulfuric acid	27	30	31	12	18
Superphosphate	513	502	483	258	224
Ammonium nitrate ^{1/}	622	698	851	344	554
Tires (thousands)	920	857	933	240	298
<u>Engineering Products</u>					
Cars (units)	13991	14562	15670	7715	7356
Truck & tractors (units)	4451	4101	5087	916	1265
Buses (units)	475	465	552	240	168
Refrigerators (thousands)	129	138	190	97	110
Television (thousands)	147	166	228	104	116
<u>Metallurgical Products</u>					
Reinforcing bars	230	249	302	151	141
Steel sections	128	152	177	66	71
Steel sheets	235	229	264	127	201
Cast iron products	78	109	112	50	65
Aluminum	90	101	102	51	51
<u>Mining Products</u>					
Phosphate	468	483	527	264	302

Source: Ministry of Industry

^{1/} Thirty-one percent nitrogen

Table 8-2: Production and Distribution of Industrial Goods, 1974-781/
(In millions of Egyptian pounds at current prices)

	1977	1978	1979	January-June 1979	1980 ^{1/}
Public sector production	<u>1963.3</u>	<u>2391.9</u>	<u>2796.0</u>	<u>1357.8</u>	<u>1687.7</u>
Spinning and weaving products	615.2	798.3	838.7	417.8	507.9
Foodstuffs	656.6	755.9	894.7	454.3	521.7
Chemicals	222.0	235.0	297.1	134.7	202.5
Engineering and metal-lurgical products	458.2	569.1	723.1	330.6	430.1
Building materials	--	--	--	--	--
Mining products	11.3	33.6	42.4	20.4	25.5
Private sector production	<u>775.8</u>	<u>1040.3</u>	<u>1361.6</u>	<u>620.0</u>	<u>764.8</u>
Total	<u>2739.1</u>	<u>3438.2</u>	<u>4157.6</u>	<u>1977.8</u>	<u>2452.5</u>
Public sector exports	187.0	269.6	396.7	176.1	227.5
Spinning and weaving products	106.0	150.2	202.0	82.9	116.3
Foodstuffs	14.4	37.1	37.5	22.0	17.4
Chemicals	1.4	3.7	7.1	3.9	3.1
Engineering and metal-lurgical products	59.1	75.0	146.3	65.7	88.0
Building materials	--	--	--	--	--
Mining products	6.1	3.6	3.8	1.6	2.7
Private sector exports	<u>52.5</u>	<u>44.1</u>	<u>61.9</u>	<u>22.3</u>	<u>35.8</u>
Total	<u>239.5</u>	<u>313.7</u>	<u>458.6</u>	<u>1984.0</u>	<u>263.3</u>
Public sector domestic sales ^{2/}	<u>1621.6</u>	<u>1882.7</u>	<u>2366.5</u>	<u>1110.8</u>	<u>1397.6</u>
Spinning and weaving products	388.1	442.9	539.7	249.9	297.7
Foodstuffs	617.3	699.4	828.5	409.7	475.7
Chemicals	221.1	229.3	294.7	133.4	208.6
Engineering and metal-lurgical products	389.4	480.1	663.7	298.8	393.7
Building materials	--	--	--	--	--
Mining products	5.7	31.0	39.9	19.0	21.9

Source: Ministry of Industry

^{1/} Covers only industries under the supervision of the ministry of Industry and Mining. Does not cover national defense production, cotton ginning, flour milling, bakery production, tea packing, pharmaceutical production, iron ore mining, or production of village industries. Since 1976 cement, wine, spirits, and paper production also are excluded.

^{2/} Data on domestic sales of private sector are not available.

Table 9.1: Production and Distribution of Crude Petroleum

(millions of metric tons)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	Estimated <u>1980</u>
<u>By Location:</u>	16.6	20.9	24.4	26.3	29.6
El Morgan, July and Ramadan	10.0	14.3	17.4	18.6	21.0
Other Red Sea and Eastern Desert	1.5	1.4	1.2	1.1	2.1
Western Desert	1.6	1.5	1.4	1.5	1.3
Sinai	3.5	3.7	4.4	5.1	5.2
<u>By Share:</u>					
Cost Recovery Exports	2.2	3.1	4.3	5.1	5.6
- to cover actual costs	1.1	1.6	2.7	2.5	2.1
- returned to EGPC	1.1	1.5	1.6	2.6	3.5
Profit Oil	13.0	16.5	18.9	20.2	22.8
- Egyptian share	11.3	14.8	16.2	17.0	19.1
- Partners' share	1.7	1.7	2.7	3.2	3.7
GPC Production <u>1/</u>	1.4	1.3	1.2	1.1	1.2
Total Egyptian Share	13.8	17.1	18.8	20.7	23.8
(<u>plus</u> purchases of crude oil)	2.3	0.5	0.2	0.2	(0.1)
- used for refining	10.5	11.1	11.9	12.3	13.8
- change in stocks	--	0.5	0.2	0.2	0.3
- exports	5.6	6.0	7.9	8.4	9.8
Partners' share	2.8	3.8	5.6	5.6	5.8
- exports	2.1	3.3	5.4	5.4	5.7
- sales to Egypt	0.7	0.5	0.2	0.2	0.1

Source: Egyptian General Petroleum Corporation

1/ EGPC subsidiary.

Table 9.2: Production and Consumption Petroleum Products

(thousands of metric tons)

	1976	1977	1978	1979
<u>Total Production of Refined Products</u>	<u>9950</u>	<u>10530</u>	<u>11362</u>	<u>11662</u>
Fuel Oil	5056	5254	5429	5536
Diesel & Gas Oil	1717	1961	2153	2114
Gasoline & Naptha	1476	1524	1711	1763
Kerosene & Jet Fuel	1439	1502	1652	1640
Asphalt	135	148	193	211
Butane Gas	59	64	72	99
Other	68	77	162	299
<u>Domestic Consumption of Refined Products 1/</u>	<u>8091</u>	<u>8871</u>	<u>9627</u>	<u>10311</u>
Production	9950	10530	11362	11662
Imports	344	299	508	507
Less Exports	-2203	-1958	-2243	-1858

Source: Egyptian General Petroleum Corporation

1/ Derived residually and includes changes in stocks.

Table 9.3: Natural Gas Reserves and Production

(thousand tons)^{1/}

<u>Area</u>	<u>Recoverable Reserves</u> (million tons) ^{1/}	<u>Actual</u>		<u>Estimated</u>
		<u>1978</u>	<u>1979</u>	<u>1980</u>
Abu Maadi	21.5 ^{2/}	142	166	300
Abu Ghardig	21.5 ^{2/}	441	476	700
Abu Qir	25.8	--	221	300
Abu Qir North	26.0	--	--	--
Gulf of Suez	17.2	--	--	--
Amal	10.8	--	--	--
Total		583	863	1300

^{1/} By weight; roughly, 1 ton of natural gas = 46.2 thousand cu. ft. (Mcf) = 1.2 f.o.e. (fuel oil equivalent).

^{2/} These are conservative estimates; a reinterpretation of the seismological data suggests that recoverable reserves are substantially higher.

Table 9.4: Egypt - Petroleum Export Prices, 1978-80

(In US dollars per barrel)

Period	Suez Blend <u>1/</u> (0.35)	Belayim Blend <u>1/</u> (0.44)	Ras Gharib <u>1/</u> (0.21)	Weighted Average Price (using shares in total petroleum exports in parenthesis)
1978				
October 1-December 31	12.81	11.57	10.73	11.8
1979				
January 1-February 28	13.45	12.23	11.40	12.5
March 1-31	16.50	15.05	14.06	15.3
April 1-May 31	17.15	15.32	14.33	15.7
June 1-30	20.50	17.60	16.90	18.5
July 1-September 30	32.50	26.50	21.50	27.6
October 1-November 30	32.50	27.50	21.50	28.0
December 1-31	34.00	28.50	22.50	29.2
Average price for year	24.60	20.90	17.70	21.5
1980				
January 1-March 31	34.18	29.15	23.68	29.76
March 1-June 30	34.13	29.24	23.99	29.85
July 1-October 31	34.03	29.22	24.00	29.81

Source: Egyptian General Petroleum Corporation

1/ The characteristics of the three crudes are as follows: Suez Blend 32° API, 1.4 percent sulphur; Belayim Blend 29° API, 2.1 percent sulphur; Ras Gharib 26° API, 3 percent sulphur.

Table 10.1: Egypt - Tourist Activity, 1976-80

	1976	1977	1978	1979	Jan.-Sept.	
					1979	1980
Arrivals	<u>984</u>	<u>1,004</u>	<u>1,052</u>	<u>1,064</u>	<u>799</u>	<u>933</u>
Arabs	535	475	456	397	304	381
OECD countries	362	434	503	575	409	482
Socialist countries	35	31	25	31	22	16
Other	52	64	68	61	44	54
Nights spent	<u>6,796</u>	<u>6,399</u>	<u>7,137</u>	<u>7,105</u>	<u>5,299</u>	<u>5,912</u>
Arabs	4,081	3,529	3,717	3,408	2,652	2,764
OECD countries	2,214	2,347	2,947	3,375	2,420	2,854
Socialist countries	237	165	116	100	65	65
Other	264	298	357	222	162	229

Source: Ministry of Tourism

Table 11.1: Wholesale Price Index

(1965/66 = 100)

End of Period	1977	1978	1979	August	
				1979	1980
Agricultural commodities (33.7)	240.6	253.9	292.7	256.9	347.8
Foodstuffs and beverages (19.9)	236.1	247.4	299.7	278.0	347.1
Tobacco and tobacco products (7.1)	122.9	123.0	134.3	134.3	138.1
Yarn, textiles, etc. (20.5)	128.1	175.0	184.1	183.3	230.1
Petroleum and fuels (7.4)	159.5	170.8	192.1	190.2	230.8
Paper (1.2)	241.0	248.1	317.0	314.6	390.0
Wood (1.2)	370.7	238.1	365.7	365.7	482.2
Construction materials (2.6)	212.1	261.4	390.2	387.3	414.3
Medicines (1.6)	158.3	158.3	158.3	158.3	182.4
Chemical products (2.8)	130.8	134.7	162.1	156.1	185.2
Metal and metal products (1.0)	213.8	237.5	251.0	251.0	293.4
Transportation equipment (1.0)	195.8	232.9	264.8	244.8	287.7
All items (100.0)	196.9	213.0	249.4	234.2	292.1

Source: Central Agency for Public Mobilization and Statistics.

Table 11.2: Consumer Price Index for Urban Population

(1966/67 = 100)

End of Period	1977	1978	1979	September	
				1979	1980
Food and beverages (52.5) ^{1/}	231.3	254.7	277.3	270.8	357.6
Cereals (11.2)	135.8	139.3	134.4	132.6	181.9
Pulses (6.6)	256.9	273.9	305.4	288.8	431.3
Meat, fish, and eggs (13.1)	316.2	331.8	383.7	371.0	539.3
Dairy products (5.9)	279.6	315.4	336.9	323.6	386.3
Vegetables (3.8)	241.3	331.7	336.8	376.1	346.3
Fruits (2.9)	263.6	362.2	392.4	364.3	483.9
Housing (15.7)	109.5	110.2	111.2	120.5	116.1
Furniture and other durables (1.3)	156.3	181.1	187.7	187.7	187.8
Clothing (8.4)	188.1	239.1	247.5	247.5	297.8
Transportation & communication (4.4)	144.7	145.1	185.6	185.6	193.9
Services (9.9)	180.8	203.8	244.2	244.2	272.8
Personal expenses (7.8)	133.9	160.7	187.9	187.9	210.7
All items (100.0)	191.1	212.6	233.5	231.5	285.6

Source: Central Agency for Public Mobilization and Statistics.

^{1/} Includes oils and fats, sugar and sweets and beverages in addition to the selected group.