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INTELLIGENCE REPORT

DEFICIT FINANCING OF ECONOMIC PROGRESS IN EGYPT

DIRECTORATE OF INTELLIGENCE

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FOREWORD

Evaluation of the economic situation in Egypt (the United Arab Republic) is based primarily on official Egyptian statistics, which mainly are on a fiscal year basis (1 July to 30 June). Although these data contain some distortions, in part the result of inadequate statistical collection and compilation facilities, the statistics used herein are adequate for the purposes of this report.

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DEFICIT FINANCING OF ECONOMIC PROGRESS IN EGYPT*

SUMMARY

Expansion of the economy of Egypt (officially known as the United Arab Republic) since the 1952 revolution has been financed by depleting foreign exchange reserves and by amassing large domestic and foreign debts. Expenditures for institutional reforms and the military forces have added to the pressure on financial resources resulting from ambitious economic development programs. Barring the discovery of oil in quantities far larger than currently known reserves, continued deficit financing will be necessary if both domestic and foreign exchange costs of the present development plan are to be met. With the level of both domestic and foreign debts already high and further economic development a critical necessity, the freedom of action of the government will be limited for the foreseeable future.

The past half decade, in particular, has been marked by substantial economic progress. For the first time in the 20th century, economic expansion outpaced population growth. During the five years ending in June 1965, Egyptian gross domestic product (GDP) increased at an average annual rate of almost 6 percent, whereas population increased at a rate of 2.6 to 2.8 percent. Gains in agricultural output kept abreast of population growth, while industrial production expanded about 9 percent a year. Economic growth and welfare programs of the regime have combined to bring about a more equitable distribution of income and social benefits than in prerevolutionary times. Everything considered, the accomplishments of the Egyptian economy compare favorably with those of most other less developed countries.

Progress, nevertheless, has been expensive. Spending in excess of current income has been a way of life for the regime, as mounting internal and external debts testify. After 1952, domestic debt in-

* This report was produced by the Office of Research and Reports; the estimates and conclusions represent the best judgment of the Directorate of Intelligence as of 1 May 1966.

creased at an average annual rate of more than 17 percent, and foreign debt increased even more rapidly. Expansion of the money supply resulting from the increase in domestic debt created strong upward pressures on prices—pressures which became especially acute in the last three years. The government's domestic debt is currently more than $1.5 billion—a sum greater than its annual revenue. The foreign debt is a closely guarded secret but probably amounts to more than $2.5 billion—a sum equal to over half of the annual aggregate value of goods and services produced. Moreover, servicing commitments on the external debt, estimated to amount to about $240 million in 1966, use up one-third of the foreign exchange available each year.

Total expenditures for investment and consumption set forth in the new development plan cannot be met with funds easily available from domestic and foreign sources. Nevertheless, investment cannot be stinted without seriously jeopardizing the momentum of economic growth. Thus the regime is left with difficult but unavoidable policy decisions—curbs on consumption to increase domestic funds available for investment, changes in the subsidy program, tax revisions to hold down another source of inflation and to reduce demand for consumer imports, cutbacks in welfare programs, and serious attempts to get optimum output with existing plant and investment. Population has expanded much more than anticipated by Egyptian planners; control programs now are beginning to be introduced on a wide scale, but at least a decade will pass before any drop in the current annual growth rate of almost 3 percent can be expected.

Price increases and higher income tax rates announced during the first week of December 1965 should help to ease some of Egypt's financial difficulties. These moves, made by a cabinet which had been in power for just over two months, suggest that the regime finally has determined to recognize and tackle its serious domestic economic problems. Although the net effect of the new price and tax measures, if they are enforced, will be beneficial, Egypt probably will continue to face foreign obligations and internal financial requirements well in excess of domestically available resources.

On 1 May 1966, Nasser announced that the new plan period would be extended from 5 to 7 years, somewhat easing the demands on limited resources. He also stated that net foreign borrowing during the seven-year period would be held to the level of the preceding five-year period—that is, a 30-percent reduction in annual foreign borrowing. However, investment plans consequently would demand annual domestic savings 80 percent higher than the level attained in the past five years. Foreign credit currently available for financing the investment plan exceeds the announced borrowing goal, and substantial cuts in the level of annual drawings on foreign loans clearly cannot occur if total investment goals are to be approached.

Thus Egypt will remain dependent on long-term assistance from abroad. Through 1965, Cairo had received four times as much economic assistance from the Free World as from the Communist countries. For both economic and political reasons, however, Western countries and banks avoided new commitments during 1964 and 1965. Early in 1966, the ratio of long-term assistance available was about two to one in favor of the Communists. A number of new Western obligations were under discussion, but adequate Western financing undoubtedly will be forthcoming only if the Egyptians exercise sufficient economic and political restraint.

I. Background

In July 1952 a band of military revolutionaries seized control of Egypt and expelled King Farouk; essentially the same group rules today, but the state that they control has been transformed in many ways. Sweeping political and social change was the initial focus of activity. Fundamental changes in the economic structure itself were introduced less quickly. Comprehensive efforts to raise the rate of economic growth and change the relationship between industry and agriculture did not get under way until 1960.

At the time of the revolution, Egypt presented the familiar picture of a dual economy—a small modern sector within a listless, tradition-bound society. A densely settled and rapidly expanding population was pressing hard on limited agricultural resources. Outside of agriculture, prospects were restricted by a lack of capital and training and by a scarcity of known mineral resources. The impoverished, the uneducated, and the diseased made up the vast majority of the population. Great inequalities existed in the distribution of income and wealth. More than one-half the rural population either owned no land at all or had holdings of less than one-half acre. The 12,000 largest proprietors owned more than 34 percent of the agricultural land, whereas 2 million smallholders combined owned only 13 percent. Control over organized industry and foreign trade similarly was concentrated in a few hands. Rents, profits, and interest made up a major share of national income, and fiscal policy did little to alter income distribution.

The new government gave immediate attention to reducing heavy concentrations of wealth, with initial emphasis on agricultural holdings. Among the first reform measures was one imposing a ceiling of 200 feddans* (later reduced to 100) on land ownership. Redistribution of land was accompanied by rent controls, reduction in land taxes, and an extensive program of assistance and guidance for the small farmer. The reform movement then was extended to other sectors of the economy, and the process of change gathered momentum.

Three circumstances—a development plan, a crop failure, and a foreign exchange shortage—converged in the early 1960's to alter

* One feddan is equal to 1.038 acres.

sharply the status of the Egyptian economy. Nasser and his followers embarked on an ambitious economic development plan requiring investment well in excess of previous levels. The program was barely under way when a crop failure occurred in 1961, and the foreign trade deficit more than doubled in 1962. The increased drain on foreign exchange appeared just as large foreign exchange holdings inherited from the days of Farouk were almost depleted—partly because of payments to the Sudan and to former owners of the Suez Canal and partly because of the cumulative effects of more than a decade of trade deficits. As a consequence, the gross foreign currency debt increased markedly (see Figure 1).

This deficiency of foreign exchange continues and is the most important single factor affecting the economic outlook; in the past 13 years, Egypt has spent more than $3 billion in excess of earnings. Available sources of hard currency have been all but exhausted, and creditors approach Cairo's loan requests with extreme caution.

Egyptian economic policy reflects two continuing (and competing) goals: construction of an industrial base for the future and provision of an improved standard of living for the present generation. Economic growth, as represented by industrialization, is important to Nasser's image at home and abroad. Domestic stability, which depends on maintenance of the standard of living, is also important, and financially desirable policies frequently have been abandoned in the face of incipient discontent. The Nasser government's ambitious and expensive international policies also compete with economic goals for scarce resources.

Israel still is considered Egypt's foremost international problem despite Nasser's recent admission that the Arabs presently are in no position to fight. Nasser not only has spent large sums in efforts to improve his military position vis-à-vis Israel but also has shown a willingness to risk his relations with West Germany over the issue of arms deliveries to Israel. Diplomatic ties with Bonn, the source of $292 million in economic credits over the past seven years,[1*] are in a state of suspension, although both parties have taken a rather casual approach to the impasse.

Military preparedness and prestige have taken precedence over civilian requirements for many years. Nasser recently stated that

* For serially numbered source references, see Appendix B.

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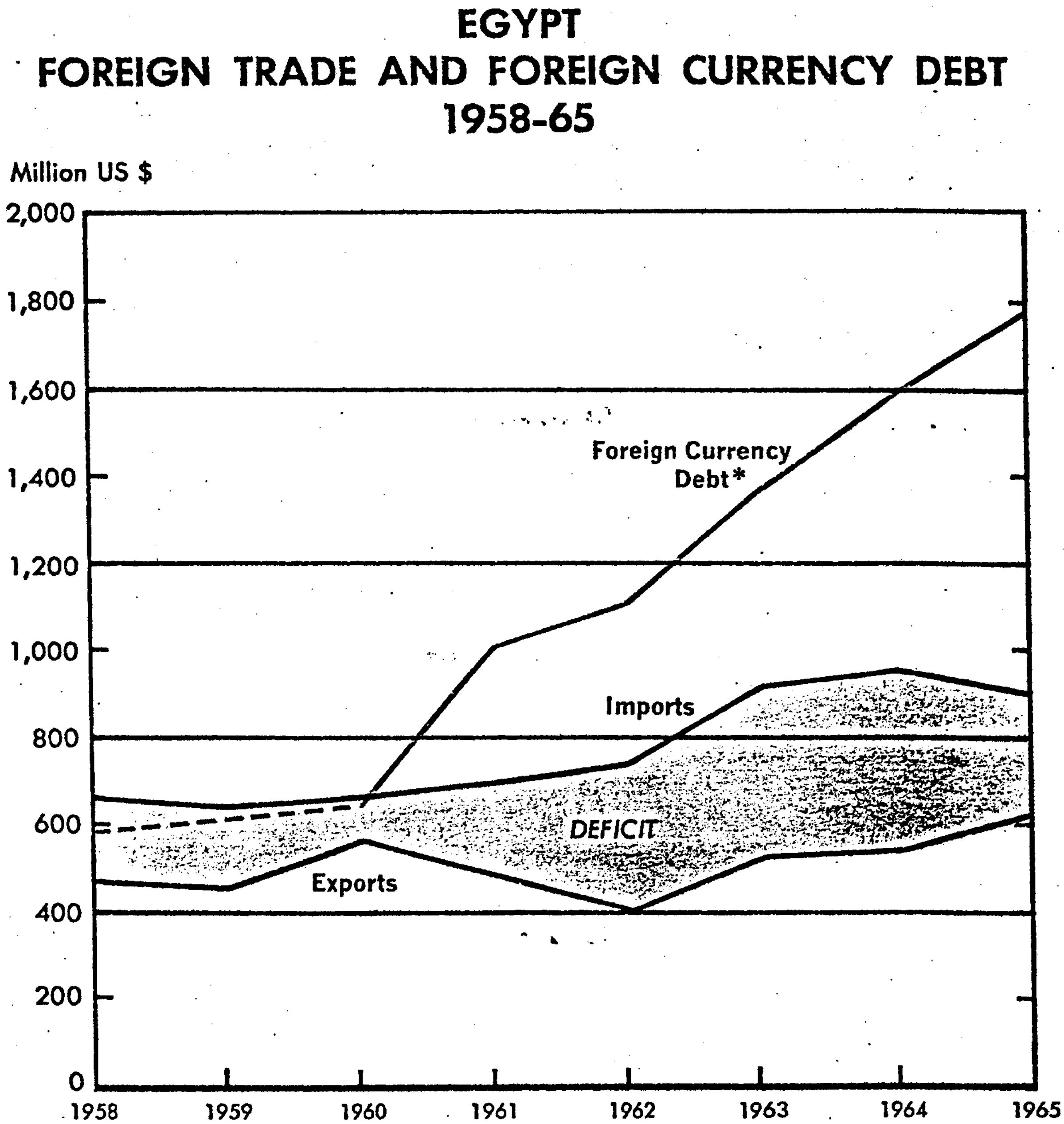
Figure 1



*Excluding loans repayable in Egyptian pounds

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military expenditures, including those for advanced weapons programs and military factories, would exceed $500 million in the fiscal year ending 30 June 1966.* The operating budget of the armed forces for FY 1966 amounts to $327.5 million. Scarce resources are being devoted to advanced weapons programs costing between $35 million and $50 million a year with minimal results to date. Determined to match Israel tank for tank and jet for jet, Nasser has purchased military hardware valued at $1.3 billion from Communist countries. With attractive prices and liberal repayment terms, the bill totals $610 million, about $195 million of which remains outstanding as of 1 January 1966.[2]

Egypt's posture elsewhere on the world stage also has been supported at considerable expense. To remain a leader of the Middle East, Africa, and the nonaligned world, Nasser has felt obliged to engage in ventures which are costly in themselves and which threaten relations with Western sources of urgently needed assistance. The financial costs of foreign involvements range from a $60 million annual bill for the war in Yemen[3] to modest replacement costs of small arms donated to a smattering of "national self-determination" movements. Arms, teachers, technicians, scholarships, propaganda, subversion, and industrial equipment are all factors in supporting his image and prestige. These ventures—except for the war in Yemen—require little direct outlay of money. Nevertheless, Egyptian participation in the Congo squabble was partly responsible for suspension of US aid amounting to more than $200 million annually. Although food shipments under an existing P.L. 480 agreement eventually were resumed and a new short-term agreement subsequently was concluded, the future of the US program in Egypt remains equivocal.

The dominant position of political objectives in economic decision-making appears to have weakened in the past year. In the fall of 1964 a serious foreign exchange crisis was averted only by selling gold and by refunding obligations to creditors throughout the world. Foreign exchange expenditures now are being allocated by a special committee headed by Prime Minister Zakariya Muhyi al-Din, and hard currency outlays of the armed forces are being routed through the Treasury Department for the first time. Nasser has admitted publicly that development goals for 1970 will not be met, and the Second Plan has been stretched from five to seven years. The original budget for FY 1966 appeared slightly more realistic than its prede-

* The Egyptian fiscal year (FY) runs from 1 July to 30 June.

cessors, and a number of tax and price revisions introduced in the middle of the fiscal year were realistically designed to reduce both the domestic deficit and the hard currency drain.

Budget debates in the National Assembly in the summer of 1965 clearly indicated the subsequent shift in economic policy. The Assembly, in operation for a little more than a year, approved the FY 1965 budget with hardly a whisper of public comment. When presented with the FY 1966 budget, however, the Budget Committee freely criticized numerous deficiencies and pointed out a number of ways in which existing government policies were at fault. The extensive press coverage given their frank criticism was highly unusual. The committee report and the ensuing Assembly debate generated a number of recommendations for improving the financial situation, which government officials promised to study. Policy changes introduced in December 1965 included a number of measures first aired during the Assembly sessions.

As long as Egypt remains dependent on its already intensively developed agricultural system, rapid population growth on limited cultivable land will remain the major economic problem. The present population of more than 30 million is crowded into the Nile Delta and the narrow river valley; the remaining 97 percent of the country is largely uninhabited wasteland. Despite recognition by the leadership of the urgent need to introduce extensive population control measures, effective action has been slow to appear. The government has been reluctant to risk a confrontation between its power and prestige and the many centuries of peasant belief in the economic, social, and moral value of large families. Recent actions on the part of the new government of Prime Minister Muhyi al-Din indicate that concerted action to decrease the population growth rate will be introduced in the near future.

II. The Evolving Structure of the Economy

During the period of the First Plan* the Egyptian economy made substantial progress. The average annual rate of growth of GDP** appears to have been about 5.9 percent, and per capita output increased about 2.9 percent per year. Aggregate GDP increased one-third over the five-year period and reached £E 1.7 billion***—95 percent of the plan goal. Performance fell short of the targets of annual growth of 7 percent and a per capita increase of 4.7 percent, but Egyptian accomplishments compare favorably with progress achieved in most other less developed countries. On a current price basis, per capita GDP in FY 1965 reached almost £E 70 (equivalent to about $160). The Suez Canal is running smoothly, and its revenues are more than double those prior to nationalization. Education and social welfare programs are being implemented, illiteracy is being reduced, and the Aswan High Dam is more than one-half completed. Since 1958, industrial output has expanded at the rate of about 9 percent per year. Agricultural yield per acre has turned upward after years of stagnation, and output has increased by more than 50 percent since the revolution. The extreme income discrepancies which characterized Egypt before the revolution have been reduced somewhat, and agrarian reform has improved the lot of the peasant smallholders and tenant farmers.

The institutional framework of the economy has undergone many fundamental changes. Nationalization measures (particularly those of July 1961) have placed all the major industrial and trading companies, banks, and other financial institutions under direct govern-

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* A 10-year development plan that originally pertained to the period FY 1961-70. This was divided into two segments, designated as the First Plan (FY 1961-65) and the Second Plan (FY 1966-70). The Second Plan has been reformulated to cover a seven-year period, FY 1966-72.

** Gross national product (GNP) less net factor income from abroad. Because foreign credits account for most of the difference between GDP and GNP, GDP is a more significant indicator of the self-generated growth of the Egyptian economy. Furthermore, GDP figures are published in constant prices, whereas GNP estimates are made only in current prices, and no suitable deflator is available.

*** The par value of the Egyptian pound (£E) is US $2.872 to £E 1. Since 7 May 1962, however, there have been no transactions at the parity or official rate, and the current rate for buying and selling has been maintained at approximately US $2.30 to £E 1. Pound figures have been converted at the prevailing current rate throughout this report.

mental control. Today, more than one-half the total national wage bill is paid by the public sector.[4] Private investment, domestic and foreign, has dwindled to a trickle, and for several years capital formation has depended primarily on foreign aid and government borrowing from the domestic banking system.

The Egyptian economy still is based largely on agriculture, but the relative importance of industry has increased markedly since the revolution. Although the data are not comparable from year to year, trends are discernible over a period of years and are presented in Table 1.

The economy itself has grown as its structure has changed (see Figure 2, Table 2, and Table 14). Although the growth in GDP

Table 1

Egypt: Distribution of National Income and Gross Domestic Product, by Sector of Origin[a]
Selected Years, 1951-65

Percent of Total

Sector	National income		Gross domestic product		
	Calendar 1951	Fiscal 1955	Fiscal 1960	Fiscal 1963	Fiscal 1965 (Provisional)
Agriculture ..	37	33	31	28	28
Industry	9	17	20	22	23
Electric power	[b]	[b]	1	1	1
Construction .	3	3	4	5	4
Services	51	47	44	44	44

[a] G.
[b] Probably included in the industry sector during these years.

Table 2

Egypt: Indexes of Gross Domestic Product and of Industrial and Agricultural Production
1958-65[a]

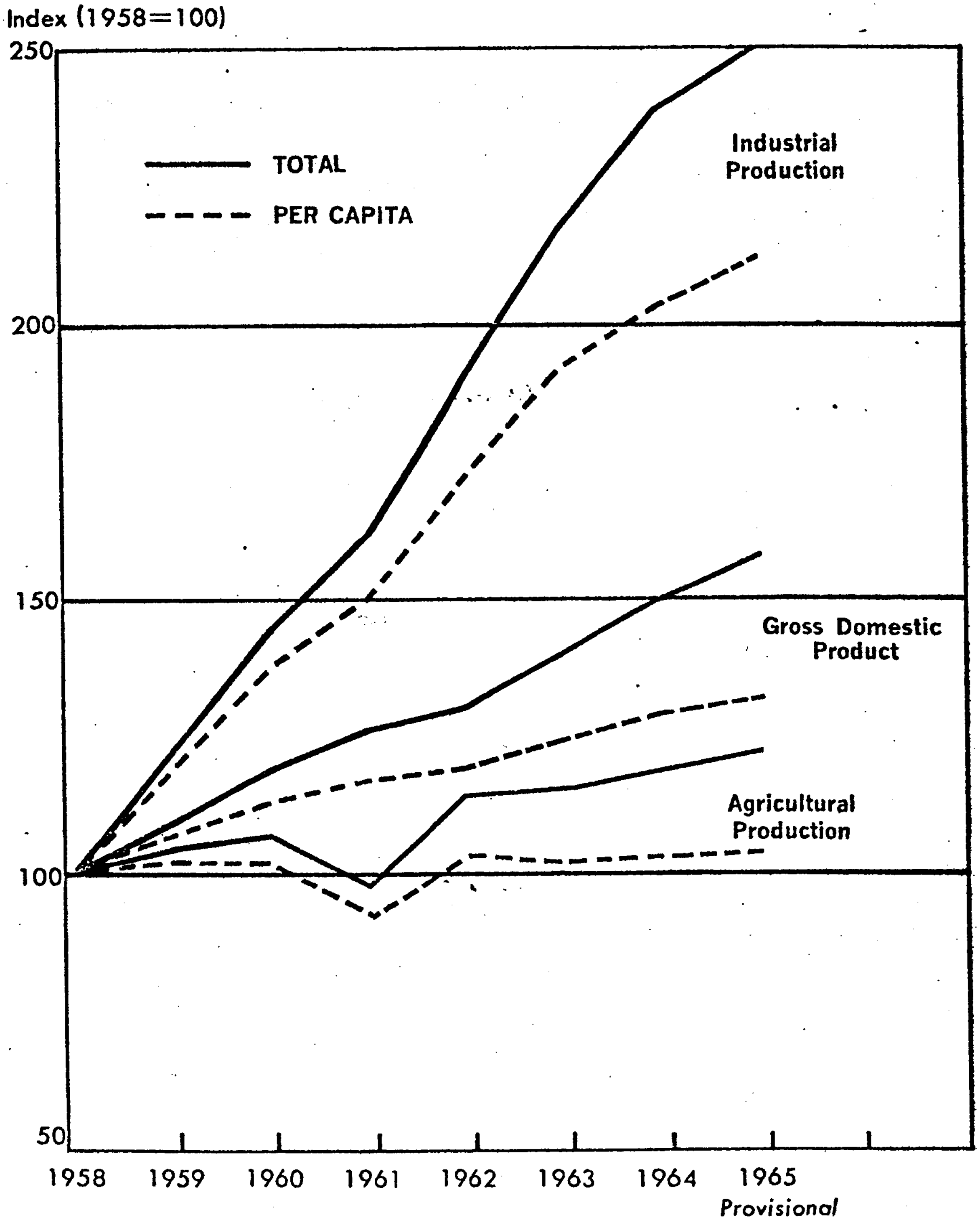
1958=100

Year	Gross domestic product[b]		Industrial production		Agricultural production	
	Total	Per Capita	Total	Per Capita	Total	Per Capita
1959	109	107	123	120	104	102
1960	119	113	144	137	107	102
1961	126	117	162	150	99	92
1962	130	119	190	172	114	104
1963	140	124	218	192	115	102
1964	150	129	239	204	120	103
1965 (Provisional) ...	158	132	250	212	126	104

[a] Calendar years unless otherwise indicated.
[b] Data are for fiscal years.

Figure 2

EGYPT
ECONOMIC INDICATORS, 1958-65



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apparently failed to keep pace with population increase during the early 1950's, it increased faster than population later in the decade. Spurred by a high rate of investment under the First Plan, the annual rate of internal economic expansion averaged about 5.9 percent (after official figures were adjusted for internal discrepancies).

The general upward trend in GDP has been slowed twice in the last decade. Nationalization of the Suez Canal Company in 1957 and the ensuing Anglo-French invasion resulted in a freezing of Egyptian funds abroad, a temporary suspension of foreign aid, and some deceleration in the rate of economic expansion. The subsequent release of sterling reserves and resumption of foreign assistance, plus a high rate of domestic investment, provided the momentum needed to get the First Plan off to an excellent start. In 1961, however, the country suffered a major crop failure which, because of the lag effect, greatly depressed growth in the following year.* The decline in cotton export earnings came at a time when the cumulative results of years of heavy spending from foreign exchange reserves already were being felt. By early 1962, Egypt had less than $20 million in reserves left. The crop failure had an immediate and depressing effect on economic growth. In the initial year of the First Plan period, GDP grew by about 6 percent; in the second year the increase was only 3 percent. Two good crop years followed, and GDP grew about 8 percent in both the third and fourth years of the plan period. Preliminary reports on results in 1965 indicate an increase of 5 percent for the last year of the First Plan. The foreign exchange shortage has persisted, however, and has been a major factor in retarding investment and the growth of industrial production.

1. INVESTMENT

The First Plan envisaged total investments, excluding inventory changes, of £E 1,577 million in constant FY 1960 prices. Actual investments amounted to £E 1,513 million in current prices (see Table 3). If calculated in real terms, however, the total probably would approximate £E 1.3 billion, about 85 percent of the planned

* Agricultural products are exported or are utilized as industrial inputs only after several months have passed. Similarly, much of the requirement for additional food imports is felt in the year following a poor crop rather than in the drought year itself. Such import requirements divert funds from growth-inducing purposes. Furthermore, GDP figures are for fiscal years, whereas agricultural indexes are based on calendar years. A drought in mid-1961, for example, damaged harvests both in the first half of calendar year 1961—that is, in FY 1961—and in the latter half of calendar year 1961—that is, in FY 1962.

Table 3

Egypt: Total Gross Investment, Planned and Actual [a]
Fiscal Years 1961-65

Category	Planned		Actual	
	Million £E [b]	Percent of Total	Million £E [c]	Percent of Total
Agriculture	300	19	256	17
Aswan High Dam	47	3	99	6
Industry	445	28	404	27
Electric power	144	9	113	7
Transportation, communications, storage, and Suez Canal	279	18	294	19
Housing	199	13	162	11
Public utilities	50	3	50	3
Other services	112	7	135	9
Total	*1,577*	*100*	*1,513*	*100*

[a] Excluding inventory changes. Because of rounding, components may not add to the totals shown.
[b] In FY 1960 prices.
[c] In current prices.

total.[7] The pattern of actual investments conformed generally with the plan outline. With investment 15 percent short of the goal, however, GDP fell short of its planned 1965 level by only 5 percent.

Investment shortfalls were responsible in large measure for Egypt's inability to reach the production goals set forth in the plan. The greatest of these shortfalls occurred in the industry and electric power categories. Agriculture and housing also received substantially less than their programed shares. The reasons for the greatly increased share of investment going to the Aswan High Dam are twofold: implementation has been accelerated to insure that the gains to the economy will accrue as quickly as possible, and domestic currency costs have turned out to be somewhat more than anticipated.

Variations in investment account in part for differential rates of growth in the several sectors of the economy (see Table 15). Throughout the five years, output in construction and services exceeded planned levels, whereas agriculture, industry, and electric power fell short of the goals. The lag in the industry and electric power categories was attributable partly to a chronic shortage of technical and middle-management personnel as well as to confusion and uncertainty generated by progressive nationalizations. Construction, transportation, and other services had exceeded the five-year goals at the end of four years. Much of the growth shown by the services sector, however, can be traced to two governmental programs: prevention of unemployment by maintaining large numbers of unneeded employees on the payrolls and initiation of welfare schemes over and above those envisaged at the outset of the plan.

Estimates in terms of constant prices indicate that domestic savings were below the FY 1960 share of GDP in three out of the five plan years (see Figure 3). Slated to reach over 20 percent of GDP in FY 1965, savings actually attained a level of only 14 percent. The plan also projected a net capital inflow of £E 580 million during the first four years of the plan period and a net outflow of £E 40 million in FY 1965. The actual experience, however, was a foreign capital inflow of £E 342 million during FY 1961-64 and continued reliance on foreign borrowing to the extent of £E 76 million in FY 1965 (see Table 16). This inflow of capital from abroad amounted to about 40 percent of gross investment in FY 1963 and in FY 1964. The decline to 22 percent in FY 1965 reflected a shortage of available foreign capital rather than a reduced need for such funds.

As announced by Nasser on 1 May 1966, the Second Plan (FY 1966-72) calls for total investment of about £E 450 million annually, compared with an average of slightly over £E 300 million attained in FY 1961-65.* Only about £E 60 million annually is slated to come from foreign borrowing, compared with over £E 80 million annually during the previous plan. The required increase in domestic savings, from £E 220 million to almost £E 400 million per year, obviously is unrealistic. Despite the consumption control measures discussed below, such an increase probably is unattainable, and foreign borrowing will have to be maintained throughout the Second Plan period.

Total investment of £E 3.16 billion has been allocated according to the following approximate schedule:

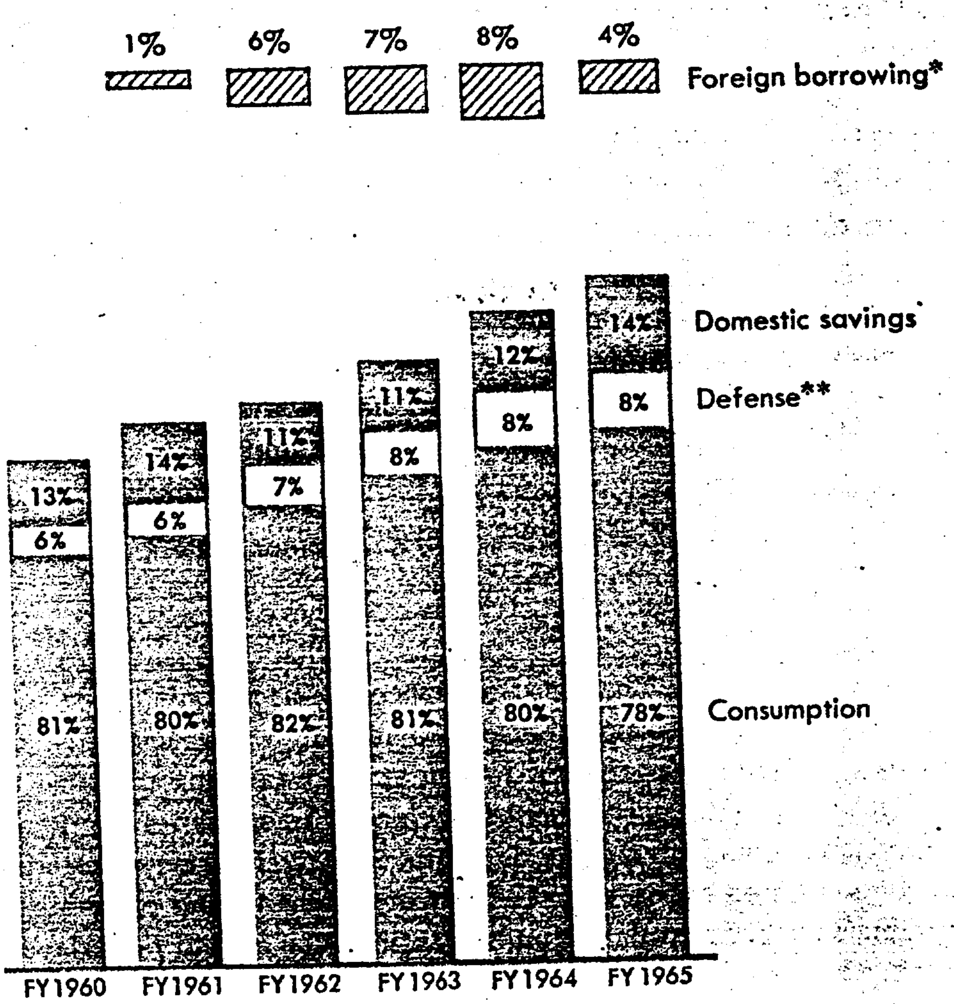
	Million £E	Percent of Total
Industry	1,100	35
Electric power	260	8
Agriculture	600	19
Transportation, communications, storage, and Suez Canal	560	18
Housing, utilities, and other services	640	20

* The maximum attained during a single year in the First Plan was £E 372 million in FY 1964; the FY 1967 budget calls for investments totaling about £E 360 million.

Figure 3

EGYPT
UTILIZATION OF RESOURCES
FISCAL YEARS 1960-65

(Percent of Gross Domestic Product in FY 1960 Prices)



*Although net capital inflow is not a component of GDP, it is shown because foreign borrowing plus domestic savings equals total investment.
**Estimated on the basis of budget allocations for various defense activities.

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In this formulation the investment cost of the Aswan High Dam has been included in the electric power and agriculture sectors.[8]

2. CONSUMPTION

The plan projected only slowly rising consumption coupled with rapidly rising output in order to create a drop in the share of GDP devoted to consumption (including defense) from 87 percent in FY 1960 to less than 80 percent in FY 1965. In practice the government adopted a number of programs that stimulated consumption, and defense expenditure also was increased. The two accounted for a peak share of 89 percent of GDP in FY 1962 and FY 1963 and absorbed 86 percent of GDP in FY 1965.

A new awareness on the part of officials in Cairo, combined with pressure from the International Monetary Fund (IMF) and other Western lending sources, has led to a program of indirect consumption restraints that are only beginning to take hold. In mid-1964, prices of some consumer durables were raised, import levies were increased, price subsidies were cut, and the government undertook to limit the expansion of domestic credit. These measures accomplished the intermediate objective of curtailing the availability of certain consumer goods in urban markets. Aggregate consumer demand, however, apparently was little affected. City dwellers have come to look upon such goods as television sets, refrigerators, and sewing machines as a normal part of life. They also have become accustomed to a diet made up in large measure of imported foodstuffs—especially wheat and meat. While the influx of foreign goods was being curtailed in the fall of 1964, the government continued subsidies on many items of food and manufactured goods. Publicity given to new austerity measures inspired hoarding on the part of merchants and encouraged consumers to spend available funds in anticipation of future shortages. Within a few months, supplies of food, clothing, and consumer durables available in city stores dwindled, and potential purchasers, unable to buy goods from government cooperatives, turned to the black market. Profiteering and consumer dissatisfaction grew hand in hand.

Fundamental problems of resource allocation posed by the rising trend in aggregate consumption had received insufficient attention until the new government of Prime Minister Muhyi al-Din announced price and tax increases in December 1965. Growing output and changing patterns of income distribution had left the average Egyptian with more money to spend. Wide-ranging welfare programs—for example, old-age pensions, profit-sharing schemes that encompassed unprofitable industries, subsidized prices for basic necessities, and donations of livestock and tools to recipients of newly distributed land—had placed money in the hands of lower income groups. Disposable income increased at least as rapidly as total output, and per capita consumption increased from £E 29 (about $85) in 1953 to more than £E 59 (about $135) in 1965. The official thesis that the present generation must not be penalized for the sake of future generations was reflected in low taxes (only 15 percent of GDP) and artificially maintained low prices.

The measures adopted in 1964 have had less impact on consumption than on investment. Consumption increased 3.2 percent in real terms in the final year of the plan, compared with 5.5 percent in the preceding year. And, although domestic savings increased, the rate of investment fell in the wake of the decline in foreign capital inflow. Perhaps the most important single task confronting the government is the solution of the consumption/investment problem.

The cabinet that was installed in September 1965 appears to be taking Egypt's economic difficulties seriously and to be adopting measures designed to relieve some of the current pressures. In December, Prime Minister Muhyi al-Din announced that prices of consumer durables would go up 20 to 25 percent overall and that individual increases ranging from 5 percent to 40 percent would be applied to a wide variety of other goods. Simultaneously it was announced that income taxes would be increased drastically, particularly in the upper ranges of the individual income scale, and that import duties on luxury goods also would be raised. The combination will act to decrease aggregate demand for goods and cut the level of consumer imports. Inasmuch as the price increases fall most heavily on the consumer durables sector, purchases of refrigerators, washing machines, and television sets will decline more rapidly than expenditures for basic necessities. Reduced consumption will release funds for investment, and decreased output of consumer durables will curtail the foreign exchange expenditure for imported components. If the price changes also place some of the producing plants on a profitmaking basis, a net increase in the investment funds available to the government also could result. By removing some of the available income from citizens' pockets through taxation before it can enter the spending stream, the government can retard the growth of consumption expenditure and obtain some of the funds needed for investment and normal operations. Increased import duties, which have the effect of raising prices to end users, represent an indirect brake on foreign exchange outflow.

Although the regime has a history of backing away from unpleasant decisions, it seems to be serious about the new price and tax policies. In the last two years, several austerity measures have been introduced but then quickly withdrawn when resistance mounted. Stringent import controls, meat rationing, and other measures adopted in the fall of 1964, however, have been maintained. Nasser probably would not have approved the more recent steps without examining and accepting the anticipated domestic political consequences. If the Egyptian leadership really has recognized the seriousness of existing economic difficulties and is determined to face them, the newly announced measures can be an important step forward.

3. AGRICULTURE

Agriculture employs over half the working population and generates better than one-fourth of Egyptian GDP. Total agricultural output presently is almost 20 percent above the 1959-60 level, but per capita output has increased little (see Table 4). In general, food production has been maintained somewhat more successfully than aggregate output. Some of the increased food output, however, is in crops raised primarily or partly for export.

Table 4

Egypt: Indexes of Agricultural and Food Production [a]
1958-65

1957-59 Average=100

Year	Agricultural production		Food production	
	Total	Per Capita	Total	Per Capita
1958	99	99	97	97
1959	103	101	103	101
1960	106	101	105	100
1961	98	91	107	99
1962	113	103	116	106
1963	114	101	119	105
1964	119	102	121	104
1965 (Preliminary)	125	103	124	102

The cultivated land is highly productive but is limited to less than a quarter acre per capita—one-tenth as much as in the United States. Population, expanding at roughly the same rate as agricultural production, dominates Egyptian economic problems. By 1950, Egypt already needed to import a million tons of wheat in a poor crop year. Since 1951, population increased about 43 percent (an average of 2.6 percent annually), while wheat production increased 22 percent and corn production expanded about 40 percent. Production of milled rice increased more than 300 percent in the same period. Population growth and rising per capita consumption have combined to greatly increase total grain requirements (see Table 17). Annual consumption of wheat, for example, grew from 112 tons per thousand persons in 1951 to 123 tons per thousand in 1964. By the mid-1960's, Egypt had become one of the world's largest buyers of wheat and wheat flour, importing over 2 million tons in 1964.

In the struggle to support the large population on the limited land available, Egyptian agriculture has become highly organized, relatively well administered, and, compared with almost any area of the world, highly productive. Because of intensive farming and multiple cropping, yields per acre are high for almost all crops (see Table 5). Egypt accounted for approximately one-fourth of the total agricultural output of northern Africa* in 1964, although it has little more than 5 percent of the region's arable land. Each cultivated acre produces an average of 1.7 crops per year, and farm land is irrigated and ferti-

* Algeria, Egypt, Ethiopia, Libya, Morocco, the Somali Republic, Spanish Sahara, Sudan, and Tunisia.

Table 5

Egypt: Comparative Agricultural Productivity [a]
1961

Metric Tons per Acre

	Wheat	Millet	Paddy rice	Corn
World average	0.47	0.28	0.82	0.84
UAR	1.00	1.33 [b]	2.04 [c]	0.97
United States	0.65	1.11	1.55	1.57
USSR	0.43	0.30	0.97	0.75
Europe	0.76	0.53	1.95	0.83
Asia	0.36	0.16	0.71	0.40
Africa	0.26	N A	0.60	0.43

[a] 10.

[b] Highest in the world.

[c] Among world leaders.

lized to an extent seldom seen elsewhere. More than 99.5 percent of the area devoted to crops and orchards is under irrigation. Even the principal livestock fodder—berseem clover—must be grown under irrigation. Egypt uses more fertilizer than all other northern African countries combined, and the rate of fertilizer application per acre is much higher than that in either the United States or the United Kingdom. In the past decade, fertilizer use has more than doubled, and great emphasis is being placed on domestic production.[11] Application per acre will have to double again, however, before Egyptian rates approach present practices in Japan.

Agriculture depends on the flow of water from the Nile through extensive irrigation works. Until the era of the Aswan High Dam, Egypt had no defense against a year such as 1961, when the Nile flood was low. High yields per acre were maintained, but the planted area was reduced drastically to adjust to the water supply.

A crop failure has multiple effects in a primarily agricultural economy featuring intensive farming, export orientation, and a welfare philosophy. The consequences of the 1961 failure persisted for several years. Export earnings fell from £E 200 million in calendar 1960 to £E 165 million in 1961 and to £E 145 million in 1962. Most of the loss in export earnings was attributable to reduced cotton output. Imports, which had declined slightly from £E 255 million in 1960 to £E 241 million in 1961, rose to £E 294 million in 1962, with much of the increase going for food to make up for small domestic grain crops. An emergency program to provide compensation to the affected farmers was adopted, and expenditures on a number of other welfare programs were increased.

Despite such setbacks, official statements indicate that agricultural output has increased by better than 50 percent since 1952 and net income from agriculture has risen even more.[12] Progress in the past five years, however, has fallen far short of plan goals (see Table 18). The difficulty of attaining ambitious goals in agriculture has been compounded by already high productivity as well as by the 1961 drought and the greater glamour which attaches to advances in industry. The Second Plan calls for further dramatic gains in agriculture, although the goals have been scaled down somewhat from those included in the 1960 formulation of the two plan stages. Investment allocations expected under the Second Plan, however, do not appear adequate to attain even the modified targets.

Agrarian reform was the first new economic program undertaken by the revolutionary regime and undoubtedly has had an impact on more Egyptians than any other single reform measure. Regulation of the landlord-tenant relationship is the most important aspect of the scheme—rental and credit laws have benefited about 4 million tenants, while about 1.3 million persons (267,000 farmers and their families) have received new land.

About 2.9 million acres—almost half the cultivated land—still is leased under various tenancy or sharecropping agreements. The 1952 agrarian reform law fixed the maximum rent ceiling at seven times the basic land tax paid by the landlord to the government. For sharecropping rents, the law decreed that the landlord's share could not exceed half of the returns over and above total production costs. Compensation payments for requisitioned land were fixed at 10 times the annual rental value of the land.[18]

The two-stage redistribution program, under which the maximum individual holding was reduced to 200 feddans and later to 100 feddans,* has increased the size of the average small farm (under 5 feddans) from 0.8 feddan to 1.1 feddans and has provided farm land for many thousands of new smallholders. Before 1952, 94 percent of all owners held title to only 35 percent of the cultivated land. As of 1964, 94 percent of all owners held title to 55 percent of the cultivated land (see Table 6). Large numbers of the private farms, how-

* See Table 6, footnote [b].

Table 6

Egypt: Distribution of Agricultural Land[a]
Before 1952 and in 1964

Size of farm (feddans[b])	Before the Reform Law of 1952		1964	
	Thousand Owners	Percent of Total Farm Area	Thousand Owners	Percent of Total Farm Area
Less than 5	2,642	35.4	2,965	54.8
5 to 9.9	79	8.8	78	10.0
10 to 19.9	47	10.7	61	8.6
20 to 49.9	22	10.9	29	13.3
50 to 99.9	6	7.2	6	6.4
100 to 200	3	7.3	4	6.9[c]
Over 200	2	19.7	0	0

[a] 14.

[b] One feddan is equal to 1.038 acres.

[c] 4,210 farms of 100 feddans each.

ever, remain uneconomic in size: the Egyptian government has estimated that 3 feddans are the minimum necessary to provide an average farm family with a modest, but sufficient, living. By the end of 1964, 944,500 feddans had been taken over and 840,000 feddans had been redistributed. A third redistribution stage, cutting maximum individual ownership to 50 feddans, is under discussion; if such a ceiling is adopted, some 300,000 feddans more would have to be reallocated.

Land reform has proceeded more smoothly in Egypt than in most other countries where land seizure and redistribution have been tried. Less than 5,000 persons have forfeited land under the program. A substantial number who lost out in the first round were members of the royal family and their hangers-on—persons in no position to argue. Historically, Egypt has been an authoritarian land in which government decrees are rapidly disseminated and enforced. The compact size of the inhabited area makes noncompliance difficult to conceal. The new regime was able to make its will felt, and—owing none of its power or prestige to the large landholding class—had no compunctions about upsetting the *status quo*. Furthermore, the government was determined to make a success of its first major program and moved quickly to provide the marketing cooperatives and the credit facilities required to support the activities of new smallholders. Landowners were permitted to designate the particular portions of their holdings that they would retain. Quite naturally, they kept the best lands and maintained (and in some cases actually raised) the productivity of their acreage. Moreover, the government was able to combine redistribution of the poorer lands with programs designed to raise average yields on the land being parceled out to new owners.

Thus the agrarian reform program has been carried through without serious disturbance, and other government programs have succeeded in raising productivity. Considerable emphasis has been placed on increasing domestic output of fertilizers and insecticides, which are utilized in great quantity. Although expenditures for more intensive cultivation ("vertical" expansion) have been much higher than in the prerevolutionary period, such investment has been small relative to spending for land reclamation ("horizontal" expansion). Authorities cite seed improvement, plant breeding, improvement of extension services, revision of harvesting and marketing systems, and even more intensive use of fertilizers as areas where great improvement might be made. With the existing food shortage and the high cost of land reclamation, the relative share of investment allotted to raising agricultural productivity appears inadequate to close the gap between food output and food consumption.

Estimates of potentially cultivable land run as high as 10 million feddans, compared with 6 million presently cultivated, but reclamation is a slow and expensive process. Authorities place the reasonable limit on new areas that can be reclaimed at 2 million feddans over the next 20 years—including increases made possible by the Aswan High Dam—at an average cost of around £E 300 (almost $700) per feddan.[15] Assuming productivity on the new land similar to that on present agricultural lands, increased output attributable to "horizontal" expansion of agriculture would average only about 1½ percent annually—about half the anticipated rate of population increase.

During the plan period just concluded the land reclamation program was sadly neglected. By the end of FY 1964, only 140,000 feddans had been brought under cultivation out of 368,000 feddans scheduled for reclamation in the five-year span.[16] Agricultural production from new land contributed only £E 1.5 million to FY 1964 national income, compared with the £E 5 million called for by the plan. Of 163,000 feddans of barren land taken over by agrarian reform authorities during the 5-year period, only 62,000 feddans actually had been reclaimed. Unless programed investments in reclamation reach fruition, the anticipated benefits of the Aswan High Dam cannot be realized; yet the FY 1965 budget allocation for reclamation was cut back from the FY 1964 level.[17]

4. INDUSTRY

Starting with a relatively good base inherited from the Farouk regime, the Nasser government has wrought many changes in the size, composition, and organization of Egyptian industry. At the time of the revolution in 1952, Egypt was more advanced economically than any other country on the African continent except the Republic of South Africa. By that time, there were more than 700 manufacturing and mining establishments having more than 50 employees each. These establishments contributed about 10 percent of GDP and employed about 4 percent of the working population. The principal industries were cotton textiles, food processing, tobacco, petroleum, and chemicals. The country had two oil refineries, three cement factories, two fertilizer plants, a small paper industry, three small steel plants based on scrap, and a moderately diversified chemical industry.

Industrial production today is somewhat more than triple the 1952 level. Output grew at an average of about 10 percent annually between FY 1960 and FY 1964; in FY 1965 the rate was only 4.2 percent. The slowdown appears to have resulted primarily from shortages of imported raw materials, intermediate products, and spare parts that stemmed from stringent import controls introduced in 1964 to combat the foreign exchange drain. Recent government measures have emphasized the increased availability of foreign currency for the purchase of industrial inputs, and various programs are being considered to insure that the future growth of industry will be along more efficient and rational lines. Both investment and operating funds are to be allocated to those industries offering rapid returns and export opportunities rather than to prestigious capital-intensive import-supported industry.

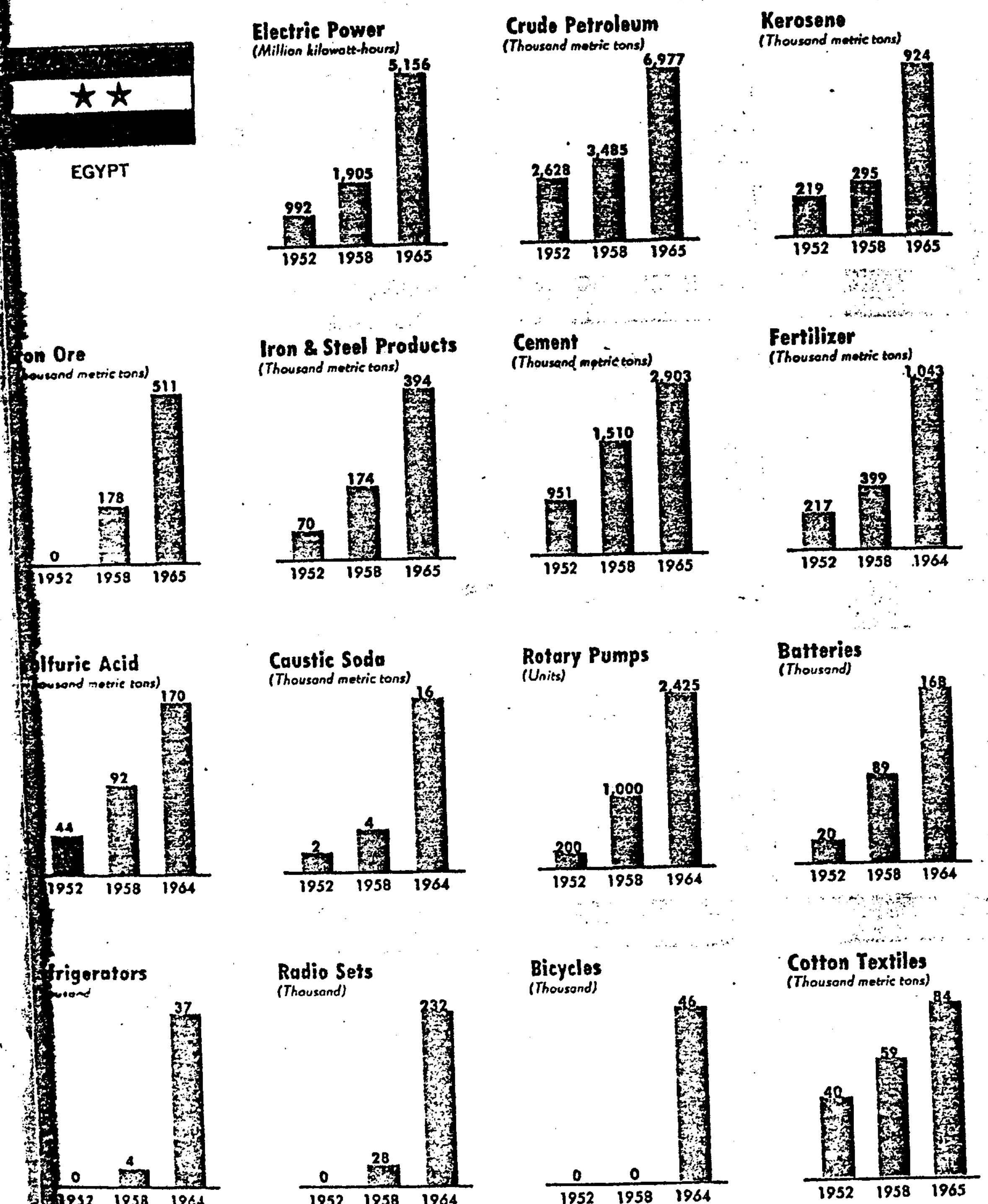
In some fields, notably petroleum and chemicals, growth has far surpassed the average for industry as a whole. Electric power production in 1963 was 350 percent above the 1952 level; when the Aswan High Dam is completed, potential annual production will be more than three times the 1963 level. Trends in output of selected commodities are illustrated in Figure 4.

Productivity in Egyptian industry is rising, but it still is very low compared with advanced countries. Despite low wages, the vast majority of industries are not competitive. The UAR has almost completely neglected such matters as market research and quality control. Industries using cheap domestic raw materials can hold their own in local and occasionally in foreign markets, but many new industrial establishments depend to a great extent on imported inputs. Some industrial concerns—notably the Helwan iron and steel complex—have consistently operated at a loss and will continue to do so for years to come. The government absorbs such losses through its production budget.

Particular attention has been devoted to domestic production of fertilizers, which are essential to the agricultural sector. When Nasser took over, less than 20 percent of consumption was manufactured locally. In 1961, Egypt produced a little more than one-half of the total amount utilized, and this proportion now has risen to about 60 percent. The Second Plan envisages both rapidly rising consumption

Figure 4

EGYPT
SELECTED INDICATORS OF INDUSTRIAL OUTPUT*



*Figures for 1965 are based on the fiscal year beginning 1 July 1964. All other years are calendar years.

4-66

and complete self-sufficiency in fertilizers by 1972, with a total output of 4.2 million tons*; this compares with 217,000 tons in 1952 and 805,000 tons in 1963.[18]

Another star performer has been the petroleum industry, which holds promise as a source of substantial hard currency earnings. Petroleum currently contributes about 10 percent of the gross value of industrial production and 2.4 percent of value added by industry. Crude production in 1965 totaled 45.6 million barrels—double the 1960 output. The trade deficit in crude oil and petroleum products for civilian consumption declined from $50.7 million in calendar year 1960 to about $13.3 million in FY 1964.[19] Other data suggest that $20.9 million more was spent in FY 1964 on petroleum products imported for the military establishment. The existing civil trade deficit, resulting almost entirely from the need to exchange types of crude oil, probably will be eliminated by 1970. Refining capacity already exceeds domestic consumption, and new units are to be added at all three refineries within the next three or four years.

The first break in adamant governmental opposition to private foreign investment appeared in the petroleum field; prospective returns offer the only foreseeable hope of substantial relief from present balance of payments difficulties. Under agreements negotiated in 1964, three Western oil companies—Standard Oil of Indiana, Phillips Petroleum, and the Italian governmental monopoly (ENI)—are engaged in exploration of the Gulf of Suez and the Western Desert. Because of the heavy investment required for oil exploration and the ramifications of international marketing arrangements, their participation has been welcomed by the Egyptian government. Concession agreements provide for formation of joint companies to exploit commercial finds. Other Western companies are seeking concessions in additional areas. The USSR also is entering the field of oil exploration in Egypt. The Soviets, however, will operate as contractors and will have no equity in any new discoveries they may make in the area south of Cairo and in the Eastern Desert.

The potential capacity of a field newly discovered in the Gulf of Suez by the Standard Oil of Indiana subsidiary is currently estimated at 55 million barrels per year; moreover, the full extent of the field is not yet known. Industry sources are nearly unanimous in their belief that by 1970 Egypt will be exporting oil on a significant scale.

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* Tonnages are given in metric tons.

No one can say, however, whether exports are likely to double in the interim or whether the increase will be more dramatic. Doubling the present export level would mean gross foreign sales of $100 million annually and would convert Egypt from a small net importer of petroleum to a net exporter on the order of $50 million a year—an amount roughly equivalent to 15 percent of the present annual deficit in foreign trade. If, as anticipated, petroleum imports decline in the interim, the net earnings will be correspondingly larger. On the basis of the single new field, exports worth $100 million probably can be realized by 1970. No deposits have been proved in other areas, but operations in the Western Desert have only begun, and intensive investigation of other areas has not yet been undertaken.

Domestic production of consumer durables—such as refrigerators, radios, bicycles, air conditioners, washing machines, and television sets—indicates the progress of Egyptian industry and illustrates the economic problems generated by domestic policies. None of these items were manufactured or assembled in Egypt before 1952. They now are turned out by the thousands, and sales account for much of increased consumption expenditure in urban areas. Because many component parts are imported, the manufacture of such durables adds to the trade deficit, although not as much as if the finished products themselves were imported. Conflict between the desire to provide the present generation with a modicum of the material benefits of progress and the countervailing need for restraining both domestic and foreign expenditure is one of the thorniest problems facing Egyptian officials. Until late in 1965 they inclined toward relatively liberal consumption policies, covering imbalances by foreign and domestic credit expansion. Outlines of more rigorous policies have begun to appear, and new restrictive measures include higher prices on all consumer durables. Industrial facilities already exist, however, and drastically reducing their output would add to already bothersome underemployment in the cities. Consequently, an export promotion drive probably will be undertaken.

In seeking industrialization, however, the Egyptians may have a tendency to overlook or neglect opportunities in the agricultural field in favor of marginal or even counterproductive industrial projects. Industry has an aura of glamour and connotation of importance more attractive to ambitious, competent personnel than traditional pursuits. Similarly, industrial demands on available investment funds have a psychological advantage not always justified by the comparative economic advantages of particular industrial projects. From a rational economic viewpoint, the most attractive opportunities for Egypt will be found in such agriculture-related industries as food processing and packaging and fertilizer production rather than in capital goods and steel.

As a result of nationalization measures, all the large industrial establishments now are controlled by the state, although private investors retain a sizable share of the equity capital in many enterprises. The private sector has been confined to light manufacturing, construction, and repair businesses and to wholesale and retail trade. Many former plant managers have been hired by the government, and some continue to run the same plants. Now, however, they must contend with increasing government intervention in wages, prices, and profits. As the system has evolved, almost all incentives to the managerial class have been eliminated. The regime has emphasized rewards to workers without taking effective steps to develop a sense of employee responsibility and purpose. The government's management functions are carried out by "organizations," each of which controls one or more industries. In fact, however, the state has exercised little centralized direction either in the form of coordinated planning or in the form of general fiscal and financial control. Thus a state apparatus for central direction has been established, but the regime has not yet achieved effective operational control of the industrial establishment.

Top positions typically are occupied by former military officers. Originally chosen for their loyalty to Nasser, some have developed into competent business executives, and they no longer are an integral part of the military establishment. The most serious industrial personnel shortage is at the middle-management and advanced technical levels. Although great emphasis already has been given to education and technical training, many years will pass before industry has an adequately trained supply of manpower at all levels.

5. EMPLOYMENT

As agricultural dominance of the economy has lessened, the distribution of employment also has changed. During FY 1961-64, employment in all sectors increased, with industry and electric power, and housing and construction registering the greatest proportional gains

Table 7

Egypt: Employment, by Economic Sector [a]
Fiscal Years 1960 and 1964

Percent

Sector	Fiscal Year		
	1960	1964	Increase 1964 over 1960
Agriculture	54	52	13
Industry and electric power	10	11	31
Housing and construction	3	5	75
Transport and communications	4	4	18
Other services	29	28	15
All sectors	*100*	*100*	18

a. Excluding unpaid family workers, most of whom are in agriculture. Coverage of self-employed workers in agriculture and other fields probably is not complete.

(see Table 7). Nonagricultural jobs now account for almost half of total employment.

Employment goals of the First Plan have been overfulfilled despite shortfalls in production. Between FY 1960 and FY 1965, total employment increased about 20 percent, while aggregate money wages rose by about 50 percent (see Table 8). With a 20-percent increase in the cost of living, the real wage increase over the five-year period was about 5 percent per worker. All the average gain probably occurred in the first four years, however, and FY 1965 may even have registered a net decrease compared with FY 1964, because of the sharp increase in prices during the 12-month period. The government deliberately has used nationalized industries and government programs in other fields to sop up excess labor, avoiding serious unemployment but sacrificing worker productivity in the process. Wage increases similarly have been effected in a conscious attempt to increase aggre-

Table 8

Egypt: Employment and Wages [a]
Selected Fiscal Years, 1952-72

	Fiscal year			
	1952	1960	1965	1972 Plan
Employment (thousand persons)	4,300	6,060	7,290	8,700
Wages (million current Egyptian pounds)	350	550	833	1,190

a. Data are as of the end of each fiscal year and exclude unpaid family workers, most of whom are in agriculture. Coverage of self-employed workers in agriculture and other fields probably is not complete.

gate disposable income. According to announcements made in July 1965, industrial employment and welfare policies are being modified. An unemployment compensation program has been introduced, and wage increases henceforth are to be tied to advances in productivity.[22] As announced in May 1966, the Second Plan calls for an increase of 19 percent in the labor force and 43 percent in money wages during the seven-year period ending in 1972.

III. Growing Domestic Expenditures and Debt

Deficit spending has characterized the Egyptian approach to economic planning for many years, but the disparity between income and expenditure became far more pronounced after 1960. The deficit has been financed by domestic borrowing, which has led to increases in the money supply and to growing inflationary pressures. Adjustments to limit deficit financing were made in the budget for FY 1966. Extensive revision of the tax structure, as well as sharply increased prices on consumer goods, was announced in December 1965. These measures should enable the government to limit deficit financing even more than the budget indicates, but they must be enforced and made permanent if future growth of domestic expenditure is to be kept within noninflationary bounds. Egyptian financial officials have predicted that the new measures will result in an annual net improvement (higher revenues, lower expenditures) of between £E 150 million and £E 160 million.

In the 1966 budget, total government expenditures were budgeted at over five times the FY 1952 level, whereas ordinary revenues were set at more than four times the FY 1952 level (see Table 19). Comparisons necessarily are approximate, because the budget system has undergone several major revisions and the role of government has changed radically during the period. On the basis of trends suggested by the partial data available, the discrepancy between actual receipts and actual expenditures probably is somewhat higher than indicated by corresponding annual budget figures. Actual expenditures have been held within the budget since FY 1957. Budgeted revenue figures, however, have far exceeded actual receipts, and the gap between receipts and expenditures has grown.

The original budget for FY 1966 demonstrated some apparent improvement over its predecessors. The increase in total expenditure over FY 1965 was less than 2 percent, compared with annual increases ranging from 10 percent to 37 percent since FY 1960. The FY 1966 budget reflected an effort to stem the recurrent annual increase in the deficit. Ordinary revenues were slated to cover 76 percent of total expenditures—up from 70 percent in FY 1965. Revenue estimates for the administrative budget also indicated that taxes were expected to provide a larger share of total receipts than in the recent past (see Table 20). The budget included increased receipts from taxes and from such government services as transportation, communications, health facilities, and food distribution. Higher government collections were designed to drain off some of the consumer purchasing power and thus ease the upward pressure on prices.

Preliminary reports indicate that the FY 1967 budget calls for an increase of £E 158 million in total revenue, including £E 86 million from higher tax collections and increased charges for government services. Total expenditures also are expected to rise, however, from £E 1,205 million budgeted for FY 1966 to £E 1,296 million budgeted for FY 1967. The overall deficit apparently is budgeted at about £E 221 million—the lowest level since FY 1961.

For the past decade, government borrowing from the domestic banking system has supplemented foreign credit as a means of financing the deficit. The government's domestic debt has more than doubled since 1960 (see Table 21) and has been the major cause of a rapid increase in the quantity of money. The total money supply rose 19 percent in 1963 alone. The trend continued in the first quarter of 1964 and was one of the major concerns of the IMF when a new stabilization agreement was formulated. At that time, specific limits were placed on permissible growth in credit extensions to both the public and private sectors. The sectoral limitations have been honored, and the total increase in money during FY 1965 was substantially below the FY 1964 increase. Data for the first five months of FY 1966 indicate further progress in controlling the expansion of domestic credit (see Table 22). Adherence to IMF recommendations probably has restrained the increase somewhat. Data available for 1965 and the tax and price reforms announced in December 1965 indicate that the government's commitment to reduce domestic borrowing is being honored. The deficit in the FY 1966 administrative budget is to be covered by compulsory savings on the part of government employees, and no government borrowing from the banks is programed.

Official price indicators were slow to reflect the impact of increases in liquidity, partly because controlled prices are major components of the indexes. Data presented to the National Assembly in June 1965, however, reveal a noticeable price increase over the past year (see Table 9).

Table 9

Egypt: Official Price Indexes[a]
1963-65

Index	1963	1964	1965	Percentage increase: 1964 over 1963	Percentage increase: 1965 over 1964
Cost of living (1958=100)	99	101	116	3	15
Retail prices (1939=100)	368	384	478	4	25
Wholesale prices (1958=100) ..	100	103	109	3	6

a. As of February of each year.

Spending on education and welfare programs has increased severalfold since 1952, and the cumulative results are beginning to appear, but much more needs to be done before the results begin to approach Western standards. The rising cost of social programs has contributed to the growth of domestic expenditure and domestic debt. General expenditures on education have increased from £E 40 million in FY 1952 to £E 100 million in the FY 1966 budget. During roughly the same period the number of children admitted to primary schools has risen from 46 percent to 76 percent of the total eligible age group. The goal is 100 percent by 1970. Between the 1954 and 1965 academic years, enrollment in primary and secondary schools rose from slightly less than 2 million to just over 4 million children, while enrollment in technical and scientific institutes increased from 42,500 to 190,700.[24] With an overall literacy rate of only 30 percent in 1960, the need for an expanded school system was clear. The FY 1966 budget also includes £E 76 million for public health, providing for rural health units, hospitals, and other facilities. During 1951-61 the infant mortality rate was reduced from 13 to 11 percent and the ratio of population to hospital beds was reduced from 900:1 to 700:1.[25]

A number of other benefit schemes also add to the domestic deficit. Early in 1965 a profit-sharing distribution of £E 7 million was made to workers in enterprises controlled by the Ministry of Industry. In several cases, some of which were cited publicly, the enterprises involved actually operated at a loss. In June 1964, over £E 5 million in bonuses was distributed to all government workers and officials. The budget of the Ministry of Social Affairs for FY 1966 includes more than £E 4 million for pensions, old age benefits, and various social service institutions. A newly adopted program calls for the elimination of beggary through establishment of rehabilitation camps and homes for aged beggars. The government also announced that it would begin collecting an unemployment tax on 1 October 1965.[26]

IV. The Balance of Payments Problem: Foreign Debt and Its Implications for Foreign Trade

Spending well in excess of resources has continued for many years in Egypt, and the difference has been made up from foreign sources.* The result is an external debt well in excess of Egypt's current ability to repay. Foreign money flowed into the country until after World War II, and sterling reserves totaling $1.35 billion were amassed by the end of 1948. The flow then reversed, and Farouk's spending combined with devaluation of the pound sterling left foreign exchange holdings at $783 million at the end of 1951, the year preceding the revolution. After a sharp drop in 1952, a more gradual downward trend began, continuing throughout the 1950's (see Table 23). After 1952 the trade imbalance also grew, but this was offset somewhat by nationalization of the Suez Canal and the subsequent addition of earnings from canal operations to government revenue. Some capital flowed into Egypt toward the end of the 1950's as foreign assistance became a significant factor. Thus, despite the upheavals of the revolution, the flight of foreign capital, and the beginning of compensation payments to the former owners of the Canal, the combined external deficit in the current and capital accounts for 1953-60 averaged only $57 million (£E 20 million), about the same as for 1951. As a result of this steady drain, however, foreign exchange holdings had been reduced to only $117 million (£E 41 million at the prevailing exchange rate) at the end of 1960. Of that sum, only $62 million was in the form of free reserves—that is, not already committed to pay some creditor.

From 1961 to the present the problem has been especially acute. Greatly increased spending in the first year of the First Plan coincided with the 1961 crop failure, and the current account deficit ballooned to £E 53 million in 1961, £E 118 million in 1962, and about £E 123 million in 1963 and in 1964 (see Table 24). Growing receipts from the Suez Canal and from tourists were inadequate to make up the

* It should be noted that persistent current account deficits are not necessarily poor policy. If a country's ability to increase the output of export goods and/or import-competing goods is sufficiently enhanced by imports of fixed capital, the ability to close the gap at some future date is correspondingly improved. Capital goods for fixed investment accounted for only one-fourth of Egyptian imports during 1960-64. Although total imports increased about one-half during this period, capital goods did not gain on a share basis. The current account deficit was about $125 million larger than imports of total investment goods in 1963 and 1964.

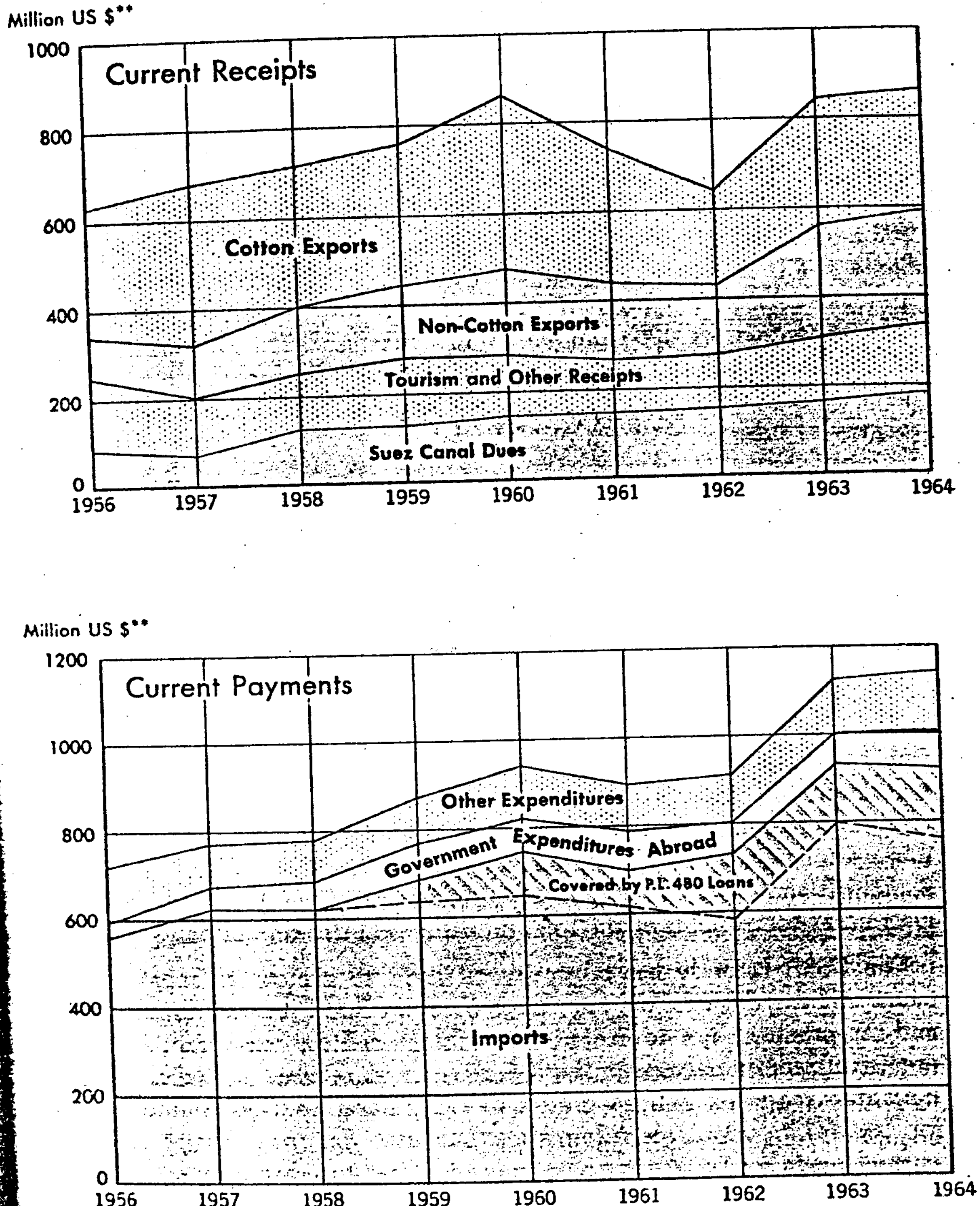
deficit on trade account. With foreign assets already exhausted, the deficit on current account could be covered only by borrowing abroad. Loans under US P.L. 480 came to play an important part in financing food imports (see Figure 5). Loans of long and intermediate term were secured from other sources, East and West, and Egypt resorted to short-term borrowing from foreign commercial banks as well.

After calling on all these sources, Cairo still faced a deficit of considerable magnitude in its external accounts. The last remnants of foreign exchange were utilized—at one point late in 1963, free reserves were down to $11 million (£E 5 million). New loans from the IMF were negotiated and drawn upon immediately. The debit balance on bilateral trading account was run up to $158 million (£E 68 million) by the end of 1963. In 1964 the situation became even more stringent as the trade deficit reached a new record of $414 million (£E 180 million).[27] Additional drawings against the IMF loan were made during the year, the deficit balance on bilateral accounts increased to $229 million by year-end, and more than $30 million in gold holdings were sold to meet overdue short-term obligations. By the fall of 1964, short-term commercial credits probably exceeded $250 million. Meanwhile, drawings against long-term loans continued, and overall external debt mounted.

Accurate totals of Egyptian indebtedness are closely held, but the sum probably amounts to more than $2.5 billion—an amount equivalent to over half of annual GDP. Through 1958, Egypt was relatively free of foreign debt, except for Suez compensation obligations. Since then, drawings against official Western loans, grants, and government-guaranteed credit facilities have totaled well over $1.7 billion, including over $800 million for food under P.L. 480. About $450 million has been drawn against economic credits extended by Communist countries.[28] The total bill for military equipment purchased from the USSR and Czechoslovakia is estimated at about $610 million, excluding materiel still on order under a 1964 agreement. Short-term commercial liabilities stand at about $200 million. Repayment obligations total about $2.7 billion; the $229 million bilateral trade deficit (as of 30 December 1965) brings the gross amount to more than $3.0 billion. Repayments against this sum probably have not amounted to much over $660 million. Over two-thirds of the $2.5 billion outstanding stems from sources other than P.L. 480, and at least one-third must be repaid in hard currency (see Tables 25 and 26).

Figure 5

EGYPT
FOREIGN RECEIPTS AND PAYMENTS*
1956-64



*Based on official Egyptian figures.

**Conversion rates: I£E = US $ 2.872 through 6 May 1962
I£E = US $2.30 thereafter

Because of problems of conversion at midyear, 1962 figures are approximate.
Imports are understated to an unknown extent (perhaps $75 million to $125 million annually) because of incomplete coverage of goods under long-term credit.

Repayments on Egypt's external debt currently absorb nearly one-third of foreign revenues, and payments due will continue to mount as Western loans mature and Soviet projects are completed. Foreign debt service amounted to about $185 million in FY 1963.[29] Balance of payments data for FY 1964 reveal transfers abroad of $269 million for principal and interest, with government debt payments probably accounting for all but a small part of this total.[30] The FY 1966 budget allocates $93 million for interest on the public debt, of which at least $60 million probably pertains to foreign debt. The FY 1966 budget figure is $31 million above that for FY 1965. Compared with payments of $230 million to $255 million in calendar 1965, the foreign debt obligation for 1966 probably totals between $230 million and $240 million. The slight decrease in 1966 stems from apparent retirement of short-term debt in 1965. Components are estimated to be roughly as follows:

	Million current US $	
	1965	1966
Installments and interest on development loans and other long-term economic obligations	130	140 to 150
Settlements on clearing accounts, short-term debts, compensation agreements, and the like (including interest)	75 to 100	65
Installments on Soviet Bloc military credits (possibly including some interest)	25	25
Total	*230 to 255*	*230 to 240*

The hard currency component of total obligations for 1966 probably comes to between $130 million and $140 million—$90 million to $100 million on long-term debts to the West plus about two-thirds of the total for clearing accounts and short-term debts. Annual obligations to the USSR under economic credit agreements are expected to reach about $57 million by 1970, compared with $26 million in 1966, and most other components of the total probably will rise substantially.

The USSR recently has taken several steps to stretch out repayments and thereby ease the immediate burden of debt service: apparently it promised not to exercise its right to call for repayment of excessive trade imbalances in hard currency and reduced the annual installments due on military credits to $22 million from $43 million for 1965-67.[31] Available information indicates that past Egyptian repayments to the USSR have been in goods rather than hard currency, although terms of an unutilized 1963 credit of $44.4 million may call for repayment in pounds sterling.[32]

Arms payments are not the major element in current debt servicing, but they account for $179 million out of the $212 million paid to the USSR during 1959-64. About $195 million also has been repaid under terms of arms agreements with Czechoslovakia. The 1964 arms payment of about $22 million to the USSR represents less than 6 weeks' revenue from the Suez Canal; a similar amount spent for wheat would cover requirements for about 2 months. In 1965, economic and military debt repayments to the USSR will be about equal. By 1970, repayments on economic loans will become the major component of the total, even if the annual arms obligation is restored to its 1964 level (see Table 27).

Despite an actual decline in commodity exports during 1960-62, foreign earnings of the UAR have risen substantially, largely as a result of growing receipts from the Suez Canal and from tourist expenditures (see Table 10). Because of fluctuations in international cotton markets and in Egyptian crops, earnings from cotton exports have fluctuated widely. Steady growth in the value of non-cotton exports reflects growing diversification of the Egyptian economy. Deducting 1964 exports to the Communist countries of about $250 million and estimating about two-thirds of tourist revenues to have been in hard currency, identifiable hard currency earnings (including Suez Canal revenues) approximated $525 million for 1964, compared with $475 million estimated on the same basis for 1963.

Foreign debt servicing for 1965 amounted to about 40 percent of total commodity exports, or over 25 percent of total earnings from major sources. The hard currency component of the debt works out to more than 25 percent of 1964 hard currency earnings. Unless export earnings increase at a much faster rate in the future than in

Table 10

Egypt: Major Sources of Foreign Exchange Earnings[a]
Selected Years, 1952-65

Million Current US $

	1952	1955	1958	1961	1963	1964	1965
Total	*549*	*575*	*635*	*692*	*748*	*804*	*897*[b]
Suez Canal revenues	76[c]	92[c]	121	147	164	179	197
Receipts from tourism	43[d]	65	41	66	62	86	95[b]
Raw cotton exports	362	307	312	297	278	268	340[b]
Other exports	68	111	161	182	244	271	265[b]

a. [illegible]

b. Estimated.

c. Accruing to foreign shareholders.

d. Estimated on the basis of the comparative number of tourists.

the past, and more rapidly than import expenditures, the ratio of scheduled debt repayment to income will continue to rise. The possibility of substantial new petroleum discoveries provides the only hope for stemming the rise.

Export projections included in the First Plan have proved reasonably realistic in local currency terms, but import projections have been wide of the mark. The planners clearly had no prescience of those domestic policies promulgated in later years which have permitted huge increases in imports. Planned and actual levels cannot be compared meaningfully, because prices have changed. An intervening devaluation of the Egyptian pound (May 1962) further complicates comparison of trade trends in terms of hard currency equivalents. The general magnitude of the planned and actual trade gap is illustrated, however, in Table 11. The large discrepancy between the $41 million trade surplus planned for FY 1965 and the realized deficit of $249 million illustrates Egypt's financial distress. On the export side, both rice and petroleum earnings exceeded expectations, while cotton sales went about as planned. The unexpected increase in food consumption led to outlays for imported cereals and flour at levels almost twice as high as anticipated. Continued crude oil imports canceled out unexpected success in increasing petroleum exports, although a reversal in this balance is likely before the end of the present decade.

Cotton no longer dominates Egyptian exports as completely as in the past (see Table 12). Exports of raw cotton and cotton products earned $329.9 million in 1964. Following cotton in importance were rice, valued at $69.8 million (up from $45.0 million in 1963), and petroleum, valued at $47.5 million (up from $45.6 million in 1963). Refined

Table 11

Egypt: Foreign Trade, Planned and Actual[a]
Fiscal Year 1965

	Million £E		Million US $	
	Planned[b]	Actual[c]	Planned[b]	Actual[c]
Exports	229	265	658	610
Imports	215	374	617	859
Balance	*14*	*−108*	*41*	*−249*

[a] Because of rounding, the sum of the components may not agree with the balance shown.

[b] In constant FY 1960 prices.

[c] In current prices.

Table 12

Egypt: Composition of Exports [a]

Selected Years, 1952-64

Percent of Total Value

Year	Cotton and cotton products	Other exports
1952	89	11
1956	76	24
1960	78	22
1964	61	39

a [illegible]

products contributed $19.1 million to the petroleum export total in 1964, compared with $11.5 million in 1963.

Significant changes in the commodity composition of foreign trade during the 1960's have been limited to a few categories (see Table 28). One of the most disturbing elements, however, is the growth of imports in the consumer goods category; expenditures for such items increased more than 60 percent, and consumer goods make up an increasing part of rapidly rising purchases abroad. The category breakdown used by Egypt may even understate the extent by which total consumer imports have grown, because imported components for consumer durables and other consumer items assembled in the country are included in other categories. Investment goods continued to account for only one-fourth of total imports. Exports of finished and semifinished products are dominated by cotton yarns and textiles, which increased in value from $45.4 million in 1960 to $61.8 million in 1964; exports of other goods in the category remained almost unchanged at about $29 million. Declining earnings from raw materials are attributable both to lower raw cotton prices and decreased production of non-fuel minerals. Concurrently, total export earnings from foodstuffs increased more than 60 percent because of greater rice sales.

During the 1950's the geographical distribution of Egyptian trade changed much more markedly than commodity composition (see Table 13). At the time of the revolution, trade with Communist countries was not large, but by 1960 these countries were purchasing about half of total exports and providing more than one-fourth of total imports.

Table 13

Egypt: Geographical Distribution of Foreign Trade [a]
Selected Years, 1952-64

Percent of Total Export and Import Value

	1952	1956	1960	1961	1962	1963	1964
Exports to	*100*	*100*	*100*	*100*	*100*	*100*	*100*
USSR and Eastern European Communist countries	15	28	35	40	34	40	40
Communist China	2	6	8	3	5	3	3
Yugoslavia	*Negl.*	1	7	1	3	3	4
Other	83	65	50	56	58	54	53
Imports from	*100*	*100*	*100*	*100*	*100*	*100*	*100*
USSR and Eastern European Communist countries	10	12	22	21	20	15	16
Communist China	*Negl.*	2	3	3	3	2	2
Yugoslavia	1	*Negl.*	3	3	3	3	2
Other	89	85	72	74	75	81	80

a. Because of rounding, components may not add to the totals shown.

The rise in the proportion of total cotton exports going to Communist countries was halted during 1961-63. The Free World's share of Egyptian sales and markets expanded somewhat as the world cotton market firmed and Western countries became relatively more important to Egypt as sources of food and capital goods. Through the middle of 1964, Western sales to Egypt continued to grow, but data for the full year show a slight shift in favor of the Communist countries. By the last quarter of 1964, the hard currency shortage had become particularly acute. At about the same time the USSR promised to forego hard currency settlements. Instructions to purchase essential imports from Communist countries, even if such sources were not competitive in terms of quality or price, were circulated throughout government agencies.[37] Trade data indicate that these instructions had relatively little impact on trade shares in 1964—the Soviet and Eastern European share of total imports increased slightly to 16 percent (see Figure 6). Partial data for 1965 show a further increase in the trade share of the Communist countries.

Two recent studies reportedly prepared by an Egyptian governmental unit indicate that the Communist countries have been taking advantage of Cairo's new emphasis on purchases from countries with which it has bilateral trade agreements. A survey prepared in early June 1965 showed that prices of Communist goods rose steadily for several years and averaged 32 percent above prices of similar Western

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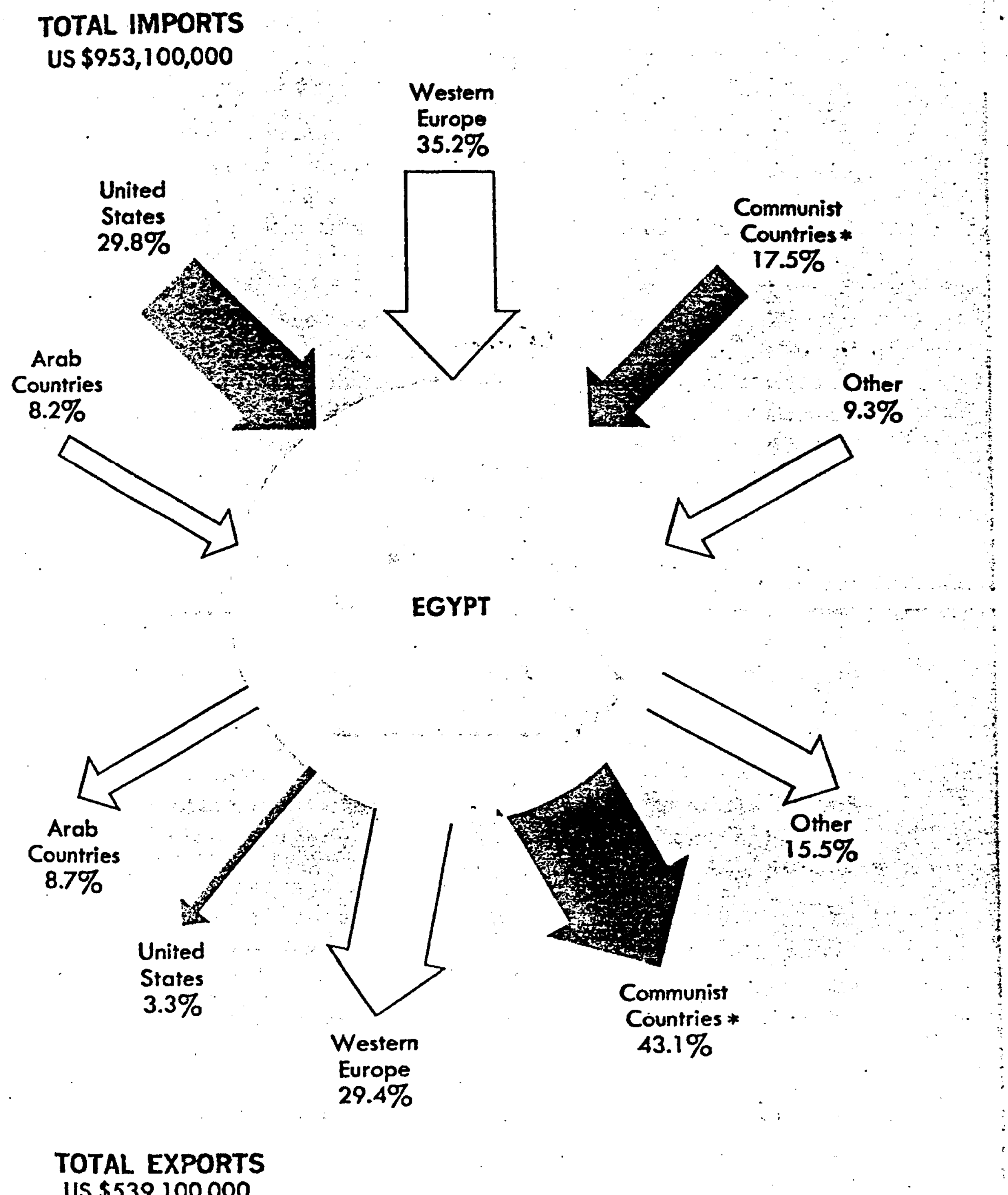
Figure 6

EGYPT
GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE, 1964



**USSR, Eastern Europe (except Yugoslavia), and Communist China*

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goods.[38] A second study, completed in July, indicated that Communist prices then averaged 45 percent higher than comparable Western prices.[39] Both studies purportedly were to be forwarded to Nasser through the Ministry of Supply. Even if the information contained in the reports is accurate, Egypt presently is in a poor position to negotiate for more favorable prices, since the hard currency shortage would lend a hollow ring to any threats to switch to Western suppliers.

Burgeoning repayment obligations to Communist countries may force a further increase in Egyptian exports to such creditors. Although no large-scale shift in this direction appears imminent, sales to Communist countries during the 12 months ending 31 July 1965 accounted for 59 percent of total cotton exports, compared with 52 percent in the previous year.[40] At various times in the past, debt repayments due have been debited against trade accounts already in deficit. Total Egyptian debt to Communist countries under such arrangements stood at about $214 million at the end of 1964. A Soviet official stated that Egypt owed the USSR the Egyptian pound equivalent of $50 million as of January 1965 and that Moscow expected the trade debt to reach $187 million by 1970.[41] A highly publicized consignment of Soviet wheat to the UAR by the USSR, begun in June 1965, probably added $16 million to $17 million to the above debt totals. Although the USSR has not demanded repayment in hard currency so far, it also has not indicated that its present attitude will continue indefinitely. Egypt has been extremely anxious to maximize hard currency earnings and has made a concerted effort to expand its export markets in the Free World. To this end, Egypt has attempted to limit Communist countries to about half of total cotton exports for the past two years, although they take more when Free World demand falls short. Egypt also continues to require payment of Suez Canal tolls in hard currency regardless of the debt situation vis-à-vis the country of registry.

Egypt will be able to continue these policies only as long as Communist creditors—notably the USSR—acquiesce. Some difficulties came to light in the early 1960's, when Communist countries resold Egyptian cotton in Western markets, but such transactions were stopped at Egyptian insistence and apparently have not been resumed. Recent reports, however, indicate that Communist countries have been reexporting Egyptian textiles to the West.[42] Clearly, the USSR and, to a lesser degree, other Communist countries enjoy a pivotal position in Egypt's foreign trade. The circumstances under which they might attempt to use this position to apply political pressure, however, are unpredictable.

As of early 1966, Communist countries had promised about two-thirds of the credit currently available for future development. Little has been drawn against Communist credits extended in 1963-65 (totaling $910 million), and about $275 million remains undrawn from 1958-62 credits. The Egyptians therefore can count on more than $1.1 billion in equipment, materials, and services from Communist countries for current and future projects. In contrast, little new credit has been committed by Free World countries, although evidence of a renewed interest has appeared since the Muhyi al-Din cabinet was installed. France extended a $32 million credit late in 1965, and Spain reportedly has agreed to provide $25 million. In February 1966, Kuwait agreed to deposit $42 million more in Egyptian banks. About $30 million is available from Yugoslavia, and Japan has agreed to provide $50 million in project assistance. In April 1966, Italy agreed to extend $45 million to $50 million in new credits. About $240 million remains available from credits previously extended by Western countries—$150 million under contracts already signed and a further $90 million not yet committed. More than half this sum, however, is from West Germany and probably will be slow to materialize while diplomatic relations remain suspended. Western oil company commitments probably will involve private foreign investment of over $50 million in Egypt during 1966-70. In addition to the $460 million in investment commitments listed above, the US has agreed to ship $55 million in P.L. 480 foodstuffs, and Egypt recently has collected at least $46 million in short-term commitments from US banks.

Still other investment credits probably will be forthcoming from the Free World, but their size and origin will depend on both economic and political developments. Negotiations for additional drawing rights from the IMF, which depend to a great extent on the performance of the economy, have been undertaken. The International Bank for Reconstruction and Development (IBRD) also appears to be giving some consideration to new loans. If and when relations with West Germany are normalized, additional economic assistance probably will be part of the package. At present, however, the ratio of long-term assistance available is about two to one in favor of the Communist countries. In contrast, through 1965, Egypt had received four times as much economic assistance from the Free World as from the Communist countries, although the USSR and Czechoslovakia had monopolized the military assistance field.

A priority system for allocation of foreign exchange was established in the fall of 1964. Each month a special committee headed by the Prime Minister allocates the previous month's receipts according to the following order of priority:

(1) Debt service

(2) Basic commodities (food and the like) required by the Ministry of Supply

(3) Intermediate goods

(4) Capital goods

In practice, funds usually are exhausted before the capital goods category is reached. Two exceptions to the allocation schedule, however, permit imports of certain equipment: replacement machinery for existing industry is treated as a high-priority item under category 3, and goods obtainable under long-term credit are not affected because they require no immediate hard currency outlay. Using the above allocation priorities, debt service is being covered and a schedule of retiring overdue short-term credit has been established. Arrears are to be brought up to date by May 1966. The schedule has been met in most cases, but payments were about six weeks overdue in December 1965. Results to date appear to be at least partly responsible for recent expansion of commercial credit by Western banks.

Preliminary foreign trade statistics covering calendar 1965 show a deficit of $269 million.[43] This compares with $414 million for calendar 1964. If later revisions do not change the picture substantially, the new approach to foreign currency expenditures must be considered a success, at least in the short run.

V. New Initiatives and Alternatives for the Future

The Egyptian economy in 1965 is stronger and more diversified than in 1952; whether it will continue to thrive or sink back into stagnation depends on the present and future actions of the Nasser regime and of various foreign governments. Private enterprise and private foreign investment cannot be expected to play an important role while the xenophobic aspects of "Arab Socialism" remain dominant. Furthermore, military expenditures probably will not be reduced substantially as long as the present Arab-Israeli outlook continues.

Full implementation of the Yemen disengagement decision could be a major plus for the Egyptian economy. At least $60 million annually has been spent to support Cairo's war effort in Yemen*; if peace is realized, most of this sum could be used to spur economic growth. The foreign exchange component (perhaps half) could be used to finance a 25-percent increase in imports of investment goods or to purchase raw materials and spare parts for industries presently operating well below capacity because they are short of such inputs. The domestic expenditure component also could be re-directed into more productive channels. The regime could, of course, elect to devote part or all of the total to other foreign adventures.

The emphasis placed on expansion of industrial production by Egyptian officials appears inescapable in view of the relatively limited opportunities for improvement of agriculture and the pressure of population growth. Although only a handful of industries presently can be considered competitive, both short-run and long-range considerations encourage continued industrialization. In a country with abundant labor and widespread underemployment, investment in industry is justified when the resulting value added exceeds the prospective value added by equivalent effort in other sectors. In a country such as Egypt, where land is limited, labor is plentiful, agriculture already is intensive, transportation is not a serious bottleneck, and the scope of activities bringing in foreign exchange cannot be expanded greatly, industry could well meet such value-added criteria, even if all inputs had to be imported. Longer run considerations,

* In addition to normal garrison costs in the UAR.

such as prospective economies of scale stemming from market growth and improvements in productivity that can be expected to follow when a few years of experience have been registered, also point to future benefits from industrialization. Industry provides the means for establishing a sound economic basis for further urbanization. Moreover, demographers have found that urbanization tends to be associated with slower rates of population growth. The type of industry, however, must be chosen with care, and Egypt will find the most promising opportunities in agriculture-related fields. Prospects for industrial growth have been enhanced by recent decisions to eliminate prestigious but uneconomic projects from current consideration. Industry may never again reach the 10-percent annual growth rate of the early years of the First Plan, but something on the order of 6 to 8 percent annually should be attainable over the long run.

Egypt's population problem is widely recognized. However, despite frequent reference to the subject in speeches and newspapers, no effective measures were undertaken by Muhyi al-Din's predecessors. In the past several months, some action has been taken to organize and operate an effective population-control program. Special family planning councils have been established on both the national and local levels. Despite strenuous cuts in the budget for the current fiscal year, a special appropriation of £E 1 million for population control has been announced, and expert foreign advice is being sought.

Assuming energetic application of the most effective control methods now known, the rate of population increase might be stabilized in seven or eight years and a small decrease might take place in something over a decade. The First Plan projected the growth rate at 2.3 percent; it may in fact have reached 3 percent in the final year of the plan. If the rate at which population expands continues to increase, however, raising per capita output will become increasingly difficult. Conversely, even a small decrease in the rate of population growth would lessen the increasing pressures on land, food supplies, housing, and welfare facilities.

The price and tax measures adopted in December 1965 are expected to increase the income of the government by about £E 110 million annually. At the same time, expenditure plans were revised and the total was cut by about £E 40 million on an annual basis. In consequence, the treasury expects additional funds and reduced obligations to aggregate £E 150 million annually. At least £E 50 million represents increased taxes and accelerated collections of other individual obligations to the government—£E 50 million that will be removed from the pockets of individual consumers. This sum is equivalent to almost 5 percent of total consumption expenditure. Government operations (industry and the Ministry of Supply) are expected to record an improvement of £E 55 million in their financial operations, primarily in the form of increased profits stemming from higher prices. Industrial profits alone are expected to rise by some £E 30 million to £E 35 million—an amount equivalent to about 10 percent of anticipated gross investment in the current year.

The domestic impact of the various price adjustments should be severalfold. A smaller supply of physical goods will account for an equivalent amount of consumer spending. Government revenue will increase, and output of privately produced or cultivated products will rise. The temptation to engage in hoarding and black-marketing will also be reduced.

The new program marks a major step in strengthening the economy and, if implemented with determination, will have a significant impact in restraining consumption, raising export potential, and facilitating the maintenance and future growth of investment. A new upturn in the rate of economic growth, however, probably will not appear for a year or two. The economy has not yet fully recovered from the unsettling effects of the 1964 austerity program, and the measures enacted in late 1965 will require even more extensive and fundamental adjustments. If current economic policies are pursued through the adjustment period, however, the combined impact of increased domestic availability of investment funds and growing earnings from petroleum should provide a basis for accelerated growth.

At the same time, a new and more forthcoming attitude toward foreign private investment appears to be emerging. US businessmen visiting Cairo are made to feel far more welcome than was the case a few months earlier. Government pronouncements suddenly have begun to include mention of the importance of the private sector and of the opportunities for foreign capital. Whether this new attitude will survive and bring concrete results in the form of private capital inflow, however, remains to be seen.

Despite new measures and new approaches, the magnitude of Egypt's problems is such that serious difficulties probably will persist.

For some time to come, Egypt will be unable to earn enough foreign exchange from its own output of goods and services to cover planned investment and external debt service requirements. Until industry becomes much more advanced and petroleum begins flowing from new fields in far greater quantities, Cairo will have to rely on foreign sources for substantial foreign exchange credits. Egypt appears to have gained some control of its foreign exchange problem, but this control is exercised on a month-to-month basis. The exchange crisis reached a peak in the fall of 1964, but a full solution is as elusive as ever. Until December 1965 the upper echelons of the Egyptian government gave no indication that they recognized either the full extent or the probable duration of their difficulties. A chronic foreign exchange shortage is to be expected over the next decade, yet economic goals requiring massive foreign assistance remain essentially unchanged. Communist countries already have promised about $900 million for investment in the next seven years, and the possibility that they will increase these commitments cannot be dismissed. The attitude of Free World countries, however, will be instrumental in determining whether or not Egypt can come close to realizing many of its plan goals.

If US-UAR relations should reach another impasse resulting in cessation or further curtailment of wheat shipments, the consequences would depend largely upon decisions made in Cairo regarding resource allocation. Sufficient wheat to provide for bread consumption at reduced but adequate levels probably would cost about $100 million a year. If the USSR is willing to spend $100 million in hard currency annually to provide the necessary wheat, there would be no immediate serious impact on the Egyptian economy. Egypt's total debt to the USSR, however, would increase by a like sum. For the 12 months ending in June 1965, deliveries to Egypt under Soviet economic credits totaled about $65 million and involved little or no expenditure of hard currency on Moscow's part. If wheat purchases are financed by a transfer of resources from the Yemen war and from such projects as advanced weapons programs, the domestic economy would be little affected. Diversion of land from cotton for increased production of wheat for domestic consumption would impair export earnings seriously and almost certainly would not be undertaken. Alternatively, diversion of funds from investment would cut total investment by 15 percent, but the immediate impact on economic growth would depend on the particular projects canceled or delayed. Given the already low level of consumer imports, their forfeiture in favor of wheat would quite likely create unacceptable domestic political and economic difficulties.

The combined aid programs of East and West are not likely to relieve the balance of payments pressure as long as the Egyptian government continues simultaneously to spend heavily for development and to sustain recent levels of consumption. For some time to come, both the United States and the Communist countries will retain the potential to upset the tenuous financial balance achieved by Cairo and plunge Egypt into a far more serious foreign exchange crisis than has yet been faced.

APPENDIX A

STATISTICAL TABLES

Table 14

Egypt: Gross Domestic Product
Fiscal Years 1951–65

Fiscal Year	Gross Domestic Product [a] (*Million £E*)	Percentage Change from Previous Year
1951	900	
1952	983	9
1953	851	−13
1954	869	2
1955	882	1
1956	N.A.	N.A.
1957	N.A.	N.A.
1958	1,084	N.A.
1959	1,185	9
1960	1,285	8
1961	1,364	6
1962	1,406	3
1963	1,514	8
1964	1,631	8
1965 (Provisional)	1,709	5

[a] 44. Data for 1951–60 are in current prices, and data for 1960–65 are in FY 1960 prices.

Table 15

Egypt: Gross Domestic Product, by Sector of Origin [a]
Fiscal Years 1960–65

Sector	Fiscal Year Data (*Million £E in 1960 Prices*)							Percentage Increase Provisional 1965 over 1960
	1960	1961	1962	1963	1964	1965 Provisional	1965 Planned	
Agriculture	405.0	402.7	373.0	426.4	452.9	477.0	512	17.8
Industry	256.3	285.6	309.9	329.2	369.6	385.0	516	50.2
Electric power	9.8	12.2	16.3	18.4	18.6	22.4	24	128.6
Construction	47.1	44.2	65.4	68.8	76.6	71.8	51	52.4
Transportation, communications, storage, and Suez Canal	92.9	102.2	116.9	127.1	144.0	154.6	117	66.4
Housing	73.0	73.8	76.2	77.6	78.7	80.1	84	9.7
Trade and finance	129.2	145.1	151.6	154.0	148.3	151.9	162	17.6
Other services	271.9	297.9	297.1	312.9	342.2	366.5	329	34.8
Total	*1,285.2*	*1,363.7*	*1,406.4*	*1,514.4*	*1,630.9*	*1,709.3*	*1,795*	33.0

[a] Official Egyptian figures adjusted to allow for the fact that recent figures for Construction and Other services have been released only in current prices.

Table 16

Egypt: Utilization of Resources [a]
Fiscal Years 1960–65

Million Egyptian Pounds in FY 1960 Prices

End Use	Fiscal Year					
	1960	1961	1962	1963	1964	1965 Provisional
Gross domestic product	*1,285*	*1,364*	*1,406*	*1,514*	*1,631*	*1,709*
Consumption	1,048	1,086	1,153	1,224	1,291	1,332
Defense [b]	74	85	104	118	138	140
Domestic savings	163 [c]	195	149	171	201	238
Gross investment	*158*	*211*	*235*	*275*	*337*	*314*
Domestic savings	163	195	149	171	201	238
Foreign loans and grants [d]	−5	16	86	104	136	76

[a] Because of rounding, components may not add to the totals shown.

[b] Estimated on the basis of budget allocations for the Ministry of War, the Armed Forces, armaments factories, and the United Arab Command. Available data are inadequate for calculation of a "government" sector in the traditional manner.

[c] Including a net capital outflow of £E 5 million.

[d] Net capital inflow, all of which is treated as investment.

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Table 17

Egypt: Availability of Food Grains [a]
1951–65

Thousand Metric Tons

Food Grains	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 Provisional
Wheat															
Production	1,209	1,089	1,547	1,729	1,451	1,541	1,467	1,417	1,443	1,499	1,436	1,593	1,493	1,499	1,474
Imports [b]	1,152	910	586	79	*Negl.*	589	841	1,162	1,318	1,286	1,260	1,569	2,154	2,062	
Total supply [c]	*2,361*	*1,999*	*2,133*	*1,808*	*1,452*	*2,130*	*2,308*	*2,579*	*2,761*	*2,785*	*2,696*	*3,162*	*3,647*	*3,561*	
Corn															
Production	1,421	1,506	1,853	1,568	1,714	1,652	1,495	1,758	1,500	1,691	1,617	2,003	1,867	1,934	1,987
Imports [d]	20	43	9	*Negl.*	*Negl.*	86	77	59	107	51	101	265	199	465	
Total supply [c]	*1,441*	*1,549*	*1,862*	*1,568*	*1,714*	*1,738*	*1,572*	*1,817*	*1,607*	*1,742*	*1,718*	*2,268*	*2,066*	*2,399*	
Rice (milled)															
Production	427	355	449	769	856	1,028	1,116	707	1,056	1,022	785	1,402	1,465	1,344	1,720
Exports	97	1	13	47	152	221	296	360	23	280	203	144	380	531	
Total supply [e]	*330*	*354*	*436*	*722*	*704*	*807*	*820*	*347*	*1,033*	*742*	*582*	*1,258*	*1,085*	*813*	

a. 46.

b. Including wheat flour converted into its wheat equivalent.

c. Exports negligible.

d. Including corn meal converted into its corn equivalent.

e. Imports negligible.

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Table 18

Egypt: Agricultural Production and Income [a]
Selected Fiscal Years, 1952–65, and Second Plan

Fiscal Year	Production [b]	Income [c]
	Million £E in FY 1960 Prices	
1952	444	252
1960	574	405
1964	656	453
1965 Actual	671	477
Plan	736	512
Second Plan goal		
1960 formulation	910	627
1965 formulation [d]	860	610
	Percentage Increase	
1965 over 1952	51	89
1965 over 1960	17	18
1965 plan over 1960	28	26
Second Plan goal over 1965 (1965 formulation [d])	28	28

[a] 47.

[b] Gross value of output.

[c] Value added.

[d] The Second Plan goals for 1972 as formulated in 1966 are not available.

Table 19

Egypt: Public Finance [a]
Fiscal Years 1952–67

Million Current Egyptian Pounds

Fiscal Year	Total Expenditure		Ordinary Revenue [b]	
	Budget	Actual	Budget	Actual
1952	232	234	215	195
1953	207	210	206	199
1954	254	233	198	212
1955	294	270	222	232
1956	329	340	238	293
1957	342	358	280	276
1958	336	319	334	264
1959	430	413	403	292
1960	511	485	445	278
1961	700	......	540	304
1962	780	......	550	322
1963	970	......	728	346
1964	1,079	......	775	453
1965	1,184	......	829	......
1966	1,205	......	917	......
1967 [c]	1,296	......	1,075	......

[a] 48.

[b] For FY 1953–62, excluding revenue of the development budget, which is composed mainly of foreign grants and loans and internal borrowing; for FY 1963–65, a residual derived by deducting domestic and foreign borrowing plus the deficit in the services budget from the total expenditure.

[c] Based on unofficial newspaper reports.

Table 20

Egypt: Budgeted Sources of Revenue for Administrative Purposes [a]
Fiscal Years 1963–67

Million Current Egyptian Pounds

	Fiscal Year				
	1963	1964	1965	1966	1967 [b]
Taxes	243	275	309	345	355
Income and property taxes	59	70	74	98	108
Excise and customs duties	176	193	223	233	233
Stamp taxes	8	12	13	15	14
Charges for government services	64	64	75	83	159
Other central government revenues	31	32	20	22	24
Local government revenues	51	50	54	58	54
Receipts from industrial budget	85	80	108	118	125
Total	*475*	*501*	*566*	*626*	*717*
Deficit	44	40	44	24	....
Surplus	....	....	....	....	11

[a] 49. Because of rounding, components may not add to the totals shown.

[b] Based on unofficial newspaper reports.

Table 21

Egypt: Government Debt to Domestic Banks [a]
1952–65

Million Current Egyptian Pounds

Year [b]	Cumulative Total	Amount of Change from Previous Year
1952	88	
1953	82	−6
1954	66	−16
1955	107	+40
1956	194	+88
1957	209	+14
1958	211	+2
1959	235	+24
1960	301	+66
1961	341	+39
1962	396	+55
1963	524	+128
1964	611	+87
1965	687	+76

[a] 50. Data are rounded.

[b] As of the end of each year.

Table 22

Egypt: Factors Affecting Changes in Money Supply [a]
1964 and 1965

Million Current Egyptian Pounds

	Change over Previous Period			
	Fiscal Year		July-November	
	1964	1965	1964	1965
Money supply	94.4	60.5	82.3	59.7
Quasi-money [b]	16.5	18.2	15.6	26.4
Total increase	110.9	78.7	97.9	86.1
Factors				
Foreign assets (net) [c]	−30.1	−3.8 [d]	−26.3 [d]	−30.0
Total credit expansion	141.0	82.5	124.2	116.1
Claims on government (net)	139.1	30.4	6.6	44.2
Claims on private sector	6.9	17.6	97.9 [e]	81.5
Other factors (net) [c]	−5.0	34.5 [e]	19.7	−9.6

[a] 51.

[b] Time and savings deposits.

[c] A minus sign denotes a decrease in money supply.

[d] Including changes in the net International Monetary Fund position and adjustment for revaluation of gold holdings.

[e] Including gold revaluation profits credited to the Egyptian Treasury account.

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Table 23

Egypt: Balance of Payments [a]
1950–60

Million Current Egyptian Pounds

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Transactions											
Proceeds of exports	184.8	201.9	145.6	135.3	139.8	133.1	129.9	166.0	161.0	164.3	200.2
Payments for imports	221.7	241.9	210.5	165.2	150.7	190.3	192.3	217.5	214.0	235.3	255.2
Trade balance	−36.9	−40.0	−64.9	−29.9	−10.9	−57.2	−62.4	−51.5	−53.0	−71.0	−55.0
Other current transactions	26.5	24.8	11.5	22.0	14.5	23.2	29.4	20.3	32.9	35.0	31.4
Balance of current transactions	−10.4	−15.2	−53.4	−7.9	3.6	−34.0	−33.0	−31.2	−20.1	−36.0	−23.6
Net capital transactions including donations or compensations	−3.6	−4.6	−2.0	−0.4	−0.3	2.2	2.0	−0.1	−3.8	11.4	11.1
Overall surplus or deficit	−14.0	−19.8	−55.4	−8.3	3.3	−31.8	−31.0	−31.3	−23.9	−24.6	−12.5
Changes in foreign assets and liabilities											
Net foreign exchange holdings	−23.3	−44.5	−57.8	−4.1	6.9	−32.3	−38.3	−33.1	−10.6	−16.8	−27.4
Changes in other accounts	10.9	24.7	1.8	−4.5	−3.8	0.9	6.8	2.9	−17.0	−6.0	8.0
Errors and omissions	−1.6	......	0.6	0.3	0.2	−0.4	0.5	−1.1	3.7	−1.8	6.9

[a] 32.

SECRET

Table 24

Egypt: Balance of Payments *
1961–64

Million Current Egyptian Pounds

	1961	1962	1963	1964 Provisional
Current transactions				
Receipts				
Proceeds of exports	164.9	145.2	228.8	227.6
Insurance	0.8	0.5	1.4	0.7
Shipping	8.2	12.3	9.8	8.8
Suez Canal dues	51.2	53.7	71.1	78.4
Interest, dividends, and other revenues	5.8	5.2	6.9	7.2
Travel and maintenance	3.3	6.1	9.3	51.0
Other receipts	21.9	23.9	36.5	
Total	*256.1*	*248.9*	*363.8*	*373.7*
Disbursements				
Payments for imports	241.4	294.2	402.6	399.4
Films	0.1	0.6	0.7	0.8
Other commercial payments	4.5	5.6	5.8	5.2
Insurance	1.0	0.7	0.9	0.6
Shipping	7.8	8.5	9.6	8.9
Interest, dividends, and other revenues	4.5	7.4	11.7	15.0
Travel and maintenance	9.7	8.4	11.5	12.3
Government expenditure	30.9	28.4	28.3	36.8
Other disbursements	9.5	10.7	15.6	17.8
Total	*309.4*	*364.5*	*486.7*	*496.8*
Balance of current transactions	−53.3	−117.6	−122.9	−123.1
Capital transactions				
Inflow				
US counterpart funds and loans	27.7	59.6	57.5	69.1
Foreign loans	16.7	31.8	63.0	114.8
Credit facilities	N.A.	N.A.	66.1	N.A.
Other inflow	0.8	0.7	0.5	4.3
Total	*45.2*	*92.1*	*187.1*	*188.2*
Outflow				
Repayment of credit facilities	N.A.	N.A.	39.0	N.A.
Repayment of other liabilities	N.A.	N.A.	35.0	50.9
Compensation payments	8.0	8.1	11.3	26.2
Other outflow	3.3	3.3	8.1	
Total	*11.3*	*11.4*	*93.4*	*77.1*
Net capital transactions	+33.9	+80.7	+93.7	+111.1

Table 24 (*Continued*)

	1961	1962	1963	1964 Provisional
Overall balance				
Current transactions	−53.3	−117.6	−122.9	−123.1
Capital transactions	+33.9	+80.7	+93.7	+111.1
Overall deficit	*−19.4*	*−36.9*	*−29.2*	*−12.0*
Balancing items				
Net foreign exchange holdings (decrease, −)	−23.4	−16.8	−1.9	−9.1
Nonresident bankers' accounts (decrease, +)	+0.9	−6.3	−2.0	+5.6
Other nonresident accounts and other liabilities (increase, −)	−3.7	+2.2	−18.0	−3.3
IMF position (increase, −)	+0.9	−20.0	−6.4	−1.9
Errors and omissions	+5.9	+4.0	−0.9	−3.3
Total	*−19.4*	*−36.9*	*−29.2*	*−12.0*

a n.

Table 25

Egypt: Long-Term Foreign Debt as of 31 December 1965

Million Current US $

	Credit Drawn	Principal Repaid	Outstanding Debt
Free World: Long-term loans and supplier's credits [a]	*924*	*176*	*748*
United States [b]	124	34	90
Western Europe			
Austria and Switzerland	6	5	1
Belgium and the Netherlands	2	1	1
France	2	Negl.	2
Italy	134	36	98
Scandinavia	13	10	3
United Kingdom	65	32	33
West Germany	120	25	95
Yugoslavia	12	7	5
Other			
Kuwait [c]	219	0	219
Japan	45	13	32
Multilateral organizations			
International Bank for Reconstruction and Development	57	13	44
International Monetary Fund (net drawings)	125	0	125
Communist countries	*1,062*	*486*	*576*
Economic credits	453	71	382
USSR	355	29	326
Eastern Europe			
Czechoslovakia	40	19	21
East Germany	33	13	20
Hungary	21	10	11
Poland	4	Negl.	4
Communist China	[d]		
Military credits	609	415	194
Total long-term foreign debt	1,986	662	1,324

[a] Five years or more. Data for countries other than the United States are based primarily on information as of 30 September 1965.

[b] Dollar loans only (excluding P.L. 480 foodstuffs).

[c] Including about $116 million in long-term deposits in Egyptian banks.

[d] Communist China provided a grant of $4.7 million in 1956.

Table 26

Egypt: Accumulation of Foreign Debt
Selected Years, 1955–65

Million Current US $

	1955	1958	1960	1961	1962	1963	1964	1965
Development credits and other long-term economic obligations (excluding P.L. 480)	20	200	300	580	590	790	1,000	1,130
Short-term bank credit	....	....	35	60	145	200	200	200 [a]
Bilateral trade deficit	30	146	142	155	164	158	179	229 [a]
Military credits	....	214	149	189	186	196	183	194
Total foreign currency debt								
Amount	50	560	626	984	1,085	1,344	1,562	1,753
Annual increase	....	170 [b]	33 [c]	358	101	259	218	191
P.L. 480 loans	....	....	200	230	380	510	700	750
Total foreign debt								
Amount	50	560	826	1,214	1,465	1,854	2,262	2,503 [d]
Annual increase	....	170 [b]	133 [c]	388	251	389	408	241

[a] Estimated.

[b] Annual average for the three years 1956–58.

[c] Annual average for the two years 1959–60.

[d] In addition, settlements and negotiations for compensation to foreign owners of property nationalized or sequestered by the Egyptian government entail obligations totaling about $165 million.

Table 27

Egypt: Estimated Repayments for Soviet Economic and Military Aid [a]
1959–70

Million Current US $

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Cumulative total	17.0	35.9	55.0	101.3	150.8	212.2	255.3	303.6	354.4	427.4	504.6	604.8
Annual total	*17.0*	*18.9*	*19.1*	*46.3*	*49.5*	*61.4*	*43.1*	*48.3*	*50.8*	*73.0*	*76.8*	*100.0*
For military credits	16.7	16.7	16.7	43.0	43.0	43.0	22.0	22.0	22.0	43.0	43.0	43.0
For economic credits	0.3	2.2	2.4	3.2	6.5	18.3	21.1	26.3	28.8	30.1	33.9	57.2
1957—oil equipment												
Principal	....	1.8	1.7	1.7	1.7	1.7	....	....	....	....	....	....
Interest	0.2	0.2	0.2	0.1	0.1	Negl.	....	....	....	....	....	....
1958—First Plan												
Principal	....	....	....	0.3	2.0	3.7	5.5	10.0	12.0	12.0	12.0	12.0
Interest	0.1	0.1	0.4	0.8	1.4	2.3	3.2	3.0	2.7	2.4	2.2	1.9
1958—Aswan High Dam												
Principal	....	....	....	....	....	7.2	8.5	8.5	8.5	8.5	8.5	8.5
Interest	....	Negl.	0.1	0.4	1.2	2.5	2.3	2.1	1.9	1.7	1.5	1.3
1960—Aswan High Dam												
Principal	....	....	....	....	....	....	....	....	....	....	....	18.9
Interest	....	....	....	....	0.1	0.9	1.6	2.4	3.2	4.0	4.8	5.7
1963–64 credits												
Principal	....	....	....	....	....	....	....	....	....	0.5	2.5	5.5
Interest	....	....	....	....	....	....	....	0.2	0.5	1.0	2.5	3.5

[a] Because of rounding, components may not add to the totals shown.

Table 28

Egypt: Commodity Composition of Foreign Trade [a]
1960 and 1964

	1960		1964	
	Value (*Million Current US $*)	Percent of Total	Value (*Million Current US $*)	Percent of Total
Exports	*568.1*	*100.0*	*539.1*	*100.0*
Foodstuffs	65.8	11.6	106.7	19.8
Raw materials	396.3	69.8	276.0	51.2
Fuels	13.8	2.4	48.5	9.0
Finished and semifinished products	75.0	13.2	91.1	16.9
Other	17.2	3.0	16.8	3.1
Imports	*667.7*	*100.0*	*953.1*	*100.0*
Consumer goods	178.6	26.8	290.7	30.5
Intermediary goods	263.9	39.5	308.2	32.3
Investment goods	167.4	25.1	245.9	25.8
Other	57.7	8.6	108.3	11.4

a. Because of rounding, components may not add to the totals shown.

APPENDIX B

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