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Contains the report of the Joint Housing Team for Finance, which operated in Cairo during February 1977. The study is one component of a three-part housing action study. In Egypt, and particularly in Cairo, a strong, unsatisfied demand for housing exists. Housing needs are most acute among young families and low-income families. Low-income families also suffer disproportionately under present housing finance arrangements The Housing Team recommended that several changes be made in the structure and operating procedures of the Credit Foncier and that assured financing exist for "economic" housing through the National Housing Fund and for "moderate" and "middle-income" housing through the Credit Foncie: Based on the team's findings, the Government of Egypt made changes in interest rates and withh 'ding taxes, and changes in the Credit Foncier. Report includes Appendices with tables.

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HOUSING FINANCE IN EGYPT

Report of

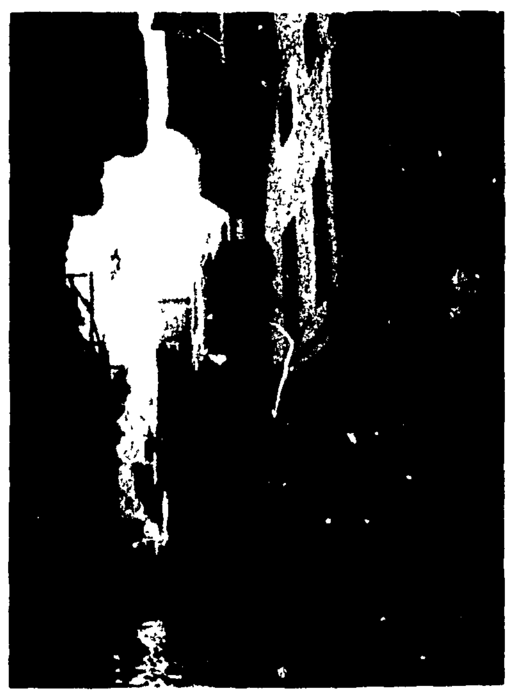
THE JOINT HOUSING TEAM FOR FINANCE

Ministry of Housing and Reconstruction
Ministry of Planning
Arab Republic of Egypt

with

Office of Housing
Agency for International Development
United States of America

AUGUST 1977



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Ministry of Housing and Reconstruction
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United States of America

AUGUST 1977

August 31, 1977

His Excellency
Hassan Mohamed Hassan
Minister of Housing and
Reconstruction
Arab Republic of Egypt

Your Excellency:

The Joint Housing Team for Finance is pleased to submit its report on Housing Finance in Egypt, dealing with the expansion of the availability of long-term housing finance in the Arab Republic of Egypt.

The efforts of the Joint Housing Team for Finance represent a continuation of the work of the Joint Housing Team which began in March, 1976, and led to the preparation of the report entitled Immediate Action Proposals for Housing in Egypt.

The field work of the Joint Housing Team for Finance began in late January 1977, with the arrival of the first consultant of the Office of Housing, AID. The remaining AID consultants, accompanied by an official representative of AID, arrived in Cairo on 4 February 1977 and commenced deliberations with members of the Joint Team representing the Egyptian Government on 5 February 1977. The field work of the Joint Housing Team for Finance was concluded on 24 February 1977.

A Summary of Findings and Recommendations was prepared by the Joint Team before the departure from Cairo of the AID team members, and a detailed draft report supporting those findings was prepared in Washington during March and April, 1977. The Joint Housing Team for Finance then reconvened in July, 1977, to discuss and finalize the report transmitted herewith.

The Joint Housing Team for Finance wishes to acknowledge the excellent cooperation and support which it has received from the Ministry of Housing and Reconstruction, the USAID mission in Cairo, and the many officials of the Arab Republic of Egypt who provided much of the information upon which the report is based. The team also wishes to express its hopes that its analysis and recommendations will prove worthy of consideration and will contribute to a solution of the housing problems in Egypt.

Respectfully submitted,

THE JOINT HOUSING TEAM
FOR FINANCE

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PREFACE

The Joint Housing Team for Finance was constituted in Cairo, Egypt, on 5 February 1977, and carried out its deliberations through 23 February 1977. The Summary of Findings and Recommendations was formulated and accepted by the Joint Team prior to the departure of the AID members of the Team on 24 February 1977.

A more detailed and formal presentation of the information upon which the Team's findings and remmendations were based was prepared in draft during March and April in Washington. In Cairo, the Egyptian members of the team were pressing forward with implementation of many of the recommendations. The Team convened again in Cairo during 25-31 July 1977 to review the draft report and to agree on future program objectives.

The study of the Joint Housing Team for Finance is one component of a three-part housing action study, which includes land policy and low-cost housing along with housing finance. As such, it represents a continuation of the joint efforts of the Ministry of Housing and Reconstruction and the Ministry of Planning of the Arab Republic of Egypt and the Office of Housing of the U.S. Agency for International Development which were initiated in early 1976. These initial efforts of the Joint Housing Team resulted in the presentation of a report entitled "Immediate Action Proposals for Housing in Egypt," June, 1976; the present report extends and elaborates upon this work as it relates to housing finance.

The Joint Housing Team for Finance took as its purpose the development of an actionable program, consistent with the recommendations of the Joint Land Policy Team and the Joint Team for Low-Cost Housing, which would result in the development and expansion of a national housing finance system capable of mobilizing domestic savings and providing both construction financing and long-term housing loans to a broad range of the Egyptian population.

In pursuing this objective, the Joint Housing Team for Finance took as a basic premise that the housing finance system should serve the broad interests of economic development not only by facilitating the provision of decent shelter, by expanding employment opportunities, and by creating incentives for the expansion of housing-related domestic industries, but also by mobilizing saving which is not presently being captured by other financial institutions. That is, the housing finance system should be structured to address markets on both the savings and lending sides which are not presently being served or which are being served inadequately. This approach has the particular advantage of introducing new savings into the financial system, not merely redistributing existing savings. A corrolary of this approach is the smooth introduction of the housing finance system into the existing financial structure in a way which avoids distorting or disrupting financial markets.

To minimize financial distortion and to ensure that the housing finance system is meshed smoothly into the existing financial system, full cognizance must be taken of existing laws and regulations governing the financial system, of current practices of financial institutions operating within this framework, and of the underlying reasons for current practice. The collection and analysis of this information provide the basis for the design of a housing finance system which is adapted to national conditions and ensures against proposing a system of foreign origin which might not adequately or efficiently serve the housing finance needs of Egypt. It is in part for this reason that the Joint Housing Team for Finance chose to recommend the expansion of an existing housing finance institution, the Credit Foncier Egyptien, rather than propose the introduction of a new system which would supplant the existing one.

The Joint Housing Team for Finance was ably supported and assisted by representatives of the government of the Arab Republic of Egypt and the USAID Mission in Cairo. The Team is grateful for this support and assistance, without which its efforts would have fallen far short of the objective.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

In Egypt today, and particularly in Cairo, all indications point to a strong, unsatisfied demand for housing. Current estimates of population in the Greater Cairo metropolitan area range between 7 and 8 million persons, constituting approximately 20% of the total population in Egypt. With a family size of about five persons per family, there are between 1.4 and 1.6 million families residing in the Greater Cairo metropolitan area. The 1976 Census of Population and Housing should provide a more precise estimate of the housing deficit, but informed estimates place the current shortage at approximately 500,000 units for Greater Cairo alone.

The distribution of housing need is perceived to be most acute among young families and low-income families, although no estimates are presently available to quantify this need. Whatever the housing shortage for these groups may actually be, it is clear that even when land and production bottlenecks have been removed, these families will not, in the main, be able to purchase housing without access to long-term financing.

A variety of indications point to a strong potential for mobilizing private savings to provide the basis for a broad program of long-term housing finance, in spite of the fact that interest rates on deposits and savings certificates (bonds), which range from 4% to 6%, are significantly below the current official rate of price inflation, which is estimated at about 12-15%. To illustrate, postal savings deposits have grown from LE 119.2 million in December, 1974, to LE 139.4 million in September, 1976, reflecting an average annual rate of growth of 9.7%. Similarly, Savings Certificates, which are in some senses equivalent to bonds, have grown from LE 236.3 million in 1974 to LE 301.5 million in April, 1976. Time and savings deposits with commercial banks have also grown substantially, from LE 513.9 million in December, 1974, to LE 709.2 million in June, 1976. This growth has occurred in spite of a 40% withholding tax on interest earnings which further reduces an already negative real rate of interest.

The fact that the composition of the total pool of mobilized financial resources has not changed appreciably suggests that, in at least some quarters, the saving habit is strongly entrenched in Egypt. Moreover, inasmuch as the proportion of currency outstanding to the total stock of liquidity remains relatively high at 42% in 1976, there exists a strong potential for attracting new savings into the organized, formal financial sector. Moreover, the current direction of economic policy is amenable, in its broad outline, to the adoption of measures necessary to bring about an increased flow of new saving for long-term housing finance.

Current economic policy is directed toward the re-establishment, in the long run, of a market system. Many of the restrictions inherent in a centrally planned economy have already been lifted and further measures designed to relax still existing restrictions are under consideration.

For example, the Central Bank and Banking System Law (Law 120/75) of July, 1975, removed ceilings on interest rates from the legislative field and gave to the Central Bank the authority to adjust ceiling rates in the light of existing market conditions. Interest rates have been revised upward in recent months to their present levels of 8% maximum on commercial bank loans and a range of 2% to 5% on time and savings deposits; saving certificates of the National Bank of Egypt yield 6% when held to maturity.

Among the measures being considered, but not yet adopted, is the exemption from taxation of interest earnings on deposits and certificates which at present is 40%. Taken together, the gradual upward revision of deposit interest rates toward more realistic levels and the exemption from taxation of interest earnings should produce a substantial increase in the incentive to save by increasing the effective rate of return to the saver.

The process of re-establishing a market system is, perhaps, necessarily an uneven one; some restrictions are politically easier to relax than others and political feasibility is a potent determinant of the pace of reform. Yet where there are interrelationships between two or more economic activities, the lifting of control over one without lifting control over those other activities to which the first is related necessarily distorts the set of relationships. A case in point is one affecting the relationship between reform of the financial system and the terms upon which members of housing cooperatives have been permitted to borrow for home finance through the General Authority of Building and Housing Cooperatives (GABHC).

As an inducement to the formation of housing cooperatives, the GABHC has obtained financing from commercial banks at prevailing market rates of interest for relending to housing cooperatives at a reduced rate, the difference between the two rates being absorbed by the government budget as an interest rate subsidy. Last year (1976) the GABHC was able to borrow at 4½% and relend at 3%, but presently it has been offered only the more realistic rate of 7% for loanable funds. Without an upward revision in the rate of interest which the GABHC charges the cooperatives, the differential between the two rates will constitute a burden on the government budget which will grow, over time, to enormous proportions as the GABHC expands its activity in the housing sector.

This situation arises, in part, because of the absence of a broadly based institutional mechanism for long-term home finance; the GABHC represents, at present, the principal institutional means through which middle, moderate, and low-income families can obtain the financing to purchase a home.

Although commercial banks do provide long-term financing to the GABHC because of its status as a government agency, their housing loans to individuals remain inconsequential and, even when granted, are on short terms. Moreover, prevailing opinion in the financial sector holds that the commercial banks will not significantly expand their individual home financing activity under any circumstances likely to prevail in Egypt in the foreseeable future. This would be particularly true should the Central Bank curtail its program of supplying advances to commercial banks.

Two specialized banks, the Real Estate and Credit Bank (Credit Foncier Egyptien) and the Arab Land Bank, although specifically charged with the responsibility for real estate and residential financing, have not responded to the need for long-term housing finance on a scale even approaching the potential demand. The Credit Foncier Egyptien was founded in 1881 and accounts for roughly 95% of the activity of these two specialized banks. However, the assets of the Credit Foncier amounted to only LE 56 million at the end of 1976 — the same as in 1974, but up from LE 37 million at the end of 1970.

Two factors appear to have contributed to the dormant state of the Credit Foncier in recent years. First, the Central Bank has prohibited the Credit Foncier from accepting deposits from any economic entity other than the insurance companies. Second, the management of the Credit Foncier has not seen fit to expand its issuance of bonds, the only other source of loanable funds aside from capital and the loan repayment flow. The last bond issue made by the Credit Foncier was in 1951.

The rationale for restricting the Credit Foncier's acceptance of time and savings deposits is the commercial banker's convention of matching maturities of the sources of funds with maturities of the uses of funds, a convention which has been violated with great success by established housing finance institutions in many parts of the world. No rationale or explanation has been offered for the Credit Foncier's failure to expand its financial base through bond issue. Given the strong public acceptance of the savings certificates (bonds) of the National Bank of Egypt, it can only be concluded that the relatively small financial base of the Credit Foncier is attributable to passive management.

The failure of the Credit Foncier to provide an adequate supply of long-term housing finance has contributed to the proliferation of a variety of approaches to home financing, all of which are outside the purview of the Central Bank, and to increased pressure on the Ministry of Housing and Reconstruction and the General Authority of Building and Housing Cooperatives to offer a solution.

Among these various approaches is the establishment, under the Ministry of Housing and Reconstruction, of the National Housing Fund. The National Housing Fund will obtain funds from a variety of sources for on-lending to the governorates and the housing cooperatives to finance the purchase of "economic" or "utility" housing ranging in size from 20 to 60 square meters per unit. Chief among these sources will be the national government's budget and the issuance of bonds. For 1977, the National Housing Fund has programmed £E 15 million from the government budget and £E 10 million from the sale of bonds. Compulsory purchase of NHF bonds in an amount equal to 10% of the cost of construction, excluding land cost, will be required of the builders/owners of housing units costing more than £E 50,000. Moreover, insurance companies will be required to place in NHF bonds a high, but as yet undetermined, percentage of their reserves against insurance of buildings.

The NHF bonds will be issued in £E 50 denominations and will bear a tax-exempt coupon rate of 6% over 20 years. The bonds will be negotiable within a period of not more than three years from the date of purchase and will be redeemable at par by the NHF five years after the date of purchase.

The NHF is to receive the proceeds of loan repayments and will, therefore, be a permanent fund for housing finance. Annual appropriations from the government budget are expected to continue for some years, so that capitalization of the NHF will increase significantly in the early years, at least.

Other less formal approaches are also being employed. One public sector building company is issuing its own redeemable bonds in £E 50 denominations yielding 2% to mobilize construction financing from prospective purchasers of apartment units it has under construction. Apartment units are allocated for purchase by the bond holders on the basis of a point system which gives preference to those with the largest holdings purchased at the earliest date. Many prospective purchasers place the full price of the unit in bonds in hopes of being assured the opportunity to buy. Demand is so strong that the bonds have been oversubscribed by approximately 30% and the company plans to make these funds available to provide financing to purchasers on four- to five-year terms at 7%. Another public sector building company offers a four-year savings plan to permit purchasers to accumulate a 50% down payment. Self-financing on an incremental construction basis also appears to be prevalent among lower- and middle-income families.

Joint venture companies established under Law 43 are giving special attention to mobilizing the foreign exchange earnings of the many Egyptians working abroad. Aside from the need for imported building materials, which is estimated to average about 20% of total construction costs, the need to import construction equipment (graders, bulldozers, etc.) to expand contractor capability constitutes a significant near-term foreign exchange requirement for the housing sector.

Even crude estimates of the total amount of funds being mobilized by such methods are not available. Their existence, however, points to both the existence of saving for housing and to the need for a viable, broadly based housing finance system to provide the institutional infrastructure for the mobilization and administration of domestic resources and supplemental international finance.

The recommendations which follow represent the best mutual judgment of the Joint Housing Team for Finance as to the means of establishing such a system.

RECOMMENDATION 1

The Credit Foncier Egyptien occupies the space in the financial system reserved for long-term housing finance specialization. This institution should therefore be an integral part of on-going efforts to address the housing problems of Egypt. At present, however, the Credit Foncier appears to be contributing very little to the solution of these problems. For this reason, it is recommended that several changes be made in the structure and operating procedures of the Credit Foncier.

Recommendation 1.1: It is recommended that the Central Bank lift its regulations regarding the acceptance of deposits by the Credit Foncier and permit the Credit Foncier to accept notice, time and savings deposits (but not current accounts) on the same terms and conditions offered by commercial banks, including the maintenance of a 30% reserve requirement on such deposits. It is further recommended that the Credit Foncier be permitted to accept such deposits in foreign currency denominations and to pay the rate of interest applicable to such deposits in foreign currency as a means of attracting savings from Egyptians working abroad.

Recommendation 1.2: Pending the outcome of the public acceptance of the National Housing Fund bonds, it is recommended that the Credit Foncier not undertake a new issue of its own lottery bonds. With the Savings Certificates of the National Bank of Egypt and the bonds of the National Housing Fund competing for funds in the same segment of the market, that market may not prove to be sufficiently broad and deep to sustain an issue of Credit Foncier lottery bonds. It is, in part, for this reason that a strategy of mobilizing funds for housing finance through deposit acceptance has been recommended above.

Recommendation 1.3: It is, however, recommended that the Credit Foncier prepare an issue of its own lottery bonds and stand ready to offer them for sale should the combined market for Savings Certificates and National Housing Fund bonds remain strong after the full subscription of the National Housing Fund bonds has occurred. That is, the issuance of Credit Foncier lottery bonds should be fully coordinated between the National Housing Fund, the Central Bank, and the Credit Foncier. Although the timing of the issue of new Credit Foncier bonds should depend on the absorptive capacity of the market, it is fully anticipated that such an issue can be made in the near future. With this probability in mind, it is recommended that consideration be given to offering these bonds at low interest, but with increased prize amounts, to include offering as the top prize a housing unit of comparable value to the monetary prize.

Recommendation 1.4: To more closely identify the Credit Foncier with the government's efforts in the field of housing and to enhance the opportunity for coordination and collaboration among the institutions responsible for housing and housing finance, it is recommended that the Credit Foncier undertake the sale and administration of the proceeds of the National Housing Fund bonds. That is, it is recommended that the Credit Foncier act in the capacity of fiduciary agent for the Board of Directors of the National Housing Fund.

Recommendation 1.5: Although the Credit Foncier is presently in sound financial condition, it is recognized that its internal operating procedures should be modernized to offer maximum convenience and efficient service to its clients and customers if the financial resources of the Credit Foncier are to grow sufficiently to meet the need for long-term housing finance in Egypt. Accordingly, a detailed program of action will be offered in the full report. It may be noted here, however, that the key elements of such a program would include:

a. Restructuring the Board of Directors to include representatives of the Ministry of Housing and Reconstruction, the National Housing Fund, the General Authority of Building and Housing Cooperatives, and the Central Bank;

b. streamlining teller operations and loan processing procedures, including wider latitude in loan approval for branch managers;

c. expanding the hours of operation to facilitate customer access to the financial services of the Credit Foncier;

d. development and implementation of an advertising and promotion campaign;

e. modernization of the physical facilities of the Credit Foncier; and

f. expansion of branch network to include one branch in the capital city of each governorate.

RECOMMENDATION 2

In its expanded role as a developer of housing projects, the General Authority of Building and Housing Cooperatives (GABHC) represents a strong force for solving the housing problems in Egypt. This force should become even greater with assured financing for GABHC "economic" housing through the National Housing Fund and GABHC "moderate" and "middle-income" housing through the Credit Foncier. In particular, the expansion of the availability of long-term housing finance through the establishment of the National Housing Fund and the revitalization and growth of the Credit Foncier should serve to reduce the claims of the GABHC on commercial bank resources, thereby allowing those resources to flow more freely into their natural channels of commerce and industry.

Recommendation 2.1: It is recommended, therefore, that the GABHC establish a relationship with the Credit Foncier, not only through GABHC representation on the Board of Directors of the Credit Foncier, but also by increasing its reliance on the Credit Foncier as a source of long-term loans for housing cooperatives. This is not to say that the GABHC should sever relationships with its present commercial bank sources, but rather that it begin to view the Credit Foncier as its strongest potential financial ally in the long run and to exert its best efforts toward promoting the expansion and development of the Credit Foncier.

Recommendation 2.2: Through an alliance of the GABHC and the Credit Foncier, it may be possible to reduce the 7% cost of funds now being quoted to the GABHC, particularly if the Credit Foncier were to be successful in attracting deposits, the weighted average cost of which would be less than the 6% rate to be paid on National Housing Fund bonds. Under the present structure of deposit rates, however, it would not be possible to reduce the lending rate below 6% without incurring losses. Accordingly, it is recommended that the 3% rate at which the GABHC currently on-lends to members of housing cooperatives be raised in recognition of the changes which have taken place in financial markets. This action is felt to be essential to eliminate a potentially significant distortion in the structure of interest rates which would limit the flow of funds into housing. While it is felt that housing and housing finance should not contribute to a further increase in the government's budget deficit and that housing cooperative members should not, in the national interest, expect to receive terms significantly more favorable than those prevailing in the market, it is recognized that political and economic conditions now existing in Egypt may preclude the elimination of subsidy altogether. At the very least, however, it is recommended that the form of the subsidy be changed from an interest rate subsidy to a one time or "write down" subsidy in the form of a cash grant to the purchaser or absorption by the government of certain costs, such as land and/or infrastructure costs, so as to reduce tne effective purchase price of the housing unit.

Recommendation 2.3: Given the acute housing shortage, particularly in Cairo, the large deficit in the government budget, and the limited amount of long-term financing presently available, it is recommended that the GABHC give priority to "economic" housing in its housing development activities so as to spread the available resources over the largest feasible number of housing units. It is further recommended that the extent to which the GABHC extends any of the tangible benefits of cooperative memberships bear a relationship to the members' ability to pay, especially if any kind of subsidy program through the GABHC is to be continued. Although there are many alternatives which might be employed in implementing this recommendation, the simplest approach from an administrative point of view is probably that of physical standards limitations.

RECOMMENDATION 3

The National Housing Fund represents a significant new initiative in the field of housing finance in Egypt, particularly for "economic" housing. Inasmuch as the National Housing Fund will initially draw the major portion of its capitalization from the government budget, it appears to offer the best hope for an immediate injection of funds into long-term housing finance. Moreover, since it is to be a "permanent" fund, with loan repayments and other revenues accruing to the fund for relending, the National Housing Fund promises to become a central element in the housing finance system of Egypt.

Although the National Housing Fund is to draw revenue from a variety of sources and although no firm quantitative estimates are available as to the relative importance of each source to the fund, it is fully expected that government budget allocation and the proceeds of bond issues will be the most important sources in the near term.

Recommendation 3.1: In order to both augment and diversify the major sources of funds for the NHF, it is recommended that consideration be given to allocating to the NHF that portion of the profits of public sector enterprises which is presently withheld as a fund for workers' housing, with the understanding that the loans granted by the NHF on the basis of such allocations reflect the local or regional sources of those funds.

Recommendation 3.2: The terms upon which the National Housing Fund will lend to the GABHC and the governorates have not been finalized. By the same reasoning given in Recommendation 2.2, however, it is recommended that the NHF lending rate accurately reflect the cost of funds in the market to avoid distorting the interest rate structure.

SUPPLEMENTARY FINDINGS

More complete analysis of the data contained in the main body of this report serves to strengthen the Team's recommendations (2.2, 2.3, and 3.2) regarding subsidization and the adaptation of loan terms to the ability to pay. The data referred to pertain to the informal housing sector (see pp. 21-23 below) and were obtained after the AID members of the Team had departed Egypt.

These data suggest that the poorest families in Cairo are not served by formal financial institutions nor do they receive assistance through government housing programs. Moreover, these families pay higher implicit rates of interest than those prevailing in the formal financial sector, not to mention those available through the GABHC, and must repay over shorter periods of time. The consequence is that lower income families suffer disproportionately under present housing finance arrangements and fewer families benefit from government budget allocations for housing than could be the case if alternative approaches were adopted.

Further elaboration of this point is given in the 1976 Report of the Joint Housing Team, "Immediate Action Proposals for Housing in Egypt," Chapter II and Chapter III, especially pp. 37-41.

ACTIONS TAKEN ON THE RECOMMENDATIONS
BY THE GOVERNMENT OF
EGYPT
THROUGH JULY, 1977

A. Level and Structure of Interest Rates

1. The 40% withholding tax on interest earned on deposits has been cancelled, which results in a substantial increase in the effective rate of return to the depositor.

2. A general upward revision of interest rates was announced by the Central Bank in March, 1977. Some slight changes in rate structure were effected, but in the main, all deposit and certificate rates rose by one percentage point as did most lending rates. The mortgage rate, however, remained unchanged in the range of 6.5% to 7.5%.

B. The Credit Foncier

1. The Credit Foncier has appointed a Special Commission to review the By-Laws of the institution, which govern its operating procedures. Within the context of this review, a formal proposal to permit the Credit Foncier to accept deposits is being prepared for submission to the Central Bank of Egypt. This proposal has already been discussed with the Central Bank and it appears that the Central Bank is favorably disposed toward granting deposit acceptance authority to the Credit Foncier.

2. A draft agreement between the National Housing Fund and the Credit Foncier, providing for the Credit Foncier to serve as fiduciary agent for the National Housing Fund, has been prepared and discussed. Among the provisions of this agreement is the provision for the National Housing Fund bonds to be sold through the offices of the Credit Foncier.

3. A draft agreement between the General Authority of Building and Housing Cooperatives has been prepared and discussed. This draft agreement provides for such coordinated action as the processing by the Credit Foncier of loan applications for cooperative housing.

4. In addition, the General Authority for Building and Housing Cooperatives has transferred its loan request for 1977 funding from the commercial banks to the Credit Foncier and

a loan agreement has been prepared. The agreement provides for LE 6 million at 7%, 30 years, with a four-year grace period.

5. The Credit Foncier has prepared a development plan which outlines its strategy for expansion. The plan addresses such issues as simplification of loan application procedures, expansion of the branch network, diversification of the loan portfolio, coordination with other housing agencies, etc.

6. The Credit Foncier has liberalized its loan appraisal procedures to base loan amounts on actual market value. This has resulted in an increase in the effective loan-to-value ratio from about 40% to about 60%.

7. The Central Bank of Egypt has extended a LE 45 million line of credit to the Credit Foncier at 4½%, with full repayment by 1991. The maximum drawdown for 1977 is LE 15 million; annual drawdowns, linked to the five-year economic development plan, are provided over an additional four years.

8. The composition of the Board of Directors of the Credit Foncier has been expanded to include a representative of the Ministry of Housing and Reconstruction and a new Chairman of the Board has been appointed. Additional changes in the management of the Credit Foncier have been made to introduce greater dynamism into its operations.

I. INTRODUCTION

The population of the Arab Republic of Egypt has been estimated at 38.5 million persons in 1976, reflecting an average annual rate of growth of 2.3% over the 1966-1976 period. Should this rate of growth continue, the population of Egypt will double within the next 30 years.

The land area of Egypt covers some 387,000 square miles, but the vast majority of that area is desert and is, for all practical purposes, uninhabited. Only about 15,000 square miles -- less than 4% of the total land area -- is available for human settlements. These circumstances produce high population densities, particularly in the major cities.

Moreover, the fact that virtually all arable land is being used and land reclamation efforts have not yet succeeded in significantly expanding the base of agricultural land implies not only a serious constraint on food production but also a severe limit on employment opportunities for a growing population in the rural sector. Consequently, the extent of rural-to-urban migration places an even heavier burden on the housing delivery system in Egypt than in most developing countries.

Thus, while the population of Egypt is growing at 2.3%, Greater Cairo is estimated to be growing at a rate in excess of 4% and while the housing deficit for all of Egypt is estimated at around 1.5 million units, the housing deficit for Greater Cairo alone is estimated at roughly one-third, or 500,000 units, of the total deficit, even though the population of Cairo represents only about 20% of total population. In Cairo, therefore, it can be estimated that one family in every three families, assuming a family size of five persons, lives in substandard housing. In particular, it is estimated that the average room density in Cairo is approaching three persons per room, greatly in excess of the standards required for health and sanitation, not to mention social considerations. Clearly, housing production has not kept pace with population growth and housing need.

In many respects, these circumstances are a reflection of the general state of the Egyptian economy which, for many reasons, has not been able to generate sufficient production to provide adequately for the social and economic well-being of the people while carrying a significant military-preparedness burden. But these circumstances are also a reflection of the state of the institutional infrastructure, which is an integral part of the housing delivery system and which comprises not only the institutions engaged in housing production, marketing, and finance, but also the set of government policies within which these institutions must operate.

This report deals with the Egyptian housing delivery system as it relates to housing finance, specifically, to the mobilization, allocation, and administration of financial resources dedicated to housing. In describing, analyzing, and evaluating the housing finance system as it exists today in Egypt and in making recommendations for the expansion and improvement of that system, it has been necessary to consider a broader range of issues than in the usual case.

The Egyptian financial system is embedded in the matrix of an economic structure organized around central planning rather than around free markets. And although current economic policy is directed toward the re-establishment of a market system of price determination and resource allocation, much remains to be done to accomplish this objective.

To illustrate, income levels in Egypt are low even by developing country standards; median family income in urban areas was estimated in 1975 at LE 453, or US$ 648. Consumption standards, however, are somewhat higher than this income level would imply in market economies because of the broad array of implicit and explicit government subsidies which are being employed to ease the burden on individual families. The subsidy system, of course, shifts this burden to the government budget and leads to revenue measures which may be counterproductive in the achievement of economic development objectives. Moreover, the existence of the subsidy system tends to perpetuate low wages and salaries -- in economizing on its expenditures, the government sets low salary standards for its own employees.

Three examples are worth noting in this context. Rent control, which is designed to make housing affordable for a broad range of the population, has virtually eliminated the incentive to build for rental. The consequence has been little new construction of rental units. Moreover, landlords require the payment of "key money," though illegal, on such units as are available; families of modest means generally cannot afford the "key money," so the original objective of the rent control measures are not achieved and fewer rental units are built.

As a revenue measure, a 40% withholding tax is imposed on interest earnings on deposits in financial institutions, thereby significantly reducing the effective yield to the depositor and limiting the ability of the financial sector to mobilize financial resources. Faced with a low return for saving, many will allocate their resources to the purchase of durable consumer goods, thus reducing the aggregate saving rate. But suggestions for repeal of this tax are inevitably met with concern for the revenue loss to the government budget.

A related issue centers on the government's subsidization of interest costs to cooperative housing projects. The General Authority of Housing and Building Cooperatives provides long-term housing loans to cooperative members at interest rates significantly below the market rate. Since the standards for cooperative membership are quite liberal, not only is a burden placed on the government budget in covering the differential in interest costs for families which could afford to pay the market rate of interest but financial institutions are effectively screened out of a significant segment of the mortgage market. Progress toward the re-establishment of a market system is, therefore, being limited. Equally important is the expenditure of scarce budget resources to subsidize costs for some families which could afford to pay the full costs.

The main body of this report represents an attempt to take into account the complexity of Egyptian financial and economic structures and, in the recommendations which flow from the report, to chart a course which can lead in the direction of a stronger housing finance system in Egypt.

II. THE FINANCIAL SECTOR

A. INTRODUCTION

A relatively complete range of financial institutions comprise the financial sector in Egypt — commercial banks, investment banks, an agricultural bank, mortgage banks, a postal savings system, insurance companies, and a stock exchange. Consequently, the developmental issues do not focus on the establishment of new institutions so much as upon making the existing institutions more efficient and more effective.

This section of the report contains a brief description of each of the several types of institutions and concludes with a quantitative analysis of the level of financial development in Egypt as a means of evaluating the effectiveness of these institutions in mobilizing saving.

B. HISTORY AND RECENT DEVELOPMENTS IN BANKING

In the period prior to 1920, the only banks doing business in Egypt were foreign-owned branches whose head offices were located abroad. Even after the establishment of Misr Bank -- the first fully national bank — the foreign banks were the dominant force since there was no central bank. In 1951, Law No. 57 granted the National Bank of Egypt some of the powers of a central bank. In 1957, Law No. 22 provided for the Egyptianization of all banks. Further legislation provided for the public ownership of the banking system so that its policies would conform with the aims of economic development plans. By July, 1961, all banks and financial institutions were nationalized.

This was followed, in 1963, by several mergers as a result of which the number of banking units was reduced to five commercial banks, three mortgage banks, an industrial bank, and the Agricultural Cooperative Credit Organization. In 1964, the system of "sectoral specialization" was instituted, whereby each of the five commercial banks was given responsibility for providing finance to public companies in the sectors allocated to it. The private sector was left free to transact its business through banks of its own choosing. This system continued to operate until 1971, when Presidential Decree No. 2422 was promulgated whereby Banque de Port Said was merged with Misr Bank, the Industrial Bank with the Bank of Alexandria, and the Credit Foncier with the Egyptian Real Estate Bank. These mergers reduced the banking system to four commercial banks, two mortgage banks, and the Agricultural Cooperative Credit Organization. Furthermore, banking business was reallocated on a "functional" basis, effectively putting an end to competition among the banks.

Law No. 43 of June, 1974, provides for some liberalization of the banking system by granting Egyptians and foreigners the right to undertake banking business in Egypt (in the form of joint-venture banks, merchant and investment banks, and branches) and by granting exemptions from certain laws governing foreign exchange, employment, and taxes.

Presidential Decree No. 663 on July 7, 1975, repealed the 1971 decree allocating banking business on a functional basis and leaving the public sector free to transact its business through banks of its own choosing.

Law No. 120, 1975, provides that the Central Bank of Egypt is an independent public legal persona entrusted with laying down monetary, credit, and banking policy. A number of other provisions are designed to give the Central Bank and the commercial banking system increased powers and flexibility in meeting their responsibilities as makers and implementors of monetary policy.

C. EXISTING FINANCIAL INSTITUTIONS

1. Commercial Banks

There are four major commercial banks in operation in Egypt:

National Bank of Egypt
Misr Bank
Bank of Alexandria
Bank of Cairo

These banks, which operate nationwide, have a network of more than 500 branches. Loans and credits are extended to private sector enterprises as well as to government and public sector agencies and companies. These commerical banks are important sources of credits to the housing finance system by reason of the long-term loans which they make to the Credit Foncier the General Authority of Building and Housing Cooperatives, and the private sector contracting companies. The banks also grant loans to individuals, some of which are probably used to finance housing, but the extent and amount of such credits are negligible. Supervision and control over their affairs and activities are vested in the Central Bank of Egypt.

2. Joint Venture Banks

In addition to these major commercial banks, there are a number of joint venture banks which perform some of the functions of commercial banks in domestic and/or foreign currency.

There are also a number of other institutions that carry banking titles but are entitled to perform few of the functions normally associated with banks. Moreover, Law No. 43, 1974, allows foreign banks to establish both "on-shore" and "off-shore" branches to deal solely in foreign currency.

Although banking developments under the terms of Law No. 43 have been rapid, and a number of joint banking ventures have been approved, only a few have actually opened their doors. Among these are the Misr-American Bank with a capital of £E 6 million, a joint venture between the Bank of Alexandria and American Express International Corporation, and the Misr-Iran Development Bank with a capital of $20 million, a joint venture of Bank Melli Iran, Iran Industrial and Mining Development Bank, Bank of Alexandria, and Misr Insurance Co. Chase Manhattan Bank with the National Bank of Egypt, and Barclays Bank International with the Cairo Bank are other major joint venture partners. So far, these joint venture banks are small by comparison with Egypt's commercial banks, and they will undoubtedly focus their lending activity in areas relating to international trade. It is unlikely that they will ever become a major force in housing finance. Therefore, they will receive no further mention in this report.

3. <u>The Postal Savings System</u>

The Postal Savings System operates in the traditional pattern, serving only as a vehicle for savings accumulation for the depositors. The funds so mobilized serve to finance a part of the government's budget deficit and do not constitute a source of credit to any other economic entity.

4. <u>Agricultural and Cooperative Organization</u>

This is a system of independent government agriculture and credit cooperatives — in reality, joint stock companies -- all affiliated with a general organization. More than 100 main and branch offices are in operation throughout the country. Their focus is naturally on agriculture, and they are not part of the housing finance system.

5. <u>Credit Foncier Egyptien (CFE)</u>

This institution is small by comparison to the commercial banks. Total loans outstanding in 1976 amounted to less than £E 48 million, compared to some £E 900 million for the commercial banking system. Further, the CFE owed more than £E 20 million to the commercial banking system so that its net contribution to the mobilization of funds was very limited. The CFE is a key element in the formal housing finance system, however, and as such is discussed in detail in Chapter III.

It should be noted that the CFE is not Egypt's only mortgage bank. A joint venture bank, known as the Arab Land Bank, also exists, but it is very small, even by comparison to the CFE.

6. Nasser Social Bank

This unique four- to five-year-old organization accepts deposits on which no interest is paid, but on which the owners receive dividends (currently 7%) from profits. Its capital of £E 1,000,000 was contributed by the government; banks and other public sector companies pay annually 2% of their net profits as additional capital. It was created to make interest-free loans for social needs, such as those arising from death or divorce. However, its management is evidently quite aggressive and its principal income is currently derived from the purchase and sale, for a profit, of personal property such as automobiles -- many to be used as taxis -- and trucks. Involved in the sale is a long-term interest-free loan.

Based on information now available, it appears that this bank, not now an important factor in the financial community may, by reason of the profit it makes and the contributions it receives from the public sector companies and an aggressive management, become a significant force. It is not subject to Central Bank supervision.

7. The Cairo Stock Exchange

The exchange is open again, and a fair number of stocks and bonds are traded. The volume of trading is not large, but is reportedly growing. The lottery bonds of the Credit Foncier Egyptien were traded, albeit at a discount, because of their low interest rates.

The exchange might provide investment financing for some of the manufacturers of construction supplies such as iron and cement, or even for some large construction companies. There was no evidence, however, that there was a large unmet need for low-interest housing bonds. It is not likely to play a major role in housing finance, though its existence is important in that it could serve to enhance the liquidity of long-term bonds.

8. The Egyptian General Insurance Organization

There are three insurance companies and one reinvestment insurance company in operation in Egypt*, as follows:

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* In addition, on March 4, 1976, Presidential Decree No. 224 was promulgated authorizing the establishment of the Arab International Insurance Co., S.A.E., as a joint venture company between Misr Insurance Co. and a number of Arab and foreign companies. With a capital of $3 million, the company will aim at carrying on insurance and reinsurance operations.

- Misr Insurance Company
- Al-Chark Insurance Company
- The National Insurance Company
- Egyptian Reinsurance Company

These are public sector companies but, according to a representative of the General Authority for Control of Insurance Companies, the government seldom or never interferes in their affairs or operation. Each of the three producing companies writes life insurance (individual, group, and capital redemption) and casualty insurance (fire, automobile, marine, and other coverages). The three companies are required by law to reinsure a specified portion of their liabilities to the Egyptian Reinsurance Company. Having done this, they are then free to reinsure with insurance companies located anywhere in the world.

The companies have branches located outside of Egypt, including the countries of Kuwait, Bahrain, Jordan, and Lebanon; they can and do write coverage on risks located in these and other countries. Many companies (and individuals), located in Egypt or elsewhere, prefer to pay premiums with foreign currencies because by doing so they are indemnified in the same currency.

Generally, lenders do not require fire insurance protection on real property securing mortgage loans. The real risk to lenders seems to be in the quality of construction, and indemnity against hazards resulting from faulty construction is widely written. The coverage is granted only after certain professional examinations of structures are made during and after completion of construction and runs for periods of 10 to 12 years after the inception of the policies. Premiums produced by this type of business constitute an important source of income for all three companies.

The insurance companies do not constitute an important segment of the housing industry, either by way of financing or through ownership. However, they have mobilized a substantial amount of savings through premium collections from which they must provide reserves against claims of policyholders.

At the end of 1975, the combined assets of the companies amounted to ££ 133 million, and included real estate, investments in joint venture companies, and government securities to the extent of a large portion of statutory reserves. A detailed balance sheet is shown in the Statistical Appendix for the years 1973 and 1974. The insurance companies are substantial investors in real estate equities, but most of this investment is in commercial property. At present, much is invested in one- or two-story strip-type shop properties but, if permission is given, demolition of much of this type of real estate and replacement with more modern commercial structures, including hotels and office buildings, is planned.

The companies are generally not investors in housing properties because rent control makes it unprofitable to be a landlord and because they are not permitted to invest in mortgage loans, though an attempt to remove this restriction is now under way. They are, however, substantial owners of government securities and have always covered their allotments.

D. THE LEVEL OF FINANCIAL DEVELOPMENT

The principal role of the financial sector in any market economy is the mobilization and allocation of financial resources among competing uses. Since claims against money constitute the means through which claims against real resources are exercised, optimal efficiency should be described in terms of minimizing the stock of idle financial resources. The financial system approaches this objective by offering an array of financial assets (demand deposits, time deposits, bonds, etc.) sufficiently broad and sufficiently varied to appeal to the time horizons and risk-return preferences of all potential lenders and by offering to potential borrowers an array of financial liabilities sufficiently broad and sufficiently varied to accommodate the range of uses to which the funds are to be put.

Inasmuch as households in developing countries almost invariably constitute the largest source of untapped savings, and inasmuch as long-term housing finance is essential in virtually all countries to make homeownership a mass market phenomenon, the introduction or the expansion of a housing finance system usually serves not only to expand the housing market but also to promote financial development by addressing a segment of the population which is not being served adequately by existing financial institutions.

The commercial banking system is the largest element of the financial sector in Egypt. This is customary, for it is through the commercial banks that modern monetized economies carry out the majority of interorganizational transactions, especially those involving business or government organizations.

Commercial banking which serves only these transactions needs does not, however, reflect a very high level of financial development. Such a banking system will be characterized by a predominance in its liability portfolio of demand (or sight) deposits, which must be construed as working balances. Similarly, a financial system which is characterized by a money supply composed substantially of currency in circulation, as opposed to funds held on deposit, has not attained a very high level of financial development, inasmuch as money held as currency serves only to facilitate transactions and to provide a store of non-productive wealth. Only if money is held in some deposit form can the financial system perform its key developmental function of collecting and channeling the idle balances into loans for productive investment.

One of the most robust measures of the level of financial development is the ratio of currency in circulation to the total stock of liquid financial assets. This ratio indicates the extent to which financial assets have been pooled and became subject to financial intermediation. Specifically, the lower the ratio, the more highly developed is the financial system — that is, the more effective the system has become in developing an array of financial instruments with which to mobilize financial resources.

A slightly more sophisticated measure of financial development can also be employed — the ratio of gross national product to the money supply, narrowly defined to include only currency in circulation and demand deposits or broadly defined to include currency, demand deposits, and time and savings deposits. These ratios are called income velocity measures. Historical patterns drawn from the experience of many countries indicate that, over a long span of financial development, velocity, as measured with a broad definition of the money supply, will decline as development proceeds. An extension of this finding, though less well-established, is that velocity, as measured with a narrow definition of the money supply, will rise as financial development proceeds owing to improved efficiency and increased sophistication in handling transactions balances.

Table II-1 contains the monetary variables of principal interest as well as the measures of financial development discussed in the previous section. On the whole, they show remarkably little evidence of financial development in Egypt over the last fifteen years. The most promising sign of financial development is that Quasi-Money (Column 4 in Table II-1) has grown more consistently and more rapidly (15.0% per year) than any of the other monetary aggregates.

But currency in circulation has grown almost as rapidly (12.7% per year). Since the velocity of the money supply, narrowly defined, has fallen by almost 40% from its 1970-71 high of almost 4, all this currency is clearly not needed for transactions. The economy has proven itself technically capable of an income velocity of 3.98 for M1 balances, so the 1975 level of GNP should only have required £E 1149 million in transactions balances. Thus, as much as £E 714 million of the money held by the public in the form of currency and demand deposits could evidently be shifted to savings and time deposits even if the efficiency of the financial system had not improved appreciably since 1970-71.

This finding is especially important in light of the fact that time and savings deposits have not been growing significantly as a percentage of the broadly-defined money supply; it suggests that new initiatives in the mobilization of funds for housing finance might prove highly successful.

Table II-1

Measures of Financial Growth and Development
(in millions LE and ratios)

Year	(1) Currency in Circulation	(2) Private Demand Deposits	(3) ((1)+(2)) Narrowly Defined Money Supply, M[1]	(4) Time and Savings Deposits & Savings Certificates	(5) ((3)+(4)) Broadly Defined Money Supply, M[2]	(6) Gross National Product[2]	(7) (1)/(3)	(8) (1)/(5)	(9) (4)/(5)	(10) (6)/(3)	(11) (6)/(5)
60/61[3]	207.8	199.7	407.5	103.6	538.1	1467.0	.510	.386	.243	3.600	2.726
61/62	252.9	182.5	435.4	157.8	590.2	1550.0	.581	.428	.267	3.560	2.626
62/63	287.0	164.1	451.1	198.6	649.7	1679.0	.636	.442	.306	3.722	2.584
63/64	358.4	187.5	545.9	230.2	776.1	1883.0	.657	.462	.297	3.449	2.426
64/65	413.1	193.3	606.4	255.3	861.7	2191.8	.681	.479	.296	3.614	2.544
65/66	437.5	230.1	667.6	279.6	947.2	2388.2	.655	.462	.295	3.577	2.521
June, 1967 War											
66/67	432.6	236.6	669.2	308.1	977.3	2475.0	.646	.443	.315	3.698	2.532
67/68	416.5	233.3	649.8	332.8	982.6	2509.7	.641	.424	.339	3.862	2.554
68/69	436.0	251.8	687.8	382.5	1070.3	2657.0	.634	.407	.357	3.863	2.482
69	495.9	250.1	746.0				.665				
69/70	474.9	286.6	761.5	431.8	1193.3	2[illegible]26.[illegible]	.624	.398	.362	3.844	2.453

1. Includes time and savings deposits with banks, Postal Savings Deposits, and all three types of Savings Certificates.
2. In current prices. Source: Ministry of Planning.
3. Monetary data used for the fiscal years are for the last day of the fiscal year, i.e., either June 30 or, after 1971, December 31.

Table II-1

Measures of Financial Growth and Development
(in millions LE and ratios)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Year	Currency in Circulation	Private Demand Deposits	((1)+(2)) Narrowly Defined Money Supply, M^1	Time and Savings Deposits & Savings Certificates	((3)+(4)) Broadly Defined Money Supply, M^2	Gross National Product[2]	(1)/(3)	(1)/(5)	(4)/(5)	(6)/(3)	(6)/(5)
70	524.9	257.9	782.8				.671				
70/71	505.9	269.5	775.4	438.6	1214.0	3086.3	.652	.417	.361	2.980	2.542
71	558.7	287.5	846.2				.660				
71/72	555.4	311.2	866.6	458.2	1324.8	3274.5	.641	.419	.346	3.779	2.472
72	631.4	357.9	989.3	510.5	1499.8	3403.0	.638	.421	.340	3.440	2.269
October, 1973 War											
73	777.2	427.6	1204.8	624.8	1829.6	3643.0	.645	.425	.341	3.024	1.991
74	947.6	555.2	1502.8	853.1	2355.9	3949.0	.631	.402	.362	2.628	1.676
75	1155.9	706.7	1862.6	989.8	2852.4	4571.6*	.621	.405	.347	2.454	1.603
9/76	1295.3	880.8	2176.1				.595				
Growth Rates Since:											
60/61	12.7%/yr.	10.2%/yr.	11.6%/yr.	15.0%/yr.	12.2%/yr.	8.2%/yr.					
Dec. 73	20.4%/yr.	30.1%/yr.	24.0%/yr.	25.9%/yr.	24.9%/yr.	12.0%/yr.					

*Provisional Estimate. Source: Ministry of Planning for all GNP data.

III. HOUSING FINANCE IN EGYPT

A. INFORMAL MECHANISMS

It is estimated that 50% of the building activity in Cairo takes place through the "informal" sector, i.e., it is conducted without building permits or clear title to the land. The houses are normally "squatter" settlements on government land or are built on land that has been "illegally" subdivided by the individual owners and sold off at relatively low prices. Financing of this form of housing construction must of necessity be obtained from sources other than the existing formal credit institutions, which require documentation of land title, building permits, etc.

Several informal financing mechanisms have been devised which make such building activity affordable for families with limited means. The bulk of the financing is through personal savings. Informal savings cooperatives (gamiya) whose membership is on a highly selective basis, are a prevalent means of savings for families at all income levels, but they tend to be even more widespread among lower income families. They are generally formed as a means of making cash available when needed for the purchase of a variety of relatively expensive items including those connected with housing. Each member is entitled to receive the full amount pooled by the group on a monthly rotating basis after contributing a specific sum each month. All the families interviewed mentioned these cooperatives as their prime source of savings. However, it should be pointed out that the cooperatives are rarely formed for the sole purpose of meeting the housing finance needs of their members.

Purchase of the land requires an initial down payment which is agreed upon between the buyer and seller. The remaining balance is then paid off in equal installments over a period of up to 12 years. The number and size of installments is also decided upon between seller and buyer. In some instances, the buyer is charged a fee of roughly 10-20% to compensate the seller for the amount of time he has to wait before receiving full payment. This practice is not uncommon in the purchase of other commodities such as clothing or household goods and is viewed as a price paid for the seller's "patience" rather than as interest.

Construction normally begins before the land is fully paid for and is done on a gradual basis. In the areas where such informal construction takes place, one can observe housing units at various stages of completion ranging from one- to two-room dwellings with makeshift roofs to two- and three-story apartment buildings intended for rental. The owner-occupied single-family dwellings which start on a very modest scale are converted over the years to allow for rental of rooms or apartments. Once the owner can afford to install a roof it allows him to build an additional floor and rent some parts of the house in order to recover part of his investment.

Financing for this gradual form of construction is either through direct payment to laborers on a piece-rate basis, or through payment of part of the cost to a "contractor" and paying off the balance in installments over a period which may range up to three years. In the latter instance, the costs of construction run higher. The contractor obtains a markup in the price as a form of hidden interest on the credit extended to the homeowner. Default on payment does not seem to be a concern for the gradual nature of the construction allows the contractor time in which to gauge the reliability of their customers' payment of debts. The installments paid out to the contractors range from 5-20 LE/month depending on family income and the type of house. Arrangements are also made for the contractor to collect the income from rental units as a means of payment.

The activity of the informal sector seems to indicate that the system works relatively effectively. However, it should be pointed out that the cost of this method of financing and building in stages is to a large extent uncontrolled. Indeed, it is difficult to get homeowners to give a rough estimate of how much money has been invested in their housing.

On a somewhat more formal scale, two public sector construction firms have developed financing schemes designed to overcome the shortage of both construction financing and long-term mortgage financing for their own housing projects.

1. The Cairo Company

The Cairo Company has already completed and sold one project of 96 units consisting of a varied mix of 4-, 5-, and 6-room flats. At present, it is working on a project which, when completed approximately four years hence, will provide 64 five- and six-room apartments, 15 units containing five and six rooms each, and 300 units of three and four rooms each. Floor areas of these units will vary from 140 to 200 square meters.

The company has developed a unique but apparently very successful method of selling prior-to-construction equities in its units and of selecting persons who will become the eventual purchasers.

After the selection of location and completion of apartment plans, but prior to the commencement of construction, details of location, type, and size of flats are made public by way of advertising. Location of where floor plans and models may be inspected is included in the advertisement, along with a declaration to the effect that prospective purchasers must become the owners of at least a minimum number of bonds. The minimum value is computed on the basis of the proposed selling prices for the units. It is from the bond purchasers that the ultimate flat owners are selected.

Those who have purchased bonds are awarded points based on (1) the number of bonds purchased (par value £E 50 each), and (2) the chronological order of such purchases. Apartments are henceforth allocated in descending order starting with the highest point scorer. Each prospective purchaser makes a choice of apartments from plans and models. First choice is awarded to the highest point scorer, with next choices being awarded to the next highest point holder and so on, until all apartments are allocated.

Once allocations are ma committee of bond holders checks for accuracy and fairness as to wards. Assuming satisfaction or satisfactory adjustments, the ect is again advertised, and any purchasers who do not withdraw a t point are obligated to complete their part of the transaction.

Eventually the bonds are applied to the purchase price of the flats. Experience to date proves that the amount of the bonds purchased usually equals or exceeds the contracted price but, in the rare instances this has not been so, four-to-five-year, 7% interest bank financing has been available.

An interest rate of 2% per year is paid on the bonds until they are applied to the purchase price of the unit. The principal is guaranteed by the Bank of Cairo, but both principal and interest are the obligation of the building company which acts as agent for the Cairo Company and as the equivalent of trustee for the bond holders. The Bank of Cairo charges a 1% service fee to the company, with certain additional fees charged if the bond proceeds are drawn down below certain levels. One possible problem which may trouble the bank is the provision that the Cairo Company can draw up to 70% of the amount of funds attributable to bonds which were not applied to purchases or redeemed.

Bond purchasers who, for some reason, do not select an apartment in the project, or those to whom selections were not awarded, can redeem their holdings without penalty. However, this is seldom done, since those holders will receive "time of purchase" points in connection with the next project to be offered. As was previously pointed out, there is a minimum of bonds which must be purchased based on the proposed selling price -- which may later rise by as much as 10% -- but there is no maximum purchase limitation.

All purchasers of bonds and properties are believed to have been local residents and all transactions have been paid for in local currency. No information was available as to the sources of funds received, but it is believed that some amounts may not have come from bank deposits.

Although present government policies are aimed at satisfying the great low-cost sector housing demand, the company has not entered the low-cost market. It is expected that satisfying this demand will be left to governmental agencies.

Recently, the company formed, under Law 43, 1974, a subsidiary which is to build housing for use by foreign visitors to Egypt, visitors who are in Egypt either on a temporary or permanent basis.

Egyptian and foreign building firms have been used in the past; emphasis may be on the use of foreign firms in the future. Building times average 18 months, plus 2 to 3 months mobilization periods. Up to now, building materials have been secured by monthly allotments from the Ministry of Housing and Reconstruction, but it is possible that in the future there will be increasing dependency on imports at higher prices. If that situation develops, it may be necessary to reduce the size of apartments so as to avoid any drastic increases in asking prices for flats.

2. Arab Contractors' 10,000 Unit Project

Arab Contractors (a public sector company) petitioned the General Authority for Arab and Foreign Investments for joint venture status for the Project under Law 43, 1974, a key piece of legislation in the new "open door" policy.

The advantages of joint venture status under Law 43 are exemption from all taxes for five years and exemption from regulation on rent in perpetuity.

As presented and approved, the Project encourages foreign investors and non-resident Egyptians to purchase units in foreign currency by providing certain reconversion rights to those buying wholly or in part in foreign currency. Each investor, whether Egyptian or foreign and whether paying in Egyptian pounds or foreign currency, will have the status of a joint venture firm with the attendant exemptions from rent control and from all taxes for a period of five years. However, only those paying in foreign currency will have the currency reconversion rights which are: right to sell to another non-resident or foreigner and receive payments in foreign currency, which can in turn be held in foreign currency accounts or taken out of the country; right to rent to foreigners or Egyptians and receive payments in foreign currency which can also be held in foreign currency accounts or taken out of the country, and right to rent for payment in Egyptian pounds and exchange for foreign currency that part of the rent which amounts to 6% of the investment.

When the company has purchased the land and developed the plans for a new building, it begins to accept down payments. While the terms of payment vary depending upon the size and cost of the unit, in all cases at least half of the purchase price will be paid before occupancy. There will be two classes of units built in the project -- luxury and semi-luxury. While the prices of the units are not fixed yet and will not be until construction is completed, they are definitely expensive units. The luxury units will vary in size from 240 to 360 square meters, while the semi-luxury units will vary from 150 to 240 square meters. The semi-luxury units are projected to cost slightly more than half as much as the luxury units.

The apartment buildings will be built in combination with shopping centers, cinemas, and office buildings as part of large complexes, and the apartments will all be in high-rise structures (from 25 to 40 stories). The construction techniques will require a heavy investment in foreign capital goods such as cranes, mixers, etc., and the high-rise feature necessitates the use of imported steel beams, elevators, etc. Another unique feature of the project is the provision to the owner/investor of the option of selecting from amongst various imported plumbing fixtures, floor coverings, tiles, etc. to make his unit reflect his own tastes. This also requires foreign exchange. In all, about 40% of the total cost of the project will be incurred in foreign currency.

The foreign exchange required for all of this is to be generated through the sale of some units to foreigners and non-residents.

Down payments range up to 25%, but seem to average about 16% of the expected sale value of the units. By the end of 1976, some $5.9 million had been collected in foreign currency, and some $14.0 million had been collected in Egyptian pounds. This collection ratio indicates that only about 30% of the sales made thus far have been made in foreign currency. This is somewhat below the 40% planned, but presents no current problem since local currency is used for land purchases and labor, and much of the foreign currency demand comes late in the project.

The plan calls for the following mix of units:

	To Be Paid For In:	
	Foreign Currency	Local Currency
Type of Unit		
Luxury	1500	500
Semi-luxury	2000	6000

So far, 470 units have been sold for foreign currency, and 1,771 have been sold for Egyptian pounds. One reason for the rapid subscription of the local currency units is that, since the Project is intended to generate its own foreign currency needs, LE will not need to be sold in the parallel market to buy foreign building materials. Thus, the LE is valued at the official exchange rate of $2.55 instead of the parallel market value of $1.43 for the purposes of pricing units in these developments. That fact, combined with the exemption from rent control and the five-year tax holiday, makes the units extremely attractive to resident Egyptian investors.

The Project will run well into the 1980s and will consist of three phases of 2500, 3500, and 4000 units each. The second phase is planned to begin in 1978.

While it is never surprising to find that wealthy investors are able to arrange financing for investments in real estate, it is informative to review just how this is being accomplished in this case.

Down payments are made before construction begins. Indeed, the expected term from down payment to occupancy is three to four years. For the luxury units, the expectation is that the units will be paid for in full before or as they are completed. The semi-luxury units will be handled somewhat differently. Arrangements have been made for ten year, 7% interest financing for 50% of the cost of the unit through a commercial bank loan guaranteed by Arab Contractors. Although it is not clear how many of the 2,241 units already sold are semi-luxury units, it seems safe to assume that at least 1,000 semi-luxury units have already been sold, since 70% of the units to be built will be semi-luxury. This is significant since it proves that, at least under favorable investment conditions, no interest rate subsidy is necessary to encourage investment in housing.

Of equal interest is the financing arrangement reached by the Arab Contractors on another project of 1,000 units. These units are being built for their own employees, and the project was launched under financing agreements very much like those used for the semi-luxury units in the 10,000-unit Project. Buyers were required to make down payments of 15-25% before construction began, with additional payments to be made during the construction phase so that at the time of occupancy only about half of the purchase price would remain to be financed. Financing was to come from a commercial bank loan guaranteed by Arab Contractors. The terms were to be ten years at 7%. When the General Authority of Building and Housing Cooperatives (GABHC) raised its maximum allowable loan to £E 5000, provided only that this not exceed 80% of the value of the unit, a more lucrative option was clearly available. A cooperative was formed, and GABHC will loan 750 buyers up to £E 5000 at 3% for a term of 30 years. This amounts to a subsidy with a net discounted present value of £E 1834 for each £E 5000 loan, and will reduce the annual payments from £E 712 for ten years to £E 255 for 30 years.

B. GOVERNMENTAL MECHANISMS

1. The General Authority of Housing and Building Cooperatives

a. Purpose and Functions

This agency of the government was created in 1954 for the purpose of assisting cooperatives (composed of persons with a common reason for joining together, such as teachers, engineers, police officers, etc.) in their aim to provide housing for their members. It has no capital, does not take deposits, and its annual overhead is paid out of the national budget. GABHC provides advice to cooperatives and reviews the building sites selected and the construction plans of structures intended to house cooperative members. In addition, the authority supervises the construction work at the site.

GABHC also acts directly to provide housing by acquiring and developing sites and designing, planning, and building such projects. At some time during the process, it circulates information to prospective cooperative purchasers; if successful in finding an interested group, it sells the building to the cooperative members. If unsuccessful in finding a ready cooperative buyer, the authority forms a cooperative, either by selecting individual members from a waiting list or by soliciting other individuals.

b. Loan Policy

Of primary importance to the cooperatives are the loans made to the members of the cooperative, each loan being based on the cost of the housing unit. In addition, the equity payment of each member of the cooperative in an individual unit is collected and disbursed to the contractor, along with the loan proceeds, as the building progresses. In the case of cooperatives coming to the organization or those to which a project has been sold, GABHC receives its loan payments from the cooperatives which, in turn, deal with individual members. In the case of cooperatives formed by it, the authority deals with the individual members. In all cases, loan payments are generally on an annual basis, and the cooperatives are required to see that their buildings are properly cared for and maintained.

As noted, equity payments are collected at the start of each project. Since GABHC has no funds, it borrows an amount equal to the loans granted to individual purchasers from commercial banks. These loans are on a long-term basis against a repayment guarantee to the creditor bank by the government. At present, GABHC is obligated to commercial banks for loans in the amount of £E 9 million.

Inflation and housing shortages have had a considerable effect on the prices of residential real estate in the last several years. In order to minimize the effect thereof on cooperative membership, GABHC has imposed two restrictions on cooperative members. The first decrees that no member shall own more than one cooperative property. The second provides that, in the event that a cooperative member sells his unit, the price can be no more than the price he originally paid. In practice, the purchaser pays that price: he pays the seller, in cash, the amount of the original down payment plus the difference between the original mortgage amount and the unpaid balance of the loan, and assumes the balance of the loan.

Loans are made to individual purchasers on the following basis:

Sales Price - £E	Maximum Loan Percentage
up to 3,000	90%
from 3,000 to 4,000	85%
over 4,000	80% with a loan limit of £E 5,000

Terms are up to 30 years, and provide that interest only is to be paid during the first three years. After that time, annual installments of principal and interest are required. The interest rate paid by borrowers is 3% per annum, the difference between that rate and the rate charged GABHC by the bank. Until approximately one year ago, GABHC borrowed at 4½% but the current rate paid is 7%. This rate is paid by the government to GABHC, which passes it along to the lending commercial bank. Loan payments are made annually on a direct reduction loan basis, that is, the amount of the annual payment remains constant.

c. Magnitude of Lending Activity

The extent of the operations of GABHC is summarized in Table III-1.

Table III-1 indicates that, in planning its own budget GABHC has forecast 1977 expenditures at LE 20.2 million, or twice the amount allocated in the national budget. The authority has requested that the necessary additional borrowing power be approved. Also noteworthy is that the authority will require in excess of LE 77 million over the next few years just to complete the approximately 23,000 housing units which would be started or promised under the requested 1977 budget. The management estimates completion, in 1977, of approximately 5,000 units begun in earlier years. GABHC requires loans of LE 5.8 million just to finish those projects.

GABHC management anticipates no difficulty in arranging for the commercial bank loans which will be necessary to see these 23,000 units to completion. This may prove to be an unduly optimistic attitude. Commercial banks are not ordinarily fond of having too large a proportion of their assets in long-term loans.

GABHC is considering the commencement of a scheme of accepting deposits but has developed no formal plan and has made no request, formal or otherwise, for permission to do so. They have also considered selling mortgage life insurance to their members, but are discouraged from this by the long term of their loans.

Both of these steps should be seriously and carefully considered. Lending agencies throughout the world find credit life an important additional source of income and, more importantly, of loanable funds. Since GABHC is not a deposit institution, extreme caution would be necessary in designing a program of deposit acceptance from cooperatives or cooperative members. On the other hand, such deposits could provide another important source of housing finance, as the experience of some building companies has shown.

d. GABHC's Future Role

Clearly, the government intends to make extensive

Table III-1

Summary of GABHC Activity
(As Requested by GABHC)

Projects Related to and on Behalf of Cooperatives	No. of Units	Cost (£E millions)	Estimated Expenditures 1977 (£E millions)
Current Projects	627	2.6	2.3
Projects Contracted for January, 1977	971	3.9	2.0
Estimated Projects, First quarter, 1977	388	1.9	.9
Estimated Projects, Second quarter, 1977	9,030	34.8	5.0
Projects for Which Loans Have Been or Will Be Made			
Projects Contracted in 1976	3,596	8.0	3.0
Previous Contracts	2,000	4.0	1.0
Port Said Cooperative	1,600	6.5	2.5
Arab Contractors (Maadi)	750	4.0	1.5
Expected Contracts, 1977	4,000	12.0	2.0
Totals	22,962	£E 77.7	£E 20.2

use of GABHC as a means of providing housing for middle-income families. Indeed, unless new controls are instituted, it seems likely that GABHC loans will be used to build housing with incomes well above average. Currently, the program seems to operate on the basis that households who do not need the heavy subsidy provided by the long-term low-interest loans simply will not apply for them. But the potential for "raiding" of middle income housing by upper income families is real, given the magnitude of the housing deficit.

2. The Governorates and the Ministry of Housing and Reconstruction (MOHR)

a. History

Most public sector housing for low-income families has been built by MOHR working through the Governorate's Housing and Reconstruction Administration. MOHR has allocated funds in the state budget for this purpose (see Table III-2), and allocates these funds among the governorates who, in turn, are responsible for design and construction. Through public bidding they select contractors who actually perform the work.

This approach is typical of low-income public housing programs. To date, units have been constructed mainly for rental, but several problems have emerged with this program, and basic changes are under consideration.

b. Problems

First, rents have been set too low or standards too high, depending on one's point of view. In either case, rental receipts have not been adequate even to meet basic maintenance requirements, much less to amortize the construction costs. Rent receipts have in fact been so low that just owning the units represents a financial burden, and MOHR is now considering several schemes whereby the units will be given to their occupants.

Second, although no data whatsoever are available on collections, there is widespread suspicion that delinquencies are quite high. Since it is more or less unthinkable that the government would throw a family out in the street, the motivation on the part of the tenant to make his rental payments regularly is not too strong. The problem has been compounded by the fact that no governmental unit has any real interest in collecting the rents. Rental receipts are one of the "sources" of funds for MOHR's budget, but the total amount of the budget is determined by the Ministry of Planning and is approved through the political process in the People's Assembly, and lower rental receipts simply mean that more funding must be allocated from the other "sources,"

TABLE III-2

Estimates of 1977

Housing Budget

Public Sector

43 million

- £E 9.5 million
  - Agricultural
  - Industrial
  - Social Service Council
  - Rural Dev. Council
- MOHR £E 33.5 million
  - Governorates 29 million
    - 14 low-cost housing
    - 15 Suez comp.
  - 4.5 Public Sector Bldg. Companies
    - £E 1.8 Infrastructure
      Land Dec.
    - £E 2.7 Housing

Total estimate of expenditure on housing is £E 164 million: £E 43 million Public Sector and £E 121 million Private Sector.

including those coming from tax revenues.

Under these circumstances, it is not surprising that maintenance of the units has been inadequate. It is possible that better housing services could be provided for more years by reducing the design standards somewhat and setting aside some funds to guarantee maintenance.

c. Solutions

MOHR would like to escape from these difficulties but does not know the best way to accomplish this. One announced program would avoid but not resolve the problem of maintaining the units by deeding them to occupants who have made every monthly rental payment for at least fifteen years.

To avoid further increases in the dimensions of the problem, MOHR is considering joining with the governorates in a program of construction for sale rather than rental, but none of the details have been worked out yet on pricing and collections procedures. If payment of fifteen years' rental is to be considered as constituting purchase, then the losses to MOHR will simply be reduced. Unless rents are increased substantially or construction costs lowered, MOHR will still lose money on every unit constructed.

This seems entirely appropriate in one important sense. If the state is going to subsidize middle-income housing by granting low-interest loans through GABHC, then it surely should subsidize low-income housing at least as heavily. If the state attempts to subsidize all the families it serves more heavily, however, it will simply be able to help fewer families. It would make good economic sense and serve the cause of social justice more fully if the state tried to recover as much of the cost as possible from all families who can afford to pay for it. The difficult aspect of this approach would be in establishing which families could afford to continue making payments or could make higher payments. But there is a law currently before the People's Assembly which will require full disclosure of all sources of income. If this law were to pass, then housing programs would have an enhanced ability to match subsidies with needs.

3. National Housing Fund

A recently enacted law created the National Housing Fund (NHF), and implementing regulations should be adopted momentarily.

a. Purpose

The new law provides the means by which NHF should be able to generate significant amounts of funds which would be used to fortify the economic or utility housing market. Budgeted forecasts anticipate that the amount of funds to be generated will be sufficient to provide for the construction of approximately 10,000 utility units, with an estimated cost of ₤E 3,000 per unit over the next 12 months.

There are two basic reasons for the creation of NHF. First, it is an effort to mitigate the ever increasing shortage of low-cost housing. Secondly, it is intended to provide some relief for the state budget, which is now being strained to the breaking point in its effort to finance such housing and its related subsidies. Figures indicate that the government has provided more than ₤E 190 million for this purpose during the last five years.

b. Functions

The Fund will furnish loans to the cooperative organization and to the governorates (and perhaps to other government agencies) which are to be used to construct a part of the needed housing. NHF will not be a retail lender, and it will not operate as a bank. It is intended that the housing to be built with NHF funds will be of the economic or utility type, with floor areas varying from 20 to 60 square meters, at an average cost of ₤E 3,000 each, for occupancy generally by families whose incomes do not exceed the minimum levels for income taxes (soon to be raised to ₤E 500/year). As yet, no maximum eligibility income is contemplated. The properties produced by the program will be for sale rather than rental. Proposed loan terms will be up to 30 years, with annual interest rates of 3%. Any additional interest paid by the NHF is to be subsidized by the government.

c. Funding Sources

The law provides that the Fund will secure the finances needed to carry out its objectives from the following sources:

1. Twenty-five percent of receipts from sales and rent earnings and benefit charges of government-owned real estate -- both urban and rural -- that is subject to Presidential Decree No. 101, 1956. (No estimates of the amount of receipts which might be derived from this source are available).

2. Receipts from the sale of housing bonds. (Holders of licenses, other than government, local governmental units, public organizations, and cooperatives, to build homes or office buildings, the cost of which exceeds ₤E 50,000, exclusive of land, will be

required to purchase Housing Fund bonds to the extent of 10% of the building cost).

3. Receipts from benefit charges levied when exemptions from building height regulations are granted.

4. Credits allocated to the Fund in the state's budget.

5. Amounts earmarked for the purpose of low-income housing in any international agreements the state may conclude.

6. Loans.

7. Grants, donations, gifts, and endowments.

8. Earnings from any investments the Fund may make.

9. Receipts from penalty fees levied against violators of building codes and other violations specified in Law No. 106, 1976 (Executive regulation implementing this law has not been adopted).

10. Any other regulations designated by Presidential decree. (It is required that insurance companies acquire NHF bonds equal to an as yet undetermined percentage of the returns from the mandatory insurance of properties bearing values in excess of ₤E 10,000 as specified in Law No. 106, 1976. See No. 9 above as to regulation).

No firm estimates are available as to the amounts of money which may accrue to the Fund by way of the above provisions, but inflows of up to ₤E 15 million annually are anticipated, of which ₤E 10 million is to be realized from the sale of bonds.

d. <u>NHF Bonds</u>

The National Housing Fund presently has the authority to issue up to ₤E 25 million in NHF bonds. Authority for fixing the par value and terms of the bonds to be issued will be vested in the Minister of Finance. No decision has yet been made as to the face amount of the bonds -- amounts of ₤E 50 and ₤E 25 have been suggested -- but the rate of interest is definitely to be 6%. It is anticipated that the securities will be redeemable at part (in whole or in part) after a period of five years, and they will be transferable after a waiting period yet to be fixed but which cannot exceed three years. There are tentative plans for the issuance of bonds, probably at a higher rate of interest, for hard currencies.

e. Prospects

Clearly, the critical state of the housing situation in Egypt, the huge unmet demand for living space of all types, particularly for the economic or utility type housing, calls for the almost immediate mobilization of very substantial amounts of money. Hopefully, the sources of such funds will be those that have not heretofore been tapped; the NHF appears to be the vehicle that may produce this much-needed capital.

Since it takes a certain amount of financial sophistication to understand bond purchases, it is doubtful that the Fund will be able to attract significant amounts of hoarded funds. They are probably held mainly in small amounts by low-income households. Nevertheless, with proper promotion and guidance, the NHF appears to be capable of becoming an important medium in satisfying the demand for utility housing.

In this regard, a representative of the Egyptian General Insurance Organization stated that, in view of the tax-free interest rate to be paid, the insurance companies might seriously consider adding NHF bonds to their investment portfolios.

The Fund does have sources other than bond sales from which it can secure capital. Doubts have been expressed as to whether these sources will be adequate to produce the amount needed but, in the event a short supply does develop, it is possible that the provision of the law which provides that funds may be secured from any source designated by Presidential decree may prove useful.

C. FORMAL FINANCIAL SECTOR MECHANISMS

1. The Credit Foncier

While the Credit Foncier has not been a very visible or dynamic leader in housing finance, and even though it is small by comparison with Egypt's major commercial banks, it occupies the key position in the housing finance system which should develop in Egypt. It is a known, trusted, stable institution, with almost a hundred years of experience in real estate finance. It is the only banking institution primarily concerned with domestic real estate finance, with the possible exception of the Arab Land Bank, a truly small and little-known institution.

The kinds of deposits it can accept are extremely limited, consequently, its resource base has not grown substantially through time. Its management policy can also be characterized as highly conservative. The Credit Foncier therefore appears to be financially sound but lacking in the dynamic leadership needed to address the housing problems which presently prevail in Egypt.

In spite of its shortcomings, it is, in the judgment of the housing finance team, the institution most suitable to act as the central force in an expanded, improved housing finance system in Egypt. For this reason, it is discussed in this chapter separately from the other institutions which are also part of Egypt's finance system.

a. Institutional Details

(1) Legal History

Although its official title was changed some time ago, the Real Estate and Credit Bank continues to be known and to operate as the Credit Foncier Egyptien (CFE), its name since incorporation in 1881. (A copy of the bylaws can be found in Appendix B). It has always confined its lending activities to the real estate market, with emphasis on financing (a) the construction of properties (commercial and residential), and (b) the purchase of real property. In 1965, CFE acquired certain assets and assumed certain liabilities of the Land Bank of Egypt, which operated in Alexandria.

(2) Growth History

Over the years, CFE has grown slowly but conservatively. As is reflected by the attached condensed comparative balance sheets, assets at the end of 1976 amounted to £E 56 million (virtually the same as at the end of 1974), but its book net worth amounted to £E 17.9 million, or 32% of total assets (an increase of approximately £E 1 million since the end of 1974), 37.6% of all outstanding loans, 85% of which are secured by buildings.

(3) Organizational Structure

The head office of CFE is in Cairo (housed in two buildings), and it maintains a principal branch office in Alexandria. In addition, it maintains lesser branches in five governorates, which are basically collection offices, although loan applications, which must be acted on in the head office, are accepted at these facilities. The institution is headed by a board of seven directors, five of whom are its President, Vice President, and the Directors General in charge of Engineering, Legal, and Accounting Departments. The other two are outside directors from the Law and Accouting Departments of universities. All directors are appointed by Presidential Decree for indefinite terms. The bank has 750 employees in all capacities (see Table III-4).

(4) Loan Procedures

Applications for loans, most of which involve new construction, are first processed by the Engineering Department which checks the quality of design and makes a site inspection to relate the amount of the loan requested to the value of the property. Following this step, the application and the Engineering Department evaluation are handed to the Legal Department which checks the legality of ownership. Within an average period of two weeks after the data of the loan application, the value of the property has been fixed, and the amount of the proposed loan is approved (or rejected or compromised), and the matter is then referred to a loan committee or to the Board of Directors. The members of the loan committee are the Vice President, two Directors General, and one outside director. This committee, which meets when necessary but meets generally only once weekly, can approve or reject loans which do not exceed ĿE 15,000; larger loans must be approved by the Board of Directors.

Loan applications originating in the Alexandria office, the amounts of which do not exceed ĿE 10,000, may be approved by that office; applications for larger amounts must be submitted to the Board of Directors at the head office. Following approval, the Legal Department prepares the necessary papers and records the debt instrument. If the loan does not involve construction, and such loans are in the minority, the entire loan proceeds are then disbursed. If construction is involved, the loan proceeds are paid out under the supervision of the Engineering Department following inspections of the progress of construction. Usually, the entire loan will have been disbursed when construction has reached the 80% stage.

(5) Fees

Fees charged seem modest when compared to those of other countries. Engineering fees amount to one-fourth of one percent, or ĿE 10, up to loans of ĿE 10,000 plus one-half pound for every additional ĿE 1,000 with no ceiling, plus ĿE 2 for each construction progress inspection. Legal fees are one-half pound for loans up to ĿE 5,000, plus ĿE 1 per each additional ĿE 1,000 of loans with a maximum charge of ĿE 100.

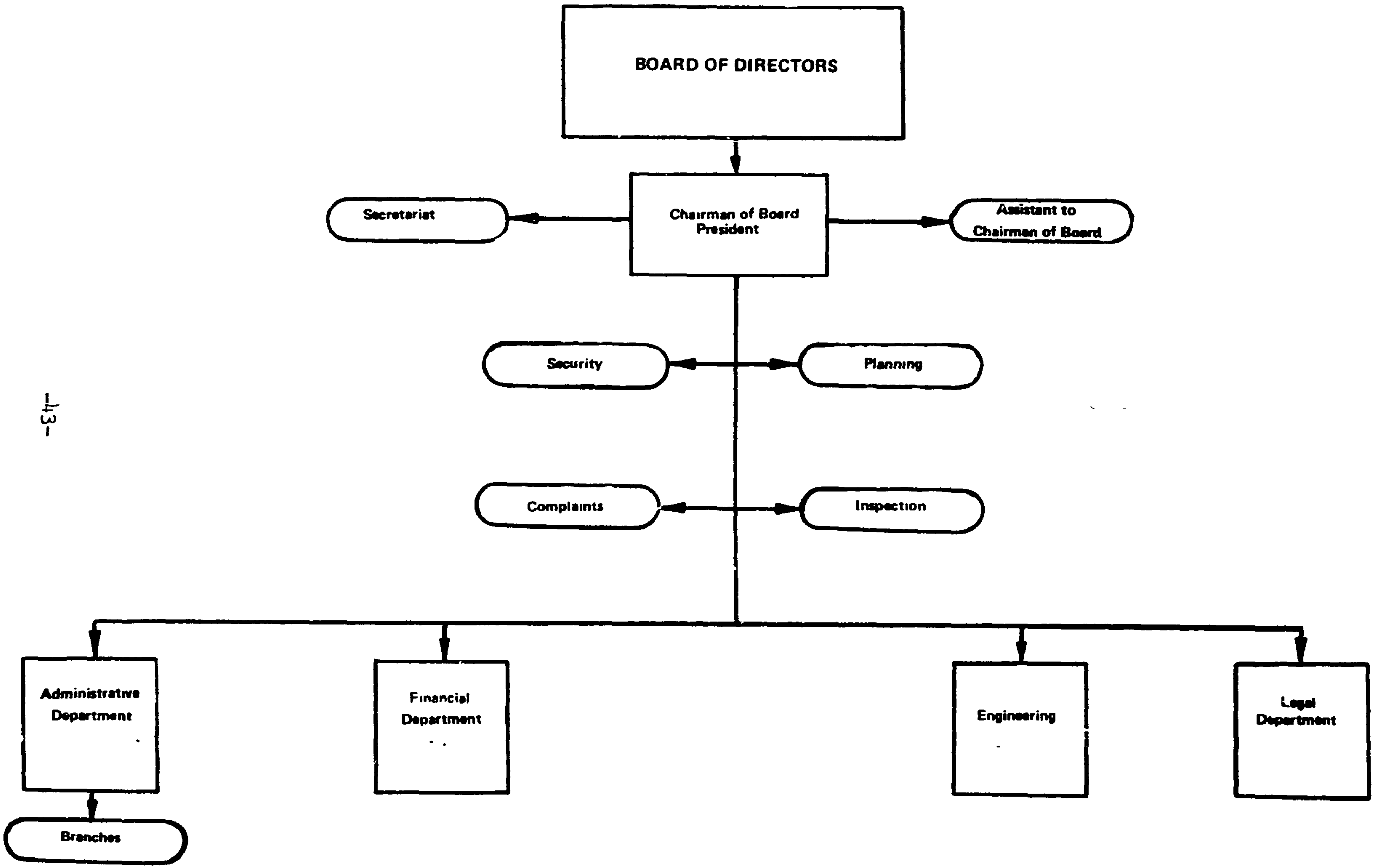
(6) Interest Rates

Currently, interest rates are 6½% for residential property (this has been kept at this lower rate because rents are low, but may soon be increased to 7-10%), and 7-10% for hotels and hospitals. The debt instrument does not include an interest acceleration (or deceleration) clause.

TABLE III-4

Organization Chart

Credit Foncier Egytien



(7) Collections Procedures

All regular loan payments are the fixed or constant amount type. Those for non-construction loans commence on December 31 next, following the loan inception data (interest only is charged for the interim period) and annually thereafter. On all construction loans there is a two-year grace period, during which time interest only is charged on amounts disbursed, with regular payments also starting at the end of the year which follows the grace period and annually thereafter. Loan terms cannot exceed 25 years (there is no maximum amount of loan) but, during 1976, few loans were written for the maximum term: 4% were for terms of 5 years or less, 10% were for terms of from 6 to 10 years, 69% for terms of 11 to 15 years, with only 16% extending over 15 years.

As noted, all regular payments are due on December 31, but a six-month grace period, during which time a penalty interest charge is made, is provided for. In any case of non-payment after this period, the loan instrument provides that the CFE may sequester the rents, the annual amounts of which generally exceed the required loan payment, until the loan is repaid or until regular payments are resumed.

Although there is a judicial sale procedure available through the courts, it could involve a period of up to ten years; therefore, CFE prefers the rent sequestration method. The CFE reports that the very few instances of delinquency involved agricultural land, that 45% of all loan payments are received before December 31, that 10-15% are received in the first two weeks of January, and 35% before the expiration of the grace period. The low delinquency rate can probably be attributed to the fact that loan amounts do not exceed 60% of the appraised value of the property, which value is generally no more than 80% of the real property value; the maximum true loan-to-value ratio is, therefore, about 48%.

(8) Lending Activity

According to a CFE official, there were 985 loans in the aggregate amount of £E 9.7 million granted in 1976, and 902 for £E 8.3 million in 1975. However, examination of the comparative balance sheets indicates only minimal increases in outstanding loan balances during the two years ending December 31, 1976. Without having an opportunity to question why this is so, it is assumed that the amount of loan repayments approximately offsets the actual amount of new loan disbursements. The slow pace of construction generally, in combination with the fact that construction loans predominate, results in an extended disbursement period (it is also assumed that substantial amounts of the 1975 and 1976 loans remained undisbursed as of December 31, 1976), a fact that lends credence to the first assumption.

(9) Sources of Funds

(a) Bonds

The Charter of CFE permits it to raise capital through the issuance and sale of bonds: to generate lending funds through the acceptance of deposits and to borrow funds from the Central Bank of Egypt and from commercial banks. CFE has not issued bonds since 1951, when it sold bonds with par value of £E 5, on which interest at the rate of 3% per annum is paid. In addition, the bonds are of the lottery type, and feature a top award of £E 5,000, a second award of £E 500, and several lesser prizes. The total value of the last prize drawing (drawings are held more than once a year), held as of February 15, 1977, was £E 8,860 (the notice which appeared in the newspaper indicated that the February drawing was No. 170). As of December 31, 1976, the total amount of bonds outstanding was £E 4,144,000, a decrease of £E 300,000 in two years. Although the bonds are redeemable only by way of the lottery selection, they are traded on the Cairo Stock Exchange where, probably because of the low taxable interest, current trades were lower than par values.

Because of the tax-free 6% interest on government-issued savings certificates, and because the interest and lottery prizes on CFE bonds are taxable, CFE has made no attempt to market a new issue of bonds. An official stated that if it decided to do so, it would not be limited as to the rate of return that it could offer. However, at this time, there is no indication that any tax exemption is to be created for the interest such bonds would pay.

(b) Deposits

With respect to deposits, CFE presently operates under restrictions imposed by the Central Bank of Egypt; it may accept deposits from insurance companies (three primary and one reinsurance companies are in operation) but may accept none from the public. During the two years ended December, 1976, the amount of such deposits on which interest of 4 and 4½% is paid increased by £E 1.6 million to £E 6.4 million.

(c) Borrowing

At the end of 1976, £E 212,000 was owed to the Central Bank and £E 20,349,000 to commercial banks, which are a prime source of its lending funds. CFE presently pays interest rates of 2½% for loans maturing in less than one year, 3½% for those with terms of up to five years, and 4% for those of longer terms.

2. Commercial Banks

Commercial banks appear to contribute to housing finance in Egypt not through mortgage origination, but by providing loans to the General Authority of Building and Housing Cooperatives, the Credit Foncier, and the construction companies. Slightly more than £E 20 million of loans made by commercial banks to the Credit Foncier and approximately £E 9 million of loans made to the GABHC are outstanding. These are small amounts compared to the total portfolio of the commercial banks. At the end of June, 1976, total outstanding loans and discounts by commercial banks amounted to £E 2,352 million; loans to the Credit Foncier and the GABHC thus represent only 1.2% of total loans and discounts.

It is conceivable that commercial banks may become an important outlet for National Housing Fund bonds, but it seems unlikely that commercial banks will constitute a significant source of mortgage lending to individuals in the foreseeable future, primarily because their function in the economy is to finance commercial activity.

3. The Insurance Companies

In many economies, insurance companies represent a significant source of long-term home financing. In Egypt, however, insurance companies are not permitted to invest directly in mortgage loans. While this regulation could, of course, be changed, it seems preferable to view the insurance companies, like commercial banks, as an indirect source of funds for housing finance, e.g. through the purchase of National Housing Fund bonds and through continuation of their deposit relationship with the Credit Foncier.

IV. CONSTRAINTS ON THE EXPANSION OF THE HOUSING FINANCE SYSTEM

A variety of circumstances presently exists in Egypt which work to impede the expansion of the housing finance system. These circumstances can be grouped in two main categories -- those affecting the mobilization of funds and those affecting the utilization of funds for housing finance. Many of these constraints are susceptible to resolution through policy change, but a third, broader category -- that encompassing the general state of the economy -- is not amenable to short-term solutions.

A. FACTORS AFFECTING THE MOBILIZATION OF FUNDS

1. Interest-Rate Structure

The level of interest rates in Egypt is such as to imply negative real rates of interest to depositors and to institutional lenders under any set of expectations other than expectations of a declining rate of price inflation. With official estimates of price inflation currently ranging from 12% to 15% per year and interest rate ceilings on commercial bank loans set at 8% and deposit rate ceilings ranging down from 6% to 2%, interest yields fall far short of compensating depositors and lenders for the loss of real purchasing power through inflation.

Compounding this problem is the 40% withholding tax on earned interest. The net yield to a depositor after taxes is therefore such as to make financial return a very weak motivation to save. Indeed, under these circumstances, it is quite remarkable that deposits subject to tax have been maintained at significant levels.

Under these circumstances, the tax-free feature of the Savings Certificates of the National Bank of Egypt probably accounts, to a substantial degree, for their strong acceptance by the public. Additionally, the exemption from the withholding tax on interest of the National Housing Fund bonds offers hope for the success of these issues.

It must be noted, however, that both the Savings Certificates and the National Housing Fund bonds are relatively long-term issues. Without a strong secondary market to assure liquidity prior to maturity without significant loss of yield, liquidity considerations will undoubtedly limit the depth and breadth of the long-term segment of the market. Presently, the combined tax and interest rate structure is serving to distort financial markets by making these long-term issues more attractive than they would be if all financial instruments were free of the withholding tax.

Inasmuch as the withholding tax serves to discourage savings mobilization through deposits and other short-term instruments and should ultimately be eliminated, care should be taken in estimating the absorptive capacity of the long-term segment of the market. In particular, it should be anticipated that short-term financial instruments will ultimately prove to be the more reliable means through which savings can be mobilized.

The fundamental reason for this aspect of financial behavior is simply that a much larger volume of funds can be considered "idle" for short periods of time than for long periods of time. When deciding whether or not to convert cash into an interest-bearing asset, individuals must take into consideration the probable future time when the cash will be needed for the purchase of goods and services. Most cash balances will be idle only for a short time, usually less than a year and only cash balances which are truly surplus, not just temporarily idle, can rationally be devoted to long-term financial instruments. Furthermore, if the transactions cost in time and effort expended in converting cash balances into interest-bearing assets for short periods exceeds the interest yield, individuals will tend to hold temporarily idle cash in the form of currency and/or demand deposits. Given the interest-rate structure and the tax on interest earnings in Egypt, it is not at all surprising that currency in circulation represents such a large proportion of the stock of liquid financial assets.

One of the truly important functions of the financial system is to mobilize these temporarily idle cash balances and channel them into productive activities, so that across the whole economy, idle financial resources are minimized. The Egyptian financial system can perform this function much better than it is at present, particularly in that segment of the system devoted to housing finance, provided that appropriate policy changes are made.

2. Liability Structure of the Credit Foncier

A case in point is the virtual ban by the Central Bank on the acceptance of deposits by the Credit Foncier. Housing finance in Egypt cannot be expanded significantly so long as the resource base of the principal financial institution specialized in the field is so restricted in the range of savings instruments it can offer to the public.

Currently, the prime sources of loanable funds for the

Credit Foncier are its loan repayment flow and borrowings from commercial banks. While it may be argued that the loans which the Credit Foncier receives from commercial banks are supported by deposits, this argument fails to take into account the importance for savings mobilization of identifying savings with the availability of long-term housing finance.

Among the motivations for saving with a financial institution is the establishment between the individual and the institution of a personalized "customer relationship." The importance of this relationship is that an individual who has deposited funds with the institution has a right to expect more favorable consideration of his loan request than an individual who has no relationship with the institution.

Insofar as the Credit Foncier is concerned, the identification between an individual's deposit and his request for a housing loan is completely absent because the Credit Foncier is not permitted to accept deposits. The individual sees no connection between a deposit in a commercial bank and his request for a loan from the Credit Foncier; the personalized "customer relationship" does not exist and the individual does not see himself in a more favorable or less favorable position in applying for a loan if he has a commercial bank deposit or if he has elected to keep his financial assets in currency "under the tiles." Clearly, so long as the individual holds currency "under the tiles," it is not available for lending to others and the efficiency of the financial system in minimizing idle financial resources is impaired.

The Credit Foncier has the authority to issue lottery bonds, but no new issues of such bonds have been offered since 1951. No satisfactory reason for this fact was given by officials of the Credit Foncier, except that, under present circumstances, it was felt that a new issue would fail because interest earnings on the bonds would be taxable. At best, the failure of the management of the Credit Foncier to use every means at its disposal to meet the acute need for long-term housing finance in Egypt must be regarded as conservative in the extreme. Thus, while certain policy features constrain the Credit Foncier from expanding its resource base, its own policies are also partly to blame.

3. Operating Procedures and Organizational Structure of the Credit Foncier

As noted earlier, the Credit Foncier has a very limited branch network; consequently, it is not presently organized to offer financial services at locations convenient to a large number of potential depositors.

Similarly, it has no savings department or advertising program; it has had no need of either because of the Central Bank's restriction on its acceptance of deposits.

Notwithstanding the lack of authority to accept deposits, the Credit Foncier is presently neglecting to take full advantage of an existing source of funds. Loan repayments constitute an important source of funds for new loan origination for any financial institution, yet the Credit Foncier schedules all of its loans for annual installments. Although there may be strong traditions supporting this policy, it has the effect of precluding minimization of the volume of idle balances. Installment lending has the fundamental advantage to the borrower of allowing him to scale the size and frequency of his payments to the size and frequency of income receipts. From the lender's point of view, the cash flow generated by frequent installments provides a delinquency control mechanism as well as a stable, relatively continuous flow of funds upon which to base new loan commitments.

Under a scheme of annual installments, the borrower must allocate from his periodic income receipts a portion to be accumulated to make the annual loan installment, so that in many, if not all cases, installments are nevertheless being made by the borrower with some periodicity more frequent than once a year and some potential certainly exists that these funds will be kept "under the tiles" rather than held on deposit in the financial sector. Annual installment scheduling, therefore, probably does not serve the interest of activating idle cash balances.

Although no formal recommendation has been made regarding the periodicity of loan payments, serious consideration should nevertheless be given to giving borrowers the option of paying their installments on, say, a monthly basis and even to requiring monthly installments from borrowers who are salaried employees who receive income on a regular monthly basis.

The Credit Foncier's current manner of conducting teller operations is cumbersome by modern standards and imposes relatively high transaction costs on its clients in terms of the time required to complete a piece of business. Concurrently, higher administrative costs are incurred by the Credit Foncier as a result of this method of operation.

The hours of operation of the Credit Foncier are comparable to those of commercial banks in Egypt, but these are not hours of maximum convenience to potential depositors. Presently, the Credit Foncier is open for business from 9:00 a.m. to 2:00 p.m. Monday through Thursday and on Saturday, closed Friday and open from 10:00 a.m. to 1:00 p.m. on Sunday.

If the Credit Foncier is to be successful in expanding its resource base by mobilizing savings from that broad segment of families not presently being served by existing financial institutions, it must become "customer-oriented;" it must structure its operations to provide maximum feasible convenience to its potential depositors. "Customer Orientation" will require keen awareness and understanding of the socio-economic circumstances in which the majority of Egyptian families live and work.

The present size and composition of the Board of Directors of the Credit Foncier is not designed to provide this awareness; the Board is too small and its membership is not drawn from a sufficiently broad spectrum of occupations or orientations to provide the fresh, dynamic leadership of which the Credit Foncier is apparently in need.

B. FACTORS AFFECTING THE UTILIZATION OF FUNDS

1. Subsidy Programs

As noted earlier, roughly 50% of the residential building activity in Cairo is believed to be carried out through "informal" financing techniques, implying that formal sector institutions engaged in housing finance -- the Credit Foncier, the GABHC, etc. -- are not reaching a substantial number of families. These families are financing construction on short terms at implied rates of interest in excess of commercial rates prevailing in the formal sector, even though many of these families can be classified in the low-income category.

Resource constraints clearly impair the ability of the Credit Foncier and the GABHC from serving all of the families presently in need of housing finance, which is one reason why savings mobilization is so important. Moreover, financing through formal channels is not available to many families because they are building "illegally," i.e. without clear title to the land and without building permits; these problems must be dealt with from the perspective of other elements of the housing delivery system. Once these obstacles have been cleared, however, certain policies and practices now in existence will, if left unchanged, contribute to an inefficient utilization of funds.

The subsidization of interest rates by the GABHC and as contemplated by the National Housing Fund distorts the term structure of interest rates and discourages mortgage lending by other financial institutions. Furthermore, to the extent that already strained government budget resources must be utilized to sustain this program and to the extent that benefits accrue to those families which could reasonably afford commercial terms while lower-income families have access only to costlier, informal financing mechanisms, a misallocation of financial resources will certainly occur.

It has been noted elsewhere in this report that the National Housing Fund contemplates limiting its financing to "utility" housing and, in that way, assure that its financing benefits families of modest means. The form of subsidization should nevertheless be changed from an interest-rate subsidy to a "write-down" or "one-time" subsidy to avoid distorting the interest rate structure.

2. Organizational Factors

Expanding the housing finance system to satisfy middle-income needs is primarily a question of expanding the resource base of the Credit Foncier and relaxing the constraints identified in the previous section. Extending financial services to lower-income families which now have access only to informal financing probably cannot be accomplished effectively within the present organizational mode for several reasons.

First, the level of income enjoyed by these families severely limits their debt-servicing capacity. Consequently, only small loans can reasonably be afforded by these families. It follows further that the administrative costs incurred by formal sector financial institutions in originating and servicing such loans are high by comparison with larger loans.

Second, construction in the informal sector is not presently being carried out on a project basis involving a number of units at a single location. While this situation does not preclude lending, the likelihood of covering the costs of a given branch office is reduced to the extent that construction and lending activities are not concentrated in the vicinity of the branch location; the administrative costs of servicing a given loan portfolio spread over a wide area are greater than if the same loan portfolio were geographically concentrated.

Third, most low-income neighborhoods have a personalized socio-economic structure which resists penetration by formal sector institutions unless those institutions take special pains to adapt their procedures and policies to the target groups. Many examples of conventional procedures employed by formal sector financial institutions which are not adapted to low-income clients could be cited. The following ones may suffice to illustrate the point. First, consider the documentation typically required by a formal sector financial institution to process a loan application -- land titles, building permits, certificates of income and employment, past credit history, etc. Credit arrangements in the typical informal sector tend to be based much less on documentation and much more on an individual's reputation in the community; penetration of the informal sector requires some compromise of formal sector procedures. Otherwise, families in the informal sector will tend to prefer the procedures which they have used in the past and will not patronize the formal sector institution. Next consider the effect on the client of the physical facilities of the financial institution. Most financial institutions are at pains to operate from physical facilities which give the impression of solvency and safety. The architectural rendering of these concepts frequently is resolved into an ostentatious structure which may appeal to upper-income groups but tends to intimidate low-income groups and discourage their patronage. Depository institutions also frequently employ minimum balance requirements and penalty charges for activity in small accounts, which also serves to discourage the patronage of low-income groups. These features of formal sector financial procedures are not suitable for use in the informal sector.

A collaborative effort between the Ministry of Housing and Reconstruction, the GABHC, the Credit Foncier, and the Municipalities or Governorates will be required to overcome these difficulties. Functionally coordinated, multi-unit projects at discrete locations should be designed and undertaken to produce the kind of economies of scale which can lower administrative costs and construction costs. Physical design features of these projects will have to consider carefully the incomes and debt-servicing capacities of the families to be served. The project should include a small, on-site branch office of the Credit Foncier, staffed by one or two persons selected not only for their financial experience but also for their knowledge of and sensitivity to the income group's social and economic circumstances. The staff of this on-site branch must win the trust and confidence of the families comprising the neighborhood in order to interface successfully between the main office of the Credit Foncier and the families who are to benefit from the project.

Initial project design should attempt to justify the permanence of the on-site branch of the Credit Foncier to provide a collection point for savings and personalized, convenient service to the community in loan servicing. Physical facilities for the branch office should be designed into the project and the costs of the facilities included in the project's overhead cost. Such costs might be borne by the government budget with greater justification that can be cited for the present interest-rate subsidy program.

Of special importance, however, is the need for organizational cooperation across the full range of housing delivery system functions. Clearly, a more effective utilization of funds can be made through a joint effort than through an organizational scheme which contemplates each of the principal agencies operating independently.

3. Rent Control

The main implications of rent control with regard to the utilization of funds for housing are (1) that it restricts investment in rental units and thereby exacerbates the housing shortage and (2) the payment of "key money" imposes an initial financial burden on the potential occupant which limits access to rental units by all income groups.

Rent controls have been in effect in Egypt for more than two decades now, and they have been extremely successful in keeping monthly rental payments down. Indeed, the rental on most controlled units has fallen during this period. The only units which are not subject to rent control are those which are rented as furnished, and a landlord can legally have only one such unit in each city. To date, permissible annual rentals are set at 3% of the value of the land, plus 5% of construction costs, but the construction costs used are not actual costs incurred but rather are standardized estimates which are almost always well below actual costs. In light of these fairly meager rates of return and the availability of higher yielding, low-risk financial instruments, it is rather remarkable that any rental units are being built at all, and it is not surprising that an acute housing shortage has developed. Changes in the rent control law are now before the People's Assembly, and it seems likely that some kind of revision will be forthcoming which will allow higher rates of return to landlords on units built in the future. Probable rates are 5% of land value, plus 8% of actual construction costs.

Meanwhile, the rental housing market in Cairo is typified by a lack of activity which can best be described as a process of ossification. There is very little turnover in rental units — almost none. Given the low and controlled nature of the rents and the tenants' rights before the law, the renting of a unit by a landlord is much more similar to a contract for sale with no termination date than it is to a rental in most other countries, where the landlord retains many more of the ownership rights and where those that are yielded, such as the right of occupancy, are yielded only for the term of the lease. Under Egyptian law, it is virtually impossible to oust the tenant so long as he continues to make his rental payments. These payments will almost certainly not be permitted to rise. Historically, they have fallen.

Thus, it is not surprising that the landlord often requires a one-time lump sum payment, known as "key money," as a condition for renting an apartment, even though the acceptance of such money is illegal. The scarcity of rental units is so great and the yield to landlords so low, that very few units would be built if the landlords were not able to increase their returns by accepting key money. The law forbidding the exchange of key money is extremely difficult to enforce since the renter is willing to make the payment in order to obtain a unit. Nevertheless, there are certainly many potential landlords who would not accept key money since it is illegal to do so.

The combination of rent control and tenants' rights has produced a strange set of incentives in the housing market in Egypt. The incentive to build many units for rent is low because a landlord can earn a decent rate of return legally only on the one unit in each city the law permits him to rent furnished. To the prospective occupant, renting is almost as good as owning, since he cannot be ejected, and his rent surely will not rise. Thus, the middle-income families who could afford to build their own units, but who are already safely ensconced in a rent-controlled unit, have little to gain from building their own units.

Mobility is also greatly reduced by the reluctance of a renter to leave the controlled unit he occupies. If his job location changes, he is very likely to endure a long daily commute rather than try to convert the low-rent privileges he enjoys in his current unit into cash illegally and then convert that cash, once again illegally, into the right to occupy a controlled unit nearer his new place of work. The increase in congestion and transportation costs associated with this immobility has not been estimated, but it must be substantial.

C. ECONOMIC CONSIDERATIONS

While the foregoing discussion outlines a number of issues which affect the mobilization and utilization of funds within the housing finance system, changes in policies and procedures can undoubtedly result in an improvement in the system's present performance. The level of economic development and the rate of economic growth, however, also impose constraints on the aggregate saving rate and, hence, on the ability of the economy to support investment in housing. The Egyptian economy is not presently producing sufficient surpluses to accommodate all of its investment needs and foreign exchange requirements. Policy changes and organizational reforms can contribute to the mobilization of a higher percentage of available domestic resources and to the development of an institutional infrastructure capable of effectively administering much larger financial flows; they cannot, of course, produce larger quantities of financial resources than the economy generates. These considerations must be kept in mind in forming expectations of what may reasonably be accomplished by the acceptance and implementation of the recommendations offered in this report.

For this reason, a review of the Egyptian economy is offered in this section of the report. Somewhat more detailed information on selected topics is provided in the appendices.

1. An Aggregate Economic Profile

There are some basic difficulties in interpreting income and output figures in Egypt because of the nature of its price structure. The existence of two exchange rates also presents some difficulties but, if all these problems are ignored and the official exchange rate of $2.56/£E is used, a quick and informative overview of Egypt's current economic condition can be made.

Egypt, a country of 37.2 million people in mid-1975, had a gross national product of only about $12 billion that year. During this same period, the government's budget deficit was $2.8 billion, as was the balance of payments deficit. Although such data are classified, estimates by U.S. publications place Egypt's long-term debt from $12.0 to $16.0 billion, requiring up to $1 billion annually to service. In a recent interview, President Sadat said that Egypt's debt to the Soviet Union alone was "some billion pounds" on which Egypt is making payments of $140 million annually. Whatever the exact debt level is, annual service costs are very high. So are defense outlays and rebuilding expenditures. Military expenditures are estimated to consume about a third of the budget and, since 1967, have totaled some $40 billion.

To pay for all this, Egypt requires foreign aid on a large scale. President Sadat has said that the next three years will be difficult for Egypt and will require $5 to $10 billion in concessional loans and assistance.

Foreign aid has been forthcoming in the form of loans and grants from Egypt's oil-rich allies ($1.2 billion in 1974; $2 billion in 1975, and $1 billion in 1976), the United States (about $1 billion/year) and other friendly Western nations, as well as from international lending agencies. Prospects for continuing aid are good, though the scale may be reduced somewhat. A fund has been raised for Egypt by Saudi Arabia, the United Arab Emirates, Qatar, and Kuwait, and these countries have already agreed to furnish $2 billion over the next five years. Negotiations are under way to increase this amount. Egypt is also looking to the United States, West Germany, and Japan for assistance in meeting its foreign exchange requirements.

By February, 1977, some 342 projects had been approved under the open-door policy, involving investments of ŁE 730 million, of which ŁE 485 million was in foreign currency. So far, however, actual disbursements on these projects have been slow.

Income and production data were obtained from several sources, and although most of the data obtained were basically consistent with each other, no two sources were in complete agreement, and in some aspects, a few were widely different. Even the most favorable series of data paint a rather bleak picture of economic growth. During the 1970-74 period, Egypt's economy had an annual growth rate of 4%. Since the implicit GNP deflator is not available for 1975, it is not possible to deflate the 16.7% increase in GNP (at current prices) which occurred from 1974 to 1975. If it were deflated by the 10.1% increase in the consumer price index during this period, the growth rate for 1975 would be 6%.

It is encouraging that the real growth rate of the economy has increased since 1973, when it hit a low of about 3%. This rise has been caused mainly by the recovery of industrial activity and construction, with the former due primarily to the increased availability of imported inputs, and the latter attributable mostly to the reconstruction activity in the canal zone.

2. <u>The Aggregate Saving Rate</u>

The aggregate saving rate has fallen in Egypt in recent years, primarily as a result of growing public sector deficits; private sector savings have grown over recent years, but not at a rate sufficient to cover public sector dissaving.

During the first half of the 1960s, gross domestic savings reached a level of nearly 14.5% of gross domestic income. Thereafter, the ratio fell sharply and generally remained at 6 to 10%, falling to 5% in 1974, but rising to more than 8% again in 1975.

While reliable data on private sector savings are scarce, estimates prepared by the International Monetary Fund (IMF) and the Ministry of Planning indicate that gross private sector savings increased from 7% of the GNP in 1970-71, to 10% in 1975. However, according to these same estimates, gross public sector dissavings rose from virtually nil in 1970-71, to 7% of the GNP in 1975. On a net basis, the public sector dissavings jumped from 4% in 1970-71, to 18% of the GNP in 1975.

The growing inability of the public sector to generate a surplus is the result of two main factors. First and most importantly, the cost of subsidies had increased to approximately

14% of the GNP in 1975, when it reached a peak. Lower world grain prices in 1976 reduced the size of the commodity subsidies somewhat after three years of remarkable increase, but they remain large. Secondly, deficits in the Emergency Fund, from which a large part of the national defense expenditure is financed, have at times been large (LE 229 million in 1975). Since neither defense expenditures nor commodity subsidies are likely to fall dramatically in the near term, domestic savings will probably continue to be inadequate to finance Egypt's planned investments over the next few years. Further, if a reduction in commodity subsidies were accomplished by increasing the prices of the subsidized commodities, this would surely be offset to some extent by reduced household savings. This would occur to the extent that increased expenditures on food are financed by households either out of income they would otherwise have saved or out of accumulated savings. In this way, the private sector savings may be a function of the public sector dissavings.

Nevertheless, private sector savings do seem to be the strongest element of domestic savings in Egypt. All direct and indirect evidence available seems to confirm this. Studies of the holders of Savings Certificates even indicate that individuals, not corporations or companies, purchase almost all Savings Certificates sold. The net increases in Savings Certificates outstanding and in Postal Savings deposits exceeded LE 70 million in 1975. Individuals probably accounted for more than LE 60 million of that increase. These observations, combined with the widely held belief that there is a substantial hoarding of currency, especially among lower-income groups, would indicate that household savings, in 1975, probably exceeded the Planning Mnistry's expectations.

Nevertheless, the savings rate for the Egyptian economy is inadequate. Only about one-fourth of Egypt's planned investments can be financed from domestic savings. The rest will require foreign loans or grants. This situation cannot continue indefinitely and it is clear that the savings rate must be increased.

There are some hopeful aspects to Egypt's savings shortage. Increased revenues from the reopened Suez Canal will help to reduce public sector dissavings unless they are offset by reduced Arab reinforcement. There is good reason to hope that Egypt's petroleum exports will increase substantially over the next few years, providing increased revenues to the government. Higher cotton prices and lower grain prices also help and, if they continue, will provide much-needed relief for the public budget.

These positive elements notwithstanding, Egypt will continue to face a formidable, though not insurmountable, development problem for the foreseeable future. Housing investment, accompanied by increased domestic savings mobilization, should, however, be viewed as part of the solution, not as part of the problem of economic development in Egypt.

APPENDIX A

The Household Budget

The most recent data available on household budgets comes from a 1974-75 survey of income and expenditures among a sample of Egyptian families. As is typical of expenditure surveys, it probably suffers from some over-reporting of expenditures. And all surveys of income include some response errors. Nonetheless, the results are very informative and represent the best information available on household budgets in Egypt.

Table D-1 shows the estimated income distribution for urban, non-agricultural households and persons and indicates a median household income of ₤E 453 per year.

As shown in Table D-2, the mean annual rent paid by households is ₤E 60.53, or just over ₤E 5 per month. Half the households pay less than ₤E 51.11 per year, however, as shown by the median annual rent in Table D-2. Mean rent is only 12% of mean total expenditures, and mean housing expenditures are 16% of mean total expenditures. These data, however, do not reflect the value of the "key money" which has traditionally been paid to obtain occupancy of a rental unit. Because the payment of "key money" is illegal, it was not possible to obtain good estimates of amounts of "key money" paid in relation to rents paid. Consequently, the evidence is mainly impressionistic. The approximate figure of ₤E 500 was mentioned in relation to a rent of ₤E 4-5 per month as more or less representative of what a lower middle-income family might pay. Assuming now that the opportunity cost of the "key money" is 6% per annum and that the "key money" can be recovered if the family moves, it is clear that

Table A-1

Estimated Urban/Non-Agricultural Income Distribution, 1974-75

Annual Exp. Intervals	Share Households	Share Persons	Income Households	Income Persons	Share Income	Cumulative Share Households	Cumulative Share Persons	Cumulative Share Income
0-50	.0040	.0008	39.5648	35.1687	.0002	.0040	.0008	.0002
50-75	.0050	.0013	69.4207	49.5862	.0005	.0090	.0021	.0007
75-100	.0085	.0034	95.1933	42.5865	.0011	.0175	.0055	.0018
100-150	.0395	.0206	142.1558	48.8274	.0078	.0570	.0261	.0096
150-200	.0530	.0353	196.7299	52.9273	.0146	.1100	.0614	.0242
200-250	.0660	.0549	257.1513	55.4640	.0237	.1760	.1163	.0479
250-300	.0885	.0760	319.7409	66.8172	.0395	.2645	.1923	.0874
300-350	.0805	.0733	381.2062	75.1214	.0428	.3450	.2656	.1302
350-400	.0775	.0804	445.1688	76.9244	.0482	.4225	.3460	.1784
400-500	.1470	.1567	514.3677	86.5622	.1055	.5695	.5027	.2839
500-600	.1200	.1351	672.1660	107.0470	.1126	.6895	.6378	.3965
600-800	.1275	.1483	852.2851	131.3982	.1517	.8170	.7861	.5482
800-1000	.0690	.0749	1139.5395	188.3311	.1097	.8860	.8610	.6579
1000-1400	.0690	.0846	1549.4976	226.7557	.1492	.9550	.9456	.8071
1400-2000	.0295	.0353	2549.9922	381.8516	.1050	.9845	.9809	.9121
2000+	.0155	.0192	4058.8749	587.9639	.0878	1.0000	1.0000	1.0000
Totals	1.0000	1.0000	*716.4323	*128.4850	1.0000			

*Mean income in £E per year.

Table A-2

Annual Expenditures on Housing
(in £E)

Income Class (£E/year)	Percent of All Families in Income Class	A Rent Paid	B Fuel and Electricity	A + B Total on Housing	C Total of all Expenditures	Total on Housing as a Percentage of: Total Expenditures[1] $\frac{A + B}{C}$	Total on Housing as a Percentage of: Income Class Mark
200	11.0	21.86	8.24	30.10	212.03	14.0	20.0
200-249	6.6	30.72	11.25	41.97	277.98	15.0	19.0
250-299	8.8	34.32	12.29	46.61	302.14	15.0	17.0
300-349	8.0	40.53	15.12	55.65	369.96	15.0	17.0
350-399	7.8	47.33	15.94	63.27	412.62	15.0	17.0
400-499	14.7	51.07	19.20	70.27	488.74	14.0	16.0
500-599	12.0	51.69	19.53	71.22	542.50	13.0	13.0
600-799	12.8	64.24	24.80	89.04	676.40	13.0	13.0
800-999	6.9	87.77	31.64	119.41	877.81	14.0	13.0
1000 +	11.4	159.21	38.38	197.59	1344.03	15.0	13.0
	100%						
Means:		60.53	20.08	80.61	496.90	16.0	
Medians:		51.11	19.22	70.33	492.03	14.0	

Median Household Income = £E 453/year

1. Expenditures on all items as reported in the survey.

a more appropriate estimate of rent paid is the LE 48 per year in explicit rent plus LE 30 per year in foregone interest, or LE 78 per year. Comparing this estimate with expenditures for the LE 350-399 expenditure class would yield a percentage of total expenditures devoted to housing of 23% rather than the 15% shown in Table D-2.

A second element should also be noted. Expenditures on housing reflect expenditures at a point in time, not the percentage of income a family is willing to pay to purchase or to gain occupancy. In the usual case, families experience some growth of income through time and upgrade their housing only periodically, i.e. they do not upgrade their housing, or increase their expenditures on housing, with each increase in income. Consequently, over relatively long periods of time, a family's expenditures on housing will tend to decline as a percentage of its (growing) income. Expenditure surveys capture this effect inasmuch as they represent a cross-section of families at different stages of this cycle. The aggregate percent of income expended on housing shown by the survey can never, therefore, be the maximum which families in general are initially willing to pay. This circumstance is exacerbated in Egypt because the shortage of housing and new construction has significantly reduced the opportunity for upgrading a family's housing as its income grows.

Consequently, it would not be unreasonable to assume that Egyptian families are willing to pay upwards of 20% of their income to obtain housing.

TABLE B-1

AGGREGATE BALANCE SHEET OF COMMERCIAL BANKS
(end 1968 - June 1976)

(£ 000's)

Assets	1968	1969	1970	1971	1972	1973	1974	1975	June 1976
Cash	26,179	25,907	26,961	30,221	33,962	39,671	53,765	56,887	51,062
Balances with CBE	122,881	136,988	208,511	111,594	151,263	219,990	327,738	312,571	366,068
Other items of cash nature	5,528	8,512	8,665	10,888	20,730	29,310	39,575	66,758	57,919
Treasury Bills	21,000	—	—	—	—	—	—	—	—
A) Egyptian	21,000	—	—	—	—	—	—	—	—
B) Foreign	—	—	—	—	—	—	—	—	—
Commercial papers discounted	6,190	9,174	5,191	5,926	4,709	9,937	3,237	2,631	1,506
Investments & securities	112,360	120,967	92,756	137,223	126,415	116,869	78,754	81,208	133,367
A) Government	104,108	111,979	82,562	126,690	109,971	107,879	69,415	64,740	111,880
a) Egyptian++	104,108	111,979	82,562	126,690	109,088	106,996	68,532	63,956	111,293
b) Foreign	—	—	—	—	883	883	884	884	587
B) Other	8,253	8,987	10,196	10,533	16,444	8,991	9,338	16,468	21,487
Due from banks:	154,235	196,015	164,802	162,151	185,208	297,283	686,702	826,703	933,855
A) In Egypt	112,118	149,453	120,602	122,844	127,226	136,628	281,022	339,240	267,195
B) Abroad	42,119	46,563	44,200	39,309	57,983	160,656	405,680	487,464	666,660
a) in £	7,028	7,233	6,793	6,850	7,952	8,244	9,802	11,701	14,507
b) in foreign currencies	35,091	39,330	37,407	32,459	50,031	152,412	395,878	475,763	652,153
Loans & advances	678,852	736,133	857,221	926,156	977,065	984,881	1,399,529	2,138,689	2,350,930
Other assets	58,286	54,051	66,594	75,783	104,960	119,159	97,897	107,131	136,389
Total of assets or liabilities	1,185,513	1,287,747	1,430,701	1,459,940	1,604,314	1,817,100	2,687,197	3,592,577	4,031,097

++ Including securities guaranteed by the Government.

TABLE B-1 (cont.)

(£ 000's)

iabilities	1968	1969	1970	1971	1972	1973	1974	1975	June 1976
aid-up capital	9,436	9,436	9,436	9,836	12,836	13,836	13,836	16,336	19,320
eserve funds & undivided profits	79,538	75,558	88,244	99,216	115,249	107,763	157,577	196,630	161,558
heques, drafts, etc. outstanding	2,188	6,486	4,098	5,869	7,038	8,704	12,670	17,755	22,098
ue to banks:	85,400	101,939	81,910	89,436	86,049	132,880	418,467	792,685	698,136
A) in Egypt#	36,086	50,360	27,337	34,689	21,455	33,851	86,695	153,607	57,324
B) Abroad:	49,314	51,579	54,573	54,746	64,593	99,028	331,772	639,068	640,812
a) in £	16,482	16,462	16,610	10,803	12,418	14,019	21,210	27,617	28,857
b) in foreign currencies	32,832	35,117	37,963	43,943	52,175	85,009	310,562	611,451	611,955
orrowings from CBE	276,000	310,000	405,000	373,000	373,000	383,000	562,000	745,000	934,000
eposits:	661,017	692,972	755,533	793,236	897,019	973,123	1,242,158	1,582,302	1,834,095
A) Government:	63,030	59,546	72,642	68,646	75,812	68,983	79,794	70,571	84,009
a) current	28,111	16,905	24,293	18,763	22,724	19,129	29,344	31,065	32,228
b) time	34,919	42,641	48,349	49,883	53,088	49,854	50,449	43,605	51,781
B) Semi-Government	21,233	21,135	22,609	52,740	46,418	13,516	52,957	85,276	48,150
a) current	10,289	11,079	16,055	19,713	18,435	11,106	38,761	55,971	25,209
b) time	10,944	10,056	6,554	33,027	27,983	2,410	14,196	29,305	22,901
C) Other current	302,126	302,803	313,394	351,626	431,705	495,003	610,100	732,659	869,442
D) Time, saving & other+	274,628	309,487	346,886	320,222	343,082	395,622	499,308	689,797	841,695
Other liabilities	71,935	91,357	86,480	89,347	113,123	197,794	280,488	242,868	342,869
Contingent liabilities	388,209	595,342	651,640	735,618	1,009,785	1,633,399	2,265,658	2,432,714	2,483,049
Total debit movement during the month in all customers' a/cs	418,920	546,579	583,024	606,546	760,651	1,209,414	1,609,529	2,555,387	1,723,390
Reserve ratio %*	23.9	26.6	37.3	15.8	16.1	20.8	20.5	13.4	20.5
Liquidity ratio %	48.7	51.5	50.8	41.0	39.9	50.1	58.5	48.1	52.0

\+ Including deposits in foreign currencies

\# Including CBE financing a/c with NBE.

* Daily average.

TABLE B-2

SUMMARY BALANCE SHEET OF MORTGAGE BANKS
(In millions of Egyptian pounds)

End of Period	1970	1971	1972	1973	1974	Sept. 1975	Dec. 1975	Sept. 1976
Cash	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign assets	0.6	0.6	0.6	0.1	0.1	0.2	—	0.2
Claims on Government, net	7.9	6.8	6.1	5.7	4.8	4.7	4.5	3.6
Claims	(8.3)	(6.9)	(6.1)	(5.8)	(4.9)	(4.8)	(4.6)	(3.7)
Deposits	(-0.4)	(-0.1)	(--)	(-0.1)	(-0.1)	(-0.1)	(-0.1)	(-0.1)
Claims on nongovernment sector	27.8	39.1	41.2	42.8	45.3	45.3	45.9	46.5
Private sector	(24.0)	(32.8)	(34.5)	(36.3)	(39.5)	(43.4)	(43.9)	(44.2)
Cooperatives	(2.8)	(3.9)	(4.6)	(4.4)	(4.0)	(1.4)	(1.5)	(1.6)
Public sector companies	(1.0)	(2.4)	(2.1)	(2.1)	(1.8)	(0.5)	(0.5)	(0.7)
Claims on banks	0.8	1.4	2.1	0.3	0.3	0.1	0.2	0.4
Central Bank	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(--)	(0.1)	(--)
Commercial banks	(0.7)	(1.3)	(2.0)	(0.2)	(0.2)	(0.1)	(0.1)	(0.4)
Other items, net	-0.4	—	0.9	0.3	0.7	2.2	0.7	2.3
Unclassified assets	(3.8)	(4.3)	(6.1)	(6.7)	(8.3)	(8.0)	(7.4)	(8.6)
Unclassified liabilities	(-4.2)	(-4.3)	(-5.2)	(-6.4)	(-7.6)	(-5.8)	(-6.7)	(-6.3)
Assets = Liabilities	36.8	48.0	51.0	49.3	51.3	52.6	51.4	53.1
Nongovernment sector deposits	1.0	1.0	3.4	3.4	4.7	4.7	4.9	5.9
Public sector companies	(0.9)	(0.9)	(3.3)	(3.3)	(4.7)	(4.7)	(4.9)	(5.9)
Private sector	(0.1)	(0.1)	(0.1)	(0.1)	(—)	(--)	(—)	(--)
Bonds	3.5	4.3	4.2	4.6	4.5	4.0	3.9	3.9
Funds due to banks	16.4	26.0	25.7	23.8	23.8	24.6	23.3	22.3
Central Bank	(1.1)	(0.9)	(0.8)	(0.6)	(0.4)	(0.3)	(0.2)	(0.2)
Commercial banks	(15.3)	(25.1)	(24.9)	(23.2)	(23.4)	(24.3)	(23.1)	(22.1)
Capital accounts	15.9	16.7	17.7	17.5	18.3	19.3	19.3	21.0

Source: Central Bank of Egypt

TABLE B-3

BALANCE SHEET
CREDIT FONCIER EGYPTIEN

(£ 000's)

End of Dec.	1976	1975	1974
Assets			
1-Cash & balances with banks	232	284	348
2-Securities & investments	1,215	1,003	928
3-Loans & advances			
Payable within one year	137	44	480
" from one to five years	2,034	1,251	1,969
" from five to ten years	9,439	8,549	9,320
" after ten years	31,957	30,542	30,509
Loans, instalments & interest due	4,202	7,306	4,982
Total loans & advances	47,769	47,692	47,260
4-Other assets	6,793	4,604	7,464
Liabilities			
1-Paid-up capital	5,500	5,500	5,500
2-Reserves & undistributed profits	4,933	4,757	4,619
3-Provisions	7,514	7,701	6,765
4-Bonds & debentures	4,144	4,279	4,444
5-Borrowings from central bank	212	232	359
6-Borrowings from other banks	20,349	21,597	22,006
7-Deposits	6,402	5,079	4,822
8-Other liabilities	6,955	4,438	7,485
Total assets/liabilities	56,009	53,583	56,000
Contingent liabilities	784	783	891
Loans secured by buildings to total loans	85%	78%	80%

TABLE B-4

SUMMARY BALANCE SHEET OF AGRICULTURAL
AND COOPERATIVE CREDIT BANKS
(In millions of Egyptian pounds)

End of Period	1970	1971	1972	1973	1974	Sept. 1975	Dec. 1975	Sept. 1976
Cash	0.4	0.7	0.8	0.9	0.9	1.0	0.9	0.9
Commodities	30.5	25.3	34.2	42.5	96.8	171.8	150.1	132.8
Claims on Government, net	-2.7	-9.1	-11.8	-12.9	-22.8	-23.3	-22.9	-23.5
Claims	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Deposits	(-2.9)	(-9.3)	(-12.0)	(-13.1)	(-23.0)	(-23.5)	(-23.1)	(-23.7)
Claims on nongovernment sector	78.4	97.1	98.6	109.7	109.1	130.6	91.5	126.5
Cooperatives	(76.9)	(95.6)	(97.2)	(108.3)	(107.7)	(129.2)	(90.1)	(125.1)
Public sector companies	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Claims on banks	2.2	3.8	1.0	2.7	2.1	1.3	0.8	0.7
Central Bank	(--)	(0.7)	(0.4)	(2.4)	(2.1)	(0.8)	(0.7)	(0.5)
Commercial banks	(2.2)	(3.1)	(0.6)	(0.3)	(--)	(0.5)	(0.1)	(0.2)
Other items, net	24.7	13.4	19.0	3.8	44.3	33.7	25.5	36.7
Unclassified assets	(33.9)	(67.4)	(70.3)	(72.0)	(106.6)	(112.0)	(110.5)	(114.1)
Unclassified liabilities	(-9.2)	(-54.0)	(-51.3)	(-68.2)	(-62.3)	(-78.3)	(-85.0)	(-77.4)
Assets = Liabilities	133.5	131.2	141.8	146.7	230.4	315.1	245.9	274.1
Nongovernment sector deposits	16.0	19.0	19.3	21.8	23.1	23.1	24.5	27.5
Cooperatives	(16.0)	(16.5)	(16.8)	(19.6)	(20.9)	(20.9)	(22.4)	(25.3)
Private sector	(--)	(2.5)	(2.5)	(2.2)	(2.2)	(2.2)	(2.1)	(2.2)
Funds due to banks	99.5	91.9	102.0	96.9	176.4	256.4	185.8	204.5
Central Bank	(5.0)	(5.4)	(5.6)	(5.6)	(5.7)	(5.8)	(5.7)	(6.3)
Commercial banks	(94.5)	(86.5)	(96.4)	(91.3)	(170.7)	(250.6)	(180.1)	(198.2)
Capital accounts	18.0	20.3	20.5	28.0	30.9	35.6	35.6	42.1

Source: Central Bank of Egypt

TABLE B-5

COMMERCIAL BANKS - LOANS AND DISCOUNTS

(£ million)

End of:	Loans secured by: Cotton	Agricult. products	Merchan-dise	Securities	Bills	Personal	Cessions	Otherwise secured	Unsecured loans	Total loans	Bills discounted	Total loans & discounts
1972 March	19.7	17.1	37.0	2.4	7.9	86.2	3.1	12.6	701.1	887.1	4.4	891.5
" June	9.6	7.7	37.6	2.1	8.4	79.9	6.0	30.1	699.3	880.7	1.0	881.7
" September	2.1	8.2	26.1	2.1	9.2	65.8	9.2	21.0	785.0	928.7	0.9	929.6
" December	81.9	4.2	30.5	1.8	8.2	63.2	9.3	21.4	756.6	977.1	4.7	981.8
1973 March	26.6	2.1	39.8	1.8	8.9	73.7	8.7	18.6	844.8	1025.0	6.4	1031.4
" June	5.8	5.8	42.9	1.5	9.3	74.2	9.8	20.8	838.9	1009.0	1.0	1010.0
" September	2.6	5.0	39.7	1.4	9.5	87.7	8.4	20.7	823.7	998.7	0.9	999.6
" December	55.9	3.2	39.5	1.4	8.6	91.5	6.4	21.4	757.0	984.9	9.9	994.8
1974 March	6.2	1.2	47.0	1.3	10.2	104.7	5.3	21.7	861.5	1059.2	1.9	1061.0
" June	3.7	5.3	51.3	1.1	12.1	110.1	7.7	28.3	841.4	1061.1	1.0	1062.2
" September	1.2	5.3	54.9	1.2	14.8	119.0	8.2	33.0	745.0	982.7	1.0	983.7
" December	78.5	3.3	61.9	1.2	14.8	119.2	8.0	42.6	1070.0	1399.5	3.2	1402.8
1975 March	16.1	1.1	73.9	1.3	18.2	122.0	8.6	38.7	1240.4	1520.2	5.1	1525.3
" June	4.7	7.8	92.0	1.1	22.6	140.9	9.9	47.0	1599.6	1925.6	1.5	1927.1
" September	4.2	8.4	107.7	1.2	26.7	144.4	11.0	56.2	1822.6	2182.4	1.1	2183.5
" December	66.2	5.6	103.6	1.5	29.0	143.9	12.4	54.4	1722.0	2138.7	2.6	2141.3
1976 March	34.0	1.9	148.0	1.7	28.2	120.9	11.5	56.3	1811.8	2214.3	6.6	2220.9
" June	14.4	9.1	151.9	1.7	26.1	124.3	10.8	60.6	1952.0	2350.9	1.5	2352.4

TABLE B-6

TIME AND SAVINGS DEPOSITS
(millions of £E)

	Commercial Banks				
	Government	Semi-Government	Private	Postal Savings	Total
1968	34.9	10.9	269.1	70.3	375.3
1969	42.6	10.1	303.5	72.5	428.8
1970	48.3	6.6	337.3	76.5	468.9
1971	49.9	33.0	309.5	81.1	473.7
1972	53.1	28.0	331.0	89.9	502.1
1973	49.9	2.4	374.3	100.8	527.6
1974					
March	38.3	5.6	394.0	105.2	543.2
June	36.0	8.2	399.6	108.6	552.5
September	35.9	9.6	438.7	111.3	595.5
December	50.4	14.2	449.3	119.2	633.1
1975					
March	60.9	16.5	476.5	121.6	675.5
June	53.1	27.0	523.1	124.0	727.2
September	42.3	24.9	550.7	127.6	745.5
December	43.5	29.3	572.0	136.0	780.8
1976					
March	47.2	25.6	619.7	138.7	831.2
June	51.8	22.9	634.5	139.9	849.1
September				139.4	

Source: Central Bank of Egypt

TABLE B-7

SAVINGS CERTIFICATES (GENERAL SUMMARY) (*)
(Millions of £E)

End of	Appreciation Bonds		Current Income Bonds		Lottery Bonds		Total		Net Sales
	Sales	Redemp-tions	Sales	Redemp-tions	Sales	Redemp-tions	Sales	Redemp-tions	
1965 (1)	4.6	0.1	9.2	0.1	--	--	13.8	0.2	13.6
1966	9.8	0.6	20.7	1.0	--	--	30.5	1.6	28.9
1967	12.8	1.5	29.1	2.7	--	--	41.9	4.2	37.7
1968 (2)	16.4	2.5	41.3	4.8	4.6	0.5	62.3	7.8	54.5
1969	21.5	3.6	56.3	7.5	7.5	1.6	85.3	12.7	72.6
1970	28.0	5.1	76.1	11.3	12.2	4.3	116.3	20.7	95.6
1971	34.7	7.2	100.7	16.1	16.9	8.5	152.3	31.8	120.5
1972	45.0	9.3	131.8	22.4	22.1	12.6	198.9	44.3	154.6
1973	54.6	12.1	169.5	30.6	28.4	17.2	252.5	59.9	192.6
1974	67.0	15.9	215.1	42.6	35.4	22.7	317.5	81.2	236.3
1975 (3)	84.8	23.8	273.4	63.7	45.2	29.4	403.4	116.9	286.5
1975 January	68.1	16.2	220.7	43.9	36.1	23.1	324.9	83.2	241.7
1975 February	69.4	16.8	225.4	45.6	36.8	23.6	331.6	86.0	245.6
1975 March	70.6	17.5	230.6	47.2	37.7	24.1	338.9	88.8	250.1
1975 April	71.6	17.9	234.7	48.6	38.5	24.6	344.8	91.1	253.7
1976 January	86.7	24.8	279.1	66.2	46.1	30.0	411.9	121.0	290.9
1976 February	87.8	25.6	283.8	68.3	47.0	30.5	418.6	124.4	294.2
1976 March	89.1	26.4	288.8	70.4	47.8	31.2	425.7	128.0	297.7
1976 April	89.9	26.9	294.0	72.3	48.6	31.8	432.5	131.0	301.5

(*) Figures cumulative
(1) Appreciation and Current Income Bonds first issued on 1/31/65
(2) Lottery Bonds first issued on 2/4/68
(3) Figures as from Jan. 1975 include the Second Issue of Appreciation and Current Income Bonds

Source: N.B.E.

TABLE B-8

DISTRIBUTION OF NET SALES OF SAVINGS CERTIFICATES
ACCORDING TO REGION AND OWNERSHIP (1)
(Millions of £E)

End of	Region				Ownership		Total
	Cairo	Alexandria	Lower Egypt	Upper Egypt	Personnes Naturelles	Personnes Morales	
1965 (2)	9.8	1.3	1.6	0.9	10.3	3.3	13.6
1966	20.7	2.9	3.4	1.9	21.3	7.6	28.9
1967	27.0	3.9	4.5	2.3	28.9	8.8	37.7
1968 (3)	39.7	5.7	5.8	3.3	43.4	11.1	54.5
1969	52.7	8.1	7.7	4.1	58.0	14.6	72.6
1970	68.6	12.1	9.5	5.4	78.3	17.3	95.6
1971	85.7	16.4	11.6	6.8	101.6	18.9	120.5
1972	110.5	21.3	14.4	8.4	131.5	23.1	154.6
1973	137.5	27.7	17.2	10.2	167.1	25.5	192.6
1974	166.6	35.8	21.5	12.4	209.3	27.0	236.3
1975 (4)	200.1	44.7	26.7	15.0	259.1	27.4	286.5
1975 January	170.4	36.6	22.0	12.7	214.7	27.0	241.7
1975 February	172.9	37.3	22.5	12.9	218.6	27.0	245.6
1975 March	175.8	38.2	23.0	13.1	223.1	27.0	250.1
1975 April	178.1	38.9	23.4	13.3	226.6	27.1	253.7
1976 January	203.1	45.4	27.2	15.2	263.4	27.5	290.9
1976 February	205.2	46.0	27.6	15.4	266.8	27.4	294.2
1976 March	207.8	46.4	27.9	15.6	270.4	27.3	297.7
1976 April	210.5	47.0	28.3	15.7	273.8	27.7	301.5

(1) Covers the Groups Appreciation, Current Income and Lottery Bonds. Figures cumulative.
(2) Appreciation and Current Income Bonds first issued on 1/31/65.
(3) Lottery Bonds first issued on 2/4/68.
(4) Figures as from Jan. 1975 include the Second Issue of Appreciation and Current Income Bonds.

TABLE B-9

AGGREGATE BALANCE SHEET OF INSURANCE COMPANIES
AS OF DECEMBER 31st

A) Liabilities (to the nearest ₤E)

	1974		1973	
	₤E	₤E	₤E	₤E
SHARE HOLDERS RIGHTS				
1. Paid up Capital	--	2,825,000	--	2,825,000
2. Reserves				
a. Statutory Reserves	2,099,082	--	1,935,597	--
b. Reserves for Government Securities	1,439,683	--	1,276,197	--
c. Other Reserves	2,495,046	--	2,293,895	--
		6,033,811		5,505,689
Total		8,858,811		8,330,689
POLICY HOLDERS RIGHTS				
1. Technical Reserves				
a. Life Assurances and Capital Redemption Reserves' Funds	53,835,474	--	50,003,177	--
b. Reserves' Funds for Unexpired Risks	9,561,734	--	7,990,393	--
2. Provision for Outstanding Claims				
a. Life and Capital Redemption	2,813,315	--	2,719,636	--
b. General Branches	23,298,101	--	19,735,530	--
c. Additional Reserves	8,621,117	--	6,688,870	--
Total		98,129,741		87,137,606
ALLOCATIONS	--	17,994,186	--	15,960,378
CREDITORS				
1. Insurance and Reinsurance	13,254,303	--	12,449,895	--
2. Sundry Creditors and Credit Balance	9,464,623	--	8,504,192	--
Total		22,718,926		20,954,087
Profit for Distribution	--	2,741,591		2,457,736
		150,443,255		134,840,496

TABLE B-9 (cont.)

B) Assets (to the nearest LE)

	1974		1973	
	LE	LE	LE	LE
INVESTMENTS:				
- Real Estate Properties at Cost	32,564,708	--	31,550,366	--
- Securities (According to Book Value)	47,884,882	--	46,369,924	--
- Loans on Real Estate	1,548,051	--	1,485,456	--
- Loans to Policy Holders	4,337,034	--	4,298,622	--
- Other Loans	--	--	--	--
- Projects under construction	634,266	--	431,115	--
- Fixed Deposits at Banks	32,727,275	--	23,534,159	--
Total Investments		119,696,216		107,669,642
CASH AND CURRENT ACCOUNT AT BANKS	--	4,759,935	--	3,405,621
OTHER INVESTMENTS	--	--	--	--
DEBTORS:				
- Insurance & Reinsurance Co.	9,111,795	--	8,515,725	--
- Sundry Debitors and Debit Balances	15,984,787	--	14,435,938	--
Total Debitors		25,096,582		22,951,663
Other Assets		890,522		813,570
Total		150,443,255		134,840,496

APPENDIX C

CENTRAL BANK OF EGYPT LENDING AND DISCOUNT RATE AND STRUCTURE OF DEBTOR AND CREDITOR INTEREST RATES RELATING TO THE ACCOUNTS OF RESIDENT CUSTOMERS OPENED IN EGYPTIAN POUNDS

I. Central Bank of Egypt Lending and Discount Rate

The interest rate on credit facilities granted to banks in respect of loans, advances or rediscounts shall be 6% p.a.

II. Creditor Interest Rates

The maximum limit of creditor interest rates on deposit accounts shall be as follows:

	Personnes Naturelles	Personnes Morales
A. Demand Deposits	No interest payable	No interest payable
B. Time and Notice Deposits		
- For 15 days but less than one month minimum limit £E 10,000	2.0% p.a.	2.0% p.a.
- For one month but less than three months	3.0% p.a.	2.5% p.a.
- For 3 months but less than six months	4.0% p.a.	3.0% p.a.
- For 6 months but less than one year	4.5% p.a.	3.5% p.a.
- For one year and over	5.0% p.a.	4.0% p.a.

C. The interest rate on Savings Deposits shall be 4% p.a. on a maximum balance of £E 10,000.

Rules and Exceptions

1. According to the provisions of Law No. 32/1964, the Save Nubia Monuments Fund, the deposits of Social Services Societies and other institutions operating in this field, of Trade Unions and Aid Funds

registered with the Ministry of Social Affairs shall enjoy the same privileges granted to the deposits of personnes naturelles. The above-mentioned bodies may be granted creditor interest rates on their demand accounts up to a maximum limit of 2% p.a.

2. Deposits of minors coming within the jurisdiction of the Tribunaux de Status Personnelles shall be treated as savings deposits in respect of the interest rate and the basis of its calculation.

3. Interest rates on savings deposits with Savings Centres (former branches of local Savings Banks) affiliated to the commercial banks may be raised by ½% p.a., this not to apply to notice and time deposits.

4. Savings depositors shall continue to enjoy the privileges granted to them provided that the costs of the systems in force including interest on such savings deposits do not exceed the maximum limit relating to creditor interest rates.

Banks which want to introduce new systems must apply to the Control of Banks Department for approval thereof giving details of the proposed systems accompanied by the necessary documents and explanations including the costs of the application thereof in accordance with the estimates of an actuary. Interest up to 2% p.a. may be paid on the balances of savings deposits benefiting from such systems where depositors do not fulfill their obligations in respect of maintaining the balances thereon for the duration prescribed.

III. Debtor Interest Rates

The maximum and minimum limits of debtor interest rates on loans, advances and discounts in respect of both personnes naturelles and personnes morales shall be as follows:

- Minimum limit 7% p.a.
- Maximum limit 8% p.a.

Banks may charge - where necessary - a penalty interest rate up to a maximum limit of 1% p.a.

Rules and Exceptions

1. The minimum interest rate relating to cotton facilities granted to cotton export companies shall be 6-3/4% p.a.

2. Loans granted by real estate banks to finance the construction of new middle class and popular housing or for the construction of additional storeys to existing buildings shall be charged a minimum interest rate of 6.5% p.a. to be increased to 7.5% where settlement is delayed.

3. Interest rates relating to loans and advances guaranteed by Government securities or by bonds issued by the Deposits and Insurance Contributions Investment Fund shall be 5% p.a.

4. Interest rates in respect of loans granted to persons employed by the Government, local administration units, public authorities and organisations as well as the public sector shall be 3½% p.a. and shall be deducted in advance from such loan on the date they are granted.

APPENDIX C (cont.)

5. The interest rate relating to loans granted to the General Federation of Chambers of Commerce and also to the Chambers of the Suez Canal Governorates (secured by the Treasury) for purposes of re-lending to the merchants of Sinai, Suez, Ismailia and Port Said Governorates shall be 3% p.a. to be calculated on a half-yearly basis.

6. As regards loans and advances covered by notice deposits or secured by time deposits or time deposit certificates held with the same bank and in the name of the borrower, the debtor interest rate thereon shall be at least 2% p.a. higher than the creditor interest rate paid on such deposits.

7. The debit accounts of the Public Authority for Supply Goods resulting from the entry of the value of incoming shipping documents relating to documentary credits (import at sight) in respect of the importation of supply goods from which revenue is derived, shall be charged interest at the rate of 1½% p.a. for a maximum period of one month as from the date the entry is made and the Authority notified. Thereafter, the interest rate shall be raised to the minimum limit prescribed.

8. Debit accounts opened for the account of customers for purposes of debiting thereto the value of incoming documents relating to import documentary credits opened on the basis of foreign banking facilities, shall not be charged with any domestic interest during the period from the date the documents are received and until the date of application to the Central Bank of Egypt for the provision of foreign currency.

APPENDIX C (cont.)

General Rules

1. The debitor and creditor interest rates shall not apply to: the accounts of domestic banks opened with one another, the accounts of bank employees and their facilities and the collective accounts of bank employees.

2. The new interest rates shall apply, as from 1st January 1976, to new, renewed and outstanding contracts if their terms so allow.

3. All decrees previously issued by the Board of Directors regarding the Central Bank's lending and discount rate and the rules for determining debtor and creditor interest rates shall be hereby repealed.

Source: National Bank of Egypt, Economic Bulletin, Vol. XXVIII, No. 4, 1975.

TABLE D-1 A detailed analytical report on the development of the most important economic variables for the period 1970-1975 (at current prices in millions of pounds)

Variable No.	Economic Variables	69/70	70/71	71/72	1973	1974	1975
		The Five Years					
1	Gross National Product	2988.3	3140.0	3314.5	3778.4	4154.0	4847.0
2	Governmental Final Consumption Expenditures	713.9	821.4	926.1	174.2	1124.9	1213.0
3	Private Final Consumption Expenditures	1991.9	2118.8	2231.2	2428.8	2846.5	3236.9
4	Final Consumption Expenditures (2 + 3)	2705.8	2940.2	3157.3	3503.0	3971.4	4449.9
5	Gross Fixed Capital Formation in the Public Sector	312.6	319.0	329.6	424.3	612.5	1087.8
6	Gross Fixed Capital Formation in the Private Sector	38.2	36.5	35.4	38.1	30.2	106.1
7	Gross Fixed Capital Formation (5 + 6)	350.8	355.5	365.0	462.4	642.7	1153.5
8	Increase in Inventory	95.0	60.0	75.0	38.0	80.0	180.0
9	Gross Investment (7 + 8)	445.8	415.5	440.0	500.4	722.7	1373.9
10	Exports of Goods	371.4	383.0	384.1	411.3	723.7	70.3
11	Exports of Services	63.0	64.2	73.1	120.9	166.5	245.4
12	Exports of Goods and Services (10 + 11)	434.4	447.2	451.2	532.2	850.2	947.7
13	Worker's Remittance from Abroad	4.3	3.8	4.3	35.5	84.7	153.2
14	Property and Entrepreneurial Income from Abroad	3.5	2.8	2.5	3.6	18.7	15.4
15	Factor Income from Abroad (13 + 14)	7.8	6.6	6.8	43.5	103.4	168.6

Table D-1 (Cont.) A detailed analytical report on the development of the most important economic variables for the period 1970-1975 (at current prices in millions of pounds)

Variable No.	Economic Variables	The Five Years					
		69/70	70/71	71/72	1973	1974	1975
16	Imports of Goods	473.1	531.0	555.9	622.3	1252.8	1691.1
17	Imports of Services	74.2	69.3	69.1	107.0	142.5	229.3
18	Imports of Goods and Services (16 + 17)	547.3	600.3	625.0	729.3	1395.3	1920.4
19	Worker's Remittances to Abroad	6.5	13.4	18.6	6.2	7.8	9.0
20	Property and Entrepreneurial Income to Abroad	51.7	55.8	53.2	65.2	130.6	163.7
21	Income Factors to Abroad (19 + 20)	58.2	69.2	71.8	71.4	138.4	172.7
22	Savings	279.7	163.4	162.8	343.8	383.2	579.6
23	Savings: Minus Arab Reinforcement	140.4	45.1	40.5	90.1	-22.0	158.3
24	Arab Reinforcement	139.3	118.3	122.3	253.7	405.2	421.3
25	Depreciation of Fixed Capital	145.0	158.0	171.0	187.0	212.0	247.0
26	Savings: Plus Depreciation of Fixed Capital	424.7	321.4	333.8	530.8	595.2	826.6
27	Savings (minus Arab Reinforcement): Plus Depreciation of Fixed Capital	285.4	203.1	211.5	277.1	150.0	405.3
28	State Surplus from Current External Transactions	-21.1	-94.1	-106.2	30.4	-127.5	-547.3

Table D-1 (Cont.) A detailed analytical report on the development of the most important economic variables for the period 1970-1975 (at current prices in millions of pounds)

Variable No.	Economic Variables	69/70	70/71	71/72	1973	1974	1975
		The Five Years					
29	State Surplus from Current External Transactions (Minus Arab Reinforcement)	-160.4	-212.4	-228.5	-273.3	-532.7	-968.6
30	Capital Transfers from Abroad (Net)	-124.4	-163.9	-175.5	-186.2	-285.5	-341.7
31	Net Lending to Abroad	-145.5	-258.0	-281.7	-155.8	-413.0	-889.0
32	Net Acquisition of Foreign Financial Assets	-12.2	-51.9	-28.1	-114.7	-35.7	-140.3
33	Net Due to Foreign Financial Liabilities (31 - 32)	133.3	206.1	253.6	270.5	448.7	1029.3

TABLE D-2

FIXED INVESTMENT
(at Current Market Prices)

(Ŀ million)

Sectors	1970/71	1971/72	1972	1973	1974	1975
Agriculture			27.8	35.2	32.7	42.4
Irrigation & Drainage	53.3	43.9	27.3	22.4	21.5	40.9
Extractive Industries	27.0	22.9	24.7	27.5	41.1	117.4
Manufacturing Industries	98.7	122.5	128.2	126.8	189.9	264.9
Construction	8.9	5.5	5.5	5.0	10.6	22.8
Electricity	23.1	21.3	25.8	30.3	30.0	49.3
Total productive sectors	211.0	216.1	239.3	247.2	325.8	537.7
Transport, communication & storage	81.2	79.6	75.6	123.0	190.0	373.7
Trade & Finance	9.5	11.0	2.9	3.2	7.7	12.2
Total distribution sectors	90.7	90.6	78.5	126.2	197.7	385.9
Housing	26.5	29.8	41.9	40.3	51.5	169.3
Public utilities	16.8	16.9	15.9	22.8	28.7	39.2
Services	16.0	21.5	34.5	29.2	43.9	71.8
Total services sectors	59.3	68.2	92.3	92.3	124.1	280.3
Grand Total	355.0*	370.4*	405.3*	462.4*	642.7*	1193.9*

* Excluding land estimated at Ŀ 6 m in 1970/71, Ŀ 4.5 m in 1971/72, Ŀ 4.5 m in 1972, Ŀ 3.3 in 1973, Ŀ 4.9 in 1974, and Ŀ 10 m in 1975.

Source: Ministry of Planning

TABLE D-3

EGYPT: DETAILED BALANCE OF PAYMENTS (1)
(In millions of Egyptian pounds) (2)

	1971	1972	1973	1974	1975
A. Trade balance	-171.1	-205.5	-261.3	-703.6	-1,078.3
Exports, f.o.b.	369.7	353.7	396.3	653.9	612.8
Imports, c.i.f.	-540.8	-559.2	-657.6	-1,357.5(3)	-1,691.1
B. Services (net)	-40.0	3.0	2.7	66.2	109.7
Receipts	79.2	134.1	166.4	277.6	422.5
Shipping	(5.3)	(5.5)	(5.7)	(7.9)	(22.6)
Suez Canal dues	(--)	(--)	(--)	(--)	(33.2)
Workers' remittances	(3.6)	(35.4)	(34.1)	(73.8)	(143.2)
Investment income	(9.0)	(10.9)	(13.4)	(34.1)	(33.7)
Travel and other receipts	(61.3)	(82.3)	(113.2)	(161.8)	(189.8)
Payments	-119.2	-131.1	-163.7	-211.4	-312.8
Shipping	(-8.3)	(-7.3)	(-6.5)	(-9.3)	(-31.8)
Investment income	(-32.5)	(-30.4)	(-50.5)	(-61.1)	(-74.5)
Travel & maintenance expenses	(-8.1)	(-18.5)	(-24.0)	(-41.1)	(-41.2)
Other commercial payments	(-13.8)	(-13.9)	(-20.0)	(-36.1)	(-65.3)
Government, n.i.e.	(-35.7)	(-27.3)	(-22.7)	(-30.3)	(-40.4)
Other payments	(-20.8)	(-33.7)	(-40.0)	(-33.5)	(-59.6)
C. Unrequited transfers	121.3	128.2	289.0	509.9	421.3
Private	4.8	2.5	2.4	16.3	35.3
Government	116.5	125.7	286.6(3)	493.6(3)	386.0
D. Current Balance (A + B + C)	-89.8	-74.8	30.4	-127.5	-547.3
E. Capital transactions (net)	11.3	65.4	-31.9	-77.6	158.0
Long-term loans	-11.3	34.4	15.8	-57.6	100.3
Drawings	(65.4)	(81.6)	(67.2)	(77.6)	(212.8)
Repayments	(-76.7)	(-47.2)	(-51.4)	(-135.2)	(-112.5)
Suppliers' credits	26.0	19.2	-46.2	-4.5	32.3
Drawings	(91.3)	(99.8)	(63.3)	(106.8)	(141.9)
Repayments	(-65.3)	(-80.6)	(-109.5)	(-111.3)	(-109.6)

TABLE D-3 (cont.)

Others (net)	-3.4	2.8	-1.5	-15.5	25.4
U.S. Government £E holdings	(4.3)	(5.1)	(-0.3)	(-9.2)	(29.0)
Other official	(-2.1)	(1.9)	(1.8)	(-2.9)	(-5.9)
Compensation for nationalization	(-5.9)	(-4.4)	(-3.0)	(-4.4)	(-2.4)
Other private	(0.3)	(0.2)	(--)	(1.0)	(4.7)
F. Errors & omissions (net)	1.0	-3.0	-3.9	-4.6	-10.5
G. Allocation of SDR's	8.7	9.4	--	--	--
H. Overall balance	-68.8	-11.5	-5.4	-209.7	-399.8
I. Monetary movements (increase in assets -)	68.8	11.5	5.4	209.7	399.8
Commercial banks	-15.3	-6.4	88.7	146.6	-134.7
Assets	(-2.6)	(-15.8)	(-18.8)	(-92.5)	(-38.0)
Liabilities	(-12.7)	(9.4)	(107.5)	(239.1)	(-96.7)
Central Bank long-term	-2.7	--	7.4	6.9	101.7
Assets	(-2.7)	(--)	(--)	(-8.1)	(-3.4)
Liabilities	(--)	(--)	(7.4)	(15.0)	(105.1)
Payments agreements (net)	50.0	34.0	-44.7	-11.0	-94.1
Reserves & related items	36.8	-16.1	-46.0	67.2	526.9
Use of Fund credits	(11.4)	(-21.4)	(17.9)	(14.1)	(-10.4)
Other liabilities	(21.3)	(-0.4)	(21.5)	(1.1)	(534.6)
Monetary gold	(--)	(--)	(--)	(--)	(--)
SDR's	(-3.5)	(1.1)	(-12.3)	(0.4)	(7.5)
Foreign exchange & other claims	(7.6)	(4.6)	(-73.1)	(51.6)	(-4.8)

Sources: Central Bank of Egypt and IMF, Balance of Payments Yearbook.

(1) Except where otherwise noted, data are based on the Central Bank's exchange control records.
(2) At official exchange rate.
(3) Includes the market value of petroleum grants (£E 35.3 million in 1973, £E 104.7 million in 1974).