

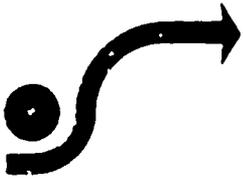
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HOUSING FINANCE IN EGYPT
PROSPECTS FOR DEVELOPMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT



richard t. pratt
associates, inc.

July 27, 1979

Mr. George Hazel
U. S. Agency for International Development
c/o American Embassy
P. O. Box 10
FPO New York 09572

Dear Mr. Hazel,

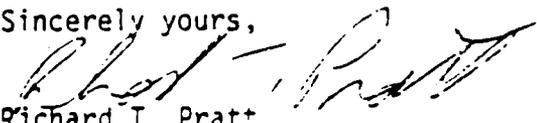
Please find enclosed our report concerning our recent work in the country of Egypt under work order 10 of our IQC contract with AID Office of Housing.

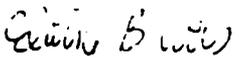
Our report provides an analysis of current housing finance activities in the country of Egypt and provides suggestions for the development of a more effective housing finance system including suggestions concerning law, regulation, institutions, and instruments relating to housing finance. You'll find a substantial section of the report is devoted to an analysis of the potential savings capital which may be mobilized for housing finance uses, combined with suggestions as to institutions and methods which we believe will be effective in the mobilization of this capital.

In response to a request from the Ministry of Housing, we have also provided, under separate cover, a set of tables which provide information concerning the cost and structuring of various subsidized housing programs.

We appreciate the opportunity of working with AID on this project. We received the highest possible level of cooperation and support from the AID Office of Housing, the Egyptian government, and of course, the Mission and Housing Officer in Egypt.

Sincerely yours,


Richard T. Pratt
President


Elaine B. Weis
Senior Associate

lbc

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SUMMARY AND RECOMMENDATIONS

At the current time there is a critical shortage of housing funds in the Arab Republic of Egypt. In response to this shortage, the authorities are placing increasing reliance on private sector savings as a primary source of mortgage funds. If an adequate flow of funds into the housing sector is to be achieved, major changes will be required in the structure and practices of financial institutions, mortgage and savings instruments, and the legal and regulatory environment in which housing finance is provided. The following items are suggested for consideration for the improvement of the function and operation of the Egyptian housing finance system.

General Recommendations

1. The existing housing finance system in Egypt relies heavily on Central Bank financing for housing and credit needs. This is a common practice in developing economies, but one which eventually proves to be inconsistent with an independent housing finance system. At the present time the major portion of new housing finance funds are provided by the Central Bank through direct loans to housing finance intermediaries at subsidized rates of interest.

There are important implications associated with extensive reliance on funds provided by the Central Bank. The use of

direct credit from the Central Bank results in an increase in the money supply, thereby adding fuel to the fires of inflation which are besetting the Egyptian economy. The Central Bank is a direct arm of the Egyptian government and as such is subject to all the political and economic pressures which a government agency must bear. Because the Central Bank must be responsive to broader national economic considerations, it is an uncertain and variable source of housing finance. While the provision of adequate housing to the Egyptian populace is a national goal at the present time, a restructuring of national priorities could result in a diversion of funds out of housing finance into areas deemed more critical by the government. Funds for housing finance traditionally have been regarded as residual capital, that is, capital that is left over after other needs for funds have been filled. If the housing finance system in Egypt operates in the future on a residual capital basis, there will be sharp fluctuations in the availability of housing credit depending on other economic changes. The instability of the flow of housing funds will destabilize housing production in the private sector. Developers need the assurance that funds will be available for construction and home purchase before they will be willing to undertake residential development on the scale necessary to relieve Egypt's housing shortage.

2. Economic statistics indicate that there is a pool of untapped capital in Egypt which could be channeled into housing

finance. However, the interest rates paid by mortgage finance institutions are too low to attract a significant amount of savings capital. Interest rates for housing funds must be rationalized and moved closer to realistic market levels if housing finance is to be provided in adequate quantities.

The major existing mortgage finance institution, the Credit Foncier Egyptien, provides a good example of the untenable interest rate situation. The prime sources of loanable funds for the Credit Foncier are its borrowings from the Central Bank and commercial banks, time deposits primarily from public sector companies, and bonds and debentures. In June 1979 the Credit Foncier was paying a 6.5% interest rate on Central Bank borrowings. The maximum rate payable on time deposits was 8.5 percent. These interest rates are substantially below what is currently required in the market. Institutions and individuals acting in an unconstrained manner would not provide funds at these rates. The housing finance institutions are, as a result, suffering a loss of funds from nearly every source except the Central Bank.

3. If the Credit Foncier and other mortgage finance institutions are to attract new funds, they must pay rates that are compatible with returns on other types of investments. The tax exemption on interest income on savings deposits raises the yield to depositors to more realistic levels. Commercial Banks have had some success in attracting new savings deposits.

4. The present system of building cost registration encourages falsification of building permit data. Subsidized building materials are provided for dwelling units having a low reported cost per square meter. Builders report a low cost per square meter in order to obtain the below market price materials. However, actual building costs are not those reported. The result of this system is a distortion of housing construction cost data. In reality, the current system of subsidization of building materials does not lower the cost of housing, it merely increases the profits of builders and produces fallacious and misleading measures of the true cost of construction.
5. Loan and mortgage registration procedures are both cumbersome and expensive. Streamlined procedures should be devised for the transferring of loans and housing titles. At the present time, loan and transfer fees may range as high as 10 percent of property values. This produces little revenue and greatly increases housing costs.

The Credit Foncier has taken steps towards reducing the time and cost of internal loan processing. Duplicate loan files are created so that the engineering and legal processing can be done at the same time.

Mortgage Lending Recommendations

There are a number of areas for possible improvement in the mortgage lending system of Egypt. The following recommendations are suggested as possible steps in the development of an independent and sound housing finance system.

1. As in the case of savings, interest rates on loans need to be rationalized and related to realistic market forces. The granting of unrealistically low interest rates provides an unjustified subsidy to the borrower, imposes a tax on the saver, and ensures an inadequacy of lendable mortgage funds. In order for interest rates on savings accounts to be set at a level sufficient to attract private savings, mortgage interest rates must be set at an acceptable margin above the cost of savings. At the present time, mortgage rates of 10 to 15 percent appear realistic in the Egyptian economy.
2. The practice of making highly preferential loans to certain groups should be carefully examined. For example, the program of providing extremely low interest rates to housing cooperatives dissipates mortgage funds and undermines the mortgage lending system. This type of program results in some households receiving major subsidies while other households in the same economic circumstances find housing finance totally unavailable. If subsidies are to be granted they should be based on the economic circumstances of recipients.
3. It appears that unrealistically low loan amounts are granted on housing units. The loans given to private sector borrowers relative to the value of the dwellings being constructed is so low as to reduce the usefulness of mortgage credit. The major mortgage lender to the private sector provides loans of 50 to 60 percent of appraised value. Appraised prices are

below market prices, making loans 40 percent of market value or less. The required down payments of 60-70 percent of the purchase price of a home price a large portion of Egyptian households out of the housing market. Loan-to-value ratios are inordinately low because of regulations which do not appear to be supported by delinquency and foreclosure experience and because of the low interest rates being charged on loans. It is likely that the low loan-to-value ratios employed are being used to ration mortgage credit. With higher interest rates on savings and higher interest rates on mortgages, it is believed that additional housing funds can be attracted, thereby allowing the granting of higher loan amounts. Mortgage lenders should consider relating interest rates to loan-to-value ratios, for example, a 55 percent loan-to-value ratio might bear an interest rate of 10 percent, a 65% loan-to-value perhaps 11 percent, and a 75 percent loan-to-value ratio 12 percent.

4. The Government should investigate the possibility of insuring or guaranteeing the payment of mortgage loans for lower and middle income Egyptian families. If a program of this type is instituted, a fee should be charged for the guarantee sufficient to cover administrative costs and expected losses under the program.
5. The Government should investigate the feasibility of involving commercial banks in the mortgage lending system. At the present time, there are over 500 commercial bank branches.

operating in Egypt. This branching network provides access to builders and home buyers throughout the country. Commercial banks are participating in financing housing development to a limited extent through joint ventures with large developers. However, they have not been active in either construction or permanent residential financing. Commercial banks cannot be expected to enter the permanent mortgage market if they must hold the loans they originate to maturity, commonly 10 to 15 years. The possibility of having commercial banks originate and service loans should be explored if the loanable funds did not come from commercial bank sources.

6. The Government may wish to evaluate the possibility of a centralized source of some mortgage credit. An institution such as the Credit Foncier Egyptien or the new Reconstruction and Housing Bank might be used as a central source of loanable mortgage funds. In order to provide these funds new financial instruments may need to be developed and old instruments revived; for example, national housing bonds or lottery bonds would appear to be a feasible source of funds if offered at competitive interest rates. The amount of funds raised through this source could be regulated by the rate of interest offered on the bonds. With an effective source of funds, the institution would be in a position to buy mortgages originated by other financial institutions such as the commercial banks.
7. Mortgage loans should be made available to a wider spectrum of the Egyptian population for private housing efforts. At

the present time, mortgage lending to the private sector is largely restricted to the upper income levels; for example, in 1977 over 68 percent of the mortgage loans executed by the Credit Foncier were for loan amounts over L.E. 10,000. Lower income groups may be served by increasing the emphasis on loans for expansions and upgrading.

8. Mortgage lending institutions should investigate the feasibility of making longer term mortgage loans. At the present time, the mortgage lenders are making relatively short term loans for new construction; for example, in 1977 less than 22 percent of the mortgage loans made at the Credit Foncier Egyptien were for terms longer than 16 years.

Recommendations for Savings Mobilization

Housing finance institutions are not actively soliciting savings accounts from individuals and households. There is evidence that such accounts can successfully attract substantial amounts of savings balances. A system of savings accounts offered to the public should be implemented as soon as possible. Some of the features which should be offered include:

1. Attractive interest rates should be provided. Rates should be competitive with those offered by the commercial banking sector. At the present time, these rates are approximately 8 percent for minimum balance accounts and 8.5 percent for longer term, higher balance accounts.

2. Provisions for opening and maintaining a savings account should be as simple and easily understood as possible. At least one category of account should be offered which provides great flexibility to the saver, that is, savers should be allowed to deposit and withdraw funds freely and earn some level of interest on all funds deposited. Required minimum balances should be as low as possible and somewhat lower interest rates would be justified. Under present conditions perhaps six to seven percent would be appropriate.
3. Housing finance institutions should offer to the public certificate types of accounts with somewhat higher interest rates and longer maturities than the short-term, flexible, pass-book account previously described. Institutions may wish to use a certificate whose effective interest rate increases each year the certificate is left on deposit.
4. A third type of account may be tied to the preferential access to mortgage credit. If this type of account is used, institutions must be extremely cautious not to promise housing units which cannot be provided when savings programs are fulfilled as required.
5. Regulations should allow for flexibility in the interest rates which are paid on savings accounts. Rates should be kept realistic in relation to economic and money market conditions at all times.

6. The government should investigate the implementation of a housing funds savings account at commercial banks. Such funds could be used for direct mortgage lending by commercial banks or could be channeled to a central fund used for the purchase of mortgages. The wide dispersion of bank branches would increase access to the market.

AN OVERVIEW OF THE EGYPTIAN HOUSING FINANCE SYSTEM

1976 - 1977 to 1979

In 1976 and then in 1977, major studies were made of the housing finance system in Egypt. These studies provided an overview of the structure and operations of the housing finance system and reached a number of conclusions and recommendations for change. These are summarized below:

The Housing Finance Situation in Egypt in 1977

Egypt's population growth combined with economic and institutional factors has resulted in a failure to meet housing needs. In addition, the need to replace unsafe structures has increased housing pressure. Migration of workers from the rural areas to the cities has further intensified the problem within the cities.

A study of household income distribution based on a sample survey showed the 1975 mean income to be L.E. 550. At this level of income, the average household was priced out of the formal sector housing being produced. Public housing was being provided in inadequate quantities and little private rental housing was being produced largely because of severe rent control restrictions.

The USAID-MOH Joint Housing Team Report recommended the reduction of housing subsidies by reducing dwelling unit and lot

size and house construction, infrastructure, and facilities costs. It was recommended that recovery payment for subsidized low income households be tied to household income. This team further recommended that a rational structure of interest rates be applied to all housing finance. Any programs which were developed after the time of the study were urged to be designed to facilitate private sector participation.

The untapped savings potential in the Egyptian economy was considered a key to supplying funds to private housing. The interest rate and tax structures existing at the time were disincentives to saving. On the lending side, interest rates were established at artificially low levels, placing an enormous financial burden on the Government. The housing finance system was relatively underdeveloped with only the GABHC participating to any extent in the provision of long term funds for housing.

The Joint Housing Team made several specific recommendations regarding the Credit Foncier Egyptien and the GABHC. Regarding the CFE, it was advised that the Government repeal the prohibition against savings accounts and that the organization and operating practices of the CFE be improved. Regarding the GABHC, it was recommended that this organization establish a financial relationship with the CFE as a source of long term funds, that the three percent interest rate charged to borrowers be raised, and that the GABHC give priority to economic housing in its housing development activities.

Developments Since 1977--Overall Economic Situation

There have been significant changes in the economy of Egypt since 1976-1977. The severe balance of payments problems and the shortage of foreign exchange have been mitigated to some extent. The financial and commercial community has a renewed vitality. Tourism is enjoying a modest renaissance. The face of Cairo is being transformed by major construction projects. There is a feeling of cautious optimism regarding the future of the country that extends from the highest echelons to the average worker. In spite of this, many of the economic problems of 1976 still exist in 1979. Perhaps they are endemic to the social and economic system of Egypt or any developing country in a similar situation.

The expanding population, experiencing a natural increase of approximately 80,000 persons per month, puts an overwhelming pressure on a housing system already over-burdened. Despite an increased rate of housing construction since 1976, the shortages in the stock of housing have not been reduced.

According to the projections of housing requirements for the urban areas in Egypt from 1976 to 2000 made by the Central Agency for Public Mobilization and Statistics (CAPMAS) in April, 1979, in mid-1979 there was a shortage of 1,166,280 housing units in urban areas alone. The projections over the 24 year planning horizon are that an average of 148,948 new dwelling units will be required each year to provide housing for the increase in population, to replace substandard units, and to alleviate

existing shortages. The CAPMAS projections are presented in Appendix B.

The CAPMAS projections are significantly higher than those made under the most recent Five Year Plan. One problem of projecting housing needs is that planners base their projections on physical housing needs. For example, the CAPMAS projections assume one dwelling unit per household. No consideration is given in the projections of housing requirements to developing an effective measure of economic demand. Projections are made without taking into account household incomes and the allocation of household expenditures among competing uses, two very significant constraints in the real world.

Changes in the Structure of the Financial System

The structure and character of the banking system in Egypt has changed substantially since the enactment of the Foreign Investment Law in 1974 and the abolishment of functional specialization in 1975. Other recent developments have liberalized the activities of some of the specialized banks in Egypt and have increased the flexibility of the Central Bank in determining discount rates and interest rate ceilings.

Expansion of the Commercial Banking System

Before 1975, there were only four commercial banks in operation in Egypt. Over 30 banks have been established under the Foreign Investment Law of 1974. Of these, about one-third are authorized to engage in a full range of banking operation in both Egyptian pounds and foreign exchange. These institutions compete directly

with the government-controlled commercial banks. The data on the operations of these banks are included in the consolidated balance sheet statistics presented in the appendices. The balance of the banks established in Egypt since 1974 have operated only in foreign exchange and/or investment banking.

Specialized Financial Institutions Other than Mortgage Banks

There are two classes of specialized financial institutions in Egypt in addition to the mortgage banks. The Development and Agricultural Credit Bank finances the subsidized production credit programs of the agricultural cooperatives and also acts as the fiscal agent for the cooperatives. The Development Industrial Bank was established in 1976 to finance the capital requirements of private and public sector industrial enterprises.

The Mortgage Finance System

Mortgage Banks

There are three mortgage lenders currently in operation. The primary source of funds for the mortgage banks is the Central Bank, much as it was in 1977. From all available statistics, it appears that the mortgage lending institutions have not increased their lending activity significantly over the past two years despite the increase in residential construction and the national commitment to alleviating Egypt's chronic housing shortage. If the rapid escalation of market prices of housing and land suitable for residential development is taken into account, the mortgage lending institutions have not had any significant impact on increasing the number of housing units provided. With property values increasing at 20 to 50 percent per year, the growth in

loan volume may represent an actual decrease in real mortgage credit provided.

The General Authority of Housing and Building Cooperatives continues to operate in the same manner that it did in 1977. The GABHC, while not a bank in the normal sense, borrows funds from the banking system at nine percent per annum. These funds are then loaned to the members of cooperatives for the purchase of housing units at three percent per annum. These highly subsidized loans are made primarily to middle and upper income Egyptians.

The operations of the Credit Foncier Egyptien have not changed significantly since 1977. The CFE is empowered to take in savings deposits and has attracted almost L.E. 20 million. However, these deposits consist entirely of public company deposits. Loan volume has not increased significantly. The CFE, while the largest formal provider of long term housing finance to the private sector, does not have sufficient resources to adequately finance current housing needs.

The Arab Land Bank, which until 1978 had originated only 200 loans in Egypt, has stepped up its activity to a certain extent. In 1978, the ALB made L.E. 30 million in mortgage loans. Projections for 1979 are for L.E. 19 million in loan volume. Most of their loans were concentrated in hotel, residential income property, and high income housing developments, not for home purchase by individual households.

The National Housing Fund

The National Housing Fund, which was discussed at length in the 1976 Joint Housing Team report, has become dormant. At the present time it exists but is inactive.

The Reconstruction and Housing Bank

The recently established Reconstruction and Housing Bank is an unknown factor. While applications were being taken out as of June 16, 1979, the impact of this housing fund remains to be seen. The program initiated in June is open only to government and public sector employees who earn at least L.E. 40 per month (L.E. 480 per year). The employee will pay 25 percent of his monthly income into fund to accumulate a downpayment on a housing unit. The housing units which will be provided are the units under construction in Nasr City. After these units are sold out, it is uncertain as to how new units will be provided. As one official commented: "After Nasr City, who knows?"

At the present time, the bank does not appear to have any management, formal organization structure, physical location, or operations and procedures. Another official expressed a generally felt uncertainty about the future of the Reconstruction and Housing Bank: "The participating financial institutions have no idea what they should be doing. . . they are proceeding with the program on an ad hoc basis." The general opinion of the persons interviewed in conjunction with this study is that, if the Reconstruction and Housing Bank survives at all, it will be at least five years before it is established and performs any major role in the provision of housing credit.

The risks of developing a potentially "non-operational" institution are that funds will be diverted from other uses which are more productive and that, if the Government does not deliver the housing promised, public confidence in such institutions would be seriously undermined.

Changes in the Structure of Interest Rates

With the growth of the banking system, the Central Bank of Egypt has attempted to develop appropriate measures of monetary and credit control. Until 1975 there was a statutory ceiling on interest rates. Banking legislation enacted in 1975 empowered the Central Bank to fix limits on interest rates based on prevailing monetary and credit conditions. The maximum interest rates for commercial bank loans and deposits in Egyptian pounds have been raised several times. Table 1 presents the changes in the interest rate structure from 1977 to 1979. On the lending side, the maximum rate for loans to the non-government sector is 12 percent.

Despite the increases in nominal interest rates, the high rate of inflation in recent years has caused real interest rates to remain largely negative. Egyptian citizens are now permitted to hold foreign exchange deposits and, according to IMF statistics, almost 45 percent of the total increase in commercial bank deposits during the first nine months of 1978 was denominated in foreign currencies. Interest rates on these deposits are not regulated by the Central Bank. Recently banks have been offering 12 percent on high balance, U.S. dollar denominated time deposits

TABLE 1
CENTRAL BANK OF EGYPT
CREDITOR INTEREST RATES ON DEPOSIT ACCOUNTS

	<u>1977</u>	<u>1979</u>	
Demand Deposits	No interest payable	No interest payable	
Savings Deposits (L.E. 10,000 minimum)	4%	6%	
Time & Notice Deposits			
-for 7 but less than 15 days-	-	4%	
-for 15 but less than 30 days-	2%	5%	
-for 1 month but less than 3 months-	3%	5-1/2%	
-for 3 months but less than 6 months-	4%	6%	
-for 6 months but less than 1 year-	4-1/2%	6-1/2%	
-for 1 year but less than 2 years-	<div style="display: flex; align-items: center; justify-content: center;"> <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; padding: 0 10px; margin-right: 5px;"> </div> <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; padding: 0 10px; margin-right: 5px;"> </div> <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; padding: 0 10px; margin-right: 5px;"> </div> <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; padding: 0 10px; margin-right: 5px;"> </div> <div style="border-left: 1px solid black; border-right: 1px solid black; border-bottom: 1px solid black; padding: 0 10px;"> </div> </div>	7%	
-for 2 years but less than 3 years		5%	7-1/2%
-for 3 years but less than 5 years-			8%
-for 5 years or more-			8-1/2%

and about eight percent on U.S. dollar denominated demand deposits with substantial minimum deposits. The spread between the interest rates on foreign currency and Egyptian pound deposits and the high rate of Egyptian inflation has discouraged conversion of foreign exchange to local currency.

As a minimum, the housing finance sector must offer interest rates competitive with those available at commercial banks. The payment of interest rates above the current maximum is particularly important to the attraction of savings deposits from Egyptian workers abroad. Workers' remittances provide a rapidly expanding pool of funds. While a large proportion of these funds is utilized in "own exchange" transactions or flows into foreign exchange denominated amounts at commercial banks, there is some indication that the private sector is attracting some funds into housing. For example, the Arab Contractors' housing projects near Maadi and in Heliopolis are being financed partially by workers' remittances. The formal institutional sector will have to offer more attractive incentives than are currently provided through interest rates and/or other incentives to attract these funds.

Despite the recent increases in regulated interest rate ceilings, the depository institutions have been unable to attract funds currently held by households as cash. Hoarding is a common practice in Egypt because the general public is hesitant to lose liquidity and probably have a basic distrust of banks. The interest rates provided are not high enough to induce people to sacrifice the security and liquidity of cash.

HOUSING FINANCE REQUIREMENTS

Projected Housing Production

Egypt's housing finance requirements can be estimated for the immediate future from the Five-Year Plan established by the Ministry of Planning. Housing finance requirements cannot be determined accurately without an appraisal of the total housing sector, including the availability and cost of housing sites, housing construction, capacity and costs, and building materials cost and availability. However, an analysis of the Five-Year Plan can be used to develop what is probably an estimate of minimum housing finance requirements assuming the planned goals are met.

Housing production forms a significant proportion of Gross Domestic Fixed Investment (GFI). Table 2 shows Gross Domestic Fixed Investment for Egypt for the years 1974 through 1977 and estimates for 1978, the distribution of GFI between public and private investment, and the amount and percentage of investment devoted to housing. As the table shows, housing as a percent of GFI rose to a high of 14 percent in 1975 and then dropped to about 9 percent in 1976 and 1977. The pound amounts increased dramatically from 1974 to 1975, declined in 1976, and then rose to an estimated L.E. 207 million in 1978. The Five-Year Plan for 1978 through 1982 calls for an increase in Gross Domestic Fixed Investment of 182 percent, but shows only a modest increase in housing. The apparent reason is that the five-year plan does not

TABLE 2
GROSS FIXED INVESTMENT AT
CURRENT PRICES 1974 - 1978
(L.E. in millions)

<u>Gross Fixed Investment</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978^e</u>
Public Sector	612.5	1047.9	1148.9	1399.4	1800.0
Private Sector	30.2	180.0	236.0	370.0	450.0
TOTAL	642.7	1227.9	1384.9	1769.4	2250.0
Housing	51.5	172.3	124.8	162.0	207.0
Housing as a % of Total GFI	8.0%	14.0%	9.0%	9.2%	9.2% ¹

^eestimated

¹assumed the same as 1977

Source: Ministry of Planning
International Monetary Fund

include private housing investment in its projections. Government and public investment for the period 1978 to 1982 is expected to be L.E. 585 million, slightly more than the total investment in housing of the public and private sectors combined in the previous five-year period.

Housing investments under the Five-Year Plan are shown in Table 3. As the table shows, total expected investments for the five-year period are L.E. 585 million for the public sector and L.E. 457 million for the private sector for a total of L.E. 1,042 million for the five-year period.

Table 4 shows an estimated update of the planned investment to 1979 and provides an estimate of production volume and costs for the period 1979 to 1983. Because the Five-Year Plan figures were in 1977 pounds, the figures have been adjusted to current 1979 pounds by assuming a rate of inflation in the expected housing expenditure budget of 7.75 percent per year, an assumption which may be too conservative. The budgeted investment becomes L.E. 1,210 million, and, by assuming an average structural size of 40 square meters and an average cost per unit of L.E. 4,000, approximately 303,000 units can be produced. This estimate is consistent with the Ministry of Housing estimates of 325,000 units, but is not consistent with Ministry housing sizes. Ministry figures assume larger housing units, ranging to over 75 m² but lower costs per m² ranging from L.E. 40 m² to approximately L.E. 75 m² including land and interest.

There appears to be a sharp divergence in the various figures concerning housing units to be produced as reported by the Ministry of Housing. For example, while the Five-Year Plan shows 325,000

TABLE 3
 DISTRIBUTION OF HOUSING SECTOR
 INVESTMENTS IN THE FIVE-YEAR PLAN
 1978 - 1982

<u>Housing Sector</u>	<u>Investments 1978 - 1982 (L.E. Millions)</u>	<u>Numbers of Dwelling Units</u>
Ministry of Housing: Urban Housing in Governorates	360.0	120,000
Reconstruction Machinery Projects	20.0	5,000
Housing Projects	35.4	7,000
Other Affiliates	11.2	-
TOTAL: Ministry of Housing	426.6	132,000
Industry, Power, Services Councils	68.4	20,000
New Cities	90.0	23,000
TOTAL: Public Sector	585.0	175,000
Private Sector	457.0	150,000
TOTAL: Housing Sector*	1,042.0	325,000

*Excludes 15,000 residential units for students

Source: Ministry of Planning, The Five Year Plan 1978-1982
 Vol. 5, August, 1977

TABLE 4
HOUSING PRODUCTION AND
HOUSING COST IN EGYPT
1979 - 1983

<u>Housing Budget (000 L.E.)¹</u>	<u>Price Per Housing Unit (L.E.)</u>	<u>Housing Size M²</u>	<u>Price M² L.E.</u>	<u>Number of Units (000)</u>
1,210.000 ²	1500	15	100	807
1,210.000	2000	20	100	605
1,210.000	2500	25	100	484
1,210.000	3000	30	100	403
1,210.000	4000	40	100	303
1,210.000	5000	50	100	242

¹All estimates are in 1979 L.E.

²Figure generated by taking five-year's plan figure of 1042.000.000 L.E. and increasing it by 7.75% per year to adjust 1977 to 1979.

units being produced over a five-year period, the Ministry estimates a need of 1.5 million units during the period 1978 to 1982. The same report concerning the Five-Year Plan indicates that 471,000 units will be completed in the period from 1976 to 1980.

If this is correct, then the estimated 1978 to 1982 production under the Five-Year Plan of 325,000 units shows a very substantial reduction in production. On page 13 of the same document, the numbers are further confused by a display showing a public sector production of 245,000 units over the five-year period and private sector production of 250,000, for a total production of 495,000 units. The 300,000 to 325,000 units of production seems to be the more realistic of these estimates. It is interesting to note that even the high estimates of housing production presented in the five-year plan falls far short of the projected housing requirements of 148,948 units per year made in April, 1979, by CAPMAS (see Appendix B).*

In order to achieve even the most realistic projected housing production of 60,000 housing units per year, there must be a substantial reduction in housing size and/or a sizeable increase in investment over and above that planned for in the national economy. The Five-Year Plan calls for 70 percent of all housing units to be a size of 60 square meters or greater. Production and financing of even 300,000 housing units with 70 percent of the units having an

*These estimates must be considered estimates of formal sector housing. Informal housing constructed with indigenous materials and self-help housing has not been estimated in any known reports on Egyptian housing production.

area of 60 square meters or greater is inconsistent with the national economic plan. If a reasonable housing finance system is to be established, rationalization of expected housing production and national economy capacity must be achieved.

Mortgage Funds Required

The amount of private sector mortgage funds which would be required to finance the purchase of the housing units planned for construction over the next five years is estimated under various assumptions in Table 5. The first assumption is that only private sector constructed housing will be financed by private sector funds. If all private sector construction were financed through the private sector at the current maximum loan-to-value ratio of 60 percent, L.E. 318 million in mortgage funds would be required over the five-year period, or an average of L.E. 63.6 million per year. If higher loan-to-value ratios were adopted, the financing requirement would increase to L.E. 477 million at 90 percent loan-to-value or L.E. 95.4 million per year.

The second assumption is that one-half of the housing constructed by the public sector would be purchased by persons who would obtain financing through the private sector. Under the second scenario, at a loan-to-value ratio of 60 percent, L.E. 522 million would be required over the five-year planning period. At a 90 percent loan-to-value ratio, the financing requirement would increase to L.E. 783 million. These five-year estimates translate to an average annual loan requirement of L.E. 104.4 million at a 60 percent loan-to-value and L.E. 156.6 million at a 90 percent loan-to-value.

TABLE 5
HOUSING FINANCE
REQUIREMENTS IN EGYPT
1979 - 1983

		Total Private Sector Mortgage Financing Required at the Following Percents of Total Housing Value Financed (L.E. in millions)			
Assumptions		60%	70%	80%	90%
I.	All private sector housing, L.E. 530 million	318	371	424	477
II.	All private sector plus one-half public sector housing, L.E. 870 million	522	609	696	783
III.	All housing L.E. 1210 million	726	847	968	1089

- I. Assumes that only private sector constructed housing is financed through the private sectors.
- II. Assumes that one-half of public sector constructed housing is sold to purchasers who finance their purchases through the private sector.
- III. Assumes that all housing units constructed are sold to purchasers who finance their purchases through the private sector.

The third assumption sets the upper limit of mortgage financing requirements based on planned housing investment. In this scenario the purchase of all housing constructed would be financed through the private sector. At a 60 percent loan-to-value ratio, L.E. 726 million would be required from 1978 to 1983, or L.E. 145.2 million per year. At a 90 percent loan-to-value ratio, L.E. 1089 million would be required, or 217.8 million per year.

The amount of mortgage financing required even under the first assumption is totally beyond the capacity of the existing mortgage finance system. In fiscal 1977, the Credit Foncier Egyptien, the nation's largest mortgage bank, originated approximately L.E. 9.2 million in mortgage loans to individuals.

It appears obvious that, if the private sector is to play a meaningful role in the provision of mortgage funds in the future, the resource base of the mortgage banks must be expanded substantially. These resources should come from the private sector, not from increases in borrowings from the Central Bank.

FINANCIAL FEASIBILITY AND
AFFORDABILITY CONSTRAINTS
ON HOUSING FINANCE

If a national housing finance system is to function effectively, serving social goals and being responsive to public needs, it must provide loans in some relationship to the financial capacity of Egyptian citizens. This section develops some estimates of the financial capacity of Egyptian households and affordability of housing based on these considerations.

Wage and Salary Levels

Table 6 shows the wage and salary levels for employed persons in the commodity, distribution, and service sectors; weighted average income for the combined sectors; and non-agricultural weighted average income. The data are taken from the Ministry of Planning which has provided information through 1977. Estimates were made for 1978 and 1979 assuming that the salary and wage levels in all sectors increased by approximately 12 percent per year over these two years. Wages and salaries in these sectors increased from 1974 to 1977 at an average annual rate of 12.08 percent. Gross domestic product increased at a rate of 15 percent in 1977 and 20 percent in 1978. Thus, the income increases of 12 percent per year appear to be reasonable.

Table 6 also shows that employed workers have the highest earnings in the "Other Services" field with an average annual salary of

TABLE 6

Egyptian Wages and Salaries
Per Employee in Selected Sectors

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
	(LE)	(LE)	(LE)	(LE)	(LE)	(LE)
<u>Commodity Sectors</u>						
Agriculture	71	107	110	110	123	138
Industry Petroleum and Mining	297	299	372	415	465	521
Electricity	355	378	372	392	439	492
Construction	233	302	312	325	364	408
<u>Distributing Factors</u>						
Transport, Communication and Storage	308	341	381	391	438	490
Trade and Finance	196	263	297	309	346	388
<u>Service Sectors</u>						
Housing	82	96	100	102	114	128
Public Utilities	260	300	304	311	348	390
Other Services	391	407	438	469	525	588
Total Weighted Average	196	231	259	276	309	346
Total Non-Agri- cultural weighted average	305	332	371	397	445	498

Note: Average wages calculated by dividing the total wages in each sector by the total employment in that sector.

Source: Ministry of Planning

L.E. 588, followed by the Industry, Petroleum, and Mining Sector with average annual earnings of L.E. 521.

Housing and agriculture were the lowest sectors with average annual earnings of L.E. 128 and L.E. 138 respectively. By 1979, the total weighted average annual earnings of employed persons was L.E. 346, and the total non-agricultural weighted average wage rate was L.E. 498. The non-agricultural wage rate is probably the best indicator of earning power for employed urban Egyptians working in the formal sectors.

Affordability of Housing

Taking the typical Egyptian wage in the relatively higher earning sectors of L.E. 498 and adjusting for the fact that households may include more than one wage earner and that wage earners may hold more than one job, the average family income may be estimated at L.E. 750. Using this income estimate, approximations can be made of the housing units that can be afforded by these workers.

The accompanying Table 7 shows the value of housing units that can be afforded on a relatively unsubsidized basis. Affordability is shown for downpayments of 10 percent to 40 percent of the purchase price and loan terms of 20, 25, and 30 years. This affordability analysis is based on several assumptions:

- (1) an interest rate of ten percent per annum;
- (2) 25 percent of a household's annual income is allocated to housing payments; and
- (3) an annual household income of L.E. 750.

The table shows that the maximum selling price the average household

TABLE 7

Affordability of Housing

The Maximum Price Affordable by the
Average Urban Egyptian Household

<u>Term To Maturity</u>	<u>Percent Down Payment</u>			
	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>
20	LE 1774	LE 1995	LE 2280	LE 2660
25	LE 1891	LE 2128	LE 2431	LE 2837
30	LE 1964	LE 2210	LE 2526	LE 2947

- Notes: (1) Assumes an annual mortgage interest rate of 10%.
 (2) Assumes 25% of annual income for mortgage payment.
 (3) Assumes 1979 average urban household income of L.E. 750 per year.

could afford under the foregoing assumptions ranges from L.E. 1774 for a 10 percent down payment and a 20-year term to L.E. 2947 for a 40 percent down payment and a 30-year term. The table also indicates that housing affordability is more a function of the amount of the down payment than the term of the loan.

A more rational approach to looking at housing affordability may be based on absolute levels of down payment rather than percent of selling price. Table 8 provides the same information as the previous table, but provides for down payments of L.E. 250, L.E. 500, and L.E. 750. It should be remembered that L.E. 750 represents a savings accumulation of approximately one year's income. While family money and other sources may be brought in to assist in the purchase of a home, the outer limits of affordability of a household are probably approached by a down payment of one year's income. The table shows that affordable housing units range from L.E. 1846 for a 20-year term and an L.E. 250 down payment to L.E. 2518 for a 30-year term and a down payment of L.E. 750. Assuming that L.E. 750 represents the maximum down payment that could be made by the average household, the affordable unit would range from L.E. 2346 to L.E. 2518 for the typical employed formal sector urban household.

The table also provides an additional piece of information. This is the relationship of the selling price of the home to the annual earnings of the employed worker. It is a generally accepted rule of thumb that the value of a home should not be more than 2.5 to 3 times the purchaser's annual income. As the table indicates, under the assumptions given, the selling price to annual income multiple ranges from 2.4 to 3.4.

TABLE 8

Affordability of Housing

The Maximum Price Affordable
by the Average Egyptian Household

<u>Term To Maturity</u>	<u>L.E. Down Payment</u>		
	<u>250</u>	<u>500</u>	<u>750</u>
20	(2.5) L.E. 1846	(2.8) L.E. 2096	(3.1) L.E. 2346
25	(2.6) L.E. 1952	(2.9) L.E. 2202	(3.3) L.E. 2452
30	(2.7) L.E. 2018	(3.0) L.E. 2268	(3.4) L.E. 2518

- Notes: (1) Assumes an annual mortgage interest rate of 10%
- (2) Assumes 25% of annual income for mortgage payment.
- (3) Assumes 1979 average urban household income of L.E. 750 per year.
- (4) The numbers in parenthesis () indicate the multiple of housing price to annual income. For example, with L.E. 250 down payment and a term of 20 years, the L.E. 1846 selling price is 2.5 times the average annual income of L.E. 750.

The affordability analysis has major implications for housing finance. First it indicates that, if national policy is to provide housing solutions in the range of L.E. 4000, these units will not be affordable by the average household in the higher paid sectors of the economy. Private housing finance systems when developed can be expected to provide housing finance for units costing from 2.5 to 3.5 times the household income. Present housing policy is to produce housing units even in the public housing sector with a cost of approximately L.E. 4000 (see Volume 5, "Five Year Plan 1978-1982", Page 12). Based on the previous discussion, even public sector housing would not be affordable on a private basis to many upper middle income Egyptian families.

It appears important that housing finance policies be generated which can provide loans which are available to the majority of Egyptian households. These need not necessarily be for new housing units, but may be for the addition of rooms or other upgrading purposes which can provide additional housing units at an affordable cost.

SAVINGS MOBILIZATION

The Savings Component of the Money Supply

The principal function of the financial sector in any economy is the mobilization and efficient allocation of the nation's financial resources. In Egypt, as in many developing countries, households constitute a large untapped pool of funds. In recent years, through the government's abolition of the 40 percent tax on interest earned on savings and the increased competition for household savings provided by the burgeoning commercial banking system, the amount of funds held by the private sector in time and savings deposits and other savings media has increased substantially. Despite this increase, currency in circulation remains the largest component of the money supply.

The ratio of currency in circulation to the total stock of money (currency and demand deposits) and quasi-money (savings and time deposits held at commercial banks) has declined only slightly. This ratio is significant in that it indicates the extent to which financial assets are being utilized in the system; the lower the ratio, the more highly developed the financial system. Currency in circulation has a multiplier of one, that is, it can support only its own value. With a fractional reserve system, the same amount of money held in an account at a commercial bank can support a multiple of itself, thereby increasing the productivity of financial resources.

Monetary statistics for the years 1974 through February, 1979, are presented in Table 9 . As shown by the data, the cash component of total domestic liquidity declined from about 45 percent at the end of 1974 to 40.7 percent by February, 1978. Over the same period, the total savings (quasi-money) component increased from 29.1 percent to 31.7 percent of total domestic liquidity. By February, 1979, the ratio of savings to total domestic liquidity had risen to an estimated 34.0 percent. The increase in savings indicates two things:

- (1) that the potential for savings mobilization can be realized with conventional incentives and with convenience and accessibility of financial services; and
- (2) that there remains a substantial potential for further development of private sector, and particularly household savings, by the existing financial system or by any new savings system which may be devised.

Average Per Household Savings

The growth in private savings is shown in Table 10. Private savings has been defined for the purpose of this analysis as the sum of time and savings deposits, post office savings and savings certificates. An estimate of the average savings per household was made based on an assumed constant household size of five persons. Average per household savings were estimated at almost L.E. 200 as of March, 1978. Per household savings increased at an average annual rate of 12.8 percent from 1968 to March, 1978. If this same rate of growth has been sustained since March, 1978, the average savings

TABLE 9
Components of Domestic Liquidity
1974 - February 1979
(L.E. in millions)

End of:	Currency in Circulation		Current Deposits		Total Money Supply (1&2)		Quasi-Money ¹		Total Domestic Liquidity (3&4)	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1974	947.6	44.7	555.2	26.2	1502.6	70.9	616.8	29.1	2119.4	100.0
1975	1155.9	45.1	706.7	27.5	1862.8	72.6	703.2	27.4	2566.0	100.0
1976	1388.3	43.2	851.1	26.5	2239.4	69.7	974.5	30.3	3213.9	100.0
1977	1749.5	41.1	1193.4	28.1	2942.9	69.2	1309.9	30.8	4251.8	100.0
Feb. 1978	1794.4	40.7	1212.9	27.5	3007.3	68.3	1398.4	31.7	4405.7	100.0
Dec. 1978	n.a.	--	n.a.	--	3527.9	67.9	1668.0	32.1	5195.9	100.0
Feb. 1979	n.a.	--	n.a.	--	3672.6	66.0	1891.7	34.0	5564.3	100.0

¹Includes time and savings deposits at financial institutions and post office savings.

Source: 1974 to Feb. 1978 data -- Central Bank of Egypt, Economic Review, Vol. XVIII, No. 1, 1978.
1978-79 data -- IMF, International Financial Statistics, June 1979.

TABLE 10
Private Savings Per Household
1968 - March 1978

<u>End of:</u>	<u>Total¹ Private Savings (L.E. Millions)</u>	<u>Total² Households (Millions)</u>	<u>Savings Per Household (L.E.)</u>
1968	393.9	6.3	62.5
1969	448.6	6.3	71.2
1970	509.4	6.5	78.4
1971	511.1	6.6	77.4
1972	575.5	6.8	84.6
1973	667.7	6.9	96.8
1974	804.8	7.0	115.0
1975	994.5	7.2	138.1
1976	1172.2	7.3	160.6
1977	1400.5	7.5	186.7
March 1978	1517.7	7.6	199.7
 Average Annual Growth Rate 1968 - March 1978	 15.7%	 2.05%	 13.38%

¹ Includes private sector savings at commercial banks, post offices, savings and savings certificates.

² Assuming a constant 5 persons per household.

Sources: Central Bank of Egypt, Economic Review, Vol. XVIII, No. 1, 1978
Central Agency for Public Mobilization and Statistics

per household would be approximately L.E. 230 as of the end of the second quarter, 1979.

The structure of the financial system may lead to an understatement of the amount and the flow of funds into savings. This distortion is due to the large deposits denominated in foreign currencies which are held at foreign banks operating in Egypt. In 1978, workers' remittances were estimated at approximately L.E. 470 million, a dramatic increase from the estimated L.E. 187 million in 1974.

Development of Savings by the Commercial Banking Sector

While essentially no household savings accounts have been developed by the mortgage finance institutions, the commercial banks in Egypt have been active in attracting savings capital. The commercial banks have taken an aggressive posture in mobilizing private savings and have been successful in this effort. The Banque Misr, along with other commercial banks, offers savings accounts suitable for consumer savings both in local and foreign currency.

Representative Commercial Bank Savings Programs

Two categories of accounts are offered by the Banque Misr in the consumer area. The first category is for relatively small depositors and requires a minimum deposit of only L.E. 10 to open an account. The term of this deposit is three years and is based on an escalating interest rate from year to year. The interest rate paid in the first year is 6.5 percent, the interest rate paid during the second year is 8 percent, and the interest rate paid during the third year is 9.5 percent. The effective rate on this account is

eight percent per year, assuming annual compounding. The Bank has been active in these accounts for less than two years. During the first year in which these accounts were offered, the Bank was successful in capturing L.E. 47 million.

The second category of local currency consumer savings deposit is for larger savers and requires a minimum deposit of L.E. 1,000. The primary type of account offered in this area has a five-year loan term and an interest rate of eight percent per year, compounded semi-annually. If a depositor holds the account to maturity, he will receive a bonus of 0.5 percent of the accrued balance. The total balance in these accounts is L.E. 2 million. Essentially all of the savings accounts in local currency are from individuals and include no deposits from public or major private corporations.

The Banque Misr offers savings accounts denominated in both American dollars and pound sterling. These accounts appear to be highly innovative and have been successful in attracting savings to this institution. The dollar account can be opened with a minimum deposit of \$15 and is dominated by relatively small savings accounts. The mean average balance in this category of account is less than \$200. Over \$11 million has been deposited in these accounts. The interest rates on the foreign denominated accounts are tied to interest rates on the world dollar market. Funds in these accounts are freely removable and transferrable. A small dollar account is essentially a passbook account with free deposit and withdrawal at any time. Initially, the interest rate on these accounts was set at 7.5 percent. Subsequently, the rate was increased to eight

percent and is currently at nine percent. In addition to the interest which is paid on this account, a lottery is held 12 times per year in which the saver may win a prize of up to \$7,000. Any saver with a balance of \$15 is eligible for the lottery. The effect of the lottery is to increase the effective cost of these savings accounts by 0.5 percent. Accounts denominated in sterling originally paid nine percent and are now paying ten percent interest. Accounts denominated in sterling are also eligible for a periodic lottery.

Implications of the Commercial Bank Experience for Savings Mobilization

The experience of the commercial banks indicates that savings can be attracted under relatively conventional conditions for savings accounts. It is interesting that the Banque Misr and others have been as successful as they have given the relatively modest interest rates which are offered on accounts. At current interest rates on deposits relative to the rate of inflation, the real rates of interest on accounts are quite highly negative, and yet balances have accrued at a relatively rapid pace. Based on current rates which are being paid for savings by the commercial banks, savings attraction by the specialized mortgage banks for a new mortgage lending system appears to be feasible. The majority of mortgage loans made by the Credit Foncier Egyptien and the Arab Land Bank are at interest rates above nine percent. Only minor adjustments in mortgage rates would have to be made for the specialized housing finance institutions to offer a savings plan that would be as attractive to savers as those offered through the commercial banking system.

Development of Household Savings

One of the advantages that the commercial banking system has in attracting household savings is that there is an extensive branching network in place. Currently, there are over 500 banking offices operating in Egypt. The Banque Misr alone has 220 branches. The existence of a number of branches makes it easier and more convenient for households to seek financial services. Another advantage of the commercial banking system over any type of specialized financial institution is that the commercial bank can offer an array of financial services.

The attraction of household savings to a new savings system will depend on the relative advantages such a system can offer over the existing savings media. In order to induce "hoarded" money out of households, a new savings system would have to offer security against the risk of loss of funds, convenience of location and hours of operation, accessibility in terms of both location of financial services and the ease with which funds can be deposited and withdrawn, a competitive interest rate combined with innovative incentive and promotional programs, and savings programs tailored to household needs, including a variety of terms to maturity and possibly a payroll deduction option.

Security of Deposited Funds

Potential depositors must be assured of the security of their funds. One of the reasons why people hoard money at a substantial opportunity cost is that they are afraid of losing their money if it is deposited in a financial institution. These fears could be

assuaged by a deposit guarantee or insurance system. Deposits could be guaranteed or insured by the Central Bank, by a private insurance company, or a government sponsored deposit insurance agency.

Convenience of Financial Services

Convenience of location and hours of operation would be essential to the success of a savings system. However, the establishment of a large number of full service branch offices would involve a substantial capital investment and would also require large expenditures on training personnel to staff each office. If the Credit Foncier Egyptien were employed as the key institution in the system, its six branch offices could be used initially. Some consideration could be given to the use of limited service facilities which basically would be paying and receiving offices.

Initially, branch development should be concentrated in the markets with the greatest savings potential. The markets with the greatest savings development potential should be penetrated first, with the opening of branches in lesser markets scheduled over a 5 to 10 year period.

Hours of operation should be set to maximize the convenience to potential customers. Generally, the depository services should be available from at least 30 minutes to 1 hour before the start of the regular business day to 30 minutes to 1 hour after the close of normal business hours. There should be limited hours of operation on Friday in market areas where Friday is the main shopping day. Evening hours should also be considered.

Accessibility

Accessibility of location is also an important consideration. Branch sites should be situated in or near focal points of commercial and retail activity to maximize exposure, foot traffic, and convenience. Accessibility of services also relates to the ease with which transactions can take place. Systems should be established which permit the customer to conduct his business as easily as possible. Deposit and withdrawal forms should be written as simply as possible. A method by which the amount of paperwork required can be minimized should serve to increase public acceptance of the savings system. Processing costs would also be reduced.

Savings Incentive Programs

In order to attract funds not currently held on deposit in financial institutions, any new savings system must offer a variety of incentive programs. The payment of an interest rate above that paid on savings deposits offered by other financial institutions would be one alternative. An interest rate differential between the rates offered through a specialized institution and those offered at a commercial bank might be essential in order to compensate for the locational and service disadvantages of the specialized institution. The use of lottery or savings premiums similar to those offered by the Banque Misr and other Egyptian commercial banks should also be considered. Savings promotions involving prizes, particularly consumer durable goods, or bonuses awarded for the opening of an account with a certain balance and/or for the holding of an account for a specified time could also be used.

Savings incentives tied to the opportunity to purchase a home could be expected to be successful since many depositors would be accumulating funds for this purpose. The danger of this type of a system is that, if more depositors qualify for a flat than there are flats available, the credibility of the whole scheme will be severely impaired. In any type of contract savings system, it should be clearly established that there is an opportunity to purchase a flat, not a guarantee.

Diversity of Savings Plans

Since each household has its own needs, a variety of savings programs should be offered. These should range from accounts which cater to the small depositor to accounts which are competitive with other investment opportunities available to larger depositors. A variety of maturities should be offered from a pass-book account to terms of five years or more. Interest rates should be scaled according to term to maturity and size of account to encourage longer term and larger accounts.

Payroll Savings and Retirement Plans

Payroll savings plans should be evaluated, particularly for government and public employees and employees of large private corporations. Payroll deductions are an easy and convenient method of saving and assure a steady flow of funds into a savings institution. Since private sector workers are not covered under the social security pension program, the savings institution could devise private pension plans for employers and individual pension plans

for self-employed persons and those not covered by any other pension plan. Employees participating in an existing pension plan might want to supplement this with a private retirement fund. These special savings plans would be long term in nature and could pay interest rates which are tied to going market rates. It would be difficult to induce long term deposits at fixed interest rates in an economy where inflation and rising interest rates would reduce the real purchasing power of the funds deposited in these accounts. Contributions to such retirement accounts should be fully tax deductible until the cash is removed from the account.

In summary, any new or expanded savings system should be designed to cater to the needs of its potential depositors. The fact that there is a substantial amount of hoarding of household funds suggests that the existing financial system is not responding to the needs and desires of the people. There appears to be the classical market opportunity of a need for a consumer service which could be satisfied by a new or expanded household savings system.

Alternative Sources of Funds

Since 1974, the importance of workers' remittances has increased significantly. In 1978, it was estimated that L.E. 470 million in worker's remittances were deposited at financial institutions located in Egypt. The commercial banks have been the primary beneficiaries of this increased flow of funds. Some workers' remittances also appear to have been tapped by the private financing sector. A large proportion of Egyptian workers' earnings abroad are channelled into the own exchange market whereby workers can import certain foreign

goods without the necessity of converting currency. These goods are then sold in Egypt at a substantial profit. It is unlikely that any institutional savings system could compete with the own exchange market in terms of rate of return on funds invested. However, any savings system which is devised should include savings plans designed specifically to attract funds from Egyptians working abroad. Savings plans which provide the opportunity to purchase a housing unit would probably be an effective incentive. Foreign exchange denominated accounts similar to those offered by the commercial banking system should be offered to tap the growing pool of workers' remittances. In order to be competitive, these accounts would have to offer interest rates at least equal to those being offered at the commercial banks.

Household Savings Potential

All of the studies which have been made of the Egyptian financial system point out the potential for increased development of household savings. Projecting the savings potential in an economic system for any one type of financial institution is a difficult task. In Egypt the difficulty is compounded by the fact that the existing non-bank financial institutions have only recently been given the power to accept household savings deposits. As of mid-1979, the mortgage banks have not penetrated the household savings market to any extent. The ultimate share of this market which they could attract will be a function of the savings programs offered, the effective promotion of these programs, and public acceptance of the savings programs and the institutions themselves.

Another factor which will influence the ability of savings institutions to compete for household funds is the range of alternative savings media available. The household can keep its savings in cash, make deposits through the Post Office Savings System, hold deposits at commercial banks, purchase savings certificates, or hold savings deposits at organizations outside the formal financial system.

Income and Household Savings Distribution

Household savings will depend on the income of the household and its consumption patterns. The most consistent data on household expenditures, income, and savings come from a series of three consumer budget studies conducted by the Central Agency for Public Mobilization and Statistics and predecessor agencies in 1958-59, 1964-65, and 1974-75.

The results of the household expenditure surveys were employed to estimate household income. The expenditure survey deals with a sample of households, but when the average expenditures per rural and urban household from the 1974-75 survey are multiplied by the number of households, the results approximate estimated total consumption expenditures.

	<u>Expenditure Per Household</u>	<u>No. of Households (Millions)</u>	<u>Total Expenditures (L.E. Millions)</u>	<u>1975 Total Private Consumption¹ (LE Millions)</u>
Rural	375.4	2.87	1,078	---
Urban	556.8	3.84	2,138	---
TOTAL	474.7	6.71	3,216	3,280.8

¹Ministry of Planning

Household expenditure data were scaled to bring them in line with national accounts expenditure estimates. These scaled expenditure figures were then used to estimate household savings and household income. It was assumed in this analysis that the elasticity of household savings to household expenditure was 1.5. Household savings as a share of household income ranged from 5.2 percent to 27.4 percent in urban households and 2.0 percent to 17.1 percent in rural households. The mean average savings rate was 16.15 percent of gross household income. It was felt that the savings rates at low income levels might have been overestimated, but that the estimate for higher income classifications were realistic. The estimated distributions of household income and savings are presented in Table 11.

Household Savings Projections

The Household Expenditure Survey data were used to make projections of household savings from 1979 to 1983. Table 12 presents a projection of the number of households assuming a constant five persons per household over the five-year period. Table 13 presents projections of mean household income assuming 5 percent, 8 percent, and 10 percent rates of growth in mean income from the 1975 base year. Table 14 presents estimates of per household savings at each of the income growth consumptions based on a constant 16.15 percent savings rate. Total household savings are projected in Table 15. Total household savings were computed by multiplying the projected savings per household by the projected number of households.

TABLE 11
INFERRED INCOME AND SAVINGS DISTRIBUTION
FOR EGYPTIAN HOUSEHOLDS

Survey Expenditure Interval	No. of Households (millions)	1974-1975				
		Total Income (LE in millions)	Income per Household (LE)	Total Savings (LE in millions)	Savings per Household (LE)	Savings As A % of Income
0 - 100	.3026	20.47921	67.678	.78215	2.585	3.82%
100 - 200	.9002	144.69635	160.738	9.5181	10.573	6.58%
200 - 300	1.29328	350.00955	270.637	30.5808	23.646	8.74%
300 - 400	1.15462	441.76561	382.607	47.0712	40.768	10.66%
400 - 500	.88868	434.46857	488.892	54.7418	61.599	12.60%
500 - 600	.5871	379.56259	646.5042	58.6834	99.955	15.46%
600 - 800	.6760	550.16058	813.847	89.7191	132.721	16.31%
800 - 1000	.35106	380.84708	1084.849	70.6486	201.244	18.55%
1000 - 1400	.33386	498.44817	1492.986	102.2063	306.135	20.50%
1400 - 2000	.15058	353.11682	2329.574	82.40509	547.251	23.49%
2000 & over	.07392	305.11498	4127.638	77.0937	1042.934	25.267%
Total	6.7119	3858.67	- -	623.4502	- -	- -
Mean Average		-	574.900		92.887	16.15%

SOURCE: Central Agency for Public Mobilization and Statistics, Household Expenditure Survey, 1974-75.

TABLE 12
 PROJECTED NUMBER OF HOUSEHOLDS
 1979-1983

Year	Population ¹ (millions)	Households ² (millions)
1979	40.9	8.18
1980	41.9	8.38
1981	42.9	8.58
1982	43.9	8.78
1983	45.0	9.00

¹Population projections based on population projections in the Five Year Plan.

²Assuming a constant 5 persons per household.

TABLE 13
 ANNUAL HOUSEHOLD INCOME PROJECTIONS
 1979-1983

Under Income Growth Rate Assumptions
 of 5%, 8% and 10%

Projected Mean Average Household
 Income at a Growth Rate of:*

Year	5%	8%	10%
1979	699	782	842
1980	734	845	926
1981	770	912	1019
1982	809	985	1121
1983	850	1064	1233

*Growth rates applied to the mean average household income of LE 575 in 1975 base year.

TABLE 14
 PROJECTED ANNUAL SAVINGS PER HOUSEHOLD
 UNDER INCOME GROWTH RATE ASSUMPTIONS
 OF 5%, 8% and 10%
 1979-1983

Projected Savings per Household at 16.15%
 of Income per Household if Household Income
 Increases at a Growth Rate of:*

Year	5%	8%	10%
1979	113	126	136
1980	119	136	150
1981	124	147	165
1982	131	159	181
1983	137	172	199

*Assumed savings per household as a percent of income per household remains the same as the average in the 1974-75 household expenditure survey. The mean average savings per household based on the survey findings was 92.887, mean average household income was LE 575, average savings per household as a percent of average income per household was 16.15%.

TABLE 15
 PROJECTED TOTAL ANNUAL HOUSEHOLD
 SAVINGS UNDER INCOME GROWTH RATE
 ASSUMPTIONS OF 5%, 10%, AND 15%
 1979-1983
 (LE in millions)

Projected Total Annual Household Savings
 At Household Income Growth Rate of:

Year	5%	8%	10%
1979	924	1030	1112
1980	997	1140	1257
1981	1064	1261	1412
1982	1150	1396	1589
1983	1233	1548	1791

TABLE 16

PROJECTED ANNUAL HOUSING FUNDS AVAILABLE FROM
A NEW OR EXPANDED SAVINGS SYSTEM

(LE in millions)			
1979			
At Assumed Share of Total Household Savings:	At Assumed Rate of Growth of Household Income of:		
	5%	8%	10%
1%	9.2	10.3	11.1
5%	46.2	51.5	55.6
7%	64.7	72.1	77.8
10%	92.4	103.0	111.2
1980			
1%	10.0	11.4	12.6
5%	49.9	57.0	62.9
7%	69.8	79.8	88.0
10%	99.7	114.0	125.7
1981			
1%	10.6	12.6	14.1
5%	53.2	63.1	70.6
7%	74.5	88.3	98.8
10%	106.4	126.1	141.2
1982			
1%	11.5	14.0	15.9
5%	57.5	69.8	79.5
7%	80.5	97.7	111.3
10%	115.0	139.6	158.9
1983			
1%	12.3	15.5	17.9
5%	61.7	77.4	89.6
7%	86.3	108.4	125.4
10%	123.3	154.8	179.1

Table 16 projects the amount of household savings which a new or expanded savings system could attract under capture rates of 1 percent, 5 percent, 7 percent, and 10 percent. It is reasonable to assume that any new system would attract a relatively small share of household savings in the initial years of operation. However, an aggressive promotional program, combined with savings plans which offer significant advantages over those offered at commercial banks, could increase the market share captured by a new system.

In any of the five years for which savings projections have been made, the range of savings potential is over L.E. 100 million. In 1980, for example, if household income increased at a rate of five percent per annum from 1975 and a new savings system captured one percent of household savings, the system would expect to realize a savings gain of L.E. 10 million. If household income increased at a rate of 10 percent per annum from 1975 and the new system garnered a 10 percent share of household savings, there would be a savings gain of L.E. 125.7 million. Within this rather broad range, a reasonable expectation would be that household incomes will increase at a rate of approximately eight percent per year. With well-planned savings programs and promotion, a new or expanded savings system should be able to attract five percent of household savings in 1979 and 1980, assuming that the savings system had been in operation for the entire calendar year in 1979. As the new savings system gains market acceptance, it should be able to capture a large share of household savings. It is reasonable to

TABLE 17
 PROJECTED CUMULATIVE HOUSING FUNDS
 AVAILABLE FROM A NEW OR EXPANDED SAVINGS SYSTEM

(LE in millions)			
1979			
At Assumed Share of total Household Savings:	At Assumed Rate of Growth of Household Income of:		
	5%	8%	10%
1%	9.2	10.3	11.1
5%	46.2	51.5	55.6
7%	64.7	72.1	77.8
10%	92.4	103.0	111.2
1980			
1%	19.2	21.7	23.7
5%	96.1	108.5	118.5
7%	134.5	151.9	165.8
10%	192.1	217.0	236.9
1981			
1%	29.8	34.3	38.1
5%	149.3	171.6	189.5
7%	209.0	240.0	264.6
10%	298.5	343.1	378.1
1982			
1%	41.3	48.3	54.0
5%	206.8	241.4	269.0
7%	289.5	337.9	375.9
10%	703.0	482.7	537.0
1983			
1%	53.6	63.8	71.9
5%	268.5	318.8	358.6
7%	375.8	446.3	501.3
10%	826.3	637.5	716.1

TABLE 18
 PROJECTED FEASIBLE CUMULATIVE SAVINGS FOR
 A NEW OR EXPANDED SAVINGS SYSTEM
 (LE in millions)

Year	Increase in Savings	Cumulative Savings
1979	51.5	51.5
1980	57.0	108.5
1981	88.3	196.8
1982	97.7	294.5
1983	154.8	449.3

NOTE: Assumes an annual growth rate in household income of 8%, a 5% market share in 1979 and 1980, a 7% market share in 1981 and 1982 and a 10% market share in 1983.

assume that the market share would increase to 7 percent in 1981 and 1982 and reach 10 percent in 1983. The long run market share might be higher than 10 percent depending on the competitive response to a new savings system and public acceptance of the savings programs offered.

Table 17 shows the cumulative stocks of savings funds which would be accumulated by a new savings system under the various assumptions. As shown in the table, under the most conservative scenario of a 5 percent annual growth in household income and a 1 percent market share by the end of 1983, the system would have accumulated L.E. 53.6 million in savings. Under the most optimistic scenario evaluated, total savings would reach L.E. 716.1 million by the end of 1983.

Under the feasible scenario discussed previously, a new savings system could accumulate almost L.E. 450 million by the end of 1983. The feasible scenario cumulative savings projections are presented in Table 18.

Foreign Exchange Deposits

If a new or expanded savings system offers foreign exchange accounts catering to resident Egyptian and Egyptians working abroad, the savings potential could be increased substantially. Table 19 presents data on the annual flows of workers' remittances, Egyptians' foreign exchange deposits, and own exchange imports from 1975 through 1977. If a new savings system could tap this increasing pool of funds, the savings flows to the institutions would be

TABLE 19
 WORKERS' REMITTANCES
 EGYPTIAN FOREIGN EXCHANGE
 SAVINGS FLOWS, AND OWN EXCHANGE IMPORTS
 1975-1977
 (LE in millions)

Year	Increase in Workers' Remittances	Increase in Egyptians' Foreign Exchange Savings	Own Exchange Imports
1975	143	22.6	47.2
1976	295	27.4	103.9
1977	351	60.4	109.5

SOURCES: Ministry of Planning, International Monetary Fund,
 Central Bank of Egypt, Annual Report, 1977,
 June, 1978.

greatly enhanced. If only one percent of total workers' remittances could be attracted into the system, savings flows could be increased by over L.E. five million in 1980.

Summary and Conclusions

The foregoing analysis, while hypothetical in nature, provides some indication of the potential for savings development for a new or expanded savings system. The anticipated growth in the Egyptian economy and the concurrent rise in household income should provide the resources for a significant increase in household savings over the levels achieved in recent years. It appears that the next five years will be a propitious time for development of innovative household savings mechanisms in Egypt.

APPENDIX A

THE INFORMAL HOUSING FINANCE SECTOR

THE INFORMAL HOUSING FINANCE SECTOR

Little is known of the operations of the informal housing finance sector. The limited activity of the primary housing finance institutions relative to the volume of construction and real estate activity indicates that there is a strong, private market in operation. The programs provided by the Arab contractors, the Cairo Company, and informal savings cooperatives (gamiya) which were discussed at length in the 1977 report, Housing Finance in Egypt, offer viable alternatives to the formal housing finance institutions. Since national economic statistics do not include data on these informal housing finance sector mechanisms, it is impossible to gauge the importance of their role in the provision of housing credit. It can be assumed that the rates and terms negotiated in the unregulated informal housing finance sector reflect true market interest rates.

Another facet of the informal housing finance sector is the requirement of the payments of key money to secure a rent controlled flat. Again, there are no statistics available on the amount of key money demanded for apartments in various rent ranges. Discussions with a number of individuals in the course of this study indicated that key money of L.E. 500 would be required for a modest apartment. In new buildings in upper middle class neighborhoods, key money is L.E. 10,000 or more. The large amounts of money required to secure a rent-controlled flat indicate that at least middle income

households would have the financial capacity to make sizeable down payments if owner-occupied dwelling units were available. The widespread construction of luxury and semi-luxury apartment buildings in the more affluent districts in and around Cairo suggests that investors do perceive housing investment as a profitable venture. The profitability of housing investment is totally dependent on obtaining sufficient key money. In a market with a chronic housing shortage, landlords will tend to charge what the market will bear whether or not the amount is related to the actual cost of the housing unit. Households with few alternatives must pay the going rate or forego possession of the housing unit. The fact that households are paying substantial sums for rental units indicates that there may be greater financial potential for housing development than statistics indicate.

APPENDIX B

SUPPLEMENTARY STATISTICS

TABLE B-1
 POPULATION ESTIMATES
 1960 - 1977
 (MILLIONS OF INHABITANTS)

	CAPMAS Estimates	Greater Cairo Planning Commission Series II Estimates	Five Year Plan Estimates
1960	25.8	26.0	26.1
1965	29.4	29.5	29.4
1970	32.5	33.1	33.0
1975	35.8	36.8	37.3
1977	37.3	38.4	39.0
<hr/>			
Average Annual Growth Rates			
1960-1965	2.65%	2.56%	2.41%
1965-1970	2.03%	2.33%	2.28%
1970-1975	1.95%	2.14%	2.48%
1975-1977	2.07%	2.15%	2.25%

SOURCES: Central Agency for Public Mobilization and Statistics
 Greater Cairo Planning Commission, 1965
 The Five-Year Plan 1978-1982, Vol. 13, April 1978.

TABLE B-2
POPULATION PROJECTIONS
1975 - 2000
(MILLIONS OF INHABITANTS)

	Greater Cairo Planning Commission Series II Projections 1975-1985	The Five Year Plan
1975	36.8	37.3
1976	37.6 e*	38.2
1977	38.4 e	39.0
1978	39.2 e	40.0 e
1979	40.1 e	40.9 e
1980	41.0	41.9
1985	45.7	47.3
1990	Not Given	53.2
1995	Not Given	59.5
2000	Not Given	66.2
<hr/>		
Average Annual Growth Rates		
1975-1980	2.17%	2.35%
1980-1985	2.20%	2.45%
1985-1990	-	2.38%
1990-1995	-	2.26%
1995-2000	-	2.16%

*e - Estimated

SOURCES: Greater Cairo Planning Commission, 1965. The Five Year Plan, Vol. 13, April, 1978.

TABLE B-3
HOUSING REQUIREMENTS, IN MID-1979
BY GOVERNORATE

<u>Governorate</u>	<u>Total Number of Units Required in Mid-1979¹</u>
Cairo	482,708
Alexandria	223,606
Port Said	10,152
Suez	5,483
Domietta	6,361
Dakehlia	23,750
Sharkia	20,337
Kalywbia	54,282
Dafr El Sheikh	11,065
Gharbia	37,274
Menofia	16,791
Behera	38,909
Ismailia	10,013
Giza	99,316
Beni-Swef	12,163
Faywm	14,207
Menia	24,634
Aswyet	17,038
Sohag	13,863
Qena	15,164
Aswan	9,067
Border Governorates	19,867
<hr/>	
TOTAL	1,166,280

¹ The Total number of dwelling units is the sum of the shortage/dwelling units from the 1976 census, the requirement for dwelling units to meet population growth from November 1976 to Mid 1979 and the requirement for the replacement of dwelling units due to collapse

SOURCE: Central Agency for Public Mobilization and Statistics,
Projection for Housing, April 14, 1979.

TABLE B-4
HOUSING UNITS REQUIRED TO
MEET THE DEMANDS OF INCREASED POPULATION
1976 - 2000

Governorate	Total Dwelling Units Required for the Period 1976 - 2000 Assuming a Population Growth Rate of 2.31% per Annum	Average Annual Requirement
Cairo	618,000	25,750
Alexandria	385,000	16,042
Port Said	40,000	1,667
Suez	63,000	2,625
Domietta	26,000	1,083
Dakehlia	72,000	3,000
Sharkia	67,000	2,792
Kalywbia	153,000	6,375
Kafr El Sheikh	35,000	1,458
Gharbia	88,000	3,667
Menofia	31,000	1,292
Behera	72,000	3,000
Ismailia	36,000	1,500
Giza	388,000	16,167
Beni-Swef	34,000	1,417
Faywm	34,000	1,417
Menia	53,000	2,208
Aswyet	52,000	2,167
Sohag	35,000	1,458
Qena	37,000	1,542
Aswan	30,000	1,250
Border-Governorates	87,000	3,625
TOTAL	2,430,000	101,250

NOTES: Replacements not included, One Unit for each Family

SOURCE: Central Agency for Public Mobilization and Statistics, Projection for Housing, April 14, 1979 - Housing Requirements in Mid - 1979.

TABLE B-5

TOTAL HOUSING UNITS REQUIRED IN EGYPT
FOR THE PERIOD 1976 - 2000

Number of Housing Units

Housing Requirements For:	Total for Period 1976-2000	Average Annual Requirements
Population Growth	2,430,000	101,250
Filling the Existing Housing Shortage	555,288	23,137
Replacement of Dangerous Housing Units	589,464	24,561
TOTAL	3,571,752	148,928

SOURCE: Central Agency for Public Mobilization and Statistics, Projection for Housing, April 14, 1979.- Housing Requirements in Mid - 1979.

TABLE B-6

EXPENDITURES ON GROSS NATIONAL PRODUCT AT CURRENT PRICES
1 9 7 4 - 1 9 7 7

(millions of LE)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977^a</u>	<u>1978^b</u>	<u>Avg. Annual Growth Rate 1974-1978</u>
Consumption	3971.9	4494.2	5434.3	6081.0	7753.0	+ 18.2%
Private	2870.9	3280.8	3863.4	4505.0	5563.0	+ 18.0%
Government	1101.0	1213.4	1570.9	1576.0	2190.0	+ 18.76%
Gross Investment	730.0	1328.0	1580.0	2050.0	2450.0	+ 35.4%
Gross Fixed Investment	642.7	1227.9	1384.9	1769.4	2250.0	+ 36.8%
Changes in Stocks	87.3	100.1	195.1	280.6	200.0	+ 23.0%
Net Exports of) Goods & Services)	^c 617.0 ^d -543.0	-1099.8 - 956.8	- 896.6 - 601.6	- 992.2 - 641.2	-1117.0 - 647.0	+ 16.0% + 4.5%
Exports	^e 890.2	894.1	1033.6	1470.0	n.a.	n.a.
Less: Imports	-1395.3	-1830.5	-1772.1	-2260.4	n.a.	n.a.
Net Factor Income	- 111.9	- 163.4	- 158.1	- 201.8	n.a.	n.a.
Plus: Workers Remittances	74.0	143.0	295.0	351.0	470.0	+ 58.8%
GNP at Market Prices	4084.9	4722.4	6117.7	7138.8	8786.0	+ 21.1%
GNP plus Remittances at market prices	4158.9	4855.4	6412.7	7490.0	9256.0	+ 22.1%
Gross National Savings	^f 113.0	228.2	683.4	1057.8	1333.0	+ 85.3%
Gross National Saving plus Worker's Remittances	187.0	371.2	978.4	1408.8	1803.0	+ 76.2%

TABLE B-6 (Continued)

EXPENDITURES ON GROSS NATIONAL PRODUCT AT CURRENT PRICES
1 9 7 4 - 1 9 7 7

- a Preliminary
- b Estimated
- c Excludes workers remittances
- d Includes workers remittances
- e Includes goods and non-factor services
- f GNP minus consumption

Source : Ministry of Planning, International Monetary Fund

TABLE B-7

EGYPT: CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS, 1973-78

(In millions of Egyptian pounds)

End of Period	1973	1974	1975	1976	Sept. 1977	Dec.	Sept. 1978
Foreign assets, net	<u>31.2</u>	<u>33.1</u>	<u>-221.1</u>	<u>1.5</u>	<u>522.4</u>	<u>707.7</u>	<u>1,076.6</u>
Foreign assets ^{1/}	162.6	407.9	479.3	769.1	1,176.5	1,333.0	1,487.8
Foreign liabilities	-131.4	-374.8	-700.4	-767.6	-654.1	-625.3	-411.2
Reserves	<u>259.7</u>	<u>381.5</u>	<u>385.3</u>	<u>451.2</u>	<u>390.5</u>	<u>495.4</u>	<u>544.8</u>
Deposits with Central Bank	220.0	327.7	328.4	381.9	327.1	420.4	470.3
Cash	39.7	53.8	56.9	69.3	63.4	75.0	74.5
Domestic assets	<u>1,265.8</u>	<u>1,706.1</u>	<u>2,456.4</u>	<u>2,966.8</u>	<u>3,168.6</u>	<u>3,454.5</u>	<u>3,719.8</u>
Claims on public sector	<u>1,045.9</u>	<u>1,357.1</u>	<u>2,014.2</u>	<u>2,530.4</u>	<u>2,673.8</u>	<u>2,911.5</u>	<u>3,063.8</u>
Central and local government	(685.5)	(730.6)	(927.1)	(1,306.7)	(1,492.2)	(1,549.4)	(1,635.3)
Public authorities ^{2/}	(55.1)	(192.6)	(441.7)	(339.2)	(278.0)	(266.8)	(366.9)
Public sector companies	(305.3)	(433.9)	(645.4)	(884.5)	(903.6)	(1,095.3)	(1,061.6)
Claims on specialized banks	114.8	195.8	206.7	174.3	141.3	101.6	141.5
Claims on cooperatives	3.4	4.7	5.5	10.9	5.7	7.6	6.2
Claims on private sector	101.7	148.5	230.0	251.2	347.8	433.8	508.3
Unclassified assets	<u>103.2</u>	<u>102.5</u>	<u>133.4</u>	<u>194.3</u>	<u>257.7</u>	<u>277.4</u>	<u>370.1</u>
Assets - Liabilities	<u>1,659.9</u>	<u>2,223.2</u>	<u>2,754.0</u>	<u>3,613.8</u>	<u>4,339.2</u>	<u>4,935.0</u>	<u>5,711.3</u>
Borrowing from Central Bank	<u>395.2</u>	<u>577.5</u>	<u>770.5</u>	<u>1,104.9</u>	<u>1,346.8</u>	<u>1,530.1</u>	<u>1,543.7</u>
Demand deposits	<u>226.6</u>	<u>303.2</u>	<u>405.6</u>	<u>544.1</u>	<u>717.2</u>	<u>782.4</u>	<u>837.1</u>
Private sector ^{3/}	221.2	296.2	393.8	527.7	691.4	760.9	810.0
Cooperatives	4.8	6.8	11.5	12.2	15.7	19.8	24.7
Specialized banks	0.6	0.2	0.3	4.2	10.1	1.7	2.4
Time and savings deposits	<u>200.3</u>	<u>261.6</u>	<u>320.9</u>	<u>482.5</u>	<u>550.5</u>	<u>652.9</u>	<u>921.0</u>
Private sector ^{3/}	197.1	255.5	313.0	471.7	539.4	615.7	884.1
Cooperatives	2.3	3.4	7.6	10.4	7.7	10.1	17.2
Specialized banks	0.9	2.7	0.3	0.4	3.4	27.1	19.7
Public sector deposits	<u>592.9</u>	<u>801.9</u>	<u>917.9</u>	<u>1,046.9</u>	<u>1,204.0</u>	<u>1,425.3</u>	<u>1,619.7</u>
Central and local government	70.3	84.2	79.1	99.9	97.2	108.3	151.9
Counterpart funds	135.9	131.7	160.7	155.6	147.7	141.6	129.7
Public authorities ^{2/}	57.5	100.2	131.4	147.1	195.2	257.4	341.2
Public sector companies	329.2	485.8	546.7	644.3	763.9	918.0	996.9
Capital accounts	<u>127.2</u>	<u>135.3</u>	<u>153.8</u>	<u>184.4</u>	<u>226.2</u>	<u>226.1</u>	<u>301.7</u>
Unclassified liabilities	<u>117.7</u>	<u>143.7</u>	<u>185.3</u>	<u>251.0</u>	<u>294.5</u>	<u>318.2</u>	<u>488.1</u>
Memorandum item							
Foreign currency deposits	...	...	117.8	266.7	449.6	519.5	659.0

Sources: Central Bank of Egypt and IMF, International Financial Statistics.^{1/} Excludes foreign currency deposits with Central Bank, which are included in deposits with Central Bank.^{2/} Includes public organizations.^{3/} Includes foreign currency deposits of residents including international organizations located in Egypt.

TABLE B-8

SUMMARY BALANCE SHEET OF MORTGAGE BANKS, 1973-78

(LE in Millions)

End of Period	1973	1974	1975	1976	Sept.	Dec.	Sept.
					1977		1978
Cash	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Foreign Assets, Net	0.1	0.1	--	0.2	0.2	0.2	-3.7
Assets	(0.1)	(0.1)	(--)	(0.2)	(0.2)	(0.2)	(1.2)
Liabilities	(--)	(--)	(--)	(--)	(--)	(--)	(-4.9)
Claims on Public Sector	7.9	6.7	5.1	4.4	7.6	14.8	28.0
Central and Local Government	(0.5)	(0.5)	(0.8)	(0.8)	(0.9)	(0.9)	(1.0)
Public Authorities ¹	(5.3)	(4.4)	(3.8)	(2.1)	(4.1)	(11.1)	(24.4)
Public Sector Companies	(2.1)	(1.8)	(0.5)	(.15)	(2.6)	(2.8)	(2.6)
Claims on Private Sector	36.3	39.5	43.9	42.9	48.7	55.4	64.1
Claims on Cooperatives	4.4	4.0	1.5	4.0	4.3	4.2	3.8
Claims on Banks	0.3	0.3	0.2	0.4	--	0.1	4.4
Central Bank	(0.1)	(0.1)	(0.1)	(0.1)	(--)	(--)	(--)
Commercial Banks	(0.2)	(0.2)	(0.1)	(0.3)	(--)	(0.1)	(4.4)
Unclassified Assets	6.7	8.3	7.4	7.7	9.8	9.3	15.1
Assets = Liabilities	<u>55.8</u>	<u>59.0</u>	<u>58.2</u>	<u>59.7</u>	<u>70.7</u>	<u>84.2</u>	<u>111.8</u>
Private Sector Deposits	0.1	--	--	--	0.1	0.2	1.6
Public Sector Deposits	3.4	4.8	5.0	6.4	7.8	7.1	12.8
Central and Local Government	(--)	(--)	(0.1)	(--)	(--)	(--)	(--)
Public Authorities ¹	(0.1)	(0.1)	(--)	(0.1)	(--)	(--)	(5.4)
Public Sector Companies	(3.3)	(4.7)	(4.9)	(6.3)	(7.8)	(7.1)	(7.4)
Bonds	4.6	4.5	3.9	3.8	3.7	3.7	3.6
Funds Due to Banks	23.8	23.8	23.3	21.4	30.4	42.7	57.9
Central Bank	(0.6)	(0.4)	(0.2)	(0.2)	(9.9)	(24.2)	(42.7)
Commercial Banks	(23.2)	(23.4)	(23.1)	(21.2)	(20.5)	(18.5)	(15.2)
Capital Accounts	17.5	18.3	19.3	20.9	22.8	22.6	26.1
Unclassified Liabilities	6.4	7.6	6.7	7.2	5.9	7.9	9.8

SOURCE: Central Bank of Egypt.

¹ Includes Public Organizations.

TABLE B-9

PARTICIPATION OF THE CENTRAL BANK OF EGYPT
IN THE PROVISION OF FUNDS TO FINANCIAL INSTITUTIONS
(LE in Millions)

Credit from the Central Bank to:

As of the end of:	Commercial Banks	Specialized Banks
1972	383.3	6.4
1973	395.2	6.2
1974	577.5	6.1
1975	770.5	5.9
1976	1,104.9	6.6
1977	1,530.1	105.7
1978	1,588.9	174.7
Feb. 1979	1,659.2	177.3

SOURCE: International Monetary Fund, International Financial Statistics, June, 1979.

TABLE B-10
CLASSIFICATION OF COMMERCIAL BANK DEPOSITS
(LE in Millions)

End of	CURRENT			TIME			Savings	Others(2)	Grand Total
	Private	Govt.(1)	Total	Private	Govt.(1)	Total			
1970	313.4	40.3	353.7	246.4	54.9	301.3	83.7	16.8	755.5
1971	320.3	38.5	358.8	203.4	82.9	286.3	96.5	51.6	793.2
1972	398.2	41.2	439.4	211.5	81.1	292.6	113.4	51.6	897.0
1973	463.3	30.2	493.5	235.9	52.3	288.2	133.1	58.3	973.1
1974	610.1	68.1	678.2	279.4	64.6	344.0	165.3	54.7	1,242.2
1975	732.7	87.0	819.7	345.5	72.8	418.3	206.5	137.8	1,582.3
1976	818.6	80.3	898.9	384.2	81.7	465.9	257.6	299.9	1,922.3
1976 Aug.	825.7	69.2	894.9	402.6	73.6	476.2	232.6	286.9	1,890.6
1976 Sept.	834.1	63.4	897.5	382.5	72.1	454.6	238.5	301.5	1,892.1
1976 Oct.	791.7	62.9	854.6	387.8	75.8	463.6	242.8	298.4	1,859.4
1977 Aug.	903.6	79.2	988.8	398.4	97.3	495.7	284.0	480.8	2,249.3
1977 Sept.	921.5	91.6	1,013.1	403.2	95.5	498.7	299.6	489.1	2,300.5
1977 Oct.	926.1	104.2	1,030.3	404.9	99.7	504.6	296.1	518.3	2,349.3

(1) Includes Semi-Government Accounts

(2) Includes Earmarked and Foreign Currency Deposits

SOURCE: Central Bank of Egypt

TABLE B-11
TIME AND SAVINGS DEPOSITS

(LE Million)

End Of :	Govt.	Commercial Banks Semi- Govt.	Private	Post Office Savings Bond	Net Sales of Savings Certificates	TOTAL
1968	34.9	10.9	269.1	70.3	54.5	439.7
1969	42.6	10.1	303.5	72.5	72.6	501.3
1970	48.3	6.6	337.3	76.5	95.6	564.3
1971	49.9	33.0	309.5	81.1	120.5	594.0
1972	53.1	28.0	331.0	89.9	154.6	656.6
1973	49.9	2.4	374.3	100.8	192.6	720.0
1974	50.4	14.2	449.3	119.2	236.3	869.4
1975	43.5	29.3	572.0	136.0	286.5	1,067.3
1976	49.2	32.5	674.9	152.4	344.9	1,253.9
1977	51.8	59.8	795.5	162.8	442.2	1,512.1
March 1978	57.0	78.6	886.1	162.8	468.8	1,653.3

SOURCE: Central Bank of Egypt, Economic Review Vol. XVIII, No. 1, 1978

TABLE B-12
SAVINGS CERTIFICATES
ISSUED BY THE NATIONAL BANK OF EGYPT
(LE in Millions)

End of	Appreciation Bonds		Current Income Bonds		Lottery Bonds		Total		Net Sales
	Sales	Redemptions	Sales	Redemptions	Sales	Redemptions	Sales	Redemptions	
1970	28.0	5.1	76.1	11.3	12.2	4.3	116.3	20.7	95.6
1971	34.7	7.2	100.8	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	84.8	23.8	273.4	63.7	45.2	29.4	403.4	116.9	286.5
1976	103.0	34.2	349.9	92.3	56.1	37.6	509.0	164.1	344.9
1977	124.2	44.6	464.2	123.4	69.2	47.4	657.6	215.5	442.2
1976 Oct.	99.6	32.9	336.9	87.8	54.2	36.3	490.7	157.0	333.7
1976 Nov.	101.7	33.5	343.0	90.0	55.1	36.9	499.8	160.4	339.4
1976 Dec.	103.0	34.2	349.9	92.3	56.1	37.6	509.0	164.1	344.9
1977 Oct.	120.8	43.0	445.0	117.9	66.8	46.6	632.6	206.8	425.8
1977 Nov.	122.5	43.9	453.9	120.4	68.0	46.6	644.4	210.9	433.5
1977 Dec.	124.2	44.6	464.2	123.4	69.2	47.4	657.6	215.5	442.2

Figures Cumulative. Appreciation and Current Income Bonds first issued on 31/1/1965 and Lottery Bonds first issued on 4/2/1968.

SOURCE: National Bank of Egypt

TABLE B-13

DISTRIBUTION OF NET SALES OF SAVINGS CERTIFICATES BY THE NATIONAL BANK OF EGYPT

ACCORDING TO REGION AND OWNERSHIP*

(LE in Millions)

End of	Region				Ownership		Total
	Cairo	Alexandria	Lower Egypt & Canal Zone	Upper Egypt	Personnes Naturelles	Personnes Morales	
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	200.1	44.7	26.7	15.0	259.1	27.4	286.5
1976	240.5	54.9	32.1	17.4	315.5	29.4	344.9
1977	307.6	71.5	41.1	22.5	410.4	31.8	442.2
1976 Oct.	233.6	53.0	30.2	16.9	305.4	28.3	333.7
1976 Nov.	236.7	53.9	31.7	17.1	310.0	29.4	339.4
1976 Dec.	240.5	54.9	32.1	17.4	315.5	29.4	344.9
1977 Oct.	296.2	68.9	39.6	21.1	394.5	31.3	425.8
1977 Nov.	301.5	70.1	40.4	21.5	401.9	31.6	433.5
1977 Dec.	307.6	71.5	41.1	22.0	410.4	31.8	442.2

* Covers the Groups Appreciation, Current Income and Lottery Bonds. Figures Cumulative. Appreciation and Current Income Bonds first issued on 31/1/1965, and Lottery Bonds first issued on 4/2/1968.

SOURCE: National Bank of Egypt

TABLE B-14

OWN EXCHANGE IMPORTS AND IMPORTS TO PORT SAID FREE ZONE

(IN MILLIONS OF EGYPTIAN POUNDS) 1(LE in Millions) 1

	Own Exchange Imports <u>2</u>				Imports to Port Said Free Zone <u>3</u>			
	July-Dec. 1964	1975	1976	1977	Jan.-Aug. 1978	Sept.-Dec. 1976	1977	Jan.-Aug. 1978
Fuels	...	...	--	0.1	--	--	--	--
Raw Materials	...	...	--	--	--	--	--	--
Intermediate Goods	...	...	38.9	68.5	113.2	0.5	5.0	5.3
Capital Goods	...	...	69.1	99.2	141.9	1.3	21.1	13.5
Consumer Goods	...	...	68.4	97.3	123.9	7.2	106.7	97.9
Durables	(...)	(...)	(12.8)	(33.1)	(34.5)	(1.5)	(16.9)	(9.6)
Nondurables	(...)	(...)	(55.6)	(64.2)	(89.4)	(5.7)	(89.8)	(88.3)
TOTAL	<u>11.1</u>	<u>107.7</u>	<u>176.4</u>	<u>265.2</u>	<u>379.0</u>	<u>9.0</u>	<u>132.8</u>	<u>116.7</u>

SOURCE: Ministry of Trade.

1 At Parallel Exchange Rate.

2 Amounts Cleared by Customs Under Article V of Ministerial Decree No. 64 of 1974. Goods brought in under Various Special Provisions, Mainly for Personal Use, are not Included (Egyptians living abroad may each import two cars per year, for example). Data for Earlier Years are Known to be Imcomplete.

3 Goods Entering Port Said Free Zone which Do Not Officially Enter Tgypt. In Practice most such Goods Enter Egypt Through Unofficial Channels.

APPENDIX C.

THE FIVE-YEAR PLAN
1978-1982

Housing, New Cities, Construction, Utilities,
and Other Sectors in the 1978 Plan

1 - Housing Sector

The 1978 housing sector plan should help overcome the present housing problem and alleviate population density which has developed during the years in which policies prevailed that eliminated capital from housing activities. The 1978 plan has allotted to this sector 147.6 million pounds, aiming at establishing 55,300 housing units at various levels within present urban areas, and 13,500 units in rural areas, covering around 63% of the urgent need for housing for newly-formed families.

The investment of the public sector in 1978 was 79.8 million pounds, 55% of which went to establishing 21,400 economy class housing units. Furthermore, the Ministries of Industry, Petroleum and Electricity will establish around 2,200 industrial housing units in their production areas. Another 1,700 student units serve the national universities and Al-Azhar University. The Ministry of Agriculture and the Village Construction and Development Agency are to build 6,500 rural units in land reclamation areas.

The plan was allotted top priority to the investment of the central administration for the construction of new cities, and for which

it has allotted 9.6 million pounds, considering it the basis of housing activity and the alleviation of present density in cities.

Private sector activities have been limited in the 1978 plan to 1,500 middle class housing units and 5,000 upper class and luxury units which are of interest to those with higher incomes, because considerable revenues may be gained by renting them as furnished units or by selling them.

Rural citizenry activities are to establish approximately 7,000 rural units.

Planning expects more attraction of private capital to the housing sector--especially in the family and cooperative spheres and the increment money in the Ministry of Wakf--especially after the issuance of the last housing law and the raising of legal revenues of housing units, and in view of the regulation issued by the State on construction material requirements, which forms the corner stone for attracting foreign capital and investments from Egyptian abroad. It is thus hoped that the total capital to be attracted from Egyptians working abroad will be about 30 million pounds, and from foreign partners 20 million pounds (outside the framework); this amount could result in the building of 10,000 housing units. Thus, the total of new housing units envisioned by the 1978 plan would be 68,800.

Because of the need to prepare land for building and to increase the allotment of these lands so as to reduce or control their high

prices, the 1978 plan allotted investments of 5.6 million pounds for the preparation of almost 750,000 square meters. The leading companies in this activity are the Heliopolis Meadi and Nasr City housing and construction companies.

2 - New Cities

It has been found necessary to resettle Egyptian outside present urban areas and inhabited lands, which are less than 4% of the total area of the country. Productive, coordinated, and integrated projects can establish new communities in the deserts and on the western coasts through regional comprehensive planning stemming from long-range strategies. Thus the 1978 draft plan has allotted the necessary investments for projects of the central administration for reconstruction and new cities of 76 million pounds, of which 42.2 million pounds are to be in foreign currency. New cities projects will be allotted 41 million pounds, approximately 60% of the total.

The plan laid down for these cities has taken into consideration projects for central utilities; 18 million pounds has been allotted for electricity projects. Housing projects within the new cities have been allotted 9.6 million pounds (the private sector has been allotted 11.1 million pounds in this area), for the establishment of almost 4000 housing units. Other services have been allotted 2.5 million pounds; these include education, health, religion, security, justice and organizational services.

The central administration for reconstruction has included in its plan those investments for comprehensive planning organized by

the competitive committee for reconstruction, as well as those projects concerning geophysical survey and the general authorities for population planning. In addition to investments for the Heliopolis -- Helwan autostrad and high and intersecting breidtes in Cairo, tunnels are to be dug beneath the Suez Canal.

The 1978 plan gives priority to projects in the 10th of Ramadan City, to be followed by work on Sadat City and then on the industrial settlement in Helwan, as soon as design studies have been completed. At the same time, a project for El-Amreyah and Al-Obur Cities will be implemented as soon as their design studies are finished, so that work will be progressing on all the new cities.

The draft plan has taken into consideration the continuation of necessary studies and research on the new cities so as to further efficient planning for them.

3 - Construction

The constructor sector implements all housing utilities, industrial, agricultural, irrigational, transportation and services projects. As quickly as this sector can complete its work in each of those fields, the production stage can be approached. The 1978 plan attaches great importance to increasing the working power of general and private contracting organizations and eliminating obstacles by renewing and consolidating its working instruments and developing its means of production so as to raise the employment rate and thus provide its manpower needs and the needs for basic building materials.

The 1978 plan envisions the production of this sector reaching a value of 863 million pounds, by comparison with 655 million pounds in 1977, an increase of 31%.

APPENDIX D

GOVERNMENT OF EGYPT
NATIONAL HOUSING COMMITTEE
AND HOUSING FINANCE SUBCOMMITTEE

APPENDIX D

GOVERNMENT OF EGYPT
NATIONAL HOUSING COMMITTEE
AND HOUSING FINANCE SUBCOMMITTEE

DR. ALI SABRY	CHAIRMAN, REAL STATE BANK
DR. ZAKI ABU EL NASRE	DEBUTY CHAIRMAN REAL STATE BANK
MR. EL BANA	FIRST UNDER SECRETARY MINISTRY OF ECONOMY
MR. EL ZAHAWY	UNDER SECRETARY MINISTRY OF ECONOMY
DR. SAMIR TOUBAR	PROF. OF ECONOMICS
DR. F. HASHEM	PROF. OF ECONOMICS CAIRO UNIVERSITY
DR. W. SHINDY	ARAB BANK OF INVESTMENT
ENG. SALAH EL BENDARI	FIRST UNDER SECRETARY MINISTRY OF HOUSING