PN-AAU-886

Country Development Strategy Statement

FY 1986

EGYPT

ANNEX H

SELECTED GOE POLICY CHANGES
1983 AND IMPLICATIONS
FOR THE FUTURE

APRIL 1984

Agency for International Development
Washington, D.C. 20523

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FY 1986 CDSS ANNEX

Selected GOE Policy Changes 1983 and Implications for the Future

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SELECTED GOE POLICY CHANGES 1983
AND IMPLICATIONS FOR THE FUTURE

I. INTRODUCTION

1.01 Because problems make far better press than progress, there has been a tendency to focus much more on the former than on the latter regarding policy change in Egypt. In addition, the analysis of policy reform is often performed in a relative vacuum and consequently fails to give an appreciation for the context and complexity of change. In order to present a balanced record, this Annex attempts to set forth on a sectoral and cross-sectoral basis the major policy changes that have been taken by the Government of Egypt (GOE) since 1974. The actions taken in the period 1974-83 will be set in the context of the political-economic situation that had developed by 1973. This will be followed by a brief discussion of possible GOE policy responses to current balance of payment and budgetary pressures, and the implications thereof for the AID/GOE policy dialogue.

1.02 This Annex is intended to serve a number of purposes: (i) to give the GOE due credit for the substantial measures that have been taken thus far given various constraints, (ii) to identify for discussion between the GOE and the USG areas where economic policy has been regressive or where progress has been slow and additional steps are needed, and (iii) to provide AID/State officials in Washington the detailed information needed to respond to issues that have been and might be raised on the Hill about what Egypt has and has not done. This FY 1986 CDSS update will maintain the format and much of the historical analysis of the FY 1985 Annex. The bulk of this update focuses on policy changes that have occurred during the course of 1983, interpretation and assessment of these changes (section III), and implications for the future (section IV).

1.03 Section II of the Annex will briefly describe the political-economic events leading up to 1974 and the economic situation in 1973, in order to set the stage and provide the contrast for the subsequent policy review. Section III of the Annex will examine the general policy trends that seem to have emerged during 1983, on a sectoral and cross-sectoral basis. The section will conclude with an overall assessment of GOE policy efforts in the 1983 and a judgment on the relative importance of exogenous events. Section IV of the Annex will highlight the economic actions of the Mubarak government and will consider the likely economic pressures on the GOE in the period ahead. It then will explore the possible and likely GOE policy responses to the growing balance of payments and budgetary pressures and will conclude with a brief discussion on the implications of the period ahead for the AID/GOE policy dialogue. The Annex includes two appendices: the first appendix sets forth the scope and methodology of the Annex; the second appendix sets forth a more detailed and comprehensive listing of GOE policy changes for the year 1983 than that contained within the body of the Annex.

II. BRIEF DESCRIPTION OF SITUATION PRIOR TO 1974

A. Political/Economic Events Leading up to 1974

2.01 Pre-1952 -- Egypt had been under foreign rule for 2,500 years prior to the 1952 Revolution. Its domination began with the Persians and ended with the British, with the Greeks, Romans, Circassians, Arabs, Turks, and French ruling in the period between. Egyptian history is characterized by strong central governments, an interplay between politics and religion, and the dominance of a small elite, particularly the military elite. It was not surprising that the small military group known as the Free Officers that seized power on July 23, 1952 should enjoy almost instant legitimacy both as military conquerors and as nationalists who had ended 2,500 years of alien rule.

2.02 1952-1973 -- The years between the 1952 Revolution and the October 1973 War saw dramatic changes in the economic philosophy and policies of the Egyptian Government. During this period Egypt transformed itself from essentially a free market economy, with an extremely large private sector presence, to a centrally controlled economy with a relatively small private sector role. It transformed itself into an increasingly socialist state that many felt was on the verge of economic collapse by the time its armies crossed the Suez Canal in October 1973. For the purpose of better comprehension of the economic transformation that evolved, the period 1952-1973 should be broken into three sub-periods: (i) 1952-56: continuing predominance of the private sector, (ii) 1957-60: growing government intervention and (iii) 1961-73: nationalization and central planning.

2.03 Phase I (1952-56) -- The Free Officers who took control in 1952 had no clear economic philosophy. They inherited a situation in which the role of the government in the economy was essentially confined to investment in infrastructure (most importantly irrigation) and social services. All of the main productive sectors, internal and foreign trade, banking, insurance, urban transport and a number of utilities, were in private hands. The private sector accounted for 87 percent of GDP. Although remnants of some government controls introduced during World War II were still in existence in 1952 and the government was already engaged in subsidizing and controlling prices of basic consumer goods, private enterprise operated in a relatively free environment.

2.04 During the first four years after the 1952 Revolution the GOE repeatedly emphasized the importance of the private sector. Government investment continued to be directed largely into irrigation-related activities, and the government insisted it would confine itself to the areas of heavy, or basic, industry. The most significant restraint of the private sector during the 1952-56 period was the Agrarian Reform Law of September 1952 which placed a ceiling of 200 feddans upon individual owners. Nevertheless, this reform was viewed primarily as an attack on political power rather than an attack upon the principle of private ownership per se.

2.05 Phase II (1957-60) -- In the period 1957-60, the GOE moved increasingly in an interventionist fashion in the Egyptian economy. Although the private sector was still encouraged, its perceived role in the economy was circumscribed by ideological caveats contained in the 1956 constitution. British and French economic interests, largely concentrated in banking and insurance, were nationalized as a result of the 1956 Suez War. A state Economic Organization, set up in early 1957 to manage these assets and others already held by the government, had gained considerable influence in the economy as early as 1958. At about this same time all foreign banks, insurance companies, and commercial agencies were required to be converted into domestically-owned joint stock companies within a period of five years. Major banks and insurance companies were placed under the control of the Economic Organization. Comprehensive economic planning was introduced and pushed through at the highest levels; public investment in industry took place under the First Industrial Plan of 1957-60. It is significant that, while earlier nationalizations had been concerned with foreign firms, Bank Misr and the National Bank, both domestically owned, were nationalized in February 1960. Thus, by 1960 the nature of the Egyptian economy had changed substantially. The public sector, although still accounting for less than one-fifth of GDP, was by that time undertaking almost three-quarters of gross monetized investment.

2.06 Phase III (1961-73) -- Nationalizations and increased central control of the economy characterize the period 1961-73. Large scale nationalization of domestically owned financial and industrial enterprises occurred in mid-1961, followed by further nationalizations in late 1961. By the end of that year, the private sector had been relegated to a relatively minor role. Although private property was not abolished, the opportunities for private economic activity were severely circumscribed. The private sector retained the ownership of land, dwellings, small scale industry, most of the retail trade, certain transport, construction, and part of the wholesale trade. By 1973, the public sector owned most of modern industry; all banks, insurance companies and financial intermediaries; and a large proportion of construction firms, modern transport, and wholesale trade. The public sector also controlled all of foreign trade. During the 1961-73 period, over 90 percent of total monetized investment in the economy was accounted for by the public sector, and extensive price controls became the norm of the economic system.

B. The Economic Situation in 1973

2.07 Egypt was on the road to economic disaster by the time Egyptian troops crossed the Suez Canal in October 1973. Egypt's economic growth had almost come to a standstill partially due to the costs of the 1967 war and the loss of revenues with the closure of the Suez Canal. The country suffered from chronic current account balance of payment deficits that steadily grew worse. It was in default or about to default on its external debt, with little or no foreign exchange reserves, facing dramatic increases in the size of its food import bill. Its physical infrastructure and capital stock were badly deteriorated and in need of replacement or spare parts. Its prospects for international assistance were relatively bleak, both in the East and the West.

2.08 Egypt had been a centrally controlled economy for more than a decade and at war for 25 years. Both of these factors weighed heavily on its economic performance. Between 1966 and 1973 real per capita GDP had grown at less than 1% per year. During the same period, as a percentage of GDP, the economy saw dramatically decreased total investment (18% to 13%) and domestic savings rates (17% to 8%), and increased public consumption rates (20% to 28%) and balance of payments current account deficits (3.5% to 6.4%). By 1974 the current account deficit had increased to 13% of GDP and by 1975 it had climbed to over 20%.

2.09 More worrisome for the longer term prospects than the above symptomatic indicators, however, was the policy regime that had evolved. The Egyptian economy was characterized in 1973 by state planning, public ownership of the modern means of production, and widespread, highly centralized administrative controls and regulations. It was characterized by an "inward looking" national self-sufficiency/import substitution industrialization strategy, financed in part, along with the urban sector in general, by agricultural price and crop selection controls, coupled with compulsory delivery quotas. The concept of direct subsidy of basic consumer commodities, services and public utilities was well entrenched, and guaranteed government employment to secondary and university graduates plus former military conscripts had been a legal prescription since 1964. The private sector was tolerated within relatively narrow limits. Foreign investment was still viewed with skepticism. In sum, by 1973 Egypt had evolved into a centrally controlled, socialist-oriented economy that could not pay for itself, particularly under a wartime footing with an important part of its resources under Israeli control, and was not likely to be able to do so without a major shift in its political-economic strategy.

III. INTERPRETATION AND ASSESSMENT OF 1974-83 PERIOD

A. Summary of 1974-82 Period

3.01 Essentially, all the major GOE policy changes in the 1974-82 period emanated from the Open Door Policy (Al Infitah) of 1974. The Open Door Policy represented a shift in Egypt's political and economic strategy and resulted in several significant policy trends, including: (i) substantial liberalization of the foreign trade and payments regime, (ii) a reversal in the previously negative attitude toward direct private foreign investment, (iii) liberalization in the financial and banking sector, and (iv) an easing of the restrictions on the domestic private sector, coupled with an overall reform attitude toward the management of public sector enterprise. While these changes were substantial, particularly in light of Egypt's historical experience, reform has been relatively small in comparison to the magnitude of the problems in areas such as pricing and subsidy policy, public sector management, GOE wage and employment policy, and human resource policy. The Open Door Policy has been generally successful in its "outward-looking component" of inducing both political and economic capital inflows. However, the GOE has been slow to implement the "inward-looking component" of domestic economic change. Domestic reform has proceeded in the right direction, but at a gradual pace.

3.02 Exogenous events, such as the availability of oil revenues, provided greater resources to the Egyptian economy in the 1974-82 period and were complementary to reform efforts. Nevertheless, the GOE did not use all of its new-found resources in support of reform, choosing instead to postpone adjustments and support increased public consumption.

3.03 The GOE took some relatively impressive policy reform measures during the 1974-82 period. The equally impressive performance of the economy since the mid-1970's was assisted partially by these reform measures and largely by favorable exogenous factors. The current problems in the form of growing current account balance of payments and budgetary deficits are the symptomatic reminders of the GOE's reluctance to address domestic economic reform issues in the mid-1970's. Figure 3-1 provides a summary of some of the major positive accomplishments and negative signs from the 1974-82 period. For a more detailed analysis of policy changes in the period, see CDSS FY85 Annex D Selected GOE Policy Changes 1974-82 and Implications for the Future. The following analysis focuses on changes in 1983 and their ramifications.

Figure 3-1
Major Accomplishments and Non-Accomplishments
Resulting from Purposeful Policy Decisions or Lack Thereof
1974-82

Highly Positive Signs

- petroleum earnings from increased production
- direct private foreign investment
- other commercial capital inflows
- political/donor assistance capital inflows
- liberalization of foreign trade and payments
- liberalization of banking sector
- increasing privatization of Egyptian economy

Other Positive Signs

- Suez Canal earnings from widening and deepening
- significant increases in LE deposit and lending rates
- periodic increases in agricultural procurement prices and relaxation of acreage and delivery controls
- major reform of business and personal income tax laws
- reform of private sector company laws
- public sector enterprise reform legislation under discussion
- recent electricity rate increases
- decreases in consumer commodities subsidized
- price increases for various services and commodities

Negative Signs

- pervasive pricing controls still exist
- major underpricing of energy still exists
- significant agricultural price distortions still exist
- fundamental consumer subsidy policy on basic commodities and public services still in place
- public sector enterprise management and regulations still require major reforms
- no serious reform of government wage and employment policy
- no serious reform of higher education and training policy to date

B. General Policy Trends by Sector-1983

3.04 GOE policy changes for 1983 have been divided into two broad categories for review (sectoral and cross-sectoral) and further sub-divided within those categories. The distinctions implied by these categorizations and sub-categorizations, to some extent, must be considered artificial and oversimplified. Obvious overlaps exist both within and between the categories. The various breakdowns have been maintained because they yield certain traditional information that would otherwise have no obvious place and because these categorizations tend to be familiar.

3.05 Even when there may be no question about where to place a particular policy change, its assignment still may be misleading for interpretation of its significance because the action was intended to support a policy objective in another area. The interpretation of policy changes strictly within the context of any of the sub-categories chosen is not entirely satisfactory. Hopefully, the overall assessment of GOE policy changes that follows in part C will fill the gaps that may occur here.

3.06 What are believed to be the most important policy changes in each sub-category are summarized separately within the following text. Appendix II contains a chronological listing of the significant policy changes that have been located to date.

1. Cross-Sectoral Policy Changes

3.07 Seven sub-categories make up the cross-sectoral policy change category: (i) foreign trade, payments, and investment policies, (ii) monetary, financial and banking policies, (iii) budgetary and fiscal policies, (iv) pricing and subsidy policies, (v) wages, employment and emigration policies, (vi) decentralization policies, and (vii) energy policies.

3.08 Foreign Trade, Payments, and Investment - Egypt's foreign trade policy has undergone a series of selectively restrictive changes from mid-1981 to 1983 in response to increasing balance of payments pressures. This shift from the liberalizing trend that characterized the 1974-81 period has been called the "Second Stage of the Open Door Economic Policy" by the Minister of Economy. This "Second Stage" has manifested itself in cross-sectoral changes such as the restriction of certain kinds of imports and the beginnings of an export promotion effort. Disappointment by many GOE officials with the earlier emphasis by Law 43/1974 companies on import-oriented trade and banking activities as a vehicle for development has resulted in GOE appeals for more private investment in "productive activities."

3.09 The concern over the rapid growth of Egypt's private sector imports (from $379 million in 1974 to approximately $2 billion in 1982/83) triggered a number of policy changes. Approval of the Import Rationalization Committee is required for procurement of certain commodities. Customs duties have been raised and administrative exemptions have been reduced. The Minister of Economy has announced that import regulations will be revised every two years taking into consideration protection of domestic producers, foreign exchange constraints, and the urgency of importation. However, import procedures for commodities needed in priority areas such as certain productive investments, export activities, and Egyptian-Sudanese integration are still given favored treatment.

3.10 The growing balance of payments problem, caused by stagnant foreign exchange earnings combined with rising payment obligations, has generated a heightened interest in export promotion. This represents an even further shift from the "inward looking" national self-sufficiency industrialization strategy of the 1961-73 period. The establishment of the Egyptian Export Development Bank, the retention of exporters' proceeds in special foreign currency accounts as a result of a recent Ministerial Decree, changes in customs duties on exports, and the resumption of trade relations with several Arab countries are important components of Egypt's attempt to increase export earnings.

3.11 The Egyptian Five Year Plan (1982/83-1986/87) has been authorized. Total investment under the plan amounts to LE 35.5 billion, LE 27.2 billion of which are allocated to the public sector (including self-financing), and LE 8.3 billion to the private sector. The plan was seriously constrained by commitments from earlier plans. More than half of the 1982/83-1986/87 investments go toward completing projects from the previous period. First priority in investment allocation has been given to commodity sectors, especially food, clothing, and building materials.

3.12 Egypt is gradually depreciating the exchange value of its currency by moving toward a unified, market exchange rate. Egypt currently has a complex, multi-tiered system. Outstanding barter agreements with Eastern European countries use an accounting rate of $1.00 equals LE 0.40-0.45. The "official" rate of $1.00=LE 0.70 is only for internal government bookkeeping, some Ministry of Supply commodity imports and petroleum, cotton, and Suez Canal earnings. The "official incentive," commercial bank or parallel rate set at $1.00=LE 0.84 covers other official transactions and authorized, private-sector transactions. The government allows free market dealings in foreign currency through the "own exchange" system. Egypt's currency has effectively depreciated further as the own exchange rate for the U.S. dollar ranged from 1.18 to 1.22 in the last quarter of 1983. The number of transactions officially sanctioned at the own exchange rate is increasing.

Figure 3-2

Foreign Trade, Payments, and Investment
Significant Policy Changes 1983

- Presidential Decree 8/1983 authorized the Five Year Plan for Economy and Social Development (1982/83-1986/87).

- The Minister of Economy announced the "Second Stage of the Open Door Economic Policy" characterized by an emphasis on the productive sectors of the economy. This distinguished the second stage from the 1974-81 period when trade, particularly imports, was the primary activity.

- Approval of the Import Rationalization Committee is required for procurement of certain commodities.

- The Egyptian Export Development Bank was established to promote exports in all sectors.

- Licensed exporters are permitted to retain profits earned in special foreign currency accounts, with the exception of certain agricultural commodity exports.

- New import regulations are being discussed to facilitate import of commodities needed for engineering, electrical, and transportation equipment.

- Egyptian exports to Europe will receive a 20% discount on customs duty to European Economic Community countries.

- Egyptian exporters will be reimbursed for customs duties paid on certain commodities.

- In order to promote Egyptian-Sudanese trade, items imported from Sudan and exports thereto are exempt from certain taxes.

- Egypt has resumed trade relations with Lebanon, Jordan, and Iraq.

3.13 Monetary, Financial and Banking - No major changes have occured in Egypt's monetary, financial, and banking policies in 1983. The development of the capital market has progressed gradually, with the first underwriting company to market securities in Egypt in the planning stages. Egypt's stock market remains dormant. The Capital Market Authority is in the process of defining its role in the development of the Egyptian financial system.

Figure 3-3

Monetary, Financial, and Banking
Significant Policy Changes 1983

- The Investment Authority has approved in principle the establishment of the first underwriting company to market securities in Egypt. The activities of the new concern, the Egyptian Financial Investments Corporation, will be to underwrite and market new issues, create secondary markets in existing securities, and provide financial advisory services to companies seeking public financing.

- The Capital Market Authority's action program for 1983/84 is designed to "stimulate and encourage the securities market rather than simply regulate them" through a series of proposed measures currently under study.

3.14 Budgetary and Fiscal - Egyptian public finance continues to be characterized by widespread government intervention in consumption, production, and investment for the purpose of providing basic commodities and services to the Egyptian, primarily urban, public at stable prices. Price stability has been maintained through a system of direct price controls at various levels of economic transactions and by direct subsidies. Faced with a relatively narrow-based and inelastic tax system, growing consumer dependence on subsidized goods and services, stagnant petroleum revenues, rapidly increasing military spending, and rising interest payments on domestic debt, the GOE budget has come under significant pressure.

3.15 The GOE 1983/84 budget increased by 10.7% over that for the previous year, which is less than the rate of inflation. Total expenditures are budgeted at LE 16.2 billion. The government is attempting to control its spending, but expenditures continue to rise at a faster rate than revenues. Even after substantial domestic borrowing and foreign financing, a LE 1.3 billion deficit remained in FY 1983/84 to be financed by inflationary monetary creation through the banking system. The subsidy burden on the budget has decreased from LE 2 billion to LE 1.7 billion in 1983/84. The reduction was due to expected declines in world prices of some food items rather than to program cutbacks. In general, budget expenditures represent approximately 66% of gross domestic product. The gross budget deficit is 20% of GDP and the net deficit to be financed through the banking system about 6% of GDP.

3.16 The GOE economy's vulnerability to external forces is most apparent in the revenue structure's reliance on earnings from petroleum, worker's remittances, tourism, and the Suez Canal. The Suez Canal and petroleum generated one quarter of current budgetary revenues in 1982/83. Consumption and customs duties taxes provided about 36.5% of FY83 current budgetary revenues. The GOE strategy in the future will be to raise tax revenues through the improvement of tax assessment and collections and the reduction of tax exemptions. The new tax law is a step in this direction.

Figure 3.4

Budgetary and Fiscal
Significant Policy Changes 1983

- The People's Assembly passed Law 87/1983 in an attempt to raise revenues by increasing taxes on higher income brackets, trade and industry, and commercial activities. Transfer and export operations have been exempted with a view to encouraging them.

3.17 Pricing and Subsidies - The GOE remains reluctant to address price distortions in various sectors of the economy. Rather than risking direct corrective measures that are politically sensitive, the GOE relies on indirect adjustments, which circumvent sensitive areas, and stop-gap measures that only address the symptoms of structural economic problems. The GOE continues to follow a conscious policy of keeping consumer prices low through a system of direct consumer subsidies of basic commodities, substantial underpricing of public services and utilities, price controls on public sector output, and substantial underpricing of petroleum-based products. Other, less successful, attempts to control consumer prices have included agricultural output price controls coupled with acreage and delivery quotas, rent controls, credit controls, controls on taxicab fares, etc.

3.18 Nevertheless, the budgetary burden of the subsidy has forced the GOE to address the issue through gradual moves to rationalize pricing. In industry, public sector companies have introduced "new" products at higher prices while phasing out older subsidized products. The price of electricity was increased 23% in 1983 as a result of the GOE's phased domestic price increases for petroleum products. The Minister of Supply has stated that a new pricing policy for agricultural crops would be adopted after the successful experiment with eliminating price controls on grapes.

3.19 A preliminary attempt has been made to target food subsidies through the new ration card system. The green ration card entitles the user to purchase food at fully subsidized prices. Higher income groups receive a red ration card for commodities at "partially subsidized free market prices." The new system was expected to save approximately LE 47 million in subsidies, but recent moves to reduce the number of individuals eligible for the red card have significantly detracted from the targeting impact.

Figure 3-5

Pricing and Subsidies
Significant Policy Changes 1983

- Public sector companies have been circumventing product price controls by introducing "new" products sold at higher prices and forming private sector subsidiaries.

- A 23% increase in electricity prices resulted from the cumulative effect of the series of price increases instituted in 1983 and those approved to take effect in January 1984.

- Cairo water tariffs increased for the first time since 1956.

- Law 43/1974 firms are experiencing energy price increases based on a schedule that approaches the "world market price" in five years.

- The Minister of Supply has stated that the GOE intends to adopt a new pricing policy for agricultural crops after the succesful experiment with eliminating price controls on grapes.

- Decree 15/1983 represents an attempt to target food subsidies through the ration card system. The green ration card entitles the user to purchase food at fully subsidized prices. Higher income groups recieve a red ration card for commodities at "partially subsidized free market prices."

3.20 <u>Wages, Employment, and Emigration</u> - The GOE has attempted to address underemployment and inefficiency fostered by the "full employment policy" initiated in the early sixties. The problems posed by guaranteed government employment for secondary and university graduates and military conscripts are well understood. The political problems with removing this employment safety net and the possible destabilizing effect of urban and educated unemployment have forced the GOE to proceed cautiously in this area. Guaranteed government employment for military conscripts was abrogated in 1978, and public sector companies have been given greater flexibility in personnel policies under Law 97/1983. The GOE has attempted to address the incentives problem through gradual wage increases for government employees, but the gap between public and private sector salaries remains wide.

3.21 The GOE's policy toward emigration reflects an appreciation of the importance of worker's remittances to Egypt's balance of payments. While there are debates within the GOE on the net impact of emigration, it has been argued that the GOE consciously shifted to a set of policies that encourage emigration in the mid-1970's. At present, estimates of the number of Egyptians working overseas vary from 2 million to 3 million. In order to attract remittances to Egypt, the GOE has officially sanctioned conversion of remittances at close to the free market rate since early 1983. In addition, a new company has formed under Law 43/1974 to channel the savings of expatriate Egyptians to investment projects in Egypt.

Figure 3-6

Wages, Employment, and Emigration
Significant Policy Changes 1983

- Presidential Decree 31/1983 modifies the wage schedules of government public sector employees and increases public sector wages by LE 60 annually.
- Law 97/1983 has given public sector managers greater flexibility in personnel policies.
- The GOE has officially sanctioned the conversion of workers remittances at close to the free market rate.
- A new company has formed under Law 43/1974 to channel the savings of expatriate Egyptians to investment projects in Egypt.

3.22 Decentralization - Although no major decentralization laws were passed in 1983, there has been a trend toward a more liberal interpretation of the powers of local authorities. While there has been considerable expenditure decentralization, the rate of revenue decentralization has been slower. Nevertheless, some administrative changes have occurred that reflect greater revenue generation and retention at the local level.

3.23 The GOE has instituted policies that promote a decentralization of income generating activities. This is reflected in the exemption of investment projects in remote areas from taxes and the prohibition of the establishment of any economic activities that might attract additional migrants to Cairo.

Figure 3-7

Decentralization
Significant Policy Changes 1983

- Recent decisions have allowed "joint ventures" to occur between local governments and private sector entrepreneurs.
- The Minister of Investment announced that investment projects in remote areas will be exempt from taxes for eight years.
- President Mubarak has approved directives that include prohibition of the establishment of any economic activities that might attract more migrants from rural areas.

3.24 Energy - The GOE has maintained a cautious approach to the issue of domestic energy pricing. Modest increases in the price of electricity were instituted in 1983. The average price of petroleum-based products in Egypt remains significantly below world market prices. The adverse implications for the GOE budget, the balance of payments, and economic allocative efficiency have been widely pointed out to the GOE. Nevertheless, the GOE continues to follow a gradual approach to energy price increases that probably represent its largest opportunity for quickly turning around its current balance of payment and budgetary dilemma.

3.25 In addition to the 23% increase in electricity prices, firms established under Law 43/1983 will experience gradual price increases approaching the "world market price" on a five year schedule. The GOE is pursuing its decision to build 8-10 nuclear-powered electric power plants of 9600 mw total capacity over the next two decades.

Figure 3-8

Energy
Significant Policy Changes 1983

- A 23% increase in electricity prices resulted from the cumulative effect of the series of price increases instituted in 1983 and those approved to take effect in January 1984.
- Law 43/1974 firms are experiencing energy price increases based on a schedule that approaches the "world market price" in five years.
- Presidential Decree 112/1983 established the Organization for Energy Planning.
- Tenders have been issued for Egypt's first nuclear power station.

2. Sectoral Policy Changes

3.26 Four sub-categories make up the sectoral policy change category: (i) agriculture, (ii) industry, (iii) infrastructure, and (iv) human resources and technology. The last two sub-categories are actually summary groupings for related sub-categories.

3.27 Agriculture - There is growing concern over the widening "food gap" caused by the disparity between Egypt's food consumption and production, but recent moves have indicated that the GOE continues to seek stop-gap solutions to the problems of food supply. Although the GOE has expressed a desire to cut back on food imports, the government also has announced its intention to import more food in order to keep consumer prices low.

3.28 GOE procurement prices for the major crops of rice, wheat, and cotton remained far below world market prices and lagged behind the rate of inflation in 1983. The gap between the Egyptian and world price of wheat and corn diminished due to a fall in world prices in 1983, not as a result of a GOE policy change. The official procurement price of paddy rice increased by 10.5% (from LE 95 to LE 105 per metric ton), but remains well below the world market price of approximately $300-320. Percentage increases in the prices of cotton, pulses, and sugarcane were less than 10%. Price controls have been removed on grapes, citrus, and watermelons. The GOE has expressed a desire to institute a new pricing policy based on the successful experiment with these crops. Egyptian farmers have tended to shift cereals production from human consumption to animal feed, from controlled crops to uncontrolled crops. The public sector continues to play the major role in providing agricultural inputs and marketing agriculture products. The role of the private sector in the marketing of some crops has increased, but price distortions, subsidies, and the trade regime continue to discourage private marketing. While some restrictive measures have been instituted, such as the intention to reintroduce compulsory wheat procurement, the GOE seems to be experimenting with liberalization measures on a trial basis in agricultural credit and with respect to price controls and other restrictions on domestic and export marketing of certain horticulture products.

3.29 The GOE also has instituted policies to achieve greater resource efficiency. Restrictions and penalties for the use of agricultural land for non-agricultural purposes have been imposed. A new irrigation policy being implemented on a trial basis in two governorates will save four billion cubic meters of water if implemented nation-wide. Although no water user fee has been instituted on the old lands, the Ministry of Irrigation is charging water users on a trial basis on some of the new lands.

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Decontrol 4/25/8?

Figure 3-9

Agriculture
Significant Policy Changes 1983

- A real increase has been achieved in the average price that farmers receive for (controlled and uncontrolled) rice.

- Price controls on grapes, citrus, bananas, and watermelons have been removed, thereby improving price incentives to production.

- The GOE has instituted a voluntary corn procurement program and has stated an intention to reintroduce compulsory wheat procurement for the 1984 crop. Because the procurement prices offered were very low, the GOE did not procure corn or wheat, to any significant extent, in 1983.

- The role of the private sector in the marketing of domestic crops and high value horticultural exports has improved.

- The GOE has authorized private sector corn imports.

- Over three-quarters of the PBDAC loan portfolio of twenty-two Village Banks will be put under the more market-oriented credit terms instituted by a USAID project on a trial basis.

- The removal of topsoil and the conversion of agricultural land to residential or industrial use is prohibited.

- The Ministry of Irrigation will, for the first time, do meska (final delivery canal to the farm) renovations at the farm level on a trial basis.

- The Ministry of Irrigation is charging water users on a trial basis on some of the new lands

3.30 Industry - The GOE has attempted to promote investment in productive industrial enterprises through various legislative changes. These changes, under the umbrella of the "Second Stage of the Open Door Economic Policy", include restrictions on certain kinds of imports, heavier taxation of certain activities, and the beginnings of an export promotion effort.

3.31 The major policy change in industry, the new public sector companies law, has unclear implications for the industrial sector in Egypt. The law reestablishes the General Organizations (holding companies) that were abolished by Law 111 of 1975 in order to facilitate coordination, provision of technical assistance, and monitoring of

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adherence of public sector companies to national economic strategy. The integration of Law 159/1981 with the new public sector law may place all domestic public sector companies on equal competitive ground with Law 43/1974 companies. This reflects the trend that began with Law 43 extending essentially free market rules to joint venture projects of Egyptian and foreign capital and has evolved into a widening of most of these privileges to the Egyptian domestic private sector as a whole, new subsidiaries of public sector companies, and possibly the public sector enterprises. The receptivity of public sector companies to such liberalization is reflected in the growing number of firms that have been circumventing product price controls by introducing new products and forming private sector subsidiaries in order to take advantage of the terms of Law 159/1981. The new Law may also address various constraints to increased public sector productivity, including the autonomy of managers, the speed of decision-making, and the problems caused by the General Organization for Industry (GOFI). However, the law fails to address many of the policy constraints faced by industry as well as the implications of adding another administrative layer to the public sector structure.

Figure 3-10

Industry
Significant Policy Changes 1983

- The implications of the new public sector companies law, Law 97/1983 remain unclear. The law establishes holding companies for the textile, food processing, metallurgy, chemical, and engineering industries as well as instituting new managerial and administrative policies.

- Public sector managers have circumvented product price controls by introducing new products and forming private sector subsidiaries.

- The industrial licensing system has been improved with the introduction of time limits on approvals.

- There is growing awareness in public sector companies of improved management techniques.

3.32 Infrastructure - Under the heading of infrastructure, the following sectors are included: (i) water and sewage, (ii) electrical power, (iii) housing, (iv) telecommunications, (v) the Suez Canal. In general, the basic generic problem that faces all public utilities and services in Egypt is inadequate rate structures and the absence of cost recovery. The GOE has taken some cautious steps toward addressing these issues in areas such as water and sewage, electricity, and transportation. Similarly, other basic problems that plague all sectors contained within the infrastructure grouping can be generically categorized and are generally traced to cross-sectoral policy origins such as GOE employment and wage policies, GOE training and education policies, GOE investment budgeting, and GOE project evaluation methodology and criteria. Given the cross-sectoral nature of these problems, the GOE has not addressed these issues to any significant degree.

Figure 3-11

Infrastructure
Significant Policy Changes 1983

- Cairo water tariffs were increased for the first time since 1956 from an average of 12 milliemes per cubic meter to a basic rate of 20 milliemes for residential use and up to 200 milliemes for commercial users.

- The price of electricity went up 23% in 1983.

- A bill that would establish a value added tax on new building construction to benefit wastewater utilities and place a surcharge on water bills to cover a portion of the cost of wastewater services is being considered.

- The GOE has required contractors to obtain insurance to enforce quality control in construction.

- A toll on users of the Cairo-Alexandria road will be imposed.

3.33 Human Resources and Technology - The human resources and technology sector grouping, as covered herein, includes: (i) education, (ii) health, (iii) population, and (iv) science and technology. The most significant changes have occured in the education sector, where recent GOE policies have enhanced the accessibility of primary education through improved geographic distribution of facilities and of university education through the provision of increased financial aid. The growing emphasis on vocational education may have positive implications for the nation's labor needs as well as relieving the already overcrowded public universities. In the health sector, there is a gradual movement toward patient payment for services and coverage of a larger portion of the population under the health insurance umbrella. While President Mubarak has repeatedly stressed the importance of the population problem, family planning remains a low priority item in the national budget at LE 3 million per year. The GOE has launched an extensive media campaign as well as allowing the private distribution and marketing of contraceptives. A five year plan for science and technology has been issued for the first time by the GOE. In addition, the growing desire to link the education, science, and technology sectors to the Five Year National Development Plan is reflected in the reform of university and pre-university curricula.

Figure 3-12

Human Resources and Technology
Significant Policy Changes 1983

- The compulsory education law has increased the minimum requirement from six to nine years.
- The sixth grade exam that once determined eligibility to continue to seventh has been eliminated.
- A target has been set to channel 70% of secondary school students to vocational schools.
- The Ministry of Education is reforming its curricula in an effort to link them to the Five Year Plan.
- The accessibility of elementary schools has been improved.
- The GOE has approved increased financial aid to university students.
- The level of patient payment for services is increasing gradually.
- The GOE is beginning to emphasize preventative rather than curative medicine.
- Administrative changes have been initiated to reflect the GOE's concern about family planning.
- The GOE has allowed commercial marketing techniques to be used to promote birth control.
- President Mubarak has called rapid population growth "the epitome of all problems and a strong obstacle to development."
- A five year plan for technology has been issued for the first time by the GOE.

C. Key Exogenous Factors

3.34 Before proceeding to an overall assessment of GOE policy efforts during 1983, it is appropriate to consider the rather substantial circumstances and events outside the direct control of GOE economic policy makers during this period. The making or changing of policy never proceeds in a vacuum and the GOE actions during 1983 were no exception. The major exogenous events impacting on the Egyptian economy during 1983 will be considered and their relationship and importance to the just reviewed GOE policy changes will be briefly assessed. In the following section, Part C, conclusions will be drawn on the overall significance of exogenous events compared with GOE policy changes in their impact on the Egyptian economy 1974-82.

3.35 A summary of events having major impact on the Egyptian economy for the period 1983 (but not initiated by GOE economic policy) seems to break down into two major categories: (i) events taking place in the world economy and (ii) international political trends.

3.36 Economic Factors - The major exogenous economic factors affecting the Egyptian economy in 1983 were the variations in revenues from Egypt's major foreign exchange earners - petroleum, worker's remittances, the Suez Canal, and tourism. Since approximately 60% of Egyptian commodity export earnings come from petroleum sales, fluctuations in the world price of oil have had significant implications for the country's balance of payments position. Declines in oil export prices from early 1981 until mid-1983 have negated the effect of small increases in export volumes. Crude oil revenues for FY 1983/84 are expected to remain stable at $2.2 billion. The static pattern of petroleum revenues in the 1981-1983 period was partially offset by a 52% increase in workers remittances from 1981/82 to 1982/83, which eased the pressure on the current accounts deficit. Some of this increase in remittances can be attributed to greater demand for Egyptian labor in Iraq as well as to greater incentives to repatriate money. Revenues from the Suez Canal have, however, increased steadily. The decline in the number of tourists and the average number of nights stayed that occurred in the wake of the Sadat assasination has been reversed. However, officially recorded tourist receipts have continued to fall, reflecting the growing proportion of revenues being channelled through the unofficial "own exchange market" owing to the large differential between the official and free market rates. Despite the fluctuations in sources of Egypt's foreign exchange, the country's overall position remained relatively strong. However, it seems unlikely that the level of revenues generated by petroleum, the Suez Canal, tourism, and worker's remittances will increase substantially in the future. In addition, a bunching of debt servicing payments over the next two years is expected to further tighten Egypt's balance of payments position. The growth in consumption and investment, fueled by the reopening and widening of the Suez Canal and the increased production of Egypt's new oil fields, will have to level off in the future unless other sources of foreign exchange can be developed.

3.37 Egypt's foreign trade also has been affected by changes in the price of its imports and the greater willingness of major suppliers to provide credit on generous terms. Next year's subsidy bill is expected to fall as a result of decreases in the prices of many of Egypt's food imports. The recent growth of lending from private sources, primarily supplier credits, is reflected in the changing composition of Egypt's external debt. Only 31% of total loan commitments in 1981/82 were official loans on concessional terms compared with an average of 65% in the five preceding years.

Figure 3-13

Major Exogenous Economic Factors
Affecting the Egyptian Economy 1983

World Oil prices
- fall in prices between 1981-early 1983
- increase and stabilization of prices in spring 1983

Fluctuations in foreign exchange earnings caused by political events
- fall in tourist revenues after Sadat assasination and destabilizing events in Middle East
- increase in workers' remmittances

World food prices
- drop in prices of some key imports

International credit and trade
- increased availability of supplier credits
- rising debt service obligations

3.38 Non-Economic Factors - The major non-economic factors affecting the economy during 1983 are related to Egypt's relationship with its Middle Eastern neighbors. Destabilizing events in the Middle East, particularly in Lebanon, have lead Egypt to increase its defense expenditures by 22.4% in FY 1983/84. The anticipated decrease in defense expenditures and availability of resources for domestic development as a result of the Camp David Accords has not occurred. The amount budgeted for defense has increased from 7.7% of GDP in 1982/83 to 8.8% in 1983/84. The importance of Egypt's relationship with the Arab world is likely to grow in the future as recent events, such as Egypt's readmission into the Organization of Islamic States, indicate a rebuilding of political, and perhaps economic, ties.

3.39 The riots in Tunisia and Morocco over increases in the price of bread and other commodities will have an effect on the GOE's willingness to remove subsidies directly on certain commodities. While indirect measures to address price distortions may be possible in the future, the lesson of Tunisia has reinforced Egypt's own experience in 1977. In addition, events in the Middle East contribute to the pressure on the GOE to pursue policies that maintain domestic stability.

Figure 3-14

Major Non-Economic Factors
Affecting the Egyptian Economy 1983

- Increases in defense expenditure owing to events in the Middle East
- Gradual rebuilding of political, and perhaps economic, ties with the Arab World
- Riots in Tunisia and Morocco over price increases
- Increased pressure to maintain domestic stability due to regional instability

D. An Overall Assessment of GOE Policy Efforts

3.40 Prologue - It should be clear at the outset that the motivating force for the Open Door Policy of 1974 and related reforms was primarily of pragmatic and not ideological origins. There were not many short-term options left for rapidly turning around the deteriorating economic situation. Immediate, massive infusions of external assistance, long-term capital flows, and direct foreign investment were needed. The Open Door Policy was designed to appeal to the most likely sources of these external resources, the West and the Arabs. Although the Open Door Policy represented a structural break with past policy, it probably was aimed far more at inducing external resource inflows to meet the immediate urgencies than at any revolutionary domestic reform of the economy. The Open Door Policy did signal an important shift in attitude toward the private sector that made possible evolutionary change in the economic structure. Nevertheless, subsequent reforms must be analyzed in light of the original motivations of the trend.

3.41 Key Policy Shifts 1983 - While 1983 has not been characterized by any major policy changes, the general trend has been one of gradual, albeit cautious, reforms in the direction of rationalizing the distortions in the Egyptian economy. Given that the original motivation for removing various restrictions from the economy in 1974 was largely pragmatic, the GOE has instituted later changes on a rather ad hoc basis in response to structural pressures in the economy, rather than as part of an active program of reform. The gradual rate of change is due to three major factors: (i) the political pressures confronting the GOE, (ii) the bureaucratic stake in the status quo, and (iii) amenable exogenous factors.

3.42 The political pressure generated largely by Egypt's educated urban-dwellers is the factor most often cited as a constraint to further economic reform. Since the most important policies in terms of allocative inefficiency are precisely those that are the most politically sensitive, the GOE has been slow to address them. Well aware of the economic implications of subsidies, price controls, centralization, etc., the GOE has used indirect means. For example, agricultural price controls have been eased on certain products but those commodities with the most political potency, such as bread, have remained at artificially low prices. The scope, and consequently the implications, of the full employment policy has been gradually reduced through the elimination of the eligibility of military conscripts and the exemption of public sector companies from guaranteed placement of graduates. These moves represent positive change that do not necessitate outright negation of previous policies, and thereby avoid triggering political opposition.

3.43 In addition to the domestic political constraints to reform, the slow pace of change can be attributed partially to bureaucratic politics. The vast majority of the policy constraints facing the GOE require the various arms of the government to relinquish power over their respective sectors of the economy. In effect, these reforms require the GOE bureaucracy to act against its own short-term interests as well as requiring a type of bureaucratic behavior that is in direct conflict with the norm set in the 1952-1973 period.

3.44 The effect of various exogenous forces on the GOE's approach to reform has been uniformly precautionary. The relative stability of Egypt's economic position in terms of sources of foreign exchange, the price of major imports, and sources of credit have made it easier to take a gradual approach to reforms that, under more arduous economic circumstances, would be considered urgent. For example, the GOE has chosen to support increased public consumption by continuing to finance policies designed to contain consumer prices. By choosing this course of action, the GOE avoided taking basic reform steps in the pricing and subsidy areas that, in the future, may loom at politically catastrophic levels. The relative favorability of various exogenous economic factors has made it possible for the GOE to continue postponing major adjustments.

3.45 The precautionary effect of a stable economic climate has been coupled with the instability of exogenous non-economic factors. Events in the Middle East, particularly in Lebanon and Tunisia, have heightened the urgency to maintain domestic stability and reinforce the GOE's already cautious approach to economic reform. The combined effect of domestic political pressure, bureaucratic inertia, favorable international economic conditions, and regional political instability resulted in a record of domestic reform that can only be characterized as gradualist and stop-gap.

IV. IMPLICATIONS FOR THE FUTURE

A. The Current Situation

4.01 Domestic economic problems remain among the top priorities of the Mubarak government. Economic issues are the subject of major public statements and dominate the national agenda. A dialogue on future policy has been initiated through the establishment of various task forces and study groups and through numerous debates in public forums by the Cabinet, People's Assembly, economists and political leaders. An obvious attempt is being made to build a national consensus on the necessity and nature of economic reform. Many positive statements have been made on the subject of economic change, but invariably accompanied by disclaimers of any intention to reduce the living standards of the poor or to dismantle the subsidy system. Thus far, most of the policy changes enacted attack balance of payment and budgetary deficit symptoms with increased quantitative, regulatory, and credit controls to suppress imports. In addition, the GOE is seeking out other sources of foreign exchange through actions such as the initiation of an export promotion effort. While the trend is generally in the right direction, the changes appear too small to correct the growing adverse trends in the balance of payments and budget deficit.

4.02 The GOE strategy for dealing with its economic problems that has evolved under President Mubarak is characterized by the following:

-- candid public assessments of the economic situation to prepare the public and build consensus for the need to make changes;

-- involvement of a broad spectrum of political and economic personalities in the discussion and formulation of options for the purpose of building consensus for the need and type of economic reforms;

-- pay increases, bonuses, and tax breaks to public sector and governmental employees who constitute approximately one-third of total employment in the economy and two-thirds of urban employment;

-- small, gradual, and unpublicized policy reform measures aimed largely at decreasing the size of the direct subsidy bill and at reducing "luxury" imports, including consumer durables;

-- unwavering GOE support for the spirit of the "open door" policy that encourages foreign investment and private participation in the economy, coupled with policies designed to channel this investment into "productive" commodity production, rather than commercial ventures;

-- the initiation of an export promotion effort as a possible source of foreign exchange that can finance future consumption and investment as the rate of growth of Egypt's existing sources of hard currency levels off;

-- diversification and promotion of actual/potential trade and economic assistance ties, including Western Europe, Japan, other Arab countries, and Eastern Europe;

-- increasing pressure to liberalize or increase the flexibility of U.S. economic assistance through a "cash transfer" approach;

-- unfaltering emphasis on productivity, as reflected in weekly public statements/events and in the debate surrounding the formulation and approval of the new Five Year Plan 1983-87.

B. Likely Pressures and Possible Responses

4.03 Likely Pressures - Extrapolating from past trends, one can anticipate a worsening of the GOE's balance of payments position and budgetary deficit. In the past, the GOE has coped with financial constraints through such measures as resorting to domestic commercial credit, delay in payments, deferment of expenditure decisions, and borrowing from government trust funds. The pressure on GOE resources is likely to increase over time as a result of higher levels of consumption due to population growth and increased demand, an ambitious Five Year Plan that calls for LE 35 billion in investment, and worldwide inflation. The deterioration of the economic situation will be reflected most evidently in growing balance of payments current account deficits and GOE budgetary deficits and, consequently, in growth of domestic money supply and external commercial debt. A crisis can be forestalled as long as the GOE can come up with the means to finance its current highly consumption-oriented policies. It is conceivable, for example, that large-scale Arab assistance, increased petroleum revenues or fortuitous events might stave off fundamental reforms. Nevertheless, the GOE has a limited amount of time in which to either find new sources of finance, dramatically shift from its current consumption-oriented policies, or compromise between the two.

4.04 Possible Responses - The possible options available to the GOE to address balance of payment and budgetary deficits range from repressive or stop-gap measures to fundamental economic reform. The approach adopted by the GOE is likely to be determined by various exogenous factors, particularly those that affect the level of Egypt's foreign exchange earnings, the price of major imports, and the regional political climate. Within the parameters drawn by exogenous variables in the future, the GOE is likely to opt for the policy options that maximize economic and political stability with the minimum necessary reforms.

4.05 The GOE's options, unless it comes up with major new sources of foreign exchange, essentially amount to reducing or suppressing the trend in aggregate consumption levels or reducing the share of aggregate investment in GDP. It obviously is conceivable that public financed consumption and/or investment may tend to be sustained at the expense of private consumption and investment. It also is obvious that the trade-off between consumption and investment or between public and private shares of the economy can be accomplished by stop-gap, essentially deliberalizing, measures that basically suppress basic tendencies or by genuine reform measures that tend to correct basic tendencies by going to the root of the problem. The extent to which the GOE sticks to the latter type of measures determines the longer term prospects for growth. The more the GOE reverts to the former type of measures, the less likelihood that Egypt's current problems ultimately will be resolved.

4.06 In the near term the GOE is likely to focus the bulk of its policy attention and efforts on resolving its most pressing and immediate economic problems, the growing balance of payments and GOE budgetary deficits. This is both understandable and necessary in order to deal with the immediate threat to economic stability. However, as implied above, the balance of payments and GOE budgetary deficits are merely symptoms of basic economic dysfunction, not the root cause itself. The GOE is presumably well aware of this distinction. The GOE must be equally aware that it has a number of options available to deal with its current problems, including (i) the specific components of the balance of payments and budgetary accounts it choses to act upon, (ii) the range/type of policy instruments available to achieve a chosen objective, and (iii) the order in which the policy actions might be taken.

4.07 In the most simple terms, in order to "balance its payments," the GOE must take steps to reduce its imports, increase its exports, increase net capital inflows, or perform some combination of the above that results in a satisfactory balance of payments situation. Similarly, in order to "balance" the domestic budget, the GOE must increase its revenues, decrease its expenditures, find suitable non-inflationary finance, or come up with some combination of the above that satisfactorily "balances" the budget. Obviously, there are a great number of choices that might be pursued within any given component of either the balance of payments or the GOE budget. In order to convey some idea of the range of potential choice, Figure 4-1 sets out some of the basic options. In reviewing the options it is important to realize that many of the policy measures the GOE might take to contain balance of payments pressures also will help to contain domestic budgetary pressures, and vice-versa. Also, it should be understood implicitly, even though it will not be discussed here, that complementary monetary, financial and banking policies will be required for the GOE to achieve balance in either its external accounts or the domestic budget.

Figure 4-1

GOE Options with Near Term or
Immediate Financial Impact

It is important to realize that most measures the GOE takes to contain balance of payment pressures also will help to contain domestic budgetary pressures and vice-versa.

Balance of Payments:

Imports

- reduce/ban "luxury" imports
- reduce commodity imports
- reduce intermediate and capital imports

Exports

- increase petroleum exports (through increased production or reduced local consumption)
- capture greater portion of worker remittances
- increase sales of military production
- increase agricultural/manufactured exports (few near-term prospects)
- increase tourism revenues

Capital Account

- increase short-term commercial borrowing
- increase long-term commercial borrowing
- increase draw down rate on foreign assistance pipeline
- increase new bilateral assistance commitments and draw down (with increasing emphasis on balance of payments support)
- increase multilateral assistance
  - IMF stand by
  - IMF structural adjustment loan
  - IBRD structural adjustment loan
  - IBRD project lending
- reschedule debt payments

(Obviously, the GOE could devalue by unifying the present multi-exchange rate structure, probably at something above the present commercial bank rate. Nevertheless, the potential benefits on import demand are partially lost to the extent the GOE continues to subsidize imported consumption goods or does not pass along full costs to public sector enterprises.)

GOE Budget

Expenditures

- reduce direct consumer commodity subsidies by a) decreasing subsidy levels, b) decreasing number of items subsidized and/or c) better targeting of recipients
- reduce public services presently subsidized such as electricity, water and sewerage, transportation, etc.
- reduce military expenditures
- eliminate government full employment policy
- reduce current account maintenance, repair and operating type expenditures
- postpone cost-of-living increase in entitlement type programs
- reduce/postpone GOE and public sector investment

Revenues

- impose new taxes, increase existing rates, or expand existing coverage (most likely to be directed toward excise consumption taxes and custom duties on imports)
- increase energy prices
- more effectively enforce current tax legislation
- increase rates charged for public services and utilities
- increase prices on the output of public sector enterprises so that an economic return is made on capital

Financing of Deficit

- increase borrowing from banking system
- increase non-banking finance (includes net foreign financing, social insurance and pension funds, domestic bonds, saving certificates, postal savings and energy bonds)

4.08 Likely GOE Responses - The single most fundamental cause of the GOE's current balance of payment and budgetary problems is its insistence on underpricing of consumption. Nevertheless, it is relatively safe to predict that this will be one of the last things reluctantly addressed by the GOE in its search for ways out of its current and growing policy dilemma. Other predictions on fundamental GOE options are possible as well. In particular, four basic choices the GOE is likely to make in the coming period will set the general tone of the policy environment over the next few years. First, the GOE is likely to attempt to sustain consumption at the expense of investment, and at the expense of greater inflation should it become necessary. Second, the GOE is likely to focus more on restraining outflows (imports and budgetary expenditures) than it is to promote inflows (exports and government revenues), simply because it is easier to obtain relatively certain results faster. Third, the GOE is likely to favor direct policy controls (licensing, quotas, rationing, prohibitions and other non-pricing regulatory controls) that work outside the pricing system over indirect policy instruments (taxes, pricing, interest rates, exchange rates) that work through the pricing system. Again, this is in part because the former instruments prima facie tend to be more certain and immediate in their impact, despite the greater disruption and costs imposed on the economy. Fourth, the GOE is likely to attempt to maintain public expenditure (consumption and investment) at the expense of the private sector (consumption or investment) if it seems necessary.

4.09 Slightly more specific GOE policy responses to reduce expenditures (outflows) in rough order of their likelihood of being taken (some are already partially in process), are set out below:

(i) "Luxury" consumption will be suppressed (particularly durables)

- taxes, credit controls, import licensing, outright prohibition
- other measures to reduce demand and divert supply from "own exchange" (basically private sector) market

(ii) Investment will be sacrificed to consumption

- public investment will fall as percentage of total budget
- capital and intermediate imports will fall as percentage of commodity imports

(iii) Maintenance and repair expenditure will be postponed

- public infrastructure will tend to deteriorate more rapidly than at present

(iv) Basic services, quality and quantity, will be cut back

- lack of current account and operating expenses
- deterioration of capital
- insufficient price/service charge increases

(v) Basic consumption will be gradually restrained

- reduction in range of commodities subsidized
- reduction in eligible recipients/quantities supplies per capita
- small, gradual (but insufficient) price increases

4.14 The most likely GOE actions to increase revenues (inflows) and, failing that, to find financing, in order of their probability of being taken, are:

(i) Oil production will be increased, even to uneconomic levels of production

- oil may be pumped at volumes that diminish overall output from reserves.

(ii) Short-term commercial financing and suppliers' credits will be increasingly utilized

(iii) Egypt will seek greater Arab capital

- Egypt may attempt to capitalize on its improving relationship with its Arab neighbors
- Arabs are under own budgetary pressures because of falling oil revenues, thus less likely to be as forthcoming as might otherwise be

(iv) Egypt will seek greater Western bilateral assistance

- pressure will be placed on U.S. and Western Europe to be more forthcoming

(v) Egypt will revert increasingly to inflationary financing

(vi) Egypt will reluctantly revert to IMF as it becomes necessary

- Egypt will choose multilateral assistance that requires fundamental reform as one of its last resorts

4.10 In considering the above GOE options, it is useful to keep in mind that no single action is likely to resolve the current budgetary and balance of payment problems. "Luxury" imports, for example, constitute less than 5% of total imports if we use consumer durables as a proxy. "Own exchange imports" (a good proxy for private sector imports) accounted for less than 17% of the total import bill in 1981. Similarly, although private sector investment has grown remarkably since 1973, it still accounts for only 30% of total gross fixed investment in the economy. In sum, to make up for deficits in the LE 3-4 billion range, it will be necessary for the GOE to look beyond the "easy" choices.

4.11 In actual fact, there are few easy choices in cutting back either on imports or on GOE budgetary expenditures. Intermediate and capital imports already constitute over 60% of the commodity import bill, while primary (mainly food) and consumer commodities (including consumer durables) make up the balance. Almost 30% of commodity imports are food or food-related. On the budget side the situation is no easier. Two-thirds of budget expenditures are for current account and the balance is for investment. Of the current account, which is virtually equal to total GOE revenues at present, the vast bulk of the expenditures are for wages, salaries, public authority (utility) deficits and direct consumer subsidies. Thus, it is clear that the GOE has little room to maneuver before it is either cutting into politically sensitive basic consumer consumption or government employee incomes, or before it must begin cutting back on investment or production spending.

C. Implications for AID/GOE Policy Dialogue

4.12 A relatively sensitive period lies ahead in USG/GOE relations because of the magnitude and probable worsening of the GOE budgetary and balance of payment accounts. The GOE will look to the USG as the situation worsens with the expectation, based on the recent past, that assistance will be forthcoming. How the USG reacts to this probable GOE approach can enhance our relationship and build on the reasonably sound foundation that exists, or can easily detract from the relationship. The GOE needs no lectures on what their problems are (although the problems may be misrepresented at times) and will not appreciate amateurish kibbitzing from the sidelines. Nevertheless, this should not prevent AID, and the USG more generally, from holding to developmentally-sound policy positions in negotiating terms of assistance or in offering constructive solutions to GOE policy dilemmas where analysis seems to show promise.

4.13 AID's bargaining position with the GOE as a whole is substantially weakened by the political import of the program in Egypt. While AID can threaten to withdraw support from an activity if policy preconditions are not met, the GOE knows that, ultimately, it will receive the funds in some other form. This may have the effect of skewing GOE priorities and AID activities to the most policy neutral areas. AID must weigh, on a case by case basis, the importance of involvement in an area against the negative implications of GOE policy intransigence.

4.14 AID generally should be firm and consistent in dealing with project-related pricing and cost recovery issues, if for no other reason than to provide the GOE with an opening wedge (or excuse) on the pricing issues. AID project activities should adhere to and be supportive of policies being advocated. Beyond the virtue of theoretical consistency, AID funds are often the only flexible resources that GOE officials have in their tightly structured budgets for experimenting with new policies. As previously noted, gross underpricing of consumption lies close to the heart of the current economic dysfunction. Nevertheless, AID should be flexible enough to meet the GOE part way where significant, although incomplete, policy reform is adopted. A brief summary of relatively obvious implications for the AID/GOE policy dialogue follows in Figure 4-2.

Figure 4-2

Implications for GOE/AID Policy Dialogue

(i) Reform cannot be forestalled indefinitely. The GOE should be urged to initiate policy changes under the existing, relatively favourable conditions rather than under a possible crisis management situation in the future.

(ii) The GOE will be tempted by stop-gap/repressive measures. AID should encourage the GOE to take a longer view where possible and take corrective measures.

(iii) The GOE will wish to focus dialogue on symptoms and current urgencies (e.g., size of deficits, commodity shortages, etc.). AID should focus dialogue on causes and policy actions required for long-term adjustment.

(iv) The GOE will increasingly press for balance of payments support. AID should point out that, as long as we finance highest GOE priorities (i.e., things that would have been financed by the GOE anyway), then implicitly AID is providing balance of payments support because of budget fungibility. Further, AID should point out that over 60% of the total program is essentially balance of payments support at present and that all local cost financing is not only balance of payments support but also "free" (untied) foreign exchange. Also can note that U.S. assistance provides both balance of payments support and GOE budgetary support.

(v) The GOE will continue to argue that it cannot introduce full cost-recovery in pricing or in rate setting on political grounds. AID generally should follow consistent policy of not financing anything that should normally involve full cost-recovery but is not designed to do so, and note that it would work against long-term GOE interest for the U.S. to provide such financing. Nevertheless, AID should be prepared to consider substantial reform proposals, even if incomplete, in order to encourage the general reform movement.

(vi) It is not necessary for AID to be heavy-handed or to apply "pressure" in order to bring policy issues to the attention of the GOE. The issues are probably fairly well understood and they are surfacing on their own accord. AID should also be sensitive to the political constraints and exogenous factors faced by the GOE. AID and the USG should try to support and extend the GOE's own reform actions. What AID might usefully contribute are practical, invovative, but certainly well thought-out approaches for addressing the issues. Direct AID/GOE collaboration on analysis of issues selected by the GOE, and their hopeful resolution would be an ideal policy dialogue format.

APPENDIX I

Scope and Methodology

The scope of this review is limited by the choice of the subject areas selected for consideration, the definition of "policy change" adopted, the criteria on which the significance of a policy change is evaluated, and the information sources utilized.

Subject Areas — The selection of subject areas for the policy change review was limited in three ways: (i) by perceived importance to the overall Egyptian development effort, (ii) by the particular focus of USAID interest, and (iii) by the quantity and type of information sources that were available given time constraints. As such, this review is not to be considered comprehensive in either the subject areas covered or the policy changes that occurred within the selected subject areas.

Definitions and Criteria -- The definition of a "policy change" and the judgement of its significance is not straightforward. A relatively narrow definition of "policy change" might confine itself to formally issued statutory, regulatory, and executive acts. A broader definition might include not only new laws, regulations and executive orders but also informal changes in administrative practices and changes in the implementation of existing laws, regulations, and executive orders. An even broader definition also might include greater willingness to change administratively determined values of existing policy instruments or to expand their traditional operating limits. In principle, the broader definitions of policy change were chosen as most relevant. In practice, it is difficult to detect the informal type of policy change. They have been considered for inclusion in this review where we have been aware of their existence.

If it is difficult to decide what constitutes a policy change, it is perhaps even more difficult to assess its significance. Obviously, a policy change of a cross-sectoral nature will tend to have greater potential for impact than a sectoral policy change of the same order of magnitude. Nevertheless, any given sectoral policy change in a key economic sector may well outweigh the importance of minor changes at the cross-sectoral level. Other difficulties encountered in assessing significance include: (i) differentiating between intent and effectiveness of policy change, (ii) recognizing the cumulative significance of several small actions of the same genre, and (iii) distinguishing between initial policy impacts and potential future impacts.

Information Sources -- A wide variety of information sources have been used for this review, including IBRD, IMF, GOE, and USG studies, reports, and project papers. This update also has drawn more heavily on primary, GOE sources such as the Waq'a el Misriya and official decrees published by the GOE. The semi-official press has been used but has always been cross-checked with other sources.

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APPENDIX II

SELECTED GOE POLICY CHANGES 1983

Cross-Sectoral — Page

Sectoral

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1983

Cross-Sectoral

Foreign Trade, Payments, and Investment

-Presidential Decree 8/1983 authorized the Five Year Plan for Economic and Social Development (1982/83-1986/87). The evaluation of economic performance during the first year of the plan published by the Ministry of Planning stated that the plan is expected to fulfill 98.7% of the targeted production.

-The Minister of Economy announced the "second stage of the Open Door Policy" initiated by the new Five Year Plan. He characterized this new approach as emphasizing the productive sectors of the economy, agriculture, industry, tourism, and construction. This distinguished the second stage from the 1974-81 period when trade, particularly imports, was the primary activity. He added that the government is anxious to reform the various economic variables that are of special importance to the future development of the economy. He identified the deficit, price distortions, and low productivity as areas where the government sought reform.

-Ministerial Decree 243/1983 requires the approval of the Import Rationalization Committee for procurement of certain commodities. The Minister of Economy announced that import regulations will be revised every two years, taking into consideration protection of domestic producers, foreign exchange constraints, and the necessity of importation.

-The Egyptian Export Development Bank was established by Presidential Decree 95/1983 to promote exports in all sectors.

-Ministerial Decree 126/1983 allows licensed exporters to retain profits earned in special foreign currency accounts, with the exception of certain agricultural commodity exports. In the case of onions, garlic, potatoes, oranges, and peanuts, the setting aside of proceeds is limited to 50%.

-Ministerial Decree 125/1983 allows exports of Egyptian agricultural and industrial products to be in "free [convertible] currencies direct through customs," provided approval is secured from the appropriate authority with the exception of cotton, textile scraps, oranges, rice, potatoes, peanuts, onions, fresh garlic, and other commodities banned from export.

-The Committee on Export of Vegetables, Fruits, Medicinal Herbs, Aromatic Plants, and Flowers and the Committee on Export of Linen and its Products have been cancelled by Ministerial Decree 125/1983.

-Decree 161/1983 reorganized the customs administration in order to improve its effectiveness and efficiency. The decree deals with the detection of violations and the penalties imposed.

-New import regulations are under discussion. They include: (a) The Import Rationalization Committee will grant approvals for one year to public or private ventures, allowing them to import their requirements on a single or multiple shipment basis. (b) Importers of engineering, electrical, and transportation equipment are exempt from applying for approval on shipments of spare parts for their own use. (c) The required letter of guarantee for temporary entrance of commodities that are to be re-exported will be cancelled. (d) Decree 259/1981 which stipulates that all imports must be shipped directly from the country of origin will be cancelled.

-The Ministry of Finance is drafting executive statutes of the customs exemption law. Projected receipts from the rationalization of exemptions are more than LE 400 million.

-Egypt and Lebanon have agreed to resume trade relations including the exchange of customs exemptions for goods of the two countries. Trade has also been resumed between Egypt and Jordan and Egypt and Iraq.

-A 20% discount on customs duty on Egyptian exports to Europe has been instituted by an addendum to the economic cooperation protocol between Egypt and the European Economic Community.

-New customs regulations have been established to reimburse exporters for customs duties paid on exportable vegatables, fruits, and Egyptian commodities.

-Establishment of the Sinai Free Zone is underway. An area for the Free Zone has been determined and has been referred to the Higher Policies Committee.

-In order to promote Egyptian-Sudanese integration, Law 86/1983 exempts items imported from Sudan and exports thereto from the consumption tax, consolidation of economic development tax, statistic duty, and export duty.

Monetary, Financial, and Banking

-The Board of Directors of the Investment Authority has recently approved, in principle, the establishment of the first underwriting company to market securities of new and existing companies. The activities of the new concern, the Egyptian Financial Investments Corporation, will be to underwrite and market new issues, create secondary markets in existing securities, and provide financial advisory services to companies seeking public financing. Authorized capital of the joint company is LE 100 million with issued capital of LE 20 million. The company's capital of LE 20 million will be divided between the National Bank of Egypt, Bank of Alexandria, Misr Iran Development Bank, Banque du Caire, Misr Insurance, the Joint Egyptian Investment Company, the Chase Manhattan Bank, Delta Bank, and the International Finance Corporation.

-The Capital Market Authority presented new legislation to the People's Assembly to facilitate and encourage equipment leasing.

-The new Craftsman's Bank has begun operation with financial assistance from the National Bank of Egypt, Banque du Caire, the Re-Insurance Company, and the Social Insurance Institution. The Bank is intended to consolidate small crafts and national industries. Starting capital is LE 10 million with an expected increase to LE 20 million next year.

-The Capital Market Authority's action program for 1983/84 is designed to "stimulate and encourage the securities market rather than simply regulate them." Specific items under consideration include: (a) offering securities that would avoid the problems of fixed rate bonds, (b) new tax exemptions for certain securities, (c) incentives to attract the savings of Egyptian workers abroad, (d) advocacy of Egypt's effectiveness as a financial center for the Middle East and Africa, (e) improving the quality of financial information, (f) improving the stock exchange and simplifying the transfer of equity ownership, and (g) developing enabling financial legislation.

Budgetary and Fiscal

-The People's Assembly passed Law 87/1983 amending Law 157/1981. The law increases the general income tax from 50% to 65% for those whose annual income exceeds LE 200,000. The tax on trade and industry was raised 3-8%. Three new brackets were added to commercial taxes, but profits resulting from transfer and export operations have been exempted with a view to encouraging them. The tax on "money companies" was raised to 40% from 32%, with the exception of industry and oil companies.

Pricing and Subsidies

-Decree 15/1983 represents an attempt to target food subsidies through the ration card system. The green ration card entitles the user to purchase food at fully subsidized prices. Higher income groups recieve a red ration card for commodities at "partially subsidized free market prices." The new system was expected to save approximately LE 47 million in subsidies, but recent moves to reduce the number of individuals eligible for the red card have significantly detracted from the targeting impact.

-Cairo water tariffs increased for the first time since 1956.

-A 23% increase in electricity prices resulted from the cumulative effect of the series of price increases instituted in 1983 and those approved by the Cabinet to take effect in January 1984.

-The Minister of Supply has stated that a new pricing policy for agricultural crops would be adopted after the successful experiment with eliminating price controls on grapes. Thus far, removals of price controls on citrus, bananas, and watermelons have been announced.

-Public sector companies have been circumventing product price controls by introducing "new" products sold at higher prices and forming private sector subsidiaries.

Wages, Employment, and Emigration

-Presidential Decree 31/1983 modifies the wage schedules of government public sector employees and increases public sector wages by LE 60 annually.

-Law 97/1983 has given public sector managers greater flexibility in personnel policies. Company chairmen can now decide on employee firing policy, allowances, rewards, compensations, and recommendations for transfer or reassignment of employees.

-The GOE has officially sanctioned the conversion of workers' remittances at the free market rate in order to attract the foreign exchange into the country.

-A new company has formed under Law 43/1974 to channel the savings of expatriate Egyptians to investment projects in Egypt. The Egyptian Company for Expatriate Investment and Development was formed after an expatriate conference held in Cairo in August 1983. The company has authorized capital of LE 100 million and aims to have paid-up capital of LE 25 million. The company will finance projects in agriculture, agrobusiness, industry, tourism, and services.

Decentralization

-Recent decisions have allowed "joint ventures" to occur between local governments and private sector entrepreneurs. Providing public services through the private sector, although partially subsidized, has generated an incipient entrepreneurial spirit in many local governorates.

-The Minister of Investment announced that investment projects in remote areas, especially North Sinai or the Northern Coast, will be exempt from taxes for eight years.

-President Mubarak has approved the directives presented to him by the Minister of Local Government on Cairo's urbanization strategy. These directives include prohibition of the establishment of any economic activities that might attract more migrants from rural areas.

Energy

-A 23% increase in electricity prices resulted from the cumulative effect of the series of price increases instituted in 1983 and those approved by the Cabinet in January 1984.

-Law 43/1974 firms are experiencing energy price increases based on a schedule that approaches the "world market price" in five years. Annual increases are one-fifth of the five year total.

-Oil price increases were announced by the Egyptian General Petroleum Company effective September 1, 1983. The price of Suez blend rose by $.25 to $28.50 a barrel, lower grade Belayim blend by $.50 to $26.75, and of Ras Gharib by $1.00 to $24.50. The Egyptian Treasury lost $200 million in revenues in 1982/83 owing to the drop in oil prices and a 15% increase in domestic consumption.

-Presidential Decree 112/1983 established the Organization for Energy Planning to set targets, formulate plans and general policies, and issue regulations and resolutions in the energy sector. Developing the operating procedures for the Organization for Energy Planning was a condition precedent to USAID Energy Policy and Planning Activity.

-Tenders have been issued for Egypt's first nuclear project, the El-Dabaa nuclear power station. The reactor is expected to cost more than $2500 million.

Sectoral

Agriculture

-A real increase has been achieved in 1983 in the average price that farmers receive for (controlled and uncontrolled) rice. However, GOE procurement prices for the major crops of rice, wheat, and cotton remained well below world market prices and lagged behind the rate of inflation in 1983.

-The GOE has instituted a voluntary corn procurement program and has stated an intention to reintroduce compulsory wheat procurement for the 1984 crop.

-Domestic price controls on grapes, citrus, bananas, and watermelons have been eliminated this year thereby improving price incentives to production. The Minister of Supply has stated that a new pricing policy for agricultural crops would be adopted after the successful experiment with these crops.

-The role of the private sector in the marketing of domestic crops and high value horticultural exports has improved .

-Provision of agricultural inputs remains the domain of the public sector.

-The GOE has authorized private sector corn imports. Studies are being conducted to eliminate the subsidy on yellow corn.

-Over three-quarters of the PBDAC loan portfolio of twenty-two Village Banks will be put under the more market-oriented credit terms instituted by the USAID Small Farmer Production Project on a trial basis. Previously, 88% of the PBDAC lending portfolio was at subsidized interest rates averaging from 6 to 7%. In the twenty-seven Village Banks under the Small Farmer Production Project, loans are being provided at a 10% interest rate. Under the proposed Project Ammendment, three-quarters of the loan portfolio of twenty-two Village Banks will be put under the new rate of 14%.

-Presidential Decree 116/1983 prohibits the encroachment on and diminishment of productive potential of agricultural land. Removal of topsoil and conversion of agricultural land to residential or industrial use is prohibited.

-The Ministry of Irrigation will, for the first time, do meska (final delivery canal to the farm) renovations at the farm level. This new policy which will be implemented on a trial basis in Minya and Menoufia, is a product of USAID's Water Use and Management Project. Four billion cubic meters of water will be saved annually. In addition, system redesign from a water lifting to a gravity system will save farmers' labor and pumping costs.

-Although no user fee has been instituted on the old lands, the Ministry of Irrigation is charging water users on a trial basis on some of the new lands.

Industry

-The implications of the new public sector companies law, Law 97/1983, remain unclear. The law establishes holding organizations for the textile, pharmaceutical, steel, chemical, and engineering industries. Other authorities are being established to manage non-industrial public sector companies. The positive dimensions of the law include:

(1) The integration of Law 159/1981 with the new public sector law will increase flexibility and decentralize decision-making in the public sector. No explicit description of what provisions of Law 159/1981 will be applied to the public sector is available.
(2) The new holding companies may undercut GOFI, which represents a major bottleneck to improving public sector production.
(3) Grouping public companies by sector will facilitate coordination, provision of technical assistance, and monitoring of adherence to national economic strategy.
(4) Public sector companies can hold minority shares in private companies and enjoy operation under private sector laws (either Law 159/1981 or Law 43/1974).
(5) Law 97/1983 delegates additional authority to public sector company chairmen. Company chairmen now can decide on employee firing policy, allowances, rewards, compensations, and recommendations for transfer and reassignment of employees.
(6) A time limit on decision-making of one week for company chairmen and fifteen days for Ministers has been set.
(7) Greater continuity will result from the four year appointments of the board of directors of the public sector holding companies. This will ease the transition during Ministerial changes.

Some of the possible negative aspects of the law include:

(1) The new public sector law does not address many of the major constraints facing the public sector. Issues such as pricing are determined by other GOE policies, such as decrees of the High Policy Committee.
(2) The law adds another administrative layer to the already complicated public sector structure.

-Public sector managers have been circumventing product price controls by introducing new products and forming private sector subsidiaries.

-The industrial licensing system has been improved as a result of the Ministry of Industry pressuring for time limits on approvals.

-There is a growing awareness in public sector companies of improved management techniques. This is partially a result of USAID efforts in training and technical assistance.

Water and Sewage

-Cairo water tariffs were increased for the first time since 1956 from an average of 12 milliemes per cubic meter to a basic rate of 20 milliemes for residential use and up to 200 milliemes for commercial users.

-The GOE is discussing a bill that would establish a value added tax on all new building construction to benefit wastewater utilities and place a surcharge on water bills to cover a portion of the cost of wastewater services. This measure has received approval in principle by the Cabinet.

Housing

-After a number of building collapses, the GOE passed Law 30/1983 requiring contractors to obtain licenses and insurance to enforce quality control in construction.

Transportation

-The GOE will impose a toll on users of the Cairo to Alexandria road.

Education

-The compulsory education law has increased the minimum requirement from six to nine years.

-The sixth grade exam that once determined eligibility to continue to seventh has been eliminated.

-A target has been set to channel 70% of secondary school students to vocational schools in order to increase the number of technicians and diminish pressure on the already overcrowded public universities.

-The Minister of Education announced reform of the university and pre-university curriculum in an effort to link the curriculum to the Five Year Plan. Other issues to be addressed include admissions, syllabi, teaching staffs, and scholarship policy.

-The accessibility of elementary schools has been enhanced as a result of USAID efforts to improve the geographic distribution of schools.

-The GOE has approved increasing loans and financial assistance in kind to university students from LE 1.75 million to LE 2 million annually.

Health

-There is a gradual movement in the direction of increasing patient payment for services, emphasize preventative rather than curative medicine.

-The Government Health Insurance Organization has increased its coverage and fees since 1982. The Five Year Plan provides for covering the entire population under the health insurance umbrella by 1990.

Population

-Administrative changes have been initiated to reflect the GOE's concern about family planning. The Minister of Health intends to appoint an Undersecretary for Population/Family Planning and is pressing for authorization to name a Deputy General of Health in each governorate to be responsible for population/family planning.

-The GOE has allowed commercial marketing techniques to be used to promote birth control. The State Information Service has sponsered a nationwide media campaign. A private contraceptive distribution and marketing organization has been permitted to operate in Egypt.

-In a speech to the People's Assembly, President Mubarak described rapid population growth as "the epitome of all problems and a strong obstacle to development." He sought a "new approach" to addressing the population issue. He added that the government-sponsered population conference to be held in March 1984 may provide a new mandate.

Science and Technology

-A five year plan for technology has been issued for the first time by the GOE. From $30 to $100 million are committed to technology.

-The university curriculum for engineering is under revision.