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ECONOMIC TRENDS REPORT
April 20, 1983

ECONOMIC AND COMMERCIAL SECTIONS
AMERICAN EMBASSY
CAIRO, EGYPT

ECONOMIC INDICATORS (1)

Income & Production (In millions of L.E.)

	FY 1980/81	FY 1981/82 Preliminary	FY 1982/83 Target	FY 1983/84 Target
GNP (Market prices)	19,209.8	21,592.0	22,718	24,551.3
GDP (Market prices)	18,373.8	20,726.8	22,562	24,409.3
GDP (Factor Cost)	15,929.9	19,638.8	21,316	22,895.3
GDP Per Capita	429.0	471.0	501	542.0
Population (Millions)	42.8	44.0	45	46
Labor Force (Millions)	11.3	11.7	12.1	12.5

Balance of Payments (In millions of US Dollars)

	1980	1981	1982 Preliminary
Exports	3853	3977	4183
Petroleum & Petroleum Products (2)	2500	2820	2893
Cotton	330	310	340
Imports	7578	8805	9280
Trade Balance	- 3725	- 4808	- 5097
Services Receipts	5340	5119	5769
Tourism	773	626	711
Suez Canal	663	888	953
Worker Remittances	2696	2181	2329
Investment Income	455	481	533
Services Payments and Transfers	2069	2448	3113
Transfers	97	50	41
Current Account Balance	- 455	-2137	- 2400

Trade with U.S. (In millions of US Dollars)

	1980	1981	1982
U.S. Exports to Egypt	1,875	2,160	2,875.4
U.S. Imports from Egypt	540	400	547.2

Money & Prices (In millions of L.E.)

	1979	1980	1981	1982
Money Supply	6,844	9,355	13,245	17,495
Claims on Government (Net) and other Financial Institutions	7,732	8,790	10,402	12,906
Claims on Public and Private Sector	2,376	3,480	5,826	7,347
Net Foreign Assets	- 2,081	- 1,438	- 1,160	- 657
Prices Indices (3) (Annual change during period)				
Wholesale	17.1	16.9	10.2	NA
Retail	9.8	18.7	9.6	14.8

Government Budget (In millions of L.E.)

	FY 1981/82 Amended	FY 1982/83 Budget
I. Expenditures		
A. Current	7,147.9	8,754.4
B. Investment	4,037.3	3,935.5
C. Capital Transfers	1,496.7	1,955.3
Total Expenditures	12,681.9	14,645.2
II Revenues	8,733.6	9,800.0
III. Gross Deficit (I-II)	4,494.4	4,845.2
IV. Financing		
A. Foreign	1,670.0	1,278.0
B. Domestic	1,521.0	2,066.4
Total Financing	3,191.0	3,345.2
V. Net Deficit Financed through the Banking System	1,303.4	1,500.0

(1) For converting items into $, the official exchange rate of $1= LE 0.70 is used.

(2) Net petroleum exports exclusive of transactions of foreign oil companies.

(3) The price indices represent the official GOE market basket which is heavily weighted with subsidized items. Thus, real inflationary pressures are stronger than reflected here.

Sources: Central Bank of Egypt, CAPMAS, IMF, IBRD, GOE Five Year Economic and Social Development Plan 1982/83 - 86/87.

SUMMARY

Egypt entered 1983 with a renewed emphasis on dealing effectively with the country's economic challenges. Building on the policies begun by the late President Sadat, President Mubarak has made the Five Year Economic and Social Development Plan (1982/83-86/87) approved by the People's Assembly in January 1983, the cornerstone of Egypt's long-range economic strategy. It emphasizes growth in Egypt's industrial and agricultural sectors, projects annual GDP growth of 8.1 percent, and calls for investment totaling LE 35.5 billion ($42.2 million) over the duration of the Plan. Current Egyptian government priority objectives include raising the standard of living of low income groups, improving the quality of life for all citizens, continuing the Open Door Policy and rooting out corruption.

The Egyptian economy progressed very well, almost spectacularly, from the mid-1970s until 1981, with annual real GNP growth rates in the range of 8 to 9 percent. This growth was in large part due to rapidly growing foreign exchange revenues from four key activities - petroleum exports, worker remittances, Suez Canal traffic, and tourism. The Egyptian agricultural and industrial sectors grew only modestly and contributed very little to foreign exchange earnings. The foreign exchange resources financed a rapidly growing import bill. Much of the increased foreign exchange revenues were spent on consumption rather than on investment in productive capacity.

Receipts from major foreign exchange earners began to level off in 1981 and 1982 while imports (particularly food imports) continued to grow. Provisional Central Bank figures for CY 1982 show a deterioration in both the trade and current account balances. The 1982 trade deficit, $5.1 billion, is 6 percent above the 1981 deficit. The overall current account deficit of $2.4 billion is about 12.3 percent above the 1981 level. Commodity exports continue to be dominated by exports of petroleum and related products (net of $2.9 billion) which made up nearly seventy percent of the total. Cotton is a distant second. Major service receipts include worker remittances ($2.3 billion), Suez Canal tolls ($953 million) and tourism revenues ($711 million). Imports continued their growth, although at a slower pace, increasing 4.6 percent in 1982 to a level of $9.3 billion.

Capital account estimates for FY 1981/82 show continued strong capital inflows, primarily foreign loans. However, much of the inflow is offset by increasing capital account outflows, largely repayments of earlier foreign loans. The levels of new commitments and disbursement of foreign assistance remained fairly steady. Net direct foreign investment inflows are estimated at $2.6 billion in FY 81/82. The government's official

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foreign exchange reserve position in late 1982 was about $700 million representing about one month's imports. The government's reserves will continue under increasing pressure in 1983, particularly if the price of oil continues to drop.

Even with the soft international oil market, the petroleum industry remains a strong sector of the economy. The outlook for production and exploration continues relatively favorable. The government is moving ahead with ambitious plans to develop heretofore neglected gas resources.

To assure continued growth in the economy over the long term, the government will have to address the underlying structural problems. In particular, pervasive cost/price distortions lead to unwise investment decisions, encourage excessive consumption and discourage productivity improvements and the development of a competitive export sector. The understandable desire to hold down consumer prices for basic goods has placed an increasing burden on the government budget as consumption increases and world market prices rise--although the most recent drop in world commodity prices has provided some respite.

President Mubarak has spoken frankly to the Egyptian people about these problems, encouraged debate on economic issues and asked ministers to come up with solutions.The government has introduced some initial reforms. Domestic interest rates have been raised to encourage savings. Consumption taxes have been selectively raised to increase government revenues and discourage luxury consumption. Some utility rates, agricultural producer prices and industrial prices have also been raised. Other important issues remained under consideration within the government including energy pricing, general wage/price relationships, ways to increase the efficiency of the public sector and banking/monetary policy.

Despite several austerity measures in FY 82/83, the government's official budget projects a gross deficit totaling LE 4.8 billion ($5.7 billion). Foreign and domestic financing is projected to cover most of that shortfall leaving a "net deficit" of LE 1.5 billion ($1.8 billion) to be covered by inflationary deficit financing through the banking system. Prospective shortfalls in government revenues from petroleum exports, Suez Canal earnings, and customs duties, and the relatively small controllable portion of expenditures, may make it difficult for the government to reduce the deficit. The government's success in increasing tax collections has been more than offset by the decline in oil revenues.

The United States assists in Egypt's economic development through both official and private channels. Since 1975, the U.S. economic assistance program has committed $7.6 billion and has disbursed $5 billion. In addition, the U.S. is providing substantial long-term financing through the Foreign Military Sales Program. In 1982, U.S. exports to Egypt were valued at about $2.9 billion, a 33 percent jump, making it the second largest market for American goods in the Near East/North African region. Egyptian exports to the U.S. in 1982, mainly petroleum products, totaled about half a billion dollars.

Many U.S. firms have responded to Egypt's efforts to attract foreign private investment. U.S. firms have played a key role in petroleum exploration and production since the mid-1960's and a number of U.S. banks have established branches or joint ventures in recent years. The large domestic market, favorable investment legislation (Law 43), political stability, and advantageous location help make selected industrial and agricultural investments attractive. Unfortunately, some foreign investors have been deterred by bureaucratic obstacles, disappointing follow-through on specific commitments, and occasional divergent treatment of public and private sector firms. The Egyptian government is making efforts to expedite and improve the investment approval and follow through process to attract new investors into Egypt's priority sectors.

Export opportunities for U.S. firms are considerable. The large U.S. economic assistance program can sometimes assist U.S. firms to market their products and services in Egypt. Egyptian government agencies and private businessmen have a generally favorable view of U.S. products and services. Although doing business in Egypt is not always easy, good sales prospects include construction machinery, food processing, computer and data processing, telecommunications, and petroleum equipment.

CURRENT SITUATION

Adverse international developments, largely beyond Egypt's control have, since the second half of 1981, compelled the government to concentrate on consolidation, rationalization, and reform after several years of continued high growth. The average GNP growth rates of 9 percent annually registered in the mid-seventies until 1981 have leveled off markedly. The government has recently put much emphasis on stimulating the economy and overcoming problems through the implementation of the Five Year Economic and Social Development Plan 1982/83-86/87. In the period ahead, special emphasis will be placed on growth of the industrial and agricultural sectors --rather than the services and commercial sectors, which have led growth in recent years. In addition, the government is making a major effort to improve urban infrastructure and the quality of life.

POLITICAL SITUATION: Succeeding to the Presidency in the wake of the tragic assassination of President Sadat. President Hosni Mubarak committed himself to continuity of Egyptian domestic and foreign policy. President Mubarak has, in a relatively short period of time, established himself as a respected world leader. Economically he has emphasized the continuation of the general policies of President Sadat, including the Open Door . President Mubarak and his cabinet have projected an image of candor, honesty and hard work. The peaceful return of the remainder of the Sinai to Egyptian sovereignty in April 1982 in accordance with the 1979 Egyptian-Israeli Peace Treaty improved the environment for peace in the Middle East. Subsequently, events in Lebanon and elsewhere have complicated Egyptian and American efforts in the region to expand the peace process.

Environmental concerns -- water and sewage, traffic and housing -- have recently come to the forefront as social and economic issues. President Mubarak has pledged to improve the quality of life for all Egypt's citizens. He is also striving to eradicate corruption at all levels.

On October 12, 1982, Presidents Mubarak and Nimeiri signed an integration charter between Egypt and Sudan. The charter calls for the establishment of a Higher Integration Council, the Nile Valley Parliament and an Integration Fund. The agreement also deals with economic, social, security and trade relations between the two countries. The two sides are discussing several specific areas of cooperation, including aviation, tourism, broadcasting, a hydroelectric dam and a partially unified police force. Many of the Egyptian/Sudanese projects are still in the planning stages, and prospects for the necessary financing remain problematic.

BASIC GOVERNMENT ECONOMIC POLICIES: President Mubarak has taken a detailed interest in Egypt's economy and has made the economy a top priority item on his government's agenda. He has made clear his commitment to the Open Door and other economic policies begun by President Sadat. On numerous occasions he has spoken forthrightly to the Egyptian public on the economic problems now facing the country, placing new emphasis on the need to increase the level of "productive investment" that will benefit the majority of Egyptians. Frequent austerity themes of the Mubarak government are rationalizing consumption, targeting subsidies to the truly needy, reforming the public sector and reducing population growth.

One of the major tools to achieve these economic goals is the new Five Year Economic and Social Development Plan, 1982/83-1967/87. The Plan aims at achieving annual GDP growth rates of 8.1 percent annually. LE 35.5 billion (US$42 billion at the official exchange rate) is allocated for investment through the duration of the Plan, with LE 27.2 billion (77 percent) in the government and public sector and LE 8.3 billion (23 percent) in the private sector; investment will be at least 25 percent of GDP annually. To help finance the investment, the Plan calls for domestic savings to grow by 20.5 percent per year. Special attention is given in the Plan to increasing output in "productive sectors" such as agriculture and industry. Commenting to the People's Assembly in January when the Plan was approved, Minister of Planning Kamal El Ganzouri said that through the Plan, national income would increase, thereby contributing to the improvment of the standard of living of the masses and solving their main problems.

ECONOMIC ENVIRONMENT: With the approval of the Five Year Plan, the government has a statement of long-range economic strategy. However, there is some growing concern over the effect of lower oil prices on important inputs to the Plan such as petroleum revenues and worker remittances. These two key externally based sectors, in addition to Suez Canal tolls and tourism, largely fueled Egypt's strong economic performance in the recent past. Capital inflows through foreign assistance have also provided the foreign exchange necessary to cover most of the import bill since 1977. In 1982, the growth in revenues from these key sectors leveled off dramatically. Imports, particularly food imports, can be expected to continue to grow, although at a slower pace. Egypt has to develop new sources of foreign exchange or adapt to lower levels of economic growth.

PRICES AND INFLATION: The government has followed a policy of insulating the majority of consumers from the pressures of world inflation. The primary vehicle for this policy has been the subsidy system, which cost LE 2.4 billion Egyptian pounds ($2.9 billion) in FY 1981/82. The direct cost of the government's subsidy system is projected at LE 2 billion ($2.4 billion) for the current FY 82/83. Most of this amount goes to subsidize bread, rice, tea, edible oil, butane gas, meat and corn, which are available to all consumers. The average wage for a beginning university graduate in the public sector is less than LE 50 per month so subsidies are directly related to the generally low level of wages.

While the subsidy system has provided inexpensive supplies of basic commodities for lower income groups (as well as for middle and higher income groups), it has contributed to slow growth in domestic food production and rapid growth in food consumption. Egypt now imports about fifty percent of its food needs. The subsidy system has also required increasing budgetary expenditures. The budgeted (explicit) 1982/83 subsidy bill represents 14 percent of total budget expenditures and over 9 percent of GDP. The cost of "implicit" energy subsidies for electricity and most petroleum products is estimated at an additional LE 2.7 billion ($3.2 billion). Despite some increases in 1982, energy prices average only about 20 percent of world market levels.

CAPMAS cost of living data show inflation in the range of 14.8 percent in 1982, compared to 18.7 percent in 1980 and 9.6 percent in 1981. Consumers whose market baskets include more non-subsidized and especially imported goods, face considerably higher effective rates of inflation (perhaps in the range of 20 to 30 percent), reflecting increased world market prices and erosion of the Egyptian pound on the foreign exchange market. The outlook for inflation is less promising than in the recent past. Underlying monetary pressures, stimulated by monetary growth of 27 percent in FY 1981/82, have been significantly higher, although not felt directly by the majority of low-income consumers. The rate of money supply growth has slowed down somehow during the current fiscal year due to credit controls. There is considerable variation in the price increases faced by different classes of individuals.

The government has begun to increase some agricultural producer prices as an incentive for greater domestic production. At the present time, the government is holding the prices of sugar and cotton at artificially low levels while other farmgate prices have been raised. Recent increases in producer prices from some varieties of beans have turned Egypt from an importer into a modest exporter. The price of some categories of wheat was raised about 60 percent in the fall of 1982. This is an important area where the government has recently made modest progress toward the ambitious goal of agricultural self-sufficiency.

ECONOMIC RELATIONS WITH ISRAEL: With the return of the last portion of Israeli-occupied Sinai to Egyptian control on April 25, 1982, there were expectations that bilateral economic relations between the two countries would expand considerably. Expansion of economic and commercial relations had taken place modestly but steadily since the signing of the 1979 peace treaty. The situation in Lebanon, settlement activity on the West Bank and the Taba territorial dispute in the Sinai have put a damper on Egyptian-Israeli relations including trade. Large numbers of Israeli tourists have visited Egypt since the signing of the peace treaty in 1979, although very few Egyptians have gone to Israel. Trade between the two nations has been dominated by the annual sale of about $400 million of Egyptian oil to Israel. These sales also make Israel one of Egypt's leading trading partners. Sales of other Egyptian goods in Israel or other Israeli goods in Egypt have developed more slowly. Israel participated in Egypt's major international trade fair in March 1983 for the third consecutive year.

ENERGY SECTOR: The petroleum industry has been the economic sector showing the most marked increases in production and earnings since 1979, when Egyptian production increases coincided with the rapid rise in world oil prices. The outlook in this sector continues favorable through 1983, although the soft world oil market which continues to prevail into 1983, may have a significant impact on foreign investment in the petroleum sector. While the oil sector accounted for less than five percent of GDP in 1974, its share of GDP rose to nearly 20 percent in 1981. Crude oil production in CY 1982 averaged 673,000 barrels/day (b/d), a six percent increase over CY 1981 production, plus 50,000 b/d of natural gas and condensates.. Nearly 70 percent of Egypt's commodity export earnings now come from petroleum sales which amounted to $2.42 billion in CY 1982. Proven petroleum reserves are estimated by the Egyptian government at 5.69 billion barrels, a 35 percent increase over 1981 reserve figures.

While the current world market prices have caused Egyptian oil earnings to decline significantly this fiscal year, promising new finds in both the Gulf of Suez and the Western Desert signal continued growth in oil production in the years ahead, possibly allowing Egypt to achieve its target of one million b/d by mid decade. The level of future Egyptian foreign exchange earnings from petroleum however, will increasingly be dependent on world oil prices and on the level of domestic consumption, now growing between 12-15 percent annually. Deputy Prime Minister Hilal announced in February 1983 that declining oil prices would reduce foreign exchange earnings by $245 million in FY 82/83 and by $500 million in FY 83/84. The rapid growth of domestic consumption and its negative impact on oil earnings have also prompted some steps to curb consumption, including raising some energy prices (gasoline and electricity).

The expansion of the Egyptian petroleum sector has included moves to encourage natural gas exploration, production and distribution and in plans to build two new refineries at Assyout and Suez by 1986. Refinery capacity is expected to increase 43 percent between 1980 and 1985, from 280,000 b/d to 400,000 b/d. Egypt's proven gas reserves, now estimated at 5.5 trillion cubic feet, are expected to increase substantially in the next ten years as exploration by foreign firms picks up. The Egyptian government has decreed that no gas exports will be allowed until reserves reach 12 trillion cubic feet. Meanwhile, Egyptian officials have already begun work to convert power plants from oil to natural gas in an effort to free up crude oil for export.

Egyptian energy officials believe it will be necessary to more than treble power output by the year 2000 to meet domestic demand. In an effort to facilitate bilateral nuclear cooperation with supplier countries, Egypt ratified the Non-Proliferation (NPT) Treaty in February 1981 and approved an NPT Safeguards Agreement in June 1982 with the International Atomic Energy Agency, committing Egypt to full-scope safeguards. The Egyptian government has prepared and approved an ambitious nuclear power development program envisioning the construction of eight nuclear power plants with a total capacity of 9600 MW over the next twenty years. Petroleum revenues are to be set aside, if available (maximum of $500 million annually), to provide at least part of the funding for nuclear power development. Egypt has signed nuclear cooperation agreements with the United States, France, West Germany, and Canada. It initialed a nuclear cooperation agreement with Australia in 1982, as well as signed a technical nuclear cooperation agreement with the United Kingdom in 1981 and with Belgium in 1983. The US-Egypt Nuclear Cooperation Agreement entered into force on December 29, 1981. Egypt also signed four fuel enrichment contracts with the U.S. Department of Energy on May 10, 1982. The Nuclear Power Plants Authority issued an international invitation to submit complete technical, commercial and financial bids for a turnkey project for two 1000 MW nuclear plants to be located at El Dabaa. Bidders may bid on one or two units. Bids are due in Cairo on September 26, 1983.

BALANCE OF PAYMENTS

Egypt's balance of payments faced increasing difficulties in 1982. The trade and current accounts worsened by 6 percent and 12 percent respectively. The outlook for 1983 is for continued balance of payments pressures. The capital account is increasingly hard-pressed to cover the current account deficit. Thus, Egyptian foreign exchange reserves will continue to be stretched thin unless existing foreign exchange sources can be utilized more extensively or new sources tapped.

BALANCE OF TRADE: The trade accounts in CY 1982 showed Egyptian receipts from commodity exports of $4.2 billion, up 4.7 percent from CY 1981. Petroleum provided about seventy percent of these exports. Sales of petroleum products (bunker and jet fuel) earned additional foreign exchange, bringing total petroleum sector net exports up over $3 billion.

The second largest merchandise export is cotton. Cotton earned $340 million, a 9.7 increase from the previous year. Although prices and yields were down for most of the year, the government managed to increase exports by avoiding overstocking, selling cotton inventory from previous years, shifting from domestic use and exploring new markets.

Throughout the growth years of the late 70s, the overall increase in export earnings were outstripped by rapidly increasing imports of a wide range of goods and services. During the years up to 1981, imports grew at annual rates of twenty to thirty percent, and in 1981 totalled $8.8 billion. Many of these imports represent vital food, raw materials, capital goods, and other products not manufactured locally. In 1982, imports only increased 6 percent over 1981's figure in nominal terms.

Decreases in international prices of food commodities which Egypt imports have contributed somewhat to lower import growth. In addition, the government is implementing 1982 regulations to control imports, especially of luxury goods. Growth of both public and private sector imports has slowed markedly. Nevertheless, Egypt will continue to require a high volume of goods from abroad to keep its domestic economy functioning effectively. World inflationary pressures, a large population and the rising expectations of Egyptians compound the problems. Restoration of long term balance of payments equilibrium will require new sources of foreign exchange which, in all probability, can only come from the development of a competitive export sector.

CURRENT ACCOUNT BALANCE AND SERVICES: Foreign exchange earnings from services have been key to Egypt's impressive economic performance in recent years, helping to offset large trade deficits. Earnings from remittances by Egyptian expatriate workers, tourism, and the Suez Canal grew at annual rates of up to 30 percent from 1977 until 1980. In mid-1981, the trend reversed and growth in official foreign exchange earnings from services stagnated. Provisional figures from the Central Bank of Egypt indicate total services receipts recovered, registering a 12.7 percent increase in CY 1982.

Estimates of the number of Egyptians working overseas, primarily in the OPEC countries, range widely - from one to three and a half million with the most authoritative estimate being 1.7 million. Their officially recorded remittances are in the form of foreign exchange from Egyptian currency through the banking system plus "own exchange imports"- the system introduced in 1974 under which privately held foreign exchange can be traded and used to finance imports, usually by the private sector. In 1982, total official remittances increased by 6.8 percent over the preceding calendar year. Remittances as a percentage of total service earnings have declined, however, from 49 percent in 1980, to 43 percent in 1981, and to 40 percent in 1982. The decline in officially measured remittances shares is, however, a bit misleading. Much of the drop in these figures can be traced to the growing disparity between the official and free market foreign exchange rates. As that gap increased in the second half of 1981 and in 1982, an increasing share of the cash transfers began to flow into unrecorded channels. Own exchange imports fell as well, due to the high cost of foreign exchange and government restrictions on some imports. Facing a serious shortage of foreign exchange in the "commercial bank" pool, commercial banks have successfully increased their efforts to lure remittances which had been flowing into the "own exchange" market. At the same time, an increasing share of public sector imports are now being effected at market-related exchange rates rather than at the official incentive rate. We would anticipate that reduced OPEC revenues will lead to a reduced demand for Egyptian workers and thus to a reduced flow of remittances. To date, however, there is no concrete evidence of this.

Tourism and Suez Canal earnings are the two other key service sectors. Tourism, a steady source of foreign exchange as well as a major employment generator, suffered several blows in 1981 and 1982. In addition to the drop in the number of tourists in the wake of the Sadat assassination and the Lebanese situation, the gap between the official and free market exchange rates induced increasing numbers of tourists to venture into unofficial and foreign exchange channels, despite official regulations designed to discourage this. According to Central Bank figures, tourism revenues declined 19 percent in 1981 but rebounded 13.6 percent in 1982.

Suez Canal revenues in 1982 were approximately $953 million, a modest increase over 1981 earnings. Completion of the Phase I renovation project to widen and deepen the Canal in late 1980 and annual January toll increases in 1981 and 1982 helped to boost Canal earnings. Tolls were again raised in January 1983; the Canal Authority hopes revenues will reach the $1 billion mark this year. Recently revenue growth has been constrained by the strength of the dollar. (Since tolls are denominated in SDR, a strong dollar reduced the dollar value of toll collections).

The services payments components of the balance of payments in CY 1982 deteriorated rather dramatically by 27.2 percent. While a breakdown from the provisional figures is unavailable, it is very likely that the account worsened because of increases in transfers of interest and dividends because of large payments related to loans, international commitments and supplier facilities. In addition, government expenditures, e.g. transfers for diplomatic, commercial and cultural representation have been increasing.

BALANCE OF PAYMENTS PROSPECTS: The glimmer is gone from Egypt's foreign exchange situation, but not necessarily on a permanent basis. The country will face balance of payments problems at least while petroleum prices remain at lower levels and world economic activities depresssed. Egypt has reliable sources of foreign exchange earnings (petroleum, worker remittances, tourism, and the Suez Canal) but resumption of the rapid growth of recent years is highly unlikely. Unfortunately, despite some long-term potential, Egypt's commodity producing agricultural and industrial sectors do not now - nor are they likely to in the near future - contribute significantly to foreign exchange earnings. On the import side, the high rate of growth leveled off in 1982. The government has instituted some new taxes, banking regulations and other controls to discourage unnecessary imports. However, the vast majority of Egypt's imports are raw materials and vital capital goods which are not produced locally. The population growth, rise in both incomes and popular expectations and subsidization of many basic goods all encourage strong demand pressure which will continue to outstrip by far production capacity. Thus, drastic import reductions are unlikely.

Exports of industrial products have declined in real terms since 1975, despite the government's efforts to support industrialization. In part, this reflects increased domestic demand; however, it is also symptomatic of insufficient orientation to, or incentives for, export. The decline in industrial and agricultural exports was not a major macro-economic problem so long as other sources have been able to provide adequate foreign exchange but those days are gone. The Five Year Plan aims to offset the problem in part by increased exports and reduced imports. The rate of increase of goods and services exports (55.3 percent) over the five years of the Plan is projected to exceed the rates of increase of GDP (51 percent) while imports are projected to increase only 19 percent. The FY 81/82 current account deficit of LE 2.03 billion ($2.4 billion) is targeted to decrease to LE 500 million ($595 million) by the end of the Plan. It is difficult to see how these targets can be achieved in the absence of a fortuitous increase in external resources or a comprehensive economic reform program. The government thus far has set up a cabinet-level committee on exports, and we are beginning to see the emergence of specific proposals to provide export finance and incentives and to reduce bureaucratic and other obstacles to exports.

CAPITAL ACCOUNT: The capital account has also shown strength in recent years. Foreign assistance flows from the United States, Europe, Japan and the World Bank together provide a considerable amount of balance of payments support. An improvement in relations with the moderate Arab states could at some point lead to increases in concessional aid. Egypt's credit rating has enabled it to obtain a significant amount of commercial financing, primarily short-term letters of credit to finance imports. Officially-supported export credits from several governments have provided subsidized financing for several large projects. Finally, private investment flows, while perhaps less than the goverment might have hoped for, are still a significant source of foreign exchange and jobs.

Total net capital inflows are estimated to have been about $2.6 billion in FY 1981/82. Foreign loans, credit facilities, and investment were major components. An increasing portion of those resources has been offset by capital outflows. Of the total receipts of $6.3 billion, $1.4 billion was in the form of international assistance disbursements of which the U.S. portion was $900 million. Egypt's official foreign exchange reserves at the end of 1982 were approximately $700 million or about one month's import cover. There is a little scope for a further drop in reserves if the balance of payments situation tightens. Egypt's international credit rating can probably enable it to borrow moderately in the coming months to cover a short-term foreign exchange shortfall.

FINANCIAL DEVELOPMENTS

BANKING: The banking sector in Egypt has grown impressively in the past seven years. Foreign banks, including several major U.S. banks, have come to Egypt with joint ventures, foreign branches, off-shore free zone banks, and representative offices. These banks provide a number of services - trade finance, term lending, and a variety of savings programs in both Egyptian pounds and foreign currencies.

At the same time, the local Egyptian banks have also grown and prospered, and important private Egyptian banks have been created. Egypt can now offer an increasingly sophisticated banking system. Local residents can hold foreign currency accounts at any bank in Egypt. Government regulation of the banking system has increased somewhat in the last year, but the environment is still conducive to flexible and profitable banking operations.

EXCHANGE RATES: Egypt has a rather complex multi-tiered exchange rate system. The "official" rate is still US $1.00 equals LE 0.70. This rate, however, is effectively only an internal government bookkeeping rate used the international financial community remains reasonably good, reflecting political stability and international support. The drop in commercial interest rates should reduce the cost of the commercial debt burden. Last year the Central Bank of Egypt borrowed $200 million on the Eurodollar market from a syndicate led by Chase Manhattan. More recently it borrowed $180 million from local banks to finance a purchase of Australian wheat. However, it has become somewhat more difficult for any developing nation to borrow commercially, particularly in the wake of the shock to the international financial community from problems elsewhere in the world. The Egyptian government may have the capability to assume limited additional debt to finance good projects or even to cover a short-term balance of payments deficit. However, significantly increased commercial borrowing and/or growing balance of payments deficits could quickly affect the debt picture adversely.

INVESTMENT: Both the public and private sector play investment roles in Egypt. The current One Year Plan envisions total fixed investment for FY 82/83 at over LE 5.6 billion, with LE 4.3 billion (77 percent) earmarked for the government and public sector and LE 1.3 billion (23 percent) for the private sector. In the current Five Year Plan, investment is to total LE 35.5 billion ($42.2 billion). Over 3000 specific projects are listed in the Five Year Plan.

Egyptian Government officials have made very clear that the country welcomes private investment, both domestic and foreign. Investment Law 43 of 1974, and subsequent amendments to it, remain the cornerstone of government efforts to attract foreign participation in Egypt's development. Foreign investors have been encouraged to form joint ventures with public sector entities or private local investors. Benefits to Law 43 investors include guarantees against nationalization, exemption from public sector laws, exemption from certain customs duties, repatriation of capital and earnings, and exemption from taxes for 5-8 years. Domestic investors are now eligible, (per Law 159) to receive the benefits accorded foreign investors under Law 43. Foreign investment in Egypt has come mainly from other Arab countries, Europe, Japan, and the United States. Egypt signed a Bilateral Investment Treaty with the United States in September 1982 which will come into effect when ratified by the U.S. Senate and the Egyptian People's Assembly. Potential investors should work through the Investment Authority, which is trying to streamline investment approval procedures.

ECONOMIC REFORMS

The Egyptian economy bears the legacy of economic policies dating from the Fifties which were characterized by price regulation, subsidization of consumer goods, a dominant public sector and state control. The government has tried to insulate the average Egyptian from many of the shocks in the international economy. Egyptian consumers have not faced world prices for energy or basic commodities. Both prices and wages of government workers in particular have been held down significantly. As the gap between market and administered prices has grown, it has become more and more difficult and costly to maintain the current system. The problems and necessary reforms have been discussed within the government, as well as with major country donors and international lending organizations.

President Mubarak and his cabinet members have also spoken frequently and frankly to the Egyptian people about the economic challenges which lie ahead. The pace at which these challenges are to be met remains unclear, however. The memory of the 1977 riots, prompted by the government's decision to decrease subsidies on a number of commodities, still looms prominently in the minds of many Egyptian policy makers. Nonetheless, the Mubarak government has made some significant initial reforms including:

- consumption tax increases on luxury goods, both imported and domestic;
- increased electricity rates for residential and low and medium business voltage users and some major industrial users;
- increased prices for premium gasoline;
- reduction in the number of subsidized items;
- increased output prices for some public sector industrial firms;
- increased farmgate prices on items such as wheat, rice and corn;
- increased interest rates to encourage savings and efforts to channel increased credit to the productive sectors; and
- reinvigoration of the Five Year Plan and presentation of a realistic budget with wage increases and other controllable expenses considerably limited.

COMMERCIAL IMPLICATIONS

Egypt continues to be a strong market for American traders and investors, especially in the construction, agriculture and health sectors. The market for imported goods and services will become more competitive, but should continue to grow. The Egyptian government has placed a high priority on imports of intermediate and capital goods - "the productive sector" - as opposed to luxury, non-essential imports - "the consumer sector." The new emphasis results both from the tightening of available foreign exchange and a desire for a more equitable distribution of Egypt's financial resources.

U.S. exports to Egypt in 1982 exceeded $2.9 billion (about $1 billion of which were financed by USAID), an increase of 30 percent over 1981. The United States is Egypt's leading trading partner, providing about one-fifth of its total imports and receiving about one-eighth ($550 million in 1982) of Egypt's exports. Petroleum accounts for about 80 percent of Egypt's exports to the U.S. The Egyptian government plans to make a major effort at improving the terms of trade with the U.S., particularly through the increased export of non-petroleum products.

During the past year, the Embassy and the US Department of Commerce have supported trade missions in the construction, transportation and water resources sectors. Each of these trade missions provided introductions to senior government officials and leading businessmen.

In some cases, immediate sales took place. Participants in these US trade missions include firms already familiar with the Egyptian market, as well as new-to-market companies. The trade missions, as well as the US Pavilion at the annual Cairo International Fair, are excellent vehicles for obtaining an introduction to the Egyptian market.

US Department of Commerce sponsored trade events for the coming months include:

Health Care Trade Mission	September	1983
Electric Power Trade Mission	December	1983
Cairo International Fair	March	1984
Telecommunications Trade Mission	April	1984
Hotel and Restaurant Equipment Trade Mission	May	1984
Petroleum Equipment Trade Mission	September	1984

Further information is available from the US Department of Commerce, Export Development Office, Mr. John Vlavianos, Director, Washington, D.C. 20230, Telephone: (202) 377-1209.

Both the governmental public sector and the private sector undertake major development and production projects. These projects are often competed by international tender. For further information about these projects worldwide, contact the US Department of Commerce, Office of Major Projects, Mr. James Phillips, Director, Room 2007, Washington, D.C. 20230, Telephone: (202) 377-5225. Additional trade and investment information is available from the US Department of Commerce, Senior Egypt Specialist, Miss Cheryl McQueen, Room 2039, Washington, D.C. 20230, Phone: (202) 377-4652.

The construction industry probably is among the best potential sales markets for exporters in the Egyptian economy. In 1982, Egypt imported about $1.2 billion in building materials and services (about $150 million from the U.S.). The projected growth rate for sales of construction machinery is estimated at 15-20 percent per year over the next several years. Lack of housing is one of the most acute problems for Egypt. The demand for new units is about 200,000 per year, while no more than 80,000 units are constructed. There is also a large demand for new office buildings, public buildings, roads and water and sewerage facilities. USAID, with the Egyptian government's concurrence, has tentatively agreed to plans to allocate more than $1.2 billion on water and sewer projects, mainly in Cairo, Alexandria and the Canal cities over the next five years.

Food processing and packaging machinery has a growing market in Egypt. The emphasis on agribusiness -- production, processing and distribution -- will likely result in substantial demand for agricultural equipment of all types. About one-third of Egypt's $40 million of imports of agricultural machinery in 1981 came from the United States. Poultry and egg production equipment are much in demand. The fisheries and dairy industries also have good growth potential. The Egyptian government continues to encourage the reclamation of vast areas of desert land for agriculture. Egypt is a strong market for the full range of agriculture and agribusiness projects, with particular emphasis on irrigation system equipment, tractors and other production-related products.

The computer and data processing equipment sector is relatively new in the Egyptian economy, but the market has grown quickly since the private sector was first permitted to operate in this field in 1977. In 1982, Egypt imported about $15 million in business and computer equipment (about 20 percent from the United States). The private sector, especially banks and tourist industries, are the major users. The public sector and growing industrial companies in the private sector express strong interest in computers, software and services.

American business is still relatively new to Egypt and must compete against European firms which know Egypt and the Middle East better. A patient style of market development usually leads to successful business dealings in Egypt. In addition to the large domestic market for US goods, services and investments, Egypt's location is excellent for serving the region. With adequate preparation and research, assisted by appropriate banking, financial and governmental information and services, U.S. business can significantly increase its presence and long-term market in Egypt.

The climate for private investment continues to show promise. Attractions include a talented and plentiful labor force and a large domestic market. Hopeful recent signs include the government's candid appraisal of Egypt's economic problems and the high priority being given to addressing these problems, the encouragement of a healthy public debate about economic subjects such as pricing and public sector reform, and the initial steps taken by the government in the early summer to reduce consumption and increase production. Some of the recent measures - increases in consumption taxes and changes in the structure of interest rates - should make local manufacture more attractive relative to importation. Investment proposals to produce basic necessities demanded by the average Egyptian will be given high priority. The investment climate will improve further when the respective roles of the public and private sectors in Egypt's development have become more clearly delineated.

In summary, the climate in Egypt for U.S. investment includes of both challenges and opportunities. The advent of peace and President Mubarak's determination to confront Egypt's economic problems and to set a workable policy course contribute to strengthening the investment climate. A tight-foreign exchange situation will make the market tougher - but not impossible - for traders to penetrate, but will provide opportunities for import substitution investment.

U.S. EXPORTS TO EGYPT*
1982
(In millions of US Dollars)

	1981	1982**
FOOD AND LIVE ANIMALS	777.7	572.4
MILK AND CREAM		9.5
WHEAT, UNMILLED		278.2
MAIZE, UNMILLED		136.7
WHEAT FLOUR		113.1
BEVERAGES AND TOBACCO	46.9	77.1
TOBACCO, UNMANUFACTURED		38.6
CIGARETTES		35.4
CRUDE MATERIALS-INEDIBLE, EXCEPT, FUEL	65.0	44.0
SOYBEANS, EXC. ROASTED		13.0
CELLULOSIC, MANMADE FIBERS		10.1
WOODPULP		4.6
SULPHUR		4.6
MINERALS, FUELS, LUBRICANTS, ETC.	50.0	46.4
BITUMINOUS COAL		31.9
KEROSENE AND JET FUEL		9.2
OILS AND FATS, ANIMAL AND VEG.	161.6	171.6
ANIMAL FAT AND OIL		79.5
COTTONSEED OIL		87.4
SOYBEAN OIL		4.1
CHEMICALS AND RELATED PRODUCTS	43.2	59.1
INORGANIC CHEMICALS		4.3
ANTIBIOTICS, IN BULK		3.9
SYNTHETIC RESINS		4.4
ANTIKNOCK AND FUEL OIL ADDITIVES		7.2
CHEMICAL MIXTURES		10.6
MANUFACTURED GOODS	122.8	170.7
YARN AND THREAD OF NYLON, POLYESTER		26.8
IRON AND STEEL BARS AND RODS		8.0
ALUM/IRON/STEEL PLATES AND SHEETS		9.9
CAST IRON PIPES AND TUBES		23.9
IRON AND STEEL TUBE AND PIPE FITINGS		12.9
IRON, EXC CAST IRON, PIPES AND TUBES		17.2
FINISHED STRUC PARTS AND STRUC IRON/STEEL		15.3
MACHINERY AND TRANSPORT EQUIPMENT	609.9	891.2
PARTS FOR STEAM AND OIL MACHINERY		11.9
AIRCRAFT ENGS/PISTON TYPE AND PARTS		35.4
NON-PISTON TYPE ENGINES		19.3

PARTS FOR NON-PISTON TYPE ENGINES		48.9
GENERATOR SETS, ENGINE DRIVEN		24.5
CONSTRUCTION AND MINING MACHINERY		25.5
PARTS FOR CONSTRUCTION AND MINING MACHY		89.3
PRINTING PRESSES		11.6
FOOD PROCESSING MACHINERY		14.7
SPECIALIZED INDUSTRIAL MACHINERY		20.9
REFRIGERATORS AND REFRIG EQUIPMENT		10.0
AIR-CONDITIONING MACHY PARTS		10.0
INDUSTRIAL AND LAB EQUIPMENT		48.1
LIFTING, LOADING AND CONVEYING MACHY		15.9
NON-ELECTRIC MACHY		16.4
TELECOMMUNICATIONS EQUIP AND PARTS		11.1
PARTS FOR TV, RADIO AND SOUND EQUIP		29.7
ELECT CURRENT WIRING AND PARTS		11.0
FERRITES, ELEC MACHY		11.4
TRUCKS (EXC TRUCK TRACTORS)		22.9
SPECIAL PURPOSE MOTOR VEHICLES		22.6
FOOD PROCESSING MACHY.		14.7
PARTS FOR ROAD VEHICLES AND TRACTORS		21.4
AIRPLANES		12.2
PARTS FOR AIRCRAFT		73.0
TUGS; SPECIAL PURPOSE VESSELS		33.1
MISC. AND MANUFACTURED ARTICLES	59.2	75.0
FURNITURE AND PARTS		6.4
MEASURING, CONTROLLING INSTRUMENTS		31.1
STILL CAMERAS, PROJECTORS AND PARTS		5.4
ARTICLES OF RUBBER OR PLASTIC		5.3
COMMODITIES NOT CLASSIFIED ELSEWHERE	4.8	12.1
SPECIAL CATEGORY	205.1	757.5
TOTAL EXPORTS	2,146.2	2,877.1

*Source - U.S. Department of Commerce

**Sub-categories are representative and do not necessarily add all to the total.

U.S. IMPORTS FROM EGYPT
1982*
(In millions of US Dollars)

	1981	1982**
FOOD AND LIVE ANIMALS	2.3	2.7
SPICES		.9
BEVERAGES AND TOBACCO	N/A	.3
CIGARETTES		.2
INEDIBLE CRUDE MATERIALS , EXCL FUEL	1.0	7.3
RAW COTTON.		3.5
PLANTS FOR PERFUMERY, PHARMACY ETC.		1.5
CRUDE PETROLEUM	332.9	507.9
LUBE OILS AND GREASE	11.8	7.2
ANIMAL AND VEGETABLE OILS AND FATS	-	.1
CHEMICALS AND RELATED PRODUCTS	-	1.8
DRUGS		.8
ESSENTIAL OILS AND PERFUMES		.7
MANUFACTURED GOODS	22.8	9.6
COTTON YARN AND THREAD		2.8
COTTON FABRIC; TIRES		5.4
MISCELLANEOUS	26.5	20.4
MISC. ARTICLES AND ARTWORKS		9.3
COMMODITIES AND TRANSACTIONS		5.6
SPECIAL TRANSACTIONS		5.5
TOTAL IMPORTS	397.3	557.3

*Source - U.S. Department of Commerce

**Sub-categories are representative and do not necessarily add to the total.