

N-AAU-850

47085

EGYPT, MOROCCO AND JORDAN

Macroeconomic Policy
and Agricultural Development

Maury Bredahl

Agriculture Policy Analysis Project

936-4084

March 1985

PREFACE

This report was prepared with the support of the AID Agricultural Policy Analysis Project (APAP) in cooperation with the AID sponsored Near East Horticultural Export Marketing Study. The APAP role in the larger study was based on the need to analyze agricultural trade and domestic policies of the European Economic Community as potential importers of horticultural products from the Near East countries. The APAP roles also included a study of the impact of macroeconomic policies and macro prices--exchange rates, interest, and wage rates--on the ability of Egypt, Jordan, and Morocco to compete in international markets.

This report addresses the second question. The first is dealt with in a companion report entitled "The European Community Common Agricultural Policy: Macroeconomic Forces and Horticultural Trade."

Maury E. Bredahl is the principal author of this report. He is an associate professor of Agricultural Economics at the University of Missouri-Columbia and a consultant to the Agricultural Policy Analysis Project.

The input of Edward Hogan, Michael V. Martin, and Ludwig Eisgruber, leader of the overall Near East Horticultural Study, is gratefully acknowledged.

EXECUTIVE SUMMARY

The study of the impact of macroeconomic policies on the competitive advantage of Egypt, Jordan and Morocco in international horticultural markets develops first a conceptual framework and then applies that framework to each of the study countries.

Conceptual Framework. The influences of macroeconomic policies and macro prices -- interest rates, wage rates and foreign exchange rates -- are pervasive, touching all sectors of an economy. In the course of this study, it became apparent that exchange rate and price policies were the dominant factor in the international competitive position of the study countries. Therefore, while the full range of macroeconomic forces is considered, only the conceptual framework for evaluating exchange rate and price policies is discussed here.

Until the debt crisis of the early 1980s, it was argued that overvalued exchange rates was the norm for most, if not all, developing countries. In effect, the overvaluation of real exchange rates reflected a fixed nominal exchange rate in spite of rapid domestic price and wage inflation. Because export prices reflected increased wage and input costs, the fixed nominal exchange rate decreased the international competitiveness of these nations. That is, the increased domestic prices were reflected in export prices; the increase could have been compensated by a devaluation of the currency.

The reasons that developing nations followed a fixed-nominal exchange rate and an appreciating-real exchange rate policy are many. For some, the dramatic increase in the prices and value of raw material exports during the mid 1970s reduced the need to export agricultural and manufactured products. Rather, imports of consumer, particularly foodstuffs, and capital goods was the primary concern. A fixed-nominal exchange rate minimized the cost of

these imports. And since domestic inflation exceeded that of major trading partners, imports, in the absence of countervailing tariffs and other import restrictions, were substituted for domestic production. Current account deficits -- a signal to depreciate a currency -- were not a concern as the recycled petro-dollars provided the means to finance the deficits through increased international lending.

In addition to massive capital expenditures financed by international borrowing, these nations stimulated economic growth by selectively limiting imports through tariff and nontariff barriers and fostering import substitution. In many cases, the stimulation of import-substitution industries was accomplished by limiting finished product imports while allowing raw material imports. Thus, production of agricultural and manufactured products were discouraged. First, the fixed-nominal exchange rate forced domestic inflation to be fully reflected in export prices. Second, the price of import-substitution goods was inflated by trade restrictions while their imported input costs were reduced by the overvalued currency. On the whole, these nations turned inward for economic growth with those policies financed by international borrowing. Competitiveness and participation in international markets for agricultural and manufactured goods were reduced.

The evolution of price policies and their linkage with exchange rates and other macroeconomic variables are major factors shaping the current economic environment. The prices of many, basic consumer goods are fixed and heavily subsidized. These subsidies contributed significantly to government expenditures and fiscal deficits. But, as long as international and domestic credit were available to finance the deficit, the subsidies were not a major concern. The overvalued exchange rates tended to minimize government

expenditures as import prices were held down. The effect of the overvalued currency coupled with the price policies was to discriminate against agricultural production for both the domestic and export market.

The current economic environment is discussed in the next section. All of the study countries face a similar set of internal and external constraints. Each faces large fiscal and current account deficits. Each is dependent on external forces -- exports of raw materials, international credit or aid and worker remittances -- for economic growth. Yet, while the economic environments are similar, the policy responses are very different.

Economic Environment. The degree of economic crisis varies across the study countries, each faces significant economic challenges in the next several years. The challenges faced by Morocco are perhaps as severe as any developing nation. Rather than discuss each country, the general characteristics of the economic environment across the three countries are discussed.

Each of the three countries have faced large fiscal and current account deficits since the late 1970s. These deficits have been financed by international lending so the level of international debt has grown^N rapidly. The debt service has grown to the point that a large proportion of export earnings must be devoted to meeting that obligation. Indeed, Morocco has been unable to meet its international obligations and has been forced to reschedule its debt and debt service. A primary concern of each of the three governments is generation of sufficient foreign exchange to meet debt service requirements and finance economic growth.

The second aspect of the current economic environment is these nation's dependence on external forces for economic growth. In the case of Egypt, dependence is centered on oil exports, tourism and Suez Canal receipts. For

Jordan, economic stability is dependent on financial transfers from OPEC and other countries. Morocco is dependent on the price and quantity of phosphate exported. Each of the three countries is dependent on worker remittances for a large portion of their foreign exchange earnings.

The result of the economic environment is a recognition of the need to reduce their dependence on external sources of growth. That each must turn from inward oriented -- import substitution -- to an externally oriented -- export promotion -- policy. These policies are the focus of the next section.

Economic Policies. In general, each of the three countries have adopted export promotion policies. But, the implications of these policies for international competitiveness in horticultural trade vary greatly across the countries.

Turning first to Jordan, its macroeconomic policies promote its two major exports -- skilled people and services. The policies attempt to maximize national income from its greatest national asset, a highly skilled and educated labor force. An extension of the exploitation of that asset is the export of services by providing financial and other services to the Mideast.

In order to maximize worker remittances and the inflow of capital to its banking system, the Jordanian currency has been pegged to the SDR (Special Drawing Rights). The reason is that a stable currency is viewed the key variable in maximizing skilled labor and service exports. As a consequence of its linkage to the SDR and the appreciation of the U.S. dollar, the currency has recently appreciated with respect to that of most other developed countries. That movement is beneficial for labor exports but detrimental for agricultural and manufactured exports. The unique situation of Jordan will preclude exchange rates and some other macroeconomic policies that would tend to stimulate agricultural exports.

Morocco, on the other hand, has adopted a broad sweeping set of policy initiatives to stimulate agricultural and manufactured exports. Included are changes in investment laws such as tax holidays and guaranteed repatriation of profits. An important component of the export promotion program are periodic devaluation of the currency. It is unclear if the currency is undervalued at this time, but clearly it has depreciated against the currencies of major trading partners and competing exporters. In order to mitigate the negative impact of the depreciating currency on worker remittances, special, interest-bearing bank accounts have been established. The program adopted by the Moroccan government is, by far, the most aggressive of the study countries.

Egypt, like Morocco, has adopted an impressive array of export promotion policies. But, the obstacles to overcome are much greater. Exemplary of these obstacles are exchange rate and pricing policies. Egypt maintains several "official" exchange rates. Government foreign exchange earnings from agricultural and petroleum exports, and Suez Canal receipts are converted at a clearly overvalued exchange rate. This overvalued exchange rate limits the government deficit as imported food can be resold at a much lower price than if a lower exchange rate were used.

The private sector utilizes a foreign exchange pool funded by tourism and worker remittances. The "free market" exchange rate reflects the demand of the private and public sector and the supply from worker remittances and tourism. As such, the free market exchange rate has appreciated during periods of large current account deficits. As such, the exchange rate has not reflected internal price inflation and other forces that tend to reduce current account deficits. In contrast to Morocco and Jordan, whose exchange rate policies promote exports of services or people, those of Egypt serve no clear purpose in promoting exports. Of course, within the present framework,

the Egyptian government could declare and enforce an exchange rate policy beneficial to horticultural exports.

Agricultural price policies of Egypt have tended to discriminate against agricultural production and exports in favor of domestic consumption. Although recent steps have been taken to reduce the distortions of price policies, price policies will continue to skew agricultural production. The impact on horticultural products may well be beneficial as most are not subject to price controls. But most are subject to a myriad of export regulations and some are subject to export taxes.

Conclusions. Clearly, the current policies of Morocco and Jordan are more carefully formulated and potentially more effective in promoting exports than are those of Egypt. That conclusion is not to deny the significant changes in Egyptian policies to promote exports but rather to recognize those changes fall short of those of the other countries. Policies must be evaluated on the basis of the policies in other countries not on the basis of past policies within a country. The policies of Morocco should promote agricultural and horticultural exports. Those of Jordan should promote exports of skilled people and service which may not promote agricultural and horticultural exports.

TABLE OF CONTENTS

	Page
PREFACE	i
EXECUTIVE SUMMARY	ii
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF APPENDIX TABLES	xii
CONCEPTUAL FRAMEWORK	1
Elements of Macroeconomic Policy	1
Budget Policy	3
Monetary and Fiscal Policies	4
"Bad" Macroeconomic Policies	6
Macro Prices and the Food Sector	6
Foreign Exchange Rates	6
Overvalued Exchange Rates	7
Undervalued Exchange Rates	8
Interest Rates and Capital Markets	10
Wage Rates	12
EGYPTIAN ECONOMIC ENVIRONMENT AND POLICIES	13
Economic Environment	13
Economic Policies	21
Exchange Rates and Foreign Exchange Policy	21
Analysis	22
Wage Policy	23
Export Promotion Policies	23
Price Policies	26
MOROCCAN ECONOMIC ENVIRONMENT AND POLICIES	32
Economic Environment	32
Economic Policies	38
Exchange Rates and Foreign Exchange Policy	38
Wage Policy	44
Export Promotion Policies	44
JORDANIAN ECONOMIC ENVIRONMENT AND POLICIES	46
Economic Environment	46
Economic Policies	52
Exchange Rate and Foreign Exchange Policies	52
Price Policies	54
Trade Policy	56
Export Promotion	59
DATA APPENDIX	62

LIST OF TABLES

	Page
1. Industrial Commodities Produced Under Centralized Price Control, Egypt, 1984	19
2. Daily Agricultural Wage and the Exchange Rate, Egypt, 1973-1983. .	24
3. Comparison of Domestic Producer and International Prices for Selected Agricultural Commodities, Egypt	27
4. Import, Producer and Domestic Selling Price for Selected Food Products, Egypt, 1979-1982/83.	28
5. Private (Financial) and Economic Returns to Land for Selected Agricultural Commodities, Egypt, 1981.	30
6. Products Sold Under Administered Price, Jordan, 1984	55
7. Amman Wholesale Price Index (1085=100), 1978-82.	57
8. Import Duties on Selected Foodstuffs, Jordan, 1984	58
9. Custom Tariffs on Fruits and Vegetables, Jordan, 1984.	60

LIST OF FIGURES

	Page
1. Major Connections between Macroeconomic and Food Policy	2
2. Budget Allocations and the Food Sector.	5
3. Partial Equilibrium Analysis of a Devaluation of Export and Import Goods.	9
4. Growth Rates of Real Per Capita GDP, Egypt, 1972-83	14
5. Government Finance, Egypt, 1974-83.	14
6. External Debt, Egypt, 1973-83	15
7. External Debt Service, Egypt, 1973-83	15
8. Trade Data, Egypt, 1970-83.	16
9. Private Unrequited Transfer, Egypt, 1970-83	16
10. Current Account Balance, Egypt, 1970-80	18
11. Growth Rates of Real Per Capita GDP, Morocco, 1971-83	33
12. Government Finance, Morocco, 1970-83.	33
13. External Debt, Morocco, 1973-83	34
14. External Debt Service, Morocco, 1973-83	34
15. Trade Data, Morocco, 1970-83.	35
16. Private Unrequited Transfers, Morocco, 1970-83.	35
17. Current Account Balance, Morocco, 1970-83	37
18. Nominal and Real Exchange Rates, Currency Basket, Morocco, 1970-83	41
19. Nominal and Real Exchange Rates, Trade Weighted, Morocco, 1970-83	41
20. Nominal and Real Exchange Rates, Spanish Peseta, 1970-83.	43
21. Nominal and Real Exchange Rates, French Franc, 1970-83.	43
23. Growth Rates of Real Per Capita GDP, Jordan, 1972-83.	47
24. Government Finance Jordan, 1972-83.	47

25. External Debt, Jordan, 1973-83.	48
26. External Debt Service, Jordan, 1973-83.	48
27. Trade Data, Jordan, 1973-83	50
28. Private Unrequited Transfers, Jordan, 1973-83	50
29. Current Account Balance, Jordan, 1973-83.	51

LIST OF APPENDIX TABLES

	Page
A1. Selected National Account and Price Data, Egypt, 1970-1983/84. . .	63
A2. Summary of Fiscal Operations, Egypt, 1974-1983/84.	64
A3. Selected External Debt and Debt Service, Egypt, 1978, 1974-83. . .	65
A4. Selected Balance of Payments Summary Data, Egypt, 1970-1983/84 . .	66
A5. Selected National Account Data, Morocco, 1970-83	67
A6. Selected National Account and Capital Flow Data, Morocco, 1970-83.	68
A7. Selected Foreign Debt and Debt Service Data, Morocco, 1970-83. . .	69
A8. Summary of Fiscal Operations, Morocco.	70
A9. Selected National Account, Jordan, 1970-1983	71
A10. Government Finance, Jordan, 1970-1983.	72
A11. Selected Balance of Payments Summary Data, Jordan, 1970-83	73
A12. Selected External Debt and Debt Service, Jordan.	74

CONCEPTUAL FRAMEWORK

It is reasoned that the potential impact of a carefully formulated sectoral (agricultural or food) policy may be significantly reduced by inappropriate macroeconomic policies. The reason is that macroeconomic policies through so called macro prices -- wage rates, interests rates and exchange rates -- influence the structure of incentives throughout the food system. And that the structure of incentives, in turn, influences the mix of agricultural production and consumption as well as the distribution of income in the short run. Further, these macro prices influence the choice of production, processing and consumption technology and so the dynamic development of the food system is affected as well.

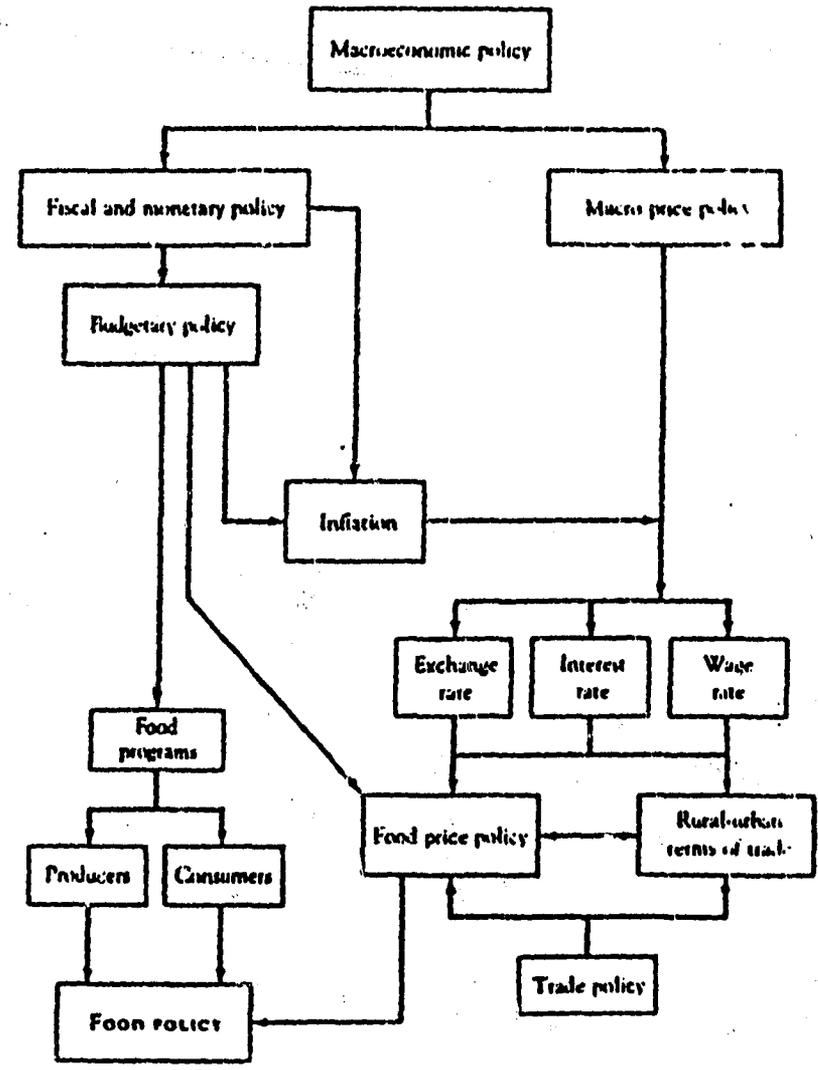
The interrelationships of macroeconomic policies with the food system and the interactions among macro prices and other variables are varied and complex. Hence, the first step in evaluating the relationship of macroeconomic policies and agricultural potential must be the identification of a conceptual, analytical framework. A further complication that must be considered is the external constraints placed by the large foreign debt and the debt service needs of the study countries.

The first task is to identify the elements of macroeconomic policy, of policy choices, and their interrelationships.

ELEMENTS OF MACROECONOMIC POLICY

The three elements of macroeconomic policy are fiscal or budget, monetary, and macro price policy (Timmer, Falcon and Pearson). The relationship of these policies with food policy has been summarized in Figure 1. To set the stage for further development of this topic, an example that has significant current relevance is developed.

FIGURE 1 Major Connections between Macroeconomic Policy and Food Policy



Source: Food Policy Analysis, Timmer et al.

Almost globally, developing nations and newly industrializing nations adopted expansionary economic policies in the mid 1970s. In some cases the motivating factor was the commodity price boom of the early 1970s that greatly increased the level of realized and anticipated government revenues. In other cases, the ready availability of international credit -- in part due to the recycling of petrodollars -- was a motivating factor.

In this environment, budget policy embraced government deficits, which were financed internally through money creation and externally through international borrowing, as an expedient means to accelerate economic growth. Investments in projects with a long-term, delayed payoff were common. Food price policy keyed on subsidizing consumption of urban poor.

As international capital markets closed, these countries turned to financing the budget deficit by creating money which in turn generated inflation. The rising level of prices necessitated increasing levels of consumer subsidies which in turn led to increasing budget deficits. At the same time, as their inflation rates exceeded that of their major trading partners, their exchange rates became overvalued. And so their competitiveness in export markets declined which in turn increased the budget and current account deficits.

With this generalized view as a backdrop, the relationship of macroeconomic policies and the food system can be developed in more abstract terms.

Budget Policy. Budget policy embraces two decisions. First, the size of the budget and second, its sectoral allocation. As suggested above, established programs may in the short run drive the size and allocation of the budget rather than the reverse.

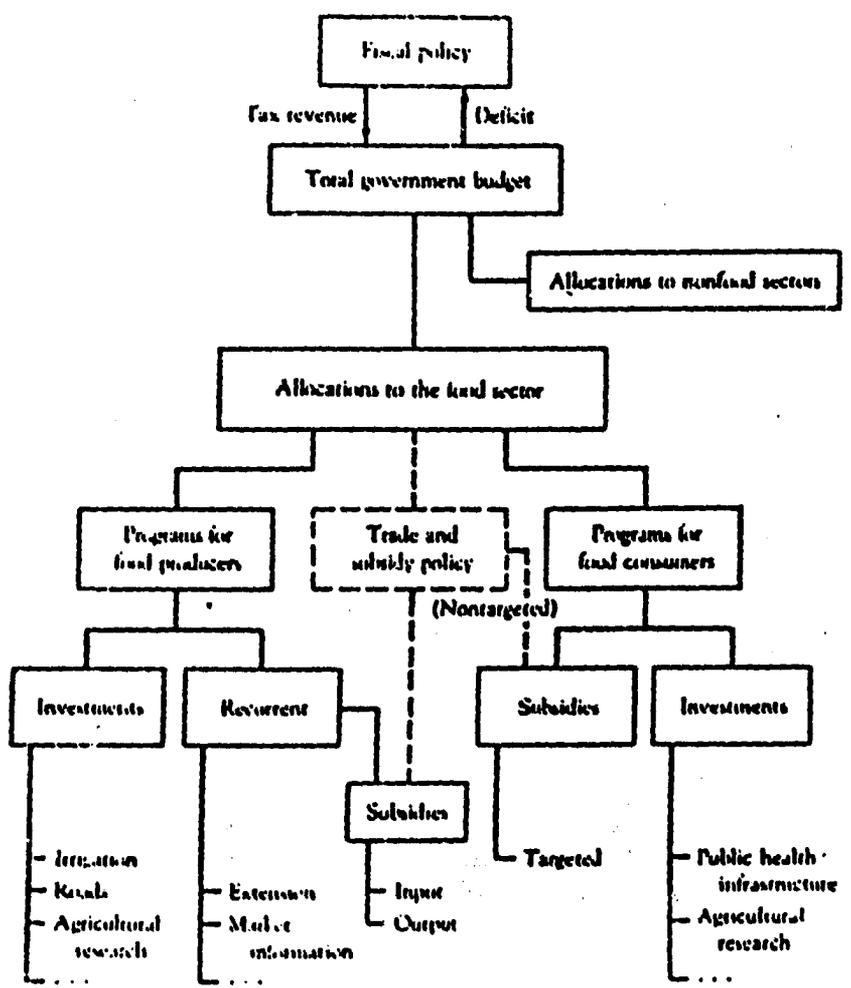
In general, allocations to the food sector may be first divided into food production and food consumption categories and second within each of those categories into current consumption and investment activities (Figure 2). On the production side, current consumption or recurrent expenditures include input and output subsidies and the provision of essential government services. On the consumption side, recurrent expenditures are primarily consumer subsidies while investment, broadly defined, is any activity that increases the efficiency of converting food to human productivity such as health care and sanitation.

In the short run these investment and current consumption activities may determine budget levels and allocation rather than starting top-down in Figure 2. The policy to subsidize consumption may lead to a policy of over-valuing the exchange rate in order to keep import prices down. The budget deficit caused by the allocations to the food sector may, in turn, influence monetary and fiscal policies. These policies will influence interest rates and wage rates.

Monetary and Fiscal Policies. Monetary and fiscal policy are conditioned on the willingness and ability to generate tax revenues and so the budget balance. In some cases, these policies are also conditioned on the ability of the government to extract economic rents from exporting of a natural resource -- petroleum or phosphate for example.

Monetary and fiscal policies will generate pervasive, economy-wide effects in two fashions. First, the level and variability of macro prices are influenced if they are determined by market forces. Second, if macro prices are administratively or legislatively determined, non-market solutions must be found for the resulting distortions that often result. For example, a fixed

FIGURE 2 Budget Allocations and the Food Sector



Source: Food Policy Analysis, Timmer et al.

exchange rate may necessitate regulations to control capital flows and the allocation of foreign exchange earnings.

"Bad" Macroeconomic Policies. Although generalizations are sometimes dangerous, the results of a distorted macroeconomic policy can indeed be generalized. Timmer, Falcon and Pearson characterize distorted macroeconomic policies as:

"...rapid inflation, an overvalued exchange rate, subsidized interest rates for preferred creditors, minimum wages for an urban working class elite, and depressed rural incentives...[which] makes rapid growth in agricultural output extremely difficult, while it simultaneously skews the distribution of earned income" (p. 218).

Following these authors, we now turn to influence of these macro prices on the food sector.

MACRO PRICES AND THE FOOD SECTOR

Timmer et al. identify five macro prices that are determined by macroeconomic policies and, in turn, influence the food sector. First, the impact on prices of basic factors of production -- labor, capital and land -- must be considered. Second, the impact on the relative prices or terms of trade of the rural-urban sector and of the domestic-international markets must be analyzed.

The intent, of course, is to determine the extent to which macro prices provide accurate signals of scarcity as the effects of macroeconomic policies are included.

Foreign Exchange Rates

When accompanied by other supporting trade policies, the exchange rate is relatively easy for a government to control. Further, it has been argued that

the tendency of developing nations has been to overvalue their currency to the detriment of the agricultural and exporting sectors. Clearly, that generalization had broader applicability a few years ago than it does today. First, the meaning and impact of an overvalued currency are discussed. Then, the impact of external indebtedness on exchange rate formation is revealed.

Overvalued Exchange Rates. The appropriate value of one currency relative to a second currency is difficult to determine. However, starting from a point in time, it is possible to determine if the movements of the value of one currency have increased or decreased the international competitiveness of a nation's products. Before proceeding to that analysis, however, a simplistic example of an overvalued exchange rate is developed.

Suppose a leather coat cost 2000 pesos (M\$) to produce in Mexico and \$80 to produce in the United States. If M\$25 exchanges for \$1, a coat produced in Mexico would cost \$80 in the United States while U.S. coats would cost M\$2000 in Mexico, so no trade would occur. If the Mexican government fixes the exchange rate at M\$20 to the dollar, the cost of a U.S. produced coat would fall to M\$1600 and Mexicans would prefer to import coats rather than to purchase domestic production. To counter that preference, Mexico might place a tariff or quota on imports or it might ration foreign exchange. Note also that the overvaluation prices Mexican coats out of the U.S. market.

While this simplistic example illustrates the impact of an increase in the international purchasing power of a currency, a more general evaluation of a currency's value uses the level of prices in one country in comparison to a second. If the movements in an exchange rate simply offset relative rates of inflation, then purchasing power parity is said to be maintained. In this case, an exchange rate movement does not by itself induce trade flows.

Returning to the coat example, some of the impacts of an overvalued exchange rate can be identified. First, imports are undervalued. Imported food may, therefore, be priced below its domestic opportunity costs. It is said to place an implicit tax on agricultural production and provide an implicit subsidy for urban food consumption.

An overvalued exchange rate also discriminates against any production for the export market. The reason is that products are over priced (under priced) in foreign (domestic) markets and so exports are reduced. An indirect effect is that production for domestic consumption tends to be greater as export production tends to be less.

The remedy for an overvalued exchange rate is, of course, a devaluation. The impact on domestic variables of a devaluation for an imported good and exported good are illustrated in Figure 3. In general, the devaluation increases the domestic prices of both types of products. As a result, the country must use monetary and fiscal policies to offset some of the inflationary impacts of a devaluation.

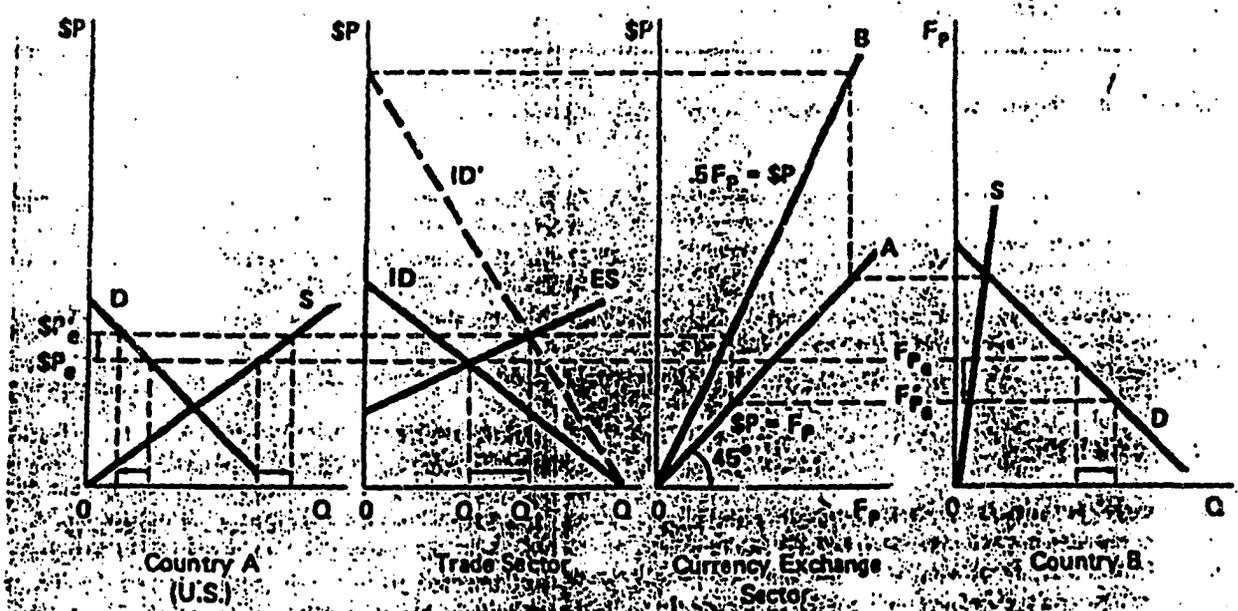
Many exchange rate regimes that overvalued a currency have come to be replaced by a deliberate undervaluation of currency. That change has been motivated by the need to meet large debt service requirements through increased exports and earnings from tourism. Let's turn now to the characteristics of deliberate undervaluation of a currency.

Undervalued Exchange Rates. Quite clearly a number of developing nations have recently embraced a deliberate undervaluation of their currency. The obvious impacts are an increase in import prices and a decline in export prices. But other, more subtle impacts, must be considered.

First, the method of applying selective devaluations tends to contribute to domestic inflation. At the extreme, such as the case of Mexico, the

FIGURE 3 Partial Equilibrium Analysis of the Impact of a Devaluation on Export and Import Goods

Effect of a Currency Readjustment*



*The case depicted holds for a devaluation by the exporting country or a revaluation by the importing country. Arrows indicate the magnitude and direction of changes.

exchange rate is devalued daily. Thus, prices of imported goods increase daily. Other countries, Morocco for example, have devalued on a semi-annual or quarterly basis. The resulting domestic inflation due to the increase in the price of imports varies only by degree across these countries. This inflation operates against fixed consumer prices to increase subsidies and so government expenditures. If the subsidies are financed by money creation, inflation is further increased. It seems reasonable to expect rates of inflation that exceed historical experience in many of these countries.

Second, almost all of their foreign debt is denominated in dollars as is the price of oil. The quantities that must be exported in order to meet debt service requirements and to finance imports increase as a currency declines in value. Whether undervaluing a currency increases export earnings depends critically on the elasticity of export demand. The exception to this generalization is when a nation's exports are priced in dollars in the international market. This is the case for petroleum, phosphates and many other products. In this case, international purchasing power rests with the relative strength of the dollar. One of the motivating factors for the willingness of OPEC members to reduce the price of oil is the increased international purchasing power of dollar denominated oil exports.

Quite clearly, the norm of the future may well be undervalued rather than overvalued exchange rates in developing nations.

INTEREST RATES AND CAPITAL MARKETS

Interest rates serve two functions. First, interest rates serve to allocate capital among alternative uses with varying rates of return. This might be thought of as the demand for capital. Second, interest rates determine the supply of capital in the form of domestic savings or imported capital. The interest rate must be sufficient to induce income earners to

shift income from present consumption to savings. The interest rate must obviously exceed the inflation rate by a sufficient margin in order to induce savings.

Economic development depends on capital creation hence a low real interest rate has been an integral part of the development policy of many nations. Evaluation of the impact of this policy requires a rudimentary knowledge of the interaction of interest rate policy with monetary and fiscal policy, the savings rate and the development of financial institutions.

A "low" interest rate policy has two dimensions. First, if the interest rate is low relative to the rate of inflation, the flow of domestic savings may be less than that needed to finance economic growth through capital accumulation. Second, if the flow of savings plus international capital flow are insufficient to meet the demand for capital, then institutions must be developed to ration available capital.

The institutional rationing of capital may lead to market segmentation. The government-sanctioned lending institutions tend to serve commercial agricultural and industrial interests. Rural credit markets tend to be informal and the interest rate tends to be higher. And these differential interest rates, arising from segmentation of capital markets, lead to differing rates of capitalization across sectors of the economy.

In addition to domestic interest rates, that paid on external debt has become a critical factor. Recent increases in interest rates far above historical norms, coupled with the short-run nature of most obligations have placed an external constraint on many developing nations' ability to generate internal growth. In particular, nations must generate increased export earnings in order to import capital needed for economic development while meeting debt service requirements.

WAGE RATES

The legislation of minimum rural and urban wages is common in developing nations. At an abstract level, the minimum wages would influence the choice of production technology, rural-urban migration, and export competitiveness. While a consensus of the impact of minimum wage has not been reached, some tendencies can be described.

First, a minimum urban wage, which can be readily enforced only for government jobs and those of highly visible industries, tends to lead to the establishment of an urban "elite" that has obtained access to those jobs. Workers competing for jobs in more informal sectors tend to receive much lower wages. Nevertheless, the establishment of a minimum urban wage may induce a flow of workers from rural areas.

It is argued that the establishment of a minimum wage leads to the adoption of labor-saving capital. The degree of substitution of capital for labor varies greatly across sectors and nations. Finally, increases in an effective minimum wage, as is the case for prices in general, if not offset by a devaluation of the nation's currency may lead to a decline in international competitiveness.

In the remainder of this paper, the economic environment and policies of Egypt, Morocco and Jordan are analyzed. Special attention is paid to the impact of macroeconomic policies on the ability of these countries to compete in international markets.

EGYPTIAN ECONOMIC ENVIRONMENT AND POLICIES

Economic Environment

After several years of relative stagnation in economic growth, when real per capita gross domestic product (GDP) grew at less than one percent per year during 1970-74 (Figure 4), the Egyptian government initiated a major change in economic policy in 1973. The economic strategy -- termed the open-door policy -- sought to turn the economy toward export markets and import substitution through creation of a free foreign exchange market and establishment of economic incentives for foreign and domestic private investment.

Subsequently, the economy expanded at a more rapid rate with real per capita GDP increasing at 5.9 percent during 1975-79 and over 6 percent in the early 1980s (Figure 4). The impressive economic growth, however, did not result from the economic strategy adopted in the early 1970s. Rather, the growth of the late 1970s was fueled in part by dramatically increased government expenditures and resulting budget deficits (Figure 5). Government revenues increased from about E£1.2 billion in 1974 to E£3.7 billion in 1979, but expenditures increased from about E£2 billion to 6.6 billion in the latter year. Thus, the budget deficit increased from less than E£1 billion in 1974 to almost 3.0 billion in 1979. The budget deficits were primarily financed by external borrowing; external debt (medium and long term) increased from US\$2.4 billion in 1973 to US\$12.2 in 1979 (Figure 6).

At the same time that the fiscal deficit was financed externally a rapidly growing merchandise trade deficit required large external capital inflows as well. Merchandise exports grew at a very slow rate from 1970 to 1978 with a billion US\$ jump in 1979 due to the increase in petroleum prices (Figure 8). During that period, merchandise imports doubled with the result that the resource gap (trade balance) increased from around one billion US\$ in

FIG. 4. REAL PER CAP. GDP, EGYPT
1971-1983

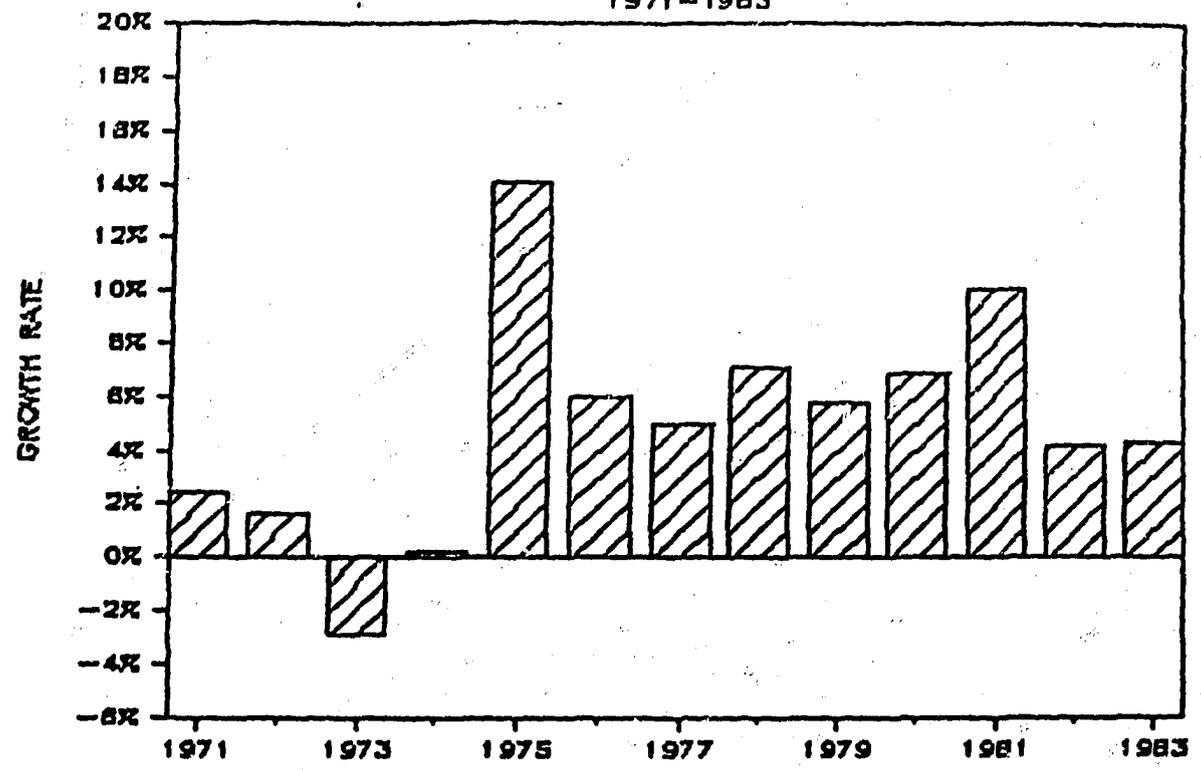


FIG 5. GOVERNEMENT FINANCE, EGYPT.
1974-1983

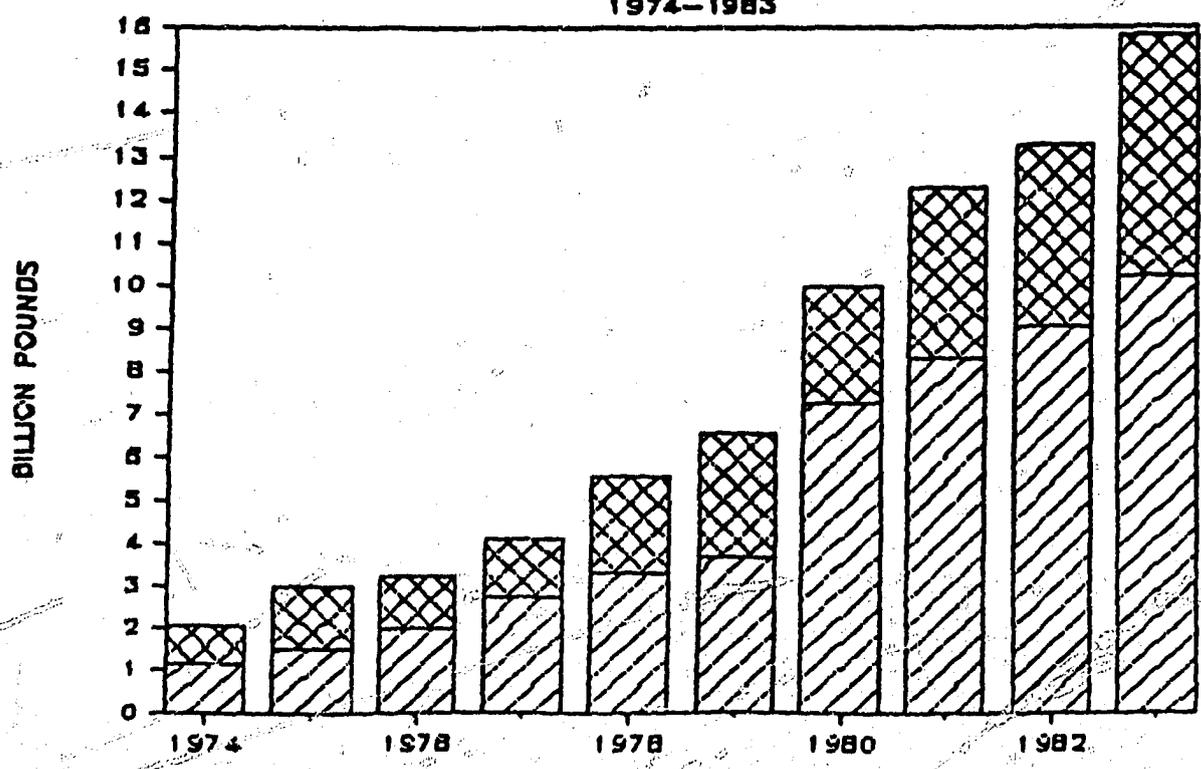


FIG. 6. EXTERNAL DEBT, EGYPT

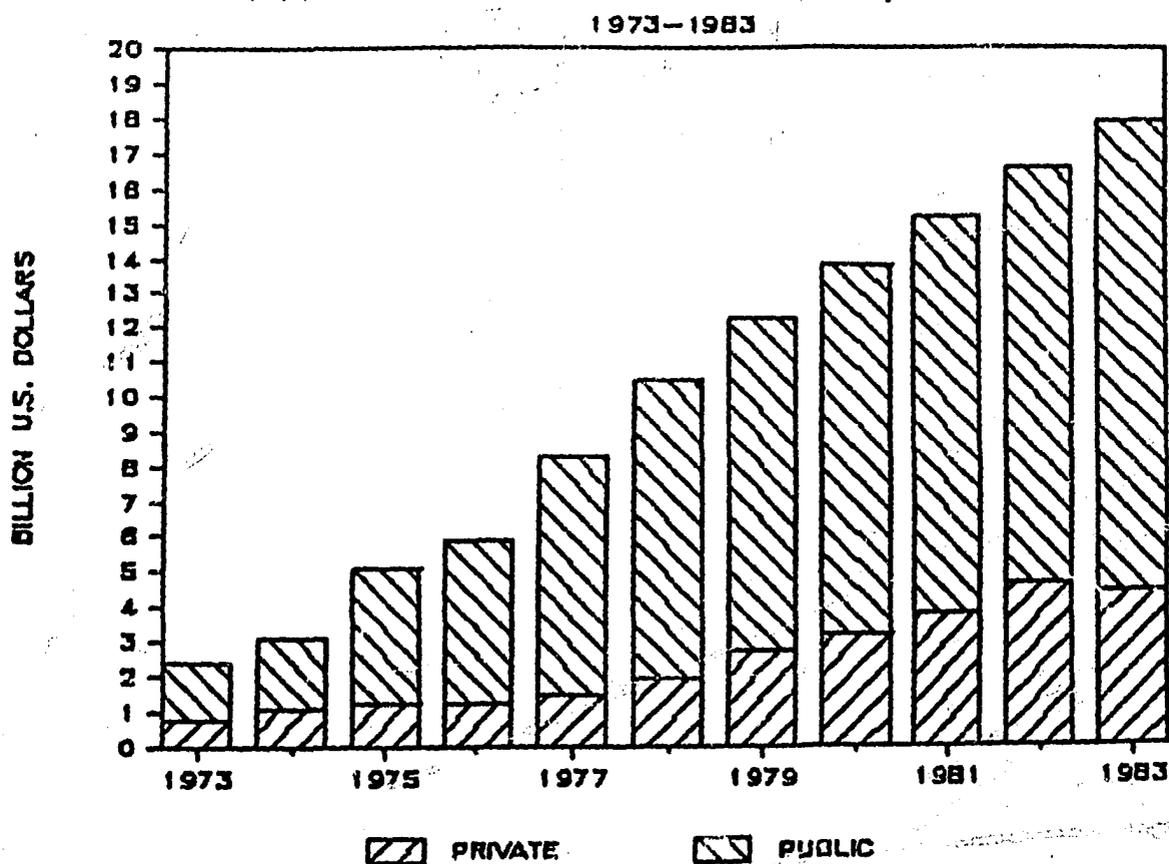


FIG 7. EXTERNAL DEBT SERVICE, EGYPT

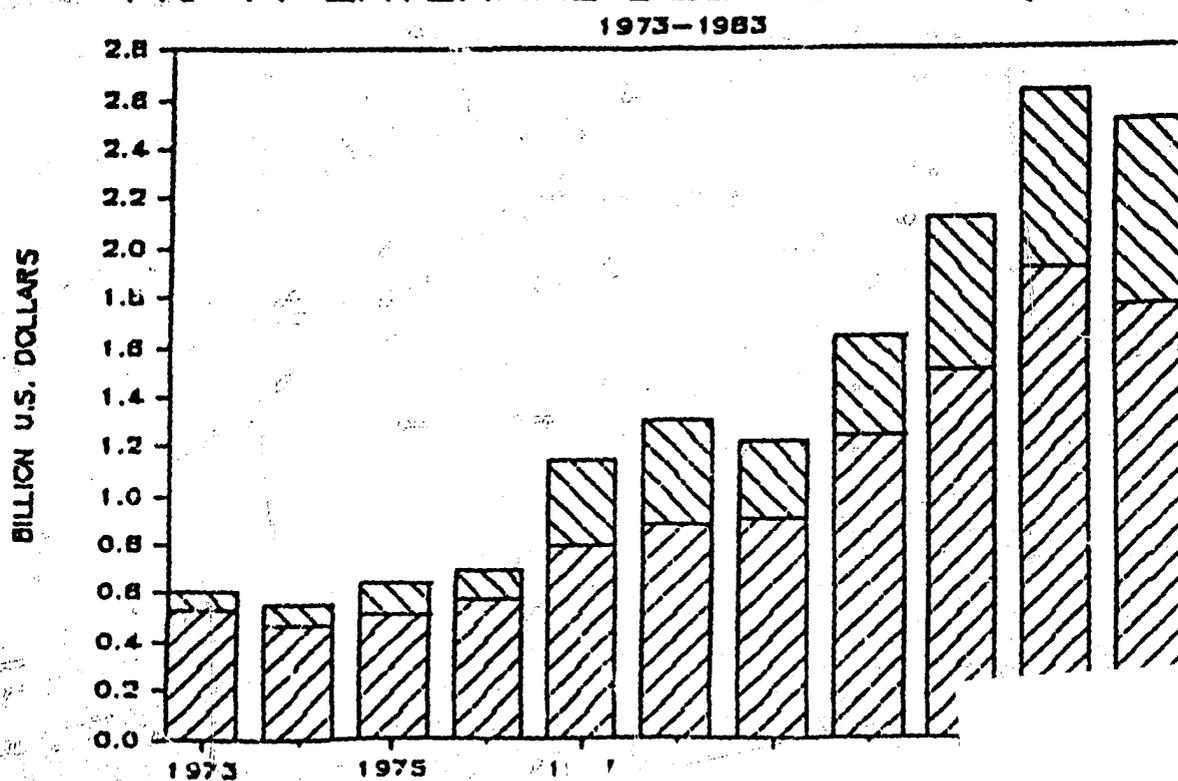


FIG. 8.. MERCHANDISE TRADE, EGYPT.

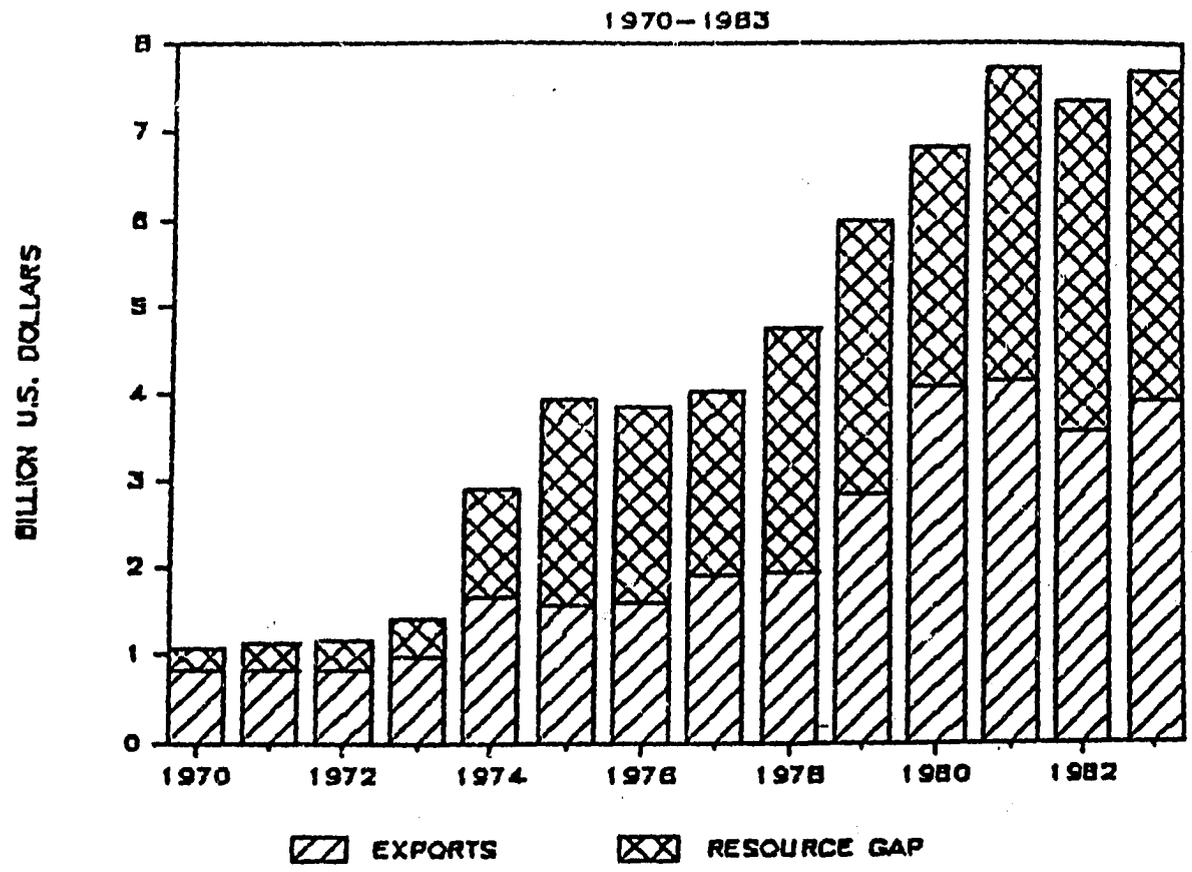
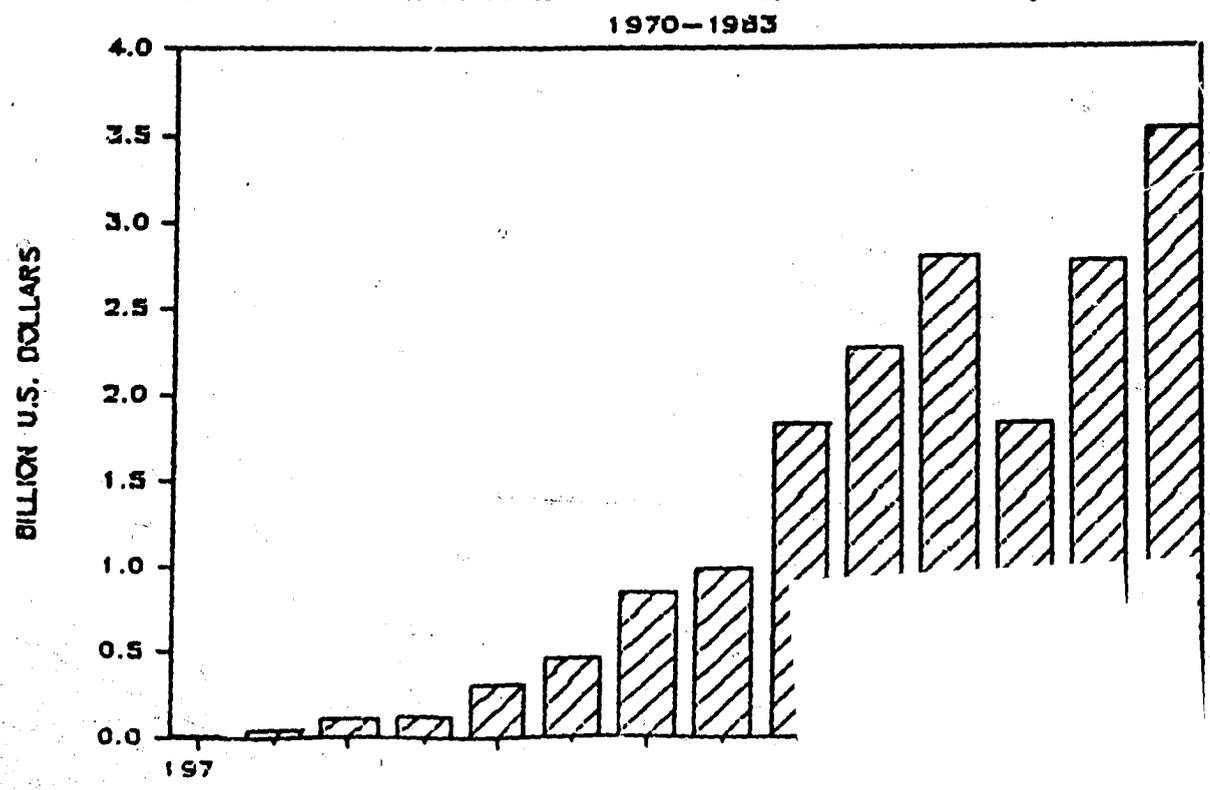


FIG. 9. PRIVATE UNREQ. TRANS., EGYPT.



the early 1970s to US\$3.6 billion in 1979. The resource gap was partially offset by increased remittances from Egyptians working in North African and Gulf countries (Figure 9). Private unrequited transfers, the bulk of which are worker remittances, increased from less than US\$100 million in the early 1970s to 2.3 billion in 1979. The increasing level of worker remittances and petroleum revenues coupled with the reopening of the Suez Canal held the current account deficit to an average of about US\$1.2 billion during this period (Figure 10).

These sources of economic growth continued to fuel the economy in the early 1980s. The government deficit increased to an estimated E£5.5 billion in 1983/84 as government expenditures grew to almost E£16.0 billion. The level of merchandise imports continued to grow from 1980 to 1981/82 while merchandise exports and worker remittances stagnated. As a result, the current account deficit ballooned to US\$2.4 billion in 1981/82. To finance the fiscal and current account deficits, external debt increased to over US\$15.2 billion in 1981, US\$16.6 billion in 1982 and almost US\$18 billion in 1983. The startling current account deficit in 1981/82 prompted the government to restrict imports, primarily of the public sector, in the following years. The import restrictions, coupled with a further expansion of worker remittances has reduced the estimated current account deficit to an estimated US\$871 million in 1983/84. The cumulative effect of fiscal and trade policies since 1973 is an external debt of almost US\$18 billion and annual debt service requirement exceeding US\$2.5 billion.

The external sources of economic growth allowed the government to largely ignore the basic philosophy of the economic strategy adopted in the early 1970s. Rather government involvement in production of many consumer goods was maintained at high levels. The public sector produces consumer goods ranging

FIG. 10. CURRENT ACCOUNT BAL., EGYPT.

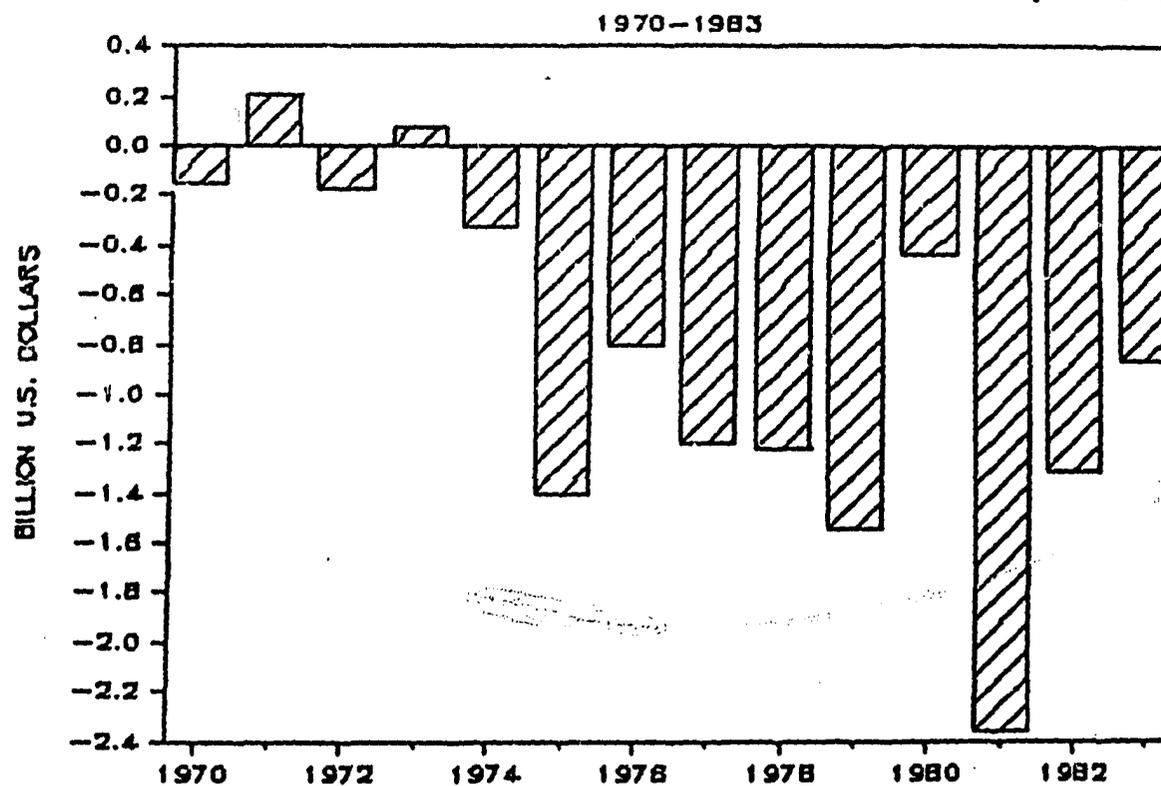


TABLE 1 Industrial Commodities Produced Under Centralized Price Control, Egypt, 1984

Commodities Produced by Industries Supervised by Ministry of Industry

Soap	Soft drinks	Reinforcing iron bars
Industrial detergents	Low-priced fabrics	Fertilizers
Cigarettes	Low-priced sweaters	Tanned leather
Processed tobacco	Low-priced blankets	Refrigerators
Cigarette paper	Cotton yarn	Washing machines
Cheese	Woolen yarn	Passenger cars
Margarine	Plywood	Acetylene gas
Edible oil	Drinking glasses	Pencils
Sugar	Salt	
Macaroni	Shoes	
Milk and yogurt		

Source: Ministry of Industry

Note: In 1980/81, 27.4 of industry production fell in this category. For 1981/82 and 1982/83, the estimated percentages are 30.5 and 30.7 respectively.

from pencils to soft drinks to shoes under centralized price controls (administered prices) (Table 1). In the early 1980s in excess of 30 percent of industrial production was accounted for by these public sector enterprises. The wide ranging participation of the public sector is indicated by the following aggregate data: government expenditures represented about 60 percent of GDP, 40 percent of employment and 70 percent of investment.

The public sector involvement in industrial production has had several effects. First, in order to keep the administered prices of consumer products low, administered input prices were kept low. For the agricultural sector, producer prices of many products have been held well below private (world market) prices. Second, it has created a dualistic economic structure with the lethargic public sector on the one hand and a dynamic import sector on the other. The content and impact of price policies is discussed at some length later.

The economic policies pursued during the 1970s and 1980s place a number of implicit and explicit obstacles to export promotion and import substitution. Not the least of which were an unrealistic exchange rate policy, foreign exchange confiscation, and restrictive and discriminatory import and export regulations.

It is generally recognized and accepted in Egypt that the dependence on external sources for economic growth must be changed. That the sources of economic growth must be broadened by a virtual transformation of public and private sectors toward export promotion and import substitution. That recognition is reflected in changes in the current policy environment.

Economic Policies

Exchange Rates and Foreign Exchange Policy

The Egyptian foreign exchange and trade system remains very complex despite liberalization in the mid-1970s. The foreign exchange market is fragmented in three pools and even larger number of exchange rates.

Official rates are utilized by the Central Bank based on a foreign exchange pool derived from Suez Canal revenues and the export of cotton, rice, and petroleum. One official rate is used primarily for the payment of external government debt and the importation of basic supply commodities and selected agricultural inputs. This official rate, unchanged since 1979, is \$1.43/EE (.7 EE/\$). In addition, special exchange rates apply to transactions with central plan economies with non-convertible currencies (the Soviet Union, PRC, and North Korea).

Commercial bank rates are utilized by commercial banks for the commercial bank pool. The commercial bank pool is funded by worker remittances and tourism. In August 1981, an official commercial bank rate of \$1.20/EE was established. Although the official rate has remained unchanged, few transactions are conducted at the rate. The bulk of transactions occur at a premium rate which in mid-1984 equalled \$.89/EE (EE1.12/\$). Currently, only selected tourism transactions occur at the official commercial bank rate.

Until April 1983, the majority of private exports were channeled through the commercial banks at the official rate. Since then, exporters have been allowed to retain foreign exchange earnings and to change at the own (free) market rate.

"Free" or "own" exchange market established in 1976, is funded by workers' remittances (that don't go through the commercial banks), foreign

investment, and tourism. The private sector uses this market to finance imports and for foreign dollar denominated assets.

Analysis. The overvaluation of the official (Central Bank) rate relative to the free market rate underprices certain agricultural exports and foodstuff imports. Assume the export (world market) price is \$1 per unit. The export price in local currency at the official rate would be only E£.7 in comparison to that of E£1.20 at free market rate. In turn, the resale price of selected foodstuffs (wheat, for example) would be E£.7 at the official rate versus E£1.20 at the free market rate. This example illustrates that overvaluation of the Central Bank rate is an important element of the subsidization of basic consumption products.

The determination of the free market and of the commercial bank rate is based on the supply from worker remittances, tourism and exports not covered by the Central Bank rate and the demand to finance imports of the public and private sector. Hence, the free market rate will not fully reflect the current account balance except as the government is able to control imports. It will also not fully reflect differential rates of inflation.

From April 1982 to March 1984, the real commercial bank and free market rate are estimated to have appreciated by almost 27 percent. The appreciation of the exchange rate is attributed to the increase in workers' remittances, the restraint of imports and the growing overvaluation of the Central Bank rate which held down input price increases to the agricultural and public industrial sectors. The appreciation of the currency aggravated an already large trade and current account deficit.

Quite clearly, the recent reforms in the exchange rate and retention of foreign exchange earnings represent a favorable change for exporters. However, just as clearly, the dependence on worker remittances to fund the

commercial bank and free market pools adds an element of instability to exchange rate determination and isolates, at least to some extent, the exchange rate from adjustment due to internal inflation. The government can affect the free market rate and premium commercial bank rate only indirectly.

Wage Policy

Purchasing power of consumers is maintained by administered prices for basic consumer goods rather than maintenance of a minimum wage. As such, the wage rate for the agricultural and industrial sector reflects the supply of labor relative to demand.

The outflow of workers to other countries, estimated at about 4.5 million in the 1980s, has significantly increased the average wage level. From 1970 to 1979, wages are estimated to have increased four-fold. From 1979 to 1983, the average daily wage almost tripled (Table 2). This increase in average wages operated against a constant Central Bank exchange rate and until recently appreciating commercial bank and free market rate. Export prices, other things constant, have not offset the significant increase in labor costs.

Export Promotion Policies

The A.I.D. Mission in Egypt has identified several recent policy changes that will increase the competitive position of private sector agricultural exporters. The changes include:

1. Ministry of Economy Decree No. 126/1983 (April 22, 1983), permitting private sector exporters to retain foreign exchange earnings for most types of commodity exports, including most types of commodity exports, including most horticulture products, and to receive the

TABLE 2 Daily Agricultural Wage and the Exchange Rate, Egypt, 1979-1983

Year	Daily Wage ^{1/} (EF)	Free Exchange Rate (\$/EE)
1979	1.56	1.08
1980	1.95	1.12
1981	2.56	1.28
1982	3.25	1.29
1983	4.09	1.36

Sources: Unpublished Ministry of Agricultural data and International Financial Statistics.

^{1/} Average daily wage plus prerequisites.

free market rate of exchange for their hard currency when buying Egyptian pounds.

2. Law #95 of August 4, 1983 establishing the Export Development Bank.
3. A premium on exports under bilateral trade agreements compensating for deterioration of the exchange rate.
4. Abolishing export committees that fixed minimum prices for fresh produce exports by the private sector; recommended (rather than obligatory) minimum export prices are announced.
5. Establishing five governmental committees involving the concerned governmental agencies and private sector exporters; the committees are to make recommendations about (a) transportation and cargo handling, (b) simplification of customs and other formalities, (c) relaxation of export quotas and prohibitions, (d) export planning, (e) moral and financial incentives to export.
6. The ending of restrictions on the export of most fruits and some vegetables during offseason periods; in the past, the government sometimes had tried to control wholesale and retail prices when supply was short by banning exports.

The mission concludes that the steps taken by the government of Egypt in 1983 to promote exports were selective in nature. Private sector agriculture, and specifically horticulture, exporters may benefit from the new policy environment for exports. In addition, the mission notes the Minister of Economy also has been consulting with the private agricultural exporters as a legitimate interest group to solve selective problems (e.g., by allowing Jordanian-operated refrigerator trucks to undertake deliveries by land from Egypt to the Arabian Gulf states). The Ministry's Egyptian Export Promotion

Centre has undertaken surveys of foreign markets for horticultural products and provides marketing assistance to Egyptian private sector exporters of such products.

Price Policies

Resource allocation in the agricultural and industrial sectors has been skewed by administered prices for public and private sector output. The goals of price policy have varied across commodities. For agricultural export crops (cotton and rice, for example), administered producer prices have typically fallen well below world market (export) prices. One objective, of course, was to maintain an important source of government revenues. In addition, maintaining low producer prices kept down costs for public sector industries (cotton and the textile industry, for example). The objective in the latter case was providing low-priced consumer goods.

The producer prices of important import-substitution crops have been held below world market (import) prices to minimize government expenditures to subsidize consumption. At least partially due to these price policies, the agricultural sector trade balance turned from a \$300 million surplus in 1970 to a \$2.5 billion deficit in 1981. This dramatic growth in food imports has placed considerable strain in the balance of payments. At the same time, subsidies have grown to an estimated E£2 billion in 1983/84, about 13 percent of government expenditures.

First, we turn briefly to comparison of domestic and international prices and then to some examples of the subsidy policy. In 1980, Ingram estimated that domestic price of cotton was only 18 percent of the international or export price (Table 3). He also estimated that wheat producer price was 54 percent of import price and rice was only 23 percent of export price. Later estimates (1982/83), reflect recent efforts to bring producer prices more in

TABLE 3 Comparison of Domestic Producer and International Prices for Selected Agricultural Commodities, Egypt

Commodity	1980		1982/83	
	Domestic	International	Domestic	International
Cotton (ginned)	330.0	1800.0	1130.4	3270.1
Wheat	77.0	141.0	104.2	127.7
Rice	75.0	320.0	105.0	319.3
Sugar Cane	--	--	18.2	26.7

Source: 1980: Ingram, James C. "Egyptian Agricultural Price Policies and the Balance of Payments."
1982/83: Ministry of Agriculture.

TABLE 4 Import, Producer and Domestic Selling Price for Selected Food Products, Egypt, 1979-1982/83

Commodity	1979	1980/81	1981/82	1982/83
	----- (EE/m.t.) -----			
WHEAT				
<u>Prices</u>				
Import Price ^{1/}	124.6	141.1	144.5	127.7
Producer Price	70.0	83.3	83.3	104.2
Selling Price	24.7	41.3	41.3	41.3
<u>Subsidy</u>				
Imports	100.2	99.8	103.2	86.4
Domestic Production	45.3	42.0	42.0	61.9
WHEAT FLOUR				
<u>Prices</u>				
Import Price	174.9	241.8	199.0	136.1
Selling Price	67.8	70.7 ^{2/}	70.7 ^{2/}	70.7 ^{2/}
Ration	100.0	100.0	100.0	100.0
Other	245.0	300.0	300.0	300.0
<u>Subsidy</u>				
Ration	86.0	416.0	173.6	66.6

Source: General Authority for Supply Commodities.

- ^{1/} Average price for contracted imports.
^{2/} For European-style bakeries.

line with world market prices. Thus, resources would have flowed to those products receiving most favorable price treatment or that were not covered by administered prices (fruit and vegetables, for example).

The range of the deviation of producer, consumer, and import prices is illustrated for wheat, wheat flour and sugar (Table 4). The import and domestic price for wheat have tended to converge reflecting increases in the producer price and declines in the world price. In 1982/83, according to these estimates, the producer price was 82 percent of import price. The domestic selling price was 32 percent of import price and 40 percent of domestic producer price. Maintaining the domestic selling price required a subsidy of 67 percent on imports of 60 percent on domestic production.

The analysis is similar for wheat flour. The subsidy was more than double the domestic selling price in 1980/81 and about equal to it in 1982/83. The combination of a low producer price and a low consumer price both contribute to increased levels of imports as demand is greater and supply less than if world market prices prevailed.

The intervention via administered prices has caused private returns to deviate from economic returns (shadow prices) for many products (Table 5). Moreover, the degree of distortion appears random, it does not appear to reflect a systematic plan. The ratio of private returns to economic returns varied from 1.27 for wheat to 15.53 for onions. In the former case, producer prices are administered with production sold to the government. In the latter case, the government is the sole exporter of onions and sets the export price. The table also illustrates that even though the private returns for fruits and vegetables fall short of economic returns, those returns are much greater than for cereals and cotton.

TABLE 5 Private (Financial) and Economic Returns to Land for Selected Agricultural Commodities, Egypt, 1981

Crop	Ratio		Ratio
	Private	Economic	
Wheat	84	105	1.27
Barley	43	56	1.30
Onions	97	1506	15.53
Rice	59	170	2.88
Cotton	155	421	2.72
Tomatoes	388	1193	3.07
Potatoes	203	319	1.58
Oranges	295	668	2.27
Sugar Cane	155	212	1.37

Source: World Bank Report No. 4136 EGT.

The prices of fruit and vegetables have not been administered at the farm level. But, maximum wholesale and retail prices have been established on a daily basis for vegetables and until this year for fruits. The establishment of a single price and not a range of prices reflecting quality differentials removes much of the incentive to supply high quality produce. To be sure, markets reward producers of quality produce to some degree but the pricing system does not systematically provide an incentive.

To summarize, the administered prices at the retail and consumer level have been argued to have decreased the rate of economic growth. First, foreign exchange has been utilized for foodstuffs imports at the expense of capital imports. Second, that food consumption subsidies divert government revenues from capital to recurrent expenditures.

MOROCCAN ECONOMIC ENVIRONMENT AND POLICIES

Economic Environment

From independence until the early 1970s, the Moroccan economy expanded at a steady, but unspectacular rate, reflecting a low level of domestic savings and, in the absence of extensive foreign investment and credit, a low level of domestic investment. Acting against gains in aggregate output, the high rate of population growth diluted per capita real gross domestic product, maintaining it at an almost constant level from 1967 through 1973 (Figure 11). At the same time, the economy was judged to be economically sound. Merchandise exports nearly equaled imports (Figure 15) and so the current account deficit was very small and easily financed through limited foreign borrowing and aid (Figure 13).

Because of the low growth potential from internal sources, the 1973-77 economic development plan emphasized an export-oriented investment strategy to increase foreign exchange earnings and an income redistribution program along with other policies to increase domestic savings and thus provide the resources to increase investment. The key elements of the plan were almost immediately discarded as government receipts from phosphate exports increased from \$200 million in 1973 to \$900 million in 1974 and close to \$850 million in 1975. In anticipation of continuation of these revenues the Moroccan government embarked on an ambitious public-sector investment program. Paralleling the actions of many nations following an increase in government revenues from extractive-resource exports, the economy and government policies became more inward oriented.

The rapid expansion of public sector investment increased its proportion of gross fixed capital investment from around 13-15 percent previously to 33 percent in 1977. Including state enterprises, the proportion increased to

FIG 11. REAL P. CAP. GDP, MOROCCO

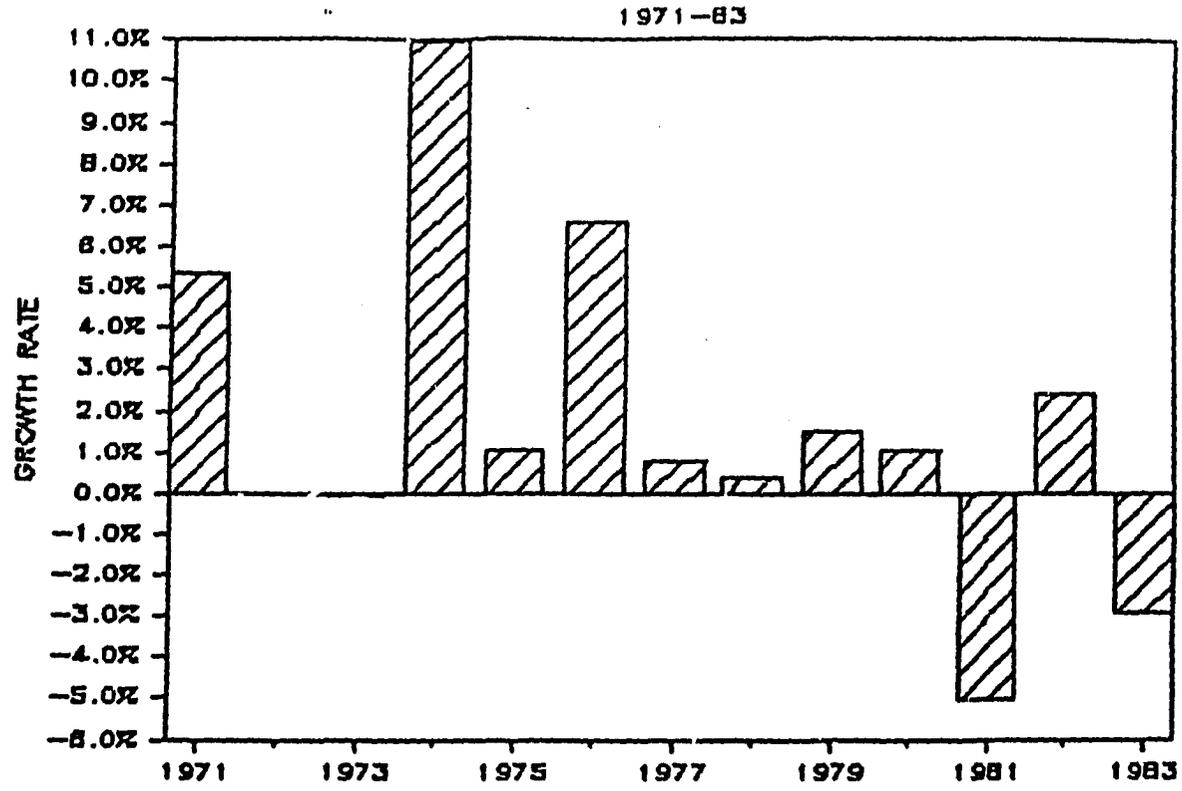


FIG. 12. GOVERNMENT FINANCE, MOROCCO

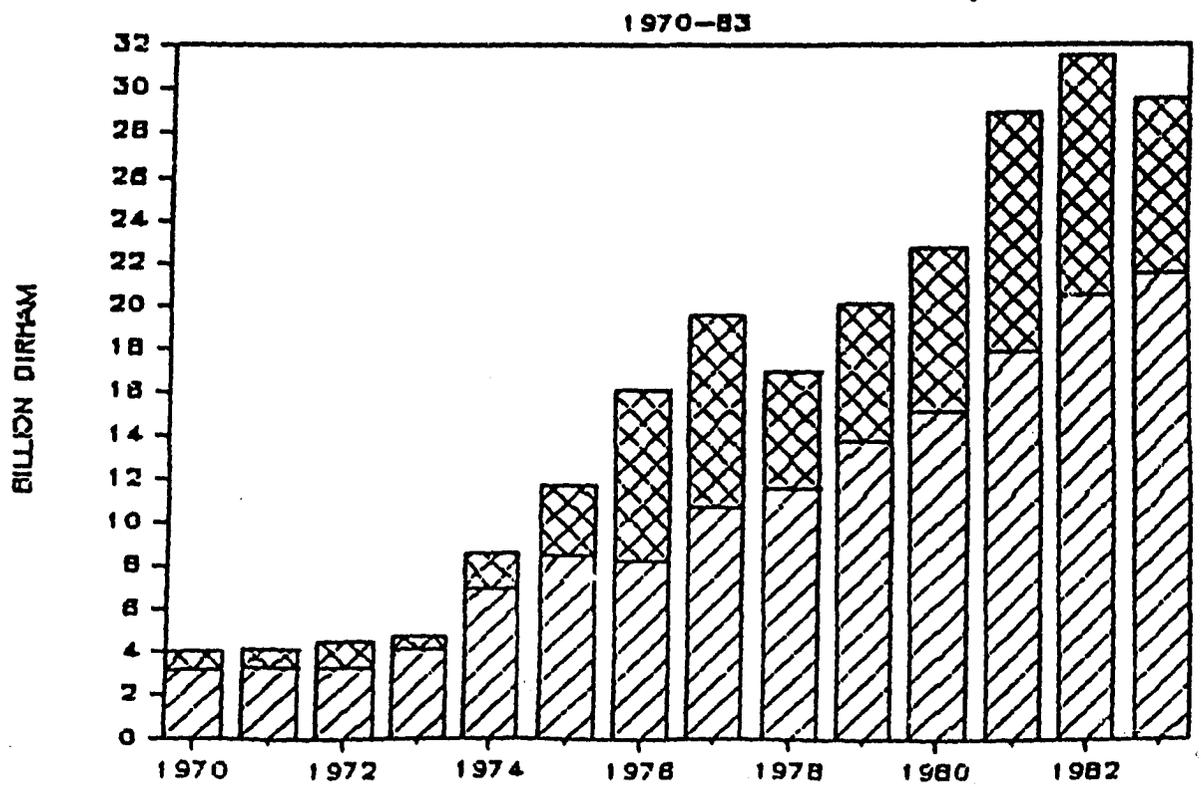


Fig. 13. EXTERNAL DEBT, MOROCCO

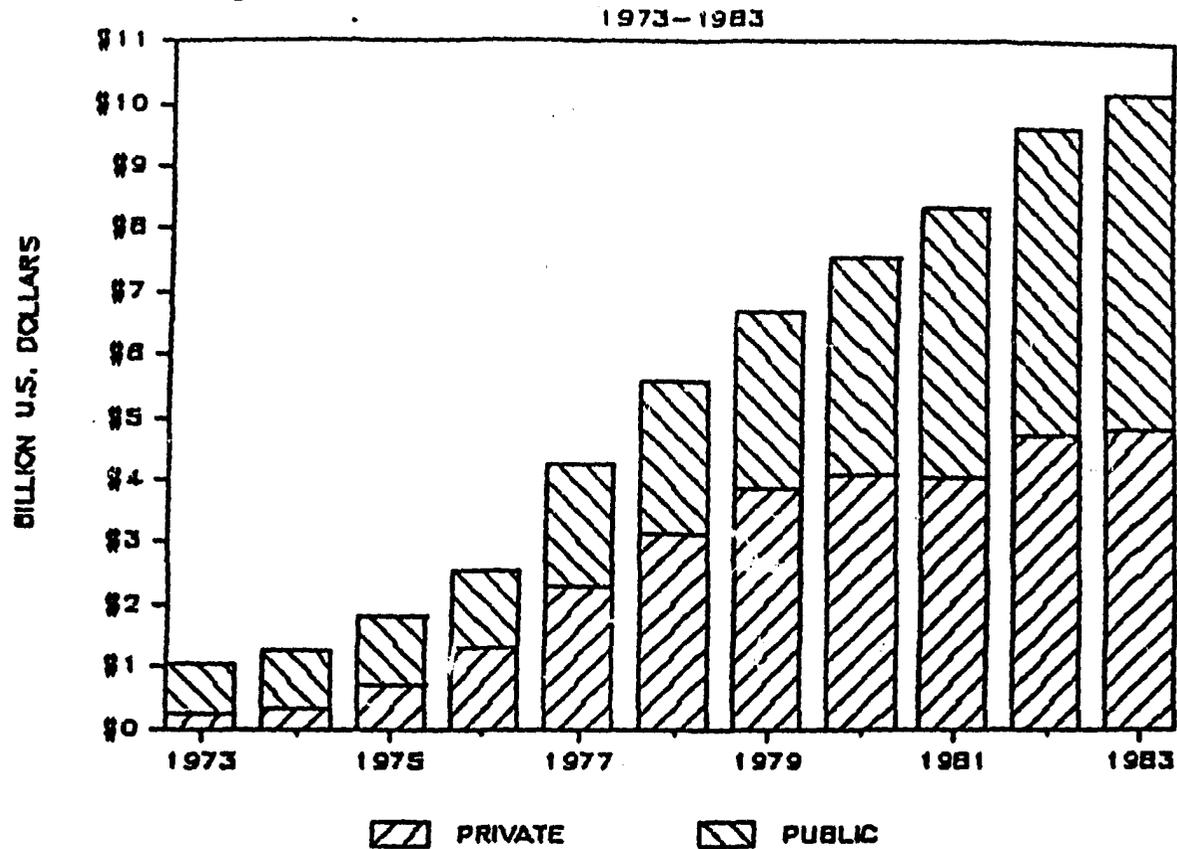


FIG. 14. EXT. DEBT SERVICE, MOROCCO

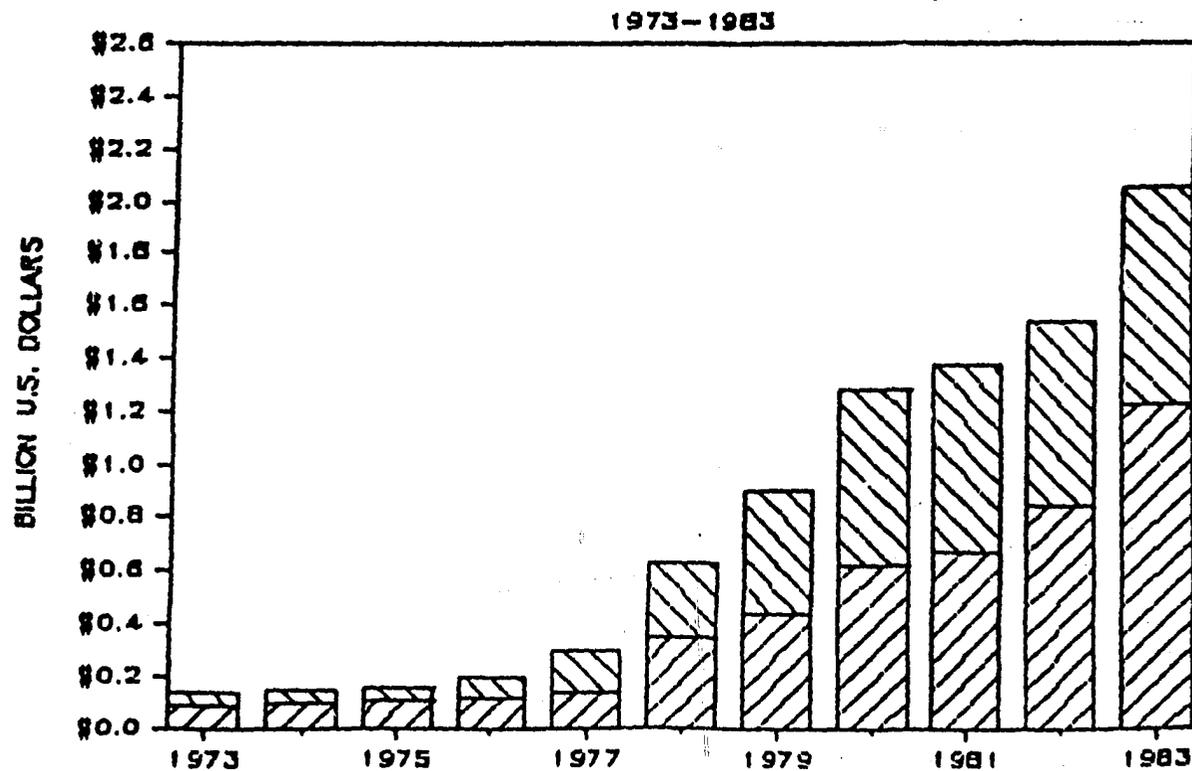


FIG. 15. MERCH. TRADE, MOROCCO

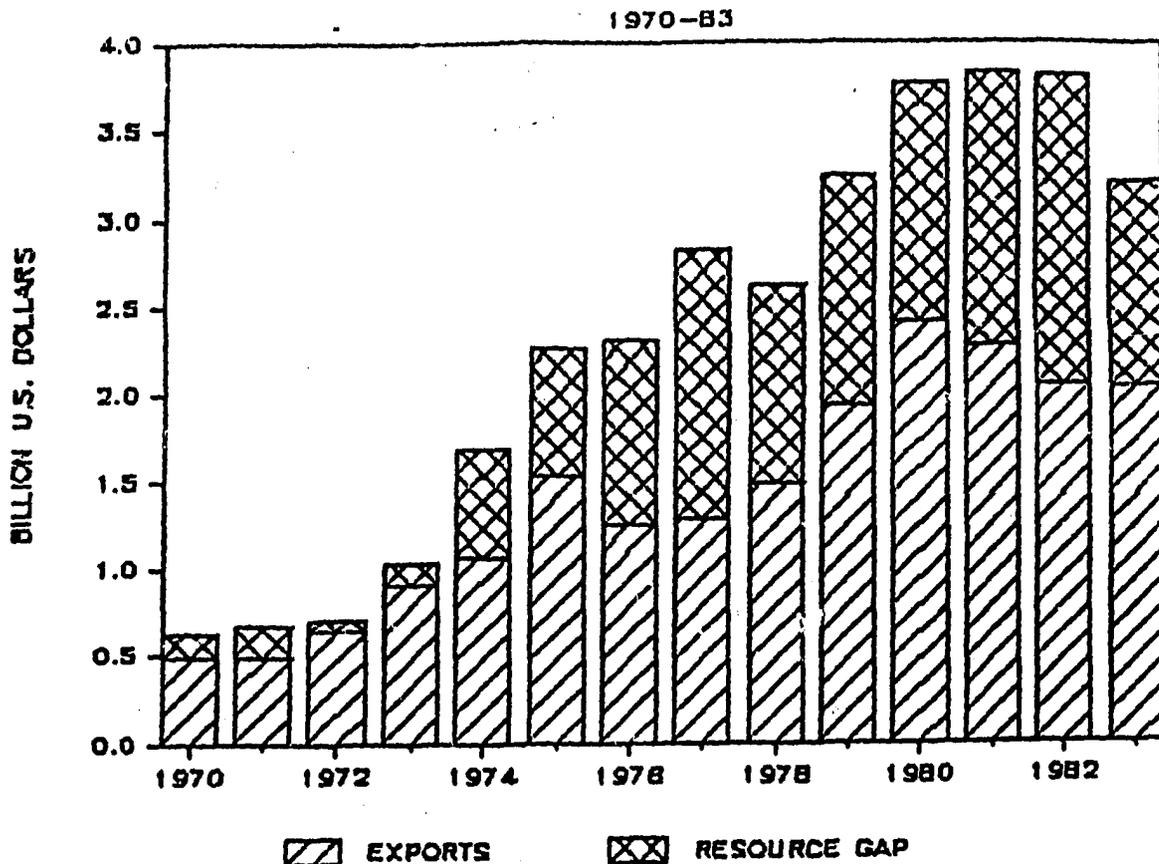
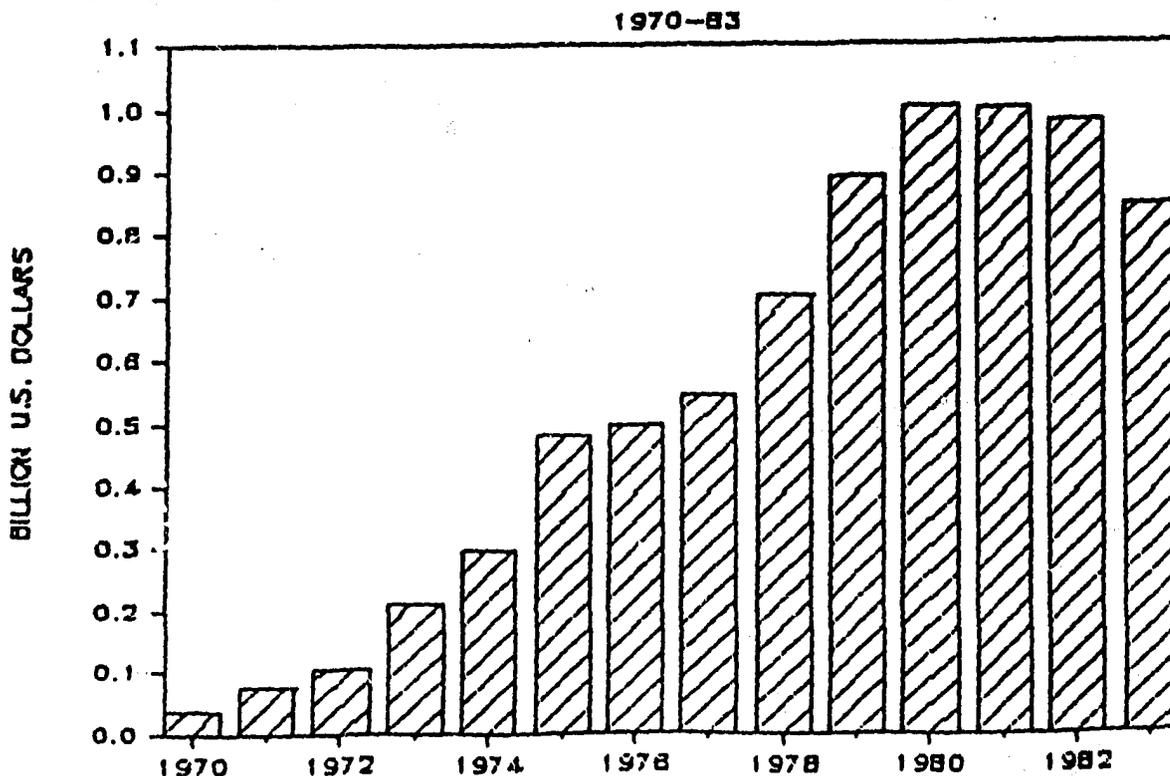


FIG. 16. PRIV. UNREQ. TRANS., MOROCCO



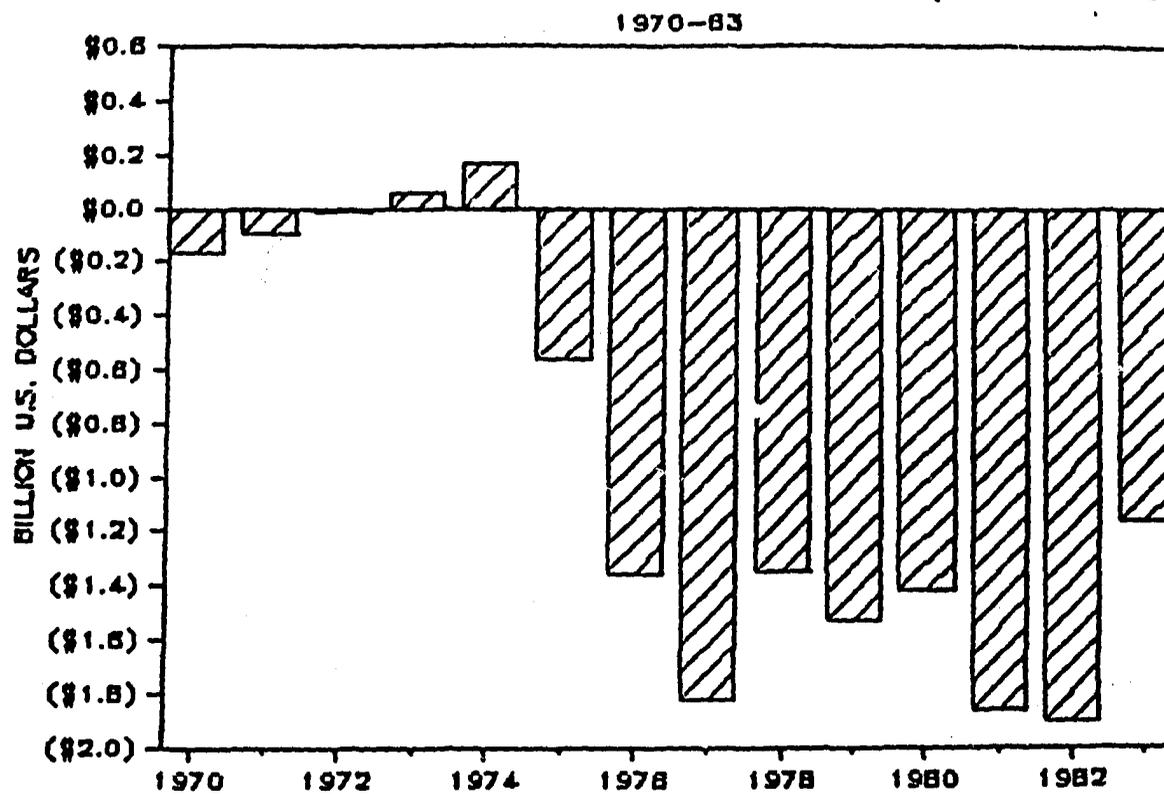
almost half of investment as compared to a third previously. Public sector investment favored public services, communications and housing. Conversely, the share of government investment to agriculture, energy and mining declined as did the share of private sector investment. Moreover, it is argued that the state investment tended to favor import-substitution rather than export-promotion activities. The profitability of these investments was assured by increased levels of tariffs on competing imports.

The end result was a production structure that was largely uncompetitive in world markets. As a result, exports stagnated at about US\$2 billion while imports soared to about US\$3.8 billion fueled by bad weather, economic expansion, and increased military and petroleum import expenditures. And so the resource gap (trade balance) grew to an annual average of about US\$1.5 billion and the current account deficit increased to about the same magnitude and foreign borrowing exploded to cover the shortfall (Figure 15). Total external debt increased from US\$1.0 billion in 1976 to over US\$11 billion in 1983 (Figure 17). Before turning to the external constraints arising from this period, the discussion of budget policy is completed.

The sectoral allocation and the level of government expenditures resulted in a market decline in domestic (public and private) savings. The financial requirements of the investment program was at least partially financed by money creation and so inflation increased. The increased general level of prices operated against fixed consumer prices of many products and so subsidy costs increased, further accentuating the budget shortfall.

All of these factors led to a current account deficit that reached almost \$2 billion in 1977 and around \$1.5 billion in the next three years (Figure 17). Foreign public and private debt increased from slightly over \$2 billion in 1976 to over \$7 billion in 1980.

FIG. 17. CURRENT ACC'T BAL., MOROCCO



The momentum of the government investment program was broken in 1978 with a sharp reduction in that program. But the economy's investment rate has remained high (in excess of 20 percent of GDP) while the domestic savings ratio has remained low (slightly in excess of 10 percent of GDP). As a result, consumption expenditures have increased only at a rate about equal to that of the rate of population growth.

The capability of the government to stimulate economic growth through external borrowing has been significantly reduced. The debt service requirement, \$2 billion in 1983, have become a significant drain on the economy. In August, 1983 the nation was unable to meet these debt service payments. The subsequent negotiations with the International Monetary Fund and the Paris Club have led to a rescheduling of the debt payments and increased external financial resources. But as the data clearly indicates, debt service payments, which are scheduled to average about \$2 billion annually over the next three years, will continue to place an uncomprising constraint on economy growth.

In response to the IMF agreement and the projected level of debt service requirements, the government has embarked on, at least rhetorically, export expansion. Expansion of exports of phosphate and its products is a central part of that plan and investment in the mining sector remains at a high level. In addition, the government has initiated several programs and policies to increase exports of industrial and agricultural products. Those policies and programs constituted the current economic policy environment.

Economic Policies

Exchange Rates and Foreign Exchange Policy

All foreign exchange transactions are centralized in the Bank of Morocco. However, banks may offset purchases and sales of convertible currencies for

private individuals. Each day these banks must balance their account with the Bank of Morocco; these transactions occur at exchange rates fixed daily by the Central Bank. A forward exchange market, effective since June 1979, is available for selected imports and exports. Because banks are not allowed to deal among themselves, no foreign exchange market exists in Morocco.

The Bank of Morocco fixes buying and selling rates for the French franc on the basis of changes in a market basket of exchange rates weighted by each nation's importance in Moroccan merchandise trade. Cross rates for other convertible currencies are determined by the fixed dirham-French franc exchange rate and the cross rates of those currencies with the French franc in the Paris foreign exchange market. A premium is paid on worker remittances by Moroccans working in France. In July 1982 that premium was fixed at 5 percent of the local currency value of the remittances.

The exchange rate policy requires a fairly rigid control of capital flows. Exchange control, administered by the Exchange Office of the Ministry of Finance, is viewed as fairly complex but not cumbersome as rules and guidelines are documented and observed. According to the IMF Annual Report on Exchange Arrangements and Exchange Restrictions, 1983, nonresidents may hold (1) foreign currency accounts, (2) foreign accounts in convertible dirhams, and (3) capital accounts. The foreign currency accounts permit, after approval of the Exchange Office, free transfer of funds. Transfers from the convertible dirham accounts, with some restrictions, may be freely affected. Capital account fund transfers require, with a few exceptions, individual approval from the Office of Exchange. This account can be used freely to meet tax obligations within Morocco. Expatriation of profits remains a discretionary tool of the government. The exception is in the area of tourism investment. In August 1983 a new tourism investment code was introduced.

which assures unrestricted, 100 percent expatriation of after-tax tourism profits.

Control of capital flows and the absence of a foreign exchange market (excepting, of course, any local black market) allows the Moroccan government to use the exchange rate as a tool of export promotion. A key restraining factor on the degree of manipulation of the exchange rate is the potential adverse effect on worker remittances. In recognition of the need to provide incentives, in addition to the premium discussed earlier, an interest rate of 8 percent has been paid on worker remittance accounts since 1983. Previously, no interest had been paid on those accounts.

Many developing nations adopted exchange rate and economic policies in the 1970s that led to an overvaluation of their currency. In several cases, the boom in prices of exports of raw material -- oil, or in the case of Morocco, phosphate -- financed necessary imports which had been financed by industrial and agricultural exports. Overvaluation of currencies held down the price of imports but reduced competitiveness of these countries in international markets. The value of the Moroccan currency followed this pattern.

Several aggregate measures of the value of a currency are used to evaluate the relative value of the dirham. First, based on the weights of the currency basket, the nominal exchange rate index shows a moderate increase in the value of the dirham until 1980 (Figure 18). However, due to the depreciation of the U.S. dollar and the appreciation of the dirham, the real exchange rate indice shows a dramatic increase in the value of the dirham from 1972 to 1974, a moderate depreciation from 1974 to 1976 and then continued appreciation until 1980. The trade weighted indice shows a similar pattern (Figure 19).

FIG. 18. NOM. AND REAL EXCHANGE RATE
CURRENCY BASKET, 1970-1983

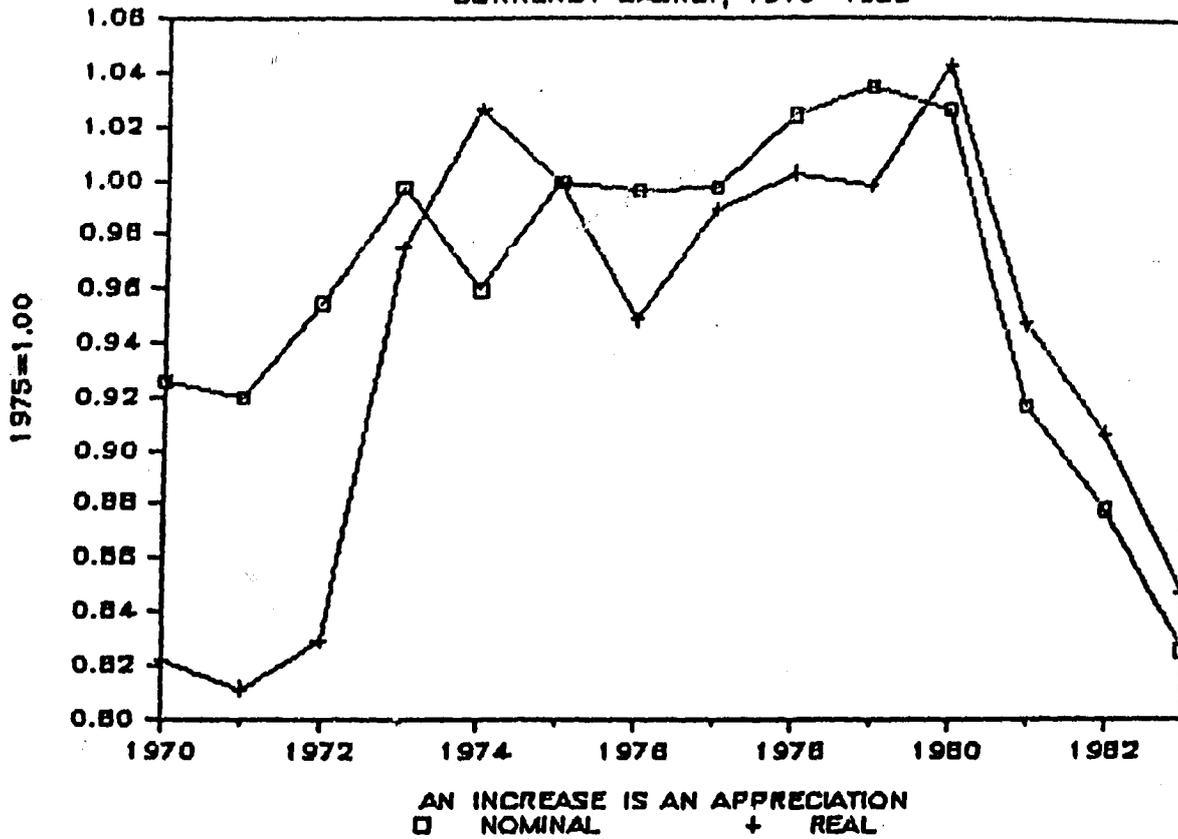
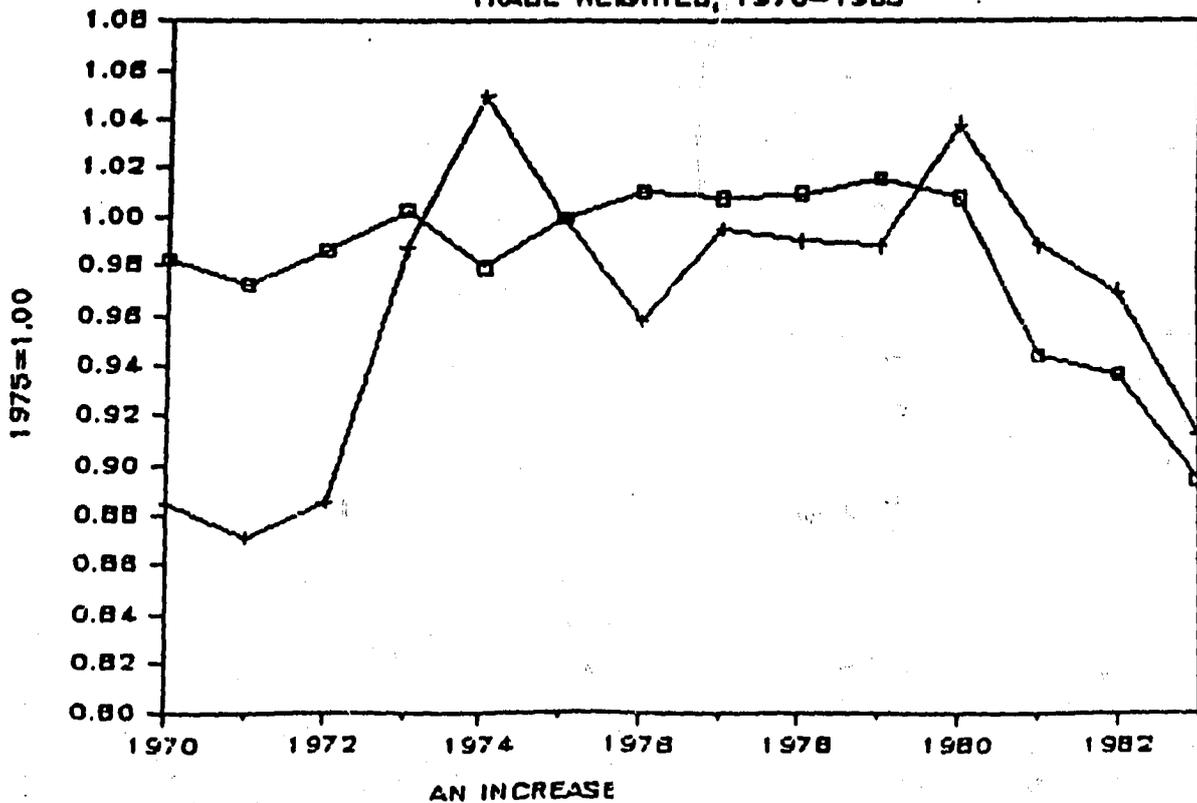


FIG. 19. NOM. AND REAL EXCHANGE RATE
TRADE WEIGHTED, 1970-1983



Several estimates placed the overvaluation of the Moroccan currency at about 16 percent in 1980. Since then, the dirham has been periodically depreciated such that by late 1983 it had depreciated in real terms about 19 percent against the currency basket and about 12 percent against a trade-weighted measure. The gradual depreciation of the currency has been continued in 1984. The following shows the changes in several bilateral nominal exchange rates (buying rates) in 1983.

	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 30</u>
	----- (in dirhams) -----			
French franc	.90431	.89709	.98010	.96423
US\$	6.5689	6.8440	7.8442	8.0436
Pound sterling	9.7267	10.4680	11.7120	11.6510
D. mark	2.7089	2.6922	2.9713	2.9454
Spanish Pesetas (100)	4.8213	4.7142	5.1577	5.1272
Tunisian dinar	9.9700	10.0260	11.0830	11.0150

The movements broadly reflect the intent to maintain or increase the competitiveness of Moroccan products.

Of special interest, is the movement against the Spanish peseta as Spain is Morocco's most important competitor for the Western European fruit and vegetable market. Despite an appreciating nominal exchange rate, the real exchange rate index shows only a slight increase in value of the dirham relative to the peseta during the mid 1970s and somewhat of a decline since that time (Figure 20). The reason is that the Spanish inflation rates exceeded those of Morocco tending to offset the appreciation of the dirham.

However, the Moroccan currency appreciated against that of its principal trading partner, France, throughout the 1970s (Figure 21). That relatively higher value was maintained through 1982. Since that time, the dirham has depreciated markedly against the franc.

Finally, the repatriation of foreign exchange earnings is discussed. All exporters must repatriate and surrender foreign exchange earnings within 30 to

Several estimates placed the overvaluation of the Moroccan currency at about 16 percent in 1980. Since then, the dirham has been periodically depreciated such that by late 1983 it had depreciated in real terms about 19 percent against the currency basket and about 12 percent against a trade-weighted measure. The gradual depreciation of the currency has been continued in 1984. The following shows the changes in several bilateral nominal exchange rates (buying rates) in 1983.

	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 30</u>
	----- (in dirhams) -----			
French franc	.90431	.89709	.98010	.96423
US\$	6.5689	6.8440	7.8442	8.0436
Pound sterling	9.7267	10.4680	11.7120	11.6510
D. mark	2.7089	2.6922	2.9713	2.9454
Spanish Pesetas (100)	4.8213	4.7142	5.1577	5.1272
Tunisian dinar	9.9700	10.0260	11.0830	11.0150

The movements broadly reflect the intent to maintain or increase the competitiveness of Moroccan products.

Of special interest, is the movement against the Spanish peseta as Spain is Morocco's most important competitor for the Western European fruit and vegetable market. Despite an appreciating nominal exchange rate, the real exchange rate index shows only a slight increase in value of the dirham relative to the peseta during the mid 1970s and somewhat of a decline since that time (Figure 20). The reason is that the Spanish inflation rates exceeded those of Morocco tending to offset the appreciation of the dirham.

However, the Moroccan currency appreciated against that of its principal trading partner, France, throughout the 1970s (Figure 21). That relatively higher value was maintained through 1982. Since that time, the dirham has depreciated markedly against the franc.

Finally, the repatriation of foreign exchange earnings is discussed. All exporters must repatriate and surrender foreign exchange earnings within 30 to

FIG. 20. NOM. AND REAL RATE, SPAIN

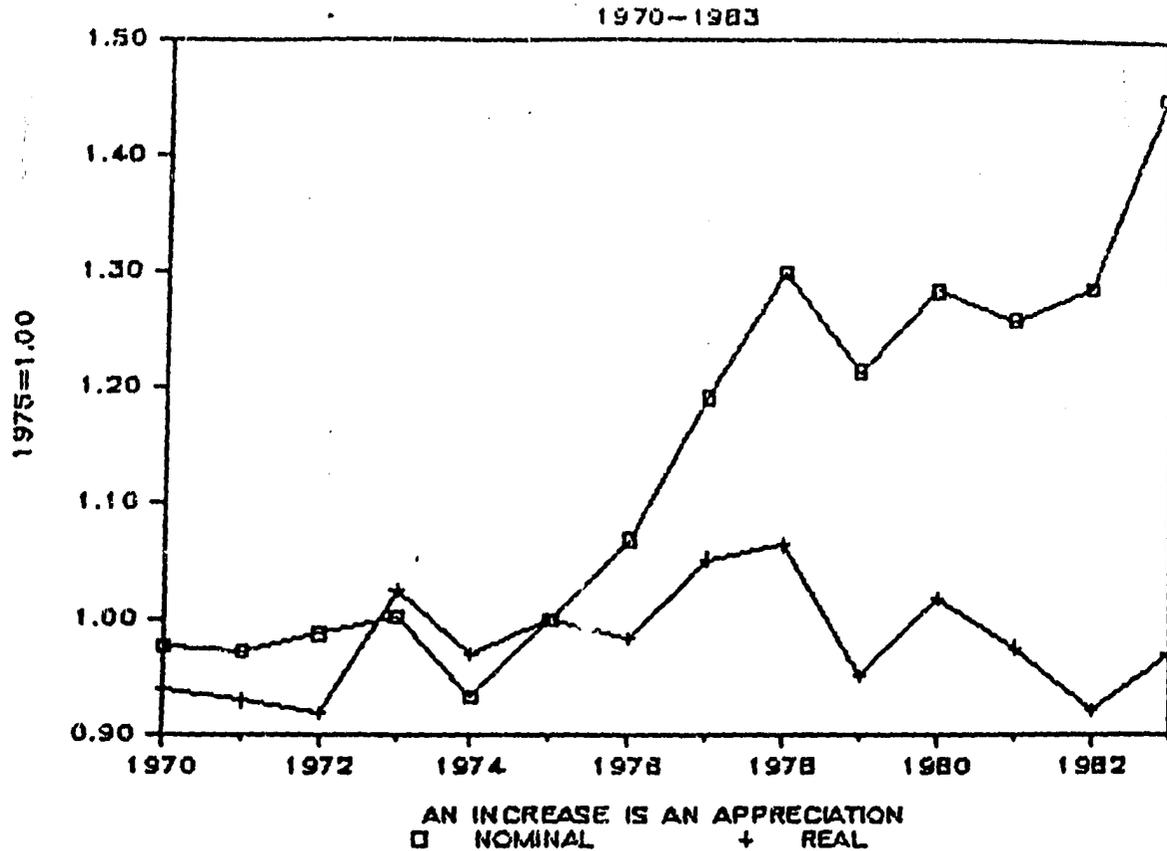
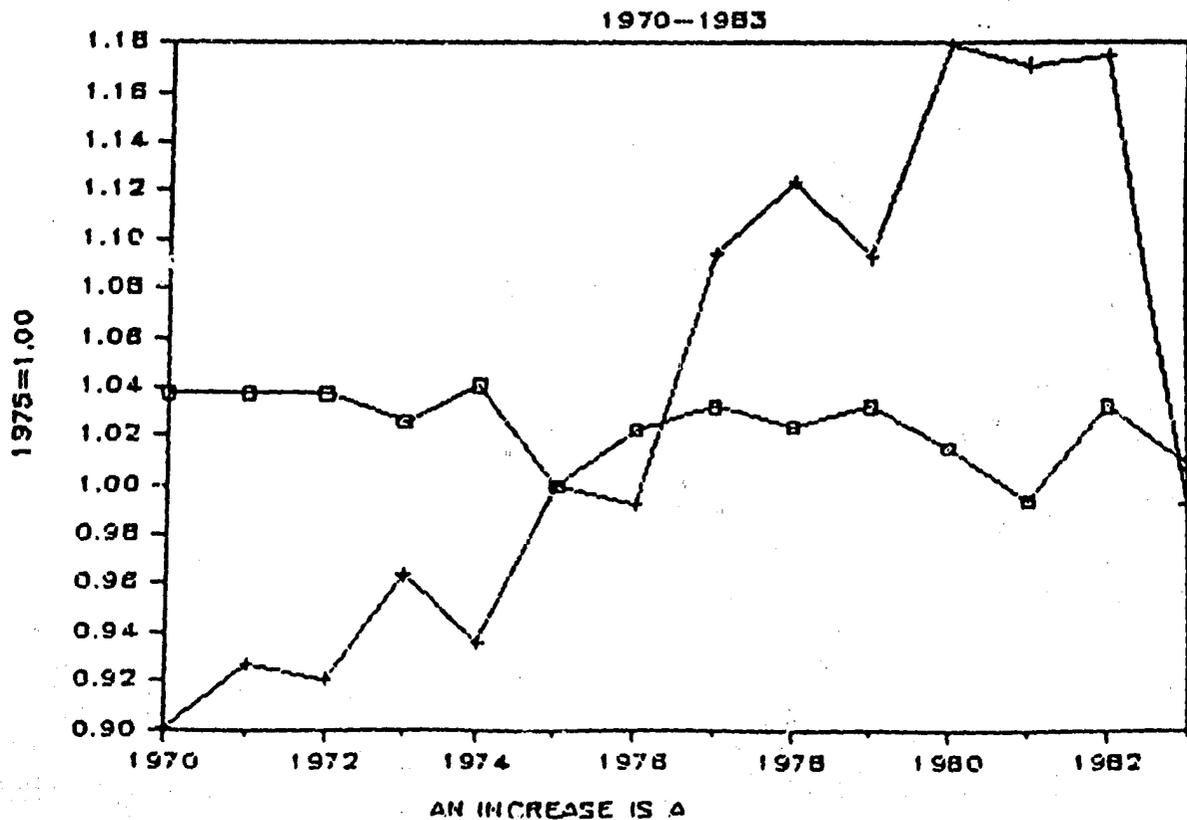


FIG. 21. NOM. AND REAL RATE, FRANC



90 days depending on the type of contract. Recent liberalization of the Investment Code (discussed later) may make this restriction less onerous. At this time 5 to 15 percent of foreign exchange may be retained for on-going exporting expenses.

Wage Policy

A minimum rural and urban wage is established by the government. However, due to the high levels of unemployment and underemployment, it is not routinely observed and does not "distort" resource allocation.

Export Promotion Policies

Since the debt crisis of 1982/83 the government of Morocco has adopted an aggressive export promotion-import substitution stance. The policies include: (1) a flexible exchange rate, (2) trade and exchange liberalization, and (3) investment incentives. Since the exchange rate has already been discussed, the liberalization of trade and investment incentives are discussed.

The need for trade liberalization reflects the bias in domestic prices due to tariffs on some imports, quotas or outright prohibition of others. In all cases, the domestic prices of those products are increased by the trade restrictions. This, in turn, increases the profitability of those industries and tends to induce an inflow of resources. Unless exports are subsidized, the trade restrictions bias incentives against export production.

As a practical matter, Morocco maintains three lists of imports A-C. Any article on the "A List" may be freely imported. It includes most complementary-food imports. Articles on the "B List" are subject to varying tariff rates with an average of about 16 percent. Articles on the "C List" may not be imported. It includes autos and almost all fresh and processed fruits and vegetables. In 1982, in order to reduce the flow of imports in

response to foreign exchange shortages, a number of products were transferred from the "A" to "B" list and from the "B" to "C" list. More recently, some of the products have been transferred back. Reportedly, discussions with the Moroccan government and the World Bank have dealt with special assistance to allow reduction in import tariffs.

In the area of foreign investment, the 1973 investment code has been modified to provide incentives for investment in the export sector. A ten-year tax holiday has been made available for investment in export production and marketing. Additional policies include a more flexible policy on short-term and intermediate-term export credits, a reduction of the number of products requiring an export license and the abolition of the state-export monopoly on processed food products.

JORDANIAN ECONOMIC ENVIRONMENT AND POLICIES

Economic Environment

Economic development and growth of Jordan is a product of the volatile politics of the region and, although not petroleum exporter, on the price and volume of petroleum exports of the Arab countries. Before discussing these relationships, growth of the Jordanian economy is reviewed. Prior to 1975, growth was erratic with real-per-capita Gross Domestic Product (GDP) expanding to 194 Jordanian dinars (JD) in 1972 but then subsequently declining to about JD171 in 1975 (Figure 23).

Commencing in the following year, the economy expanded rapidly throughout the remainder of the 1970s. GDP in nominal terms increased by 175 percent from 1975 to 1979 and real-per-capita GDP increased by 75 percent. Rapid growth continued until 1982 with real-per-capita GDP increasing by an additional 8 percent. The economic growth has slowed significantly in the past two years with an increase in real-per-capita GDP in 1983 of only 2.7 percent.

The pattern of economic growth primarily reflects the growth of government capital expenditures which, in turn, were financed by foreign aid and borrowing (Figure 24). From 1976 to 1977, capital expenditures almost doubled as foreign aid almost doubled. The decline in foreign aid in 1978 was covered by an offsetting increase in foreign borrowing. Foreign aid almost tripled from 1978 to 1979 supporting a significant growth in recurring and capital expenditures. This increase reflects the \$1.2 billion pledged to Jordan, as one of the front-line states against Israel, by the oil-exporting Arab nations at the 1978 Bagdad Conference. The level of foreign aid continued through 1981 but with the drop in petroleum revenues and the Iran-Iraqi war, external budget support fell by J022 million in 1982 and a

FIG. 23. REAL P. CAP. GDP, JORDON

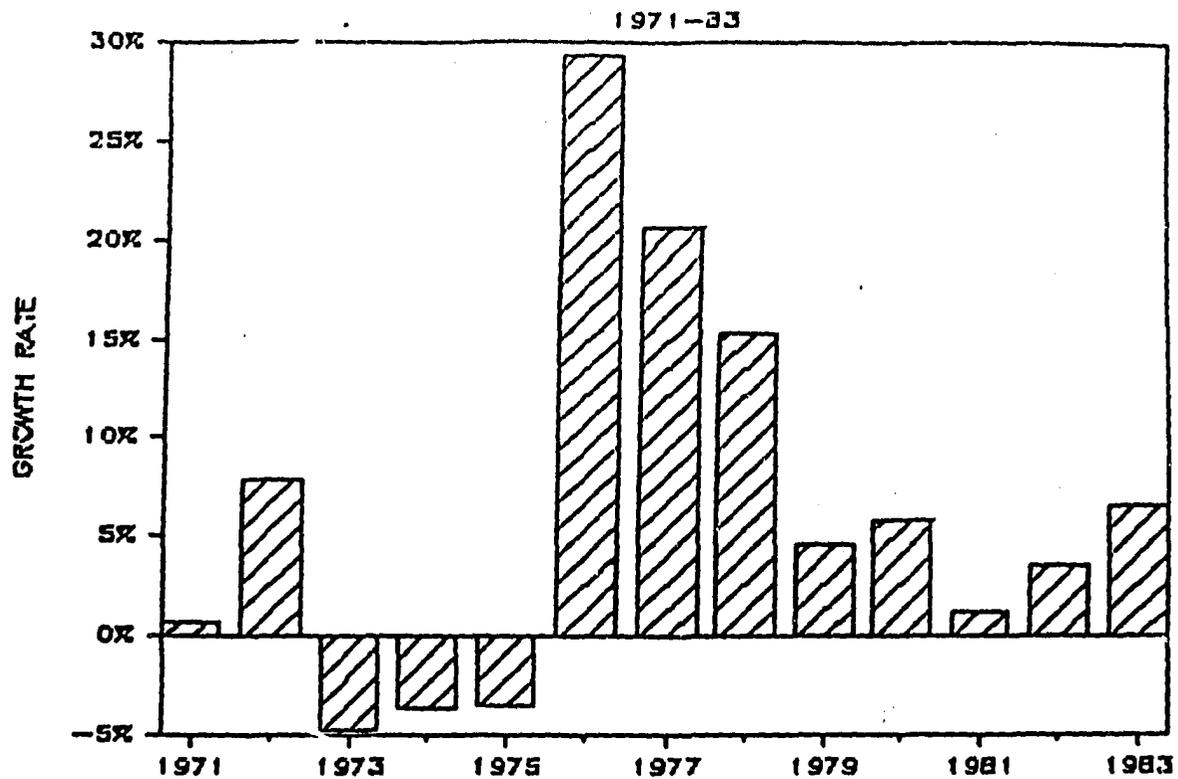


FIG. 24. GOV'T FINANCE, JORDON

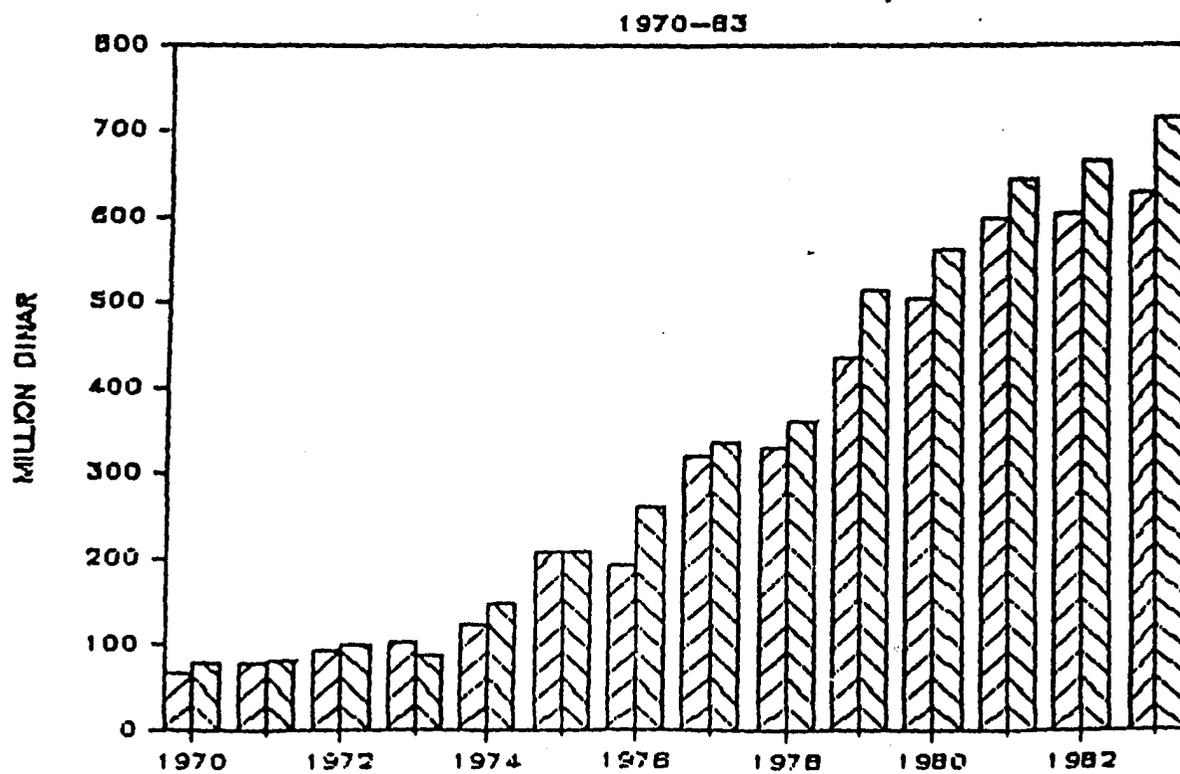


FIG. 25. EXTERNAL DEBT, JORDON

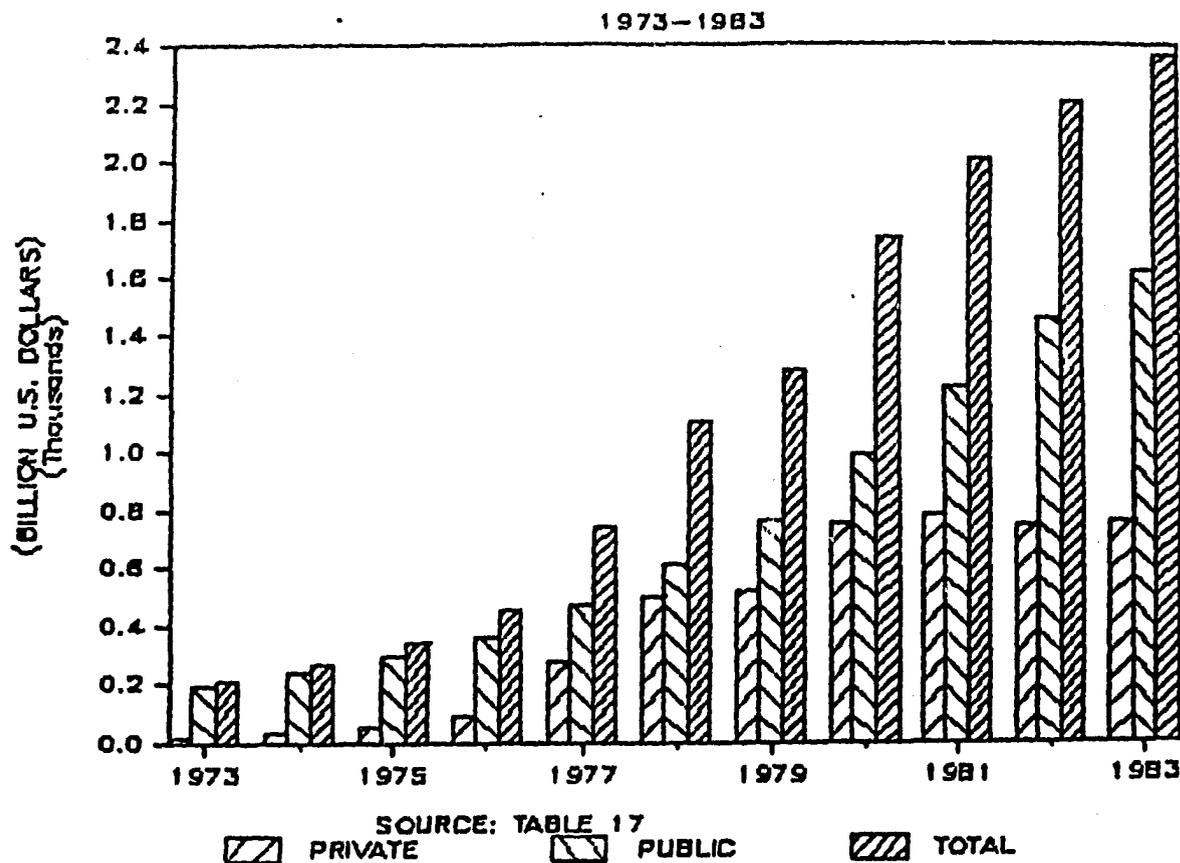
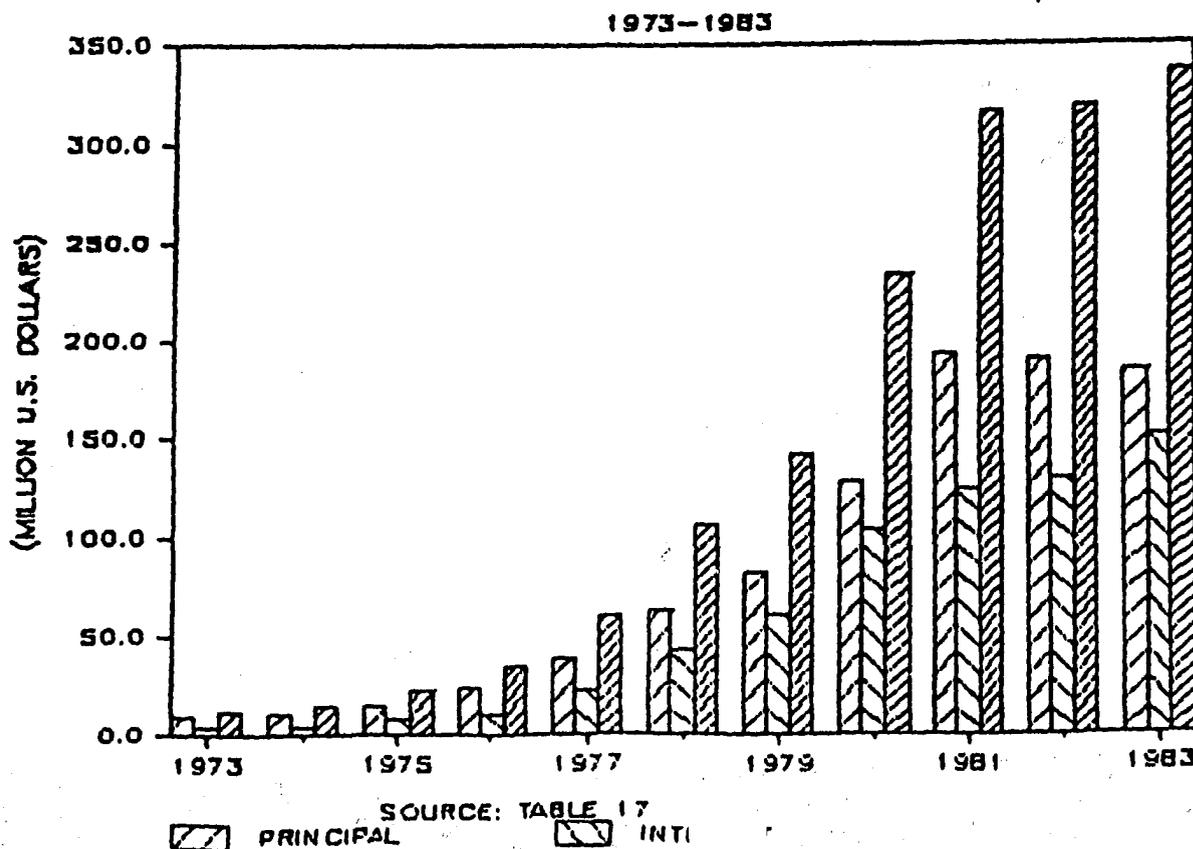


FIG. 26. EXTERNAL DEBT SERVICE, JORDON



further JD54.5 million in 1983. The shortfall in foreign aid was offset by increased international borrowing (Figure 25).

The dramatic growth of the economy was accompanied by a rapid increase in merchandise imports which increased four-fold from 1974 to 1979 and almost doubled again between 1979 and 1983 (Figure 27). Merchandise exports grew rather slowly during the late 1970s but expanded rapidly from 1979 through 1982. That pattern reflects the investment in phosphate mining and export facilities and the increased import needs of Iraq due to the Iran-Iraqi war. The volume of merchandise exports, however, falls far short of covering merchandise imports. As a result, the resource gap (trade deficit) grew from about US\$.5 billion in 1975 to US\$1.3 billion in 1979. It has averaged slightly over US\$2.1 billion in the most recent three years.

The resource gap has been financed by the foreign aid (official unrequited transfers) and the remittances of Jordanians working in Saudi Arabia and other Gulf states (Figure 28). Private unrequited transfers, the bulk of which is worker remittances, increased from US\$172 million in 1975 to about US\$.5 billion in 1979 and US\$1 billion in the most recent years.

The high levels of worker remittances and foreign aid have limited to some extent Jordan's need for foreign borrowing. Nevertheless, public debt increased more than 10 fold from 1970 to 1983 with much of the increase in recent years to offset foreign aid reductions. Debt service of the public and private sector was estimated at about US\$336 million in 1983 which is about one-third of merchandise exports.

Several factors condition the current economic environment in Jordan. First, the decline in oil revenues may lead to a further reduction in budget support from the Arab oil exporters and a stagnation or decline in worker remittances. Second, the recent growth in merchandise exports was primarily

FIG. 27. MERCHANDISE TRADE, JORDON

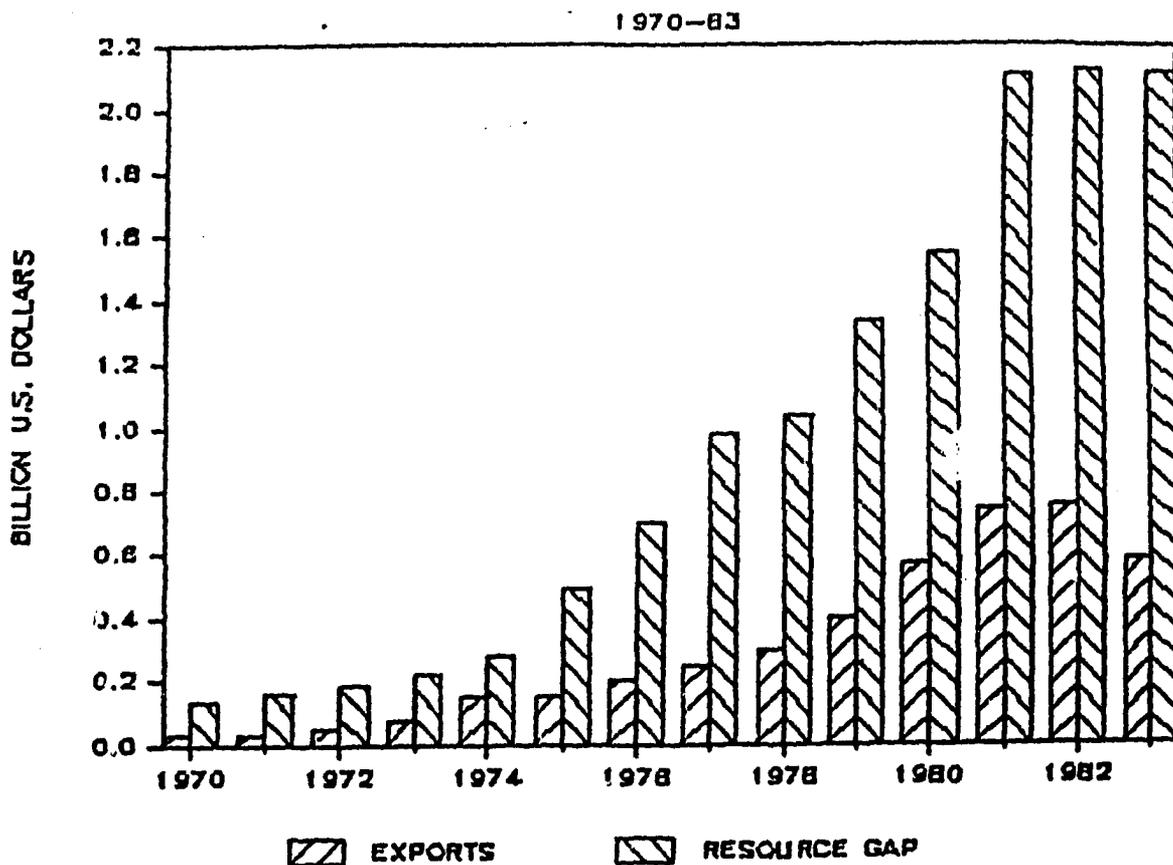
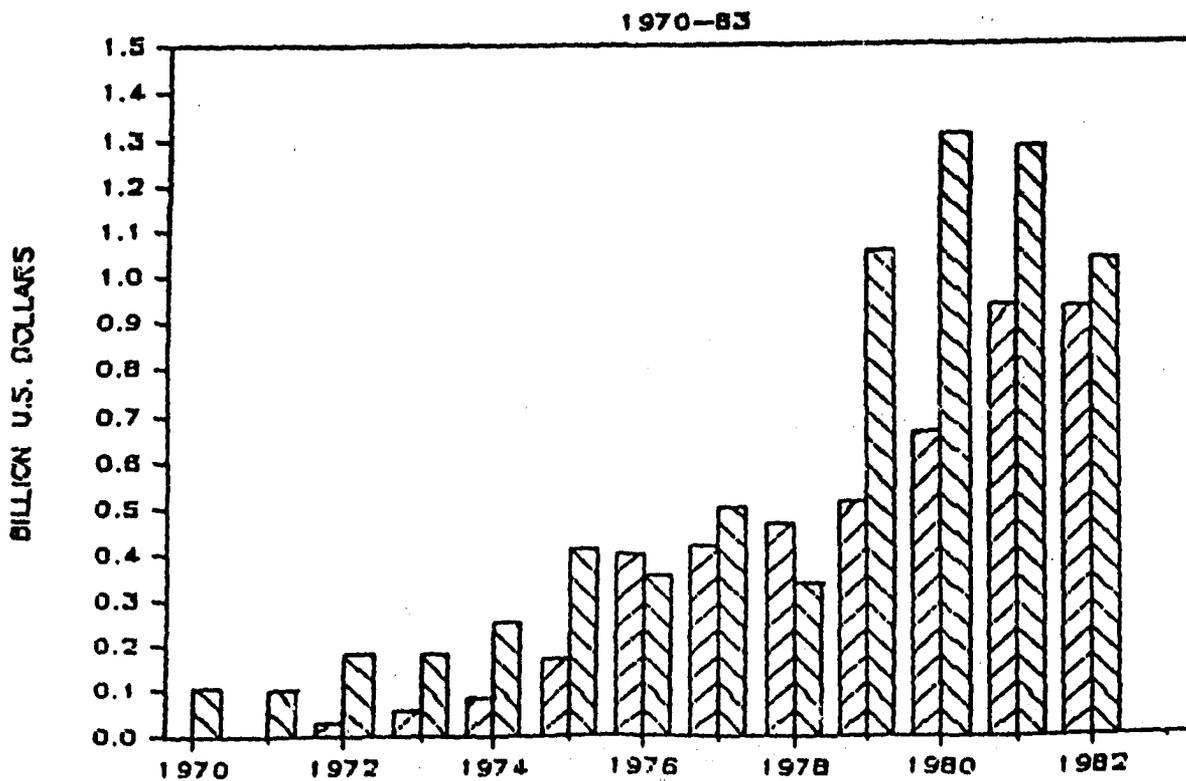


FIG. 28. UNREQ. TRANSFERS, JORDON



in low-value-added products (phosphate and potash) and a very large proportion of exports (roughly half) went to neighboring Arab states. Third, with the continuing difficulties in Lebanon, Jordan sees itself as a future center of finance and business activities in the region. A stable, convertible currency is central to Jordan's attractiveness to outside capital and business investment. In summary, there is a growing recognition of the need to increase merchandise exports, particularly of high-value-added products and to diversify trade destinations.

Economic Policies

Exchange Rate and Foreign Exchange Policies

Foreign exchange controls are very liberal in Jordan. For example:

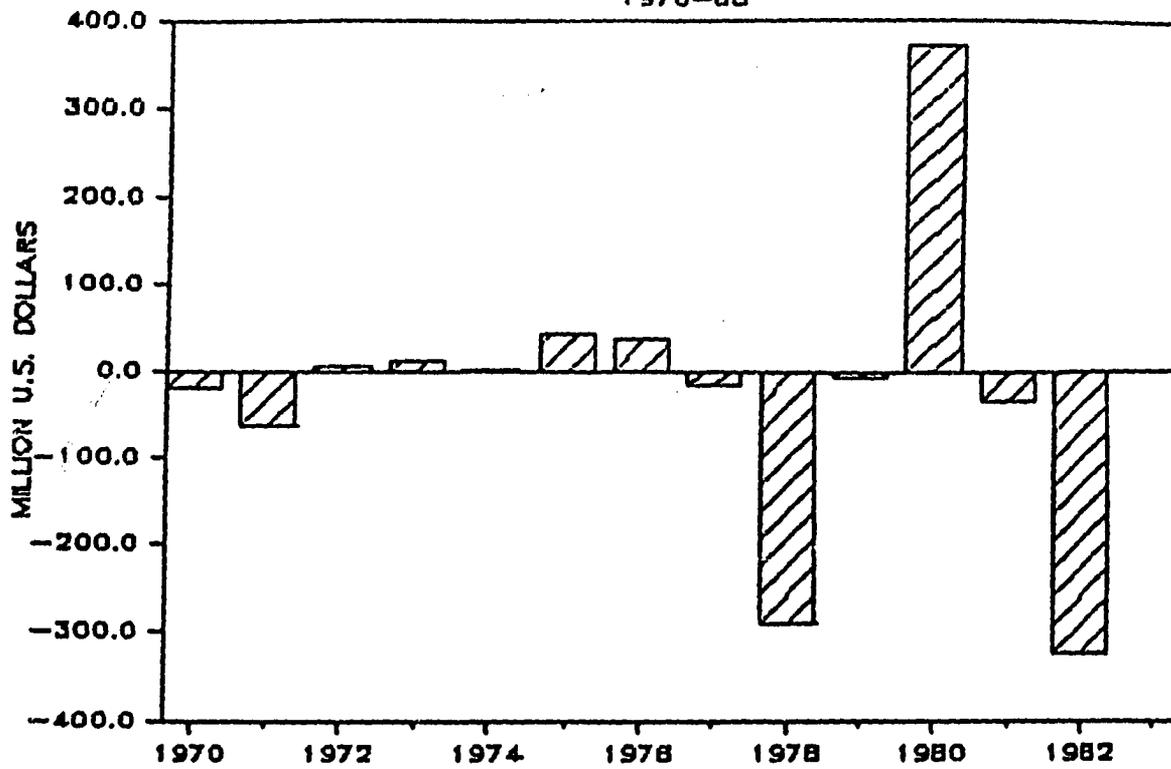
1. Residents and non-residents may bring in or take out unlimited amounts of foreign bank notes and coins.
2. Non-residents may keep unlimited foreign exchange accounts. The limit for residents is JD10000.
3. Arab nationals can freely purchase or sell shares and bonds issued by Jordanian shareholding companies.
4. Foreign exchange from exports to Arab countries need not be repatriated.
5. Sums up to JD5000 may be transferred abroad by residents without documentation.
6. Licensed banks are permitted to lend in foreign currencies to residents and non-residents.

The relative freedom of capital movements places direct restrictions on the freedom of the Central Bank to manipulate the exchange rate.

A stable, predictable exchange rate has been a goal of the Jordanian government for a number of years. The Jordan dinar was linked to the pound

FIG. 29. CURRENT ACC'T BAL., JORDON

1970-83



sterling until 1971 at which time it was pegged to the U.S. dollar. When the dollar devalued relative to the pound, a defacto devaluation of the dinar, its gold content was reduced which maintained the exchange rate at \$2.80. When the U.S. dollar devalued further in February of 1973, the gold content of the dinar remained unchanged and thus it appreciated to \$3.11. On July 1, 1974 the dinar was placed on a controlled, floating basis, and in February of the following year it was linked to the SDR (Special Drawing Rights) at a value of SDR 2.57895/JD. That linkage has been maintained since that date.

The SDR relationship is based on a market basket of six currencies (the United States, United Kingdom, West Germany, France, Italy and Japan). A change in the value of one of these currencies with respect to the SDR automatically changes its value with respect to the dinar and all cross rates. But because each currency represents only a portion of the SDR, the change will be less than its appreciation or depreciation with respect to other currencies. For example, the US\$ appreciated against all major currencies and the SDR from 1981 to 1982. In response, the value of the dinar was automatically adjusted as follows:

	<u>1981</u>	<u>1982</u>	<u>% Change</u>
US\$.3305	.3525	6.7
U.K. £	.6684	.6164	-7.8
D. Mark	.1466	.1453	-0.9
F. Franc	.0611	.0539	-11.8
I. Lira (per 100)	.0292	.0261	-10.6
J. Yen (per 100)	.1476	.1414	-4.2

(all measures in JD per foreign currency unit)

During this period the JD depreciated by 6.7 percent with respect to the US\$ but appreciated with respect to all other currencies with the appreciation ranging up to almost 12 percent against the French franc. Undoubtedly, the strength of the dinar against the major European currencies provided incentives for worker remittances. At the same time it would serve as a

disincentive for exports as the appreciation increases Jordanian prices in foreign markets. Imports from those countries, of course, decline.

The exchange rate policy adopted by Jordan requires that inflation can not differ greatly from that of the major-currency countries. Because inflation has been somewhat higher in Jordan than in other countries, the dinar may be somewhat overvalued. It also requires significant external financing to balance the current account and the fiscal budget. Under the current foreign exchange policies, the exchange rate will not be used as an instrument of commercial policy.

Price Policies

The prices of most consumer goods are administered by the Ministry of Supply (see Table 6). Reportedly, the control of retail prices has two origins. First, price controls were adopted during the 1967 war to control inflation. Second, influential editorialists called for "declared" prices as observed in developed nations. The push for "declared" prices evolved into the "administered" price system.

As is the case in many other countries, the price of wheat, wheat flour and bread are heavily subsidized. However, budget realities have forced periodic adjustments even in bread prices. In 1982, the level of subsidies, grants and awards was JD19.4 billion, only 4 percent of recurring expenditures and 2.6 percent of total government. A second category of subsidy, that for fuel prices, amounted to JD58 million. Total subsidies, therefore, appear to be about JD77 million or about 17 percent of recurring expenditures and 11 percent of total expenditures.

For certain commodities (rice and sugar, for example), the administered price system generates government revenues as the fixed prices exceed import

prices. Import prices have fallen as the world price of commodities has trended downward since 1980 and the appreciation of the dinar against the major currencies. This is another reason for the governmental support of a strong dinar.

The control prices are readily evident in the Amman wholesale price index. The large jump in the WPI from 1980 to 1981 reflects the large increase in the price of fuel. The wholesale and retail margins of fruits and vegetables are controlled but not the farm price. As a result, the prices of fruits and vegetables have increased much faster than those of other products. Undoubtedly, the subsidization of other food and consumer prices has contributed to the increased demand and hence increased prices of fruits and vegetables.

Trade Policy

Differentiated customs tariffs and quantitative restrictions are used to control the flow of imported foodstuffs. The basic philosophy is if the product does not compete with domestic production, tariffs are low and imports are basically unrestricted. On the other hand, imports that could potentially compete with domestic production are effectively barred from the market by very high tariff rates. Seasonal quantitative restrictions are used to control the flow of products that complement domestic production. Representative tariffs for selected foodstuffs are given in Table 8.

In addition to the custom tariff presented, a "surcharge" of 17.2 percent is applied against any article subjected to an import tariff. (Fresh vegetables are not subject to import duties but are subject to 4 percent surcharge.) Finally, any article free of customs tariffs is subject to a "tax" of 6.2 percent composed of an additional tax, an "overtime allowance"

TABLE 7 Amman Wholesale Price Index (1975=100), 1978-82

Group	1978	1979	1980	1981	1982
Seeds and Pulses	132.8	141.3	151.8	145.1	150.7
Vegetables	226.4	241.4	253.4	257.5	266.0
Fruits	213.6	215.3	214.9	223.3	209.8
Meat and Fish	124.1	127.8	144.6	170.8	173.2
Grocery Items	101.7	103.2	114.3	131.5	138.9
All Items	128.5	136.9	156.2	182.0	190.5
Excluding Fuel	129.0	135.2	146.2	162.9	167.1
CPI - Food	135.7	143.6	159.2	171.3	177.2

TABLE 8 Import Duties on Selected Foodstuffs, Jordan, 1984

Product	Duty (percent)
Poultry meat	10
Most dairy products	0
Eggs	50 fils/100 eggs
Fruit processed without sugar	23
Fruit juice	38
Dried fruits	23
Tomato paste	53
Coffee	
Unroasted	50 fils/kg.
Roasted and ground	23
Cereals and lentils	0
Soybeans	14
Most animal and vegetable fats and oils	20
Sugar	
Unrefined	0
Refined	3-28
Beef	0
Pork	14

Source: Jordan Customs and Excise Law and Tariff Rates. Ministry of Finance and Customs. This list prepared by mission staff in 1982.

and an import duty. (Note products imported from the West Bank are not subject to duties or fees.) The limiting nature of a tariff and surcharge is readily evident for products like tomato paste with a total import duty of 70 percent.

The custom tariffs (plus the surcharge) on fresh fruits and vegetables that compete with domestic production range from 31 to 50 percent with most at the upper end of the range (see Table 9). Other vegetables and fruits are subject only to the 6.2 percent charge. However, quantity restrictions, via import licenses, control the import flow of these products.

The Agricultural Economics Department of the Ministry of Agriculture prepares a "monthly plan" that serves as the basis for issuing import and export license. Each month the anticipated demand is compared with anticipated supply and import licenses issued for the anticipated short-fall. The intent is, of course, to control market price by controlling the flow to the market. The system occasionally has the opposite effect as exports may be banned if supplies are short. It is alleged that the system stymies medium and long-term planning by producers, exporters and importers because of irregularities in the timing and magnitude of restrictions on imports and exports.

Export Promotion

The export promotion policy lies almost exclusively in the promotion of domestic and foreign investment. Key features of the investment law include:

1. Extension of all privileges given to domestic capital to foreign capital.
2. Guaranteed transfer of profits and interest earnings abroad in foreign currencies.

TABLE 9 Custom Tariffs on Fruits and Vegetables, Jordan, 1984

Product	Duty (percent)
Tomatoes	23
Fresh beans, haricuts, broad beans	23
Cucumbers, marrows, pumpkin	23
Most other vegetables	23
Dates, bananas, cocoanuts, guavas	18
Pineapples, mangoes	35
Citrus, fresh or dried	14
Grapes	13
Mushrooms, truffles	0
Olives	0
Onions, garlic and potatoes	0
Dry leguminous vegetables	0
Figs, fresh or dried	0
Raisins	0

Source: Jordan Customs and Excise Law and Tariff Rates, Ministry of Finance and Customs, July 1984.

3. Free grants of public land.
4. Exemption of profits from income tax for periods up to 9 years and from property tax for periods up to 7 years.
5. Exemption from customs and import duties of capital goods necessary for projects.

An estimated 128 companies have recently established regional offices in Jordan in response to the favorable tax policies.

DATA APPENDIX

TABLE A.1 Selected National Account and Price Data, Egypt, 1970-1983/84

Year	Gross Domestic Product	Net Foreign Factor Income	Gross National Product	Real GDP	Implicit GDP Deflator	Population	Per Capita Real GDP	Wholesale Price Index
	----- (billion E£) -----				(1975=1)	(million)	(E£)	(1975=100)
1970	2.971	-.044	2.927	3.784	.758	33.30	113.5	75.0
1971	3.146	-.059	3.086	3.968	.793	34.08	116.4	75.1
1972	3.417	-.014	3.403	4.121	.829	34.84	118.3	76.1
1973	3.663	-.029	3.634	4.089	.896	35.62	114.8	81.3
1974	4.197	-.112	4.085	4.191	.978	36.42	118.0	93.0
1975	4.886	-.148	4.738	4.886	1.000	37.23	131.3	100.0
1976	6.276	.133	6.409	5.266	1.192	37.87	139.0	107.8
1977	8.210	.433	8.643	5.663	1.457	38.79	145.7	117.8
1978	9.788	.983	10.771	6.226	1.572	39.82	156.3	135.2
1979	12.610	.785	13.395	6.776	1.861	40.98	165.1	148.4
1980/81 ^{1/}	16.804	NA	NA	7.478	2.247	42.29	176.8	170.5 ^{3/}
1981/82 ^{1/}	20.727	NA	NA	8.463 ^{2/}	2.449	43.47	194.7	182.4 ^{3/}
1982/83	NA	NA	NA	9.055 ^{2/}	NA	44.67	202.7	197.3 ^{3/}
1983/84	NA	NA	NA	9.707 ^{2/}	NA	45.91	211.4	240.3 ^{3/}

Sources: International Financial Statistics; unpublished data, Ministry of Planning.

^{1/} Preliminary.

^{2/} Based on reported growth of real GDP of 7.0% in 1982/83 and 7.2% in 1983/84.

^{3/} Based on estimates from Central Agency for Public Mobilization and Statistics.

Note: Macroeconomic data for recent years are difficult to obtain, therefore these data should be considered provisional.

TABLE A.2 Summary of Fiscal Operations, Egypt, 1974-1983/84

Year	Revenues			Expenditures			Budget Deficit
	Taxes ^{1/}	Public Sector ^{2/}	Total	Subsidies	Other	Total	
----- (billion E£) -----							
1974	.736	.338	1.184	.410	1.663	2.073	.889
1975	1.022	.364	1.524	.622	2.393	3.015	1.491
1976	1.322	.573	2.015	.434	2.846	3.280	1.264
1977	1.967	.652	2.755	.650	3.519	4.169	1.413
1978	2.147	1.012	3.306	.710	4.849	5.559	2.252
1979	2.412	.875	3.683	1.352	5.239	6.591	2.907
1980/81	3.997	3.278	7.275	2.166	7.817	9.983	2.708
1981/82 ^{3/}	4.442	3.891	8.333	2.192	10.080	12.272	3.939
1982/83 ^{3/}	5.249	3.810	9.059	2.054	11.234	13.288	4.230
1983/84 ^{3/}	6.241	3.996	10.237	2.409	13.406	15.815	5.578

Source: Unpublished World Bank data, Ministry of Finance data, and other estimates.

1/ Direct and indirect taxes.

2/ Transferred profits, investment self-financing, petroleum and Suez Canal receipts.

3/ Preliminary and estimates.

TABLE A.3 Selected External Debt and Debt Service, Egypt, 1970, 1973-1983

Year	Debt ^{1/}			Debt Service ^{1/}		
	Public	Private	Total	Interest	Principle	Total
----- (billion US\$) -----			----- (billion US\$) -----			
1973	1656.1	767.5	2423.6	531.3	70.4	601.7
1974	2023.8	1025.1	3048.9	466.9	86.6	553.5
1975	3910.9	1179.3	5090.2	510.2	133.4	643.6
1976	4735.9	1177.0	5912.0	569.7	119.8	689.5
1977	6790.6	1470.5	8261.1	789.5	350.5	1140.0
1978	8516.2	1927.4	10443.6	881.3	423.6	1304.9
1979	9556.6	2680.2	12236.8	901.9	311.3	1213.2
1980	10690.1	3147.5	13837.6	1236.6	406.4	1643.0
1981	11460.7	3777.6	15238.3	1498.7	624.1	2122.8
1982	12001.9	4623.3	16625.2	1915.3	712.4	2627.7
1983	13500.0	4420.0	17920.0	1755.0	753.4	2508.4

Source: Economic Research Service, unpublished data.

^{1/} Includes medium and long term debt, disbursed and outstanding.

TABLE A.4 Selected Balance of Payments Summary Data, Egypt, 1970-1983/84

Year	Merchandise Trade		Resource Gap	Other Goods & Services Net	Private Unrequited Transfers	Current Account Balance
	Exports ^{1/}	Imports ^{1/}				
----- (billion US\$) -----						
1970	.817	1.084	.267	-.218	.033	-.148
1971	.815	1.131	.281	.232	.038	.207
1972	.813	1.170	.357	-.217	.110	-.174
1973	1.000	1.429	.429	-.253	.123	.074
1974	1.672	2.914	1.242	-.388	.310	-.326
1975	1.567	3.941	2.374	-.465	.455	-1.398
1976	1.609	3.842	2.233	-.039	.842	-.806
1977	1.924	4.038	2.064	-.124	.988	-1.200
1978	1.939	4.743	2.804	-.241	1.824	-1.220
1979	2.857	6.002	3.578	-.233	2.269	-1.542
1980	4.086	6.814	2.960	-.259	2.791 ^{3/}	-.438 ^{4/}
1980/81 ^{2/}	3.985	7.682	3.697	NA	2.626 ^{3/}	-1.614 ^{4/}
1981/82 ^{2/}	4.144	7.721	3.577	NA	1.828 ^{3/}	-2.360 ^{4/}
1982/83 ^{2/}	3.555	7.359	3.804	NA	2.767 ^{3/}	-1.312 ^{4/}
1983/84 ^{2/}	3.900	7.697	3.797	NA	3.539 ^{3/}	-.871 ^{4/}

Source: International Financial Statistics; unpublished data, Central Bank of Egypt, and other estimates.

- 1/ F.O.B., C.I.F. imports converted to F.O.B. by multiplying by .8477.
- 2/ Preliminary.
- 3/ Worker's remittances plus net investment income.
- 4/ Central Bank of Egypt and other estimates.

Note: Macroeconomic data for recent years are difficult to obtain, therefore these data should be considered provisional.

TABLE A.5 Selected National Account Data, Morocco, 1970-1983

Year	Gross Domestic Product	Net Foreign Factor Income	Gross National Expenditure	Real GDP ^{1/}	Per Capita	Population
	----- (billion dirhams) -----				(dirhams)	(million)
1970	19.43	.04	19.47	27.28	1781	15.31
1971	21.38	.18	21.56	28.87	1877	15.38
1972	22.68	.24	22.92	29.47	1877	15.70
1973	24.92	.63	25.55	30.60	1876	16.31
1974	33.60	1.08	34.68	34.98	2082	16.80
1975	36.42	1.45	38.87	36.42	2104	17.31
1976	41.01	1.74	42.75	39.98	2242	17.83
1977	49.76	1.39	51.15	41.50	2260	18.36
1978	55.15	1.38	56.53	42.30	2269	18.91
1979	61.04	1.41	63.45	44.65	2304	19.47
1980	70.16	1.42	71.58	46.66	2327	20.05
1981	76.74	.45	77.19	45.64	2211	20.65
1982	88.52	1.25	89.77	48.43	2264	21.39
1983 ^{2/}	94.83	1.25	96.08	48.72	2199	22.16

Source: International Financial Statistics

1/ 1975 prices.

2/ Preliminary.

TABLE A.6 Selected Trade and Capital Flow Data, Morocco, 1970-1983

Year	Merchandise		Resource Gap	Other Goods & Services Net	Private Unrequited Transfer Net	Current Account Balance
	Exports	Imports				
----- (billion -----						U.S.
dollars)-----						
1970	.487	.624	-.137	.060	.036	-.161
1971	.499	.673	-.137	.031	.074	-.094
1972	.642	.709	-.067	.023	.107	-.017
1973	.913	1.037	-.124	.024	.211	.063
1974	1.074	1.692	.012	.115	.299	.172
1975	1.529	2.266	-.736	.308	.482	-.562
1976	1.247	2.308	-1.061	.842	.499	-1.353
1977	1.283	2.821	-1.538	.878	.546	-1.826
1978	1.488	2.629	-1.140	.957	.702	-1.348
1979	1.937	3.245	-1.390	1.146	.891	-1.530
1980	2.414	3.770	-1.355	1.181	1.004	-1.420
1981	2.283	3.840	-1.557	1.373	.998	-1.861
1982	2.043	3.815	-1.772	1.800	.977	-1.899
1983	2.031	3.218	-1.182	.931	.844	-1.169

Source: International Financial Statistics, 1967-1981; unpublished World Bank Data, 1982; U.S. Embassy, 1983.

TABLE A.7 Selected Foreign Debt and Debt Service Data, Morocco, 1976-1989

Year	Debt ^{1/}			Debt Service		
	Official	Private	Total	Principal	Interest	Total
1973	816.5	221.3	1037.8	90.7	44.5	135.2
1974	919.6	348.8	1268.4	99.5	46.5	146.0
1975	1120.9	696.6	1817.5	103.5	54.6	158.1
1976	1250.0	1303.4	2553.4	121.5	78.7	200.2
1977	1975.7	2282.7	4258.4	140.2	158.7	298.9
1978	2456.3	3132.8	5589.1	346.7	284.4	631.1
1979	2833.4	3866.6	7175.0	445.2	455.2	900.4
1980	3466.0	4081.7	8083.7	625.3	662.7	1288.0
1981	4351.0	4032.5	9424.5	675.4	700.8	1376.2
1982	4898.8	4744.6	10505.4	847.5	696.1	1543.6
1983	5400.0	4800.0	11002.0	1231.4	822.9	2054.3

Source: Economic Research Service, unpublished data.

^{1/} Long and medium term debt, disbursed and outstanding.

TABLE A.8 Summary of Fiscal Operations, Morocco, 1970-83

Year	Current Revenue	Expenditures		Deficit	Grants	Borrowing	
		Current	Capital			External	Domestic
1970	3.221	2.902	1.145	0.826	0.108	0.268	0.450
1971	3.267	3.106	1.123	0.962	0.451	0.321	0.160
1972	3.362	3.350	1.189	1.177	0.562	0.320	0.295
1973	4.142	3.624	1.208	0.690	0.401	0.007	0.282
1974	7.093	6.470	2.236	1.613	0.487	0.179	0.947
1975	8.490	7.345	4.454	3.309	1.353	1.350	0.606
1976	8.322	7.799	8.121	7.790	1.827	4.474	1.489
1977	10.784	9.245	10.306	8.767	2.796	5.194	0.777
1978	11.693	10.420	6.629	5.356	0.469	3.365	1.522
1979	13.802	12.073	9.016	6.269	1.640	2.376	2.253
1980	15.193	15.310	8.565	7.510	0.380	3.531	3.599
1981	17.838	18.898	9.612	11.098	1.623	7.937	1.538
1982	20.480	20.475	12.481	11.108	0.285	9.356	1.467
1983	21.525	21.525	7.979	8.003	1.010	4.231	2.762

Sources: 1979-1982: Unpublished World Bank data.
 1983: U.S. Embassy, Rabat.

TABLE A.9 Government Finance, Jordan, 1970-1983

Year	Revenues				Total	Expenditures			Balance
	Domestic	Foreign Grants	Foreign Borrowing	Other ^{2/}		Recurring	Capital	Total	
(million JD)									
1970	30.260	35.424	2.072	.415	67.171	59.028	21.678	80.706	-13.535
1971	35.755	35.387	3.556	3.430	78.198	60.735	22.412	83.147	-4.949
1972	42.559	44.455	7.400	1.238	95.652	70.467	30.985	101.452	-5.800
1973	46.182	43.608	11.446	2.000	103.236	78.608	40.903	119.511	-13.725
1974	63.225	52.976	8.911	--	125.112	104.839	46.665	151.504	-26.392
1975	84.209	90.013	18.987	16.500	209.709	136.255	73.178	209.433	0.276
1976	107.587	66.238	19.888	--	193.713	185.894	76.590	262.484	-68.771
1977	142.249	122.202	58.511	--	322.962	195.587	142.252	337.839	-14.877
1978	158.488	81.699	90.797	--	330.884	212.891	148.619	361.510	-30.626
1979	187.859	210.302	37.624	--	435.821	321.335	194.329	515.664	-79.843
1980	226.148	202.834	71.556	6469	507.017	336.053	227.091	563.144	-56.127
1981	309.199	206.312	75.731	7226	598.468	391.468	255.632	647.100	-48.632
1982 ^{1/}	360.221	184.500	61.491	400	606.612	443.770	222.506	656.276	-45.664
1983 ^{1/}	396.000	130.000	101.547	2000	629.547	448.981	268.673	717.654	-88.107

Source: Central Bank of Jordan, Monthly Statistical Bulletin.

1/ Preliminary.

2/ Expected Loans and Technical Assistance, Loans Repaid to Central government.

TABLE A.10 Selected Macroeconomic Indicators, Jordan, 1970-1983

Year	Gross Domestic Product	Net Foreign Factor Income	Gross National Product	GDP Deflator	Real GDP	Real GDP Per Cap.	Population	Exchange Rate
	----- (million JD) -----			(1980=100)	(mil. JD)	(JD)	(million)	(US\$/JD)
1970	174.4	12.6	187.0	42.73	408.14	178.23	2.29	2.8000
1971	186.2	13.2	199.4	44.14	421.84	179.51	2.35	2.8000
1972	207.2	13.8	221.0	44.39	466.77	193.68	2.41	2.8000
1973	218.3	23.2	241.5	47.90	455.74	184.51	2.47	3.0549
1974	247.3	32.0	279.3	55.03	449.39	177.62	2.53	3.1198
1975	278.6	63.9	342.5	62.77	443.84	171.37	2.59	3.1305
1976	401.7	140.8	542.5	68.36	587.62	221.74	2.65	3.0115
1977	525.2	145.9	671.1	72.47	724.7	267.4	2.71	3.0373
1978	644.6	148.8	793.4	75.41	816.9	308.6	2.77	3.2620
1979	767.2	168.3	935.5	83.67	852.4	322.9	2.84	3.3270
1980	998.4	205.8	1204.2	100.0	998.4	341.9	2.92	3.3478
1981	1182.5	318.5	1501.0	113.1	1097.9	346.2	3.02	3.0654
1982	1343.2	332.2	1675.4	119.8	1160.9	358.2	3.13	2.8369
1983	1487.4	361.0	1848.4	120.7	1232.3	381.5	3.23	2.7617

Source: International Financial Statistics and Central Bank of Jordan, Monthly Statistical Bulletin.

TABLE A.11 Selected Balance of Payments Summary Data, Jordan, 1967-1983

Year	Merchandise		Resource GAP	Unrequited Transfers		Other Goods & Services Net	Current Account Balance
	Exports	Imports		Private	Official		
(million U.S. dollars)							
1970	34.1	163.8	-129	--	110.8	-0.7	-19.6
1971	32.0	190.4	-158	--	100.3	-3.7	-61.8
1972	47.6	236.6	-189	27.2	184.5	-16.2	6.5
1973	73.9	292.7	-219	55.6	186.5	-10.7	12.6
1974	155.0	432.4	-277	82.4	252.1	-53.7	3.4
1975	153.0	648.6	-495	172.1	409.5	-41.3	44.7
1976	206.9	907.7	-700	401.7	353.2	-18.1	36.0
1977	248.9	1225.2	-967	420.8	500.3	38.8	-16.5
1978	296.6	1334.6	-1038	466.2	335.3	-51.6	-288.2
1979	401.9	1741.8	-1340	508.6	1055.6	-231.0	-6.8
1980	573.6	2130.1	-1556	664.8	1308.7	-44.0	373.8
1981	742.9	2850.6	-2108	935.2	1279.5	-141.8	-34.8
1982	751.3	2877.7	-2126	932.4	1033.4	-172.1	-332.7
1983	580.0	2694.8	-2115				

Source: International Financial Statistics, Central Bank of Jordan, Monthly Statistical Bulletin.

TABLE A.12 External Debt, Jordan, 1973-1983

Year	Debt ^{1/}			Debt Service		
	Official	Private	Total	Principal	Interest	Total
1973	192.1	16.4	208.5	8.4	3.0	11.4
1974	238.8	30.6	269.4	10.5	3.8	14.3
1975	291.3	53.7	345.0	15.0	7.2	22.2
1976	361.5	94.7	456.2	24.5	10.8	35.3
1977	469.1	277.6	746.7	39.0	22.0	61.0
1978	608.9	500.2	1109.1	63.2	43.2	106.4
1979	765.0	520.2	1285.2	82.8	60.1	142.9
1980	993.9	749.1	1743.0	128.9	104.1	233.0
1981	1226.2	780.9	2007.1	192.1	124.0	316.1
1982	1464.8	741.0	2205.8	189.7	130.1	319.8
1983	1620.0	750.0	2370.0	184.0	152.4	336.4

Source: Economic Research Service, unpublished data.

^{1/} Includes medium and long term debt, disbursed and outstanding.

TABLE A.12 External Debt, Jordan, 1973-1983

Year	Official	Debt ^{1/}		Debt Service		Total
		Private	Total	Principal	Interest	
1973	192.1	16.4	208.5	8.4	3.0	11.4
1974	238.8	30.6	269.4	10.5	3.8	14.3
1975	291.3	53.7	345.0	15.0	7.2	22.2
1976	361.5	94.7	456.2	24.5	10.8	35.3
1977	469.1	277.6	746.7	39.0	22.0	61.0
1978	608.9	500.2	1109.1	63.2	43.2	106.4
1979	765.0	520.2	1285.2	82.8	60.1	142.9
1980	993.9	749.1	1743.0	128.9	104.1	233.0
1981	1226.2	780.9	2007.1	192.1	124.0	316.1
1982	1464.8	741.0	2205.8	189.7	130.1	319.8
1983	1620.0	750.0	2370.0	184.0	152.4	336.4

Source: Economic Research Service, unpublished data.

^{1/} Includes medium and long term debt, disbursed and outstanding.