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EGYPT

REMITTANCE, SAVINGS TENDENCIES OF CITIZENS WORKING ABROAD REVIEWED

Flow of Funds Studied

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/Article by 'Abd-al-Rahman 'Aq1/

/Text/ The question being discussed in every economic conversation whose subject is domestic income assuredly is: What is the volume of the savings of Egyptians abroad?

A second question follows this: Where do these savings go? Are they all remitted to Egypt, or does everyone, wherever they may be, swallow up most of them before they cross into Egypt's borders?

A third question follows these two: Who are the people who are swallowing up Egyptians' savings before they get to their legitimate channels in the domestic economy?

An important scholarly economic study has responded to the three questions. The study was the subject of broad discussion in the meetings of the National Production Council sessions chaired by 'Abd-al-Qadir Hatim. It was prepared by a crowd of top-notch economists, university professors and ministers under the chairmanship of Dr Hamid al-Sayih, former minister of economy.

The study asserts that the revenues of Egyptians abroad came to 5.66 billion pounds in hard currency and that they, that is, the Egyptians abroad, spent half of these revenues on themselves abroad and remitted only 591 million pounds.

The question this report answers is: Where did the rest go?

In 1981, estimates indicate the volume of the revenues of people working abroad came to about 5.66 billion pounds; of this, the workers saved 3,169,000,000 pounds, the rest going for their expenses abroad. Of these savings, just 591 million pounds entered into the framework of the foreign currency pool of accredited banks; these were the amounts that were converted into Egyptian money. The remainder, 2,568,000,000 pounds, went into other channels which the hands of middlemen and go-betweens could easily get to. For the first time, using observations, statistical sciences and a field study, this study calculated the cost of this labor to the

nation's economy. In toto, these costs came to 1.52 billion pounds. As a result, the net revenues of the workforce came to just 1,694,000,000 pounds. The study then shifted, finally, to three focal points for increasing the benefits from people working abroad.

The study began with an analysis of the conditions of the free market, or, as some people call it, the black market, which is the "unofficial market," in order to learn a semi-specific answer to an important question--where does the foreign currency in this market come from, and where does it go? The most important sources for this market (on the supply side) are the remittances of Egyptians working abroad minus the sums that are consigned to accredited banks in Egypt (remittances by the banking system, that is, legal channels. The remittances made outside these legal channels to supply the unofficial market represented a large percentage of the volume of Egyptians' real savings. Also entering into the supply side of the unofficial market were sales to Arab and foreign tourists and sales of some exports received from the free market, since the government at present permits exporters of non-traditional goods to dispose of a specific percentage of the receipts of their exports, as a way to encourage them. The final source on the supply side was the net deficit in individual hard currency deposits with banks in Egypt, since some individuals, motivated by need for local currency, sell some of their deposits on the free market. However, the latter three elements did not in their totality constitute an important element in supplying the black market, because of their limited nature. Thus the remittances of Egyptians outside the banking system remained the predominant element in the supply side in this market, and therefore estimating the volume of the revenues of the market, and estimating the real volume of incomes of Egyptians abroad, become important.

Where Does It Go?

This money goes to finance imports made without hard currency transfers and deposits of individuals in foreign currency in banks operating in Egypt, to finance the exports of capital directed toward investment abroad, and to finance imports of gold, precious metals and other contraband items (such as drugs and narcotics), and also purchases of hard currency by Egyptian tourists for spending on trips.

The Income of 1 Million Workers Will Be 10 Billion Pounds in 1985

The number of Egyptians working abroad was estimated at about 500,000 in 1974 and came to 875,000 in 1980, accounting for an annual growth rate of 9.9 percent. It is estimated that that will rise to 1,194,000 in 1985. The average wage was estimated in accordance with average wages in Saudi Arabia and Iraq, in varying proportions according to circumstances in different periods (before and after the oil price hikes) and the circumstances of each country (Saudi Arabia pays high wages while Iraq pays ordinary wages). After calculating this average, which was estimated at about 6,655 pounds a year in 1982, it was then assumed that that would increase to 8,145 pounds by 1985, since the demand for technical specialists and skilled labor is rising. From these averages, it has been possible to calculate the size of the incomes of Egyptians working abroad; this was estimated at about 800 million pounds in 1974, rising to 5.56 billion pounds in 1981, by an average

growth rate of 32 percent a year. It is expected that that will rise to 9,725,000,000 pounds in 1985, at an average growth rate of 15 percent.

Their Savings Are Greater Than Half Their Incomes

How much of their incomes do people working abroad save? It has been estimated that the propensity to save of Egyptians working abroad is about 56 percent, that is, the average of these two percentages /sic/. When some Egyptians who are themselves working abroad were asked, they acknowledged that the money they set aside as savings was more than half their earnings abroad.

5.4 Billion Pounds in 1985

By estimating the volume of incomes and the rate of the propensity to save it is possible to estimate the volume of the real savings of Egyptians working abroad. These rose from 448 million pounds in 1974 to 3,169,000,000 pounds in 1981, or by an annual growth rate of 32 percent. It is anticipated that they will rise to 5,446,000,000 pounds in 1985, by annual growth rate of 15 percent. These tendencies make it mandatory that one seek sound means and policies to attract all these resources into legitimate banking channels instead of having them go to waste and be allowed to inflict negative effects on the domestic economy. In spite of the efforts the government is making to seek to draw the savings of Egyptians working abroad into the channels of the banking system, the sums that are remitted in the framework of the foreign currency pool of accredited banks accounts for a minor percentage, totalling 194.1 million pounds in 1975 and 818.3 million in 1980, then declining to 590.7 million in 1981, or 18.6 percent of savings in 1981. This confirms that middlemen are in a stronger position than that of the banks operating in Egypt in attracting savings, on the one hand, while, on the other, the expansion in the money supply that the economic situation in Egypt has been experiencing has led to inflationary pressures while the interest rates on the Egyptian pound have been rising moderately. This has encouraged people to keep their savings in the form of foreign currency, bringing them higher interest rates and providing them with security in the buying power of their savings (this was of course before the interest rates on the dollar dropped).

From this analysis, the inadequacy of the means for encouraging Egyptians working abroad to leave their savings with banks operating in Egypt, receiving Egyptian currency in exchange, stands out.

The Real Role of the Investment Authority

Outside the framework of the foreign currency pool of accredited banks, there is an important channel through which one major component of Egyptians working abroad flows, and that is represented by foreign currency deposits in banks operating in Egypt. These rose from a total of 53.6 million pounds (or 15.7 percent of total remittances in 1975) to 502.8 million pounds, or 24.8 percent, of total remittances in 1981, at an increase of 45.2 percent a year on the average. The ratio of this component to the total real savings of Egyptians working abroad also rose, from 7 percent in 1975 to 16 percent in 1981; in size this component became almost as large as the total sums submitted to the foreign exchange pool of accredited banks.

A number of reasons lay behind that, among the most important of those being a rise in international interest rates and the expectation of a rise in the exchange rates of foreign currencies, which were confirmed by an escalating trend in prices in the unofficial market and the lack of other attractive investment opportunities for people with savings (for example successful corporations and government bonds at acceptable interest rates). In general, the study underlined an increase in foreign exchange reserves in banks, especially public sector commercial and joint banks, prompting one to state that the banks need people to provide them with assured investment opportunities which will encourage them to invest their money domestically. This is the role that ought to devolve upon the Investment Authority.

Imports made without foreign currency transfers are fed from outside the banking system. Although five decrees have been issued in 2 years in an attempt to guide these, they are still exerting constant pressure on the unofficial market and therefore causing a rise in the exchange rate.

The study defined the negative effects of the flight of hard currency as:

1. Depriving the domestic economy of the productivity of the labor that has emigrated (the study points out that the value of the production of goods rose to 683 million pounds /sic/ in 1981-82, representing 3.5 percent of gross domestic product and 19 percent of the volume of their real savings).

2. Costs of education and training:

The study has calculated these costs on scientific and statistical bases which we do not have the room to explain here. They were apparently estimated at about 134 million pounds in 1981, which accounts for about 4.2 percent of the volume of real savings and about 23 percent of the sums given to the foreign currency pool of the accredited banks.

3. The shortage and high wages of technical labor in Egypt

In view of the difficulty of providing a numerical picture of this phenomenon, the study contented itself with referring to its negative effects, which are represented by technicians' exaggerated tendency to raise their wages and consequent increased costs of production, a high general price level, orientation of increased incomes toward consumption, and a reduction in the capacity to absorb national investment as a result of deficiencies in construction capacity arising from the lack of construction workers.

4. Speculation in land and real estate:

Some workers' savings are directed to speculation in land and real estate, since no attractive investment opportunities exist. The sellers of the land then devote the earnings to consumption.

5. Increased family consumption:

Incomes of workers abroad have played a big role in the growth of family consumption, in both the satisfaction of essential or non-essential requirements and

receptivity to new consumption patterns, which the rest of the public imitates and mimics. The study assumes that the optimum volume of family consumption in a developing country like Egypt is 64.5 percent of gross domestic product in market prices, which was the level of family consumption in Egypt in the first half of the seventies. The increase in excess of this optimum level came to 205 million pounds in 1979, and it is estimated that that leapt to 740 million pounds in 1980-81 and 1,182,000,000 pounds in 1981-82.

6. Encroachment on farmland:

The drain of rural inhabitants from the country to work and return with large savings that are invested for the most part in the purchase of land and the erection of residential units on the land, and the losses that plague the domestic economy as a result of this phenomenon, could be estimated at about 59 million pounds in 1981. These costs represented about 1.8 percent of the volume of the real savings of Egyptians working abroad.

The True Nature of the Situation

By gathering the abovementioned cost elements together, which one can express numerically to show the true nature of the situation created by the emigration of Egyptians and its effect on the domestic economy, we find that they came to about 1.52 billion pounds in 1981. When we realize that the volume of the real savings of people working abroad in 1981 was 3,169,000,000 pounds, after deducting the costs the domestic economy lost, net revenues came to 1,649,000,000 pounds. That is, the ratio of these costs to real savings was 48 percent; indeed, these costs came to double the sums that were left in accredited commercial banks.

How Can One Magnify the Benefits?

Magnifying the domestic economy's benefits from the savings of Egyptians working abroad may be concentrated on three focal points:

First, development of the savings of the people working abroad, by increasing their numbers and raising their income levels by studying the real demand for Egyptian labor, drawing up an education and training policy, concentrating on the provision of high-level technical fields of specialization, establishing Egyptian or joint contracting firms which will be in charge of sending workers abroad and back, and seeking to encourage Egyptians working abroad to limit their spending on luxury goods by following a customs policy which will protect those goods that can be provided by local production.

Second, drawing savings into legitimate banking channels by adopting all measures to limit inflation rates that have started to rise above the levels of interest on the Egyptian pound and compelled citizens to turn to saving in foreign currency, guiding imports without currency transfers, encouraging savings in local currency by raising interest rates, giving Egyptians attractive investment opportunities to establish financial companies, offering stock in them to individuals, and offering government bonds at satisfactory interest rates.

Third, reducing expenses and eliminating the negative effects of Egyptian labor through expansions in vocational training centers, providing transitional training to eliminate the severe deficit in trained technical labor and setting out a tax policy to guarantee that speculation in land and real property is restricted.

Savings of Workers Abroad

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Text The Central Bank's annual report for 1981-82 has stated that the remittances of Egyptians working abroad still occupy first place in the foreign currency pool revenues of accredited banks and are considered the basic resources for financing import activities, including imports made without foreign currency transfers, since these savings enter in the form of cash or material assets.

The report pointed to a decline in remittances in cash form of about 321.7 million pounds, or 37.7 percent, which totalled 532.7 million pounds as compared with 854.4 million. The value of imports made without foreign currency transfers also dropped by about 377.4 million pounds, or 30.2 percent, coming to 873.4 million pounds as compared with 1,255,800,000 pounds. Thus the total of these remittances, in the form of cash and material assets, dropped by about 699.1 million pounds in fiscal year 1981-82.

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