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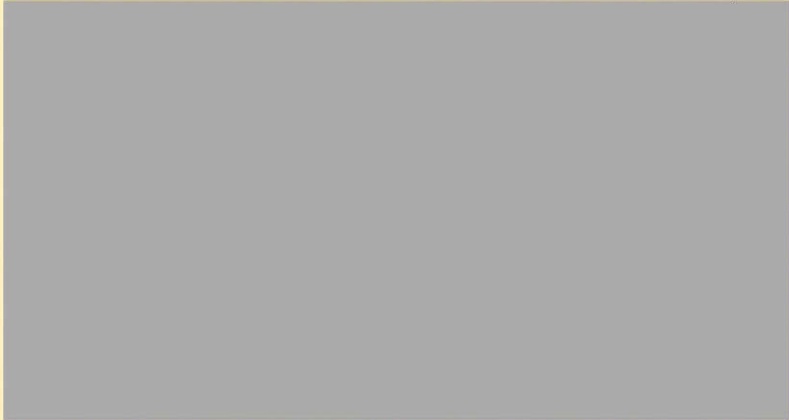
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Economic Committee Papers - EC/O/71-186 - Egypt - Country Program Note

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ECONOMIC COMMITTEE

79

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EC/O/71-186

December 17, 1971

Egypt: Country Program Note

Attached is the draft Country Program Note on Egypt (EC/O/71-186/1, dated December 17, 1971) which has been prepared by the Europe, Middle East and North Africa Department.

2. Comments on the paper should be sent to Mr. DeCosta (Room A722, Ext. 4930) by the close of business on Thursday, December 23, 1971.

J. Chaffey
Secretary
Economic Committee

Attachment

Secretary's Department

Distribution:

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Middle East

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EC/O/71-186/1

COUNTRY PROGRAM NOTEEGYPT

		IBRD/IDA Lending Program (\$ millions)			
		FY 64-68	FY 69-73	FY 73-77	1/
1970 Population:	35 million	-	-		
1970 per cap. GNP:	\$165	-	102.0	291.0	
Current Pop'n Growth Rate:		-	102.0	291.0	
2.5% per annum		-	102.0	291.0	
Current Exchange Rate:					
LE 1 = US \$2.30					
	Operations Program			320.0	
		<u>Annual Average per cap. (\$)</u>			
	IDA	-	.6	1.7	

A. Country Objectives

1. Introduction: At the meeting on November 30, 1970 to review the Country Program Paper based on the findings of the economic mission to Egypt in May/June 1970, Mr. McNamara directed that except for the Railway project, the proposed lending program should be reviewed after the outstanding issue of the rescheduling of Egypt's debts to the U.S. was out of the way. This issue has been very recently resolved, by the two countries signing a debt rescheduling agreement on December 7, 1971. While firsthand information on the recent political changes, and some on economic changes is available through operational missions and published documents, an economic mission to Egypt is scheduled only in early 1972. It should be therefore possible to have a more comprehensive CPP review around mid-1972. In these circumstances, the perspective of this Country Program Note is only to outline recent political and economic developments as we currently know them, and to discuss the Bank's proposed lending strategy and activities not for the next five, but for the immediate three-year period.

1/ The lending amounts from FY 1975 onwards, reflected in these figures, are purely notional and will be firmed up following the economic mission early 1972.

2. Recent Political Events: Significant political changes have taken place in Egypt in 1971, and particularly since May. In the ensuing rivalry for succession after Nasser's death, Anwar Sadat initially proved to be the most acceptable compromise candidate. In the subsequent internal struggle both within Egypt's sole party (Arab Socialist Union - ASU) and the Government, Sadat succeeded in asserting himself as President through a skillful juxtaposition of various forces within the Cabinet and the ASU. The struggle also had some external implications; the more leftist-leaning Cabinet members headed by Ali Sabry tended to oppose Sadat's efforts to achieve a negotiated peace with Israel, to place more emphasis on Egypt's economic development and to confederate with other Arab States. In May 1971, Sadat dramatically uncovered an alleged coup and imprisoned his leading opponents. Since then, he has clearly consolidated his position as President essentially relying on the advice of Prime Minister Fawzy, Deputy Prime Minister Marei, and the Editor of Al-Ahram, Heikal.

3. Although Dr. Sidky, who favors strong ties with USSR, has been named the first Deputy Prime Minister, the orientation of other members of the Government is to look at all areas of the world for resolving Egypt's political and economic problems. This, together with the pressure on Sadat to demonstrate in the very near future his expressed policy objective of concentrating on Egypt's economic development, is expected to lead to approaches to other countries and to the Bank Group for assistance. In the past few months, Egypt has therefore been quietly seeking to restore its creditworthiness. Agreements were signed in December 1970, June and September for compensation of nationalized properties of Dutch, Belgium and U.K. firms and the long outstanding issue of the arrears in U.S. debts was recently settled. Negotiations to reschedule debts to West German firms and banks are proceeding in a friendly atmosphere. Following the settlement of the compensation for nationalization of former U.K. properties, the U.K. announced the resumption of bilateral assistance at a level of \$5 million annually.

4. With his increased political standing, Sadat has been trying to pursue goals of peace with Israel, and to push his program for reallocating resources towards Egypt's economic development. His seemingly inconsistent public postures towards Israel -- e.g., his willingness to consider a negotiated interim settlement counterpoints his repeated threats to effect a forceful solution next year -- are evidently part of a balancing strategy between the peace and war factions at home as well as for foreign consumption. Despite the mutual friendship treaty signed with the USSR in May, Sadat's recent support to Numeiry in Sudan demonstrates Egypt's intention to act in an independent fashion. Nevertheless, some show of results is urgently needed in both the pursuit of peace as well as economic development for Egypt, for Sadat to avoid being pressured into turning to a more militant external posture, and ultimately to enable his regime to survive politically.

5. Following the formation of a new confederation with Libya and Syria on September 1, 1971, the country has changed its name to Arab Republic of

Egypt. Although the armed forces of the three federating units have been placed under a common command and a federating committee to coordinate economic policies and promote plans for joint economic development has been formed, each of the three countries concerned continues to retain considerable autonomy. Sadat, who has been named head of the Presidential Council of the Federation, is obviously pursuing national objectives, and is likely to continue to do so in the future.

6. Economic Changes: Since the 1967 war, defence and the desire to regain control over lost territories have continued to dominate Egypt's political and economic strategy. The difficulties experienced in mobilizing resources for investment, because of the priority for defence needs, have led to the shelving of successive development plans and adoption of a year-by-year approach to development problems. This was exemplified by the setting aside of the substantially completed 1970-75 Plan and the adoption of one-year plans since the last three years. However as mentioned above, since Sadat's accession to power, the theme of economic development and the Government's objective of concentrating on the economic well-being of Egyptians rather than that of the Arab world, has received increasing attention, particularly since June this year. Whether this trend will continue, remains to be seen. However, the work on producing a revised Development Plan has been underway, and the target date for a Cabinet approved draft is January 1972.

7. Another recent indication of the new development orientation has been the establishment in September of the new Egyptian International Bank for Foreign Trade and Development. The Bank has been capitalized, and will also maintain accounts, in foreign exchange. Its single objective is to promote foreign private investment in Egypt, either on its own, or in joint ventures with public or private sector enterprises, as the foreign investor chooses. For this purpose, laws have also been passed offering rather generous income tax holidays, guarantees for repatriation of profits and against nationalization without compensation, besides exemption from excise and import duties if these enterprises are established in "free zones" or produce for exports. To buttress the seriousness of its intention to foster foreign investment interest, Egypt has also indicated its decision to sign the Charter of the Centre for the Settlement of International Investment Disputes.

8. The effects of the 1967 war, on the tail of a severe balance of payments crisis in 1966, and the increased emphasis on defence resulted in a negative rate of growth in 1967 and 1968. However following a number of stabilization measures and the effects of the Arab aid under the Khartoum Agreement, the economy revived and GDP rose at an annual rate of about 6 percent in 1969 and 1970. Last year, economic growth declined somewhat but was still in the order of 4 to 5 percent.

9. While these latest developments appear as good portents for the future, the 1971 budget underscored the Government's continuing concern over defence. Current revenues rose by 6 percent, while appropriations for current

expenditures increased by nearly 11 percent, reducing the current budget surplus from \$115 million in 1970 to \$27 million in 1971. This is largely due to higher defence expenditures, only a portion of which is included in the current budget, and partly to rising expenditures on social services (education, health, etc.) The 1972 budget, approved in June this year, even projects a current deficit of \$209 million, again largely as a result of the continuing rise of defence expenditures, as well as a decline in current revenues.

10. The appropriation for defence in the consolidated budget, which includes defence expenditures out of the "Emergency Fund", is nearly \$1.5 billion compared to \$1.3 billion in 1971. As such, these expenditures continue to be at a level of nearly 50 percent of the consolidated budget and close to one quarter of GDP, compared to a little over 30 percent of the budget and 8 percent of GDP prior to the 1967 war. In comparison, the public sector investment expenditures, partly financed by external resources, were estimated at \$700 million in 1971 and are projected to reach \$800 million in 1972, i.e., some 12 to 13 percent of GDP.

11. On the external side, the Egyptian economy is facing another balance of payments deficit, after managing to generate a modest surplus in both 1968/69 (\$26 million) and 1969/70 (\$13 million). In 1970/71, mounting pressure on resources caused a sharp decline of net foreign assets through June 1971. This was partly due to Egypt's inability to sustain the growth rate of non-traditional exports, experienced in the previous two years. It is estimated that for 1970/71, exports increased by only 3 percent, compared to a growth rate of 13 percent and 21 percent in 1969/70 and 1968/69 respectively. On the other hand, imports continued to increase, although at a lower rate than in the previous year, primarily as a result of the growing needs of local industries for imported raw materials and for replacement of depreciating capital assets. Net services for 1970/71 are expected to reach a level of \$100 million against \$81 million in 1969/70. As a result, the deficit on the current account rose from about \$370 million in 1969/70, to \$558 million in 1970/71. Taking into account Arab aid under the Khartoum Agreement and other Arab transfers totalling about \$262 million, plus allocations of SDRs (\$20 million) and non-monetary capital (\$3 million), the balance of payments deficit for 1970/71 is estimated to have reached \$273 million.

12. On the other hand, the 1971/72 cotton crop, whose official harvesting season opened on September 15, promises to be better than last year's and reach the record production figure of 2.5 million bales achieved in 1969/70. If world prices hold at their present level or slightly weaken, Egypt should expect improved export earnings during 1971/72.

13. Medium-Term Prospects: From a long-term viewpoint, Egypt basically has good development potential in most sectors. However, despite the stepped up efforts to attract foreign private and international resources, prospects for economic growth in the near future remain somewhat uncertain. In the

past, savings have consistently fallen short of investment needs. But even if a reallocation of resources away from consumption and defence increases Egyptian savings, given a relaxation of political tensions, the structural problems of the Egyptian economy will take a long time to alleviate. A rapidly increasing population, a large backlog of infrastructural investments in almost all sectors, the need for employment opportunities for those demobilized from the armed forces, and a heavy debt service burden, are severe constraints that will require new approaches and ingenuity to resolve. As stressed in the last CPP and economic report, the achievement of a modest overall growth rate of 5 percent by mid-1970, will not only require a relaxation of political tensions and reallocation of economic priorities, but also gross external aid borrowings of the order of around \$350 million a year, besides continuance of Arab assistance of about \$250 million each year.

B. External Assistance

14. External aid from western official sources to Egypt has practically ceased in the second half of the sixties, largely because of debt arrears and for political reasons. Apart from Arab assistance under the Khartoum Agreement following the 1967 war, recent capital inflows to Egypt, including assistance from East Europe, have been limited. Indeed, the capital account of the balance of payments (excluding Arab assistance) indicates a net capital outflow of \$6 million in 1968, \$68 million in 1969, and \$18 million in 1970, as compared with a net inflow of over \$150 million in 1967. Gross disbursements against external loans have declined from around \$300 million in 1967 to \$249 million in 1970, while amortization payments have steadily increased from \$150 million in 1967 to \$267 million in 1970.

15. Assistance from Eastern European countries has come essentially in the form of credits on a barter basis. For example, in March 1971, the USSR extended a 2.5 percent interest bearing loan of 376 million roubles (about \$420 million) under a frame agreement. The credit, to be repaid over 12 years, will mainly be utilized in financing industrial and power projects included in Egypt's third Five-Year Plan. Capital flows from western countries are essentially limited to suppliers' credits or reliance on short- and medium-term credits from commercial banks.

16. External public debt totalled \$1,799 million as of December 1970, excluding military debt. Nearly two-thirds of this debt, i.e., 75 percent of the debt to the West and 58 percent of the debt to East Europe and People's Republic of China, becomes due by the end of 1975. The debt service ratio is high (24 percent^{1/} for 1971) and poses a serious strain on Egypt's resources in the next four to five years. As a partial solution, Egypt has been making arrangements to reschedule its debt obligations to western creditors, to whom arrears began to accumulate in 1965/66. In view of its rather tight foreign

^{1/} Arab assistance -- largely a compensation for the loss of Suez Canal revenue -- has been added to export earnings to compute this ratio.

exchange situation, Egypt has arranged in almost all rescheduling arrangements to minimize the net outflow, by obtaining new credits slightly less or equal to the repayment of the principal in arrears. Repayments have been rescheduled for varying periods, not exceeding seven years. In these circumstances, Egypt has, at best, been enabled to make limited medium-term borrowing, of five to six years duration, on suppliers' credits terms; no new additional credit facilities, especially long-term, has become available from western sources. The net result is to provide short-term relief, without resolving, and perhaps accentuating the country's long-term debt problems.

17. Creditworthiness: Egypt's strained balance of payments position, the high level and unfavorable structure of its external debt, severely limit the country's capacity to service additional credit on commercial terms over the next few years, and suggest the need for substantial long-term assistance on extended grace periods and relatively moderate interest terms. For these reasons, with its low per capita income of \$165, Egypt would qualify for assistance essentially on IDA terms.

C. Bank Group Lending Strategy

18. The objectives of the Bank's strategy since 1969 have been to re-establish a useful dialogue with Egypt, create an environment in which Bank Group lending would be possible, and assist the country in improving its standing with western creditors and investors. The efforts put in by the Bank staff over the last three years, have shown measurable results in a fulfillment of these objectives. Efforts to encourage a rescheduling of debts, have contributed to the recent success in this field. The Nile Delta Drainage credit, signed in 1970, was the first lending operation since 1959. Increased contacts, largely through operational and project missions, have improved our knowledge of some sectors with a consequently more firmly defined, if still modest, project pipeline.

19. Egypt's favorable response has been, understandably, partly motivated by the wish to secure greater financial assistance. While the Bank Group should be prepared to help more meaningfully through an expanded lending program, the scarce available IDA resources severely restrict the scope of our operations. An important element in the Bank's country strategy should therefore be the search for ways to restore Egypt's creditworthiness as soon as possible. This would probably require a combination of measures--including the long-term rescheduling of foreign debt, both Western and Eastern, and a gradual scaling down of defence expenditure. It would therefore most likely follow, rather than precede, an interim or more permanent settlement of the Middle East crisis. The relatively solid administration and institutional structure of Egypt would make it possible for the country to absorb large amounts of Bank lending to supplement the IDA flows.

20. Until the forthcoming economic review is carried out early next year and our long-term strategy for Egypt is developed during the CPP discussions in mid-1972, it is proposed that in the interim, some local currency

financing be considered. Financing only the foreign exchange costs of projects, results in financing such a small portion of total project costs, that it provides little project impact or leverage. This is particularly true in the case of projects in sectors such as agriculture and population where the foreign exchange component is relatively small. In the Nile Delta Drainage project, for example, the foreign exchange component was less than 18 percent of a total cost of nearly \$150 million, and in both the Upper Egypt and Soil Improvement projects, the foreign exchange component is estimated to be less than 20 percent. It is therefore proposed that in the agricultural sector, the Bank Group should consider providing some local currency financing, besides foreign exchange costs, so that Bank Group financing covers a sizeable part of total project costs, as is the customary policy in the Bank for such projects. In the field of population, where recurrent costs are high in relation to capital costs, as an incentive to implement and maintain an effective population planning effort, a higher portion of project costs could be considered for financing. Some of these costs might include incremental operating costs, which would be regarded as "development" costs of this sector.

21. In anticipation of a revived and larger lending, our efforts have been concentrated on firmly discussing with the Government, priority proposals for the immediate 2 to 3 years, for which Egypt would wish to have Bank Group financing. Also anticipating that after 2 to 3 years, the Bank Group would wish to make a more substantial contribution to Egypt's development, and in order to do so after we gained a deeper knowledge of sectors, priority and needs, we did not wish to preempt the future pipeline. Hence, the lending program proposed for approval in this CPN represents projects firmly on the anvil up to FY 1974. Four projects for FY 1975, discussed with Government, are indicated merely to have the authorization for feasibility/preparation work to be commenced or continued, so that these projects could be made ready well in time for lending by early FY 1975. The number of projects and the total lending level indicated for FY 1975 is however purely notional. A full Five-Year Program will be developed after we decide on the extent of the Bank Group lending to Egypt and our operational strategy, following the economic mission's visit in early 1972. The program may, of course, become much larger if and when improved creditworthiness makes blend operations possible. (see para. 19)

22. The previous five-year Lending Program totalled \$220 million, an average annual lending of \$44 million. The proposed lending for FY 1973 to FY 1977 (including notional figures from FY 1975 through 1977) visualize an annual average of \$48 million up to FY 1974 and increasing to about \$60 million thereafter. While such lending nevertheless implies a sharp rise in per capita lending over the very low level between FY 1969-73, (and none at all in 1964-68) the proposed per capita figure of \$1.7 per year is moderate for a country of Egypt's size and needs. The increase is exaggerated by the low base period, when because of obstacles in lending to this country, very few lending operations were contemplated. The proposed increase is necessary to attain a more balanced financial and development stance vis-a-vis the country. In fact, the operations program has been tailored on the assump-

tion that the main constraint is the availability of IDA resources, not the absorptive capacity of Egypt. In fact, restraint has been achieved by limiting the number of projects for lending in each year. Thus, while the proposals being processed could be brought to a lending stage earlier than the dates indicated, they have been deliberately slipped. Lending for agricultural and population projects has been somewhat increased, to reflect the provision of some local currency financing. Should the creditworthiness situation allow blend financing for industrial or transportation projects, thus releasing some additional IDA resources for application to other projects, then it should be possible to accelerate the program by advancing some FY 1974 and tentatively proposed FY 1975 projects, to FY 1973 and FY 1974.

23. The composition of the proposed lending program, which has a larger number of identified projects than the previous one, also differs in some respects from the CPP dated November 23, 1970. Previous projects for inland waterways and tourism have been dropped. In agriculture, projects for land reclamation have been replaced by the priority projects for the drainage of presently cultivated land in Upper Egypt, and for soil improvement in cultivated areas. In addition, a livestock project has been tentatively proposed for lending by early FY 1975. In industry, the two projects previously proposed have now been identified as cotton-ginning rehabilitation in two phases, and a DFC-type lending operation has been introduced.

D. Economic Sectors and Sectorial Distribution of Bank Operations

24. Agriculture is the dominant sector contributing 30 percent to GNP, 60 percent to exports and employing 50 percent of the labor force. Both agricultural production and export earnings have scope for augmentation. The Association granted a credit of \$26 million in FY 1970 for the Nile Delta Drainage project, but progress has lagged due to an initial delay in appointing consultants and ineffective use of their services as well as to Egyptian unfamiliarity with preparing documents for international bidding. However steps are being taken to remedy the situation, and the project is now under close supervision. The main directions for improvement in the agricultural sector are; the provision of better drainage for irrigated areas to reduce the water-table and improve productivity; the extension of irrigation facilities using the High Dam waters particularly to provide perennial irrigation; provision of medium- and long-term credit to farmers and adoption of more efficient pricing and marketing arrangements. Some land reclamation possibilities also exist. A project proposal to provide tile field drainage in Upper Egypt has been prepared and is scheduled for presentation in early FY 1973. A Soil Improvement project, to improve 1.5 million feddans in the Nile Delta region by deep ploughing and gypsum applications to the soil, is at a relatively advanced stage of preparation. With the assistance of the FAO/IBRD Co-operative Programme, the preparation work is expected to be completed for appraisal before mid-1972 and lending in the second half of FY 1973. The foreign exchange component of both these projects is estimated to be not more than 20 percent of total costs.

To have an impact and leverage over these projects and the sectors, should a financing formula of say 50 percent of total costs be applied, the level of lending would be of the order of over \$80 million. Since IDA resources are limited, and since the implementation period as presently planned for both these projects, is between 6 to 8 years, the possibility of implementing them in two phases, though rather unpromising on first sight, will need to be explored further. If despite these reservations, satisfactory phasing can be arranged, it would then result in having a phase 2 project sometime in FY 1976. The Government is also rather anxious to develop a program of livestock development and has requested assistance in identifying such a program and financial assistance for it. With the provision of such assistance in early 1972, and assuming that an initial project is identified, a livestock proposal for early FY 1975 is contemplated. The development of an agricultural credit project is tentatively proposed only for early FY 1975. However, the identification and preparation work on this should begin very shortly, since it will be a difficult project to develop. In view of the importance of the agricultural sector to Egypt, and to advance our knowledge of it, a sector study is proposed for early FY 1973.

25. The transportation sector consists of the railway system with its vast backlog of underinvestment, the inland waterway system where large volumes of investments are required to develop its full potential, and road transportation, which currently is being used only for short hauls. Further, in key cities, particularly Cairo with a population of 5 million which is increasing, there seems to be scope for significant economic savings through the provision of improved urban transport facilities, including rapid transit. With the recent \$30 million credit for the two-year Phase I of the Five-Year Railway Investment Program, follow-up lending for Phase 2 is visualized for late FY 1974. Egypt has already initiated studies of the possibility of a rapid transit system for Cairo by well-known foreign consultants. The Bank Group has assisted by reviewing the terms of reference for the study, making recommendations for its improvement and offering to keep in touch with the consultants, all with a view to ensuring that the resulting study and rapid transit investment proposal would provide sufficient basis for interesting external sources, including the Bank Group, in providing financing for it. Such a proposal is expected to be ready for consideration for late FY 1974, but in view of IDA limitations, we are tentatively proposing to process it for early FY 1975. Both Phase 2 of the Railway project and the Urban Transit proposals, are instances where blend lending could be considered assuming creditworthiness then permits, and where the Bank Group might also be able to assist in organizing parallel financing or a similar financing arrangement.

26. Industry currently contributes 20 percent to GNP and is a sector with potential for growth, particularly of exports. In the shorter run, Egyptian industrial output could be increased if the available industrial capacity were to be fully utilized. Since shortage of foreign exchange to finance the replacement of worn out industrial equipment and the importation of adequate raw materials appears to be a major reason for the under utilization of industrial capacity, the Bank Group should explore the possibility of

financing industrial imports to help alleviate this problem. The forthcoming economic mission and the proposed sector review in the FY 1973 will investigate this matter more fully. A rather modest initial investment in the industrial sector is suggested herein, through a cotton ginning rehabilitation project. Furthermore the possibility of lending through a DFC is being investigated. A recent Bank Group mission has identified an attractive proposal to rehabilitate cotton ginneries which are antiquated and worn out. This project could be done in two quick consecutive phases. The proposal has considerable attractions, since Egyptian cotton is of premium quality and exports of raw cotton and textiles are staple foreign exchange earners. The technical proposals already worked out by the Egyptians, are to be advanced to the level of an investment proposal sufficient for appraisal, by additional preparation work done by Egypt and consultants, with Bank-staff guidance. Appraisal is anticipated by mid-1972, lending for Phase I around mid-FY 1973, with a follow-up lending for Phase 2 in FY 1975. A reconnaissance mission in July 1971, explored the possibility of channelling foreign exchange resources to the small-scale private and medium-size public sector industrial enterprises, through the Industrial Bank of Egypt. Although most industrial enterprises are owned by the public sector, small-scale enterprises in private hands -- according to a recent Bank consultant report -- contribute some one-fifth of the sectors output. Recent policy announcements outline the Government's intentions of promoting foreign private investment, to provide incentives for the expansion of small scale private sector enterprises and to persuade medium-size public sector enterprises to gradually seek term-financing from the banking sector rather than from the Treasury. Since the reconnaissance mission, the Industrial Bank of Egypt has been merged into the much larger Bank of Alexandria -- one of Egypt's five commercial banks -- as part of the country-wide reorganization of the banking sector. The merger is planned for completion by July 1972. The Government has indicated that it wishes our advice in carrying out the merger between Alexandria and Industrial Bank, to ensure that the new bank would be acceptable to the Bank Group for receiving a DFC-type loan. We are awaiting a Government response to certain policy inquiries, and if a suitable intermediary exists or can be developed, a DFC project could possibly be prepared in time for lending in the third quarter of FY 1973. In view of IDA limitations, however, the DFC project is again proposed to be processed for early FY 1974.

27. Population planning has received considerable emphasis in the recent year and Government has repeatedly reaffirmed the high priority that it attached to the implementation of an effective population program. At the Government's request, the scope as well as the ways and means of implementing such a program have been discussed and identified. A preparation/pre-appraisal mission is planned for January 1972. The target for this project was late FY 1972, but it may slip into early FY 1973.

E. Conclusion and Recommendation

28. Although the focus of Government's policies has given priority to defence, recent announcements and steps, including steps to normalize international financial relationships, are indicative of Government's intention to place increasing emphasis on Egypt's economic development in the coming years. It is however clear that to achieve even a modest growth rate in the next few years, Egypt will need substantial external financing at concessional terms, to cover its resource gap and to improve its onerous debt situation.

29. The forthcoming economic mission should provide a more penetrating look into the Egyptian economy, its prospects and policy trends, and permit a longer-term Bank Group strategy to be devised. In the circumstances, this CPN seeks approval to an interim operations program up to FY 1974, with tentative indications of FY 1975 projects, for which preparation or feasibility work should commence shortly if lending is to be achieved in that fiscal year. All these project proposals currently being processed, following discussions with the Egyptian authorities, and are in the sectors of obvious priority, i.e., agriculture, transportation, industry and population. To deepen our sectoral knowledge and provide a basis for increased activity in future, an industrial sector review is being proposed for early FY 1973, and an agriculture sector mission in the same year.

30. In view of the late start of our relationship with Egypt, a strong effort is recommended to achieve the proposed lending program up in the next three years, involving IDA lending of about \$50 million a year. Until a major CPP review takes place in mid-1972, local currency financing appears suitable for agricultural and population projects, as is customary for such projects, since the foreign exchange component of this project is likely to be very low and inadequate for either having an impact or leverage on these projects or sectors.

31. In the meantime, we should continue to consolidate our relationship, using our increasing leverage not only to promote improved internal policies pertaining to our projects, but, in due course, to assist Egypt to remove barriers to creditworthiness.

Attachments

Europe, Middle East and North Africa Department
December 17, 1971

Population: 35 m
Per Cap Inc: \$165

EGYPT - ACTUAL AND PROPOSED LENDING THROUGH FY 1977 ^{1/}
(\$ million)

Attachment 1

		Through	Fiscal Years													Total			
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975 <u>1/</u>	1976 <u>2/</u>	1977 <u>2/</u>	1964-68	1969-73	1973-77
Agricultural Credit - Unidentified	IDA								26.0					15.0					
Nile Delta Drainage I	IDA											25.0							
Upper Egypt Drainage I	IDA													5.0					
Livestock - Unidentified	IDA											15.0							
Soil Improvement I	IDA												10.0						
DFC I - Industrial Bank	IDA																		
Cotton Ginning Rehabilitation I	IDA											15.0							
Cotton Ginning Rehabilitation II	IDA													10.0					
Population I	IDA										6.0								
Railways I	IDA										30.0								
Railways II	IDA												35.0						
Suez Canal I	IBRD	56.5																	
Urban Transport - Cairo	IDA													30.0					
Unallocated	IDA														75.0	85.0			
Operations Program	IBRD																		
	IDA								26.0		36.0	55.0	45.0	60.0	75.0	85.0		117.0	320.0
	Total								26.0		36.0	55.0	45.0	60.0	75.0	85.0		117.0	320.0
	No.								1		2	3	2	4	4	5		6	18
Lending Program	IBRD	56.5																	
	IDA	-							26.0		30.0	46.0	50.0	55.0	65.0	75.0		102.0	291.0
	Total	56.5							26.0		30.0	46.0	50.0	55.0	65.0	75.0		102.0	291.0
	No.	1							1		1	3	2	3	4	4		5	16
IBRD o/s inc. undisbursed		50.5	48.8	45.0	41.0	37.3	33.3	29.3	24.5	19.0	13.5	8.0	2.5	-	-	-			
exc. undisbursed		50.5	48.8	45.0	41.0	37.3	33.3	29.3	24.5	19.0	13.5	8.0	2.5	-	-	-			
IBRD - gross disbursements		50.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
- net disbursements		50.5	-1.8	-3.8	-4.0	-3.8	-4.0	-4.0	-4.8	-5.5	-5.5	-5.5	-5.5	-2.8	-	-	-17.4	-25.3	-13.8
- net transfer		44.0	-4.9	-6.7	-6.7	-6.3	-6.2	-6.0	-6.6	-7.0	-6.3	-6.0	-5.7	-2.8	-	-	-30.8	-31.9	-14.5
IBRD/IDA - gross disbursements		50.5	-	-	-	-	-	-	-	0.1	12.5	20.6	13.6	26.7	44.0	52.2		33.2	157.1
- net disbursements		50.5	-1.8	-3.8	-4.0	-3.8	-4.0	-4.0	-4.8	-5.4	7.0	15.1	8.1	23.9	44.0	52.2	-17.4	-7.9	143.3
- net transfer		44.0	-4.9	-6.7	-6.7	-6.3	-6.2	-6.0	-6.6	-6.5	6.1	14.9	7.5	23.3	43.1	51.0	-30.8	1.9	139.8

- ^{1/} The project content and lending amount for Fiscal 1975, is tentative; only projects discussed with the Government and for which feasibility preparation work must commence shortly, are being indicated.
- ^{2/} The projects and lending amounts for FY 1976 and 1977, as for FY 1975 are purely notional and will be firmly proposed following the economic mission scheduled in early 1972.

EGYPT: CUMULATIVE ESTIMATES AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

(\$ millions)

Project & No.	Amount:	Date:	Closing Date	Forecast Date	FY'71				FY'72				FY'73	FY'74	FY'75	FY'76	FY'77
	- Original	- Approved			1	2	3	4	1	2	3	4					
	- Cancelled	- Signed															
	- Net	- Effective															
Nile Delta	26.0	3/24/70	Orig: 12/31/76	N.A.	-	-	-	-	-	-	-	-	-	-	-	-	-
Draining	-	4/17/70		9/30/70 (first)	-	-	-	.1	.3	2.5	4.7	6.9	11.1	17.4	23.3	25.4	26.0
IDA 181	-	12/22/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	-	-	-	-	.1								

Europe, Middle East and North Africa Department
12/13/71

Last Econ. Mission
May/June 1970

E G Y P T

INDICATORS OF DEVELOPMENT

	Unit	Annual Average ^{/1}			
		1951-60	1961-65	1966-70	
I. ECONOMIC & STRUCTURAL INDICATORS					
1. Gross Domestic Product (in constant prices)	% Change	3.8	6.5	3.2	
2. Manufacturing Output	% Change	14.6	18.9	2.8 /2	
3. Agricultural Output	% Change	3.7	3.3 /3	2.0 /3	
4. Imports of Goods and NFS	% Change	4.7	10.7 /4	3.2 /4	
5. Exports of Goods and NFS	% Change	2.4	7.8 /4	0.7 /4	
6. Domestic Price Level	% Change	2.0 /5	2.3	2.4	
		1950 /6	1960	1965	1970
7. Gross National Savings	% GDP	9.6	12.9	13.2	9.2
8. Resource Gap	% GDP	2.3	- 0.8	4.1	5.0
9. Net Factor Payments Abroad	% GDP	1.1	- 0.2	1.0	1.5
10. Gross Domestic Investment	% GDP	13.0	12.1	17.2	14.2
11. Debt Service	% exports	....	....	....	23.0 /7
12. Central Govt. Current Revenue	% GDP	....	18.4	19.4	21.1
13. Central Govt. Curr. Surplus (Deficit)	% GDP	....	0.0	- 6.6	1.7
14. Public Exp. on Social Services	% GDP	....	....	5.8	5.7
15. Military Expenditure	% GDP	3.9 /8	5.5	9.6	15.9 /9
16. Manufacturing Output /10	% GDP	15.8	19.9	21.4	21.2
17. Energy Consumption	million tons	4.7	7.3	9.0	9.4 /11
18. Fertilizer Consumption /12	'000 tons	103.9	105.7	260.0	220.0 /11
II. SOCIAL INDICATORS					
19. Population Density	/13	....	733.2	845.5 /14	907.0 /15
20. Population Growth Rate	%	2.4	2.5	2.5	2.5
21. Urban Population Growth Rate	%	....	3.7	4.4 /16	4.5 /17
22. Birth Rate	Per 1,000 popln.	42.6	43.1	41.4	39.2 /18
23. Family Planning	Acceptors '000s.	....	....	n.a.	n.a.
24. Income of: Highest quintile	% total income	....	....	n.a.	n.a.
25. : Lowest quintile	% total income	....	....	n.a.	n.a.
26. School Enrollment:					
Primary & Secondary	% school age	25.0	43.0	53.0	56.0
27. Literacy Rate /19	% adult popln.	....	20.0	....	30.0
28. Unemployment Rate	% labor force	....	....	6.1	7.0 /15
29. Population per hospital bed	Number	....	459.0	467.0	457.0 /11

- /1 Most of the data relates to FY ending June 30.
- /2 Value added at constant prices covering Industry and Mining.
- /3 Value added at constant prices.
- /4 National Accounts figure, current prices.
- /5 Relates to 1954/60.
- /6 Unless otherwise indicated, data relate to FY 1953.
- /7 Relates to 1969.
- /8 Relates to FY 1954.
- /9 Official Estimates -- Other sources claim the figure to be around 20.0%.
- /10 Value added f.c. including Industry and Mining.
- /11 Relates to 1968.
- /12 In terms of Nitrogen.
- /13 Per sq. km. of inhabited area.
- /14 Relates to 1966.
- /15 Relates to 1969.
- /16 Average 1961-65.
- /17 Average 1966/69 (1969 estimate).
- /18 Relates to 1967.
- /19 Rough Estimate.

E G Y P T
ECONOMIC WORK PROGRAM

<u>Activity</u>	<u>Responsibility</u>	<u>Status</u>
<u>FY 72</u>		
Current Economic Report Mission	EME	Planned
<u>FY 73</u>		
Basic Report	EME	Planned
Industrial Sector Mission	NDP	(Planned for
Agricultural Sector Mission	APD	(late 1973
<u>FY 74</u>		
Current Economic Report Mission	EME	Planned
<u>FY 75</u>		
Current Economic Report Mission	EME	Planned

Europe, Middle East and North Africa Department
12/17/71