

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Travel Briefings: United Arab Republic (EGYPT) - Travel briefs 01 (01/07/1968-31/07/1968)

Folder ID: 1772472

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4540S

Series: Travel briefings

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: May 1, 2013

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

Mohamam Papers

The World Bank Group
Archives



1772472

A1995-259 Other #: 1

309682B

Travel Briefings: United Arab Republic (EGYPT) - Travel briefs 01

Folder 1 of 2

Folder 2

**DECLASSIFIED
WITH RESTRICTIONS**
WBG Archives



UNITED ARAB REPUBLIC

7/10-13/68
(Cairo)

Dr. H. El Sayeh, Under Secretary of State, Ministry of Economy
and Foreign Trade

Dr. Nazim Abdel Hamid, Governor of the Central Bank of Egypt

Dr. Sayyid Ahmad Marei, Minister of Agriculture

Dr. Muhammad Bakr Ahmed, Minister of Land Reclamation

Ibrahim Zaki Quinnawi, Minister of Irrigation

Dr. Ali Zayn Al-Abidin Salih, Minister of Transport

Dr. Mahmoud Gaballah Al-Sayyid, Minister of Planning

Dr. H.A. El-Tobgy, Under Secretary for Research, Ministry of Agriculture

Dr. Malek El-Nomrossy, Chief Statistician of the National Family
Planning Program

Ambassador Semiah H. Gunver, Turkish Ambassador to the UAR

Dr. Hassan A. Zaki, Minister of Economy and Foreign Trade

Ahmed Mashour, Chairman of the Suez Canal Authority

President Gamel Abdul Nasser

Mahmoud Fawzi, Special Assistant to the President (former Deputy PM)

Dr. Mustafa A.E. Ahmed, Senior Staff Member of the Executive
Conference Program

Dr. Hussein Said, Chancellor of the American Univ. in Cairo and
former Minister of Higher Education

Dr. Ahmed E. Sarhan, Dean of the Institute of Statistical Studies
and Research, Cairo University

Dr. Youssef Ikram Sayed, Acting Chairman of the Board, National
Institute of Management Development, Cairo

Dr. H.K. Topozada, Chairman of the Department of OBS/GYN, Faculty
of Medicine, Alexandria University

Sayed Zaki

Ministry of Economy & Foreign Trade

U.A.R.

Program for U.A.R. visit of Mr. & Mrs Robert S. McNAMARA

President of IBRD

Tuesday, July 9

- 2145 - Arrival at Cairo Airport
- 2245 - Arrival at Nile Hilton Hotel

Wednesday July 10

(A special program has been organised for Mrs McNAMARA)

- 0830 - Breakfast at Hotel with Governor of Central Bank of Egypt (Dr. Nazmy Abdel Hamid and Under Secretary of State, Ministry of Economy & Foreign Trade (Dr. H. EL SAYEH)
- 0930 - Meeting with Dr. Hassan A. Zaki Minister of Economy and Foreign Trade *3164A*
- 1100 - Meeting with Dr. Mahmoud Fawzi Special Assistant to the President of U.A.R. for Foreign Affairs
- 1215 - Meeting with Dr. EL Sayed Marei Minister of Agriculture & Dr. Mohamed Bakr Ahmed, Minister of Land Reclamation, *Minister of Irrigation*
- 1315 - Meeting with Engineer Dr. Aly Zein EL ABEDIN Minister of Transport
- 1400 - Luncheon on invitation of Ford Foundation followed by visit to Giza Pyramids
- 1600 - Return to Nile Hilton Hotel
- 1900 - Departure Nile Hilton to Mr. & Mrs Dr. Hassan A. Zaki domicile for tea, specially offered to Mr. & Mrs McNAMARA
- 2000 - Departure for Sound & Light Performance at Giza Pyramids (show at 2045) Mr. & Mrs McNAMARA & Party
- 2145 - Dinner at Khofo Hall - Pyramids Hosted by Dr. Hassan A. Zaki - Minister of Economy and Foreign Trade Mr. & Mrs McNAMARA & Party

Thursday, July 11

Mr. & Mrs McNAMARA & Party

- 0700 - Departure Nile Hilton Hotel for ALMAZA Airport
- 0730 - Departure for ABU SIMBEL (Special Plane)
- 1035 - Arrival at ABU SIMBEL
- 1120 - Leaving to ASSWAN
- 1200 - Arrival at ASSWAN City
- 1215 - Visit of High Dam
- 1315 - Visit of KIMA Co.
- 1415 - Luncheon on invitation of Governor of Asswan
- 1600 - Departure for Luxor City
- 1700 - Arrival to Luxor
- 1730 - Visit the Valley of the Kings (Eastern Shore)
- 1930 - Return to Western shore and visit to Luxor & Karnak Temples (if time permits)
- 2100 - Return to Cairo by plane
- 2245 - Arrival at Cairo Airport

Friday, July 12

Mr. & Mrs McNAMARA & Party

- 0900 - Departure from Nile Hilton Hotel to visit EL ZAHRAA Arab Horse Farm
- 1030 - Leave for the Barrage
- 1100 - Leave for Sakha experimental farm. Visit on road of combined rural service centre
- 1300 - Arrival at the Farm
- 1400 - Luncheon given by Dr. EL Sayed Marei Minister of Agriculture
- 1500 to 1600 - Visit to the Farm
- 1600 - Departure for Cairo

Saturday, July 13

- 0900 - Visit to the Egyptian Museum
Mr. & Mrs McNAMARA & Party
- 1030 - Mr. McNAMARA Meeting with other
Ministers and the Director of Suez Canal
Authority could be arranged on request
and according to possibilities
- 1400 - Luncheon (free)
- N.B. A special tourist program could be
arranged so as to match with time
meeting of H. E. President Nasser
when fixed.
- 2100 - Dinner (free)

Sunday, July 14 - Day fixed for departure

Ford Foundation

Cairo

GUEST LIST FOR LUNCHEON

In Honor of Mr. Robert McNamara

July 10, 1968

- Dr. Mustafa A. E. Ahmed
senior staff member of the Executive Conference
Program
- Dr. Malek El-Nomrossy
Chief Statistician of the National Family Planning
Program
- Dr. Hussein Said
Chancellor of the American University in Cairo and
former Minister of Higher Education (1965-66)
- Dr. Ahmed E. Sarhan
Dean of the Institute of Statistical Studies and
Research, Cairo University
- Dr. Youssef Ikram Sayed
Acting Chairman of the Board, National Institute of
Management Development, Cairo
- Dr. H. A. El-Tobgy
Under-Secretary for Research, Ministry of Agriculture
- Dr. H.K. Topozada
Chairman of the Department of OBS/GYN, Faculty of
Medicine, Alexandria University

Files - Middle East + North
Africa Department

List of Visitors to

Aswan - Abu Sunbel - Asswan - Luxor

Thursday July 11th, 1963

- Mr. & Mrs Robert S. McNamara
 - Mr. Williams Clark
 - Mr. Munier Benjenk
 - Mr. Rainer Stechan
 - Mr. & Mrs James S. Lipscomb
-
- Dr. Hamed El Sayeh
 - Mr. Taher Aboul Wafa (High Dam)
 - Engineer Mohamed Osman (Abou Simbel)
 - Mr. Abdel Rahman Hamoud
 - Mr. Fikri El Kolliny
 - Mr. Safwat Abassa

OFFICE MEMORANDUM

TO: Mr. Rainer B. Stechan

DATE: June 27, 1968

FROM: William Clark *W.C.*SUBJECT: Arrangements in the U.A.R.

I have received the following information from the U.N. Resident Representative in Cairo (a Yugoslav named Paricic) via New York.

1. We are staying at the Hilton Hotel. An office ^{*in the hotel.*} will be provided by the Egyptian Government, and staffed by UNDP.
2. The Minister in charge of our visit is Hassan Abbas Zaky, Minister of Economic Affairs and Foreign Trade.
3. Appointments are being made for Mr. McNamara to see President Nasser. And the following Ministers:

Transport;
Agriculture;
Agrarian Reform
Land Reclamation
Foreign Affairs

and of course Zaky.

4. A private plane will be laid on to take us to Aswan and "a side trip to Luxor" would be available if required. I hinted it would be required!

WDClark:sf



Record Removal Notice



File Title Travel Briefings: United Arab Republic (EGYPT) - Travel briefs 01		Barcode No. 1772472		
Document Date Jun 26, 1968	Document Type Memorandum			
Correspondents / Participants To: The Acting Secretary From: IO - Joseph J. Sisco, NEA - Lucius D. Battle				
Subject / Title Discussion of Middle East at your Luncheon with the President Today, June 25, 1968				
Exception No(s). <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input checked="" type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td>Withdrawn by Tonya Ceesay</td> <td>Date Apr 15, 2013</td> </tr> </table>	Withdrawn by Tonya Ceesay	Date Apr 15, 2013
Withdrawn by Tonya Ceesay	Date Apr 15, 2013			



Record Removal Notice



File Title Travel Briefings: United Arab Republic (EGYPT) - Travel briefs 01		Barcode No. 1772472		
Document Date Jun 21, 1968	Document Type Memorandum			
Correspondents / Participants To: The Secretary From: IO - Joseph J. Sisco, NEA - Lucius D. Battle				
Subject / Title Your Discussion with Foreign Secretary Stewart on the Middle East --Briefing Memorandum				
Exception No(s). <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input checked="" type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td>Withdrawn by Tonya Ceesay</td> <td>Date Apr 15, 2013</td> </tr> </table>	Withdrawn by Tonya Ceesay	Date Apr 15, 2013
Withdrawn by Tonya Ceesay	Date Apr 15, 2013			

CONFIDENTIAL

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Michael L. Lejeune

SUBJECT: United Arab Republic - (i) UAR Expectations
(ii) People to See

DATE: June 27, 1968

DECLASSIFIED

APR 01 2013

WBG ARCHIVES

Expectations

One thing which may not come out of the briefing I gave you sufficiently clearly is what the Egyptians may be expecting from you. Looking at the course of the relationship between the Bank and the UAR since Mr. Woods' visit to Cairo in January 1966, it seems highly likely that they will expect the Bank now to be quite forthcoming. As you may know, in May of last year, the Egyptians were on the very point of reaching agreement with the International Monetary Fund on a stabilization program and a change in the exchange system. Based on an examination of the economy by an economic mission from the Bank, the Egyptians were at that time told that, assuming the stabilization program was carried out, the Bank was actively planning to send a team to Egypt to prepare and appraise projects for financing. That is to say, taking into account the expected stabilization program, we were at that point satisfied enough with Egypt's performance to go ahead with a program which would lead to fairly prompt lending, initially on a modest scale (about \$20-25 million) but with the prospect for larger assistance if their economic policies developed soundly. A few days later the crisis began, culminating in the war.

Because of the war, the stabilization program did not take place on schedule and in the war's aftermath, including the closed Canal, the Egyptians did not expect the Bank to move forward. However, in September, at the Annual Meeting, Dr. Hassan Abbas Zaki, the Minister of Economy and Foreign Trade, was persuaded by Mr. Woods and others to make the payment due on the Suez Canal loan and thus not jeopardize what was left of the UAR's international credit. No promises were made to him, but from that point on relations began to warm up again. I visited Cairo in early December and a full economic mission followed in March. In February the UAR cleared itself with the IMF and went a considerable way towards implementing the stabilization program worked out earlier.

Because of the war and its consequences, the UAR's "economic performance" today is less satisfactory than it was a year ago but I would guess that the Egyptians, with some justification, feel that on the economic front they have performed well in difficult circumstances and I would be surprised if they do not expect now to be rewarded by a significant warming up of the relationship between the Bank and the UAR. As I said the other morning, their measure of this

President has seen

June 27, 1968

warming up would be in terms of the amount and timing of finance they can expect--or possibly some clear political gain to be achieved through the offices of the Bank--rather than in terms of advice on economic matters we might be ready to proffer them. It seems to me there is a strong possibility that they will expect more than you will wish to give them. If this proves to be true, you will need to be ready to deal with their disappointment.

People to See

We touched that morning on the question of whom you should see. In addition to Nasser himself, I suggest the following:

✓ Hassan Abbas Zaki, Minister of Economy and Foreign Trade, Governor of the IBRD for the UAR, and our principal point of contact. As such it may well be that he should be the one to make all the other appointments. He is a civil servant rather than a politician.

Muhammad Sidki Sulayman, Minister of Power and the High Dam and Chairman of the Economic Committee of the Cabinet. A taciturn man who has borne responsibility for the construction and exploitation of the High Dam and has dealt closely with the Russians in the course of this responsibility. An engineer and Army officer by background and not always comfortable in discussion of economic matters.

Aziz Sidki, Minister of Industry, Petroleum and Mineral Resources. An energetic and articulate man. Seems well-acquainted with the U.S. He is responsible for industrial policy and is identified with both its successes and failures.

✓ Sayyid Ahmad Marei, Minister of Agriculture and Agrarian Reform. A large-scale farmer himself. He is well-acquainted with the technical problems. Perhaps less well-acquainted with the concepts of agricultural project evaluation as practiced by the Bank.

Mahmoud Riyad, Minister of Foreign Affairs. I did not meet him.

Mahmoud Gaballah Al-Sayyid, Minister of Planning. This function does not carry much weight in Egypt. Mr. Al-Sayyid is new in this post and I do not know whether he has much personal stature. He is, however, an experienced Government advisor and was Under Secretary in the Ministry of Planning under Kaissouni.

Ahmed Nazmy Abdel Hamid, Governor of the Central Bank. Perhaps you should pay a courtesy visit but through his work he is less directly connected with Bank matters than most of the Ministers mentioned above.

M. Nasser

June 27, 1968

✓ Mahmoud Fawzy, responsible for foreign affairs throughout Nasser's time and, though no longer in the Cabinet, continues to be his assistant for foreign affairs.

There are others about whom I have more question. Abdel Moneim Kaissouni was from 1954-66 the principal Minister concerned with economic policy but since then has been pushed to the sidelines and now is no longer in the Cabinet. He was until 1966 the principal contact between the Bank and Egypt and is well and favourably known to Mr. Black, Mr. Woods and many others. While he was previously close to Nasser it is difficult to estimate how much influence he may wield today. He is considered "pro-West" and as such is at present probably officially out of favor. Mr. El Emary advises me that while it would be useful for you to talk to him if he comes to you or is at some general gathering, it might hurt him (and possibly the Bank) if you were to seek him out if he is really in disfavour.

Of less interest to you would probably be the Minister of the Treasury, Abd Al-Aziz Higazi, for this Ministry played so far a minor part in policy formulation. I understand, however, that he has fairly realistic views on the economic situation and will try to give his Ministry, which he took over in March, a larger role in policy matters. He was formerly connected with Kaissouni in an advisory capacity. We have no knowledge about the new Minister of Irrigation, Ibrahim Zaki Qinnawi. His Ministry is essentially a technical one concerned with irrigation works rather than irrigation as an aspect of agricultural policy.

Robert S. McNamara

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Michael L. Lejeune

SUBJECT: Your visit to Cairo

DATE:

June 18, 1968

DECLASSIFIED**APR 01 2013****WBG ARCHIVES****CONFIDENTIAL**

You will remember that just before you left the States for the second time on your way to Indonesia, Dr. Ghorbal, the Minister in charge of Egyptian affairs in Washington, reported that the authorities in Cairo would prefer your visit to take place a little later than the 6th of July as you had originally planned. You asked me to tell Dr. Ghorbal that if absolutely necessary you could alter your arrival in Cairo to late on the 9th of July. I told Dr. Ghorbal this and subsequently heard back from him and cabled you the results in Indonesia. A copy of my cable is attached.

I am not sure whether you ever received my cable. In any event, if you are agreeable that the date of the 9th be definitely confirmed, I suggest that Dr. Ghorbal should be told. As you will see from my cable, the Egyptians wonder whether you will be able to stay longer than the 13th. It is not too early for us also to firm up the date of your departure, confirming the 13th or giving whatever other dates you wish.

Unless you wish your office to take care of this, I shall be glad to do it for you.

I expect to get to you tomorrow a complete briefing on the Bank's relations with the UAR. If there is anything else you would like me to do, please let me know. My wife and I have also been invited to the Ghorbal dinner.

Michael L. Lejeune

Enclosure

6/19 To Mr. Lejeune

Make your contact

Ghorbal I am to

agreeable to the 9th

But must lead on

the 13th. Ljeune

ROBERT McNAMARA
HOTEL INDONESIA
DJAKARTA

JUNE 11, 1968

LT

INDONESIA

FOUR

AS INSTRUCTED TOLD GHORBAL YOUR VISIT GEARED TO TIMING OF ACC MEETING
BUT IF TRULY INCONVENIENT FOR THEM AND THEY STRONGLY PREFER STARTING
VISIT TENTH YOU COULD PLAN ARRIVE LATE NINTH REMAINING TENTH ELEVENTH
TWELFTH LEAVING THIRTEENTH STOP GHORBAL SO INFORMED HIS GOVERNMENT
AND HAS RECEIVED REPLY SAYING THEY VERY GRATEFUL YOUR PROPOSING
POSSIBILITY LATER SCHEDULE THEY INDEED PREFER YOUR ARRIVAL LATE NINTH
AND WOULD BE HAPPY YOU AND YOUR PARTY REMAIN BEYOND THIRTEENTH IF YOU
CAN STOP PLEASE ADVISE ME WHETHER I CAN NOW DEFINITELY CONFIRM TO
GHORBAL YOUR ARRIVAL NINTH AND IF SO WHETHER CONFIRM THIRTEENTH
DEPARTURE OR GIVE LATER DATE STOP FRIDAY TWELFTH IS HOLIDAY STOP
ANYONE ELSE I SHOULD INFORM QUERY

LSJEUNE

Michael L. Lejeune
Middle East and North Africa

c.c. Mr. Knapp
(Cable should be kept
confidential)

c.c. Mr. McNamara's office

NLL:ls

DRAFT

Embargoed for 5:00 a.m. Cairo Time, Sunday, 14 July 1968

Statement of Mr. Robert S. McNamara,
President of the World Bank, at the
Airport leaving U.A.R. for Washington

I have had a most useful and enjoyable visit to the U.A.R. meeting President Nasser, and many of his Ministers, as well as visiting the High Dam at Aswan, some of your agricultural projects in the Delta, and several of your great monuments of antiquity. I am most grateful to the President for his courtesy in seeing me, and to the Government for the splendid arrangements they made for this visit.

The object of my visit was to see how the economic development of Egypt was proceeding, and how the World Bank, as a development agency, could be useful to one of its members which has great problems and great potential.

I am sure that we ^{could} be helpful, and after seeing something of your country and its government, I am sure that you can make good use of our help. I do not think we should wait for your problems to disappear or be solved before we give help, for the need for development is urgent.

Cabinet Members as of March 20, 1968 - United Arab Republic

* President and Prime Minister	Nasser, Gamal Abdel
Deputy Prime Minister and Minister of Awqaf (Charitable Trusts)	Al-Shafii, Hussain Mahmud
✓ Minister of Agriculture and Agrarian Reform	Marei, Sayyid Ahmad
Minister of Communications	Badir, Kamal Henri
Minister of Culture	Ukasha, Tharwat
✓ * Minister of Economy and Foreign Trade	Zaki, Hassan Abbas
Minister of Education	Murad, Muhammad Hilmi (New)
* Minister of Foreign Affairs	Riyad, Mahmoud
Minister of Health	Al-Muhandis, Muhammad Al-Nabasi
* Minister of Higher Education	Shukair, Muhammad Labib
Minister of Housing and Public Utilities	Mustafa, Hassan Hassan
✓ * Minister of Industry, Petroleum and Mineral Resources	Sidki, Aziz
Minister of Interior	Guma, Sharawi Muhammad
✓ Minister of Irrigation	Qinnawi, Ibrahim Zaki (New)
Minister of Justice	Abu Nusayr, Muhammad (New)
Minister of Labor	Rifat, Kamal Al-Din Mahmud
✓ Minister of Land Reclamation	Ahmad, Muhammad Bakr
Minister of Local Administration	Abu Al-Nur, Abd Al-Muhsin
Minister of National Guidance	Faiq, Muhammad Muhammad
✓ * Minister of Planning	Al-Sayyid, Mahmoud Gaballah (New)
✓ * Minister of Power and High Dam	Sulayman, Muhammad Sidki
Minister of Scientific Research	Ahmad, Ahmad Mustafa
Minister of Social Affairs and State Minister for National Assembly Affairs	Daud, Diya Al-Din Muhammad
Minister of State	Huwaydi, Amin Hamid
Minister of Supply and Internal Trade	Marziban, Muhammad Abdallah (New)
✓ Minister of Tourism	Ghanim, Muhammad Hafiz (New)
✓ * Minister of Transport	Salih, Ali Zayn Al-Abidin (New)
✓ * Minister of the Treasury	Higazi, Abd Al-Aziz Muhammad (New)
Minister of War	Fawzi, Muhammad
Minister of War Production	Al-Bishri, Muhammad Abd Al-Wahhab
Minister of Youth	Abu Al-Izz, Muhammad Safi Al-Din

* Biographical sketches follow.

Biographical Sketches of Certain Cabinet Members,

Prominent Officials and Former Officials

NASSER, Gamal Abdel - President and Prime Minister

Born - Minya in Upper Egypt, 1918
Graduated - Military Academy (with distinction)
Teaching Staff, Military Academy, 1942
Army Officer (Colonel) 1942-1952, served Palestine War 1948/49.
Led coup d'etat July 23, 1952
Deputy Prime Minister and Minister of Interior 1953/54
Prime Minister and Military Governor of Egypt 1954-56.
President of Egypt 1956-58
President of United Arab Republic 1958-67.
Chairman Arab Socialist Union 1962-
President and Prime Minister 1967-

Certain Present Cabinet Members

SULAYMAN, Muhammed Sidki (often referred to as Sidki Sulayman) -
Minister of Power and High Dam

Born - 1919
Army Engineer
Secretary General Ministry of Planning - dates?
Minister of High Dam 1962-66
Prime Minister September 1966 - June 1967
Deputy Prime Minister and Minister of Industry and Power, June 1967 - March 1968
Minister of Power and High Dam (Chairman of Ministerial Committee
of Economic Affairs) March 1968 -

ZAKI, Hassan Abbas - Minister of Economy and Foreign Trade -
Governor of the Bank and Fund

Born - Port Said, 1917
Graduated - Cairo University, 1938
Commercial Attache, 1952-55
Director of Foreign Exchange
Controller in the Bank of Egypt, 1955-57
Minister of Economy and Supply and the Treasury, 1958
President Bank Misr, 1961
Ambassador to Rumania, 1962
Minister of Economy and Foreign Trade (Governor of the World Bank), 1966 -

AL-SAYYID, Mahmoud Gaballah - Newly Appointed Minister of Planning

Born - 1916
Graduated - Cairo University, 1938 - agricultural economics
M.A. University of Wisconsin, 1953
Professor and Dean of Agricultural Economy, Cairo University
Under Secretary, Ministry of Planning 1963-1968
Minister of Planning, March 1968 -

HIGAZI, Abdel Aziz - Newly Appointed Minister of Treasury

Born - 1923
Graduated - Cairo University, B.A., 1944 - Commerce (Accounting)
Birmingham University, Ph.D., 1951 - Accounting and Management
Dean College of Commerce, Ain Shams University until March 1968
Member, Cairo Governate Council until March 1968
Minister of Treasury - March 1968 -

MAREI, Sayyid Ahmad - Minister of Agriculture and Agrarian Reform

Born - 1913
Graduated - University of Cairo - Agriculture
Farmer and exporter-importer for several years after graduation
Member, Egyptian House of Commons, 1944
Delegate member, Higher Committee for Agrarian Reform, 1952 -
Chairman, Agric. Coop. Credit Bank, 1955 -
(Initiated supervised credit system)
Minister of State for Agrarian Reform, 1956-57
Minister of Agriculture and Agrarian Reform, 1957-58
Central Minister Agriculture Agrarian Reform in the UAR 1958-61
Deputy Speaker National Assembly 1962-67
Minister of Agriculture and Agrarian Reform 1967 -
Managing Director, Bank Misr

SIDKY, Aziz - Minister of Industry, Petroleum and Mineral Resources

Born - 1915†
Minister of Industry - 1962/63
Deputy Prime Minister for Industry and Mineral Wealth, 1964/65
Minister of Industry, Petroleum and Mineral Resources, 1967 -

SALIH, Ali Zayn - Newly Appointed Minister of Transport

Born - 1917
Graduated - University of Cairo, BME, 1940
Management staff, Misr and Ain Shams Oasis Electric Railways Company
Board President, Engineering Industries Organization 1965-1968
Minister of Transport - March 1968 -

SHUKAIR, Muhammed Labib - Minister of Higher Education

Born 1920:

Minister of State for Planning, 1964

Minister of Economy and Foreign Trade, 1964/66

President, Economic Commission Organization for African Unity, Cairo, 1965

Minister of Planning, 1966/67

Minister of Higher Education, 1967 -

RIYAD, Mahmoud - Minister of Foreign Affairs

Born - 1917

Graduated - Military Academy and General Staff College

Egyptian Representative to Mixed Armature Commission, 1949-52

Director, Department of Arab Affairs, Ministry of Foreign Affairs, 1958-62

Chairman of delegation to U.N. Economic Commission of Africa and

Permanent Representative to U.N. 1962-64

Minister of Foreign Affairs under Deputy Prime Minister for

Foreign Affairs 1964/67

Minister of Foreign Affairs 1967 -

(Note: the President's Assistant for Foreign Affairs since 1967,
Mahmoud Fawzy, continues to be a very influential figure.)

Prominent Officials who are not Cabinet Members

FAWZY, Mahmound

Born, 1900
Universities of Cairo, Rome, Liverpool and Columbia.
Several diplomatic posts 1926-1946
Permanent Representative of Egypt to U.N. 1946
Ambassador to Great Britain 1952
Minister of Foreign Affairs 1958-1964
Member Presidency Council 1962-1964
Deputy Prime Minister for Foreign Affairs, 1964-1967
President's Assistant for Foreign Affairs, 1967-

HASSOUNA, Muhammed Abdel-Khalek

Born, 1898
Cairo University and Cambridge University
Diplomatic Service in Belgium, Italy, Germany, Czechoslovakia
Governor of Alexandria 1942
Under Secretary of State for Foreign Affairs, 1948
Several ministries in pre-revolution cabinets, 1949-1952
Secretary General of the League of Arab States since 1952

Prominent Former Cabinet Members

KAISSOUNI, Abdel Moneim

Born Cairo, 1916
PhD. - London School of Economics
IMF Staff Economist, 1946-1950
Director of Research, National Bank of Egypt 1954
Minister of Economy and/or Treasury and Deputy Prime Minister
from 1954 to September 1966
Absent from the Cabinet from September 1966 to June 1967
Minister of Planning, June 1967 to March 1968

SABRY, Ali

Born, 1920
Military Academy and Air Force Academy
Fought in Palestine War, 1948
Minister for Presidential Affairs, 1957-1962
Prime Minister 1964-1965
Vice President 1965-1967
Deputy Prime Minister 1967-March 1968
Secretary General of the ASU, 1965-May 1968

YOUNES, Mahmoud

Born, 1912
Royal College of Engineers, Cairo
University and Staff Officers College
Several posts as an engineer, 1937-1956
Deputy Chairman and Managing Director of the
Suez Canal Authority, 1956
~~Chairman of the Suez Canal Authority, 1956~~
Chairman of the Suez Canal Authority, 1957-1965
Deputy Prime Minister for Transport and Communications, 1965-1966
Deputy Prime Minister for Electric Power, Oil and Mining 1966-1967
Minister of Transport and Communications, 1967-March 1968

MOHIEDDIN, Zakaria

Born, 1918
Military College and Staff Officers College, Cairo
Former Lecturer, Military College and Staff Officers' College
Director General of Intelligence
Minister of Interior, 1958-1962
Vice-President and Chairman of Aswan Dam Committee, 1961-1962
Member of Presidency Council, 1962-1964
Member of the Executive Committee of the ASU, 1964-1968
Deputy Prime Minister, 1964-1965
Prime Minister and Minister of the Interior, 1965-1966
Deputy Prime Minister, June 1967-March 1968

"CONFIDENTIAL" OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DECLASSIFIED** DATE: June 18, 1968
 FROM: Michael L. Lejeune **APR 01 2013**
 SUBJECT: **WBG ARCHIVES**
UNITED ARAB REPUBLIC - Background Information and Documents

As background for your visit to Cairo, there are assembled in this volume a number of papers on various subjects, some of which you will have seen separately previously. Please refer to the Table of Contents for details.

A possible long-term strategy for the Bank Group is covered primarily in the Five-Year Outlook Paper where it will be found in Section 5 on page 7 of that paper.

For the discussion on our immediate position vis-a-vis the UAR, please see in particular the papers for the Loan Committee Meeting (Attachment C 2). You will note that I have recommended a package consisting of a project which could be prepared fairly quickly (and without difficulties) and of technical assistance in carrying out several studies. This recommendation was discussed in detail by the Loan Committee. You asked for a note on the state of readiness of possible projects - particularly agricultural projects. This note is to be found as the first item under Part D.

Michael L. Lejeune

Attachment

cc to Mr. J. Burke Knapp

Make:
 real danger of offering to handle
 may be better to offer nothing now
 & when to offer, do so at 15m -
 Burke believes if start studies, there
 is a strong presumption of money
 to follow -
 believe we should go quickly on
 this - as ready at 15m -
 UAR is quite unfamiliar with WBG
 procedures & anything we do in
 agr. would be long & controversial
 Ford Fund - ref to call on me - call on him later

Table of Contents

- A. BACKGROUND INFORMATION
 - 1. Bank/UAR Relations
 - Attachment: Bank Lending as of May 31, 1968 and Facts on membership in Bank Group.
 - 2. Political Situation
 - ~~Attachments: Cabinet List~~
~~Biographical sketches~~
 - 3. Economic Situation
 - Attachment: Report "Current Economic Situation of the United Arab Republic" dated May 20, 1968 with Basic Data Sheet.
- B. FIVE-YEAR OUTLOOK PAPER
- C. CURRENT BANK GROUP POSITION
 - 1. Economic Policy Memorandum for Economic Committee Meeting on May 23, 1968 and Minutes of Meeting.
 - 2. Memorandum for Loan Committee Meeting on June 4, 1968 and Minutes of Meeting.
- D. POSSIBLE PROJECTS IN UAR
 - 1. Note on Possible Projects in Agriculture and Transport.
 - 2. Memorandum on Suez Canal of May 17, 1968.
- E. MAP OF UAR.

A • BACKGROUND
INFORMATION

1. Bank/UAR Relations

UNITED ARAB REPUBLIC

Relations with the Bank and IDA

The Bank's relationship with Egypt goes back to 1952 when the Bank was first informed about the Aswan Dam project. Mr. Black visited Cairo early in 1953, and the Bank's staff followed the planning and preparation of the project closely, including a mission of five months duration in 1954 and 1955 during which a detailed study was made. An agreement in principle between Mr. Black and the Egyptian authorities on the Bank's participation in an amount equivalent to \$200 million was announced in February, 1956, subject to the approval of the Egyptian council of Ministers and the Bank's Executive Directors. This would have provided half of the estimated foreign exchange requirements for the project, the remainder to come from the U. S. and British Governments in the form of grant funds of at least \$70 million and other financing to be arranged. It was, therefore, embarrassing to the Bank when the offer of bilateral assistance from the United States and Great Britain was withdrawn in July, 1956.

After the September, 1956 Suez crisis, General Raymond Wheeler, Engineering Consultant to the Bank, and an engineer from the Bank's staff were released on loan to the United Nations to supervise the clearing of the Suez Canal from November, 1956 until April, 1957, when the work was completed. The Bank also acted as fiscal agent in respect of the funds contributed by U. N. member countries towards the clearing operations.

During the first six months of 1958, the Bank lent its good offices in the settlement of the terms of the compensation to be paid by the United Arab Republic as a consequence of the Suez Canal nationalization, which led to a final agreement signed on July 13, 1958. The Bank also acted as fiscal agent for the compensation payments.

Again in February, 1959 Mr. Black mediated in an agreement between the British and Egyptian Governments concerning financial and commercial relations and British property in Egypt.

The loan of \$56.5 million to the Suez Canal Authority for a program of improvements to the Canal in December, 1959 culminated this series of relationships with the United Arab Republic.

Since 1959 there have been frequent exchanges of views but no operations. An economic mission visited the UAR in 1962, but disputes arising out of the nationalization of all major enterprises in 1961 and a deteriorating financial situation prevented further lending. A visit by Mr. Woods to Cairo in January, 1966 was followed by an economic mission in February, 1966 and a visit of Bank staff in September, 1966 to discuss the mission's findings. Failure to come to agreement with the IMF precluded any Bank operation until Spring, 1967 when agreement with the Fund was close. Plans for discussions in Summer, 1967 about future operations could not be carried out because of the Arab/Israeli war in June.

Nevertheless, discussions between Mr. Woods and Mr. Zaki, the Minister of Economy and Foreign Trade, at the Annual Meeting in September, 1967 were congenial and resulted in the Government meeting the payments due on the Suez Canal loan at a time when the Egyptians were considering pleading that special circumstances justified some rescheduling. Mr. Lejeune and Mr. Hartwich visited Cairo in December, 1967 for general discussions, and this was followed by an economic mission in March, 1968.

Because of the absence of any Bank lending to the UAR for many years, there is a skeptical attitude on the part of some Cabinet members and high officials towards the prospects of financing from the Bank group. As a result the Bank has not had, and cannot expect immediately to have, much influence on development policy. If lending operations are resumed this may change, although the degree to which Egypt is open to influence by aid donors is hard to guess and much will depend on the manner in which advice is offered.

June 18, 1968
Middle East and North Africa Department

Bank Lending May 31, '68
Facts on Membership

United Arab Republic

Bank Lending as of May 31, 1968

<u>Loan No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u>	<u>Undisbursed</u>
243	1959	Suez Canal Authority	Canal improvement	<u>56.5</u>	--
			Total	56.5	
			Total now held by Bank	33.5	

Facts on Membership in Bank Group

Bank 9% Capital Subscription

\$12.79 million. No release.

IDA Subscription

Part II Member. 90% subscription (\$4.572 million) not released.

IFC

There are no IFC investments in the UAR and no active applications. Prospects for future investments are doubtful because of the restrictions on domestic and foreign private investment.

Holdings of Bank Bonds

None.

Settlement of Investment Disputes

Convention neither signed nor ratified. The UAR is not against the Convention in principle, but is not likely to sign it in the near future.

2. Political Situation

UNITED ARAB REPUBLIC

Political Situation

By a rather extensive Cabinet change on March 20, 1968 and the announcement of a new political program in a major speech on March 30, President Nasser has been endeavoring to respond to growing criticisms of his regime that were reflected in demonstrations by workers and students in Cairo during February 1968. The program aims at further modernization of the Egyptian state and society with emphasis upon "democracy", science, and technology. The program includes a fairly detailed, step by step, plan of action, such as the national plebescite which was held on May 2 to gain general endorsement for the program and elections to be held in late June for a national congress of the Arab Socialist Union (the official Party), which would then meet on July 23 (the sixteenth anniversary of the Revolution) to appoint a central committee. The central committee might in turn be expected to take over the drawing up of a new constitution which has been bogged down in the jurisdiction of the present National Assembly, whose term is about to expire. The Arab Socialist Union has been more submissive in the past to President Nasser's will than the National Assembly, and it remains to be seen what the character of the newly elected Party Congress will be and what relationship will be established between the Party and the Assembly or if the National Assembly will be abolished under a new constitution.

The change in the Cabinet removed several of the Ministers who had held positions of significant influence in the past, including Messrs. Mohieddin, Ali Sabry, Yunis and Kaissouny, and brought in as replacements men of considerable professional distinction but little, if any, previous political or administrative responsibility. Ali Sabry kept his post of Secretary-General of the Arab Socialist Union after the dissolution of the Cabinet but has since resigned to run for Party elections.

Extensive changes have also taken place in the assignments of provincial and local authorities and of diplomatic and managerial personnel. Many military officers, in particular, who have held such positions have been transferred or retired. Some, like Ali Sabry, may be standing for elections in the Arab Socialist Union.

Public reaction to these measures so far appears to be favorable but skeptical. It may be that one of their principal effects will be to center on President Nasser himself some of the dissatisfaction and criticism previously directed at well-known government and military figures. He may become more exposed politically.

In terms of foreign policy there does not appear to be any great change in President Nasser's desire to do business with both East and West. Statements

by Egyptian officials to the Bank's recent economic mission were in terms of their hopes for continuing equal reliance upon Eastern and Western sources for economic aid. Arms aid, of course, has come predominantly from the Soviet Union. Some officials indicated that the Government would be interested in receiving proposals for foreign private investment in the Egyptian chemical fertilizer industry if that were possible.

The prospects for the settlement of the Arab/Israeli war today seem no better than they have been for many months. In this complicated and passionate political affair the Bank has no special insight. It would seem only prudent to consider our relationship with the UAR on the assumption that a settlement may be a long way away.

A list of the present Cabinet members is given below followed by biographical information on the principal members and on other prominent Egyptians. We shall endeavor to amplify this with some comments before you leave. The cabinet changes were made a few days before our economic mission's departure. The members of the mission met with several of the new Ministers briefly just before leaving Egypt.

June 18, 1968
Middle East and North Africa Department

3. Economic Situation

UNITED ARAB REPUBLIC

ECONOMIC SITUATION

Population: 30 million (1966 census)
Rate of increase: 2.7 % (1960-1966)
GDP per capita: US \$ 160 (1966)

(a) Character of Economy:

Although its per capita income level is relatively low, the UAR has a fairly diversified economy. Agriculture provides about 30 %, and industry and mining about 22 % of the national product. Agriculture is technically more advanced than in many other developing countries and there is no subsistence farming sector. Private ownership is predominant in agriculture although most of the industrial sector has been nationalized.

The UAR has had a balance of payments deficit for several years which it financed by external borrowing frequently on unfavorable terms. The balance of payments position has recently deteriorated further as a result of the June war.

In the longer run there are significant development potentialities. The completion of the High Dam at Aswan will permit the reclaiming of new agricultural areas amounting to 1.2 million feddans which is equal to 1/5 of the area at present under cultivation and the conversion to perennial irrigation of another 700,000 feddans which will increase the agricultural output substantially. It will also increase the electricity production by 7.5 - 10 billion kwhs. Present production is about 6 billion kwhs.

There are also good prospects for increasing the output of oil. Crude oil production in the UAR increased from 1.8 million tons in 1955 to 6.3 million in 1967/68, and is expected to reach 18 million tons in 1969/70 (14.6 million tons excluding Sinai, where the wells are under Israeli control). This would provide net foreign exchange earnings of about US \$ 60 million in that year as compared to expenditures of about \$ 29 million in 1966/67 and \$ 54 million in 1967/68.

(b) Growth

The UAR economy grew quite rapidly (6.5%) during the first five year plan period (1960-1964). However, the rate of growth declined to about 5 % in 1965 and even less in the subsequent two years owing largely to an acute shortage of foreign exchange.

The UAR has a high rate of population growth (2.7% - 1960-1966). The development problem in the UAR is, therefore, dominated by the population pressure. The population (30 million in 1966) is concentrated

*From detailed
plan which
shows the
importance of
agriculture*

in the areas where irrigated agriculture is possible. The population density in this restricted area is around 1,200 per square mile which is one of the highest in the world.

(c) Government's plans and priorities

A second five year plan was prepared for the period July, 1965 to June, 1969. However, in April 1967 the Government replaced the five year plan by a Three Year Achievement Plan which was intended to rectify some of the problems created by previous plans. Investment was reduced by about 18% (from LE 280 million to LE 230 million), more emphasis was given to agriculture and irrigation, and industrial investment was reduced, by about 45% (from an average of LE 158 million a year to LE 88 million annually).

The Achievement Plan was also abandoned after the June war. Hence the budgets for 1967/68 and 1968/69 were prepared in the absence of a long term perspective. The UAR authorities informed the recent Bank mission that a seven year plan (1968/69 - 1974/75) was being prepared, the new plan would have the same priorities but the rate of investment would be reduced to a more manageable level.

(d) Resources

(i) Inflow of foreign resources:

The UAR has been relying increasingly on borrowing from eastern countries, mainly from the USSR. In recent years loans from western sources have been almost entirely limited to suppliers' credits and this has aggravated the balance of payments problem. The June war also has intensified the foreign exchange shortage. Although the loss of foreign exchange earnings from the Suez Canal, estimated at about \$ 220 million a year, has been offset by aid from three Arab countries (Kuwait, Libya and Saudi Arabia) of £ 95 million in 1967/68, the earnings from the tourist trade which used to amount to \$ 100 million has been drastically reduced and the oil output from Sinai has also been lost. The continuation of the aid from the neighboring oil countries is obviously of decisive importance if the Canal remains closed.

At the end of 1967 the UAR had accumulated arrears on external debt service payments totalling about US \$ 85 million, excluding the arrears to the IMF (US \$ 45 million) which were paid at the end of February, 1968. Following this repayment the IMF has approved two drawings by the UAR amounting to US \$ 63 million. It is composed of (a) a US \$ 40 million drawing in support of efforts by the national authorities to strengthen the UAR's domestic economic situation as

well as its payments position, and (b) a US \$ 23 million drawing to assist the country in meeting payments difficulties caused by a temporary shortfall in export earnings during the year ended November 30, 1967. In connection with these operations the UAR Government has promised in a letter of intent to take action on the rate of exchange problem. Any further Fund operation in the UAR will have to be made within the framework of a standby agreement for which an exchange rate adjustment will be a precondition.

It is impossible at this stage to make any estimate about the size of future capital inflows. This will depend on (a) whether a rescheduling operation for existing external debt can be arranged (b) the size of the new plan, and (c) the terms on which the UAR can obtain additional aid. To find a solution to the present problems without opening normal channels of aid from Western countries and international institutions and without a rescheduling operation will be extremely difficult, if not impossible.

What are the prospects?

(ii) Domestic Resources

According to a study carried out by the Fund, the level of taxation in the UAR is comparatively high. Despite this, public savings are not as high as they could be largely owing to high military expenditure. Military expenditure shown in the budget is about 9% of GDP. In 1967/68 drastic steps were taken to reduce the current budget deficit, but it remains to be seen whether the new cabinet which was formed in March 1968 will continue the restrictive fiscal and monetary policies adopted since the June war.

*Autonomous
their new*

(e) Performance

Measured by the increase in GDP, the performance of the UAR in the last decade has been quite satisfactory. The stabilization measures that have been introduced since the June war seem to have been largely successful, but the same cannot be said for the balance of payments performance. The Egyptian pound remains overvalued. However, as mentioned above, the Egyptian Government has expressed its intention of making some changes in the exchange system.

*When
that will
the*

In order to ease the burden of bearing external debt service payments, rescheduling agreements have been made with some countries (France and Italy) and with major creditors in some countries (Germany and Sweden), and the UAR is trying to make similar arrangements with others. Debts to smaller creditors are being paid on time. Since

*Wanted
and
further
agreements
with
smaller
creditors
are
being
paid
on
time*

diplomatic relations were broken off with the US last June, no payments have been made to the US Government so that the UAR is in fact in default to AID, the CCC and the Exim Bank. However, the UAR has recently approached the US with a request to discuss methods of handling these arrears. Although a rescheduling agreement was made in early 1967, all payments to the UK were also stopped in June, 1967, when the ECGD refused to insure any further credits to the UAR. Egyptian policy in this respect is to try to persuade lenders to continue extending new credits to enable them to maintain payments on existing ones.

Some progress has been made with the problem of sequestered and nationalized properties. The outstanding cases now are the nationalized UK properties, the Belgian Tramways and Dutch Brewery cases. The amounts involved in these cases are not very large. Despite some difficulties, it may be possible to find a compromise on all of them.

In many respects the management of economic affairs in the UAR is fairly sophisticated as compared with many other countries at a similar stage of development. The whole irrigation system, for example, is reasonably efficient and so are some of the older industries such as textiles. On the other hand, there are a number of problems arising from the attempt to introduce a form of centralized economic planning after the nationalizations of 1961 which are reflected in the difficult situation faced by many of the new industrial plants established in the last decade. In the end, however, the decisive questions for Egypt in the long run are the political stability of the Middle East and the population problem.

The Government has introduced a program of population control but it is far from being effective. The responsibility of carrying out the program was given to the mother and child care centers. The personnel in these centers work for the population control program on a part-time basis. Officials are aware of the shortcomings of this arrangement. But there are no signs that the government is going to launch a more vigorous campaign in the near future.

Middle East and North Africa Department
April 25, 1968

Economic Report 1968
Basic Data Sheet

BASIC DATA

<u>Area</u>	238 million feddans = 1 million sq. kms.	
<u>Population:</u> Total	30.1 million (1966 Census)	
Rate of growth	2.7% p.a. (1960-1966)	
Density in inhabited area	850 per sq. km.	
<u>Gross domestic product</u>	<u>1965/66</u>	<u>1960/61-1965-66</u>
Total	LE 2,173 million	6.9%
Annual rate of growth	6%	
Per capita	\$166	
<u>Share of values added in</u>	<u>1965/66</u>	
	(%)	
Agriculture	29.2	
Industry and mining	21.8	
Electricity	1.2	
Construction	4.7	
Transport and communication	9.6	
<u>Share of GDP at current market prices</u>	<u>1965/66</u>	
	(%)	
Gross investment	20.8	
Gross savings	14.5	
Balance of payments current account deficit	6.3	
Investment income payments	0.7	
Government current revenue of which taxation revenue	24.2 16.0	
<u>Resource gap as % of investment</u>	30.2	
<u>Money and credit</u>	<u>End of Feb. 1968</u>	
	<u>(LE million)</u>	
Total money supply	679.6	
Time and savings deposits	199.2	
Total credit to public and private sectors	1,287.3	
of which:		
Commercial bank credit to private sector	298.6	
Other lending to private sector	129.5	
Rate of change in cost of living (1966/67)	0	

<u>Public sector operations</u>	<u>1967/68</u> (LE million)	
Government current receipts	509.4	
Government current expenditure	631.3	
Surplus/deficit	121.9	
Total public investment (including public enterprises)	252.9	
 <u>External public debt</u>		
Including undisbursed (Dec. 31, 1967)	\$1,592 million	
Excluding undisbursed (Dec. 31, 1967)	\$1,202 million	
Total annual debt service (1968)	\$186 million	
Debt service ratio ^{1/}	18.5%	
 <u>Balance of payments</u>		
	<u>1966/67</u> (\$ million)	<u>Annual rate of increase</u> <u>1962/63-1966/67</u> %
Commodity exports	607.0	6.9
Commodity imports	- 953.1	4.1
Net invisibles	163.7	8.5
Current account balance	- 182.4	
 <u>Foreign exchange reserves</u>		
	<u>Feb. 1968</u> (\$ million)	
Gold	193	
Foreign exchange	101	
Total	194	
 <u>IMF position</u>		
	<u>Feb. 1968</u> (\$ million)	
Quota	150	
Drawings	116	
 <u>External financial assistance</u>		
	<u>1966/67</u> (\$ million)	<u>Average</u> <u>1962/63-1966/67</u> (\$ million)
Total (gross)	376.1	345.9

^{1/} Debt service in 1968 as % of foreign exchange earnings in 1966/67.

DECLASSIFIED

APR 01 2013

WBG ARCHIVES

CONFIDENTIAL

Report No. MA-4

Copy No. 55

To be returned to GENERAL FILES immediately after use.

This report is available only to those members of the staff to whose work it relates.
Any further release must be authorized by the department head concerned.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

MEMORANDUM ON
THE CURRENT ECONOMIC SITUATION
OF THE
UNITED ARAB REPUBLIC

May 20, 1968

Middle East and North Africa Department

CURRENCY EQUIVALENTS

1 Egyptian Pound (LE) = 2.30 US dollars

1 US dollar = LE 0.435

LE 1 = 100 piasters = 1000 milliemes

Prior to May 7, 1962, the rate was LE 1 = \$ 2.87

WEIGHTS AND MEASURES

1 square kilometer = 0.386 square miles

1 feddan = 1.038 acres

1 square kilometer = 238 feddans

The metric system is used in the United Arab Republic, and all tonnages are expressed in metric tons unless otherwise specified.

FISCAL YEAR

The Government's fiscal year ends on June 30.

TABLE OF CONTENTS

	<u>Page</u>
I. <u>Introduction</u>	1
II. <u>Major Development Problems</u>	2
The Growth of the Population	3
Making the Best Use of Nile Water	4
The Process of Economic Decision Making	4
The Allocation of Resources	5
The Level of Internal Savings	5
III. <u>The Current Problem</u>	6
How the Problem has arisen	6
Internal Financial Aspects	7
Developments in 1966/67 and 1967/68	8
Balance of Payments Aspects	10
External Debt	11
IV. <u>Conclusions</u>	13

STATISTICAL APPENDIX

This paper is based on the findings of a mission which visited the U.A.R. in March 1968. The mission members were Messrs. J.H. Collier (Chief), A. Karaosmanoglu (General Economist), G. Sciolli (Fiscal Economist), D. Bickers (Transport), E. Greenshields (Agriculture), and A. Cilingiroglu (Industry).

I. Introduction

1. The purpose of this memorandum is to analyze the current economic position of the United Arab Republic and its major development problems. It supplements the more comprehensive report on "The Economy of the United Arab Republic" dated November 14, 1966.

2. One of the most important events which has occurred since that time is, of course, the short war with Israel in June last year. Owing to the delays in the preparation of statistics it is not yet possible to obtain a complete picture of all the economic effects of the war although some of them, such as those on the budget and the foreign exchange position are fairly clear. However, the emergency aid, amounting to about \$250 million for the year ending October 1968 which Egypt is receiving from her Arab neighbors has compensated her for the most important economic consequence of the war, the closure of the Suez Canal. Earnings from the canal amounted to \$220 million in 1966/67 which is 22% of Egypt's total foreign exchange earnings and more than half of her earnings in convertible currencies. Without the emergency aid Egypt's position would be critical indeed, but as it is the economic consequences of the war have not been any more disruptive in the short run than what sometimes happens to many countries facing a sudden drop in export earnings. The loss in Egypt's case consisted largely of a substantial fall in tourist earnings and the oil production from the Sinai fields now under the control of the Israelis. Both oil production and tourist earnings may revive reasonably quickly so that the prime economic question arising from the war is whether Egypt can continue to obtain sufficient emergency aid for as long as the canal remains closed. The Khartoum Agreement lays down only that the aid will be provided at a certain rate at least until October 1968 but presumably, if the canal remains closed, it will be continued at least for a time but possibly at a reduced rate. On this point nothing is yet known.

3. In the meantime the Egyptian Government has taken a number of measures to hold down expenditure and maintain revenue in order to adjust to the situation. These were the kind of measures which needed to be taken in any case to improve the budget and balance of payments position. Had Egypt been able to take such measures without the stimulus of war her position would probably have been better than it

*with
for '69*

has been for many years. The war has merely added some more pressure to Egypt's problem of adjusting its investment and internal expenditure to its available resources. However, before analyzing this matter in detail it may be helpful to make summary mention of the major long-term development problems of the economy which form the background to the present difficulties.

II. Major Development Problems

4. A catalogue of the UAR's development problems, of which there are not a few, might appear unduly depressing unless it was set against the elements of strength in the economy. Foremost among these is the fertility of the soil, which gives crop yields which are generally among the highest in the world. Nevertheless the productivity of the land could still be substantially increased over the years by greater use of fertilizers, improved cultivation techniques and more importantly, by the production of high value crops such as fruits and vegetables. Progress in this direction is taking place but since it depends less on financial resources than on the speed with which farmers can be persuaded to adopt improved methods it is necessarily a gradual process.

*State
inputs &
outputs*

5. Between 1960 and 1965 the value of agricultural production increased by 3 to 4% per annum. In the near future the investments in the High Dam and the associated irrigation projects should show their effects on output. The government is introducing a program of compulsory crop rotation under which farmers no longer follow rotations within their own limited holdings. Instead rotations are determined on a village-wide basis under which a substantial number of contiguous farmers are required to plant the same crop. Although there is some resentment on the part of farmers since their choice of crops is limited, the system enables the government to control the acreage planted to the three main crops, cotton, rice and wheat; it also permits better control of irrigation water and facilitates measures to improve yields. There are, therefore, reasonably good prospects for maintaining the growth of agricultural production although in the last two years the limits on available funds have slowed down the programs of land reclamation and drainage.

6. The prospects for oil production appear very favorable. It has already increased from 3.2 million tons in 1959/60 to 6.3 million in 1967/68 and may reach 18 million tons by 1970. This would provide

Egypt with perhaps U.S. \$60 million of foreign exchange a year as compared to a net expenditure of \$30 million in 1966/67. A deposit of natural gas has recently been found in the delta, which together with the new electric power from the High Dam, means that there will be a surplus of energy for some years.

7. The development of modern industry in Egypt dates from the depression of the 1930's and it now provides about one-fifth of the national product as compared to somewhat less than one-third provided by agriculture. Most of the industries are based on the processing of agricultural raw materials of which the cotton textiles are by far the most important.

8. The Suez Canal, once it is re-opened, will remain one of Egypt's most important assets although the development of super tankers poses some questions for the future. To accommodate tankers in the 200,000 ton class the Canal would have to be widened and deepened from its present draft of 40 feet to 62 feet. This would be a major undertaking; the Suez Canal Authority has estimated the total cost at US \$ 244 million equivalent but the reliability of this figure is not known. There has been some discussion of constructing a pipeline between the Red Sea and the Mediterranean and if this were to prove technically feasible it would have some advantages in terms of both cost and convenience. Hence there are two methods by which Egypt might continue to earn revenue from the transit of oil from the Persian Gulf to Europe; it is unlikely that neither will prove to be economic. *ent*

9. Finally, the tourist attractions have been bringing Egypt a substantial foreign exchange income which has a good potential for further growth provided political events do not discourage potential visitors.

10. The major problems which the country faces should be seen against this background.

The Growth of the Population

11. The population of the UAR is growing at about 2.7% per year. The total population is estimated at 31 million almost all of which is concentrated in the valley and the delta of the Nile where irrigated agriculture is possible. The population density in this restricted area is around 1,200 per square mile which is one of the highest in the

world. In November 1965 the Government officially introduced a program of population control. The initial response in the towns appeared to have been good but that in the agricultural villages seemed much less so. The coverage of the program so far has been too limited to expect any measurable effects on the birthrate and hence on the rate of population growth.

Making the Best Use of Nile Water

12. In the long-run population control in the UAR is particularly important because of the limits on agricultural land which are set by the availability of water. Ever since the time of the Pharaohs, the Egyptians have been concerned with the problem of making the best use of the water from the Nile. Beginning in the early nineteenth century a series of barrages have been constructed on the Nile to hold back some of the flood water for irrigation. The High Dam at Aswan is the culmination of this process in that it will prevent any loss of water to the Mediterranean. It is expected to permit a 25% increase in the cropped area. This would offset some eight or ten years of population growth at the present rate. Apart from the High Dam there is still some scope, although not a great deal, for increasing the amount of Nile water by constructing works on the Upper Nile in Sudan and Uganda. There is also some possibility of utilizing underground water but it is not yet clear how much can be done in this way. Apart from these resources, the future growth of agricultural production in Egypt will have to depend on making more efficient use of the presently available water at least until the cost of desalinization has been reduced to make its use for agricultural purposes economic.

*cost +
2 million*

The Process of Economic Decision Making

13. In Egypt all the major utilities and industrial enterprises are Government-owned and the regime has an ideological inclination towards some form of socialism which is not very clearly defined. Much of the country's external trade has been centralized and is carried on by a government agency. The acute shortage of foreign exchange inevitably places important economic decisions in the hands of the government. Consequently, the organizational system under which the nationalized industries are operated has been based on those of Eastern Europe and some of the problems which have appeared recently in the economies of Eastern Europe are also present in the UAR. Price controls have created disparities between domestic and foreign prices

and within the domestic price system. This together with a virtual absence of competition have led to problems of inefficiency and lack of incentives in many industrial enterprises. The solution of these problems requires that more autonomy be given to individual enterprises. Although there is a general awareness in principle of the desirability of giving enterprises more independence there does not seem to be any agreement in practice as to how it is to be done. It will be difficult to move in this direction until some improvement in the foreign exchange position has been achieved so that imports can be liberalized. The degrees to which different industries have been affected by this situation varies greatly. The textile industry which was established many years ago, which exports a large proportion of its output and which does not require much in the way of imported materials seems so far to have been little affected either by the nationalizations or by the new controls. The principal industries affected are the newly established import substitution industries, mainly the steel, metal using and engineering industries which have been greatly expanded over the last five years.

The Allocation of Resources

14. In the last few years there has been a tendency to neglect investment in transport with the result that some bottlenecks have arisen. Investment in import substituting industries has proceeded too fast. Egypt's first explicit development plan was a program of industrialization which was started in 1957 and industry was given much emphasis in the first Five-year Plan which started in 1959. The desire to industrialize was natural enough for a country with a rapidly growing population and severely limited cultivable land but the Egyptians made the common error of believing that heavy investment in building up import substituting industries would reduce imports. It did not and the current squeeze on foreign exchange has kept many of these new industries operating at far below capacity.

The Level of Internal Savings

15. It has been apparent for some time that, in financing its economic development, the UAR has been relying relatively too much on the import of capital and too little on its own savings; this was one of the main themes of the Bank's 1966 report. Since this affects the whole question of financing an adequate program of development in the future it is without doubt one of Egypt's most important long-term problems. But since it forms the perspective in which the immediate balance of payments problems should be seen, it is appropriate to deal with it in the next section.

III. The Current Problem

How the Problem has arisen

16. Since the end of World War II the UAR has had a deficit in its balance of payments more or less continuously. This has been made possible firstly by the use of the reserves of sterling accumulated during the war and which amounted at its end to the equivalent of some three years' imports. When these reserves had been spent Egypt began to accumulate foreign debt. After 1960 the rate of investment increased under the impact of the first Five-year Plan. Although this Plan envisaged a reduction of the balance of payments deficit, it was thought that this could be brought about by the development of import substituting industries. The effect on the external position of the overall supply and demand of resources was overlooked and consequently the deficit grew. It averaged 2.3% of GNP during most of the 1950's but reached 5.6% in the three years after 1962/63.

17. The financing of this deficit became more of a problem as time went on. Owing to the difficult nature of Egypt's relationship with the West it could not obtain much aid from western countries on reasonable terms. U.S. aid was subject to spasmodic fluctuations and has been discontinued since June 1966. Problems of compensation stood in the way of any aid from the Bank or IDA since 1959. There were also problems with most of the potential aid-giving countries of western Europe. The result has been that the UAR accumulated substantial obligations in the form of supplier credits so that annual debt service payments rose rapidly.

18. Already by 1962 it was becoming clear that a change in direction was needed. In that year and again in 1964 Egypt agreed upon stabilization measures in connection with IMF standbys but no lasting effect was achieved. In 1965 there was a substantial change in the government and a more serious attempt was made to cut expenditure and raise taxes. This attempt might have been more successful than it was had it not been for the continuation, throughout 1966, of the conflict in Yemen which placed an extra burden on the budget. After the Arab-Israel war another series of retrenchment measures were introduced and the budget position was markedly improved. These measures formed the basis for yet another agreement on drawing

from the Fund. In connection with this drawing the government agreed to undertake an adjustment of the foreign exchange system as soon as circumstances were more normal. For the last two years, the Fund has held that an adjustment of the exchange rate was necessary in order to correct the overvaluation of the Egyptian pound. The government had agreed in principle and, just before the June war, an agreement was reached on the amount of the adjustment. However, the war broke out before the agreement could be implemented and after the war Egypt fell into arrears with its payments due to the Fund. Discussions were resumed in the fall of 1967 and the Fund then accepted the government's view that an exchange adjustment would be inopportune at this time. An agreement was reached under which the government agreed to make an adjustment as soon as conditions were more normal. The Fund has made it clear that it would regard an exchange agreement as a necessary condition for any future agreement.

19. In addition to taking measures to improve the budget the government has attempted to deal with the short-term balance of payments problem. Imports have been severely restricted - they were reduced by almost 19% between 1965/66 and 1966/67 and in the first six months after the war they were another 17% less than in the corresponding period a year earlier. The government was able to arrange for payments of outstanding arrears to foreign commercial banks on the basis of a rescheduling arrangement which started in January 1967. There are still, however, arrears in payments on suppliers credits and on some other debts (see para. 36 below).

20. Egypt's present difficulties have arisen because the policies which should have been adopted four or five years ago to avoid a rapid rise in external debt on unfavorable terms were not adopted. Only gradually did the government begin to move in the right direction. Then last June the impact of the war both forced and enabled the government to take additional steps to control spending and maintain revenue. The situation now appears to be under control and present policies may succeed in holding the line until circumstances, both general and economic, improve.

Internal Financial Aspects

21. During the first Five-year Plan (1960/61-1964/65) Egypt's gross national product increased at about 6% per year, but since 1964/65 the rate of increase has been lower. There was a poor harvest in 1965/66. The growing shortage of foreign exchange hampered industrial production and investment declined. Reliable estimates of

GNP and investment are not available for 1966/67 or, of course, for the current year but some indication of investment can be obtained from the budget since the public sector covers the major part of the economy. Investment in the budget declined by 9.6% in 1966/67 and by a further 6.8% in 1967/68. It is fairly clear that the retrenchment axe has fallen heavily on investment. A preliminary estimate of the national income indicated a growth of 4% to 4.5% for 1966/67 and it would appear likely that the rate for 1967/68 would be even lower.

22. During the six years from 1960/61 to 1965/66 the current budget deficit grew steadily from £ 44.1 million to £ 211.1 million. The growing deficit arose because, although revenue grew quite rapidly at over 12% per year as compared to a growth of money GDP of 9% per year, the growth of current expenditure was 17% per year. The rise in expenditure was greatly influenced by expenditure on defense which increased by 23% per year; according to the published figures, it rose from 27% to 34% of total current expenditure; however, it may be that these figures understate the true position. But even non-defense expenditure rose by nearly 15% per year, which is slightly faster than the rise in revenue, owing principally to larger provisions for education, health and other social services.

23. The current budget deficit has more than offset the increases in savings in other government sectors, particularly in 1965/66 when net public savings were only 2% of GDP or half of the proportion they were the previous year. The decline in savings has made it necessary to reduce public investment. From a peak of £ 370 million in 1963/64 public investment has fallen to an estimated £ 232 million in 1967/68.

Developments in 1966/67 and 1967/68

24. In 1966/67 a substantial improvement in the financial situation of the Central government occurred. Both the current account deficit and the overall deficit were substantially reduced. The improvement in the current deficit was the combined result of an absolute decline in current expenditure, mainly due to reduced defense expenditure, and a substantial increase in current revenue which was due to the stabilization measures taken at the end of 1965. The figures for 1966/67 would have shown a greater improvement had it not been for a substantial amount of liquidation of arrears.

25. Although current revenue increased, tax revenue remained practically unchanged. This was mainly due to a decline in custom duties which resulted from the reduction in imports. Fortunately, a vigorous effort to collect business tax arrears succeeded in offsetting this shortfall.

26. On the expenditure side, non-defense expenditure expanded at about the same rate as GDP, an outcome which was achieved by keeping expenditure for goods and services almost unchanged, by reducing cost of living subsidies and by limiting the increase in the wage bill to less than 4%. The latter is a notable achievement since, according to government officials, the normal upgrading of existing personnel accounts for about 3% of the wage bill.

27. The 1967/68 budget was originally presented to the National Assembly a few weeks before the June war. It showed an overall deficit of LE 80 million. However, while the budget was under discussion the government decided to revise it because it was regarded as too inflationary. The war then made more drastic revisions necessary in view of the higher defense expenditure and the shortfall in revenue.

28. The most important expenditure cuts were the cancellation of the annual bonus for the employees, a reduction by one half of representation allowances, and lowering of all other allowances by 25%. Expenditure for purchases of goods and services by the government were also reduced. Investment expenditure was cut by about LE 40 million, mostly for agriculture, electricity, the High Dam and housing.

29. In order to maintain revenue, a national security tax was introduced at a rate of 50% of the present defense tax. Other increases were in stamp duties, taxes on private cars and other excise taxes. The prices of cigarettes, sugar, and transportation services were raised. The interest rate on loans to certain growers was raised to 4% with a penalty rate of 7% on arrears. Compulsory savings and social security contributions were also increased.

30. After the budget was revised the Khartoum agreement was signed under which Egypt is to receive \$253 million from Saudi Arabia (\$98.5 m.), Libya (\$59 m.) and Kuwait (\$95.5 m.). The receipt of these funds, coming after the budget measures, has resulted in an internal financial situation better than has been seen for several years and it may be that

some relaxation of budgetary stringency will occur. On the other hand the level of public investment as a proportion of GDP is now less than half what it was five years ago. To reduce investment is, of course, the natural reaction to a sudden reduction in available resources. But if investment remains low for any considerable time economic growth will clearly suffer. Not only would there be the direct loss of output but replacement may be neglected and, with time, the organizations which carry out projects will be weakened so that it will become difficult to increase investment again.

31. The major question now is whether the improvement which has taken place since 1965/66 can be maintained. The uncertainties in the picture are obvious. The most important are the continuation of the aid from the neighboring oil producers at or near present levels until the canal is reopened and the future course of defense spending.

What is the plan for next

Balance of Payments Aspects

32. The growing balance of payments deficit after 1960 has been due to a rapid rise in imports at a time of much more slowly rising exports. The current account deficit rose from LE 32 million in 1960/61 to LE 141 million in 1963/64 and was LE 117 million in 1965/66. In 1966/67, owing to a rise of about 7% in current receipts and a small fall in current payments, the deficit declined to LE 79.3 million. At this level of imports, however, the pressure of demand on the import controls was quite high.

33. For 1967/68 it is possible to make some rough estimates of the consequences of the war for the balance of payments. The closing of the canal means a loss of around LE 100 million in earnings. An estimate of the loss due to the occupation of the Sinai oil fields has been put at LE 9 million. The decline in tourist earnings is more difficult to estimate but might be around LE 25 to LE 30 million. Together this would make around LE 135 to LE 140 million. The emergency aid under the Khartoum agreement will provide LE 87 million during the fiscal year so that the net loss should be in the neighborhood of LE 50 million. This is about 14% of total current receipts in 1966/67 or relatively little more than the fall in foreign exchange earnings from 1960/61 to 1961/62 when the cotton crop was hit by disease.

34. The fall in earnings has made further cuts in imports necessary. Merchandise imports declined sharply between 1965/66 and 1966/67 and during the first six months of 1967/68 they were about 17% lower

than in the corresponding period the year before. It is clear that this reduction in imports is having an adverse effect on industrial production in those industries which are dependent on imported raw materials or components. It is difficult to obtain any reliable estimate of the extent of unused capacity arising from this cause. Probably it is very great in certain industries such as car and truck assembly and durable consumers' goods but only slight in the traditional textile and food processing industries which constitute the bulk of Egyptian industry.

35. Egypt has obtained some benefit since 1963 from a favorable change in the terms of trade stemming mainly from higher prices for cotton, cotton textiles and rice. However, cotton prices are likely to fall somewhat with the large increases which are expected in U.S. production and rice prices may also decline so that a continuation of the trend of the recent past is unlikely.

External Debt

36. The total outstanding external debt of the UAR amounted to US \$ 1,592 million as of December 13, 1967 and debt service payments in 1968 constitute about 18.5% of foreign exchange earnings. These figures exclude military credits about which no information is available. Thus the debt service (excluding military credits) itself is not unduly high. However, it has been rising rapidly and will rise further at least in the next few years. In 1968 it amounts to US \$ 186.3 million equivalent but will increase to US \$ 227.4 million in 1970. In the longer run, of course, the burden will depend on the scale and terms of future borrowing. But, at the present time, Egypt's foreign exchange problems arise not from the absolute size of the external debt but from the attempt to run a balance of payments deficit in excess of the available foreign aid. The result has been an accumulation of arrears, largely on supplier credits, which amounted to \$96 million at the end of last year (\$78.8 million principal and \$16.2 million interest). Of this \$96 million, some \$29 million, owed to Germany and Italy, have been dealt with by re-scheduling arrangements.

About \$ 38 million are owed to the United States on account of AID, Eximbank and C.C.C. credits and it may be that little will be done about this until some move is made to re-establish diplomatic relations between the two governments. The remaining \$ 20 million is distributed in relatively small amounts between nine other countries.

37. The UAR's difficulties in obtaining aid can be seen by the fact that the total declared external debt was actually very slightly lower in December 1967 than it was in June 1966. But the disbursed debt was some \$ 200 million higher. In other words the balance of payments has been financed by running down the aid pipeline of undisbursed loans. This pipeline was \$ 668 million in June 1966 but now it is only \$ 390 million. Moreover, most of it consists of credits from the USSR and eastern European countries; only \$ 32 million of it is in convertible currencies of which \$ 16 million is aid from the U.S. which cannot be used until relations improve. Unless the UAR can obtain more aid it is likely to be difficult to increase investment to a more adequate level. It is true that there is about US \$ 600 million in uncommitted amounts under so-called "frame agreements" with eastern bloc countries but translating these frame agreements into specific commitments is a process, the difficulty of which is comparable to that of obtaining new aid.

IV. Conclusions

38. A central theme of this report, like that of the report prepared in 1966, is that a change in the direction of policy is necessary with regard to the overall balance of the supply and use of resources. Until 1965/66 increasing level of investment and of public consumption has created pressures on the balance of payments which have been too great to be met by the available foreign assistance. The foreign exchange shortage to which Egypt has been subjected in the last few years has brought a growing realization that a change of policy is necessary.

39. In order to give some notion of what is involved an attempt has been made to give some quantitative estimates in the form of two projections. The first of these is an illustration of how much foreign capital would be required if the underlying economic conditions, in the form of savings, taxation, exports, methods of borrowing, etc., remained as they were in the period from 1960 to 1966. The second projection is designed to show that changes would be required if the assumed level of investment were to be financed without any further increase in the relative burden of external debt.

40. Clearly any such exercise requires numerous assumptions but an examination of these assumptions can illustrate the size and nature of the problem. At the moment Egypt has no long-term economic plan. A second five-year plan was prepared for the period July 1965 to June 1969 but owing to the immediate balance of payments difficulties the Government replaced it, in April 1967, with a Three-year Achievement Plan which was intended to deal with the short-run problems. However, the Plan had to be abandoned after the June war and the Ministry of Planning is now working on a seven-year plan for 1968/69-1974/75. In the absence of any plan it is necessary to assume some rate of investment which would form a reasonable target. Since investment is now low it would be fair to assume a fairly rapid increase in the next two years to bring it back up to the pre-war level and a rate of increase of 7% thereafter. This would yield a total investment over five years of about LE 2 billion (US \$4.6 billion equivalent) which is about the same as was provided for in the government's plan for 1965-70 which was abandoned. Given the past ratio of output to capital the growth rate would be 5.6% per year. Thus this assumption as to investment and growth is fairly modest; it will be surprising if the new Egyptian plan is not somewhat more ambitious.

41. The first projection assumes that the internal savings rate remains unchanged with a marginal savings rate of about 20%. This assumption yields a net capital requirement of US \$1,480 million equivalent. If this gap were to be financed as in the past, half from eastern countries and half from western countries, and assuming

that 80% of the western aid were to take the form of suppliers' credits the gross capital requirement would be US \$2,860 million. Assuming that exports increase at 5.5% per year or roughly the same rate as in the past the debt service ratio would reach about 30% by 1972/73. Since such a rate is almost certainly insupportable and since in any case it is not possible for Egypt to obtain \$2,9 million of aid in the next five years this projection simply demonstrates that the policies of the past could only be continued if there were no aid constraint. It is, in fact, precisely in adjusting to the aid constraint that Egypt's problem lies. ✓

42. An important element in any such adjustment is an increase in the rate of growth of exports to provide the foreign exchange which the economy needs and cannot obtain by way of aid and as a base for more foreign borrowing. Egypt's merchandise exports are heavily concentrated on cotton and cotton goods. In recent years the share of raw cotton has been declining while that of cotton yarn and textiles has been going up. Greater exports of rice and petroleum and increasing earnings from the Suez Canal have tended to reduce the economy's traditional dependence on cotton. Egypt has been trying to increase its non-traditional exports and in 1966/67 exports of finished and semi-finished products (other than cotton products) amounted to 5% of total exports. Most of these, as well as a substantial proportion of the cotton and cotton goods, are now exported to countries in the Middle East and eastern Europe under bilateral trade and payments agreements. It is difficult to judge how far these markets really represent a secure base for Egypt's exports nor is it easy to know whether the goods exported are really those in which Egypt has a comparative advantage. ✓

43. There is, however, no necessary reason why, given favorable economic and political circumstances, exports should not increase substantially faster than they have in the past. The projection given in table 15 gives a rate of growth of 8.2% per year in total foreign exchange earnings which would yield \$1,400 million by 1972/73. It is based on specific assumptions for cotton, rice and petroleum and a continuation of the trend since 1964/65 for other commodities. It assumes also that the Suez Canal is reopened very shortly and that traffic through it will continue to grow at 7.2% per year. If political conditions permitted, the canal could be reopened quite quickly and there is no reason to assume that traffic would not resume its growth at least for a few years. Finally an increase in the tourist trade of about 5% per year through 1969/70 (approximately the same as in the past) and at 12% per year thereafter is assumed. ✓

44. A second important element is that Egypt should obtain foreign aid on easier terms than it has in the recent past. The aid terms of eastern countries cannot be expected to change but if relations with western countries could be put on a more stable basis Egypt would probably be able to rely less on supplier credits and to obtain more development aid. If it is assumed that ✓

aid from the west would consist of supplier credits for only 50% instead of 80% of the total, then it would be possible for Egypt to assume gross borrowing of \$ 2 billion equivalent over the period with only a very small increase in the debt service ratio. Gross aid of this magnitude, given the terms assumed would yield net aid of \$ 734 million or about half the net capital required under the first projection.

45. For an investment program of the magnitude envisaged in para. 38 to be carried through on this basis would require an increase in available internal resources from \$ 3.1 billion to \$ 3.8 billion equivalent. There are, of course, a number of ways in which these additional resources could be found. The amount required works out at LE 65 million a year on the average which is about 15% of current revenues in 1965/66. It might also be compared to the amount allocated to defense in the 1967/68 budget of LE 233 million. Thus the amount of additional resources required is not particularly large when seen in relation to Egypt's total public finances and could be found without too much difficulty if government expenditure could be kept under control and if, for example, defense expenditure could be brought back to its 1966/67 level and the marginal savings ratio increased from 20% to 25%.

46. The Government of the UAR has been trying somewhat spasmodically to bring about the changes required by its growing debt and the shrinking amount of available aid. The changes have, of course, been forced upon the government; the question is whether they are made in line with deliberate policies or whether the economy will slip into a process of inflation and default. So far there has been little sign of this. Although prices have risen somewhat more rapidly in recent years, this follows a long period of relative stability when prices had been held in check by subsidies and controls.

47. It was during the process of trying to adjust to its new situation that the economy had also to absorb the effects of the June war. This imposed additional burdens but it also created a political climate in which strong measures could be taken so that on balance the economy is now under somewhat better control than it was. The question is whether events will permit the economy to proceed along the path towards a new balance between internal savings and foreign aid or whether fresh upheavals will place even more pressure on an already strained situation.

STATISTICAL APPENDIX

	<u>Table</u>
Value Added at 1959/60 Constant Prices, 1961/62 - 1965/66.	1
Expenditure on Gross Domestic Product.	2
Agricultural Production.	3
Industrial Production Index Numbers.	4
Services - Budget.	5
Services Budget - Current Revenues	6
Services Budget - Current Expenditure.	7
Investment in the Public Sector.	8
Public Savings	9
Treasury Requirements and Financing.	10
Balance of Payments.	11
Commodity Composition of Exports: 1962/63 - 1966/67	12
Foreign Trade Indexes and the Terms of Trade	13
Illustrative Projections (1968/69 - 1972/73)	14
UAR - Illustrative Projections - Exports (1969/70 - 1972/73)	15
UAR - Illustrative Projections (1967/68 - 1972/73)	16
UAR - External Medium- and long-term Public Debt Outstanding Including Undisbursed as of December 31, 1967.	17
UAR - Estimated Contractual Service Payments on External Medium- and long-term Public Debt Outstanding Including Undisbursed as of December 31, 1967.	18

TABLE 1 : VALUE ADDED AT 1959/60 CONSTANT PRICES, 1961/62 - 1965/66^{1/}
(EE million)

	1961/62	1962/63	1963/64	1964/65	1964/65 ^{3/}	1965/66 ^{3/}
Agriculture	373.0	426.4	452.9	477.0	570.1	589.1
Industry and Mining	309.9	329.2	369.6	385.0	423.4	441.1
Electricity	16.3	18.4	18.6	22.4	23.2	24.3
Construction ^{2/}	73.6	83.5	96.0	92.6	92.6	94.9
Transport, communications, storage and Suez Canal	116.9	127.1	144.0	157.6	176.0	194.7
Housing	76.2	77.6	78.7	80.1	74.9	76.1
Trade and financial services	151.6	154.0	148.3	151.9	168.0	180.2
Other services	297.6	320.5	361.6	395.6	395.9	420.3
T O T A L	1415.1	1536.7	1669.7	1762.2	1924.1	2020.7

^{1/} At factor cost, but including excise duties and consumption taxes or subsidies.

^{2/} At current prices.

^{3/} At constant prices of 1964/65.

SOURCE: Ministry of Planning.

Table 2 : EXPENDITURE ON GROSS DOMESTIC PRODUCT
(at current prices - EE million)

<u>Years</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>
Gross national product ^{1/}	1,512.8	1,679.0	1,880.9	2,043.9	
Factor income from abroad	-0.5	-5.6	-7.0	-6.7	
Gross domestic product ^{1/}	1,513.3	1,684.6	1,887.9	2,050.6	2,173.4
Total Expenditure	<u>1,599.7</u>	<u>1,788.8</u>	<u>2,023.5</u>	<u>2,126.5</u>	<u>2,310.0</u>
<u>Consumption</u>					
Government current expenditure	247.1	318.2	401.8	431.3	475.0
Personal consumption ^{2/}	1,101.5	1,171.0	1,249.3	1,330.9	1,519.1
Sub-total	1,348.7	1,489.2	1,651.1	1,762.2	1,994.1
<u>Investment</u>					
Government investment ^{3/}	76.4	64.6	39.2	46.9	
Other investment	174.7	235.0	233.2	317.4	
Sub-total	251.1	299.6	372.4	364.3	452.5
Domestic savings ^{1/}	164.7	195.4	236.8	288.4	315.9
Current account deficit	-86.4	-104.2	-135.6	-75.9	-136.6

^{1/} At market prices

^{2/} Estimated as a residual

^{3/} Excluding investment in the business sector

^{4/} Investment figures do not include all deliveries of Soviet equipment for the high Dam.

Source: Ministry of Planning

TABLE 3 : AGRICULTURAL PRODUCTION

(thousand metric tons: crop years ended October 31)

CROP	1962	1963	1964	1965	1966
Cotton					
Lint	457	442	504	521	455
Cereals					
Maize	12,004	1,868	1,934	2,142	2,388
Wheat	1,593	1,493	1,500	1,275	1,467
Rice	2,039	2,220	2,036	1,789	1,678
Millet	659	729	740	806	859
Barley	146	135	142	131	102
Pulses					
Beans	328	264	366	344	381
Lentils	56	47	52	61	44
Fenugreek	44	42	42	37	30
Lupins	12	13	13	12	7
Chickpeas	7	8	10	9	6
Vegetables	3,889	4,326	4,383	4,641	4,931
Onions	602	696	676	692	725
Fruits					
Oranges	280	338	331	342	488
Mandarine and lime	117	101	141	141	141
Grapes	120	106	91	92	118
Mangoes	86	91	97	79	90
Sugarcane	4,819	5,164	4,898	4,747	5,200
Oilseeds					
Cottonseed	857	858	912	961	820
Groundnuts	49	45	46	50	41
Sesame	17	26	24	23	11
Lindseed	11	11	14	10	9

Sources: Central Agency for Public Mobilization and Statistics

TABLE 4 : INDUSTRIAL PRODUCTION INDEX NUMBERS

(1959 = 100)

ISIC	Economic Activities	1960	1961	1962	1963	1964	1965	1966
1	Mining and quarrying	<u>107.5</u>	<u>128.6</u>	<u>139.2</u>	<u>172.4</u>	<u>274.8</u>	<u>213.4</u>	<u>235.8</u>
	12 Metal mining	99.2	117.4	130.0	144.0	326.7	105.6	91.7
	13 Crude Petroleum & Natural Gas	106.1	124.2	147.4	191.7	214.7	228.4	267.8
	14 Stone Quarrying, clay & sand pits	110.6	114.7	132.8	136.5	159.8	174.1	187.1
	15 Salt mining	130.7	95.6	94.5	141.5	172.6	157.0	170.8
	19 Other Non-metallic mining & quarrying	106.3	189.8	123.4	96.5	162.1	284.2	232.7
2-3	Manufacturing Industries	<u>116.1</u>	<u>144.3</u>	<u>174.2</u>	<u>228.9</u>	<u>261.6</u>	<u>276.6</u>	<u>264.9</u>
	20 Food Manuf. Industries	83.4	84.7	117.5	134.9	129.4	138.0	119.9
	21 Beverage Industries	95.5	125.2	137.0	167.3	169.2	204.9	230.1
	22 Tobacco Industries	112.1	125.8	147.1	158.5	174.4	194.4	204.1
	23 Spinning & Weaving	125.5	140.5	144.0	141.8	149.2	162.3	159.3
	24 Industries Manuf. of Foot Wear, Other Wearing apparel & made up textile goods	108.9	209.2	251.9	254.7	262.2	300.1	279.8
	25 Wood, rattan bamboo & cork	114.9	308.6	323.4	576.9	1267.2	1137.5	992.3
	26 Furniture and Fixtures	93.8	71.6	90.9	105.8	106.9	114.1	119.4
	27 Paper and articles of paper	110.6	164.1	412.6	439.7	516.4	561.2	614.6
	28 Printing & allied Industries	103.1	121.9	159.4	293.8	281.3	268.8	240.6
	29 Leather & leather Products	100.9	94.5	145.2	144.3	161.4	202.6	210.9
	30 Rubber Products	109.7	139.8	153.2	190.1	185.1	180.9	169.1
	31 Chemicals & chemical Products	123.3	183.9	146.2	254.3	324.0	410.7	455.2
	32 Product of petroleum & coal	122.1	134.6	138.2	164.6	218.9	165.1	167.0
	33 Manuf. of non-metallic mineral products	88.6	117.4	134.3	176.0	154.3	173.2	213.8
	34 Basic metal industries	159.8	222.7	258.8	273.9	273.2	270.6	364.5
	35 Metal Products	91.2	117.3	135.0	160.4	153.3	190.1	216.2
	36 Manuf. & Rep. of non-electrical machines	275.3	412.3	769.4	1403.6	1469.8	1394.4	1079.9
	37 Manuf. & Rep. of electrical machines	129.1	249.3	302.4	585.2	739.0	686.4	699.5
	38 Transport equipment & supplies	158.8	241.5	419.6	669.8	815.8	711.0	664.6
	39 Manuf. Industries not elsewhere classified	112.7	154.0	395.7	494.9	858.5	983.3	980.3
5	Electricity, Gas, Water & Sanitary Services	<u>124.1</u>	<u>170.4</u>	<u>193.4</u>	<u>209.8</u>	<u>240.3</u>	<u>257.6</u>	<u>277.3</u>
	51 Electricity, Gas & Steam Production & distribution	124.1	170.4	193.4	209.8	240.3	257.6	277.3
	General Total	116.2	145.4	173.6	224.2	260.8	271.2	262.9

Source: Central Agency for Public Mobilization and Statistics.

Table 5: SERVICES - BUDGET

	(LE million)							Provisional	Budget
	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	Est. 1967/68	
<u>Current Expenditure</u>	<u>310.5</u>	<u>369.4</u>	<u>397.8</u>	<u>492.9</u>	<u>575.7</u>	<u>684.8</u>	<u>663.0</u>	<u>631.3</u>	
of which:									
Defense	83.7	87.4	115.0	176.8	213.5	175.0 ^{1/}	184.4	233.0	
Education and Health	72.6	71.2	89.3	102.9	115.9	113.3	128.1	141.4	
Cost of Living Subsidies	34.4	72.1	39.1	32.4	45.0	51.0	46.2	41.0	
<u>Current Revenues</u>	<u>266.4</u>	<u>307.3</u>	<u>291.3</u>	<u>368.9</u>	<u>430.3</u>	<u>473.7</u>	<u>525.5</u>	<u>509.4</u>	
of which:									
Tax Revenues	186.9	179.4	213.8	271.9	317.3	341.8	348.2	340.4	
<u>Current Deficit</u>	<u>44.1</u>	<u>62.1</u>	<u>106.5</u>	<u>124.0</u>	<u>145.4</u>	<u>211.1</u>	<u>137.5</u>	<u>121.9</u>	
<u>Current Deficit as % of Current Revenues</u>	<u>16.5</u>	<u>20.2</u>	<u>36.6</u>	<u>33.6</u>	<u>33.7</u>	<u>44.5</u>	<u>26.0</u>	<u>24.0</u>	

^{1/} The actual figure, given on a confidential basis to the IMF, is LE235 million.

SOURCE: Ministry of Treasury.

Table 6

SERVICES BUDGET - CURRENT REVENUES

(LE million)

	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>Provisional 1966/67</u>	<u>Budget Estimate 1967/68</u>
<u>Tax Revenues</u>	<u>271.9</u>	<u>317.3</u>	<u>341.8</u>	<u>348.2</u>	<u>340.4</u>
Taxes on Immovable Property	7.6	6.7	7.1	8.7	17.7
Personal Income Taxes	14.5	16.9	18.4	21.2	23.6
Business Profit Taxes	32.8	53.8	70.5	88.9	63.7
Estate and Succession Duties	3.6	2.0	2.1	2.1	2.0
Excise and Consumption Duties	49.6	48.5	45.9	44.4	43.5
Custom Duties	144.3	164.5	172.2	154.2	147.9
Stamp Duties	11.0	14.3	17.0	16.4	28.4
Other	8.5	10.6	8.6	12.3	13.6
<u>Non-Tax Revenues</u>	<u>97.0</u>	<u>113.0</u>	<u>131.9</u>	<u>177.3</u>	<u>169.0</u>
Services Revenues	43.4	36.9	54.1	63.7	23.7
Miscellaneous Receipts	39.2	43.3	57.4	99.0	135.3 ^{1/}
Extraordinary Receipts	14.4	32.8	20.4	14.6	10.0
Grand Total	<u>368.9</u>	<u>430.3</u>	<u>473.7</u>	<u>525.5</u>	<u>509.4</u>

^{1/} Due to reclassification, miscellaneous receipts in this year include items, like the profits of the Ministry of Supply, which appeared before as services revenues.

SOURCE: Ministry of Treasury

Table 7

SERVICES BUDGET - CURRENT EXPENDITURE

(LE million)

	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>Provisional 1966/67</u>	<u>Budget Estimate 1967/68</u>
<u>Organizational Services</u>	<u>238.5</u>	<u>278.4</u>	<u>241.4</u>	<u>249.5</u>	<u>311.8</u>
Defense	176.8	213.5	175.0	184.4	233.0
Security and Justice	37.3	39.1	41.0	40.4	44.9
Others	24.4	25.8	25.4	24.7	33.9
<u>Other Services</u>	<u>177.5</u>	<u>199.5</u>	<u>226.6</u>	<u>222.8</u>	<u>237.2</u>
Agricultural Services					
Irrigation and Drainage	23.8	25.0	28.2	28.8	37.9
Educational Services	82.0	91.7	90.0	99.2	108.9
Health Services	20.9	24.2	23.3	28.9	32.5
Cultural and Entertainment Services	11.2	12.3	12.2	10.4	13.6
Others	39.6	46.3	72.9	55.5	44.3
<u>Interests and Transfers to Sinking Funds</u>	<u>28.7</u>	<u>35.2</u>	<u>40.5</u>	<u>59.3</u>	<u>20.0</u> ^{1/}
<u>Pensions and Other Remunerations</u>	<u>15.8</u>	<u>17.6</u>	<u>19.6</u>	<u>20.2</u>	<u>21.3</u>
<u>Cost of Living Subsidies</u>	<u>32.4</u>	<u>45.0</u>	<u>51.0</u>	<u>46.2</u>	<u>41.0</u>
<u>Sub-Total</u>	<u>492.9</u>	<u>575.7</u>	<u>579.1</u>	<u>598.0</u>	<u>631.3</u>
Settlement of Arrears	—	—	105.7 ^{2/}	65.0	—
<u>Grand Total</u>			<u>684.8</u>	<u>663.0</u>	

^{1/} As a result of a change in classification part of the debt services now appears in the Business Budget.

^{2/} According to information provided to the IMF this includes LE 60 million of current expenditure for defense.

SOURCE: Ministry of Treasury

Table 8:
INVESTMENT IN THE PUBLIC SECTOR

	<u>LE Million</u>				
	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>	<u>1967/68</u>
<u>Business Budget</u>					
Agriculture	48.6	43.2	49.1	47.5	33.8
Electricity	18.8	19.8	27.4	24.2	15.1
High Dam	62.9	47.8	59.8	57.2	43.3
Industry	109.8	80.2	63.8	41.5	46.2
Transport and Communications	20.2	20.3	22.8	14.6	21.2
Suez Canal	5.6	7.1	5.3	8.0	-
Housing and Public Utilities	16.5	12.8	16.4	13.2	6.1
Health	2.1	1.1	1.9	1.6	0.1
Culture and Tourism	11.7	9.2	6.1	2.5	2.3
Supply and Storage	2.8	3.1	5.1	2.4	4.6
Financial and Commercial Services	3.3	2.2	2.1	1.3	0.9
Under Settlement	-	-	-	<u>14.6</u>	-
Sub-Total	302.3	246.8	259.8	228.6	173.6
Services Budget ^{1/}	<u>67.1</u>	<u>47.4</u>	<u>40.4</u>	<u>42.6</u>	<u>58.6</u> ^{2/}
Total	<u>369.4</u>	<u>294.2</u>	<u>300.2</u>	<u>271.2</u>	<u>232.2</u>

1/ Including investment expenditure of governorates

2/ This includes "unclassified" investment for LE 24.7 million

Source: Ministry of Treasury.

Table 9 : PUBLIC SAVINGS

(LE million)

				Provisional	Est. Budget
	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>1966/67</u>	<u>1967/68</u>
<u>Services Budget</u>	- 124.0	- 145.4	- 211.1	- 137.5	- 121.9
<u>Business Budget</u>	<u>113.9</u>	<u>124.3</u>	<u>136.2</u>	<u>110.0</u>	<u>68.3</u>
<u>Local Authorities</u>	<u>9.7</u>	<u>8.2</u>	<u>12.7</u>	<u>8.6</u>	<u>12.4</u>
<u>Social Security</u>	<u>69.8</u>	<u>100.1</u>	<u>109.1</u>	<u>122.7</u>	<u>154.6</u>
Total	<u>69.4</u>	<u>87.2</u>	<u>46.8</u>	<u>103.8</u>	<u>113.4</u>
<u>Public Savings as % of Public Investment</u>	<u>18.8</u>	<u>29.6</u>	<u>15.6</u>	<u>38.3</u>	<u>48.7</u>
<u>Public Savings as % of GDP</u>	<u>3.7</u>	<u>4.3</u>	<u>2.2</u>	<u>4.5</u>	<u>4.7</u>
<u>Public Investment as % of GDP</u>	<u>19.6</u>	<u>14.3</u>	<u>13.8</u>	<u>11.8</u>	<u>9.7</u>

1/ GDP for 1966/67 and 1967/68 are rough estimates by the mission.

SOURCE: Ministry of Treasury

Table 10: TREASURY REQUIREMENTS AND FINANCING

(LE million)

	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>	<u>Provisional</u> <u>1966/67</u>	<u>Budget</u> <u>Estimates</u> <u>1967/68</u>
<u>USES OF FUNDS</u>					
Deficit in the Services Budget	124.0	145.4	211.1	137.5	121.9
Capital Expenditure	<u>369.4</u>	<u>294.2</u>	<u>300.2</u>	<u>271.3</u>	<u>252.9</u>
Total	493.4	439.6	511.3	408.8	374.8
<u>SOURCES OF FUNDS</u>					
Surplus of Enterprises	70.8	84.9	106.2	71.4	17.6 ^{1/}
Depreciation Provisions	43.1	39.4	30.0	38.6	11.2
Social Security Savings	69.8	100.1	109.1	122.7	154.6
Local Authorities Savings	9.7	8.2	12.7	8.6	12.4
Compulsory Savings Certificates	-	6.2	17.5	24.8	15.0
Postal Savings	11.4	8.8	5.1	1.3	3.8
Miscellaneous Receipts	55.2	39.6	48.0	9.5	56.2
Foreign Credits	83.4	80.6	66.8	56.9	52.3
Bank Claims	<u>150.0</u>	<u>71.8</u>	<u>115.9</u>	<u>75.0</u>	<u>51.7</u>
Total	493.4	439.6	511.3	408.8	374.8

^{1/} Net of current deficit (LE 39.5 million)

SOURCE: Ministry of Treasury

TABLE 11 : BALANCE OF PAYMENTS

(ES million)

	1962/63	1963/64	1964/65	1965/66	1966/67
<u>Current Account</u>					
Exports	199.7	243.1	244.8	251.0	263.9
Suez Canal receipts	67.8	74.4	82.8	90.6	95.2
Travel and other receipts	38.4	43.7	54.6	44.1	59.8
Other receipts	<u>22.5</u>	<u>17.2</u>	<u>16.9</u>	<u>24.7</u>	<u>19.9</u>
TOTAL	330.4	378.4	399.1	410.4	438.8
Imports	367.0	429.3	394.0	423.2	414.4
Interests and dividends	11.7	14.1	14.7	15.9	19.0
Government expenditure	26.4	27.1	35.3	38.8	35.7
Other expenditures	<u>40.5</u>	<u>48.6</u>	<u>42.1</u>	<u>49.1</u>	<u>49.0</u>
TOTAL	445.6	519.1	486.1	527.0	518.1
Balance	<u>-115.2</u>	<u>-140.7</u>	<u>-87.0</u>	<u>-116.6</u>	<u>-79.3</u>
<u>Capital Account</u>					
Grants and local currency loans	56.0	63.0	49.7	32.0	8.9
Foreign currency loans and other receipts	51.1	103.7	111.8	121.1	154.6
Total receipts	107.1	166.7	161.5	153.1	163.5
Debt amortization and other payments	-27.2	-63.5	-86.5	-51.7	-64.6
Balance	<u>-79.9</u>	<u>-103.2</u>	<u>-75.0</u>	<u>101.4</u>	<u>98.9</u>
<u>Financial Balance</u>	<u>-35.3</u>	<u>-37.5</u>	<u>-12.0</u>	<u>-15.2</u>	<u>19.6</u>
Foreign exchange reserves ^{1/}	-19.7	-0.8	-15.1	-29.5	26.3
IMF ^{2/}	-7.0	-8.1	-0.9	1.1	10.8
Non-resident accounts ^{3/}	-8.4	-23.9	7.0	15.5	-16.0
Errors and omissions	-0.2	-4.7	-3.0	-2.3	-1.5

1/ Minus signs indicate decrease in assets.

2/ Net use of resources; minus signs indicate drawings

3/ Net change; minus signs indicate increase in UAR liabilities

Source: Central Bank of Egypt

TABLE 12 : COMMODITY COMPOSITION OF EXPORTS: 1962/63 - 1966/67^{1/}

(LE million)

	1962/63	1963/64	1964/65	1965/66	1966/67
<u>FOODSTUFFS</u>					
Fish	0.9	0.7	0.8	0.5	0.7
Onions, raw	4.4	4.6	6.3	4.8	8.4
Onions, dehydrated	1.9	1.3	1.3	1.0	1.0
Potatoes	2.7	1.4	1.3	2.5	1.7
Fruits	0.7	0.9	0.7	0.7	1.4
Rice	19.0	31.2	21.6	21.8	27.0
Groundnuts	0.5	1.1	0.7	1.0	1.2
Sugar, molasses, etc.	2.2	3.9	1.5	1.3	1.0
Others	1.9	1.9	4.6	2.7	3.9
TOTAL	34.2	46.8	38.8	36.3	46.3
<u>RAW MATERIALS</u>					
Manganese	0.9	1.1	0.9	0.6	0.3
Lime phosphate	1.4	1.5	1.5	1.6	2.1
Raw cotton	103.7	117.4	148.3	144.5	127.6
Flax and hemp, raw	1.6	1.3	0.6	1.0	0.3
Others	0.5	0.5	0.4	0.5	1.2
TOTAL	102.0	121.8	151.4	148.2	131.5
<u>FUELS</u>					
Crude oil	13.6	14.8	10.5	5.0	4.5
Benzine and kerosene	1.9	2.4	4.1	3.4	4.8
Mazout, diesel, solar oil	2.2	4.1	6.6	5.5	5.4
Others	0.2	0.3	0.1	0.1	0.1
TOTAL	17.9	21.6	21.3	14.0	14.8
<u>FINISHED & SEMI-FINISHED PRODUCTS</u>					
Oil & cake (cotton used & others)	1.0	0.9	1.0	1.3	0.7
Cements	1.4	1.1	1.5	2.3	1.8
Chemicals, medicines, pharmaceuticals	0.9	1.3	1.4	1.3	1.1
Rubber, tyres, tubes	0.4	0.7	0.3	0.1	0.1
Books, news prints & periodicals	1.2	1.5	1.8	1.9	1.5
Artificial silk, yarn & fabrics	1.1	1.2	1.0	0.7	0.7
Cotton yarn	12.0	21.0	23.5	30.9	32.3
Pure cotton, piece goods	7.7	9.0	10.4	10.4	13.8
Clothings, made-up cotton pure or mixed hosiery & linen	0.5	1.0	1.5	1.0	2.2
Footwear	0.2	0.2	0.4	0.2	0.2
Others	1.9	2.8	3.4	4.5	5.5
TOTAL	28.4	40.7	46.2	54.6	59.9
Other Exports (unspecified)	9.3	7.4	7.5	5.4	8.8
TOTAL EXPORTS ^{1/}	197.8	238.3	265.2	258.5	261.3

1/ Totals may not add because of rounding

Source: Central Bank of Egypt

Table 13 : FOREIGN TRADE INDEXES AND THE TERMS OF TRADE

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Exports					
Value	69.6	100.0	102.8	115.5	114.8
Price	90.7	100.0	106.8	113.2	109.8
Quantity	76.8	100.0	96.3	102.0	104.6
Imports					
Value	76.5	100.0	103.1	98.7	116.5
Price	84.9	100.0	103.5	103.3	100.3
Quantity		100.0			
Terms of Trade					
Net rate	107.	100	103	110	109
Gross rate	117	100	105	98	111
Income rate	82	100	100	112	114

Source: Central Agency for Public Mobilization and Statistics

Table: 14 U.A.R. : Illustrative Projections (1968/69 - 1972/73)
(In million of U. S. dollars)

	<u>A L T E R N A T I V E I</u>			<u>A L T E R N A T I V E II</u>		
	<u>1968/69</u>	<u>1969/70</u>	<u>1972/73</u>	<u>1968/69</u>	<u>1969/70</u>	<u>1972/73</u>
1. Gross Domestic Product	5,596	5,897	7,004	5,596	5,759	7,004
2. Investments	759	862	1,058	759	863	1,058
3. Savings	488	547	768	603	679	954
4. Net capital inflow	271	315	290	156	184	104
5. Exports	1,066	1,103	1,233	1,113	1,168	1,402
6. Imports	1,337	1,418	1,523	1,269	1,352	1,506
7. Gross Capital Inflow	377	559	658	362	421	397
8. Debt Service	206	244	368	206	237	294
9. Debt Service Ratio	19.3	22.1	29.8	18.5	20.3	21.0

Totals: 1968/69 - 1972/73 (in million U.S. dollars)

	<u>Alternative I</u>	<u>Alternative II</u>
Investments	4,589	4,559
Savings	3,110	3,855
Net capital inflow	1,479	734
Gross Capital inflow	2,861	2,040
Debt Service	1,482	1,306

Table 15: U.A.R. Illustrative projections - Exports (1969/70 - 1972/73)

	Alternative I		Alternative II	
	1969/70	1972/73	1969/70	1972/73
<u>Merchandise Exports:</u>				
Foodstuffs			131	
Raw Materials and Cotton Products			424	
Manufacturing other than Cotton			34	
Fuel			67	
Other Exports			26	
Total Merchandise			<u>682</u>	<u>774</u>
<u>Invisible Receipts:</u>				
Suez Canal Receipts			270	332
Travel and other			158	222
Other			58	74
Total Invisible Receipts			<u>486</u>	<u>628</u>
TOTAL EXPORT EARNINGS	1,103	1,233	1,168	1,402

Table 16 U.A.R. : Illustrative Projections (1967/68 - 1972/73)

Annual rates of change (percent)

	<u>Alternative I</u>	<u>Alternative II</u>
G D P	5.6	5.6
Exports	5.5	8.2
Imports	5.4	5.1
Investments	9.8	9.8
Savings	9.5	17.0

Table 17: UNITED ARAB REPUBLIC - EXTERNAL MEDIUM- AND LONG-TERM /1 PUBLIC DEBT
OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1967

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Page 1

Item	Debt outstanding December 31, 1967	
	Disbursed only	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT /2	<u>1,201,534</u>	<u>1,591,640</u>
Debt in convertible currency	<u>684,735</u>	<u>716,387</u>
Australia - Suppliers' credits	1,417	1,417
Austria - Suppliers' credits	1,579	1,579
Belgium - Suppliers' credits	823	823
Canadian Government loan	2,863	3,346
Denmark - Suppliers' credits	3,496	3,496
France -	35,850	35,850
Suppliers' credits	6,457	6,457
Government of France	29,393	29,393
Germany	129,555	129,555
Suppliers' credits	49,681	49,681
Private bank credit	20,000	20,000
Government of Germany	59,874	59,874
Greece - Suppliers' credits	3,062	3,062
Italy	97,561	109,041
Suppliers' credits	18,395	29,875
Private bank credits	26,100	26,100
Government of Italy	50,880	50,880
Nationalization	2,186	2,186
Japan - Suppliers' credits	25,030	25,030
Kuwait	155,240	155,240
Private bank credits	37,800	37,800
Government of Kuwait	117,440	117,440
Mexico - Suppliers' credits	9,880	9,880
Netherlands - Suppliers' credits	349	349
Saudi Arabia Government loans	2,074	2,074
Spain - Suppliers' credits	13,341	13,341
Sweden - Suppliers' credits	3,489	6,979
Switzerland - Suppliers' credits	2,825	2,825
United Kingdom	17,814	17,814
Suppliers' credits	12,114	12,114
Government of U.K.	5,700	5,700
United States	142,987	159,186
Suppliers' credits	1,959	1,959
Export-Import bank	18,670	18,670
AID	59,510	75,523
Department of Agriculture	62,848	63,034
PL 480	14,453	14,639
C.C.C.	48,395	48,395

See footnotes at end of table.

Table 17: UNITED ARAB REPUBLIC - EXTERNAL MEDIUM- AND LONG-TERM /1 PUBLIC DEBT
OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Item	Debt outstanding December 31, 1967	
	Disbursed only	Including undisbursed
IBRD loan	35,500	35,500
Debts to Eastern European countries /3	516,799	875,253
Bulgaria	94	94
China	18,945	21,321
Czechoslovakia	44,231	54,919
East Germany	25,018	34,151
Hungary	20,135	24,194
Poland	15,622	40,420
Rumania	2,116	9,529
U.S.S.R.	375,252	663,069
Yugoslavia	15,386	27,556

Page 2

/1 Debt with an original or extended maturity of one year or more.

/2 Excludes arrears of principal and interest up to December 31, 1967 as shown below:

(In thousands of U.S. dollars)

	Principal	Interest
Total	78,889	16,189
Australia	36	7
Austria	299	67
Canada	446	-
Denmark	974	205
Germany	14,444	4,869
Italy	8,842	758
Japan	6,728	815
Kuwait	4,200	2,520
Netherlands	330	-
Saudi Arabia	1,037	-
Sweden	4,092	-
United Kingdom	5,352	852
United States	32,109	6,096

In the case of Germany and Italy arrears will be covered by the rescheduling agreements signed in 1967 and not yet operative.

Table 17: UNITED ARAB REPUBLIC - EXTERNAL MEDIUM- AND LONG-TERM /1 PUBLIC DEBT
OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 (CONT.)

/3 Does not include the uncommitted portions of the following frame agreements:

(In thousands of U.S. dollars)

Total	595,314
Bulgaria	15,058
China	78,373
Czechoslovakia	124,428
East Germany	71,976
Hungary	54,869
Poland	10,007
U.S.S.R.	215,913
Yugoslavia	24,690

Sources: For loans from Eastern European countries tables prepared by the Economic Cooperation Department of U.A.R. For IBRD and U.S. Government loans, creditor sources were used. For loans from all other countries the Bank Forms B, C and D submitted by U.A.R.

Statistical Services Division
Economics Department
May 6, 1968

PRELIMINARY

Table 18 : UNITED ARAB REPUBLIC - ESTIMATED CONTRACTUAL SERVICE PAYMENTS^{1/}
ON EXTERNAL MEDIUM - AND LONG-TERM PUBLIC DEBT OUTSTANDING^{2/}
INCLUDING UNDISBURSED AS OF DECEMBER 31, 1967

(In thousands of US dollars)

<u>Years</u>	<u>Debts in convertible currency</u>		<u>Debts to Eastern European countries</u>	<u>TOTAL</u>
	<u>Government Loans</u>	<u>Suppliers credits</u>		
1968	34,231	96,120	55,951	186,302
1969	43,099	88,349	58,860	108,308
1970	57,030	58,686	111,694	227,410
1971	54,739	41,468	105,950	202,157
1972	48,273	27,345	99,333	174,951
1973	38,176	24,138	91,243	153,557
1974	35,911	16,045	84,922	136,948
1975	28,701	9,631	80,343	118,675
1976 and after	119,270	40,612	307,501	467,383

1/ Total of principal and interest payments.

2/ Arrears are not included.

Source: Ministry of Economy and Foreign Trade

ANNEX

Assumptions Used in Illustrative Projections

- 1) Investment: Treated as an independent variable. It is assumed that investments will show substantial increases in the first two years arriving at the pre war level of fixed investment; after that they grow at 7% per annum.
- 2) Capital Output Ratio: 2.5 starting in 1967/68 with one year lag. This relatively low capital output ratio is considered to be feasible in view of (1) past performance; (2) existence of excess capacity in industry; (3) possibilities of quick yielding investments complimentary to the High Dam.
- 3) Marginal Rate of Saving:
 - Alternative I: 20% starting in 1968/69 (this is the continuation of the past performance)
 - Alternative II: 25% starting in 1968/69. It is also assumed that the military expenditure will decline to the immediate prewar level and the difference will be shifted to savings.
- 4) Exports:
 - Alternative I: Total foreign exchange earnings has increased from 1959/60 to 1966/67 by 5.8% per annum. As a round figure 5.5% is taken for the future increase in total earnings.
 - Alternative II:
 - a) Commodity Exports: 1967/68 - 1969/70 were projected separately; resulting average rate of growth applied to the period 1970/71 to 1972/73.
 - (i) Commodity exports other than cotton, rice and fuels are projected on the basis of increases during the period 1964/65 to 1966/67.

(ii) Cotton: Availability of exportable surplus estimated in relation to expected increase in land under cotton cultivation. Expected price levels in the world markets. used to reach the value of exports.

(iii) Rice - same as cotton.

(iv) Fuels - Projections provided by the General Organization for Petroleum - these projections are based on proven reserves; actual exports may turn out to be higher.

b) Invisible Earnings:

Alternative II

(i) Suez Canal: Revenues increasing at the pre-war rates.

(ii) Travel and Others: Increases at pre-war rates until 1969/70 and increases 12% per annum thereafter.

(iii) Other invisibles: Assumed to increase at the rate of pre-war years.

5) Net Capital Requirements and Imports: Treated as residuals.

6) Gross Capital Requirements: It is assumed that the U.A.R. will borrow half of its net capital requirements from western sources and the other half from eastern European countries. It is also assumed that borrowings for service payments on existing debt and new capital inflows will be made from the countries to which the service payments are due. Pipeline of the capital inflow assumed to be constant and gross requirements are estimated as gross disbursement requirements. A rescheduling operation is assumed for the arrears. According to this, arrears will be paid in five years starting 1968/69 with an interest rate of 6%.

Alternative I.

- (a) Borrowing from Western Sources: 80% in the form of suppliers' credits (6% interest 2 years grace and 8 years term to maturity) and 20% in the form of soft aid (1% interest 10 years grace and 40 years term to maturity).

Alternative II.

- (a) Borrowing from Western sources: 50% suppliers' credits and 50% soft aid.
- (b) Borrowing from Eastern European countries:
Same as alternative I.

