

DOCUMENT OF INTERNATIONAL MONETARY FUND  
AND NOT FOR PUBLIC USE

**FOR  
AGENDA**

EBS/62/1

CONFIDENTIAL

January 3, 1962

To: Members of the Executive Board  
From: The Secretary  
Subject: United Arab Republic - Use of the Fund's Resources

The attached paper dealing with a request for the use of the Fund's resources by the United Arab Republic is being placed on the Agenda of Executive Board meeting 62/1 scheduled for Friday, January 5.

Att: (1)



CONFIDENTIAL

INTERNATIONAL MONETARY FUND

United Arab Republic - Use of the Fund's Resources

Prepared by the Middle Eastern Department,  
the Legal Department and the Office of the  
Treasurer

January 3, 1962

I. Introduction

The United Arab Republic has submitted a request for a purchase of the equivalent of US\$22.4 million in sterling. A waiver is required under Article V, Section 4.

The Fund's holdings of Egyptian pounds at the present time amount to 130 per cent of the U.A.R. quota of \$90 million. The proposed drawing would increase the Fund's holdings of Egyptian pounds to 155 per cent of quota. There have been a number of transactions with the U.A.R. The most recent drawing was a purchase of the equivalent of \$10 million in deutsche mark and Italian lire in July 1961, which raised the Fund's holdings of Egyptian pounds to 133 per cent of quota. There was a repurchase of \$2.7 million in September 1961, reducing the Fund's holdings to 130 per cent of quota. Under the terms of agreed repurchase schedules, the U.A.R. will have to make repurchases during February and April 1962 totalling \$10 million.

II. Discussion

The United Arab Republic has experienced balance of payments difficulties for a number of years. While in some years this payments problem has been affected by variations in the demand for Egyptian cotton, the primary source of the problem has been an excessive credit expansion to finance both the budgetary deficit and the private sector. Efforts to deal with the payments problem by resort to bilateral arrangements and multiple currency devices were not successful and, in fact, have aggravated the payments situation with respect to convertible currencies. Over the last three years the foreign exchange assets of the U.A.R. have declined (including net drawings on the Fund) on the average by more than \$50 million annually.

As of November 30, 1961, the international reserves of the Central Bank amounted to LE 107 million (\$308 million), but little of this reserve is considered available for meeting the continuing deficit in convertible currencies. About LE 61 million is held in the form of gold in Cairo and

has not been considered readily available. Of the remainder, LE 13 million was in the form of convertible foreign exchange and LE 33 million claims on bilateral account. U.A.R. liabilities on bilateral account amounted to LE 88 million on the same date. Thus, the U.A.R. is faced with a situation where a further drawdown of reserves as an offset to excessive credit expansion is no longer feasible.

This already difficult situation has now been aggravated by a sharp decline in agricultural production. The cotton crop has declined by more than 30 per cent due to pests and, moreover, it is of poor quality. The pest problem has also affected some other crops, in particular maize, and, in addition, the rice crop is subnormal due to inadequate water. Some of the crop deficiencies can be made good on the basis of foreign assistance, particularly from the United States, but the remaining impact on the balance of payments of the decline in agricultural production is estimated to exceed \$100 million. This loss will not be felt to the full extent in the current year as there were fairly large inventories of cotton carried forward into the new cotton season beginning in September, but, nevertheless, the current impact is severe.

In these circumstances, the U.A.R. is entering 1962 with prospects of an acute international payments crisis. The outlook for the year as a whole is bleak, and the urgency of undertaking an adjustment of financial policies to deal with the payments situation is greater than ever. In the best of circumstances, however, such a program will take time to have its full effect. In addition, the immediate situation is complicated by the fact that in January the U.A.R. has contractual payments totalling LE 8 million.

The U.A.R. authorities have requested the Fund to send a mission to assist in preparing a program to deal with the balance of payments problem. Such a mission is expected to leave for Cairo about the middle of January.

### III. Terms of Repurchase

The request for a purchase by the United Arab Republic of £8 million has been made pursuant to Article V, Sections 3 and 4. The United Arab Republic has undertaken to repurchase with gold or convertible currencies acceptable to the Fund an equivalent amount of United Arab Republic currency not later than twelve months after the transfer. To secure this repurchase the United Arab Republic has offered as collateral the pledge of gold to the full amount of the purchase along the same lines as the incompleting transaction with the Fund in 1958 (EBS/58/87).

It is understood that in the event that repurchase is not otherwise effected at the latest twelve months after the transfer, and the pledged gold is used in repurchase, the provisions of Rule G-6 would be applicable.

#### IV. Decision

The following decision, paragraph 2 of which is the same as the 1958 decision, is submitted for the consideration of the Executive Directors:

1. The Government of the United Arab Republic has requested the purchase of £8 million from the Fund pursuant to Article V, Sections 3 and 4, and has undertaken to repurchase with gold or convertible currencies acceptable to the Fund an equivalent amount of United Arab Republic currency not later than twelve months after the transfer. To secure this repurchase the United Arab Republic has offered as collateral the pledge of gold to the full amount of the purchase.

2. The Fund agrees to the request on the terms contained in paragraph 1 above, grants the necessary waiver under Article V, Section 4 of the Articles of Agreement, and the transaction shall be completed after the following provisions are complied with:

(a) The member advises the Fund that identified gold bars, which it certifies can be disposed of under its law, have been deposited in the Fund's United Arab Republic depository in a special account bearing in its title an indication of the special character of the account as containing gold pledged to the Fund.

(b) The member has instructed the depository that no disposition is to be made of the gold in the said account without the prior instruction of the Fund; that the gold is to be transferred to the ownership and into the name of the Fund on the receipt of notification from the Fund that repurchase has not otherwise been completed

within twelve months after the date of the transfer of the exchange by the Fund; and that on receipt of notification from the Fund that repurchase has otherwise been completed, the gold is to be released from the special account.

(c) The Fund has been advised by its United Arab Republic depository that it has received the identified gold bars and has established the account in accordance with paragraph (a) above and has received instructions in accordance with paragraph (b) above.