Board Meeting of Thursday, May 29, 1997
Statement by Mr. Joaquim Carvalho

**Egypt: Country Assistance Strategy**

1. We endorse this candid and well-articulated first joint Bank/IFC CAS and commend staff for the high quality of the document. We are impressed by the intensity of dialogue and consultation process that went into its preparation and the evidently active participation of all major stakeholders in the formulation of this strategy including the broad consensus and strong commitment by both President Mubarak and Prime Minister El-Ganzouri to growth-oriented policies are welcome. We also wish to thank Mr. Al-Saad for his valuable input in his circulated statement.

2. Great strides have been made in stabilizing the economy with both budget and current account deficits as well as the debt service brought down to low and manageable levels and inflation to single digits while reserves have been kept at high levels. In recognition of this remarkable performance, Egypt has been able to regain its creditworthiness in international financial markets and consequently has been accorded a higher rating by the international rating agencies. We congratulate Egypt for this stellar performance.

3. The focus of the CAS on the four areas: export development, private sector growth, human resources development and natural resource management, is appropriate, in our view, as it is in line with the government's development objectives and priorities. We welcome the combination of lending/non-lending package of support envisaged by the Bank and IFC to the development of the export, financial and private sectors and the framework proposed for the division of labor between both institutions. In the areas of human resources and environment, in view of the high social cost associated with structural reforms and to underpin the consensus that has been built, it is imperative that IDA provides substantial support to the Social Fund for Development. It is also important that special attention is given to the upgrading of the quality of education and orienting it to the needs of the economy. With regard to the environment, addressing the problem of air pollution needs to be given particular attention.

4. On the issue of privatization, the fact that the Egyptian economy is undergoing a transition from a well-entrenched centrally planned economy to a market-oriented one, should be taken into account in the design of the privatization strategy. Given the already high level
of unemployment, and until a vibrant and matured private sector emerges, it may be counter-productive to urge for speedy privatization. It may, therefore, be prudent that nourishing the newly emerging private sector should be given priority. We believe that the "touch the stone to cross the river" approach is relevant to the Egyptian case.

5. High vulnerability to external shocks also needs particular attention. Hedging against sharp fluctuations in current account flow cited in paragraph 16, and properly managing foreign capital flows are extremely important in view of the uncertainties surrounding the sources of these flows and to protect the economy from the downside effects of massive flows to the balance of payments capital accounts. Enhancing managerial capabilities in the banking sector, the Central Bank and the non-bank sector together with developing information systems and improving the legal and regulatory framework are crucial for preventing vulnerability risks. While we note with satisfaction the Bank Group’s strategy cited in paragraph 53 for the financial sector development, we would have preferred to see some analysis of the Group’s intentions to help Egypt to protect itself from severe external shocks. We would appreciate some clarification from staff on this issue.

6. As it is evident in the document, a lot remains to be finished in Egypt’s reform agenda. Unemployment, as mentioned earlier, is still a serious problem. Poverty eradication, despite the effort so far made, is still a daunting task and vulnerable groups in the rural areas, particularly women need more income-generating activities. We, therefore, feel that phasing out IDA’s assistance to Egypt is not adequately justified or convincing. We strongly believe that no action should be taken on this issue until poverty and unemployment levels are brought to acceptable levels.

7. The substantial improvement in portfolio performance as attested by the Quality Assurance Group, is worth noting. However, we hope that the authorities will redouble their efforts to remove the remaining impediments that restrict the expansion of the Bank’s portfolio. Delegating the authority of portfolio management to the Resident Mission is a step in the right direction.

8. We find it prudent that Bank Group assistance should focus on non-lending activities. We also support allowing Egypt to borrow additional IBRD resources to off-set its amortization of less favorable non-concessional loans.

9. Finally, we support the development agenda and priorities as suggested in the CAS, and urge the Bank Group to encourage Egypt to pursue more rapid economic growth. We have no difficulties with the proposed lending scenarios. Judging from the remarkable performance registered during the last two years or so, and since addressing the poverty problem will take some time, we feel that the high case scenario is more appropriate. We wonder what the possibilities are of increasing IDA’s contribution (Table 3), in order to enable the authorities address the acute problem of unemployment. We would appreciate staff views on the possibility of increasing the levels of IDA’s assistance.

10. We wish the Egyptian authorities success in their endeavor to establish a robust economy.