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EXCHANGE RATES IN TERMS OF U.S. DOLLARS

INDIA	-	rupee	=	$0.21
PAKISTAN	-	rupee	=	$0.21
IRAN	-	rial	=	$0.0132
IRAQ	-	dinar	=	$2.80
SYRIA	-	pound	=	$0.28
JORDAN	-	dinar	=	$2.80
LEBANON	-	pound	=	$0.31
EGYPT	-	pound	=	$2.87
SUDAN	-	pound	=	$2.87
ETHIOPIA	-	dollar	=	$0.4025

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I N D I A

The drain on India's foreign exchange reserves continues. In April the average weekly loss (including use of IMF credits) was about Rs. 55 million, in May Rs. 100 million, in June Rs. 90 million, in July Rs. 80 million and in the four weeks ending August 23 Rs. 90 million. During the latter period Burma drew the second half of the Rs. 200 million loan negotiated with India in 1956; if these drawings are excluded, the weekly loss in August is reduced to about Rs. 65 million. Early in August the foreign exchange holdings of the Reserve Bank of India fell below the level of Rs. 4 billion, which is the statutory minimum required for currency backing, and the Government made use of its powers under the Reserve Bank of India Act temporarily to reduce the reserve requirement to Rs. 3 billion. New legislation would be necessary to go below the latter figure. If gold is included, India's external reserves on August 23 amounted to Rs. 5.02 billion ($1,054 million). At the same date liabilities to the IMF totalled Rs. 0.95 billion ($200 million), while Burma owed India Rs. 0.20 billion ($42 million), half of which is due to be repaid by the end of the Second Five-Year Plan.

While detailed balance of payments statistics only go up to the end of March, it is clear that the continuance of the foreign exchange deficit in recent months is primarily attributable to heavy payments for imports of capital goods and industrial materials and components. Exports have probably been running at about the same level as last year. Exports of tea and cotton textiles did exceptionally well in the first quarter of this year, but tea prices have since fallen sharply, and the market for jute manufactures has been rather weak. Exports of raw cotton and vegetable oils have been restricted to conserve supplies for home use, and exports of ores have been held up by transport difficulties. Against this India is exporting substantial quantities of sugar this year, and exports of light engineering goods and handicraft products, while still small, appear to be increasing steadily.

Further restrictions on imports were introduced at the beginning of July. Most Open General Licences were suspended for three months, quotas for less essential goods were reduced or eliminated altogether, and a ban was maintained on imports of capital goods outside the "core" of the Second Five-Year Plan, except where special arrangements can be made with suppliers to cover the foreign exchange costs.* However, with the heavy import commitments entered into last year and with a large number of valid import licences still outstanding in the private sector, recent measures have done little yet to stem the flood of payments. The present widespread expectations of exchange rate adjustments between the major world currencies have no doubt also played their part in increasing the pressure on India's balance of payments in various ways.

The high level of demand for imports has been associated with a large budgetary deficit, which has been mainly financed through the issue of Treasury Bills. In the three months April-June the rupee investments of the Reserve Bank increased by Rs. 1.35 billion, the Reserve Bank's loans and advances to Governments rose by Rs. 0.16 billion and government deposits with

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* The "core" of the Plan, as defined by the Finance Minister, consists of "steel, coal, transport and ancillary power".

the Reserve Bank were reduced by Rs. 0.36 billion. After allowing for a fall of Rs. 0.15 billion in commercial bank holdings of government securities, the net expansionary effect of government transactions was Rs. 1.72 billion, compared with Rs. 0.44 billion in the same period of 1956. Bank credit to the private sector also increased in April-June this year — by Rs. 0.22 billion. However, part of the expansion of credit to the Government and the private sector was neutralized by a rise of Rs. 0.79 billion in time liabilities of the banks. As a result of this and of the foreign exchange deficit the increase in active money supply during the three months was limited to Rs. 0.40 billion, compared with an increase of Rs. 0.05 billion in April-June last year.

Agricultural production in the year ending June 1957 appears, from the limited data so far available, to have been 4% or 5% higher than in the previous year, record rice and sugar crops being responsible for most of the increase. Output of foodgrains probably increased by 2-3 million tons over the level of 63.4 million tons reached in 1955/56.* The latest statistics of industrial production (for the first quarter of 1957) suggest that it is continuing to rise at a rate of about 8% or 9% a year. Most industries have shared in this increase, with the notable exception of jute manufactures. Coal output, which has been rather stagnant in recent years, increased substantially in the first quarter of 1957; and cotton textiles, sugar manufacture, cement and automobiles were other industries which did particularly well during this period.

The rising levels of production and investment and the need for large movements of cereals and sugar have put severe strains on India's internal transport system. The railways continue to operate under pressure, and frequent delays are experienced. The situation in the ports is even more critical. The simultaneous arrival during the summer of ships diverted around the Cape and ships coming through the reopened Suez Canal led to unprecedented congestion at Bombay, Calcutta and Madras, and the situation was further aggravated by labor troubles at the first two ports. At one time as many as 100 ships were waiting for berths at the ports, and the number is still very high. Urgently needed imports of food and capital goods have been delayed, exports (particularly of ores) have been impeded, and the shipping lines have talked of imposing a special surcharge on freight to and from India, although they have apparently agreed to defer action on this for the time being in the hope that conditions will improve.

Internal price movements have reflected the inflationary strains to which the economy has been subjected this year. The index of wholesale prices rose by 2% in April and 3% in May, remained steady in June and rose by 1-1/2% in July; at the end of July it was 6% higher than at the end of March and 8% higher than in July 1956. Most of the rise in recent months has been attributable to food; wholesale prices of manufactures have changed little. Local food shortages occurred during the summer in Uttar Pradesh, Bihar and West Bengal, but total food supplies were officially stated to be adequate. Preliminary indications are that the monsoon has again been favorable this year, and with the help of the large supplies of wheat that are continuing

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* Some estimates have put the increase considerably higher than this, and one recent report even claimed that foodgrain production in 1956/57 was an all-time record, exceeding the 68.8 million tons achieved in 1953/54. However, the statistics of the Ministry of Agriculture do not support this claim.

to arrive from the U.S.A. under the PL 480 agreement, it should be possible to keep food prices reasonably stable over the next six months. The other main article of general consumption in India is cloth. Home demand for cloth was depressed towards the end of 1956 by the imposition of heavy additional excise duties, which appear to have resulted in widespread destocking by merchants in India; and the fall in home demand made possible a notable increase in exports. It must be expected that buying will be resumed now that it is recognized that the additional duties have come to stay, and there may be renewed pressure on supplies, with unfavorable repercussions on exports. However, there are no signs of this yet, and latest trend of textile prices is slightly downwards.

In July the Minister of Commerce and Industry stressed the need for higher production of consumer goods, and the Second Plan targets for a number of industries were revised upwards, including bicycles, radio receivers, sewing machines and sugar. It was decided not to license additional capacity in the mill sector of the cotton textile industry, since licenses already issued for the import of new spindles and automatic looms had not been fully utilized.

The Budget for the financial year beginning last April, which was introduced by the Finance Minister on May 15, provided for large increases in taxation. These are expected to bring in an additional Rs.850-900 million (about $180 million) during the current fiscal year and over Rs.1,000 million ($210 million) in a full year. More than two-thirds of the extra revenue is to come from indirect taxes, particularly higher excise duties on sugar, tobacco, matches, motor spirit, steel and cement and a tax on railway passenger fares. Important changes were proposed in the structure of direct taxation, including -

(a) the introduction of an annual tax on wealth, to which is eventually to be added an expenditure tax (the rates of the wealth tax will be very low, ranging from one-half per cent to 1-1/2%, its yield is estimated at Rs. 150 million in a full year, and it will apply to companies as well as individuals; the expenditure tax is experimental and will apply to personal expenditures over Rs. 30,000 a year, with allowances for dependants);

(b) a considerable reduction in the marginal rates of income tax and surtax on individual incomes (for earned income the present maximum rate of 92% is to be reduced to 77%);

(c) at the bottom of the scale a lowering of the exemption limits for individual income tax;

(d) various changes in corporation tax which are in part designed to encourage the ploughing back of profits through a check on dividend distribution (special concessions are to be given to foreign companies to encourage foreign investment).

Some of the budget measures, including the proposed wealth and expenditure taxes, have been modified in the course of parliamentary discussion, but the main outlines of the Finance Minister's proposals apparently still stand. The Finance Bill was passed by Parliament on August 28.

As a result of the additional taxation a prospective revenue deficit will be converted into a sizeable surplus, and the estimated overall deficit to be financed through an expansion of Treasury Bills will be reduced from Rs. 3.65 billion to about Rs. 2.75 billion. The comparable budget estimate for last year was Rs. 3.56 billion, but the actual deficit turned out to be substantially less because expenditure fell well short of estimates.* There is reason to expect a similar shortfall this year.

At the time of the Budget the Bank rate in India was raised from 3-1/2% to 4%, and rates of interest on small savings were increased on average by about 1/2%. Subsequently, at the end of June, the Governor of the Reserve Bank addressed a letter to the commercial banks calling for more cautious lending policies. He has recently called the banks to task for failing to keep a tight enough control over their advances and has particularly stressed the need to restrict advances against foodgrains and other agricultural commodities so as to discourage speculative boarding. Early in August the Central Government issued two loans totalling Rs. 1 billion, and these were over-subscribed. A substantial proportion of the subscriptions, however, was in the form of conversions of previous loans, while a further part was no doubt put up by the banks. These are apparently the only loans contemplated by the Center this year, but a special effort is being made to obtain more small savings. The State Governments (except Bombay) have agreed not to issue any new loans this year on the understanding that they will be allotted a larger share of the proceeds from the sale of National Savings Certificates.

In the last analysis India's ability to arrest the decline in her foreign exchange reserves will depend on the concrete steps taken to restrain demand at home. The sharp deterioration in the balance of payments during the past eighteen months reflects the heavy claims made on resources by rising expenditures on investment, consumption and defence, and these claims must be moderated if financial stability is to be restored. Important steps have been taken in this direction. The question is: do they go far enough? Import restrictions have been tightened, taxation has been substantially increased and credit and monetary restraints have been used to curb internal demand. At the same time the Finance Minister has announced that the Second Five-Year Plan is being rephased, and that no new projects will be approved outside the core of the Plan unless special arrangements can be made to cover the foreign exchange costs. But it is not only through their direct foreign exchange cost that development expenditures impact on the balance of payments. The continued excess of total government expenditure over revenue has greatly stimulated consumption as a whole, and a more comprehensive program of retrenchment will probably be needed if deficit financing is to be reduced to a level compatible with internal and external financial stability.

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* On the Government's definition of the overall deficit, which is the increase in Treasury Bills outstanding adjusted for changes in the cash balances of the Central Government, the revised figure for 1956/57 is Rs. 2.16 billion. But if the definition is extended to embrace the operations of the State Governments and to include all methods of financing which produce an expansion of money supply, the figure is Rs. 3.08 billion. The major part of the difference between these two figures represents the absorption of government securities by the banking system.

INDIA

(All figures in Rs. billion except where otherwise stated)

	1952	1953	1954	1955	1956	1956 I	1956 II	1956 III	1956 IV	1957 I	1957 II
POPULATION (million)	367	372	377	383	389						
NATIONAL OUTPUT											
Net National Product at factor cost											
- at current prices 1/	98.2	104.9	96.2	96.5	. .						
- at 1948-49 prices 1/	94.6	100.3	102.8	104.2	. .						
Agricultural production (1950=100) 2/	97	102	114	116	114						
Industrial production (1951=100)	104	106	113	122	133	130	142	144	136	140	. .
PRICES											
Wholesale prices (1938/39=100)	387	394	388	355	404	380	393	416	425	423	431
Consumer prices (1949=100)	103	106	101	96	105	98	104	108	110	107	. .
CURRENCY AND BANKING 3/											
Money supply with public	16.8	17.1	18.3	20.5	21.8	21.8	21.9	21.1	21.8	22.2	23.4
Treasury Bills outstanding	3.35	3.46	3.50	4.60	6.67	5.95	6.43	5.79	6.67	8.36	9.42
Central Govt. deposits with Reserve Bank	1.75	1.10	0.55	0.54	0.57	0.67	0.64	0.71	0.57	0.54	0.52
Scheduled Bank credit to private sector 4/	4.68	4.61	5.38	6.36	7.88	7.61	7.57	7.54	7.88	9.00	9.18
CENTRAL GOVERNMENT BUDGET 1/											
Revenue receipts	4.35	4.16	4.56	4.98	5.62						
Current expenditures	3.96	4.07	4.23	4.57	5.24						
Capital outlay and advances to States	1.68	1.97	4.41	4.81	6.97						
OVERSEAS TRADE AND PAYMENTS											
Imports (c.i.f.)	8.07	5.70	6.17	6.48	8.15	2.03	1.92	2.10	2.10	2.36	. .
Exports (f.o.b.)	6.17	5.32	5.63	6.08	6.04	1.64	1.32	1.42	1.66	1.62	. .
Terms of trade (1953=100) 5/	105	100	108	107	107	110	102	107	113	. .	. .
Official foreign exchange reserves 3/	8.24	8.41	8.49	8.53	6.48	8.64	8.15	7.33	6.48	6.45 6/	5.82 6/

Note: Many of the figures for recent periods are provisional estimates subject to revision.

1/ Financial year beginning April 1
2/ Crop year ending June 30 of year shown
3/ Figures relate to end of period indicated
4/ From November 1954 includes "foreign bills discounted"
5/ A rise indicates a favorable movement
6/ After including dollars purchased from the I.M.F. to the value of Rs. 0.61 billion in the first quarter of 1957 and Rs. 0.34 billion in the second quarter

PAKISTAN

Recent developments have tended to aggravate the three dominant problems of the economy: (a) a growing food deficit owing to stationary agricultural production, population growth and inflated personal incomes; (b) large scale deficit financing by the Government; and (c) heavy dependence on foreign aid to balance foreign transactions.

During the year ending March 31, 1957, food supply and demand have at best been in balance, although crops were slightly above the average of the preceding 9 years and food imports reached a record level of 10% of supplies. Right after the beginning of the current fiscal year complaints about food shortages rose again because the arrival of imports programmed for the current year was delayed and existing stocks insignificant. Imports of foodgrains during 1957/58 are expected to be 1.4 million tons against 1.3 million tons last year. Unless crops will be better than last year, this increase in imports appears insufficient because the annual rise in demand owing to population growth is at least 200,000 tons. The Government hopes that the increase in imports over last year will be covered by foreign aid and that only the same quantity as last year will be imported from Pakistan's own resources, i.e. 400,000 tons.

Monetary expansion continues because of Government spending in excess of resources. During 1956/57 the budget deficit after foreign aid was about 20% of ordinary revenues or Rs. 400 million against Rs. 330 million during the preceding year. The rise was caused by marked increases in expenditure for development, defense and food import subsidies which outpaced growth in revenue. The monetary effect of the budget deficit was aggravated by an expansion in bank credit to the private sector caused by further growth of the industrial sector. In order to check inflationary pressures the Government permitted a reduction in foreign exchange reserves; during 1956/57 these reserves were drawn down from Rs. 1,350 million to Rs. 1,250 million or 45% of total annual foreign exchange payments. On balance, money supply increased by 7% during 1956/57, bringing the total rise during the two years since the beginning of the Five Year Plan to 27%. Indications are that the consequent rise in internal prices is accelerating. It is estimated that the cost of living has been enhanced by at least 10% during the 12 months ending June 1957.

The balance of payments position has recently become more precarious. Firstly, the terms of trade have continued to deteriorate and dropped from 91 to 75 (1953 = 100) during the 6 months following September 1956 as compared with a peak of 115 during the year preceding the Plan. C.i.f. prices for major import commodities have risen sharply owing in part to the Suez crisis, while export prices for cotton, wool, and tea have dropped to an extent which has more than offset growth in total export volume. Secondly, contrary to expectations, it became necessary in 1957/58 to finance food imports out of the country's own foreign exchange resources in a volume equivalent to 10% of all foreign exchange earnings. Thirdly, development imports have risen by over one-third in line with the acceleration of development spending. However, receipts from foreign aid and loans have continued at a high level and will do so for at least 2 years owing to large amounts in the pipeline.

During the current year the budget deficit will be over 50% greater than last year. No increase in defense expenditure is anticipated, but development spending is gaining momentum and larger food imports will necessitate greater subsidies. The inflationary effects of Government deficit financing will be augmented by a further expansion in bank credit to the private sector. However, in order to keep the monetary expansion roughly within last year's limits, the Government has recently imposed some restrictions on bank credits to the private sector and also plans to draw more heavily on foreign exchange reserves than last year: reserves are to be reduced by at least Rs. 250 million to one-third of likely foreign exchange payments during the current year.

Looking beyond the current year, the danger of inflation looms large. Unless drastic action is taken the budget deficit will continue to grow. Moreover, it will not be prudent to reduce foreign exchange reserves still further. Under these circumstances monetary expansion in the next year may reach a level of 15% per year if present fiscal policies are continued. The Government is becoming increasingly aware of the dangers inherent in the current situation and has recently appointed a Special Commission to work out proposals aiming at a reduction in the budget deficit.

PAKISTAN

Fiscal years beginning April 1:	1953/54	1954/55	1955/56	1956/57	1957/58	1956/57 I	1956/57 II	1956/57 III	1956/57 IV	1957/58 I
POPULATION (million)	80.4	81.6	82.8	84.1 2/						
NATIONAL INCOME AT CONSTANT PRICES 1/										
(billion Rs.)	19.4	19.9	19.5	19.9 2/						
of which agriculture	11.7	11.6	11.2	11.4 2/						
of which large and medium scale industries	0.7	0.9	1.1	1.4 2/						
of which terms of trade	- 0.5	- 0.3	- 0.6	- 0.6 2/						
FOOD GRAIN PRODUCTION million tons	14.2	12.7	11.7	13.3 2/						
MONEY SUPPLY 1/	3,697	3,916	4,701	5,039		4,591	4,459	4,926	5,039	
CONSOLIDATED CENTRAL AND PROVINCIAL BUDGETS 4/ (million Rs.)										
1. Revenue	2,183	1,971	1,989	2,139	2,299					
2. Expenditure	2,679	2,742	2,811	3,817	4,593					
a) Development	(595)	(820)	(875)	(1,201)	(1,613)					
b) Defense	(799)	(800)	(821)	(1,003)	(1,002)					
c) Other	(1,295)	(1,122)	(1,215)	(1,613)	(1,978)					
((of which Food Subsidies))			((-103))	((212))	((512))					
3. Deficit	496	771	822	1,678	2,294					
Financed by										
a) Foreign aid and loans	20	185	214	654	675					
b) Capital receipts	146	105	108	175	274					
c) Funded debt, net	265	351	5	1,088	1,183					
d) Unfunded debt	50	67	82	103	125					
e) Cash balances	15	63	68	- 342	37					
f) Devaluation windfall	-	-	345	-	-					
INTERNAL PUBLIC DEBT 1/ 2/	3,490	3,910	4,000	5,190						
GOVERNMENT CASH BALANCES 1/	338	275	207	549		332	463	440	549	674
CHANGE IN U.S. COUNTERPART FUNDS 2/		) (	+110	+293						
		)+283(								
CHANGE IN PUBLIC DEBT HELD OUTSIDE BANKS		) (	+ 63	+155						
NET EFFECT OF BUDGET ON MONEY SUPPLY 2/		+200	+330	+400		+105	- 70	+199	+166	
TIME DEPOSITS AT SCHEDULED BANKS 1/	359	497	534	560		564	554	545	560	519
BANK CREDIT TO THE PRIVATE SECTOR 1/	846	1,048	1,168	1,223		936	988	1,256	1,223	1,133
FOREIGN EXCHANGE RESERVES 3/ 1/	1,037	976	1,348	1,257		1,395	1,271	1,262	1,257	1,201
	(720)	(675)								
TERMS OF TRADE, 1953 = 100	95	115	94	83 2/		87	91	86	75 2/	
BALANCE OF PAYMENTS 5/ 6/ (in million Rs.)										
1. Current Account										
a) Receipts										
i) Raw Cotton		480	550	410		119	51	110	134	
ii) Raw Jute		850	750	780		161	127	266	222	
iii) Other		570	750	800		224	162	221	193	
iv) Total		1,900	2,050	1,990		504	340	597	549	
b) Payments										
i) Food purchased with own resources		-	-	240						
ii) Other nondevelopment		1,550	1,500	1,660						
iii) Total nondevelopment		1,550	1,500	1,900						
iv) Development		700	600	820						
v) Total		2,250	2,100	2,720		623	651	845	595	
c) Balance on Current Account		-350	-50	-730		-119	-311	-248	-46	
2. Capital Account - net		+289	+422	+639		+166	+187	+239	+41	

1/ End of year, million Rs.
2/ Approximate
3/ Post devaluation rupees; in parenthesis pre-devaluation rupees
4/ 1956/57 based on revised estimates; 1957/58 data are budget estimates
5/ Actuals before August 1, 1955 adjusted upward by 44% for purpose of comparison with post devaluation period.
6/ Excluding food imports under aid

IRAN

Recent developments have pointed up Iran's basic problem of gearing the tempo of development to the growth in oil revenue without inflationary financing of complementary local currency needs.

During the second year of Iran's Seven-Year Plan ending March 20, 1957, economic developments were characterized by a marked acceleration of non-development spending by the Government and development spending by the Plan Organization. The Government succeeded in raising roughly two-thirds of the increase in expenditures from additional ordinary revenues, rapidly increasing oil revenues, US aid and a first disbursement on the IBRD loan, but the substantial residual deficit of Rls. 2.8 billion had to be financed by inflationary means. Its impact on the money supply was augmented by a surplus in foreign transactions because imports could not keep pace with oil revenue; a large portion of the inflated internal demand was for goods and services which could not be readily imported. The monetary effects of a simultaneous increase in bank credit to the private sector were, however, more than offset by a rise in time deposits and savings of the private sector. While information available on recent growth in national output is fragmentary, there is no doubt that it has fallen far short of the increase in money supply. To be sure, oil production has exceeded previous estimates and reached an annual rate of 30 million metric tons during the summer of 1957 as against 26 million metric tons during the preceding year, but agricultural production dropped during 1956/57 because of serious floods. As a result of all these factors the cost of living has risen by at least 15% during 1956/57.

During the current year, the Plan Organization which ran a cash deficit of Rls. 1.9 billion in 1956/57, should be able to keep its cash transactions in balance with the help of the IBRD loan. On the other hand, the discontinuation of US budget assistance which covered Rls. 1.7 billion of a total budget deficit of Rls. 2.7 billion will make the Government's ordinary budget deficit much larger. On balance, the total deficit will be substantial and roughly the same as last year. Its inflationary effects are likely to be increased again by a balance of payments surplus. Total oil revenue is expected to reach $200-205 million (against a minimum guaranteed by the Consortium of $188 million); total foreign exchange receipts may thus rise to $455 million against $373 million during the preceding year or by 25%. With this increase, imports are unlikely to keep pace. In the aggregate, money supply may well increase by 11-17% as compared with 17% during 1956/57.

Looking beyond the current year the tempo of inflation is likely to accelerate unless drastic action is taken. First of all, the way has been paved for large scale Government borrowing outside the budget and the Development Plan. In order to provide finance for the local

currency cost of development projects outside the Seven-Year Plan, particularly in Khuzistan, most of Iran's gold and foreign exchange reserves have recently been revalued. In May 1957 the legislature passed a bill establishing the par value of the rial at 75.75 rials to the dollar, against an old par value of 32.35 rials to the dollar. It affected neither foreign assets held by the Banking Department of Bank Melli nor current commercial transactions because these had been valued at the rate of Rls. 75.75 to the dollar ever since the beginning of 1956/57. However, the revaluation released the equivalent of roughly $90 million gold and foreign assets held in the Issue Department (as 40% note cover under the 1954 Note Reserve Act) and transferred this amount to a special fund in the Banking Department. According to the Revaluation Law this fund, after conversion into rials by sales of foreign exchange to the Issue Department, can be drawn upon only for local currency loans for productive purposes outside the Seven-Year Plan. However, the Issue Department cannot use the gold and foreign exchange repurchased from the Banking Department for any note issue in addition to the rial equivalent of the repurchase. Consequently, the Revaluation Act will permit a maximum note issue of only Rls. 6.8 billion. At the present ratio of currency in circulation to demand deposits this may facilitate an ultimate expansion in money supply by Rls. 15 billion, or by over half its present size. At present the Government seems determined to monetize the special revaluation fund with great caution; but when the development of Khuzistan gets under way after some delay, the monetization may proceed quickly. At the same time, a further acceleration of public local expenditure and a rise in money circulation is unlikely to be fully offset by an expansion of imports. Moreover, the problem of balancing the budget will probably be further complicated by the fact that its share in oil revenues will drop below the current level of $39 million or 15% of local budget revenue. According to existing legislation, the budget's share during 1958/59 will be composed of (a) 80% of oil revenue in excess of $188 million; (b) the amount by which the 20% NIOC share in total oil revenues exceeds NIOC expenditures and (c) provided that a special commission (consisting of the Minister of Finance, one other minister appointed by the Cabinet, and the general manager of the P.O.) so decides, to 5% of $188 million, thus reducing the share of the Plan Organization from 80% to 75% of $188 million. As to (a) total net oil revenue (after compensation to B.P.C.) is projected at $221 million, and the budget should thus receive about $26 million. As to (b), the share of NIOC in oil revenue from the Consortium is to be reduced from 28% to 20%, and NIOC expenditures show an upward trend; it thus appears unlikely that transactions of the NIOC will leave a surplus for the budget. As to (c) it seems probable that the above commission will indeed decide to make the additional $9 million available for the budget. In summary, total oil revenue for the budget during 1958/59 should be about $35 million as compared with $39 million during the current year. After 1958/59 the budget is to receive (apart from NIOC surpluses which are unlikely to materialize) only 5% of total oil revenue, subject, however, to the

approval of the above commission, (the NIOC receiving 20% and the Plan Organization 75% or 80%). Consequently, unless existing legislation is changed, oil revenue for the budget will not exceed $15 million for a number of years, even if net oil revenues from the Consortium rise from presently $190-195 million to almost $300 million by 1961/62 as expected by the Government. However, the prospects for oil revenue have been improved by the enactment in July 1957 of new legislation which establishes the framework for agreements between Iran and foreign oil companies for the exploitation of oil reserves outside the areas assigned to the existing Consortium. Recently the first agreement of this kind was reached with ENI, the Italian government oil monopoly. Briefly, the agreement provides that the NIOC will be considered to hold 50% of the shares of any new joint ventures with foreign oil firms, although the latter will furnish vitually all the capital, the machinery, and the technicians for exploration and development work. With the royalty being maintained at 50% of the profits, this arrangement results in a split of profits between Iran and foreign capital on a 75:25 basis. The new joint company, called SIRIP, has obtained drilling concessions in three different areas of the country: one offshore near the estuary of the Shatt al Arab, one in the northeast of Khuzestan, and one along the coast of Baluchistan.

IRAN

Year ending March 20:	1954/55	1955/56	1956/57	1957/58	1956/57 I	1956/57 II	1956/57 III	1956/57 IV	1957/58 I
POPULATION (rough estimate in millions)	n.a.	n.a.	19						
NATIONAL INCOME (rough estimate in million $)	n.a.	n.a.	1,600						
AGRICULTURAL PRODUCTION (1000 metric tons)									
Wheat		2,341	2,300						
Rice		443	350						
Cotton (Lint)		60	60						
Sugar beets		521	n.a.						8.9
CRUDE OIL PRODUCTION (million metric tons)	3.5	15.8	27.8		5.4	6.9	7.0	6.9	7.5
WHOLESALE PRICES (1953 = 100) (End of period)	120	121	126		124	121	125	126	
COST OF LIVING (1953 = 100) (End of period)	122	126	140		132	129	134	140	140
PRIVATE DEMAND DEPOSITS (billion rials) (End of period)	12.5	13.8	17.2		15.1	16.0	16.3	17.2	
MONEY SUPPLY (billion rials) (End of period)	23.4	24.6	28.9		25.2	26.2	27.0	28.9	28.7 (April)
GENERAL GOVERNMENT BUDGET (billion rials)									
(a) Ordinary Revenues	10.0	10.6	13.9	18.5 1/					
(b) Oil Revenues	-	0.7	2.8	3.4 1/					
(c) Expenditures	12.3	14.8	19.3	21.9 1/					
(d) Deficit before aid	- 2.3	- 3.5	- 2.6	0					
(e) U.S. aid	2.3	3.6	1.7	4.0 1/					
(f) Balance after aid	0	+ 0.1	- 0.9						
PLAN ORGANIZATION (million $)									
(a) Expenditures	n.a.	39.5 2/	108.4	165.4 1/	20.8	17.9	42.3	27.4	
(b) Oil Revenues	n.a.	25.7 2/	72.6	109.4 1/	16.5	9.2	29.6	18.8	
(c) Deficit before other receipts	n.a.	-13.8 2/	- 35.8	56.0 1/	- 4.3	- 8.7	-12.7	- 8.6	
(d) Other receipts	n.a.	n.a.	+ 10.3						
(e) Balance after other receipts:									
(1) million $	n.a.	6.0	- 25.5						
(2) billion rials	n.a.	+ 0.5	- 1.9						
NET BALANCE OF GOVERNMENT OPERATIONS (billion rials)	n.a.	+ 0.6	- 2.8		+ 0.6	0	- 1.0	- 2.4	
INTERNAL PUBLIC DEBT (billion rials) (end of period)	26.2	26.4	28.7		26.1	26.7	27.2	28.7	
GOVERNMENT CASH BALANCES (billion rials) (end of period)	3.1	3.9	3.4		4.2	4.8	3.9	3.4	
BANK CREDIT TO PRIVATE SECTOR (billion rials)(end of period)	7.6	9.2	10.1		10.0	10.0	9.9	10.1	
TIME DEPOSITS AND SAVINGS OF PRIVATE SECTOR (billion rials) (end of period)	3.9	4.5	5.6		4.7	5.0	5.3	5.6	
FOREIGN ASSETS (end of period)									
Gold (million $)	138	138	138		138	138	138	138	138
Foreign exchange (million $)	73	72	81		80	81	92	81	44
TOTAL									
(a) million $	211	210	219		218	219	230	219	182
(b) billion rials at 75.75 rials per $	15.8	15.8	16.5		16.6	16.5	17.4	16.5	13.8
FOREIGN TRADE (million $)									
(a) Exports other than oil, including invisibles	120.4	93.1	105.8						
(b) Imports except foreign oil Co. including invisibles	164.4	168.6	229.6						
(c) Trade balance	-44.0	-75.5	-123.8						
BALANCE ON CAPITAL ACCOUNT OTHER THAN OIL 3/ (million $)	+18.3	-57.9	- 42.6						
FOREIGN EXCHANGE RECEIVED FROM OIL INDUSTRY (million $)									
(a) Oil revenues	18.5	79.8	133.7						
(b) Purchases of rials by Consortium & NIOC oil exports	14.2	52.6	47.0						
Total	32.7	132.4	180.7						

1/ Budget estimates
2/ September 21, 1955 to March 20, 1956 only
3/ Accounts for imports on Government account (including Government invisibles and foreign loans and aid other than U.S. military hardware)

IRAQ

Despite the heavy decline in oil production which resulted from the demolition of IPC pipeline installations in Syria in early November 1956, Iraq's economic position remains basically sound.

Total oil production in 1956 reached a level of 29.3 million metric tons (31.7 million tons in 1955); its contribution to the total national income of ID 292 million[1] amounted to 27% as compared to 24% for agriculture, 17% for services, and 12% for manufacturing industries. Had normal conditions prevailed throughout 1956, production would have been approximately 14% higher. During the first seven months of 1957, output was 50% below the figure for the same period of 1956. Full pipeline operation will not be restored before the spring of next year; the present throughput of the pipeline, that started operating again in March 1957 at 40% capacity, is about 55% of the pre-Suez figure of some 25 million metric tons.

From early November 1956 through August 1957, the Iraqi Government has incurred a total loss in direct oil revenues of some ID 34 million[1], calculated according to the level of revenue that was reached in the third quarter of 1956. Total direct oil income of the Government in the current year is expected not to exceed ID 50 million, whereas it might have increased close to ID 90 million without the severe curtailment of exports resulting from the Suez crisis.

Total government outlays have not yet been significantly affected by the loss of revenues. Actual expenditures of the Development Board amounted to just over ID 45 million in 1956/57 as compared to respectively ID 33 million and ID 20 million in the two preceding years, and the revised program estimates for 1957/58 call for a direct expenditure of ID 65 million. Ordinary budget expenditure also increased from an annual level of ID 50 million in the years 1953/56 to almost ID 75 million in 1956/57, when an exceptionally large deficit of almost ID 13 million was incurred.

The Development Board has been able to increase its expenditures because spending in the past has fallen considerably short of the budget targets and revenues, so that substantial cash balances were built up. At the end of 1956 the Board's cash reserves amounted to ID 68 million. While this reserve when added to current oil income of which the Board receives 70% appeared quite ample to finance anticipated expenditures for some time to come, the Board has as a precautionary measure temporarily shelved some projects not yet put out to tender. Its 1957-58 budget provides for expenditures of ID 65 million - ID 20 million more than last year's actual outlays - and anticipates a deficit of ID 30 million to be defrayed by drawing on reserves. The original 6-year development program (1955-56 to 1960-61) had envisaged total expenditures of ID 101.5 million by this year, but it would have been impossible in any event to reach this target.

1/ ID 1 = $ 2.80

The ordinary budget, which receives 30% of all revenues, has meanwhile been assisted through an undertaking of the Iraq Petroleum Company to make an interest-free loan up to ID 25 million. This loan may be drawn to the extent that the budget's share of oil revenues falls below ID 6 million per quarter. In the current year the government is expected to draw ID 10 million of the loan.

Mounting government expenditures, together with a recovery of agricultural production from a low 1955 level and an expansion of industrial production in certain sectors, have created boom conditions in Iraq's economy. Money supply, including time deposits, rose by 16% in 1956; wholesale prices as well as cost of living increased 7%, continuing upward in the first months of 1957. Imports increased by 10%, but exports, other than oil, showed a decline mainly due to larger internal consumption. The gold and foreign exchange reserves of the Central Bank increased from $294 million at the end of 1955 to $353 million at the end of 1956, but dropped to $286 million in the first half of 1957.

IRAQ

	1953	1954	1955	1956	1957
POPULATION (million)	-	-	4.8	-	-
NATIONAL INCOME (ID million)	-	-	-	292.4	-
PRODUCTION (000 tons)					
Crude Oil	28,217	29,812	31,744	29,251	-
Wheat	762	1,160	453	776	-
Barley	1,111	1,239	757	1,016	-
Rice	163	180	83	111	-
Dates	371	365	421	300	-
PRICES (1953 = 100)					
Wholesale: Index	100	96	97	104	109 May
Cost of Living: Index	100	98	101	108	111 June
MONEY SUPPLY					
Currency in circulation (ID million)	-	40.5	43.1	49.0	-
Savings & Demand deposits	-	22.1	24.4	28.5	-
Time deposits	-	2.9	3.9	5.4	-
Money supply, including time deposits	-	65.5	71.4	82.9	-
ORDINARY BUDGET (ID million)					
Receipts 1/	47.7	52.2	63.4	61.7 3/	68.4 est
Expenditure	- 50.1	- 53.8	- 50.9	- 74.5 3/	-70.7 est
Balance	- 2.4	- 1.6	12.5	- 12.8	- 2.3 est
DEVELOPMENT BUDGET (ID million)					
Receipts 2/	35.28	40.73	60.75	50.77	35.63 3/
Expenditure	- 12.26	- 20.87	- 33.42	- 45.00	-65.00 3/
Loans disbursed	- 6.09	- 0.85	- 5.56	- 5.30	12.00 3/
Surplus	16.93	19.01	21.77	0.47	-41.37
BALANCE OF PAYMENTS (ID million)					
Oil revenue (net)	55.43	66.74	94.38	79.79	-
Exports	23.04	20.68	16.18	14.94	-
Imports	- 56.91	- 68.70	- 90.88	-104.70	-
Other (net)	0.23	4.63	0.83	20.44	-
Balance = increase in foreign assets & gold	21.79	23.35	20.51	10.47	-
TOTAL FOREIGN ASSETS (ID million)	83.2	102.7	122.7	133.8	-

1/ 30% of receipts from oil royalties are credited to the ordinary budget.

2/ 70% of receipts from oil royalties are credited to the development budget.

3/ Revised estimate.

SYRIA

The favorable development of some important elements in Syria's economy during the past year has, on balance, not been matched by a corresponding improvement in the country's general economic and financial position.

Agricultural production - contributing, on the average, some 45% to national income - reached a record level in 1956, after the bad crops of the preceding year; and crop prospects for the present year again are exceedingly good. Industrial production, probably profiting from the higher economic activity in the agriculture sector, also showed some increase. Consequently, exports and imports rose in comparison to 1955 although the changes remained comparatively small; both in 1955 and 1956 export earnings accounted for about 73% of import requirements, leaving a balance of trade deficit of LS 57 million1/. Presumably the export level would have been higher in 1956 had not some difficulties in marketing been encountered (apparently not yet completely overcome), partly as a result of political factors (e.g. the embargo on exports to France), partly due to a temporary interruption in trade during the Suez crisis. Soviet bloc countries took an increasing share of total exports: 1.7% in 1955; 9.4% in 1956 and 19.8% in the first quarter of 1957.

Increased oil transit revenues formed a further favorable factor during 1956; Government receipts from oil companies rose from $3 million in 1955 to $21.9 million in 1956 (inclusive of a retroactive adjustment of $8.2 million). Nevertheless, the balance of payment on current account over 1956 still showed a slight deficit that was, however, more than counter-balanced by official capital movements which included the use of the remaining $6 million out of a $10 million interest free loan that Syria had received from Saudi Arabia in 1955. Altogether, over 1956, Syria's foreign assets increased by some $11 million to $79 million.

Developments in public finance have been unfavorable. Largely as a result of a substantial increase in defense expenditure Syria's total fiscal operations led to a large deficit of about LS 65 million in 1956. This deficit, which was partly financed by borrowing from the Central Bank, was primarily responsible for a sharp increase in the country's money supply (18% during 1956), which in turn must be one of the important reasons for the substantial rise in cost of living (13% between December 1955 and May 1957). There are indications that the Syrian Government, aware of the grave inflationary dangers, is trying to follow a more conservative financial policy for the current year. The estimates for the ordinary budget of 1957 show some decline in expenditure as compared to the actual figures for 1956, mainly resulting from a reduction of defense expenditures by some LS 21 million. Besides, during the first five months of 1957, disbursements for development projects have been deliberately curbed to an amount of some LS 5 million per month, as against an average monthly level of about LS 9 million in 1956. Money supply has not substantially increased since the

1/ $1 = LS 3.58

end of last year, but this development may be mainly due to a considerable loss of foreign assets which dropped from $79 million in December 1956 to $56 million in April 1957.

Development expenditures are being allocated from a separate extraordinary budget for economic development which was approved by the Syrian Parliament in August 1955 and provides for expenditures of LS 686 million during a 6-year period. Through the end of 1956 LS 137 million had been actually disbursed under this budget, mainly for the Ghab Valley project and the extension of facilities at Latakia Port.

Under the recent agreement with Soviet Russia, Syria will be provided with necessary equipment and technical assistance for its further economic development. The credit extended by Russia is reported to be some LS 400 million and repayable on a long-term basis at an interest rate of 2½%. Technical details of the agreement, which has not yet been officially signed, are being worked out between the two partners. It is still too early to judge its probable effects on Syria's financial position in general and on the progress of its economic development in particular. The Russian aid reportedly would cover a broad field of projects including the building of the Yussef Pasha Dam, road and railway construction, industrialization and the completion of projects already underway, such as the Ghab Valley drainage scheme.

In August 1956 Syria's Central Bank officially started operations, taking over from the (private) Banque de Syrie et du Liban which, until then, had exercised the functions normally assigned to a central bank. The new system enables the monetary authorities to exert far better control over the supply of money and credit.

SYRIA

	1953	1954	1955	1956	1957	1956 I	1956 II	1956 III	1956 IV	1957 I	1957 II
POPULATION (Settled: million)			3.9								
NATIONAL INCOME (LS million)	1,600 1/	1,650	-	-	-	-	-	-	-	-	-
PRODUCTION											
Wheat (1000 metric tons)	870	965	438	1,051	1,270 1/	-	-	-	-	-	-
Barley(" " ")	472	635	137	462	620 1/	-	-	-	-	-	-
Cotton(" " ")	47	80	84	91	-	-	-	-	-	-	-
Cement(" " ")	-	249	246	326	-	-	-	-	-	-	-
Electricity(KWH million)	-	129	147	164	-	-	-	-	-	-	-
WHOLESALE PRICES (1953=100)	100	89	96	103	102 2/	105	104	99	103	106	97
Raw material	100	102	90	92	92 2/	94	95	92	85	90	96
COST OF LIVING	100	92	91	105	113 2/	102	100	104	115	115	111
MONEY AND CREDIT(LS million)	-	445	421	519	527	-	-	-	-	-	-
Notes and Coins (net: end of period)	-	335	316	410	417 3/	-	-	-	-	-	-
Private current deposits (net: end of period)	-	100	105	109	110 3/	-	-	-	-	-	-
ORDINARY BUDGET (LS million)											
Receipts	-	245	280	334	365 1/	-	-	-	-	-	-
Expenditure	-	-221	-249	-370	-365 1/	-	-	-	-	-	-
Balance	-	24	31	- 36	-	-	-	-	-	-	-
DEVELOPMENT EXPENDITURES	-	-	-	137 4/	25 5/						
BALANCE OF PAYMENTS (in US$ million)											
A. Goods and Services											
Imports (fob)	-	- 202.6	-209.4	- 214.7	-	-	-	-	-	-	-
Exports (cif including monetary gold)	-	167.5	152.1	158.1	-	-	-	-	-	-	-
Trade Balance	-	- 35.1	- 57.3	- 56.6	-	-	-	-	-	-	-
Receipts from Oil Cos.	-	11.2	18.3	37.4	-	-	-	-	-	-	-
Other services	-	- 7.2	4.7	6.3	-	-	-	-	-	-	-
B. Donations and Private Capital movements	-	10.3	28.1	2.9	-	-	-	-	-	-	-
C. Net errors and omissions	-	8.5	10.9	9.5	-	-	-	-	-	-	-
D. Total (A through C)	-	- 12.3	4.7	-0.5	-	-	-	-	-	-	-
OFFICIAL HOLDINGS OF GOLD AND FOREIGN ASSETS											
Held by the Central Bank (LS million; free rate; end of period)	151	161	163	228	178 3/	182	172	179	228	205	-
Held by Commercial Bank (LS million; free rate; end of period)	55	57	76	60	39 3/	42	55	51	60	50	-
TOTAL FOREIGN ASSETS	206	218	239	288	217	224	227	230	288	255	-

1/ Estimated
2/ 5 months
3/ April 1957
4/ Actual disbursements for August 1955 through December 1956
5/ Actual disbursements in first five months of 1957

JORDAN

Jordan's domestic economy has developed favorably since the end of 1955. Agricultural production was at a high level in 1956 due to favorable climatic conditions, and prospects for 1957 are also good. Industrial production, though small in itself, continued to expand, the principal increases occurring in phosphates and cement. As a result exports - to which agricultural products, including olive oil, contributed 62% and phosphates 16% - increased from JD3.6 million[1/] to JD5.2 million. Imports decreased from JD25 million to JD22 million. The deficit in the balance of trade consequently dropped by some JD5 million to a figure of JD16.7 million, which figure is reduced to JD12.6 million when net receipts from services and private donations are taken into account. Official donations and loans, amounting to JD16.75 million in 1956 of which over JD10 million from the U.K. and about JD5.5 million from UNRWA, more than bridged this gap. As a result, total foreign exchange assets increased by over JD4 million during 1956.

Foreign aid also contributed more than 50% to government income, thus allowing for a balanced budget for 1956/57 at a level of expenditure of just over JD20 million.

For the current year prospects remain good. With the abrogation of the Jordan-U.K. Treaty of Alliance the influx into Jordan of U.K. funds stopped (apart from a recent small development loan of £1.13 million payable in two equal instalments during this year and the next). Of the promised aid of JD12.5 million, which Egypt, Syria and Saudi Arabia undertook to provide with a view to replacing the British subsidy, only JD5 million has been received from Saudi Arabia. On the other hand, total U.S. commitments now amount to $30 million (JD10.7 million). As a result both the foreign exchange position and the budget position for 1957/58 seem strong even after allowing for some decline in UNRWA aid.

Expenditures of the Development Board, which will now coordinate all development projects, are expected to increase from JD1.5 million in 1956/57 to JD1.8 million in 1957/58. The major part of these funds will be used in equal parts for the improvement of facilities in the Aqaba Port and for the completion of the desert road to Aqaba. Other projects include the establishment of a petroleum refinery, the expansion of agricultural credit, further investment in phosphate production and the first stage of construction of the East Ghor Canal with a view to using Yarmouk water for irrigation on the East Bank of the Jordan River.

Although the money supply increased 16% in 1956 and continued to expand during the first part of 1957 there was no evidence of any substantial inflationary pressure in the country.

1/ JD1 = $2.80

JORDAN

	1953		1954		1955		1956		1957	
POPULATION (thousands)	-		1,402		1,447		1,480		1,500	
NATIONAL INCOME (JD million)	-		41.2		-		-		-	
PRODUCTION (000 tons)										
Wheat	99		233		79		242		200	est.
Barley	43		104		25		96		70	"
Olives	49		61		12		72		24	"
PRICE INDEX	June	Dec	June	Dec	June	Dec	June	Dec	March	
Wholesale	100	99	88	92	97	100	94	105	101	-
Retail	100	107	101	106	105	117	101	112	118	-
MONEY AND CREDIT (JD million)										
Net currency in circulation	8.52		10.61		11.11		14.52		14.53	Mar
Private current deposits	4.79		5.44		6.01		5.41		6.25	"
Total money supply	13.31		16.05		17.12		19.93		20.78	"
BUDGET (JD million)										
Receipts										
Domestic revenue	-		7.69		7.95		9.71		8.04	
Foreign grants	-		8.78		8.98		8.76		19.64	
Total	-		16.47		16.93		18.47		27.68	
Expenditures	-		16.56		17.61		20.16		26.53	
Balance 1/			- .09		- .68		-1.69		1.15	
BALANCE OF PAYMENTS (JD million)										
A. Trade deficit	-		-15.54		-21.69		-16.72		-	
B. Surplus on Services	-		2.66		4.39		2.43		-	
C. Private donations	-		1.65		1.66		1.66		-	
D. Miscellaneous capital 2/	-		1.14		0.70		0.33		-	
E. Net errors and omissions	-		0.16		0.57		- 0.31		-	
F. Total (A through F)	-		- 9.93		-14.37		-12.61		-	
G. Official donations and loans	-		13.92		16.72		16.75		-	
H. Official short-term assets (increase -)	-		- 3.99		-2.35		- 4.14		-	
FOREIGN ASSETS (JD million)										
Banks' foreign assets	-		5.86		8.55		9.14		8.60	Mar
Note issue cover	-		12.00		12.93		16.78		16.08	"
Total	-		17.86		21.48		25.92		24.68	"

1/ Exclusive of drawings on U.K. loans

2/ Release of balances in Israel and, for 1956, inflow of private capital (JD0.25 million)

LEBANON

Recent economic developments in Lebanon have not been particularly noteworthy. The outbreak of hostilities in the Middle East in November 1956 hardly interfered with the steady upward trend of the economy in this, relatively prosperous, little country. There were some withdrawals of foreign capital; the banks tightened their credit policies; transit trade and tourism slackened; and speculation led to some sharp price increases, that were almost immediately reversed. At the beginning of 1957 the situation was virtually normal again; even the capital influx, mainly from the oil-rich Arab countries, had been resumed.

Foreign trade continued to expand during 1956. Exports of Citrus - the most important export crop of the Lebanon - were some 15% higher than in 1955. The deficit on the balance of trade was again larger than the previous year, but apparently so were the receipts out of invisibles and emigrant remittances (recent balance of payments figures are not available). Official gold and foreign exchange reserves remained about constant over 1956 but increased considerably over the first half of 1957. The general government budget showed again a substantial surplus (LL 40 million1/).

Expenditures on development projects (usually financed out of the Reserve Fund to which the surpluses from the ordinary budget are allocated) are increasing. In the twelve years 1944-55 total capital expenditures of this kind amounted to LL 114 million, whereas in the year 1956 LL 21 million was spent for this purpose. Further economic development will undoubtedly be fostered by the comparatively large amount of American aid which the country is now receiving. U.S. commitments to the Lebanon under the Eisenhower Doctrine for the current year amount to $10 million. The unused balance of some $3 to 4 million of ICA funds carried over from 1956 (apart from about $2.5 million for technical assistance) further augment Lebanon's dollar balances available for development outlays. The American economic aid will help finance a variety of projects, including highway construction, public housing, rural water supply, extension of Beirut's International Airport and further electrification; some of these projects are already underway. American military aid to the Lebanon in 1957 reportedly amounts to $4.7 million.

Recently a new 5 year development program has been prepared providing for a total expenditure of LL 680 million ($230 million). It is estimated that of this total just over 50% can be met out of surpluses generated by the ordinary budget; the balance will mainly come from oil revenues (estimated at LL 150 million over the period in question), US aid and the IBRD Litani loan.

Execution of the Litani project is about to start. The first contract (for the construction of the Djezzine Tunnel) has been awarded. It is reported that the President of the Lebanese Republic will officially inaugurate the construction work toward the end of September.

1/ $1 = approximately LL 3.20 (free rate)

LEBANON

	1951	1952	1953	1954	1955	1956	1957	1956 I	1956 II	1956 III	1956 IV	1957 I	1957 II
POPULATION (thousands)	1,304	1,338	1,417	1,447	1,483	-	-	-	-	-	-	-	-
NATIONAL INCOME (LL million)	1,071	1,090	1,255	1,380	1,440	1,465	-	-	-	-	-	-	-
PRODUCTION													
Wheat (1000 m. tons)	-	-	55	76	86	88	96 1/	-	-	-	-	-	-
Cement (100 m. tons)	-	-	314	326	453	-	-	-	-	-	-	-	-
Electricity (KWH)	-	-	164	181	219	-	-	-	-	-	-	-	-
PRICES (1953 = 100)													
Wholesale	122	111	100	98	93	98	100 2/	99	98	98	97	101	-
Cost of living	107	107	100	95	97	102	109 3/	102	103	102	102	107	-
MONEY SUPPLY (LL million)	465	506	533	608	715	778	-	705	763	778	778	-	-
Currency (end of period)	212	205	209	246	271	338	332 3/	247	286	305	338	332	-
Demand deposits (end of period)	253	301	324	362	444	440	-	458	477	473	440	-	-
TIME DEPOSITS (LL million; end of period)	6	12	19	27	39	42	-	39	39	43	42	-	-
ORDINARY AND AUTONOMOUS BUDGET (LL million) 4/													
Receipts	-	161	163	157	178	193	170 5/	-	-	-	-	-	-
Expenditure	-	-127	-139	-111	-132	-153	-170 5/	-	-	-	-	-	-
Balance	-	34	24	46	46	40	-	-	-	-	-	-	-
BALANCE OF TRADE 6/													
Imports	-426	-440	-414	-559	-708	-763	-	-176	-198	-187	-203	-	-
Exports	90	78	86	92	108	130	-	35	26	30	29	-	-
Balance	-336	-362	-328	-467	-600	-633	-	-141	-172	-157	-174	-	-
GOLD AND FOREIGN EXCHANGE HOLDING (US$ million)	-	-	55	76	86	88	94 7/	86	87	86	88	94	96

1/ July 1957
2/ March 1957
3/ April 1957
4/ Actual results
5/ Estimated
6/ IFS figures (adjusted for exchange rate understatement); figures exclude, however, important unrecorded export transactions.
7/ June 1957

EGYPT

The deterioration in Egypt's economic position that started in 1955 continued through 1956. The trade deficit rose from $34 million in 1954 to approximately $172 million in 1955 and $126 million in 1956. Foreign exchange and gold reserves declined in 1956 by $83 million to $588 million,1/ while foreign liabilities increased considerably partly because no use could be made of Egyptian assets that were blocked abroad as a result of the nationalization of the Suez Canal. Communist China, Soviet Russia, Czechoslovakia and Saudi Arabia supplied Egypt with material and financial aid, mainly against future cotton exports; and in September 1956, Egypt borrowed $15 million from the IMF. The money supply increased substantially (11.5%), principally as a result of Government borrowing from the National Bank to cover the budget deficit. The cost of living showed a gradual upward trend, increasing by some 6% between the end of 1955 and April 1957. Wholesale prices rose 19% in the same period. Egypt's trade with the Soviet Bloc countries continued to increase. Exports to these countries rose from 14% of total exports in 1954 to 34% in 1956, and in the first 4 months of 1957 the total value of such exports was reported to have increased by more than 50% over the same period of last year.

The first half year of 1957 showed an improvement in the balance of trade to a surplus of approximately $18 million as compared to a deficit of about $30 million during the first half year of 1956. This development is mainly due to severe import restrictions; exports remained about constant. On April 24, 1957, the Suez Canal was reopened. On the basis of total canal dues paid in the first half of 1956, Egypt may be receiving from this source a gross foreign exchange revenue at an annual rate of about $100 million.

Despite the fact that Egypt borrowed another $15 million from the IMF in February 1957, Egypt's total, officially-published foreign exchange and gold holdings continued to decline by some $30 million between January 1 and August 15, 1957, whereas foreign liabilities increased by some $62 million. Part of the explanation for the decline may be that, in May 1957, Egypt transferred £ 15 million 2/ ($42 million) from its old sterling balances to the Sudan with the approval of the U.K. Treasury, following the dissolution of the monetary union between Egypt and the Sudan and the introduction in April 1957 of a new Sudanese currency at the rate of

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1/ The composition of foreign assets of all Banks in Egypt in £ million as of March 14, 1957, was as follows:

Sterling No. 1 (blocked as a result of Suez nationalization)	26.1
Sterling No. 2	80.7
Gold	65.6
U.S. dollars	24.3
Other currencies	12.6
	214.3

2/ £E 1 = $2.87.

£E 1 = £Sd. 1 [1/]. A complete analysis of the recent developments in Egypt's foreign exchange reserves cannot now be given for lack of knowledge about factors such as payments for the import of arms and repayments on special credits received in 1956. There are reports that Egypt has lately been building up a substantial foreign exchange balance (some $25 million) in Switzerland, mainly in Swiss Francs and convertible sterling. This might indicate a certain shift in the composition of Egypt's foreign exchange holdings and may also offer some explanation for the continued increase of foreign liabilities referred to above.

Although the ordinary budget for 1957-58 anticipates a surplus of $55 million, this would not be sufficient to cover the planned expenditure of the development budget of approximately $82 million. Further deficit financing at a time when the supply of goods may decline owing to import restrictions, might well increase inflationary pressures in the country. Money supply remained fairly constant as in the first half of 1957, but only because the effect of further government borrowing from the National Bank (the claims of the NBE on the Government increased by £E 17 million between December 1956 and July 1957) was largely counteracted by a further drop in net foreign exchange reserves.

In the field of economic development Egypt is continuing its efforts to promote further industrialization of the country. A new 5-year industrial development plan has been prepared by the Ministry of Industry calling for a total expenditure of approximately £E 250 million. It is difficult to see how such a large outlay can be financed, particularly since the government is still committed at the same time to proceed with the High Dam at Aswan and will also soon face the need to start on an expansion of the capacity of the Suez Canal.

The administrative set-up for economic planning has lately been reorganized. On January 13, 1957, two new bodies were created by presidential decision: (a) the Supreme Council for National Planning which is headed by the President of the Republic that will fix the economic and social targets of the country and approve the development plans, and (b) the National Planning Commission, headed by the Minister of Planning Affairs, that will prepare the development plans and look after their execution.

January 1957 also saw the creation of the "Economic Organization", a kind of super-holding company of the State which will take over government participation in joint stock companies and sequestered French and British business properties. Public enterprises can also be put under its control.

1/ Altogether, Egypt undertook to deposit to the credit of the Sudan up to £ 20 million; a further £ 5 million was to be released to the Sudan on satisfactory completion of the collection of Egyptian money in the country, estimated at about £E 25 million. The remainder of Egypt's net debt to the Sudan, if any, will be settled through a special account of the Sudanese Government with the National Bank of Egypt, to be used for payment of Egyptian goods and services imported by the Sudan.

The Egyptianization law, also of January 1957, provides that banks and insurance companies may only carry on their business if their capital is wholly owned by Egyptians. To comply with this law a maximum delay of 5 years is allowed. The law also applies to commercial representations and agencies, but with some important exceptions (travel agencies, air companies, representatives of companies undertaking public works in Egypt, etc.)

Egypt recently opened negotiations with the United Kingdom and France on the resumption of normal trade relations. The first discussion with the British held in Rome in early June showed a wide divergency of views between the two parties. Egypt insisted on immediate release of its blocked sterling assets and in addition demanded a large sum (reportedly £ 400 million) for "reparations". The United Kingdom on the other hand claimed a large amount (reported to be £ 140 million) as compensation for sequestered or nationalized British properties and funds. No immediate agreement was reached 1/ but on Egypt's invitation a small delegation of officials from the Bank of England and the Treasury visited Cairo in August for a preliminary reconnaissance of the sequestered assets. The French-Egyptian negotiations that started in the second half of August in Geneva have apparently encountered similar difficulties. It is expected that a French delegation may also shortly leave for Cairo for an on-the-spot investigation of the position of sequestered French properties which also represent a very substantial sum.

1/ However, some minor points, relating to the payment of pensions and of goods bought before July 1956, were settled.

E G Y P T

	1952	1953	1954	1955	1956	1956 I	1956 II	1956 III	1956 IV	1957 I	1957 II
POPULATION (millions)	21.5	22.0	22.5	22.9	23.4						
AGRICULTURAL PRODUCTION											
Index (1946-50 = 100)	106	98	110	109							
Cotton (million kantars)	9.9	7.1	7.8	7.4	7.2						
Wheat (million ardebs)	7.3	10.3	11.5	9.7	10.3						
INDUSTRIAL PRODUCTION											
Cotton yarn (1,000 tons)	56	59	64	73	75	20	17	18	20		
Cement (1,000 tons)	947	1,096	1,237	1,371	1,351	357	357	351	286		
Crude oil (1,000 tons)	2,383	2,268	1,972	2,019	1,828	473	504	583	268		
COTTON EXPORTS (£E million)	126	116	113	107	99	36	31	13	20	36	33
BALANCE OF PAYMENTS											
Current Account (£E million)											
Exports, f.o.b.	149	138	144	139	142	46	45	23	28	46	48
Imports, c.i.f.	-208	-167	-156	-199	-186	-52	-53	-50	-31	-43	-44
Trade balance	-59	-29	-12	-60	-44	-6	-8	-27	-3	3	4
Suez Canal dues	27	29	31	32	29	9	9	8	3	-	5
Other	-21	-8	-17	-14							
Surplus(+) or deficit(-)	-53	-8	2	-42							
GOLD & FOREIGN ASSETS											
NATIONAL BANK (£E million)	249	241	247	217	189	200	190	191	189	190	183
GOVERNMENT BUDGET (£E million)1/	Fiscal Accounts			Estimates							
Revenue	194	198	206	228	238						
Expenditures	233	208	200	228	238						
Balance	-39	-10	6	-	-						
Est. Capital expenditures	-	-	25	41	77 2/						
Overall deficit	-39	-10	-19	-41	-77						
GOVERNMENT DEBT (£E million)	173	173	174	219	321		271	296	321		310 3/
Debt to National Bank	57	55	46	87	150	97	105	126	150	164	162
GOVERNMENT DEPOSITS (£E million)											
National Bank	7.8	9.5	7.1	1.9	4.9	9.7	10.3	14.0	4.9	8.8	5.3
Other Banks	8.7	8.8	9.6	9.8	11.8	9.0	7.8	9.9	11.8	10.4	10.0 4/
	16.5	18.3	16.7	11.7	16.7	18.7	18.1	23.9	16.7	19.2	
MONEY SUPPLY (£E million)											
Currency circulation, net	206	189	187	185	227		176	195	227	228 5/	
Private deposits	201	210	231	249	259		241	243	259	255 5/	
	407	399	418	434	486		417	438	486	483	
PRICES (1953 = 100)											
Wholesale	105	100	97	99	110	102	112	109	115	121	119 6/
Cost of living	107	100	96	96	98	96	97	98	100	101	102 6/
Cotton	139	100	117	115	125	110	129	141	145	153	147

1/ Fiscal year ending June 30.
2/ Including expenditures of £E 23 million for services to be carried out by the Permanent Services Council.
3/ End of February.
4/ End of May.
5/ End of January.
6/ April only.

SUDAN

(Note: Since Sudan is a new member of the Bank, this number of Quarterly Review contains a brief description of the country)

Description of the Economy

The Sudan covers an immense plateau of 970,000 square miles in the northeast corner of Africa. It has a total population of 10,200,000 (1956 census). The White Nile flows through the country from south to north along a course of 2,140 miles and is joined by two main tributaries, the Blue Nile and the Atbara. North of Khartoum cultivation depends mainly on the Nile waters; for the rest of the country, rainfall usually allows light cultivation or grazing.

The Nile is of the greatest importance to Sudan. Apart from serving as a transportation link between the north and the south, its waters are indispensable to agriculture and thus to the life of the Sudan. Both the old established riparian cultivation and the irrigated fields of the Gezira (between the White and Blue Niles), as well as any further development of irrigation to feed and improve the standard of living of an expanding population depend on the Nile waters.

The Sudan is an agricultural and pastoral country. It has essentially a one-crop economy, with cotton and its products accounting for 60-80% of export earnings. Other crops such as millet (dura), sesame seeds, and groundnuts, as well as gum arabic, are cultivated both for domestic consumption and export. Industrial development is extremely limited, and consists mainly of the processing of agricultural products. There is, as yet, no cheap power, and no known mineral deposits of great importance. The transportation system is highly inadequate; the resulting high cost of hauling agricultural products over great distances is a limiting factor to development.

Recent Developments

Sudan's cotton crop in 1956/57, its first year after independence, is expected to be the highest ever recorded. Cotton production is estimated at 113,000 tons from an area of 765,000 acres, compared with 92,000 tons from 598,000 acres in the previous year. This is an increase of 23% in production, and a 28% increase in acreage.

Sudan's external financial position is strong. In 1956 it had an export surplus of £E 24 million, and a balance of payments surplus of £E 18 million on current account, both the largest since 1951. As a result, Sudan's foreign exchange position improved substantially; its foreign exchange holdings rose by £ 16 million to £ 44 million.

An independent currency was instituted in April 1957, with Sudanese pounds replacing at par an estimated 25 million Egyptian pounds which were circulating in Sudan. At the end of May 1957, Egyptian currency notes

withdrawn from circulation totaled £E 14 million. A Currency Act provides that half of the cover of Sudanese pounds shall be in sterling and the other half in Sudan Treasury bills. The Parliament has recently authorized the Government to issue Treasury bills up to £S 15 million for the note cover. A Sudan Currency Board has been set up pending eventual establishment of a central bank.

A financial agreement was concluded between Sudan and Egypt in April 1957 concerning the redemption of the Egyptian currency. Under this agreement Egypt will pay Sudan up to £ 20 million in sterling from Egypt's sterling balances held in U.K. for Egyptian currency withdrawn from Sudan.[1/] If Egypt's net debt to Sudan exceeds £ 20 million, the balance will be credited to Sudan in Sudanese pounds in a special account with the National Bank of Egypt at 2% interest, and Sudan will use this balance at a rate not exceeding £S 2 million annually to pay for Egyptian goods and services purchased by Sudan, including annual imports of 40,000 tons of sugar and transfer of funds on account of Egyptian capital invested in Sudan.

The internal financial situation is stable. The Central Government budget estimates for the current fiscal year 1957/58 foresee a surplus of £S 5 million, compared with an estimated surplus of £S 7 million in 1956/57. Aside from this ordinary government budget there is a development budget, a budget for the Sudan Railways, and budgets for other autonomous Government agencies.

Development budget outlays, financed mainly from ordinary government surpluses, have been spent in accordance with two development programs. The first 5-year (1946-51) program provided for projects which have been almost completed at a cost of £E 14.6 million. The second 5-year (1951-56) program, costing an estimated £S 48 million, has not yet been fully carried out although some £S 42 million had been spent by mid-1957. A new 5-year program is under discussion, which may call for total expenditure of £S 120 million, with £S 80 million to be financed by borrowing. The major projects of this program include: (a) the Managil extension which will bring about additional 800,000 acres under irrigation; (b) construction of the Roseires Dam on the Blue Nile; (c) the establishment of an agricultural credit Bank; (d) a highway development program; and (e) further development of the southern provinces. Contracts in an amount of £10 million have already been awarded for a sugar scheme in the south and for the first phase of the Managil Extension.

Sudan has no internal debt, and its external debt is small, amounting to £8.6 million at the end of 1956. Of this sum, £4.2 million was the outstanding amount of an Egyptian loan, which is to be entirely repaid in 1957.

1/ Hitherto £15 million have been released to the Sudan, with the approval of the U.K. Treasury.

SUDAN

	1951	1952	1953	1954	1955	1956	1957
POPULATION (million)						10.2	
COTTON							
Acreage (1,000 acres)	539	571	616	652	685	598	765
Production (1,000 tons)	90	54	80	83	84	92	113
Exports (£E million) 1/	46	29	27	22	30	42	
BUDGET (£E million) 2/	Results		Estimates				
Revenue	42 3/	46	29	29	36	36	42
Expenditures	24 3/	22	25	27	32	34	35
Budget surplus	18 3/	24	4	2	4	2	7
BALANCE OF PAYMENTS, Current account (£E million)							
Exports, f.o.b. 4/	80	47	45	46	56	72	
Imports, c.i.f. 4/	-42	-60	-47	-49	-51	-48	
Trade balance	38	-13	- 2	- 3	5	24	
Invisibles & private donations (Net)	- 1	- 1	- 5	- 5	- 9	- 6	
Surplus or deficit(-)	37	-14	- 7	- 8	- 4	18	
WHOLESALE PRICES(1953=100)	124	131	100	135	131	136 5/	
COST OF LIVING INDEX (1950=100) 6/	126	118	129	129	135		

1/ 1951-52: FAS values; 1953-56: FOB values. Approximately FOB values are 10% higher than FAS values.

2/ Ordinary budget of Central Government only; year ending June 30.

3/ 18 months (January 1, 1950 - June 30, 1951)

4/ Based on the exchange record, plus trade with Egypt taken from trade returns, plus estimated exports of live camels to Egypt, since the exchange record does not cover trade with Egypt.

5/ Average of first three quarters only.

6/ December only.

ETHIOPIA

Despite a slight decline in export earnings in 1956 the economic situation has remained stable. During 1956, the balance of payments on current account showed a small deficit of Eth.$ 4 million, which was more than offset by capital receipts; foreign exchange holdings of the State Bank rose by Eth.$ 5 million.

Prospects for 1957 are good, with an unusually large coffee crop expected to permit record coffee exports of 50-60,000 tons. In the first half of 1957, the main export season, foreign exchange holdings of the State Bank were up by Eth.$ 25.4 million, compared with an increase of only Eth.$ 11.5 million for the same period in 1956.

The internal financial position is stable. While the budget estimates for the current fiscal year 1956/57 foresee a deficit of Eth.$ 13 million mainly because of a proposed repayment to the U.S. of the Lend-Lease silver loan of Eth.$ 12 million, the Government's position with the State Bank improved considerably during the first half of 1957; its net balance with the State Bank increased by Eth.$ 13 million, as against a rise of only Eth.$ 2 million for the same period in 1956.

Mainly because of the export season, money supply in the first half of 1957 rose by Eth.$ 18 million or 11%. This compares with a rise by Eth.$ 13 million or 8% during the first half of 1956. Prices in general remained stable.

E T H I O P I A

	1951	1952	1953	1954	1955	1956	1956 I	1956 II	1956 III	1956 IV	1957 I	1957 II
POPULATION	About 15 million (no census has ever been taken)											
BUDGET (Eth.$ millions)1/	Results				Estimates							
Revenue	77	84	108	132	115	115						
Expenditures	98	84	85	106	129	130						
Surplus or deficit (-)	-21	0	23	26	-14	-15						
GOVT. DEPOSITS AT STATE BANK (Eth.$ millions)	22	31	65	81	66	93	93	94	96	93	98	106
GOVT. DEBT (Eth.$ millions)												
Internal	36	52	70	68	63	98		89		98	97	98
External	20	30	24	26	31	31		31		31		
	56	82	94	94	94	129		120		129		
MONEY SUPPLY (Eth.$ millions)												
Currency circulation	87	93	110	118	128	134	142	138	132	134	160	149
Demand Deposits	19	27	31	27	30	35	30	33	37	35	40	38
Total	106	120	141	145	158	169	172	171	169	169	200	187
PRIVATE CREDIT (Eth.$ millions)												
State Bank 2/	14	17	22	21	18	28				28	42	42
Development Bank	1	4	5	7	7	8				8		
	15	21	27	28	25	36				36		
PRICES (Indexes of wholesale prices, Addis Ababa, 1951 = 100)												
Coffee	100	108	97	133	89	111	107	109			106	100
General exports	100	85	77	91	73	83	80	83			79	77
General imports	100	94	79	76	76	75	72	74			78	78
BALANCE OF PAYMENTS, current account (Eth.$ millions)												
Exports, f.o.b.	125	115	178	167	168	157		92				
Imports, f.o.b.	-87	-99	-120	-140	-148	137		-77				
Trade balance	38	16	58	27	20	20		15				
Invisibles	-26	-20	-26	-19	-27	-24		-12				
Surplus or deficit (-)	12	-4	32	8	-7	-4		3				
COFFEE EXPORTS, f.o.b. (Eth.$ millions)	63	50	100	99	91	80						
GOLD, SILVER, & FOREIGN EXCHANGE HOLDINGS OF STATE BANK												
(Eth.$ millions)	63	72	113	139	151	156	163	163	160	156	189	181
(US.$ millions equivalent)	(25)	(29)	(45)	(56)	(60)	(62)	(65)	(65)	(64)	(62)	(75)	(72)

1/ Fiscal year ending September 10.
2/ The private credit from the State Bank includes loans and advances, bills purchased, customers liabilities on letters of credit, and accounts receivable.

August 31, 1957