PROBLEMS OF CURRENCY UNIFICATION
IN THE
UNITED ARAB REPUBLIC

GEORGE T. YAKUB

Submitted in partial fulfilment for the requirements
of the degree of Master of Arts
in the Department of Economics of the
American University of Beirut

Beirut, Lebanon

June, 1961.

U.A.R. CURRENCY UNIFICATION

YAKUB

PREFACE

Monetary unification has been a major preoccupation of the citizens as well as the central government of the United Arab Republic since the very early days of the Syrio-Egyptian merger in 1958. The short period of time during which the new Arab Republic was formed did not permit the economic realization of the country's economic and monetary unification along with the political unification. Several obstacles had to be overcome before such a task could be successfully accomplished.

This study contains an analysis of the most important problems involved in the unification of U.A.R.'s currencies, and a review of the various steps that have been taken, so far, towards the economic integration of the Syrian and Egyptian Region, and consequently the creation of a common currency for the entire U.A.R. It should be noted in this respect that most of these problems stemmed out from the different economic features and divergent economic systems and policies adopted separately by each of Syria and Egypt.

The first chapter gives a bird's eye-view of the political merger of Syria and Egypt and then proceeds to compare the basic economic features of each. The following two chapters include a comparative analysis of the monetary and exchange systems of both Regions. Interest here centers on pointing out the differences between the monetary and exchange systems of Syria and Egypt, with particular reference to what has been done since 1958 to assimilate these systems.

The fourth chapter begins with an introductory section about the importance of money in the economic system, and a short analysis of the various factors affecting the value of a national currency. Such a theoretical review was found necessary for appreciating the various prerequisites of currency unification in the U.A.R., and for evaluating the steps that have been taken so far to solve some of the problems involved . Chapter V, however, deals with the remaining two problems namely, those of finding the equilibrium rate of exchange between the new U.A.R. currency and the Syrian and Egyptian pounds on one hand, and between the first and other foreign currencies on the other. The last chapter includes a summary of the findings of this study, as well as a few recommendations concerning additional preliminary steps that should be undertaken before the creation of the new U.A.R. currency is realized.

It was Professor Paul J. Klat who put into my mind the seeds from which this study grew. He suggested the subject in October 1959, and throughout a rather long period guided me patiently towards its completion. For his encouraging help and valuable advice I can only offer my humble thanks and deep gratitude.

I am also grateful to Mr. Asad Y. Nasr, Executive Assistant Managing Director of Middle East Airlines for providing me with the opportunity to proceed with my academic work while holding a position at M.E.A.'s Planning and Economics Department.

My thanks are also due to Miss Samia Geadah who typed the manuscript, and to Miss Myra Khoury and Mr. Khaled Shbaro who were kind enough to proofread it.

Beirut, June 1961. G. T. Y.

ABSTRACT

The unification of Syria and Egypt into a single state under the title of the United Arab Republic in February 1958 was an act of great political significance. However, in their economic dealings each Region remained as an independent and separate entity. It was officially conceded that the economic unification involved several problems which had to be solved during a transitory period of five years. The integration of two separate and different economic systems with divergent policies could not be accomplished as quickly as the political merger of the two Arab states of Syria and Egypt, without impairing the economic interests of both parties concerned or at least either one of them.

The monetary question poses the most difficult and critical problem, due to the important role played by money in the economic system, and because of its multiple incidence on all levels of economic activities. Thus, it is of utmost necessity to guarantee all indispensible conditions required for the success and preservation of U.A.R.'s monetary unification.

The main objective of this study is to investigate the nature of the problems of currency unification in the U.A.R., and to discuss the necessary conditions required for the creation of a sound new currency for the U.A.R., bearing in mind the safeguarding of the economic welfare and development of both of the parties concerned. My basic thesis,

therefore, centers around the assumption that currency unification should be the end result of the process of integrating the economic systems of the two U.A.R. Regions, and that it should not be effected unless all precautions are taken to ensure its success, and to eliminate any adverse effects that it might have on the economic interests of the entire country.

The problems of currency unification in the U.A.R. could be divided into two major groups, namely, institutional and legislative problems and pure economic problems. However, it should be noted in this respect that the first group could result in serious economic repercussions and is thus as important as the latter.

The institutional and legislative problems were mainly due to the differences that existed in the monetary and exchange systems of Syria and Egypt when they united to form a single political entity in 1958. The economic characteristic of each as well as the conditions which accompanied the development of their economic systems were the major causes of these differences. In addition to these institutional differences both Regions have their own distinct economic policies which were in certain aspects divergent and sometimes even contradictory. However, since the date of their political unification, several important steps have been taken, by the Central Government, towards integrating the monetary and exchange systems of the Syrian and Egyptian Regions and now they have become almost identical. Moreover, at this stage the unification of customs law and tarrifs as well as the promulgation of common fiscal and social legislations, with particular reference to what affects the levels of prices of costs of production, should not pose any great difficulties.

The economic problems of currency unification in the U.A.R. on the other hand stem out from the difficulty of finding out the equilibrium rate of exchange between the Syrian and Egyptian currencies. To avoid contractive or inflationary pressures in the entire country or in either of the two Regions, and in order not to impair their economic welfare, the rate of exchange between the new U.A.R. currency and the existing ones should be fixed at a level which reflects the real respective values of the latter. Moreover, to safeguard the balances of payments and trade positions of the U.A.R., the rate of exchange of the new currency vis-à-vis foreign currencies should also reflect the real external values of both the Syrian and Egyptian currencies. However, the authorities concerned might consider the overvaluation of the exchange rate of the new currency in relation to the Syrian pound and the adoption of a multiple exchange rates system to the entire U.A.R.

Under existing conditions, where both U.A.R. Regions employ stringent exchange control systems, and where multiple exchange rates for the Egyptian pound are employed not only in as far as third countries are concerned but also for purposes of inter-Regional trade, it would be rather difficult to determine the equilibrium exchange rate between the Syrian and Egyptian pounds. Therefore, it would be difficult to fix an exchange rate between the two existing currencies and the new one, as well as between the latter and other foreign currencies, which reflects the real external and internal values of the first. However, such a task is not impossible provided that both Regions be made into a common market and the exchange rate between the two Regional currencies be fixed in accordance with the free interplay of forces of supply of and demand for one currency in terms of the other. During this transitory period the equilibrium rate of exchange should be stabilized at such a level which will equilibrate the balance of payments between the two U.A.R. Regions.

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CHAPTER I.

INTRODUCTION

A. THE SYRIO-EGYPTIAN MERGER

Since 1955, Syria and Egypt were becoming oriented along the same political lines to an ever greater extent. In 1956, discussions were held over the project of a federal union between the two countries, but the matter was later relegated to a joint committee and eventually set aside. A year later, negotiations between the governments of Syria and Egypt were renewed in Cairo and in November 1957 the Syrian Parliament, after conferring with a delegation from the Egyptian National Assembly, passed a resolution recommending the union of both states. A similar resolution was passed in Cairo by the Egyptian Legislature shortly thereafter.

On the first day of February 1958, it was announced that the two independent Republics of Syria and Egypt would unite to constitute one state under the title of "The United Arab Republic" (hereafter referred to as U.A.R). The union was officially approved by the legislatures of both states on February 5th of that year and two weeks later was finally confirmed by a plebiscite held in Syria and Egypt.

The new "Republic" adopted the "Presidential System of Government"; the executive power being vested in the President assisted by four Vice-Presidents, a Central Council of Ministers and two Regional Executive Councils each headed by a presidential appointee. Legislative power is vested in the National Assembly having a membership of four hundred, in the ratio of one member from the Syrian Region to three from the Egyptian. A "provisional constitution" was promulgated on March 5th, 1958, and eventually the political and administrative organization of the U.A.R. was established.

So far, effective unification of Syria and Egypt has been only political. In their economic and financial dealings the two "Regions" are still virtually separate entities. The short period of time during which the union of Syria and Egypt was realized made it impossible for the competent authorities concerned, to complete the integration of two separate and different economies along with their political unification even if such was their intention. Moreover, it is worth noting in this respect, that the motives initiating the Syrio-Egyptian union were of purely political nature, and thus economic unification was considered - at least during the initial period - of secondary importance.

When they united, each of Syria and Egypt had its own distinctive economic features and each had developed different monetary, fiscal and commercial systems and policies.

B. U.A.R.'s ECONOMIC FRAMEWORK

1. Physical Features:

The U.A.R. consists of two territories namely, the Egyptian and Syrian Regions, which are not contiguous being separated by Jordan and Israel. The Egyptian Region occupies the North-Eastern corner of Africa, and the Syrian Region falls in the Western part of Asia. So, while its Northern boundaries fall within the temperate zone, its Southern ends extend into the tropical zones, resulting in a large variety of surface, climate and crop. However, both Regions are located in the "Arid desert belt" extending from the Atlantic shores in the West to the Pacific shores in the East, and thus, population is condensed in dispersed areas where water resources are available and abundant.

As a bridge between three continents, the U.A.R. enjoys an important strategic geographical position, and, in both of its Regions constitutes an important trade route to Eastern Asia and Central Africa. Syria falls at the starting point of an important land route beginning at the Western shores of the Mediterranean and extending, Eastward to the midst of Asia, or South Eastward to the Arabian Gulf. On the other hand, Egypt is an important entrance to the inlands of Africa through the Nile, and also controls the most important sea-route between Europe and Eastern Asia through the Suez Canal.

2. Area And Population:

The total area of U.A.R. is about 458,000 square miles of which the Egyptian Region occupies 386,000 sq. miles and the Syrian Region 72,000 sq. miles. Of Egypt's total area, only around 13,500 sq. miles is settled and cultivated, the rest being uninhabitable desert. Syria has a more abundant land resource, nearly 24,000 sq. miles of arable land, of which at present less than half is under cultivation.

Total population of U.A.R. has been lately estimated at 30.6 million of whom 26.1 million inhabit the Egyptian Region compared to 4.5 million in the Syrian Region.[1] The yearly rate of population increase in Syria is estimated at over two percent compared to two and a half percent in Egypt.

Due to its limited area of arable land and the relatively high absolute increase in population year after year, Egypt is among the most densely populated places in the World. Syria, on the other hand, could be considered as an underpopulated country, having still around 14,000 sq. miles of arable land not yet utilized. The density of population per square kilometer of arable land in Egypt, is 360 compared to 36 only in Syria.[2] Moreover, 65 percent of the Syrian population live in the countryside compared to 80 percent in Egypt. Thus, it can be seen that the

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1. These are results of the "Population Census" held in September 1960, and officially announced by the Central Ministry of Planning, see: Al-Ra'ieh Al-A'am, Daily Newspaper, (Damascus: September 23, 1960), p.1.

2. Mouhamad L. Shoukeir, "Les Aspects Economique De L'Union Syrio-Egyptien", <u>L'Economie Et Les Finances De La Syrie Et Des Pays Arabes,</u> (Damascus: June, 1958), p.26.

population pressure on land resources is much greater in Egypt than in Syria and consequently pauses one of the main problems in its economic development.

3. National Income:

The national income estimates of the Syrian and Egyptian Regions might give quite a good picture of their respective economic structures. In 1959, Syria's national income was estimated at L.S. 2266 million while that of Egypt was estimated at L.E. 1282 million[1] (see Table I). According to available figures the average annual rate of increase in the national income of Syria has been estimated at five percent compared to seven percent for that of Egypt.[2]

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1. The official rate of the Egyptian Pound in terms of U.S. Dollars is L.E. 1 = U.S. $ 2.816 while the official rate of the Syrian Pound in terms of U.S. Dollars is U.S. $ 1 = L.S. 3.58.

2. U.A.R. Department of Information; Al-Thawra Fi Thamani Sanawat, (Cairo: Government Press, 1960), pp. 181 and 360.

TABLE I.

SYRIAN & EGYPTIAN REGIONS

NATIONAL INCOME ESTIMATES

1959

Economic Sector	SYRIAN REGION		EGYPTIAN REGION	
	L.S. Million	Percent	L.E. Million	Percent
Agriculture	728	32	400	31
Industry	339	15	273	21
Construction	77	3	52	4
Rent	167	7	73	6
Commerce & Finance	365	16	127	10
Transport & Communications	130	6	97	8
Government	250	11	160	12
Others	210	10	100	8
T o t a l	2266	100	1282	100

Source: U.A.R. - Syrian Region - Ministry of Planning, Statistique Annuaire, 1959, (Damascus: Government Press, 1960), p.36 and U.A.R. Department of Information, Statistical Yearbook, 1960, (Cairo: Government Press, 1960), p.27.

The agricultural sector has accounted for over one third of the respective national incomes of each Region. However, due to the fluctuations in the prices of agricultural products from year to year, the income from this sector tends to be rather unstable, which consequently, is reflected on the volumes of national income. In the case of the Syrian Region inability in income levels from the agricultural sector is due - to a greater extent - to fluctuations in the volume of agricultural produce, depending on the volume of rainfall.

Income from industry is relatively more stable, and in 1959, accounted for 21% of Egypt's national income compared to 15% of Syria's. Commerce and finance, while contributing 16% of Syria's total income, contributed 10% of Egypt's. The other sectors have accounted, more or less, to equal portions of the respective total incomes of Syria and Egypt.

Though not much is known about the distribution of national income in each of the two regions of U.A.R., however, it is bound to be unevenly distributed, due to the smallness of the middle class, but to a greater extent in Egypt. Moreover, there is also considerable inequality of income levels between the Urban areas, on one hand, and the countryside, on the other. Per capita income in Egypt has been estimated at L.E. 49 against L.S. 527 in Syria during 1959, and the annual rate of increase has been 3% and 2% respectively.[1]

Generally speaking, it can be said that the standard of living is relatively higher in Syria than in Egypt. Not only is the per capita income in Syria greater than that in Egypt, but so are also, the degree of urbanization and the level of per capita

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1. Ibid., pp.182 and 363.

consumption.[1] Although, according to the overall development plan of the U.A.R., national income in each region is estimated to increase by 40% over the 1959 level, the relatively greater increase in the Egyptian Region's population will tend to keep its per capita income at a lower level than that of Syria.[2]

4. Foreign Trade:

The U.A.R. is essentially an exporter of primary agricultural products, with the proceeds of which it finances a large part of its imports whether in consumer's or capital goods. Cotton alone in 1959 represented over 78% of the total exports of the Egyptian Region and 50% of the total exports of the Syrian Region (see Tables II and III). Thus, the international prices of agricultural products and the total output determine, to a great extent, the international trade position of the U.A.R.

The main articles of exports in Syria are cereals, cotton as well as fruits and vegetables (see Table II). Owing to unfavourable climatic conditions in Syria - during the past three years - the value of cereals exports has dropped from L.S.143.8 million in 1957 to only L.S.1.8 million in 1959. Though the

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1. Hanna Khoury, "A propos de L'Unification Monetaire Entre Les Deux Provinces De La R.A.U." L'Economie Et Les Finances De La Syrie Et Des Pays Arabes, I, (Damascus: June, 1958), p.67.

2. N.B.E., Economic Bulletin, XIII, No.2 (Cairo: N.B.E. Press, 1960), p.80f.

quantity of cotton exported inreased by 9100 tons over 1957, the proceeds have fallen from L.S.196.9 million in 1957 to L.S.177.1 million in 1959 due to a drop in the international prices of cotton. The export value of vegetables and fruits has also dropped by L.S.1.3 million below the 1958 level and has been around L.S. 24 million lower than the level attained in 1957.

TABLE II.

SYRIAN REGION'S MAIN EXPORTS

1957 - 1959

Main Items Of Export	VALUE (L.S. MILLION) 1957	1958	1959
Cotton (raw yarn & textile)	196.9	178.1	177.1
Other textile goods	72.5	63.1	66.1
Cereals	143.8	62.1	1.8
Vegetables, fruits & others	53.1	30.5	29.2
Precious metals	7.1	7.6	9.4
Live Animals	24.2	11.9	17.0
Preserved Food, tobacco & drinks	13.0	13.4	13.3
Dairy Products	14.9	12.4	4.8
Others	22.5	40.9	37.5
Total	548.0	420.0	356.2

Source: Syrian Region, Summary Of Foreign Trade, (Damascus: Government Press, 1957, 1958, 1959).

Imports in 1959 reached L.S.636.7 million of which the main articles were base metal and manufacture, machinery, pharmaceutical and chemical products, mineral fuel and oil, means of transport as well as silk and other textiles.

The adverse trade balance was reduced by quantitative import controls in 1959 to L.S.280.5 million compared to L.S. 309.6 million in 1958, but was still much higher than the L.S. 68 million attained in 1957 as shown in the table below.

TABLE III.

SYRIAN REGION'S FOREIGN TRADE

1954 - 1959

Year	VALUE (L.S. MILLION)		
	Exports	Imports	Balance
1954	465.7	633.8	- 168.1
1955	473.5	676.9	- 203.4
1956	515.9	690.0	- 174.1
1957	548.0	616.0	- 68.0
1958	420.0	729.6	- 309.6
1959	356.2	636.7	- 280.5

Source: Syrian Region, Statistical Abstracts, 1959, (Damascus: Government Press, 1960), p.175.

From 1952 up till 1957 both imports and exports have continued to expand. The quantum index of export increased from 100% in 1952 to about 183% in 1956 while the quantum index of prices dropped by 9%. The quantum index of imports, however, increased by 54%, with prices stable during that period.[1] The

1. N.B.E., Economic Bulletin, XI, No.1, (Cairo: 1958), p.19.

drop in the volume of exports in 1955 was due to the failure of the wheat crop during that year.

Cotton is the main export of the Egyptian Region followed by onions and rice. The value of cotton exports in 1959 marked a very slight increase over the 1958 level despite the fact that the quantity exported had increased by some 800,000 cantars. This has been due to a fall in the prices of cotton during 1959. Proceeds from exports of cotton yarn also decreased in 1959 compared to the previous year mainly due to a decline in the average prices as well as the quantity exported. The value of onion exports have increased in 1959 due to an increase in the quantity exported. Due to the failure of the rice crop in 1958/1959 the government restricted the quantity exported and thus the export proceeds fell considerably compared to 1958 and 1957 (see Table IV).

TABLE IV.

EGYPTIAN REGION'S MAIN EXPORTS

1957 - 1959

Items Of Export	VALUE (L.E. MILLION) 1957	1958	1959
Cotton (raw)	124.2	109.9	110.2
Cotton (yarn)	5.8	7.1	5.9
Cotton piece	3.6	4.3	4.7
Onion	3.4	4.0	4.6
Rice	11.7	13.5	1.1
Crude Oil	-	4.0	3.5
Artificial Silk	2.3	1.4	1.6
Others	20.6	21.5	24.3
T o t a l	171.6	163.8	154.3

Source: Egyptian Region, Department of Statistics, Annual Statement Of Foreign Trade, (Cairo: Government Press, 1960), p.603.

The value of wheat and wheat flour accounted for about 13% of total imports in 1959. Other important imports were capital goods, iron and steel wares, food-stuffs, fertilizers and timber.

Since 1940 Egypt has been having continuous deficits in its trade balance. The year 1939 was the last year in its recent economic history whence the excess export value amounted to L.E. 0.7 million. The rising deficit since 1954 has been mainly due to increased imports of capital goods, military equipment and foodstuffs accompanied by a lower level of exports.[1]

In 1959 imports declined by L.E. 24 million below the level achieved in the previous year. But exports too registered a decline of L.E. 9.5 million. However, with imports falling more than exports, the deficit in the trade balance was reduced by L.E. 14.3 million (see Table V). The decline in export as well as import prices continued in 1959. But the fall in import prices was higher than the decline in export prices. Thus, the terms of trade were slightly improved over 1958. This, coupled with an increase in the volume of exports, resulted in improving the import capacity of exports by around six percent in 1959.[2]

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1. Henry Tadros: "Recent Developments in Egypt's Balance of Payments", Middle East Economic Papers, 1957, (Beirut: Economic Research Institute, A.U.B., 1957).

2. Import Capacity of Export - Quantum of Exports X Terms of Trade, (1938 = 100) - increased from 139.0 in 1958 to 147.5 in 1959. See: N.B.E., Economic Bulletin, XIII, No.2, p.129.

TABLE V.

EGYPTIAN REGION'S FOREIGN TRADE

1955 - 1959

Year	VALUE (L.E. MILLION) Imports	Exports	Balance
1955	183.2	138.4	- 44.8
1956	186.0	142.3	- 43.7
1957	182.6	171.6	- 11.0
1958	238.2	163.8	- 74.4
1959	214.4	154.3	- 60.1

Source: N.B.E. Economic Bulletin, XIII, No. 2, p.129.

5. Balance of Payments:

Though the Egyptian balance of payments estimates have shown persistant deficits during the post World War II period, the balance of payments estimates of Syria have been more favourable in the sense that in certain years they have shown considerable surpluses. As a matter of fact, Syria achieved continuous surpluses in its balance of payments from 1953 up till 1956.[1] Egypt, on the other hand, has been incurring persistent deficits, except in 1954, when due to a rise in world cotton prices, an increase in export proceeds accompanied by a fall in the level of imports

1. Hussein K. Mustafa, Al-Nakd Wal-Tijarah Al-Kharijia Fi Al-Jumhiriah Al-Arabia, (Cairo: Commercial Library, 1959), p.144.

resulted in a surplus of L.E. 3.3 million.[1] These deficits have been met mainly by the reductions in Egypt's Sterling balances which amounted to around L.E. 400 million after the Second World War.[2]

One feature of Egypt's balance of payments in recent years has been the large deficit in its trade balance partly offset by surpluses resulting from invisible current transactions. The trade deficit in 1957 amounted to L.E. 51.5 million compared to a surplus of L.E. 20.3 million from invisibles, while in 1958 trade deficit increased to L.E. 53 million accompanied by an increase in the surplus from invisibles to L.E. 32.9 million. During 1959, slightly less than half of the trade deficit amounting to L.E. 71 million was offset by a surplus of L.E. 35 million achieved from invisible current transactions. Another feature is the tendency of payments for imports to increase and proceeds from exports to remain more or less rigid.

The most important item under invisible receipts are the Suez Canal dues which amounted to over 44% of the total invisible receipts in 1959 compared to 34% in 1955. Invisible payments have risen in the last few years despite the fact that considerable

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1. N.B.E. Economic Bulletin, IX, No.2, (Cairo: 1956), p.133.

2. Charles Isawi, Egypt At Mid Century, (London: Oxford University Press, 1954), p.204.

savings in foreign exchange disbursement were achieved, as a result of the Suez Canal nationalization and the restriction of travel. The increases were mainly due to a rise in government expenditure which amounted to L.E. 27.9 million compared to L.E. 9.4 in 1954 and L.E. 16.9 in 1957. (see Table VI).

Export proceeds in 1959 increased by L.E. 3.3 million over the level of 1958 but were L.E. 1.7 million less than those of 1957. Payments for imports which were reduced in 1958, compared to the previous year, marked an increase of about 10% in 1959. Thus, the overall deficit in the trade balance amounted to L.E. 71 million in 1959 compared to L.E. 53 million in the preceding year. The deficit on current account during 1959 increased by L.E. 15.9 million over 1958, but was partly offset by capital inflow mainly from counterpart funds in Egyptian pounds accumulating from wheat imported from the United States under the Agricultural Commodity Agreement.

The Syrian balance of payments estimates have shown large deficits since 1958 mainly due to unfavourable climatic conditions which resulted in the failure of agricultural crops, and consequently reduced the exports of Syria considerably.[1] In the meantime, payments for imports have been going up since 1954. The trade deficit increased from L.S. 78.9 million in 1957 to L.S.254.6

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1. Value of Cereals Exports dropped from L.S.143.8 million in 1957 to L.S. 62.1 million in 1958 and L.S. 1.8 million in 1959, (see Table II).

million in 1958, and L.S. 225.5 million in 1959.

Proceeds from invisibles have marked a considerable improvement since 1957 followed by a decline in payments for invisibles. As a result a surplus of L.S. 165.5 million was achieved from current invisible transactions compared to L.S. 140.5 million in 1958 and L.S. 68.9 million in 1957. The main contribution to proceeds from invisible current transactions has been the expenditures and royalties of oil companies which amounted to L.S.113.5 million in 1959. Proceeds from transit trade also improved by L.S. 13 million in 1959 over the previous years, while those from tourism dropped by L.S. 2 million during the same period (see Table VII). On the other hand, payments for invisibles dropped appreciably from L.S. 66.5 million in 1957 to L.S. 28 million in 1959, mainly due to restriction of travel.

It is worth noting that since 1956 there has been a capital outflow from Syria mainly due to the political events which have been taking place there. However, this has been more than offset by emigrant remittances which have increased from L.S. 10 million in 1957 to L.S. 35 million in 1959, as well as donations and contributions (mainly expenditures of UNRWA) which amounted to L.S. 20.5 million in 1959 compared to L.S. 5.5 million in 1957.

From the above summary, it could be concluded that the balance of payments positions of both Syria and Egypt depend to a considerable extent on the international prices and output of cotton and cereals. These constitute the major items of export and import in Egypt. In Syria, they form the bulk of its exports. In normal years Syria has a surplus in its balance of payments, while Egypt, with its increasing imports due to its increasing population, suffers persistent balance of payments deficits. Moreover, the fostering of development plans and the increased expenditure on armaments in Egypt have tended to increase these deficits. However, in Syria the Five Years Economic Development plan would increase the strain on the balance of payments considerably in the coming years, even if export proceeds retain their 1957 level.

TABLE VI.

EGYPTIAN REGION

BALANCE OF PAYMENTS ESTIMATES

L.E. MILLION

		1957	1958	1959
I.	Current Transactions			
	Receipts			
	Proceeds from exports	166.0	161.0	164.3
	Transit trade	1.0	2.1	3.0
	Travel	1.4	0.7	1.8
	Suez Canal dues	24.3	43.0	44.4
	Others	44.5	44.1	51.4
	Total	237.3	250.2	264.9
	Disbursements			
	Payments for imports	217.5	214.0	235.3
	Transit trade	1.1	1.5	2.3
	Travel	7.7	3.9	5.8
	Government expenditures	16.9	21.9	29.7
	Others	25.2	29.2	29.6
	Total	268.4	270.3	300.9
	Balance of Current Transactions	-31.2	-20.1	-36.0
II.	Capital Remittances			
	Net capital inflow or outflow	- 1.2	+ 1.5	+17.9*
	Donations and compensations	+ 1.1	- 5.3	- 6.5
	Overall surplus or deficit	-31.3	-23.9	-24.6
III.	Compensatory Finance			
	Foreign Exchange holdings**	-33.1	-10.6	-16.8
	Non Resident Account	+ 8.1	- 6.6	- 6.9
	Monetary gold	-	- 5.1	-
	Use of IMP resources	- 5.2	-	+ 0.9
	Claims in respect to Suez Canal due	-	- 5.3	-
	Errors or omissions	- 1.1	+ 3.7	-
	Total	-31.3	-23.9	-24.6

Source: N.B.E., Economic Bulletin, XIII, No.2, p.140.

* Includes counterpart fund.
** Includes changes in Sterling balances.

TABLE VII.

SYRIAN REGION

BALANCE OF PAYMENTS ESTIMATES

L.S. MILLION

		1957	1958	1959
I.	Current transactions			
	Receipts			
	Proceeds from exports	586.5	475.0	458.0
	Transit trade	18.0	15.0	28.0
	Tourism	45.0	30.0	22.0
	Expenditure & Royalties of Oil Co.	58.4	83.5	113.5
	Others	14.0	28.0	30.0
	T o t a l	721.9	631.5	651.5
	Disbursements			
	Payments for imports	665.4	729.6	683.5
	Transit trade	3.5	3.0	3.0
	Tourism	60.0	10.0	20.0
	Others	3.0	3.0	5.0
	T o t a l	731.9	745.6	711.5
	Balance of current transactions	-10.0	-114.1	-60.0
II.	Capital Remittances			
	Net Capital inflow or outflow	-10.0	-15.0	-38.2
	Emigrant remittances	+10.0	+15.0	+35.0
	Donations and contributions*	+ 5.5	+ 3.0	+20.5
	Overall Surplus or deficit	- 4.5	-111.1	-42.7
III.	Compensatory Finance			
	Monetary gold & foreign Exchange Assets	+11.7	+58.4	-16.0
	Obligations abroad	- 2.6	+43.1	+85.8
	Debts abroad	+ 7.7	- 4.5	-45.5
	Errors or omissions	-12.3	+14.1	+18.4
	T o t a l	- 4.5	-111.1	-42.7

Source: Syrian Region, Ministry of Planning, Takdis Mizan Al-Madfou'at, 1959, (Stenciled), Damascus: 1960.

* Including expenditures of UNRWA in Syria.

CHAPTER II.

MONETARY SYSTEMS OF U.A.R.

The Union of Syria and Egypt, in February 1958, did not affect, immediately, their economic set-ups. Each "Region" maintained its existing monetary, taxation and customs systems, because it was realized that such a momentous undertaking as the unification of two different and separate economies, could not be accomplished as quickly and as easily as their political merger. It was officially conceded that the integration of the two economies, and especially currency unification, involved a great number of problems which will have to be solved during a transitory period of five years.[1]

Among all aspects of the Syrio-Egyptian economic integration, the monetary unification is the most important and critical because of its multiple incidence on all the economic activities of the country.

To give a clear picture of the problems involved in the creation of a common currency for the U.A.R. it is necessary to start with a brief comparative study of the monetary systems in the Syrian and Egyptian Regions.

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1. Vide, "L'Unification Economique et Monetaire des Deux Provinces de la R.A.U. se Cristalize". L'Economie et les Finances de la Syrie et des Pays Arabes, I, No.10, (Damascus: November, 1958), p.7.

A. DEVELOPMENT OF CURRENCY SYSTEMS

The history of Egyptian and Syrian currencies may be divided into three stages. The first stage covers the period prior to the Second World War, the second covers the period between 1939 and 1949, while the third starts in 1950 when both Syria and Egypt established their own independent currency systems.

First Stage (1914-1938)

Until the Allied Forces occupied Syria in 1918, its currency system was that of the Ottoman Empire. In November 1918 an order was issued by the British General Command in Syria replacing the Turkish paper currency with Egyptian Pounds.[1]

In 1920, the French mandatory authorities created the first Syrian-Lebanese paper currency and withdrew the Egyptian notes from circulation. Note issue privilege was granted to a French private bank, the Banque de Syrie, in accordance with an agreement which the latter had signed with the French Government.

This agreement was given official status when the representatives of the local governments of Syria, Lebanon and Jabal El-Druze signed a convention with the Banque de Syrie on the 23rd January 1924. The Banque de Syrie got the exclusive privilege of note issue for a period of 15 years and was to act as the banker of the local governments.

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1. Said Himadeh, Monetary and Banking System in Syria, (Beirut: American Press, 1935), p.51.

No mention was made of the constituents of the note cover; however, an issue ceiling of 25 million pounds was stipulated. The new currency was very closely linked to the French Franc since its cover virtually consisted of assets in French currency; "being in all but name the same as the French Franc".[1]

A new convention was signed on February 25th, 1938, replacing the previous one. The concession of note issue given to the Banque de Syrie et du Liban (hereafter referred to as B.S.L.) was extended for another 25 years. Apart from the provision for the gradual increase of gold in the issue cover to reach 10 percent in 1941, and if requested by the governments concerned 30 percent in 1963, the new convention was almost the same as the old one. But, it provided for including a larger portion of treasury bills, commercial papers and franc deposits in the cover.

The French assets consituted, all through this period, about 90 percent - 95 percent of the note cover (see Table III). Being so closely linked to the French currency, the Syrian-Lebanese Pound suffered all the changes and fluctuations characteristic to the franc at that time. Thus, circulation remained rather limited; with the

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1. Edmund Y. Asfour, Syria; Development & Monetary Policy, (Cambridge, Massachussets: Harvard University Press, 1959), p.45.

Turkish Gold Pound being still the prevalent currency in use.[1]

Meanwhile, similar developments were taking place in Egypt. Though paper currency was first introduced to Egypt in 1899, it was not made legal tender until August 2nd, 1914. Prior to this date the notes issued by The National Bank of Egypt (hereafter referred to as N.B.E.) were redeemable in gold on demand.

N.B.E., a private bank, was given exclusive rights of note issue in 1898 and according to its basic laws had to maintain 50 percent of the note issue cover in gold. This condition remained effective even after N.B.E. notes were declared legal tender. However, the government provided it with treasury bills to cover the fudiciary issue.

Unlike the Syrian-Lebanese currency, the Egyptian notes gained a wide circulation driving gold out of use. As a matter of fact the note issue increased from 25 million in 1913 to over 62 million in 1919.[2]

The gold balances which have been accumulated by Egypt, through

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1. In 1936 the value of paper currency circulating in Syria was equivalent to 3 million Turkish gold pounds compared with 10 million Turkish gold pounds circulating in the form of gold coins. See: Ibid., pp.47, 141.

2. N.B.E., Golden Jubilee Memorial Book, 1818-1948, (Cairo: N.B.E. Press, 1948), p.130.

its favourable trade balance with England, were kept in London because of the prevailing war conditions. Thus N.B.E. was authorized, upon its request in December 1914, to use in the cover these balances deposited with the Bank of England. The Egyptian currency came to be on the "gold exchange standard" with its gold cover kept outside the country.[1]

This arrangement lasted for less than two years. In 1916 Britain converted the Egyptian gold balances at London into British Treasury Bills. Consequently, the Government of Egypt authorised N.B.E. to use these British Treasury Bills in the note cover instead of gold. Meanwhile, Britain had also taken over around L.E. 5 million worth of gold from the safes of N.B.E. to finance the military operations in Arabia, replacing them by its Treasury Bills.[2]

The Egyptian pound was now completely tied to the Sterling, and the Government lost all control over note issue operations. Egypt came to be on the "Sterling Exchange Standard". When Britain returned to the Gold Bullion Standard in 1925 Egypt did the same and when it parted later in 1935 Egypt followed suit and joined the "Sterling Bloc".

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1. Fouad Moursi, A'Nukoud Wal-Bunouk Fi Al Bilad Al-Arabia, Vol. I, (Cairo: 1955), p.35.

2. Mouhamad L. Shoukeir, Al-Nukoud, (end Ed., Cairo: Egyptian Renaissance Library, 1956), p.147.

All changes in the value of Sterling were immediately reflected on the value of the Egyptian Pound, and when the former dropped in 1920 by 30 percent, below its pre-World War I level, the latter also dropped proportionately.[1]

A comparison of the Egyptian and Syrian currency systems at this stage reveals certain interesting facts. In the first place, paper currency was established as legal tender non-redeemable into gold in both countries. In the second place, the privilege of note issue in each was vested in private banks over which the governments concerned had no, or very little control.

Moreover, while the Syrian currency was completely tied to the franc, the Egyptian became linked very closely to the Sterling. Egypt being on the "Sterling Exchange Standard" had its currency freely convertible into Sterling. Similarly, Syria was on the "Franc Exchange Standard" with its currency redeemable by check - on Paris - at the rate of F.F.20 per one Syrian Pound.

Gold constituted but a small part of the cover, of both Egyptian and Syrian currencies during the period extending from 1928 - 1937 (see Table III). Though it was proportionately higher in Egypt still it was much less than what it was in February 1915, whence gold covered about 70 percent of the Egyptian note issue.[2]

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1. Ibid., p.146.

2. N.B.E., Op.cit., p.47.

TABLE VIII.

SYRIA AND EGYPT

CURRENCY AND COVER

1920 - 1938

Year	SYRIA*		EGYPT	
	Circulating Notes (L.S. Million)	Gold Portion In Cover %	Circulating Notes (L.E. Million)	Gold Portion In Cover %
1928	8.6	4.3	30.4	10.8
1929	8.7	4.3	26.3	12.3
1930	11.7	3.3	22.1	14.9
1931	11.4	3.3	21.1	15.6
1932	12.0	4.1	20.2	16.3
1933	12.9	3.8	21.6	15.2
1934	12.9	3.8	25.1	16.0
1935	15.0	4.1	24.9	15.9
1936	21.3	4.2	22.4	17.7
1937	23.7	7.6	23.1	17.4

Sources: B.S.L., Annual Reports, (Beirut: 1927-1939), for Syrian currency and cover; and N.B.E., Golden Jubilee Memorial Book, 1848-1948, pp.130-132, for Egyptian Currency.

* Includes currency circulating in Lebanon.

Second Stage (1939-1949)

The beginning of World War II, marks the starting point of the second stage in the history of the Syrian and Egyptian currency systems.

In 1940 - by virtue of Decree 175 - loans made by B.S.L. to the French Treasury were to be included in the cover. Thus, France started financing its expenditures in Syria through the issue of local currency against loans from B.S.L. to the French Treasury. Notes in circulation increased further when the British forces occupied Syria in 1941, resulting in a tremendous rise in prices (see Table IX).

In view of these developments the Syrian-Lebanese Pound was made freely convertible into Sterling in 1943, and several measures to control prices were introduced. Consequently, a marked improvement was achieved, and people started to convert a large portion of their foreign exchange earnings into Sterling assets.

After World War II France decided to depreciate its currency in terms of Sterling and in 1944 negotiated an agreement to this effect with Britain. As this affected the value of their currency cover, Syria and Lebanon were asked to participate in part of the negotiations. On January 24, 1944, an agreement was signed between Syria and Lebanon on one side and France and England on the other, and was annexed to the "Anglo-French Financial Agreement".[1] The Government of France guaranteed the value of the French assets belonging to Syria and Lebanon against any devaluation of the franc in terms of Sterling. The exchange rate of the Syrian-Lebanese pound was fixed at: £.1 = L.S.8.83 and L.S.1 = F.F.22.65. For the first time - since 1920 - the link between the local currency of Syria and the franc was severed and instead a new link with the Sterling was

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1. According to the "Anglo-French Agreement" the French Franc was depreciated vis à vis the Sterling from F.F.176.6 to F.F.200 per one Sterling Pound.

introduced.

This arrangement, however, was shortlived. France, with the approval of Britain, suspended the convertibility of the Syrian-Lebanese currency to Sterling and later abrogated the 1944 agreement altogether.

Tripartite negotiations between France, Syria and Lebanon which started in October 1947 to end the resulting deadlock did not succeed. Agreement was reached only with Lebanon in 1948. This was followed by the withdrawal of Syria from the "French Franc Bloc", the dissolution of the monetary union with Lebanon, and the establishment of a Syrian Exchange Control Office. In 1948 an agreement was signed between France and Syria providing for the gradual utilization of the latter's franc assets, as well as the guarantee of the major portion of these assets against a devaluation vis à vis Sterling, for a period of ten years.[1]

Immediately after withdrawing from the "franc bloc", several legislations were issued in Syria to regulate currency issue and cover. The value of the Syrian Pound was fixed at 0.405122 grams of

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1. Total Syrian Franc assets in the cover amounted to about 10.2 billion of which 7.2 billion were guaranteed at a fixed rate in terms of Sterling and were to be utilized in payments for Syria's imports from France, while the rest was to be paid in settlement for confiscated French property in Syria.

fine gold; namely the parity declared with the International Monetary Fund in 1947. To cover the loss in franc assets, treasury bonds were to be issued and to be placed in cover. Moreover, Legislative Decree No.36 of July 31, 1949, stipulated that the note cover should include gold, commercial bills, as well as advances made to, or guaranteed by the Government.

Egypt, on the other hand, had joined the Sterling Area at the outbreak of World War II. It adopted an exchange control system similar to that introduced by Britain in September 1939. In accordance with the rules of the Sterling Area, Egypt had to submit all its foreign earnings to the Dollar Pool in London; the equivalence of which in Sterling was credited to its account.[1] To finance the expenditure of its forces in Egypt, Britain used to credit Egypt's account in London against which N.B.E. issued the required notes. The result was a tremendous increase in circulated banknotes and a price inflation, (see Table IX).

In the meantime, Egypt accumulated large Sterling balances credited to its account with the Bank of England. But, these balances were practically blocked as far as Egypt was concerned. Being non-convertible into other currencies, Egypt could not use the

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1. The "Sterling Area" is not to be mixed up with the "Sterling Bloc", for under the latter Sterling was still convertible freely into other currencies. For details see Brian Tew, International Monetary Cooperation 1945-52, (London: Nutehison University Library, 1952), pp.124-145.

Sterling outside the Area. Moreover, England's productive capacity was greatly weakened especially immediately after the Second World War, that it could not satisfy the demand of the Egyptian import market. In addition to all this, the facilities offered to Egypt for utilizing the dollar pool were rather limited and so was the amount of free Sterling put at its disposal.

Finally, on 15th June 1947, Egypt left the "Sterling Area". This had a dual effect on its note issue and cover. The free convertibility between the Sterling and the Egyptian Pound had ceased and as a consequence N.B.E. could no more obtain Sterling balances to place in their issue cover. The note cover consisting mainly of Sterling balances - accumulated since 1916 - was now blocked. Thus, a situation that might be termed as a "Cover Vacuum" was created.

The promulgation of Law No.119 in 1948 was a first step towards setting up new regulations for the independent Egyptian currency system. Its second article stipulated that "until such a time comes when N.B.E. is in a position to apply the provisions of Article 5 of its Basic Law... any new issue should hereafter be covered" by Egyptian Treasury Bills with respect to that part of the issue which must be covered by gold, and by government securities or Egyptian securities guaranteed by the government for that portion which must be covered by securities.[1]

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1. Mouhamad Z. Shafaei, Moukadama Fi El-Nukoud Wal-Bunouk, (3rd Ed, Cairo: Egyptian Renaissance Library, 1956), p.143.

Finally the Egyptian Government gained control over the issue of its currency by means of controlling the Treasury Bills put under the disposal of N.B.E. for cover purposes. Moreover, in 1946, the par value of the Egyptian Pound was fixed at 3.67288 grams of fine gold and was declared to the International Monetary Fund. When Egypt devalued its currency in 1949, a new parity was fixed at 2.55187 grams.

The end of this "second stage" marks an important development in the Egyptian and Syrian currency systems. The Syrian and the Egyptian Pounds were not anymore tied to foreign currencies. New legislations were promulgated in each country regulating their respective independent currency systems, and the Governments of Syria and Egypt were exercising now a direct control over the issue and cover of their respective notes.

The Syrian Legislative Decree No.36 of 1944 stipulated that among other things gold should be included in the issue cover, while the Egyptian Law No.119 of 1948, though maintaining the 50 percent gold cover, as stated in Article 5 of N.B.E.'s basic Law, provided, as an interim measure, for placing treasury bills in the cover, instead of gold. Moreover, trade bills were also to be included in the Syrian note cover, but no such provision was made in as far as the Egyptian note cover was concerned. Both, the Egyptian and the Syrian Legislations stipulated that government or government guaranteed securities could be placed in the cover, but not to exceed 40% of the total cover in case of Syria and 50% in the case of Egypt. No mention was made in the Egyptian Law No.119 of foreign exchange to be placed in cover of new issues while this was clearly stressed in the Syrian Decree No.36.

Syria and Egypt had become members in the International Monetary Fund and each had fixed a parity for its currency in terms of gold and U.S. Dollars.

An interesting similarity between the trends of events that were taking place in Syria and Egypt is the fact that both countries suffered, especially during the war period, from a price inflation which had resulted from the tremendous increase in their respective note issues mainly utilized by the occupying armed forces (see Table IV).

TABLE IX.

SYRIA - EGYPT

CIRCULATING NOTES & WHOLESALE PRICES INDICES

1940 - 1945

Year	SYRIA: Circulating Notes (L.S. Million)	SYRIA: Retail Price Index Damascus: Aug.38-Jun.39=100	EGYPT: Circulating Notes (L.E. Million)	EGYPT: Wholesale Price Index:1939=100
1940	31.7	158	37.3	143
1941	48.2	292	50.6	183
1942	100.5	534	75.3	251
1943	165.6	670	75.6	293
1944	204.1	741	146.7	330
1945	210.7	830	148.7	333

Sources: Edmund Y Asfour, Syria: Development & Monetary Policy, (Cambridge Massachussets: 1959) p.48; and Syria, Directorate of Statistics; Al-Majmou'ah Al-Ehsa'iah, (Damascus: 1942-1947); for Egypt; N.B.E. Golden Jubilee Memorial Book, 1898-1948, (Cairo: 1948), p.87,and M. Shafaei, Mukadamah Fi Al-Noukoud Wal-Bunouk, (Cairo: 1956), p.93.

Third Stage (1950-Present)

With the beginning of this stage a new Chapter is opened in the history of Syrian and Egyptian monies.

Monetary Law of March 11, 1951, embodied all previous regulations governing the "modus operendi" of the Syrian currency system. Though the concession of B.S.L. for the management of note issue was maintained, the law provided for the establishment of the Note Issue Institution - attached to the Ministry of Finance - to supervise

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B.S.L.'s Issue Department. Old notes bearing the name of B.S.L. were to be withdrawn from circulation and replaced by new ones carrying the name of the Note Issue Institution.

The right of note issue was established as the function of the state and all notes issued were to be wholly covered by gold, foreign exchange and foreign exchange assets, advances made to the government in relation to Syria's quota in the International Monetary Fund and its subscription to the International Bank's Capital, trade bills, and loans made to the government or guaranteed by it. Gold in the cover was to be gradually increased to 30 percent, trade bills were not to exceed 25% and advances made to, or guaranteed by, the government were limited to not more than 40% of the cover.

One year later a similar law was passed in Egypt. In accordance with the terms of Law No.57 of 1951, N.B.E. was established as a "de jure" central bank.[1] Moreover, a "Supreme Committee" for currency, credit and exchange was set up consisting of six members; three representing the government and three representing N.B.E.; with the Minister of Finance in the chair.

Notes issued were to be covered by gold, foreign exchange and foreign exchange assets convertible to gold, treasury bills and

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1. Since 1898 N.B.E. was granted exclusive right of note issue and in many respects acted as a "de facto" central bank.

government securities. The Minister of Finance, in agreement with N.B.E., was to set the portion of each type of assets in the cover. Treasury bills, which could serve in note issue cover were fixed at L.E. 50 million, but if necessary and subject to approval by the Council of Ministers, could be increased to L.E. 150 million. The proceeds were to be credited to a special account of the Ministry of Finance and not to be drawn upon thereafter.[1] However, in 1955, by virtue of Law No.242, these regulations were amended and the treasury bills issues consolidated into a single issue. The Minister of Finance was authorised to issue such bills, whether for note cover or cotton financing, up to L.E. 150 million to be increased, upon the approval of the Council of Ministers, to L.E. 200 million.[2]

The two governments of Syria and Egypt were now controlling their respective currency systems. However the management of note issue, in each, was still in the hands of privately owned banks. Unlike the Syrian Law, that of Egypt did not provide for including commercial bills and advances guaranteed by the government in the cover, neither was there any stipulation concerning the proportion of gold to be held in cover. Both laws had fixed a limit for treasury bills, with specific reference to cover only in the Syrian Law.

The currency systems of Syria and Egypt are governed, at

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1. Two other Laws were in force concerning the issue of treasury bills for financing the cotton crop, namely Laws No.41/1946 and No.232/1954.

2. The proceeds could be used for all purposes.

present, by the Basic Monetary Law of 1953 and Law No.163 of 1957 respectively.

The Syrian Basic Monetary Law was promulgated on March 11, 1953, to reform the monetary system and to "provide the necessary monetary tools, which if properly used, could hasten its economic development and reinforce its political independence".[1] It falls in five chapters containing 163 articles and covers the establishment of a Currency and Credit Board, note issue and cover, the Central Bank and the commercial banking system.

The Currency and Credit Board, an autonomous institution, is responsible to develop the monetary market, stabilize the currency and ensure its convertibility, and raise income and employment levels. To achieve all this, it is to administer the Central Bank and the "Currency Fund", to control commercial banking activities, to undertake studies and investigations referred to it by the Executive Power, and to act as government advisor on all matters of monetary and financial nature. The said Board is to consist of the Governor of the Syrian Central Bank (Chairman) the Vice Governor (Vice Chairman), representatives of the Ministries of Finance, National Economy and Agriculture, the Chairman of the Exchange Office and four members to

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1. For further details concerning the "raison d'étre" Of The Law see: Republic of Syria, Ministry of Finance, Kanoun A'Nakd Al-Asassi, (Damascus: Syrian Government's Press, 1953), p.82 ff.

be selected from the Permanent Economic Council, representing the private sector in Agriculture, Industry, Commerce and Banking.[1] Decisions of the Currency and Credit Board are taken by majority votes of those present, with equal voting powers to all. However any decision, deemed against the laws or not in the interest of the government could be vetoed by the representative of the Ministry of Finance. Unless the Minister of Finance acts within eight days the said decision becomes enforceable.

Regulations concerning currency issue and cover, mintage of Syrian gold pound, the "Currency Fund" and coins are included in Chapter Two of the Basic Monetary Law. Note issue is re-affirmed as the State's function and the parity of the Syrian Pound is maintained at the rate declared with the International Monetary Fund. Notes issued are legal tender for any amount and should be covered to the extent of 100%. Assets constituting the cover are defined in detail (Articles 22-35). At least 30 percent of the cover should be in gold. Foreign exchange and foreign exchange assets which qualify to be held in cover, as well as the proportion of each, is to be decided upon by the Minister of Finance after consultation with the Currency and Credit Board. Note cover also includes commercial bills for three months, guaranteed advances for 120 days, the frozen public debt of L.S. 220 million, Treasury bills issued in connection with Syria's

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1. The Permanent Economic Council was created by virtue of Law No.115/1955. It consists of 8 numbers elected by their different professions.

quota in the International Monetary Fund and its subscription to the International Bank's Capital, advances made to the Treasury up to the limit of one tenth of the actual budget revenue of the preceding year or estimated current budget revenue, treasury bills covering losses in book value of gold and foreign exchange in case of official devaluations, as well as treasury bills, bonds or securities guaranteed by the government up to the limit of L.S. 60 million.

The "Currency Fund", an independent institution attached to the Currency and Credit Board, and administered by the Syrian Central Bank, is responsible for coin issue as well as accounts concerning proceeds from sale of the Syrian Gold Pound, the nominal value of notes withdrawn from circulation but not redeemed yet, and annual instalments made by municipalities in settlement of advances given to them.[1] Coins of 100 piasters value are legal tender up to L.S. 150, those of 50 piasters are up to L.S. 25 and those of 10 piasters are up to L.S. 10.

In September 1955 an agreement was reached with B.S.L. ending its concession and on August 31st, 1956, the Syrian Central Bank was officially inaugurated. The assets and liabilities of the B.S.L.'s Note Issue Institution were transferred to the Central Bank, which is completely owned by the government.

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1. Ibid., p.29 f.

Law No.163 was promulgated on July 13th, 1957, replacing all previous regulations governing the currency system of Egypt. The new Law maintained the privilege of note issue with N.B.E. which was still privately owned. However, in virtue of Law No.140/1960 ownership of N.B.E. was transferred to the state. But N.B.E. continued to consist of two departments; namely, the Note Issue and the Commercial Departments.

With regards to notes issued, the Law stipulated that they are legal tender without any limit and that they must be covered, at all times, with an equivalent value in gold, foreign exchange and foreign exchange assets, treasury bills, Egyptian Government Securities, securities guaranteed by the government as well as negotiable commercial papers.[1] The content of gold in the cover is to be fixed by Presidential Decision, while the proportions of other assets qualified to be held in cover are to be fixed by the Minister of Finance after consultation with the Central Bank. It is worth noting in this respect that commercial bills and guaranteed securities not to be held in cover according to Law No.57 of 1951, were provided for under this new Law.

Seasonal advances to the government were not to exceed one

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1. Provisions concerning note issue and cover are governed in accordance with Articles 16-18 of Law No.163/1957.

tenth of the average budget revenue during the preceding three fiscal years and should be repayed in 12 months period.[1]

Finally by virtue of Law 250 promulgated on July 18th, 1960, N.B.E. was divided into two separate institutions, namely; the Central Bank of Egypt and the National Bank of Egypt. While the first was to assume all central banking prerogatives in the Egyptian Region, the latter was to become a purely commercial bank.

On September 20th, 1960, Law No.2336 was passed embodying the states of the Central Bank of Egypt. Article 9 of the said Law stipulated that the privilege of note issue is vested in the Central Bank of Egypt. The Law also included four articles concerning the note issue cover Articles 9-13. However, they re-state exactly the same conditions, stipulated by Articles 16-18 of Law 163/1957, in as far as the quantity, quality and composition of assets constituting the note cover are concerned.

From this short summary it becomes obvious that the currency systems in Syria and Egypt were much influenced by those of the foreign countries occupying them. While the Syrian system was patterned along that of France, the Egyptian system was similar to the English. However, at present, there are no great differences among the laws governing the Syrian and the Egyptian currency systems respectively.

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1. These advances are for three months but could be renewed for another three months.

With the establishment of the Egyptian Central Bank in 1960, and the Syrian Central Bank in 1953, the currency systems of both Syria and Egypt were placed under government control. The assets which qualify to be held in the cover are the same for both the Syrian and the Egyptian notes. But the Syrian Law has gone into considerable details in defining each type of these assets, while the Egyptian Law is rather brief in this respect.[1]

The Syrian Basic Monetary Law of 1953, provided for a minimum gold cover of 30% and a ceiling on the public debt, while the Egyptian Laws No.163/1957 and No.2336/1960 stipulated no such limitations except those on the issue of treasury bills and seasonal advances. However, the Syrian currency and Credit Board with the Minister of Finance have been given wide manoevering liberties to affect the volume of circulating notes through changing the proportions of such assets as foreign exchange and foreign exchange assets, trade bills, treasury bills and other advances, for the law had provided no limitation on the respective proportion of each to be placed in the cover.

In conclusion it can be said that now there are very slight differences among the regulations concerning the Syrian and Egyptian currency systems. However, the elaborateness, and at the same time

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1. Currency issue and cover is regulated by five articles in the Egyptian Law No.2336, (Articles 9-13) compared to 26 articles (Articles 22-36) in the Syrian Basic Monetary Law of 1953.

the "souplesse", of the Syrian Law makes it superior to its counterpart in Egypt.

B. U.A.R.'s CENTRAL BANKING SYSTEM

1. "De Facto" Central Bank:

The National Bank of Egypt was established in 1898 by an Englishman and two Egyptians with a capital of one million Sterling Pounds, of which half was subscribed by the former and the remaining half was equally divided among the latter. In addition to being authorised to engage in all banking activities, except those concerned with real estate, N.B.E. was granted the exclusive privilege of note issue.[1] Two separate departments were created in the Bank, each to handle one of the aforementioned practices. Thus, since it was established, N.B.E. was more or less Egypt's "de facto" Central Bank.

After lengthy negotiations between the Egyptian Government and N.B.E., an agreement was signed in 1939 providing for a majority of Egyptians on the Bank's Board of Directors, the extension of its note-issue privilege up till 1980 and its gradual withdrawal from small commercial operations. However, N.B.E. continued to receive deposits, discount bills and act as a government deposit holder and banker.

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1. Hussein Fahmy "The Technique of Central Banking In Egypt", Middle East Economic Papers, (Beirut: Economic Research Institute, A.U.B., 1954), p.58.

Similarly in Syria B.S.L., a privately owned institution was granted the privilege of note issue in 1920. At the same time it was authorised to undertake all commercial banking activities. For these functions two separate departments were established, namely; the Note Issue and the Commercial Departments. Later in 1924, when a convention was signed between B.S.L. and the representatives of the local governments of Lebanon, Syria and Jebel El-Druze, B.S.L. became a "de facto" central bank. The head office of B.S.L. was in Paris and out of its 51,000 shares only 5,000 were offered for sale in Syria and Lebanon.[1] In addition to its management of note issue, B.S.L. was the government's and other public institutions' bank, a lender of last resort and a bankers' bank.

When Syria left the "franc bloc" in 1948, and broke up the currency union with Lebanon, B.S.L. was divided into two parts - under the same name - one operating in Syria and the other in Lebanon. But it continued performing almost all the functions of a central bank until the mid of 1956.

On September 1st, 1955, an agreement was signed between B.S.L. and the Syrian Government (ratified on January 21st, 1956) liquidating the Bank's Concession as of July 31st, 1956, against

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(1) Asfour: Syria: Development & Monetary Policy, 1959, p.146.

an annual compensation of L.S. 300,000 for the remaining period till 1964. Moreover, the agreement provided for the transfer of all B.S.L. assets and liabilities concerning the government or other commercial banks to the Central Bank of Syria within a period not to exceed 18 months.

Whether in Syria or in Egypt, central banking prerogatives were given to foreign, privately owned banks. In addition to managing the note issue, and acting as government bankers and agents, both B.S.L. and N.B.E. engaged in commercial banking operations. Thus, being, in the first place profit-seeking institutions, they were in a favoured position to compete with other banks. As a matter of fact, the private deposits with B.S.L. amounted to 70% of the total banking deposits in 1954, while those with N.B.E. totalled about 28%.[1] Moreover, N.B.E. and B.S.L. were neither equipped nor interested to pursue a monetary policy which was always in the best interest of the respective national economies of Egypt and Syria. These shortcomings were realised by the governments of the two countries and consequently new regulations were introduced aiming at the achievement of proper central banking techniques.

2. "De Jure" Central Bank:

The Central Bank of Syria was officially inaugurated on

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1. B.S.L., Annual Report 1954, (Beirut: 1954), p.21, and N.B.E., Economic Bulletin, (Cairo: 1957), X, No.3, pp.314-315.

31st August, 1956. All the assets and liabilities of B.S.L.'s Issue Department were immediately transferred to it. This was followed by the transfer of B.S.L.'s functions as a government deposit-holder and agent and then the transfer of the accounts of other resident banks and public organisations, as well as all advances guaranteed by, or made to the government. However, other B.S.L. assets which were not immediately recallable were transferred during a period of 18 months.

The Central Bank of Syria is an autonomous public institution operating under the auspices of the government with its head office in Damascus.[1] The capital of the Bank is fixed at L.S. 10 million to which the government has wholly subscribed. Its functions are: to manage note issue as well as the currency fund, to act as the government's and other public institution's treasurer and agent, to manage the Exchange Office, to be a banker's bank, a lender of last resort and a clearing house for facilitating inter-bank activities. But, the Central Bank of Syria is not to engage in any credit operations with individuals unless specifically authorized to do so by the Minister of Finance, under certain conditions.[2]

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1. The rules governing the Central Bank of Syria are embodied in part three of the "Syrian Basic Monetary Law, 1953".

2. Republic of Syria, <u>Kanoun A'Nakd Al-Asassi</u>, (Damascus: 1953), Article 70, p.38.

The Currency and Credit Board directs the Central Bank while its Governor assisted by an administrative committee is responsible for its administration. The Governor as well as the Vice Governor of the Central Bank are at the same time the Chairman and the Vice-Chairman of the Currency and Credit Board. A Government's Commissioner is appointed to inspect all operations of the Bank and is authorised to veto all decisions that he might deem against the Law or not in the interest of the state. The Minister of Finance makes the final decision with respect to the vetoed decisions within eight days, otherwise, the said decisions become effective.

To control commercial banks, a "Government Banking Commission" attached to the Central Bank of Syria has been created. Its functions are to ensure that all activities of commercial banks are carried out within the legal framework stipulated in Part IV of the Syrian Basic Monetary Law" of 1953, to make necessary investigations about credit institutions upon the request of, and instructions from, the Currency and Credit Board and to collect and analyse all statistical information concerning banks' positions and bank credit in the country.

Egypt, on the other hand, remained without a "de jure" Central bank up till 1951, when Law No. 57, was promulgated, thus, "centralizing" N.B.E. The said Law provided for the egyptianization of the Bank's administration and the extension of government supervision over its activities. Its functions were: to stabilize the value of Egyptian currency, act as a lender of last resort and regulate the volume of credit.

The "Banking and Credit Law" No.163 of 1957, maintained N.B.E. as Egypt's Central Bank and granted it additional powers to control commercial banks operating in the country. However, government supervision over the bank was strengthened through the appointment of representatives from the Ministry of Finance on its Board. The new Law dispensed with the detailed description of N.B.E.'s authorised commercial activities provided for in the previous statutes, and left these to be determined by the Minister of Finance. But N.B.E. remained a privately owned bank until February 11th, 1960, when Law No.40/1960 was promulgated providing for its nationalisation; and thus its ownership was transferred to the state.

The evolution of N.B.E., during a period of 62 years, culminated into its being divided into two separate institutions. Law No.250/1960, provided for the separation of the central banking function from N.B.E., and for the establishment of the Central Bank of Egypt, effective 18th August 1960.[1] Thus, N.B.E. became a purely commercial bank.

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1. Al-Ahram, daily paper, (Cairo: July 25, 1960), p.6.

The assets and liabilities of N.B.E.'s Issue Department were transferred to the Central Bank of Egypt and so were the liabilities of banking operations connected with the government. Accounts of the government and juridical persons, accounts of international monetary and credit organisations, liquidation accounts, creditor's payments agreements, bank deposits and "interim" commitments of N.B.E. concerning government or/and juridical persons were also to be transferred to the Central Bank of Egypt.

The Central Bank of Egypt is an autonomous public institution, with its head office in Cairo. Its capital has been fixed at L.E. 3 million. The Central Bank is responsible for formulating and executing the credit and banking policies - within the state's general economic plans - in order to reinforce the national economy and to stabilise the value of money. To achieve these ends it is entrusted with the following functions; namely, to manage the issue of notes, to control the direction, volume and quality of credit; to control the banking and credit institutions and to safeguard their financial positions, to administer the gold and foreign exchange reserves belonging to the state, to act as the government's and other public institutions' bank, to act on behalf of the government in all matters concerning the management and amortisation of the public debt and to advise the government on all matters concerning public loans whether local or foreign.[1]

An "Administrative Council", consisting of the Governor of the Central Bank as Chairman, the Vice-Governor as Vice- Chairman and three to five members of whom at least one should represent the Minister of Economy, is responsible for the Administration of the Central Bank; the Governor assisted by the Vice-Governor and by directors - to be appointed by Presidential Decree - the management of the regular work of the Bank.

The Central Bank of Egypt - according to Law No.163/1957 - is to inspect the books and records of other banks at anytime in order to ensure their sound financial position. It is also responsible to manage the Central Department of Credit Statistics whose functions are to establish the aggregate position of each individual enjoying credit facilities and to avail these under certain conditions, for the information of any bank.

Thus, at present, each of the Syrian and Egyptian Regions have their own separate central banks. Both banks are independent public institutions under the control of the government. The functions and duties of the Central Banks of Egypt and Syria are almost the same. Each is responsible for the management of note issue in its respective region and both of them act as the government's treasurer and agent, lenders of last resort, bankers' banks

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1. Law No.2336/1960, Articles 5, 6, 7 and 9.

and are authorised to regulate credit and control the banking system. Each, also, has under its disposal the traditional central banking weapons of engaging in open-market operations, varying the cash reserve ratio requirements and changing the rediscount rate, in order to control the volume of the credit in accordance with the needs of their respective national economies. Moreover, the note cover regulations permit both institutions to contract or expand currency in circulation to the desired degree. It goes without saying that all these activities have to be approved "prima facie" by the government through the Central and Regional Ministries of Finance.

C. U.A.R.'s BANKING LEGISLATIONS

There are, at present, two important banking legislations in the U.A.R.; one governing the Syrian banking system and the other governing the Egyptian banking system.[1] Both, were promulgated before the political unification of the two countries to create legal frameworks within which commercial banks should operate. However, Law No.196 of 1959, brought some amendments to the Basic Monetary Law/1953 of Syria,[2] the most important of which are that banks should take the form of joint stock companies, that their capital should not be less than L.S. 3 million, that they should be administered by citizens of the U.A.R. and that participation of Arab Capital in them

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1. Namely; the Basic Monetary Law, 1953 of Syria, the Banking and Credit Law No.163/1957 of Egypt,

2. This is similar to the Egyptianization Law No.22 of 1957.

should not exceed 49% while foreign capital (non-Arab) should not exceed 30%.

On March 3rd, 1961, a Presidential Decree was issued providing for a new law concerning the organization of commercial banks in the Syrian Region.[1] According to this law all banking institutions operating in the Syrian Region must take the form of joint stock companies whose shares are to be nominative and the property of U.A.R. subjects. However, citizens of other Arab countries may be authorised, by Presidential Decree, to participate in not more than 25 percent of the capital of these banks. Moreover, the share owned by citizens of other Arab countries could be represented on the Board of Directors of a certain bank in the ratio of this share to the total capital of that particular bank.

Article 1, para b, stipulates that the Economic Institution - of the Syrian Region - should own a minimum of 35 percent of the total shares of all banking institutions. The capital of the said banks should not be less than L.S. 3 million and the Directors as well as other officials should be citizens of the U.A.R. All banks have to comply with the provisions of these new regulations within a period of 2 months, ending on January 31st, 1961. To ensure the proper enforcement of this law the Minister of Economy is to appoint in each bank an inspector to supervise and control the activities of that bank. In accordance with the provision of Article 7, Law

1. This Law was published in; Al-Ahram, Daily Arabic Newspaper, March 4th, 1961, p.4.

No.196/1959 is abrogated.

In both Regions banks should take the form of joint stock companies and should be duly registered. All banks operating in the Syrian Region should be registered in the "Register of Banks" with the "Government Banking Commission", while those operating in the Egyptian Region should be registered in a"Special Register" with the Central Bank. In order to qualify for registration the paid-up capital of Egyptian Region banks should not be less than L.E. 500,000, their shares should be nominal and the members of their Board of Directors as well as those responsible for their management should be Egyptians. The paid-up capital for Syrian Region banks has been set at L.S. 3,000,000, their shares should be also of nominal values of which 25% could be owned by citizens of Arab countries. The Director of the bank and its officials should be citizens of the U.A.R. But subjects of other countries could sit on the Board of Directors of a bank operating in the Syrian Region, in the ratio of their participation in the Bank's capital.

As far as regulations concerning the control and supervision of banks are concerned, both the Syrian and the Egyptian Laws are rather similar.[1] Banking institutions in the Egyptian Region are required to submit to the Central Bank any information

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1. See Banking and Credit Law No.163/1957 of Egypt, (Articles 26-29), and Syrian Basic Monetary Law of 1953, (Articles 125-140).

which may be deemed necessary. Also their books and records may be inspected by the former upon the approval of the Minister of Finance. Moreover, the Central Bank should be supplied regularly with monthly statements showing the position of each bank. Similarly banks of the Syrian Region should submit to the Currency and Credit Board every year their balance sheets and their profit and loss statements in addition to monthly statements of their operations in local and foreign currencies.

The Department of Bank Control attached to the Central Bank of Egypt is responsible for the control of the Egyptian Commercial Bank while the "Government Banking Commission" attached to the Syrian Currency and Credit Board is intrusted with the same duties in Syria.

According to Law No.163/1957 (Article 30) commercial banks should keep in Egypt assets equivalent at least to their liabilities with respect to their Egyptian creditors as well as a sum equal to their paid-up capital. The Syrian Monetary Law of 1953 (Article 117) stipulates that banks should hold at least 10% of their net profit in a special reserve fund until the said fund is equivalent to 25% of their capital; this, in addition to the accumulation of reserves provided for in the Commercial Law at the rate of 10% of yearly net profits up to half the paid-up capital. Both reserve funds should be invested in government, or/and government guaranteed bonds and should not be dispensed with except by special permission from the Currency and Credit Board.

The monetary authorities in the Syrian and Egyptian Regions have wide and flexible powers to control the quantity as well as quality of bank credit.[1]

Whether in the Syrian or Egyptian Region, banks are required to place a certain sum of the funds available to them with the respective Central Banks. The Central Bank is to fix this sum in Egypt and the Currency and Credit Board is to fix it in Syria. Moreover, the latter is authorised, upon the approval of the Minister of Finance to fix the ratio between a bank's capital and its total demand and time deposits, the ratio between its capital and its assets and the ratio between the bank's available funds and its demand obligations. The Currency and Credit Board can also fix the minimum advance payments for opening letters of credit, the maximum size of individual loans and can determine the terms of discounts, operations, advances and loans, as well as their rate of increase. By two thirds majority it can fix a maximum limit for interest rates, commissions and other costs concerning certain specific credit operations. On the other hand the Egyptian Central Bank is empowered to lay down general regulations concerning the valuation of assets, credit condition and

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1. See: Egyptian Law No.163/1959 Articles 48-55
and Syrian Basic Monetary Law No.153, Article 119.

creditors and debtors interest rates, the proportion and nature of liquid assets, investments which are not permitted and the ceilings for certain types of advances and investment. In addition the Central Bank is to give advances to banks, according to conditions decided upon by its Administrative Council and is to fix the interest and re-discount rates applicable to such advances. The Central Bank of Egypt is also authorised to undertake open market operations in order to regulate the volume of credit according to need.

It could be seen from the above summary that the banking legislations applied in each of the two Regions are basically the same. The regulations governing registration and capital requirements of banks are also similar with the exception of the provision stipulated in Law No.196/1959 authorising commercial banks operating in Syria to be partly owned by subjects of other Arab countries. In the Egyptian Region, according to Article 21a of Law 163/1957, commercial banks are to be wholly owned by Egyptians.

The control and supervision of commercial banks are carried out through the Department of Bank Control in Egypt and the Government Banking Commission in Syria, both attached to the respective central banks in each region. Moreover, the books and records of the Commercial Bank in Egypt, are audited by two auditors who must certify that the operations of the bank are not run counter to the provisions of existing legislations. The same job in Syria is to be carried out by authorised inspectors appointed at each bank. These inspectors submit quarterly reports to the Government Banking Commission about their assignments.

The monetary authority in each region is given wide powers to control and direct banking credit, as well as to adjust credit policy in order to meet the real needs of the national economy. However, in this respect it should be noted that the Syrian regulations concerning this aspect are more comprehensive and rather more detailed.

CHAPTER III.

EXCHANGE SYSTEMS IN U.A.R.

The use of different currencies by different countries has given rise to the term "foreign exchange" which actually means the process of selling and purchasing orders for payment of foreign currencies at a foreign place.[1] However, on differing occasions this expression has been used in differing senses and in current economic jargon it is frequently used to denote currencies other than the local currency of a certain country.

The means and methods governing the transfer of wealth, expressed in monetary terms, from a country to other foreign countries consistitute the exchange system of that country. Where the government does not intervene to affect rates of exchange and where no restrictions on international payments exist the exchange system is a free one. Under such a system, exchange rates - or the price of one currency in terms of other foreign currencies - "is determined from day to day by supply and demand of home currency in terms of foreign currency".[2]

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1. Franklin Escher, Foreign Exchange Explained, (New York: Macmillan Co., 1926), p.1.

2. For a detailed analysis of exchange rate determination through forces of supply and demand, see: Joan Robinson, "The Foreign Exchanges", Readings In The Theory Of International Trade, (London: Allen & Unwin, 1953), p.80 ff; and also, Fritz Machlup, "The Theory Of Foreign Exchanges" Ibid., p.105 ff.

Up till quite recently, no authority thought of manipulating the rates of exchange by artificial prohibition or by arbitrary fixing of these rates. In its modern sense "exchange control" is a comparatively recent phenomenon which appeared first in Europe after World War I. Since then it has spread all over the world and at present one rarely can find a country whose government does not exercise directly or indirectly some kind of control over the foreign exchange market.

In its strictest sense exchange control is defined as any form of intervention, on the part of competent authorities, in the foreign exchange market for the purpose of affecting tendencies of exchange rates. Thus normal measures of monetary policy affecting exchange rates could constitute an act of exchange control, but these are not points of interest in this connection. Exchange control would be rather confined to its narrower sense concerning those special direct and indirect measures undertaken by the government to influence the rates of exchange. The direct measures are all activities or statutes aiming at the direct control of foreign exchanges, while the indirect measures serve the same end through the intermediary of some other aspect of economic activities.[1]

One of the direct measures of exchange control is "intervention", whereby the monetary authorities undertake foreign exchange open market operations to affect the rate of exchange. Exchange restrictions consisting of regulations aiming at limiting or even completely suppressing the

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1. Paul Einzig, Exchange Control, (London: Macmillan Co. 1934), p.11.

freedom of foreign exchange operations are another direct measure of exchange control. Exchange clearing arrangements could also be classified as direct measures in so far as they eliminate the transfer of foreign currencies through the exchange market.

The indirect measures, on the other hand, consist of import restrictions aiming at influencing the foreign exchange situation rather than protecting local industries, export subsidies as well as export stimulations through "differential currencies", barter arrangements aiming at releasing strains on foreign exchanges and embargoes on lending abroad for protecting the national currency. All other measures undertaken to interfere, indirectly, in international payments and to control the direction, composition and quantity of exports and imports supplant exchange control because of their effects on rates of exchange.

The stringency of these controls and the degree of government intervention in the foreign exchange market determine the "fullness" of exchange control in a certain country. Where the government prohibits all free operations in foreign currencies then "full" exchange control is enforced. Thus there are varying degrees of control on exchanges in different countries.

It is worth noting that the above classification of measures of exchange control is rather general and not absolute or complete because different countries have adopted different systems of control to which new modifications and amendments are added from time to time.

A. DEVELOPMENT OF EGYPT'S EXCHANGE SYSTEM

Prior to the Second World War, Egypt had a free exchange system. There were no restrictions neither on foreign exchange nor on movements of fund . As a matter of fact the bulk of its banking business consisted of important short term capital to finance, mainly, the cotton crop. At the end of the season when the cotton was exported these funds, having completed their "cycle", were eventually transferred abroad. Most of the commercial banks preferred to invest their funds in foreign countries for the lack of investment opportunities in Egypt, and they were free to do so.

Having its currency very closely linked to Sterling, Egypt had to follow suit with Britain and to introduce exchange control on 28th September, 1939. To secure the financing of its cotton crop Egypt had no other alternative because the British monetary authorities would not have allowed the free transfer of funds from London before making sure that all outlets were properly sealed.[1]

All operations in foreign currencies, other than Sterling, were forbidden, unless justified by normal needs of trade and industry, or by personal expenses having a serious motive.[2] N.B.E. was authorised to organize exchange control and exercise it in collaboration

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1. Mustapha Sakkaf, Al Rakaba A'la An'Nakd Al-Ajnabi Fi Misr, (Cairo: Renaissance Library, 1954), p.92.

2. Law No.109/1939, Article I.

with six other banks. The explanatory note to Law No.109/1939 stated clearly that the idea was to adopt Egyptian legislation to the requirements of exchange control in the "Sterling Area" of which Egypt was a member. As a consequence, up till the middle of 1947, the control consisted simply of re-issuing and adopting the exchange control circulars and regulations as published by London.[1]

At the beginning it was thought that it would suffice Egypt if only the outgoings of foreign exchange were controlled to prevent flights of capital and unreasonable imports. Thus, the Law did not provide for the obligatory repatriation of export proceeds. However, it was soon realized that this "one-sided" control was unsatisfactory and in June 1940, in virtue of Law No.53, a control on repatriation of export proceeds was introduced.

During the war, N.B.E. managed the exchange control system of Egypt. The banks authorized to deal in foreign exchange operations used to sell their foreign exchange surpluses to N.B.E. which in turn transferred them to the Bank of England day after day. Conversely N.B.E. could cover automatically from the latter its requirements of foreign exchange. There was no specific quota of foreign currencies, and Egypt was free to draw on the "Sterling Area Foreign Exchange Pool"

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1. Nicholas Koestner, "The Origin and Some Alient Features of Exchange Control in Egypt", Lectures of the Institute of Banking Studies, (Cairo: Mondial Press, 1956) p.17.

any sum needed to finance its expenditures outside the "Area". But in reality there were strong indirect restrictions limiting Egypt's demand for foreign exchange. The difficulty of importing under war conditions and the "Middle East Supply Center" requirement that all import or export licenses be accompanied by a "navicert" - a certificate for shipping space - restricted to a great extent Egypt's needs for foreign currencies.

When the end of the war came into sight, it was realized that the "Allied Trade Controls" were to be abolished sooner or later. Thus, Britain, foreseeing the fact that Egypt might draw large volumes of "hard currencies" mainly Dollars and Swiss Francs, on the Sterling Area to finance its imports, started to conclude yearly agreements with Egypt for the purpose of setting a quota of "hard currencies" which the latter could use.[1] Consequently, a supreme Exchange Control Committee was established to organize this "Target System" in 1945. It consisted of six members, three representing N.B.E. and the other three representing the Ministry of Finance, under the Chairmanship of the Under Secretary of the said Ministry. This Committee was the supreme authority in all exchange control matters and its functions were to recommend new control measures, approve and issue all regulations and investigate all complaints resulting from refusals of applications for foreign currencies by the citizens. On

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1. These were known as "The Hard Currency Target Agreements", the first of which was concluded in 1944.

its initiation, the exchange control regulations - considered until then as secret laws - were codified and published. The Government, moreover, could now influence exchange control as exercised by N.B.E., in accordance with the needs of the national economy.

Under the Target System, Egypt's quota of hard currencies was equivalent to L.E. 1 million per month irrespective of the sums it surrendered to the Sterling Area "Pool" in London. Its accumulated Sterling balances were actually blocked and only a limited amount of free Sterling was put at its disposal. These among other reasons, induced Egypt to leave the "Sterling Area" and eventually to introduce exchange control vis à vis Sterling.

On July 9th, 1947, Law No.80 was promulgated embodying all the rules and regulations concerning the application of exchange control in Egypt. This Law has been amended in 1951, 1952 and 1953 consecutively. In addition several Ministerial Decrees have been issued regularly concerning the administration of exchange control.[1]

All sorts of operations in foreign exchange were prohibited except by special permission of the Ministry of Finance, provided they were effected through authorised banks in Egypt. Moreover, imports

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1. For the text of the Law and Ministerial Decrees, see: H. Kamel & A, A'mer, Al-Rakabah Ala An'Nakd Fi Misr, (Cairo: Commercial Library, 1957), pp.83-133.

and exports of local and foreign currencies as well as transfers of funds were prohibited except under conditions set by the Minister of Finance. All persons had to surrender to the Ministry of Finance, at the official rate, their foreign exchange bank balances, as well as other revenues in foreign currencies accruing to them. Export proceeds had to be repatriated within a period of six months, unless properly authorised otherwise. Debts of residents in Egypt in favor of non-residents abroad were blocked and could not be disposed off except by special permission from the competent authorities.

Banks authorised to deal in foreign exchange operations were required by law to submit to the Ministry of Finance a statement of accounts showing their sales and purchases of foreign currencies. Moreover, authorised banks could keep in their safes amounts of foreign exchange to suffice their needs. Anything in excess had to be sold to N.B.E. at the end of each week. N.B.E., upon the instructions of the Minister of Finance used to buy all foreign currencies and sell them later to the aforementioned banks according to their needs.

Ministerial Decree No.49 was issued on July 14, 1947, concerning the establishment of a Supreme Exchange Committee to control and direct all operations in foreign exchange. Moreover, a Controller General of Exchange was appointed to supervise the administration of exchange control by N.B.E. - of which Central Exchange Control was a Department - and to serve as a link between the government and the Control.

When Egypt left the Sterling Area it had no foreign exchange reserves other than Sterling. However, payments in Sterling were no more accepted in all transactions, especially by the countries of the Dollar and other "hard currency areas" as well as by France and West Germany. Under these conditions payments agreements became a necessity for regulating the foreign trade of Egypt. The objectives of these agreements were three-fold namely; to expand the Egyptian cotton market, to help secure the necessary imports and to establish the Egyptian Pound as a recognised currency in the international payments system. Such agreements have been gradually concluded with most of the important trading countries of the world.

Thus, it can be seen from the above summary that the exchange system of Egypt consists of strict and rather complicated prohibitive exchange control measures. The Government, through its agents, has a monopoly of all exchange operations. Moreover local currency cannot be exchanged for any foreign currency except by special permission from the authorities concerned. Finally, all unauthorized dealings in foreign exchanges are considered illegal and subject to severe penalties.

The objectives of exchange control in Egypt have been the assistance of foreign trade, the protection of infant industries and the diversification of agriculture as well as the accumulation of foreign reserves to be used in the urgent economic development of the country. Though the U.A.R. officials realize and admit its disadvantages, still at present exchange control is considered necessary for the accomplishment of the development plan during the coming years.[1]

B. DEVELOPMENT OF SYRIA'S EXCHANGE SYSTEM

With the beginning of the Second World War exchange control was introduced in Syria and Lebanon. Decree No.336 was promulgated on 3rd December 1939 providing for the establishment of an exchange office under the control of the French mandatory authorities. This office was permitted to obtain advances from B.S.L. for the purpose of purchasing foreign currencies in Syria and Lebanon. In 1940 a Joint Exchange Control Committee was established consisting of Lebanese, Syrian and French members to supervise all operations in foreign exchanges.

The exchange control regulations were similar to those enforced in France. Operations in foreign currencies were strictly restricted. Exports of foreign as well as local currencies were prohibited except by special permission. Proceeds from exports and invisible transactions were to be surrendered to the exchange office at official rates and all payments for imports as well as other expenditures abroad were to be approved and duly authorised.

Following the withdrawal of Syria from the "franc bloc" in

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1. Abdul Mune'em Kaisouny "Introduction" to the book by M. Sakaaf, Al Rakabah A'la A'Nakd Al Ajnabi Fi Misr, (Cairo: 1954), p.iii.

1948, new exchange regulations were issued for the establishment of a purely Syrian exchange system. The Joint Exchange Control Committee was abolished in virtue of Legislative Decree 91 promulgated in February, 1948. At the same time an autonomous public body under the title of "Exchange Institution" was established to supervise exchange control, still largely administered by B.S.L.[1] In November 1949 Legislative Decree No.103 was issued providing for a representative of the government in the Exchange Institution. Moreover, an Exchange Fund was set up to carry out accounting losses in the value of official gold and foreign exchange and to ensure the needs of the government for foreign currencies.[2]

The strict exchange control regulations enforced since the beginning of the war were gradually relaxed, and several steps were taken to restore the freedom of operations in foreign exchanges. The Minister of Finance issued Decree No.1835 in August 1948, stipulating that only 20% of the export proceeds be surrendered at the official rate, and later in December of the same year only 10% of these proceeds were required to be handed over at the official rate. Imports, though still subject to prior licensing, were to be financed through purchasing the required foreign currencies from the free market. The sale of foreign exchange at official prices was restricted only to payments of government imports as well as imports of certain pe-

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1. See: Legislative Decree No.92 of February 10, 1948.

2. Legislative Decree No.55 of October 10, 1949.

troleum products. Finally in 1949 all controls on export proceeds were removed and the Exchange Institution undertook open market operations in foreign exchanges to stabilize the exchange rate.[1]

As soon as the customs union with Lebanon was terminated in 1950, government issued new regulations re-organizing the exchange system to meet the requirements of the national economy. Proceeds from most exports were to be registered and repatriated with an authorised bank. However, proceeds from other exports and invisible transactions could be freely dispensed with in the free market. The repatriated export proceeds came to be known as the "export accounts" and could be sold at the market rate for the purpose of financing licensed imports. The purpose of these new regulations was mainly to ensure means of payments for Syria's essential imports and to divert exchange transactions from Beirut to Syria.[2]

"On the basis of the new experiences gained in the field of foreign exchange operations during the previous years", Legislative Decree No.208 was promulgated on April 21st, 1952 laying down the basic principles for a consolidated Syrian exchange system. The purpose of the new Law was to establish a unified code for regulating operations in foreign exchange, and to set up a single exchange autho-

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1. See Decree by Minister of Finance No.285 of September 27, 1949.

2. See Decree by Minister of Finance No.208 issued on May 2, 1950.

rity whose functions are to draw out and execute an exchange policy for the country, to stabilize the exchange rates and to administer the financing of payments agreements.[1] It was stipulated in Article I that the Council of Ministers may take a decision, when deemed necessary, to restrict all exchange operations and to control all proceeds from exports and payments for imports. In other words, the Council of Ministers was given the power to apply a very strict exchange control if the economic requirements of the country called for such measures. The second Article provided for the establishment of an Exchange Office to replace all other public bodies concerned with regulation and control of foreign exchange. The Exchange Office, an autonomous public body, consisted of a Chairman appointed by the Minister of Finance and three members, including the Director of the Exchange Office as well as two representatives from the Ministries of National Economy and Finance. In addition to issuing all exchange rules and regulations concerning the "modus operandi" of the exchange system, the said office was responsible to undertake on behalf of the Note Issue Institution all operations concerning gold and foreign exchange in the cover, and to execute and administer the payments and clearing agreements concluded with other countries.[2]

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1. Hussein Kamel, An'Nakd Wal-Tijarah Al Kharijia Lij'Jumhuria Al-Arabia, (Cairo: Commercial Library, 1959), pp.43-47.

2. For further details see Articles III and IV of Legislative Decree No.208/1952.

At the same time Decree No.637 was promulgated providing for the establishment of a free exchange market, the regulation of the export accounts and the encouragement of banking activities.[1] In accordance with Article II of the said Decree all restrictions on capital movements in and out of Syria were removed. Moreover, payments for and receipts from invisible current transactions became completely free. Article III stipulated that export proceeds should be surrendered to an authorised bank which would in turn credit it to the name of the recipient exporter under a special internal account to be called the "export account". About 80% of the total receipts from exports were actually credited to "Export Accounts" with no restrictions whatsoever on the remaining 20%.[2] Funds in the export account, however, were not to be used except for payments of imports, which had been licensed by the Ministry of National Economy.

On May 19th, 1953 Legislative Decree No.111 was promulgated amending Legislative Decree No.208/1952, and the official rate of exchange was finally abandoned except for the purpose of valuating official holdings of gold and foreign exchange and for expenditures of, and payments to, the oil pipeline companies. In 1954, the Minister of National Economy issued Decree No.143 making all movements of gold in and out of Syria completely free.

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1. Refer to the explanatory note annexed to Decree No. 637 issued on April 21st, 1952.

2. Sana Al-Kani, Al-Iqlim As'Suri Wa Iqtisadiatuhu, (Cairo: Renaissance Library, 1959), p.218.

Since it was established in 1952, the Syrian Exchange Office started undertaking foreign exchange open market operations for the purpose of stabilizing the exchange rates. During the export season, from September to January, a large volume of foreign currencies flows into the country, making the supply much greater than the demand. The Exchange Office used to buy this surplus exchange and later when export proceeds were low it supplied it in the market at a unified and free level. Moreover, in 1953 the exchange office established a future market for "export accounts" and stabilized the rate of the exchange rate of the Syrian Pound vis-à-vis the Dollar, letting other foreign currencies fluctuate according to their respective strengths in the international free exchange market.[1]

It should be noted in this respect that the exchange system in Syria at this stage was not completely free. As a matter of fact the government through the Exchange Office intervened in the market not only to stablise the exchange rates, but also to control indirectly the volume and kind of foreign exchanges. The government specified those currencies to be accepted in receipt for exports, and restricted the use of foreign exchanges in the "export accounts" to payments of prior licensed imports. Moreover, only authorised banks were permitted to deal with "export accounts" under the supervision of the Exchange Office. All imports were subject to prior licensing and so

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1. The rate of exchange of the Syrian Pound vis-à-vis the U.S. Dollar was maintained at £1 = L.S. 3.575.

were the exports of around thirty important items. Several goods could be exported and imported only through the port of Latakia. However, despite the fact that the Syrian exporters were free to sell their holdings of foreign exchange directly to importers at the market rates, yet the government kept a close eye on the market to prevent the accumulation of undesired foreign currencies, and reserved to itself the right to control the volume and direction of exports and imports. Thus, the Syrian Government could, when need may call for, have exercised a strict control over the supply and demand of foreign exchange in the country. Such a semi-free exchange system has served the needs of the Syrian economy quite satisfactorily. The gold and foreign exchange reserves of the country increased from L.S. 40.3 million in 1952 to L.S. 223.3million at the end of 1957.[1]

The Syrian Region maintained its exchange system after the unification with Egypt. However, right from the beginning it was clear that Syria would soon apply an exchange control similar to that applied in Egypt. The U.A.R. Government has adopted the philosophy of "planning" for the economic development of the country. The public sector, as a matter of fact, has become directly involved in various economic activities. Of the total investments during the Five Years Development Plan of the Syrian Region, the share of the public sector would amount to over 54%. It was estimated that nearly an amount equivalent to L.S. 1225 million in foreign exchange will

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1. The Central Bank of Syria, Annual Report, 1957, (Damascus: 1958), p.80.

be needed to finance the Five Years Development Plan - 1960 to 1965 -.[1]

Moreover, the Egyptian Region, under present conditions, is in no position to relax its strict exchange control measures. The persistent deficits in its balance of payments due to increased imports of foodstuffs, capital goods and armaments on one hand, and the economic development plan necessitating the restriction of payments in foreign currencies to necessary imports on the other, has made it imperative for Egypt to maintain a strict control over all operations in foreign currencies, in order to ensure the flow of these funds into the "proper" channels. Thus, to achieve the economic integration of the two regions of U.A.R. introduction of exchange control in Syria was a necessary step. In the unified economy where all movements of goods and capital should be free, a semi-free exchange system permitting the leakage of capital to third countries was neither practical nor desirable from the point of view of the Central Government.

The aforementioned were the basic motives behind the Presidential Decree No.11 promulgated on February 4th, 1961, and providing for the introduction of exchange control in the Syrian Region. However, since 1958 several developments had taken place in Syria, which could be considered as direct reasons for the introduction of government

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1. U.A.R., Department of Information, Khitat Al Mustakbal, (Cairo: Government Press, 1960), p.6ff.

control over operations in foreign exchanges. The failure of agricultural crops during the past three years has reduced the export proceeds of Syria to a large extent, while the trend for imports has tended to increase resulting in great strains on the country's balance of payments position. Moreover, capital has been flowing out of Syria in tremendous quantities recently, and it was officially estimated that some L.S. 400 million have been transferred abroad resulting in depreciating the value of the Syrian Pound vis-à-vis foreign currencies.[1] On the other hand speculations in foreign exchange and stocking of imported commodities resulted in disturbing the stability of the internal economy and in inflating the prices of many goods.[2]

Article 12 of Presidential Decree No.11/1961 abrogated Decree No.637/1952 concerning the organization of the Syrian exchange system. It should be remembered that Legislative Decree No.208/1952 had authorised the Government to restrict all operations in foreign exchanges, if need may call for such an action. Thus, the new regulations were in conformity with an already existing Law, specifically with Article I of the said "Law".

Article I of Presidential Decree No.11 stipulated that all

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1. This is an official estimate by the Syrian Ministry of Planning, see: Al-Ahram, daily Arabic Newspaper, (Cairo: February 6th, 1961), p.1.

2. Refer to the statement by Mr. Kaissouni, U.A.R.'s Central Minister of National Economy: "Exchange Control In Syrian Region", Al-Ahram Al-Iktisadi, No.132, (Cairo: February 15, 1961), p.2.

operations in foreign exchanges were forbidden except under conditions to be specified by the Minister of National Economy. Exports and imports of foreign exchanges as well as of local currency were not permitted unless duly authorised. Article III stipulated that all persons should offer for sale to the Exchange Office their entire holdings of foreign exchanges. Export proceeds should be repatriated during a period not to exceed three months from the date of shipment of goods. But Article IV authorises the Minister of National Economy to exempt export receipts of certain products from being repatriated. All accounts due to non-residents are blocked and cannot be dispensed with except if authorised by the Minister of National Economy. The banks and dealers authorised to deal in foreign exchanges should submit to the said Minister all requested information concerning their operations.

C. COMPARISON OF U.A.R.'s EXCHANGE SYSTEMS

1. Administration Of Exchange Control:

Though, at present, the Syrian and Egyptian Regions have similar exchange systems, yet, each has maintained its own set of rules and regulations concerning the application of exchange control. There are two public bodies, one for each region, entrusted with the administration and supervision of exchange control. These operate under the direction of the respective Regional Ministers of Economy who in turn report in matters of general policy to the Central Minister of Economy.[1] As a matter of fact several meetings were held between the Central Minister of Economy and the two Regional Ministers for organizing the Syrian Exchange Control, at the end of January and the beginning of February 1961.

The Supreme Committee for Foreign Exchange, which is appointed by the Minister of Economy supervises Exchange Control in the Egyptian Region. The technical work, however, is undertaken by the Central Exchange Control, now attached to the Central Bank of Egypt. The Director of Exchange Control, who is also "ex-officio" member of the Supreme Committee, is responsible for the enforcement of all relevant rules and regulations as well as of the directives of the said Committee. He also supervises the operations of the Central Exchange Control which consist of seven sections each responsible for one or more aspect of control.[2]

In the Syrian Region, on the other hand, supervision and

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1. In March 1959 a re-organization of the U.A.R. Administration took place and the Ministry of Finance was abolished, its function being distributed among the Ministries of Economy and Treasury.

2. The seven sections are: 1. Section of Travel and Maintenance Allowances, 2. Section of Export and Transit Trade, 3. Section of Import, 4. Section of Capital Remittances, 5. Section of Other Transactions, 6. Section of Documentations, 7. Section of Currency Smuggling Control.

administration of exchange control are performed by the Exchange Office.[1] This is an autonomous public institution operating under the directives of the Currency and Credit Board. The Administrative Board of the Exchange Office is appointed by the Minister of Economy and it is the supreme authority in all matters concerning the application of exchange control. The Director of the Exchange Office, who is appointed by the Administrative Board, is responsible for carrying out all relevant rules and regulations and for supervising the operations of the Exchange Office.

The Central Bank of Syria is responsible for the administration of the Exchange Office on behalf of the Government.[2] All transactions of the aforementioned office are executed through the Central Bank of Syria which, also, supplies the necessary staff and office equipment.

Only authorised banks and agents are permitted to deal in foreign exchange operations in both regions of the U.A.R. Authority is granted by the respective Regional Ministers of National Economy upon the recommendations of the Exchange Office in Syria and the Supreme Committee in Egypt.

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1. Presidential Decree No.131/1961, Article III.

2. See Basic Monetary Law of 1953, Article 68.

2. The Rates Of Exchange:

The par rate of the Egyptian Pound is U.S. $2.8716.[1] Prior to February 1958 the major portion of transactions were settled at rates within one percent of par. However, there was a surcharge of 7% on purchases of foreign exchange by importers, as well as a subsidy of 10% on barter transactions and a premium of 20% on imports for the Government. On the 10th of February 1958, the "export account" was introduced whereby balances under this account could be transferred to any non-resident irrespective of the country in which he resides. The Government through N.B.E. used to fix periodically the discounts and its equivalent premium. In the initial period, the discount was fixed at 23.5% equivalent to a premium on the official rate of the Egyptian Pound of 30%. As from March 10, 1958, the discount was reduced to 20.9% equivalent to a premium of 26.5%. Later on September 1, of the same year, the discount was further reduced to 15% and the premium was set at a uniform rate of 17.6% which remained effective until the "export account" was suspended in 1959.[2] As from September 1, 1958, and until the "export account" was finally abandoned, importers were required to pay a premium of 9% on purchases of foreign exchange.

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1. This is the rate declared with International Monetary Fund on 19th September 1949.

2. IMF, International Financial Statistics, XIII, No.1, (Washington, D.C.: January, 1961), p.104.

On September 1, 1959, a new system implicating certain fixed premiums on foreign exchange was introduced to replace the "export account". Under this new system, exporters of cotton and silk received a discount of 22.5% on the value of the Egyptian Pound. With the exception of exports of petroleum, cement and some agricultural products which were made at the par rate, exporters of all other products received a discount of 14.9%. Importers, on the other hand, had to pay a premium of 27.9% on purchases of foreign exchange for licensed imports. The same premium was collectible on imports of certain invisibles.

However, on September 1, 1960, certain modifications were made, whereby, the premium receivable by exporters of raw cotton, cotton yarn and textiles, as well as by exporters of silk yarn and textiles, was reduced to 6.4% corresponding to a discount of 6% on the value of the Egyptian Pound. Exports of cement, petroleum and petroleum products continued to be made at the official rate. The discount of 14.9% receivable on exports of other goods remained also unchanged. However, the premium payable by importers on purchases of foreign exchange was reduced to 10%, while premium collectible on exchange purchases for certain invisible transactions was set at 27.5%.

Officially, Egypt has a unitary exchange rate based on the par rate declared with the International Monetary Fund in September 1947. In actual fact, however, very few transactions take place at this rate. The varying subsidies given to exporters of different commodities and the surcharges on foreign exchange purchases, give rise to a system of multiple exchange rates. Hence, in addition to the par rate, there is actually a rate for cotton exports, a rate for exports of other goods, a rate for commodity imports and a rate for imports of invisibles.

Obviously, the purpose of the premiums granted to exporters is to maintain the level of cotton exports and to encourage the exportation of other goods especially those produced by the newly developed industries. The relatively greater subsidy given to exporters of goods other than cotton and silk is an attempt on the part of the government to encourage the export of those products and bring about a diversification in the country's export trade.[1] On the other hand, the high premium payable on foreign exchange purchases for imports of certain invisibles reflects the desire of the government to curtail such imports. But the uniform 10% premium payable by importers on merchandise does not seem to be a measure for cutting down the level of such imports. As a matter of fact, the government

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1. For a detailed analysis of the effects of export subsidies on levels of exports in underdeveloped countries, refer to: Eugene R. Schlesinger, Multiple Exchange Rate & Economic Development, (Princeton N.J.: Princeton University Press, 1952), pp.37-50.

already has a strict control over imports through quantitative restrictions as well as through the foreign exchange budget set for allocating specific quotas of foreign currencies to be utilized by the various sectors. Moreover, such a measure cannot be considered as a tax on windfall profits achieved by importers because the surcharge is uniform and does not discriminate between capital goods and other consumption and luxury commodities.[1] Had the purpose of these surcharges been, mainly, to curtail imports, it is only logical to assume that surcharges on imports of luxuries and unnecessary goods should have been much greater than surcharges on capital goods, if any should be imposed on the latter at all. The rapid industrialization program undertaken at present necessitates the stimulation of imports of capital goods and other raw materials and, at the same time, the curtailment of imports of other non-necessary goods as well as commodities which compete with products of the local industries. Therefore, the fact that a uniform surcharge collectible on exchange obtained for all licensed imports, plus the fact that subsidies are receivable on almost all exports, could be explained

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1. When there is a quantitative restriction on imports, windfall profits might accrue to those importers who obtain import licences. However, in underdeveloped countries undergoing rapid economic development programs, imports of certain consumption goods are usually strictly restricted while imports of capital goods are encouraged, thus, windfall profits might be realized by importers of the first type of commodities rather than the other. See: Ibid., pp.6-19.

as measures undertaken on the part of the government to effect a certain "defacto" devaluation of the Egyptian Pound.[1]

If the above analysis holds, the question might arise as to why Egypt does not devaluate its currency instead of employing such a complex exchange system. The answer to this question might be sought in Egypt's structure of foreign trade as well as its balance of payments position.

To alleviate the pressures on its balance of payments, Egypt had to increase the level of its export proceeds and at the same time cut down to a minimum the payments for imports of certain goods and invisibles. Cotton, the international prices of which are rather volatile, account for about 80% of Egypt's total export proceeds. Therefore a flexible system of subsidies would enable the government to maintain the levels of export of this product and keep its prices in confirmity with changing international prices. It is worth mentioning in this respect that the government has already manipulated the subsidy on proceeds from exports of cotton in September 1960 when it reduced the discount receivable by exporters of cotton to 6%. When the "fixed premium" system was first introduced, the discount on the

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1. C.f. Raymond F. Mikessel, Foreign Exchange In The Post-War-World, (New York: Twentieth Century Fund, 1954), p.169.

Egyptian Pound granted to exporters of cotton was set at 22.5%. However, as the traditional markets for cotton were re-gained and normal relations with most countries of Western Europe - severed since the Suez Crisis - were resumed, the subsidy was greatly reduced. On the other hand, subsidy on most other exports was maintained at the same high level. Moreover, in view of the fact that Egypt produces over half of the total world production of long staple cotton, the demand for its cotton exports at certain times tends to be inelastic,[1] and an overall devaluation might not result in increased total export proceeds. Through varying subsidies to different exports the government would have the necessary tools to optimize its export proceeds under changing conditions. Moreover, relatively high penalty rates have been set to restrict the imports of certain invisibles. As a matter of fact, such systems of multiple exchange rates "are particularly suited to the economic structures of low per capita income countries whose international trade consist essentially of exchanging exports of primary products for imports of capital equipment and other manufactured goods".[2] Another reason

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1. Price elasticity of demand for Egyptian cotton tends to be less than unity when the prices of Egyptian cotton are near the level of American cotton prices. See Jamal Eddeen Said, Mushkilat Mizan Al Madfu'at Fi Misr, (Cairo: 1955), p.30 and also see Besciani Turrani, "Relation Entre la Récolte et le prix du Cotton Egyptien", L'Egypt Contemporaire, (Cairo: December, 1950), p.41.

2. Schlesigner, op.cit., p.1.

which might have influenced the decision of the government against an overall devaluation could have been the psychological adverse effects which would have resulted from such a step at this stage of the country's economic development.

The other region of the U.A.R. has also a multiple exchange rate system, but actually all transactions now, i.e. since the introduction of exchange restrictions in February 1961, take place at the unified official rate set by the Exchange Office (see Table X).

Syria declared a par rate for its currency with the International Monetary Fund in July 1947, at L.S. 2.19148 per one U.S. Dollar. However, in 1948, the government officially recognised a free market rate which was applied to all imports as well as to capital remittances, whereas the official rate[1] was maintained for about 20% of the exports and 80% of the purchases of local currency by the oil pipeline concessions companies. In November 1948, export proceeds which could be sold at the free market rate, were increased to 90% and, finally, in September 1949, all export proceeds were salable at the said rate. The oil concession companies continued to purchase 20% of their local currency requirements at the official rate until November 1955, when they were authorised to meet all their local expenditures at

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1. Set at L.S. 2.19 = U.S. $ 1 buying and L.S. 2.21 = U.S. $ 1 selling.

the free market rate.

With the break-up of the customs union with Lebanon, most of the export proceeds were to be registered with banks at rates specified by the Exchange Office. Exporters could sell their proceeds to banks or directly to importers. The registered foreign exchange came to be known as the "exportation exchange", and could be used only for purposes of licensed imports. However, importers were permitted to obtain their requirements of foreign exchange from the free market if they wished to do so. The nominal difference between the free market rate and the "exportation exchange" rate was finally abolished in February 1953. Since then, and up till February 1961, most of the exchange transactions took place at the "controlled free market rate",[1] while some invisible transactions and capital remittances were made at an "uncontrolled free market rate".[2]

In February 1961, the Syrian Region adopted an exchange control system similar to that of Egypt whereby all free transactions in foreign exchange were prohibited. All holdings as well

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1. The Exchange Office intervened in the exchange market through open market operations to stabilize the value of the Syrian Pound in terms of Dollar at L.S. 3.585 = U.S. $ 1.

2. The uncontrolled free market rate varied slightly from month to month in accordance with forces of demand and supply and in January 1960 was L.S. 3,678 = L.S. 1 compared to L.S. 3.90 per L.S. 1 in November of the same year.

as proceeds in foreign currencies were to be surrendered to the Exchange Office from which importers and other users were to obtain their exchange requirements. All transactions thereafter were to be made at the official rates set by the Exchange Office. On February 7th, 1961, these rates were set as shown in Table XI.

TABLE X.

OFFICIAL RATES OF SYRIAN POUND

Unit Of Foreign Currency	RATE OF EXCHANGE IN SYRIAN PIASTERS: Buying Rate	Selling Rate
Egyptian Pound	885.00	892.00
Egyptian Pound (Banknotes)	790.00*	800.00
Egyptian Pound (Bank accounts)	750.00	755.00
U.S. Dollar	357.00	358.50
U.S. Dollar (Banknotes)	355.75	356.75
Sterling Pound	1000.00	1004.25
Sterling Pound (Banknotes)	996.00	999.00
Deutsch Mark	85.60	86.00
Deutsch Mark (Banknotes)	85.45	85.70
Swiss Franc	82.80	83.20
Swiss Franc (Banknotes)	82.25	85.50
New French Franc	72.90	73.30
Lebanese Pound	113.95	114.45

Source: Vide, "Le Control des Changes en Syrie", Le Commerce du Levant, Edition Mensuelle, I, No.6, (Beirut: February 16, 1961), p.76.

*The buying rate was raised to L.S. 800.00 per Egyptian Pound on March 9th, 1961.

The official rates, abovementioned are almost the same as the "controlled rates" in effect prior to the introduction of exchange restrictions. As a matter of fact, the rate of L.S.3.58 equivalent to one U.S. Dollar was maintained, while very slight changes, if any, have been made to the rates of exchange for other currencies.[1] Consequently, it can be said in this respect that the adoption of an exchange restriction system was mainly for the purpose of coördinating the economics policies in the two regions of the U.A.R. and particularly those concerning foreign exchange. Such a move was in line with the economic philosophy of the U.A.R. A foreign exchange budget is being prepared for the Syrian Region - similar to that of the Egyptian Region - whereby all foreign exchange proceeds and payments are strictly controlled by the government. The prevention of capital flights, however, could be considered as another reason motivating the government to initiate such a restrictive system of exchange in the Syrian Region.

It could be concluded, in this respect, that while the Egyptian Region employs a complicated multiple exchange rate system involving various export rates as well as varying taxes on foreign exchange purchased for different uses, the exchange rate system of the Syrian Region is much simpler. Though Syria has not changed officially the parity of its pound declared with the International Monetary Fund in 1947, the par rate had been completely abandoned before February 1961, all transactions being

1. The controlled free rate for Sterling ranged from L.S. 10.054 - L.S. 10.093 during 1960, while that of the Swiss Franc P.S. 82.8 - P.S. 83.4 and the Lebanese Pound from P.S.112.7 - 113.8 during the same period.

made at the "controlled" and "uncontrolled" free market rates. The new rates of exchange effective, since February 7, 1961, however, are very similar to the "controlled" free market rate in effect before, and the differences between the buying and selling rates are within the two percent tolerance provided for in the Agreement of the International Monetary Fund.[1] The only exception, is made with respect to the Egyptian Pound for which three different rates of exchange have been set. There is a rate for banknotes, another for the Egyptian pound account and a third for banknotes account. The latter rate was set in accordance with the payments agreement concluded by the two Regions to regulate commercial transactions between them in 1958. It is worth mentioning that on March 9th, 1961, the exchange office increased the buying rate of the Egyptian Pound from P.S. 7.90 to P.S. 8.00, most probably to absorb Egyptian banknotes held by Syrian individuals and to encourage their sale in Syria as an offset to their being smuggled to other places. The rate for the Egyptian Pound account is the highest among the three. Its selling rate is higher by 18.2% and 11.5% than the respective rates of the banknotes account and the banknotes.

3. Non-Resident Accounts:

For purposes of exchange control, bank accounts in both

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1. Though for certain currencies (See Table XI) "banknote rates" are slightly lower, than "transfers" rates, still the difference is less than the allowable two percent.

Regions of the U.A.R. are divided into two separate categories. The distinction is made according to the nationality and place of residence of the beneficiaries.

The Laws of the Syrian and Egyptian Regions are uniform in the definitions of "residents" and "non-residents". All foreign physical and moral persons residing outside the "Region"[1] concerned are considered as non-residents, and thus, can hold non-resident accounts with authorised banks in that particular "Region", designated by countries of their residence. "Residents", on the other hand, are defined as all moral and physical persons officially residing in that particular "Region" irrespective of their nationality. However, citizens of both Regions residing abroad, even if on permanent basis, continue to be considered as residents and their accounts cannot be transferred abroad except by special authorisation and within certain limits. It is important to note in this respect that since each of the U.A.R. Regions applies exchange control vis-à-vis the other, the citizens of one Region are considered - from the point of view of exchange control laws - as "non-residents" in the other Region and all regulations applying to other non-residents apply equally to them.

All "non-resident accounts" should be with authorised

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1. The term "Region" is used in this connection to designate either one of the two U.A.R. Regions.

banks in that particular "Region". In both regions, such "non-resident accounts" are designated by countries of the beneficiary or by the monetary zone within which the country falls.[1] However, a person residing in a country other than that of his citizenship cannot acquire a "non-resident" status designated to the country of his residence except after a special permission from the authority concerned. In the case of the Egyptian Region, such permissions are not given to non-nationals residing in the United States, Canada, Switzerland and Belgium, as these countries are considered "hard currency zones".

As far as the Syrian Region is concerned, "non-resident accounts" are divided into three categories. In the first place, there is what is called the "Ordinary Non-Resident Account" which is an account held by a non-resident in a Syrian Region authorised bank and in Syrian Pounds designated by the country in which the holder normally resides. Such balances can be used for payments in the Syrian Region and are transferable to the titular countries. These accounts can be credited by authorised payments from residents, transfers received in the currency of the country to which the "non-resident account" is designated - provided that it is approved by the exchange office - and receipts in any other currency acceptable to the said office.

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1. From the point of view of exchange control in U.A.R., some nine monetary zones are distinguished each composed of a group of countries to which uniform exchange control regulations are applicable. For details see: H. Kamel and A. Amer, <u>Al-Rakabah Ala An'nakd Al-Ajnabi Fi Misr</u>, (Cairo: 1957), pp.142-143

Transfers abroad, to the debit of "non-resident accounts", require the prior approval of the Exchange Office. "Non-resident accounts" can be debited by payments made to residents for exports from the Syrian Region in destination to the country by which that particular account is designated. They can also be debited in favor of another account pertaining to the same country, as well as by sums transferred abroad, directly, in the currency of the country to which the accounts pertain. Moreover, non-resident accounts can also be debited by amounts transferred abroad in other currencies provided the transaction is approved by the Exchange Office.

The second type of "non-resident accounts" are known as "Blocked Non-Resident Accounts", which are blocked balances held with authorised banks in Syrian Pounds by individuals and firms having a non-resident status. These accounts are credited by non-transferable payments made to non-residents. Moreover, balances held by"non-residents" in the Syrian Region exceeding the amount of L.S. 50,000 per family are credited to the "Non-Resident Blocked Accounts". Similarly for balances accumulated by non-residents from sales of capital assets, inheritance and donations as well as "dead" capital disbursements. The "Blocked Non-Resident Accounts" could be used for daily expense purposes in the Syrian Region to the amount of L.S. 10,000 per year. They can also be invested in government bonds, in nominative shares of companies registered in the Syrian Region, and for subscriptions to increases in capital of Syrian Companies in which the account holder is already a shareholder. Revenue derived from such investments can be credited to "Ordinary Non-Resident Account".

The third type of "non-resident accounts" known as "Temporary Non-Resident Accounts" are those accounts in Syrian Pounds held by foreigners residing in the Syrian Region on temporary basis. Such accounts could be credited by revenues accruing to the holder employed in the Syrian Region, as well as by transfers from abroad through any accepted means of payment. Moreover, they could be credited by Syrian or other foreign banknotes brought, legally, into the country by that particular person. These Temporary Accounts are transferable in case the holder decides to leave the country finally, but the prior approval of the Exchange Office is necessary.

As far as the Egyptian Region is concerned, the regulations applying to "Ordinary Non-Resident Accounts" and to the "Blocked Non-Resident Accounts" are basically the same as their counterparts in the Syrian Region. Such accounts are credited and debited in exactly the same way and under similar conditions in both Regions.[1] It should be noted, however, that "Ordinary

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1. C.f. Decree of Syrian Minister of Economy No.131/1961 and Articles 15-30 as well as Articles 33-42 of similar law concerning the Egyptian Region published in: Ibid, pp.149-163 and pp.168-173.

Non-Resident Accounts" can be credited - in addition to the items mentioned in connection with Syria - by transfers in Sterling received from the monetary zone of the non-resident and credited to the "transferable account."[1] As far as "Blocked Non-Resident Accounts" are concerned, foreigners, residing in the Egyptian Region, who have managed to acquire a non-resident status, can transfer an amount equivalent to L.E. 5,000. The use of such accounts for personal expenditure purposes in Egypt are, however, limited to L.E. 1,000 per year. All other conditions cited in connection with "Blocked Non-Resident Accounts" in the Syrian Region apply for Egyptian "Blocked Non-Resident Accounts" and need not be discussed further.

The "Provisional Blocked Accounts", which apply only to the Egyptian Region are accounts opened for residents of the United States, Canada, Belgium and Switzerland where funds accruing to them in respect of capital and revenue are temporarily blocked due to shortages of the corresponding currencies. Such balances can be used for the same purposes as those indicated for the "Blocked Non-Resident Accounts". Another type of non-resident account established in the Egyptian Region is the "Collector Account" operated in connection with bilateral payments agreements.

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1. The "Transferable Accounts" are free Sterling balances possessed by Egypt in the United Kingdom.

4. Payments Between Residents And Non-Residents:

Payments between Residents and Non-Residents are governed by regulations which are almost the same in the Syrian and Egyptian Regions. Payments to a non-resident are made in the currency of the beneficiary's country if available, in the currency of the "Region" concerned credited to an "Ordinary Non-Resident Account" designated by the beneficiary's country or in any other currency approved by the Control authorities. Receipts from a non-resident, on the other hand, are made by the currency of his country if accepted, or the currency of the "Region" concerned debited from a "non-resident account" designated to the country of the payer, as well as any other currency approved by the Control authorities. Payments between residents and non-residents in the Egyptian Region can also be made by transferable Sterling Pounds credited to or debited from the "Transferable Account".

The Syrian Exchange Office has prescribed the method and currency for making settlements on account of merchandise transactions. Payments for exports of the Syrian Region to surrounding countries can be made in Syrian Pounds by debiting the "Ordinary Non-Resident Account" designated by that particular country. Proceeds from exports to Iraq, Jordan, Lebanon, Saudi Arabia and Kuwait are accepted in their respective currencies. However, export proceeds in U.S. Dollars, Sterlings, Swiss Francs and Deutsch Marks are accepted from all countries. In addition, the French Franc is accepted in payments for Syrian exports to the

French Franc Zone, the Belgian Franc in payments for exports to the Belgian Franc Zone and the Moroccan Franc in payments for exports to Morocco. Payments for imports, however, are made in accordance with the above mentioned general regulations.

In the Egyptian Region, prescription of the method and currency in which merchandise transactions are made depends on the monetary zone and the type of transaction involved.

Proceeds from exports to countries with which Egypt has no payments agreements should be made in transferable currencies. However, proceeds from exports with which the Egyptian Regions has payments agreements must be made in Egyptian Pounds credited to the "collector account", or in other currencies agreed upon-depending on the terms of the payments.

Similarly, payments for imports from countries with which the Egyptian Region has payments agreements specifying payments in Egyptian Pounds are made through "collector accounts". However, payments from other countries - including those with which the Egyptian Region has payments agreements specifying payments in other currencies - are made either in transferable currencies, or Egyptian Pounds by debiting the "Ordinary Non-Resident Account" designated by the country of the beneficiary.

5. Control of Imports:

Import policies in the Syrian and Egyptian Regions are rather similar. In both Regions almost all imports require prior licences and priority is given to imports of capital equipment, raw materials and other essential foodstuffs and medical supplies. The issue of import licences depends upon the currency in which import payments are settled and the relative prices of imports. As a matter of general policy, the authorities concerned in each Region prefer to license those imports, having relatively low prices and payments for which are easy to settle.

Through the Foreign Exchange Budget, the government allocates global quotas of foreign currencies to the various sectors to be utilized for imports needed by that sector. The Egyptian Region has established such a budget as early as 1957. A similar one is prepared for the Syrian Region, at present, for the financial year 1961-1962.

All importers in the Egyptian Region are required to pay a surcharge of 9% on the value of the import licence in advance. However, imports of raw materials, capital goods, petroleum products and supply goods are exempted from such a tax, but still require a prior licence. Only imports made directly by the government, imports from the Ghaza Zone and imports of books and publications do not require prior licensing. Moreover, importers pay a uniform premium of 10% on all licenced imports.

Though no tax is payable by importers on licences obtained in the Syrian Region, yet they are required to deposit 15% of the value of their imports with an authorised bank when they apply for import licences. Such an arrangement is used to restrict the demand for imports by tying up part of the importers funds before the receipt of imported goods. However, owners of industrial concerns, as well as importers of pharmaceutical products, of machinery and of fertilizers, are exempted from the abovementioned requirements.

6. Control Of Exports And Proceeds Thereof:

With the exception of exports to Israel and the export of certain commodities considered essential to the national economy, neither the Syrian nor the Egyptian Region exercise any restrictions on exports.[1]

As a matter of general policy, exports to countries willing to pay in transferable currencies are encouraged by the competent authorities of both the Syrian and Egyptian Regions. In either Regions, all proceeds from exports should be repatriated within three months from the date of shipment of goods.

Though exporters of commodities in the Egyptian Region receive premiums on the value of their exports, those in the

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1. The procedures which have to be followed by exporters, as far as exchange control is concerned, are practically the same in both Regions.

Syrian Region have to submit their proceeds to the Exchange Office at official rates. However, in Syria, proceeds from exports not exceeding L.S. 200 need not be received in foreign exchanges. Also, agricultural products of border lands - provided that the owners of these lands are non-residents - when exported to the corresponding countries of the owners, are exempted from being paid for in foreign currencies. In the Egyptian Region, on the other hand, Egyptian banknotes in denominations of less than L.E. 50 sent from abroad can be used in payments for exports of films, books periodicals and other publications. These could be also used in payments of 25% of the value of other exports. The remaining 75%, however, has to be made in one of the methods of payments acceptable to the Central Exchange Control.

7. Invisible Payments And Proceeds:

All moral and physical persons, whether in the Syrian or the Egyptian Region, should offer to authorised banks at the official rates all their proceeds in foreign exchange from invisible transactions. Foreigners arriving into any of the two U.A.R. Regions can bring in with them unlimited amounts of foreign currencies as well as banknotes of the corresponding Region, provided they declare these amounts with the customs upon entry. Remaining sums, which have not been spent, could be taken out upon leaving the country.

Payments for certain invisibles could be effected directly by authorised banks without prior approval of the exchange control authority concerned. However, some invisible payments, as those made in relation to cinematograph films, require the prior approval of the said authorities. Exchange for approved commercial transactions and other current payments are made available upon request. Expenses for approved travel, maintenance abroad, as well as, fees and subscription to professional organizations are made in accordance with certain specified quotas.

The Suez Canal dues, however, should be paid in Egyptian Pounds from shipping account No.1. Such an account can be fed only through the sale of certain currencies depending on the foreign country concerned.[1]

8. Capital Transactions:

The exchange control regulations in the Syrian and Egyptian Regions provide for a strict control over all capital transactions. The conditions under which capital could be moved in and out of the country and the rules governing the transfer of profits are

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1. In accordance with Directive No.237 of the Supreme Exchange Committee Shipping Account No.1 can be fed: a) for the U.S. and Scandinavia, by their respective currencies, b) for countries with which the Egyptian Region has payments agreements, in accordance with the terms of those agreements, c) for all other countries, in U.S. Dollars, Swiss Francs, Canadian Dollars, or transferable Sterling.

the same in both Regions.

Residents are not allowed to make transfers abroad for the purpose of acquiring capital assets or securities unless a prior authority is obtained to this effect from the corresponding exchange control body. The competent authorities concerned, in the Egyptian Region do not grant such licences except for certain transfers to Arab countries. Imports and exports of securities - in both Regions - are subject to prior licensing.

In the Egyptian Region, non-residents can buy freely securities on Egyptian Stock exchanges provided payment is made in an accepted foreign currency or by debiting an appropriate "non-resident account". In the Syrian Region non-residents can purchase Syrian securities after obtaining the approval of the Exchange Office. In the latter case, payment could be effected either in a "free" currency or other accepted means of payments. Certain securities might be purchased to the debit of "Non-Resident Blocked Accounts" in both "Regions.

Whether in the Syrian or in the Egyptian Region, proceeds from sales of securities held by non-residents are credited to "Blocked Non-Resident Accounts". Securities, however, could be transferred from one non-resident to another provided both of them hold balances designated to the same monetary zone. Transfers abroad are allowed with respect to securities which mature in accordance with the original term of issue, value of life insurance policies, matured mortgages, as well as other policies when matured or finally liquidated. Other capital remittances not allowed under existing exchange control regulations must be credited to a "Blocked Account".

CHAPTER IV.

THE UNIFICATION OF U.A.R.'S CURRENCIES

Since the early days of the Syrio-Egyptian political merger in February 1958, the question of monetary unification in the U.A.R. has been of special interest, both, to the government and the general public.[1] This is due to the important role played by money in modern economic systems, and its multiple effects on all economic activities. Money and monetary policy "can exert a great influence on the behavior of total real output, the volume of employment, prices and the social distribution of real wealth and income".[2]

Thus, before proceeding to discuss the principles and prerequisites of currency unification in the U.A.R., it is appropriate to start with a short survey of the characteristics of money and its basic functions in the economic system.

A. MONEY IN THE ECONOMIC SYSTEM

The "money of account" is the nucleus of any monetary system. It is an abstract expression in terms of which prices, debt and

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1. Awad Barakat, "Reflection A Propos De L'Union Monetaire Entre Les Deux Regions De La Republic Arabes Unis", L'Economie Et Les Finances De La Syrie Et Des Pays Arabes, Vol 1, (Damascus: June, 1958), p.9.

2. Lester Chandler, The Economics Of Money And Banking, (3rd Ed., New York: Harper & Bros., 1959), p.12.

general purchasing power are expressed. Being merely a description and having no physical substance as such, the "money of account" is used as an accounting unit to measure the value of goods and services, to reckon wealth and to calculate debt. Thus, it exists in any society in which exchange exists even if the society was operating on a barter basis. The "money of account", therefore, is a description and anything which can be conveniently and readily used as a medium of exchange and at the same time answer this description, can be called money.[1]

Naming the "money of account" and designating what it should be is an act of political sovereignity undertaken by the state.[2] Thus, that thing which the state names as a unit of account and which is given by the force of Law the characteristic of general acceptability in discharge of all debts and obligations is 100 percent money or legal tender. However, in modern societies legal tender constitutes only one part of the national currency which is the total money supply circulating among the public. In addition to the legal tender, money supply also consists of coins and bank deposits subject to check.[3]

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1. John Maynard Keynes, A Treatise On Money, Vol I, (London: Macmillan & Co., 1953), p.4.

2. For a detailed review of the Chartalist Doctrine of Money see: Haward S. Elis, German Monetary Theory, (Cambridge, Massachussets: Harvard University Press, 1939), pp.13-38.

3. Albert Hart, Money Debt & Economic Activity, (New York: Prentice Hall Inc., 1953), p.4.

Throughout this and the following chapters the term "money" will be restricted to national currency in accordance with the above stated definition.

1. Functions Of Money:

The basic function of money is to facilitate production through guiding specialization and facilitating exchange. In serving this purpose money performs four functions, namely, that of a measure of value, of a medium of exchange, of a store of value and of a standard of deferred payments.

As a common unit of account or a "standard measure of value" money makes the process of measuring the exchange value of all goods and services simple and practical. All values, whether of assets, liabilities, incomes, expenditures or debts can be stated in terms of a common monetary unit. This "makes possible the price-profit-cost comparisons needed to permit the price system to allocate resources efficiently" and consequently allows the "price directives guide specialization into complex patterns without central control or coersion".[1] Even in a socialist society, such as that of Russia, where extensive central planning and collectinization exists and, where production is not necessarily guided by "price-profit" considerations, money has proved to be indispensible both as a unit of account and a medium of ex-

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1. Paul B. Tescott, Money Banking & Economic Welfare, (New York: McGraw Hill Co., 1960), p.25.

change.[1]

Being a measure of value money performs a function similar to that performed by other units of measurement such as the meter, for example, in the measurement of length, the kilogram in the measurement of weight etc... However it should be noted that while the other measurements are constant quantities, the value of money or its purchasing power is subject to fluctuations. In other words, the value of things measured in monetary terms might vary not due to a basic change in the thing itself, but merely due to a change in the purchasing power of the monetary unit which is used as a measure of value. Thus, to function properly as a measure of value the purchasing power of money must be maintained at a relatively stable rate.

The second function of money is that it serves as a medium of exchange or a "common means of payments". In this sense money represents a "generalized purchasing power" accepted in payments for the exchange of goods and services as well as all debts and obligations. As a "bearer of options" money enables the individual to sell his goods and services to whoever offers the best price, and to purchase whatever he wants from whoever he choses at the price which suits him best and at any time.

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1. See Arthur Z. Arnold, Banks, Credit and Money in Soviet Russia, (New York: Columbia University Press, 1937), pp.21 ff.

Thus, in a world characterised by specialization and division of labour and where a complex pattern of exchange becomes a necessity, money performs the important function of facilitating exchange by acting as a common medium through which all economic transactions are carried out.

In this connection too, if money is to function properly, its value should remain stable, lest it might result in impairing trade, both domestic and international.

The third function of money is that it could be used as a "store of value". Being a measure of value and representing a general purchasing power, money becomes a satisfactory store of "generalized purchasing power" which could be readily exchanged for any good or service at a future date. Though there are other substitutes for money as a store of value - such as bonds, stocks and saving deposits - these substitutes cannot be readily spent for they have to be exchanged for money first, and as a consequence might run the risk of losing part of their value. It is in this sense that money represents the highest degree of liquidity, for it can be directly exchanged for any good or service.

Though money itself is not a productive resource, it bears, through its being a store of value, a great influence on a country's levels of income, production and employment.[1] In a market economy the levels of production and employment depend to a great extent on the prospects of profit expected by the entrepreneurs from the sale of their products. This in turn depends on the amount of money people are willing to spend. Thus if total demand for goods and services becomes too low, production falls, and consequently resources will be unemployed. On the other hand if total demand gets too high and the economy reaches a point above which it cannot increase its productive capacities - in the short run - prices start rising at a rapid rate. It is in this sense that the quantity of money through its relationship to total expenditure levels affects income and employment. The variations in levels of expenditure due to a change in the willingness of people to hold money as a store of value could result in varying levels of economic activities.[2]

Money serves also as a medium in which debts are stated, claimed and discharged. Thus, as a "medium of deferred payments" money facilitates the transactions of borrowing and lending which

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1. For details of the effects of money, as a store of value, on levels of economic activities refer to: John Maynard Keynes, The General Theory Of Employment, Interest & Money, (New York: Harcout, Brace & Co., 1936).

2. See Edward S. Shaw, Money, Income & Monetary Policy, (Chicago: Richard Irwin, Inc., 1950), Chapters XV and XVI.

are considered among the basic pillars in the structures of modern economies. By making possible the requirement of claims payable in a fixed sum at a future date, money encourages saving and borrowing, and consequently facilitates the "complex saving-investment" transactions.

In this respect too, the value of money must be maintained stable in order not to result in injuring the interest of any of the parties concerned in the process of lending or borrowing. Fluctuations in the purchasing power of money throughout time result in losses which are incurred either by the creditor or by the debtor, depending on whether the change in the value of money is upward or downward.

2. <u>The Value Of Money</u>:

Money is not held for its own sake, but rather for what it can buy. Thus, the value of money or its command over "things in general" is of paramount importance not only in as far as the individual is concerned, but also for the entire economy. While the value of everything else is measured in terms of money, the value of money is expressed in terms of all the "general things" a unit of it can command.[1] Therefore, a change in the value of money or its purchasing power will immediately result in an inverse change in the ability of people to exchange goods and

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1. Dennis Robertson, Money, (Cambridge: James Nisbet Co., 1959), p.14.

services for a unit of it.[1] An increase or decrease in the value of money are reflected in respective falls and rises in the general levels of prices, affecting different people in different ways, and injecting "an element of instability into the economy as a whole".[2]

Thus, an investigation into the forces influencing the value of money becomes necessary in this respect not only because of its effects on levels of economic activities, but also due to the fact that it might throw some light on the pre-requisites of currency unification in the U.A.R. which will be discussed later in this chapter.

A national currency has an internal value with respect to its use within the boundaries of a certain country, and an external value in connection with its use in international transactions. Its internal value is merely its purchasing power or the command of a unit of currency on other goods and services, while its external value is its exchange price in terms of other foreign currencies or its rate of exchange. Though the forces affecting both the internal and external value of currency are interrelated,

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1. It is in this sense that the value of money is expressed as the "reciprocal of the general price level".

2. Kenneth Kurihara, <u>Monetary Theory & Public Policy</u>, (London: Allen & Unwin Ltd., 1951), p.12.

and despite the fact that a change in one might result in a corresponding change in the other, it is more convenient to discuss each of these two aspects of the value of currency separately.

Several theories have been proposed to explain the value of money.[1] Among the first explanations of the value of money is the "Quantity Theory" which assumes that currency has a stable velocity of circulation and that the amount of goods and services exchanged for currency does not change, thus setting an inverse relationship between the amount of currency available and its purchasing power.[2] Later this theory was refined by what is known as the "transaction equation of exchange", which states that the price level is in direct proportion with the amount of currency available as well as with its velocity of circulation, and in inverse proportion with the volume of goods and services exchanged.[3] However, the "transaction equation of exchange", does not take into consideration the national income which reflects the level of

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1. For a summary of these Theories refer to: Ibid., pp.12-27.

2. This relationship is expressed by the equation $M = pk$ where P represents level of general prices M the Quantity of Money and k a constant proportionality.

3. The transaction equation is expressed as $MV = PT$ where M is the quantity of currency V is the velocity of circulation, P is the general price level and T is the trade volume. In other words this means that what is paid by the buyers is equivalent to what is received by the sellers.

expenditure on end products, and which bears a considerable effect on the levels of employment. In other words it does not explain the determination of the value of money through force of its demand and supply in connection with the level of production.[1]

The "cash balance equation of exchange" states that the general level of prices is in direct proportion with the total cash balances - i.e. hand-to-hand cash and demand deposit - and in inverse proportion with the volume of real national income and the length of the period during which cash balances are held as a store of value.[2] This approach emphasizes the fact that money might be demanded to be held in liquid form in comparison with total expenditure, and thus attempts an explanation of the value of money in terms of the demand for currency and the supply of it.

The supply of a national currency can be directly changed by those institutions which are empowered to do so, or which have the means to create and destroy currency. The government claiming the monopoly of currency issue can create and destroy legal tender, depending on existing monetary regulations. In the Syrian Region for example the law requires that all notes issued should be covered with gold to the extent of 30%, thus limiting the

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1. Keynes, General Theory Of Employment Interest & Money, (New York: 1936), pp.292-293.

2. This equation is expressed as $M=PKT$ or $P=\frac{M}{KT}$.

ability of the government to issue legal tender notes freely. However, while the government can issue and destroy legal tender, commercial banks create and destroy deposits, thus influencing the total quantity of currency available during a certain period of time.[1] But the ability of commercial banks to create credit is not left without control. The government, through the central bank or any other monetary authority concerned, sets a cash-reserve ratio requiring banks to hold a certain portion of their deposits in liquid form. Thus, any change in the cash reserve ratio might result in a consequent change in the supply of currency. Moreover, the choice of people to hold their money holdings in cash form or in the form of bank deposits can influence the supply of money through influencing the cash reserves of banks in connection with the cash reserve ratio requirements. The Central Bank, through open market operations, through alteration of the cash reserve ratio requirements, through manipulation of rediscount rates, and sometimes by moral suation can also influence the supply of currency through influencing the ability of commercial banks to create deposits. This usually depends on the means of credit control at the disposal of the central bank, as well as on the credit policy pursued to suit the financial requirements of the economy and general business activities.

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1. For details of how commercial banks create credit refer to: Hart, <u>Money, Debt & Economic Activity</u>, (New York: 1953), Chapter IV.

On the other hand, currency is demanded either for expenditure purposes or to be held as a store of value. Though the total demand for currency is determined by the level of national income, the volume of expenditure and the volume of liquid holdings depend on a multitude of economic, political, technological and institutional factors.

The aggregate or total expenditure in a community consists of consumption expenditure, private and public investments as well as foreign expenditure on those goods and services which are locally produced. Among the factors influencing consumption expenditure[1] are changes in prices, population growth, wealth distribution, the tax structure, the frequency of income payment in practice among the members of a certain society, as well as psychological and institutional factors. Moreover, credit facilities made available by the banking system might also stimulate consumption expenditure. Investment expenditure on the part of the public sector is influenced by such factors as fiscal policy, as well as the development and general economic policy followed by the government in the light of the economic needs of the country as a whole. Private investments, however, are undertaken by entrepreneurs who not only determine the volume of investments to be made

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1. Keynes assumed that consumption expenditure is a function of income only, and that it does not change considerably given a certain level of income. Cf. Keynes, <u>The General Theory Of Employment, Interest And Money</u>, (New York: 1936), p.96.

during a certain period of time, but also have the choice to channel them into different sectors of the economy. The confidence of the entrepreneur in the state of business activities influences their decision to invest or not to invest. This confidence is based on expectations of profit, the existing rate of interest, the availability of credit institutions, the credit policy and the state of political stability both nationally and internationally. The extent of government partcipation in economic activities and the structure of taxes also bear an influence on the levels of private investment.

The foreign expenditure on goods and services produced locally are influenced by such factors as the level of prices of the commodities in comparison with those produced by foreign countries, the customs policy, the exchange system, the payments agreement and the general trade policy.

The saving habits of a community determine to a great extent the demand of currency as a store of value.[1] The most important incentive motivating people to hold cash-balances is the "speculative motive".[2] The supply of money available and the liquidity preference determine the rate of interest which in turn influences the level of investment and consequently aggregate ex-

1. The motives to liquidity are "The Income Motive", "The Business Motive", "The Precautionary Motive" & "The Speculative Motive". See Keynes, The General Theory of Employment, Interest & Money, Chap. 15.

2. Ibid., p.197.

penditure.[1]

In a world of free exchanges the external value or the exchange rate of a national currency is determined by its demand and supply in the foreign exchange market. The demand for the currency of a certain country is represented by the credit side of its balance of payments which shows all its foreign receipts during a certain period of time, while the supply is represented by the debit side which refers to payments made to the outside world. Thus, when the supply exceeds the demand the exchange rates tend to fall, and vice versa. In other words, if a country has persistent deficits in its balance of payments the rate of exchange of its national currency tends to fall, and if it has persistent surpluses its rate of exchange tends to increase, provided there is a free exchange market.

However, in most of the countries of the world these supply and demand functions are controlled by quantitative as well as qualitative measures through trade controls, interventions in the exchange market or exchange restrictions. These measures have been discussed in the preceding chapter, and need not be investigated further here.[2]

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1. See Kurihara, Monetary Theory & Public Policy, Chapter 6.

2. See Chapter III.

B. REQUIREMENTS FOR CURRENCY UNIFICATION

1. Meaning Of Currency Unification:

At present, each Region of the U.A.R. has its own "money of account" and consequently its own monetary system. Within the boundaries of one political entity there exists now two economies, having two different currencies in use. The accounting unit in which terms, prices, all forms of wealth and obligations are stated in the Syrian Region is the Syrian pound, while its counterpart in the Egyptian Region is the Egyptian pound.

Thus, currency unification in the U.A.R. is basically nothing but the naming of a new "money of account" in terms of which prices, the value of assets and debts will be commonly stated in both Regions.[1] However, it is important to note in this respect that the "money of account must be continuous", in the sense that if it is renamed, "the new unit must bear a definite relation to the old".[2] In other words, "so as to maintain the continuity of descent in the pedegree of the money of account", a relationship must be established between the new U.A.R. currency and those existing at present in each of the two Regions.

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1. Though this new money of account has not been officially named yet; officials in the U.A.R. have referred to it on several occasions as the "Arab Dinar". This latter name shall thus, be adopted to refer to the new U.A.R. currency throughout the course of this and the following chapters.

2. Keynes, A Treatise On Money, (London: 1953), p.5.

As soon as the new money of account is named, new legal tender notes are issued to correspond to that name, and a definite relationship is established between the new Arab Dinar and each of the Syrian and Egyptian pounds, the U.A.R. would have achieved its currency unification. However, such a process is not simple and before it is completed certain conditions which involve several problems should be fulfilled.[1]

The naming of the Arab Dinar as a new money of account and the establishment of a relationship between it and each of the Syrian and Egyptian pounds means the unification of the respective values of these latter currencies, both internally and externally. However, it is worth noting in this respect that in order to safeguard the economic welfare of the entire U.A.R., not to injure the interest of the individuals, and not to impair the level of economic activities and economic development in either of the two Regions concerned, the unification of U.A.R. currencies should be undertaken to reflect the real values or purchasing powers of the Syrian and Egyptian currencies, each in its respective Region.[2]

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1. These conditions will be discussed in detail later in this Chapter, while the problems involved will be analysed in the following Chapter.

2. This will be discussed in detail in Chapter V.

2. Pre-requisites Of Currency Unification:

Earlier in this Chapter it was shown that the national currency of a country is an expression of its economic activities, and that it plays an important role in the economic life of a country, not only by facilitating exchange and specialization, but also by influencing - at least in the short run - levels of income and employment. It was also noted that a certain currency is not demanded for its own sake but for its "generalized purchasing power". Moreover, it was shown that this purchasing power or the value of a certain currency is affected by a multitude of factors such as, the cost of production, the levels of wages and salaries, the general levels of prices, the fiscal policy, the credit policy, the economic development policy, the banking system, the balances of payments and trade, the confidence of entrepreneurs in the state of business activities etc... Thus, the value of a national currency depends on a group of economic, political, social and institutional factors characteristic of the country concerned. Even if the real conditions of production in two countries are identical, the values of their respective currencies might not be the same if other factors are different.

Therefore, to proceed with the unification of U.A.R.'s currencies, without making those factors, which affect the value of money, identical in both Regions, is "like building a roof before constructing the foundations and the structures which will carry it".[1] The unification of the values of the Syrian and Egyptian currencies cannot be successfully achieved and maintained unless the factors determining the supply of and demand for these currencies become identical in both Regions. Thus, in order not to jeopardize the economic welfare and the economic development of the entire U.A.R. or any of its Regions, currency unification should be regarded as the end-result rather than the starting point of the complete economic integration of the Syrian and Egyptian Regions.[2]

Having established the fact that monetary unification should be preceded by the assimilation of those factors which affect the external and internal values of the two national currencies concerned, one can proceed to review the basic pre-requisites which should be fulfilled before the "Arab Dinar" is introduced as the new U.A.R. currency.

In the monetary field currency unification involves the complete integration of the monetary systems of the Syrian and Egyptian Regions. The monetary legislations governing the issue

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1. Awad Barakat, "Reflection A Propos De L'Unification Monetaire Entre Les Deux Regions De La Republic Arab Unie", L'Economie Et Les Finances De La Syrie Et Des Pays Arabes, No.5, 1958, p.10.

2. Robert Triffin, Europe And The Money Muddle, (New Haven: Yale University Press, 1957), p.290.

of notes, the note cover and the management of note-issue should be common in both Regions. Moreover, the legal framework within which commercial banks operate should be unified, because these banks can bear a tremendous effect on the value of currency through determining, to an appreciable extent, the supply and demand for that currency. The integration of the central banking system is essential, not only in as far as the issue of the new currency is concerned, but also in as far as the control of commercial banks, the control of credit, and the enforcement of a unified credit and monetary policies - in accordance with the needs of the entire country as well as in conformity with the general economic policy of the central government - are concerned.

In the fiscal field currency unification requires a uniformization of budgetary policy and budgetary control. The fiscal policy of the government bears a considerable incidence on the value of money, and thus it will be essential to have a common policy for the U.A.R. as a whole before the unification of currencies. A common fiscal system should apply to both Regions with particular reference to whatever might affect the levels of prices. Moreover, policies concerning public debt, whether internal or external, as well as those governing foreign financial aid should be common to both the Syrian and Egyptian Regions.

Social legislation, such as the labor law and social security regulations should be common to both Regions, because differences in such legislation will affect the cost of production and levels of prices differently, thus resulting in different effects on the value of currency in each of the two U.A.R. Regions.

The most important conditions which should be fulfilled in the domain of international trade and finance are, the unification of the trade policies and the exchange systems and policies. This involves the unification of customs laws and duties as well as the unification of other instruments of control over the demand and supply of foreign currencies in terms of the national currency. The fulfillment of these requirements are of paramount importance, not only because of this direct effect on the external value of money, but also because of their effect on its internal value or purchasing power, and thus on the levels of economic activities in general.

A common policy of economic development should be applied to both Regions, whereby the principles governing the financing and amortization of the development programs are the same. Moreover, the economic development plans should provide for the utilization of the economic resources of both Regions on equal basis, and should reinforce the complementarity of the two economies to one another.[1]

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1. See; Mahmoud Ibrahim, "Les Bases De La Planification Economique Dans La Republic Arabe Unie", op.cit., No.5, 1958, pp.29-36.

Finally, all restrictions on the movement of merchandise, persons and funds between the two Regions should be removed and the Inter-U.A.R. Regional Economic Relationships should be reinforced. The exchange rate between the Egyptian pound and the Syrian pound should be stabilized at that level which will ensure an equilibrium in the balance of payments between the two Regions.

After the fulfillment of these conditions involving the unification of those economic, financial and social policies affecting the value of money, and after the establishment of an exchange rate between the Egyptian and the Syrian pounds, reflecting their purchasing powers, the unification of U.A.R.'s currencies will become a matter of printing the "Arab Dinar" and putting it in circulation to replace both currencies circulating at present in each Region.

C. TOWARDS CURRENCY UNIFICATION

The fulfillment of the above-mentioned prerequisites of currency unification and the integration of the two distinct and separate economies of the Syrian and Egyptian Regions were to be achieved during a transitory period. However, during the first year of the Syrio-Egyptian merger, there were different points of view as to the length of this transitory period, the most interesting of which were those expressed by Dr. Yassar Bitar, a Director of the Central Bank of Syria, and by Dr. Kamal Ghali of the Egyptian Economic Development Institution. While the first maintained the view that currency unification should be realized after the integration of the two economies, the latter argued that currency unification would hasten the complete economic unification of the U.A.R. and should be considered as a first step towards such an end; despite the fact that it involves certain sacrifices on the part of the two Regions concerned.[1] Obviously, the U.A.R. Central Government adopted the first point of view, and since 1958 a great deal has been done towards integrating the Syrian and Egyptian economies, and consequently towards the realization of currency unification.[2] As a matter of fact, major modifications have been made to the Syrian Economic System to bring it along lines similar to those of the Egyptian Region, and to set it in harmony with the economic philosophy of planning adopted by the Central Government of the U.A.R. At present, the economic systems of both U.A.R. Regions have become similar in several respects, thus fulfilling some of the important conditions required for the unification of the two U.A.R. currencies.

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1. For further details concerning this academic and theoretical debate between Ghali and Bitar refer to their articles in L'Economie Et Les Finances De La Syrie Et Des Pays Arabes, Nos, 5, 6 and 7, 1958.

2. On several occasions official statements were reported in the local press saying that currency unification in the U.A.R. will only be achieved after considerable preparations in order not to injure the interests of any of the two Regions constituting the U.A.R.

1. <u>Similar Monetary Systems:</u>

The creation of the Central Bank of Egypt along similar lines with that of Syria, and the reorganization of the Syrian commercial banks by virtue of the Law promulgated on March 3rd, 1961, were the two most important steps taken by the U.A.R. Central Government towards integrating the economic systems of both Regions.[1] The regulations governing the control of credit in particular, and the supervision of commercial banking operation in general, have become almost identical in the Syrian and Egyptian Regions.

Though the conditions governing the note issue and cover in each Region are similar in as far as the management of the note issue and the type of assets that qualify to be included in the cover are concerned, yet there still exists an important difference as to how much of each of these assets should be placed in cover. The Syrian monetary Law of 1953 specifies the maximum and/or minimum proportions of the assets that could be placed in cover. The Egyptian Law, however, leaves this to be decided upon by a Presidential Decree in the case of gold, and by the Minister of Economy in the case of other assets.

In this respect it is worth noting that the Syrian monetary regulations are quite elaborate and at the same time

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1. These two steps have been discussed in details in Chapter II.

provide the monetary authority with wide manoeuvering liberties to affect the volume of currency. Thus, the new U.A.R. monetary system should be inspired by this law which is superior to that of the Egyptian Region.

2. Identical Exchange Systems:

Presidential Decree No.11 promulgated in February 1961, wiped out all the differences that existed between the exchange systems of the Syrian and Egyptian Regions. As a matter of fact, Presidential Decree No.11/1961 concerning the introduction of exchange restrictions in the Syrian Region is exactly the same as Law No.80, promulgated for the same purpose in Egypt on 9th July 1947. Similarly the regulations concerning the application of exchange control in both Regions are exactly the same with little or no modifications whatsoever.

Since the early thirties, a common characteristic of the Syrian and Egyptian trade policies has been government intervention in the mechanism of international trade. Though the "modus operandi" as well as the extent of such intervention varied from one to the other at different times, the final result was that both of the U.A.R. Regions ended up in very similar systems, whereby the government exercises a strict control over their trade relationships with the outside world.

Under the Ottoman rule, both Syria and Egypt had to apply the Ottoman customs systems. While Egypt started to conclude trade agreements independently as early as 1884, Syria continued to apply the Ottoman customs system until the end of the First World War.[1] All throughout this period customs duties, whether in Syria or in Egypt, were imposed for revenue purposes. The lack of national industries on one hand and the fact that both countries were producers of agricultural products, the cost of production of which was relatively low, did not necessitate the existance of protective duties.

With the development of industries, and consequently the emergence of a class of industrialists keen on being protected against foreign competition, customs duties started to be imposed for both revenue and protective purposes. In Syria customs duties were increased in 1926 and 1931, while in Egypt Law No.2/1930 was inacted providing for similar measures.[2] However, at this stage neither the Syrian nor the Egyptian international trade policies were formulated in accordance with a general economic development.program.

After the Second World War, further amendments were made

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1. Mouhamad L. Shoukeir, Al-I'luquaat Al-Iqtisadia Bayn Al Bilad Al-Arabia, (Cairo: Institute of Arab Studies, 1958), p.104.

2. Ibid., p.105.

to the customs legislations of Syria and Egypt for the purpose of encouraging national industries. High customs duties were imposed on imported goods similar to those produced locally, while industrial raw materials and capital equipment were, more or less, exempted from such taxes.[1]

Exchange control, is a relatively new measure, undertaken by both Syria and Egypt at the beginning of World War II. At that time, exchange control was imposed not in accordance with the respective economic needs of Syria and Egypt, but as a result of their being members in foreign monetary areas. However, after the end of the Second World War the developments that took place in the Syrian and Egyptian exchange control systems were affected to a great extent by the respective economic requirements of each country. During this period, and up till February 1961, the exchange control system of Syria was of a regulative nature compared to the very restrictive system of Egypt. But the basic principles underlying both systems were similar, and provided for government control over international transactions and over the exchange market, though admittedly in varying degrees.

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1. C.f. Egyptian customs legislations in; Egyptian Ministry of Finance, At'Tashri'at Al-Iqtisadia Wal Maliyah Fi A'hd Al-Thawra, (Cairo: Government Press, 1957), p.359 ff; with Syrian Legislative Decree No.103/1952, published in; Damascus Chamber of Commerce, An'Nashra, Al-Iqtisadia Li-Ghurfat Tijarat Dimashk, (Damascus: 1952), No.3, pp.225 ff.

Thus, with identical exchange systems, and having similar trade policies, and moreover, in view of the fact that quantities of imports and other foreign exchange payments are made in accordance with the allocations of foreign exchange budgets, the complete unification of customs duties and customs regulations should not pose any major difficulties.

3. Inter-Regional Trade And Payments:

Prior to their political merger, commercial transactions between the Republics of Syria and Egypt were regulated in accordance with the terms of the Trade and Payments Agreements concluded among them on 29th January, 1956. Thus, certain agricultural and animal products as well as extracts from natural resources were completely exempted from customs duties. Moreover, customs duties on some industrial products - provided they are locally produced - were to be reduced by 25% - 50%.[1] However, imports from one country to another were subject to prior licensing.

The Syrio-Egyptian Payments Agreement stipulated that current payments between the two countries are to be effected

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1. For details concerning those products on which customs duties have been reduced as well as those completely exempted see: Federation of Egyptian Chambers of Commerce, Iqtisadiat Al Bilad Al-Arabia Wa Tijaratuha Al Kharijia, (Cairo: 1956), pp.258-259.

in Egyptian Pounds through an account at N.B.E. to be called the "Syrian Account".[1] A ceiling of L.E. 300,000 was set, which later - in 1957 - was raised to L.E. 600,000. Any excess was to be settled once every six months, either in transferable Sterling or any other currency upon which the contracting parties might agree.

On September 4th, 1957, Syria and Egypt concluded an agreement known as the "Agreement For Economic Unification". According to its terms a special committee was established to study and recommend the necessary measures for the complete economic merger of the two countries.[2]

After the unification of Syria and Egypt, Presidential Decree No.131 was promulgated on 31st August 1958, regulating inter-regional trade and payments. Article I stipulated that all industrial, agricultural and farm products, as well as those products extracted from natural resources exchanged between the Syrian and Egyptian Regions, shall be exempted from customs du-

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1. The Payments Agreement has been published in; Aleppo's Chamber of Commerce. Al-Majmu'ah Al Iqtisadia As'Sanawiah, (Aleppo: 1956), p.533 ff.

2. For the terms of the Agreement refer to: Al-Ahram, Daily Arabic Newspaper, (Cairo: September 5, 1957).

ties provided they are produced locally. However, it was provided that certain products, to be agreed upon by the Regional Ministers of Economy, can be excepted from such an exemption. All products exempted from customs duties should be accompanied by a "certificate of origin" issued by the competent authorities concerned. To be considered of Syrian or Egyptian origin, industrial products should have local raw materials and labor accounting for not less than 25% of their respective costs of production.

Thus, the two Ministers of Economy agreed on September 16th, 1958, to exempt from customs duties all goods of local origin imported from either region with the exception of cotton, synthetic yarn and fabrics, glass manufacture, tanned skins, shoes and carbonated beverages which remained to 50% of the normal duty. Tobacco, sugar and salt, however, remained to full customs duties. On 23rd November 1958, this arrangement was modified, and consequently all goods of local origin were exempted from customs duties when imported from one region to another, except tobacco, sugar and salt which remained subject to payment of full duties. But, local purchase taxes were imposed in each Region, on those imports having a lower cost of production in the other Region for the purpose of equalizing the prices of goods exchanged between the two Regions. Glass plates, leather shoes, and wooden furniture imported from the Egyptian Region are all subject to a purchase tax of 25% "ad valorem" in the

Syrian Region. On the other hand, synthetic silk fabrics in which synthetic silk yarn accounts for more than 10% imported from the Syrian Region, were subject to a purchase tax of P.E. 8.50 per kilogram of net synthetic silk used in its manufacture. Synthetic silk fibers, as well as mixed yarns having more than 10% of synthetic silk fiber imported from the Syrian to the Egyptian Region, were subject to a tax of P.E. 2.00 per kilogram of silk fiber which has been used in its manufacture. It is worth mentioning in this respect that while synthetic silk yarn and fibers imported in Syria from abroad were considered as raw materials and were thus subject to very low customs duties, in the Egyptian Region customs duties on these commodities were relatively much higher.[1] Naturally then, with a lower cost of production the Syrian manufacturers of these goods were in a position to compete rather unfairly, in the Egyptian market with local producers, had such taxes not been imposed.

On April 4th, 1959 the two Ministers of Economy agreed to abolish these local taxes on nylon products and trico works, and to effect the payments for their exchange between the two Regions in Egyptian banknotes. On the 25th of April, an Egyptian banknote account was established and those goods whose full or

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1. Personal interview with Mr. Husni Al-Sawaaf, Present Governor of the Central Bank of Syria in the Syrian Region, March 12th, 1959.

partial value could be settled through this account were specified. The Rate of Exchange of the Egyptian banknote pound was set at L.E. 1 = L.S. 7.50 buying, and L.S. 7.55 selling. Compared to the rate of L.E. 1 = L.S. 8.85 in accordance with which inter-Regional commercial transactions were settled, the Egyptian banknote account was devalued by over 15%. Obviously the purpose of such an arrangement was to equalize the prices of these goods exchanged between the Syrian and Egyptian Regions.

In accordance with the terms of the Payments Agreement, signed by the Regional Ministers of Economy, all payments between the Egyptian and Syrian Regions are to be effected through an account in Egyptian Pounds opened at N.B.E. in the name of the Syrian Central Bank, to be called the "Syrian Region Account".[1] All current payments made by moral or physical persons residing the Egyptian Region, to similar persons in the Syrian Region, will be credited to this account, and allcurrent payments made by physical and moral persons residents of the Syrian Region to similar persons in the Egyptian Region will be debited from it.

Net balances to the credit or debit of this account, bears no interest, and is settled annually in the manner agreed upon by the two Ministers of Economy. Furthermore, the value of the Egyptian Pound has been guaranteed at the par rate declared

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1. This account was transferred to the Central Bank of Egypt.

with International Monetary Fund (L.E. = 2.55187 grams of fine gold) and in case of devaluation the authority concerned in the Egyptian Region is to re-adjust the "Syrian Region Account" so as the net balance will retain its original value in terms of gold.

On 24th December, 1958, another agreement was reached between the Regional Ministers of Economy concerning payments for certain imports of the Syrian Region from the Egyptian Region, with Egyptian banknotes. However, in accordance with Directive No.55 of the Syrian Exchange Office, issued on April 25th, 1959, all banks operating in the Syrian Region were prohibited to transfer Egyptian banknotes in payments for imports from the Egyptian Region. Instead an Egyptian banknote account was opened with the Syrian Central Bank. Article 3 of the said directive stipulated that the full value of nylon products, woollen textiles, trico works, cinematograph films, car tyres, synthetic silk yarns and fibers, cotton yarns above No.30, iron and steel, shaving blades, non electrical or gas ovens, refregirators, plastic products, eterinite, and books and publications imported from the Egyptian Region should be settled through the Egyptian banknote account, Moreover, half the value of all other imports from the Egyptian Region - except those imports, payment for which were to be made in full through the Syrian Region account -[1] are now settled through the Egyptian banknote account. On the other hand payments to the Syrian Region for exports of nylon and products thereof, woollen textiles and trico works are also settled through this latter account.

This arrangement has not been only a further step towards liberalizing inter-Regional exchanges, but could also be considered as an attempt towards finding an exchange rate between the Syrian and Egyptian currencies, which would equilibrate the balance of payments between the two Regions.

As a result of these measures, trade between the two Regions was intensified. The volume of inter-Regional trade amounted to around L.S. 110,177 million (L.E. 13.9 million) during 1959, compared to L.S. 42.092 million (L.E. 4.4 million) in 1958.[2] The main articles exchanged were artificial silk fabrics, woollen stockings, apples and appricot paste, benzine, rice, potatoes, cotton textiles and yarn as well as rubber tubes, (see Table XII).

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1. These goods are cotton yarns up to No.30, cotton underwears, synthetic silk textiles, glass products, tanned skins, shoes, furniture, matches, beer, soap, petroleum and petroleum products, butagas, asfult and rice.

2. Bureaux des Documentations Arabes, Etude Mensuelle Sur La Vie Economique Et Financier De La R.A.U. Et Des Pays Arabes, Vol. VII, (Damascus: July, 1960), Table No.20.

TABLE XI.

TRADE OF EGYPTIAN REGION WITH SYRIAN REGION

(1958 - 1959)

	QUANTITY (TONS)		VALUE (L.E.000's)	
A.: IMPORTS	1958	1959	1958	1959
Items				
Vegetables	3,501	4,752	146	182
Fruits	2,437	6,072	431	981
Tobacco	30	293	11	120
Chemical & Pharmaceutical Products	409	131	42	148
Skin & Hides	6	294	4	161
Wood & Products	8	1,562	4	167
Textile Materials	166	1,754	285	4,118
Wares of Mineral Material & Glass	4	2,071	2	108
Oreciass Metal	13	-	133	-
Others	17,277	11,742	865	1,752
T o t a l	23,851	28,771	1,923	7,742
B.: EXPORTS				
Potatoes	2,457	1,290	48	20
Onions	12,727	7,843	226	167
Rice	26,315	25,920	981	882
Animal & Vegetable Oil	-	651	-	78
Mineral Products	9,818	141,635	199	1,736
Chemical & Pharmaceutical Products	1,122	7,520	55	104
Rubber & Manufacture Thereof	305	521	59	277
Paper & Its Applications	410	498	168	228
Textile Materials	1,130	2,776	525	2,010
Others	4,199	5,045	214	692
T o t a l	57,784	193,699	2,475	6,194

Source: N.B.E. Economic Bulletin, XIII, No.2, (Cairo: 1960) p.136.

To regulate the exchange of financing facilities between the two Regions of U.A.R., Law No.8 of 1959 was enacted, with a view to giving opportunity to residents in one Region to participate in the economic activities of the other. The Law authorised the Central banks in each of the two Regions to advance loans to all moral and physical persons residing in the other Region provided these funds are used in those economic activities pertaining to development.

The partial liberalization of inter-Regional exchanges on one hand, and the exchange of inter-U.A.R. financing facilities for development purposes on the other, have been important steps towards intensifying commercial transactions between the Syrian and Egyptian Regions, as well as towards integrating the two economies.

4. Other Important Steps:

There is at present one state budget in the U.A.R. The 1960/1961 budget was presented by the Central Minister of Economy to, and approved by, the U.A.R. National Assembly. Though each Region still maintains its own separate budget, there is a unified budget for the central government, to which both Regions contribute.[1]

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1. The U.A.R. Budget 1960/1961 was published in Al-Ahram, April 14th, 1958.

An Economic Agency similar to that of the Egyptian Region was established in the Syrian Region in virtue of Law No.99, promulgated in April 1960. The function of the Syrian Economic Agency, like its counterpart in Egypt, is to supervise and control - if necessary - all those concerns in which capital the government participates. Also, the Economic Agency is to undertake those economic projects having the nature of public utilities or any project in which private capital does not venture to participate alone. Moreover, economic development plans have been designed and put into effect for both Regions of the U.A.R.

Another step towards the economic integration of the U.A.R. includes the promulgation of the Syrian Land Reform Law on 27th September 1958 along lines similar to that of Egypt; the establishment of the General Petroleum Authority in virtue of Law 167/1958 to organize all petroleum exports and imports of petroleum, to undertake prospecting and refining of oil, to draw on behalf of the government agreements pertaining to pipelines, and advise and recommend on the pricings of petroleum and products thereof in the entire U.A.R.

Moreover, in 1959 the labor and social security legislations in the U.A.R. were unified. Prior to that, in September 1958, a unified Law was promulgated concerning agricultural labor in both Regions.

CHAPTER V.

PROBLEMS OF CURRENCY UNIFICATION

Though more than three years have passed since the Syrio-Egyptian political merger, each of the two Regions comprising the U.A.R. has remained, up to the present date, an independent economic entity. There is no doubt that since February 1958, great efforts have been made, on the part of U.A.R.'s central government, to assimilate the divergencies in the economic systems and policies of the two respective Regions. In as far as currency unification is concerned three very important steps have been undertaken, so far, towards integrating the two monetary and exchange systems.

Prior to August 1960 there was a basic difference in the organizations of the Syrian and Egyptian Central Banks. While the first was entrusted only with normal central banking prerogatives, the latter - N.B.E. - in addition to its central banking functions undertook ordinary commercial banking operations. Thus, the establishment of the Central Bank of Egypt along similar lines to its counterpart in Syria has been an important move towards the unification of the two Regional institutions responsible for the management of note issue, the control of the volume of credit and in short for the execution of the monetary policies in the Syrian and Egyptian Regions respectively.

The reorganization of the Syrian commercial banking system in

March 1961, has been another important step in the process of eliminating the obstacles to currency unification. To facilitate the integration of the two Syrian and Egyptian commercial banking systems, it was necessary to establish common conditions under which the credit institutions of both Regions operate.[1] The participation of the public sector in the capital of banks operating in the Syrian Region has put the government in a position to control the commercial policies as well as to participate in the management of the banking system in the U.A.R. as a whole.

Up till February 4th, 1961 the exchange systems of the Syrian and the Egyptian Regions were different and their respective exchange policies were more or less contradictory to one another; the latter employed a very restrictive exchange control system whereby all operations in foreign exchange were strictly controlled, the first had a semi-free exchange system where government intervention in the foreign exchange market was for corrective rather than for restrictive purposes.[2] The co-existence of these two systems in a unified economy - having a unitary currency and where funds, goods and persons could move from one Region to the other freely - was obviously not possible. Thus, a choice had to be made between either of them, so as to unify the exchange policies and

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1. The fact that the majority of commercial banks operating in the Syrian Region were branches of foreign banks was not in line with the general policy of the U.A.R. Government, and did not confirm with conditions existing in the other Region of the country.

2. Both of these exchange systems were discussed in Chapter III.

systems of both Regions. Consequently, the adoption of an exchange system in the Syrian Region, similar to that of the Egyptian Region did away with another obstacle to the unification of U.A.R.'s currencies.

These institutional and legislative modifications have been important steps towards integrating the monetary and exchange systems and policies of the Syrian and Egyptian Regions. They have eliminated some of the major obstacles to currency unification, which existed at the time when Syria and Egypt merged to form the U.A.R. However, there are two other major problems which have to be solved before the creation of a unitary currency in the U.A.R. could be successfully realized.

These two problems of currency unification stem out from the fact that the "new money-of-account should be continuous". In other words the new U.A.R. currency "must bear a definite relation" to each of the old currencies on one hand, and to other foreign currencies on the other. This involves fixing a rate at which the "Arab Dinar" will be exchanged for each of the Syrian and Egyptian pounds, as well as establishing a rate of exchange between the new U.A.R. currency and other foreign currencies.

To avoid undesirable repercussions on the internal economies of both Regions, or either one of them, as well as on inter-Regional economic relationships, the rate at which the Syrian and Egyptian pounds should be exchanged against the new "Arab Dinar" should be one which reflects the comparative real values of the old currencies existing in each of the two

Regions. In other words, the relationships between the "Arab Dinar" and the Syrian and Egyptian pounds should be established on the basis of the latters' respective purchasing power, in such a way so that neither of them will be exchanged against the first at a rate higher or lower than that which reflects the real purchasing power of each in its respective Region. A rate of conversion between the new andthe old U.A.R. currencies above or below that reflecting the purchasing powers of the latter would result in overvaluing or undervaluing either of the Egyptian or the Syrian pounds in terms of one another, which might consequently lead to inflationary or contractive pressures, both of which being undesirable and to the detriment of the economic welfare and development of either of the Regions concerned, as well as the entire U.A.R.[1] By the same token, the rate of exchange of the Arab Dinar vis-à-vis other foreign currencies should also be fixed at a level which will reflect the real value of both currencies. If it is set at a level lower than that reflecting the equilibrium exchange rate of either or both the Syrian and the Egyptian currencies, there will be a devaluation in the entire U.A.R. or in the particular Region concerned. Similarly, if this rate is set at a level higher than that reflecting the equilibrium exchange rate of either the Egyptian or the Syrian currencies the result will be an overvaluation in both Regions or in either one of them. At this stage of its economic development the U.A.R. cannot afford neither a devalued nor an overvalued currency,

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1. These adverse economic effects could be magnified by psychological reactions and might result in adverse political implications on the basic principles underlying the Syrio-Egyptian unification.

because in either case the result will affect adversely the balance of trade and payments, and consequently the levels of income and employment.

Thus, if one accepts the assumption that the rates of exchange of the new U.A.R. currency-whether in relation to the existing Regional currencies or to other foreign currencies-must be fixed at levels which reflect the real values of both the Syrian and the Egyptian pounds, as a basic condition for creating the "Arab Dinar". The two most important problems of currency unification will be those of finding out these rates of exchange under existing conditions.[1]

A. PROBLEM OF FIXING THE RATE OF EXCHANGE

Between U.A.R.'s Old And New Currencies:

Fixing an optimal conversion rate between the "Arab Dinar" and each of the Syrian and Egyptian pounds boils down to nothing more than the determination of the equilibrium exchange rate that should exist between these two latter currencies.[2] In fact this equilibrium exchange rate is the rate which reflects the real values of both the Syrian and Egyptian currencies in terms of one another, and once it is determined other problems of currency unification in

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1. C.f. Chaffic Akhras, "Quelque Implication De L'Union Monetaire Entre La Syrie Et L'Egypt", L'Economie Et Les Finances De La Syrie Et Des Pays Arabes, No.10, 1958, pp.17 ff; see also: Mouhammad Labib Shoukeir, "La Politique Economique Pour La Period Transitoire", Ibid., No.7, 1958, p.19.

2. See, P.T. Elsworth, The International Economy, (New York: Macmillan Co., 1956), p.608.

the U.A.R. become of minor importance.[1]

Theoretically speaking, the equilibrium exchange rate between two different currencies is determined by the free interplay of the forces of supply of and demand for one currency in terms of the other in the foreign exchange market. Any intervention in the exchange market on the part of the national authorities concerned, to restrict either the demand for or the supply of a foreign currency in terms of the national currency, is nothing but an attempt towards deviating from the equilibrium exchange rate, and consequently towards fixing an arbitrary rate which does not reflect the real values of the currencies concerned in terms of one another.

The conditions of a free exchange market do not exist at present in either Region of the U.A.R. The restrictive exchange control system in each Region vis-à-vis the outside world on one hand, and vis-à-vis one another on the other hand, as well the various quantitative and qualitative restrictions on imports and exports used by the Syrian and Egyptian Regions - mainly in connection with third countries, since their political merger - tend to restrict the demand and supply of their currencies in terms of one another, as well as in terms of other foreign exchanges. Under such circumstances and with such conditions governing inter-U.A.R. Regional economic

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1. C.f. Robert Triffin, Europe And The Money Muddle, (New Haven: Yale University Press, 1957), pp.288-290.

relationships on one hand, and economic relationships between each and the outside world on the other hand, the determination of an equilibrium exchange rate between the Syrian and the Egyptian pounds, reflecting their respective real values in each other's terms, is not an easy task. Moreover, the fact that the Egyptian pound at present has multiple rates of exchange adds to the difficulty of determining the aforementioned equilibrium rate between the two currencies concerned, and consequently between either of them and the Arab Dinar.

To investigate the nature of these difficulties, the two approaches usually employed to determine the rate of one currency in term of the other shall be considered. The first approach involves an analysis of the various rates of exchange which exist between the Syrian and the Egyptian pounds on one side, and between each and a standard foreign currency such as the U.S. Dollar on the other hand. The second approach involves the determination of the exchange rate between the two currencies on the basis of their comparative real values in terms of goods and services, each in its own respective Region.[1]

Upon joining the International Monetary Fund, Syria and Egypt declared par values for their respective currencies in terms of gold

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1. It should be noted that this second approach runs along similar lines to those of the "purchasing power parity theory" for the determination of exchange rates, while the first approach runs along similar lines to those provided for by the "Balance of Payment Theory".

and the U.S. Dollar on the basis of $35 for an ounce of fine gold.[1] According to their par values, the cross rate of exchange between the Syrian and Egyptian pounds should amount to about L.E. 1 = L.S. 6.3.[2] Had both Syria and Egypt been able to maintain the rates of exchange of their currencies on the basis of these par values without any intervention in the foreign exchange market, the above-mentioned rate would have been the equilibrium exchange rate between the Syrian and Egyptian pounds. This would have been the most rational rate on the basis of which the conversion rate between the new U.A.R. currency and each of the old ones could have been fixed. However, neither of these rates has been practically maintained. Syria abandoned the par rate in favour of an official free rate of U.S. $ 1 = L.S. 3.58. This latter rate was established and maintained in a more or less free foreign exchange market up till February 1961. Even after the introduction of exchange restrictions in the Syrian Region, the rates of exchange - which had existed before - between the Syrian pound and other foreign currencies were not changed. Though the Syrian Exchange Office intervened in the market to an appreciable extent to maintain and stabilize the value of the Syrian pound, however, the fact that it had always succeeded in doing so leads one to conclude that, other things being equal, the rate of U.S. $1 = L.S. 3.58 represents a sort of an equilibrium rate of exchange for the Syrian pound, and it reflects its real value in terms of the

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1. For additional details refer to Chapter III.

2. On the basis of U.S. $1 = L.E. 2.191 and U.S. $1 = L.E. 0.348.

U.S. Dollar.[1] Had Egypt been able to establish a similar rate the problems under consideration would not have existed. Instead, Egypt adopted a very restrictive exchange control system and placed several obstacles to the free interplay of supply and demand of foreign exchanges in terms of its national currency. Thus, with the absence of a free exchange market in Egypt since 1939, Egypt never got the chance of finding out what the real external value of its pound would have been if left to the free interplay of forces of demand and supply.

Nevertheless, on the basis of their respective official rates vis-à-vis the U.S. Dollar, the exchange rate between the Syrian pound and the Egyptian pound is around L.E. 1 = L.S. 10.3.[2] This rate of exchange cannot be considered as the equilibrium rate of exchange reflecting the real value of both currencies concerned. In addition to the official rate of L.E. 1 = U.S. $ 2.87 there is, at present, in Egypt a "cotton export rate" involving a discount of 6% on the value of the Egyptian pound, "other commodities' export rate"involving a discount of 14.9%, a "commodity import rate" involving a payment

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1. Usually the Syrian Exchange Office used to intervene in the market to iron out seasonal fluctuations in the rates of exchange. The fall in the exchange rate of the Syrian pound vis-à-vis other currencies, during the last few months of 1960 and the beginning of 1961, was mainly due to flights of capital from the Syrian Region and to speculation, rather than to basic defects in the position of the Syrian Pound.

2. On the basis of U.S. $1 = L.E. 0.348 and U.S. $1 = L.S. 3.58.

of 10% premium on purchases of foreign exchange, as well as a rate for imports of certain invisibles involving a premium of 27.5% collectible on foreign exchange purchases. All these facts lead to the conclusion that the abovementioned official rate of the Egyptian currency cannot be considered as an equilibrium rate, and that at present the authorities concerned recognise the "de facto" devaluation of the Egyptian Pound.[1] Thus fixing the rate of exchange between the Arab Dinar and each of the Syrian and Egyptian currencies on the basis of L.E. 1 = L.S. 10.3 means that the Syrian pound would be undervalued in terms of the Egyptian pound, which is neither fair nor desirable in as far as the preservation of a successful currency unification in the U.A.R. is concerned.

Moreover, in recognition of the above-mentioned "de facto" devaluation of the Egyptian pound, the Exchange Office in Syria has fixed the exchange rate between the two currencies circulating, at present, in the U.A.R. at L.E. 1 = L.S. 8.92, which is about 13.3 percent lower than that based on their respective official rates in terms of U.S. Dollars. It is also about 7.3 percent higher than the "cotton export rate of the Egyptian pound", but only around 1.6 percent higher than "other commodities export rate". Moreover, two other rates for the Egyptian pound have been quoted by the Syrian Exchange Office on February 7th, 1961. These are the banknote rates

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1. For further details concerning the "de facto" devaluation of the Egyptian pound refer to Chapter III.

fixed at L.E. 1 = L.S. 800 and the Egyptian banknote account rate fixed at L.E. 1 = L.S. 755.[1] The Egyptian banknotes account rate is lower by about 26.6 percent than that based on the respective official rates of exchange of the Syrian and Egyptian currencies in terms of U.S. Dollars, while the banknotes rate is 22.2 percent lower than the said rate.

The question that arises in this connection is which of these three rates is the nearest to the equilibrium rate of exchange of the Syrian and Egyptian pounds. The answer to this question involves the exact determination of the extent to which the Egyptian pound is "de facto" devalued. If this could be determined, and assuming that the equilibrium rate of exchange of the Syrian pound vis-à-vis à standard foreign currency such as the dollar is U.S. $1 = L.S. 3.58, then the equilibrium rate of exchange between the Syrian and Egyptian pounds could be easily calculated on the basis of L.S. 3.85 equivalent to L.E. 0.348 less the exact extent of the "de facto" devaluation of the Egyptian pound. Unfortunately, under existing conditions where stringent restrictions are employed by both Regions on operations in foreign exchanges, and where various discounts are payed on the value of the Egyptian pound to exporters of different goods, as well as various premiums payable by Egyptian importers on their foreign exchange purchases, an attempt towards the determination of the exact extent of the "de facto" devaluation of the Egyptian pound would be highly speculative.

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1. All these rates represent the "selling rates".

However, this analysis would be incomplete without at least attempting to estimate the range within which the equilibrium rate of exchange between the two U.A.R. currencies would fall, other things being equal. This necessitates the examination of the rates between the Syrian and Egyptian currencies on the basis of which inter-U.A.R. Regional trade is carried out at present.[1]

According to the trade and payments arrangements regulating inter-U.A.R. commercial transactions, payments for imports and proceeds from exports are made by debiting or crediting either the "Syrian Region account" opened with the Central Bank of Egypt in the name of the Central Bank in Syria, or the Egyptian banknote account opened with the Central Bank of Syria. This latter rate is below the first - namely that of the Egyptian pound account - by about 15.2 percent, and lower than the rate of L.E. 1 = L.S. 10.29 by nearly 26.6 percent.

Inter-Regional payments concerning the exchange of nylon products, woollen textile and tricot work are effected on the basis of the banknote account pound. Moreover, with the exception of some 15

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1. The two rates of exchange which will be considered in this respect are the Egyptian banknote account rate and the Egyptian pound account rate. However, the banknote rate will be disregarded because the Syrian Exchange Office has been maintaining it at its present high level to absorb the smuggled Egyptian notes in Syria. Moreover, the utilization of Egyptian banknotes by residents of the Syrian Region is rather restricted to certain invisible payments.

items, payments for the majority of Syrian imports from the Egyptian Region are made fully or partially in the Egyptian banknote account pound.[1] Payments by Egyptian importers of Syrian products - with the exception of nylon products, woollen textile and tricot work - are made, however, with Egyptian pounds debited or credited to the Syrian Region account.

Considering all these facts one can conclude that payments for imports from Egypt are settled, on the average, at a rate higher than that of the banknote account pound of L.E. 1 = L.S. 755, and lower than that of the Syrian Region account pound of L.E. 1 = L.S. 8.92. Moreover, payments for imports from the Syrian Region are made at the latter rate. Thus, payments for inter-U.A.R. trade are made at various rates of exchange which are lower than that based on the official rates of the Syrian and Egyptian pounds (L.E. 1 = L.S. 10.29) by a maximum of 26.6 percent, and a minimum of 13.3 percent. In other words, there is a recognised "de facto" devaluation in the official rate of the Egyptian pound ranging from 13.3 to 26.6 percent in as far as inter-U.A.R. payments are concerned.

In view of the fact that the maximum discount on the official

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1. There are 15 items which have to be payed for in Egyptian pounds debited or credited from the Syrian Region account (L.E. 1 = L.S. 8.92). The payment for the rest is either fully settled in the Egyptian banknote account pound or half of its value is settled in the said pound at the rate of L.E. 1 = L.S. 7.55.

rate of the Egyptian pound amounts to 14.9 percent, and the maximum premium payable by Egyptian importers of goods amounts to 10% of their foreign exchange purchases, it seems reasonable, bearing in mind that inter-U.A.R. trade has been more or less free, to seek the "de facto" devaluation of the Egyptian pound within the limits of 13.3 - 26.6 percent. To pursue the exploration of this aspect further, would be pure guess work, and therefore an idle exercise in as far as this study is concerned. However, with the above facts used as a starting point, and provided that obstacles to the free interplay of demand and supply of one currency in terms of the other are removed, an equilibrium rate between the Syrian and the Egyptian pound could be established.

The other possible approach towards determining the equilibrium rate of exchange between the two U.A.R. currencies involves a comparison of the real value or the purchasing power of one currency in terms of the other. For example, if for one unit of an Egyptian currency one can get in the Egyptian Region an amount of goods and services equivalent to (8y), and for one unit of Syrian currency an amount equivalent to (y) of the same goods and services that could be obtained in the Syrian Region, the equilibrium rate of exchange between the two currencies should be L.E. 1 = L.S. 8, assuming no transportation costs. This is based on the assumption that a foreign currency is demanded because of its purchasing power. Thus a rate of exchange between a foreign and a national currency which does not represent the ratio of their respective purchasing powers will result in an undervaluation or overvaluation of one in terms of the other. The demand for the undervalued currency in terms of the other will start to increase - because goods purchased with it in its country become cheaper to import rather than buy at home - until such a point is reached where their exchange rate is fixed so that it will be equal to the ratio of goods and services purchased by one unit of each. An opposite chain of reactions will take place in case of overvaluation. It should be noted that in this way changes in the purchasing powers of different countries could be measured through a comparison of price indices, wage indices, cost of living indices etc...[1]

Thus, to find a common parameter which could be used to compare the real values or purchasing powers of the Syrian and Egyptian currencies involves an exact knowledge of the cost of living, the cost of production, the general levels of prices, the levels of wages and salaries in both Regions. The first difficulty that arises in this connection is that statistical data concerning these parameters are not all available in either of the U.A.R. Regions, and even when available, it is very doubtfull that the figures are correct within permissible margins of error. However, even if such data were available, they need not reflect the real purchasing power

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1. Such an approach is usually criticised on the basis that it does not consider the effects of capital movements, neither does it consider the effects of "elasticities of reciprocal demand". For further details concerning the defects of the purchasing power parity theory see: Kurihara, <u>Monetary Theory And Public Policy</u>, (London: 1951), p.319 ff; and also see: Elseworth, <u>The International Economy</u>, (New York: 1956), pp.593-601.

of the two currencies. The different economic, financial and social factors characteristic of each Region have different effects on the levels of prices, levels of wages etc... In other words, the existence of different taxes, different price controls, different duties on imports of raw material, different conditions under which labor as a factor of production is employed, result in different effects on the real values of the currencies concerned in each Region. Thus, under such conditions a comparison of their purchasing powers in terms of real goods and services becomes rather unrealistic in addition to all the difficulties it involves.

Therefore, it can be concluded that though it is difficult to find out that equilibrium rate of exchange between the Syrian and the Egyptian currencies which should reflect their respective real values in terms of one another, yet it is not impossible to do so. The unification of the different factors affecting the value of money in each Region, the intensiveness and liberation of inter-U.A.R. trade, and a common economic development plan to render the two economies as complementary as possible to one another, will result in the best solution of this problem. However, this is a time consuming process and it might take the U.A.R. Central Government some time before it can achieve the perfect economic integration of the two Regions, and thus reach the aforementioned optimal solution.[1]

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1. Most of the economists who have considered the subject of economic and monetary unification in the U.A.R. have expressed more or less similar views; some are published in, L'Economie Et Les Finances De La Syrie Et Des Pays Arabes, 1958, Nos. 1, 3, 5, 6, 7 and 8.

B. PROBLEM OF FIXING AN EXCHANGE RATE BETWEEN The Arab Dinar And Other Foreign Currencies:

The relation which the Arab Dinar must bear to other foreign currencies is as important and essential as that which it must bear to the two U.A.R. currencies, because of its direct effects on the country's international trade. Thus, the exchange rate between the new U.A.R. currency and the currencies of the outside world should in principle reflect the real external values of both the Egyptian and the Syrian pounds. If this rate is fixed at a level below the real values of both U.A.R. currencies the Arab Dinar will be devalued in terms of other foreign currencies, thus rendering U.A.R.'s exports less expensive and its imports more expensive than before. At this stage of its economic development where imports of capital equipment, raw materials and necessary foodstuffs are of vital importance, the U.A.R. cannot afford a devalued currency. On the other hand, in case the exchange rate of the Arab Dinar is fixed at a rate lower than real external values of either one of the currencies concerned, similar effects will result in that particular Region.

However, fixing the rate of exchange at a level above that reflected by the real external values of either one or both currencies of the U.A.R., there will be adverse effects on U.A.R.'s export trade, unless a multiple system of exchange rates similar to that of Egypt is adoptedfor the entire U.A.R., whereby different subsidies are given to exporters and premiums are collected from importers.

Theoretically speaking, to give the new currency a sound start, the Egyptian Region should recognise a "de jure" devaluation of its pound, and fix the rate of exchange of its currency in terms of other foreign currencies on the basis of the real external values of the Egyptian and Syrian pounds, and consequently to abandon its multiple exchange rate system. But whether such a step will be taken under existing circumstances is subject to question at the present moment.[1] Up till now, all indications point out to the fact that the Egyptian authorities concerned are satisfied with their multiple exchange rate system, because with the adjustable export subsidies they are able to influence favourably the volume, direction and diversification of their export trade, while an overvalued currency renders the prices of their imports, especially those necessary to their economic development, cheaper.

The major problem in this respect thus boils down to whether the U.A.R. shall have an overvalued currency with multiple rates of exchange, or a currency having a unitary exchange rate based on the real external values of the currencies of both Regions. Under normal conditions the first alternative is not only desirable, but is sought as an end by all countries. The possibility of employing the second alternative to the entire U.A.R. should not be considered as a remote one. It is not improbable that the exchange rate of

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1. The circumstances leading to the adoption of a multiple exchange rate system in Egypt have been discussed in Chapter III.

the Arab Dinar might be fixed at a level comparatively higher than that which reflects the external value of the Syrian pound (U.S. $1 = L.S. 3.58), and then adopt a system of multiple rates of exchange to the entire U.A.R.

It is very important to note that irrespective of which of the above alternatives is chosen, the authorities concerned in the U.A.R. should not take any step in this connection that might have adverse effects on the country's balances of trade and payments. The importance of this fact becomes more prominent if one bears in mind that the U.A.R. in both of its Regions is an exporter of primary agricultural products with the proceeds of which a large part of its imports, whether in capital or consumers goods, is financed.[1] The adverse effects on its export trade will not only impair its import capacity, but might also affect adversely internal levels of income and employment. Thus, all precautions should be taken to safeguard the balance of payments position of the country in view of hastening its economic development, and raising levels of income and employment.

C. A RESULTANT PROBLEM

The unification of currencies in the U.A.R. would undoubtedly result in the full economic unification of both the Syrian and Egyptian Regions. Consequently, the movement of merchandise, capital and

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1. See Chapter I.

persons between one Region and the other is expected to be completely free and without any restrictions whatsoever, except that resulting from the fact that the two Regions of the U.A.R. are not contiguous, and transportation between them is restricted to air and sea carriers.[1] Under present conditions, even if an equilibrium rate of exchange between the two U.A.R. currencies is reached, a currency unification might result in certain problems due to the fact that there is a difference in the levels of production costs, levels of wages and the standards of living in general, in the Syrian and Egyptian Regions.

Though no official studies have been published about this aspect, and no estimates have been made to show the exact degree of variation between the above-mentioned parameters, yet, some individual attempts - one by an Egyptian and the other by a Syrian Economist - have been undertaken, and both have reached similar conclusions; namely, that the standard of living, the price level and the wage level should be higher in Syria than in Egypt, even if economic, social and institutional conditions affecting prices and cost of production are identical in both Regions.[2] Naturally all this is due

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1. Such a situation might arise even before complete currency unification; but in case the latter is realized the free movement of funds, goods and persons is naturally a must, otherwise nothing would have been achieved except virtually changing the names of the existing currencies.

2. See: A Propos De L'Unification Monetaire Entre Les Deux Provinces De La R.A.U., L'Economie Et Les Finances De La Syrie Et Des Pays Arabes, No.5, 1958, pp.61 ff.

to a great extent to the fact that Egypt is very much overpopulated, and the yearly increase in its population is quite high.[1]

Under such circumstances, the monetary unification might result in certain problems in the Syrian Region. In the first place, the Syrian industries to which similar ones exist in Egypt will face a very strong price competition from the cheaper commodities produced by the latter, and might be driven out of the market. However, in view of the development plan in which the public sector assumes the lion's share, the general economic effects of this aspect are not likely to be very great.

Another consequence might take place, the effects of which would be more felt. The higher wage level in Syria might start a population movement from Egypt to Syria, and might result in moving the pattern of wages, cost of production and prices towards levels which exist at present in Egypt.[2] A shift of a relatively small proportion of the population of the Egyptian Region to the Syrian will have a considerable effect on the latter's labor market, especially in as far as unskilled labor is concerned. If this takes place, the level of wages in Syria might fall appreciably. However, there would be a certain timelag until the general level of prices

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1. See Chapter I.

2. C.f. Asfour, Syria: Development And Monetary Policy (Cambridge, Massachussets: 1959), pp.125-126.

follows suit, during which the standard of living of wage-earners might fall too. Another consequence of the reduction of the wage level in Syria would be a change in the ratio of capital to labor as factors of production, in favor of the latter, thus affecting to a great extent the mechanized agricultural areas of the Syrian Region.[1]

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1. *Ibid.*, p.126.

CHAPTER VI.

SUMMARY AND CONCLUSION

A national currency is actually an important symbol of a country's political sovereignty as well as of its national unity. Thus, monetary unification in the U.A.R. is an unavoidable necessity towards the re-enforcement of its political unity, the achievement of its complete economic integration and the hastening of its economic development.

Money, being the nervous system of the national economy touches from very near both public as well as private interests. In fact, it is the most sensitive element in the economic system, being influenced by political, economic, social and psychological factors and at the same time bearing a considerable incidence on a country's general level of economic activities. Thus, due to the important role which money plays in economic life, it should be dealt with too precautiously, and monetary unification should be realized with all prudence in order not to jeopardize the interests as well as the economic welfare and development of the entire U.A.R., or any of its two constituent Regions. For, any error committed in the monetary field can result in magnified adverse consequences on the entire national economy, and is therefore not easily repairable. Before the completion of U.A.R.'s monetary unification all precautions should be taken to guarantee the indispensable conditions for its success, because a failure in this aspect of the Syrio-Egyptian merger will not only have bad repercussions on the entire national economy, but might result in adverse implications on the political principles underlying the formation of the U.A.R.

The basic requirements for the successful preservation of monetary unification stem out from the facts that money is held for its purchasing power, and this purchasing power, whether internally or externally, is appreciably affected by both economic and non-economic conditions characteristic of a particular country. Unless these conditions are identical in both the Syrian and the Egyptian Regions, the creation of a single and unitary currency for the U.A.R. as a whole can never be realized on a sound economic basis and without injury to the interest of the parties concerned. The fulfillment of the major prerequisites of monetary unification in the new Republic involved several problems which had to be solved during a period of time much longer than that in which their political merger was realized.

The nature of these problems, however, was mainly due to the fact that when Egypt and Syria united together to form a single state in February 1958, each had its own distinct and separate economic systems, with particular reference to their monetary and exchange systems. Moreover, their economic relationships were rather weak, mainly because both are producers of similar primary agricultural products, and partly due to the various restrictions employed by each on the freedom of trade - though to a lesser extent by Syria -.[1] The divergencies that existed in the

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1. For a detailed study of the Syrio-Egyptian commercial relationships prior to their political unification in 1958, see: Mouhamad Labib Shoukeir, Al-Ilaquaat Al-Iqtisadia Bain Al-Billad Al-Arabia, (Cairo: 1958), Chapter II & III.

economic systems and policies of Syria and Egypt were consequential results of the distinct economic features characteristic of each, as well as of the different political and economic developments which took place in each at various times.

The U.A.R. is an underdeveloped country producing mainly primary agricultural products which constitute the major portion of its export trade. Its imports, on the other hand, consist of industrial products, raw materials, capital equipment and foodstuffs. The level of per capita income is rather low compared to that of other developed countries in the agricultural sector supports the majority of the population and its income accounts for over one third of the respective national incomes of both Regions. However, while Egypt suffers from a high population pressure on land resources, Syria is rather underpopulated. Thus, the standard of living and the level of real wages tend to be higher in the latter compared to what they are in the first. The high rate of population growth in Egypt has resulted in a tremendous increase in the levels of imports in Egypt, and consequently in persistent deficits in its balance of payments all throughout the post World War II period. Syria on the other hand achieved, in years of good harvest, considerable surpluses.

These latter facts, perhaps, could explain partly the differences that existed in the exchange systems of the Syrian and Egyptian Regions up till February 1961. Prior to that date Syria had a semi-free exchange system, whereby government intervention in the exchange market was for the purpose of stabilizing the rates of exchange and for ensuring the appropriate utilization of the country's foreign exchange proceeds in the general interest of the national economy. However, there were no restrictions whatsoever on the movements of funds and transfers of capital. Egypt, on the other hand, had a very restrictive exchange control system. All operations in foreign exchanges were prohibited, unless duly authorised by the competent authorities concerned. Proceeds from exports and payments for imports were strictly controlled and regulated. Moreover, a system of multiple exchange rates involving subsidies on various exports, and premiums payable on foreign exchange purchases for different import payments, has been adopted as an attempt to release part of the pressure on the balance of payments and to enable the government carry on with its development programs. As a matter of fact, the difference between the exchange systems and policies of the Syrian and Egyptian Regions was a major obstacle to monetary unification in the U.A.R. It was overcome,however, by modifying the Syrian exchange system along very similar lines to that which existed in the Egyptian Region. The economic philosophy of the U.A.R. Central Government, the development programs designed for both Regions, and the fact that the Egyptian Region was in no position to abandon its restrictive exchange system were the basic motives towards such a move.

It is worth noting in this respect, that even before their political merger, the trade policies of Syria and Egypt were governed by the same basic principle, namely; that of protecting their respective national industries against foreign competition through quantitative and qualitative trade controls. Both employed a system of import quotas and imposed high customs duties on imports which competed with local products.

Another important obstacle to monetary unification which existed when the U.A.R. was formed, stemmed out from the fact that there were basic differences between the monetary systems of Syria and Egypt. These differences were mainly due to the conditions - mainly political - which accompanied the development of these two systems.

Since the very early stages of their development the monetary systems of Syria and Egypt were very much influenced by those of France and England respectively. Up till after the end of the Second World War, the Syrian currency was tied to the French Franc while the Egyptian currency was tied to the Sterling. Moreover, their central banks were foreign institutions, both of which undertook ordinary commercial banking operations. Also, at that time, the majority of their commercial banks were branches of foreign banks.

In 1947 Egypt left the Sterling Area, and Syria left the franc bloc a year later. The governments of the two countries took over the control of their respective currency systems and promulgated new regulations to govern the note issue and cover. However, Syria established its Central Bank as an autonomous public institution responsible for the management of note issue as well as for the control of credit and credit institutions as early as 1956. Egypt on the other hand did not "centralize"

N.B.E. until 1957. Moreover, N.B.E. remained a private institution up till 1960, when its ownership was transferred to the state. But all throughout this period it engaged in commercial banking operations in addition to its central banking functions. Finally in July, 1960 the central banking system in the Egyptian Region was modified to become almost identical to that of the Syrian Region. Finally, the reorganization of the Syrian commercial banking system along similar lines to that of the Egyptian Region ironed out all the major differences that existed between the monetary systems of U.A.R.'s two Regions, the next expected step to promulgate a common set of monetary legislations for the entire U.A.R. In this respect the unified monetary Law should be inspired by that which exists at present in the Syrian Region rather than that of the Egyptian Region.

The above-mentioned insitutional and legislative changes have been necessary requirements for U.A.R.'s monetary unification. Other steps have been undertaken to integrate the Syrian and Egyptian economies, thus resulting in assimilating many of the factors affecting the value of money in each of the two Regions. Thus, the time has come now to establish a supreme central monetary authority in the U.A.R., to be responsible for effecting the creation of a unitary currency for the entire country. This central monetary authority should be an autonomous public institution consisting of members representing the two Regional Central Banks, the Regional and Central Ministries of Economy and Treasury, the Regional Exchange Authorities, and the private sector of both Regions. The central monetary authority should be entrusted with the following functions:-

(a) To supervise and coordinate the activities of the two Regional Central Banks.

(b) To coordinate the credit policies of both Regions, and to design and execute such policies in accordance with the needs of national economy and in conformity with directives of the Central Government.

(c) To be responsible for coordinating the exchange policies and for supervising the proper enforcement of exchange regulations.

(d) To prepare the texts of the monetary and exchange legislations which would be common to both Regions.

(e) To undertake on behalf of the Central Government all those studies required in connection with freeing completely all inter-Regional commercial and financial transactions, and to propose the steps that should be undertaken towards the achievement of this goal.

(f) To act as an adviser to the Central Government on all monetary and financial matters, with particular reference to those concerning inter-Regional trade and payments.

(g) To make the necessary studies for unifying the trade and payments agreements concluded with third countries.

(h) To make the necessary preparations for the establishment of the U.A.R. Central Bank.

This monetary institution should be maintained, even after currency unification is achieved in the U.A.R., as a supreme monetary authority. Its functions and organization, however, could be set along similar lines to those of the Syrian Currency And Credit Board.[1]

The final and most spectacular step towards the successful achievement of monetary unification in the U.A.R is the complete liberation of inter-Regional commercial and financial transactions. All restrictions on the movement of funds, merchandise and persons should be eliminated. Moreover, the two Regions should virtually become a common market having a unified customs code, tarrifs and customs duties. In addition, the two Regions should be made, through development programs, complementary to one another, and inter-Regional trade should be intensified as much as possible.

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1. The functions and the organization of the Syrian Currency and Credit Board were reviewed in Chapter II.

The rate of exchange between the Syrian and Egyptian pounds should be stabilized at that level which would equilibrate " - in the long run -" the balance of payments between the two Regions. For cushioning temporary defects, an Equalization Fund could be established. Also arrangement could be made to permit either of the two Regions to utilize surplus balances which the other Region might have accumulated with third countries having with the latter bilateral payment or trade agreements.

When the equilibrium rate of exchange between the Egyptian and Syrian pound is finally established and successfully maintained and stabilized, currency unification would have been practically completed.

The establishment of the U.A.R. Central Bank should obviously be the last stage of monetary unification. Being entrusted with the sole right of note issue, the liabilities for outstanding currency issues and equivalent amounts of assets backing such issues would be naturally transferred to the new U.A.R. Central Bank. This institution will be also responsible for the control of the volume and quality of credit in the entire country, through supervising the activities of the various credit institutions. However, it should be also possible to organize the new central banking system in the U.A.R. on a rather decentralized basis. In other words, the two Regional Central Banks could be maintained and each left with the responsibilities of managing the new note issue, the control of the commercial banking system and the enforcement of the appropriate monetary policies required by the specific economic needs of the respective Regions.

However, the supreme monetary authority will have to be established in this case, to coordinate the monetary and exchange policies in the two Regions in accordance with the general economic policy set by the Central Government. As a matter of fact such an arrangement might prove useful during the initial period, and it is in line with the present organization of U.A.R.'s Ministries where there are two Regional Ministries for each Region, and corresponding Central Ministries.

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