

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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Committee on Balance-of-Payments Restrictions

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CONSULTATION WITH THE ARAB REPUBLIC OF EGYPT
UNDER ARTICLE XVIII:12(b)

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1. At the 1988 consultations, the Committee recognized that Egypt -then- faced a serious balance-of-payments situation, commended Egypt for its trade liberalization efforts, particularly with regard to the abolition of import licensing, tariff reform and movements towards unification of exchange rates. Egypt was encouraged to strengthen its foreign exchange control system and to formulate a time schedule for phasing out conditional prohibition or its replacement by tariff based measures.
2. At the October 1992 consultations, the Committee commended Egypt for launching a comprehensive reform programme in 1991, and noted with satisfaction that the implementation of the initial stages of the reform programme resulted in an improvement in the balance of payments of Egypt in 1991. The Committee encouraged the Egyptian authorities to continue the reform process and to accelerate the implementation of fiscal and other structural reforms. In line with the Committee's recommendations made in 1988, the Committee also welcomed that Egypt dismantled a number of trade restrictions, including substantial reduction in the list of conditionally prohibited goods, abolition of import licensing, termination of the requirements for importers to open letters of credit, abolition of import deposit requirement and reduced a number of tariff rates.
3. The Committee asked Egypt to establish a timetable for the progressive elimination of the existing import restrictions maintained for balance of payments purposes and to consider the possibility of disinvoking Article XVIII:B.
4. Against this background we would like to convey to the Committee that Egypt has vigorously continued its Economic structural reform and trade liberalization programme. Let us highlight some of these major features:
 - The percentage of domestic agriculture and industrial production that was affected by conditional prohibition of imports was reduced from 37.2 per cent in 1991 to 4.7 per cent now. In other words imports under conditional prohibition covers now frozen poultry and certain textile and clothing items only. In the Uruguay Round tariff schedule, Egypt is committed to tariffy frozen poultry and to eliminate conditional prohibition on textiles as of 1 January 1998 and clothing as of 1 January 2002.
 - Egypt has abolished the list of imports that required the approval of certain domestic authorities. This list included 55 items.
 - Egypt has cancelled all advance import deposit and the obligation for advance payments to open letters of credit for imports.

- Quality controls and standards applied to imported goods became more transparent as Ministerial Decree 99 (1994) includes the current list of products subject to quality control inspection before they can be imported into Egypt. As a result of the introduction of the Harmonized System, Ministerial Decree 99 combined items and included new products subject to inspection without altering the number of products on the list. It is to be noted that quality control does not discriminate between local and imported products.
- Egypt has removed all export prohibitions except for 2 items; hide and skins and metal scrap. Export procedures and regulations have been simplified and continued efforts are underway to remove other administrative obstacles to exports.
- Egypt has continued its tariff restructuring where the gap between high and low levels have been further narrowed. It is worth noting that in the Uruguay Round, Egypt has put under ceiling bindings 100 per cent of its tariffs compared with very few limited bindings in the past. These tariff commitments were welcomed and approved by our major trading partners.
- On the exchange control front, Egypt has liberalized exchange control totally. The exchange rate of the Egyptian pound and foreign currencies are now floating and determined according to free exchange market forces; through banks or authorized private owned exchange offices.
- Privatization programmes are moving satisfactorily, possibly ahead of scheduled policies; our new emerging capital market is amazingly flourishing.

5. Macro-economic and trade figures and indicators show that the economic reform in Egypt resulted in substantial improvements:

- estimates for net GDP growth was over 2 per cent in 1993/94;
- budget deficit declined from almost 17 per cent of GDP in 1990/91 to 2.5 per cent of GDP in 1993/94;
- inflation rates declined from 20 per cent in 1991/92 to 9 per cent in 1993/94;
- exchange rate for the Egyptian pound has shown a greater stability vis-à-vis the dollar, over the past 4 years.

6. These indicators, among others, show that Egypt's reform programme has been quite successful but evidently, with a heavy price to pay. The Government will continue to pursue its policies to ensure that the gains and successes are maintained and further consolidated.

7. The balance of payments showed an overall surplus of US\$1.8 billion in 1993/94, against US\$ 4 billion in 1992/93. This drop is due to certain important elements; drop in net receipts from services, drop of official transfers and widening in trade balance deficit. The current account, excluding official transfers, showed a deficit of US\$593 billion in 1993/94 as compared to a surplus of US\$291 million in 1992/93. The trade balance has continued to deteriorate, it reached US\$7.7 billion in 1993/94 against US\$7.3 billion in 1992/93 due to a decline of export proceeds of industrial commodities, especially crude oil with prices falling from US\$108 to US\$80 per ton, while payments for imports have remained more or less at the same level over the past few years.

8. The picture as portrayed by these figures may reflect that Egypt has enjoyed a favourable balance of payments situation and was able to replenish its foreign exchange reserves; we are quite hopeful that this trend will continue in the future.

9. Nonetheless, we have to face the fact that the progress already achieved, as mentioned above, may not continue to prevail in the mid-term because of certain structural constraints on exports together with foreign market restrictions related to it. Moreover, Egypt imports represent three times the value of exports, resulting thereby an intolerable deficit of over US\$7 billion annually in our trade balance over the past 10 years. With our ambitious programmes of economic and social developments, the increase in the pace of imports will continue. This leaves Egypt subject to volatile and uncertain external conditions such as receipts from the Suez Canal, tourism, workers remittances and instability in oil prices. We should not lose sight of the fact that natural disasters such as the earthquake of October 1992 and floods in 1993 and 1994, which were unpredictable, as well as the tourist situation in 1993/1994, have led to a considerable loss in our foreign exchange which is needed to sustain our economic development programmes.

10. It has to be stressed again that we believe it would be incorrect to assume that the balance of payments problems have disappeared completely. Egypt is still faced with chronic structural balance of payments hardships which stem from the development process and the efforts to expand and diversify the economic activities.

11. Although we believe that Egypt can not disinvoke Article XVIII as requested by the Committee in previous consultations, Egypt has taken measures to liberalize its foreign trade far beyond all expectations. The recommendation of the Committee that Egypt should establish a timetable prior to the next consultations to eliminate restrictions maintained for balance of payments purposes has been fulfilled; as mentioned earlier, the only items which are still under restrictions are frozen poultry, textiles and clothing. Frozen poultry will be removed as of the date of the entry into force of the WTO for Egypt. A timetable for the removal of conditional prohibition on textile and clothing has been committed into our tariff offer. With this in mind, Egypt maintains no trade barrier except those within its rights and obligations under GATT and WTO.