

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

**RESTRICTED  
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**Committee on Balance-of-Payments Restrictions**

**CONSULTATION WITH THE ARAB REPUBLIC  
OF EGYPT<sup>1</sup>**

**Background Paper by the Secretariat**

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205).

**I. Previous Consultations with Egypt**

2. The Arab Republic of Egypt has held eleven consultations in the Committee (1970, 1973, 1975, 1977, 1979, 1981, 1983, 1985, 1988, 1990 and 1992). At the last full consultation, held on 4 November 1992, the Committee commended Egypt for launching a comprehensive reform programme in 1991, which included financial stabilization policies combined with sectoral reforms and reduced Government intervention in economic activity. The Committee noted with satisfaction that the implementation of the initial stages of the reform programme resulted in an improvement in the balance-of-payments of the country in 1991, official reserves having risen substantially, and it was hoped that continuation of the reform programme would contribute to the consolidation of this trend. The Committee noted, however, that a significant number of quantitative restrictions was still maintained, many tariff rates were high and the tariff system lacked transparency. Concerns were also expressed over the effect of quality controls introduced on some products. In view of the substantial improvements in the balance-of-payments situation in the country, the Committee asked Egypt to establish a timetable prior to the next consultation for the progressive elimination of the existing import restrictions maintained for balance-of-payments purposes, and to consider the possibilities of disinvoking Article XVIII:B (BOP/R/201).

**II. Egypt's Trade and Exchange System: Evolution since the last Consultation**

**(a) Introduction of the Harmonised System**

3. In February 1994 Egypt adopted the Harmonised System, which replaced the Customs Commodity Classification Nomenclature. This facilitated the administration of Egypt's trade transactions and assisted the application of duties, levies and surcharges by customs officials and regulatory controls by the General Agency for Export and Import Control.

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<sup>1</sup> Following the Council decision of 8 December 1994, Egypt is a non-voting participant of the World Trade Organisation.

**(b) Tariffs**

4. In 1993, tariff dispersion rates were narrowed to a range of 5 to 80 per cent. In 1994, the maximum import tariff was reduced by 10 percentage points to 70 per cent, tariffs between 30 and 70 per cent were reduced by 10 points. Rates below 30 per cent were unaffected, except for tariff rates on some capital goods which were reduced by 10 percentage points. However, the impact of the 1994 measure was partially offset by the imposition of custom user fee. Custom user fees were introduced at 2 per cent for products with tariff rates of 30 per cent and below and at 5 per cent for products with tariffs above 30 per cent. These fees are additional to a 1 per cent statistical fee.

**(c) Prohibited goods**

5. In the GATT, conditional prohibitions have been justified by the Egyptian Government on balance-of-payments reasons under GATT Article XVIII:B, except for some items banned under Articles XX and XXI (health, public morals or security reasons). Import prohibitions have been reduced substantially. The production coverage of quantitative restrictions declined from about 37 per cent of total agricultural and manufacturing output in 1991 to about 4.5 per cent in 1994.<sup>2</sup> Remaining bans apply to 2 product groups, (i) textiles and clothing and (i) poultry, containing a total of 26 items on their customs nomenclature. High levels of protection remain in these sectors. However, in the context of the Uruguay Round Negotiations, the Government agreed to eliminate the import ban on poultry and to phase out the QR on fabrics as of 1 January 1998, while those affecting clothing are to be eliminated by 1 January 2002.

6. The "special conditions list" which contained nine products whose importation was only permitted under certain circumstances was cancelled by Ministerial Decree No 288/93 in July 1993. Eight of those commodities were civilian commodities (as opposed to military) which could not be imported if they were produced by military factories.

**(d) Local content requirements**

7. Egyptian assembly industries are assisted through a scheme offering reductions in customs duties on imported raw materials and intermediate inputs if the produced goods meet a local content requirement of 40 per cent. This minimum was raised to 60 per cent by Presidential Decree No 294/93. However, exceptions to the higher limit could be granted by the Minister for Industry.

**(e) Compulsory advance cash payments by importers**

8. Compulsory advance cash payments by importers to establish letters of credit (a concern during the 1992 Committee meeting) was cancelled by Presidential Decree No. 432/92.

**(f) Quality controls and standards**

9. 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 Harmonised System, Ministerial Decree 99 combined items and included new products subject to inspection without altering the number of products on the list.

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<sup>2</sup>Calculated on the basis of 1985 production as weights.

10. Five government agencies are involved in the clearance of food imports: The Ministry of Economy and the General Organisation for Export and Import Control, the Ministry of Health and its Food Institute, the Ministry of Agriculture and the Nuclear Regulatory Agency. Since 1994, for goods that are not subject to specific Egyptian standards, Ministerial Decree 42/1994 recognizes standards promulgated by the following bodies: the British Standards Institution, the American National Standards Institute (ANSI), the Deutsches Institut für Normung (DIN), the French Association Française de Normalisation (AFNOR), as well as Japanese standards.

(g) Export duties

11. Ministerial Decree No. 288, Article 45 (1993) removed all export products from the banned list, except for hides and skins and metal scrap. Export procedures were simplified by Ministerial Decree No. 458 (1993) which abolished prior export quantity and price approvals except for those goods on the banned list. A regulation issued by the Minister of Interior on June 11 1994, determined that exporters will not bear any charges for safety procedures. Export procedures related to customs, quality control, and agricultural quarantines were also simplified as Ministerial Decree No. 395 (1994) established that a single form can be used to comply with all export procedures. The repayment of import duties and sales taxes on goods incorporated in exported goods was combined and implemented immediately after export or re-export.

12. In June 1994 the repatriation requirements for proceeds from exports were eliminated.

III. Macroeconomic and Trade Developments

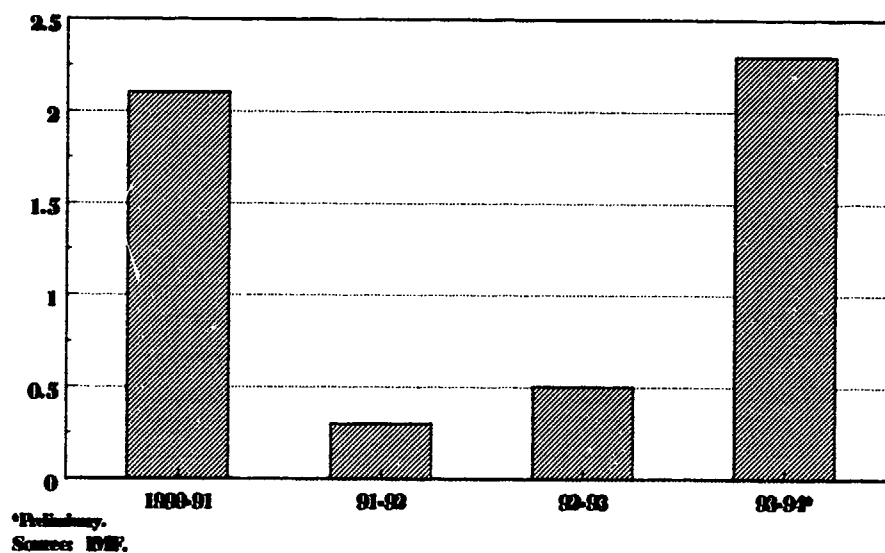
13. Preliminary estimates suggest that the growth of the Egyptian economy accelerated in 1993/94, while the annual inflation rate continued to decline. Evidence of more prudent financial policies was provided by the cut in the overall budget deficit and the decline in monetary growth. The balance of payments recorded a smaller overall surplus in 1993/94 than in the previous year. This reflected the narrowing of the current account surplus due to a decline in exports and a reduction in official transfers from abroad. The nominal exchange rate of the Egyptian pound vis-a-vis the U.S. dollar was stable during 1993/94.

(a) Output; and Prices

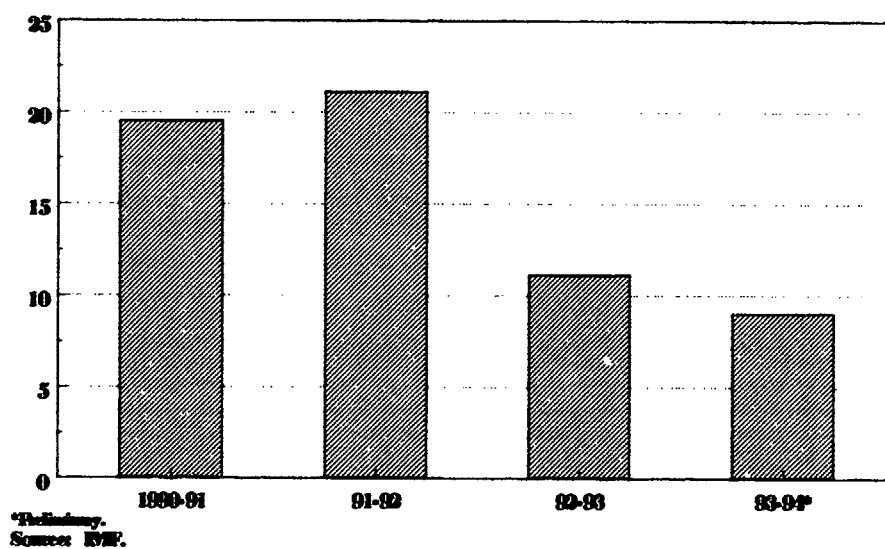
14. Preliminary estimates suggest that real GDP growth was 2.3 per cent in 1993/94, an improvement over the 0.5 per cent growth recorded the previous year (Chart 1). Cotton production increased by 15 per cent, and there was modest growth in the construction, transport and communication sectors.

15. The average annual inflation rate (measured by the consumer price index) continued to decline, from a level of over 20 per cent in 1991/92, to around 11 per cent in 1992/93 and 9 per cent in 1993/94 (Chart 2). The decline has been attributed to less expansionary financial policies and the stability of the exchange rate of the Egyptian pound vis-a-vis the U.S. dollar.

**Chart 1 - Egypt - Real GDP, 1990-91/1993-94**  
(Percentage change)



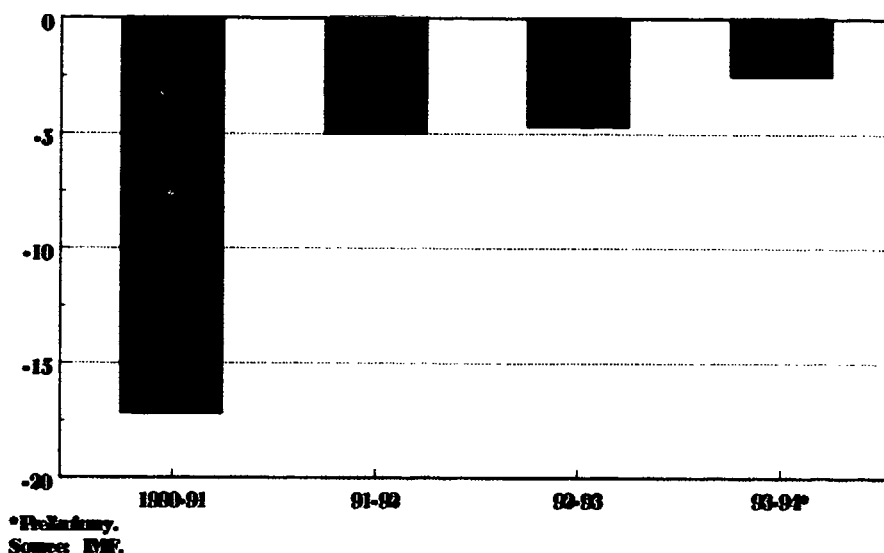
**Chart 2 - Egypt - Consumer price index, 1990-91/1993-94**  
(Percentage change)



(b) Public Finance

16. The overall budget deficit declined from 4.7 per cent of GDP in 1992/93 to 2.5 per cent of GDP in 1993/94 (Chart 3). The decline was attributable to the faster growth in government revenue (12.4 per cent) compared to government expenditure (7.4 per cent). It was capital expenditure, however, which bore the brunt of fiscal adjustment, declining to 7.0 per cent of GDP in 1993/94 from 8.2 per cent the previous year. Overall current expenditure remained virtually unchanged as a proportion of GDP.

**Chart 3 • Egypt • Overall fiscal deficit, 1990-91/1993-94**  
(In percentage of GDP)



(c) Money and Credit

17. Monetary growth declined from 16.5 per cent in 1992/93 to 12.4 per cent in 1993/94. "Dollarization", i.e. the substitution away from Egyptian pound liquidity and towards foreign currency deposits, continued in 1993/94, but the rate declined to 23.4 per cent from 26.7 per cent the previous year. Continued capital inflows led to an increase in the net foreign assets of the banking system by 5.3 per cent in 1993/94. Net domestic assets of the banking system increased by 7.1 per cent in 1993/94, the 0.2 per cent decline in credit to the Government and the Food Supply Authority being more than offset by an increase in credit to the nongovernment sector by 12.2 per cent.

## (d) Exchange Rate

18. The exchange system was fully unified in November 1991. Between 1990/91 and 1993/94, the nominal exchange rate (as measured by the average of the daily rates for the last month of the fiscal year, which begins on 1 July) has remained between 3.32 and 3.37 Egyptian pounds per U.S. dollar.

## (e) Balance of Payments

The balance of payments recorded an overall surplus of US\$1.7 billion in 1993/94, somewhat lower than the surplus of US\$4 billion in the previous year (Table 1).

Table 1 - Egypt - Balance of Payments, 1991-92/1993-94  
(In millions of U.S. dollars)

	1991-92	1992-93	Prelim. 1993-94
Trade balance	-6,420	-7,312	-7,651
Exports	3,634	3,417	3,065
Petroleum	1,651	1,803	1,499
Other	1,983	1,614	1,565
Imports, c.i.f.	10,054	10,728	10,716
Services (net)	3,260	2,642	1,911
Receipts	7,435	7,836	7,395
Suez Canal dues	1,950	1,941	1,990
Tourism	1,527	1,571	1,504
Investment income <sup>1</sup>	1,379	1,258	1,193
Other	2,578	3,066	2,709
Payments of which:	4,175	5,194	5,484
Interest	1,320	1,455	1,382
Workers' remittances	5,478	4,960	5,147
CURRENT ACCOUNT, EXCLUDING OFFICIAL TRANSFERS	2,317	291	-593
Official transfers	1,352	1,902	829
CURRENT ACCOUNT, INCLUDING OFFICIAL TRANSFERS	3,669	2,193	236
Medium and long-term loans, net	260	81	-16
Drawings	1,453	1,090	787
Amortization	1,193	1,009	803
Foreign direct investment	359	453	520
Other	-279	223	85
CAPITAL ACCOUNT	340	757	589
Errors and omissions and other capital flows	1,931	1,071	905
OVERALL BALANCE	5,940	4,021	1,730

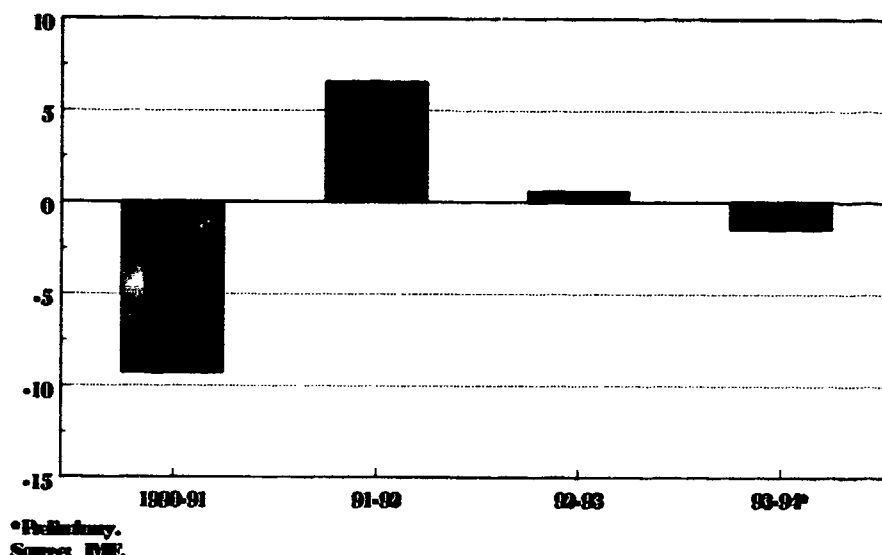
1 Includes imputed interest earnings on deposits held abroad.

Source: IMF.

### Current account

19. The current account, excluding official transfers, showed a deficit of US\$593 million (0.6 per cent of GDP) in 1993/94, compared to a surplus of US\$291 million (0.2 per cent of GDP) in 1992/93 (Chart 4). The deficit on merchandise trade increased from US\$7.3 billion in 1992/93 to US\$7.7 billion in 1993/94. This reflected a decline in exports and a virtual stagnation of imports.

**Chart 4 • Egypt • Current account, excluding official transfers, 1990-91/ 1993-94  
(in percentage of GDP)**



20. The surplus on services account declined from US\$2.6 billion in 1992/93 to US\$1.9 billion in 1993/94. There was no significant change in the receipts from Suez Canal dues, tourism and investment income, but payments for services increased by nearly US\$300 million, even though interest payments declined.

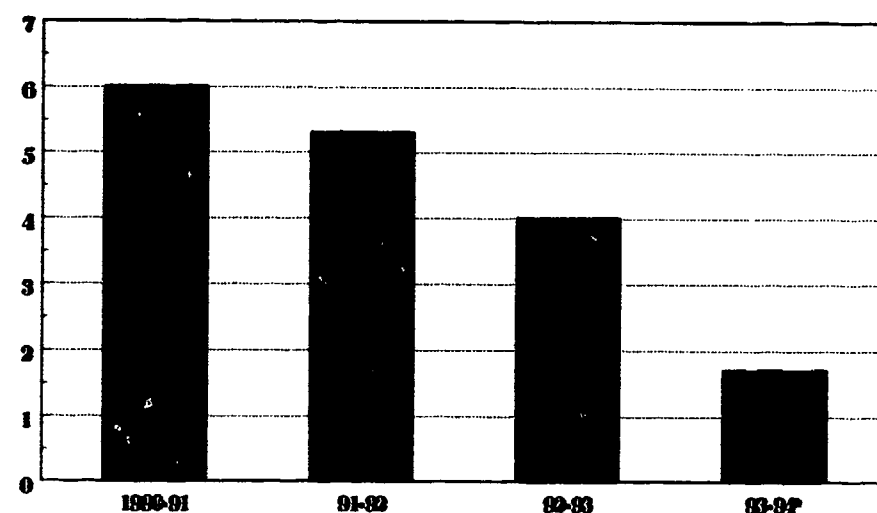
21. While workers' remittances were nearly US\$200 million higher in 1993/94 than in 1992/93, official transfers declined by over US\$1 billion to US\$0.8 billion. The decline in official transfers reflected the virtual absence of the grants available the previous year related to the earthquake and Gulf Crisis Financing Coordinating Group (GCFCG).

#### *Capital Account*

22. The surplus on the capital account declined from US\$757 million in 1992/93 to US\$589 million in 1993/94. Net medium- and long-term loans declined, from a net inflow of US\$81 million in 1992/93 to a net outflow of US\$16 million in 1993/94. Both the drawings and amortization of such loans declined by around US\$200 million over the period. Foreign direct investment increased from US\$453 million to US\$520 million. Short-term capital inflows continued in 1993/94, reflecting the positive interest differential in favour of Egyptian pound-denominated assets and the (anticipated) stability of the Egyptian pound.

23. The overall surplus on the balance of payments led to an increase in net international reserves by US\$1.7 billion in 1993/94, compared to an increase of US\$4 billion in 1992/93 (Chart 5).

**Chart 5 - Egypt - Changes in net international reserves, 1990/91-1993/94**  
(In billion US dollars)



\*Preliminary.  
Source: IMF.

### *Foreign Debt*

Total external debt has remained at a little over US\$35 billion since 1990/91. Of this, close to 90 per cent was official medium- and long-term debt. The debt service, as a ratio of external current account receipts, excluding official transfers, declined from 18 per cent in 1990/91 to 15 per cent in 1992/93 and 1993/94.

#### (f) Pattern of Trade

##### *Commodity composition*

24. Petroleum is by far the most important export, accounting for nearly half of total exports in recent years (Table 2). The bulk of petroleum exports consists of crude oil (70 per cent in 1991/92) but the relative importance of petroleum products has increased in recent years (from around 16 per cent in 1987/88 to 30 per cent in 1991/92). Exports of agricultural commodities declined significantly between 1987/88 and 1991/92 in both absolute and relative terms, largely due to a decline in cotton exports. The exports of the spinning and weaving industries remained more or less stagnant over this period. There was, however, a significant expansion in the exports of other industries between 1987/88 and 1991/92, in particular foodstuffs, chemicals and metallic and engineering, which increased their share in total exports from 14 per cent to 23 per cent.



**Table 2 - Egypt - Commodity Composition of Exports, 1987-88/1991-92**  
(In millions of U.S. dollars)

	1987-88	1988-89	1989-90	1990-91	1991-92
<b>Petroleum</b>	<b>1,563</b>	<b>1,066</b>	<b>1,229</b>	<b>1,971</b>	<b>1,651</b>
Crude oil	1,305	807	910	1,463	1,171
Petroleum products <sup>1</sup>	258	259	319	508	480
<b>Agricultural commodities</b>	<b>498</b>	<b>413</b>	<b>407</b>	<b>226</b>	<b>246</b>
Cotton	354	299	220	83	35
Rice	7	5	7	4	33
Potatoes	22	15	15	28	37
Citrus fruits	60	41	90	38	54
Other	55	53	75	73	87
<b>Spinning and weaving</b>	<b>504</b>	<b>446</b>	<b>635</b>	<b>529</b>	<b>564</b>
Cotton yarn	342	316	446	318	283
Cotton textile	93	53	59	75	86
Other	69	77	130	136	195
<b>Other industries</b>	<b>457</b>	<b>532</b>	<b>667</b>	<b>634</b>	<b>839</b>
Foodstuff	52	52	60	86	135
Chemicals	136	145	248	180	227
Metallurgical and engineering	209	281	278	278	361
Other	60	54	81	90	116
<b>Other undistributed</b>	<b>216</b>	<b>240</b>	<b>207</b>	<b>527</b>	<b>336</b>
<b>Total</b>	<b>3,238</b>	<b>2,697</b>	<b>3,145</b>	<b>3,887</b>	<b>3,636</b>

1 Excludes bunker oil, which is included in exports of services in the balance of payments.

Source: IMF

25. The composition of imports remained relatively stable between 1987/88 and 1991/92 (Table 3). Capital goods, in particular, machinery and equipment, accounted for over a quarter of total imports, while intermediate goods, including chemicals and wood, accounted for over a third of the total. Food and beverages and consumer goods each accounted for around a fifth of total imports.

**Table 3 - Egypt - Commodity Composition of Imports, 1987-88/1991-92**  
(In millions of U.S. dollars)

	1987/88	1988/89	1989/90	1990/91	1991/92
<b>Food and beverages</b>	<b>1,618</b>	<b>2,404</b>	<b>2,327</b>	<b>1,802</b>	<b>1,912</b>
Fats and oils	634	680	781	1,062	956
Chemicals	1,153	1,005	1,159	1,162	1,115
Wood, paper, and textiles	942	937	1,148	1,155	967
<b>Machinery and equipment</b>	<b>2,213</b>	<b>2,050</b>	<b>2,433</b>	<b>2,330</b>	<b>2,356</b>
Metals and products	940	902	951	812	672
Miscellaneous manufactured	461	332	420	378	388
Undistributed <sup>1</sup>	1,272	1,340	1,343	1,557	874
Commodity grants	659	711	879	1,167 <sup>2</sup>	800
<b>Total imports, c.i.f.</b>	<b>9,892</b>	<b>10,361</b>	<b>11,441</b>	<b>11,425</b>	<b>10,040</b>

1 A substantial proportion represents the counterpart to foreign loans.

2 Includes counterpart to GCFCG grants.

Source: IMF

*Regional pattern of trade*

26. Tables 4 and 5, the most recent provided by the IMF, suggest that between 1987 and 1991, there was a significant decline in the relative importance of trade with industrial countries, developing countries and the former U.S.S.R. Over the same period, there was a striking increase in trade with unspecified countries: their share in total exports increased from only 7 per cent in 1987 to 39 per cent in 1991, and their share in total imports increased from 3 per cent to 36.4 per cent.

27. Nevertheless, trade with industrial countries, in particular the United States, Italy, France and Germany, continued to be important, with these countries accounting for 37.3 per cent of Egypt's exports and 47.7 per cent of its imports in 1991. The share of countries in the Middle East and other specified developing countries was significantly smaller.

Table 4 - Egypt - Direction of Trade, exports, 1987-91  
(In percent of total)

	1987	1988	1989	1990	1991
<b>Industrial countries</b>	51.4	50.4	54.1	26.7	37.3
Italy	13.7	11.1	13.8	5.0	14.8
United States	7.7	6.3	5.2	8.6	7.6
Japan	2.2	4.7	3.6	2.7	1.4
France	4.9	5.8	7.1	4.0	5.9
Germany	4.2	4.2	5.2	...	3.7
Netherlands	5.9	6.9	5.7	6.3	3.8
Other	12.8	11.4	13.5	10.0	10.1
<b>Middle East</b>	11.9	15.5	15.3	9.3	10.1
<b>Developing countries</b>	14.2	14.4	13.1	6.5	7.3
Africa	0.9	1.3	1.2	2.0	2.0
Asia	4.4	8.2	6.9	1.3	1.8
Europe	8.8	4.6	4.7	3.3	3.5
Western Hemisphere	0.1	0.3	0.3	...	...
<b>Former USSR, and selected other countries, n.i.e.</b>	15.5	14.4	14.5	15.8	6.3
<b>Countries not specified</b>	7.0	5.3	3.0	41.7	39.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: IMF

**Table 5 - Egypt - Direction of Trade, Imports, 1987-91**  
(In percent of total)

	1987	1988	1989	1990	1991
<b>Industrial countries</b>	65.9	69.3	70.3	62.0	47.7
United States	13.8	11.9	17.6	2.0	16.1
Australia	2.4	2.5	2.6	...	...
Japan	...	5.0	3.9	37.2	4.1
France	7.8	8.4	9.0	9.4	6.9
Germany	11.4	11.1	9.7	10.2	10.4
Italy	6.9	7.0	5.8	2.1	6.8
Netherlands	3.6	3.7	3.2	1.1	3.4
Other	20.0	19.7	18.5	--	--
<b>Middle East</b>	9.4	2.4	2.0	1.6	3.2
<b>Developing countries</b>	17.4	20.3	18.5	7.6	10.8
Africa	0.7	0.6	0.8	0.7	0.7
Asia	6.5	7.2	7.2	3.0	4.8
Europe	9.0	10.0	8.5	2.0	2.2
Western Hemisphere	1.2	2.5	2.0	1.8	3.2
<b>Former USSR, and selected other countries, n.i.e.</b>	4.3	4.4	4.9	3.0	1.8
<b>Countries not specified</b>	3.0	3.6	4.3	25.9	36.4
<b>Total</b>	<b>106.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: IMF