

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/158
22 August 1975

Limited Distribution

Committee on Balance-of-
Payments Restrictions

Original: English

1975 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH THE ARAB REPUBLIC OF EGYPT

Statement Submitted by the Arab Republic of Egypt Under Simplified Procedures for Consultations¹

I. Balance-of-payments position and prospects

In the document for the preceding consultation in 1973 (BOP/130), balance-of-payments developments during the period 1969/71 as well as the first half of 1972 were reviewed. The deterioration on current account referred to in that document has persisted during the past three years or so, as will be readily seen from the perusal of subsequent developments the salient features of which are given hereunder:

(1) Merchandise transactions

While the proceeds of exports grew, especially in 1973 and 1974, due mainly to the increase in cotton exports, payments for imports continued to rise rapidly mainly as a result of the rise in world prices of imported commodities. Moreover, in addition to the need for increased imports to cope with the requirements of a rapidly increasing population as well as to build up strategic commodity stocks, another important factor was the need to reconstruct the areas devastated by the war as well as to accelerate development and to make up for the delay in carrying out investment projects because of the military situation. In fact, while export proceeds recorded an increase of about 24 per cent between 1969 and 1973, and reached LE 396.3 million, payments for imports rose by some 50 per cent and reached LE 622.3 million. In the first half of 1974 both exports and imports were growing at a much faster rate, but, with a further deterioration in the trade balance.

From LE 98.7 million in 1969, the adverse trade balance (or the excess of actual payments for imports over export proceeds) widened to LE 226 million in 1973 and to a much larger figure in the first half of 1974. According to available but strictly provisional indicators for the whole of 1974, the adverse trade balance more than doubled compared with the preceding year.

¹L/3772/Rev.1

(2) Invisible transactions

It is gratifying to note that invisible receipts have shown substantial growth in the last three years, to reach LE 166.4 million in 1973 or more than double the 1971 level, and were running at an annual rate exceeding LE 240 million in the first half of 1974. This was brought about mainly by the large inflow of earnings remitted by nationals working abroad. In fact the application of incentive exchange rates especially after the establishment of the parallel foreign exchange market was a successful step for the attraction of the external savings of these nationals as well as the promotion of tourism. As the increase in invisible payments was on a smaller scale, the deficit from other current transactions experienced up to 1971 when it reached LE 40 million, disappeared in the following two years to leave a noticeable surplus in 1974.

(3) The current account

As a result of the above developments the large deficit on current account which had reached LE 200 million in 1970, continued in the following three years and assumed much larger proportions in 1974. While transfer payments from abroad - representing mainly the flow of Arab assistance funds and other donations - were instrumental in scaling down the combined deficit on current account plus transfers, the substantial growth in such aid following the October 1973 war reversed the situation with the emergence of a surplus on current account and transfers in 1973 as well as in the first six months of 1974.

(4) Capital account

The net inflow on capital account, representing net utilization of foreign loans, commercial credits and other flows, recorded a large increase in the past three years. As a result the current and capital accounts, or the basic balance, which had left a large overall deficit in 1971 were in equilibrium in 1972 and left a substantial surplus in 1973, as well as in the first half of 1974.

Balance of Payments
1971/1974

(LE million)

	<u>Jan./June</u>				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1973</u>	<u>1974</u>
I. <u>Merchandise transactions</u>					
Export proceeds	369.7	353.7	396.3	215.2	350.2
Payments for imports	540.8	559.2	622.3	275.7	464.6
Balance	-171.1	-205.5	-226.0	- 60.5	-114.4
II. <u>Other current transactions</u>					
Receipts	79.2	134.1	166.4	83.8	120.2
Payments	119.2	131.1	163.7	69.1	90.4
Balance	- 40.0	+ 3.0	+ 2.7	+ 14.7	+ 29.8
III. <u>Current transactions</u>					
<u>balance</u>	-211.1	-202.5	-223.3	- 45.8	- 84.6
IV. <u>Transfer payments</u>	+121.3	+128.2	+253.7	+ 69.8	+132.4
V. <u>Balance of current transaction</u> <u>and transfers</u>	- 89.8	- 74.3	+ 30.4	+ 24.0	+ 47.8
VI. <u>Net capital inflow</u>	+ 19.8	+ 66.2	+ 85.7	+ 33.3	+ 29.2
VII. <u>Allocation of SDR's</u>	+ 8.7	+ 9.4	-	-	-
VIII. <u>Overall deficit</u> <u>or surplus</u>	- 61.3	+ 1.3	+116.1	+ 57.3	+ 77.0
IX. <u>Accounted for as follows:</u>					
Changes in net foreign assets (dec.,+)	+ 52.3	+ 19.6	-117.8	- 53.9	- 78.2
IMF position (dec.,+)	+ 8.9	- 21.5	+ 17.8	- 4.2	- 2.1
Holdings of SDR's (inc.,-)	- 3.2	+ 1.2	- 12.3	- 1.9	+ 0.5
Errors and omissions	+ 3.3	- 0.6	- 3.8	+ 2.7	+ 2.8
	+ 61.3	- 1.3	-116.1	- 57.3	- 77.0

II. Foreign trade system and methods of restrictions

As was explained in the document for the 1973 consultation, the basic principles on which Egypt's foreign trade system is established remain unchanged. Briefly stated, the foreign trade of the country is conducted in a non-discriminatory manner on a commodity rather than on a country basis, and is guided solely by commercial considerations. The other basic principle is that the import policy - which is not restrictive in essence - is primarily designed to regulate imports in such a way as to cope with the country's various needs of consumption goods, especially foodstuffs, essential inputs of intermediate products and raw materials, as well as capital goods. Such regulation is effected through the framework of the foreign exchange budget and in accordance with its allocations and priorities, in order to make the best use of available scarce foreign exchange resources.

As far as the foreign trade system itself is concerned, its reorganization since the final accession of Egypt to GATT was shown in the 1973 document, in which a description was given of the task of the Higher Council for Foreign Trade, the Commodity Determination Committees - which came to replace the former Commodity Boards - and the State-trading companies. While the institutional structure remains virtually unchanged, some further steps were taken to improve the functioning of the foreign trade system. Thus mention may be made of the creation of five Commodity Planning Committees attached to the Higher Council. They cover the sectors of agriculture and foodstuffs; other consumption goods; intermediate goods; transportation and communications; and standardized capital goods.

These committees are entrusted with the task of laying down the annual foreign trade plan for the commodities within their competence. The various production units and Ministries submit to the Ministry of Foreign Trade their proposed production or consumption targets, import requirements and export availabilities. Such information is examined by the competent commodity planning committee, and subsequently submitted to the technical secretariat of the Higher Council for the co-ordination of the various plans after checking with the organs responsible for the preparation of the foreign exchange budget. The basic foreign trade plan is then submitted to the Council for further consideration and submission to the Ministry of Foreign Trade. The latter, after approval by the Cabinet, communicates the detailed targets of the annual foreign trade plan as well as the foreign exchange budget allocations to the sectors concerned and to the General Organization of Foreign Trade.

III. Effects of restrictions

The perusal of the balance-of-payments developments during the last few years - reviewed in Section I of this document - reveals the continued growth of Egypt's foreign trade and the expansion of imports including those from GATT partners.

The maintenance of restrictions which, as already explained, are imposed solely for the purpose of regulating foreign trade, has thus not affected the volume of imports.

IV. Other relevant points

A parallel foreign exchange market - involving a 50/55 per cent premium/surcharge over the official rate - was introduced as from the beginning of September 1973, thus modifying and expanding the incentive exchange rates scheme previously prevailing. The resources of the market which are mainly derived from repatriation of Egyptian nationals' earnings abroad, tourism remittances and certain exports may be used for a number of authorized invisible and visible uses. The examination of the list attached to Ministerial Arrêté No. 64 of 1974 - issued on 1 July involving the development of the foreign exchange parallel market will serve to illustrate the extent to which that market has contributed to some relaxation of import restrictions. The list actually covers a number of important commodities including certain foodstuffs, building materials, transport spare parts, a number of input requirements for agriculture and industry, and some electrical and medical appliances.