

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH THE UNITED ARAB REPUBLIC

1. In accordance with its terms of reference, the Committee conducted a balance-of-payments consultation with the United Arab Republic. The Committee had before it a basic document for the consultation (BOP/80 and Corr.1), the Executive Board Decision taken at the conclusion of the International Monetary Fund's consultation with the United Arab Republic on 15 March 1968 (Annex I) and a background paper provided by the International Monetary Fund dated 31 May 1967.
2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 1 May 1968. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with the United Arab Republic. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the United Arab Republic. The statement was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of March 15, 1968 taken at the conclusion of its most recent Article XIV consultation with the United Arab Republic and particularly to paragraphs 2 and 5 which read as follows:

Economic growth slowed down in the last two fiscal years ending June 1967 after the impressive increase during the previous five-year period. Inflationary pressures, while reduced somewhat, continued to be strong and were reflected to an increasing extent in price increases as the policy of suppressing inflation was relaxed. Budgetary operations have been the

principal source of inflationary pressure. Since December 1965, the authorities have taken a number of measures to raise revenues and curtail expenditures. As a result, net recourse to the banking system by the Treasury was reduced substantially in fiscal 1966/67. The use of credit by other sectors has continued to be moderate. In the external sector the economic difficulties were reflected in a further decline in net foreign assets, while the problem of arrears in repayments of external debt has remained serious.

'While it is expected that the internal measures that have been adopted will have a substantial effect on the balance of payments, the U.A.R. authorities recognize the need for an adjustment in exchange policies that would provide a basis for a liberal import policy and adequate incentives for export of goods and services, but they find difficulties in taking immediate action. The Fund, taking note of these considerations, feels that appropriate policies to place the balance of payments on a sound footing over the longer run should not be delayed unduly. The Fund notes also that the United Arab Republic has terminated several bilateral payments agreements with Fund members in the past two years, and urges that this policy be pursued with increased vigor.'

"The general level of restrictions of the United Arab Republic which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

Opening statement by the representative of the United Arab Republic

4. In his opening statement, the full text of which is reproduced in Annex II, the representative of the United Arab Republic reviewed his country's progress since the last consultation. After referring briefly to other documentation concerning the mechanics of the commercial policy programmes of the United Arab Republic, he reminded the Committee that his Government's statement in the 1965 consultations had given preliminary results obtained during the United Arab Republic's First Five-Year Plan which had aimed at and achieved a significant increase in national income both with respect to agricultural production and with respect to the performance of new manufacturing and mining. Even then stabilization efforts had been stressed, he recalled, but the persistent balance-of-payments deficit had already been noted.

5. In the two years that had elapsed since the last consultation growth and stability had continued to be the main objectives of economic policy, but a number of difficulties had been encountered, notably a rise in wages exceeding the rate of increase in productivity and an expansion in consumption which nearly equalled the rate of increase in gross domestic product. There had been a deficit in the current accounts of the balance of payments resulting from increased imports, and from exports which did not measure up to planned targets mainly because of the deterioration in the cotton crop, especially in 1966/67. Various fiscal, monetary and price control measures had been instituted in an effort to stabilize the economy and some selectivity had been exercised with respect to investment in order to concentrate expenditure in the most productive projects in the different sectors. For the fiscal year which began in June 1967, a draft budget had been prepared which aimed at balance between revenues and expenditure, but the outbreak of hostilities had necessitated revisions in the programme which involved additional revenue measures and also a curbing of expenditure both for current outlay and for development. As a result of the various stabilization measures, the rate of expansion in the money supply during the last two fiscal years did not exceed 10 per cent and for the first time since the beginning of the First Five-Year Plan net currency circulation had been reduced in 1966/67. Arrangements had been completed with foreign creditors concerning the United Arab Republic's arrears in respect of bank credit facilities and suppliers' credits and relations with the International Monetary Fund had resulted in the United Arab Republic meeting its repurchase obligations and effecting new drawings. With regard to the balance-of-payments situation, he explained that, whilst some deficit had naturally been anticipated because of the heavy imports required for development, the strains had been intensified in the past few years by rising consumption, the growth of the population, unexpectedly large imports of cereals owing to inadequate local production and the heavy burden of external debt servicing. Capital inflow had however been large in 1965/66 and 1966/67 so that with the reduction in the deficit on current account in the latter year, an overall net surplus had been achieved in 1966/67.

6. Several additional factors of an unfavourable character developed in 1967/68, mainly connected with the hostilities, but it was expected that these would be offset by other special favourable factors so that on current account at least no deterioration was expected for 1967/68. As for the longer term, the outlook contained many elements which should lead to gradual improvement. These included notably the expected completion of the High Dam and the prospect of much improved agricultural outputs, the expectation that industrialization would make an increasing contribution to income and the excellent prospects for the oil industry. If costs of production could be reduced and increases in consumption restrained, an export surplus should emerge which would enable the external debt to be paid off. He felt confident that the Committee would understand the difficulties and appreciate the efforts being made for economic development. In his view the maintenance of import restrictions on balance-of-payments grounds was fully justified in the circumstances.

Balance-of-payments position and prospects and alternative methods of restoring equilibrium

7. Members of the Committee thanked the representative of the United Arab Republic for his well-presented and informative opening statement and expressed sympathy for the long-term economic problems and development needs of his country. It appeared obvious that despite achievements already attained, the economy still had problems to be solved. Much of the difficulty centred on the balance of payments and particularly on the very heavy debt servicing burden. A reduction of reliance on external borrowing was obviously a pressing need. The key to the solution of these problems lay in careful management of the internal economy. Members expressed the hope that the present stabilization programme will limit further bank credit and sharply reduce deficit financing by the Government. It did appear that, apart from certain distorting factors, inflationary pressures seemed to have lessened. It was clear, however, that the way ahead would still be beset by many difficult choices, especially in the fiscal and monetary area, where avoidance of continued deficit financing seemed likely to require reduction of governmental expenditures both on current account and for development purposes. Although there could be no doubt that some trade controls were inevitable to restrain imports for the present, members of the Committee expressed interest in hearing about prospects for early trade liberalization. They indicated their support for the International Monetary Fund recommendation for an adjustment in exchange policies that would provide a basis for a more liberal import policy. They believed measures to institute such policies should be adopted as soon as feasible and enquired in this connexion whether the representative of the United Arab Republic could comment on this.

8. The representative of the United Arab Republic replied that his Government was well aware, as indicated in his opening statement, of the internal difficulties to be overcome in the process of achieving the stabilization on which external balance would depend. With respect to the exchange rate question, although he fully recognized its relevance to the balance-of-payments problem, he preferred to leave this question for the customary discussion in the International Monetary Fund.

9. Members of the Committee reiterated their appreciation of the difficulties facing the United Arab Republic whilst expressing the hope that the actions suggested by the Fund might be implemented as soon as possible. They noted the sharp reduction which had occurred in imports of industrial materials and capital goods in 1966/67 and enquired whether the representative of the United Arab Republic could elucidate somewhat the way in which decisions were reached concerning the allocation of foreign exchange for imports, particularly as the cut in imports seemed to have adversely affected production in the industrial sector.

10. In reply, reference was made to the explanation contained in the background material where it had been stated that a foreign exchange budget based on estimated earnings was drawn up each year and allocated among the various sectors of the economy in accordance with needs. Certain priorities existed, including first and foremost the need for food, raw materials, and equipment needed for development projects. It was hoped that the reduction in imports to which reference had been made would be only temporary, and as rapidly as exchange availabilities permitted, the authorities expected to ease up on the restrictions, first of all in investment goods, raw materials and spare parts, where reductions had been most severe.

11. Members of the Committee also enquired about the outlook concerning foreign debt which was understood to total some \$1.7 billion, exclusive of debt having an original maturity of less than one year. Concern was expressed as to how the United Arab Republic planned to manage the service of such a large debt burden and whether consideration was being given to ways of avoiding further debt increase. The question was also asked whether agreement had been reached concerning scheduling of payments on all medium- and long-term debt.

12. The representative of the United Arab Republic confirmed that the figure cited was approximately correct. The United Arab Republic itself counted a debt as incurred only when the goods contracted for had actually been received, whilst the IMF counted the disbursement as having been made at an earlier stage. But the figure might be accepted nevertheless as there were certain other debts not included in it. It was hoped that supplier credits might contribute substantially to easing the burden of managing this debt, and the United Arab Republic counted on, and had received, assistance from other Arab countries. Much would depend on the success of the country's export promotion efforts. The anti-inflationary policies which had been described, and restraint in importing, should improve the country's capacity to pay. As to the arrears, arrangements for repayment had been reached in all cases, and repayment was proceeding smoothly, though there had been a temporary slow-down in view of exceptional circumstances, after which repayments were resumed.

13. Looking to the long term, members of the Committee enquired whether in the working of certain anti-inflationary measures there was not a circular element, particularly in the price controls and subsidies through which these were operated. It appeared that these devices had been used to try to neutralize the effects of rising incomes and costs but such operations not only involved the Government in extra expenditures which swelled its own deficit and increased disposable income but also led directly to increased consumption either of goods which might otherwise have been exported or of goods imported with scarce foreign exchange, and appeared to have had adverse effects on profitability in some sectors. Although the pressures

which had led to use of the price controls were well understood, members wondered whether the Government was moving toward a definitive abandonment of that kind of control, or if not, how it was proposed to siphon off a part of the income which was freed by the maintenance of artificially low prices. It was obviously of importance to avoid price and income increases, especially as these had affected costs and export availabilities and would continue to do so unless the excess income could be neutralized and income rises reduced. It was also noted that the savings ratio had been falling and the question was asked whether there were plans to increase it.

14. The representative of the United Arab Republic agreed that the dangers and the difficulties outlined did exist and said that fiscal and monetary measures already taken were designed to combat these risks. He did not think that the principal dangers lay in the risk of increased home consumption of goods which might otherwise be exported, such as raw cotton, yarn, textiles and rice, but rather in that higher consumption would be reflected in increased imports. As to the future, the immediate aim was to achieve a balanced budget, even though this meant scaling down investments. As regards the question of prices and subsidies, he said that in addition to increasing the prices of certain subsidized essential commodities, it was the Government's intention to reduce these subsidies gradually. These reductions in cost-of-living subsidies were intended to limit consumption although they had the welcome effect of reducing governmental expenditures on current account.

15. As far as saving was concerned, it was indeed an objective of the Government to encourage saving by all possible means. More saving would be one way to achieve a higher rate of growth as it would make more income available for investment; it was hoped that by limiting consumption, savings would increase.

16. Interest was expressed by the Committee in learning what plans the United Arab Republic had for encouraging foreign investment in the country, as for example in the field of tourism. Especially in view of the heavy foreign debt, was not new foreign investment seen as the key to solution of the long-term problem of where increased foreign-exchange resources were to be found? The representative of the United Arab Republic replied that foreign investment in certain branches, including tourism, was of course welcome, although individual cases needed to be examined on their merits.

System and methods of the restrictions and effects of the restrictions

17. Members of the Committee were encouraged to note that in the interval since the last consultation the United Arab Republic had terminated several bilateral payments agreements with IMF trading partners. They joined in urging that this trend away from bilateralism be continued and enquired about prospects in that direction. The representative of the United Arab Republic confirmed

the information contained in the basic document to the effect that payments agreements with nine countries had been terminated; in the case of nine other countries, payments agreements had been replaced by trade agreements stipulating payments in convertible currencies coupled with mutual banking credit facilities. He noted in addition that most agreements with countries having centrally-planned economies provided for settlement of balances in excess of specified swing margins in convertible currencies. Altogether the United Arab Republic still maintained bilateral payments agreements with some twenty-five countries, including about ten with countries members of the Fund. There might be certain difficulties associated with further progress on termination of agreements in present circumstances but the question was under constant review. In response to a later question, he added that the urgency of terminating bilateral agreements was not in his view so great as might be thought since all such agreements in any case provided for payment of internationally prevailing prices so that their commodity lists provided at most indicative lists for the conduct of trade and he emphasized that all decisions were taken on strictly commercial considerations.

18. A question was also asked concerning the various additional charges on imports mentioned in the background material; interest was expressed in knowing how the Government regarded these taxes in the light of the United Arab Republic's obligations under GATT. The representative of the United Arab Republic stated that in fact there were not very many of these charges, and none of these were protective. Certain items carried excise duties, but the rate was in all cases the same whether the product was imported or of local manufacture. There were also certain municipal storage fees. In addition there was a statistical fee amounting to 5 per cent on food imports and to 10 per cent on all other imports. With the exception of the statistical duty, all were believed to be fully in conformity with the provisions of GATT. Legislative steps were being taken to reduce the statistical tax.

19. Interest was also expressed in learning more about the operation of the restricted or prohibited list of imports. Members were not very clear as to its purpose or as to how products were added to or subtracted from it and on what grounds. The representative of the United Arab Republic noted that the purpose of the list was explained in the basic document of the present consultation (BOP/80) and that presently the list had perhaps less importance than it had then. The tendency had been to give almost complete freedom to the Commodity Boards to establish their own priorities concerning use of the foreign exchange allocated to them.

20. Interest was expressed in learning how competition was effected among the import agencies. The representative of the United Arab Republic explained that while all imports were limited to public owned commercial companies which function very

much like free enterprise firms, nevertheless care was taken that in formulating the commodity specialization policy for the thirteen such companies - of which two are specifically for the export of agricultural products - more than one company has been allocated to import any specific group of commodities. For this purpose all commodities imported were classified into nine groups, each group under the supervision of a special commodity board which judged all offers on the basis of prices and other commercial terms. Depending on the total value of imports of each group of commodities, a number of these commercial companies - sometimes reaching six or seven companies - were assigned to the importation of each group. This way, both the benefits of specialization and the advantages of competition were achieved.

21. In reply to another question, he added that there were certain exceptional cases in which it was found easier to allow some highly technical sectors to handle their own imports directly. The principal cases involved were pharmaceuticals, petroleum, and complete industrial projects where the highly technical nature of the products imported was a factor. In all cases the sectors concerned report to the relevant Commodity Boards and work within quotas assigned to them within the foreign exchange budget. He added that the priorities as among sectors were not a matter for determination by the Commodity Boards but were decided in the drawing up of the foreign exchange budget. To the extent possible, account was taken in drawing up the budget of the views of interested sectors and organizations, but the broad lines of the priorities were, as stated in the background material, foodstuffs, raw materials, spares and capital goods, in that order.

22. The representative of the United Arab Republic stated that the system of trading referred to in Section V of BOP/80 (Use of State trading) was in fact the system just described, which operated mainly through the Commodity Boards within the foreign-exchange budget.

Conclusion

23. The Committee thanked the representative of the United Arab Republic for the very expert replies which he and his delegation had provided to the Committee. Members welcomed the assurances that care and attention were being devoted to the problem of bringing stability into the economy of the United Arab Republic as they felt that this would provide a key to the restoration of external equilibrium and would provide the essential basis for a liberalization of foreign trade. The representative of the United Arab Republic thanked the Committee for the sympathetic attention given to his country's problems and promised to convey to his authorities the views which had been expressed.

Annex I

INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH THE UNITED ARAB REPUBLIC, 15 MARCH 1968

1. This decision is taken by the Executive Directors in concluding the 1967 consultations with the United Arab Republic, pursuant to Article XIV, Section 4 of the Articles of Agreement.
2. Economic growth slowed down in the last two fiscal years ending June 1967, after the impressive increase during the previous five-year period. Inflationary pressures, while reduced somewhat, continued to be strong and were reflected to an increasing extent in price increases as the policy of suppressing inflation was relaxed. Budgetary operations have been the principal source of inflationary pressure. Since December 1965, the authorities have taken a number of measures to raise revenues and curtail expenditures. As a result, net recourse to the banking system by the Treasury was reduced substantially in fiscal 1966/67. The use of credit by other sectors has continued to be moderate. In the external sector the economic difficulties were reflected in a further decline in net foreign assets, while the problem of arrears in repayments of external debt has remained serious.
3. The economy has suffered severe losses arising from the recent hostilities. However, extraordinary external aid is having an important mitigating influence. Moreover, the Government has taken further fiscal and other measures to eliminate excessive pressure on resources.
4. The Fund notes with satisfaction that the stabilization policy now being pursued is expected to limit further increase in bank credit to a moderate amount. The Fund also considers the implementation of an effective incomes policy an important element in the attainment of stabilization objectives.
5. While it is expected that the internal measures that have been adopted will have a substantial effect on the balance of payments, the U.A.R. authorities recognize the need for an adjustment in exchange policies that would provide a basis for a liberal import policy and adequate incentives for export of goods and services, but they find difficulties in taking immediate action. The Fund, taking note of these considerations, feels that appropriate policies to place the balance of payments on a sound footing over the longer run should not be delayed unduly. The Fund notes also that the United Arab Republic has terminated several bilateral payments agreements with Fund members in the past two years, and urges that this policy be pursued with increased vigor.

Annex II

STATEMENT BY THE REPRESENTATIVE OF
THE UNITED ARAB REPUBLIC

Since the previous consultation held in October 1965, my country has witnessed far-reaching developments - internally as well as externally. In the first place the implementation of the second phase of the development plan has forged ahead after the successful achievement of the targets of the First Five-Year Plan. Moreover, in the field of foreign trade important changes have been brought about with a view to regulating and organizing the foreign trade system in such a way as could best serve the purposes of our development plan. Unfortunately efforts to build up our economy were temporarily disrupted by the events of June last year and its consequences.

At the outset, I wish to refer to our foreign trade system and policy which had been previously examined on the occasion of our provisional accession in 1962 and again during balance-of-payments consultations in 1963 and 1965. Last year, on the occasion of application for final accession, a memorandum on the main features of the United Arab Republic economy and foreign trade was submitted by my Government giving an outline of recent changes in our foreign trade system (document L/2765 dated 7 March 1967). In the basic document for the present consultations (document BOP/80 dated 16 April 1968) before you, a fair description of that system was again given together with recent changes. Without repetition of the main features described therein it may here be appropriate to stress the following points:

1. As explained in previous consultations, our foreign trade system is essentially motivated by the principle of non-discrimination in the sense that trade is conducted on a commodity rather than on a country basis, with due regard to commercial considerations.
2. Import regulations are primarily designed to make the best possible allocation of foreign exchange resources for meeting the country's needs of essential foodstuffs and other supplies as well as of intermediate and capital goods required for the execution of the development plan.
3. Commodity Boards have been created with a view to regulating our foreign trade in such a way so as to ensure the implementation of import and export targets on the one hand, and to co-ordinate the activities of the various organs responsible for foreign trade, on the other hand.

4. For planning purposes, imports have been confined to public commercial companies affiliated to the Egyptian General Trade Organization. These companies are legally and effectively independent entities which carry out their operations in accordance with conventional commercial practices and procedures.

5. An appropriate number of these companies has been allocated to each Board in order to ensure competition among them and consequently to secure the most favourable terms from all markets without discrimination.

Before dealing with recent economic developments, it may be appropriate to recall the main points raised in the statement delivered by our delegation before this Committee in 1965 for a proper appraisal of the present economic situation in the United Arab Republic.

In that statement reference was made to the objectives and results achieved during the First Five-Year Plan in which an increase of 37 per cent in national income at constant prices was realized. It was then stated that most targets of the Plan had been attained. Agricultural production had recorded a noticeable increase thanks to the improvement in yield and the expansion in the cultivable area following significant land reclamation. In the industrial field production went up coupled with its diversification as a result of the creation of a vast number of new industries as well as the substantial expansion of oil production and refining. Moreover, the first stage of the High Dam scheme had been accomplished, making possible the double cropping in the greater part of basin lands in Upper Egypt, after their eventual conversion into perennial irrigation, and allowing the expansion of rice cultivation, rice being the second major export crop.

Efforts to stabilize the economy and avoid inflationary methods of financing investment were also stressed. In drawing up budgetary policy, care had been taken to check unnecessary expenditures, to scale down investment outlay to the level compatible with available domestic financial resources, to concentrate on the completion of projects already under way, and to give priority to those having significant export potential. Mention was also made therein of the persistent balance-of-payments deficit, and the hope was entertained that the situation would be rectified during the second stage of the Plan.

Turning now to more recent economic developments, since the previous consultation, it is to be pointed out that the past two years have witnessed the continuation of the efforts devoted to the realization of economic growth with stability. To that end due consideration was given to the achievements of the First Five-Year Plan as well as to the problems and difficulties encountered in the course of its implementation. Of these mention may be made of the rise in wages which exceeded the rate of increase in productivity, the large expansion in final consumption which increased at a rate almost equal to the rate of increase in the gross domestic product, and the persistent deficit in the balance of payments as a result of the rise in imports and the shortfall in exports compared with the planned targets.

As regards the results of the past two years, it is to be noted that the gross domestic product at constant (1964/65) prices advanced to LE 2,021 million in 1965/66 compared with LE 1,924 million in the preceding year, with an increase of 5 per cent as against an average annual growth rate of 6.5 per cent during the First Five-Year Plan. The average rate of growth in income for the six-year period thus amounts to 6.3 per cent. This decline was mainly attributed to the slowing down in the rate of income generated in the sectors of agriculture and industry. The 1965/66 results also revealed a further expansion in consumption which exceeded the rate of the increase in income, the decline in the ratio of savings to gross national product, and the increase in net borrowing from abroad. The results of 1966/67 have not yet been released but it is understood that the rate of growth was below that of the preceding year as a result mainly of the deterioration in the cotton crop following pest attacks, while industry continued to be hampered by the shortage of imported raw materials.

The appraisal of the economic situation in the light of the results achieved and the difficulties encountered indicated the need for action to stabilize the economy and to restore internal and external balance. For this purpose various price, monetary and fiscal measures continued to be taken. In December 1965 the rates of income, property and profit taxes, as well as import duties were increased, and the prices of certain commodities were raised with a view to reducing inflationary pressures. Moreover, action was taken to reduce the rate of expansion in total domestic credit compared with the preceding years. In laying down budgetary policy for the fiscal year 1966/67, care was taken to limit the rise in wages paid by the public sector which account for an important part of the total wage bill, and to confine the increase in current public expenditure within narrow limits. As regards developmental expenditure emphasis was placed on investment in the production sectors as well as the exploitation of existing production capacity, in addition to the determination of project priorities and concentration on projects yielding prompt returns in order to accelerate the turnover of resources.

As for the present fiscal year, the draft budget which had been presented to the National Assembly before June 1967 comprised a number of measures which were adequate to balance the budget. But as a result of the outbreak of hostilities in June 1967 and subsequent developments, action had to be taken to curb expenditure and scale down the developmental outlay on the one hand, and to raise revenues by appropriate fiscal and other measures as well to restrict demand. Thus investment expenditure was reduced to some LE 208 million compared with an appropriation of LE 368 million in the preceding budget. A new national security tax amounting to 50 per cent of the defence tax was imposed, certain other direct and indirect taxes and public utility rates were raised, compulsory savings and social security contributions were increased, cost of living subsidies were reduced, and the prices of a fairly large number of commodities were also increased. It is anticipated that as a result of these measures a better balance between the services budget revenues and expenditures would be attained.

As regards monetary developments, it is gratifying to note that as a result of the various stabilization measures taken in recent years to contain inflationary pressures, the rate of expansion in money supply during the last two fiscal years did not exceed 10 per cent. A healthy development worth stressing was the reduction for the first time, since the beginning of the First Five-Year Plan, in net currency circulation in 1966/67.

In the field of our foreign relations I wish to refer to a problem of some interest to the CONTRACTING PARTIES viz: the question of arrears in respect of bank credit facilities and suppliers' credits extended to my country. Agreements for repayment schedules were reached with foreign banks in 1966. Satisfactory arrangements were actually made for the settlement of arrears of bank credit facilities over a period of three years as from July 1966, as well as for the regular repayment of instalments due in respect of current facilities as and when they fall due. In many cases the settlement was accompanied by the utilization of new credit facilities, indicating confidence in our economy. As regards suppliers' credits, arrangements were also reached with the United Kingdom, France, the Federal Republic of Germany, Italy, Sweden and Japan for the settlement of arrears over a period of five to seven years. Similar arrangements with Holland and Denmark in this connexion are under discussion. Such arrangements were at a reasonable interest charge, the competent authorities in the creditor countries bearing the difference between that charge and the prevailing interest rates.

Arrears of both bank credit facilities and suppliers' credits were settled according to schedule. It has also been decided to pay off gradually the remaining minor commitments owing to suppliers' credits in other countries.

Another aspect of our foreign exchange situation concerns our relations with the International Monetary Fund which have always been very close. Quite recently we have fulfilled repurchase obligations amounting to \$49.2 million. Later on we have been allowed drawings amounting to the equivalent of \$63 million. Of these, a drawing of \$40 million was made in support of our efforts to strengthen the domestic economic situation as well as the external payments position, taking into consideration the effects of the hostilities of June last year. The other drawing of \$23 million was a compensatory facility largely in recognition of a decline in the proceeds of raw cotton exports as a result of pest damage and unfavourable weather conditions.

A feature common to all developing countries is the persistence of the balance-of-payments deficit characteristic of their early stage of development. Such a deficit is in actual fact a reflection of the inflow of foreign capital in the form of capital goods and raw materials required to carry out developmental projects with a view to diversifying their economies and accelerating the pace of their economic growth. As far as the United Arab Republic is concerned the balance-of-payments deficit has been anticipated in view of the launching of a comprehensive economic development plan requiring large-scale imports of capital goods, spare parts and raw materials. However,

the substantial increase in consumption induced by the rise in incomes and the growth of the population, coupled with the need for large imports of cereals owing to the inadequacy of local production, have put the balance of payments under heavy strain in the past few years. Moreover, the volume of the external debt servicing has grown thus bringing additional pressure to bear on the balance of payments.

Turning to our balance-of-payments situation and prospects, it is to be reiterated that the current account deficit has persisted since 1961. It has remained in the neighbourhood of LE 120 million annually from 1962 to 1964, but has declined slightly to LE 110 million in 1965 to contract to LE 75.7 million in 1966. As the balance-of-payments figures for 1967 are not yet ready, I shall confine myself here to developments in fiscal year 1966/67 compared with the two preceding fiscal years.

The current account deficit for 1966/67 was actually confined to LE 79 million compared with LE 116.6 million in the previous fiscal year and LE 87 million in 1964/65. The improvement in 1966/67 over the preceding year was brought about by an increase of LE 28.4 million in current receipts to reach LE 438.8 million, while current disbursements declined by LE 9 million to reach LE 518 million. In actual fact the improvement was attributed to the decline in the adverse trade balance on the one hand and the expansion in the net surplus from invisible transactions on the other. Thus the former declined from LE 172 million in 1965/66 to LE 150.5 million in 1966/67 as against LE 149 million in 1964/65. This was brought about by the rise in the proceeds of exports to nearly LE 264 million compared with LE 251 million in the preceding year and LE 244.8 million in 1964/65, coupled with a fall in import payments from LE 423.2 million to LE 414.4 million as against LE 394 million in 1964/65.

The net surplus from invisible transactions exceeded LE 71 million in 1966/67 compared with LE 55.6 million in the previous year and LE 62.2 million in 1964/65.

Reflecting increased debt servicing, it is to be pointed out that remittances of interest dividends and other payments reached LE 19 million in 1966/67 compared with LE 14.7 million in 1964/65 and only some LE 4 million in 1960/61.

Capital transactions resulted in a net inflow of about LE 99 million in 1966/67 compared with LE 101.4 million in the preceding year and LE 75 million in 1964/65. The total capital inflow - comprising the utilization of long-term loans as well as other resources including the financial contributions from Arab countries - reached LE 163.5 million compared with LE 153 million in the preceding year. Capital outflow representing debt amortization and other repayments totalled LE 64.6 million in 1966/67 compared with LE 51.7 million in the previous year. As a result of the net capital inflow, the overall balance turned from a deficit of LE 15.2 million in 1965/66 into a surplus of LE 19.6 million in 1966/67.

As regards the balance-of-payments developments in 1967/68, several factors are to be taken into consideration. In the first place certain foreign exchange earnings were affected by the closing of the Suez Canal and subsequent loss of Canal dues, the stagnation in tourist traffic and the losses incurred by the oil sector as a result of the aggression. However, these losses were partly mitigated by the inflow of assistance funds from Arab countries. With merchandise exports expected to be maintained at nearly the previous year's level and with payments for imports likely to decline as a result of the various measures taken to reduce investment and restrict domestic demand, the current account deficit is not likely to deteriorate further in 1967/68. The point should be made that in addition to Arab assistance and the use of IMF resources, external financial resources were further strengthened by new loans and credit facilities from some Western European countries, while Eastern countries have agreed to provide the United Arab Republic with additional supplies, raw materials and equipment necessary to meet emergency requirements on easy terms.

As far as long-term prospects are concerned, the balance-of-payments position is expected to improve gradually with the completion of the High Dam scheme making possible the extension of the cultivable area through land reclamation and double-cropping of basin lands, the improvement in agricultural yield, the acceleration of the tempo of industrialization within the framework of realistic investment programmes, the proper utilization of idle capacity, and the excellent prospects for the oil industry. The important discoveries of the Morgan and Alamein oilfields and the arrangements made for prospecting and exploitation of oilfields augur well in this connexion. The increase and diversification of agricultural and industrial output coupled with the reduction in the costs of production, and the efforts exerted to restrict the increase in consumption, should contribute to the expansion in exports and to some substitution of imports. This should consequently lead to the gradual restoration of equilibrium and, eventually, to the emergence of an export surplus for paying off our external indebtedness.

Regarding the immediate balance-of-payments prospects, much will depend on the speed with which the temporary setback and present difficulties caused by the aggression will have been made good with the reopening of the Suez Canal for world navigation, the restoration of oilfields east of Suez, and the mobilization of all our human and material resources for the noble objective of building up our economy and raising the standard of living of our people.

In concluding my statement, I feel confident that in the light of the information disclosed therein the Committee will sympathetically understand our difficulties and appreciate our efforts for economic development which justify the maintenance of import restrictions in conformity with the provisions of Article XVIII of the General Agreement.

Finally, I wish to convey our thanks to you, Mr. Chairman, and to the IMF representative for taking part in this consultation, and to the staff of GATT secretariat for all the efforts in preparing our meeting.

*/Note by the secretariat: In the consultation, members of the Committee noted that there had been no decision as to which Article of the GATT was appropriate for invocation by the United Arab Republic although it had been agreed not to seek consultation oftener than once every two years./