

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

Committee on Balance-of-Payments
Restrictions

1977 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 1975 consultation (BOP/158), balance-of-payments developments during the period 1971/1973, and the first half of 1974 were reviewed. The deterioration on current account referred to in that document has persisted during the past three years or so. The salient features of balance-of-payments developments are given below:

(1) Merchandise transactions

Export proceeds recorded an expansion during the period 1973/1975. The increase of about 65 per cent in 1974 was mainly due to the rise in export prices particularly cotton and rice. In spite of a decline in these prices in 1975/1976 export proceeds almost remained at its high level.

The improvement, however, was totally offset by a much higher increase in payments for imports which went up by more than 100 per cent in 1974 and 174 per cent in 1975. This rapid and substantial increase in import payments was brought about mainly by the rise in world prices of imported goods. Moreover, increased imports were needed to cope with the requirements of a rapidly growing population and the implementation of development plans.

As a result, the excess of actual payments for imports over export proceeds widened from LE 226 million in 1973 to LE 598.8 million in 1974. This adverse trade balance totalled LE 1,078.3 million in 1975.

¹L/3772/Rev.1

(2) Invisible transactions

Invisible receipts have shown continuous and substantial growth in the last three years. From LE 166.4 million in 1973 they went up to LE 277.6 million in 1974 and totalled LE 422.5 million in 1975 and LE 273.5 million in the first half of 1976.

This excellent performance was largely attributable to the reopening of the Suez Canal since 5 June 1975. Receipts from this important waterway totalled LE 33.2 million in the seven months June/December 1975 and increased to LE 51.9 million in the first six months of 1976.

The large and continuing inflow of earnings remitted by nationals working abroad was another positive factor. Receipts from tourism have also increased substantially and recorded LE 121.6 million in the first half of 1976.

As the increase of invisible payments was not at the same scale, the surplus from other current transactions which was LE 2.7 million in 1973, aggregated LE 109.7 million in 1975 and LE 116 million in the first half of 1976.

(3) The current account

As a result of the above developments the large deficit on current account, which was LE 223.3 million in 1973, widened in 1974 to LE 532.7 million. In 1975 this current deficit assumed much larger proportions and totalled LE 968.6 million. Although transfer payments from abroad were effective in scaling down the combined deficit on current account plus transfers, such a deficit remained in 1975 at a high level.

(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, particularly in 1975.

As a result, the current and capital accounts, or the basic balance, left an overall surplus during these years as well as in the first half of 1976.

Balance of Payments

1973/1976

(LE million)

| | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>January/June</u> <u>1976</u> |
|---|---------------|----------------|----------------|------------------------------------|
| I. <u>Merchandise transactions</u> | | | | |
| Export proceeds | 396.3 | 653.9 | 612.8 | 339.0 |
| Payments for balance | <u>622.3</u> | <u>1,252.8</u> | <u>1,691.1</u> | <u>655.9</u> |
| Balance | -226.0 | -598.9 | -1,078.3 | -316.9 |
| II. <u>Other current transactions</u> | | | | |
| Receipts | 166.4 | 277.6 | 422.5 | 273.5 |
| Payments | <u>163.7</u> | <u>211.4</u> | <u>312.8</u> | <u>157.5</u> |
| Balance | + 2.7 | + 66.2 | +109.7 | +116.0 |
| III. <u>Current transactions balance</u> | -223.3 | -532.7 | -968.6 | -200.9 |
| IV. <u>Transfer payments</u> | <u>+253.7</u> | <u>+405.2</u> | <u>+421.3</u> | <u>+154.4</u> |
| V. <u>Balance of current transactions and transfers</u> | + 30.4 | -127.5 | -547.3 | - 46.5 |
| VI. <u>Net capital inflow</u> | <u>+ 85.7</u> | <u>+157.7</u> | <u>+695.3</u> | <u>+128.2</u> |
| VII. <u>Overall deficit or surplus</u> | +116.1 | + 30.2 | +148.0 | + 81.7 |
| VIII. <u>Accounted for as follows</u> | | | | |
| Net foreign exchange position (Dec., -) | +120.2 | + 50.7 | +136.5 | +118.7 |
| N/R accounts and other liabilities (Dec., +) | - 2.4 | - 10.4 | - 1.9 | + 1.1 |
| IMF position (inc., -) | - 17.8 | - 14.6 | - 11.9 | - 43.9 |
| SDR's holdings (inc., +) | + 12.3 | - 0.4 | - 8.1 | - 3.2 |
| Errors and omissions | <u>+ 3.8</u> | <u>+ 4.9</u> | <u>+ 9.6</u> | <u>+ 9.0</u> |
| Total | +116.1 | + 30.2 | +148.0 | + 81.7 |

II. Foreign trade system and import policies

As stated in the document for the 1975 consultation (BOP/158), Egypt's foreign trade is conducted in a non-discriminatory manner on a commodity rather than on a country basis, and is guided solely by commercial considerations. Import policy is not restrictive in essence. Within the framework of the foreign exchange budget allocations and priorities, import policy is primarily designed to regulate imports in such a way as to satisfy the country's needs for foodstuffs, raw materials, intermediate products and capital goods required for development purposes.

As regards the foreign trade system, the Higher Council for Foreign Trade and its commodity planning committees have remained entrusted with the task of laying down the long-term external trade policy as well as the annual export-import plan and its implementation within the framework of the foreign exchange budget.

Further steps have been taken to improve the functioning of the foreign trade system and to introduce more liberal actions. This was in the context of and in application to the open-door economic policy adopted since 1974.

Public organizations, including the General Foreign Trade Organization were abolished in 1975. External trading companies have been operating according to economic and commercial considerations within the framework of the overall economic planning. Except for few basic commodities, individuals and private sector have been allowed to import freely through the parallel exchange market.

Foreign exchange operations have been partially liberalized by law No. 97 of 1976. This has contributed to further relaxation of import restrictions as a result of the expansion of foreign exchange market.

Payments agreements have been gradually reduced. In 1976 alone nine of these arrangements were abolished and foreign trade operations are conducted on the basis of convertible currencies.

The growth of Egypt's foreign trade and the expansion of imports including those from GATT partners are attributable to the liberal bias and open-door economic policy adopted in the last few years.