

# GENERAL AGREEMENT ON

RESTRICTED

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# TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

REPORT ON THE 1992 FULL  
CONSULTATION WITH EGYPT

1. The Committee consulted with Egypt on 8 October 1992, in accordance with its terms of reference, pursuant to Article XVIII : 12(a) of the General Agreement and the declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments purposes (BISD 26S/205). The consultation, under the chairmanship of Mr. J.-F. Boittin (France), was held in conjunction with the Trade Policy Review conducted by the GATT Council. The International Monetary Fund was invited to participate in the consultation in accordance with Article XV : 2 of the General Agreement.

2. The Committee had before it the following documents:

Initial full report provided by Egypt for the TPRM (to be considered as the basic document)	C/RM/G/28 and Corr.1
Background paper by the Secretariat	BOP/W/147

International Monetary Fund, Recent Economic Developments, dated 5 August 1992.

Opening statement by the representative of Egypt

3. The opening statement of the representative of Egypt is attached as Annex I.

Statement by the representative of the International Monetary Fund

4. The statement made by the representative of the International Monetary Fund is attached as Annex II.

Balance-of-payments position and prospects: alternative measures to restore equilibrium

5. Members expressed their general appreciation for the documents and statements presented to the Committee. Strong support was given to the on-going comprehensive reform programme implemented by the Egyptian Government since May 1991. The reforms aimed at deregulating the economy to promote economic restructuring through moving to a market-based system, and achieving greater macroeconomic stability. These reforms had already

contributed significantly to improved economic performance, including a balance-of-payment surplus in 1991-92 and the increased accumulation of international reserves.

6. A number of aspects of the reform programme received special mention. Members referred favourably to progress in liberalizing the trade and currency regimes, including the significant tariff reductions and elimination of many non-tariff barriers as well as the unification and floating of the exchange rate in 1991. Trade reforms included the abolition of the import licensing system in 1986 and substantial reductions in the coverage of goods subject to conditional import prohibitions. Special reference was also made to efforts to reduce domestic price controls and to privatize certain public enterprises.

7. Members encouraged Egypt to continue vigorously implementing and pursuing trade and economic reforms. Although major steps had been taken, members shared the Fund's view that substantially more was needed before Egypt would reap the full benefits from its reform programme. It was important that the Egyptian Government consolidate gains by using favourable external developments to push ahead towards a greater market-oriented diversified economy. One member mentioned the potentially damaging effects on Egypt's non-oil export sector of the recent 15 per cent real effective appreciation of the pound.

8. Several members requested Egypt to provide specific details of future trade liberalization plans, in areas such as tariff rationalisation, prior import approvals and conditional import prohibitions, as well as domestic trade laws. While acknowledging that Egypt's recent turnaround in the balance-of-payments had been partly helped by special factors, especially external debt relief, members inquired whether Egypt had any proposed timetable for eventually disinvoking Article XVIII:B.

#### Systems, methods and effects of import restrictions

9. Members noted that most of Egypt's fiscal and trade reforms were consistent with the Committee's recommendations from the 1988 consultation. Members urged the Egyptian authorities of the need for additional trade liberalization measures to promote further structural change to improve the country's trade performance. Members noted with satisfaction Egypt's moves to progressively lower non-tariff barriers and place greater reliance on tariffs. One member noted that the phasing-out of quantitative trade restrictions should be welcomed, despite involving some off-setting tariff increases. Another member expressed the hope to eventually achieve a transparent Egyptian trade régime based on tariffs only.

10. Some members noted that Egypt's trade regime, despite the improvements, was still restrictive and lacked transparency in a number of important areas. Several members referred to the continued role and coverage of conditional import prohibitions. One member queried whether the rationale for these restrictions remaining on 78 items was for balance-of-payment reasons or to protect domestic industries from foreign competition. The same member also sought details and clarification on the prior import approval system, the sales tax régime, and whether any import surcharges still existed.

11. Several members noted with concern the possible import-restrictive impact of the introduction of quality control standards on wheat and certain other imports removed from the prohibitive list. One member, referring to the application by Egypt of phytosanitary regulations on imports of wood products, expressed the hope that Egypt's sanitary and phytosanitary controls be transparent and GATT compatible, and not be used as trade barriers.

12. In reply, the representative of Egypt emphasised that his Government had so far exceeded the timetable agreed with the World Bank for removing conditional import prohibitions. Moreover, although he was unaware of the details, he understood that a new agreement to accelerate their removal had just been concluded with the IMF and the World Bank. He reiterated that these prohibitions were maintained strictly for balance-of-payments reasons, and indicated that their current coverage of domestic production, as discussed with the World Bank, was 10.3 per cent - substantially below the outdated figure of 40 per cent contained in the GATT Secretariat's TPRM report. His authorities also rejected the report's claim referred to by one Committee member that tariff rates exceeded bound levels on 211 of the 267 bound items. In this connection, he referred to the Council waiver obtained by his Government in July 1992 which gave Egypt the right to change tariff bindings on 52 bound items.

13. Although no timetable for disinvoking Article XVIII:B could be currently envisaged, the Egyptian representative expressed the hope that improved export performance, aided by freer access to world markets, would enable Egypt to terminate import restrictions maintained for balance-of-payments reasons in the near future. He also reaffirmed that public enterprises no longer held import monopolies on wood and petroleum products, and that quality control standards were maintained on wheat imports for health reasons under GATT Article XX.

14. Egypt had abolished its import licensing system and all import surcharges in 1986. Only 9 items remained subject to prior import approval, and these would be removed in accordance with the time schedule agreed with the IMF and the World Bank. Sales taxes, collected on entry

and at the final point of manufacture, respectively, were levied on both imports and domestic production. Moreover, Egypt had abolished some 250 decrees on mandatory price levels, profit margins and other domestic trade rules over the past two years.

### Conclusions

15. 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 encouraged the Egyptian authorities to continue the reform process and to accelerate the implementation of fiscal and other structural reforms.

16. The Committee welcomed that Egypt, in line with the Committee's recommendations made in 1988, had dismantled a number of trade restrictions, including substantial reduction in the list of conditionally prohibited goods, abolition of the import licensing system, termination of the requirement for importers to open letters of credit, abolition of import deposit requirement and reduced a number of tariff rates. The unification of the exchange rate was also welcomed. 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 effects of quality controls introduced on some products.

17. In view of the substantial improvements in the balance-of-payments situation of 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 possibility of disinvoking Article XVIII:B.

18. The Committee recognized that better access to foreign markets would contribute to strengthening the reform process in Egypt.

ANNEX I  
OPENING STATEMENT BY EGYPT

1. At the last full consultation held in June 1988, the balance-of-payments Committee recognized that Egypt, at that time, faced a serious balance-of-payments situation.

2. Nevertheless, the Committee commended Egypt for the trade liberalization efforts it had then undertaken, particularly the abolition of import licensing, tariff reform and movement towards unification of exchange rates. Egypt was encouraged to streamline its foreign control system and to formulate a time schedule for phasing out conditional prohibitions, or their replacement by tariff-based measures.

3. More than four years have elapsed, and we are back for a "full consultation", having in between consulted under the "simplified procedures" in 1990.

4. The report of the Secretariat presented to this meeting conveys a picture totally different from that which existed in 1988. A major difference has been the change in the balance-of-payments position; both in 1990/91 and in 1991/92 Egypt can be seen to have enjoyed a surplus in its balance-of-payments, and was able to increase its international reserves.

5. However, we are not inclined to take this welcomed improvement at its face value. We believe that this improvement could well turn out to be temporary and is unlikely to be sustained in the medium term. This is not unwarranted pessimism. There are good reasons for believing that as far as the balance of payments surplus is concerned, it would be wrong to project the present into the future;

- (i) The trade balance since 1988/89 until 1991/92 has shown a substantial deficit ranging between US\$7.5 and 8 billion; exports have remained almost unchanged over the period; and imports have levelled off due to the slow down in economic activity associated with the reform programme and demand management measures. It is obvious that once the level of activity starts to pick up in the near future - as hoped - we are likely to witness a surge in the demand for imports and, unless this is accompanied by increased exports, the deficit in the trade balance will increase, thereby reducing, or eliminating, the overall surplus in the balance of payments.

- (ii) The current account (excluding official transfers) has, for the first time, shown a modest surplus in 1991/92. This, of course, is partly due to a reduction in interest payments as a result of the debt forgiveness and debt rescheduling which took place since 1990, as well as the improvement in tourism and Suez Canal proceeds. Nevertheless, it should be noted that the largest item which exhibited an improvement in the available estimates appears under the heading "workers remittances". It should be noted that a substantial part of the inflow classified under "workers' remittances" is a reflection of the dedollarization process associated with the interest differential on local assets vis-à-vis interest on dollar assets in particular, and even compared with interest on most west European currencies. This dedollarization trend is unlikely to continue for very long. We are already witnessing a decline in interest rate levels in Egypt. Once the interest differential narrows, the dedollarization is unlikely to continue on the same scale, and may even reverse itself. This source of improvement in the balance of payments would then dry up with consequent effect on the overall balance.

6. These, then, are two of the major reasons why we believe that it would be incorrect to assume that the balance of payments problem in Egypt has been completely solved. We still have a basic chronic structural balance-of-payments problem which is typically related to the development process. This should not be ignored when we assess Egypt's trade measures.

7. Notwithstanding what we have said above regarding the temporary nature of the improvement in the balance of payments, we have in formulating our trade policies, paid due attention to the recommendations contained in the conclusions of your Committee at the 1988 consultations. You may even consider that we have gone beyond these recommendations.

8. Let us highlight some of the trade liberalization measures taken since the 1988 consultations:

- (i) As far as conditional prohibitions are concerned, Egypt has gone a long way towards liberalization. In the mid-eighties, approximately 35.2 per cent of tradable goods' production were subject to restriction through conditional prohibitions. In two steps, in May 1991 and more recently in August 1992, this ratio has been reduced to 10.3 per cent. This effectively means that there has been a reduction of approximately 71 per cent in the value of tradable goods subject to conditional prohibitions. Let us also point out that a conditional prohibition for any item does not necessarily mean

that goods are totally banned from importation; imports are allowed for licensed local manufacturers and assembly lines, the tourist sector, turn-key projects and under the drawback system, as well as for personal use. Needless to say, this list is kept under continuous review and will be reduced further.

- (ii) Advance import deposit requirements were reduced in May 1991 and have been subsequently abolished in August 1992.
- (iii) In May 1991, the suspension of letters of credit which applied to 65 items was abolished. Moreover, the requirement that letters of credit should be opened prior to importation was eliminated.
- (iv) Import and export procedures were systematically and considerably simplified.
- (v) Exchange regulations affecting trade have been significantly streamlined and simplified in a number of consecutive steps:
  - (a) Egypt undertook various measures since mid-1987 which eventually culminated in the establishment of a unified market-determined exchange rate. This now applies to all transactions, both visible and invisible, and including customs valuation.
  - (b) Since 1991, public sector enterprises became no longer subject to foreign exchange budget appropriations. Both the private and public sectors have unlimited and unrestricted access to foreign exchange on the free market.
  - (c) Travellers can carry unlimited amounts of foreign exchange when leaving the country. Funds acquired from the free market can be transferred abroad through the banking system without limit or submission of any documentation.

9. We are also glad to inform the Committee that studies have almost been concluded, with the aim of changing the foreign exchange law, in order to introduce more basic liberalization measures in the field of exchange regulations. We hope to accomplish this task by the end of 1992 or early 1993.

- (vi) Moreover, all monopolies of public enterprises in the field of foreign trade have been abolished since 1991.

(vii) The bilateral payment agreement with North Korea was terminated more than two years ago. Trade with the former Soviet Republics has been conducted at free market rates since the beginning of 1992. Egypt has recently informed the Government of the Russian Federation of its intention to terminate the bilateral payment agreement with the former Soviet Union as of the end 1992. The Bilateral agreement with the Sudan is under close study by the Egyptian authorities with the aim of aligning the applicable rate with the free market rate, and eventually terminating the agreement.

(viii) The period since 1988 witnessed important steps towards reforming and rationalizing the tariff structure. The gap between maximum and minimum tariff rates was narrowed from a range of 110 per cent to 1 per cent, to one of between 100 and 5 per cent, with some exceptions. It could be expected that this gap would be further narrowed as the maximum would further be reduced to 80 per cent - with probably a short list of exceptions relating to luxury imports, in order to transitionally preserve customs revenue and to reduce the budget deficit, itself an objective of the reform programme.

10. I would like now to refer briefly to the measures undertaken by Egypt within the framework of the comprehensive economic reform programme introduced with added vigour in mid-1991. Under the programme, the budget deficit as a percentage of GDP was reduced by two thirds. The rate of monetary expansion was halved, the rate of exchange was unified and is now determined freely by market forces. Non-bank dealers participate actively in the foreign exchange market and account for about sixteen per cent of the total transactions. A market-determined interest rate structure has emerged based on the outcome of regular treasury bill tenders.

11. Another very important aspect for reform has been related to the removal of public enterprises from ministerial controls and granting their managers a wide range of freedom in relation to pricing, employment and investment policies. Equality between private and public sector enterprises has been a basic result of the reform. Access of public enterprises to bank credit is based on creditworthiness.

12. Finally, we would refer to the privatization programme. Almost all enterprises owned by local authorities have been privatized. A number of hotels were recently sold to the private sector. To date, total sales of public assets amount to approximately LE 600 million. The Government intends, in the near future, to sell the shares of public sector enterprises in the capital of joint ventures. An enormous effort is being exerted now to evaluate the assets and liabilities of public sector

enterprises, in preparation for privatization. This aspect of the reform programme has been criticized as being slow. Privatization programmes are by nature slow, particularly in their initial stages, even in developed countries. We can only imagine the greater difficulties associated with privatization as a result of narrow capital markets, and the limited expertise and administrative capacities in less developed countries.

13. The banking law has been amended to improve central bank authority and ensure a high level of solvency and prudence in the operation of the banking system, in line with internationally-recognized standards.

14. The Government of Egypt in recent reviews has been found to have fulfilled its obligations under the standby agreement with the IMF, and the structural adjustment loan with the World Bank.

15. The Government of Egypt is mindful of the need to continue with its reform programme and if need be to strengthen it. Our people have suffered many hardships and we look forward to more international support, including better access to world markets, particularly those of developed countries, where we suffer from various restrictions on our exports of agricultural and manufactured goods.

ANNEX II

STATEMENT BY THE FUND STAFF REPRESENTATIVE  
TO THE GATT BALANCE-OF-PAYMENTS COMMITTEE

1. Since early 1991, Egyptian economic policy has aimed at implementing comprehensive reforms to create, over the medium term, a market-based, decentralized and outward-oriented economy. The economic policies in the 1980s, despite some corrective measures initiated in 1987, tended to exacerbate existing structural weaknesses through extensive controls and expansionary macroeconomic policies, leaving a legacy of weak output, rising inflation, and a severe balance of payments deterioration, including an accumulation of external arrears - in short, an economy beset with rigidities that prevented it from adjusting to changing economic realities. To reverse this, the Egyptian authorities launched a comprehensive programme to make the economy more flexible and to turn around the adverse trends, supported by an 18-month stand-by arrangement from the Fund approved in May 1991. The programme combines financial stabilization policies with real sector reforms that stress reduction of government intervention. To date, the authorities have made important progress toward putting in place financial market reform, a more efficient and equitable tax structure, and market-based exchange and interest rates; work has begun on establishing a realistic price system and improving resource allocation, including through steps aimed at freeing up investment activity and the liberalization of external trade.

2. Implementation of the initial steps of the programme has already produced a significant positive change in Egypt's economic environment: on the stabilization side, the fiscal deficit has been reduced from approximately 20 per cent of GDP to less than 10 per cent in two years, the rate of monetary expansion has been cut in half to 15 per cent over the 12 months to June 1992; and the inflation rate has begun to move downwards - although at 10-12 per cent per annum it remains above trading partner's levels. These developments have been accompanied by a turnaround in the deteriorating trend of the balance of payments, with both workers' remittances and private capital inflows growing in response to high yields on pound-denominated assets, and substantial external support, especially through debt relief. As a result the balance of payments has come into overall surplus since early 1991, and official reserves have risen substantially.

3. On the negative side, implementation of fiscal policy has been less forceful than expected which, together with delays in the adoption of certain structural reforms, has retarded the emergence of more general positive trends. The difficulties in containing the fiscal deficit, as

well as credit extension to public enterprises, coupled with uncertainty regarding the timing and content of the structural package, has produced a wait-and-see attitude in the private sector. All this has undercut the improvement in the inflationary climate and kept nominal interest rates on domestic assets high, further discouraging private investors. The high level of nominal interest rates, in combination with external convertibility and an unchanged exchange rate against the U.S. dollar, while reducing dollarization, has contributed to pressures for appreciation of the exchange rate.

4. On the external side, the market-based foreign exchange system has been strengthened progressively since its introduction and the restrictiveness of the exchange régime has been reduced significantly. The dismantling of trade restrictions has progressed, supported by an IBRD structural adjustment loan. In 1991, the list of products requiring import authorization was reduced faster than anticipated, the requirement to open letters of credit for imports was abolished, the prior import deposits for import purchases under letters of credit were reduced and remunerated at market interest rates and tariff rates were (with some exceptions) brought within a 5-100 per cent range. Export restrictions have been largely eliminated. In August 1992, the authorities reduced further the list of banned imports, abolished prior deposit requirements for imports and adjusted a number of tariff rates to reduce dispersion and rationalize the tariff system, under the IBRD Structural Adjustment Loan. However, substantial quantitative import restrictions persist, top tariff rates are high and, therefore, tariff dispersion is wide, leaving the tariff system both complicated and less transparent than desirable. In recent discussions, the authorities have argued for a gradual approach to further trade liberalization, partly because they fear its impact on production and employment - particularly on those industries that currently operate under local content requirements - and because of concerns that reductions in tariff protection before anti-dumping legislation is put in place could actually trigger dumping.

5. In summary, while the Egyptian authorities have made a strong start on their reform effort, the present need for more forceful financial stabilization policies and the slow pace of structural reform raise the risk that the early gains may be eroded, and that the adjustment efforts already undertaken may not yield the expected underlying improvements in full. Given the lack of fundamental improvement in external competitiveness, a gradual approach to trade and other structural reforms make doubtful the prospects for medium term viability of the balance of payments. A policy pause would risk continued slow growth, unemployment, and erosion of confidence that could lead to outflows of capital.

6. Thus, the Fund has urged the authorities to capitalize on the present favourable external position and implement policies aimed at encouraging

private sector investment and growth. A tighter fiscal stance, supported by cautious credit policy, together with an acceleration of supply-oriented structural reforms would provide the critical signal needed to trigger the strong private sector response that is a sine qua non for a sustained recovery of growth and employment. More rapid and comprehensive trade liberalization, including a phasing out of import restrictions, would help provide a framework for private sector growth and contribute to restoring external competitiveness by reducing pressure for real appreciation of the pound. Other priority measures on the structural side include further decontrol of investment and prices, labour market reform, and acceleration of public enterprise reorganization and privatization. Such a policy stance would lay the groundwork for stable growth based on a shift of resources into productive and remunerative activities, which in turn would enhance the savings capability and competitiveness of the economy, both essential elements in achieving a viable balance of payments.