1981 CONSULTATIONS UNDER ARTICLE XVIII:12
WITH THE ARAB REPUBLIC OF EGYPT

Statement Submitted by the Arab Republic of Egypt under the Simplified Procedures for Consultations

I. BALANCE-OF-PAYMENTS POSITION AND PROSPECTS

In the basic document for the 1979 consultation (BOP/198), balance-of-payments developments during the period 1976/1978 were reviewed. The salient features of balance-of-payments developments for the period 1978/1979 are given below.

1. Merchandise transactions

Export proceeds during 1979—according to exchange control statistics—registered a record figure amounting to LE 1,758.4 millions, an increase of LE 369.9 millions or 26.6 per cent over 1978. This was mainly attributed to the tangible improvement in proceeds from petroleum exports which increased from LE 481.8 millions in 1978 to about LE 943.5 millions during 1979, an increase of LE 461.7 millions or 95.8 per cent.

This improvement, however, was offset by the increase in payments for imports over 1978 of LE 974.8 millions or 26.4 per cent, to reach LE 4,672.6 millions. This marked increase was mainly accounted for by imports of foodstuffs and consumer goods, the payments for which went up by 26.2 per cent or LE 330.7 millions to reach LE 1,595.1 millions for 1979, against LE 1,264.4 millions for the previous year. The increase in payments for imports was mainly due to the continuous increase in world prices, increasing requirements for capital goods needed for implementing the programmes contained in the development plan, and the high consumption of foodstuffs.

¹These procedures are set out in BISD, 20S, pages 47-49.
2. Invisible transactions

Invisible receipts increased to about LE 2,856 millions in 1979 against LE 2,412.0 millions in 1978, a change of LE 444.0 millions or 18.4 per cent. This increase was mainly due to shipping fees from the Suez Canal which advanced by LE 52.6 millions in 1979 or 14.6 per cent as a direct result of increasing transit movements. Shipping receipts related to servicing ships in transit also increased from LE 86.8 millions in 1978 to LE 117.2 millions in 1979.

Tourism and other receipts reached LE 559.7 million during 1979.

Interests, dividends and other revenues jumped from about LE 1,334.0 millions in 1978 to about LE 1,763.4 millions in 1979, an increase of 32.2 per cent.

On the other hand, invisible payments increased by LE 71.4 millions or 7.2 per cent to reach about LE 1,065.7 millions in 1979. This increase was mainly accounted for by remittances for government expenditures as well as the large transfers abroad in favour of foreign experts and technicians working in Egypt for public and private sectors.

3. The current account

As a result of the above developments the large current account deficit reached LE 891.6 millions in 1978 and LE 1,123.9 millions in 1979. Considering transfer payments which amounted to LE 62.1 millions in 1979 against LE 241.5 millions in 1978, the overall balance of current transactions and transfers recorded a deficit of LE 1,061.8 millions in 1979 compared with LE 650.1 millions in 1978.

4. The capital account

Total capital inflows during 1979 amounted to LE 2,105.2 millions, with an increase of LE 435.1 millions or 26.1 per cent over the previous year. This increase was mainly represented on one hand by a fall in utilization of cash loans (of about LE 405.1 millions) and commodity loans (of about LE 8.5 millions), and on the other hand by a rise in the utilization of suppliers' credits of about LE 63.7 millions, coupled with an advancement in short-term capital inflows (mainly represented by banking credit facilities) and direct investment funds of by about LE 820.3 millions.

Total capital outflows, mainly reflecting repayments of foreign loans and external obligations, amounted to about LE 673.5 millions in 1979, against LE 933.1 millions in 1978, a decrease of LE 259.6 millions or 27.8 per cent. This was, in fact, due to the apparent fall in the repayments of the short-term credit obligations, as the discharge thereof has been successfully effected in maturity. Thus, the overall surplus on capital transactions rose to about LE 1,431.7 millions during 1979, an increase of LE 694.7 millions or 94.3 per cent over 1978.
## BALANCE OF PAYMENTS

**1978/1979**

<table>
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<th>LE million</th>
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<tbody>
<tr>
<td></td>
<td>1978&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1979&lt;sup&gt;2&lt;/sup&gt;</td>
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<tr>
<td><strong>1. Current transactions:</strong></td>
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<tr>
<td><strong>A-Merchandise transactions</strong></td>
<td></td>
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<tr>
<td>Proceeds of exports</td>
<td>1,388.5</td>
<td>1,758.4</td>
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<tr>
<td>Payments for imports</td>
<td>3,697.8</td>
<td>4,672.6</td>
<td></td>
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<tr>
<td><strong>Balance</strong></td>
<td>-2,309.3</td>
<td>-2,914.2</td>
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<td><strong>B-Invisible transactions</strong></td>
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<tr>
<td>Receipts</td>
<td>2,412.0</td>
<td>2,856.0</td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td>994.3</td>
<td>1,065.7</td>
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<tr>
<td><strong>Balance</strong></td>
<td>+1,417.7</td>
<td>+1,790.3</td>
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<tr>
<td><strong>2. Transfers:</strong></td>
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<tr>
<td>Balance of current transactions and transfers</td>
<td>- 650.1</td>
<td>-1,061.8</td>
<td></td>
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<tr>
<td><strong>3. Net capital transactions</strong></td>
<td>+ 737.0</td>
<td>+1,431.7</td>
<td></td>
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<tr>
<td><strong>4. Overall surplus or deficit</strong></td>
<td>+ 86.9</td>
<td>+ 369.9</td>
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<sup>1/</sup> At official rate  
<sup>2/</sup> At unified rate
II. FOREIGN TRADE SYSTEM AND IMPORT POLICIES

The major change in the foreign trade system during the period under review was the unification of the official and parallel exchange rates at the previously prevailing parallel rate. The Egyptian pound is pegged to the United States dollar, at the rate of LE 1 = US$1.42857. The Central Bank of Egypt's established buying and selling rates for the United States dollar on 31 December 1980 were LE 0.700 and LE 0.707, respectively, per US$1.

Established rates for fourteen other convertible currencies are based on cross rates quoted in New York.

A supreme Council for the planning of foreign trade is entrusted with establishing long-term policy for exports and imports, controlling the annual export and import plan, and supervising the execution of the foreign exchange budget. The ministries concerned are responsible for setting priorities regarding imports and their timing. For purposes of administration, the economy is divided into several sectors (agriculture, industry, transportation, etc.). The annual foreign exchange budget provides for a specific quota for each sector, and the authorities in charge of the sector decide upon the goods to be imported within that quota. Approval by a foreign trade committee constitutes the necessary authorization for the implementation of import transactions.

On 1 January 1979 the following remaining groups of transactions were shifted from the official rate to the parallel rate: exports of raw cotton, rice, petroleum and petroleum products, imports of wheat, wheat flour, sugar, fertilizers, insecticides, and non-capital imports of the petroleum sector, and all remaining transactions in invisibles.

In April 1977 the Government adopted the system of Open General License (OGL) which provided access for the private as well as the public sector to foreign exchange at the established rate for importation of certain essential commodities. These commodities accounted for 15 per cent of total imports. The OGL system was terminated in June 1980. The private sector now has to purchase foreign exchange for its imports at the free rate.

In June 1980 the authorities adopted major changes in the procedures and regulations which governed importation of commodities by the private sector which are described as follows:

(a) The first step to import is to file an application to one of the authorized banks including the Arab International Bank. The representative of Customs at the bank reviews the part of the application relevant to
customs tariffs and checks all import conditions according to Ministerial Decision No. 1,036 of 1978. Generally, the application is approved, unless the commodity is listed in Appendix 2 of Decree 1,036. There are no restrictions on the means of financing of the import.

(b) The importer then places a deposit in foreign currency with the bank. The deposit ranges from 25 per cent to 100 per cent of the value of imports, c.i.f.

The ratio is 25 per cent for essential consumption commodities; 40 per cent for fuel, raw materials, and intermediate and capital goods; and 100 per cent for the others.

(c) The importer is not permitted to ship the consignment prior to making the deposit described in paragraph (b) above.

(d) Upon arrival of the lading documents, the bank collects the remainder of the import bill or proceeds with the credit arrangements as previously agreed between the bank and the importer. The deposit is then returned to the importer at this time. The importer pays taxes and customs duties in Egyptian pounds to one of the commercial public sector banks which then releases the lading documents needed to clear Customs.

(e) The deposit is kept, on average, for three months at the Central Bank and no interest is paid to the importer (or to the bank). Thus the additional cost incurred by the importer because of the advance deposit scheme would amount on average to the interest he would have earned on a foreign currency deposit of three months' maturity had no advance deposit been required.

1/ The list includes security items as well as certain essential commodities.