Committee on Balance-of-Payments Restrictions

1963 CONSULTATIONS WITH THE UNITED ARAB REPUBLIC

International Monetary Fund Executive Board Decision

Taken at the Conclusion of the Fund's Consultation
with the United Arab Republic on 7 June 1963

1. The Government of the United Arab Republic has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. The United Arab Republic has been engaged in a stabilization program designed to rectify the balance of payments problem and involving a reduction in the rate of credit expansion. Payments difficulties were severe in 1962 because of the sharp drop in earnings from cotton and other agricultural exports and of an increase in import payments. There were drawings on the Fund and stabilization credits, and convertible currency assets of the banking system further declined. Net liabilities to bilateral partners also rose sharply. While there has been some improvement in the payments position in recent months as export earnings from cotton and rice increased, the demand for imports continues high, requiring substantial reliance on restrictions. Heavy pressures on the external position are likely to continue because of the debt service burden, the growing needs for maintenance imports, and the problem of raising export volume.

3. Total credit expansion in 1962 was approximately of the same magnitude as in 1961, but a large part of it was attributable to an increase in cotton financing necessitated by a larger crop. After allowing for cotton financing, credit expansion continued to be primarily in the government sector but at a considerably reduced rate. The rise in money and quasi-money in 1962 was of about the same magnitude as in the previous year. Prices were maintained relatively unchanged despite the exchange rate adjustment in May 1962, partly through higher subsidization of basic consumption goods through the budget and various economy measures such as standardization and concentration on utility types of some commodities.

4. The level of government expenditures rose in 1962/63, although development expenditures were at about the same level as in 1961/62. The Fund urges the United Arab Republic authorities to continue the policy of reducing reliance of the government sector upon the banking system. The Fund believes that the
possibility of raising tax revenue should be explored further and a review of the pricing policies should be made, with a view to generating additional savings for the development program and reducing the domestic demand for goods entering into import and export trade.

5. The Fund welcomes the unification of the exchange system and notes the intention of the United Arab Republic authorities to discontinue the discriminatory tourist exchange arrangement maintained under an agreement with Lebanon. Restrictions on imports and invisible payments continue to be high. The Fund believes that export taxes and import subsidies should be reduced, and that vigorous efforts should be made to expand exports, so as to make possible eventual relaxation of restrictions.

6. The United Arab Republic continues to maintain a large number of bilateral payments agreements. The Fund urges the United Arab Republic to take steps to terminate the agreements with Fund members. The Fund notes that discrimination in favour of bilateral partners has been reduced and that the United Arab Republic authorities state that their objective is to avoid discrimination.

7. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Arab Republic.