DRAFT 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 the consultation with the United Arab Republic on its balance-of-payments restrictions. The Committee had before it the following documents: (a) a basic document for the consultation (BOP/32), (b) background material provided by the International Monetary Fund as noted in paragraph 3 below.

2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7th Supplement, pages 97-98). The consultation was conducted on 10 December 1963. 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 this 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 International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision\(^1\) relating to the last consultation with the United Arab Republic under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation.

\(^1\)Annex B hereto."
"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board decision of June 7, 1963, taken at the conclusion of its recent consultation with the United Arab Republic and particularly to paragraphs 5 and 6 which read as follows:

'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 favor of bilateral partners has been reduced and that the United Arab Republic authorities state that their objective is to avoid discrimination.'

"Subsequently, on October 11, 1963, the United Arab Republic drew the equivalent of $16 million from the Fund. The drawing was agreed by the Fund in accord with its policy for providing compensatory financial assistance to countries that experience a temporary short-fall in total export earnings due to circumstances largely beyond their control.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to
the decision taken at the conclusion of its last Article XIV consultation with the United Arab Republic. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of the United Arab Republic

4. In his opening statement, the full text of which is annexed to this report (Annex A), the representative of the United Arab Republic said that the year 1962/63 had been a year of relative stability for the United Arab Republic economy. Both the third year's targets of the Five-Year Plan and the stabilization programme agreed upon with the Fund had been successfully implemented. The expansion of bank credit had not been excessive in 1962/63, and the stability of prices had been maintained.

5. Export earnings in 1962/63 were substantially higher than in 1961/62, mainly owing to a good cotton crop. Owing to an increase in imports the trade deficit had increased from £E112 million in 1961/62 to £E155 million in 1962/63. This increase was, however, also attributable to the application of the new exchange rate which augmented the deficit in Egyptian pound terms.

6. The representative of the United Arab Republic recalled that the most serious economic problem facing his country in the early fifties had been the deterioration in per capita income of the agricultural population and to improve their living standards. The Government had embarked on a far-reaching plan aimed at a doubling of the national income between 1960 and 1970 through the following measures: (a) an agrarian reform,
(b) an horizontal expansion in agriculture, (c) the launching of an
industrialization plan, and (d) the carrying out of the preparatory work
for the Assuan High Dam project. In the first five years of the plan
(1960-1965) total national income was expected to rise by 40 per cent
from £E1,212 million to £E1,795 million.

7. The investments required in the first five-year period to implement
the plan had been estimated at £E1,697 million, of which the foreign
exchange content would amount to £E646 million. The share of
industrial production in the gross national product would go up from
21 to 30 per cent. The value of total exports was expected to increase
by 35 per cent, and the dependence on raw cotton exports would decrease.
By the end of the second stage of the plan unemployment would have been
virtually eliminated. The targets of the plan had been unfulfilled,
mainly owing to crop failures, but the development in 1962/63 had
been quite satisfactory, the gross national product having increased
by 6.4 per cent to £E1,532 million.

8. The representative of the United Arab Republic pointed out that
his country had had a persistent deficit in international payments
for some years. There had been a growing import surplus, resulting
_inter alia_from increases in imports of capital goods and raw materials for
development purposes, together with large contractual payments under
international agreements. At the same time exports had declined, mainly
as a result of the shortfall of the 1961/62 crops. Normally the trade
balance deficit would partly be compensated by a surplus on services
account, whilst the balance-of-payments deficit would be financed mainly
through foreign credit facilities. The current account deficit in 1962
amounted to £E117.6 million (£E53.5 million in 1961), but as a result of
capital inflow, the overall balance-of-payments deficit
in 1962 had been confined to £E41 million, of which
£E20 million was financed by the use of International Monetary Fund resources and £E21 million by drawing on foreign exchange reserves and incurring liabilities. It was expected that both the current and the overall accounts would show similar deficits in 1963.

9. The cotton selling policy adopted for 1962/63 crop had been found satisfactory and would be continued in 1963/64 to the advantage of both producers and buyers, but owing to a decline in production, the export earnings would probably decrease. As the strain on the balance of payments could not be expected to diminish in the next few years, there was an urgent need for diversification of exports. In this connexion his Government hoped that the industrial countries would soon implement measures to promote the trade of the developing countries, and noted with satisfaction the progress which had been made in implementing the GATT ministerial resolutions.

**Balance-of-payments position and prospects**

10. A member of the Committee, referring to the statement by the representative of the United Arab Republic concerning the cotton sales prospects, asked whether the lower yields of the present crop year and the next were likely to be recurrent. The representative of the United Arab Republic said that the exceptionally low yields of the current year were considered as a temporary phenomenon, being a consequence of the catastrophical weather conditions of 1961/62.
11. Members of the Committee discussed with the representative of the United Arab Republic the present position and prospects of the country's reserves. The representative of the United Arab Republic said that in June 1963 there was a negative balance of net foreign exchange reserves amounting to £E 13 million. From July 1962 to June 1963 there had been a current account deficit of £E 104 million (against £E 72 million in 1961/62) and an overall deficit of £E 35 million (against £E 24 million in 1961/62). The reserve situation had, however, improved somewhat between September 1962 and June 1963 owing to seasonal factors, e.g. in cotton sales.

12. In reply to a question the representative of the United Arab Republic explained that the main part of the foreign expenditure for educational and cultural purposes, referred to on page 22 of the IMF background material, related to costs for the several thousand students studying abroad.

Alternative measures to restore equilibrium

13. A member of the Committee referred to paragraph 4 of the IMF Executive Board decision which urged the United Arab Republic authorities to continue the policy of reducing reliance of the government sector on the banking system, and suggested that the possibility of raising tax revenue should be further explored and that a review of the pricing policies should be made in order to increase savings and reduce domestic demand. He asked what action had been taken along these lines since June 1963, and what had been the results. The representative of the United Arab Republic replied that careful consideration had been given to the Fund recommendation, and the reliance of the Government upon Central Bank credit had actually been reduced. The raising of taxes and the reviewing of the pricing policy were complicated problems which were somewhat difficult at present to reconcile with the aim of raising the standard of living of the population. There had been little change in the fiscal measures but steps had been taken to avoid increases in the money supply; the money supply showed a rise of only 5 per cent in 1962/63 as compared to 11 per cent in 1961/62.

14. In answer to a question, the representative of the United Arab Republic said that the majority of subsidies paid by the Government were aimed at lowering the internal price level for commodities for consumption. They were not intended to affect the imports.
15. Members of the Committee enquired about the prospects of elimination of the bilateral payments agreements, particularly those in force between the United Arab Republic and members of the International Monetary Fund. The United Arab Republic representative said that no new bilateral agreements had been concluded recently, and that the intention of his Government was ultimately to terminate the agreements with Fund members, but they were being retained merely because of swing credit facilities which could be utilized to cover temporary payments deficits resulting from the seasonal fluctuations in exports and imports.

16. The representative of the United Arab Republic, in reply to a question, said that it was the expectation of his Government that the creation of new industries would lead to an expansion of exports and a reduction in trade deficits. In this connexion he expressed the hope that further efforts would be made by industrialized countries to increase imports; consequently, his Government would wish to see the discussion concerning preferences for developing countries successfully pursued.

System and methods of the restrictions

17. A member of the Committee, referring to the statement in the "basic document" (BOP/32, section 2, page 3) concerning expected availabilities of foreign loans and other credit facilities, asked whether these estimates directly affected the source of imports. The representative of the United Arab Republic replied that the restrictions were applied without discrimination, and the authorities had no way of influencing this matter. Sources of supply were determined by purely commercial considerations.

18. In reply to questions on the rôle of State-trading agencies in the foreign trade of his country, the representative of the United Arab Republic said that about 75 per cent of exports was handled by State-trading agencies and about 25 per cent by private traders. Imports were generally handled by State-trading agencies, the only exception being the permission given to factories to import directly for their own needs.

19. Members of the Committee commented on the time-limits for United Arab Republic Government tenders which in their view were usually short and would not allow exporters in distant countries to take part in the tendering.
20. The Committee thanked the representative of the United Arab Republic for his clear and full replies to the questions put to him in course of the consultations. Members expressed sympathy with the economic difficulties facing his country. They welcomed the gradually reduced reliance of the Government of the United Arab Republic on the banking system and the diminution of discrimination in favour of its bilateral trading partners. They hoped that there would be further development in that direction.

21. The representative of the United Arab Republic thanked the members of the Committee for their understanding and co-operation and said that he would bring the views and suggestions made in the course of the consultation to the attention of his Government.

Annexes:

A. Opening Statement by the United Arab Republic Representative

B. IMF Executive Board Decision