1. In accordance with its terms of reference, the Committee conducted a balance-of-payments consultation with the United Arab Republic. The Committee had before it a basic document for the consultation (BOP/49), the Executive Board Decision taken at the conclusion of the International Monetary Fund's consultation with the United Arab Republic on 21 April 1965 (Annex I) and a background paper provided by the International Monetary Fund dated 10 March 1965.

2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 28 October 1965. 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 the 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 and background material from the last consultation with the United Arab Republic under Article XIV of the Fund Agreement.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, the general level of restrictions of the United Arab Republic which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."
"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, and with respect to Part III, relating to system and methods of the restrictions, the Fund invites attention to the Executive Board Decision of April 21, 1965 taken at the conclusion of its last Article XIV consultation with the United Arab Republic. The Fund has no further comments on these matters at this time."

Opening statement by the representative of the United Arab Republic

4. In his opening statement, the full text of which is reproduced in Annex II, the representative of the United Arab Republic reviewed his country's development plan and progress made since the last consultation in implementation of the plan. In the five-year period from 1959/60 to 1964/65 national income has expanded by 37 per cent and industrial income has increased much faster than income from agriculture so that industry now accounts for 24.3 per cent of total income rather than 20 per cent as at the beginning of the five years. Reference was also made to the stabilization programme undertaken in 1962 and supplemented by further measures instituted in 1964; this involves reduction of credit expansion, curbing of domestic consumption, increased savings, expansion of exports and reduced reliance on short-term borrowing to finance long-term development projects. In implementing this plan, the Government has scaled down expenditures and is trying to concentrate on completion of projects already under way, with priority to those having significant export potential. Total planned public expenditure in 1965/66 is put at £1,205 million compared with £1,184 in the preceding year, but the share of development outlay in this total is reduced from £442 million in 1964/65 to £345.4 million.

5. Imports have climbed rapidly in recent years so that not much progress has yet been made in closing the gap between foreign exchange earnings from goods and services and outlay for imports, despite much better crop yields and prices in 1963 and 1964, higher earnings from Suez Canal dues and increased returns from tourism. Capital inflows covered most of the difference but there was a loss of reserves in all three years. For the immediate future the prospects of progress are distinctlv
better, however, for two reasons. First, progress and eventual completion of the High Dam will enable increasing areas to be double-cropped and will bring new land under cultivation enabling the United Arab Republic to export significantly greater quantities of cotton, rice and other crops. Secondly, the investments under the two five-year plans should lead to a still greater expansion of output of industrial goods, some of which will be available in substitution for goods now imported and others of which will be exported.

6. In conclusion the representative of the United Arab Republic noted that his country hopes, as a result of its participation in the Trade Negotiations Committee, to complete its final accession to the GATT. He hoped that the consultation would serve to make it clear that the United Arab Republic's import and trade policies are designed to control imports only to the extent necessitated by the shortage of foreign exchange resources within the framework of the overall development plan, and that this regulation is being carried out on a non-discriminatory basis. He called particular attention to the fact that in the period since the last consultation import licensing has been abrogated and that more flexibility has been introduced into the system by releasing foreign exchange to the various authorities concerned for the use of their respective sectors, with due consideration to competitive world prices and other relevant factors.

Balance-of-payments position and prospects

7. Members of the Committee thanked the International Monetary Fund and the United Arab Republic for the material supplied and expressed sympathy for the balance-of-payments difficulties experienced by the United Arab Republic as an exporter of primary products. They recognized that, although there seemed to be an improved balance-of-payments situation in prospect for 1965, the United Arab Republic does have very low foreign exchange reserves and high short-term liabilities which explain the need for restrictions, as is brought out in the Fund material. They welcomed the progress which has been made in implementing the stabilization programme, notably in a reduced rate of expansion of credit, better budget planning, reduced reliance on short and medium
term credit, and urged the United Arab Republic to continue implementing policies necessary to improve the balance-of-payments position, relieve excessive pressures on domestic resources, and establish a basis for the resumption of the upward trend of investment outlays, and provide a basis for eventual import liberalization. Notice given to all but one of the bilateral agreement partners which are members of the International Monetary Fund of the United Arab Republic's desire to terminate the bilateral payments features of its agreements was welcomed. The question was also raised whether sufficient emphasis was being placed on efforts to increase exports given the importance to the United Arab Republic of greater export earnings.

8. In reply the representative of the United Arab Republic stated that export promotion has recently been the subject of a special conference, known as a Production Conference, which had established targets for the United Arab Republic that were to serve as recommendations to be implemented by governmental measures. First among the objectives cited was the need to restrict domestic consumption in order to make a greater proportion of total product available for export. Next, the Conference recommended special efforts to ensure that all existing capacity for production is fully utilized. Other recommendations of the Conference looked to increased productivity, a concerted effort to standardize specifications for export goods and improved quality. New commodities and processes are to be sought in order to produce goods which will sell well in export markets. The development plan is also to be examined with a view to giving higher priority to export industries, especially such as can produce with a low foreign-exchange component and employ a large labour force.
Alternative measures

9. In view of the importance attached to the problem of checking internal demand, interest was expressed in learning more of the specific measures by which the United Arab Republic hopes to check consumer spending. In reply, the representative of the United Arab Republic listed various types of measures. With respect to imports, the objective has been to curtail consumer goods imports severely with the exception of various essential supplies, though a minimum of replacement parts has proved to be urgently needed, and to try to import mainly raw materials and capital equipment. Steps taken to discourage consumer goods purchases include the setting of higher prices for some products and a ban on some hire-purchase arrangements. Measures have also been taken to reduce the rate of expansion of the money supplies, notably through a reduction in Governmental expenditures. Finally, steps are being taken to encourage saving. Under this last heading, which members of the Committee considered to be especially important, the representative of the United Arab Republic noted that high interest earnings are being offered on savings accounts and that a new form of Government obligation known as the "savings certificate" has been well received. The Committee welcomed these indications of efforts to cope with tendencies toward inflation while expressing some surprise that efforts to increase Government revenues did not figure more prominently in the stabilization programme. They also questioned whether an effort to curb spending through higher prices was consistent with an effort to increase exports, since higher prices might lead to demands for wage increases and so lead to higher costs in the export industries. The hope was expressed that measures taken in accordance with the agreement reached with the International Monetary Fund in May 1964, particularly in the area of public sector borrowing, will be continued and, where appropriate, intensified.
10. The representative of the United Arab Republic recognized that measures addressed to one problem sometimes do interfere with the attainment of other objectives, but he felt that good progress has nevertheless been made in stabilization. In the year ended 30 June 1965 the money supply had increased by only 11 per cent as compared with a 20 per cent increase in the preceding year. The rate of expansion of domestic credit was also lower in 1964/65 than was previously the case. Net claims of the banking system on the Government had increased by only £29 million in 1964/65 compared with an increase of £157 million in the preceding year. Credit to the private sector did not expand, though domestic claims on the specialized banks have increased somewhat. Higher national income and wages have to some extent been the cause of increased domestic consumption, but price increases are partly the result of the rising cost of credit. The representative of the United Arab Republic stressed that such increases may be offset by increased productivity in industries producing for export. Moreover, even to the extent that export prices do increase, this may not hamper sales abroad, depending on the relationship between domestic and foreign prices. He stressed that higher interest rates to public sector institutions are having a restraining effect on unnecessary expenditure by them.

System and methods of the restrictions

11. In connexion with the matter of commercial credit, a question was asked as to whether availability of credit has any effect upon choice of country of supply for imports, or, in other words, whether trade is sometimes diverted from one source to another because of easier financial arrangements possible for purchases from one country rather than another. The representative of the United Arab Republic stated that imports are financed from earnings of exports of goods and from invisible earnings as well as from capital receipts (both long and medium term) and from commercial credits. It would be impossible to segregate the various financial considerations which affect choice of country of supply. He did add, however, that the United Arab Republic is making an effort to restrict reliance on short-term banking credit as a means of financing imports, in accordance with a recommendation which had been made to the United Arab Republic. One might
therefore expect that credit considerations would play a rather smaller rôle in the choice of sources of supply in the future.

12. Members of the Committee also expressed concern that the United Arab Republic's bilateral agreements may affect choice of countries of supply with the result that purchases may sometimes be made not in the country which can offer the best value and terms of delivery but in the country in which credits are available under bilateral agreements. The representative of the United Arab Republic affirmed that no distinction is made between countries in the matter of specifications and availability of goods; that is, the same requirements are set regardless of the country from which imports are to be purchased. Members of the Committee expressed concern however, that in the difficult foreign exchange situation in which the United Arab Republic finds itself, ready availability of credit under a bilateral agreement might well override other considerations.

13. In response to a question concerning the working of the "prohibited list", which comprises about half of all imports, the representative of the United Arab Republic stated that this list dates back to 1960, when import trade was still in private hands, and that its significance is now very limited, since importation is in the hands of State-trading organizations which generally have much more discretion in the choice of needed imports, whether or not the goods are included on the prohibited list. In general it may be said that if goods are required for the local economy, they are imported to the extent needed. He also stated that restrictions are not applicable to the tariff items as a totality but mostly to certain articles which come under these items. This list might also be considered restrictive and not prohibitive.

14. It was noted by the Committee that there are various administrative anomalies in the United Arab Republic system of restrictions which it might perhaps be possible to correct without any additional burden on the United Arab Republic balance of payments. For one thing, exporters selling goods to the United Arab Republic have brought it to the attention of their governments that even when importation has been completed the guarantee deposit posted in connexion with the delivery of goods on demand of the United Arab Republic authorities is
released only after a considerable delay, sometimes only after prolongation has become necessary. A similar difficulty, which inevitably works to increase the cost to the United Arab Republic of obtaining imported goods and services, is the fact that much more delay is involved in obtaining permission to transfer licence fees due to industrial enterprises on contracts in the United Arab Republic than is involved in transferring payment for delivery of merchandise. The representative of the United Arab Republic was unable to understand how such delays and difficulties could arise, if not from the country's overall shortage of foreign exchange or from administrative formalities. He emphasized that no discrimination among countries is intended and added that he would call this matter to the attention of his authorities. The observation was made by the Committee that delays and difficulties however caused, do increase the cost of doing business with the United Arab Republic, and so amount in practice to an additional barrier to trade.

15. One further difficulty encountered in trade with the United Arab Republic which was brought to the attention of the Committee concerned equipment and apparatus imported into the United Arab Republic for assembly and re-export. Such goods are normally subject to duty when entered temporarily for re-export, but often the refund of duty upon exportation is so slow that the foreign supplier is obliged to charge the Egyptian enterprise a higher price than would otherwise have been necessary, with an obvious increase in costs to the Egyptian enterprise. The representative of the United Arab Republic said that free zones have been provided for processing of goods intended for re-export, and he was confident that there was no intent to cause unnecessary difficulties to firms entering merchandise into the United Arab Republic temporarily for re-export.

General

16. In relation to the United Arab Republic opening statement, it was noted that the representative of the United Arab Republic regarded this consultation as being carried out under Article XVIII of the General Agreement; the Committee noted this view, but wished to record its understanding that no formal decision had, in fact, been taken on the matter, even though it was accepted that the United Arab Republic would in practice consult every second year.
17. With respect to the substance of the consultation, members of the Committee reiterated their thanks to the delegation of the United Arab Republic and their sympathy for the difficulties confronting that country. They expressed the hope that the United Arab Republic would fully consider the possibility that an increased degree of competition from imports might help bring greater efficiency in developing local industries, and in this connexion they felt that imports could make a much greater contribution if more progress were made toward terminating bilateral agreements so that imports could be purchased strictly on the basis of commercial considerations.