Committee on Balance-of-Payments Restrictions

1965 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 21 April 1965

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 gross national product of the United Arab Republic has continued to grow at a fairly high rate; both agricultural and industrial production contributed to this growth. Exports also showed a significant improvement; in part, this was due to higher prices of long-staple cotton. Nevertheless, the economy has continued to suffer from substantial imbalance with demand continuing to outpace available supply, resulting in pressures on prices, further tightening of restrictions on imports, and a worsening of the foreign exchange position.

3. In an attempt to rectify the situation, the United Arab Republic has been implementing stabilization policies since April 1964 and has made progress in cutting back the rate of credit expansion. Reliance of the Government on the banking system has been considerably reduced mainly by restraining investment expenditures. Some adjustments in prices have been made. Measures so far taken, however, have not proved sufficient and the rate of credit expansion remains excessive. The Fund believes that consideration should be given to adopting additional measures as soon as possible in order to assure that the excessive pressures on domestic resources will be abated, a basis will be established for resumption of the upward trend of investment outlays, and the balance of payments position will improve.

4. Administrative arrangements concerning the allocation of foreign exchange have been modified to increase their effectiveness, while restrictions have become more stringent. The growing distortions resulting from a heavy reliance on restrictions emphasize the need for action on financial and related policies. The United Arab Republic has informed all but one of its partners to bilateral agreements, who are Fund members, of its wish to eliminate bilateral payments features of such agreements. The Fund expects the United Arab Republic to proceed promptly with negotiations to carry out this statement of intention.

5. In concluding the 1964 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Arab Republic.