Since the previous consultation held in October 1965, my country has witnessed far-reaching developments—internally as well as externally. In the first place, the implementation of the second phase of the development plan has forged ahead after the successful achievement of the targets of the First Five-Year Plan. Moreover, in the field of foreign trade important changes have been brought about with a view to regulating and organizing the foreign trade system in such a way as could best serve the purposes of our development plan. Unfortunately, efforts to build up our economy were temporarily disrupted by the events of June last year and its consequences.

At the outset, I wish to refer to our foreign trade system and policy which had been previously examined on the occasion of our provisional accession in 1962 and again during balance-of-payments consultations in 1963 and 1965. Last year, on the occasion of application for final accession, a memorandum on the main features of the United Arab Republic economy and foreign trade was submitted by my Government giving an outline of recent changes in our foreign trade system (document L/2765 dated 7 March 1967). In the basic document for the present consultations (document BOP/80 dated 16 April 1968) before you, a fair description of that system was again given together with recent changes. Without repetition of the main features described therein it may here be appropriate to stress the following points:

1. As explained in previous consultations, our foreign trade system is essentially motivated by the principle of non-discrimination in the sense that trade is conducted on a commodity rather than on a country basis, with due regard to commercial considerations.

2. Import regulations are primarily designed to make the best possible allocation of foreign exchange resources for meeting the country's needs of essential foodstuffs and other supplies as well as of intermediate and capital goods required for the execution of the development plan.

3. Commodity Boards have been created with a view to regulating our foreign trade in such a way so as to ensure the implementation of import and export targets on the one hand, and to co-ordinate the activities of the various organs responsible for foreign trade, on the other hand.
4. For planning purposes, imports have been confined to public commercial companies affiliated to the Egyptian General Trade Organization. These companies are legally and effectively independent entities which carry out their operations in accordance with conventional commercial practices and procedures.

5. An appropriate number of these companies has been allocated to each Board in order to ensure competition among them and consequently to secure the most favourable terms from all markets without discrimination.

Before dealing with recent economic developments, it may be appropriate to recall the main points raised in the statement delivered by our delegation before this Committee in 1965 for a proper appraisal of the present economic situation in the United Arab Republic.

In that statement reference was made to the objectives and results achieved during the First Five-Year Plan in which an increase of 37 per cent in national income at constant prices was realized. It was then stated that most targets of the Plan had been attained. Agricultural production had recorded a noticeable increase thanks to the improvement in yield and the expansion in the cultivable area following significant land reclamation. In the industrial field production went up coupled with its diversification as a result of the creation of a vast number of new industries as well as the substantial expansion of oil production and refining. Moreover, the first stage of the High Dam scheme had been accomplished, making possible the double cropping in the greater part of basin lands in Upper Egypt, after their eventual conversion into perennial irrigation, and allowing the expansion of rice cultivation, rice being the second major export crop.

Efforts to stabilize the economy and avoid inflationary methods of financing investment were also stressed. In drawing up budgetary policy, care had been taken to check unnecessary expenditures, to scale down investment outlay to the level compatible with available domestic financial resources, to concentrate on the completion of projects already under way, and to give priority to those having significant export potential. Mention was also made therein of the persistent balance-of-payments deficit, and the hope was entertained that the situation would be rectified during the second stage of the Plan.

Turning now to more recent economic developments, since the previous consultation, it is to be pointed out that the past two years have witnessed the continuation of the efforts devoted to the realization of economic growth with stability. To that end due consideration was given to the achievements of the First Five-Year Plan as well as to the problems and difficulties encountered in the course of its implementation. Of these mention may be made of the rise in wages which exceeded the rate of increase in productivity, the large expansion in final consumption which increased at a rate almost equal to the rate of increase in the gross domestic product, and the persistent deficit in the balance of payments as a result of the rise in imports and the shortfall in exports compared with the planned targets.
As regards the results of the past two years, it is to be noted that the gross domestic product at constant (1964/65) prices advanced to LE 2,021 million in 1965/66 compared with LE 1,924 million in the preceding year, with an increase of 5 per cent as against an average annual growth rate of 6.5 per cent during the First Five-Year Plan. The average rate of growth in income for the six-year period thus amounts to 6.3 per cent. This decline was mainly attributed to the slowing down in the rate of income generated in the sectors of agriculture and industry. The 1965/66 results also revealed a further expansion in consumption which exceeded the rate of the increase in income, the decline in the ratio of savings to gross national product, and the increase in net borrowing from abroad. The results of 1966/67 have not yet been released but it is understood that the rate of growth was below that of the preceding year as a result mainly of the deterioration in the cotton crop following pest attacks, while industry continued to be hampered by the shortage of imported raw materials.

The appraisal of the economic situation in the light of the results achieved and the difficulties encountered indicated the need for action to stabilize the economy and to restore internal and external balance. For this purpose various price, monetary and fiscal measures continued to be taken. In December 1965 the rates of income, property and profit taxes, as well as import duties were increased, and the prices of certain commodities were raised with a view to reducing inflationary pressures. Moreover, action was taken to reduce the rate of expansion in total domestic credit compared with the preceding years. In laying down budgetary policy for the fiscal year 1966/67, care was taken to limit the rise in wages paid by the public sector which account for an important part of the total wage bill, and to confine the increase in current public expenditure within narrow limits. As regards developmental expenditure emphasis was placed on investment in the production sectors as well as the exploitation of existing production capacity, in addition to the determination of project priorities and concentration on projects yielding prompt returns in order to accelerate the turnover of resources.

As for the present fiscal year, the draft budget which had been presented to the National Assembly before June 1967 comprised a number of measures which were adequate to balance the budget. But as a result of the outbreak of hostilities in June 1967 and subsequent developments, action had to be taken to curb expenditure and scale down the developmental outlay on the one hand, and to raise revenues by appropriate fiscal and other measures as well to restrict demand. Thus investment expenditure was reduced to some LE 208 million compared with an appropriation of LE 368 million in the preceding budget. A new national security tax amounting to 50 per cent of the defence tax was imposed, certain other direct and indirect taxes and public utility rates were raised, compulsory savings and social security contributions were increased, cost of living subsidies were reduced, and the prices of a fairly large number of commodities were also increased. It is anticipated that as a result of these measures a better balance between the services budget revenues and expenditures would be attained.
As regards monetary developments, it is gratifying to note that as a result of the various stabilization measures taken in recent years to contain inflationary pressures, the rate of expansion in money supply during the last two fiscal years did not exceed 10 per cent. A healthy development worth stressing was the reduction for the first time, since the beginning of the First Five-Year Plan, in net currency circulation in 1966/67.

In the field of our foreign relations I wish to refer to a problem of some interest to the CONTRACTING PARTIES viz: the question of arrears in respect of bank credit facilities and suppliers' credits extended to my country. Agreements for repayment schedules were reached with foreign banks in 1966. Satisfactory arrangements were actually made for the settlement of arrears of bank credit facilities over a period of three years as from July 1966, as well as for the regular repayment of instalments due in respect of current facilities as and when they fall due. In many cases the settlement was accompanied by the utilization of new credit facilities, indicating confidence in our economy. As regards suppliers' credits, arrangements were also reached with the United Kingdom, France, the Federal Republic of Germany, Italy, Sweden and Japan for the settlement of arrears over a period of five to seven years. Similar arrangements with Holland and Denmark in this connexion are under discussion. Such arrangements were at a reasonable interest charge, the competent authorities in the creditor countries bearing the difference between that charge and the prevailing interest rates.

Arrears of both bank credit facilities and suppliers' credits were settled according to schedule. It has also been decided to pay off gradually the remaining minor commitments owing to suppliers' credits in other countries.

Another aspect of our foreign exchange situation concerns our relations with the International Monetary Fund which have always been very close. Quite recently we have fulfilled repurchase obligations amounting to $49.2 million. Later on we have been allowed drawings amounting to the equivalent of $63 million. Of these, a drawing of $40 million was made in support of our efforts to strengthen the domestic economic situation as well as the external payments position, taking into consideration the effects of the hostilities of June last year. The other drawing of $23 million was a compensatory facility largely in recognition of a decline in the proceeds of raw cotton exports as a result of pest damage and unfavourable weather conditions.

A feature common to all developing countries is the persistence of the balance-of-payments deficit characteristic of their early stage of development. Such a deficit is in actual fact a reflection of the inflow of foreign capital in the form of capital goods and raw materials required to carry out developmental projects with a view to diversifying their economies and accelerating the pace of their economic growth. As far as the United Arab Republic is concerned the balance-of-payments deficit has been anticipated in view of the launching of a comprehensive economic development plan requiring large-scale imports of capital goods, spare parts and raw materials. However,
the substantial increase in consumption induced by the rise in incomes and the growth of the population, coupled with the need for large imports of cereals owing to the inadequacy of local production, have put the balance of payments under heavy strain in the past few years. Moreover, the volume of the external debt servicing has grown thus bringing additional pressure to bear on the balance of payments.

Turning to our balance-of-payments situation and prospects, it is to be reiterated that the current account deficit has persisted since 1961. It has remained in the neighbourhood of LE 120 million annually from 1962 to 1964, but has declined slightly to LE 110 million in 1965 to contract to LE 75.7 million in 1966. As the balance-of-payments figures for 1967 are not yet ready, I shall confine myself here to developments in fiscal year 1966/67 compared with the two preceding fiscal years.

The current account deficit for 1966/67 was actually confined to LE 79 million compared with LE 116.6 million in the previous fiscal year and LE 87 million in 1964/65. The improvement in 1966/67 over the preceding year was brought about by an increase of LE 28.4 million in current receipts to reach LE 438.8 million, while current disbursements declined by LE 9 million to reach LE 518 million. In actual fact the improvement was attributed to the decline in the adverse trade balance on the one hand and the expansion in the net surplus from invisible transactions on the other. Thus the former declined from LE 172 million in 1965/66 to LE 150.5 million in 1966/67 as against LE 149 million in 1964/65. This was brought about by the rise in the proceeds of exports to nearly LE 264 million compared with LE 251 million in the preceding year and LE 244.8 million in 1964/65, coupled with a fall in import payments from LE 423.2 million to LE 414.4 million as against LE 394 million in 1964/65.

The net surplus from invisible transactions exceeded LE 71 million in 1966/67 compared with LE 55.6 million in the previous year and LE 62.2 million in 1964/65.

Reflecting increased debt servicing, it is to be pointed out that remittances of interest dividends and other payments reached LE 19 million in 1966/67 compared with LE 14.7 million in 1964/65 and only some LE 4 million in 1960/61.

Capital transactions resulted in a net inflow of about LE 99 million in 1966/67 compared with LE 101.4 million in the preceding year and LE 75 million in 1964/65. The total capital inflow - comprising the utilization of long-term loans as well as other resources including the financial contributions from Arab countries - reached LE 163.5 million compared with LE 153 million in the preceding year. Capital outflow representing debt amortization and other repayments totalled LE 64.6 million in 1966/67 compared with LE 51.7 million in the previous year. As a result of the net capital inflow, the overall balance turned from a deficit of LE 15.2 million in 1965/66 into a surplus of LE 19.6 million in 1966/67.
As regards the balance-of-payments developments in 1967/68, several factors are to be taken into consideration. In the first place certain foreign exchange earnings were affected by the closing of the Suez Canal and subsequent loss of Canal dues, the stagnation in tourist traffic and the losses incurred by the oil sector as a result of the aggression. However, these losses were partly mitigated by the inflow of assistance funds from Arab countries. With merchandise exports expected to be maintained at nearly the previous year's level and with payments for imports likely to decline as a result of the various measures taken to reduce investment and restrict domestic demand, the current account deficit is not likely to deteriorate further in 1967/68. The point should be made that in addition to Arab assistance and the use of IMF resources, external financial resources were further strengthened by new loans and credit facilities from some Western European countries, while Eastern countries have agreed to provide the United Arab Republic with additional supplies, raw materials and equipment necessary to meet emergency requirements on easy terms.

As far as long-term prospects are concerned, the balance-of-payments position is expected to improve gradually with the completion of the High Dam scheme making possible the extension of the cultivable area through land reclamation and double-cropping of basin lands, the improvement in agricultural yield, the acceleration of the tempo of industrialization within the framework of realistic investment programmes, the proper utilization of idle capacity, and the excellent prospects for the oil industry. The important discoveries of the Morgan and Alamein oilfields and the arrangements made for prospecting and exploitation of oilfields augur well in this connexion. The increase and diversification of agricultural and industrial output coupled with the reduction in the costs of production, and the efforts exerted to restrict the increase in consumption, should contribute to the expansion in exports and to some substitution of imports. This should consequently lead to the gradual restoration of equilibrium and, eventually, to the emergence of an export surplus for paying off our external indebtedness.

Regarding the immediate balance-of-payments prospects, much will depend on the speed with which the temporary setback and present difficulties caused by the aggression will have been made good with the reopening of the Suez Canal for world navigation, the restoration of oilfields east of Suez, and the mobilization of all our human and material resources for the noble objective of building up our economy and raising the standard of living of our people.

In concluding my statement, I feel confident that in the light of the information disclosed therein the Committee will sympathetically understand our difficulties and appreciate our efforts for economic development which justify the maintenance of import restrictions in conformity with the provisions of Article XVIII of the General Agreement.

Finally, I wish to convey our thanks to you, Mr. Chairman, and to the IMF representative for taking part in this consultation, and to the staff of GATT secretariat for all the efforts in preparing our meeting.