Committee on Balance-of-Payments Restrictions

DRAFT REPORT ON THE CONSULTATION WITH THE UNITED ARAB REPUBLIC

1. In accordance with its terms of reference the Committee has conducted a consultation with the United Arab Republic under Article XVIII.12(b). The Committee noted that the previous consultation under those provisions with the United Arab Republic had been held in May 1968 (BOP/R/22). In conducting the present consultation the Committee had before it a basic document transmitted by the Government of the United Arab Republic (BOP/110), a decision of the Executive Board of the International Monetary Fund dated 16 March 1970 and two papers dated 20 January and 28 September 1970 respectively, containing background material supplied by the Fund.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (L/3388, Annex I). The consultation took place on 19 October 1970. The present report summarizes the main points of the discussion.

3. The Chairman, in welcoming the United Arab Republic to its first consultation on balance-of-payments restrictions since becoming a full GATT Member, referred the Committee to paragraph 31 of the report of the Working Party on the Accession of the UAR. This set out the matters in relation to accession which it had been agreed should be discussed in conjunction with the consultations on balance-of-payments restrictions. Since the instruments of commercial policy and developments in the UAR economy had been fully discussed in the accession context earlier in 1970, it might be appropriate on this occasion for the Committee merely to consider questions arising from these matters during the normal course of its work. A thorough examination of the various aspects of the trading system was left until the time of the next consultation.
Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with the United Arab Republic. Upon the invitation of the Committee the representative of the Fund made a statement as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of March 16, 1970 taken at the conclusion of its most recent Article XIV consultation with the United Arab Republic, and particularly to paragraphs 2 to 4 which read as follows:

'2. Following two years of stagnation, economic activity in the U.A.R. recovered to some extent in 1968/69. The revival has been due largely to an increase in investment expenditures, favorable weather conditions for the agricultural sector, the rising level of petroleum output, and increased imports of production requirements for the industrial sector. Despite the recent improvement, the pace of economic expansion is still relatively slow. Efforts to accelerate growth are impeded by the heavy demand on resources arising from the present political situation and by constraints arising from the imbalance in the external sector.

'3. Owing to substantial increases in development and defense expenditures, the deficit of the government budget has increased despite higher revenues from domestic sources and external assistance. Bank financing of this deficit, combined with other banking operations has recently led to an excessive rate of credit expansion. The Fund urges that measures be taken, particularly in the fiscal field, to curtail the rate of increase in bank credit, in order to forestall a re-emergence of inflationary pressures. This objective would be furthered in the non-government sector by an increase in the level of interest rates. While some measures to eliminate distortions in the price structure and to contain excessive wage increases have been taken, the Fund believes that increased efficiency of the economic system would be promoted by the development of comprehensive policies relating to prices and incomes."
The U.A.R. authorities have for some time recognized that a fundamental reform of the foreign exchange system is necessary in order to attain sustained improvement in the external sector needed to reduce the heavy dependence on restrictions and bilateral arrangements. The Fund believes that this reform should not be unduly delayed and urges the U.A.R. to take prompt action to strengthen exchange policy. In the meantime the Fund does not object to the recent changes in the exchange system on a temporary basis. The Fund urges substantial and faster progress toward eliminating bilateral payments arrangements with member countries.

"At the present time, the general level of restrictions of the United Arab Republic which are under reference do not go beyond the extent necessary to stop a serious decline in its monetary reserves."

Opening statement by the representative of the United Arab Republic

5. In his opening statement, the text of which is reproduced in the annex to this report, the representative of the United Arab Republic outlined the principal developments in the United Arab Republic economy in recent years and described the country's balance-of-payments position and prospects and the import control system in force. It was noted that following a period of steady economic progress based on the successful implementation of plans of economic, financial and social reform, the economy had once again faced serious difficulties in 1966-1968. A combination of unfavourable events had brought economic growth virtually to a standstill. Since then, the economy had recovered and growth had resumed in spite of persistent difficult circumstances. The recovery was due not only to external assistance but also to favourable natural elements and the fruition of the major development projects.

6. The various fiscal and monetary measures taken from 1967/68 had helped to restore internal stability as well as external equilibrium. Liberalization measures taken in the foreign exchange field included the authorization for UAR nationals to maintain accounts in convertible currencies, the granting of a 35 per cent premium on such funds when used for specific purposes, and the granting of a premium of up to 35 per cent on certain agricultural exports to convertible currency countries.
7. There had been no change in the basic trading system since the United Arab Republic's accession to GATT in February 1970. Imports were channelled through the Commodity Boards which ensured that purchases were made through competitive bidding and that the source of supply was determined on commercial considerations. Price considerations applied importantly even in the trade with countries with which the United Arab Republic had bilateral agreements so that there was little diversion of trade on account of bilateralism. The proportion of the United Arab Republic's imports from bilateral agreement countries had fallen from 49.6 per cent of total imports in 1968 to 40 per cent in 1969, and the intention was to terminate such agreements as and when circumstances permitted. As from 10 October, the restricted import list had been abrogated.

8. As regards future prospects, the extensive land reclamation effected after the completion of the High Dam as well as improvements in agricultural productivity was expected substantially to increase agricultural production and consequently to reduce the need for food imports as well as to increase exports. On the industrial front, many projects had come to fruition and further expansion and diversification was expected. Revenues from petroleum would also contribute significantly to foreign exchange earnings.

9. In conclusion, the representative of the United Arab Republic drew attention to the various factors relevant to the future prospects. Much, in his view, would depend on the duration of the current hostilities and the successful solution of the enormous problems of reconstruction and rehabilitation.

Balance-of-payments position and prospects

10. Members of the Committee, referring to the encouraging trend in the balance of payments, especially the good prospects for increases in exports, expressed the hope that further improvements would soon lead to a relaxation of the import restrictions, especially those on products at present considered by the UAR authorities to be non-essentials and on products obtainable from domestic production. Invited to comment upon any plans in this regard, the
representative of the United Arab Republic pointed out that in anticipation of further improvements in the balance of payments certain action had already been taken, e.g. the abrogation of the list of restricted imports. In fact, as had been fully explained by the UAR delegation in the Working Party on the Accession of the UAR last February, the import control system did not involve any import restrictions in the strict sense of the term. The level of imports was determined by the availability of foreign exchange for import payment and by the requirements of the various sectors of the economy. Any additional export earnings and other receipts would naturally be reflected in increases in imports after settlement of current obligations.

11. In answer to questions concerning the 1970/71 prospects for the trade balance and any measures that might have been taken to ensure the maintenance of a trade surplus, the representative of the United Arab Republic stated that preliminary estimates showed that there would be an increase in export proceeds of some 10 per cent in fiscal year 1970/71. This increase derived from several factors: the targets for certain non-traditional exports (e.g. citrus fruit, vegetables, leather goods) had been rising steadily; receipts from petroleum exports were expected to increase and the payments structure in the oil section had undergone a fundamental change; exports of textiles would also increase; and the present level of major agricultural exports such as cotton and rice would be at least maintained. The newly introduced export premium of up to 35 per cent on certain agricultural exports to convertible currency areas should have a tangible effect on the size of these exports.

12. As regards imports, no substantial change was expected between 1969/70 and 1970/71. This, combined with the 10 per cent increase in exports, was expected to reduce the surplus on trade account in 1970/71. On the invisibles account, receipts were expected to rise by about the same amount as outgoing payments, so that the present level of deficit would continue.
13. These current account transactions, together with certain transfers that the United Arab Republic expected to receive from Arab countries under the Khartoum Agreement, should result in a small surplus, which, together with capital inflows, might be sufficient to meet the United Arab Republic's debt servicing obligations falling due during the year. Consequently there would perhaps be no substantial change in the United Arab Republic's external reserves position, taking into account not only the foreign exchange holdings but also the available resources of the IMF as well as the special drawing rights allocated to the Republic. In this connexion the Committee noted with some concern that in 1968/69 capital movements had undergone a change; a substantial net outflow had replaced the net inflow of longer-term capital in preceding years.

14. Members of the Committee referred to the success that had been achieved by the United Arab Republic in diversifying its exports and expressed the hope that the development of "new" products would continue. They noted that most of the new products seemed to have been exported to bilateral agreement countries in Eastern Europe and wished to know whether any efforts would be made to channel these exports to GATT countries or in such directions as to increase convertible currency earnings. In reply, the representative of the United Arab Republic stated that the export premium on certain agricultural products mentioned above had been introduced precisely for the purpose of directing exports to convertible currency countries. If some of the "new" products had a tendency of flowing more freely to Eastern European markets it was partly because there was greater demand for them in those markets and partly because access to western markets was not as free as they could have been. Considering the pattern of the United Arab Republic's regional balance of payments and the foreign reserves there could be no doubt that the United Arab Republic would only be too delighted if it could expand its exports to the convertible currency countries.

15. In response to a question concerning the apparent discrepancy between the import figures in the balance-of-payments statistics and the customs returns in 1968/69, the representative of the United Arab Republic explained that this was mainly due to the extensive use of the "temporary admissions" procedure in the
emergency conditions of the time under which imports were rushed through customs without undergoing the usual formalities and which had resulted in incomplete customs registration of consignments as well as in shortfalls in customs revenue. This had naturally produced a distorted picture of the import situation and imports, including those from the GATT countries, which had in fact been substantially higher than were shown in some of the statistics submitted to the CONTRACTING PARTIES last winter.

Alternative measures to restore equilibrium

16. Members of the Committee expressed gratification over the resumption of expansion of the United Arab Republic economy and welcomed the determination of the Government to sustain the rate of growth while keeping inflationary pressures in check. They expressed the hope that the stabilization policy would help to maintain strict limits on bank credit. In the external sector, certain problems seemed to persist and these, as the United Arab Republic Government itself had recognized, bespoke the need for a fundamental reform of the foreign exchange system, without which it would be difficult to avoid dependence on restrictions and bilateral arrangements. In concurring with the IMF Decision they enquired whether there was likelihood of this reform being carried out at an early date. The representative of the United Arab Republic noted that questions relating to the foreign exchange system and the proposed fundamental reform had been examined with the IMF and would undoubtedly receive further attention in future consultations with that institution. Suffice it to mention here that certain measures had already been taken in the light of the Fund's recommendations, notably the introduction of the export premium for certain agricultural products to convertible currency countries and the opening of convertible currency accounts by nationals.

17. In response to questions concerning the direct purposes and actual results of the last-mentioned measure, the representative of the United Arab Republic explained that the main objective was to encourage agricultural exports as well as the inflow of funds deriving from earnings and savings in foreign countries by United Arab Republic nationals. Up to now some LE 14 million had accrued from this latter source.
18. A member of the Committee, referring to the IMF's recommendation quoted in paragraph 3 above, regarding measures to curtail the rate of increase in bank credit, wished to know whether any action had been taken along the lines suggested by the Fund to increase the level of interest rates in the non-government sector. In reply the United Arab Republic delegation mentioned various limitations that had to be taken into account in the adjustment of interest rates in the United Arab Republic; some of these were of a social nature and some related to the religious beliefs of the population. Nevertheless, some steps had been taken, notably the recent decision to suspend the preferential rates for housing; priorities were set within the framework of the general plan and were determined in the light of many factors. Investments were only to an insignificant extent influenced by interest rate considerations. For the regulation domestic credit principal reliance was placed on other measures such as credit ceilings.

19. In the view of one member it was encouraging to note that the disturbing discrepancy which had existed up to 1967-68 between wage increases and rises in productivity seemed to have decreased since then and that increases in wages were more in line with improvements in productivity. He asked what measures had already been taken or were contemplated by the authorities of the United Arab Republic to apply an effective incomes policy. He enquired whether the Government of the United Arab Republic considered it necessary to make use of an incomes policy to help maintain that stability. The United Arab Republic representative replied that rising prices and wages had been a major problem besetting the planning authorities and various measures had been adopted to remedy the situation. Efforts had been made to limit wage payments in the public sector, and to limit wage increases, in general in line with the rise in labour productivity. Norms for productivity measurement had been adopted and a ministerial committee had been set up to keep developments under constant review. However, wage increases beyond the economically justifiable level were sometimes unavoidable for social reasons. The increases in wages in the past year had not been excessive and their impact on the economy had also been to some extent mitigated by increases in taxes and social security contributions, and to some extent offset by the successful mobilization of savings.
20. In clarification of a reference in the documentation before it, the United Arab Republic representative informed the Committee that the statistical tax, which had previously been levied at the rates of 5 and 10 per cent, had already been reduced to a uniform rate of 1 per cent for all imports (except for wheat which was exempt from the tax).

21. In reply to a question concerning the "Consolidation of Economic Development Tax" which had been raised during the accession discussions, the representative of the United Arab Republic acknowledged that his Government had undertaken not to increase the rate of this tax pending the review of the measure in 1975. Members of the Committee expressed doubt as to the value of this tax as a development measure. In their view, the incidence of the tax would be borne by the economy as a whole and would increase the cost of development goods. So far as it affected products imported by the Commodity Boards, it would involve merely a transfer of funds from one government agency to another, at perhaps considerable administrative expense. There would seem to be no reason why a development tax, designed to curtail non-essential spending, should be levied in a manner discriminatory against imports. At any rate it would be desirable if those imports which were required for development purposes were exempt from this burden. In this context a member of the Committee mentioned a number of specific products, such as lumber and various wood products, iron and steel, and non-ferrous metals. The representative of the United Arab Republic replied that the Development Tax was levied for revenue purposes and fell on all imports at the rate of 5 per cent for essential foodstuffs and 10 per cent for other goods. Imports of industrial equipment and spare parts and other development requirements were either exempt from the customs duty or subject to a nominal duty of 2 per cent, which compensated for whatever incidence the Development Tax might have on these essential development goods. The UAR representative undertook to supply a list of these "development products". A member of the Committee recalled that the Development Tax had been considered by some contracting parties to be inconsistent with the provisions of Article III of the General Agreement and that, as had been proposed by the Working Party on the United Arab Republic's accession, should be periodically examined in the course of consultations. The Committee would therefore welcome periodic reports from the UAR Government in this regard.
System and methods of restrictions

22. The Committee discussed the basic system and mechanism for the allocation of foreign exchange resources for imports in the different sectors with a view to ascertaining whether and to what extent the limitation on spending in the different sectors might detract from the efficient utilization of the resources to the detriment of the development objectives. The representative of the United Arab Republic referred to the description given by his delegation to the Working Party on the Accession of the United Arab Republic and to the basic document before the Committee and explained that the overall foreign exchange budget was drawn up on the basis of estimates of foreign exchange earnings and other receipts and that the total resources available for imports were allocated to the different sectors. The priorities for individual items within each sector were then decided upon by the competent body in charge of that sector. The allocation among the different sectors was made with due regard to the annual requirements of the development plan and consequently should be, to the fullest extent possible and within the limits set by the total availability of foreign exchange resources, consistent with the development objectives.

23. A member of the Committee asked by what methods in fact industries were protected and in particular how the continuing need for protection was assessed. In reply the representative of the United Arab Republic explained that in the allocation of foreign exchange for imports, account was taken of the availability of supplies from domestic production, although the availability of foreign exchange constituted the determining factor in the allocation.

24. In reply to a question, the representative of the United Arab Republic stated that the grants received from Arab countries under the Khartoum Agreement were included in the same way as any other foreign exchange receipts in the general foreign exchange pool; they were not earmarked for any particular purpose. Whether receipts on this account would increase in future depended on many factors, mainly of a political character and could hardly be predicted.
25. In reply to further questions concerning the trading system it was explained
by the United Arab Republic delegation that in order to take account of any
excess or shortfalls in foreign exchange receipts that might occur after the
foreign exchange budget had been drawn up, the situation was reviewed and
appraised each month and adjustments in the allocations were made in the so-called
monthly financing programmes. There was, however, no provision for supplementary
allocations when the volume of foreign exchange available exceeded the budgetary
estimate. There had been no change in the basic trading system, under which all
imports were effected by bodies in the public sector, including import require­
ments of the private sector. (Consequently there was no way of statistically
distinguishing between "private sector" and "public sector" imports.) The only
exception was the facilities recently granted to producers to import direct their
own requirements of certain raw materials and spare parts, to be financed from
their own foreign exchange resources, subject to the approval of the competent
authorities. Transactions of this nature were limited to a maximum of LE 5,000
for industrial establishments and to LE 3,000 for individuals. The sources of
finance consisted of savings and other holdings abroad and were thus entirely
outside the foreign exchange allocations. As regards the number of the trading
companies, this remained at thirteen; in addition there now existed certain
special organizations authorized to engage in trade - in the sectors of
pharmaceuticals, petroleum and complete plants.

26. A member of the Committee observed that in spite of the improvement the UAR
balance of payments appeared to remain in a precarious condition. Nevertheless
it was to be hoped as a full contracting party that the United Arab Republic would
in so far as possible abide by the rules of GATT and conform to its requirements
in regard to commercial policy and control practices. While it was gratifying to
learn that the United Arab Republic Government aimed at applying its import controls
in a non-discriminatory manner, it was often difficult, owing to the complexity of the
system, for outsiders to appreciate the import of that contention. For example,
in situations in which convertible currencies were not freely available while bilateral balances were abundant it was difficult to imagine how imports would not be diverted to the latter sources of supply despite the professions of non-discrimination. In reply the United Arab Republic representative stated that under the present import control system there was no discrimination either in theory or in practice. Purchases were normally made on the basis of international tenders, in which the thirteen trading companies participated in the capacity of agents for foreign suppliers. The offers were considered by the competent Commodity Board in the light of prices, delivery dates and other commercial criteria. Decisions were in no way affected by bilateral obligations to any particular countries. The only qualification to this statement was that they might be influenced by the availability of swing or other credit facilities that might be provided by a bilateral agreement country, in the same way as they might be influenced by suppliers' credit emanating from any convertible currency sources.

27. Referring to the recent decline of the proportion of trade with bilateral agreement countries, a member enquired whether and to what extent this was the consequence of a reduction in the number of such agreements. The representative of the United Arab Republic pointed out that while his Government's policy was to terminate its bilateral agreements as soon as practicable, there had in fact been no recent action of this nature. The decline in imports from bilateral agreement countries had been due to the non-utilization of some of the allocations under some agreements; this was possible because the agreements generally did not provide for minimum purchase obligations and the products list included were purely indicative in nature. As had been mentioned, purchases were to a large extent governed by price and other commercial considerations. Some members of the Committee expressed disappointment over the lack of progress in the move away from bilateralism and enquired whether any further efforts to decrease the use of bilateral agreements might be expected in the near future. They observed in this connexion that Brazil and the USSR had reportedly terminated their bilateral agreement and agreed to use convertible currencies in their mutual trade, thus demonstrating the feasibility of trading with a centrally-planned economy without bilateral arrangement, and that the UAR had indicated its readiness to terminate
its agreements with Greece and Spain as soon as the outstanding balances were settled. In reply the United Arab Republic representative reaffirmed his Government's intention to eliminate bilateral agreements as soon as circumstances permitted, but noted that the country being still in a state of war it had really not been found possible immediately to proceed with the elimination of the agreements. However, the UAR had already terminated its agreement with Yugoslavia as from 1 July 1970. In compensation for the effects of the bilateral agreements the Government had, as noted above, introduced certain incentives for exports to convertible currency countries.

28. In the course of discussion, reference was made to the agreement recently entered into by the UAR, Sudan and Libya for economic and technical co-operation which provided, inter alia, for the progressive reduction of import duties from 1 January 1971 and the UAR delegation was asked to explain how the planned preferential tariff reductions would be implemented and whether steps had been taken to apprise the CONTRACTING PARTIES of this intention and to reconcile the action with UAR's obligations under the General Agreement. The representative of the United Arab Republic stated that these agreements had been concluded only recently and that the necessary organs to consider the manner of their implementation were yet to be established. Undoubtedly the necessary steps required under the relevant GATT procedures would be taken in due course.

29. As regards the tripartite agreement between the UAR, Yugoslavia and India, the Committee noted that the CONTRACTING PARTIES would be reviewing its effects annually on the basis of reports from the countries concerned. The Committee was also informed that the negotiations that were in progress between the UAR and the EEC were aimed at establishing special relations for the expansion of mutual trade and the CONTRACTING PARTIES would be informed of the results at an appropriate time.

30. A member of the Committee requested information on the magnitude of imports of wine and spirits which were subject to approval by the authorities in charge of tourism, as well as the possibility of importing perfumes for which no allocation appeared to have been provided. The representative of the United Arab Republic stated that whereas figures were not on hand it would appear that wines
and alcoholic drinks were imported in adequate quantities to meet the full requirements of the tourist trade. These goods as well as perfumes were readily available on the UAR market.

31. With reference to the discussion of this subject at the Working Party on the Accession of the United Arab Republic, the representative of a contracting party took the opportunity to enquire whether there had been any change in the operation of the "secondary boycott". The representative of the United Arab Republic replied that there had been no change and that the boycott was being operated in the same flexible manner as explained by the UAR delegation in the Working Party last February.

Conclusions

32. The Committee expressed appreciation for the co-operative way in which the United Arab Republic participated in this consultation. It expressed gratification at the recovery and recent improvements in the UAR economy and in particular the resumption of growth was welcome. While noting the additional facilities designed to encourage trade with convertible currency countries, members of the Committee expressed the hope that the proposed fundamental reform of the exchange system would be effected so that reliance on import controls and bilateral agreements could be substantially reduced. The Committee endorsed the IMF's view concerning the determination of bilateral payments agreements and welcomed the UAR Government's declared determination to move in that direction.

33. The representative of the UAR assured the Committee that these views, as well as the representations made by individual members during the consultation concerning particular aspects of the controls or particular commodities would be given careful consideration by the competent authorities in the UAR.
On behalf of my delegation I wish to express our joy to be here again in Geneva for the second time this year to conduct this consultation which happens to be the first to be held since our final accession to GATT in February last.

Since the previous consultation held in 1968 my country has continued to be confronted with two conflicting and challenging objectives - the one arising from the priority attached to defence against aggression and the other implied by the sheer necessity of the pursuit of economic development process to make up for the stagnation which was ushered in during 1966/67 as a result of the aggression of June 1967 coupled with poor agricultural crops in that year.

At that time the United Arab Republic had completed seven years of planning experience: the first five year plan was a successful one with the average annual growth rate reaching 6.5 per cent per annum compared with 4.8 per cent in the preceding five years and an average increase in per capita income of 3.6 per cent as against 2.8 per cent in the preceding period. Most of the plan targets in the fields of agriculture and industry were realized, leading to the increase and diversification of production, the gradual adjustment of the economic structure of the country, and the creation of a large number of employment opportunities. These achievements were accompanied by vast economic, financial and social reforms the importance of which should not be underestimated.

Successful as it was, the planning experiment was not without some difficulties as a result of internal and external imbalances leading to the emergence of inflationary pressures and a persistent balance-of-payments deficit.

A disinflationary policy had therefore to be followed and certain measures were taken with a view to achieving further growth with stability. As a result of these measures coupled with the crop failure in 1966/67, especially cotton crop, and the damage inflicted by the aggression, the growth of the economy came virtually to a standstill in fiscal years 1966/67 and 1967/68.

Among the immediate effects of the aggression were the temporary closing of Suez Canal to world navigation and consequently the loss of the substantial income derived from transit dues, the decline in tourist traffic, the loss of oil fields in Sinai which then accounted for about 60 per cent of our crude oil production, the dislocation of activity in the Suez Canal Zone and the evacuation of some 300,000 persons of the population from the battle areas coupled with the need for their settlement elsewhere. On top of these came defence requirements which commanded priority in the allocation of resources leading inevitably to the scaling down of expenditure on development.
Despite the various difficulties encountered the economy was able to stage a recovery in the past two fiscal years and indications point to an annual rate of growth of the national income of some 4 per cent to 5 per cent. In fact taking the three years since June 1967 together, the record has been a satisfactory one, reflecting the economic endurance of the country and its ability to maintain monetary and financial stability despite the strains and stresses caused by the war.

While Arab assistance funds received in conformity with the Khartoum Summit Agreement as well as aid from Eastern countries were instrumental in overcoming the external imbalances created by the war, a number of favourable factors contributed to the overall improvement of the economy. These included the increase in agricultural production as a result of higher yields and the expansion of rice cultivation with adequate water supply made possible by the completion of the High Dam, and the increase in industrial output thanks to a better supply situation of imported raw materials and spare parts. Moreover, the substantial growth in crude oil production has not only offset the loss of Sinai output but it is now gathering momentum, thus contributing to the reversal of the payments situation of the oil sector.

As far as fiscal and monetary developments are concerned it may be pointed out that various measures were taken from fiscal year 1967/68 to cope with the requirements of the new situation. Thus a new national security tax was introduced; some taxes, excise duties and public utility charges were raised; and the prices of certain luxury commodities were increased. In drawing up the 1968/69 budget further care was taken to restore internal financial stability and external equilibrium. To that end new fiscal and price measures were introduced; and an attempt was made to close the budgetary gap and reduce reliance on the banking system to a minimum with a view to avoiding inflationary pressures.

Mention may be made here of a few indications reflecting the successful outcome of the measures taken in recent years. For instance the final accounts of the 1968/69 budget disclosed an actual surplus, amounting to some LE 32 million, whereas the estimates had provided for a balanced budget. The preliminary results for 1969/70 reveal the emergence of another surplus, reflecting the successful efforts of the Government to collect tax arrears as well as to improve the efficiency of the internal revenue service. The modest expansion of total domestic credit - including net claims on the Government - provides yet another indicator in this respect; during the last three fiscal years such expansion did not exceed 20 per cent or less than 6.5 per cent per annum. The impact of credit expansion was partly mitigated by the decline in foreign assets. The increase in money supply during the same period was confined to 13.5 per cent or an average growth rate of 4.5 per cent.

The 1970/71 budget also gives a clear indication of the Government's determination to continue its domestic disinflationary policy and to strengthen the balance of payments. In the meantime continued attention is being devoted to economic and financial reform especially in the fields of productivity, wages policy, export promotion, financial planning and post-war problems.
The above account will have served to illustrate the endeavours of the United Arab Republic to maintain financial and monetary stability despite the difficulties encountered as a result of hostilities. The Committee will recall that various stabilization measures had been taken by the United Arab Republic Government since 1962, which were supported by arrangements agreed upon with the IMF in 1962, 1964, and again in 1968. The United Arab Republic made another drawing of $17.5 million in July this year in support of the continuing effort to deal effectively with the balance-of-payments problems. For this purpose the established practice of credit ceilings to check undue expansion in domestic credit will be maintained and dependence on external short-term borrowing will be further reduced, while other measures may be taken in consultation with the IMF.

Before concluding these introductory remarks I wish to refer to the measures taken in the field of foreign exchange with a view to introducing some degree of liberalization of payments in convertible currencies. These included the authorization for opening of accounts in convertible currencies with local banks in the names of residents and non-resident nationals, which may be used for certain specified transactions at an exchange premium of 35 per cent. Another important measure taken in consultation with the IMF was the introduction of an export premium of up to 35 per cent granted to certain agricultural products exported to convertible currency countries; the relative ministerial decision was issued on 10 October 1970.

Mention may also be made of the facilities granted to private sector firms as well as individuals for importing specified requirements within their own foreign resources.

As far as foreign investment is concerned it will be recalled that it has been extended to such fields as petroleum, tourism and pharmaceuticals. Agreement was recently reached between Arab Common Market countries for promoting the investment of Arab capital and its transfer between them, while another agreement provided for the establishment of a guarantee fund of non-commercial risks for such capital.

Turning to the foreign trade sector and the external payments position, I believe it might be useful before dealing with recent developments to review very briefly the foreign trade of the United Arab Republic which is of immediate concern to our consultation today. On various occasions since the United Arab Republic's provisional accession to GATT in November 1962 this system and its subsequent development were duly explained in a number of documents submitted to GATT and were thoroughly examined in the preceding consultations and more recently by the Working Party established to consider the United Arab Republic's application for full accession to GATT last February. On that occasion the Working Party had before it the memorandum submitted on the foreign trade system of the United Arab Republic (L/3069 and addendum) as well as the written replies of the United Arab Republic to all the questions raised by contracting parties (L/3338 dated 6 February 1970). The basic document for the present consultation now before this
Committee (BOP/110 dated 9 September 1970) updates all the relevant information previously submitted to GATT. Although the foreign trade system is described in detail in that document it might be of interest to the Committee to stress once again the following basic points relating to that system:

1. Trade is conducted essentially on a commodity-by-commodity basis in a non-discriminatory manner and in accordance with the sole criteria of commercial considerations.

2. Import policy is designed primarily to regulate imports in such a manner as to meet the needs of the country in essential foodstuffs and other supplies as well as in raw materials, intermediate and capital goods required for development.

3. Import licensing was dispensed with in November 1964 and replaced by direct monetary approvals within the framework of the foreign exchange budget.

4. Of central importance in the regulation of foreign trade is the foreign exchange budget formulated annually to ensure the allocation of potential foreign exchange resources among the various sectors of the economy in the best possible way to meet the country's import requirements as well as the payment of various obligations falling due.

5. State-trading enterprises carry out their foreign trade operations under the supervision of Commodity Boards, in accordance with customary commercial practice; authorized companies which are legally and effectively independent entities compete with one another without enjoying monopoly concessions as regards particular commodities.

6. Commodity Boards, which were set up in 1966, are responsible for making the necessary arrangements for the attainment of the export and import targets within the framework of the foreign trade and development plan as well as the foreign exchange budget.

As was pointed out in our statement before the Working Party on the accession of the United Arab Republic last February, favourable results were attained following the re-organization of the United Arab Republic's foreign trade and the channelling of imports through Commodity Boards. This was made possible by the realization of the best terms and conditions for imports from various world markets thanks to increased competition among the importing companies under the supervision of these Boards; larger exports of non-traditional products were also achieved.

As far as bilateral trade arrangements are concerned, it has been pointed out in Section III of the Basic Document that emphasis is placed on international prices as a basis for all trade transactions, while the lists attached to bilateral agreements are more indication of the trading targets to be aimed at. Moreover, the existence of favourable balances on bilateral agreements does not
necessarily lead to trade diversion if the terms offered by partner countries are not more advantageous than those prevailing in other markets. While the termination of agreements in conformity with the recommendation of IMF has been slow in view of prevailing difficulties and the need to make use of credit facilities provided, it is our intention to comply progressively with this recommendation as and when more appropriate circumstances permit.

Two remarks are pertinent in this connexion. In the first place it gives me pleasure to report that the so-called restricted imports list has been abrogated by Ministerial Arrêté No. 1429 issued on 10 October - only a few months after our final accession to GATT.

Another point worth recording is that United Arab Republic imports from bilateral agreement countries have fallen to 40 per cent of total imports in 1969 as compared with 49.6 per cent in 1968 as reported in the accession document L/3338 of 6 February 1970. Imports from GATT Member countries have also advanced, from 62.5 per cent to 68.4 per cent of total imports.

As regards recent developments the point may be made that they reflect a substantial improvement in the adverse trade balance in the past two years as compared with the situation prevailing up to 1967. This was brought about by the re-organization of the foreign trade system and the effort exerted to promote exports, especially of non-traditional export items, which recorded an annual growth of some 11 per cent. As a result of the creation of Commodity Boards as I have already explained earlier, a better assessment of import requirements and priorities could be made and the most favourable supply terms could be obtained. This made possible the realization of lower prices which together with remunerative cotton prices - as a result of the maintenance of a sound marketing policy - contributed to the improvement in the terms of trade.

Thus the import surplus which exceeded LE 150 million up to 1967 was reduced to some LE 81 million in 1968 and LE 99 million in 1969, reflecting the increase in agricultural and industrial production and the successful export drive. It will be seen from the balance-of-payments estimates given in the basic document that export proceeds went up from some LE 259 million in 1967 to about LE 320 million in 1969 with an increase of 23.5 per cent whilst imports were maintained on a high level actually exceeding the level of 1967, showing that our foreign trade was not affected by prevailing constraints. On the other hand, as far as invisible items are concerned, it will be seen that owing to the loss of Suez Canal dues - which were running at a rate exceeding LE 100 million - the usual surplus from such transactions turned into a deficit of LE 34 million as against a surplus of LE 59 million in 1967 and LE 76 million in the proceeding year. As a result the deficit on current account exceeded LE 130 million in 1969 compared with LE 125.5 million in 1967. However, thanks to the transfers received from abroad representing Arab assistance funds and other transfers, the payments were nearly balanced on the combined current and transfers account.
As far as the capital account is concerned it should be pointed out that net capital inflow in previous years came to a standstill in 1968 and actually turned into a net outflow in 1969; this reflects larger payments for servicing debt and settlement of other obligations which exceeded the inflow of loan proceeds and other credit facilities. It may be worthwhile to recall that as a result of agreements reached with banks abroad for re-scheduling of outstanding debts all arrears of short-term credit facilities have been completely paid off while new commitments are being regularly met. Agreements have also been reached with medium-term creditors and export guarantee institutions in most industrial countries, for the re-scheduling of outstanding suppliers' credits; they provided for new credit facilities to guarantee exports to the United Arab Republic within the limits of repayments effected.

To conclude this statement a few remarks about the balance-of-payments prospects may be appropriate. Whilst it may not be an easy task in prevailing circumstances to deal with this question in precise terms, several internal factors augur well for a continued improvement. As far as the agricultural sector is concerned mention may be made here of extensive land reclamation projects so far accomplished which will add new lands to the cultivated area. Moreover, after the conversion of basin lands in Upper Egypt into perennial irrigation following the completion of the High Dam scheme, double cropping will be possible leading to a further increase in agricultural production. This should also benefit from the efforts exerted to improve productivity and raise crop yields. In this way the pressures on the balance of payments brought about by large imports of cereals to cope with the requirements of a growing population should be alleviated, whilst the expansion of rice cultivation which has become a major cash crop should enhance our foreign exchange earnings.

As regards the industrial sector, a large number of industrial projects carried out in the past have now come to fruition and further expansion in industrial production should be anticipated. It goes without saying that the acceleration of the tempo of industrialization as and when circumstances permit, will help to achieve further diversification of production thus giving a fillip to the growth in exports of non-traditional products which have already found increasing outlets abroad. As to the oil sector it has recently shown excellent prospects and I have already referred to the changing external payments situation of that sector which should contribute to the overall improvement of the balance of payments.

This having been said I hasten to add that much will depend on the duration of hostilities, to say nothing of a host of post-war problems which have to be tackled in due course. Of these mention may be made of the reconstruction of the Suez area, the clearance and widening of Suez Canal for world navigation, and the need for the resettlement of population evacuated from the battle area.

Finally I wish to convey my thanks and those of my delegation to you, Mr. Chairman, to the distinguished members of the Committee, to the representative of the IMF and to the secretariat staff for their collaboration in today's discussion.