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Egypt's External Debt Exceeds $124 Billion

Mamdouh al-Wali

The Egyptian external debt has been escalating since the army took over in July 2013, reaching $123.5 billion by the end of June 2020, compared to $43.2 billion at the end of June 2013, that is a rise of $80.3 billion, a growth rate of 186%, and an average annual increase of $11.5 billion during the past seven fiscal years.

However, the Egyptian authorities have not set a ceiling for the country's external debt. Rather, they are still maintaining external borrowing - in addition to internal borrowing. The government has borrowed two billion dollars from the International Monetary Fund (IMF) in July, and offered bonds worth 750 $million were in the international markets last October, and it is still seeking foreign loans from many international and regional institutions, most prominently the IMF, the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the African Development Bank (ADB), the Islamic Development Bank (IsDP), the Arab Monetary Fund (AMF), the Kuwait Fund for Arab Economic Development (KFAED), the African Export–Import Bank, the French Development Agency (AFD) and the US Export-Import Bank (EXIM).

The official data about external loans throughout 2020 indicate issuance of worth of $5 billion of international bonds in May, obtaining a new loan of $2.77 billion from the IMF in the same month, obtaining a loan of $2 billion from Emirati banks, receiving $2 billion from the IMF as the third tranche of the $12 billion loan, and offering bonds worth $750 million last October.

The Minister of International Cooperation also announced obtaining $7.3 billion of financing from other international and regional bodies until the end of last October, bringing the total announced number to $19.8 billion. However, the announced rise in foreign loans between the end of 2019 and mid-2020, was estimated at about $10.5 billion.

In this way, the government is obliged to devote about half of the new loans to repayment of premiums and interest of old loans instead of being directed to the development process, which makes their repayment difficult in the future, that is, Egypt has actually fallen into the loan trap.

In addition to directing the IMF loans, whether the 12$ billion-loan concluded in 2016, or the $2.8 billion-loan in May or the $5.2 billion-loan in June, to meeting the requirements of the government budget and covering the budget deficit, thus directing most of the loans to current spending, such as government civil servant wages, subsidies, or purchasing requirements for managing the workforce in various government departments.

The 2014 Constitution set controls for external borrowing in Articles 127, 151 and 167 thereof, where Article 127 stipulates that "The executive authority may not contract a loan, obtain funding, or commit itself to a project that is not listed in the approved state budget entailing expenditure from the state treasury for a subsequent period, except with the approval of the House of Representatives."

However, the government practice in reality refers to concluding and obtaining loans and then completing the formal steps of obtaining the ratification of the House of Representatives after that, where the pro-regime members of Parliament do not show any objection to such loans whose high cost, in terms of interest and premiums, leads to deduction of a large part of the state budget spending at the expense of spending on the rest of the budget chapters, especially government investments.

Unprecedented external debt figures

Throughout its contemporary history, Egypt has not witnessed such high figures of the external debt that it reached under military rule. Instead of being ashamed of the escalation of the external debt, the government promotes that the purchase of Egyptian bonds by foreigners is evidence of confidence in the Egyptian economy and thus the performance of the ruling regime, ignoring that this turnout is only due to the high interest rate that exceeds 8%, while there are negative interest rates on deposits in many European countries; in addition, these bonds are tax-free and guaranteed by the Egyptian government.

Development of Egypt's total external debt -in billion dollars -

	2010 / 2011	2011 / 2012	2012 / 2013	2013 / 2014	2014 / 2015	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Total	34.906	34.385	43.233	46.067	48.063	55.764	79.033	92.644	108.699	123.490

Mid & Long-term	32.148	31.483	36.187	42.416	45.488	48.747	66.758	80.360	97.644	112.625
Short -term	2.758	2.902	7.046	3.651	2.575	7.018	12.274	12.284	11.055	10.866

Source: CBE data - numbers are rounded to the nearest whole number

The above table indicates the continued growth of external debt during the past eight fiscal years. However, the external debt was stable in the late years of President Mubarak's rule, during which it did not exceed the ceiling of $35 billion. Also, the external debt did not increase much during the tenure of the Supreme Council of the Armed Council (SCAF) that used to withdraw from the foreign exchange reserves left by Mubarak, which decreased during the SCAF's year and a half tenure by about $20.5 billion, from $36 billion at the end of Mubarak's rule to $15.5 billion when SCAF handed it over to President Mohamed Morsi.

Then, the external debt began to grow in President Mohamed Morsi's one year in power, where he faced a regional blockade amid low foreign exchange reserves, so that he could afford for import of basic commodities and petroleum derivatives, especially in light of his keenness on preservation of the foreign exchange reserves, which declined by only $612 million during his tenure. However, Morsi resorted to partially moving the exchange rate, contrary to the SCAF policy of fixing the exchange rate at the expense of withdrawing from the foreign exchange reserve to defend the exchange rate.

In view of the generous Gulf aid in cash and in kind to the post-3 July 2013 regime, immediately after Sisi's seizure of power, the increase in external debt during the first two years following the coup was small, but in light of the decline in oil prices as of mid-2014 and the decline in Gulf aid accordingly, loans began to escalate.

With the military regime's tendency to build a new administrative capital that includes headquarters for the government, ministries and parliament, and a new city in the Al-Alamein region west of Alexandria that includes a summer headquarters for the government and a number of ministries, external borrowing rates increased to meet the external component of these projects, creating a gap in foreign exchange as a result of increased spending on dollar resources.

- With the emergence of the coronavirus in 2020 and the tendency of foreigners to sell most of their purchases of Egyptian debt instruments and exit the Egyptian Stock Exchange in addition to the exit of foreign investments in the last quarter of 2019 after the September 2019 demonstrations, the external borrowing rates increased to compensate for the exit of hot money, which resulted in a shortage in foreign exchange reserves, along with a decline in tourism revenues, a decrease in the proceeds of commodity and service exports, a decrease in the revenues of the Suez Canal, and a decline in foreign direct investments.

- The medium and long-term debt remained relatively predominant, where in FY2010/2011, the ratio of short-term debt to total external debt was 7.8; and after ten years, the ratio of short-term debt to total external debt in FY2019/2020 was about 8.8%.

It is noted that the share of the short-term debt continued to decline, but with a relative rise in President Morsi's year in power, after receiving a short-term deposit of $4.5 billion from Qatar, to strengthen reserves and to meet urgent requirements of food supplies and petroleum derivatives. However, the rate of the short-term debt increased five years ago to meet installments and interests of the external debt.

- Egyptian ministries' expansion of external borrowing: External borrowing is no longer limited to the Ministry of International Cooperation, which is responsible for external borrowing as well as foreign aid and grants. Rather, various ministries competed to borrow from abroad without taking into account their inability to repay those loans. For example, the ministry of social solidarity borrowed from the World Bank to spend on Takaful and Karama cash transfer program for poor families, the handicapped, and the elderly who are unable to work, without thinking about how these loans will be repaid when it is due, in addition to the exchange rate risks.

Egypt's external debt entities – in billion dollars –

	2011 / 2012	2012 / 2013	2013 / 2014	2014 / 2015	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Total	34.385	43.233	46.067	48.063	55.764	79.033	92.644	108.699	123.490
Gov't	25.594	28.490	29.054	25.707	24.437	34.875	47.649	57.272	69.353
CBE	2.612	9.064	11.005	16.318	22.174	30.324	26.560	27.979	27.886
Banks	1.624	1.600	1.544	2.387	3.963	4.096	6.047	9.510	11.921
Others	4.554	4.080	4.464	3.651	5.191	9.738	12.388	13.937	14.332

Source: CBE data

- The relative distribution of external debt at the end of June 2020 according to local borrowers indicates that the government acquired 56% of the total external debt, all medium and long-term, the CBE accounted for 23%, banks other than the CBE 10% and other sectors, including the private sector, 12%.

It is noteworthy that the external debts have increased gradually in recent years, where the government's debts increased four years ago due to the tendency of a number of ministries to borrow from abroad, such as the ministry of health for the comprehensive health insurance project, the ministry of social solidarity to finance the Takaful and Karama cash transfer program, the ministry of education for the expansion of kindergartens and technical education, the ministry of transport to establish tunnels under the Suez Canal as well as other road and bridge projects, the ministry of housing to establish social housing and sanitation units, the ministry of electricity to establish power stations, and the ministry of environment. Also, the commercial banks' borrowing increased to finance small and medium industries and to compensate for the foreign exchange shortage after foreigners sold many of their purchases of Egyptian debt instruments, and the CBE borrowing to enhance foreign exchange reserves.

Gulf countries top of the list of lenders to Egypt

The lending map to Egypt has changed since the army seized power in July 2013, where the Gulf countries rushed to provide aid to the military regime, including loans, some of which were zero-interest loans, low-interest loans, and then postponing repayment of these loans more than once, despite the suffering of Gulf countries from the low oil prices, the impact of the coronavirus pandemic, and the low foreign exchange reserves, where some Gulf countries resorted to international markets to borrow through issuance of international bonds.

Prominent lenders to Egypt – in million dollars -

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Some Banks								10521	11999
KSA	62	578	3600.5	3580	5503	8520	8082	8687	8850
UAE	23	21	2020	2040	4518	6649	6588	6783	6543

Kuwait	830	927	2965	2939	4909	4927	4989	5045	5243
Germany	3403	3393	3526	3092	2807	4580	6808	2926	2903
Japan	4195	3617	2794	2324	2165	2155	2153	2258	2409
China	136	340	344	330	322	1923	2100	3731	4122
US	2893	2646	2399	2141	1882	1611	1340	1045	862.5
France	3161	2930	2619	1906	1346.5	1080	1726	1326	1339
Italy	397	338	278	207	367	401	937	58	52
Russia									495.5
Korea									130
UK	144	131	111	80	49	186.5	265	11	8
Bahrain						244	264		
Qatar			4500			38	28		
Turkey		500	1000	1000	800	400			
Libya			2000	2000	2000	1500	500		
Spain	576.5	544	474	370	268.5	193	252	262	283
Denmark	238.5	244	225	173	133	103	103	78	58
Austria	367	280.5	237	156.5	92	59	75	63	51.5
Netherland	85	86	86	73	63	56	59	51	44
Belgium	54	46	40	27	16	47	99	4	2
Canada	166	151	123	94	61	39	38	33	
Switzerland	340	294	240	156	93	25	21	14	10
Sweden	25	22.5	18	11	5				
Australia	135	114.5	80	52	25				
Norway	5.5	5	4	3	3	1	1	1	0.4
Finland						3	3	2	2

Source: CBE data - numbers are rounded to the nearest whole number

The distribution map of the external debt indicates that the share of the three Gulf states: Saudi Arabia, the Emirates and Kuwait, came at the forefront after the army took power in July 2013, while Germany, the United States and Japan had the lead before. It is also noted that loans from countries such as Libya, Turkey and Qatar appeared in President Mohamed Morsi's year in power, without any loans from Saudi Arabia, the UAE, or Kuwait.

It is also noted that some countries, such as Germany and China, increased their loans to Egypt during the era of military rule, while the balance of the United States, Denmark, Austria, the Netherlands and others tended to diminish; but this does not mean that these countries did not support the military regime financially, as Western countries tended to expand lending to Egypt through multiple international bodies, most notably the IMF, the World Bank, the European Investment Bank and others, where loans from these multilateral parties increased from about $12 billion at the end of June 2013 to about $35 billion by the end of 2019.

On the other hand, the announced CBC figures do not reflect the reality of external debts. The CBE data in September 2018, introduced the item of "a group of banks" with a debt stock of $6.8 billion, including: England $978 million, Italy $916 million, France $401 million, Bahrain $254 million, Belgium $106 million, the UAE $34 million and Qatar $21 million, which explains the decline in the debt balances of these countries between 2017 and 2018 in the above table. For example, the debt stock of Germany decreased from $6.8 billion to $2.9 billion, but Germany has other loans worth 4.1 billion dollars under the "group of banks" item.

The Central Bank of Egypt also added a $3.8 billion buyback process to loans of those eight countries under the title of "a group of banks", which increased the figure to $10.5 billion by the end of 2018 and about $12 billion by the end of 2019 due to the increase in shares of loans of some countries within it, such as the UAE, whose loans rose from $34 million to $1316 million, and France from $401 million to $522 million, in addition to the increase in the loans of England and Belgium.

The cost of external debt exceeds tourism revenues

In the FY2018/2019, which witnessed a tourism boom, tourism revenues reached $12.6 billion, but the cost of external debt including installments and interest amounted to $13.5 billion in the same fiscal year, a figure that also exceeded the proceeds of oil exports ($11.6 billion), the proceeds of foreign direct investment ($5.9 billion) and more than double the Suez Canal proceeds ($5.7 billion).

Cost of Egypt's external debt – in million dollars –

	2010 / 2011	2011 / 2012	2012 / 2013	2013 / 2014	2014 / 2015	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019
Total	2799	2904	3089	3199	5609	5085	7320	13253.5	13472
Paid Interest	638	658	643	716	666	836	1216	2170	3257
Paid Instalments	2161	2245.5	2446	2483	4943	4249	6104.5	11083	10215

Source: CBE data - numbers are rounded to the nearest whole number

The cost of the external debt has become a burden on the Egyptian government in addition to the fact that the government must repay short-term loans, especially with the increase in payments of foreign investment returns in Egypt up to $9.3 billion in FY2018/2019. Therefore, it had no choice but to request a delay in repayment for a large part of loans, especially those from the three Gulf countries: Saudi Arabia, the UAE and Kuwait, as well as renewal of a financing agreement with China, where the same procedure carried out with several international banks with the aim of extending the span of financing in the form of repurchase from 4.5 years to six years.

But with the negative effects of the Coronavirus on foreign exchange resource flows from tourism, foreign investment and exports, the government had no choice but to borrow from several international parties in addition to bilateral loans, as new countries appeared on the map of lending such as Russia and South Korea.

Accordingly, the share of domestic and external debt cost in the budget's government spending in current FY2020/2021 is 49%, of course at the expense of other aspects of government spending, especially government investments in education, health, infrastructure and utilities projects, which further delays improvement of their deteriorating conditions and increases the suffering of most Egyptians from the low level of services. It also makes Egypt's credit rating vulnerable to declining due to the enormous domestic and external debt compared to the gross domestic product, which means a negative impact on the country's image among prospective investors, and an increase in the interest of external borrowing, whether for government offers or the private sector loans. Therefore, the Central Bank of Egypt is obliged to maintaining a high interest rate locally to attract foreign purchases of Egyptian debt instruments, at the expense of the local investor that suffers from the high interest of bank financing in addition to other problems, which affects competitiveness of Egyptian products, whether at home or abroad.