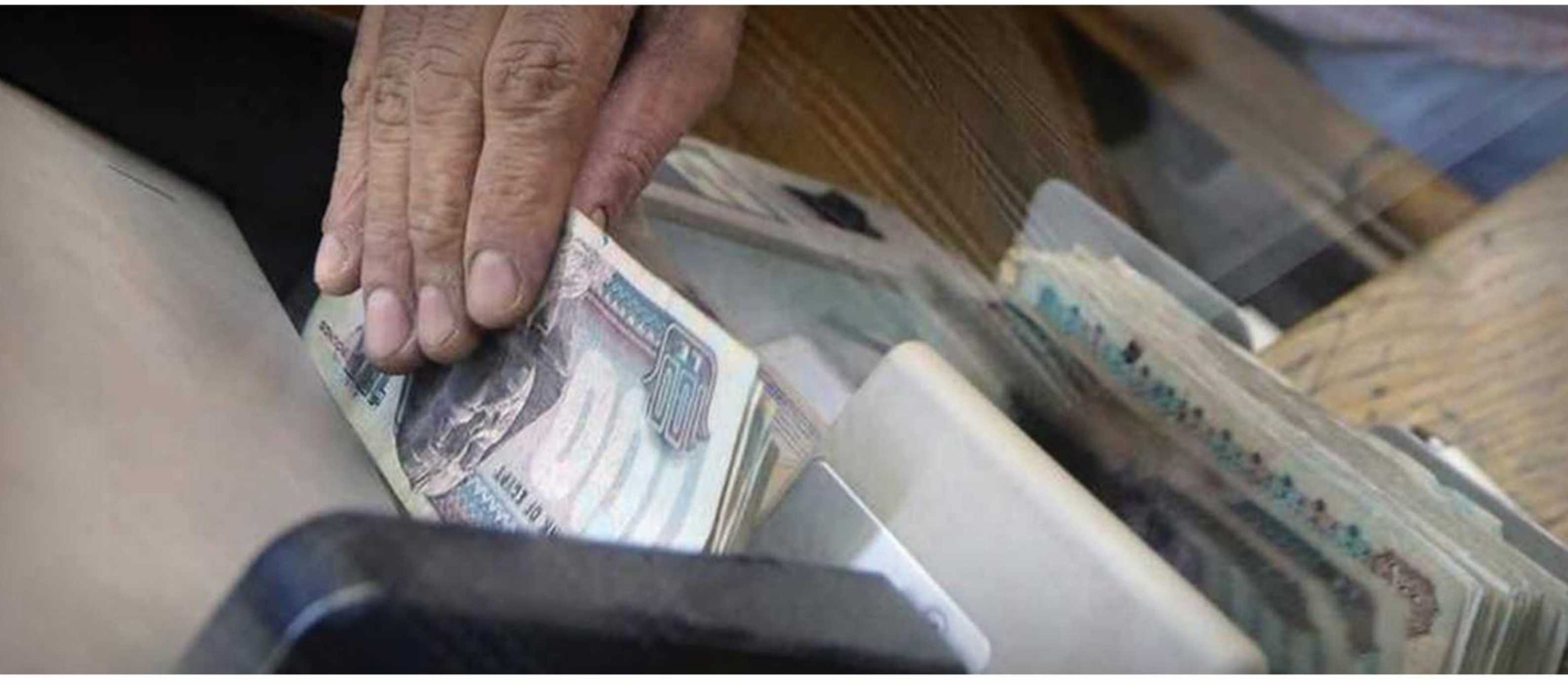
المعهد المصري للدراسات
EGYPTIAN INSTITUTE FOR STUDIES

ECONOMIC
Studies

Evolution and Future of Egyptian External Debt

4 February 2022

Dr. Ahmed Zikrallah



WWW.EIPSS-EG.ORG
Eipss.EG Eis_EG

TURKEY- ISTANBUL
Bahçelievler, Yenibosna Mh 29 Ekim Cad. No: 7 A2 Blok 3. Plaza D: 64
Tel/Fax: +90 212 227 2262 E-Mail: info@eis-eg.org

Evolution and Future of Egyptian External Debt

Dr. Ahmed Zikrallah

The Egyptian debts have become a major source of foreign exchange to Egyptian economy since the country's financial control agreement with the International Monetary Fund (IMF) in late 2016. The successive surges in the figures of these debts raise many questions about the government's continued reliance on them, and continuation of loan flows from various sources, in addition to questions about how far the Egyptian economy is capable of repayment, in light of government insistence on spending on service projects rather than the productive sectors, and erosion of the ability of public revenues to meet debt installments and interests. Also, a significant question arises about the future development of these debts within the next three years.

This paper will attempt to provide answers to these questions through the following points:

First: Evolution of Egypt's external debt during the past 5 years:

The data of the three tables below refer to the successive surges of Egypt's external debt from 2017 to the end of 2021, as the external debt has increased from nearly $80 billion in 2017 (almost double the external debt in early 2013), to $93 billion in 2018, to $107 and $124 billion in the following two years consecutively, to reach nearly $138 billion by the end of the first half of 2021.

The figures also indicate escalation of the increase during that period, with an increase of $13 billion and then $14 billion in the first two years, then an increase of $21 billion, then an increase of $14 billion in the first half of 2021 only, which clearly indicates the doubling of the annual increase in borrowing in the last three years, partly due to the repercussions of the Covid-19 and erosion of Egyptian foreign exchange sources, in addition to the continued repayment of Egypt's foreign obligations.

The figures also show that the largest proportion of external loans fall under the long-term debt range, which increased from $66.8 billion in 2017 to $80 billion and then $97 billion over the next two years, to become $113 billion in 2020, before reaching $124 billion by the end of the first half of 2021, that is, it has become more than 90% of Egypt's total external debt.

The leaps in the long-term external debt clearly indicate keenness by the Egyptian debt manager to carry over the maturities of the external debt to the longest possible period. The increase in the total external debt has also led to a significant increase in the Egyptian per capita share of this debt, where this share increased from only $786.4 in FY2016/2017 to $1272.9 per capita by the end of the last fiscal year.

The figures in the below tables also indicate the low share of the private sector in the total external debt, which clearly indicates that the Egyptian external debt is almost owed by the Egyptian government, where the Egyptian public resources will bear repayment of its installments and interests.

The tables data also indicate that long-term deposits are almost stable, reaching $18 billion in 2017, and continuing at $17 billion until the end of 2020; but they dropped significantly in the first half of 2020 expectations to only $14.7 billion, which indicates that repayment of some of them are due. In general, the Egyptian government has succeeded in postponing all payments of due deposits. The table figures also indicate that short-term deposits are quite limited.

Table (1) External Debt by Type

(US$ mn)

End of June	2017	2018	2019	2020	2021*
Total External Debt	79032.8	92643.9	108699.1	123490.5	137859.6
1- Long-term debt	66758.4	80360.2	97643.7	112624.5	124143.6
Rescheduled bilateral debt *	4252.0	3727.9	3126.6	2499.7	1926.2
ODA	4015.0	3536.5	2989.1	2418.3	1901.2
Non-ODA	237.0	191.4	137.5	81.4	25.0
Other bilateral debt	6572.4	7644.0	9632.5	10292.3	11377.0
Paris Club countries	3710.8	4430.5	5021.2	5702.5	6577.8
Other countries**	2861.6	3213.5	4611.3	4589.8	4799.2
Multilateral Institutions	21751.6	28416.8	32808.5	43007.1	49947.4
Suppliers' & buyers' credits	6505.2	8433.9	11283.6	11387.7	12800.7
Repo	0.0	0.0	3808.7	3928.2	4014.6
Bonds	8984.5	14277.7	19371.9	23899.3	28700.3
Deposits	18537.4	17400.0	17203.3	17188.4	14976.5
Private sector debt (non-guaranteed)	155.3	459.9	408.6	421.8	391.9
2- Short-term debt	12274.4	12283.7	11055.4	10866.0	13716.0
Currency and deposits	3824.1	3783.9	3706.9	3567.7	4034.7
Loans & trade credits	8450.3	8499.8	7348.5	7298.3	9681.3

Source: Central Bank of Egypt.

* Provisional

** Including liquidity support facility provided by China Development Bank to the Central Bank of Egypt.

* According to the agreement signed with Paris Club countries on May 25, 1991.

Central Bank of Egypt - External Position

24

Table (2) External Debt Indicators

Fiscal Year	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021*
External Debt /GDP* (at current market prices) %	33.6	37.0	36.0	33.9	34.2
External Debt / Exports (G&S) (annually) %	212.9	195.8	205.4	259.1	308.6
Short-term Debt / External Debt %	15.5	13.3	10.2	8.8	9.9
Short-term Debt / Net International Reserves %	39.2	27.8	24.9	28.5	33.8
Debt Service ** (Principal & Interest) (US$ mn.)	7320.1	13253.5	13472.2	17190.8	15818.9
Debt Service / Exports (G&S) %	19.7	28.0	25.5	36.1	35.4
Debt Service / Current Receipts %	12.3	17.8	17.0	22.5	20.5
Interest / Exports (G&S) %	3.3	4.6	6.2	8.4	9.3
External Debt per Capita (US$)	786.4	879.0	1013.0	1140.3	1272.9

* Provisional

* The annual GDP is calculated in US dollar by having the sum total of the quarterly GDP released by the Ministry of planning and Economic Development after being evaluated in US dollar based on the average exchange rate for each quarter

**Including interest payments on bonds floated abroad

Central Bank of Egypt - External Position

25

Figures of the Egyptian external debt also indicate relative stability in relation to the gross domestic product (GDP), as it constituted 33% and 34% during the past five years, while its percentage to Egyptian exports doubled from 212% in FY2016/2017 to 259% and 306% during the last two fiscal years consecutively. This is not only due to the huge leaps in the external debt figures, but also to the inability to increase exports compared to the increases in the GDP, which confirms not only weakness of the Egyptian productive sectors, but also its inability to penetrate international markets.

It is noteworthy that the external debt interests devoured 9.3% of Egyptian export proceeds in FY2020/2021, compared to only 3.3% at the end of FY2016/2017.

The external debt service, denominated in dollars, doubled during the same period, increasing from $7.3 billion in FY2016/2017 to $13.3 billion in FY2017/2018, before jumping to $17.2 billion in FY2019/2020, to settle at $15.9 billion by the end of FY2020/2021.

It is noteworthy that the external debt of Egyptian banks increased from $11.9 billion in January 2020 to $14.4 billion in January 2021, an increase rate of about 21%, compared to an increase rate of only 9% in the previous two years, which clearly indicates the high cost paid by Egyptian banks from its foreign exchange resources to maintain stability of the local exchange rate, by managing funds in foreign currencies transferred abroad, whether to foreign investors or to importers, which forces them to borrow from abroad.

In short, the huge Egyptian banking sector will remain captive to debts in the local currency, as it suffers from a decline in net foreign assets, due to using them to finance the current account and cover outstanding external obligations, and indirectly support the reserves of the Central Bank of Egypt.

There are several notes that must be added to the above digital analysis so that the picture may become clearer. First, the available figures had stopped six months before writing this article, which means that these figures have increased by no less than $15 billion, as the general average for the last three years.

Second, most of these debts were not previously approved by Parliament, and no one knows precisely their requirements. Third, these figures are subject to a major surge in the event of a final agreement on some new and already announced projects, such as the loan for the nuclear plant project, which has reemerged after its long fading, which is likely to add at least $ 25 billion to this debt at one time, amid rumors that it may add more than $ 40 billion if the loan is financed through the Russian Development Bank; Or the high-speed train loan, whose total cost is $ 23 billion, as well as other loans for which related projects continue to be announced.

Table (3) External Debt by Debtor

End of	June 2020	%	June 2021*	%	Change +/(-)	%
Total External Debt	123490.5	100.0	137859.6	100.0	14369.1	11.6
Long-term	112624.5	91.2	124143.6	90.1	11519.1	10.2
Short-term	10866.0	8.8	13716.0	9.9	2850	26.2
Government	69352.1	56.2	82445.6	59.8	13093.5	18.9
Long-term debt	69352.1	56.2	80445.6	58.3	11093.5	16.0
Debt securities	23899.3	19.4	28709.3	20.8	4810.0	20.1
Loans	45452.8	36.8	51736.3	37.5	6283.5	13.8
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt	0.0	0.0	2000.0	1.5	2000.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	2000.0	1.5	2000.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Central Bank	27885.9	22.6	25566.9	18.6	(2319.0)	(8.3)
Long-term debt	25226.7	20.4	22716.2	16.6	(2510.5)	(10.0)
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Loans	6802.3	5.5	6458.1	4.7	(344.2)	(5.1)
Currency and deposits	17188.4	13.9	14976.5	10.9	(2211.9)	(12.9)
Special Drawing Rights	1236.0	1.0	1281.6	1.0	45.6	3.7
Short-term debt	2659.2	2.2	2850.7	2.0	191.5	7.2
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Loans	116.6	0.1	63.5	0.0	(53.1)	(45.5)
Currency and deposits	2542.6	2.1	2787.2	2.0	244.6	9.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Banks	11920.7	9.6	14390.4	10.4	2469.7	20.7
Long-term debt	8359.7	6.8	10371.9	7.5	2012.2	24.1
Debt securities	0.0	0.0	0.0	0.0		0.0
Loans	8359.7	6.8	10371.9	7.5	2012.2	24.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt	3561.0	2.8	4018.5	2.9	457.5	12.8
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2535.9	2.0	2771.0	2.0	235.1	9.3
Currency and deposits	1025.1	0.8	1247.5	0.9	222.4	21.7
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Other Sectors	14331.8	11.6	15456.7	11.2	1124.9	7.8
Long-term debt	9686.0	7.8	10609.9	7.7	923.9	9.5
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0
Loans	9686.0	7.8	10609.9	7.7	923.9	9.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt	4645.8	3.8	4846.8	3.5	201.0	4.3
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	4645.8	3.8	4846.8	3.5	201.0	4.3
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0

* Provisional

After the above analytical review of Egypt's external debt, it can be said that there are main reasons behind the rise in the volume of Egypt's external debt during the past five years, including:

- The significant increase in the volume of government investments and spending on infrastructure, in addition to some projects that can be described as a whole or describe some of their components as being for show and pride, where all share the characteristic of absence of feasibility studies, and absence of even tenders that may show the real cost of the project from the point of view of the parties competing in the bidding.

- The chronic and structural weakness of Egypt’s foreign exchange resources, which increased due to the repercussions of Covid-19, and the subsequent expenditures of the stimulus plan announced by the Egyptian government in March 2020 in the context of facing the Covid-19 pandemic.

- It is also noteworthy that the pretext that the world's debts have risen in large proportions during the recent period as a justification for the increase in the Egyptian foreign debt, must be discussed in the context of the lack of government support for the Egyptian citizen to face the repercussions of the pandemic, as the key support packages, albeit weak, were directed towards companies and institutions, and ignored individuals. Moreover, government decisions made simultaneously with Covid-19 repercussions have increased the pandemic's impact on Egyptians; where the decision to prevent construction, for example, has halted real estate activity, the locomotive of Egyptian economy, affecting millions of Egyptians.

The above reasons indicate that the increase in Egyptian foreign debt is mostly due to the increase in spending on service projects that do not generate a return that to cover installments and interests, which had preceded the outbreak of the Covid-19 pandemic, and then the consequences of facing the pandemic on economic sectors, which constitute only a small percentage of loans, where most confrontation plans were financed through initiatives from the Central Bank of Egypt, the consequences of which were largely borne by commercial banks.

This not only means that there are no sufficient resources to meet the burdens of the service of the upcoming Egyptian obligations as a result of this debt, even in light of its currently announced figures, but also that sustainability of borrowing from various sources is the only recourse for the obligation to repay installments and interests of previous debts (in case of availability of global liquidity for lending, which is expected to significantly decline in the coming period).

Therefore, it is logical to say that these debts will significantly

increase next year, and may even double or rise more in the next three years, which will depend to a large extent on recovery of the global economy from the Covid-19 crisis and its variants, and also on rationality of the government in choosing new projects, which seemingly shouldn't be counted on too much.

It is almost the same conclusion reached by Fitch Ratings in summarizing the future of the Egyptian economic landscape in the following phrase: "The ratings are constrained by still-large fiscal deficits, high general government debt/GDP and domestic and regional security and political risks. External vulnerabilities, including the reliance on short-term portfolio inflows, are also reflected in the ratings"[1], which Robert Springborg expressed more acutely, that Egypt has turned into a beggar state[2].

Fitch Ratings also notes that Egypt's debt metrics are well above averages in countries rated "B", however, more than half of the government's external debt is owed to multilateral institutions with which Egypt has good relations.

This confirms the above result, that the most important factor during the coming period is availability of repayable funds and their sources, as choices will fade away and the path will become mandatory under the pressure of obligation.

Hence, it can be said that resorting to high-cost financing markets will be the only path proposed during the next three years, which means submitting to requirements of creditors in terms of the interest rate, methods and time of repayment, and perhaps providing more guarantees to obtain loans in foreign currencies.

[1] Fitch Ratings Report: Fitch Affirms Egypt at 'B+'; Outlook Stable, link For more details on the Fitch Ratings report on the Egyptian economy, see: "Growth, Deficit, Debt and Interest Rate." How does Fitch Ratings view the Egyptian economy?, link

[2] Robert Springborg: Follow the Money to the Truth about Al-Sisi's Egypt, January 2022, link

In this context, the Pharos Investment Bank[3] research unit announced that, "The cost of Egypt's debt has globally increased compared to the situation before, due to factors related to recovery of global economies, global monetary environment, and Egypt's rush to international markets in a proactive step to secure the required external financing before the US central bank raises the cost of funding around the world.

The Egyptian government is betting on the support of IMF and some major European countries that the country has enhanced its relations with by concluding huge arms deals, or contracting with their major companies, such as the German Siemens. However, the major dilemma will appear if external support for the regime is lifted in light of accelerating international economic and political changes, and with the state's reliance on (the "wow" factor of mega-projects), the Egyptian situation will worsen to the situation that Springborg likened to the Lebanese case[4].

Second: Will Egypt resort to the IMF again?

It can be said that the external financing conditions to Egypt have continued to be largely favorable during the current year, as the government has issued about $3 billion worth of external bonds so far in the 2021/22 fiscal year, following about $5 billion in both fiscal years 2019/2020 and 2020/2021.

Egypt has recently received final payment of $1.7 billion under the IMF Stand-By Arrangement (SBA) agreed in June 2021 of $5.2 billion, followed by $2.8 billion as part of the global SDR allocation.

Thus, government borrowing and the return of foreign portfolio investors, has allowed the CBE and commercial banks to partially rebuild their net foreign asset positions, although the position of commercial banks significantly deteriorated again in 2021 (taking into account the risks of relying on temporary sources for foreign exchange).

---

[3] 4 reasons behind the increase in the Egyptian debt by 62% in 5 years, link
[4] Robert Springborg: Follow the Money to the Truth about Al-Sisi's Egypt, January 2022, link

Despite this, many credit rating organizations believe that global monetary conditions have become less favorable for emerging economies, including Egypt, which poses threats to positive improvement trends in public finance and macroeconomic indicators.

The rise in global inflation rates and their transfer into Egypt, and the US and EU tightening of monetary policies, may force the CBE to raise interest rates, in effort to preserve its balances from foreign holdings of government treasury bills and treasury bonds - by maintaining the current real interest rate of about 2.6% - which reached an all-time high of about $34 billion in September 2021 (which represents more than 12% of the government's domestic debt and 85% of the CBE foreign exchange reserves), which will negatively affect the growth rate, and its impact will extend to exchange rate, threatening the entire economic path.

In short, foreign exchange flows to Egypt remain hostage to global stability, as any shock of confidence or shift in global liquidity conditions will put pressure not only on foreign exchange liquidity in Egypt, but also on interest rates and the exchange rate.

It is also noteworthy that the continued rigidity of the exchange rate (with the continuous CBE intervention) poses threats to macroeconomic stability and current account performance in the medium term, and also contributes to erosion of a large part of the gains from the devaluation of the Egyptian pound at the end of 2016, in addition to more pressure on the Egyptian economy, in addition to putting more loads on the banks' foreign exchange resources, compelling them to borrow from abroad.

In this context, it is also significant to state that the document of issuing international bonds abroad referred to the annual maturities schedule for Egypt until 2025, according to the estimates of the Egyptian government. These entitlements (premiums + interest) were $21.4 billion in 2021, declining to $14.8 billion in 2020, then to $13.9 billion, $11.8 billion and $9.9 billion in the following three years, respectively, that is, the total cost of global debt service until 2025 is about $72 billion, of which $58.4 billion are the principal, and the rest, $13.6 billion is interests[5]. However, the analyses

[5] CNBC Report: Egypt to the IMF again, link. N.B. The researcher was unable to obtain the original document of the bond offering, and relied on the CNBC Report instead

contained in this study throw doubts on the reality of these figures in view of the decreasing sources of foreign exchange, which may raise the above figures significantly.

Based on this detailed explanation, it can be said that Egypt needs a new program with the International Monetary Fund, and it may be encouraged to do so by existence of programs with the IMF known as "liquidity shocks" programs, a type of program intended for countries that heavily rely on external cash flows, which would face major problems if these flows were interrupted or fluctuated[6], noting that Egypt approached the IMF in this regard in 2019 before the outbreak of the Coronavirus pandemic.

Third: Features of Egypt's likely agreement with IMF

The main problem of borrowing from the IMF lies in the regime's obligation to implement the terms dictated by the Fund not only for obtaining the IMF loans, but also for the certificate of confidence that the Fund provides to the global debt markets about the state of economy.

Thus, the likeliness that Egypt will resort again to borrowing from the IMF pushes towards explore the terms that the Fund may impose this time, and their repercussions on economy and Egyptian citizen, as included in the following points:

1- Further raising the prices of subsidized commodities and services, an approach that the Egyptian government has actually followed during the last period, even in the most severe periods of the repercussions of the Coronavirus pandemic. This means that a new wave of removal of subsidy will result from a potential agreement with the IMF, which may take place in all cases within the framework of previous obligations to reduce the budget deficit, which is confirmed by the successive comments on raising the price of a loaf of bread, the non-registration of new births in ration cards, and the non-registration of newly married people in ration cards as well.

2- Serious attempts to integrate the informal economy into formal economy are most likely in the coming period, to benefit from it as a source of financing the budget deficit, without any obligations

---

[6] For more details about the IMF programs to face liquidity problems, see: The IMF Short-Term Liquidity Line (SLL), link - Prevention and liquidity line, link

or incentives for its affiliates that might push them towards voluntary joining the formal economy, or even working to develop its performance.

3- Raising fees for services provided by the government, which may extend to imposition of new taxes, and raising the prices of transportation fees, where new ticket prices are likely to include part of the cost of renovation of old vehicles.

4- We may also witness a devaluation of the Egyptian pound again, especially in light of the widening trade balance gap and the shrinking of foreign exchange resources. Also, it should be noted that this reduction, as in the first time, would not reach the level of a full flotation, but will remain within the framework of gradual reduction managed by the Central Bank of Egypt.

5- A likely tendency to more privatization and selling assets to finance the deficit in the general budget, while the severe need for liquidity may lead to further declining in prices of assets.

Fourth: Selling domestic debt on the Euroclear Stock Exchange

Last April, the Egyptian Minister of Finance announced that Egypt expects its domestic debt to be eligible for European clearing and open to a larger number of foreign investors within months. In 2019, Egypt signed a cross-border link agreement with Euroclear, and issued Law No. 143 of 2020 to amend registry and central depository, in preparation for an agreement with the Euroclear office to set-off the Egyptian domestic debts in Europe.

Last year, the Egyptian cabinet approved establishment of a new clearing company, as part of ongoing efforts to reduce the cost of public debt, where it will allow the listing of Egyptian debts for trading via the Euroclear platform.

This comes within the framework of Egypt's strategy for management of domestic debt, that includes reducing the ratio of interest payments to GDP to 6.9% by FY2023-2024, from 8.8% in the last fiscal year.

The trading of local Egyptian debts on the European Euroclear Stock Exchange means the acquisition of those debts by so-called international investors (international speculators), in exchange for certain guarantees that ultimately mean a kind of mortgage of the Egyptian state's assets in exchange for those debts, which may pave the way for seizure of those assets in the future, in case of failure to repay debts. It also opens the door for risks of allowing purchases by individuals or companies belonging to countries that may aim to harm Egyptian interests or at least control their decisions. In general, it is significant to note that this issue requires a further detailed study in this regard.

The paper has reviewed development and future of the Egyptian external debt, in addition to ratios of these debts to the gross domestic product and exports, and showed how a large part of debts turned into long-term debts. The paper also touched on the Egyptian state's obligations to be repaid during the next five years, and how resorting to the IMF again and the gradual devaluation of the Egyptian pound have become highly likely within the next three years[7].

[7] The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies