One Hundred and Sixth Sovereign Debt News Update: Higher Debt Servicing Payments Push Egypt's Budget Deficit Higher

By:

The African Sovereign Debt Justice Network

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According to a report by Investment bank HC Securities and Investment, Egypt's budget deficit will increase by one percent in the fiscal year (FY) 2023/2024 to account for 7.1 percent of GDP, up from 6.1 percent in FY2022/2023, due to the increase in debt service payments. Egypt's budget deficit rose to 3.85 percent of GDP during the first quarter (July-September) of FY 2023/2024, up from 2.05 percent in the corresponding quarter in FY 2022/2023. A report released by the Ministry of Finance on Monday the 4th of December hints that the surge is the result of a 120.1 percent hike in the interest payment of loans. While Egypt's external debt reached $164.73 billion at the end of June 2023, the Central Bank of Egypt's data shows that the country is required to pay $29.23 billion in external debt service in 2024, $19.43 billion in 2025, and $22.94 billion in 2026.

By June of 2023, Egypt had begun to face an increasingly tough task raising cash for foreign debt repayments after external debt quadrupled over the past eight years. This was due to an increase in net disbursements of loans and facilities of $8.9 billion and a depreciation of the US dollar against the other currencies of the external debt, which resulted in an increase in book value of $147.9 million. The debt of multilateral institutions reached $52.9 billion, an increase of $1.7 billion from the end of June 2022. Other bilateral debt increased by $895.7 million to $12 billion.

It is imperative to highlight Egypt's creditor landscape in order to understand to whom these large amounts are owed. Egypt's external debt distribution by creditors suggests that $52.9 billion was owed to international institutions. The International Monetary Fund (IMF) loans alone account for 40% of these institutions' loans, or $21.2 billion, which were classified as follows: $9.3 billion in Extended Fund Facility (EFF), $2.7 billion in Rapid Financing Instrument (RFI), $5 billion in Stand-by Arrangement (SBA), $3.8 billion in SDR allocation, and $348.4 million in the First Tranche of the New Extended Fund Facility. Other notable multilateral creditors include the European Bank for Reconstruction and Development (EBRD) with $12.3 billion or 23.3%, the European Investment Bank (EIB) with $4.8 billion or 9%, the African Development Bank (AfDB) with $2.9 billion or 5.4%, and the Arab Fund for Economic and Social Development with $2.2 billion or 4.1%. Furthermore, $46.2 billion was owing to Arab countries, with the UAE accounting for around $20.9 billion or 12.7% of total external debt, Saudi Arabia accounting for $12.2 billion or 7.4%, Kuwait accounting for $7.1 billion or 4.3%, and Qatar accounting for $4 billion or 2.5%. Meanwhile, $8.8 billion was contributed by five Paris Club countries: Germany ($2.4 billion), Japan and France ($2.3 billion each), and the United Kingdom and the United States ($0.9 billion each). In addition, $8.3bn was owed to China.

Given these circumstances and the fact that Egypt now owes the IMF 40% of its external debt, Egypt is expected to receive further loans from the Fund, thereby implying more debt servicing awaits the country. According to the Central Bank of Egypt (CBE), Egypt's debt owed to the IMF reached $21.2 billion by the end of June 2023. According to a recent report by brokerage firm Cairo Capital Securities (CCS), Egypt is likely to receive $20 billion in loans and investments from the International Monetary Fund (IMF) and other entities over four years. The report expects the IMF to expand its $3 billion four-year loan programme with Egypt to $10 billion to be disbursed over four years with possible adjustment to the repayment schedule. The report suggests that Egypt is scheduled to repay around $5 billion to the IMF in 2024. It notes that "other creditors and direct investors" could inject $10 billion in financing into Egypt to eliminate the gap between the gap between parallel and official rates exchange rates. Key commitments for Egypt under this programme include implementing flexible interest and exchange rate regimes, promoting private sector participation, reducing debt and inflation levels to pre-pandemic figures by the programme's end, and offering stakes in 35 state-owned companies to strategic investors by 2024.

Julie Kozack, the IMF's director of strategic communications (COM), is on record saying the IMF is currently discussing with Egyptian authorities providing additional financing to ensure the successful implementation of the policy package for Egypt to help it withstand the repercussions of the recent conflict in the Middle East and its potential adverse impact on tourism revenues.

Meanwhile, the country has been quite vocal about its debt situation on international platforms. On behalf of President Abdel Fattah Al-Sisi, Egypt's Minister of Environment, Yasmine Fouad, highlighted the debt burden of developing nations as she delivered Egypt's speech at the high-level event of the global climate inventory on the sidelines of COP28, in the UAE. Additionally, Fouad relayed Al-Sisi's call that nations enact a series of policies to mitigate the trillion-dollar yearly costs to the world economy incurred by successive climatic catastrophes. She proposed increasing the number of debt-for-development swaps to presumably expedite the activation of debt management mechanisms for emerging nations, particularly middle-income nations. Al-Sisi also pleaded with nations to sign up for the Sustainable Debt Alliance Initiative, which Egypt and the UN Economic Commission for Africa launched.

As Egypt recently held its presidential election set for the 10th to the 12th of December 2023, where Abdel Fattah al-Sisi is expected to clinch a third term, the nation stands at a precarious economic crossroads. The Egyptian pound is spiralling downwards, foreign currency reserves are thinning out, and inflation is shooting through the roof. It is imperative that while the country's leadership continues to make calls for support for its Sustainable Debt Alliance Initiative, it places a cap on continued unsustainable borrowing. Over and above, the AfSDJN reiterates calls for "a new comprehensive, fair and effective sovereign debt restructuring mechanism based in the United Nations that would be binding on all creditors, including commercial creditors, and that would make it difficult for hold-out creditors to prevent sovereign debt workouts."

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