JPRS 83482
NESA 2754
5/17/83

EGYPT

COUNTRY'S GROWING FOREIGN DEBT, LOAN POLICIES EXAMINED

Cairo AL-AHRAM AL-IQTISADI in Arabic No 738, 7 Mar 83 pp 22-25

[Article by Umaymah Kamal: "Egypt's Debts and Limits of Safety and Danger; United States Holds 60 Percent of Egypt's Debts, Recovers 6 of Every 7 Dollars in Aid and Imposes Its Control on Study and Implementation; Indebtedness of Every Egyptian Has Risen From $57 to $420 in 10 Years"]

[Text] The volume of Egypt's debts must be controlled now, before it is too late. Exactly how much are these debts, who are they who loan to Egypt, where are the loans spent and what are the conditions surrounding the loaning and borrowing process? Why these questions? Because the Egyptian debt exceeds the limits of safety and has become fraught with danger, according to the experts.

The United States holds 60 percent of the Egyptian debt papers and recovers 6 of every 7 dollars it advances in aid, with the recovery taking the form of direct and indirect interest. Foremost among the conditions set for the U.S. loans is the stipulation that U.S. experts be in charge of initial project studies and be represented in its implementation.

Why should we establish strict control over activities involving Egypt's debts? Because the Egyptian citizen's share of foreign debts rose from $57 to $420 between 1973 and 1983, because we have begun to import 75 percent of the minimum wheat needed, with 60 percent obtained from the United States, and because the no-door, not just the open-door, policy and the conditions set by the IMF have been behind the imaginary increase in commodity subsidies. This increase has been a direct result of the rise in the value of the dollar and the corresponding 80-percent fall in the value of the Egyptian pound.

This is what the experts say.

How much were they, how much have they become and why this controversy over figures concerning the volume of the Egyptian debt?

What have we done with all these loans in the past 10 years?

If states, just like families, set a limit beyond which they do not go in debt from abroad, then where do we stand now in relationship to this limit?

Having marched in the past to the end of the path of reliance on the outside world and to the point where the foreign partner came to determine for us the features of our domestic economic policy, will history repeat itself?

Egypt's Foreign Debt Reaches $18.5 Billion

Regarding the conflicting statements on the debt figures and the questions this conflict raises about the real volume of these debts, we have asked Dr Ramzi Zaki, the top expert at the National Planning Council, about the truth behind this conflict and about the possibility of determining the total figure of Egypt's debt.

Dr Ramzi Zaki says: The conflicting statements made by officials or in the reports of the statistical authorities on the extent of Egypt's foreign debt stem from the nature of certain debts that these statements include and other debts that they exclude. Generally, there are four basic elements that are excluded in these statements, the first of which is the military debts because of their confidential nature. But concealment of the military debt often affects the dimensions of the true debt picture, considering that the relative weight of these debts usually reaches major proportions in the countries located within areas of international tension, and we are foremost among such countries.

We also note that international statistics, particularly statistics issued by the IMF and the World Bank, exclude some important elements from the list of foreign debts, such as short-term loans with a duration of less than 1 year and private sector loans not guaranteed by the state. It is also true that some statements include loans actually used and exclude loans already concluded but not yet used. The loans used total nearly $13 billion whereas the loans concluded, excluding the military loans, which range from $3 billion to $4 billion, amount to $18.5 billion.

Egyptian Indebted by $420

[Question] If we want to draw a clear picture of Egypt's current debt situation, how would we define its features?

[Dr Zaki] We can define Egypt's current debt situation by acknowledging several points, the most important being the fact that this debt rose elevenfold between 1970 and 1981, i.e., at the rate of one time each year. Thus, each citizen's share of the private debt grew from $58 in 1970 to nearly $420 in 1981. This share is higher than the average individual income in Egypt. Repayment installments also rose elevenfold and interest payments rose fifteenfold in the same period. As for the proportion of the total foreign debt to local production, it rose from 23.7 percent in 1970 to 102 percent in 1981. Debt servicing costs have reached the point where they consume two-thirds of the export revenues, including the revenues of oil exports. Even though Egypt's international reserves rose nearly sevenfold in the same period, thier proportion of the total foreign debt dropped from 9.7 percent in 1970 to 6.1 percent in 1981. This is an important indictator of the development of the burden of the foreign debt payable by Egypt--a development that has been coupled with a sharp and continuous deficit in the balance of payments, considering that the current account deficit rose sevenfold in the 11-year period.

For a complete picture, we must look at the list of those loaning money to Egypt in the 1970's, because this list is considered an indicator of the trend of the Egyptian economy in this period and because it reflects the growing inclination to deal with the Western countries and the international economic organizations. The United States has become the number one creditor of Egypt, with its payable loans to Egypt in 1981 amount to 35.4 percent of the total debt. It is followed by the West European countries, Japan and Iran, with a share of 20.7 percent, then by the Arab financing organizations with 14 percent, the international and regional financing organizations with 13.5 percent and the socialist countries with 13.4 percent of the debt, keeping in mind that the socialist countries used to top the list of creditors with 34 percent.

Catastrophe of Rescheduling

[Question] Some officials say that Egypt has not overstepped the safe debt limit insofar as foreign borrowing is concerned, basing this view on the percentage of the debt servicing [cost] compared with local production or exports. How valid is this view?

[Dr Zaki] Generally, there is no single or absolute criterion for all developing countries on which one can rely to determine whether the state has or has not overstepped safe limits in its foreign borrowing because there is a vast difference between states insofar as their balance of payments and the relative volume of their foreign trade and national economy are concerned. I believe that the criterion for a safe limit depends on the degree of the state's need to reschedule its debts, because this rescheduling means that the state no longer has the ability to meet its debt burdens after having taken a long stride toward borrowing. This is what happened in Egypt, which has resorted to short-term loans. This is the most unfair type of loan. Most of these loans are concluded to import a particular commodity. Consequently, the state granting the loan goes to excess in setting the price, imposes other cost factors on the borrower and requires him to use its own ships for transportation. Although Egypt went to excess in borrowing, it has exerted no efforts to strengthen its abilities to repay, either by generating a strong push in the exports sector, by streamlining the use of foreign currency resources or by introducing structural changes in the makeup of the Egyptian economy to make it possible to reduce dependence on the outside world. Because of Egypt's failure to enhance its repayment capability, the debt crisis has worsened. This forced Egypt to resort to rescheduling, which is catastrophic because it incurs further burdens embodied in the levying of a delayed interest and in negotiations in which the creditors impose their terms--terms that extend to the introduction of obvious changes in the structure of the Egyptian economy.

If we leave the talk of figures as one of the indicators on which the economists rely to determine whether Egypt has surpassed safe limits, we find a different limit drawn up by another group of economists who believe that the financial terms to which Egypt has recently committed itself in return for obtaining foreign financing not only exceed the safety limit but also plunge deeply into a dangerous phase. It is important to understand this viewpoint.

Good-Conduct Certificate From IMF

Regarding the policies adopted by Egypt in the 1970's to obtain foreign loans, and the effects of these policies on the course of the Egyptian economy, Dr Judah 'Abd al-Khaliq, professor of economics at the Politics and Economics College of Cairo University, says that to be able to borrow from international organizations and foreign financial establishments and governments, Egypt had to have a certificate of good conduct from the IMF. This certificate is given on the basis of the so-called letter of intent, which is in fact a set of demands presented by the IMF. But so as not to seem as if the IMF is twisting the arm of the borrower, the borrowing state presents the letter of intent as if it were its own initiative. The latest letter of intent presented by Egypt to the IMF came in 1978. In accordance with this letter, Egypt pledged to follow a number of policies from which it would not swerve before consulting with the IMF. One of the main commitments undertaken by Egypt in accordance with this letter was to abandon multiple exchange rates, to convert all transactions between Egypt and the outside world from the official exchange rate to the incentive exchange rate, a conversion that as of January 1979 reduces the value of the Egyptian pound by 80 percent in one stroke. The impact of this commitment has been reflected in the increased import prices. If we consider that imports represent 40 percent of local production and that Egypt relies on imports in some sensitive areas, such as 75 percent of its wheat needs, then it becomes clear that it is incorrect to say that the subsidy figure has increased. The increase is unreal and deceptive because it represents in fact the difference in the computed price of the dollar, which rose from 43 piasters to 70 piasters, the latter being the incentive price. This in turn led to the budget deficit, because the state is compelled to issue currency to finance the deficit. This currency issuance is a source of inflation in the Egyptian economy.

The second commitment undertaken by Egypt was to release the freedom of importation from abroad, which means abolishing the system of quotas and of quantitative restrictions on imports and resorting to the system of open permits that has resulted in higher import rates. It also means opening the Egyptian market to the foreign side. If we add to this the impact of the reduced value of the Egyptian pound on increased import prices and lowered prices for exports in foreign currency, then it becomes obvious to us how strongly income has been redistributed between the Egyptian society and the outside world in favor of the foreign partner.

The third commitment was to terminate the trade and payment agreements that existed between Egypt and foreign countries and that regulated trade exchange between Egypt and other countries. The abolition of these agreements, according to Dr Judah 'Abd al-Khaliq, replaced the international resolutions and calculation and planning in the management of international economic relations by market forces. This in turn exposed the nerves of the Egyptian economy to the foreign sides, and this reminds us of Egypt's experience in the days of [Khedive] Isma'il.

Moreover, the IMF insisted on abolishing subsidies, both for industrial projects and for goods, in addition to demanding that measures be taken in the sphere of currency policy--measures embodied in setting a maximum limit to the credit advanced to the public and private sectors, with the scales tipped in favor of the private sector. Politically, this measure reduced the size of the public sector. If we take into consideration the fact that the public sector engages in production and commodity activity and the private sector in service activity, then it becomes clear to us that in fact this involved restructuring the Egyptian economy in its entirety.

Diminished Economic Sovereignty

Dr Judah 'Abd al-Khaliq adds: These conditions that are tied to obtaining foreign resources undermine not only economic sovereignty but political sovereignty as well. The presence of a foreign side that participates with the Egyptian side in determining matters that are sovereign affairs, such as setting priorities, favoring the public or the private sector or setting the [currency] exchange rate, means that our sovereignty is diminished. Dr 'Abd al-Khaliq says that the matter does not end here but that there are other conditions dictated by the Advisory Consortium, which consists of a group of creditors trying to obtain from the indebted side, in this case Egypt, terms that are mostly a repetition of what this consortium had already demanded. Regarding the popular campaign to repay Egypt's debts--a campaign whose reverberations have echoed recently--Dr 'Abd al-Khaliq says: In my opinion, this call is the utmost in unfairness. How can I ask the citizens to repay the debts when they have not actually benefited from them and while society's capable classes, which are the classes that benefit most from the borrowing process, evade even their tax obligations?

Disturbing American Presence

It seems that in the 1970's, the loans took a direction completely opposite to the direction of the 1960's. In this regard, Dr Isma'il Sabri 'Abdallah, a former minister of planning, says: We can distinguish the borrowing process in the 1970's from the process in the 1960's in two basic aspects. The first is the method and terms of the loans. The loans of the 1960's were channeled mainly toward the production process, meaning that we borrowed to build factories and to import machinery and tractors for agriculture and not to buy consumer goods. Before 1973, Egypt's exports met all of our needs for consumer goods. As for the production commodities, we financed them through borrowing. Under the canopy of the open-door economy, we started to borrow in order to eat. For example, whereas the wheat shortfall did not exceed 30 percent of our consumption, it has now reached 75 percent, meaning that Egypt now produces no more than a quarter of its wheat consumption, with the rest supplied by U.S. aid under generous terms and with the officials failing to take into consideration the fact that wheat is a political commodity, exactly like weapons. The United States supplies 60 percent of the wheat exported in world trade as a whole. Consequently, should any position taken by Egypt anger the United States and should the United States decide to cut off the aid, then we would be faced with a bread crisis, and this is a serious problem. The United States may also reduce the aid as a result of the world economic crisis. We have reached the optimal degree of reliance on the outside world, embodied in our reliance on this world for our bread.

Dr Isma'il Sabri 'Abdallah adds that there is another difference, namely, the conditions on loan use. Insofar as U.S. loans and aid are concerned, there is a general Congressional law that the administration cannot change even if it wanted to. This law is to the effect that when a loan is concluded for any project, the borrowing state must employ the services of a U.S. consulting firm and a U.S. executing contractor. As a result, the aid becomes a huge agency that makes us feel a disturbing U.S. presence in the country. It is well known that the United States recovers 6 of every 7 dollars in aid by way of commission and indirect interest. There is another point to note. Assuming that the foreign consulting firm is capable and honest, it still cannot recognize the actual needs of the Egyptian society. The development process has its social dimensions, which the foreigner cannot learn by reading books and documents.

East or West Are Not the Important Thing

Borrowing in the 1960's, mostly from the Soviet Union, took place on the basis of projects determined in advance and of feasibility studies prepared by Egyptians. The Soviet presence was smaller. Moreover, the Soviets provided an opportunity for training. For example, the iron and steel complex agreement, which provided for the construction of three furnaces, stipulated the establishment of an institute to train the Egyptians so that the Soviets would take charge of running 70 percent of the production operations in the first furnace, with the percentage dropping to no more than 15 percent in the third furnace. This means that foreign expertise was replaced by Egyptian expertise. There are other differences pertaining to the repayment period and the period of grace allowed. Most of the Soviet loans provided a period of grace extending either until completion of the project or for 5 years, whichever was the lesser. A number of factories were built and started actual production before we began to repay the loans. This, of course, is not a position on my part toward the East or the West. It is merely an evaluation of Egypt's economic interest.

Minister of Planning Last to Know

[Question] There remains the question concerning the process of loan planning. Who plans them and how are they planned and are the loans tied to the development plan? The minister of planning announced at the People's Assembly that no loans are concluded before the approval of the Ministry of Planning is obtained. By virtue of your position as a former minister of planning, what is the extent of the power of the Ministry of Planning in the process of organizing the loans?

[Dr Isma'il Sabri] I believe that there is no single authority in Egypt responsible for foreign loans. This is an old phenomenon in Egypt. Any minister or delegation head can conclude a loan abroad and is not required to notify the Central Bank or the Ministry of Planning. The Ministry of Planning is always the last to know. It is certain that the minister of planning does not have binding power through which he can impose on the ministers. I believe that the Ministry of Planning is incapable, unless supported by the prime minister or by the Council of Ministers. The first attempt to take stock of Egypt's foreign debts did not take place until 1972-73 when I was the minister of planning.

Dr Hijazi was the minister of finance and then prime minister and was the first to call for making a count of Egypt's loans. For the first time ever, we were able to make a count of Egypt's military debts, despite their confidentiality. Dr Hijazi agreed with the armed forces to have an army representative stay at his office and supply him with all the data concerning the military debts so that one of the offícals in charge of Egypt's economy might have the full picture of Egypt's indebtedness. But since the open-door policy, there has been, to my knowledge, no agency that has all of the data concerning Egypt's indebtedness. Therefore, I believe it is necessary to have a high-level agency capable of following up on the borrowing process, especially in regard to the accumulated interest and the repayment burden.

Self-Reliance Is Possible But...

[Question] The current 5-year plan says that one of its fundamental mainstays is national self-reliance through reducing the foreign component and correcting borrowing conditions. What is the possibility of achieving this objective under the canopy of current economic conditions?

[Dr Isma'il Sabri 'Abdallah] If the plan truly seeks greater national self-reliance, then this is a good indicator. However, I doubt that it is possible to achieve this unless we start as of now changing a number of the policies followed. For example, the doors of importation cannot be left so wide open at a time when we are declaring that our goal is to curtail consumption. Moreover, we cannot permit importation without money transfers and then demand that the Egyptian pound be bolstered. We cannot say that we are in the process of streamlining spending when we find the minister of information promising us a third television channel. This means more consumption at the expense of the national economy.

When I was the minister of planning, I opposed the idea of introducing color television because I viewed it as a form of unnecessary consumption. What does the introduction of color television mean? Simply put, it means that the government has, by its own decision, opened the door for an unjustifiable consumption item. There is also the rush for carbonated soft drinks. Are the Egyptian people in dire need of such things, keeping in mind that the soft drink plants and confectionary plants use one-fourth the total volume of Egyptian sugar consumption? Generally, I can say that the plan's goal of national self-reliance will not be achieved unless coupled with the adoption of a number of policies, foremost among them being the mobilization of local resources. The tax policy and the customs exemptions must be reexamined. Nobody, with the exception of employees, pays taxes. A firm policy must also be established to fight inflation.

Despite the danger of inflation, the government so far has paid no attention to computing the inflation rate in Egypt. It is my belief that this rate ranges from 45-50 percent. The foreign trade policy must also be reexamined so that we can determine carefully our basic needs that must be imported and establish a clear-cut export policy.

[Question] Judging by the actual conditions of the Egyptian economy, do you see any real chances of achieving this goal?

[Dr Isma'il 'Abdallah] I find that some partial measures have been taken and that some hopeful statements are being made by high-ranking officials. But I doubt that such limited changes are capable of achieving this goal.

All Loans for Projects Included in Plan

It was essential to interview an official in charge of executive aspects of the foreign borrowing process. So when we asked Samir Karim, first undersecretary in the Ministry of International Investment and Cooperation for financing affairs, how the plans are drawn and whether there is a specific agency in charge of the foreign borrowing process or whether there is conflict between more than one agency, he said: What some people reiterate about the absence of a plan for the borrowing process is untrue. The proof is that since the early 1960's, when most of the borrowing was from the Eastern countries, no loan has been concluded for a project not listed in the development plan. Since 1962, the Economic Cooperation Department has been the sole agency in charge of long-term loans for financing the projects. Before negotiating with any country, the projects are sent to the Ministry of Planning for its opinion. Either negotiations are first held with the country advancing the loan, if the loan is to be advanced as a total sum for financing a project, or the opinion of the Ministry of Planning is sought first if the loan is set for a specific project. This does not preclude the fact that some ministries conclude loans for projects which they view as important and then contact the Ministry of Planning to include these projects in the plan. The Ministry of Planning regularly responds to such requests. Since its foundation, the IMF has always urged that the private sector be given a greater role in the economic process.

Who Helps Whom?

It seems that the cycle of conditions and commitments is an endless one. Even insofar as the U.S. loans for specific projects in Egypt are concerned, we find that the loan agreements abound with conditions and shackles that restrict the movement of those in the Egyptian economy who make the decisions.

Citing examples of such conditions in al-Qutamiyah cement project agreement, Dr Judah 'Abd al-Khaliq said that the loan granted for the project amounts to $95 million, that the most important articles of the agreement are that the Egyptian Government supply the project with $35.1 million and 46.5 million Egyptian pounds and reloan the project $58.5 million, with the rest of the U.S. loan advanced by the government to the project as a grant. Another provision stipulates that no less than 20 percent of the company's shares be sold to the private sector, that the prices of local cement be raised vis-a-vis imported cement and that periodic consultations be held with the International Development Agency (IDA) on the pricing of cement. There is also a commitment to sell the equivalent of $4.6 million of the public sector's shares to investors. The Egyptian Cement Sales Bureau is also to present an annual cement-distribution plan to be approved by the IDA. Moreover, all materials imported or purchased under this agreement are to be exempted from all taxes and customs. This means that in accordance with this agreement, $36.5 million are taken out of the state treasury to be given to the project as a grant while 20 percent of the company's capital is sold to the private sector. The agreement also requires the Egyptian Government to hold periodic consultations with USAID on the pricing and distribution of cement, meaning that the determination of priorities is controlled by foreign management.

Dr Judah also noted the conditions pertaining to a $2-million grant advanced to the Industrial Development Bank in 1978 which require the Egyptian Government to advance 700,000 Egyptian pounds to the project. The most important commitment pertaining to this grant is that all the various aspects concerning use of the grant, the consultation advanced by Egypt and the equipment purchased and training provided be done in the United States and with American goods. The question raised after all these conditions and the objectives concealed behind them is: Who is helping whom?

8494
CSO: 4504/261