Eye on Debt

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I. Introduction

After the fourth review of the IMF's loan deal with Egypt was delayed for the second time, from early October to November this year, President Abdel Fattah al-Sisi said that if the measures agreed with the IMF would increase pressure on Egyptians in an unbearable manner, they should be reviewed. Meanwhile, the government raised fuel prices in mid-October for the third time this year, signalling a new wave of price hikes due to the impact of energy prices on several economic sectors, mainly transportation.

In this report, EIPR reviews the measures agreed upon in the third review of the loan agreement and their implementation, and analyzes the social and economic impacts of the IMF's loan conditionality.

The IMF mission concluded its visit to Cairo on 26 May 2024, and approved the third review of the extended fund facility program by the end of July. The third review was expected to be conducted in mid-March of 2023, but it did not happen due to delays in the first and second reviews. After the currency devaluation in March, the IMF conducted periodic reviews of the deal. The review was postponed again, and Egypt's name was removed more than once from the IMF's meetings schedule before it finally took place late last July and Egypt received a new instalment of the loan worth $820 million. The IMF published the report of the third review on 27 August.

During the third review, the IMF reaffirmed some key conditions for the extended fund facility program, the most important of which is to continue maintaining exchange rate flexibility in Egypt. Since mid-May, the Central Bank of Egypt (CBE) has allowed a larger margin of fluctuation for the pound against the US dollar, and – therefore – the pound's value has fallen from a minimum point of 46.7 pounds per dollar, the exchange rate rising gradually to 49.2 pounds. Thus, the pound's rate fell by about 5%, a range of movement that meets the IMF's condition of relative exchange rate flexibility. This was followed by a larger movement due to the wave of stock selling that hit global stock exchanges in early August 2024, which prompted the exit of a considerable amount of hot money, which the government estimated at about 7-8% of foreign ownership of Egyptian treasury bills - which would mean the exit of 2.5 to 3 billion dollars within a few days. Therefore, the CBE had to allow for a relative fluctuation of the exchange rate. However, if capital exit was larger in the future, the CBE will probably have to allow for large reductions in the exchange rate.

This is the core of the problem in managing the current currency crisis. Despite the large cash flows from the sale of assets, such as Ras al-Hikma, the risks associated with the exit of hot money due to potential global or domestic crises are still significant. And if such scenarios materialise, they will lead to a new devaluation of the currency. The IMF did not attempt to address this problem in its conditionality, by warning, for instance, the government against over-reliance on hot money, as this would require measures to control the flow of capital, something which the IMF does not encourage in general (rather, it tends to recommend the opposite in times of crisis).

During the third review, the IMF introduced a number of new structural conditions for the deal, as follows:

1. Amending the Law on the Protection of Competition and the Prevention of Monopolistic Practices to give the Egyptian Competition Authority (ECA) greater power to file cases before judicial authorities, as well as greater independence comparable to CBE. The amendment of the law is an im-

portant step. But more importantly, ECA should be provided with sufficient expertise and employees to be able to manage and file such legal cases, and should be given the authority to assess fines quickly instead of waiting for a long time for these cases to be settled.

2. Publishing the final account for the fiscal year 2022-2023 by the end of August 2024: The IMF requested that all final accounts be published on time. The government adhered to this requirement, but it often delays in publishing the accounts or getting them approved by parliament, which undermines the principle of transparency in the budget, as the figures spent vary entirely between the final account and the public budget. The final account for the fiscal year 2023-2024 ending in June has not been published so far.

3. Publishing the income and expenditure survey by the end of July 2024: The government has not yet published the income and expenditure survey, which was delayed by about four years. The research is supposed to be published every two years. The 2019-2020 research was the last published edition of the national survey. This is in spite of the completion of the research, according to the head of the Central Agency for Public Mobilization and Statistics (CAPMAS) which conducts the study.

4. Assessing government policies regarding state-owned banks: The IMF introduces this condition to enhance competitiveness and improve the business environment for the banking sector, without addressing the root cause of the problem, which is the government's continuous borrowing from government banks and pushing them to issue high-yield saving certificates in order to trap liquidity within the banking sector. This – of course – affects the migration of deposits to government banks, and at the same time compels them to pay off the interest rates by a greater percentage than other banks. Thus, the competitive environment is still largely balanced for both the government and private banks. The government announced in October that it was planning to offer banks and airports to the private sector.

5. Introducing new export and import control mechanisms to prevent the accumulation of goods at ports: The IMF asked the government to introduce a mechanism called the "green channel" to release imported goods to large companies that are consistently committed to the Egyptian import and export standards, which signals favourable treatment for large companies at the expense of small and medium-sized enterprises (SMEs) in terms of bank credits. This is a persistent problem in Egypt, as the large companies do not face the difficulties faced by their smaller counterparts. Thus, the IMF's proposal, albeit intended to speed up the release of goods stockpiled at ports, would allow the release of some goods to a select few – but not all – companies.

	Goal	Is the goal economically and socially appropriate?	What action is required according to the IMF?	Has the government or the central bank implemented this measure?	Social and economic impact – EIPR's notes	Notes and alternatives
Monetary policies						
1	Commitment to exchange rate flexibility	No	The IMF requested maintaining of a flexible exchange rate system, and the development of a standard to assess the government's commitment to this through a number of information and indicators, the most important of which are the accumulation of foreign exchange requests at banks, the difference between the official exchange rate and the measures of the clearing exchange rate in the market, as well as the turnover of foreign exchange between banks.	Yes, Egypt has devalued its currency twice since the beginning of the deal in late 2022, and then made another devaluation in March 2024. The IMF requests the government to maintain a flexible exchange rate system, and the CBE not to intervene continuously in the market to prevent the accumulation of pressures on the currency. But this is done through the current CBE support for the exchange rate, mostly utilising hot money flows to maintain the US dollar's rate against the Egyptian pound, which is a very fragile pattern that exposes the currency to future collapses due to pressures in moments of exit of investors or pressures that already exist as a result of high external debt payments.	The currency devaluations resulted in significant inflationary pressures, which have not receded to reasonable levels so far despite the decline in inflation in the following months. But the inflation increased again due to the increase in electricity prices. The inflation rate is expected to remain high due to the third hike in fuel prices in October, and the pound is expected to be devalued again.	

2	Recapitalization of the CBE	No	Based on the memorandum of intent, the IMF requested the Egyptian government to implement the CBE's recapitalization (financing) plan, based on an assessment of the CBE's refinancing needs in consultation with IMF staff, and given the CBE's full compliance with Egyptian accounting standards.	The government began to halt financing initiatives from the CBE, which is a major cause of the bank's losses along with lending to the government as a result of the budget deficit. But the government started a new initiative this October to support tourism with 50 billion pounds. It is unclear whether this is a sign that the government is backing down from implementing this condition in full or not. Recapitalization means giving the CBE the opportunity to balance both sides of assets and liabilities, which is a good goal, but in the case of the Egyptian economy, this will directly lead to exacerbating the budget deficit as a result of borrowing more from the market. Hence, as new debt continues to be issued, the problem will be reflected in a continued rise in government debt.	The cessation of cheap financing initiatives for industry and agriculture in particular has a negative impact on the ability of these projects to borrow or to finance expansions and working capital in many cases. Halting government borrowing from the CBE will also push debt up in a high interest rate environment.	It is better to address the defects that led to an increase in the CBE's losses than to focus on recapitalizing the bank. The primary issue is t the high interest rates that lead to intensive government borrowing from the CBE.

3	Plan to reduce the CBE's dues from the government	Yes	The IMF requested that the CBE issue a plan approved by its board of directors to reduce its current dues with public sector agencies except the Ministry of Finance. The IMF said the plan should specify a timeframe for reducing the dues to zero and how to pay off or transfer them away from the CBE's balance sheet.	The government did not comply with this requirement and did not reveal the plan approved by the CBE's board of directors. However, all the cheap financing initiatives were transferred from the CBE to the Finance Ministry more than two years ago, before being ditched altogether. But then after that, the government announced this October an initiative by the CBE to support the tourism sector.	This justification is often presented as a mechanism to reduce government borrowing from the CBE in order to make up the budget deficit. However, in reality this mechanism to reorganize the bank's financial position is nothing but an accounting game that will only achieve some structural reforms that will allow for efficiency of domestic borrowing.	
4	Conducting tests to measure the efficiency of financial indicators in the banking sector.	Yes	The IMF requested that the CBE consult with it on stress tests for the banking sector and share the results with IMF staff by the end of September 2024 using March 2024 data.	This is still in progress and was not evaluated in the current IFM's review.	Continued testing is an opportunity to develop different scenarios, especially with regard to the efficiency of banks' foreign assets, and more specifically the state banks that the government uses to borrow from abroad. Stress tests can therefore be a good opportunity for these banks to reduce their exposure to external loans and thus improve their ability to avoid financial shocks.	

Financial policies						
5	Introducing a new law for the Central Auditing Organization (CAO) with provisions requiring the publication of the organization's annual reports within six months of the end of the fiscal year	Yes	The IMF requested compliance with the deadlines set for the publication of CAO's reports, the most important of which is the final account, through a legislative amendment.	Under review by the IMF. Before the draft amendment presented to parliament, the government had already introduced this requirement in the Public Finance Law.		
6	Addressing the problem of foreign companies' dues with the General Petroleum Corporation.	Yes	The IMF requested drafting a strategy to settle the accumulated arrears of the Egyptian General Petroleum Corporation on the supply contracts denominated in US dollars. The aim is to prevent the accumulation of any new arrears.	The government did not abide by this condition, but it paid part of the arrears to companies, and prepared a plan that includes a number of tax and non-tax incentives for these companies to resume production and exploration activities, especially relevant now in light of the current energy crisis - specifically in the gas sector.	The governance of gas and oil contracts seems to be a very difficult process in Egypt due to the lack of transparency, which causes these contracts to often be denominated in US dollars. Consequently, in light of the recurrent currency crises, it is likely that related crises will recur. The goal should be a comprehensive reform of the energy sector to ensure increased domestic energy input in the renewable energy sector and reduce the imports and heavy reliance on gas.	

7	Publishing government contracts exceeding EGP 20 million per month on the government contracting portal.	Yes	Publishing all government procurement contracts worth more than EGP 20 million on a monthly basis on the government procurement portal. As well as ensuring that everyone can access this information without the need to create an electronic account.	The portal was created, but it is very difficult to access information on it and it is not constantly updated. The design of the site's interface is extremely user unfriendly, and the website goes down frequently. The portal also requires logging in to access the little information available on it.	Good, but the site should be restructured to serve as a platform for publishing the details of these contracts in a way that makes it easier for citizens and investors to access the information they need. The design of the database should include tools that enable the user to link data to each other.	The IMF classifies this requirement as activated, although the site has not changed since March when the first and second reviews were conducted and hadn't changed until August when the third review report was published.
8	Continuing to apply periodic pricing policies for petroleum products	No	The IMF asked the government to continue to apply the approved mechanism for pricing petroleum products every three months, and in cases where it is proposed to reduce the price, it should not be reduced until the subsidy payments made in previous years are settled.	Yes, the government has been implementing this mechanism for years, and indeed it has not reduced the prices of petroleum products even once, despite the fact that oil prices have dropped more than once during those years.	No, this creates further inflationary pressures especially taking into account food price inflation in general (ie before energy hikes are factored) due to the currency devaluations.	The IMF's conditionality of not reducing the prices if the pricing equation proposes a reduction is quite problematic. It creates a situation where energy prices continue to contribute to inflation even at times when oil prices are low globally or when the costs of producing petroleum products in Egypt are low.

9	Monitoring the arrears of the government, state-owned enterprises and public economic bodies.	Yes	The IMF requested that the Ministry of Finance monitor and report arrears, including those of state-owned enterprises and public economic bodies, no later than 90 days from the end of the fiscal year.	This has not yet been published, although the publication date according to the IMF should have been before 30 September, since the fiscal year ended on 30 June.	This is good, as it allows better monitoring of arrears of public companies. We have not seen a single report complying with this requirement so far, and it is expected that the report will not include companies of a "sovereign nature", namely the army's companies or the companies associated with army projects, such as the Administrative Capital Company.	
10	Publishing the Central Auditing Organisation (CAO's) reports on time	Yes	Ensuring that the law includes a condition for publishing the final accounts prepared by the CAO on time every year.	No, there have been delays in publishing the final accounts over the past years. Despite the issuance of instructions from the Ministry of Finance in January 2024, the final account for the fiscal year ending at the end of June remains unpublished.	Yes, it is an important measure to enhance transparency.	The IMF did not stipulate that the accounts should be published in accessible formats, nor that the published final account should include all items and sections.

11	Issuing the executive regulations of the Public Finance Law	Yes	The IMF requested the issuance of the executive regulations of the Public Finance Law, which must include: 1. Key elements of budget approval starting with the submission and approval of the Financial Strategy Paper (the preparation publication). 2. Updating and publishing the medium-term budget framework, taking into account the cost of new laws and regulations. 3. Separating all entities of core funding from new initiatives. 4. Creating a special section on climate finance that provides a picture of climate activities within the budget.	Yes, the executive regulations were issued, but the general budget that resulted from this law does not differ from the old budget except in terms of merging the economic bodies with the budget under one table. The government did not publish a medium-term budget plan, nor did it launch a section in the budget related to climate finance. There is mention of (climate) funding but within the general budget and not in a separate section.	The implementation of the unified Public Finance Law enhances transparency as well as the principle of budget governance. Despite the progress made in this context, which is reflected in assessments of Egypt's budget governance and transparency indicators, many steps still need to be taken to integrate all public spending into one budget, including the budgets of special entities and sovereign bodies.	

12	Publishing a detailed annual report on tax revenues	Yes	The IMF requested the publication of a comprehensive annual report on tax expenditures, including details and estimates of tax exemptions categorised by entities, especially state-owned entities, and including public sector companies, the business sector, military-owned companies, as well as jointly implemented projects.	Although the IMF said that this requirement was met by the end of April 2024, it has not yet been implemented. The government did not publish any detailed report on tax revenues or expenditures in Egypt. The government introduced a law to cancel exemptions provided to government economic bodies, but the door for exceptions remains open.	Yes, publishing this would enhance transparency and governance of public investment in Egypt.	The IMF does not differentiate between the necessary governance requirements in military companies, and public business sector companies and other state-owned companies that are already subject to a degree of budgetary control by the CAO.

13	Launching an index to follow up on the implementation of the state ownership policy document.	Yes	The IMF requested the launch of an index to monitor the implementation of the asset sale, especially for companies covered by the state ownership policy document, which the government announced following IMF's advice more than a year ago.	The index is under review by the IMF. The government published the second update of the document with a broader range of information.	The IMF promotes the procedures related to the index and the inventory of companies and projects implemented by the state in a database as necessary for transparency. However, the problem is that neither the document nor the index clearly include military companies c. Even when the document included two military companies, they have not been sold so far. In reality, companies outside the document, which are mainly civilian companies, were sold. These companies existed in sectors where the private sector operates and there is no problem in competition among them. The fertilizer sector is one example of that.	The asset sale process should set a methodology to measure the extent to which the state-owned enterprises weaken the standards of competitiveness with the private sector, if the goal is to empower the private sector and improve the business environment.

14	Conducting a sectoral classification of the state-owned economic bodies	Yes	The IMF requested that the government conduct a new sectoral classification of the 59 state-owned economic bodies according to the 2014 Statistical Manual on Government Finance. This classification aims to integrate some of these bodies, especially state-owned non-productive economic bodies.	Implementation is underway, and was scheduled to come out in September.	It is good for strengthening the principle of governance of economic bodies and increasing the comprehensiveness and unity of the public budget.	
15	Publishing procurement contracts of the top 50 government companies on a monthly basis	Yes	The IMF requested that the government publish the procurement contracts of the top 50 state-owned companies on the Ministry of Finance's website and the government tender platform on a monthly basis.	This has not been implemented. According to the IMF, this condition is postponed for the next review. The first report was scheduled to be published by the end of September 2024, but that did not happen.	This is a good condition that has to do with the implementation of other conditions related to the availability of data on economic bodies. It is a repeated recommendation by the IMF that has not been implemented since 2016.	

16	Publishing regular annual reports on the portfolio of state-owned enterprises in Egypt	Yes	Reinstating the regular publication of consolidated annual reports on Egypt's state-owned enterprise portfolio, initially established under the 2016 Extended Fund Facility Program, with broader coverage of all companies covered by the state ownership policy.	The IMF will assess this condition in upcoming reviews.	Yes, this is a good condition for making information about state-owned companies available. However, the government should be committed to setting and publishing the methodology of classifying those companies, especially the sovereign companies owned by the army and other agencies. The IMF says these measures are meant to enhance transparency about the sectoral presence of state-owned enterprises, the financial position, and financial relations with the government, allowing potential investors to better assess the attractiveness of investment in a certain sector.	

17	Assessing the existing free zones	Yes	The IMF requested a detailed assessment of the economic benefits of the existing free zones, particularly with regard to the tax exemptions established for those zones.	Not under assessment in the IMF's current review.	Assessing the economic benefits of free zones is the cornerstone of customs and commercial tax reform, and an important mechanism for mobilizing resources. This is structurally related to the tax policy document that the government has not yet published and has not been subject to societal debate.	
18	Introducing new amendments to VAT	No	The IMF requested that amendments to the VAT law be submitted to the House of Representatives with the aim of simplifying the tax, reducing exemptions, and enhancing its efficiency and progressive nature.	This condition will be assessed in upcoming reviews, with the deadline for submission of amendments being November 2024.	The VAT rate is very high at the moment, amounting to 14% and even more for a large number of goods. High VAT rates contribute to high inflation, especially at a time when inflationary pressures have persisted since the currency was devaluated.	It is better to amend the income tax laws and introduce higher income categories than amending VAT..

19	Publishing the Income and Expenditure Research results by the end of July 2024	Yes	The IMF requested that the results of the Income and Expenditure Research be published by the end of July 2024. The publication of the research was delayed for more than two rounds, as the last published report was that of 2019-2020.	The government did not publish the research despite its completion and despite pledges by CAPMAS head Maj-Gen Khairat Barakat to publish it during the second half of 2023.	The research shows how poverty figures changed, and how Egyptians adapted to the economic crisis and the high inflation rates. The government pledged to the IMF to use the research figures to update the social protection systems, especially the Takaful and Karama program, and to unify the various subsidy programs and improve the eligibility conditions of the cash transfer programs. However, the government took none of these steps because the results of the research have not been published.	

20	Independent assessment of the policies and procedures of the government banking sector independently	Yes	The IMF requested that an international company conduct an independent assessment of the policies, procedures and rules of state-owned banks, with the company to be selected by the end of October 2024.	Under preparation for upcoming reviews.	The IMF criticizes the existence of the government banking sector and its control over a large amount of deposits within the banking system. Therefore, the purpose of this assessment seems unclear. The IMF indicated that it is intended to enhance governance practices and competitiveness in the banking sector. However, public and private banks are subject to the same rules. Public banks do not have favoured mechanisms. Rather, the fact that they are owned by the government makes them more likely to bear higher interest burdens in order to withdraw liquidity from the market. For example, the two largest government banks (the National Bank of Egypt and Banque Misr) offer high-yield certificates. Moreover, the deposit portfolio of these banks is exposed to risk due to its association with the domestic debt through the intensive purchase of treasury bills.	

21	A “green channel” system for the release of goods from ports	Yes	The IMF requested that the government establish a new mechanism called the “green channel” for the release of goods, through which the Customs Authority shall release a percentage of goods belonging to low-risk, law-compliant companies quickly and without controls.	Implementation is scheduled to begin by December 2024.	This could provide a temporary solution to the congestion of goods at ports and relatively improve the mechanism of customs administration. However, without a comprehensive reform that includes reducing the stay time and developing and accelerating the container inspection mechanisms, the crisis will affect most companies. This measure is less likely to benefit the smaller companies that struggle the most in terms of opening bank credits.	

22	Integrating the export and import control mechanisms	Yes	The IMF requested that the so-called "risk-based control" approach be merged between the Customs Authority, the Export and Import Control Authority, the National Authority for Food Safety, and the agricultural and veterinary quarantine authorities in order to reduce the number of containers that need to be inspected, thus reducing customs clearance procedures and the stay time of goods at ports.	This is a new condition that is expected to be completed in April 2025.	Good condition , and it has a positive impact on the movement of trade, but it needs a more comprehensive strategy, especially in times of recurrent currency crises, in order to identify priority goods and goods that will be restricted in times of crisis.	

In its first "Eye on Debt" report, EIPR presented a set of recommendations, which we believe are still valid:

1. There is a need for full and detailed integration of the budgets of economic bodies and activities of a governmental nature into the public budget, taking into account the different accounting rules between these bodies and the current budget bodies.
2. Based on the IMF's request to issue the final account reports on time with clear criteria to facilitate their use for ordinary citizens, it is necessary to reduce the time gap and the significant delay in announcing external debt and GDP figures, to adopt a consistent methodology in calculation and figures, and to resume the issuance of the quarterly report of growth indicators, which used to be issued regularly and in format that allows for comparativeness, but has not been issued since 2017. The same should apply to the monthly reports and the external situation report issued by the CBE, and the income, expenditure, consumption and poverty survey, which has not been issued since early 2020. Detailed national account reports, the publication of which has been suspended since 2015, should also be made available.
3. The government and the IMF should announce the total public debt in Egypt, including all debt stock and interest paid to economic bodies and to the CBE, which is one of the key institutions borrowing from abroad with government guarantee. Publishing the budget deficit only does not reflect the true state of public debt in Egypt. The rising course of public debt in Egypt cannot be reversed without a debt audit to assess the impact of development debt, its spending, and the best way to restructure the debt through term reduction, governance, interest renegotiation, rescheduling and even forgiveness of repayment.
4. Inflation cannot be dealt with through interest rates alone, against the backdrop of frequent service price hikes and flexible exchange rate policies requested by the IMF. These policies reproduce the problem and lead to a snowballing of inflation.
5. Neither the IMF, the World Bank, nor the Egyptian government provided any assessment of the impact of programs implemented since 2016 on poverty and inequality in Egypt. It is worth noting that the poverty rate in Egypt has reached its peak since 2000 following the implementation of the first program, with five million Egyptians joining the ranks of the poor due to the impacts of the program. No assessment of the IMF-agreed policy packages on unemployment, wages and exports has been conducted. There has been no public assessment of the ability of cash subsidy programs to absorb the impact of successive inflationary shocks on poverty, which which actually require an expansion of in-kind subsidy networks rather than maintaining them as a perfunctory anti-poverty and inequality policy.
6. The IMF and the government must comply with the standards stated in the IMF budget manuals regarding taxes on profits from treasury bills, which are income taxes that are classified as property taxes.
7. The IMF and the government must abide by the criteria stated in the IMF manuals regarding methods of calculating energy subsidies, classifying subsidy beneficiaries in detail, especially companies, and deleting the budget general insurance debt service allocations from the social subsidy item(the government currently and misleadingly records its debt payments to the National Organization for Social Insurance (NOSI) as social subsidy payments).
8. The base of taxpayers should be expanded through income and wealth taxes, to increase the fiscal space in the budget, and with the aim of reducing

inequality and poverty through the financing of social programs.

9. The primary surplus is unsuccessful in placing the public debt on a downward path, and comes at a high cost to all forms of social spending such as spending on health, education, and others. Austerity measures affecting real wages and public investments are counterproductive to economic growth. A new approach must be taken that avoids deep austerity on citizens and the expansion of debt servicing. This must be done through a methodological approach to debt governance (all external loans, including the CBE's loans, must be subject to parliamentary scrutiny and approval).

10. The asset sale program must stop, due to its negative effects on the balance of payments and local market structures, especially in light of the continuous decline in the value of Egyptian assets due to the devaluation of the pound, which is consistent with the statements of the IMF chief advising a slowing down of the sale for the time being[1]. There must be legal and parliamentary oversight over valuations and sales, which are currently carried out without proper governance or transparency. The privatization of public health and education services and raising their prices must be halted.

11. The additional fees charged by the IMF to the Egyptian government should be dropped, as they increase the cost of debt. Also, interest rates should be limited within set margins and should not be left to the global market movements without limitations.

1 IMF: We do not want Egypt to rush to sell shares in state companies, Masrawy, 11 February 2024, https://www.masrawy.com/news/news_economy/details/2024/2/11/2536822/-صندوق-النقد-لا-نريد-أن-تتسرع-مصر-في-بيع-حصص-بالشركات-الحكومية