No IMF Pressure, No Reform

By Khaled Fouad Sherif
Special to the Middle East Times

WITH the approval by the U.S. government of a $6.7 billion debt write-off for Egypt, it is likely that a number of other countries will follow suit. The Gulf Organization for the Development of Egypt is said to be working out a plan that will exempt Egypt from paying its outstanding debts to a number of Arab countries, foremost among them Saudi Arabia, which has reportedly agreed to a $4 billion write-off.

All of this is good news. Egypt's balance-of-payments position had already reached deficit crisis proportions before the Iraqi invasion of Kuwait. The government had begun to fall behind in its debt payments to a number of other countries in the West and had suspended payments to several states in the Middle East.

The International Monetary Fund (IMF), unhappy with Egypt's economic reform progress, was preventing bilateral negotiations on debt rescheduling, which was making Egypt's financial situation very difficult.

Then, unexpectedly, Saddam Hussein decided to occupy Kuwait and Egypt responded correctly by standing against this aggression. The occupation of Kuwait meant various hardships for Egypt, including a drop in Suez Canal revenues, worker remittances and income from tourism. The expected decline in Egypt's foreign exchange revenues led international donors to take a softer line. The IMF did the unexpected, and even though it is still not granting Egypt a second standby agreement or direct balance-of-payments assistance, it has permitted the country to reschedule its debts on a bilateral basis with its creditors. This is what led to the $6.7 billion write-off by the United States, which has caused a chain link effect, encouraging other countries to grant Egypt similar debt forgiveness.

It may be appropriate, however, to wonder at this point what will happen to the domestic reform effort which the fund had earlier emphasized so much. The IMF had deliberately put pressure on Egypt to agree to structural reforms that the government either was unwilling to implement or wanted to implement at a slower pace than that proposed by the fund.

Among the reforms demanded by the IMF were exchange rate unification and interest

A Point of View

rate adjustment. The IMF had also been pressuring the government to move toward real interest rates, and Cairo had agreed in principle to this request. Yet, no agreement on a timetable was ever finalized.

There were also budget deficit targets that the government was expected to meet, along with adjustments in electricity and energy prices that were required in order to reduce the E£4 billion implicit subsidy that the government gives through the sale of these commodities.

Now with debt relief coming from every corner, the IMF can no longer pressure Egypt through its balance-of-payments position. In fact, why would the government want to implement the proposed IMF reforms that are widely unpopular now that debt forgiveness has been facilitated?

On the exchange rate front, too, the government has some valid concerns. With Egypt dependent on imports for 60 percent of its raw materials, any devaluation means higher import bills that will eventually be transferred into higher domestic prices for goods and services sold to the general public. Even the budget deficit targets set by the IMF for Egypt implied significant hardships. To reduce the deficit, the government felt that it would have to cut subsidies, or begin to sell off state assets to generate sufficient revenues to keep the deficit within IMF-required limits.

Before the Gulf crisis, the government had been faced with one major dilemma: where to get the resources to continue such widespread subsidy programs. The other serious problem was how to keep the balance-of-payments viable and at the same time curtail arrearages.

To a great extent, the Iraqi-Kuwaiti crisis was a godsend that in part helped to address both of these problems at least for the time being. Egypt is now flooded with additional donor assistance, debt rescheduling is no longer a major problem because write-offs are taking place right and left, and the balance-of-payments problem over the medium term has, in essence, been resolved.

For the politicians concerned, the current status quo is even more of a godsend. After all, a number of our top politicians knew perfectly well that the beaches of Mariqya (near Alexandria) were going to be their next stop if they failed to sign a second standby agreement with the IMF. But then Saddam Hussein took over Kuwait and the IMF allowed bilateral rescheduling, nullifying the importance of a second standby and giving these politicians a big break.

For those who were not so keen on seeing these characters around much longer: well, too bad, the situation has changed. Their failure to come to terms with the IMF will not mark their downfall.

Of course, the question of whether the government will proceed with the IMF-recommended reforms is now largely a moot point. Why should they?

They might move a little here and there, but forget about major restructuring for the time being. As for the beaches of Mariqya, well, it is winter now, anyway. Maybe come summer time the situation will have changed again. If it does not, then we can expect to see our economic team right there on the beach, and we will find their black Mercedes automobiles parked outside their chalets.