

# Paris Club Rewards Egypt For Sticking to Its Guns

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ONCE AGAIN, Egypt has received a package of debt forgiveness worth billions of dollars along with additional amounts of foreign aid. On top of the \$7 billion debt already forgiven by the United States, Western creditor nations last week agreed to cut their portion of Egypt's \$35 billion foreign debt by half. Thirty percent of the debt will be cancelled in two phases, beginning on 1 July this year, and another 20 percent will be cancelled on 1 July, 1994, at which time the remaining debt would be rescheduled.

The Paris Club of creditor nations' meetings did not address the \$8.64 billion of debts to commercial banks and other private institutions. Instead, it focused exclusively on Egyptian debt to the West. Of course the Paris Club debt rescheduling session is linked to the government's implementation of agreed upon International Monetary Fund (IMF) economic reforms.

Western creditor governments had demanded that the Egyptian government come to terms with the IMF as a prerequisite for any additional rescheduling and debt relief. After

close to three years of negotiations, the government and the IMF finally agreed to an economic reform program acceptable to both parties.

Egypt's new letter of intent, serving as the basis for a formal agreement with the IMF, was more difficult to put together than the earlier 1987 agreement because of its poor record on meeting IMF conditions. In 1987, the IMF and Egypt came to terms on a \$250 million loan but the government failed to meet fiscal, monetary and pricing targets and fell out of compliance.

Egypt, before the Gulf crisis, had one of the highest debt burdens in the world in proportion to its gross national product, and unlike Latin American nations, most of its debts were owed to other governments rather than to private banks. The U.S. and Arab debt forgiveness programs for Egypt, along with the Paris Club debt write-offs will improve the country's balance of payments picture significantly.

President Hosni Mubarak, in a recent interview with *Al Ahrām* said that Egypt's foreign policy and its leading role in the region helped alleviate the debt problem. He said that since 1983, he has been discussing

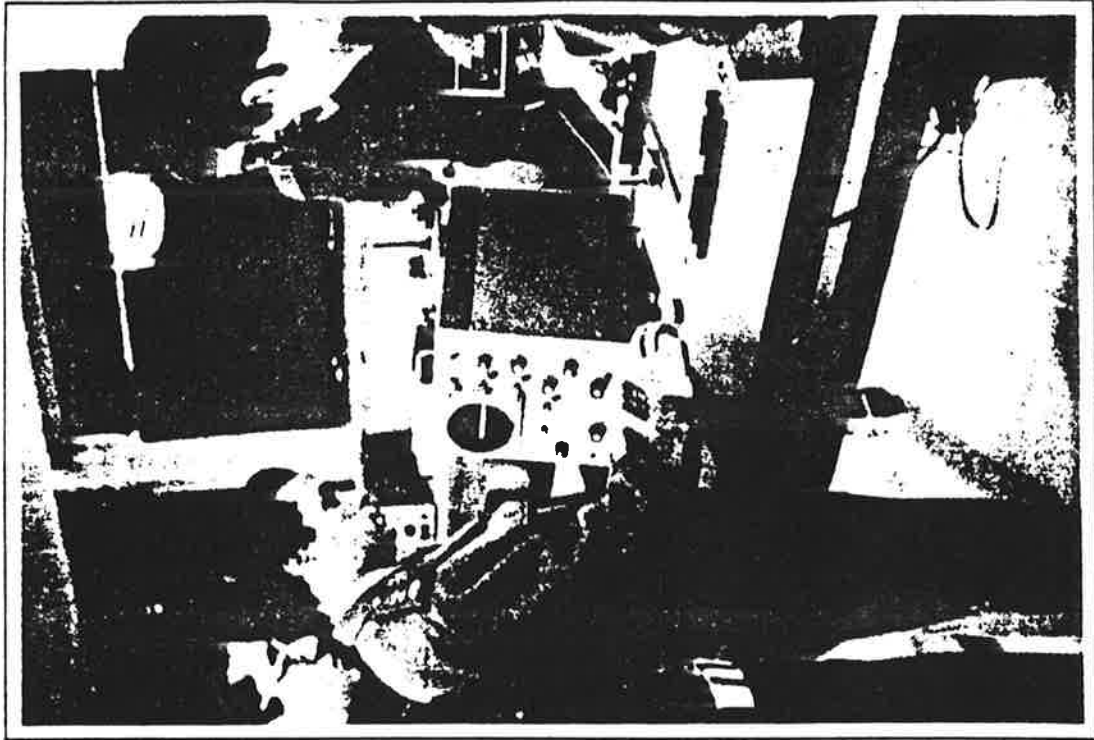
U.S. military debts and the possibility of cancelling interest on them, or at least reducing it from 13 or 14 percent to, say, 6 percent. But the U.S. administration continually declined to support such a request.

The outcome was the cancellation of \$7 billion in military debts. Mubarak noted that the actual figure would have been \$23 billion if the debt had been carried to maturity; and it would have placed a heavy burden on future generations.

In short, he said, forgiveness of part of the foreign debt helped mitigate the effects of the material losses sustained because of the Gulf war. Otherwise, the consequences would have been extremely grave.

Mubarak forecast a clearly positive effect of the Paris Club decision on the Egyptian economy. Less funds will be allocated annually to the budget for external debt repayment, he said and, consequently, the budget deficit, which is usually financed by new debts, will be reduced.

The Gulf crisis has once again highlighted the importance of politics in changing the country's economic outlook.



Cadets at the Technical Military Academy using a computerized plotter. The United States this year cancelled \$7 billion in military debts owed to it by Egypt.