

OH IMF!

Economic experts remain divided on the long-awaited IMF loan deal: is it the kiss of life or death to Egypt's fragile economy?

By *Nadine El-Shiaty*

Monetary Fund! Oh! Monetary Fund! Your honey is our poison. Show me how to plant my own land, show me how to kneel to you and tie me with more debts..."— thus sang Egyptian singer Yasser El Manawehly expressing his opposition to a proposed \$4.8 billion loan Egypt is seeking from the International Monetary Fund (IMF).

With a budget deficit of \$13.65 billion, Egypt is pursuing foreign financial aid in an effort to overcome its financial and economic crisis. IMF officials expressed in December their willingness to grant Egypt the loan which remains on standby mode as the country faces continuous waves of political unrest. Financial experts foresee that the budget deficit in 2013 could increase further, highlighting serious deterioration in the economy.

Experts are divided on the IMF loan; Some see the loan as crucial to Egypt's financial recovery and a guarantee to attracting investors, while others believe it will raise debts and impose austerity mea-

sures. Loan critics say the estimated 25.2 percent of Egyptians living on less than \$2 a day won't be able to survive austerity measures.

"I don't think that austerity now is the right way to go given that recession [Egypt] is going through," Assistant Professor of Economics at the American University in Cairo, Samer Atallah, told the AUC Business Review pointing out that usually, in times of recession, the government is expected "to expand its expenditures in order to increase economic activity. When there is a recession and the government contracts for obliged austerity measures, it accelerates a vicious circle of economic downturn," Atallah explained. "Any household, any person who has been living for a long while on expenditures that he cannot afford has to cut down the expenses," Atallah told ABR.

Economic recovery plans and updates on the IMF loan agreement are yet to be announced by the government. But austerity measures, subsidy cuts, tax increases are inevitable IMF loan conditions. According to the Middle East News Agency (MENA), the government already started planning subsidy cuts on the energy subsidy bill by 50% in the upcoming five years. Similar measures were met with massive backlash from the public especially from the opposition in Egypt.

Angry protests swept the country following a new tax law increase on stamp duties and a number of consumer goods, which Egypt's President Mohamed Morsi temporarily held back.

Opposition parties and revolutionary movements expressed their strong opposition to the IMF loan, organizing marches and staging demonstrations against it on several occasions prior to Morsi's tax decree.

\$4.8
BILLION
loan from the IMF



The loan sparked a series of debates across the country between supporters and opponents.

In an effort to understand what the IMF loan holds for Egypt, the AUC School of Business seminar series 'Transforming Egypt' organized debates under the name "*Ekne3ney Shokran*" (Convince Me, Thank You). One of those debates held at AUC's Tahrir campus last October tackled the two opposing perspectives on the IMF loan.

Guest speakers Hany Genena, head of research at Pharos Securities Brokerage and Abdallah Shehata Khattab, associate professor of economics at Cairo University and member of the ruling Freedom and Justice Party, argued in favor of the loan at the "*Ekne3ney Shokran*" debate.

"Borrowing from the IMF at this stage is a political statement that Western countries support the idea of a transition of power to an elected Islamic system," said Khattab.

Khattab defended the loan saying it represents "evidence of political and economic stability."

He further described the loan as "a testimony from the IMF that the Egyptian economy has the ability to properly spend the money and the ability to restore it."

He also added that the loan will encourage other financial institutions to lend Egypt money. The ap-

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IMF LENDING

Established in 1944, the IMF is an international organization with over 185 member countries. Member countries contribute money through a quota system which is used by the IMF to lend countries struggling with financial problems. Tunisia, another country shaken by waves of political unrest aspires to overcome its financial crisis by borrowing from the IMF. Reuters reported that Tunisian authorities filed for a \$2.5 billion loan. The IMF also gave a \$2 billion loan to Jordan as well as a precautionary loan that accounts for \$6 billion to Morocco.

**\$6.5
BILLION**

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proval of the IMF loan waves up other loans that Egypt requested from international lenders, especially a \$6.5 billion European Union loan that would be granted to Egypt once the IMF loan agreement is sealed.

Foreign partners see the IMF loan as a prerequisite to invest in the country signaling economic and political stability, Genena told ABR in a telephone interview.

According to press reports, in a meeting with the Federation of Egyptian Chambers of Commerce in Cairo, Herman Van Rompuy, president of the European Council urged the Egyptian government to accelerate the IMF loan procedures saying it will "establish confidence of the investors and would open doors for further foreign investments and aids."

Khattab and Genena affirmed that the Central Bank will not be able to successfully hold back the burdens on the Egyptian pound if investors lose faith in the economy. They both agreed that if the loan was not approved, the country would fall in inflation troubles and economic depression.

"We are at a very high risk of distress in our foreign currencies. If the distress and the economic depression increased even more, bank accounts in dollars are likely to be exchanged to Egyptian pounds. That's why more people are reclaiming their dollars," Genena told ABR.

On the other hand, both Professor Atallah and Wael Gamal, financial journalist and managing editor of Al-Shorouk newspaper, spoke at the "*Ekne3ney Shokran*" debate expressing their disapproval of the IMF loan.

"Deficits and budget shortages were always om-



nipresent in Egypt so we don't need the loan to overcome those deficits. There are other alternatives to the loan which we will talk about once we start thinking differently," Gamal said.

Gamal cited an article in the Economist published in October urging policymakers in Europe to change the way they think since their economy is undergoing crisis as well.

"We need to start thinking of ways to overcome our deficits instead of getting certificates to attract foreign investors," said Gamal adding that investors prefer a country like China instead of Egypt for having a clear economic agenda.

Atallah questioned policies associated with the IMF saying that many studies concluded negative effects of IMF loans on impoverishment and inequality. "Austerity measures could hurt the poor the most. I completely oppose those policies," Atallah said.

The United Nations Children's Fund (UNICEF) reported that developing nations stand before several risks amid the implementation of the IMF's strict austerity measures. The study foresees "irreversible impacts" due to tax hikes, wage cuts, benefit subsidies reductions that would mostly burden individuals with lower incomes.

There are alternatives to the IMF loan but they require institutional and legal stability in the country, Genena explained. "We have good assets in the country but in order for those assets to be sold, the parliament must be intact to approve those decisions," he said.

According to Genena, austerity measures can also be alternatives to the loan, yet he questions

25.2%

of Egyptian live on less than USD 2 a day.

whether people could endure the implementation of such measures. "People could bear with austerity measures only if they have trust and faith in their leader," he said.

Solving the economic crisis, according to Atallah, should begin by diagnosing the causes behind Egypt's economic problems to explain them to the public.

Egyptians need to raise important questions about the country's economy, said Atallah adding that people need to know why the country is importing more than exporting. They also need to know the reasons behind Egypt's very low savings and investment rates, he said.

The country has a financial problem rather than an economic one, Atallah explained. "The financial problem deals most with liquidity. We are restraint on cash, specifically on the dollar," said Atallah noting that this is a short term problem.

The Associated Press had reported foreign reserves worth \$36 billion in Egypt before the January 25 uprising in 2011, but a recent Central Bank report shows that foreign reserves plunged \$22.4 billion over the past two years, dropping down to \$13.5 billion at the end of February. The Egyptian pound continues to plummet, losing 13.4 percent of its value since the 2011 uprising against the old regime. As of March 6, the US dollar was selling at EGP 6.76.

Atallah said Egypt is facing other "major" long term problems. "I believe that the main hindrance to our development in the long run is social injustice," said Atallah. At press time, negotiations for the loan remain on hold as Egypt battles out its differences in an attempt to reach stability. **ABR**

\$22.4 BILLION

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