Debt Relief for Egypt?

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Outline of Presentation

- Macroeconomic developments and external debt profile.
- Previous cases of debt relief for middle-income countries: Egypt (1991); Iraq (2004); Argentina (2005); Nigeria (2005).
- Approaches to debt relief for Egypt.
## Egypt: Macroeconomic Developments 2000-2011

<table>
<thead>
<tr>
<th></th>
<th>Average 2000-07</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (annual growth)</td>
<td>6.0</td>
<td>7.2</td>
<td>4.7</td>
<td>5.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Inflation (percentage change)</td>
<td>7.3</td>
<td>18.3</td>
<td>11.7</td>
<td>11.4</td>
<td>12.0</td>
</tr>
<tr>
<td>Current Account Balance (percent of GDP)</td>
<td>1.8</td>
<td>0.5</td>
<td>-2.3</td>
<td>-2.0</td>
<td>-3.0</td>
</tr>
<tr>
<td>Fiscal Balance (percent of GDP)</td>
<td>-8.5</td>
<td>-6.8</td>
<td>-6.9</td>
<td>-8.1</td>
<td>-10.0</td>
</tr>
<tr>
<td>Government Debt (percent of GDP)</td>
<td>95.3</td>
<td>74.7</td>
<td>75.6</td>
<td>73.8</td>
<td>76.2</td>
</tr>
<tr>
<td>External Debt (percent of GDP)</td>
<td>27.7</td>
<td>21.3</td>
<td>16.8</td>
<td>14.7</td>
<td>15.8</td>
</tr>
<tr>
<td>International Reserves (billions of US $)</td>
<td>22.3</td>
<td>34.6</td>
<td>31.3</td>
<td>35.2</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Source: Central Bank of Egypt; IMF; authors’ estimates.
Egypt: External Debt Profile

**Egypt's external debt, by currency, 2010**

- US dollar, 41%
- Euro, 27.1%
- Japanese yen, 12.8%
- Special drawing rights, 7.3%
- Egyptian pound, 2.1%
- Kuwaiti dinar, 5.7%

**Egypt's external debt, by creditor, 2010**

- Arab countries, 4.7%
- United States, 9.3%
- Germany, 10.2%
- France, 10.9%
- Japan, 12.1%
- International organizations, 30.1%
Egypt, 1991

- Egypt signed the Paris Club debt reduction agreement on May 25, 1991.

- Prior to debt reduction Egypt’s sovereign foreign debt was $48 billion (50 percent of GDP).

- Paris Club debt relief package totaled $19.6 billion.

- Egypt saved an average of about 4 percentage points of GDP a year in debt servicing from 1992 to 1997.
Iraq, 2004

- Iraq signed the Paris Club debt reduction agreement on November 21, 2004.

- Iraq’s foreign sovereign debt before debt relief was $142 billion, or about 5½ times of Iraq’s GDP at the time.

- Paris Club debt relief package totaled 80 percent in NPV terms in three stages.

- By end-2010, total stock of debt amounted to $41 billion, or 33 percent of GDP.
Argentina, 2005

- Debt restructuring with private creditors: three new bonds issued with a NPV of 30 percent of the replaced bonds, plus growth-linked warrants.

- As of 2011, 92.6 percent of the originally outstanding private debt has been restructured.

- $4.8 billion in bilateral debt owed to the Paris Club is still outstanding, while debt to international organizations has been paid in full.
Nigeria, 2005

- Reclassification of Nigeria as a low-income country by the World Bank in 2005.

- Paris Club deal based on Naples terms (i.e. forgiveness of almost 2/3 of the debt in exchange for a one-time cash payment of the remainder).

- In 2005, Nigeria’s total external debt stock was $20.5 billion. In 2006 it was reduced to $3.5 billion.
Israel Loan Guarantee Program

- Gross external debt before guarantee program was $27.1 billion (20 percent of GDP).

- April 2003-2005 program approved for $9 billion.

- Program was extended in 2007 until 2011.

- Notes issued by Israel have same credit rating as US government bonds.
Possible U.S. Approaches

- Paris Club debt rescheduling.
- “Friends of Egypt”.
- Loan guarantees.
## Donor Pledges, 2011

<table>
<thead>
<tr>
<th>Donor</th>
<th>Pledge</th>
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<tbody>
<tr>
<td>International Monetary Fund</td>
<td>$3 billion</td>
</tr>
<tr>
<td>World Bank</td>
<td>$4.5 billion over two years (new deal for $650 million)</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>$4 billion (including $1 billion deposit at the Central Bank of Egypt)</td>
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<tr>
<td>Qatar</td>
<td>$10 billion + $500 million in grants</td>
</tr>
<tr>
<td>United States</td>
<td>$2 billion (in $1 billion guarantees plus $1 billion debt relief)</td>
</tr>
<tr>
<td>African Development Bank</td>
<td>$1 billion</td>
</tr>
<tr>
<td>European Bank for Reconstruction and</td>
<td>$140 million to $280 million</td>
</tr>
<tr>
<td>Development</td>
<td></td>
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<tr>
<td>United Kingdom</td>
<td>£120 million (about $175 million) over four years</td>
</tr>
<tr>
<td>Deauville Partnership (Egypt and Tunisia)</td>
<td>$30 billion ($20 billion over 3 years + $10 billion in bilateral aid from G-8 countries)</td>
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</table>
Paris Club Debt Rescheduling

- The United States call for a Paris Club meeting.

- Advantages:
  - Commitment by all major countries.
  - Total stock debt relief would amount to over $10 billion with an additional prospective flow of $1.5 billion.

- Disadvantages:
  - IMF agreement is a prerequisite. On June 5, 2011, Egypt rejected a $3.2 billion IMF loan, but discussions were resumed in January 2012.
  - Egypt is not classified as a debt-distressed country.
"Friends of Egypt"

- U.S. can use its convening power to persuade other countries to make debt relief arrangements.

- Advantages:
  - Other donors will match the offer made by the United States to yield debt stock relief of over $10 billion.
  - Long-term partnership building with Egypt.
  - Address short-term liquidity needs.
Loan Guarantees

- Complementary process to the “Friends of Egypt”.

- Advantages:
  - Enable Egypt to borrow at cheaper interest rates.
  - Choice between liquidity benefits for additional borrowing and benefits of lower accumulation of debt stock.