Egypt's growing debts cause for concern

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Egypt's growing debts are turning into a major economic concern amid fears that the country could default on interest payments if borrowing continues at current levels.

"The debts have reached a stage that should be a wake-up call for everybody in economic decision-making circles," said former Egyptian Prime Minister Ali Lotfy. "These debts will make it difficult for the government to make any investments or bridge the yawning budget deficit."

Egypt's central bank said that by the end of the fiscal year 2016-17, which ended last June, foreign debts totalled $79 billion, a 42% ($23.2 billion) increase from the previous fiscal year.

The bank said the debts were within appropriate limits because they do not exceed more than 45% of Egypt's GDP. However, economists expressed concern, particularly given that Egypt's combined foreign and domestic debt is 130% of GDP.

Egypt is channelling almost one-third of spending in its budget to servicing debt. This is having a clear effect on development and welfare programmes amid cutting of state subsidies.

With another one-third of the budget allocated to salaries of Egypt's almost 6 million civil servants, economists warned that Cairo is facing major constraints to development plans.

Cairo is relying on a $12 billion loan from the International Monetary Fund (IMF) to keep it afloat over the next three years. However, the loan term requires that Egypt enact a stringent economic reform programme. Egypt has received the first two instalments of the loan, with a tranche of approximately $2 billion expected before the end of the year.

While this has helped Cairo bankroll development plans and bridge the budget deficit — now at 10.2% — it also adds the IMF to the list of Egypt's many creditors. As the credit and creditors increase, so too does the fear that Cairo could collapse under the burden of repaying the loans. Some economists said Egypt could reach a point at which it would have to borrow even more to repay loans.

"This is why it is very necessary for the government to stop borrowing and start searching for other methods to bankroll its programmes," said Farag Abdel Fattah, an economics professor at Cairo University. "These loans come at the cost of the living standards of the people because, instead of spending money on development, the government will have to spend money to repay the loans."

Egypt has been in debt for decades but in May 1991 it missed an opportunity to restart its economy after the United States and 17 other creditor countries forgave half the $20.2 billion it owed following Cairo's participation in Operation Desert Storm.

Major concerns. People and vehicles are seen in front of the headquarters of the Central Bank of Egypt in downtown Cairo. (Reuters)

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Former Egyptian Prime Minister **Ali Lotfy**

However, corruption, economic mismanagement and regional turmoil meant, rather than building on this debt relief, Cairo accrued additional debt.

By the time long-standing President Hosni Mubarak left office in January 2011 following a popular uprising, Egypt's foreign debts stood at $36.5 billion. In 2014, Egyptian President Abdel Fattah al-Sisi inherited a foreign debt of $46.1 billion, which increased massively following major economic, political and security challenges.

Egypt's tourism sector, which contributes approximately 4% of GDP, was depressed through that period, specifically after a Russian passenger plane was bombed in flight over Sinai on October 31, 2015.

The Russian plane bombing, which was claimed by the Islamic State, led many countries to suspend flights to Egypt, depriving the country of revenue and much-needed foreign currency.

Egypt has pointed to an uptick in tourism in 2017, with revenues ($3.5 billion) up 170% in the first seven months of the year compared to the previous year. The number of tourists visiting Egypt this year rose 54%, reaching 4.3 million, after European countries lifted flight suspensions to Sharm El-Sheikh.

"The tourists are coming back and economic reforms are paying off, which will contribute to attracting investments and bringing in foreign currencies needed by the economy to grow," said Deputy Finance Minister Mohamed Moeit. "If this means anything, it means that we should not feel afraid of the debts as long as our economy stands on its feet and is able to keep moving forward."

Libya's crisis continues to affect Tunisian economy

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Since the death of Libyan leader Muammar Qaddafi and the collapse of his 42-year regime in 2011, Libya's neighbours have been troubled by spillover effects from its instability.

Italy has seen an increasing flow of African immigrants stream into the country; Algeria experienced a devastating attack on its In Amenas gas field four years ago, Mali saw its country driven to near collapse after hundreds of former pro-Qaddafi Tuareg fighters returned home and Tunisia, struggling to rebound from an economic downturn, has seen extremists threaten to cross the border and wreak havoc.

In the absence of well-documented analysis and statistics, a wide range of figures on the number of Libyans living in Tunisia and their effect on the host country's economy have been thrown around. However, thanks to a thorough study by the World Bank, titled "Tunisia — Impact of the Libya Crisis on the Tunisian Economy," released in February, the situation can be assessed with greater clarity.

Before addressing these questions, it is worth painting a broad picture of the human and economic toll the crisis has taken on Libya. The World Food Programme estimates the number of Libyans in need of humanitarian assistance and protection at 2.4 million — 40% of the population — more than half of whom are women and children. Half of those people are at risk of food insecurity. The report does not consider the plight of the hundreds of thousands of African refugees who survive in far worse conditions than the Libyans.

The crisis's effect on the economy has been severe. The country's GDP contracted 24% in 2013, followed by 24% and 10% in the two following years. Production of crude oil fell to the lowest level on record in 2015 — approximately 400,000 barrels today — one-quarter of potential output. This resulted in per person income dropping by two-thirds to $4,500. The fiscal deficit skyrocketed from 4% of GDP in 2013 to 75% in 2015.

> The value of Tunisian subsidised goods exported illegally to Libya and seized by Tunisian customs doubled from 2013-15, reaching $449 million.

The first question to consider is how many Libyans sought residence in Tunisia after 2011. It does not come as a surprise to learn that, in 2014, 1.8 million Libyans entered Tunisia and 1.4 million exited. This suggests the number of long-term and short-term (less than six months) Libyan residents and visitors is larger than the census estimate of 12,783 individuals, 7,212 of whom were long-term residents.

Most of them hail from the middle class, have lived in Tunisia for more than three years and enjoy significant purchasing power — $50 a day — which is two to three times higher than the average Tunisian household.

It is worth noting that more than half of short-term residents are in the country for medical care. Their sharp decline recently has resulted in a major cash crisis for private clinics in Tunis.

The report estimates that 60,000 of the 91,000 Tunisian workers officially registered in Libya returned home from 2010-14. Official remittance inflows declined by 32% to $15.6 million in 2014 compared to four years before.

The poorer southern region of Tunisia has been hardest hit, which explains the huge rise in contraband and illicit trade across the border. Family links between southern Tunisia and north-western Libya are long-standing. Southern Tunisia, which holds most of the country's oil, gas and phosphate reserves, feels aggrieved as it has received less attention than the richer coastal areas since independence. The fracture between a relatively prosperous coastal area and a land of "siba" — dissidence — remains as great as it was when former President Zine el-Abidine Ben Ali fell in January 2011.

The World Bank report considered the level and dynamics of illicit informal trade and cash flows between the two countries. Libyan funds amounted to 12% of total deposits in seven Tunisian banks the report surveyed. They are funded by wages, including payroll transfers from the Central Bank of Libya.

Informal currency exchange agents processed an estimated $332 million in 2015, a figure three times lower than in 2013 due to the sharp depreciation of the Libyan currency, the decline in the number of Libyans entering Tunisia and deterioration of the country's economic and security situation.

Informal trade between the two countries in 2015 was estimated at $243.8 million, driven by a large increase in fuel imports — $121.3 million compared to $27.3 million two years earlier. Cigarettes were next on the list.

The value of Tunisian subsidised goods, such as pasta, couscous, sugar and milk, exported illegally to Libya and seized by Tunisian customs doubled from 2013-15, reaching $449 million.

Tunisia has increased defence and security spending sharply because of the turmoil in Libya. From 2011-15 such expenditures almost doubled to $1.9 billon.

In broader terms, the report estimates the effects of the Libyan crisis as follows:

It contributed 24% to the overall drop in Tunisia's growth from 2011-15.

This has amounted to a welfare loss of $3.59 billion. This loss was driven by the spillover effect on private investment and tourism, which account, respectively, for 60.1% and 36% of the slowdown in growth. One can add the reduction in remittances from Libya and the reduced purchasing power of Libyans in Tunisia. The fiscal cost to Tunisia has been $580 million over the 2011-15 period. This amounted to 6.3% of the tax take every year.

To cover such losses through taxation would require large tax increases while financing it with debt would increase the government's financing needs by $2.9 billion over five years (15% of the 2015 public debt-to-GDP ratio). This amount includes $111.9 million in additional interest payments and $375.8 million in more debt amortisation costs.

The report concluded that Tunisia would be well advised to "forthwith address the regulatory and infrastructure obstacles to trade and investment in Libya." This would allow Tunisia to make full use of "the many comparative advantages in its trade with Libya, including a shared language and proximity."

The reconstruction and recovery of Libya must not be allowed to fuel "the already large informal cross-border markets (and the security and economic challenges associated with illicit trade)," the report stated. Such a policy would have the further advantage of promoting economic development in the poorer regions of the country.

Needless to say, the West — not least France and the United Kingdom, which, with the United States, spearheaded the operation to rid Libya of Qaddafi despite having no UN mandate to do so — might wish to support such a policy.

Instead of constantly moaning about terrorism and illegal immigration from Libya, they could do worse than to revisit their reckless policy of 2011, continue supporting Tunisia and its nascent democracy and vigorously look at the region as a whole.

If it comes, Libya's reconstruction — and the manner it takes — would dictate how stable the region is in the decades ahead. Weapons are not the key, even if the aforementioned countries are addicted to selling them to the Arab world. Good economic planning, clear rules of trade and investment, particularly in poorer regions, will act as a solid anchor of stability.