CHAPTER III

EGYPT ROAD TO FINANCIAL CRISIS

This chapter describes about Egypt economic crisis in 1987-1991, the main cause of crisis, their inability to fulfill IMF requirements, and how was IMF action in facing Egypt in 1987-1991.

A. Egyptian Economic Situation

A full cycle could be the best phrase in describing the Egyptian economic growth. Since the fallen economic system between 1952-1954, then it moved to a recovery and went a relatively high rates of growth for almost ten years before it finally started to fall down from 1966 until 1973 (Al-Sayyid, 2003, p. 2). Later, it experienced high development rates until 1980s then it went down again into a recession which finally ended in the early 1990s. From that moment on, Egypt went through a short period of poor growth leading to a disappointing performance from where it finally got struggled to escape.

From 1967 until 1973, the Egyptian economy encountered the effect of two wars between June 1967 and October 1973. Therefore, no doubt that this was a period of progress in Egypt monetarily and politically. The first war is portrayed in Egypt as an annihilation, though the second one is known as the "October Victory" (Al-Sayyid, 2003, p. 3). It has seen additionally the political progression at the highest point of the political structures of the nation of Anwar El-Sadat who took after Gamal Abdel-Nassir as the President of Egypt. What went before this period was State Socialism and what tailed it was a time of change to Capitalism described as an Open Door Policy.

Then in 1974 until 1990, this period could be described as the rise and fall of petroleum prices which started with hike in prices of oil in 1973 and 1980 to be followed by stagnation in petroleum markets in the mid 1980s. This period also witnessed beginning of reversal of the State-Socialism model with the declaration of an Open Door Policy in 1974 (Al-Sayyid, 2003, p. 3). After the fall of oil costs in the mid-1980s, Egypt turned out to be more energetically occupied with a procedure of basic change whose point was to build the part of the private division, the market and universal exchange the economy. Egypt quickened its continuous progress from an open sector ruled economy to a private area and market situated economy. A few parts of the economy, for example exchange arrangement, have been generously changed from that point forward though different viewpoints. For example, open control of the money related segment, has encountered less change in substance. Then during 1990s, Egyptian monetary was ruled by a serious attempt to execute a program of monetary reform and basic alteration that was figured in close discussion with the International Monetary Fund and the World Bank.

Regarding to the development of Gross Domestic Product (GDP), Egypt has been improving all things compared with the entire district of the Middle East and North Africa amid the 1990s, as its economy was developing at a yearly rate of 4.6% while it didn't ascend to over 3% in the whole region. Egypt contributes with other countries in the Middle East and North Africa (MENA) which happened to be very fragile towards the fluctuations of oil prices in the international market and to domestic pressures (Al-Sayyid, 2003, p. 4). Therefore, it benefited through the increase of petroleum prices from 1973 to 1980, yet it suffered from the collapse of the prices in the mid 1980's until 1990s which was affected by the emergence of Second Gulf War.

From 1980s until 1990s, Egypt was experiencing both of the rise and the down fall of oil petroleum wealth. With the developing wealth in Arab oil trading nations, including Egypt, the opening of the Suez Canal, and support from foreign tourism, the sources of foreign trade in the Egyptian economy, which were until at that point subjected to cotton export, had changed Egypt system to the model of a rentier economy, depending not only with the individuals but rather on the availability of nature. By the mid-1980s, the Egyptian economy went to a great extent relied upon the incomes of oil exports, Suez Canal and settlements from Egyptians working abroad to pay for imports of nourishment and capital products (Licari, 1997, p. 9).

Table 1 Balance of Payments, Current Accounts

$ (million)

	1980	1985	1990	1991	1992	1993	1994	1995
TRADE BALANCE	-2 960	-5 215	-6 379	-5 667	-5 231	-6 378	-5 953	-7 597
GOODS EXPORTS: F.O.B.	3 854	3 836	3 924	4 164	3 670	3 545	4 044	4 670
GOODS IMPORTS: F.O.B.	6 814	9 050	10 303	9 831	8 901	9 923	9 997	12 267
SERVICES BALANCE								
SERVICES: CREDIT	2 393	3 024	5 971	6 783	7 716	7 895	8 070	8 590
of which Tourism (travel)	455	410	1 100	1 373	2 165	1 927	2 006	n.a.
SERVICES: DEBIT	2 343	3 190	3 788	3 364	4 867	5 367	5 645	4 873
BALANCE ON GOODS AND SERVICES	-2 911	-5 381	-4 196	-2 248	-2 382	-3 850	-3 528	-3 880
INCOME BALANCE	-319	-792	-1 022	-1 283	-1 882	-857	-784	-405
INCOME: CREDIT	270	418	857	860	915	1 110	1 330	1 578
INCOME: DEBIT	-589	-1 211	-1 879	-2 143	-2 797	-1 967	-2 114	-1 983
BALANCE ON GOODS, SERV. & INC.	-3 230	-6 174	-5 218	-3 531	-4 264	-4 707	-4 312	-4 285
CURRENT ACCOUNT, N.I.E.	-438	-2 166	185	1 903	2 812	2 299	31	-254
CURRENT TRANSFERS, N.I.E.: CREDIT	2 791	4 007	5 417	5 434	7 076	7 006	4 622	4 284
of which workers' remittances	2 071	3 212	4 284	4 054	6 104	5 664	3 672	n.a.
CURRENT TRANSFERS: DEB.	0	0	-14	0	0	0	-279	-253

Source: (Licari, 1997, p. 9)

Despite the fact that there are not many markers of pay dispersion amid this period, there is no question that both the Open Door Policy and movement of Egyptians to Arab-oil exporting countries, especially in the Gulf district empowered various Egyptians to collect many fortunes which extended the gap in isolating them from different Egyptians who could not benefit also from such significant changes of the country’s financial arrangements. The falling of the imbalances was eased in some periods because of the oil prices or the workers fee. However, the imbalances keep on continuing to force the economic growth until the early 21st century.

B. Egypt Economic Crisis

1. History

At the death of Sadat, Hosni Mubarak was Vice-President of Egypt. He succeeded Sadat and progressed toward becoming president on 14 October 1981. As opposed to Nasser and Sadat, Mubarak was a lackluster and mindful person without an individual vision or motivation for the nation (Jackson, 1982, p. 72). A large number of political detainees was discharged. Press control was casual. Numerous urban culture associations were permitted to work. Rather than a man with vision, he anticipated a picture of a down to business pioneer keen on tackling issues confronting the nation. For some Egyptians this was a breath of crisp air. The mind-set was idealistic. However, the nation's monetary condition was in emergency mode. It had been so for various years as Sadat's *Infitah* approach had neglected to inspire the uplifted economy (Weinbaum, 1985). Therefore, Mubarak made a closed-door economic conference on 12 February 1982 in order to discuss the economic issue. The conference kept on going for three days, yet nobody had any details about the further discussion.

In addition to the official meeting, there was an open level headed discussion about the course of monetary arrangement both inside and outside the administration circles. Conspicuous left-wing financial analysts called attention to the inadequacies of *Infitah*. They contended that under *Infitah*, no development of industrialization occurred. However, consumerism and importation were empowered. The economy in the 1970s was subject to rentier income streams from Suez Canal charges, oil sends out, settlements from exile Egyptian specialists and foreign assistance (Soliman, 2011, p. 36).

The Mubarak administration rebranded the monetary change process to the Open Door Policy (ODP). While the responsibility was made for the ODP, Mubarak could not stand to move rapidly toward this path. Regardless of the Sadat period *Infitah* process, general society segment was still vast. Interestingly, the private area was little and powerless. It was packed just in a couple of territories.

Figure 1 Egypt Food Riot 1977

The broad appropriation framework for fundamental products was still set up. Mubarak challenged not disassemble it rapidly. The terror of the 1977 nourishment riots was ever present, frequenting the new administration. Through the span of his thirty year administer, Mubarak executed the ODP in fits and begins, endeavoring to suit local contemplations, weight from lenders, help contributors and International Financial Institutions (IFIs) (Soliman, 2011, p. 36).

2. The New Five Year Plans and Journey of Crisis

By the end of the February 12, 1982 in the monetary meeting, it was pronounced that the administration would return to central monetary and social arranging and control the Open Door Policy towards their production. After this meeting, the 1980s First Five Year Plan (1982-1987) was declared. Basically, the Mubarak Five Year Plans were venture designation plans. The Ministry of Planning assumed responsibility of this procedure. Numerous framework ventures were embraced inside the system of the Five Year Plans. Despite the people's speculation in general area under the First Five year Plan, Mubarak additionally executed an arrangement of strategies to help modern movement which included tariff barriers to secure local enterprises, bring down financial cost on mechanical advances and lessen expenses on modern venture (Soliman, 2011, p. 37). This was a reminder to the Import Substitution Industrialization (ISI) conditions in the previous era. The measurements will help the domestic industrial sector to develop. For public and private industries, both of them were benefited from a form of government intervention, even though at the cost of Egyptian consumers who had to pay more expensive prices which was found from abroad (Soliman, 2011, p. 38).

In spite of the brilliant outcomes, an economic crisis was still heading to attack Egypt quickly as the First Five Year Plan finally came to an end. There were several problem sources for those matters and one of them was the increase of the food subsidy spending. Then in the 1980s, the prices of oil had collapsed, the income from oil export had been reduced, as well as the lesser fees from Suez Canal since there were only fewer ships crossing the canal. Additionally, the foreign assistance also decreased since there was a reduction from the countries who gave aids. In Egypt itself, tax revenues were also collapsed (Soliman, 2011, pp. 41-42). If only subsidies and any other expenses were trimmed, there would be a chance of a massive break, pretty much close to the food crisis in 1977.

With a specific goal which was to stay away from such a revolt, the administration continued spending and running spending deficiencies. On the international front, the drop in incomes implied that a genuine adjust of installments deficiency was developing. It turned out to be clear that such a way was unsustainable. In mid 1980s, Egypt had no real option except to begin consulting with the IFIs about the Structural Adjustment Program (SAP) in request to have the capacity to motivate acknowledge to bargain for the mounting monetary emergency (Seddon, 1990, p. 96).

Table 2 Foreign Reserves and External Debt

	(1) Total reserves incl. gold	(2) Total External Debt	(3) Res / Debt (1) as % of (2)	(4) Debt / GNP	(5) Debt Service Ratio*
1971	142	2 049	6.9	25.0	21.8
1975	297	4 836	6.1	43.2	10.3
1980	1 149	19 131	6.0	89.2	13.4
1985	1 370	36 102	3.8	115.0	25.8
1990	3 325	32 551	10.2	94.8	22.5
1991	5 981	33 026	18.1	102.2	17.1
1992	11 426	31 573	36.2	89.4	15.3
1993	13 520	31 109	43.5	79.4	13.6
1994	14 175	33 358	42.5	78.9	14.6

* Total debt service paid as a percentage of exports of goods and services.

Source: (Outlook, 2003)

The International Monetary Fund consented to help Egypt to break out of the obligation trap in which it had turned out to be progressively enmeshed over the former decade. Ever since the tragedy of food crisis emergence in 1977 which caused the rising price of basic needs, such as bread and other commodities because of governement measures to take control the public spending, the government of Egypt has been very cautious and aware of the approach to IMF proposals.

C. Loans Requirements for Egypt and IMF Dissatisfaction

The triumph of President Mubarak's National Party in Egypt's general decision implies consideration will now come back to the nation's tightening monetary issues, specifically the administration's capacity to run the economy along the lines to be set out in its letter of intent to the IMF. Since the early of 1985, serious negotiations between Egypt and IMF have been going on. However, it was experiencing a long delay due to (Jabber, 1986):

- the inability of Egyptian to unite an authoritative team for negotiating
- IMF pushed Egypt to do something to reduce its mountained bill to subsidy on fundamental needs (President Mubarak declined to do so because it could cause a great a political risk)
- IMF weight for changes in Egypt's multi-level conversion standard framework. Like most Third World nations, the Egyptians have decided two levels on essential framework including a settled rate utilized for the offer of Egypt's oil, the count of its outer obligation and the import of basic food and higher, floating, rate settled daily by the Central Bank and intended to pull in foreign money from travelers, settlements from Egyptians working abroad, and so forth

IMF has given several requirements or conditions to be fulfilled by Egypt in order to finally receive the aids. Egypt and the IMF signed couple of agreements in the late 1980s to 1990s. In 1987 until 1991, IMF and Egypt were having lenient agreement, this could be proved through a high degree of slippage between the prescribed requirements from the staff in the Article IV Consultations and the real conditionality which included in the agreements.

In the agreement of 1987, consulted from 1985 to 1988, included three conditions, even five further conditions were missing from the agreement in spite of IMF staff suggestions. Without the arrival of the last tranches and after none of the appended conditions were executed, the agreement in 1987 had ended. The 1991 agreement, consulted from 1988, contained ten conditions, while three different conditions were absent from the agreement regardless of the IMF staff suggestions. Still, the Egyptian government got the last tranche of assets of the 1991 agreement regardless of having executed just two of the terms and conditions (IMF, 1998).

In the Stand-by Arrangements in 1987 and 1991, majority of the preconditions attached in the Article IV Consultations were not inserted in the actual agreement. Even there were many preconditions which actually the same, being written multiple times in the Article IV Consultations following the agreements and it created disappointment from the IMF staff. The expression of the IMF staff regarding to dissatisfaction and disappointment with the effectiveness of lenient agreements, specifically when much of its preconditions were neglected by reason of political considerations (Office, 1985).

Table 3 Conditions included and implemented in the agreements

Conditions	1987	1991

	Agreement	Agreement
Exchange rate unification	N	Y√
Devaluation	N	N
Restrict budget deficit	Y	Y
Decrease interest rates	N	Y
Increase energy prices	N	N
Decrease government subsidies	N	Y√
Tax reform	Y	Y√
Privatization		Y
Investment Reforms		Y
Trade Liberalization	Y	N

Key:

N = Conditions referred to in the pre- and post-IMF staff Article IV Consultations but not included in the agreement despite staff recommendations.

Y = Conditions referred to in the pre- and post-IMF staff Article IV Consultations and included in the agreement.

√ = Implemented condition at end of the agreement.

Source: (IMF, 1998).

According to the table above, it can be seen that in the 1987 Agreement, the conditions referred to in the pre- and post-IMF staff Article IV Consultations and the conditions included in the agreement were only restrict budget deficit, tax reform, and trade liberalization. Unfortunately, none of these conditions were implemented at the end of the agreement. No wonder, it made the 1987 agreement ended. Then in 1991 Agreement, IMF changed and also added more conditions for Egypt to fulfill such as exchange rate unification, restrict budget deficit, decrease interest rates, decrease government subsidies, tax reform, privatization, and investment reforms. However, only three out of seven preconditions that were finally implemented at the end of the agreement. Those are exchange rate unification, decrease government subsidies, and tax reform. By only implementing three out of seven preconditions, Egypt did not qualify to receive the financial assistance through SAP from the IMF.