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# Debt Relief for Egypt?

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# Outline of Presentation

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- ▶ 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.

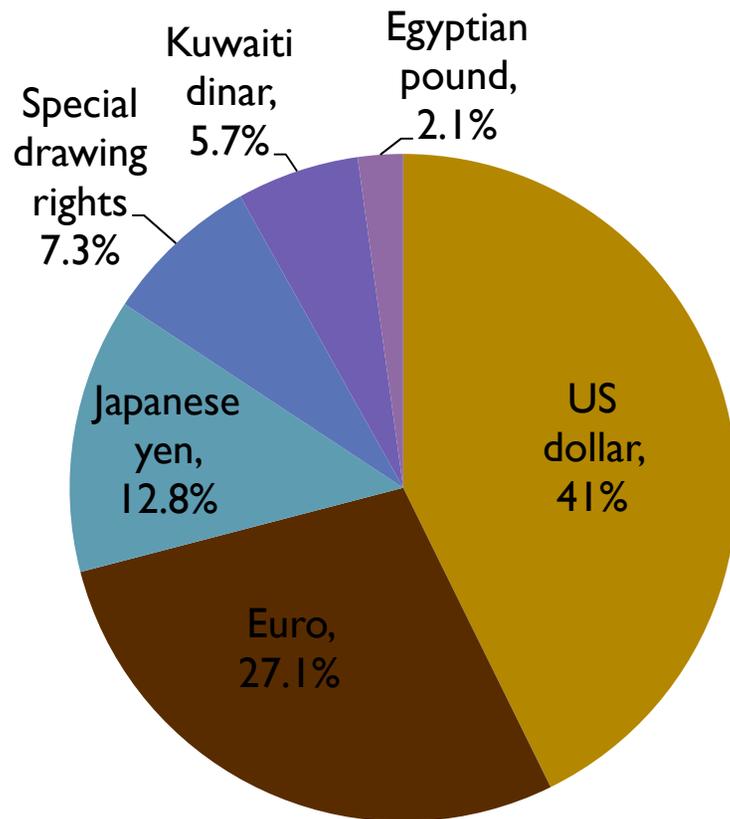
## Egypt: Macroeconomic Developments 2000-2011

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

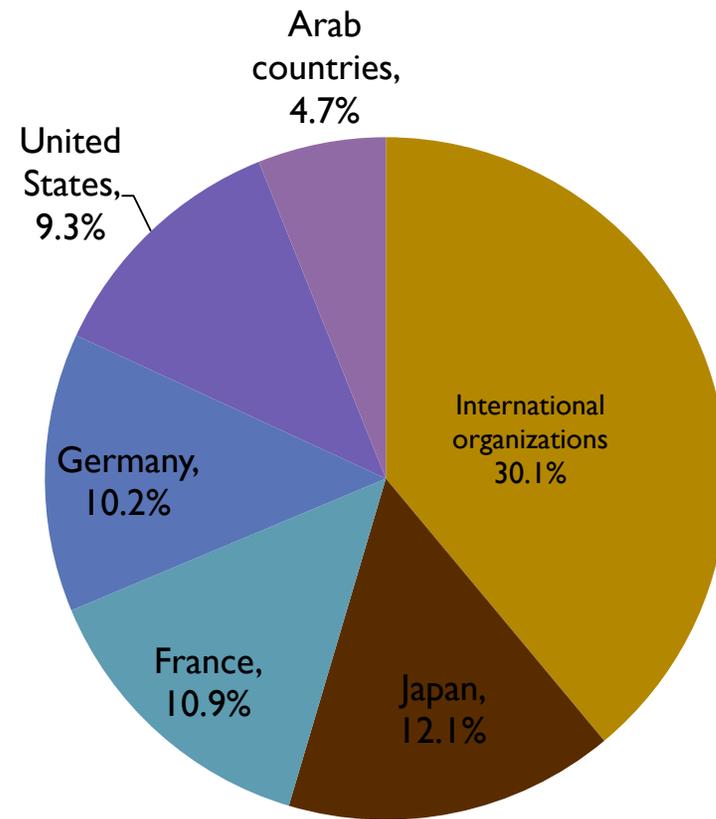
Source: Central Bank of Egypt; IMF; authors' estimates.

# Egypt: External Debt Profile

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



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



## Egypt, 1991

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- ▶ 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

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- ▶ 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

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- ▶ 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

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- ▶ 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

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- ▶ 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

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- ▶ Paris Club debt rescheduling.
- ▶ “Friends of Egypt”.
- ▶ Loan guarantees.

# Donor Pledges, 2011

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

# Paris Club Debt Rescheduling

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- ▶ 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”

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- ▶ 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

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- ▶ 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.