

The IMF Loan & Egypt's Economic Problems

[Type the document subtitle]

Author: Nada Alasmi

12/10/2012

Introduction: Economic Reform in Egypt Assisted by the IMF

For years, Egypt has faced a variety of economic problems that include unemployment, a budget deficit, drop in currency reserves, poverty and inequality. Since the Arab Spring, many of these problems have exacerbated due to both political and economic instability. In response to such economic difficulties, Egypt's Muslim Brotherhood government has created an economic reform program, which was made public on November 28, 2012.

Egypt's Muslim Brotherhood government was at work on its economic reform program with the International Monetary Fund, or IMF, for several months before it was released. The program has two main short-term goals: reduce Egypt's government budget deficit and reduce Egypt's Budget of Payment's Deficit (International Monetary Fund 2012). The program also hopes to induce long-term economic growth in Egypt. In order to implement the program, Egypt will depend on a financing package of \$14.5 billion in loans and deposits from various state and multilateral partners. One of these partners is the IMF, which has agreed to give the country a \$4.8 billion loan.

This paper is an in-depth analysis of Egypt's current economic challenges with focus on the IMF loan and Egypt, specifically in relation to the balance of payments deficit and fiscal deficit. First, this paper will analyze Egypt's two main short-term economic problems: its budget deficit and its balance of payments deficit. Second, this paper will analyze the International Monetary fund to determine whether the organization and its policies are inherently good, bad or neutral for Egypt. Third, this paper will discuss the details of the IMF's loan for Egypt. Fourth, this paper will discuss the Muslim Brotherhood's economic development. Finally, this paper will

discuss several weaknesses of the Brotherhood's economic plan and the IMF loan to be kept in mind if they are to be seriously implemented.

Section 1: Egypt's Economic Problems

Egypt today is facing several economic dilemmas which affect its people. Analysis of news articles, statements by the IMF and reports by the government of Egypt make clear that there are two "trending" economic problems in Egypt: a budget deficit and balance of payments deficit. These two problems are a main motivator behind both the current government's economic reform plan and its planned \$4.8 billion loan agreement with the IMF. Section one will analyze these two "trending" economic problems. Analysis will be focused on defining each problem and determining possible short-term and/or long-term causes and solutions.

Section 1 - Part A: Budget Deficit

Egypt is currently facing a budget deficit. According to figures from the *State's General Budget for Fiscal Year 2011/2012*, the country's utilizations (expenditures) are more than its revenues and it makes the difference through borrowing the issuance of securities (Ministry of Finance July 2011). Quantitative analysis in section 1A will be based on figures 1A, 1B and 1C below. Numbers in these images are based on Egypt's 2011/2012 budget, referenced above. The budget was released in July 2011 and is based on forecasted figures.

Egypt State Utilizations According to Finance Ministry 2011/2012 Budget			
State Utilizations	egyptian pounds	dollars	percent
1- Expenditures	490,589,682,000.00	\$80,292,910,310.97	82.59%
2- Acquisition of Financial Assets	4,305,830,000.00	\$ 704,718,494.27	0.72%
3- Loans Repayment	99,143,608,000.00	\$ 16,226,449,754.50	16.69%
Total Budget	594,039,120,000.00	\$97,224,078,559.74	

Figure 1A

Egypt State Resources According to Finance Ministry 2011/2012 Budget			
Egypt's Budget Resources			
Total	Egyptian Pounds	Dollars	Percent
	594,039,120,000.00	\$97,224,078,559.74	100.00%
1- Revenue	349,646,694,000.00	\$57,225,318,166.94	58.86%
2- Receipts of Lending & Sales of Financial Assets	11,218,828,000.00	\$ 1,836,142,062.19	1.89%
3- Lending	233,173,598,000.00	\$38,162,618,330.61	39.25%
1 Dollar = 6.11 Egyptian Pounds			
1- Revenue in Detail:			
	Egyptian Pounds	Dollars	Percent
Total	349,646,694,000.00	\$57,225,318,166.94	100.00%
Taxes	232,232,328,000.00	\$38,008,564,320.79	66.42%
Grants	9,973,571,000.00	\$1,632,335,679.21	2.85%
Other Revenue	107,440,795,000.00	\$17,584,418,166.94	30.73%

Figure 1B

1 dollar = 6.11 Egyptian pounds			
1- Expenditures	egyptian pounds	dollars	percent
	490,589,682,000.00	\$80,292,910,310.97	100%
wages of employees	117,496,936,000.00	\$19,230,267,757.77	23.95%
purchases of goods & services	30,254,920,000.00	\$4,951,705,400.98	6.17%
Interest	106,299,726,000.00	\$17,397,663,829.79	21.67%
Subsidy, Grants, Social Benefits	157,754,439,000.00	\$25,819,057,119.48	32.16%
Other Expenditures	31,622,329,000.00	\$5,175,503,927.99	6.45%
Investment	47,161,332,000.00	\$7,718,712,274.96	9.61%
Total	490,589,682,000.00	\$80,292,910,310.97	100.00%

Figure 1C

About Figure1A and Figure 1B:

In figure 1A, the government of Egypt spent (labeled as "total budget") \$97 billion. This spending was divided in three sections: expenditures, acquisition of financial assets and loans repayment.

The government spend \$97 billion. Based on figure 1B, the government only made \$57 billion in revenue. Egypt's spending does not equal expenditures. The difference is made up with lending. Thus Egypt's government took \$38 billion in lending to finance its expenditures.

In other words, 39.25% of the \$97 spend by Egypt is through lending.

Figure 1C is a breakdown of the "expenditures" section of "State Utilizations" (found in figure 1A).

The numbers in these three figures are based on the Egyptian Ministry of Finance's 2011/2012 Budget. The Ministry provides figures in Egyptian pounds. Conversion to dollars and calculation of percentages was made by the author of this paper.

According to figures 1A, 1B and 1C, Egypt's government will spend \$97 billion in fiscal year 2011/2012. It only makes \$57 billion in revenue, and accordingly, must take \$38 billion in loans to finance its expenditures. This is known as a budget deficit where expenditures do not equal income. According to the IMF and Egypt's government, this budget deficit must be filled by increasing revenue and decreasing expenditures.

Given that the 2012/2013 budget has not been released, this paper relied on the 2011/2012 budget to define exactly what is mean by the term "budget deficit" in Egypt. This paragraph will determine some causes for this deficit. One cause for the deficit, according to Egypt's former Minister of Finance, is subsidies, specifically for energy (Egypt Independent 2011). In the 2011/2012 budget, for example, subsidies cost \$25.8 billion, or 32 percent of total government expenditures (figure 1C). A majority of these subsidies - \$18.06 billion or 70 percent - went toward energy used for transportation as well as industrial and domestic usage. The remaining subsidies were directed largely toward food. Subsidies are blamed for taking a huge proportion of Egypt's expenditures while not effectively reaching the poor they are meant to serve (Coleman 2012). In addition to ineffective subsidies, Egypt blames its budget deficit variety of tax-related reasons, such as not enough tax categories or inefficient tax collection (Werr 2012).

Egypt's state budget deficit is not a sole product of the 2011 revolution but has existed for several years. For example, in 2010, the IMF conducted a review of Egypt's economic situation. This review stated that Egypt must reduce its national debt via reform of energy subsidies and introduce a VAT tax and property tax. Egypt's Mubarak government wanted to implement these

policies, according to the report. For example, the government wished to adjust fuel subsidies since 2004 because they were a large portion of government spending and resulted in Egypt's energy prices being from 25 to 75% lower than world prices (Arab Republic of Egypt: 2010 Article IV Consultation - Staff Report 2010). According to the report, the government began a plan in 2007 to bring energy prices close to actual costs by 2010, but the global crisis in 2008 postponed the plan to 2014. Therefore, Egypt's state deficit – and its causes – are not new to Egypt, but have certainly may have been exacerbated by the revolution.

Section 1 - Part B: Balance of Payments Deficit

Current Account

The second major macroeconomic problem facing Egypt, according to the IMF and Egyptian officials, is Egypt's balance of payments deficit. Balance of payments is composed of two parts: a current account and a capital account. This section will analyze the current account which is composed of a trade balance, a services balance and a transfers account. The trade balance is defined as the difference between the monetary value of exports and imports. A positive relationship is known as a trade surplus and indicates that a country's exports are worth more than its imports. A negative relationship is known as a trade deficit and indicates that a country's exports are worth less than its imports.

Egypt's history is one of a constant trade deficit. From the 1850's to at least the 1930's, Egypt was under British occupation. It could not ban the exports of any goods, and due to the influx of British goods, Egypt had not chance to industrialize. Instead, Egypt grew and exported cotton - a great deal of which was sent to England where it was used to produce textiles. (U.S.

Library of Congress n.d.) Egypt then had to import most of its other goods which were of higher value. Thus Egypt had a trade deficit during British occupation.

After British left Egypt, it began to protect itself from foreign competition (Hansen and Nashashibi 1975, 4). As a result of new tariffs, the unprofitability of cotton due to lower world prices, and Egypt's self-reliance during world war two, manufacturing in Egypt grew (5). This growth increased when, in 1957, Nasser's socialist government drew up five- year plans (7) that emphasized industrialization over agriculture and focused on public ownership. Egypt began to manufacture its own products and grow its own rice, fruits and vegetables and cotton. With dramatic import cuts due to Nasser's policy, Egypt had its first trade surplus in 1969 (18).

This trade surplus did not last long. In 1970's, Nasser was succeeded by Anwar Al-Sadat under whom Egypt began to open its doors to trade, especially with neighboring countries. Because Egypt's manufacturing sector never did become competitive during its closed-doors era under Nasser, Egypt's has had a constant trade deficit since opening its doors to imports, as can be seen in figure 2A (Al-Santarisi 1993). In 2011/2012, Egypt had a trade deficit of \$31.7 billion (Central Bank of Egypt 2011) . A great cause for this deficit is energy as Egypt's greatest import in terms of value is petroleum oil (UNData 2012). In 2008, Egypt's oil production surpassed consumption, making Egypt a net energy importer (Energy Information Administration 2012). In conclusion, Egypt has had a negative trade balance for decades. This balance was a result of various policies, most recently Egypt's great dependence on energy and its lack of high-value exports.

Graph 1: Total imports, exports and trade balance

(Bln US\$ by year)

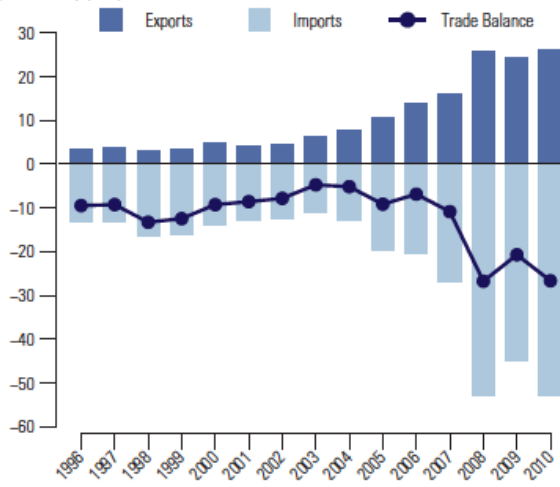


Figure 2A - UNDATA 2012

While Egypt's trade balance is the largest component of its current account, the current account is also composed of a services balance composed of travel (tourism) receipts, receipts from the Suez canal and investment income. The services account has been positive since at least 2009 (Central Bank of Egypt 2011), and in 2011/2012 it was a positive \$5.3 billion. It did, however, decrease 48 percent between fiscal year 2009/2010 and 2011/2012, as seen in figure 2B. This is greatly due to reduction in travel (tourism) receipts, which decreased by 25 percent between the two fiscal years, as can be seen in figure 2Ai.

Services -	2009/10	2011/12	Percent change	Change between 2009/10 and 2011/12	Change as Percent of Change in of Services net
Transportation Receipts	7216.5	8585			
Transportation Payments	1229.7	1374.9			
Transportation Total	5986.8	7210.1	20.433287	1223.3	-24.58%
Travel Receipts	11591.3	9419			
Travel Payments	2327.5	2497.6			
Travel Total	9263.8	6921.4	-25.28552	-2342.4	47.06%
Investment Income Receipts	829	246.1			
Investment Income Payments	5193.7	6948.6			
Investment Income Total	-4364.7	-6702.5	53.561528	-2337.8	46.97%
Government Services Receipts	217.9	276.2			
Government Services Payments	1534.5	1151.9			
Government Services Total	-1316.6	-875.7	-33.48777	440.9	-8.86%
Other Receipts	3708.2	2345.9			
Other Payments	2938.5	3537.6			
Other Total	769.7	-1191.7	-254.8266	-1961.4	39.41%
services net	10339	5361.6	-48.14199	-4977.4	100.00%

Figure 2Ai - Central Bank of Egypt 2011

This figure indicates that services declined by 48 percent (-48.14) between fiscal years 2009/10 and 2011/12. It also indicates the subsets of services and how much they changed between the two fiscal years. Tourism is given special attention as it declined by 25 percent between the two fiscal years to the instability of the Arab Spring.

Finally, the current account is composed of transfers. Private transfers include remittances sent from Egyptians abroad. These increased from 2009/2010 to 2011/2012, mainly due to Egyptians abroad wanting to support their families in the country (Ahram Online 2012). Public transfers include grants given to Egypt from abroad. In 2011/2012, Egypt's private transfers stood at \$17.7 billion while private transfers stood at \$632 million.

Summary - Current Account

Balance of Payments - Current Account (From Central Bank of Egypt Document)				
\$US million	2009/2010	2010/2011	2011/2012	percent change 2009-2012
Trade Balance	-25120	-27103	-31697.9	26.19
Exports	23873.1	26992.5	26975.9	13.00
Petroleum	10258.6	12135.7	13129	27.98
Other exp.	13614.5	14856.8	13846.9	1.71
Imports	-48993.1	-54095.5	-58673.8	19.76
Petroleum	-5161	-9262	-11774.5	128.14
Other imp.	-43832.1	-44833.5	-46899.3	7.00
Services Balance	10339	7878.4	5361.6	-48.14
Receipts	23562.9	21873.1	20872.2	-11.42
Payments	-13223.9	-13994.7	-15510.6	17.29
Transfers	10463.4	13136.8	18408	75.93
Private Transfers (net)	9509.4	12383.9	17775.6	86.93
Public Transfers (net)	954	752.9	632.4	-33.71
Current Account Balance	-4317.6	-6087.8	-7928.3	83.63

Figure 2B - Central Bank of Egypt 2011

As seen in diagram 2B, Egypt's overall current account in 2011/2012 was a deficit of \$7.928 billion. Trade balance is the largest proportion of the current accounts balance and it decreased by 26 percent from 2009/2010 to 2011/2012. Transfers are the second largest portion, and they increased by 75 percent. Finally, services is the smallest portion of the current account, and they decreased by 48 percent. In conclusion, Egypt's current account decreased as a result of a declining trade balance and declining tourism services.

Capital and Financial Account

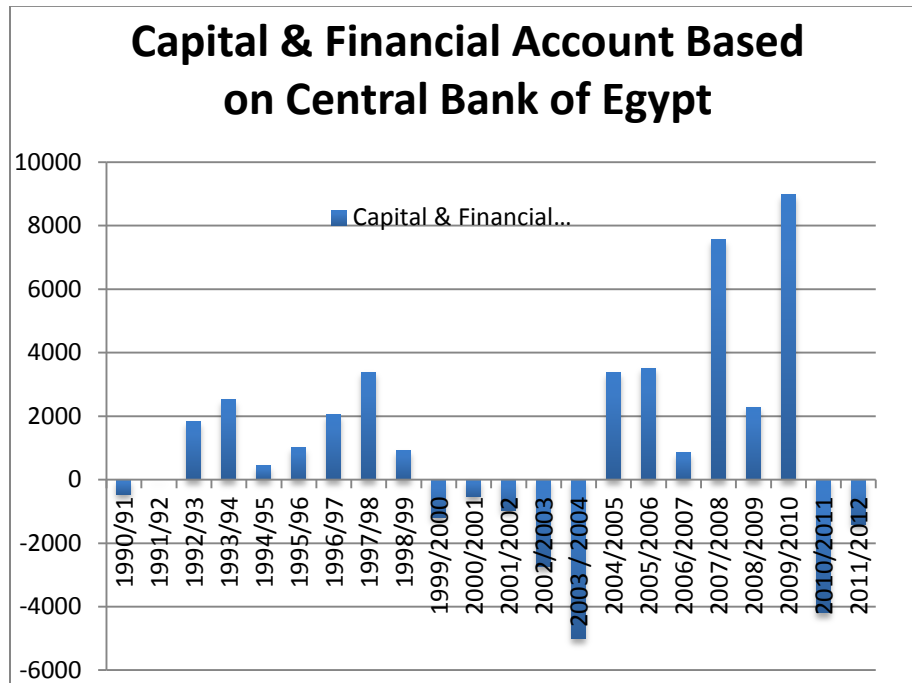


Figure 2C - source: ((12) (con.) Egypt's Balance Of Payments 2012)

This diagram shows the pattern of Egypt's *Capital and Financial* Account through the

In addition to the current account, Egypt’s Balance of Payments is also composed of a *Capital and Financial* account. According to the International Monetary Fund, the current account is small and involves one way flows such as gifts (Danby n.d.) . Accordingly, the current account is a miniscule subset in Egypt's *Capital and Financial* and will not be discussed by this paper as its effects are negligible. Instead, this section of the paper will discuss the financial account, which composes the majority of the transactions within the *Capital and Financial* account. The financial account is composed of foreign portfolio investment and foreign direct investment.

Figure 2C above details Egypt's *Capital and Financial* Account from 1991 to 2012 ((12) (con.) Egypt's Balance Of Payments 2012). Starting in 2004, Egypt's *Capital and Financial* account turned positive. This was a result of a structural and macroeconomic reforms initiated by

the Mubarak Government (Nasr n.d., foreword). These reforms included lifting restrictions on access to foreign exchange, slashing personal and corporate taxes, streamlining customs procedures, and allowing for greater exchange rate flexibility (Enders 2008). These changes resulted in large capital inflows - mainly foreign direct investment - into Egypt. As a result, 2004 to 2010 included large *Capital and Financial* budget surplus.

After the January 2011 revolution, however, things changed. First, net direct investment, decreased by 68 percent between fiscal years 2009/2010 and 2011/2012. Second, net portfolio investment decreased by 170 percent during the same time period. In a way, Egypt's great liberalization allowed investment to flow in a time of stability – as in during 2004 - and to rush out as soon as turbulence was hinted. As is known in free markets, investment decreases during a time of market instability, as was faced by Egypt during the 2011 revolution. As a result, Egypt's *Capital and Financial Account* decreased since the revolution to result in a net deficit of \$1.4 billion in fiscal year 2011/2012.

Summary of Balance of Payments - What is the Cause? What does this mean?

Capital Account - Based on Information from Central Bank of Egypt					
SUS million				Change from 2009-2012	Percent Change 2009-2012
	2009/2010	2010/2011	2011/2012		
Capital and Financial (=capital+financial)	8979.50	-4198.60	-1403.80	decrease	-115.6333872
Capital Account	-36.20	-32.30	-96.00	decrease	165.1933702
Financial Account (=net direct + net portfolio+other)	9015.70	-4166.30	-1307.80	decrease	-114.5058065
Direct Investment Abroad	-976.60	-958.00	-249.20	increase	-74.48289986
Direct Investment in Egypt	6758.20	2188.60	2078.20	decrease	-69.24920837
Net Direct Investment	5781.60	1230.60	1829.00	decrease	-68.36515843
Portfolio Investment Abroad	-522.20	-117.70	-148.70	increase	-71.52432018
Portfolio Investment in Egypt	7879.30	-2550.90	-5025.30	decrease	-163.7785082
Net Portfolio Investment	7357.10	-2668.60	-5174.00	decrease	-170.3266233
Other investment	-4123.00	-2728.30	2037.20	increase	-149.4106233
Net Errors and Omissions	-1306.20	532.50	-1946.30		49.00474659
Current Account Balance	-4317.60	-6087.80	-7928.30		
Overall Balance (=Capital and Financial + Net Errors + Current Account)	3355.70	-9753.90	-11278.40	decrease	-436.0967905
Change in Central Bank of Egpt's Reserve Assets (increase =-)	-3355.70	9753.90	11278.40		-436.0967905

Figure 2D - Central Bank of Egypt 2011

Notice Egypt's *Capital and Financial* account's deficit. Also notice Egypt's overall Balance of Payments deficit.

BOP Change from 2009/2010 to 2011/2012				
	2009/2010	2011/2012	total change	percent change
Balance of Payment	3355.7	-11278.4	-14634.10	100.00%
Current Account	-4317.60	-7928.30	-3610.70	24.67%
Capital and Financial errors and omissions	8979.5	-1403.8	-10383.3	70.95%
	-1306.20	-1946.30	-640.10	4.37%

Figure 2E - Central Bank of Egypt 2011

This figure shows the contribution of the current account and the *capital and financial* account in the BOP reduction from 2009/2010 to 2011/2012

Percent change is = change of a category/14634.10

In fiscal year 2011/2012, Egypt's Balance of Payments (BOP) was a deficit of \$11.3 billion - see figure 2D. This deficit was 436% decrease from before the revolution, or in other words, the balance of payments decreased by \$14.6 billion between these fiscal years 2009/2010 and 2011/2012. A series of calculations, which can be seen in figure 2E, determine what percent of the decrease was determined by the current account and what percent was caused by the *capital and financial* account. Seventy percent of the decrease in BOP between 2009/2010 and 2011/2012 was due to the *capital and financial* account and 24 percent of the decrease in the BOP was caused by the current account. The other 4.4 percent is accounted for by error.

According to the above calculations, 70 percent of Egypt's recent BOP reduction is due to reductions in the *capital and financial* account. In other words, the rush of foreign direct investments and portfolio investments out of Egypt after the Arab Spring is the main cause for Egypt's current balance of payments deficit. Trade deficit (current account) is certainly a contributing reason for Egypt's BOP deficit, but it does not play as large of a role as foreign direct investments and portfolio investments.

Section 2 - About the IMF

Section one of this essay was a thorough review of Egypt's balance of payments deficit and its financial deficit. Given that this paper is an in-depth analysis of Egypt's current economic challenges with focus on the International Monetary Fund (IMF) loan and Egypt, this section - section two - will offer a thorough review of the IMF. Specifically, this section will determine who the IMF is, what the IMF does and how it receives funding. Though such an analysis may seem useless, it is required so that the reader better understands the IMF - a main actor in this paper. Such an analysis will help the reader determine what moral and ethical stance - if any - should be taken on the IMF given its current criticism from the global anti-capitalist movement.

Section 2 - Part A: Who is the IMF

As an international conglomerate, the IMF is composed of several groups. First, the IMF is composed of a 188 member-country Board of Governors (Governance Structure 2012). Each country has one representative on the board: The United States' representative on the Board is Secretary of the Treasury Timothy Geithner. Egypt's representative on the Board is Farouk El Okdah, governor of the Central Bank of Egypt. When the Board of Governors meets, it regularly votes and each member state has an amount of votes proportional to its economic power. Egypt has 10,174 votes (or .40% of total) while the United States has 421,961 votes (16.75% of total), greater than any other member state. Though the Board of Governors is the highest decision making body of the IMF, it only meets once a year to approve quota changes, admit new members, withdraw members and amend and interpret the IMF's Articles of Agreement.

Second, the IMF is composed on an Executive Board. The Board of Governor's chooses the Executive Board which takes care of the daily business of the IMF. This board is composed of 24 members, some of which represent one country and some of which represent multiple. Each representative also has varying voting power. For example, the United State's representative on the Executive Board is Meg Lundsager, previous director of the Office of Middle East and Asian Nations in the U.S. Department of Treasury. Lundsager represents only the United States and has a total 421,961 votes (Composition of the Executive Board 2012). On the other hand, Egypt's representative to the Executive Board is Abdel Sahakour Shaalan, previous director of the Middle East Department of the IMF. Shaalan represents Egypt and twelve other countries with a total 80,061 votes.

A third actor in the IMF is the Managing Director who chairs the Executive Board and manages all IMF staff. The Managing Director is appointed by the Executive Board for a renewable term of five years and has always been a European National (How the IMF Makes Decisions 2012). Christine Lagarde from France has been managing director since July 2011. She is the fifth French executive director from a total of 11 total directors and the first female director. In addition to the three main actors mentioned, the IMF is also composed a Development Committee and a Financial Stability Board. The Development Committee meets to advise the IMF on development loans and is composed of 25 members, several of which are developing countries (A Guide To Committees, Groups, And Clubs 2012).

Section 2 - Part B: What does the IMF Do?

The IMF's overall economic design is based on "the Washington consensus," a set of economic standards which include open markets, macroeconomic stabilization and the expansion of the market (Brisbane Times 2011). The IMF's mission statement is to foster global growth and economic stability, often based on the Washington consensus. More specifically, it is charged with ensuring that individual country's economic decisions do not add up to a global economic crisis (Overview 2012). It does this through surveillance, technical assistance and loans. First, through surveillance, the IMF regularly surveys its member states to ensure they are following economic policies in alignment with global economic stability. It does this by visiting with country officials' about once a year to discuss exchange rates, monetary policy and fiscal policy. In addition to surveillance, the IMF achieves its goal for a stable economic world by providing technical assistance to its members in four areas: monetary and financial policies, fiscal policy and management, improvement of gathering statistical data and economic and financial legislation (Technical Assistance 2012). Technical assistance is provided through staff missions and/or resident advisors and is given in the form of training courses, workshops and more. Technical assistance accounts for about one-quarter of the IMF's operating budget and is financed by wealthy nations and multilateral donors such as the European Union and the Islamic Development Bank.

Section 2 - Part C: Loans and the IMF

In addition to surveillance and technical assistance, the IMF maintains a stable economic world by providing loans to its members (Factsheet: IMF Lending 2012). A country may request a loan from the IMF if it has a balance of payment problem, as in the case of Egypt. A country requests funding from the IMF and then drafts a letter of intent with the IMF Executive Board (Bretton Woods Project n.d.). This letter is sent from the state government to the IMF Executive Board outlining the planned economic reforms and conditions that will be implemented in order to access the IMF's resources. In such a way, loans are given with conditionality not only to pay back, but also to implement certain reforms in the country.

The IMF gives more than eight types of loans. Some of these loans are known as concessional loans, often given to poor countries. These loans have low interest rates and longer repayment periods. The loan given to Egypt is not a concessional loan. Instead it is known as a stand-by arrangement, or SBA (IMF Stand-By Arrangement 2012). An SBA is a short-term loan to meant help middle income countries emerge from crisis. The loan is meant to last no more than 36 months and is given in short phases based on the country meeting certain quantitative performance criteria. An SBA program is known to have less conditions than several other IMF loan programs. More on the conditions of Egypt's loan will come in a later section.

Section 2 - Part D: Who Funds IMF Loans?

It is important to discuss how the IMF receives funding for its loans. First, the IMF finances its loans through country quotas. Each member of the IMF is assigned a quota which determines its maximum contribution to the IMF's financial resources. Quotas are based on a weighted average of a state's GDP (50%), openness (30%), economic variability (15%) and international reserves (5%) (IMF Quotas 2012). The IMF member with the largest quota is the United States. The larger a member's quota, the greater its voting power on the IMF Board of Governors and the larger amount it can borrow from the IMF. Similarly, the larger a member's quota, the more financial resources it is obliged to provide to the IMF to finance proceeding such as loans. Second, the IMF obtains funding for its loans via gold holdings. The IMF is the world's third largest official holder of gold, which it can use if 85 percent of member countries agree. The IMF may sell or accept gold as payment, but it is prohibited to buy gold. Finally, the IMF obtains funding for loans by the fees it collects from debtor countries.

Section 2 - Part E: Conclusion on the IMF

The above section detailed various aspects of what the IMF is and how it operates. A global anti-capitalist and anti-free trade movement has recently levied several arguments against organizations like as the IMF (Notes from Nowhere 2003). These arguments state that the IMF is a corporate-interest organization that does not serve the global south (SUNY Levin Institute n.d.). The analysis of the IMF found in this section could indicate why this may be true. First, voting power is given to economically developed countries, which then may be able to push the IMF to implement policies that serve their corporations and trade needs. Second, the IMF's main goal is to ensure a stable economic system, not to encourage development.

The claims that the IMF may have "global-North-focused " motives may make sense, especially because the IMF has been based on the Washington Consensus, a set of economic theories that have lead to disparity in the developing world and, according to the former IMF Chief Dominique Strauss-Kahn, have a "dark side" (Brisbane Times 2011). At the same time, however, there is nothing on the outset to indicate that the IMF is an "evil" organization. Its mission statement is to result in global stabilization (not world domination), its membership is composed of all countries - developing and developed - and it never forces a loan on any country. Thus, for the remainder of this paper, the IMF will not be judged as an "imperialist" organization, nor as a "savior" for Egypt. Instead, the IMF, and more specifically the loan in Egypt, will be judged solely on its policy implications. In other words, how does the loan require Egypt to change, what effect these changes will have and finally, what is the long-term effect of the loan itself. Such an analysis will be found in section 5. First, in section 3, the IMF's loan for Egypt will be defined.

Section 3: Details of Egypt's IMF Loan

After the January 25, 2011 revolution, Egypt's Minister of Finance requested a \$3 billion, 12-month, stand-by loan from the IMF. This loan would provide Egypt the funding to reduce its national deficit. In July 2011, however, Radwan cancelled the negotiation and stated Egypt would reduce its deficit on its own by reducing expenditures and relying on local borrowing and aid gifts from states such as Qatar (Ahram Online 2011). The Military Council, which was at power during the time, wanted to keep Egypt away from large foreign debt and was a main reason why Radwan cancelled the loan request.

On June 20, 2012 President Mohamed Morsi was elected as Egypt's fifth president. Two months later, on August 22, Mohammad Morsi, Egypt's Prime Minister Hesham Kandil and Finance Minister Mumtaz El-Saeed requested \$4.8 billion loan from the IMF (IMF Survey 2012). They requested the loan to support their economic recovery program, stating that an IMF loan would come with lower interest rates than domestic loans and that it would not crowd out the private sector.

Every loan given by the IMF has a set of features. These include the amount given, the interest rate and the amount of time that must be paid back. In addition, IMF loans often have conditionality that decree what changes a country must undergo to receive the loan. Egypt is offered \$4.8 billion loan from the IMF that must be paid back in 22 months with an interest rate of 1.06 percent (Saleh and Blair 2012). There is little information available on conditionality agreement of the loan nor on exactly how the loan will be used. The IMF loan is just one part of a series of financing options to total \$14.5 that Egypt believes it will receive from both unilateral and multilateral donors to help it develop after the Arab Spring. The IMF will give Egypt the

loan so that it can implement its program of national recovery, more of which can be read in the section below.

Section 4: Overview of Muslim Brotherhood's Economic Reform Plan

In section 1, Egypt's budget deficit and its balance of payments deficit were defined as two "trending" economic problems the country currently faces. The Muslim Brotherhood, or MB, Egypt's current ruling power, released an economic reform program in on November 28, 2012. This program hopes to address two short-term problems faced by Egypt: a budget deficit and a balance of payments deficit. This economic program is conditional for Egypt to receive a \$4.8 billion loan from the IMF (Ahram Online 2012). This section of the essay will discuss the details of the economic reform plan in relation to how it will address Egypt's budget deficit and its balance of payments deficit. Information in this section is first from the *Al-Ahram* article cited above. This is because *Al-Ahram* is the only newspaper which has full access to the MB's plan. Second, information in this section is from an IMF report on the agreement reached by the IMF and the Egyptian government (International Monetary Fund 2012).

The first goal of the MB's economic reform plan is fiscal reform where as it hopes to reduce and then reverse the government's budget deficit. The MB will do this by reducing expenses, mainly by restructuring its fuel subsidies system. It will slash subsidies to heavy-energy industries, distribute butane canisters through a coupon system and cut subsidies on high-grade octane 95 gas. The government will also reduce its budget deficit by increasing income. To do this, it will establish progressive tax rates, set a VAT tax, set a capital gains tax and impose additional taxes on cigarettes and beverages.

The second goal of the MB's economic reform plan, according to the IMF report, is to set reduce the balance of payments deficit. First, the government will use its resources (which will no longer be used for subsidies) to encourage private sector growth - which will boost the trade balance. Second, the government will strengthen public financial management and increase the transparency and accountability of public sector operations. For example, it will enhance the transparency of registration and licensing, facilitate the resolution of investment disputes and support small and medium-size enterprises. In other words, the MB claims that it will instill a variety of reforms to make Egypt better for business and more stable for direct investment and portfolio investment.

Section 5: Conclusion

This paper is a thorough review of various aspects relating to Egypt's prospective loan from the International Monetary Fund. In section one, Egypt's economic problems were assessed. Egypt's budget deficit was indicated to be a result of a long-term inefficient subsidies and taxation system, at least according to Egypt and the IMF. Egypt's balance of payments deficit was indicated to be a result of long-term trade deficit, but also due to short term economic instability. In section two, the IMF was reviewed to be a "neutral" actor that could either result in progress or regression in Egypt, depending on the exact details of its loan agreement with the country. In section three, some details of the loan were discussed. In section four, the Muslim Brotherhood's economic reform plan – one that depends on the IMF as a source of capital – was discussed. This section will offer the author's point of view on the loan and the Muslim Brotherhood's reform plan. While the loan could entail possible improvements for Egypt, it has several weak points. First, the loan itself was never agreed to democratically. Second, there the Muslim Brotherhood's economic development plan has several loopholes.

The IMF stated that Egypt's loan must receive broad based support to be successfully implemented (International Monetary Fund 2012). Neither the loan, nor the Muslim Brotherhood's economic reform system, was ever agreed to democratically. There is, in fact, a large consensus of Egyptians that oppose them. On November 12, 2012, for example, seventeen groups sent a letter to the IMF objecting to the loan (Wire 2012). Egyptians never voted for the loans, and given that Egypt's People's Assembly was dissolved in September, 2012, their representatives never voted for the loans either. Currently, given the widespread antagonism against Morsi for giving himself absolute power in Egypt, there is a great anger towards Morsi and the Muslim Brotherhood, and Egyptians protesting day after day for his removal (Deeb 2012). For the IMF to continue talks with Morsi when it is clear that Egyptians never approved the loan – and in fact do not approve of their Morsi's new dictatorial sweep - certainly indicates that the IMF does not hold true its statements that the loan must receive broad based support to be successfully implemented.

A second criticism of the loan is that will support a flawed Muslim Brotherhood economic reform plan. First, the plan offers multiple "ethical" promises, such as increasing transparency, but there is no indication on how the government will actually implement such promises with no change in the fundamental governmental or monitoring institutions in Egypt. Second, the government will cut subsidies for energy and bread to improve the budget. In reality, however, the government will receive only negative backlash if it attempts to remove subsidies- as Egyptian president Sadat did in the 1970's when he attempted to remove them (International Business Times 2011). Egyptians – nearly half of whom live under the poverty line – already struggle to afford bread and energy (Putz 2008). Finally, the problem with subsidies in Egypt is *not* that they do not target the poor, but that they are inefficiently distributed due to ongoing

corruption and lack of efficiency in Egypt (Multiple Authors 2012). Third, the Muslim Brotherhood's economic reform plan promises to amend the balance of payments deficit. In reality, however, it can do nothing to quickly reform this deficit. The trade deficit has been a long-term problem. In addition, direct and portfolio investment will not flow into Egypt so long as political instability continues in the country. Therefore, while the Muslim Brotherhood's plan does address several causes for Egypt's economic problems, it is certainly short sighted and indicates that its developers did not properly assess Egypt's situation before creating it.

This paper does not wish to imply that a loan is wrong for Egypt. The loan could certainly be of use if agreed to by the Egyptian people. There are, however, great reasons to fear the loan – it is not democratically chosen and it supports an economic reform plan with many loopholes. This report instead wishes to state that the International Monetary Fund must not continue to unconditionally support the loan. For example, it stated it would continue to support it despite Morsi's power grab (Reuters 2012). Instead, the IMF must carefully consider all implications of this loan. If the IMF never takes on such a review, then at least the Egyptian people must take greater interest in the loan and its policy implications. Given that Egyptian's are currently struggling against Morsi and his power grab, however, it seems the IMF loan – and its analysis – may be put on hold for some time.

Bibliography

- Ahram Online. *Egypt Cabinet unveils long-awaited economic 'reform' programme*. News, Ahram Online, 2012.
- "Official Statement: Military Council Against IMF Loan." *Ahram Online*. June 25, 2011. (accessed December 1, 2012).
- Bretton Woods Project. *Glossary*. n.d. (accessed December 1, 2012).
- Brisbane Times. *Washington consensus is over, says IMF chief*. News, Brisbane Times, 2011.
- Central Bank of Egypt. "(12) (con.) Egypt's Balance Of Payments." Economic, 2012.
- Central Bank of Egypt. "Balance of Payments." Economic Report, 2011.
- Coleman, Isobel. "Reforming Egypt's Untenable Subsidies." *Council on Foreign Relations*. April 6, 2012. (accessed December 1, 2012).
- Danby, Colin. "Balance of Payments: Categories and Definitions." *Washington.edu*. n.d. (accessed December 1, 2012).
- Deeb, Sarah El. *Egypt's opposition vows more protests against Morsi, referendum*. News, Associated Press, 2012.
- Egypt Independent. *Finance minister: Subsidies are Egypt's greatest enemy*. News, Egypt Independent, 2011.
- Enders, Klaus. "Egypt: Reforms Trigger Economic Growth." *IMFSurvey Magazine: Countries & Regions*, February 13, 2008.
- Energy Information Administration. "Country Analysis Briefs - Egypt." Frief, 2012.
- IMF Survey. *IMF to Discuss New Loan Program With Egypt, Says Lagarde*. Press Report, International Monetary Fund, 2012.
- International Business Times. "Current protests in Egypt recall Bread Riots of 1977." News, 2011.
- International Monetary Fund. *A Guide To Committees, Groups, And Clubs*. September 28, 2012. (accessed December 1, 2012).
- International Monetary Fund. "Composition of the Executive Board." 2012.
- Factsheet: IMF Lending*. September 26, 2012. <http://www.imf.org/external/np/exr/facts/howlend.htm> (accessed December 2012, 2012).
- Governance Structure*. 2012. <http://www.imf.org/external/about/govstruct.htm> (accessed December 8, 2012).

Nada Alasmi

IMF Quotas. August 24, 2012. (accessed December 1, 2012).

International Monetary Fund. *IMF Reaches Staff-Level Agreement with Egypt on a US \$4.8 Billion Stand-By-Arrangement*. Press Release No. 12/446, International Monetary Fund, 2012.

IMF Stand-By Arrangement. September 27, 2012.

Overview. 2012. (accessed December 1, 2012).

Technical Assistance. August 17, 2012. <http://www.imf.org/external/np/exr/facts/tech.htm> (accessed December 1, 2012).

Ministry of Finance. *State's General Budget For Fiscal Year 2011/2012*. Central Administration Budget, Cairo: Ministry of Finance, July 2011.

Multiple Authors. "EGYPT'S FOOD SUBSIDIES: BENEFIT INCIDENCE AND LEAKAGES." *The World Bank* , September 16, 2012.

Nasr, Sahar. *Access to Finance and Economic Growth in Egypt*. The World Bank, n.d.

Notes from Nowhere. *We Are Everywhere: The Irresistible Rise of Global Anti-Capitalism*. Verso, 2003.

Putz, Ulrike. *The Daily Struggle for Food*. News, Cairo: Spiegel Online International, 2008.

Reuters. *Egypt protests won't affect IMF deal, minister says*. News, Berlin: Reuters, 2012.

Saleh, Yasmine, and Edmund Blair. *Egypt agrees deal for \$4.8 billion IMF loan*. news, Cairo: Reuters, 2012.

SUNY Levin Institute. *Why Is the IMF Controversial*. n.d. (accessed December 1, 2012).

The International Monetary Fund. *Arab Republic of Egypt: 2010 Article IV Consultation - Staff Report*.

How the IMF Makes Decisions. September 17, 2012.

<http://www.imf.org/external/np/exr/facts/govern.htm> (accessed December 1, 2012).

UNData. "UNData." *Egypt - World Statistics Pocketbook*. 2012.

<http://data.un.org/CountryProfile.aspx?crName=EGYPT> (accessed December 1, 2012).

Werr, Patrick. "Egypt plans new deficit-reduction steps: media." *Reuters*. November 11, 2012. (accessed December 1, 2012).

Wire, Pan-African News. "Egyptians Sign Letter and March in Cairo Against IMF Loan Talks ." 2012.