



APQ



Topic: Tackling Egypt's debt crisis and dependency on bailouts from Gulf countries and the IMF

Committee: Advisory Panel in Question of North Africa

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Position: President Chair

A. Introduction to the Committee

Welcome to all experts at the Kabatas Model United Nations Conference. Our role is to provide informed opinions to other committees and help smooth the decision-making process. We do thorough analysis, produce research reports, and develop policy frameworks. The aim of APQ is to examine and assess policy options for global peace, development, and security in terms of their expected and unexpected consequences.

Among the most vital issues discussed within this committee are, but are not limited to, nuclear sustainable development, human rights, non-proliferation and disarmament, as well as climate change. We assess whether agreements such as the Treaty on Non-Proliferation of Nuclear Weapons or the United Nations Convention on the Law of the Sea remain effective and also look at areas where they can be strengthened. Additionally, we look at how Sustainable Development Goals (SDGs) can be obtained and exploited to heal our planet. Finally, we request all experts to actively participate by providing insightful proposals for the conference.

B. Introduction to the Agenda Item

This reliance on bailouts from the Gulf countries and the International Monetary Fund (IMF) by Egypt is a great threat to its sovereignty and economic stability. The external debt of Egypt has grown significantly over the past decade due to mismanagement of the economy, political instability, and other factors like the COVID-19 pandemic, which have increased the level of debt. The majority of economic adjustment measures used in stabilizing the Egyptian economy were boosted by financial assistance from Gulf nations,

particularly the UAE, Saudi Arabia, and the IMF. Though they provided temporary relief, these loans raised concerns about Egypt's vulnerability to external shocks over time and its long-term economic wellbeing.

The agenda item seeks to address these fundamental concerns with a view to exploring long-term options that could reduce Egypt's dependence on foreign assistance while easing its financial burden. Key action areas will include implementing economic reforms aimed at improving fiscal health and domestic production efficiencies, searching for an alternative means of financing, and restructuring Egypt's debt so that more favourable repayment terms are offered. Additionally, this committee will also consider the socio-political implications of relying on external financial support, such as the erosion of national sovereignty and prudence in managing public finances in light of responsible governance. For the APQ committee to accomplish this task, it has to question these agendas so as to come up with a comprehensive strategy that will promote Egypt's economic resilience and Gulf stability.

C. Key Terms

The International Monetary Fund (IMF): The IMF is an international organization that mitigates poverty, encourages international trade, and promotes financial stability and global economic growth.

Gulf states: The Gulf states are the Arab countries bordering/near the Persian Gulf. These countries are Bahrain, Oman, Qatar, the United Arab Emirates (UAE), Saudi Arabia, Kuwait, and Iraq.

Austerity measures: Measures that the government take to lessen government debt by increasing taxes or spending cuts.

Structural adjustment programs: They are a group of economic policies that a country must

adhere to as conditions to receive a loan from the IMF or/and the World Bank.

Devaluation: The decrease of a country's currency's value against the other currencies of the world (generally the US Dollar or the Euro).

Subsidy: Subsidies are financial incentives given to companies and/or sectors by the government to support the production of a product or the continuation of a service.

D. General Overview

Historical Context:

Egypt's economic history has been a series of policy shifts and external influences that have shaped its current financial landscape. Egypt has witnessed different levels of economic successes and failures, from the nationalization era under President Nasser to liberalization policies in the 1990s. Economic stability was significantly impeded due to the 2011 revolution that affected both public spending and an increase in debt (Harrigan, Wang, & El-Said, 2006). Fiscal deficits were worsened by subsequent political turbulence and reforming became more difficult (Springborg, 2011).

Debt crisis in Egypt changed through several stages; influenced on one hand by domestic economic policies, on another – by external borrowing. In early 2000s, Egypt was accumulating foreign debt as it sought international loans for infrastructure projects and reforms in its economy (Handoussa, 2010). However, after the 2011 revolution, there was an explosion in public debt due to political instability and neglect of economy (Kinninmont, 2012). The country has come to rely on foreign aid and loans provided by international institutions as well as Gulf countries for its economic strategy hence creating a dependence cycle which has proved hard to break away from (Mahmoud, 2018).

Economical Status-Quo:

The economic indicators of Egypt as at 2023 show a mixed performance with some elements of growth and challenges. The GDP growth rate has been positive, driven largely by sectors like telecommunications, construction and natural gas (World Bank, 2023). However, inflation rates remain high, and unemployment especially among the youth is still a problem (IMF, 2022). The country's fiscal deficit is still a major concern mainly due to devaluation of the Egyptian pound and increasing level public debt (Central Bank of Egypt, 2023).

Egypt's economy was heavily affected by COVID-19 outbreak whereby tourism sector was disrupted together with remittances and exports. To prevent total collapse of its economy during recession period, government had to use several monetary policy measures such as reduction in interest rates and stimulus packages (IMF, 2021). Despite these efforts made by the government the pandemic aggravated existing economic vulnerabilities for instance it increased public debts and strained healthcare system (Abdel-Khalek, 2020). Economic recovery has taken long time to be realized hence requiring continuous reformations that ensure stability in future.

Debt Sources:

Egypt's domestic debt has expanded as a consequence of high state spending and inadequate domestic revenue mobilization. To finance budget deficits, the government has had frequent recourse to borrowing from local banks, which has led to significant growth in internal debt (El-Shazly, 2017). The need for continuous internal borrowing can be traced back to subsidies, especially on food and energy.

Bilateral agreements with other countries have been the major source of Egypt's external debt, while loans from international financial organizations and bonds sold in the international market have also contributed. External financing related to structural adjustment programs targeting economic reforms often came through the World Bank

and IMF (Breisinger et al., 2011). Besides this, Gulf countries like the UAE and Saudi Arabia have given huge loans with a lot of financial aid, therefore boosting their foreign reserves but also increasing their dependency (Roll, 2010).

Bailout Dependency

Egypt has been financially supported by the Gulf nations, especially in the 2013 political crisis. In this respect, Kuwait, the United Arab Emirates, and Saudi Arabia spent billions of dollars in cash assistance, aid, and deposits to prop up Egypt's economy (Ulrichsen, 2016). Therefore, this move has held back foreign reserves at a certain level as well as stabilized the Egyptian pound. However, it also led to dependence on the Gulf States, raising concerns about economic sovereignty and sustainability (Gause, 2014).

With the various loan programs that the IMF has introduced, it has become a significant player in the Egyptian economic arena by extending considerable financial help. The Extended Fund Facility (EFF) program, started in 2016, aims at lowering public debt levels through structural reforms as well as macroeconomic stability recovery (IMF, 2016). Such programs are important for providing financial relief; however, they demand stringent conditions, including austerity measures that have often generated popular dissatisfaction and social turmoil at times (Amin, 2018).

Political and Social Implications

Egypt has experienced the grave social consequences of economic changes and austerity measures. As a result, there is an increasingly disgruntled public due to escalating unemployment rates, the high cost of living, and the reduction in subsidies for goods or services (Abdalla, 2018). At the same time, many people who believe that their government is taking too long to address their problems respond to these economic hardships with widespread protests and strikes. The significance of this societal effect is that it demonstrates why policies must combine economic efficiency with social justice.

In addition, Egypt's governance and political stability are troubled by debt crisis requiring an external bailout. A series of economic challenges can gradually lead to political instability through loss of public trust in governance (El-Meehy, 2019). Administrative efficiency is needed as a prerequisite for any meaningful advancement forward but remains halted by ranging barriers such as bureaucratic inertia or corruption, which are still represented as persisting obstacles on Egypt's road to affluence.

E. Timeline of Key Events

Date	Event
7 May 1962	IMF Agreement - The 1st Standby Arrangement
17 May 1991	The 5th Standby Arrangement
25 January - 11 February 2011	Egyptian Revolution
December 2011	The Fall of Foreign Reserves
February 2016	3,744 Saudi Arabian companies had invested some \$6.1 billion in Egypt.
8 September 2016	VAT (Value Added Tax) Implementation
3 November 2016	Egypt had secured a \$12 billion loan from the IMF.
11 November 2016	IMF Loan Agreement
November 2016	Egyptian Pound Devaluation
11 August 2018	The Egyptian government had announced the decontrol of the Egyptian pound.
14 February 2020	The first confirmed case of COVID-19 in Egypt.

F. Major Parties Involved

Egypt: At the center of a debt crisis, Egypt is incurring heavy external debt and international financial aid to revive its economy. Political instability, coupled with structural factors such as high joblessness and rising prices, worsens the country's economic problems. However important these recent economic reforms are, they have resulted in popular unrest as subsidy cuts and other austerity measures were made (World Bank, 2020).

Saudi Arabia: Saudi Arabia has been one of the key Gulf nations that provided financial assistance to Egypt by giving it large loans and investments, which played a role in stabilizing its economy over time. These deals also bring out the geopolitical alignment where Saudi Arabia uses this kind of economic aid to maintain regional security and influence (Kinnimont, 2017).

United Arab Emirates (UAE): Like its counterpart Saudi Arabia, the UAE has contributed significantly financially to Egypt. The backing from the UAE is part of a larger strategy for enhancing her geopolitical power in the region. Financial aid entails direct investment in developmental initiatives aimed at creating an enabling environment for the growth of the Egyptian economy (Ulrichsen, 2016).

The IMF: In Egypt's efforts towards achieving economic stabilization, the IMF has been a major player. The IMF's financial aid programs availed critical funding while also conditioning economic reform with the aim of improving budgetary discipline and development initiatives. However, there are cases where these reforms have come at a very heavy social cost thereby raising questions over the effects and efficiency of this process on those who will be affected (IMF, 2019).

The World Bank: The World Bank supports economic development in Egypt through different programs such as infrastructure improvement, education and health services. Additionally, it provides policy advice as well as financial support to Egypt to carry out the appropriate reforms necessary for long-term growth. The Bank is also essential for long time

growth apart from immediate financial bailout (World Bank, 2020).

The European Union (EU): The European Union has been instrumental in providing financial and technical assistance to Egypt. Several EU programmes are aimed at facilitating economic development in Egypt, political stability and social enhancement. This is part of an integrating neighborhood policy that seeks to create development and stability within the Mediterranean region (European Commission, 2021).

The African Development Bank (AfDB): The AfDB backs up Egyptian economic development through sponsoring schemes meant to encourage growth in the economy as well as eradication of poverty. In addressing various underlying issues affecting the Egyptian economy, financial aid from AfDB is vital (AfDB, 2020).

G. Previous Attempts to Resolve the Issue

Egypt has undertaken numerous structural adjustments as part of its agreements with the IMF and other financial institutions. These adjustments include subsidy reforms, tax increases, and efforts to improve the business environment (World Bank, 2019). The energy sector has seen significant reforms, including the reduction of fuel subsidies and the promotion of private investment (Saleh, 2017). Despite these efforts, the pace of reforms has often been slow, and the benefits unevenly distributed.

The Egyptian government has launched several initiatives aimed at achieving economic stability and growth. These include the "Egypt Vision 2030" strategy, which focuses on sustainable development, improving infrastructure, and enhancing human capital (Ministry of Planning and Economic Development, 2020). Other initiatives include investment in mega-projects like the Suez Canal expansion and the development of new cities, which are intended to boost economic activity and create jobs (El-Erian, 2016).

H. Relevant UN Treaties, Resolutions, and Events

(2016) IMF's Extended Fund Facility for Egypt:

<https://www.imf.org/en/Publications/CR/Issues/2024/04/26/Arab-Republic-of-Egypt-First-and-Second-Reviews-Under-the-Extended-Arrangement-Under-the-548335>

(2015) UN General Assembly Resolution (A/RES/69/319) - Basic Principles on Sovereign Debt Restructuring Processes:

<https://documents.un.org/doc/undoc/gen/n15/277/81/pdf/n1527781.pdf?token=6zH7RzVp0uYeJDYe0Z&fe=true>

United Nations Conference on Trade and Development (UNCTAD) - Principles on Promoting Responsible Sovereign Lending and Borrowing:

https://unctad.org/system/files/official-document/gdsddf2012misc1_en.pdf

(2009) UN General Assembly Resolution (A/RES/64/191) - External debt sustainability and development:

<https://documents.un.org/doc/undoc/gen/n09/473/29/pdf/n0947329.pdf?token=mofWDIAXWqj5ZEQYU4&fe=true>

I. Possible Solutions

To navigate Egypt's economic predicament successfully, a mixture of innovative approaches and collective responsibility is indispensable. The first one is embracing economic diversification as a glimmer of hope. In the journey towards rejuvenating the economy of Egypt, nurturing such emerging sectors as renewable energy, agribusinesses, and technology innovation hubs is possible. If it creates an atmosphere that supports entrepreneurship and innovations, then Egypt can open up new horizons for its development by breaking away from traditional sectors that are vulnerable to crisis.

Additionally, fiscal reforms may be considered a dance capable of initiating resilience in the economy. Egypt could recalibrate itself by establishing prudent fiscal policies and enhancing governance in order to achieve fiscal sustainability. Furthermore, forming collaboration with bilateral donors in addition to international financial institutions could bring about huge support

such as debt relief schemes or discounted loans that will ensure sustainable development and improved management of the national debt.

Moreover, a pas de deux of debt restructuring and investment promotion can improve Egypt's international economic position. Extending payback schedules, negotiating loan conditions, and investigating creative financing sources can help Egypt turn toward financial stability. Egypt can simultaneously attract investors to participate in the nation's economic path with an enchanted song of legislative reforms, incentives, and infrastructural projects. Egypt may synchronize its economic path and create a symphony of wealth for its people and next generations by carefully and forcefully arranging these several alternatives.

J. Further Reading

Egypt's IMF Program: Assessing the Political Economy Challenges (Bessma Momani - January 2018) | Brookings Institution:

https://www.brookings.edu/wp-content/uploads/2018/01/imf_egypt_momani.pdf

Egypt's Solvency Crisis (9 April 2014) | Council on Foreign Relations:

<https://www.cfr.org/report/egypts-solvency-crisis>

(Video) Why Egypt's Economy Matters | Economy of Egypt | Econ:

https://www.youtube.com/watch?v=k_d8EjboeQ

(Video) Here's why Egypt's foreign debt increased by \$8.1B in Fourth Quarter of 2021:

<https://www.youtube.com/watch?v=bCOhy-nJXqw>

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