منصة العدالة الاجتماعية
Social Justice Platform

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On the Cliff's Edge

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Since its inception, sovereign debt has been a central pillar of running the economy especially in times of crises. The origins of public debt lay in the loans raised by kings and emirs to cover their expenses especially during times when tax revenues fell short of what was needed to finance the state such as war or economic crises. Simply put, public debt -m uch like private debt- is in its origin a mechanism to bypass a bottleneck in resources premised on future surplus being enough to cover the debt servicing. In these cases the sovereign, king, emir, or sultan was the party responsible for the debt as the sole sovereign and ruler of his domain. Kings would default on their debts fairly often as their unparalleled power left the creditors no option for retribution. This default could be as simple as failing to cover payments, which could often ruin the creditor, such as the English crown default on loans from the Medici's London branch. The default led to the branch's bankruptcy and triggered a chain reaction that collapsed Medici banking hegemony. In other cases the default would take the form of exercising sovereign power to imprison or banish the creditor so they are not able to collect on their loans.

Such tactics made lending to sovereigns an incredibly dangerous affair that bankers would sometimes be forced to loan the sovereign. On the other hand, the Italian city states' debts were owed by the city state itself not its rulers themselves and the absence of an unchallenged executive meant that likelihood of default or exile was limited. This practice of public debt made bankers much more eager to lend to republics than kingdoms as the risks were limited. This meant that these states, despite their relatively small population, could raise enough funds to stand up to great european powers ten times their size.[1]

The rise of central banks as the primary institution of managing's states loans and their service in place of the king's treasury marked the gradual shift from sovereign debt, as debt raised on behalf of the king and under his sole responsibility, to public debt that is raised on behalf of the population and guaranteed by state revenues. This meant a better guarantee for creditors and thus increased the amount of funds different governments could raise through credit. As public debt became a staple of financial markets, it also rose to prominence in the modern era as a means to fund investments, as if the rate of interest is less than expected the rate of profit, the incurrence of debt would be the right economic decision to make. In the modern era that meant that instead of debts being an exceptional tactic used in desperate times, it became a central part of funding the state and its activities. In a word, debt became normalized.

[1] David Graeber. *Debt: the first 5000 years*. (New York and London: Melville House, 2014). P. 337-342

Egypt and debt :

In 1860, Said Pasha raised the first external loan in the history of modern Egypt, amounting 28 million Francs. Still, this loan was personal as it was not underwritten by any public institutions. Two years later, Said Pasha raised the first foreign public loan to the tune of 60 million francs.[2] In 1863 Ismail Pasha rose to the throne and continued his predecessor's policy of raising mountains of foreign debt. However, by 1865, the end of the American civil war resulted in the end of the cotton boom fuelled by the embargo on the southern confederacy. Egypt's economy was buoyed by the cotton boom and the sudden shortfall in current accounts meant that Egypt was entering into a debt spiral. The government proceeded to rollover debts, soliciting new ones to pay off the old ones. By 1876, only 14 years after the first foreign public loan, Egypt defaulted on its debt,[3] resulting in the establishment of a public debt commission by the countries of the creditors, namely Great Britain, France, Italy, and Austria. The subsequent Dual Financial Control effectively meant that Ismail - now Khedive- gave up economic sovereignty as agents of France and Britain took over the financials affair to ensure repayment. The 'Urabi revolt which in essence was a revolt against the draconian austerity and taxation measures employed to repay the debt would be crushed by the British in 1882, making egypt effectively a british colony.

As such, it is no wonder Egyptians have an understandably negative view of debt. Said and Ismail's debts would take several decades to be fully paid up. In 1953, when the republic was declared, the government intentionally kept low debt levels as Gamal Abdel-Nasser justifiably worried that high levels of debt would be a backdoor to imperialism again. However, the 1970s commodities boom boosted M. A. al-Sadat's government confidence as he embarked on soliciting foreign loans on a scale not seen since Ismail's days. Between 1970 and 1981, external public debt would rise from 22.5% of GNI to more than 107.8%[4], almost doubling every two years. The rising levels of external debt put Egypt again in a debt spiral as inflation rose and the pound's exchange value dropped below the United State Dollar for the first time. The debt spiral continued apace after Sadat's assassination. The early 1980s saw external debt levels decrease before a sudden surge in the late 1980s drove it up again to 132% of GNI in 1988, not to mention domestic debt too. The 1990s saw a gradual decrease in foreign debt levels and renewed focus on domestic debt as the

[2] Abdel Aziz Ezz Al Arab. *European control and Egypt's traditional elites*. (Lewiston, N.Y.: Edwin Mellen Press, 2003). P. 10-12.

[3] Theodore Rothstein. *Egypt's ruin: a financial and administrative record.* (London : A.C. Fifield, 1910). P. 13-22

[4] "External debt stocks (% of GNI) - Egypt, Arab Rep.". *The World Bank*, n.d. <https://data.worldbank.org/indicator/DT.DOD.DECT.GN.ZS?locations=EG >.

government accepted a rescue package sponsored by the IMF, World Bank, and African Bank for Development. The rescue deal imposed serious austerity and cut funding to important government programmes in the name of fiscal stability. Egypt would continue a policy of piecemeal austerity for the next two decades, whereby foreign debt would reach its lowest level in half a century as it reached 13.2% of GDP in 2011/2012. Nonetheless, even though external debt decreased to its lowest level over the preceding couple of years, domestic debt's share was surging as it amounted to 78.59% of GDP in the same year. Moreover, the total debt as percentage of GDP remained hovering around 90%[5] as it did for several years before.

The year 2012 marked a sudden rise in public debt as calls for a rescue package from international financial institutions were circulated. Fierce resistance to the rescue package and the accompanying austerity measures forced the government to table the issue. However, by 2016 an economic crisis was making its way through the exhausted Egyptian economy, and a rescue package by the IMF and World bank saw Egypt accede to the funds needed to stave off the crisis at the price of draconian austerity measures. Ever since, the Egyptian public debt has remained the *sword of Damocles* hanging over the Egyptian economy. As debt service eats up more than 40% of the government spending on an annual basis[6], Egypt's credit worthiness is always hanging by a fine threat that any serious economic shock could send it over the edge.

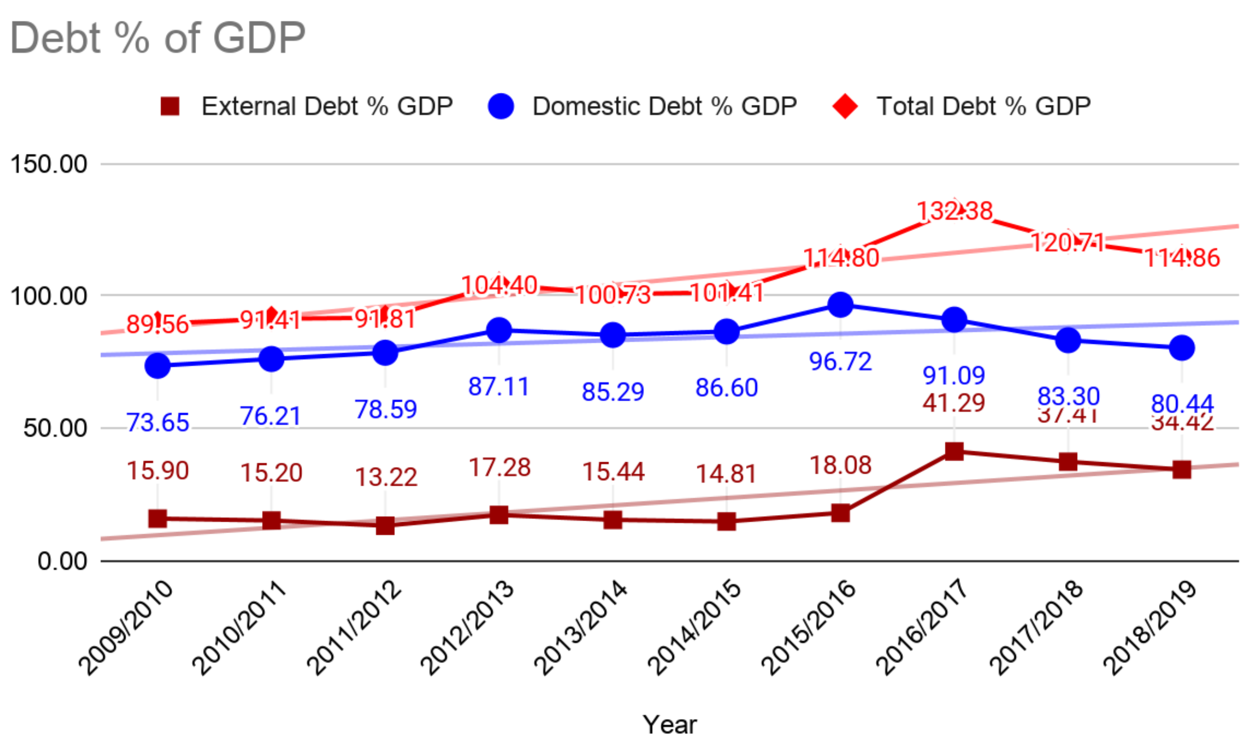
[5] Check Statistical Annex 3.

[6] Check " The 2020/2021 national budget project in the year of Covid-19: optimism or dismissiveness?". *Social Justice Platform*, 2020.

Debt in a Decade

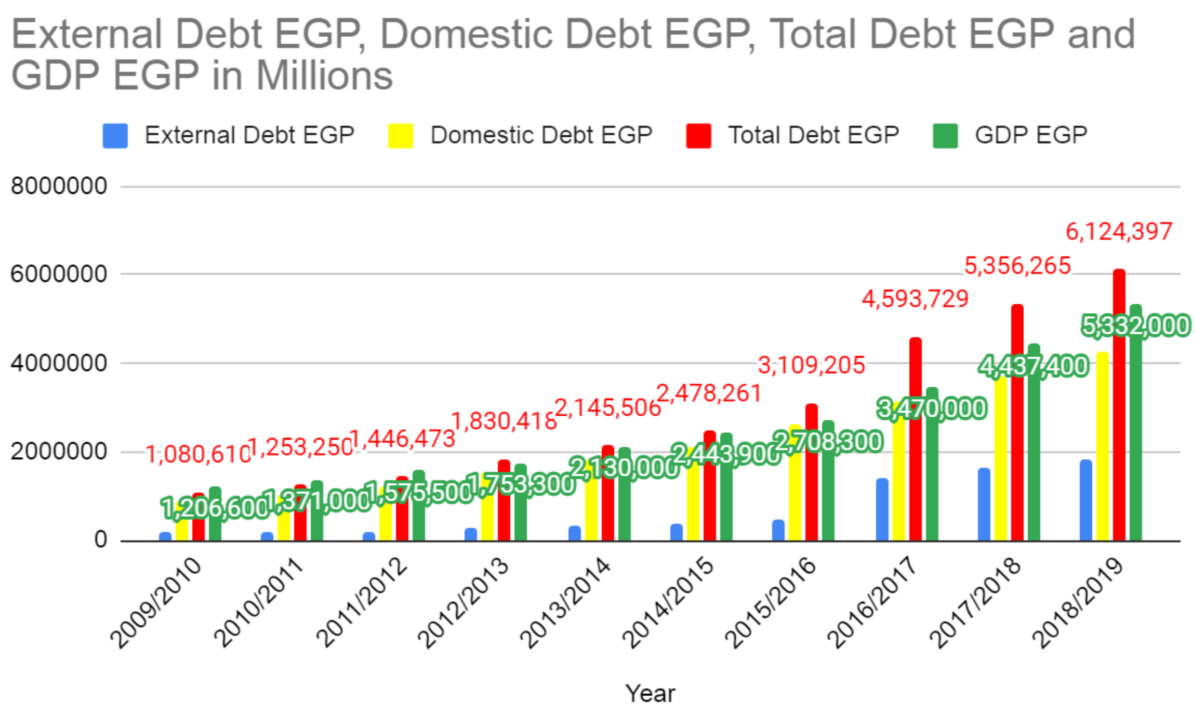
Between 2009/2010 and 2018/2019, external debt as a percentage of GDP more than doubled from 15.9% to 34.4%, reaching its highest level in 2016/2017 as it hit 41.29% of GDP, representing its highest peak since 1997. During the same period, domestic debt as a percentage of GDP increased from 73.6% to 80.44%, reaching its highest level in 2015/2016 at 96.7%. Overall debt as a percentage of GDP rose from 89.5% to 114.8%, reaching its highest level in 2016/2017 at 132.3%.

Figure 1[7]



[7] Check Statistical Annex 3.

Figure 2[8]



[8] Statistical Annex 2

Statistical Annex:

These annexes reflect data compiled from the Central Bank of Egypt's Monthly Statistical Bulletin, and Annual Report from 2009/2010 to 2018/2019.[9]

1. External Debt in EGP

Year	External Debt USD	USD/EGP Rate	External Debt EGP
2009/2010	33,694.2	5.6952	191,895.2
2010/2011	34,905.7	5.9690	208,352.1
2011/2012	34,384.5	6.0590	208,335.7
2012/2013	43,233.4	7.0094	303,040.2
2013/2014	46,067.1	7.1401	328,923.7
2014/2015	48,062.9	7.5301	361,918.4
2015/2016	55,764.4	8.7800	489,611.4
2016/2017	79,032.8	18.1300	1,432,864.7
2017/2018	92,643.9	17.9166	1,659,863.7
2018/2019	108,699.0	16.8860	1,835,491.3

2. Debt in Million EGP

Year	External Debt EGP	Domestic Debt EGP	Total Debt EGP	GDP EGP
2009/2010	191,895.2	888,715	1,080,610	1,206,600
2010/2011	208,352.1	1,044,898	1,253,250	1,371,000
2011/2012	208,335.7	1,238,137	1,446,473	1,575,500
2012/2013	303,040.2	1,527,378	1,830,418	1,753,300
2013/2014	328,923.7	1,816,582	2,145,506	2,130,000
2014/2015	361,918.4	2,116,343	2,478,261	2,443,900
2015/2016	489,611.4	2,619,594	3,109,205	2,708,300
2016/2017	1,432,864.7	3,160,864	4,593,729	3,470,000
2017/2018	1,659,863.7	3,696,401	5,356,265	4,437,400
2018/2019	1,835,491.3	4,288,906	6,124,397	5,332,000

[9] All reports used can be found on the Central Bank of Egypt's website. Check https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticaclBulletin.aspx.

3. Debt as a Percentage of GDP

Year	External Debt % GDP	Domestic Debt % GDP	Total Debt % GDP
2009/2010	15.90	73.65	89.56
2010/2011	15.20	76.21	91.41
2011/2012	13.22	78.59	91.81
2012/2013	17.28	87.11	104.40
2013/2014	15.44	85.29	100.73
2014/2015	14.81	86.60	101.41
2015/2016	18.08	96.72	114.80
2016/2017	41.29	91.09	132.38
2017/2018	37.41	83.30	120.71
2018/2019	34.42	80.44	114.86