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EXECUTIVE SUMMARY EGYPT

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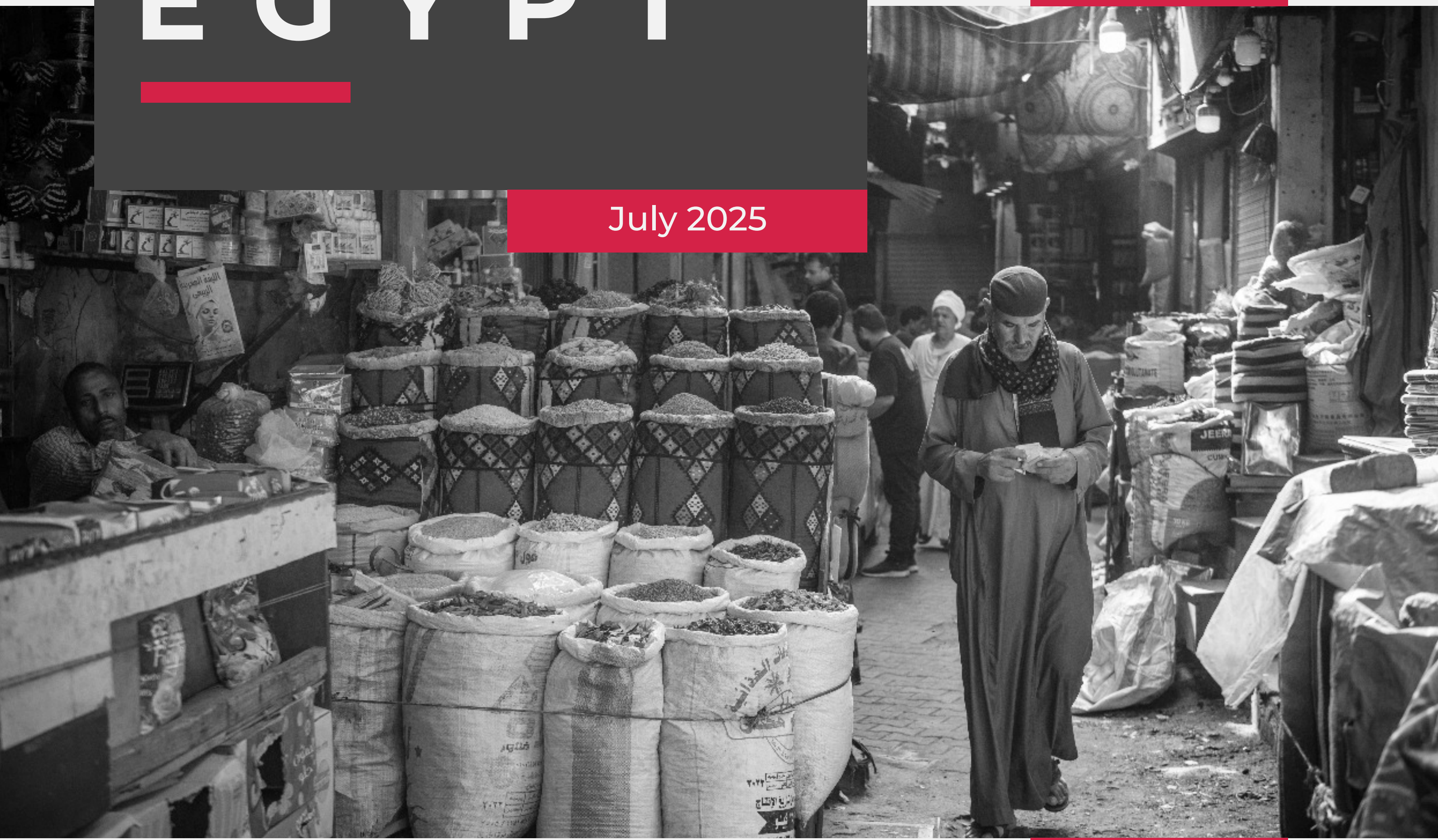

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EXECUTIVE SUMMARY

The sovereign debt crisis in Egypt 2024-2014

Over the past decade, Egypt has witnessed an unprecedented surge in both its domestic or foreign public debt. The government resorted to heavy borrowing to finance massive infrastructure projects and cover the public budget deficit, a strategy that led to a severe debt crisis. This situation was further exacerbated by successive crises such as the Covid-19 pandemic, the Russia-Ukraine war, and the global interest rates rise, leading to sharp devaluations in the local currency and increased interest payments. The public debt management policy failed to contain high interest payment rates due to successive increases in domestic interest rates, resulting from Egypt's monetary policy efforts to stifle the inflation that structurally spiralled out of control as a result of repeated currency devaluations.

The structural causes of the debt crisis remain unresolved, as the general economic framework and the macroeconomic policies adopted by the Egyptian government in partnership with international institutions, continue to reproduce the crisis rather than offering a definitive solution. This reflects a continuation of Egypt's structural balance of payment issues.

Over the past two decades (2024-2002), Egypt has devalued its currency numerous times in an effort to solve the chronic balance of payment crisis. However, these efforts have failed to steer the country out of its recurring economic troubles and guide it toward more favorable terms to integrate the global economy that would avoid dependence on borrowing and the international debt market.

Considerable evidence points to the failure of the development model that is heavily reliant on borrowing in the past ten years. In fact, interest payments on debt have risen to unprecedented levels, consuming more than half of Egypt's public budget expenditures. In addition, the public debt-to-GDP ratio has exceeded %100 if the debts of state-owned economic entities are included.

This report indicates that Egypt's debt crisis is not an imminent liquidity issue, rather a structural crisis stemming from an economic model based on borrowing without actual production output. Overcoming this crisis requires adopting a plan to restructure public debt and redirect resources toward a productive economy and social justice, away from short-term borrowing schemes.

The report includes the following main recommendations:

- Restructuring foreign debt to alleviate the pressure on the state's dollars resources, by immediately initiating negotiations with creditors- both states and international institutions- to covert part of the loans and deposits into long-term investments.

- Require the government to link any foreign or domestic borrowing to publicly disclosed feasibility studies that define the project's impact on development, employment and foreign currency generation.

- Introduce tax policy reforms to mobilize revenues- particularly through underutilized types of taxes in Egypt, such as wealth and property taxes. These reforms would have a positive impact on social justice by shifting the tax burden away from consumption taxes toward income and wealth taxes.

- Introduce reforms to domestic public debt management by reducing interest rates and halting excessive borrowing to fund infrastructure projects. It includes negotiating with state-owned public banks to lower interest rates on treasury bills, especially during periods of economic stability and low inflation.

- Redirect government spending toward productive sectors such as industry and agriculture away from massive real estate projects.

- Increase spending on education and scientific research to leverage the large human capital in Egypt. By investing in human capital, Egypt can unlock significant potential and use it as a lever for sustainable economic growth.

- Achieve the principle of a unified public budget by integrating economic entities and private funds in the public budget, and subjecting all surplus-generating institutions- such as the New Urban Communities Authority or sovereign companies- to unified financial oversight. This would help reduce the overall budget deficit and lower the need to for borrowing and the annual interest payments on domestic public debt in particular.

- Reduce reliant on fuel and energy imports by accelerating the transition to renewable energy sources, particularly solar and wind power.