International Monetary Fund demands cuts as Egypt faces bankruptcy

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The International Monetary Fund (IMF) is demanding Egypt’s military junta carry out sweeping attacks on living standards before it releases the next tranche of a loan to meet the rapacious demands of Egypt’s international creditors.

Egypt’s external debt has risen to $163 billion equal to 93 percent of the country’s GDP, after a further loan of $13 billion from Saudi Arabia and the United Arab Emirates (UAE), and a new issue of government bonds at a higher rate of interest—just to cover regular government expenditure. This comes amid a rise in the value of the US dollar and other major currencies relative to the Egyptian pound, as all the major central banks hiked interest rates. As Egypt’s debt has risen, government's expenditure has gone on debt servicing rather than health, education and welfare.

The working class and rural masses face poverty, along with middle-class professional workers, including doctors who are leaving for Europe in droves. More than one third of Egypt’s 106 million population are already living in poverty, while another 30 percent are teetering around the poverty line.

Egypt’s economy was badly affected by the pandemic, which halted a tourism industry accounting for around 12 percent of GDP, 15 percent of foreign currency and 10 percent of jobs, and led to the return of workers from the Gulf and the loss of their remittances, swelling the ranks of those without work.

The dire situation confronting workers was compounded by the outbreak of the US/NATO war against Russia in Ukraine pushing up the cost of agricultural imports, particularly wheat, maize and cooking oils that mostly came from Russia and Ukraine. This led to an $20 billion outflow of speculative capital—more than half of all the hot money invested in the country—seeking a higher rate of interest.

The IMF agreed last December to provide Egypt with a $3 billion loan, its fourth since President Abdel Fattah el-Sisi overthrew the elected government of Muslim Brotherhood-affiliated President Mohammed Morsi in a 2013 military coup, making Egypt the second largest IMF borrower after Argentina. But this comes nowhere near meeting a financing gap estimated at between $17 and $70 billion.

The loan was also conditional upon Egypt agreeing to float its currency, hitherto pegged to the dollar—leaving the pound at the mercy of international currency speculators, as well as privatizing state assets and curtailing public expenditure, including slashing subsidies on basic household commodities. Crucially, the IMF made its meagre disbursements subject to review, with the first scheduled for last month already delayed, to access the next $354 million tranche.

The Egyptian pound has tumbled to half its value in the last year, with the black-market rate on which many depend even lower. This is not good enough for the IMF, even though devaluation has sent inflation soaring to 34 percent in March and food inflation surging to 62 percent compared to 26 percent in April 2022, according to the World Bank.

Foreign currency has all but dried up, despite the central bank raising interest rates to 19 percent. The shortage of foreign currency means goods are piled up at Egypt’s ports, with ships waiting to be unloaded. Importers, without access to foreign currency due the reduced allocations to non-governmental importers, the shortage of dollars and the depletion of the central bank’s reserves, are unable to get their goods released from customs.

The government also gave a commitment to wholly exit up to 79 business sectors and partially exit 45 more within three years while increasing private investment from 30 to 65 percent. It did so to secure an additional $14 billion from other international sources. It announced yet again that it plans to privatize 32 government companies, including those owned by the military by 2024. The military owns or controls as much as 40 percent of the economy outside the official state budget. Such promises, repeatedly broken, carry little weight. A few weeks ago, Egypt suspended the sale of a stake in state-controlled Telecom Egypt, citing "market conditions," making it virtually certain that it will fail to raise its target of $2.5 billion in privatization funds to be allocated to the country's $5 billion financing gap by June.

While the UAE, Qatar and Saudi Arabia had all pledged at least $22 billion to shore up el-Sisi's finances, mainly through investments, few deals have been signed due to Cairo's reluctance to sell more than minority stakes or reveal the real valuation of the assets.

Egypt has received around $92 billion from the Gulf countries in the past decade, but this has declined sharply in recent years, with Saudi Arabia indicating that it would no longer give aid unconditionally, as it eyes its own profits, interests and influence and seeks to make the kingdom less dependent on oil. It criticized el-Sisi's policies, mega-vanity projects including the new administrative capital outside Cairo, and the military's role in the economy. Earlier this month, el-Sisi was forced to go cap in hand to Riyadh to meet Crown Prince Mohammed bin Salman, the country's de facto ruler.

The economic devastation in Egypt is mirrored throughout Africa, affecting Angola, Chad, Ethiopia, Gabon, Ghana, Kenya, Mali, Nigeria, Zambia and elsewhere, prompting warnings by analysts and think tanks of the likelihood of social unrest and civil strife. This is taking place as the Horn of Africa, particularly parts of Ethiopia and Somalia, are experiencing some of the driest conditions recorded since 1981, with the World Food Programme warning of famine and people dying "at levels that we have not seen in recent history."

According to a United Nations Development Programme report, 24 of the 54 lower-income countries at high risk of debt distress are in Africa, with a record number on the brink of defaulting due to spiraling inflation, interest rate hikes by the US Federal Reserve and other major central banks and the surge in the value of the US dollar.

Zambia was the first African country to default on its foreign debt, an estimated $17 billion, during the pandemic in 2020. The kwacha has fallen more than 10 percent against the US dollar this year and its chief creditors, private lenders in the advanced countries, have refused to restructure Zambia's debt.

Ghana faces a mounting economic crisis, with the cedi falling by 55 percent between January and October last year, dramatically increasing the price of all its imports amid rampant profiteering by the giant global food and energy corporations. Debt payments take more than 40 percent of government revenue. In January, Ghana suspended payments on most of its external debt, becoming the third African country to default since the start of the pandemic, despite agreeing a $3 billion loan with the IMF.

Like Egypt, Malawi too has a shortage of foreign currency reserves as well as a budget deficit of 1.32 trillion kwachas ($1.30 billion)—equal to 8.7 percent of GDP. The highly indebted country is seeking to restructure its debt to get further IMF money, on top of that agreed in November.

As central banks in the advanced countries hike interest rates to slow the economy, induce a recession and increase unemployment as part of their attacks on the working class, this will worsen the intolerable conditions for workers and oppressed masses in poorer countries who comprise most of the world's population.

This poses the necessity for a unified struggle of the working class against the entire profit system, embracing those in so-called advanced and less developed economies alike, in a struggle for the socialist reorganization of society. The elaboration of an international socialist programme will be at the centre of the International Committee of the Fourth International's celebration of May Day on April 30.