# Egypt's summer economic crisis

by Thierry Lalevée

When the ruling National Democratic Party, chaired by President Hosni Mubarak, gathers for its congress on July 20, it may be confronted by one of Egypt's deepest-ever social and economic crises. According to some, the congress may never even take place. Pessimists predict a social upheaval in the immediate weeks ahead.

Bureaucrats in the U.S. administration and at the Washington headquarters of the International Monetary Fund are playing with fire, and threatening to lead Egypt into a general disaster. According to intelligence reports coming from both Washington and Cairo, the IMF has given the Egyptian government an ultimatum to implement a drastic austerity program, whose main pillar would be a 75% reduction in state-sponsored subsidies for basic foodstuffs such as bread, rice, and sugar.

The lifting of such a subsidy system, or the mere threat of it, has been enough to provoke major riots in the past 10 years. Notwithstanding, the IMF has sent no fewer than four special teams to Cairo since the beginning of the year to drive their threat home. The last was at the beginning of June, a visit of the IMF director for the region, Dr. Abdel Shakour Shaalan, a man who likes to see himself as Egypt's "real prime minister." In private discussions with the government as well as in interview with the press, Shaalan warned that unless the IMF demands were implemented, Egypt would be cut off from any further loans. He gave Egyptian Prime Minister Ali Lufti until July 1 to put together such an austerity package.

Enhancing the IMF ability to blackmail Cairo, has been its deepening economic crisis. Egypt's foreign debts stand at a $32 billion high, divided between some $4 billion in military debts, primarily to the United States, and other debts owed to the United States, France, Spain, and West Germany. Cairo is facing a $4 billion interest payment this year.

But Egypt's income has shrunk. Oil exports, worth $2.3 billion in 1985, are expected to drop to $1.5 billion and probably lower—at least a $1 billion total loss. Remittances from the Suez Canal are collapsing, from $885 million in 1985 to perhaps as low as half that sum in 1986.

More dramatic for both its economic and social consequences, has been the collapse of remittances from Egyptian workers abroad. From $200 million a month, this declined to $50 million a month in the first six months of this year. As this might indicate, thousands of Egyptian workers have been forced to return home, jobless. Between the end of 1985 and the first months of this year, those affected were primarily working in Saudi Arabia and the Gulf, but a new blow came recently from Iraq. For its own austerity reasons, Baghdad imposed a regulation allowing Egyptian workers to transfer no more than $1,000 a year back to Egypt. For the 1.25 million Egyptian workers in Iraq, this has meant disaster. Many will have no choice but to leave, rather than be unable to feed their families back home.

As Prime Minister Ali Lufti addressed these economic issues last March 25 in front of the parliament, an Egyptian "White Paper" presented to the U.S. government stated that, on average, a 50% collapse in all income was to be expected this year.

There have been two immediate consequences. All major industrial projects have been stopped, and it is now unlikely that Egypt will ever be able to sign the final contract for its first nuclear power plant. Similarly, Cairo has been unable to meet its foreign debt payments, missing several deadlines since last June. Furthermore, the United States has not only not increased economic aid, it has reduced it, thanks to Gramm-Rudman. Current aid has been reduced by $35 million. Of a $265 million special fund agreed upon in late 1984, Egypt received no more than $150 million, and only as a political gesture after the Feb. 25 military riots.

While avoiding suicidal implementation of the IMF demands, the Egyptian government proposed an alternative in the spring: to conclude as soon as possible negotiations with the IMF for a $1.5 billion standby facility, and to establish bilateral negotiations with its main creditors for rescheduling its debts. Both have been rejected by the IMF. Instead the IMF wants a global negotiation within the framework of the Club of Paris; a proposal described by Ali Lufti in an interview with the June 17 *Financial Times* as "unacceptable. . . . It would be like engaging in a striptease." For whoever has an historical memory, a Club of Paris dictatorship over the Egyptian economy, cannot but remind one of the infamous "Caisse de la Dette," which sold Egypt to British colonialism at the last century. How would this differ?

On June 14, Lufti announced that a special team led by Egyptian Deputy Prime Minister and Minister of Planning Dr. Gamal al Ganzoury would leave for Washington to present Egypt's austerity package. Besides proposals for more agricultural and industrial production, a curb on imports, and "reforms" of the foreign exchange rate regime, it also includes an attempt at reducing the budget deficit by cutting down on state expenditures such as education. It addresses the issue of the subsidies by proposing that "assistance be restricted to the needy"—a vague declaration meaning that while subsidies are phased out, wages would be increased and cash-money distributed to the poorest strata of the population. This sort of system has little chance to work. In fact, were these proposals implemented, Egypt's stability will be at risk. Do people in Washington care about the survival of the Mubarak government, or of Egypt itself? Perhaps talks beginning June 16 between U.S. officials and Egypt's ambitious defense minister, Abu Gazala, will give an answer.