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Evaluation of Egypt's Credit Worthiness

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ABSTRACT

The majority of developing countries, including Egypt currently suffer from the public budget deficit because of several reasons, including the increasing volume of public spending and the public revenues inconformity to the increase. As a result of this situation, Egypt tended to bridge the public budget deficit through public borrowing both internal and external. This led to the increase of the public debt volume. The question to be raised up is: What is the ceiling external debt percentage of external debt that represents the safety margin of the loans and foreign investments? As a result of all these dilemmas, the international financing organizations (the International Monetary Fund and the World Bank, 2001) have worked out some economic indicators. These indicators include critical limits or levels of public external public debt; and guiding indicators for the borrowing countries. The latter should not be exceeded in order to preserve the credit confidence on the one hand, and to prevent extreme-external borrowing on the other. The research aims to identify the determinants of Egypt's credit worthiness and its ability to service the external debt. It aims as well to identify the most important theoretical approaches to explain the dangers of halting payment. A group of well-known indicators were applied to achieve this objective.

KEY WORDS: Egypt**,** creditworthiness**,** internal and external debt**,** economic indicators**.**

INTRODUCTION

The developing countries, including Egypt, suffer from the external debt problem. It exacerbates over the time. Thus, it impedes the economic reform programs. These programs have been applied in most of these countries to achieve the concept of overall economic development, a matter which leads to economic prosperity. The external debts could be described in the sense that they lead to the borrowing countries impoverishment and the creditor countries enrichment. In addition, the debt servicing becomes a real drain of the borrowing countries wealth of nations and a heavy burden on the forthcoming generations. The borrowing countries are obligated to repay the loans value besides their over-time highly increasing interests and allocate to direct a large proportion of their economic resources, particularly the financial resources, to repay these debts. Therefore, there will be negative effects on the economic development rates. The development experiences in most of the developing countries, including Egypt, have proved the financing problem is one of the main problems encountered in their quest as a result of the misleading adopted financing policies in financing development. In addition, the developing countries continued their consumption, investment and importing that highly exceed their production, saving and exporting. These circumstances were accompanied by all unfavorable external environment represented in the exacerbation of borrowing conditions and prices decline of their major exporting commodities. These circumstances lead finally to the exacerbation of the current deficit of the

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balance of payments and the worsening of external debt crisis. These countries began to face great difficulties in the harmonization of settling their external debt and providing the requirements necessary for the economic development. They began to stumble in settling their due debts on accordingly, a mater that consequently threatens the stability of the international financial and trading system. In line of this stumbling situation and in light of the futility of done endeavors and other proposed methods to resolve the issue of external indebtedness. These endeavors include various initiatives put forward to resolve the crisis and the call for holding international conferences on the issue of indebtedness, debt swap of property rights, and debt denial. The majority of borrowing developing countries, including Egypt, tended to reschedule their foreign debts, in an agreement with the creditor countries to prolong the repayment period and conclude other conditions through which debts could be settled in the future. The international lending agencies and institutions adopted a number of procedures, which aim to study the borrowing countries status and the risk surrounding the international lending processes through determining the credit worthiness of borrowing country and its ability to efficiently manage its external debts, in order to contain the crisis.

The majority of developing countries, including Egypt currently suffer from the public budget deficit because of several reasons, including the increasing volume of public spending and the public revenues inconformity to the increase. As a result of this situation, Egypt tended to bridge the public budget deficit through public borrowing both internal and external. This led to the increase of the public debt volume. Therefore, many countries including Egypt tended to establish a specialized administration to properly implement and manage the public debt policies. This could maintain the reasonable level of required credit worthiness for obtaining its financing needs.

The question to be raised up is: What is the ceiling external debt percentage of external debt that represents the safety margin of the loans and foreign investments? What could happen in the case of investment-decision delinquency of the external loan did not lead to an increase in the gross domestic product? What could happen should foreign loans were spent for non-productive purposes? As a result of all these dilemmas, the international financing organizations (the International Monetary Fund and the World Bank, 2001) have worked out some economic indicators. These indicators include critical limits or levels of public external public debt; and guiding indicators for the borrowing countries. The latter should not be exceeded in order to preserve the credit confidence on the one hand, and to prevent extreme-external borrowing on the other.

They are considered as well as a warning to foreign financing sources to abstain from lending whenever in the borrowing countries approach or nearly approach critical levels. Among the most important economic indicators are: the total external debt ratio to GDP should not exceed 50%, the external debt ratio to exports revenues should not exceed 275%, and total debt service ratio to exports should not exceed 30%. The research problem statement dwells in the difficulties and challenges of financing facing the development process in Egypt. This led to the State's continued needs for external in order to narrow the gap between domestic savings and the investment rates necessary for development. In light of what has been mentioned earlier, the research aims to identify the determinants of Egypt's credit worthiness and its ability to service the external debt. It aims as well to identify the most important theoretical approaches to explain the dangers of halting payment. A group of well-known indicators were applied to achieve this objective. The research assumes that maintaining high-level credit worthiness on the part of Egypt represents an important element in achieving sustainable growth and smooth accessibility to the international capital markets besides Egypt's dependence on external loans to finance development. The study was conducted during the period 1991-2009, due to the beginning of the economic reform program implementation in Egypt and as a result of the continuingly increase of the state's public budget deficit whose financing relied on public external debt. The results proved Egypt's credit worthiness and its financial ability to settle its external debts.

First: the concept of credit worthiness: it refers to the total external loans volume, which the borrowing state can absorb and settle whenever they are due, from its forthcoming revenues generated from foreign exchange. It refers as well to its ability to continuingly service its external debt and duly abide by the subsequent debt obligations without the need for rescheduling request or payment failure (Mahmoud Hassan, 1992). the economy creditworthiness is determined by the ability of indebt economy to perform the payments service of the external debt through its ability to produce a surplus of goods and services that could be sold in the international markets in exchange for foreign currency that can be used in the performance of debt-service payments. The foreign exchange resources of the indebt economy should be under the control of the authorities entrusted with the external debt service (Azza Radwan, 1983). The use of external loans is an important element in stimulating and increasing the investment which enhance exports or replace imports to generate additional income sources to service the external debts. Those external debts may not be available in the future due to increased consumption (Mohammad Al- Banna, 1984).

Secondly: the importance of the high-level creditworthiness of borrowing countries: the 1980s increased of external debt had led to a rise of the due foreign burdens (the interests and premiums) owed by the developing countries. The international credit sources (particularly the international commercial banks) began to reconsider their policies and adopted a deflationary policy, especially after 1982, when a bank debt crisis of major indebt countries broke out in Latin America. The countries abstained from paying their debt burdens because of the burdens hugeness. The developing countries had high accessibility, until the outbreak of the external debt crisis, to the international monetary markets to obtain their needed liquidity (Lubna Abdullatif, 1999). Since the crisis outbreak of the banks hastened to take several actions including: the development of an information system similar to the signs of early warning in order to evaluate the indebt countries creditworthiness,. The international monetary fund largely intervened to manage the indebt countries' external debt crisis. Therefore, there was a restriction on the credit oriented to the indebt countries enjoying low levels of creditworthiness (Mohiuddin Elgarib, 2002). Since then, creditworthiness considerations strongly affect the international commercial banks' lending decisions to the indebt countries. The continued accessibility to funds from different loan sources depends largely on the borrowing states ability to maintain the same level or improving their creditworthiness. Thus, the maintenance of high-level creditworthiness on the part of these States became an important element in achieving the continued sustainable economic growth (Nabil Hashad, 2000). The importance of the borrowing countries' high-level creditworthiness is attributed to several factors, including:

Impact on the total borrowing cost: the commercial banks awarded joint loans to indebt countries on the basis of fixed interest rates called price plus additional margin in appropriate each period (three or six months, maybe a year) to determine the total interest cost. It is considered as an indicator of the total lending cost in the international capital markets. The importance of high-level creditworthiness is attributed to its influence on the level of the indebt countries creditworthiness. For example, some member countries of the Organization for Economic Cooperation and Development OECD have obtained loans with a margin of additional base rate of less than 125%, while the non-oil developing countries get these loans with a margin of additional base rate of an interest rate ranged between 2.50% -3 % (Mahmoud Abul Al-Oyoun, 1989).

Facilitating the process of economic growth: Most of the developing countries are expected to borrowing if they want to continue the process of economic growth at acceptable rates. In light of the limited expansion of borrowing from official sources (bilateral - multilateral) , it is found that the economic growth of many of these States will depend partly on their ability to attract foreign capital in the form of investments or loans, which is linked to the level of creditworthiness. Thus, creditworthiness is an important element to facilitate the process continuity and achieve economic growth of those countries. Policy makers are expected to be

fully occupied of the different policies effects and growth targets on creditworthiness (satisfaction of Justice, 1995).

Smooth accessibility to loanable funds: Probably, the indebt-state dose not have the ability to smoothly access to the international capital markets for their financing needs. The indebt countries must improve the creditworthiness level in order to have accessibility to the optimal amount of loanable funds, as the offer such money in international financial marketsis related to the creditworthiness level of the indebt-state (Mahrous Ismail, 1985).

Third: determinants of creditworthiness: the credit determinants mean the most important factors affecting the borrowing countries ability. That is, their ability and willingness to service their external debts. The following are the most important determinants:

Economic growth rate: The growth rate of the gross domestic product GDP measures total economic performance of the state. It is used as well by creditors as an important indicator to measure the creditworthiness level of the indebt-state. If the indebt-state has the ability to use external loans in an optimal way so as to achieve the theoretical conditions of borrowing: "the marginal product of capital is greater than the marginal cost of the interest rate of the external loans" (James, tabin, 1964). The achievement of the theoretical condition of borrowing is one of the most important factors which the creditors take into consideration. Therefore, the indebt-state, that achieves high income growth rates, will provide additional resources with which it can maintain the standard of living of its population and also meet the service of its external debts (Hassan, Mehran, 1985). The economic development level is one of the most important considerations affecting the creditworthiness level of the state because it gives an indication of the present and future economic ability of the country to service its external debt. Therefore, the creditworthiness of countries that achieve high rates of growth of the gross domestic product is expected to increase.

Liquidity: One of the important determinants in determining the creditworthiness level of the state borrowing in the short term. The lack of liquidity is the most important factors in the external debt-servicing difficulties that might arise from regular or sudden fluctuations or in exports earnings, inflows of foreign capital inflows, imports, and obligations of settling over-due payments. Liquidity crises resulted from the economic structure weakness of the state. In other words, liquidity crises resulted from short-term or long-term factors or both (Marcel, c & David, F, 2000)). Liquidity indicators are used in judging the indebt state ability to abide by its short-term external debt obligations. They could be used as well to know the position of the current foreign exchange available to the state and its ability to maintain fund availability without the occurrence of financial crises. They serve in the comparison between short-term obligations and short-term resources in order to meet those obligations.

External debt service ratio to the total export value: It is a ratio of total interest and repayment of external debt to the total export value of goods and services. The debt-servicing ratio refers to exporting ability, particularly as the main source of foreign exchange, to meet the debt burden. Since this burden usually competes with basic needs that are imported from abroad (such as food production, etc...) and the increase of this rate imposes several determinants and restrictions on the economic growth rates. There is no certain percentage that can show the optimal limit at which the indebt-state should halt borrowing, because the ability to bear the external debt service burden varies from one country to another, and from time to time for the each State. For example, Argentina halted settlement of debts and restructured its 1933 debts at a rate of 36%, 1891 debts at a rate of 66% and 1976 debts at a rate of 20%. Meanwhile Australia maintained its management of its external debt and did not stop payment, although the debt servicing rate ranged between 44.35% during the period 1930-1934 (Laila Al-Khawaja, 1996). This ratio is used as a theoretical measurement of the creditworthiness of the indebt-state. This ratio must be used together with the rest of the other

indicators (such as growth rate, debt structure .... etc), as some countries have high debt-servicing ratio and continued to borrow without serious difficulties in servicing its external debts. The ratio percentage decrease refers to the increase of the State ability to service its external debts, and thus the high level of creditworthiness of the State (Mahrous Ismail, 1985).

International reserves ratio to imports: It is a percentage of total international reserves to total imports of goods and services. It was found that there is a close relationship between the external debt crisis and international reserves. It is proved that the economy, which has a level of convenience and security of international reserves, can face difficulties in servicing its external debt without external pressure. It is clear as well that the state which has adequate and sufficient reserves of enjoy clear ability in dealing with the international currency markets. The reserves level is considered as one of the determinants of the creditor confidence in the state. The international reserves act as a safety stock which will help the State to respond to emerging crises (Mahmoud Hassan, 1992). The internationally recognized minimum rate of these reserves must constitute at least 20% of total imports. The high rate of international reserves to imports refers to the ability to manage external payments without any pressure; it also indicates a high level of creditworthiness of the state (Simon, Gray, 1991).

The structure of external debt: The external debt structure is one of the most important determinants affecting the creditworthiness of the indebt-state. The external debt, whose payment is deferred to relatively long periods of time, makes a country more able to cope with the difficulties of servicing that debt in relation to the debt borrowed by the state and the relatively short term of repayment. The use of the total external debt ratio to GNP as an indicator of the evolution of external debt, as the productivity of loans must be reflected in the economic growth rate. The ratio of debt to exports of goods and services can be also used as an indicator of the time required to pay the expenses of debt servicing as it can be repaid out of export earnings (Mohammad Al Banna, 1984). We can not rule that the high proportion of external debt to GNP or to exports is a serious signal for the development or the level of creditworthiness of the state. If the use of funds borrowed from abroad and economic projects, the marginal product of the borrowed capital is greater than the interest rates on those funds the debts contribute to increase productivity of the economy as a whole and increase the export capacity. However, comparing the country's external debt volume to other indebt states, a general conclusion can be reached on the creditworthiness level of that State. Index of the short-term debt to the total debt can show the proportion of the debt payable in a short period to the total external debt. This ratio may annually change according to the timing structure of the debt. As the volume of short-term debt getting higher, the borrowing states economy will have tremendous burdens. This leads the state to borrow once again till it will be unable to pay. Thus it tends to request rescheduling of external debt (Ahmed Galal, 1996).

Total capital inflows to the borrowing State: the flows of foreign capital entering the country are of different forms including (grants - loans - credit suppliers - FDI - transfers etc.). The foreign inflows are affected by the political and economic conditions of the state. Should, there is adequate foreign capital brought, the country can meet its agreement obligations and debt servicing. Those countries do not suffer from problems in the service of foreign debt. It is expected that the low proportion of debt-servicing payments to the total capital inflows of borrowed state, can contribute to the improved credit-worthiness of the State (Richard, Hemming, 1991).

The degree of political stability in the State: the state's political factors along with the economic factors or variables affect the evaluation of the borrowing state's creditworthiness. The case of the state political instability is known unusual political events which are encroaching and not allowed by the state's laws. The events of political instability include the demonstrations, unrest, revolutions, political assassinations, coups, civil wars, guerrilla warfare. In addition to the personal estimates of the state's policies towards foreign creditors,

and policies of opposition parties, as well as the government's ability to achieve the standards necessary to stabilize the economy and to meet external payments (Ismail Hassan, 1997).

Borrowing State's wish for repayment: the indebt state may resort to the option of denying external debt payment if the burden became too heavy. The debt burden is determined by comparing the debt-servicing expenses (measured by the sacrificed benefit), debt-denial expenditures. The state's decision for such option could subject to economic calculations (analysis of cost / benefit). The benefits expected to be obtained as a result of debt denial of to get rid of the debt-servicing burden on the one hand, and the balance of accumulated debt on the other. These benefits tend to increase the debt magnitude, and the magnitude of debt-servicing payments. The cost of this option is embodied in retaliatory measures taken by the creditors against the state halted paying its external debt. One of the most important retaliatory measures is its exclusion from international financial activities and imposing a kind of economic embargo on the State concerned (Mahmoud Hassan, 1992). The state's wishes for repayment are restricted to its future borrowing. As the state could continue to receive foreign loans, they may not resort to the option of denying its previous external debts. This option will lead to a sharp deterioration of the state creditworthiness level. Thus would result in acute decreasing of the state's future ability to enter the international capital markets, as well as borrowing from international financial institutions. Therefore, the creditors' evaluation of the indebt-state creditworthiness should be based on the willingness of the borrower to meet debt-servicing obligations.

Fourth: The most important theoretical approaches explaining the risks of the borrowing state halted paying its external debts: most studies that have explained the risks of state halted paying its external debt on two basic approaches are:

1-Method of analyzing cost / return approach or the repayment wish approach: This approach is based on the fundamental notion that the State's decision to reschedule its debt or halt the payment of external debt as a rational option, based on its costs and benefits resulting from the rescheduling, or debt denial. In other words, the borrower compares the costs and benefits associated with payment, if the costs associated with paying are more than the benefits the borrower threatens to halt servicing its external debt, and wants to face retaliatory action by creditors. Therefore, the creditors' evaluation of the debtor creditworthiness must rely on the debtor willingness in abiding by its external-debt servicing obligations. It may happen to halt paying the external debt as a result of the indebt-state decision of reneging on the due loan repayment, even though the debtor may possess sufficient financial resources to pay its debt-servicing obligations. The borrower wish for paying depends on the extent of its confidence in the creditors to reconsider the imposed sanctions on the creditors; who slowed down repayment. It also depends on the creditors wish to lend in the future (Gouda, Abdul Khaliq, 1998).

The benefits received by the borrower halted repaying include the elimination of external debt servicing payments. In addition to the political and other social benefits related to repayment halt. On the other hand, the repayment halt cost include the creditors' retaliatory measures, which may include the imposition of economic sanctions such as trade embargo. Thereby, they would reduce the efficiency of production, and depriving the repayment-halt states from the foreign borrowing in the future. In addition to that the halt-repayment State bears higher interest rates on loans that it wishes to get it in the future from the international capital markets (Baher, Atlem, 1999).

There are multiple motives lead a country to maintain its ability to have accessibility to the international capital markets and not to halt repaying its external debts, notably: The motive of accessing to the international markets: the indebt state, which is more vulnerable to the effects of external shocks such as fluctuations in the prices of agricultural exports has a strong motive to maintain consumption levels by maintaining the ability to access to the international capital markets, especially in times when its faces those negative

effects.

The motive of reputation: that the indebt state is willing to maintain its international reputation, and in order to maintain the creditworthiness level. As this helps smooth its participation in the international trade. As the international trade is financed through international banks, the indebt state option to halt payment carries high costs. This is represented in the creditors' short-term commercial credit whenever it wishes to continue the operations of international trade at normal levels (Khaled Zaghloul, 2000).

The motive of investment: the indebt-state, which wants to exploit available investment opportunities in the future, resulting from high economic growth rates of procedure, endeavors not to halt repaying its external debts and to ensure the continued inflow of foreign capital. However, the use of obligated mechanism in regard with excluding the debtor from borrowing in the future as a means of pressure on the indebt-state which depends on the repayment of external debt may not give the desired results. The success of this mechanism requires cooperation and coordination between all the sources of international lending, and this is practically difficult to be realized. This mechanism is less effective in inducing the debtor to repay in the case of the availability of other means of accessing to adequate financial resources. The creditor nations may resort to use the threat of cutting aid to the indebt countries in order to urge them fulfill their obligations of their external debts (Elsmalote Ginat, 1995).

2-Method of the indebt state's ability or capacity to external debt servicing: It means the state's ability or capacity to repay its external debt. It indicates as well the resources allocation which the state can provide at a certain moment to repay its external debt, depending on the priorities of the resources allocation. This approach relates repayment halting to the unintentional deterioration of the borrowing state ability to service its debt as a result of lack of liquidity in the short term, or financial hardship in the long term, which leads to liquidity problems (Ezzat Aboualao, 1999). The lack of liquidity situation arises when the borrowing state is temporarily unable to gain or borrow sufficient foreign exchange to meet external debt servicing payments. The case of bankruptcy (financial distress) has more serious indications, because the borrowing state does not have the necessary resources for debt-servicing, even if it optimally uses its available resources. The state's capacity to service its debt is embodied in its ability to provide the necessary resources to repay the burden of those debts, and this includes mortgage debt burdens and benefits. On the other hand, the capacity of the State to service its debt depends on its ability to resolve competing demands on its resources. These are demands in domestic consumer demand, and investment on the one hand, and external debt obligations or obligations to foreign creditors on the other. The payment of external debt may not take the highest priority. Therefore, the state should determine the conditions under which it sets aside part of their resources to meet the debt production default due to the difficulties of liquidity (Faiqa El-Rifai, 2000).

The ability and capacity of the State to service its external debt could be impaired as a result of internal shocks, such as: failure in the main crop of the State, the effects of unsound economic policies. This could be attributed as well to external shocks such as: rising interest rates for a country with a high burden of external debt, a sharp deterioration in the terms of trade of the indebt-state. The state's capacity for repayment does not depend only on the economic factors, but is also determined by political factors. The economic factors largely affect determining the indebt state ability to repay its debts. This includes high rates of inflation, trade deficit continues, and the effective value of the exchange rate. The political factors on the other hand includes the government's ability to service its external debt depends on its ability to draw the necessary resources from citizens, and the stabilized regimes have a greater capacity of these unstable regimes. In addition, the instability increases uncertainty for investors about the economic policy of the state, and conditions that affect, directly or indirectly on the state creditworthiness. Thus, the expectation of political instability

negatively correlated with the state's ability to service their debts, and has a negative impact on the creditworthiness of the expected state. The political and economic stability is one of the most important factors that affect the flow of foreign direct investment - (FD1) to an indebt developing country (UNCTAD, 2008).
The state's capacity of debt servicing differs according to the different timeframes. In the short term, the state's ability to repay the debt burden is restricted to its ability to direct foreign exchange (loans) to the areas of investment which help increase exports or decrease imports. In the long term, the contribution of foreign loans to expand production capacity or structural change determines the state's capacity of debt servicing, provided that there consequently be an increase of earned savings on the desired investment IMF, 2001)). In other words, the state's capacity of servicing its short term debts depends on the net export earnings, but in the long run they depend on the desirable rates of economic growth.
This is approach is considered as one of the best methods that can be used to measure the external debt burden for a particular state and in a given year. This method is considered as an early warning so that the state can realize at any moment its actual repayment ability and the general direction which this ability leads to over the years.

Fifth: The creditworthiness of Egypt: The Foundation of STANDARD AND POORS issued a report at the end of March 2010 to stand on the merit of the Egyptian economy creditworthiness by focusing on the Tools of domestic economic stability. This includes the rates of domestic debt; inflation and budget deficits; the elements of stability, economic position and of the reserves volume and external debt and capital movements. The report concluded that the situation had 'good' of the creditworthiness of the Egyptian economy. This is attributed to the strong commitment to economic reform and financial management, which help attract more investments and pump into the national economy. The improvement in the monetary policy allows more flexibility in the exchange rate. The Egyptian economy is one of the largest economies in the region that has had a gross domestic product of about $ US187.2 billion in 2009. The structure of the economy witnessed a decline due to the dominance of the public sector to the private sector, thus contributing to a greater flow of direct capital FDI and a rise from $ US 3.9 billion in 2005 to nearly $ US 12.1 billion in 2008 and its fall once again to reach $ US 6.8 billion in 2009 . Tourism is also a key and important component of the Egyptian economy. It represents some 11.3% of the total GDP. Agriculture represents some 13.7% of the gross domestic product and employs one third of the total workforce. The sector reconstruction and construction sector contributes approximately 7.1 per GDP. The economic growth reached 4.7% in fiscal year 2009 compared to 7.2% in the 2008, due to lower external demand and the tourism industry. As the total tourist nights dropped by 2.1% and revenues reached about $ US 10.8 billion in 2009 compared to $ US 12.5 billion in 2008. This is also attributed to lower revenues from the Suez Canal and working abroad. The reason for the economic growth in the first quarter of fiscal year 2010 is attributed to strong domestic demand, which caused the growth in the construction sector by 13.8%, communications by 13.5% and mining by 6.3%. . The Egyptian reserves amounted to $ US 34 billion in February 2010. The government has adopted a set of the expanding spending policy of reached 8.4% in 2010 compared to 7% in 2009. In terms of the relationship between the Egyptian economic and the world economy, it occurs through the channels of trade and investment, and not through financial and banking sector. This placed Egypt in a good position compared to that of countries in the region. The domestic credit has declined in recent years up to 7% in the past five years compared to 10.1% from 2002 to 2004. The government also worked to develop solutions for the nonperforming loans through the amendment of policies, rules in order not to exceed 20% of the total debt, which increases the capital adequacy. The net foreign assets amounted to about 29.7% against a global average of 33.8%. The Egyptian Government was continuing in the application of structural reform since 2004, and the interrelationship between economic and financial sector and reduce bureaucracy and move forward in the privatization program and the adoption of monetary reform led by the Central Bank. All these procedures lead to improved investment environment and strengthen the

credibility of the decision-making and growth. The budget deficit will not affect the reform process adopted by the government as well as the application of property tax will increase revenue in the coming years. It is expected to record revenues ranging from 1.8 to 2.4 billion pounds, reduce the deficit to 7% of GDP in 2010 after it was 7.5% in 2008. The total debt relative to GDP was 72.8% in 2009 compared to 71.4% in 2008 and external debt amounted to about one third of GDP. The inflation rate has reached 12.8% in February 2010, but there is the ability to maintain the exchange rate balanced and flexible. It is expected to increase liquidity as a result of tourism revenues and workers abroad and to maintain the rate of debt and deficits locally.

Table (1), for the external debt indicators, reflects an increasing total external debt to reach in 2009 some $ US 33.1 billion, an increase estimated at 24.4% compared to 2001. The size of total debt decreased compared to the eighties. That is, the debt situation has relatively improved. It shows as well the total external public debt ratio to GDP indicated the external debt burden in Egypt, and refers to the ability of economies to bear the burden of this debt. As shown in Table (1) this rate in 2009 reached 33.0% while it was 45.9% in 1995. Egypt managed to decline the rate of this index by 28.1% in 2009 compared to what it was in 1995. In terms of total external debt, table (1) shows it declined by about $ US 0.7 billion in 2009 compared to 2007. It also reflect an increase of external debt servicing payments to approximately US 2.4 billion in 2006, then declined by about $ US 0.9 billion in 2009. As For the interest payments on external debt, they have been declining until they reached in 2009 about $ US 664 million, a decline estimated at about 40.8% compared to 1991 (Arivnd Subramanian, 1997). As indicated in table (1) there was an increase of official reserves to a maximum of 34.1 billion in 2008.The index of the external debt servicing proportion to total exports of goods and services shows what the premiums payment and the external debt interests consumed from the financial inflows of hard currency in Egypt. Thus, the debt servicing could constitute an obstacle to maintain these flows. It works also to improve its currency exchange rate against major foreign currencies, a matter which leads to the stability of its economies and work to attract capital inflows. Its shows the reduction of the official reserve coverage, the ratio of debt servicing payments to earnings of goods exports and services by 10.3%, 17.9% in 2009 compared to 1991 as shown in the table referred to. Table (2) indicates the increasing evolution of domestic public debt volume in 2009 amounted to L.E 980.7. In addition, the government domestic debt increased in 2009 to reach L.E. 492.6 billion. As for the domestic public debt proportion to GDP ranged from a minimum rate of 62.4% in 1995, and a maximum rate of 96.1% in 2006. Percentages of government debt to gross domestic public debt ratios ranged between the maximum rate of 76.6% and the proportion of minimum 65.3% in 2006. The study of the public budget indicators in Egypt, as shown in table no. (3), shows the GDP reached a peak around L.E 10008 billion in 2008/2009 with an increase estimated 2690% compared to 2000/2001. The total public expenditure has been increasing, reaching L.E. 346.6 billion in 2008 / 2009, an increase estimated at 65.5% compared to 2000 / 2001. As the table shows the proportion of public spending to output ratio ranged from the maximum rate of 38.2% in 20052/006, and the minimum rate of 31.8% in 2007/2008. In addition, the total public revenues have been increasing in 2008/2009 to reach 276.8 L.E. billion. The increase covered both the product's general revenues proportion and the total deficit to about 27.6% estimated L.E. 0.72500000000 in 2008/2009 for each of them respectively. Finally, the table shows a declining rate of total disability of gross domestic product to 7.2% estimated 8.5% compared to 2002/2003 (Karima, korayem, 2004).

Table (4), which comprises set of macroeconomic indicators, shows the population is increasing, reaching in 2008 about 77.3 million people. The exchange rate has also increased in 2008 / 2009 to reach L.E.5.6 per dollar. The trade balance deficit also increased in 2009/2008 to reach around L.E. 25.6 billion, along with an increasing of the deficit of balance of payments reaching $ U.S. 5.4 billion. The foreign aid has reached a maximum of $ US. 2.2 million, and then declined by $ US 1.1 million in 2009/2008. The remittances of Egyptians working abroad amounted to a maximum of $ US. 6.6 billion in 2007/2008, and then declined by about $ US 2.5 billion in 2009/2008. For the interest rates, the table shows lower interest

rates on loans for the year 2009/2008 amounting to about 13.5% as the decrease was estimated 4.5% compared to 1996/1995.

There was an increase of the deposits interest rates during the year 2009/2998 reaches 11.5% and estimated 2.75% compared to 2007/2006. The domestic liquidity has been increasing and reached a maximum of L.E. 766.7 billion in 2009/2008. The domestic credit also increased to a maximum of L.E. 599.2 billion in 2009/2008. The foreign investment inflows and outflows increased as well and reached its peak in 2009/2008 by $ US 17.8 billion and $ US 4.5 billion respectively. The table referred to the increasing growth rate of gross domestic product in 2009/2008 amounted to about 6.5% and estimated 1.5% compared to 1996/1995. As for the inflation rate, it has been decreasing and amounted during the year 2009/2008 to about 3.9% estimated 3.4% compared to 1996/1995. The table also indicates an increase of the unemployment rate in 2009/2008 amounted to about 12.2%. Finally, there was an increase in the domestic investment, exports and imports in 2009/2008 amounted to about L.E. 97.1 L.E. 271.6 million and L.E. 0.293200000 respectively as illustrated in Table (4). Notably, Egypt has obtained a quarter of the loans obtained by the North Africa States and the Middle East following the success of the international public banks controlled by the industrialized countries like the World Bank to persuade Egypt to borrow extensively over the last five years. Egypt is the most indebted from other international institution controlled by the industrialized countries, i.e. the International Financing Corporation (E. F. C), which is the main foundation to provide credit to the private sector in the borrowing countries. Egypt has borrowed alone $ US 283 million from the International Financing Corporation over the past five years. Egypt was also the largest borrower through the last five years from the European Investment Bank (EIB) as its total loans estimated $ US three billion. The USAID allocated the largest amount for the provision of economic development in Egypt, where allocated $ US 14.4 billion for this purpose during the period from 1979 until mid-2006, while allocated, in 2008 for this purpose, $ US 344 million.

Appendix

Table 1: Indicators of Egypt's external debts (1991-2009)

Annual statement	Total external debt $US billion	% of external debt to GDP	Total burdens of external debt $US billion	Premiums of external debt servicing	Interest payments of external debt $US million	Official reserves $US billion	Monthly Covering the official reserves of imports	% of external debt servicing payments to total exports of goods and service
1991	32.3	61.7	2.6	1.5	1121	14,0	17.2	23
1992	32.6	64.5	2.5	1.7	815	17.0	16.9	22.7
1993	30.3	59.9	1.9	1	871	17.9	18.8	15.6
1994	30.9	54.8	1.8	0.6	1148	18.5	16.4	14.8
1995	33	45.9	1.9	0.8	1139	20.3	15.7	13.1
1996	31	38.0	2	0.9	1155	20.1	15.7	13.4
1997	28.8	34.0	1.8	0.9	926	18.1	14.3	10.7
1998	28.1	31.7	1.5	0.8	646	15.1	12.8	9.3
1999	28.2	28.4	1.5	0.8	667	14.2	10.2	9.5
2000	27.8	27.0	1.7	1.1	648	14.1	10.4	9.6
2001	26.6	33.7	1.6	1.1	626	14.8	11.6	8.7
2002	28.7	41.5	2	1.4	645	14.8	12.0	11.9
2003	29.4	37.8	2.3	1.6	643	14.8	12.0	12.1
2004	29.8	38.7	2.5	1.9	610	14.7	9.7	10.8
2005	28.9	46.7	2.7	2.1	578.1	19.3	9.6	9.4
2006	29.6	36.1	3.0	2.4	591	22.9	9.0	8.5
2007	29.9	33.3	3.0	1.6	649	28.5	8.9	5.6
2008	32.5	36.5	2.9	1.5	652	34.1	7.8	4.8
2009	33.1	33.0	2.3	1.5	664	33.1	6.9	5.1

Source: annual report of the Egyptian Central Bank, different issues

Table 2: The development of internal public debt volume with is different components in Egypt during the period 1991-2009

Statement /Year	Gross Internal Public Debt (L.E. Billion)	Government Internal Debt (L.E. Billion)	% Internal Public Debt to Gross Domestic Product	% Government Internal Debt to Gross Public Debt	Indebtedness debt of National Investment Bank (L.E. Billion)	Economic Corporation Indebtedness (L.E. Billion)	Funds from treasury Bills (L.E.Billion)	Funds From Bonds and Bills (L.E. Billon)
1991	97	71.4	98.4	73.6	11.1	8.6	4.1	34.2
1992	106	81.3	89.6	76.6	15.1	9.7	17.5	42.6
1993	114	87.3	72.6	76.6	13.9	12.4	30.5	41.7
1994	126	95.9	63.4	76.1	15.0	14.9	35.1	38.0
1995	137	105	62.4	76.6	16.2	15.7	26.8	40.9
1996	151	114.1	63.4	75.6	18.7	18.2	27.2	39.8
1997	172	125.5	66.4	73.0	23.2	23.0	33.1	40.4
1998	189	136.7	67.8	72.3	28.7	23.1	38.1	35.4
1999	217	147.2	71.8	67.8	34.9	34.9	25.5	77.68
2000	246	164.4	72.5	66.8	43.6	37.5	25.4	77.7
2001	290.8	194.8	81.1	66.9	54.3	41.6	29.3	133.5
2002	329.8	221.2	87.0	67.1	67.4	41.1	40.0	165.9
2003	370.6	252.2	88.8	68.0	79.2	39.1	55.3	208.6
2004	434.8	292.7	89.6	67.3	97.6	40.6	83.7	272.1
2005	510.8	349.2	94.9	68.4	114.5	47.1	124.9	340. 9
2006	593.4	387.7	96.1	65.3	141.3	47.3	103.1	349.9
2007	637.1	478.1	85.6	75.0	137.1	44.5	118. 6	562.8
2008	699.8	512.6	74.3	71.9	136.5	50.7	114.7	573.1
2009	680.7	492.6	82.7	72.3	116.6	46.2	115.9	583.2

Source: Ministry of Finance, finalized accounts of the state's public budget, different issues

Table 3: Indicators of the public budget in Egypt during the period from 2000/2001 to 2008/2009 (value in L.E. billion)

statement	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
GDP	358.7	378.9	417.5	485.3	538.5	617.7	744.8	896.5	10008
Total public spending	119.5	134.4	149.3	146.0	161.6	207.8	222.0	282.2	346.6
% of GDP's public spending	33.3	35.5	35.8	34	33.3	38.2	33.7	31.8	37.9
Total public revenues	75.9	78.3	89.1	101.9	110.9	151.3	180.2	221.4	276.8
% of GDP' public revenues	21.2	20.7	21.3	20.9	20.5	24.5	24.2	24.7	27.6
Monetary deficit	43.6	56.1	60.2	44.1	50.7	56.5	41.8	61.1	69.8
Net of assets possession	0.9	1.2	5.4	1.8	0.9	-6.2	12.9	0.2	2.7
Total deficit	44.5	57.3	65.6	45.9	51.6	50.3	54.7	61.3	72.5
% of GDP's total deficit	12.4	15.1	15.7	9.5	9.6	8.1	7.3	6.8	7.2

Source: Ministry of Finance, finalized accounts of the state's public budget, different issues

Table 4: indicators of Egypt's macroeconomics during the period 1995/1996- 2008/2009

Annual statement	GDP L.E. billion	Growth rate of GDP	Inflation rate	Unemployment rate	Total domestic investment L.E. billion	% to GDP	Total domestic savings L.E. billion	% to GDP	Gap of resources L.E. billion	Exports L.E. billion	Imports L.E. billion
1995/1996	153.4	5.0	7.3	9.2	53.7	35.0	38.3	24.0	15.4	47.60	60.10
1996/1997	161.5	5.3	6.2	8.8	58.5	32.0	45.0	24.6	13.5	50.10	66.20
1997/1998	182.8	5.7	3.8	8.3	59.9	22.3	43.1	16.0	16.8	46.60	73.90
1998/1999	268.4	6.1	2.8	7.9	69.8	24.7	49.1	17.3	20.7	46.30	71.70
1999/2000	282.2	5.1	2.8	8.4	75.9	25.1	56.7	18.8	19.2	55.10	77.60
2000/2001	358.7	4.9	2.2	9.0	75.5	23.8	60.27	19.0	15.27	62.70	80.10
2001/2002	378.9	3.4	2.7	9.2	59.8	18.6	47.7	15.0	12.1	69.40	85.90
2002/2003	417.5	3.2	3.2	10.2	67.3	18.5	60.0	16.5	17.3	91.00	101.80
2003/2004	485.3	4.3	4.9	11.0	92.5	18.0	68.2	14.8	24.3	137.00	143.60
2004/2005	538.5	4.6	3.1	10.3	94.6	18.3	66.1	15.7	30.5	163.40	175.60
2005/2006	617.7	6.9	3.6	11.2	95.2	18.7	66.8	17.1	25.4	185.00	195.00
2006/2007	744.8	7.1	3.9	10.6	95.7	20.9	67.3	16.2	30.4	230.60	254.60
2007/2008	896.5	7.2	5.1	8.9	96.3	22.3	67.9	16.2	28.4	263.2	287.5
2008/2009	1008	6.5	3.9	12.2	97.1	15.8	72.1	10.5	25.0	271.6	293.4

Source: annual report of the Egyptian Central Bank, different issues

Table 4: indicators of Egypt's macroeconomics during the period 1995/1996- 2008/2009 (Continued)

Annual statement	Census Million people	Exchange rate of pound/dollar	Deficit of trade balance $ US billion	Deficit of balance of payments $ US billion	Foreign aids $ US million	Remittances of Egyptian workers working abroad $ US billion	Loans' interest rates	Deposits' interest rate	Domestic liquidity L.E. million	Domestic credit L.E. million	Foreign investment inflow $ US billion n	Foreign investment outflow $ US billion
1995/1996	60.080	3.780	7.8535	0.385	1.2	3.521	18.0	10.3	152577	133215	1.7	0.35
1996/1997	61.341	3.380	9.4980	0.185	1.3	4.145	17.9	10.5	168532	155777	1.5	0.38
1997/1998	62.639	3.380	10.2194	0.118	1.7	4.403	17.2	10.2	193902	183506	1.6	0.41
1998/1999	63.979	3.380	11.7706	2.478	2.1	4.869	13.5	9.5	210487	211827	1.7	0.51
1999/2000	65.292	3.400	12.5625	1.723	2.0	4.679	13.2	9.5	234568	256830	1.8	0.42
2000/2001	66.628	3.560	11.4723	1.163	2.0	2.661	13.1	9.3	255272	286639	1.9	0.66
2001/2002	67.976	3.580	9.3631	0.033	2.1	2.952	13.5	10.1	284873	321870	2.3	0.81
2002/2003	69.330	4.520	7.5165	0.614	2.0	2.962	14.1	10.2	328728	360090	2.7	0.7
2003/2004	70.432	6.032	7.8338	1.943	2.2	2.999	13.4	9.2	384262	387446	2.4	0.27
2004/2005	71.120	6.190	10.3592	1.583	1.9	4.329	12.5	9.5	434911	422040	3.26	0.27
2005/2006	71.968	6.165	11.9859	4.447	1.8	5.034	10.0	8.0	493884	466771	4.1	0.232
2006/2007	73.653	5.321	16.2906	3.253	1.8	6.321	10.75	8.75	560359	509532	9.09	2.9
2007/2008	77.168	5.442	23.4154	5.282	1.9	6.654	12.0	10.0	662688	531314	13.08	2.03
2008/2009	77.294	5.641	25.5534	5.420	1.1	4.136	13.5	11.5	766664	599241	17.8	4.5

Source: annual report of the Egyptian Central Bank, monthly statistical newsletter, different issues.
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