200MW Signing Ceremony
Memorandum of Understanding 2024
Lessons from Egypt’s IMF deal

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Like many nations burdened by debt, Egypt once again found itself navigating a storm of economic challenges, a scenario all too familiar to Pakistan.

With an external debt-to-GDP ratio breaching the 42 per cent mark as of September 2023 and short-term liabilities teetering close to $40 billion against a backdrop of dwindling foreign reserves pegged at $35 billion, the macroeconomic quandary was palpable, and the inflation last August had crossed 40 per cent.

External shocks – notably, the unfortunate situation in the Middle East and the Red Sea’s vicissitudes – further muddied the waters, jeopardizing critical foreign exchange lifelines such as tourism and Suez Canal revenues. In 2022-23, against the odds, the tourism sector did not do that badly, with earnings clocking in at a commendable $13.6 billion. Nonetheless, the looming spectre of inflation was rekindled by the Red Sea tumult and a stark nosedive in Suez Canal receipts, which halved in January 2024 compared to the year prior, heralding potential trade disruptions and shortages.

In a bid to staunch the economic haemorrhage, Egypt, the second largest debtor of the International Monetary Fund (IMF) after Argentina, once again courted the IMF for succour, culminating in a strategic entente last week. This pact, a lifeline intended to shore up Egypt’s faltering economy, was predicated on ensuring debt sustainability, recalibrating price stability, and spurring private sector-led growth through a gamut of structural reforms.

The key terms and conditions agreed between the IMF and Egypt include shifting to a flexible exchange rate system; monetary and fiscal policy tightening, including containing off-budget capital expenditure and recalibration of infrastructure expenditures; targeted budget support for vulnerable households through an expansion in coverage of the Takaful and Karama cash transfer programmes; and balancing public and private sector roles through reducing the state footprint and strengthening the ability of the private sector to better contribute to economic growth.

Building upon a previous $3 billion Extended Fund Facility (EFF) from December 2022, this accord burgeoned into an $8 billion lifeline, including a $1.2 billion tranche earmarked for environmental sustainability endeavours. It’s important to note that under the prior arrangement, Egypt struggled with implementing a market-based exchange rate, divesting state assets, and curtailing the military’s economic footprint, leading to a delay in the first review of the 2022 EFF initially slated for March 2023.

Parallel to this IMF pact, Egypt clinched a land agreement with the UAE sovereign fund ADQ, a move criticized by the opposition, but it did channel critical liquidity into the domestic economy. The $35 billion pact, inked on February 23 for the Ras al-Hikma coastal development, not only encompassed a $24 billion land acquisition but also the strategic reallocation of $11 billion from the UAE’s pre-existing Central Bank deposits in Egypt. This monumental investment is poised to catalyze an additional $150 billion in investments, envisaging Ras al-Hikma’s metamorphosis into a vibrant economic nexus, thereby bolstering employment and propelling growth, with Egypt maintaining a 35 per cent stake in the venture.

The currency flotation that ensued saw the Egyptian pound depreciate to 50 per dollar from a previous rate of 30, marking the fifth devaluation since April 2022; the black market rate ominously surged to 70. The Central Bank of Egypt also increased its overnight lending rate by 600 points to 28.25 per cent.

This financial recalibration and the UAE’s capital injection have kindled a spec-
The economic sagas of Egypt and Pakistan, particularly their frequent engagement with the IMF (Pakistan is the fourth largest borrower of the IMF), mirror each other’s struggles with the cyclical nature of the crisis, intervention, and temporary reprieve. This pattern highlights a critical challenge: the difficulty of sustaining reform momentum post-IMF intervention, a challenge compounded by a lack of political ownership and a tendency to revert to short-term political expediencies at the expense of long-term economic stability.

Both nations also grapple with the ramifications of external shocks, such as global commodity price fluctuations or geopolitical tensions, which can derail economic progress and magnify existing vulnerabilities. Both have also struggled with structural issues, including governance challenges and the need for deeper institutional reforms, which can impede the long-term success of IMF-supported programmes.

Egypt’s case, particularly its recent IMF deal and the consequential sale of a significant stake in Ras al Hikma, exemplifies the high stakes and complex decisions countries face in the throes of economic distress. For Pakistan, Egypt’s experience is not merely a distant tale but a mirror that reflects on its economic challenges and the potential strategies for recovery.

Two crucial lessons emerge from Egypt’s experience. First, the international community’s willingness to assist is often tinged with geopolitical considerations. The IMF, which had suspended its 2022 program with Egypt due to a lack of progress, willingly increased the loan amount by nearly three times in 2024, thanks to its strategic importance. It is obvious that Egypt’s potential role as an interlocutor between Hamas and Israel amidst the Gaza conflict catalysed a more favourable engagement from the IMF and international stakeholders.

This highlights the geopolitical dimension of economic bailouts, an aspect where Pakistan’s situation diverges following the NATO withdrawal from Afghanistan, diminishing its leverage in international negotiations.

Second, the concept of economic sovereignty and the inherent costs of financial rescues become starkly apparent. Egypt’s concession of Ras al Hikma underscores a stark reality: financial aid, especially from fraternal nations, often carries hidden costs, potentially demanding painful sacrifices of national assets. Pakistan’s reliance on financial rollovers from allies like China, Saudi Arabia, and the UAE, while currently beneficial, might similarly necessitate unwelcome compromises in the future.

As Pakistan steers through these turbulent economic waters, the importance of comprehensive and sustainable reform becomes increasingly evident. The path forward entails a rigorous commitment to structural adjustments that transcend the immediacies of fiscal balancing acts. This encompasses a broad spectrum of reforms aimed at enlarging the tax base, enhancing revenue and improving its quality (more reliance on direct taxes), rationalizing public expenditures, and addressing the perennial challenges in the energy sector and state-owned enterprises.

The essence of this reformative journey lies in fortifying governance and institutional integrity, which are essential bedrock for fostering economic resilience and growth in the absence of geopolitical leverage.

With its blend of geopolitical manoeuvring and hard economic choices, Egypt’s story offers Pakistan a valuable perspective on the complex interplay of international finance and national policymaking. As Pakistan forges its path toward economic recovery, the insights gleaned from Egypt’s engagements with the IMF and its broader economic strategy highlight the critical need for a nuanced, multifaceted approach that balances immediate economic exigencies with long-term structural reforms.

Naeem Qureshi appointed as Convener of FPCCI body on SDGs

Naeem Qureshi, the President of the National Forum for Environment and Health, has been appointed as the new Convener of the CSR Central Standing Committee of the Federation of Pakistan Chambers of Commerce & Industry on Sustainable Development Goals (SDGs) for the year 2024-25.

FPCCI President, Atif Ikram Sheikh, appointed Qureshi as the Central Standing Committee convener keeping in view his years long services to promote greenery in urban areas, prevent deforestation, greater use of renewable energy sources, reduce harmful industrial emissions and urban waste, and building mass transit systems in cities to reduce vehicular emissions and congestions on roads.

The Central Standing Committee in question will comprise a minimum of nine members to be selected by the convener based on their experience in promoting the cause of SDGs in the country. The committee will meet at least once quarterly to discuss and finalise the agenda of SDGs for businesses and industries in Pakistan.

In his statement on the occasion, Qureshi expressed gratitude to the FPCCI President, United Business Group Chairman Zubair Tufail, and National Business Group Chairman Mian Zahid Hussain, for reposing fullest trust in him by appointing him as convener of one of the important standing committees of the FPCCI.

Qureshi said that as the Convener of the Standing Committee, he would take along all the relevant stakeholders from civil society, NGOs, non-profits, the economy, industry, and businesses, to further the agenda of conforming industrialisation and business activities to the SDGs.

He said the committee would act as a bridge between businesses, industry, and civil society to ensure that business and industrial activities lead to sustainable development in Pakistan.