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The Impact of the International Monetary Fund's 2016 – 2019 Loan to Egypt on the Country's Development

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Contents

Abstract

The primary objective of the International Monetary Fund (IMF) is growth. The organization and its programs can enable the development of nations across the globe and stimulate growth. However, due to weaknesses in its system with conditions that are offered as blanket solutions for unique problems as well as unequal bargaining terms, the IMF can exacerbate the situation in nations that are already suffering with crises. Following years of unrest after the Arab Spring, Egypt finds itself in an unwieldly position having both vowed to increasing its development as well as introduced major reforms based on IMF recommendations in order to acquire loans from it.

Egypt's 2016 – 2019 loan from the IMF echoes the country's past experience with the Fund in the 1990s. Both programs heavily focus on macroeconomic stability. However, the 1990s' program was criticized for its weak implementation of structural adjustments for multiple reasons including delays caused by legislation changes needed for enforcement. The recent program, on the other hand, was preceded by the passing of bills in the Egyptian Parliament and rigid conditions to ensure the fruition of the agreements.

The IMF's recent loans to Egypt are expected to achieve long-term goals of development. Unfortunately, they added more strains on middle and low income populations despite the Fund's promises of easing adjustments to weaken the shock magnitude of measures such as currency floating and decreases in subsidies.

I. Introduction

Most uprisings are characterized by a period of instability that follows them, which can have detrimental consequences on their nations' economies. In an effort to revive Egypt's economy after the 2011 Arab Spring, President Abdel Fattah Al-Sisi's government sought to obtain loans from the International Monetary Fund (IMF). In 2016, the IMF approved a three-year loan to Egypt for a total of $12 billion.[1] The final installment of the IMF loan was delivered to Egypt in July 2019.[2] The loan was designed to help the government plan and execute numerous development projects that ultimately aim to achieve economic reform and promote development.[3]

The IMF, as a lending international organization, is controversial and sits at the center of many debates among thinkers and researchers. The IMF was originally created to be a central coordinator to control exchange rates between countries. However, with the authority over exchange rates becoming obsolete in the 1970s as most states shifted to market-driven exchange rates, the IMF was able to successfully change its mission and adapt. It makes short-term loans to governments to finance buying local currency on international markets to stabilize a failing exchange rate.[4]

Despite numerous criticisms of the institution, IMF proponents believe that the institution's intentions are not meant to cause further harm to already vulnerable states. Kenneth

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[1] IMF and Egypt Frequently Asked Questions. *The International Monetary Fund.* (2020). https://www.imf.org/en/Countries/EGY/Egypt-qandas#Q1.

[2] Ibid.

[3] IMF's Fifth Review Under the Extended Arrangement Fund Facility for the Arab Republic of Egypt. *The International Monetary Fund.* (2019). https://www.imf.org/~/media/Files/Publications/CR/2019/1EGYEA2019002.ashx

[4] Hurd, Ian. *International Organizations: Politics, Law, Practice.* Cambridge University Press, 2018.

Rogoff asserts, “critics must understand that governments from developing countries don't seek IMF financial assistance when the sun is shining; they come when they have already run into deep financial difficulties, generally through some combination of bad management and bad luck.”[5] Regardless of the organization’s intentions, the IMF should be assessed by the impact of its programs on the receiving country’s actual development.

As Egypt pursued help from the Fund, many thinkers became increasingly worried about the potential negative impact of such a large debt that would further widen the deficit. On the other hand, other experts believed that the loan would be Egypt’s only way out of numerous financial troubles. This research paper seeks to examine short-term as well as projected long-term impact of the loan on the country’s development. It analyzes the IMF as an organization that is often associated with delivering high risk proposals to already-suffering developing nations. The study seeks to understand Egypt’s unique problems at the time it sought the huge loan. It attempts to implore whether borrowing money was the correct solution to Egypt’s problems.

The IMF, proposing strategies that tend to be described by many as double-edged swords, has a varying track record in terms of reviving nations’ economies. For example, its programs have succeeded to a large extent in the Middle East in the 1990s, but worsened Asia’s financial crisis within the same decade.[6] Thus, the primary research method for this study is literature review. Various texts will be consulted throughout the research in order to analyze the IMF as an organization, given its history and experiences both with Egypt and other countries in similar as

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[5] Rogoff, Kenneth. "The IMF Strikes Back." *Foreign Policy*, no. 134 (2003): 39-46. https://www.jstor.org/stable/3183520.

[6] Katz, S. Stanley. “The Asian Crisis, the IMF and the Critics.” Eastern Economic Journal, vol. 25, no. 4, 1999, pp. 421–439., www.jstor.org/stable/40325949.

well as different conditions. Additionally, various data metrics will be heavily utilized to assess the accuracy of every claim made throughout the paper to maintain accuracy and ensure impartiality.

Predicting the success of the IMF's programs in Egypt is difficult. This paper strives to offer answers for the following analytical questions: Is the IMF a financial firefighter or the source of new economic fires? Was the IMF's involvement in Egypt in the 1990s a success? How has the IMF's prescription for Egypt changed, or remained the same, from the 1990s to the 2010s? Is floating the Egyptian currency a measure of economic stability or the recipe for disaster? Will the 2010s' loan be a catalyst for development? Will the proposed strategies exacerbate the life conditions of Egyptian citizens in the short-term in order to achieve development in the long-term?

This research provides an overview of the economic situation in Egypt from the 1990s and until 2020. It briefly highlights the economic setback that the global world has been largely experiencing since early 2020 due to the COVID-19 pandemic. However, the study certainly does not determine the future conditions of Egypt as impacted by the IMF loan and other measures or circumstances. It predicts, based on recent data metrics, whether the country is heading towards economic stability or not, given the current conditions and past experiences with the Fund.

In this study, it is argued that Egypt has been placing a strong emphasis on achieving new measures of development since Al-Sisi's coming into power. The country is racing against time to enter a new golden age of prosperity through economic and social reform. Al-Sisi's government has a vision of change that is not only political, but rather all-encompassing of the needs of the people in all areas of their lives. Unfortunately, this pleasant revitalization plan has thus far not been kind to the middle and lower-income classes. The conditions of the IMF loan have been harsh on the Egyptian people. The floating of the Egyptian Pound, for example, has caused severe increase in the prices of basic goods. This volatility was expected by experts, but it is often deemed as a necessary evil, or a temporary period that will be followed by stability and even growth. As a result, Egyptians are frequently being asked to endure the difficult journey and be patient for a hope of a better future. The research seeks to understand the duration of that "journey" and ponders the following question: Even if the IMF loan leads to reform and development in Egypt, does it still justify the further suffering of the lower-income classes temporarily as a byproduct?

II. Literature Review

The primary objective of the IMF is "growth," according to Michael Cadmessus, a former IMF Managing Director.[7] In an attempt to evaluate the organization against its primary objective, the researcher Axel Dreher carriers out a study to measure the IMF's performance. In it, he claims that the IMF negatively influences the economic growth of program countries.[8] Dreher conducts a time-series cross-sectional analysis to examine the impact of the IMF on 98 developing countries from 1970 to 2000. He measures the average growth rate of per capita GDP in five-year periods, as a dependent variable, to find how the IMF's loans influence that rate.[9] The results of his analysis show that "economic growth tends to be lower with greater IMF involvement."[10] Dreher concludes his research stating, "IMF programs are a failure" when measured against the organization's primary objective of enticing economic growth.[11] He claims, "IMF conditions are harmful to growth, so that compliance with these conditions worsens performance" and associates this result with the "devaluation of the domestic currency and tight fiscal and monetary policy… being… the preferred measures to deal with balance-of-payment crises."[12]

Additionally, critics of the IMF argue that borrowing countries' propensities to take excessive loans from the institution due to potential bailouts can result in leaders using such loans to temporarily steer away the discontent of their citizens during their time in power, rather

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[7] Dreher, Axel. IMF and Economic Growth: The Effects of Programs, Loans, and Compliance with Conditionality (August 2005). http://dx.doi.org/10.2139/ssrn.558401
[8] Ibid 781.
[9] Ibid 774.
[10] Ibid 779.
[11] Ibid 781.
[12] Ibid 779.

than working on solving the domestic problems at their core.[13] Devesh Kapur calls this a "moral hazard" and accuses the IMF of providing an implicit insurance to desperate economies.[14] Because temporary solutions can cause permanent problems, leaders can borrow large sums of money to appease their citizens for short periods of time and leave their countries with large debts. Such large debts could be difficult for developing nations to pay back and can cause a threat to the borrowing countries as well as the global economy in the long run, if more states follow suit.

Leaders can, also, request IMF loans to implement the policies they want while being allowed to avoid criticism. "This is because they can then blame the IMF for their policies."[15] Simultaneously, if development is not accomplished as hoped, leaders can use the scapegoat theory – accusing the IMF of being the cause of the failure. Likewise, the IMF "encourages opponents of stabilization to accuse political authorities of 'selling out' at the same time that it allows authorities to attempt to shift blame for austerity to the Fund"[16] For example, the stabilization of currency may actually be the correct strategy to fix a failing economy for a suffering country, but the motives behind the request for the loans and the programs' execution by the leaders may result in more harm than good, causing further discontent with the IMF and the conditions it poses.

Also, the IMF is often accused of providing blanket policy prescriptions that are not tailored to the needs of the receiving countries. These recommendations can lead to inflation in

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[13] Kapur, Devesh. "The IMF: A Cure or a Curse?" *Foreign Policy*, no. 111 (1998): 114-29. https://www.jstor.org/stable/1149382.

[14] Ibid 124.

[15] Dreher (2005), 778.

[16] Remmer, Karen L. "The Politics of Economic Stabilization, IMF Standby Programs in Latin America, 1954 1984." *Comparative Politics*. (1986). 19: 1-24.

prices, which exacerbate the rigid situations of middle and lower-income populations. In fact, the IMF is accused of overlooking the consequence of inflation altogether upon its creation. "Although the IMF's 1944 Articles of Agreement had provisions for dealing with the international roots of balance-of-payments problems — devaluation, capital controls, and temporary financing — they contained no specific prescription for dealing with inflation."[17] Thus, recipient countries tend to suffer from inflated prices in order to receive the loans desired, creating an additional problem that may have not been as cumbersome prior to the loans sought. The general prescriptions of the IMF and the organization's rare diversion from prescribing them to most recipient nations have its critics labeling it "as an 'orthodox' or 'monetarist' organization."[18]

The IMF's continuous attachment to its famous prescription policies is also criticized by Karen Pfeifer, a Professor of Economics, who evaluates *"How Tunisia, Morocco, Jordan and even Egypt became IMF 'Success Stories' in the 1990s?"* with a journal article of the same question as the title. Pfeifer is concerned about IMF proposals that "introduce market-based volatility into fragile 'emerging' economies, undermin[ing] non-capitalist social units such as the village and the extended family… homogeniz[ing] global culture, symbolized by putting a Kentucky Fried Chicken outlet in every *entrepôt*."[19] She admits that the four countries' structural adjustment programs, recommended by the IMF, partially succeeded in reducing inflation, budget deficits, and debt service. However, that success "did not restore their (the four

[17] Babb, Sarah. "Embeddedness, Inflation, and International Regimes: The IMF in the Early Postwar Period." *American Journal of Sociology 113*, no. 1 (2007): 128-64. https://www.jstor.org/stable/10.1086/517896
[18] Ibid 142.
[19] Pfeifer, Karen. "How Tunisia, Morocco, Jordan and Even Egypt Became IMF 'Success Stories' in the 1990s." *Middle East Report*, no. 210, 1999, pp. 23–27. JSTOR, www.jstor.org/stable/3012499.

countries') 1980 (pre-crisis) rates of savings, investment and growth."[20] By the same token, the programs further disregarded social problems such as unemployment and inequality through the inducing of economic recessions. This is evident in the data metrics she examines. For example, Egypt privatized more than a third of the public sector portfolio in 1996 and 1997 based on the IMF's recommendations.[21] Yet, it did not raise the rate of GDP growth, the rate of GDP growth per capita, the ratio of gross domestic investment out of GDP to pre-crisis level, the ratio of gross domestic savings over GDP to pre-crisis level, or the rate of growth domestic investment. In fact, it only was able to lower the rate of price inflation. Using each of those metrics as indicators of domestic success, Pfeifer rated Egypt with a one out of six, which would give the country a 17% domestic success score. Adding the other countries to the analysis, they all score 46% in domestic success after implementing the structural adjustment programs. Not only are these percentages very low to be deemed as success stories, but Pfeifer also relates much of the small victory to external grants and concessionary loans rather than the IMF programs. In her closing argument, she critically states:

> "The time has come to implement a different set of policies that will combine active public investment in social goods (such as telecommunications and water systems) with a stable macroeconomic environment and socially responsible incentives for private investment. Employment and human development, along with investment, belong at the center of economic policy. The citizens of countries undergoing or having undergone structural adjustment need a new, active conception of economic reform to replace a religious precept that requires them to wait faithfully and passively for the beneficent workings of the invisible hand to redeem them."[22]

The conditionality of the IMF's loans is at the center of every debate about the organization and its motives, methods, and effectiveness. It is also often discussed that many

[20] Ibid 23.
[21] Ibid 24.
[22] Ibid 27.

debtor nations find their hands tied when it comes to governing as they see best fit because of the IMF's involvement. Less highlighted, however, is how citizens feel about an increasing scope of conditions on loans. Nationals elect their officials and trust them with decision-making processes knowing that they will ideally work in their best interests. The IMF, with its current structure, is not held accountable as it continuously exerts pressure on governments to implement certain conditions. As the IMF's power grows across the world and as nations continue to enter financial crises, the organization "take[s] over more and more of a country's decision-making process, without any commensurate increase in accountability."[23] In Devesh Kapur's words, "the absence of risk sharing means that these conditions amount to a form of political taxation without representation."[24]

On another hand, Quintin H. Beazer and Byungwon Woo argue that it is not necessarily the Fund or its conditionality that influence the success or failure of the programs. They highlight the role that domestic politics play in determining the outcome of loans. One aspect in domestic politics that can impact the results of programs is the partisanship of participating governments and their ability to confront opposition as the conditions exert pressure on the economy. They argue,

> "Extensive IMF conditions can effectively pressure left-wing governments into undertaking more ambitious reforms without mobilizing the governments' partisan rivals, since the right-leaning opposition themselves typically advocate market-oriented reforms. For right governments, however, stricter IMF conditionality can stall reforms' implementation by heightening resistance from the left while simultaneously reducing leaders' ability to grant concessions or compromise over controversial measures"[25]

[23] Kapur 126.
[24] Ibid.
[25] Beazer, Quintin H., and Byungwon Woo. "IMF Conditionality, Government Partisanship, and the Progress of Economic Reforms." *American Journal of Political Science,* vol. 60, no. 2, 2016, pp. 304–321., www.jstor.org/stable/24877623.

The researchers test their theory by analyzing all IMF programs in 21 post-communist countries from 1994 to 2010 in Eastern Europe. The countries' poor economic conditions due to the collapse of the Soviet Union led to the seeking of multiple IMF loans. Also, their shared communist history allowed for a common ground for comparison. In their study, Beazer and Woo decided on "reform progress" as the dependent variable and "structural conditions" as the independent variable. Reform progress is measured through the European Bank of Reconstruction and Development (EBRD). It tracked reform progress on six dimensions large-scale privatization, small-scale privatization, competition policy, enterprise restructuring, price liberalization, and trade and currency liberalization. The bank scored each country every year by assigning indicators to represent countries' cumulative reform. The independent variable, on the other front, is a count of structural conditions required by the IMF within each program. These conditions include: "privatizing lists of particular state-owned enterprises, downsizing specific agencies, or reducing spending by firing public employees."[26] With the researchers categorizing countries' partisanship as left, centrist, and right, they find the following:

> "Under left governments, more conditions are associated with increased economic reform… Substantively, as government partisanship moves rightward, more structural conditions in a given IMF program correlate with diminishing advancements in actual reform, even after controlling for factors such as the depth of crisis and the program's reform baseline. Under right governments, the marginal effect of additional structural conditions is estimated to be approximately zero."

Thus, the research determines that the realization of the goals of IMF programs heavily depends on the partisanship of the government seeking the loans. More specifically, substantial IMF conditions tend to navigate left-wing governments towards more reform without interruption

[26] Ibid 307.

from partisan rivalry that would normally add obstacles in the way of implementing structural change.

Despite its many criticisms, the IMF remains to be a well-respected international organization and lending agency. "The existence of an IMF program acts as a seal of approval, reassuring investors and depositors and reducing the probability of withdrawing funds from the domestic banking sector."[27] Though the receiving countries may find difficulty repaying money back, the IMF is known for its credibility in fulfilling the payments it promises. Thus, once a loan is approved, the availability of the money is not a concern as long as the receiving country abides by the conditions agreed upon. Thus, liquidity problems can be immediately reduced. In addition, more liquidity can be provided by investors who would be enticed to create businesses.[28]

Axel Dreher and Stefanie Walter use panel data for 68 countries from 1975 to 2002 to conduct a study about the effectiveness of the IMF. One of their important findings show that "crises become significantly less likely with the existence of an IMF program in the previous five years."[29] They also explain that this reduction of risk is due to the existence of a lending agreement and an IMF program in general, rather than a specific loan amount or compliance with conditionality. The researchers highlight the significance of their results stating, "it therefore seems that the more indirect channels such as IMF advice and its 'seal of approval,' as well as its function as a scapegoat is more valuable than its money and conditions. Overall, the result also

[27] Papi, Luca, Presbitero, Andrea, Zazzaro, Alberto. "IMF Lending and Banking Crises." *IMF Economic Review* (2015) 63: 644. https://doi.org/10.1057/imfer.2015.16
[28] Ibid 7.
[29] Dreher, Axel and Walter, Stephanie. "Does the IMF help or hurt? the effect of IMF programs on the likelihood and outcome of currency crises." *World Development (*2010) 38 (1). 1–18. https://www.peio.me/wp-content/uploads/2014/04/Conf1_Dreher.Walter_IMF.Effects.Currency.Crises.pdf

suggests that these positive indirect effects outweigh the potential negative effect of IMF programs in terms of moral hazard."[30] This conclusion is a valuable addition to the IMF debate because it calls attention to the importance of the IMF as a lending organization in theory, even if its programs do not always succeed in what they are set out for.

[30] Ibid 19.

III. Egypt's History with the IMF

The 2016 – 2019 loan is not the only sum of money that Egypt obtained from the IMF. Egypt's Debt Outstanding and Disbursed (DOD) from the IMF has been increasing over the years, according to World Bank data.[31] The World Bank defines "Use of IMF Credit" as a variable used to denote "members' drawings on the IMF other than amounts drawn against the country's reserve tranche position."[32] This data is provided by the IMF's treasurer's Department, "converted from special drawing rights into dollars using end-of-period exchange rates for stocks and average-over-the-period exchange rates for flows."[33] Egypt's DOD was $49.3 million in 1970, $410.7 million in 1980, $124.8 million in 1990, $177.1 million in 2000, and $13.1 billion in 2019 (Figures 1 and 2).[34] With its long borrowing history from the IMF, Egypt has one of the highest DOD in the world as of 2019, second only to Argentina.[35]

In the late 1980s and 1990s, Egypt had four lending programs with the IMF and about $1.7 billion in commitments.[36] These programs are often praised in IMF literature for being a successful story of macroeconomic liberalization. In an IMF working paper titled, "The Egyptian Stabilization Experience: An Analytical Retrospective," Arvind Subramanian highlights the achievements of the 1990s' stabilization stating,

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[31] World Bank Indicators. *The World Bank.* https://databank.worldbank.org/source/world-development-indicators
[32] World Bank Metadata Glossary. *The World Bank.* https://databank.worldbank.org/metadataglossary/international-debt-statistics/series/DT.DOD.DIMF.CD
[33] Ibid.
[34] World Bank Indicators.
[35] World Bank Indicators.
[36] Egypt and the IMF: Overview and Issues for Congress. *Congressional Research Service*. 2013. https://www.everycrsreport.com/reports/R43053.html

> "This effort produced a remarkable turnaround in Egypt's macroeconomic fortunes. Inflation declined from 21 percent in 1991/92 to 7.1 percent in 1995/96 as liquidity growth also declined from over 27 percent in 1990/91 to 10.5 percent in 1996/97. External viability was also achieved as the current account improved from a deficit of about 5 percent of GDP to a surplus of 1.1 percent in the post-stabilization era, and external reserves burgeoned to unprecedented levels.… Since 1993/94, real GDP has grown steadily, reaching 5.0 percent in 1996/97 (in comparison to 1.22 in 1991)."[37]

This success in fiscal policy, as summarized by Subramanian, was also translated into a decrease in poverty for Egypt's population at the time. The country's poverty headcount ratio at $1.90 per day dropped from 8.7 in 1990 to 5.6 in 1995 and 2.4 in 1999 as a percent of the population (Figure 3).[38]

Yet, despite these achievements, the IMF is criticized by some thinkers for its weak programs in Egypt during that time period. Alison Chase claims that Egypt did not fully implement the structural adjustment programs recommended by the Fund. She asserts that the Egyptian government was hesitant about implementing policies such as "privatizing the large number of state-run industries, trimming the cumbersome bureaucracy, increasing the rate of domestic savings, and attracting foreign investment."[39] Further, she contends that this lack of execution on Egypt's part and the IMF's silence over it highlight a problematic notion of Fund-favoritism.

Chase points out four observations about the interactions between Egypt and the IMF in the 1990s that support her claims:

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[37] Subramanian, Arvind. "The Egyptian Stabilization Experience: An Analytical Retrospective," *IMF Working Paper*. Wp/97/105. (1997). https://www.imf.org/en/Publications/WP/Issues/2016/12/30/The-Egyptian-Stabilization-Experience-An-Analytical-Retrospective-2324

[38] World Bank Indicators.

[39] Chase, Alison. The politics of lending and reform: The International Monetary Fund and the nation of Egypt. *Stanford journal of international law*. (2006). 42. 193-236. shorturl.at/dvTU2

- First, the IMF merely recommended privatization and structural adjustment programs rather than concretely adding them to the list of conditions. According to Deborah Siegel, "it is not always clear outside the Fund which measures the Fund suggested in helping members design their programs and which were taken up as Fund conditionality. One reason is that governments find such ambiguity convenient, in that it permits unpopular reform measures… to be perceived as required by the Fund."[40] Additionally, Chase argues that governments try to appear as if they have the upper hand in negotiations with the Fund in order to appease their citizens.[41] In either case, citizens lose sight of the reforms agreed upon and that undermines their implementation.[42]
- Second, the IMF recognized the government's limitations when implementing some of the programs, yet it did not design policies to alleviate the obstacles hindering the progress. Though the government was making progress in moving forward with some of the goals of the agreement, "there were several quantitative, specific targets that were not met."[43] For example, in the second review with the program in 1997, the Egyptian government was ten industries behind in privatization.[44] Coincidentally, in 1991, the Paris Club granted Egypt

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[40] Siegel, Deborah. Legal Aspects of the Fund—WTO Relationship; The Fund's Articles of Agreement and the WTO Agreements. *The International Monetary Fund*. (2002). https://www.imf.org/external/np/leg/sem/2002/cdmfl/eng/siegel.pdf
[41] Chase 200.
[42] Ibid.
[43] Ibid 218.
[44] Second Review Under the Stand-By Arrangement. *The International Monetary Fund*. ERS/97/116. (1997).

a major debt relief. This allowed government officials to get away with having achieved partial goals.

- Third, "the IMF did not discuss the social effects of its policies, nor the extent to which social pressures would affect the durability and implementation of programs. In contrast, the representatives of the Egyptian government stressed the social effects of policies."[45] The terms of the agreement did not mention the impact of price increases in several areas for consumers.[46] Additionally, the government stated that it would use foreign assistance to absorb the impact of the reforms on vulnerable groups.[47] However, the IMF did not raise concerns about potential delays or detail any recommendations for ways to mitigate the risks of the reforms' impact.[48]
- Fourth, legislation changes recommended by the IMF caused delays in enacting structural adjustment programs. "While the IMF complained of delay, the administration was often working to secure passage of a reform bill. The inability of the executive to secure legislative agreement to a program could have proven a substantial and continuing barrier to reform, but the IMF assumed away these problems."[49]

These observations lead Chase to accuse the IMF of favoritism towards certain member countries like Egypt. "The word of the US carries weight at the IMF and World Bank—

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[45] Ibid 216.
[46] Review of Stand-By Arrangement: Request for Waiver and Modification of Performance Criteria under Stand-By Arrangement, and Approval of Exchange Measures. *The International Monetary Fund.* EBS/91/213. (1991).
[47] Chase 218.
[48] Ibid.
[49] Ibid 222.

something that Egypt has turned to its advantage in the past, most notably in 1991 after Mubarak helped mobilise Arab support for the US following Iraq's invasion of Kuwait."[50] She argues that this favoritism is especially apparent when the conditions of the loan to Egypt are compared to those provided to Asian countries during the financial crisis of the 1990s. She underlines the differences in conditions imposed by the IMF on Thailand, Indonesia, and South Korea stating, "[t]he IMF insisted on extensive conditions with these packages (provided to the Asian countries)" whereas for Egypt, "[t]he IMF's recommendations lacked specificity."[51] Chase stresses the importance of the organization's neutrality, transparency, and openness when it comes to recommending policies and setting conditions on programs in order to ensure a favorable outcome for all parties.

Egypt's success story with the Fund, as previously described, did not last too long. The country's poverty headcount ratio at $1.90 per day more than doubled in five years from 2.4 in 1999 to 5.2 in 2004 (Figure 3).[52] Similarly, the country's rate of unemployment increased from 7.95% in 1999 to 11.01% in 2003 (Figure 4).[53] Annual percentage growth rate of GDP at market prices based on the Egyptian Pound sharply declined from 6.37% in 2000 to 2.39% in 2002 (Figure 5).[54]

Statistics show that the IMF's revitalization of Egypt's economy in the 1990s was short-lived. This is possibly due to the issues pointed out by Chase, as a result of the IMF's leniency and inability to force the implementation of structural adjustment programs as initially

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[50] Butter, David. Political Uncertainty Takes Toll on Regional Economies. *Middle East Economy*. 2002.
[51] Ibid 222.
[52] World Bank Indicators.
[53] Ibid.
[54] Ibid.

recommended. However, this long-term failure could be due to external factors that are beyond the Fund's powers of control. In 1997, a horrific terrorist attack targeted tourists in Luxor, a city rich with history and culture. The attackers, members of the Islamic Group militant organization, killed "70 people, including 60 foreign tourists" and was considered one of the worst attacks in Egypt's modern history.[55] As a result, Egyptian tourism plummeted and the economy suffered. Furthermore, the Asian financial crisis "contributed to a drop in both portfolio investment and Suez Canal dues" adding a strain on the economy.[56] Thus, it is unclear why exactly the IMF's progress in Egypt did not last through the 2000s.

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[55] Jehl, Douglas. 70 Die in Attack at Egypt Temple. *The New York Times*. 1997. https://www.nytimes.com/1997/11/18/world/70-die-in-attack-at-egypt-temple.html

[56] Chase 214.

IV. The 2016 – 2019 IMF Loan and its Conditions

Conditions on loans, which are meant to steer governments towards crafting and implementing effective policies, can serve as a hindrance to already economically-suffering countries. "[T]he use of conditionality has increased… over the past twenty years."[57] As a result, countries who receive loans are asked to bargain with more conditions each time the IMF's help is sought. The Fund often offers policy recommendations to go along with the conditions in order to reshape the climate that led to a suffering economy altogether.

The negotiations between Egypt and the IMF resulted in stringent conditions for the loans. These conditions included, "the introduction of value-added tax (VAT); wage restraint in the public sector; a drastic cut in electricity and fuel subsidies; de-pegging of the Egyptian pound from the US dollar; and removal of most restrictions on foreign currency trading."[58] The program has a focus on four main areas:

1. Policy adjustments of:
    a. Liberalizing the foreign exchange system to encourage investments and exports
    b. Fortifying social safety nets by increasing spending on food subsidies and cash transfers
    c. Implementing structural reforms to promote growth and increase employment

[57] Nooruddin, Irfan, and Joel W. Simmons. "The Politics of Hard Choices: IMF Programs and Government Spending." *International Organization 60*, no. 4 (2006): 1002. www.jstor.org/stable/3877854.
[58] Feldman, Nizan, and Ofir Winter. Report. *Institute for National Security Studies*, 2017. www.jstor.org/stable/resrep17070.

d. Attracting external financing to close the financial gaps[59]

To achieve these goals, the Central Bank of Egypt initiated change by liberalizing the foreign exchange system and adopted a flexible exchange rate regime in November 2016.[60] The IMF claimed that such measure would "improve Egypt's external competitiveness, support exports and tourism and attract foreign investment."[61] Further, it would enable the Central Bank to rebuild international reserves, which are essential to balancing the payments of Egypt. In addition, the IMF claimed that it would contain inflation, "bringing it down to mid-single digits over the medium term" by strengthening the Central Bank's capacity to forecast and manage liquidity[62]

The IMF projected a 2.5% increase in GDP during the program as a result of the VAT, approved in the Parliament in August of 2016. Simultaneously, the Fund projected a decrease in expenditures by 3.5% as a result of subsidy reductions and the optimization of the public sector wage bill. The IMF recommended that Egypt reduces fuel and energy subsidies and projected they would reach 2.6 in 2016/217, down 3.2 from 5.8 in 2011/2012.[63]

Interestingly, the IMF claimed that it would fortify Egypt's social protection programs in order to ease the adjustments following the implementation of the program, yet it also predicted that food subsidies would decrease to 1.4 in 2016/217, down 0.4 from 1.8 in 2011/2012.[64] The

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[59] IMF Executive Board Approves US $12 billion Extended Arrangement Under the Extended Fund Facility for Egypt. *The International Monetary Fund*. 2016. https://www.imf.org/en/News/Articles/2016/11/11/PR16501-Egypt-Executive-Board-Approves-12-billion-Extended-Arrangement
[60] Ibid.
[61] Ibid.
[62] Ibid.
[63] Ibid.
[64] Ibid.

Fund did not specify the timeline, but it promised “1 percent of GDP out of the achieved fiscal savings will be directed to additional food subsidies, cash transfers to the elderly and low-income families, and other targeted social programs, including more free school meals.”[65] The IMF defended its decision to cut fuel subsidies by claiming that they do not directly support poor households.[66]

In order to further increase growth, the program aimed to streamline industrial licensing for all businesses, provide small and mid-size enterprises with greater access to finance, and implement new insolvency procedures. It also encouraged the creation of specialized training programs for youth in order to improve employment rates. To support more women entering the workforce, the program calls for an increased availability of public nurseries and to ensuring safer transportation options for them.[67]

Finally, the IMF advocated for overall transparency. In terms of finances, it emphasized regular reviews of operational performance and key metrics. It aimed to utilize reports and continuous reviews that would allow it to develop budget plans, pension reforms, etc. Egypt and the IMF agreed, “public finance developments will be presented to the parliament with every budget.”[68]

[65] Ibid.
[66] Ibid.
[67] Ibid.
[68] Ibid.

V. The Impact of the 2016 – 2019 IMF Loan

As the country's DOD increased further with the recent loans, it is vital to examine the impact of the IMF's programs on Egypt's development. Egypt's "Use of IMF Credit" has been mainly increasing from 1995 to 2019. Multiple spikes can be noticeable from $1.2 billion in 2015 to $3.9 billion in 2016 and $9.2 billion in 2018 (Figure 1). Egypt's major increase in the Use of IMF Credit from 2016 to 2018 is a direct result of the recent loans acquired by Al-Sisi's regime to stimulate development and economic growth in the country.

As shown in Figure 5, a small positive GDP growth is noticeable, potentially as a result of the IMF loan.[69] When the loan was approved in 2016, Egypt's GDP growth was 4.35. According to the latest statistics, 2019 has shown a GDP growth of 5.56.[70] However, Egypt's poverty headcount ratio at $1.90 per day as a percent of the population has climbed from 1.6 in 2015 to 3.8 in 2017.[71] This increase in population living under the poverty line is concerning and could be correlated with the IMF loans. As measured for future years, this percentage point can increase if the loans yield no or insignificant adjustments and add a strain on the conditions of the people.

The devaluation of the Egyptian pound increased the prices of basic commodities. This "caused hoarding of goods and profiteering by unscrupulous vendors."[72] Additionally, certain sectors in the country extremely suffered. The health sector saw a major increase in the prices of pharmaceuticals. "The price of imported medicines was also affected, with those under LE50 [50 Egyptian pounds] increasing by 50 percent of the dollar's post-flotation value, and those above

[69] World Bank Indicators.
[70] World Bank Indicators
[71] Ibid.
[72] Momani (2018), 5.

LE50 [50 Egyptian pounds] by 40 percent."[73] This increase is difficult for Egyptians to absorb in a short period of time. In the long term, these imported drugs can be produced within the country, but until then, an increase in their prices is an immediate burden on the Egyptian people. Additionally, "an increase in the price adjustment rate for locally produced goods must be accompanied by heightened control over drug manufacturing to ensure compliance with quality and sustainability standards."[74] With inflated prices, Egyptians should not be making the choice between buying food or buying medicine.

In one of its reviews of the arrangement, the IMF states in a report, "The energy subsidy reform, wage restraint, and the new VAT have all contributed to reducing the fiscal deficit and helped free up space for social spending to support the poor."[75] As optimistic as this claim sounds, the poor still bore the burden of subsidy reduction. Reuters reported, "Egypt has raised gasoline prices by up to 50 percent" in 2018.[76] This was the third price hike since the IMF pushed for the austerity measure. In an interview, Mohamed Abed Rabbo, an Egyptian citizen cried out saying, "I pay 40 percent of my income on transportation… Since the last price rise, I have been unable to support my wife and daughter without help from my family."[77] The reduction of fuel subsidy led another Egyptian citizen, Iman Salah, to say, "only in Egypt…

[73] Hamama, Mohamed. Egypt's Health Sector in the Shadow of Devaluation: All Roads Lead to Ruin. *Mada Masr*. 24 March, 2017. https://madamasr.com/en/2017/03/24/feature/politics/egypts-health-sector-in-the-shadow-of-devaluation-all-roads-lead-to-ruin/
[74] Ibid.
[75] First Review Under the Extended Arrangement Under the Extended Fund Facility. *The International Monetary Fund*. 2017. https://www.imf.org/~/media/Files/Publications/CR/2017/cr17290.ashx
[76] Abdelaty, Ali and Ismail, Ahmed. Egypt Hikes Fuel Prices in IMF-Backed Austerity Drive. *Reuters*. 2018. https://www.reuters.com/article/us-egypt-economy/egypt-hikes-fuel-prices-in-imf-backed-austerity-drive-idUSKBN1JC06A
[77] Ibid.

employees spend half of their salary on transportation and the other half on electricity, water and internet."[78]

Although the IMF's program has initially promised an increase in spending on food subsidies, the food industry still suffered following the program's structural adjustments. An increase in inflation rate to 31.7% in 2017 led to a 41.7% increase in the price of food and drinks in comparison to the same month a year prior.[79] The consumer price index also evidently increased from 178.4 in 2016 to 264.4 in 2018 (Figure 7).[80] Thus, at least in the short term, the IMF loan to Egypt and the structural adjustment program leading to inflation have contributed to a food crisis.

The short-term impact of the loan on the people may not steer away their overall discontent following the 2011 Revolution. Egyptians who once protested against harsh living conditions that include high prices of basic commodities, are continuously being asked by the government to donate to a development fund.[81] Egyptian citizens are being asked to be patient and put up with fiscal austerity as a temporary measure until the country's economy is revived. It is difficult to predict how long Egyptians will remain patient in the face of rising costs and inflation as well as deteriorating services. Even more concerning is the potential impact of the COVID-19 pandemic on the already difficult life conditions of Egyptians. Relying heavily on revenue from tourism, Egypt may suffer even further with its increasing debt and internal turmoil.

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[78] Ibid.

[79] The Highest Inflation Rate in Egypt in 30 Years Raises food Prices by 41%. *The BBC*. 2017. https://www.bbc.com/arabic/business-39217357

[80] World Bank Indicators.

[81] Kassab, Beesan. Tahya Masr: How Sisi Bypassed Auditing a Multi-Billion Pound Fund. *Mada Masr*. 06 April 2016. https://madamasr.com/en/2016/04/06/feature/economy/tahya-masr-how-sisi-bypassed-auditing-a-multi-billion-pound-fund/

Nevertheless, despite the increase in poverty rate and the difficulties faced by the average Egyptians as a short-term impact of the loan, a silver lining is noticeable. The IMF loans' conditions forcing the devaluation of the Egyptian pound, "contributed to a rise of nearly 16 percent in goods exports and to a similar rise in tourism revenues."[82]

Additionally, Egypt has initiated numerous development projects that can lead to a better future and a positive long-term impact on the country. For example, in wind energy projects, the country has created three projects that would produce 1,375 megawatts annually. Also, it is working on six more projects that will deliver 2,200 megawatts of renewable energy. Likewise, the government has installed five solar energy projects producing 1,763 megawatts per year and is currently developing five more projects that would produce 820 megawatts of electricity per year.[83]

Egypt's Projects Map list of completed and undergoing developmental achievements are highlighted by the government on its official websites as the following[84]:

- 49 projects in oil and natural gas
- 292 infrastructure projects
- 34 animal and fish production projects
- 145 housing and new city projects
- 5 investment projects
- 34 information technology projects
- 13 scientific research projects

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[82] Feldman and Winter 2.
[83] 2020 Annual Report. *New & Renewable Energy Authority*. http://nrea.gov.eg/Content/reports/Annual%20Report%202020%20En.pdf
[84] Egypt's Projects Map. https://egy-map.com/categories

- 305 education projects
- 13 city development projects
- 29 slum development projects
- 26 farming projects
- 26 food subsidy projects
- 13 houses of worship development projects
- 19 general service projects
- 43 culture and art projects
- 87 electricity and renewable energy projects
- 62 tourism projects
- 71 youth and sport projects
- 184 health projects
- 8 COVID projects
- 39 specialized hospital projects
- 84 industrial projects
- 23 water resources projects
- 193 water and sewage projects
- 42 army projects
- 24 entertainment projects
- 15 governmental entity projects
- 68 transportation projects
- 12 other projects

VI. Conclusion

Egypt's commitment to raising the standards of life for its citizens is evident in President Abdel Fattah Al-Sisi's statement at the United Nations Summit. At the Summit for the Adoption of the Post-2015 Development Agenda, Al-Sisi states, "Attaining our right to development and providing a better life standard of living were amongst the utmost priorities of the Egyptian people when they rose to re-shape their future" emphasizing his understanding of the people's plights.[85] When millions of Egyptians took to the streets in 2011 during the Arab Spring, the main slogan raised during the protests was "Bread, Freedom, and Social Justice."[86] "Bread" resembled an Egyptian citizen's basic right to food, and the living conditions that enable him or her to purchase it, at a minimum.

Al-Sisi's government is serious about reviving the Egyptian economy. That endeavor requires substantial amounts of money to become a reality. The IMF is an important organization that has the ability to benefit states facing crises and in need of development. The loans obtained by Egypt can help the country develop in the long-term. However, the shock that the loans' conditions have caused to the economy exacerbated the existing situation in the country by leading to a higher population living under the international poverty line.

The primary objective of the IMF is growth. Growth for economists and government officials is interpreted in terms of GDP, unemployment, and poverty statistics among other metrics. However, for the average citizen who witnessed a loss in fuel subsidies and an increase

[85] Draft Statement by His Excellency President Abdel Fattah Al-Sisi. The United Nations Summit for the Adoption of the Post-2015 Development Agenda. 25 September 2015. https://sustainabledevelopment.un.org/content/documents/20253egypt.pdf.
[86] Fahim, Kareem and El-Naggar, Mona. Violent Clashes Mark Protests Against Mubarak's Rule. *New York Times*. 26 January 2011. https://www.nytimes.com/2011/01/26/world/middleeast/26egypt.html.

in the prices of food and medicine as a direct result of the IMF's programs, the Fund did not cause "growth" in the short-term, but rather a decay to basic necessities.

The IMF can attempt to offer tailored strategies that do not thwart current conditions in the hopes of achieving future developments. For instance, floating the currency and decreasing subsidies are solid measures for reducing deficits and balancing payments. For Egypt, however, a country in a unique situation willing to create hundreds of new development projects and start from point blank to revive its economy after years of internal turmoil, it may have been better off without such harsh conditions. If a budget was proposed to Egypt by the IMF allowing the government to create a plan that would both satisfy development and the repaying of the loan, then the Egyptian people may not have needed to suffer in the interim.

Further, the IMF can create better mechanisms to monitor the impact of its loans on states' economies. For example, through a close and continuous examination of the receiving country's statistics and reports, the IMF can observe the changes happening to a country's economy. With big data and advanced data analysis methods, the IMF can design a system that monitors changes through live quarterly dashboards that can automatically alert the IMF of worsening conditions beyond what is expected, for instance. This can also encourage a change in the course of action, if the IMF or the receiving country detect negative outcomes from the implemented structural adjustment programs, higher than what is estimated. The organization and its programs can enable the development of nations across the globe and stimulate growth if the conditions given on loans are not blanket solutions for unique problems, exacerbating situations in nations that are already suffering with economic crises.

Appendix

Figure 1. *Egypt's Use of IMF Credit (Debt Outstanding and Disbursed, current US$)*

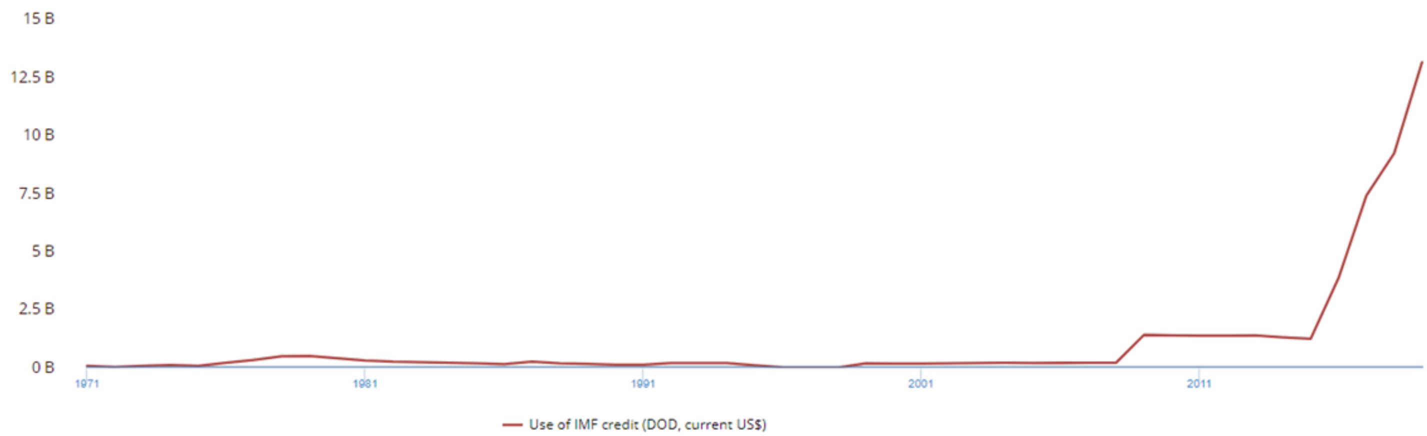


Figure 2. *Egypt's Use of IMF Credit (Debt Outstanding and Disbursed, current US$)*

Year	Use of IMF Credit
1970	$49,300,000
1980	$410,716,610.3
1990	$124,781,508.6
2000	$177,096,738.8
2010	$1,383,643,602
2019	$13,129,959,331

Figure 3. *Egypt's Poverty headcount ratio at $1.90 a day as a % of the population*

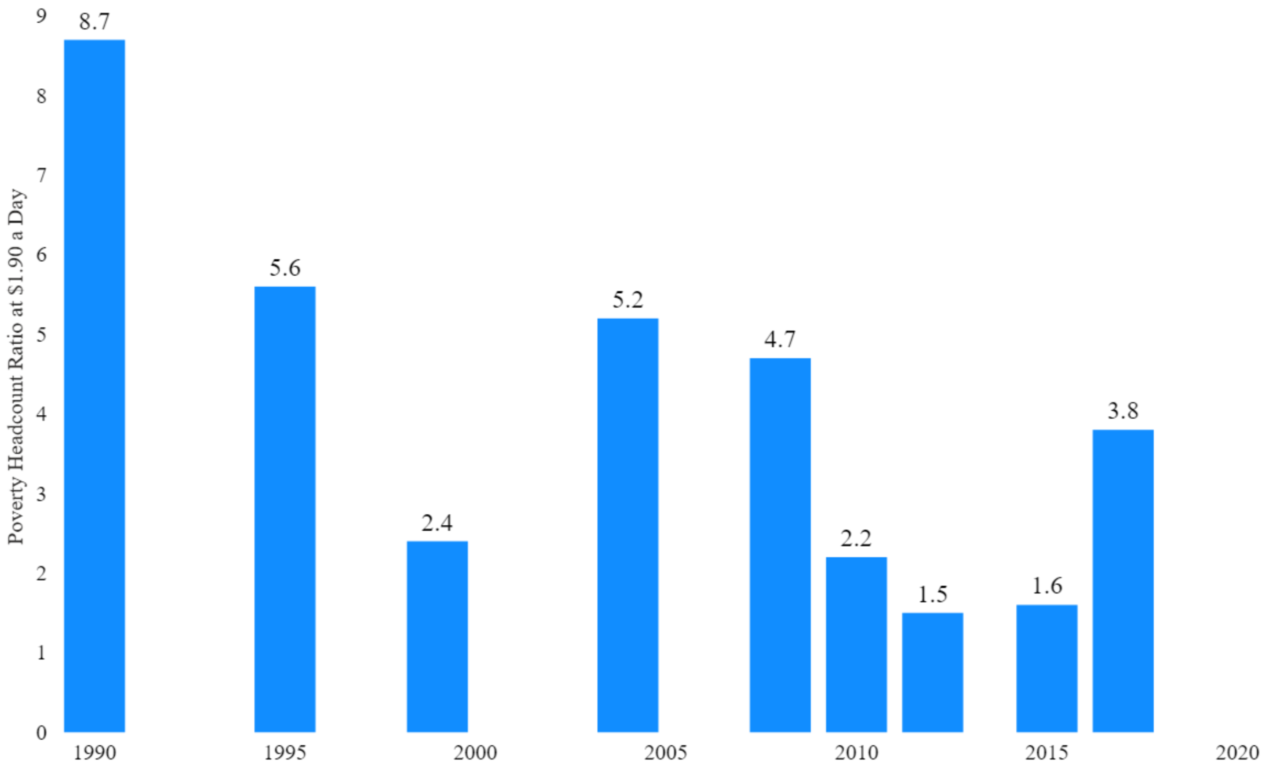


Figure 4. *Egypt's Unemployment Rate, total (% of total labor force)*

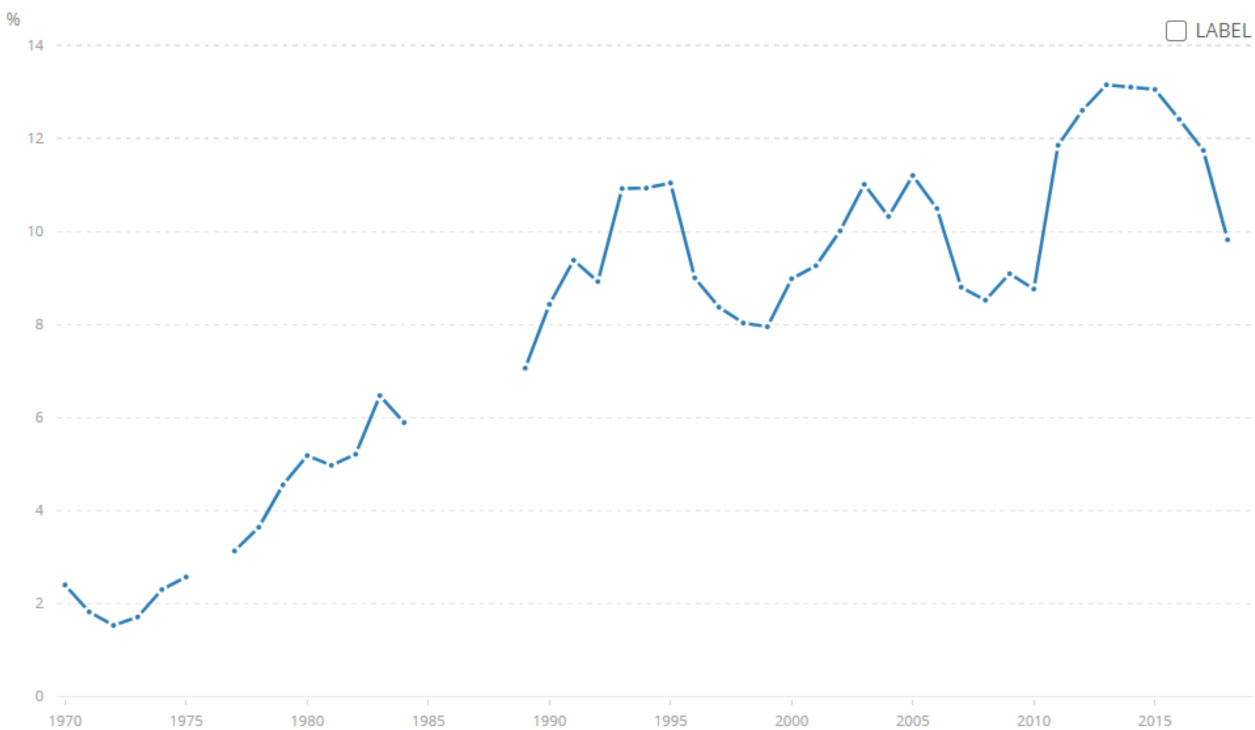


Figure 5. *Egypt's GDP growth (annual %)*

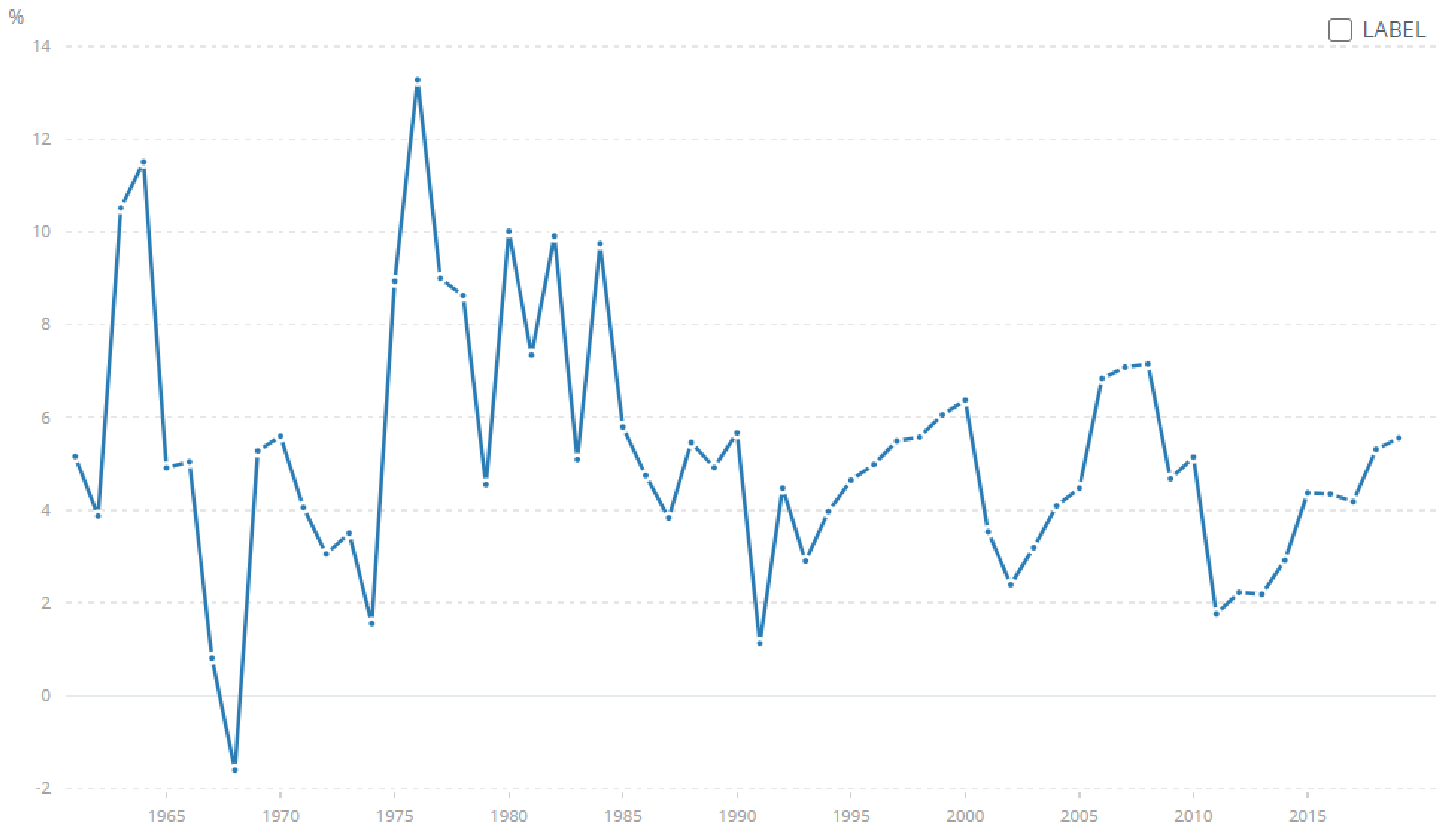
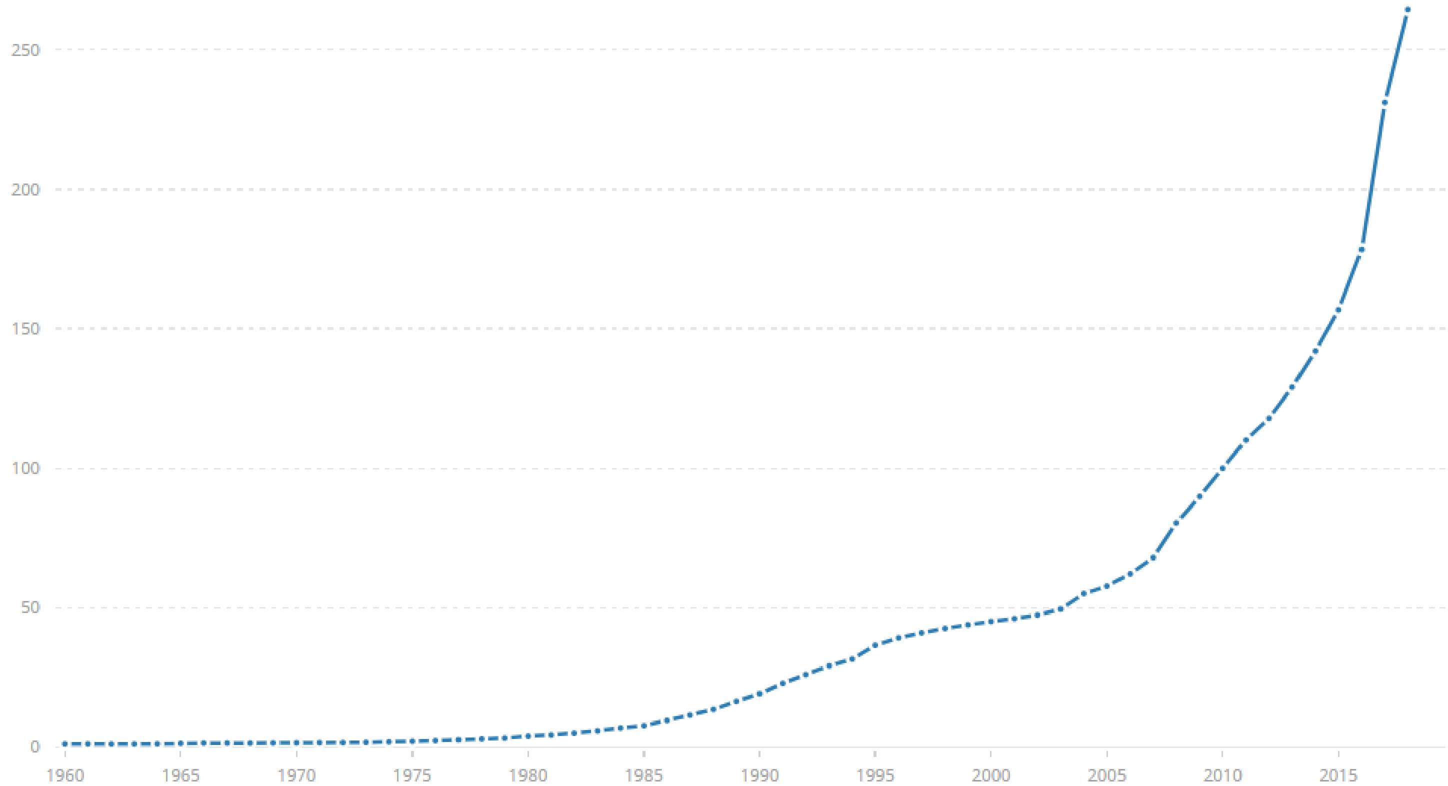


Figure 6. *Conditions of IMF's 2016 Loan to Egypt*

	Economic issues	IMF 2016 Extended Fund Facility Conditionality
Monetary	Shortage of foreign exchange and low reserves Fixed exchange rates	Exchange rate liberalization
		Limit increases in the money supply
		Contain inflation and bring down to mid-single digits over medium term
Fiscal	High government deficit and public debt	Strengthen government revenues
		Energy subsidy reform: cuts in fuel
		Control the public sector wage bill
	Strengthening social protection programs	Food subsidies to expand the coverage of Takaful and Karama
		Increase social spending amounting to about 1 percent of GDP
		Vocational training for youth
		Cover subsidized transportation for children, infant formula, and children's medicines
		Set up free school meals
Structural	Low growth (2.5) and high unemployment (12.7)	Streamline industrial licensing system
		Facilitate access to finance for small and medium-sized enterprises
		Reform bankruptcy law
		Make it easier for women to go into the workforce by increasing public nurseries
		Improve safety of public transportation

Figure 7. *Egypt's Consumer Price Index*



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