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Headway made by Egyptian economy under Dr Reza Baqir

LAHORE: After having designed debt and fiscal policies in various crisis-affected countries like Cyprus, Ghana, Greece, Jamaica, Portugal, Philippines, Egypt, Ukraine, Bulgaria and Romania etc, the newly-appointed State Bank of Pakistan Governor, Dr Reza Baqir, has now set sails for Karachi to ensure that the country achieves fiscal stability through better regulation of the monetary and credit systems in place.

Dr Baqir is currently serving as the IMF's Country Representative for Egypt, where the IMF had approved financial assistance to the tune of about US$12 billion during November 2016 in the form of an Extended Fund Facility (EFF) arrangement.

Research conducted by the “Jang Group and Geo Television Network” shows that the assistance for Egypt was dished out by the IMF in a bid to help the country restore macroeconomic stability and return it to sustainable growth by improving the functioningof the foreign exchange markets, bringing down the budget deficit and curtailing the government debt, besides raising growth to create jobs.

The financial assistance Egypt had also aimed at protecting the most vulnerable groups in the society. Research reveals that while Egypt has a Nominal GDP of US$249.559 billion as compared to Pakistan’s $312.2 billion, the Egyptian economy enjoys the services of a 31.15 million labour force, which is much smaller than Pakistan’s 61.04 million.

Unemployment in Egypt stands at 9.9 per cent, which is higher than Pakistan’s 5.7 per cent, though it is a little hard to believe the figure for Pakistan where people are running from pillar to post daily to find petty jobs.

Egyptian exports have touched the $23.3 billion mark, whereas Pakistani economic wizards are hoping against hope that the country’s exports would touch the $27 billion mark by June 30 this year.

The Gross External Debt in Egypt’s case rests at US$77.47 billion, while Pakistan’s foreign debt liabilities had already soared to a record $96.7 billion by the end of September 2018, and are surging with every passing minute with the worsening Rupee-Dollar parity.

Well, the task of revamping the ailing Pakistani economy in partnership with Dr Abdul Hafeez Sheikh is a rather daunting one for Raza Baqir, but it was certainly not easy to achieve what the new State Bank Governor and his organization (IMF) have already achieved in Egypt.

Let us see how this 73-year-old global financial institution, having 189 countries as its members, has helped Egypt attain substantial monetary and fiscal stability during Dr Reza Baqir’s tenure as IMF’s Country Representative in Cairo:

The IMF Executive Board had approved the first review on July 13, 2017, the second review on December 20, 2017, the third review on June 29, 2018, and the fourth review on February 4, 2019.

Having allocated over $283 billion throughout the world and having quota resources of about US$661 billion in its kitty, the IMF undertook numerous reforms in Egypt under the supervision of Dr Reza Baqir to create fiscal room for investments in health, education and infrastructure.

The Fund thinks these investments would help achieve higher sustained growth, job creation, and greater purchasing power for Egypt's middle class and the poor. At the time of the Third Review, the authorities indicated their intention to implement indexation for most fuel products as part of completing their energy sector reforms, and the timing of its implementation will be determined by them.

The completion of the Fourth Review allows the disbursements of about $2 billion, bringing total disbursements under the program to date to about US$10 billion. Completion of the fifth and final review will complete the IMF Programme's total disbursement of around $12 billion.

The fairly recent April 6, 2019 report of the IMF reveals: "Egypt's macroeconomic situation has improved markedly since the initiation of the authorities' reform programme in November 2016. The liberalisation of the foreign exchange market, prudent monetary policy and ambitious fiscal consolidation have helped stabilise the macroeconomic environment. Growth has accelerated; external and fiscal deficits have narrowed; international reserves have risen; and public debt, inflation, and unemployment have declined. Fiscal savings were in part deployed to enhance social protection and ease the burden of adjustment on the poor. Furthermore, ongoing structural reforms aim at promoting private sector-led inclusive growth and job creation. The remainder of the Extended Fund Facility-supported program is focused on consolidating the gains in macroeconomic stabilisation, further rebuilding fiscal buffers, and advancing reforms."

In October 2018, as a local media house "The Egypt Independent" had written: "The International Monetary Fund expects Egypt's economy to grow by 5.3 per cent in 2018 and 5.5 per cent in 2019, up from 4.2 per cent in 2017. The IMF predicted that the growth rate of the Egyptian economy will continue to rise to about 6 per cent in 2023. The average annual inflation rate is expected to fall this year to 20.9 per cent from 23.5 per cent last year, and it will fall to 14 per cent in the next year and 7 per cent in 2023, the report added. The report expected the unemployment rate to fall to 10.9 per cent this year from 12.2 per cent in the previous year, but it will continue to decline to 9.9 per cent in 2019."

What else has Egypt achieved through IMF's assistance?

The IMF website states: "The Egyptian authorities' economic reform Programme has made substantial progress as evident in the success achieved in macroeconomic stabilisation and recovery of growth. Tourism is rebounding sharply, remittances have increased, and the non-petroleum manufacturing sector - key for job creation - is showing signs of a rebound. The authorities have adopted the value-added tax, allowed the exchange rate to be determined by market forces, and reduced inefficient fuel and electricity subsidies. In addition, to improve the business climate, they passed the new industrial licensing law, the investment law, the companies law and the insolvency law."

The Fund's website adds: "At the same time, various measures have been taken to shield the poor from the adverse effects of the adjustment process. Looking forward, the authorities are working on improving availability and access to industrial land which is critical for private sector development, the reform of public procurement is advancing, and the authorities are revamping the law on the

Egyptian Competition Authority (ECA) to level the playing field for encouraging new private investment. These reforms should help lay the foundation for higher and more inclusive growth and job creation over the medium term."

This is what the International Monetary Fund website further mentions about the after- effects of its financial support to Egypt:

"The rise in inflation following the launch of the reform program was anticipated. It reflected the effects of increases in electricity and fuel prices, the introduction of the VAT, and pass-through from the exchange rate depreciation. However, inflation has been on a declining trajectory since its peak in the summer of 2017, which means that prices are increasing at a slower pace. Annual headline inflation has declined from 33 per cent in mid-2017 to 12 percent in December 2018, in response to the Central Bank of Egypt's (CBE) well calibrated interest rate policies."

It asserts: "This is line with the rate of inflation prior to the program, and on track to meet the authorities' target of single digit inflation by 2020. Going forward, monetary policy decisions will need to remain data-driven and as before, be guided by the primary goal of achieving low and stable inflation and underpinned by a flexible exchange rate regime. A flexible exchange rate is critical for maintaining competitiveness and adjusting to external shocks."

Wouldn't the IMF loan add to Egypt's debt and make the problem worse?

The IMF policy-makers comment: "Countries generally turn to the IMF for financing when they have run into economic difficulties. At the time that Egypt requested the IMF program, its international borrowing costs were substantially higher compared to about 2.7 per cent annual interest rate for the IMF money. In addition, the IMF program served as a catalyst for support from other international and bilateral partners. The IMF financing helped Egypt ease the burden of economic adjustment by providing a financial cushion and more time to address the external and budget deficits which were the source of Egypt's rising imbalances."

How is the IMF addressing the problem of corruption that is perceived as being widespread in Egypt? The IMF is helping the Egyptian authorities address the issue of corruption in Egypt both in the context of the IMF-supported reform programme and its annual health check of the economy. A main pillar of the reform programme is the commitment to transparency and accountability.

Holding a PhD in Economics from the University of California at Berkeley, besides being a Harvard University Alumni, Dr Baqir was among the economic experts who had met Abdul Hafeez Shaikh, the incumbent Adviser to Prime Minister Imran Khan on Finance, Revenue and Economic Affairs, when the latter was heading the Pakistani delegation at IMF-World Bank meetings in the United States as PPP government's Finance Minister during September 2011.

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