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Due to exacerbation of its external debt crisis, Sri Lanka has recently announced inability to meet its obligations to creditors (bankruptcy) in light of dramatic development of the difficult economic conditions that the country has been experiencing for several years.

Meanwhile, there have been recent reports circulated about the difficult economic conditions in Egypt, and even its likely bankruptcy, as reported by some Egyptian media outlets and newspapers most recently.

Therefore, it would be useful in this regard to compare the economic conditions both in Egypt and Sri Lanka.

To start with, it is significant to note that some of the reasons that led the Sri Lankan economy to bankruptcy appear to be the general symptoms of an incurable disease that is afflicting the Egyptian economy.

Although the availability of international and regional support for the Egyptian regime may delay a fate similar to that of the Sri Lankan economy, however, the inevitable result of continuation and exacerbation of these causes will ultimately lead to declaration of bankruptcy and falling into an endless cycle of attempts of rising and stumbling.

Comparing Sri Lankan and Egyptian economic situations

This paper will attempt to hold an overall comparison between the economic situation in Sri Lanka and Egypt, by reviewing the main causes that led to Sri Lanka's bankruptcy, as shown in the table below; then analyzing the data contained in the table to highlight the similarities and differences between the Egyptian and Sri Lankan cases.

Causes of Sri Lanka bankruptcy compared to Egypt economic situation:

First: Exacerbation of external debt (payments of premiums and interests)

Table 1

The Case of Sri Lanka	The Case of Egypt
- The external debt amounts to $51 billion	- The external debt amounts to $145.3 billion
- The total public debt is $95 billion	- The total public debt is $348.4 billion, and is expected to reach $391.8 billion by the end of 2022
- The per capita public debt is $4,300.	- The public debt per capita is $3,900 (Note the huge difference in population)
- The public debt-to-GDP has increased in recent years from 42% to 104%.	- The public debt to GDP declined to 87.5% (with reservations about the official statement on the GDP) by the end of FY 2019/2020, but it escalated after that to exceed 100%
- The external debt exceeds four times the annual exports, twice and half the imports, and 10 times the trade balance deficit.	- The external debt is nearly four times the annual exports, more than twice the imports, and nearly four times the trade balance deficit.
- The high interest rate of external loans, up to 8%.	- The interest rates on external loans reach 11%, the highest rate in the world.
- The interest payments are estimated at 95.4% of the government revenues.	- The interest rate payments amount to 44% of the government revenues. The total debt premiums and interests in the current fiscal year amount to about EGP 1.172 trillion pounds, which exceeds 95% of the total public revenues. There are $15 billion due this year, plus at least $17 billion in alternative hot money.

Second: The low credit rating and difficulty to access money markets

Table 2

The Case of Sri Lanka	The Case of Egypt
- The IMF support was the key to facing the 2009 and 2015 crises.	- The appeasement of the IMF is a necessary key to the sustainability of borrowing.
- Ignoring the IMF support has recurrently lowered the country's credit rating, which led to the inability to access the global markets.	- Egypt's credit rating has not declined yet, but it will certainly happen if the current crisis continues, which will raise the borrowing costs.
- In the aftermath of upgrading Sri Lanka to a middle-income country, access to concessional loans by multilateral agencies and bilateral donors declined, pushing the country to rely on commercial loans, estimated at 56% of loans.	- Reliance on commercial debts to the total Egyptian public debts is constantly growing compared to loans from international institutions and bilateral loans.
- The external debt-to-GDP ratio is lower than it was two decades ago. However, the structural weaknesses are more serious, because the country's debt dynamics have completely shifted to a new paradigm (where commercial debt predominates).	- In the Egyptian case, the increase in external debt to GDP is coupled with chronic structural weaknesses.

Third: Spending foreign loans on service projects

Table 3

The Case of Sri Lanka	The Case of Egypt
- There are non-return conference centers, cricket pitches, and commercial towers spread out in the country, where their beneficiaries are certain people.	- Most of the Egyptian loans have been spent on "wow" non-return megaprojects.
- There are many infrastructure projects, several of which have become costly property that cannot be disposed of.	- The maintenance of the new projects will pose an additional burden on the budget.

Fourth: Withdrawing from reserves for repayment of government debts

Table 4

The Case of Sri Lanka	The Case of Egypt
- As a result of inability to access the commercial loan markets, foreign currency reserves were drawn down.	- The exit of hot money from Egypt and the global crises precipitated drawing from the reserve
- There is not enough reserve for imports of fuel and essentials, due to inflation, and a severe foreign exchange crisis.	- The reserve is only sufficient for less than 4 months of imports. Due to the exchange currency crisis, Egyptian banks placed restrictions on the movement of withdrawals and canceled the work of documentary credits.
- The Sri Lankan rupee was devaluated with the aim of obtaining a loan from the IMF.	- The Egyptian pound was devaluated in 2016, then devaluated again last March, and it is expected that to be devaluated again soon.
- Devaluation of the rupee led to raising prices, making traders unable to pay for imports.	- Devaluation of the pound led to raising inflation and making more Egyptians fall below the poverty line.
- The foreign currency reserves can cover imports for only one month.	- The foreign currency reserves may be eroded within three months to cover the drop in hot money, and imports.

Fifth: The opposite effect of tax cuts

Table 5

The Case of Sri Lanka	The Case of Egypt
- The development indicators in Sri Lanka were high, along with high poverty indicators.	- Along with a rising growth rate and GDP rise, there has been a rising poverty rate and a trade balance deficit.
- The government expanded tax cuts and exemptions, which resulted in a regressive tax system struggling to raise enough revenues to fund the public spending.	- Tax collection expanded frantically following the IMF program, where the tax proceeds constituted 80% of the total public revenues.
- Sri Lanka's ability to service its debt has always been poor, but the government policy	- The government targets taxes of nearly EGP one trillion, compared to EGP 630 billion at

and the Covid-19 Pandemic have made it nearly impossible.	the end of the FY 2017-2018, bringing the state's revenue to EGP 354 billion in less than four years.

Sixth: The tourism sector crisis under Covid-19

Table 6

The Case of Sri Lanka	The Case of Egypt
- Tourism accounts for more than 10% of the country's GDP.	- Tourism contributes approximately 15% of Egypt's economic output, and is considered a major source of foreign exchange.
- In April 2019, a series of bombings targeted three luxury hotels and three churches in Sri Lanka, which severely affected the tourism sector.	- Tourism greatly suffered after the bombing of the Russian airliner and the Mexican tourists accident.
- The outbreak of Coronavirus Pandemic came before tourism returned to normal.	- The Covid-19 crisis came before tourism fully recovered.
- In 2021, Sri Lanka welcomed only 173,000 passengers during the year, down from 2.3 million passengers in 2018.	- Egypt welcomed about 1.6 million Ukrainian tourists before the outbreak of Coronavirus, where Ukraine came in second place as the largest tourist market for Egypt.
- The flow of Russian and Ukrainian tourists continued despite Covid-19, and a percentage of them will be lost after the war in Ukraine.	- The Ukrainian tourists are certainly decreasing; and the Russian tourists are not expected to return after a five-year absence.

Seventh: The agricultural sector crisis after banning unnatural fertilizers

Table 7

The Case of Sri Lanka	The Case of Egypt
- The agricultural sector was hit hard by the monsoons in 2016 and 2017.	- The agricultural sector suffers from great neglect from the government .
- The severest crisis came after the dramatic drop in yields following the decision to ban chemical fertilizers.	- The support for the agricultural sector has almost disappeared and the Agricultural Development Bank has almost turned into a commercial bank.

- The abolition of the ban on chemical fertilizers has not provided the required quantities of fertilizers, which may lead to a 30% drop in crops, especially rice.	- The high prices and adulteration of fertilizers negatively affect production,

Eighth: Repercussions of the Ukrainian war

Table 8

The Case of Sri Lanka	The Case of Egypt
- The agricultural commodity crisis worsened after the outbreak of the Ukrainian war, as Sri Lanka is an importer of most of its agricultural commodity needs.	- The crisis of the agricultural commodity needs worsened after the Ukrainian war, given that Egypt imports most of its needs.
- The Ukrainian war coincided with a shortage of domestic agricultural production resulting from the fertilizer crisis and a widespread currency crisis.	- The Ukrainian war, the rising freight rates, and the global inflation further exacerbated the price rises.
- Accordingly, exports, especially tea exports, were negatively affected.	- Due to Egypt's limited exports to Russia and Ukraine, its exports were little affected by the war.

Ninth: Reliance on borrowing from China

Table 9

The Case of Sri Lanka	The Case of Egypt
- There is no official data that accurately identifies Sri Lanka's debts to China.	- There is no official data that accurately identifies Egypt's debts to China. However, in the Egyptian case, the UAE plays a similar role to China, where all the following details apply to the UAE role.
- Likely existence of debts to China concluded in a roundabout way in the form of bonds and others.	- Likely existence of debts to China concluded in a roundabout way in the form of bonds and others.
- The confidentiality of contracts with China.	- Certainly, there are debts to China concluded in a roundabout way (and likely debts and deals with the UAE as well).

- China is considered Sri Lanka's largest lender	- The confidentiality of government contracts with China and others.
- China has seized Sri Lanka's vital and strategic port for 99 years, as well as 15 acres of land near the port, and tax concessions to Chinese facilities in Sri Lanka for 32 years.	- We cannot be certain that China is a major lender to Egypt, but the UAE is an important supporter of the country.
- Sri Lanka also leased the strategic Hambantota port to a Chinese company in 2017.	- It is unlikely to certainly identify the projects in which the Chinese loans were spent.
- China interferes in Sri Lanka's sovereign and strategic affairs	- China has not seized any Egyptian assets so far, but the UAE has seized assets at the lowest prices and in certain sectors such as health and banking, in addition to its contract to develop the Ein Sukhna port, since 2008 until now, but has not been implemented so far.

Tenth: Stability based on repression (on the pretext of protection of national security) and the recurrent imposition of emergency were behind the collapse

Table 10

The Case of Sri Lanka	The Case of Egypt
- The government in Sri Lanka is repressive and authoritarian	- Egypt suffers from unprecedented repression that is likely to be primarily responsible for the ongoing economic crisis.
- The talk about loans that no one knows about, or the unjust interference in the fiscal and monetary policies, and even the agricultural policy are all due to authoritarianism.	- The government has controlled all authorities in the country, including the Central Bank of Egypt.
- The reformist promises of the ruling dynasty in recent years have all collapsed.	- The current economic situation has exposed the false claims of any real economic reform.
- Decline of the government reliance on the national security pretext, especially after the intelligence failure.	- The argument for national security has completely vanished with the abandonment of the Nile waters and gas and the waiver of Tiran and Sanafir.

- The support for the ruling dynasty was based on ethnic and religious grounds, but the recent crisis affected all segments of society.	- The regime relied on repression and 'tribal' favoritism for the army, police, and judiciary; but its beneficiaries are not likely to escape the negative effects of the successive economic crises.

Similarities and differences between the two cases:

Reviewing the data in the above table, it has becomes clear that most aspects of comparison between the economic situation in the two countries are almost identical, albeit having some points of difference, as follows:

1- Exacerbation of external debts (Debt premiums and interests):

- A great increase in external loans in the two countries, as well as in the public debt and its per capita share.

- The interest rate on loans in Egypt is much higher, and their payments devour half of Egypt's budget.

- Some $4.5 billion is due on Sri Lanka in the current year, against more than $15 billion on Egypt.

- The difference here is that Egypt is in urgent need to compensate $17 billion of hot money that actually exited from the banking system, putting the country in a much worse situation.

2- Decline of credit rating and difficulty in accessing money markets:

- Both countries depend on the International Monetary Fund, which has created strong development indicators, on even a prima facie basis, and has kept the credit rating stable for some time.

- The difference here is that Egypt's credit rating has not been lowered up till now due to its continued cooperation with the IMF, as well as the availability of commercial borrowing sources and support provided by Gulf countries.

3- Spending external loans on non-return service projects:

- Both countries spent greedily on non-return projects, where the maintenance these projects has become a burden on the budget.

4- Drawing down from reserves to repay government debts:

- Both countries started to withdraw from their reserves after exhaustion of the sources of external borrowing.

- Both countries devaluated their local currencies to obtain loans from the IMF.

- The difference here is the fact that Sri Lanka's reserves have quickly evaporated and are no longer sufficient to pay for imports, while the Egyptian reserves have already started to evaporate, where it is unlikely to withstand long under the weight of debt obligations and imports.

5. Tax cuts had opposite effect

- The two countries have different approaches here:

- Sri Lanka tried to reduce taxes to encourage investment, this had an adverse effect on the outcome and deepened the inability to meet foreign obligations.
- Egypt rushed towards a feverish hike in tax revenues to appease the IMF and to maximize its revenues, yet it suffers from the inability to meet its external obligations.

6- The tourism sector crisis under Corona

- Both countries consider tourism as one of the pillars of their GDP and a major source of foreign currency.

- The tourism sector in both countries was exposed to several shocks that negatively affected its revenues even before the outbreak of Coronavirus.

- The Ukrainian war came at a time when the tourism sector in both countries did not fully recover.

- Russian and Ukrainian tourism is important to both countries.

- The difference here is that Russian tourism to Egypt has already stopped for five years.

7- The agricultural sector crisis after banning unnatural fertilizers:

- The agricultural sector is facing a crisis in both countries, where production is not sufficient for domestic needs.

- The agricultural sector is suffering in both countries from neglect, lack of support and unfair agricultural policies.

- The crisis of chemical fertilizer ban in Sri Lanka may be compared to Egypt's shortage of fertilizers, spread of adulterated fertilizers, disappearance of agricultural subsidies, and significant price rises in Egypt, which may negatively affect production.

8- Repercussions of the Ukrainian war:

- Both countries are major importers of all commodities and food grains from abroad

- The war ignited prices and thus inflation.

- The difference here is the fact that the impact of the war coincided with the production crisis caused by the ban on fertilizers in Sri Lanka, and the negative impact on tea exports, something which did not happen in Egypt.

9- Reliance on borrowing from China:

- There is no official figures about the loans obtained from China by the two countries, where both of them keep those loans in complete confidentiality. Also, both of them use these loans in projects that have no returns.

- There is no exact data available in the two countries about the conditions related to these loans.

- The difference here is that Egypt has not yet been subjected to seizure of its assets from China. However, the government sells its assets at cheap prices, as happened in the UAE deal that has been recently concluded.

10- Stability based on repression (under the pretext of protecting national security) and the recurrent imposition of the state of emergency were among the causes of collapse:

- Both countries suffer under repressive regimes that invoke protection of national security as a way to evade openness and transparency.

- The two regimes rely on ethnic, tribal or factional bases (the military in Egypt).

- All promises to reform the economy have collapsed and were proven false due to mismanagement and the spread of corruption.

Conclusion:

After reviewing the reasons why Sri Lanka stopped paying its debts (declaring bankruptcy), and comparing its economic conditions with the Egyptian economic conditions, it is clear that the reasons that have led to Sri Lanka's bankruptcy are already largely present in the Egyptian case, with a difference between the two in terms of support provided by regional and international powers to Egypt.

It is also clear that unless fundamental changes take place in favor of solving the problems afflicting the Egyptian economy, Egypt is inevitably destined to stop repayment of its debts, that is entering into a state of bankruptcy, where it is only a matter of time, based on the international circumstances, outside the scope of internal control. When bankruptcy occurs, God forbid, the economic crisis will not differentiate between the pro-regime people and opponents, where its negative effects will affect everyone[1].

[1] The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies