Egypt's Social Crisis: Financial Bonanza for Wall Street Investors and Speculators

Hidden Agenda behind Mubarak's Decision Not to Resign?

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Global Research, February 06, 2011
6 February 2011

Region: Middle East & North Africa
Theme: Global Economy, Poverty & Social Inequality
In-depth Report: ARAB PROTEST MOVEMENT

Mubarak's decision not to resign was taken in close consultation with Washington. The US administration including US intelligence had carefully identified the possible scenarios. If Washington had instructed Mubarak to step down, he would have obeyed forthright.

His decision not to resign indelibly serves US interests. It creates a situation of social chaos and political inertia, which in turn generates a vacuum in decision making at the government level.

The continued social crisis has also resulted in a massive outflow of money capital. More concretely, what this signifies is that Egypt's official foreign exchange reserves are being confiscated by major financial institutions.

The ransacking of the country's money wealth is an integral part of the macroeconomic agenda. The newly formed government on instructions from Washington has not taken concrete steps to curtail the massive outward flow of money capital. A prolonged social crisis means that large amounts of money will be appropriated.

According to official sources, Egypt's Central Bank had (prior to the protest movement) 36 billion dollars in foreign exchange reserves as well as an additional $21 billion of deposits with international banking institutions which are said to to constitute its so-called "unofficial reserves." (Reuters, 30 January, 2011).

Egypt's external debt, which has increased by more than fifty percent in the last five years is of the order 34.1 billion (2009). What this means is that these Central Bank reserves are de facto based on borrowed money.

In early 2010, there was a large influx of hot money deposits into Egyptian government debt instruments.

Foreign exchange flows into the country and is exchanged for Egyptian pounds (EgP), which are then used by institutional investors and speculators to purchase high yielding government bonds and treasury bills (denominated in Egyptian pounds) with short term interest rates of the order 10 percent.

The interest rate on long term government bonds shot up to 7.2 percent at the outset of the protest movement. (Egypt Banks to Open Amid Concern Deposit-Run May Weaken Pound, Lift Yields – Bloomberg, January 2, 2011)

> At the onset of the crisis, international investors owned about $25bn of Egyptian T-bills and bonds, almost a fifth of the total T-bill market and about 40 per cent of the domestic bond market. Foreign investors also accounted for about 17 per cent of the stock market's turnover, and held about $5bn-$6bn of Egyptian shares. (Ibid)

Under its agreement with the IMF, Egypt is not allowed to implement foreign exchange controls. These hot money deposits are now leaving the country in anticipation of a devaluation of the Egyptian pound. In the days preceding Mubarak's speech, capital flight was running at several hundred million dollars a day.

In a bitter irony, Egypt deposits 21 billion with the commercial banks as "unofficial reserves" on the one hand, while the commercial banks acquire $25bn worth of EgP debt, with a yield of the order of 10 percent. What this suggests is that Egypt is financing its own indebtedness.

The protest movement started on a bank holiday. While the closure of the Cairo stock market and domestic banking system had put a temporary lid on the outflow of money capital, large amounts of capital flight instrumented by major financial institutions had already occurred in the days leading up to the protest movement.

Egypt's banking system reopened on February 5, leading to a renewed process of capital flight resulting in the depletion of central bank reserves and a corresponding increase in Egypt's foreign debt.

A devaluation of at least 20 percent is contemplated. According to UBS' emerging markets currency division, "the pound could "easily" drop by a further 50 per cent or so to E£9 per US dollar". FT.com / Currencies – Banks weigh risk of capital flight, February 1, 2010)

A devaluation of more than ten percent would wreck social havock: Domestic prices of food are dollarized. If there is a devaluation of the Egyptian pound, this would inevitably trigger a renewed increase in the prices of essential food staples, leading to a further process of impoverishment.

A scenario of currency devaluation, rising external debt coupled with a renewed package of IMF sponsored austerity measures would inevitably lead to an accentuation of the social crisis and a new wave of protests.

The newly appointed Finance Minister Samir Radwan is firmly committed to the Washington consensus, which has served to impoverish the Egyptian people. In a contraditory statement on February 3, Radwan confirmed that "the government won't reduce subsidies even if global prices of food and commodities rise. Public spending will be used as a tool to "achieve social justice," he told a news conference in Cairo." (Bloomberg, February 5, 2011)

Radwan is abiding by IMF-World Bank guidelines: no restrictions will be placed on capital flight. The Central Bank will ensure the conversion of hot money deposits into hard currency by major financial institutions. The coffers of the central will be ransacked.

With capital flight, domestic debt is transformed into foreign debt, putting the country into the stranglehold of foreign creditors:

> Radwan said Egypt will honor its debt obligations and urged foreign investors to have confidence in the country. "All the bond obligations, everything will be honored on time," Radwan said in a Feb. 4 telephone interview from Cairo. "We are not defaulting on any obligations." (Bloomberg, February 5, 2011)

In a bitter irony, Mubarak's decision to remain as head of State with Washington's approval has served the interests of institutional investors, currency traders and speculators.

Financial dislocation, rising debt and spiralling food prices: Before "democratic" elections are called, Egypt will have been pushed into the straightjacket of a new set of deadly IMF conditionalities.

The important question is how will the various opposition forces tackle the demands of external creditors and financial institutions, not to mention the broader geopolitics of US-NATO influence in the region.

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