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FULL PAPER

External Debt and its Impact on the Future of Developing Countries' Economies (Egypt's Debt as a model)

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Abstract

External debt constitutes a burden on the economies of developing countries, as servicing this debt drains the financial resources of these countries and exposes their public budgets to chronic deficits. Our research aims to demonstrate the extent of the impact of this debt on the economies of developing countries, especially with regard to Egypt's external debt, which is based on the hypothesis that external debt has a negative impact on the economies of developing countries such as the Egyptian economy. The research adopted the descriptive-analytical method as one of the methods used in writing scientific research. The research reached a number of conclusions, perhaps the most prominent of which is that the research hypothesis was proven that external debt has a negative impact on the economies of developing countries, and it presented a number of recommendations, perhaps the most important of which is the need to diversify the revenues that enter the general budget annually and not to rely on a single source.

Keywords: External debt, developing economies, Egypt's debt

Introduction

External debt is one of the most significant problems facing many countries worldwide, both developed and developing, including Egypt. It has negative repercussions on economic development and places a heavy burden on public budgets and balance of payments. External debt is no longer merely a tool for financing budget deficits; it has become a decisive factor in shaping future economic growth. The accumulation of this debt hinders economic development and makes it impossible to repay interest and principal within the agreed timeframes between creditors and debtors. This research aims to shed light on the effects of external debt on the economies of developing countries, using Egypt's external debt as a case study during the period 2004-2025 and its future prospects.

Research Problem:

The research problem lies in the negative effects of external debt on the economies of developing countries, including budget deficits, balance of payments deficits, and the inability of these countries to meet their various economic obligations or repay interest and principal on time. This applies to the Egyptian economy as one such economy and a case study.

Importance of the Research:

The importance of this research stems from highlighting the effects of external debt on the future of developing economies, their public budgets and balance of payments, and their inability to achieve economic growth. The Egyptian economy serves as a case study for these economies.

Research Hypothesis:

This research is based on the hypothesis that external debt has a negative impact on the present and future of developing countries' economies, using Egypt as a case study, for the period 2004-2025.

Research Objectives: This research aims to:

1- Demonstrate the impact of this debt on developing countries' economies, their public budgets, and their balance of payments due to the increasing burden of debt, interest payments, and principal repayments.

2-Evaluate the current state of external debt in Egypt during the period 2004-2025 and its future trajectory given the rising cost of servicing this debt.

Research Methodology:

This research employs a descriptive-analytical approach, a method commonly used in scientific research, drawing upon books, journals, publications, and other relevant sources.

Section One: The Theoretical and Conceptual Framework of External Debt

First: The Concept of External Debt (Linguistically and Technically)

Debt, linguistically, refers to sums of money that are lent and repaid to the lending entity.

Technically, it refers to sums borrowed by a country, company, or other external entities and due for repayment within a specific timeframe (Samir, 2003:2)

As for the concept of external debt, it has been defined in more than one way depending on the entity concerned. External debt is one of the means that developing countries, in particular, resort to in order to finance their various activities. These countries need large amounts of capital to finance development and other purposes, which pushes them to borrow from countries and financial institutions with large surpluses of capital. These countries then repay the debt in the future in the form of installments and interest, which has led to high debt servicing costs. External debt is defined as the amounts borrowed by an economy that exceed one year and are payable to the creditor through payment in agreed-upon foreign currencies or through the export of goods and services to the creditor country (Tawfiq, 1998:15)

The International Monetary Fund (IMF) defines external debt as the total outstanding financial obligations (principal and interest) owed by residents and non-residents of a country, requiring future repayment of interest and principal. It is also defined as the amounts borrowed from countries and financial institutions or Foreign companies are required to pay the creditor within a predetermined time period (International Monetary Fund, 10:2025)

The researchers define external debt as those financial amounts borrowed by the debtor due to a shortage of capital from the creditor, whether it be countries or international financial institutions such as the IMF and the World Bank, or from foreign companies, which are required to be paid within a specific time period.

Second: The Importance and Types of External Debt.

External debt is a strategic financing tool used by debtor countries to bridge the gap in domestic resources. It is used to finance infrastructure projects and achieve economic development, or to cover deficits in the balance of payments or public budgets, thereby bolstering foreign exchange reserves.

The importance of external debt lies in the following: (Khodair, 2002: 20-21(

1- Financing Development and Investment Projects: Many developing countries resort to borrowing from developed countries or international institutions such as the IMF and the World Bank to finance infrastructure and implement investment projects due to a lack of financial resources within their own borders.

2- Covering Budget Deficits: External debt, which developing countries utilize, helps to cover budget deficits caused by insufficient liquidity to import essential goods and services.

3- This is necessary for the importation of essential goods and services from abroad. 3- Addressing Balance of Payments Deficits: External debt sometimes addresses balance of payments deficits in developing countries due to a lack of foreign currency reserves. This helps stabilize the exchange rate of the country's currency and also finances trade deficits.

4- Promoting Economic Growth: External debt can promote economic growth when used for economically viable projects that increase productive capacity, create jobs, and stimulate various economic sectors.

5- Implementing Economic Reform Programs: External debt can be a tool for implementing structural and economic reform programs in debtor countries through coordination and cooperation with international financial institutions and other entities.

Therefore, the importance of external debt clearly illustrates its role in addressing the economic challenges faced by developing countries, particularly when properly utilized and directed towards investment projects, infrastructure, and other development initiatives.

As for the types of external debt, these are divided into categories according to their duration, type, creditor, and other factors. These categories are as follows: (Hammad, 2008: 2-3)

1- Short-term debt: This refers to debts with a duration not exceeding one year.

2- Medium-term debt: This consists of financial obligations with a duration of two to five years. These debts fall between short-term and long-term debts.

3- Long-term debt: This refers to debts with a maturity of more than five years, payable to creditors, whether countries, financial institutions, or multinational corporations.

4- Formal debt: This refers to debts provided by governments or international and regional financial institutions to debtor countries to finance expenditures and projects or to cover balance of payments deficits.

5- Informal debt: This type of debt is provided by commercial banks and plays a significant role in providing liquidity in the absence of banking services. However, these debts can cause economic and social problems when the repayment date arrives and the borrower is unable to repay on the agreed-upon date.

6- State-guaranteed debt: This refers to debts guaranteed by government entities, whether banks or other lending institutions. These entities may undertake to provide guarantees to creditors in the event of the borrower's inability to repay. 7- Unsecured Debts: These are debts that are not guaranteed by any government, whether official or unofficial. (Amira, 2004: 196-310)

In conclusion, it can be said that these types of debts, whether from international entities or companies and institutions, obligate the debtor to repay the creditor according to the loan term, interest rates, and installments.

Stages of External Debt

External debt has gone through several stages, as follows:

The first stage: This stage extends from 1820 to 1840. This stage is characterized by a global movement of capital and is distinguished by the export of large amounts of capital by the United Kingdom (Britain) and France. These funds were directed towards developing countries, particularly those under colonial empires. Furthermore, the late 1970s witnessed an excessive increase in the volume of Egypt's external debt. A notable feature of this stage was the Great Depression of 1919, which lasted until 1933. This crisis saw a decline in the export revenues of developing (debtor) countries due to the recession that gripped the economies of developed countries at the time, and the collapse of raw material prices. This ultimately led to a debt crisis, during which debtor countries attempted to overcome the liquidity crisis by obtaining short-term credit from Western banks and financial institutions to service their external debts. However, by 1931, they were unable to repay these debts. For those entitled to it. (Amal, 136:2024(

The second stage: This stage began after World War II (1939-1945) and continued until the 1980s. Some sources indicate that this stage witnessed significant changes, especially after the signing of the Bretton Woods Agreement in 1944, which paved the way for the emergence of a new economic system. This system established fixed exchange rates that could be financed within certain limits, in addition to encouraging initial capital flows for productive purposes. This stage also saw the establishment of international institutions such as the International Monetary Fund and the World Bank to rebuild what was destroyed by World War II. Furthermore, this stage witnessed many developing countries gaining their political independence, which led them to resort to external debt to achieve economic development. The debt of these countries reached $8 billion in 1955, and then reached $36 billion by the end of the 1950s in 1967. Some statistics indicate that the total external debt of these countries during this period reached (1980-2000) As a result of oil price shocks, debt reached $5.7 trillion, equivalent to 55% of the GDP during that period (Al-Mutawalli et al., 2021)

The third stage: This stage begins in the 1980s and continues to the present: ... This stage witnessed the beginning of the international external debt crisis. The rise in the external debt of developing countries, particularly during the 1970s and early 1980s, led to a major financial crisis. Signs of this crisis appeared in 1981 in Poland and in 1982 (Hammad, 2008), in Mexico, due to these countries' inability to repay their debts. The debt reached $166 billion in 1979. This period was characterized by economic instability (Hurt & Abdura, 2001: 30). Causes of External Debt and its Impact on Developing Countries:

The global economy today faces numerous challenges, particularly regarding the high levels of external debt. Since 2023, global debt levels have exceeded $300 trillion. This problem has worsened since the 2008 global financial crisis and continued to be exacerbated by the COVID-19 pandemic in 2020, as many countries resorted to borrowing to stabilize their economies. Therefore, the causes of external debt can be summarized as follows (Arestovich, 2014:403)

1- Expansionary Monetary Policy: Expansionary monetary policy is one of the main reasons for the increase in external debt worldwide. Many global banks, especially US central banks such as the Federal Reserve, the European Central Bank, and the Bank of Japan, adopted ultra-loose monetary policies after the 2008 global financial crisis. Quantitative easing programs, which included large-scale purchases of government bonds and other financial assets, led to a significant increase in debt levels.

2- Fiscal Stimulus and Crisis Response: Fiscal policy played a significant role in the accumulation of global external debt in response to the global financial crisis and the COVID-19 pandemic in 2020. Many governments worldwide resorted to large-scale fiscal stimulus packages aimed at preventing economic collapse. These packages included direct financial assistance to various households, support for businesses, and investment in infrastructure. All these projects required borrowing by governments, both developed and developing. For example, the public debt of the United States rose from 64.4% of GDP in 2007 to over 125% in 2023. Many countries, particularly Italy and Greece, saw debt-to-GDP ratios exceeding 150% in 2023, with this percentage expected to increase further (ayaha, 2023:52)

3- Structural Economic Weaknesses: High levels of external debt contribute to structural weaknesses in all sectors of developing economies, particularly in Egypt. Many of these countries have faced stagnant productivity growth and demographic challenges, leading to weakened public finances. The main causes of external debt can be divided into two groups:

Internal Causes: The internal causes behind external debt are divided as follows (Al-Waisat, 2000: 53)

1- Increased reliance on external debt to finance various investments aimed at achieving economic development in developing countries, including Egypt.

2- Misuse of Debt: Some countries resort to external debt for various investments, but the main drawback is its misuse in areas that do not contribute to economic development, instead being used for luxury consumption and other purposes.
3- Capital Flight Abroad: Many developing countries suffer from administrative and financial corruption, where a large portion of these debts is smuggled abroad, exacerbating the problem of debt accumulation. This also applies to Egypt. Also.

4- Balance of Payments Deficit: Most developing countries suffer from a chronic balance of payments deficit due to a lack of economic diversification, reliance on a single sector, and neglect of other economic sectors. This is compounded by the continued importation of goods and services at the expense of exports, leading to persistent deficits in these countries' balances of payments, including Egypt (Muhayidah, 3:2007)

5- Prioritizing the Industrial Sector at the Expense of the Agricultural Sector: This phenomenon represents a comparative advantage in most developing economies, including the Egyptian economy. The industrial sector is prioritized through increased imports of goods and services, particularly food, while the agricultural sector is neglected. This leads these countries to resort to external borrowing to finance these industries. The external factors behind the exacerbation of the external debt problem are as follows:

1- High Interest Rates: High interest rates on external debt force debtor countries to bear increasing costs as a result of these rising rates.

2- Exchange Rate Fluctuations: Fluctuations in exchange rates for major currencies and economic crises in developed countries affect the local currencies of developing countries. Because of the integration of those countries into the global economy (Zaki, 16:1987).
3- Lower raw material prices: A decline in the prices of raw materials exported by developing countries leads to a deterioration in their terms of trade and exposes their balance of payments to deficits, forcing them to resort to external borrowing to finance these deficits. Figure (1) illustrates the reasons behind the external debt of developing countries.

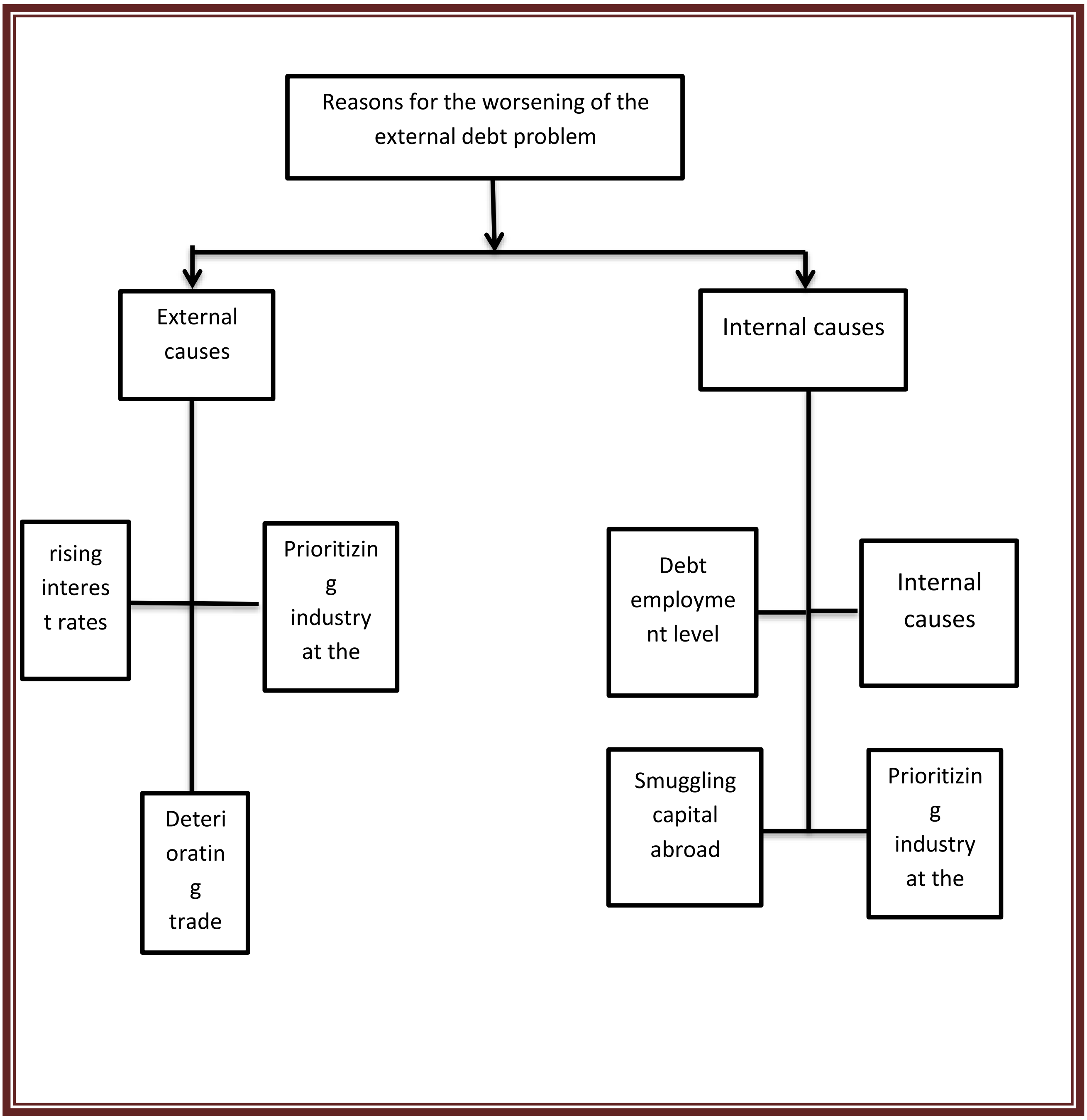

Figure (1) Causes of external debt

Source: Central Bank of Egypt Publications for 2024.

Section Two: The Reality and Structure of Egyptian External Debt

The external debt of the Arab Republic of Egypt witnessed a clear development during the period (2004-2025), as the volume of external debt increased from $37.81 billion in 2004 to $161.2 billion in 2025. Servicing this debt constituted a heavy burden on the Egyptian economy, as debt payments increased to $38.7 billion during the period (2024-2025), which cast a shadow over the reality of the Egyptian economy. This section will address the following: (Al-Sawy, 1:2025)

First: The development of the volume of Egypt's external debt.

Egypt's external debt rose significantly during the period (2004-2025), in addition to the increase in interest payments on that debt, which reached $8.2 billion during the years (2011-2012) and $24.5 billion in the years (2017-2018), while it reached $38.7 billion during the years (2024-2025) (Mohamed, 2019:23). This indicates that the Egyptian economy is suffering from significant pressures as a result of these debts, their interest, and their installments. Table (1) shows the development of the ratio of external debt to the gross domestic product (GDP) of Egypt during the period (2024-2025) (billion dollars).

External debt service as a percentage of GDP	External debt as a percentage of GDP	years
3.20	37.81	2004
3.01	32.28	2005
2.83	27.53	2006
2.25	22.91	2007
1.59	20.82	2008
1.65	16.68	2009
1.20	15.39	2010
1.19	14.79	2011
1.04	12.31	2012
1.05	14.98	2013
1.05	15.08	2014
1.69	14.45	2015
1.53	16.75	2016
3.11	33.58	2017
5.28	35.93	2018
5.16	41.66	2019
5,28	55.62	2020
15.9	137.85	2021
25.4	163.0	2022
25.4	168.0	2023
38.7	165.4	2024
38.7	163.7	2025

Source: Data list, Central Bank of Egypt for various years (2004-2025)

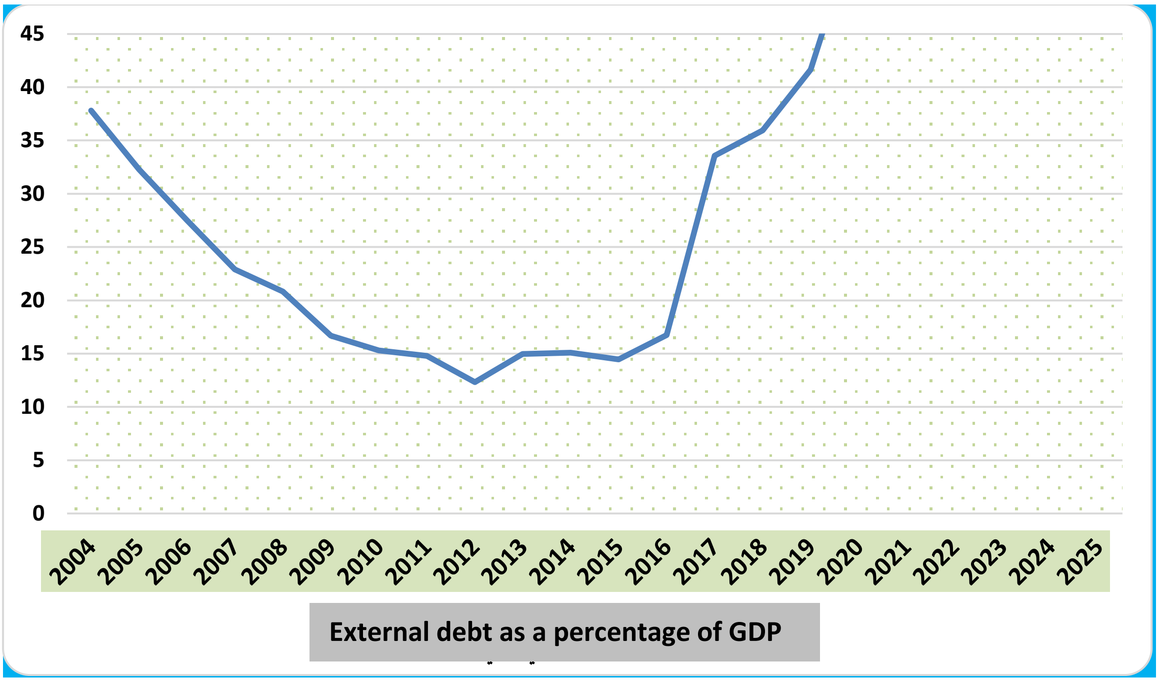

Figure (2) External debt as a percentage of GDP

Source: Figure created by the researchers based on the data in Table (1)

Table (1) shows that Egypt's consumer debt reached $37.81 in 2004. Ten years later, this debt decreased to $15.08 in 2014 as a result of Egypt repaying installments and interest. It then reached an even lower level, reaching $163.7 in 2025, due to the increase in both the debt and its installments during that year.

Second: The Structure of Egypt's External Debt

The structure of external debt refers to the composition and components of a country's total financial obligations owed to non-residents, whether foreign governments or international institutions such as the IMF and the World Bank. The external debt structure includes public and private debt and the ability to repay based on the time period, whether long or short. Egypt's external debt structure consists of the following elements: (Jaber, 2017:17)

1- International Institutions: such as the IMF and the World Bank. The debts of these two institutions constitute a large part of Egypt's external debt during the period (2004-2025).

2- Arab Countries' Debt: Arab countries occupy a prominent position in the list of Egypt's external debt, particularly Saudi Arabia, Kuwait, and the UAE, as their debts constitute a large part of Egypt's total external debt (Al-Hindawi, 2019:22)

3- Bilateral Debt: This refers to debts owed to developed countries such as Japan, China, Germany, and France, which constitute a significant portion of Egypt's external debt.

4- International Bonds: These are financial instruments issued by governments or international financial institutions outside their home countries and denominated in a currency other than the local currency (such as the Egyptian pound) of the issuing entity. These bonds are offered in international markets.

Third: Indicators of Egypt's External Debt

External debt indicators refer to economic measures such as the debt-to-exports ratio and the debt-to-GDP ratio, among others. Some of these are listed below. The indicators are as follows: (Sayed Ahmed, 2024:30(

1- Debt Service to Exports Ratio: This indicator measures the percentage of exports used to service Egypt's external debt.

2- External Debt to GDP Ratio: This is one of the most significant indicators because it is closely linked to the most important indicator, GDP. A higher ratio indicates a country's greater dependence on the outside world for financing investment and other needs (El-Sawy, 2025:16).

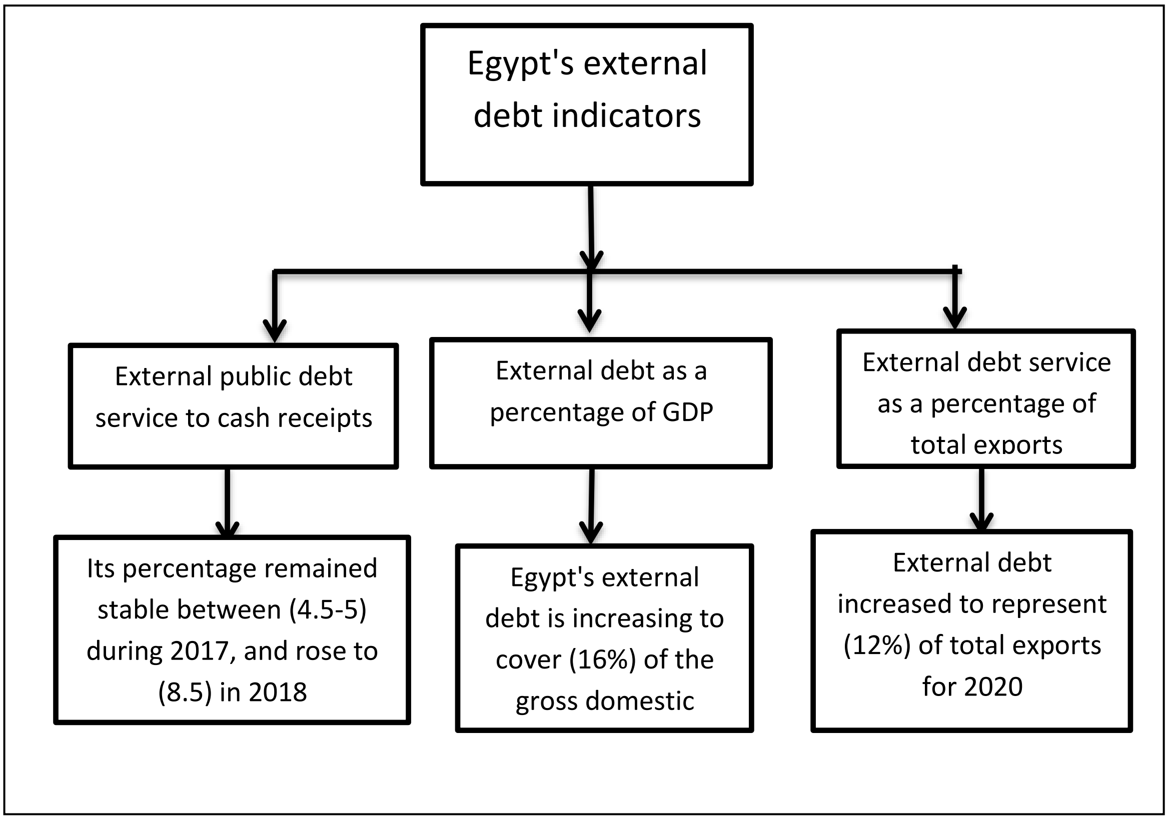

Figure (3) Indicators of Egypt's external debt

Source: From the work of the two researchers based on data from the Central Bank of Egypt.

Third Section: The Impact of External Debt on the Egyptian Economy and its Future Prospects

External debt has led to numerous economic repercussions for developing countries, such as Egypt. The increase in the volume of this debt has clearly affected economic development plans and reduced savings rates in these countries. Regarding Egypt, as one of these countries, the burden of servicing this debt has impacted the Egyptian economy and left clear marks on it. These effects can be summarized as follows (Bayoumi, 2023: 12)

First: The Impact of Debt on the Exchange Rate: An increase in external debt puts pressure on the exchange rate of the local currency (the Egyptian pound), causing it to appreciate and thus depreciate. This negatively affects the competitiveness of local exports, leading to higher prices for Egyptian imports and increased production costs. This, in turn, leads to higher prices for imported goods, exacerbating the trade deficit and, consequently, the balance of payments deficit in Egypt.

Second: The Impact of External Debt on Economic Growth: External debt has clearly impacted economic growth in Egypt through the following:

1- The increase in the burden of external debt, as investors reduce their expectations of returns due to anticipated tax increases to finance this debt. Consequently, these investors decrease their investments, which in turn affects economic growth.

2- This debt has burdened the Egyptian public budget due to the low productive returns it generates, which has put pressure on economic growth and increased the debt service burden (World Bank, 5:2025.(

Third: The Effects of External Debt on Inflation: An increase in external debt negatively impacts the inflation rate. This increase, coupled with the accumulation of debt service burdens, leads to pressure on the devaluation of the local currency (the Egyptian pound). This, in turn, raises the cost of imports, resulting in imported inflation. Based on the above, it can be concluded that these and other effects of external debt clearly demonstrate its significant impact on the Egyptian economy in general. The Future Prospects for Egypt's External Debt: Egypt's external debt poses a real threat to its future, requiring strategic planning, rationalizing government spending, and continuous efforts, particularly in infrastructure, education, and healthcare, which have led to stagnation in the Egyptian economy.

The future prospects for Egypt's external debt indicate a trend toward increasing and escalating in its absolute value. Some international financial institutions, such as the International Monetary Fund, predict that Egypt's external debt could exceed $200 billion by 2030. Despite this, the Egyptian government is making continuous efforts to reduce the debt-to-GDP ratio to 34% by 2030 (Al-Hindawi, 2019, p. 10). The Egyptian government is focusing on managing debt servicing, increasing direct investments, and rationalizing government spending on large projects.

As part of its efforts to address its external debt, the Egyptian government is preparing to pay off $50.8 billion owed by Egypt during the year 2026, while reducing that debt by $1-2 billion annually. These measures confirm Egypt’s commitment to paying its debts on schedule in order to preserve its reputation and long history.

Conclusions

The research reached several conclusions, which are as follows:

1- The research hypothesis was proven: that external debt has a negative impact on the economies of developing countries, especially Egypt, because it drains financial resources due to debt servicing and service payments.

2- External debt causes a slowdown in GDP growth, which is an indicator of a country's progress, in addition to imbalances in public budgets and balance of payments in developing countries.

3- It was found that external debt affects many economic indicators, particularly economic growth, exchange rates, and inflation.

4- The lack of clear plans and strategies to regulate the relationship between these debts and the projects for which spending and borrowing are intended, which are inherently economically unviable projects.

5- Financing budget deficits in developing countries places additional burdens on their resources, especially with regard to debt repayment. 6- Egypt's external debt increased from $37.81 billion in 2004 to $163.7 billion in 2025. This indicates that Egypt's debt has been steadily increasing throughout the research period (2004-2025) and beyond.

Recommendations: The research recommends the following:

1- The external debt borrowed by developing countries should be directed towards economically viable projects and investments that serve the economic development process.

2- Developing countries should diversify their public budget revenues and avoid relying on a single source, in addition to building a productive base capable of diversifying these revenues.

3- It is essential to reduce spending on economically unviable projects and focus on projects directly related to the lives of citizens and the progress of these countries, as well as to optimize the use of these debts.

4- It is necessary to study the experiences of countries that resorted to external debt and benefited from them in developing their countries and were able to repay their debts to their creditors.

5- Negotiating with creditors to reduce the burden of these debts and write off a portion of them.

6. The necessity of extending the repayment periods for these debts, as well as reducing the interest accrued on these debts, in order to alleviate the burden on the public budgets of the debtor countries.

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