INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/14

# ARAB REPUBLIC OF EGYPT

January 2018

## 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the 2017 Article IV Consultation, Second Review Under the Extended Arrangement Under the Extended Fund Facility, and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 20, 2017 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 20, 2017, following discussions that ended on November 9, 2017, with the officials of the Arab Republic of Egypt on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 11, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Arab Republic of Egypt.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Arab Republic of Egypt*
Memorandum of Economic and Financial Policies by the authorities of the Arab Republic of Egypt*
Technical Memorandum of Understanding*
Selected Issues
*Also included in Staff Report

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 18/09
FOR IMMEDIATE RELEASE
January 23, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Executive Board Concludes 2017 Article IV Consultation with the Arab Republic of Egypt**

On December 20, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Arab Republic of Egypt and completed the second review of Egypt's economic reform program supported by an arrangement under the Extended Fund Facility (EFF Arrangement) (see Press Release No. 17/511).

Egypt's reform program, supported by the EFF Arrangement, has played a critical role in stabilizing the economy. By the end of 2015/16, a long-standing and ultimately unsustainable policy mix had resulted in low growth and investment, elevated general government debt, an overvalued exchange rate, a widening current account deficit, declining gross international reserves and severe shortages of foreign exchange. Underpinned by political and social stability, nearly one year since the launch of the authorities' ambitious economic reform program, Egypt's economy is rebounding and confidence is returning.

Egypt's economic outlook is favorable, provided prudent macroeconomic policies are maintained and the scope of growth-enhancing reforms is broadened. GDP growth rebounded from 3.5 percent in 2015/16 to 4.2 percent in 2016/17, and is projected to strengthen further to 4.8 percent in 2017/18 and to 6 percent in the medium term. In July 2017, inflation peaked at 35 percent, reflecting the pass-through from the devaluation of the pound and the increases in energy prices and the VAT rate, and has started to moderate since then supported by the tightening of the monetary policy stance. Inflation is expected to decline to around 12 percent by June 2018 and to single digits by 2019. The current account deficit remained unchanged at about 6 percent of GDP in 2016/17, but with improved external competitiveness, reforms of the business environment, and a further recovery in tourism, it is expected to narrow to about 4.5 percent of GDP in 2017/18 and to about 3.5 percent of GDP by 2021/22. With the floating of the exchange rate, the parallel market disappeared, capital inflows increased and international reserves reached 5 months of imports of goods and services. The primary fiscal deficit narrowed from 3.5 percent of GDP in 2015/16 to 1.8 percent of GDP in 2016/17, and is projected to turn into a surplus of 0.2 percent of GDP in 2017/18.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

To sustain economic reform momentum, in the medium term, policy priorities should aim to raise potential output and promote inclusive growth to create jobs for Egypt's young and growing population. This will require the private sector to become the primary engine of growth and the state to provide a stable macroeconomic environment, a friendly business climate and efficient delivery of public goods. Strengthening social protection will also be important to shield the most vulnerable. Reforms should include modernization of the regulatory framework to create a level playing field for all; enhancing competition in input and product markets; supporting greater trade integration and the removal of non-tariff barriers; improving access to finance and land; strengthening governance, transparency, and accountability of state owned enterprises; and strengthening the labor market.

**Executive Board Assessment[2]**

Executive Directors commended the authorities' strong ownership of the program and their continued progress in stabilizing the Egyptian economy. They welcomed the ongoing recovery in GDP growth, gradual moderation of inflation, significant fiscal adjustment, resilience of the banking system, and strengthening of market confidence. They noted, however, that risks remain, and urged the authorities to maintain steadfast implementation of policies to solidify macroeconomic stability and advance structural reforms to unlock Egypt's growth potential.

Directors welcomed the authorities' medium term objective of raising inclusive growth and increasing employment. They noted that this will require a more efficient allocation of resources in the economy through market driven mechanisms, with the private sector taking the lead in investment and job creation, and the state focusing on the provision of a stable macroeconomic environment and the efficient delivery of public goods. Directors welcomed the steps the authorities have already taken and urged them to deepen reforms to improve the business climate, reduce corruption, and streamline the role of the state in the economy. They stressed the need to strengthen competition, improve the governance and transparency of state owned enterprises, reduce barriers to trade, improve access to finance and land, and facilitate better integration of women and young people in the labor market. They noted that careful sequencing and effective communication of the reform agenda will be crucial for success.

Directors commended the Central Bank of Egypt (CBE) for maintaining a prudent monetary policy stance. They urged CBE to remain vigilant and welcomed the intention to consider a gradual easing of policy interest rates only once the authorities are confident that demand pressures and inflation expectations remain contained. Directors took positive note of the authorities' intention to move to inflation targeting in the medium term. Notwithstanding the significant groundwork in place, they highlighted the need to complete the preparatory work, including the reform of the central bank law and further reducing fiscal dominance.

Directors endorsed the authorities' continued commitment to a floating exchange rate regime. They welcomed the intention of CBE to refrain from interventions in the interbank market except

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

to potentially mitigate disorderly conditions and CBE's decision to introduce a fee upon entry for the repatriation mechanism, which could help enhance the flexibility of the pound and strengthen monetary transmission.

Directors stressed the need to reduce the fiscal deficit and public debt. They welcomed, in this context, the authorities' commitment to achieve primary surpluses of about 2 percent of GDP in the medium term. Directors urged implementation of the automatic fuel price adjustment mechanism as soon as possible and the phasing out of most fuel subsidies by the end of the Fund supported program. They commended the enhancement of the social safety net to protect the vulnerable, and recommended greater reliance on targeted cash transfer programs rather than product subsidies.

Directors noted that fiscal space is needed for spending on infrastructure, human capital, and the social safety net. They underscored, in this context, the importance of implementing tax policy reforms to broaden the tax base and modernize tax and customs administration. Directors also emphasized the need to strengthen public finance management, and guard against increases in government debt originating from outside the budget sector.

It is expected that the next Article IV consultation with the Arab Republic of Egypt will be held in accordance with the Executive Board decision on the consultation cycles for members with Fund arrangements.

INTERNATIONAL MONETARY FUND

# ARAB REPUBLIC OF EGYPT

December 11, 2017

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

## KEY ISSUES

**Context:** Following a build-up of macroeconomic imbalances that had resulted in declining growth, rising debt, and a widening current account deficit, the Egyptian authorities undertook decisive policy actions since the launch of the reform program in November 2016. These efforts are increasingly yielding results in terms of restored market confidence, strengthening growth momentum, a narrowing of budget and current account deficits, and adequate foreign exchange reserves. Sustaining the reform effort will help secure macroeconomic stabilization and unlock Egypt's potential for higher growth and much needed job creation.

**Outlook:** Growth is expected to gain momentum in 2017/18, driven by a recovery in consumption and private investment and a continued positive contribution from net exports. Inflation is expected to continue to decline from its July peak, and second-round effects from the depreciation of the pound and fuel price and VAT rate hikes appear to be contained. The government debt ratio is projected to decline markedly in response to fiscal consolidation and high nominal GDP growth. The current account deficit is expected to narrow further as net exports strengthen.

**Risks:** Pressures to expand spending beyond budgetary allocations, any premature easing of monetary policy before inflation expectations are fully anchored, or opposition to reforms by vested interests, could undermine stabilization efforts. Loss of momentum on structural reforms would adversely affect growth prospects. External risks relate to a worsening of the security situation that could slow the recovery of tourism, a sustained rise of global oil prices, lower growth in Egypt's main trading partners, or any unexpected tightening of global financial conditions. These risks are mitigated by the authorities' strong program ownership and record of implementation.

**Focus of the Article IV consultation:** Discussions were anchored around the overarching goals of achieving sustained high and inclusive growth and creating employment opportunities for Egypt's rapidly growing population. Achieving these goals will require market-friendly reforms and deeper trade integration. This would also have beneficial growth spillovers to Egypt's trading partners, including in the region. Building on the ongoing efforts at macroeconomic stabilization, reforms are needed to modernize the public finance management (PFM) and monetary policy frameworks, improve the business environment, strengthen transparency and governance, promote greater inclusion of women in the labor force, and reduce the distortions to optimal resource allocation created by the public sector's large role in the economy. A transformation into a dynamic, open, and fast-growing economy also requires a well-targeted social safety net that protects the most vulnerable.

**Program performance:** The end-June 2017 performance criteria (PC) on net international reserves (NIR) and net domestic assets (NDA) of the Central Bank of Egypt (CBE) were met, but the indicative target (IT) on reserve money was missed by a small margin. All continuous PCs were met. Most structural benchmarks (SB) were met, but implementation of three benchmarks has been delayed. The program objectives going forward are to: maintain prudent monetary and fiscal policies to establish a firm disinflationary trend and achieve the program's fiscal targets; enhance social protection; preserve the flexible exchange rate regime; and broaden the scope of macro-critical structural reforms. The financing gap for the next 12 months is about $3 billion after Fund disbursements, and is expected to be met with bilateral, gross reserves, and commercial financing. The financing gap for the remaining period of the program is smaller and can be filled from the same sources.

**Staff supports the authorities' request for the completion of the second review under the Extended Arrangement under the Extended Fund Facility (the EFF Arrangement).** Staff also supports the authorities' request for the modification of performance criteria on the primary fiscal balance and net domestic assets of the CBE for December 2017 and June 2018.

| Approved By | |
|---|---|
| **Juha Kähkönen and Sanjaya Panth** | Discussions were held in in Cairo during October 25–November 9. The mission team comprised Subir Lall (head), Nikoloz Gigineishvili, Bénédicte Baduel, Yufei Cai (all MCD), Emine Hanedar (FAD), Melesse Tashu (SPR), Carlos de Barros Serrao and Oleksandr Pysaruk (both MCM), Randa Elnagar (COM), and Reza Baqir (Senior Resident Representative). Mr. Beblawi (Executive Director) and Ms. Abdelati (OED) participated in the discussions. |

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**ANNEXES**

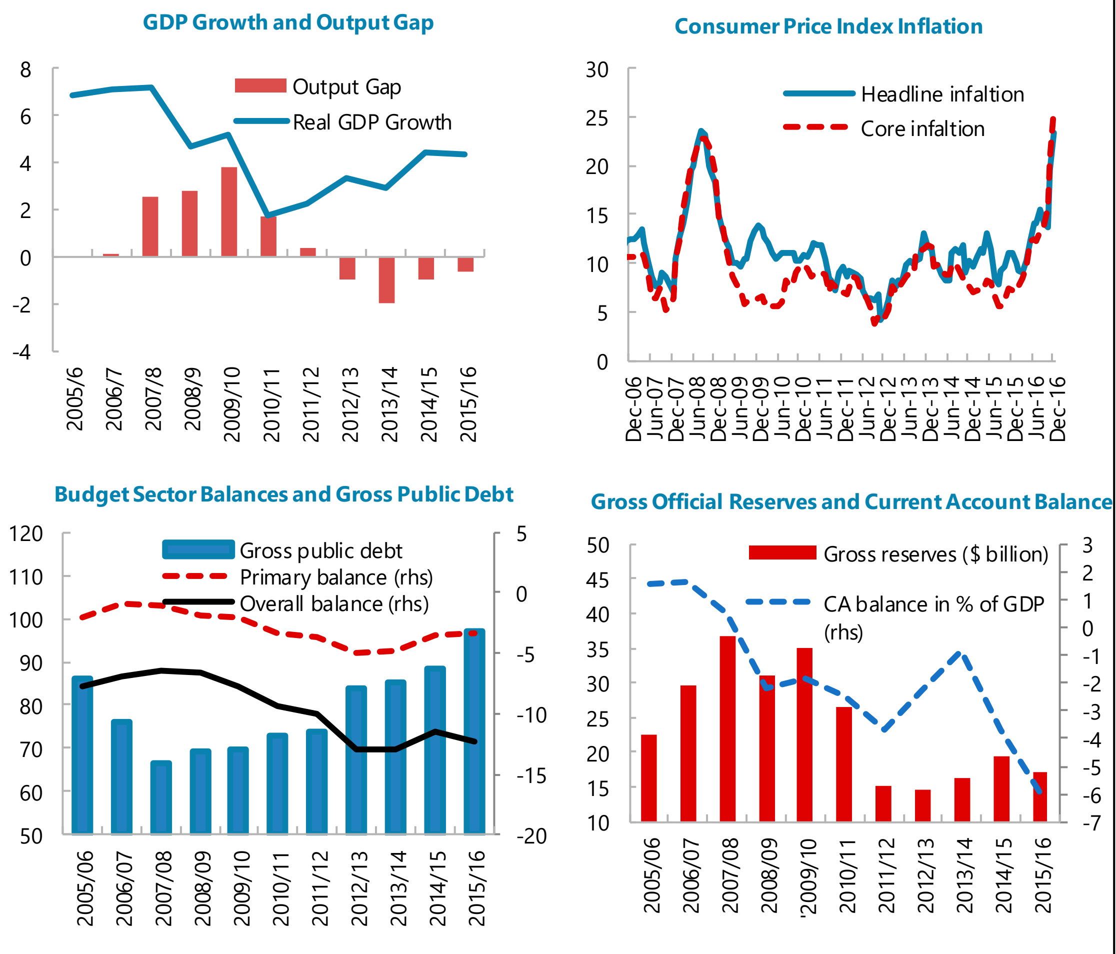


**APPENDIX**

# CONTEXT

1. **Egypt's reform program, supported by the Extended Fund Facility (EFF) Arrangement, has played a critical role in stabilizing the economy.** By the end of 2015/16, a long-standing and ultimately unsustainable policy mix had resulted in low growth and investment, rising inflation, elevated general government debt, an overvalued exchange rate, a widening current account deficit, and gross international reserves declining to the equivalent of three months of imports. Meanwhile, severe foreign exchange (FX) shortages had led to the emergence of a large parallel market. The authorities confronted this constellation of challenges by launching ambitious and politically difficult reforms. In November 2016, the currency was floated and the FX market was liberalized, eliminating the overvaluation and FX shortages; a three-year fiscal consolidation program was launched to reduce persistently high budget deficits; monetary policy was tightened to contain inflation pressures; and reforms were launched to address inefficient energy subsidies, strengthen social

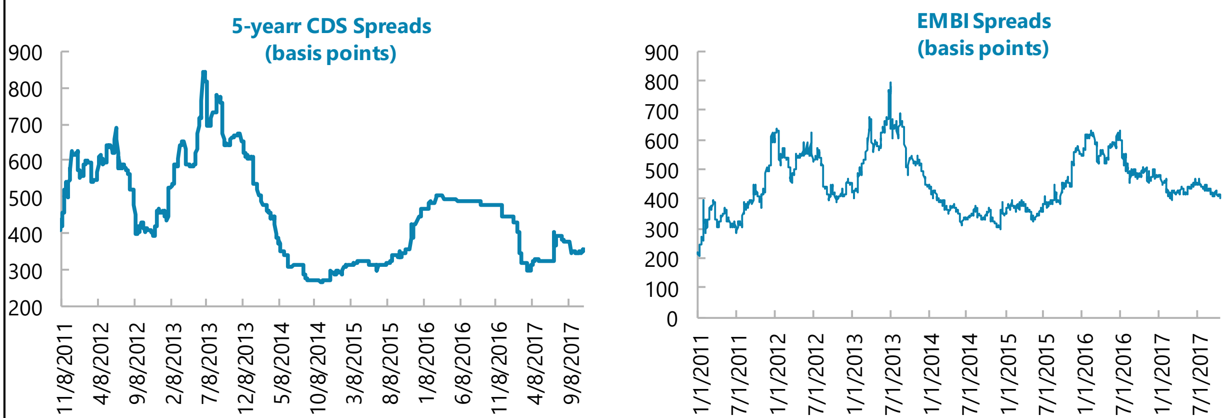
**Egypt: Pre-reform Macroeconomic Developments**




Sources: The Egyptian authorities and IMF staff calculations.

safety nets, and improve the business climate. Underpinned by political and social stability, the first year of the reform program began the process of restoring macroeconomic stability. It helped narrow sovereign spreads, rebuild investor confidence, and attract significant capital flows into Egyptian domestic treasury securities.

**Egypt: Sovereign Spreads**




Source: Thomas Reuters Eikon and Bloomberg.

**2. Firmly securing macroeconomic stability and unlocking Egypt's potential for higher and more inclusive growth will require maintaining the reform momentum and broadening its scope.** Egypt's underlying potential stems from its young and growing population, its low-cost labor force, a large domestic market, a particularly advantageous location at the confluence of three continents and global shipping routes, and untapped investment opportunities. Realizing this potential will require a deeper integration in global trade, a vibrant private sector, and a role for the state focused on providing efficient public services and an enabling business environment. It will also entail generating fiscal space to increase investment in human capital and infrastructure, and improve social protection. Sustained higher growth and greater trade openness would also generate positive spillovers for the region.

**3. The main recommendations of the 2014 Article IV consultation focused on twin objectives of macroeconomic stabilization and inclusive medium-term growth.** Staff advice included: (1) reducing fiscal deficits to contain government debt through fuel subsidy reforms, wage controls and the introduction of the value-added tax (VAT); (2) allowing more exchange rate flexibility to remove overvaluation of the pound, strengthen Egypt's external position and support reserve accumulation; (3) implementing a prudent monetary stance to contain inflation; (4) implementing structural reforms to promote inclusive growth and job creation; and (5) strengthening social safety nets to protect the poor. These policy recommendations have been incorporated in the authorities' reform program.

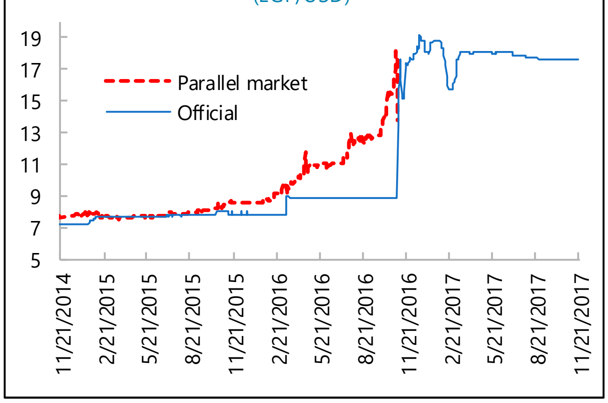
# RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

4. **Growth is rebounding and inflation appears to have turned the corner.** Growth accelerated from seasonally adjusted 1.1 percent (quarter-on-quarter) in the first quarter of 2016/17 to 2.2 percent in the final quarter, driven by manufacturing, construction, real estate, natural gas, retail trade, transport and communication. For the year, GDP expanded by 4.2 percent, above the program projection of 3.5 percent. Month-on-month inflation rose to 3.2 percent in July, primarily reflecting higher fuel prices and the VAT rate hike. Underlying inflation dynamics appear to be contained thus far, and month-on-month inflation has eased to 1.1 percent in October, consistent with a decline in year-on-year inflation from its July peak of 33 percent to 30.8 percent. Twelve-month core inflation also declined from 35.3 percent to 30.5 percent.

5. **The current account (CA) deficit remained unchanged at about 6 percent of GDP in 2016/17.** The liberalization of the exchange rate strengthened inflows from tourism, remittances, and the non-oil merchandise trade, but dollar GDP declined in line with the depreciation of the pound, resulting in a higher CA ratio. The depreciation of the currency and the interest rate differential against major funding currencies have attracted portfolio inflows of about $18.5 billion since the float through November 2017. Gross reserves increased from $16.4 billion before the launch of the program to around $30 billion in June and further to $36 billion in October (six months of prospective imports).

6. **The exchange rate has remained broadly stable since March.** Since June, the Egyptian pound has appreciated by 2 percent against the dollar. The Central Bank of Egypt (CBE) has not intervened in the FX market directly. However, it has supplied foreign exchange at market exchange rates to state-owned enterprises (SOEs) and portfolio investors through the repatriation mechanism[1]. There is no evidence of foreign exchange shortages in the market, but the repatriation mechanism has diverted FX liquidity from the interbank market and prevented the appreciation of the currency in response to portfolio inflows. Notwithstanding short-term appreciation pressures, the results of the updated external sector assessment suggest that the external position in 2016/17, adjusted for the policy shift mid-year, was moderately weaker than the level consistent with fundamentals and desirable policies (Annex 3).

**Exchange Rates**
(EGP/USD)




[1] The repatriation mechanism guarantees the availability of FX for repatriation to investors that choose to sell FX to the CBE at the time of entry at prevailing exchange rates. The objective is to alleviate convertibility risk for portfolio investors, which was a persistent concern in the period prior to the float and FX market liberalization.

**7. The budget outcome for 2016/17 was in line with expectations, but government debt was higher.** The primary deficit of the budget sector was 1.8 percent of GDP, as expected at the time of the first review, but budget sector debt was 4 percent of GDP higher than projected (at 108 percent of GDP) because of on-lending and direct borrowing from the treasury single account by economic authorities, a discrepancy between accrual and cash accounting of bonds, and a higher interest bill. The wage bill and fuel subsidies were in line with the program objectives.

**Budget Sector Debt, 2016/17**
**(change relative to the staff report for First EFF Review)**

| | *EGP billion* | *Percent of GDP* |
|---|---|---|
| **Budget Sector Debt First Review** [1] | **3,623** | **104.2** |
| Lending to other entities | 78 | 2.2 |
| Onlending to government entities | 60 | 1.7 |
| Economic Authorities Borrowing from TSA | 18 | 0.5 |
| Discrepancy due to accrual vs cash accounting | 29 | 0.8 |
| Stock adjustment of previous year | 24 | 0.7 |
| Difference in overal balance | 14 | 0.4 |
| Valuation effects | 4 | 0.1 |
| Other | 2 | 0.0 |
| **Budget Sector Debt Second Review** | **3,773** | **108.5** |

[1] The Budget sector debt during the first review is shown based on the outturn of the GDP for 2016/17.

**8. The CBE tightened monetary policy to rein in inflation.** The CBE raised policy rates in May and July by a cumulative 400 basis points, but the transmission to T-bill rates was dampened by large portfolio inflows through the repatriation mechanism. Central bank credit to the government and commercial banks for subsidized lending and social housing programs was contained within program ceilings. Local currency credit to the private sector expanded by 25.5 percent in 2016/17, but monthly credit growth has been declining and turned negative in July 2017. Real credit growth has been negative since December 2016. The CBE also raised the reserve requirements on local currency deposits from 10 to 14 percent in October.

**9. The program is broadly on track.** The remaining end-June quantitative performance criteria (PCs) for net international reserves (NIR) and net domestic assets (NDA), and the indicative target on EGPC[2] arrears were met, but the indicative target (IT) on reserve money was missed by a small margin. All continuous PCs were met (MEFP Table 1).[3] The end-June IT on tax revenues was missed because of a brief delay in issuing VAT executive regulations. Partial progress has been made on structural benchmarks. During 2016/17, EGP250 million was spent on nurseries to enhance women's labor force participation. The CBE developed a plan to gradually reduce its FX deposits in foreign branches of the Egyptian banks; and it adopted a new policy on the selection and appointment of an external auditor. The 2016 financial stability report was published in September. The end-September structural benchmarks (SB) on developing a system to evaluate and decide on new state guarantees was missed. The authorities need more time to flesh out a comprehensive framework on state guarantees, but have issued a guidance note on broad principles in October. The automatic fuel price indexation mechanism (end-September SB) was submitted to the Prime Minister in October, but lacked sufficient operational detail. The fiscal strategy paper, on which IMF

[2] Egyptian General Petroleum Corporation.

[3] The waivers of nonobservance for the primary fiscal balance and the fuel subsidy bill were approved by the Board in July.

technical assistance (TA) was provided, is expected to be implemented with a short delay in December instead of November.

**10. Data provision is broadly adequate for surveillance.** Statistics for monetary, banking, balance of payments, and the budget sector are adequate. However, Egypt would benefit from improving timeliness and accuracy of national accounts, and the quality and coverage of general government accounts.

# OUTLOOK AND RISKS

**11. The outlook is favorable, provided prudent macroeconomic policies are maintained and the scope of growth-enhancing reforms is broadened.** Growth is projected to strengthen to 4.8 percent in 2017/18 and rise further to around 6 percent in the medium term. Inflation is expected to decline to around 12 percent by June and to single digits in 2020. Improved external competitiveness, reforms of the business environment and a further recovery in tourism would help narrow the CA deficit to about 4.5 percent of GDP in 2017/18 and to about 3.5 percent of GDP by 2021/22. In 2017/2018, a primary fiscal surplus of 0.2 percent of GDP is projected, with the improvement mainly driven by the full year impact of the VAT increase, and lower wages and fuel subsidies. In light of this, the programmed improvement of the primary balance by a cumulative 5.5 percent of GDP is attainable, and general government debt is projected to decline by about 17 percent of GDP by the end of the program.

**12. The main risks to the outlook arise from any slowdown or reversal of reforms (Table 14).** For example, reform fatigue or opposition by vested interests would weaken the program's hard-won credibility, and thereby hurt the prospects for investment and growth. A premature easing of monetary policy could adversely affect inflation expectations, while pressures to increase spending on wages, or expand social programs beyond what is budgeted, and realization of state guarantees to SOEs, could undermine fiscal goals. Among external risks, an increase in global oil prices would weaken the current account and increase the fuel subsidy bill, thereby undermining fiscal consolidation and debt reduction; any worsening of the security situation in the region would weaken tourism; lower growth in trading partners would reduce demand for Egyptian exports; and an unexpected tightening of global financial conditions could weaken the market appetite for the Egyptian Eurobonds and could lead to reversal of portfolio flows. These risks are mitigated by the authorities' commitment to sound policies and their strong ownership of the program.

**13. The authorities shared the staff's view of a favorable macroeconomic outlook.** Citing their strong track record in policy implementation since the start of the program and political support at the highest level, they believed that the risk of policy slippages and a slowdown of the reform momentum was not a serious concern. They acknowledged external vulnerabilities, especially the risk related to higher global oil prices, and expressed readiness to use all the necessary policy instruments should the risks materialize.

# POLICY DISCUSSIONS

*Policy discussions were anchored around the authorities' medium-term objective of raising potential output and promoting inclusive growth to create jobs for the growing population. Macroeconomic stability would be preserved by a modernized monetary policy framework grounded in the established flexible exchange rate regime and aimed at attaining low and stable inflation, a stable financial sector, fiscal consolidation underpinned by strengthened tax and PFM frameworks, and a better targeted social safety net. Structural reforms to improve the business climate, increase financial inclusion, and reorient and streamline the role of the state in the economy would support private investment, productivity, and exports. The economy's growth potential would also be enhanced by higher labor force participation, especially by women and youth. There is an urgent need for reforms in all these areas, but these should be properly paced and sequenced for the maximum traction and results. Against this background, program discussions identified short-term policy and reform priorities that serve the above overarching objectives.*

## A. Article IV Consultation: Inclusive Growth, Job Creation, and Social Protection

**Revisiting the Legacy of Egypt's Development Model**

**14. The efficient allocation of economic resources in Egypt is hampered by numerous distortions that are the legacy of the past.** For decades, the Egyptian economy was characterized by an expansive welfare system and a preference for economic self-reliance. The former was manifested in a system of universal subsidies and a large public sector workforce, encouraging consumption that over time rose to over 90 percent of GDP—well-above levels in peer countries—and leaving little fiscal room for policies geared towards broad-based development. Economic self-reliance led to a preference for industrial and import substitution policies, which in combination with fuel subsidies resulted in over-investment in inefficient and capital-intensive industries, where the state played a dominant role, providing relatively low employment growth for the economy (Box 1). This made capital accumulation the primary driver of growth. At the same time, inward-looking policies, weak competition, and poorly-defined property rights dis-incentivized productivity growth, and weakened external competitiveness and dynamism of the private sector. This prevented Egypt from taking full advantage of the opportunities from globalization that helped lift living standards among many of its peers. The attempts to address the perceived weak dynamism and job creation by the private sector have resulted in creating further distortions to efficient resource allocation and further expanding the role of the state in economic activity. This was revealed in the tendency to over-regulate markets, provide preferential or subsidized access to resources to select sectors and industries, operate directly in product markets, and centralize commercial decision-making by suggesting what, where, and how to produce. The suboptimal allocation of economic resources became self-reinforcing, further weakening productivity growth and job creation.

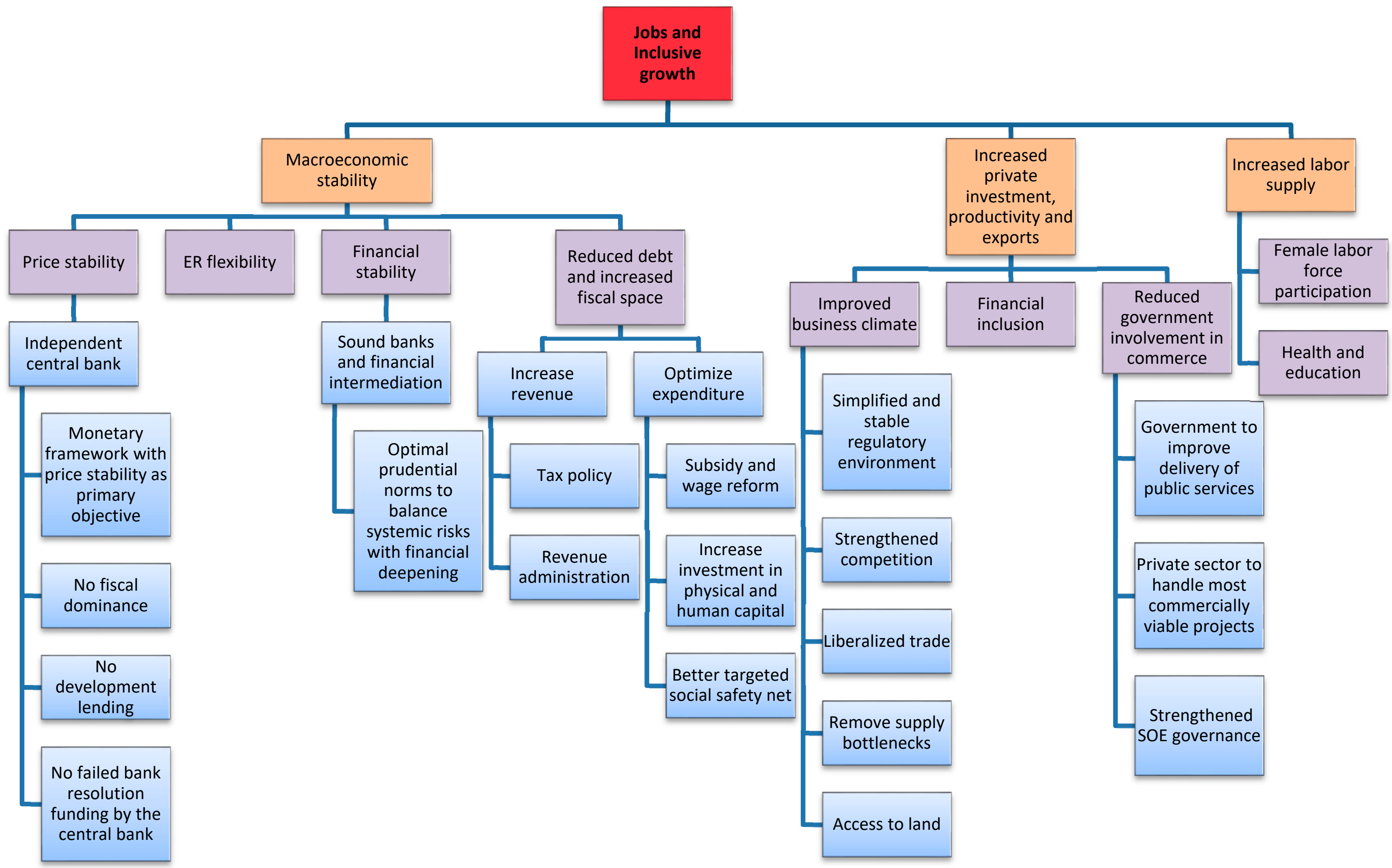
**15. These economic inefficiencies and a persistent shortage of fiscal space to support inclusive growth have placed undue burden on the otherwise sound financial sector.** To meet the financing needs of the budget and increase financial inclusion, the CBE had to assume certain fiscal functions that go beyond the central bank's mandate and are inconsistent with the objective of price stability. The government's large borrowing needs were partly met through the CBE's direct lending, fueling inflation, while the crowding out of private credit by the public sector prompted the central bank to provide subsidized loans to small and medium enterprises (SMEs) and mortgages to low-income households, which otherwise had little access to finance. To maintain financial stability, the central bank also had to assume the function of financing public bank recapitalization and bank resolution, which normally resides with the treasury. As a result, the CBE had to pursue multiple and sometimes competing objectives, as the treasury had limited resources to fulfil some of these objectives.

**16. A new growth paradigm is needed to lift Egypt's potential growth rate and meet the needs of its growing population.** Creating around 700,000 jobs annually and sustainably lifting the living standards can be achieved if the private sector takes the lead in investment and employment. This will require reorienting the policy framework to support a more efficient allocation of resources across all sectors through market mechanisms. It will also require the role of the public sector to be guided by hard budget constraints, and transparency and accountability in the fulfilment of the respective obligations of various parts of the state—including importantly the separation of fiscal and monetary policy functions.

### Reforms to Achieve Higher and Sustained Growth

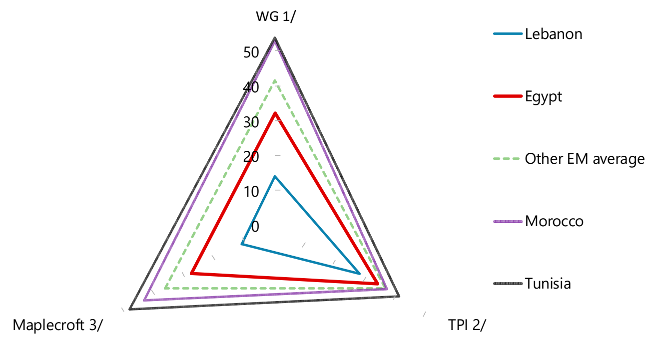
**17. The state continues to play a prominent role in the Egyptian economy.** Given the large informal sector, the state remains the employer of choice for many, offering attractive wages and working conditions (benefits, job security), and competes with the formal private sector. The share of the public sector in total employment is estimated at close to 30 percent, almost twice as high as formal private sector employment (ELMPS, 2012). The state also provides extensive subsidies and owns a large number of public enterprises, including in the sectors that compete directly with the private sector, in areas such as banking, the energy sector, manufacturing, agriculture, transport, tourism, and services. Moreover, state-owned enterprises are not subject to the same criteria of transparency and accountability to shareholders as private entities. The state also owns most land for investment purposes, which is not readily accessible to the private sector through a transparent and market-driven allocation process. This large role of the state imposes large public outlays, limits the fiscal space for productive investments in infrastructure and human capital, and marginalizes the private sector. The result is limited scope for higher growth and job creation, especially for youth and women.

## Text Table 1. Egypt: Framework of Policy Priorities



**18. Corruption is perceived as high and widespread.** Perceptions-based corruption indices show high levels of perceived corruption in Egypt compared to most regional peers and other emerging market economies. Literature suggests that a reduction in the perception of corruption could have very strong economic effects. Ugur and Dasgupta (2011)[4] find that a one-unit improvement in the perceived corruption is associated with an increase of 0.59–0.86 percentage point in per capita GDP growth. In this vein, the perception of corruption might have mitigated to some extent the impact of past reforms on growth, although it would be difficult to estimate the precise effect.

**Perceptions-based Corruption Indicators, 2016**

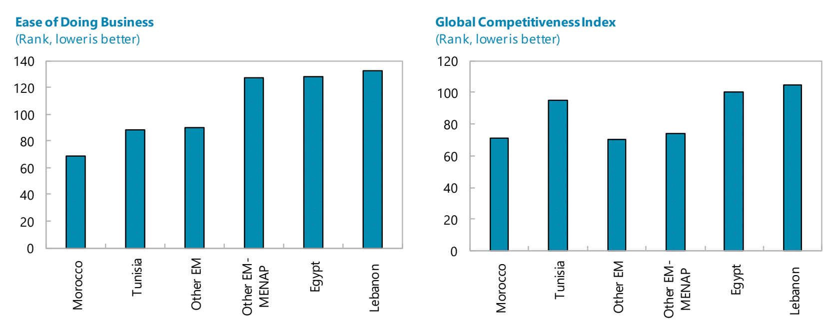



Sources: Transparency International, The Worldwide Governance Indicators, Verisk Maplecroft, and IMF staff calculations.
1/ Worldwide Governance Indicators' control of corruption percentile rank, measuring perceptions of the extent to which public power is exercised for private gain; with 0 corresponding to lowest rank and 100 to highest rank.
2/ Transparency International corruption perception index, measured on a scale of 0 (highest level of perceived corruption) to 100 (lowest level of perceived corruption).
3/ Verisk Maplecroft corruption risk index, measured on a scale of 0 (highest corruption risk) to 100 (lowest corruption risk); rescaled from the original 0-10 scale for comparability with the other indices.

**19. Capitalizing on its initial successes, the reform agenda needs to be broadened.** A dynamic private sector and market-driven resource allocation were essential preconditions for the growth transformations enjoyed by emerging economies over the past five decades. It requires a reorientation of the state to focus on the provision of a stable macroeconomic environment and the efficient delivery of public goods. This needs to be complemented with reforms that improve the business environment and promote private sector development.

**20. A limited set of reforms has high potential to alleviate the key bottlenecks to growth in a relatively short time.** These include: a modernized regulatory framework to create a level playing field for all; enhanced competition in input and product markets; greater trade integration and the removal of non-tariff barriers; improved access to finance and land; strengthened governance, transparency, and accountability of SOEs; and labor market reforms (See the Selected Issues Paper).

**Business Environment and Governance Indicators**




Sources: Global Competitiveness Report (2017–18); World Bank Doing Business Report (2018)

[4] Ugur M, Dasgupta N (2011), Evidence on the Economic Growth Impacts of Corruption in Low-income Countries and Beyond: A Systematic Review. London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

Progress in these key areas could unlock higher growth and also generate positive spillovers for the region.

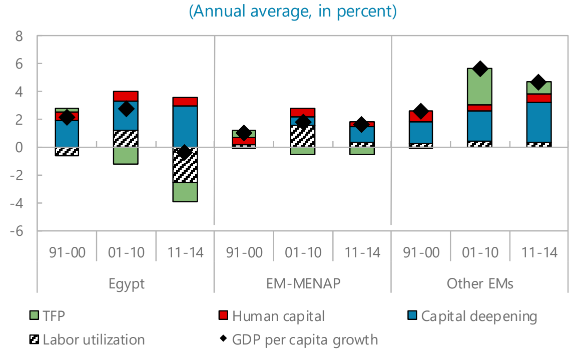
21. **The authorities broadly shared the mission's view of the medium-term objectives.** They agreed that the private sector needs to be the primary engine of growth and job creation. They concurred with the key reform areas proposed by staff, while noting that a proper pacing of reforms was essential to build domestic consensus and generate buy-in from all stakeholders, given the extensive reforms already undertaken and the sacrifices already made by the population in the context of the reform program. The authorities considered that the private sector in Egypt was still insufficiently dynamic with a large level of informality, and the state may need to provide guidance and occasional support until it had matured. The authorities also noted that there is a role for the state to overcome market failures, especially in an environment when important macroeconomic policy changes are being introduced. This was demonstrated by occasional shortages of food and other essential goods last year, when the state had to intervene in the public interest.

### Box 1. Constraints to Growth and Private Sector Development

Egypt's growth in the last two decades has been insufficient to improve the living standards. Real GDP growth averaged 4.2 percent per year over 1990-2017, but per capita GDP growth was more modest at 2 percent annually on the back of strong population growth. The national poverty rate was 27.8 percent in 2015/16.

The growth model since mid-2000s has been inefficient. Capital deepening has been the main driver of growth, while the contributions of TFP and labor utilization have been small or negative. Egypt was unable to create enough jobs for its growing population.

**Decomposition of Real Per Capita GDP Growth**
(Annual average, in percent)




Sources: Dabla-Norris et al., 2013.
Note: regional aggregates are weighted averages; the country-specific weights correspond to purchasing-power-parity-adjusted GDP.
EM MENAP include Algeria, Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Syria, Tunisia and the United Arab Emirates.

Lack of competition, corruption, poor access to finance and land, and inadequate infrastructure are major obstacles to firms' development and productivity improvement. The uneven playing field, and the time and cost of starting and operating businesses are cited by investors as key constraints. Energy subsidies benefit better connected firms and favor capital-intensive industries. Only 12 percent of Egyptian firms have a bank loan or a line of credit. Land allocation to the private sector is limited and inefficient (on a first-come-first-serve basis), and the lack of integrated multi-modal logistics constrains investment and trade. Regulatory bottlenecks and pervasive non-trade barriers, including burdensome customs procedures, increase the time and cost of trading across borders. (See the Selected Issues Paper).

## Better Integrating Youth and Women into the Labor Market

22. **Egypt would benefit from better integrating women in the labor market and supporting youth employment.** For these groups, unemployment is particularly high and labor force participation low. About one-third of young Egyptians in the labor force are unemployed and

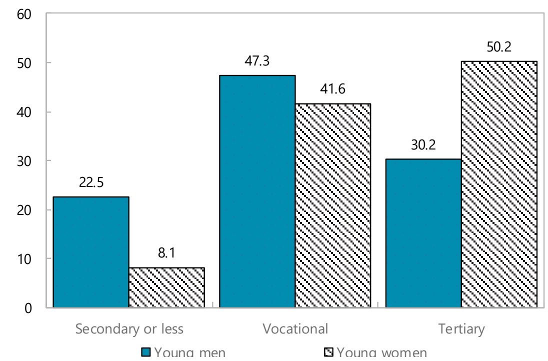
more than ¾ of women are outside the labor force. Staff analysis indicates that skills mismatches are among key obstacles for youth in finding jobs. Inadequate working arrangements in private sector, including the safety of transportation and inflexible working conditions, prevent many women from entering the job market. The authorities and staff shared the view that targeted reforms are needed for these groups to raise Egypt's growth potential. For the young, improving the quality of education is critical to equip new entrants with the knowledge and skills demanded by employers. Integration of women in the labor market can be fostered by: improving the safety of public transportation; improving the availability of childcare; and adopting more flexible policies for maternity leave, and parental services; promoting entrepreneurship among women; and improving access to finance (see the Selected Issues Paper).

## Box 2. Women's Participation in the Labor Market

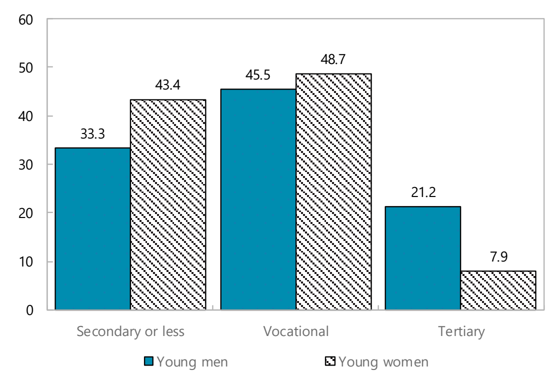
Female labor force participation is particularly low in Egypt, with only 23 percent of Egyptian women in the active labor force despite Egypt's success in promoting gender equality in primary and secondary education. Women are nearly three times less likely to be in the labor force, and more than twice as likely to be unemployed than men. One in two young women is not in either education, the labor force, or training, and about half of unemployed young women have tertiary education. Women's labor force participation also drops as they get married, highlighting the difficulty for women to balance a job and a family.

Mobility constraints, lack of connections, high wage gaps with men, and lack of child care services appear important factors behind women's low participation and high unemployment rates, especially in the private sector. Public sector jobs tend to offer better employment conditions, including more flexible hours, better commute, better benefits, and a lower wage gap. World Bank (2014) estimates the overall wage gap between women and men at about 12 percent, and this rises to 40 percent in the private sector. With very limited employment opportunities in the public sector, many women remain unemployed or get discouraged and withdraw from the labor force. 30 percent of working women took more than a year to find a job against 12 percent for men.

**Unemployed by Level of Educational Attainment and Gender**
(Percent)




**Unoccupied by Level of Educational Attainment and Gender**
(Percent)

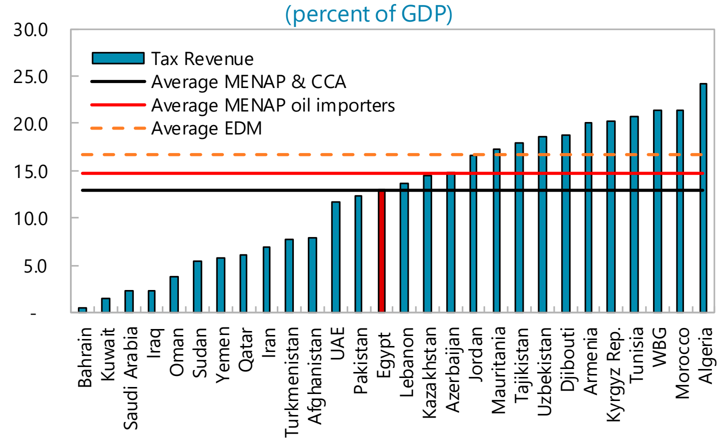



Source: 2014 ILO School-to-Work Transition Survey.

## Creating Fiscal Space

**23. In the medium term, Egypt needs to create fiscal space for its significant spending needs.** The spending priorities include upgrading infrastructure, investing in health and education, and building a sustainable social safety net. Egypt could create more fiscal space through tax policy reforms and better tax administration. Egypt's tax revenue is under 13 percent of GDP, which is low by international standards. The current tax system is complex with multiple tax rates and tariffs, creating an uneven playing field.

**Tax Revenues, 2016**
(percent of GDP)




Note: EDM stands for the average tax revenue from Emerging and Developing Markets consistent with the WEO classification.

**24. Egypt could raise revenue by about 4 percent of GDP.** Staff analysis suggests this can be achieved by tax policy reforms and improving revenue administration. While significant progress was achieved in recent years on multiple fronts, including the introduction of the VAT, there is still significant scope for further policy measures. Staff recommended: (1) broadening the VAT base by reducing exemptions; (2) increasing progressivity of the personal income tax and strengthening compliance through administrative reforms, especially for professionals (lawyers, doctors, accountants); (3) improving corporate income tax performance by addressing base erosion and profit shifting, and reviewing tax incentive schemes for FDI and free economic zones (Box 3); (4) simplifying the tax regime for small and micro enterprises; and (5) streamlining the tariff structure and removing discretionary exemptions in customs duties. To improve efficiency of revenue mobilization, there is scope for modernization of tax and customs administration, including by integrating direct and indirect tax management, creating a large and medium taxpayers' unit, and rationalizing staff accordingly and building risk-assessment programs by segment. The authorities appreciated staff's recommendations, and welcomed closer cooperation with the Fund on these issues (see the Selected Issues Paper).

## Fiscal Incidence of Reforms and Social Protection

**25. The authorities have strengthened social protection measures to mitigate the impact of reforms.** The World Bank's recent poverty impact analysis suggests that the welfare loss from recent energy price increase is around 5½ percent of household expenditure on average before any mitigating measures. The poorest households have been particularly impacted by the increase in LPG prices. Monthly food subsidies were more than doubled in 2017/18 from EGP21 to EG50 per beneficiary, which given their almost universal coverage broadly compensates these losses for the

## Box 3. Strengthening International Tax Rules for Development

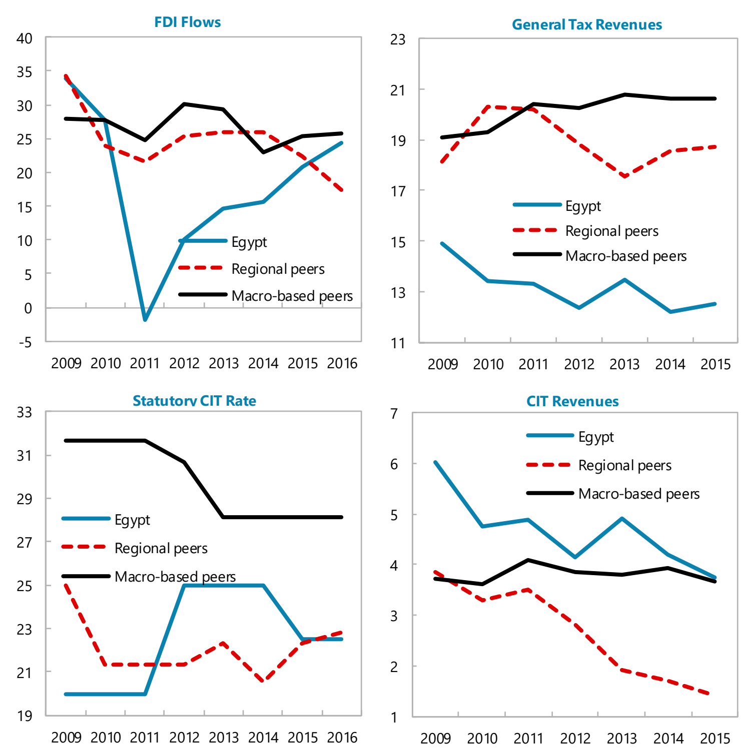
**Egypt's international tax rules are important drivers of foreign direct investment (FDI).** Evidence suggest that a 1 percentage point higher effective tax rate on companies reduces FDI on average by 3 percent. With a corporate rate of 22.5 percent, several tax incentives, and a wide network of double tax treaties (DTTs), the Egyptian international tax system is seemingly conducive to foreign investors (for detailed analysis, see the Selected Issues Paper).

**International tax rules should also ensure that FDI contributes to a broader domestic revenue base.** With a very low tax-to-GDP ratio, Egypt lags behind both its regional and global peers; and its corporate tax revenue has been declining sharply in recent years, in part due to lower revenue from the petroleum sector. FDI inflows could help expand the domestic tax base, but will require careful tax policy design that limits base erosion, e.g. through implementing effective anti-avoidance policies, negotiating appropriate terms in DTTs, and limited use of ineffective and expensive tax incentives.

**Egypt's international tax rules could strike a better balance between encouraging FDI and safeguarding domestic revenue.** Some reforms could improve revenue performance, without creating adverse effects on investment:

- *Phasing out the use of tax incentives in free zones.* International evidence suggests that tax exemptions and tax holidays are often ineffective in attracting investors but carry significant fiscal costs.
- *Adopting more effective anti-avoidance measures.* Egypt should strengthen anti-avoidance rules regarding e.g. interest deductibility and the enforcement of transfer pricing rules.
- *Reconsidering DTTs.* While Egypt adopts withholding taxes on outgoing payments to protect against base erosion, several DTTs limit the right to levy withholding taxes and open opportunities for treaty shopping.

**Strengthening International Tax Rules for Development**




Source: The authorities

bottom 40 percent, and half of the losses for the third and fourth quintiles. The impact of reforms on household budgets has been mitigated further by expanding the coverage and increasing the benefits of the targeted cash transfer programs of Takafol and Karama[5] which in combination with the other measures is likely to have fully compensated the negative effects of the reforms

[5] The coverage was expanded from 160,000 households in 2015 to 1.7 million households in mid-2017, and is expected to cover 2 million households by December 2018.

implemented in 2015/16-2016/17 for the beneficiaries of these programs. In addition, the impact of the reforms is mitigated for other households by raising tax credits for low incomes, granting wage bonuses of 7–10 percent to public sector employees, and increasing the social insurance pensions by 15 percent. Despite the significant progress made in reducing leakages by cleaning databases and moving to semi-cash transfers, the food subsidy program remains poorly targeted and inefficient. Improving targeting could free up resources and reduce poverty among the low and middle income groups.

### Moving to Inflation Targeting

**26. The authorities plan to adopt inflation targeting (IT) in the medium term.** This will help achieve low and stable inflation and safeguard the central bank from assuming responsibilities outside its mandate. The discussions focused on the main intermediate steps for a smooth and predictable transition. To this end, the adoption of the flexible exchange rate regime was a critical step. In addition, Egypt needs to develop adequate institutional, operational, and governance structures that are essential for successful implementation of IT. Some of the key institutional pre-requisites include: (1) defining price stability as the primary objective of monetary policy; (2) enhancing flexibility of the exchange rate; (3) strengthening autonomy of the central bank; and (4) strengthening the financial stability framework consistent with independent monetary policy. The authorities and staff agreed that to support credibility of the new monetary policy framework the transition should take place after macroeconomic stabilization is entrenched and inflation is durably reduced to single digits. Meanwhile, the CBE's efforts will be focused on building analytical capacity to forecast inflation, strengthening the liquidity management framework, developing money markets to improve monetary transmission, and developing an efficient communications' strategy (see the Selected Issues Paper; MEFP ¶11).

## B. Program Discussions

### Monetary and Exchange Rate Policies

**27. The current monetary policy stance is appropriately geared to reducing inflation.** The mission and the authorities agreed that policy interest rates should not react to the favorable base effects, which are projected to reduce y-o-y inflation significantly in the coming months. Instead, the CBE will need focus on seasonally-adjusted monthly inflation trends, and consider gradual monetary easing only if inflation expectations and key macroeconomic indicators (GDP growth, the CA balance, credit, real interest rates, banking liquidity, real wage growth) consistently point to the absence of demand pressures and second-round effects (MEFP ¶5). The CBE will continue to strengthen its communication to inform the markets about its assessments of inflation expectations and macroeconomic developments, and send consistent signals about its objectives and policy decisions. It will continue to regularly publish its monetary policy reports.

| Box 4. Building Blocks for Modernizing the Monetary Policy Framework: Toward Inflation Targeting | |
|---|---|
| **Best Practice** | **Objective** |
| **Institutional Building Block** | |
| Price stability defined in the law as the primary objective of monetary policy. | The price stability objective takes precedence over all other objectives such as growth, employment, and the exchange rate, among others. |
| De-jure and de-facto independence of the central bank with matching levels of transparency and accountability. | Political, financial and operational autonomy of the central bank to ensure that policy rates serve the single objective. Independence, transparency and accountability are pillars of good governance. |
| **Macro Financial Building Block** | |
| Clear separation between monetary and fiscal policies, while ensuring complementarity. | Curtail fiscal dominance and monetary financing of the fiscal deficit. A strong fiscal position to strengthen potency of monetary policy. |
| A flexible exchange rate regime. | The exchange rate does not constrain freedom of the central bank in setting interest rates. Inflation targeting is incompatible with a fixed exchange rate regime under free capital movements |
| Stable, sound, and deep financial sector. | Financial stability considerations do not influence monetary policy decisions. |
| **Technical and Organizational Building Block** | |
| Effective liquidity management with a set of monetary policy instruments aligned with the level of money market development. | Ability of the central bank to effectively steer money market interest rates in the desired direction and minimize undue interest rate volatility |
| Forecasting and policy analysis systems | Strong analytical and forecasting capacity of the central bank to base its monetary policy decisions on sound economic judgement. |
| A well-defined organizational structure of the central bank and a clear decision-making process. | A rigorous process for monetary policy decisions which accounts for all relevant and available information. |
| Efficient communication of monetary policy objective and actions. | Anchor inflation expectations with a transparent communication strategy. |

**28. Reserve money targeting under the program will rely on active liquidity management.** The interest rate corridor and open market operations using deposit auctions will aim at containing banks' excess reserves at levels consistent with the program's monetary objectives. A joint Cash Coordination Committee will be established by end-March 2018 to improve collaboration between the CBE and the Ministry of Finance (MoF), and develop a comprehensive liquidity forecasting framework including capacity to analyze high frequency patterns of fiscal revenues, expenditures, and financing needs. Government overdrafts will be contained to the legal limits. CBE lending to banks will primarily serve short-term liquidity management needs, while the subsidized lending programs in support of SMEs and social housing programs will be capped (EGP45 billion for SMEs and EGP20 billion for social housing) and will not be expanded. Instead, to improve access to finance by these groups of borrowers, the MoF and the CBE will explore options for funding these initiatives from the budget. They will also develop microfinance to support lending to SMEs (MEFP ¶9).

**29. The authorities will maintain and further enhance flexibility of the exchange rate.**[6] The floating of the pound in November 2016 was a critical step in resolving FX shortages in Egypt. It also serves as a buffer against external shocks and helps preserve competitiveness. The CBE plans to continue to refrain from interventions in the interbank FX market except to mitigate disorderly conditions. The mission and the authorities discussed the role of the repatriation mechanism, which in early days of the FX market liberalization served as a cushion for potentially disruptive short-term capital flows related to carry trade. The mechanism impedes the deepening of the interbank FX market, results in unwarranted injection of liquidity, and weakens monetary transmission. As the new exchange rate regime gained credibility and the convertibility risks dissipated, it was agreed that the usefulness of the repatriation mechanism may have run its course and its gradual and orderly winding down would strengthen the role of the policy rate as the main monetary policy tool. For this purpose, effective December 3, 2017 the CBE introduced a mandatory fee of 100 basis points for investors, who still wish to use the repatriation mechanism as insurance against the convertibility risk. The fee of 50 basis points for exercising the option of buying FX from the CBE at exit will remain in place. In parallel, to allow deepening of the interbank market and help it absorb greater FX inflows, the CBE increased the banks' long net open position (NOP) limit to 10 percent from the previous 1 percent. The CBE will monitor market developments in the coming months and make further modifications to the repatriation mechanism, as needed.

**30. The CBE's international reserves are adequate to support macroeconomic stability, and the program's NIR targets remain appropriate.** The CBE's official reserves reached $36 billion in October, or about 150 percent of the Fund's ARA metric for floating regimes (Annex 3). It also has about $8.5 billion in deposits with local banks. To align the current reserve allocation with its new investment guidelines for reserve management, the CBE will reduce its FX deposits in foreign branches of the Egyptian banks to $4 billion by end-December, and to $3 billion by end-June 2018 (structural benchmark). These deposits will be eliminated by end-June 2019 (MEFP ¶10).

**31. The authorities are undertaking a comprehensive review of the Law of the Central Bank and the Banking System.** The current banking legislation needs to be aligned with the authorities' medium-term objectives to adopt a forward-looking monetary policy framework with inflation as a nominal anchor. To assist in this endeavor, the authorities intend to request Fund technical assistance. Given the much broader coverage of the amendments than initially envisaged, they are requesting to modify the end-December structural benchmark and delay the submission of the draft law to Cabinet to end-June 2018 (structural benchmark). The mission supported this request (MEFP ¶12).

[6] The Fund's 2017 AREAER classifies Egypt' exchange rate regime as a float.

## Financial Sector Policies

**32. Depreciation of the pound and higher interest rates had a moderate impact on the capital adequacy, asset quality, and profitability of Egyptian banks.** The aggregate capital adequacy ratio (CAR) improved from 14.1 percent in December 2016 to 14.5 in June 2017, helped by the CBE decision to allow banks to include current-year profits in the CAR calculation and prohibit dividend payments for all banks. The stock of nonperforming loans (NPLs) increased by only 2.3 percent in the first half of 2017, with the NPL ratio improving to 5.5 percent due to strong credit growth during this period. As of June 2017, bank profitability remained strong, with return on equity at 30.9 percent and return on assets at 2 percent. Despite a small decline in the banks' high net interest margin, pre-provision income was supported by fees and commissions and higher loan volumes.

**33. In the absence of new shocks loan quality is expected to remain sound.** The main reasons include: (i) the CBE restrictions on FX lending to borrowers without sufficient FX revenues; (ii) the cash collateral requirement for import-related trade finance loans in the same currency; (iii) the focus of banks on multinational corporates, local blue chips, and wealthy retail clients; (iv) the relatively low debt levels of Egyptian corporates and households; (v) resilient revenues of large corporate borrowers in most sectors; and (vi) the generally favorable growth outlook.

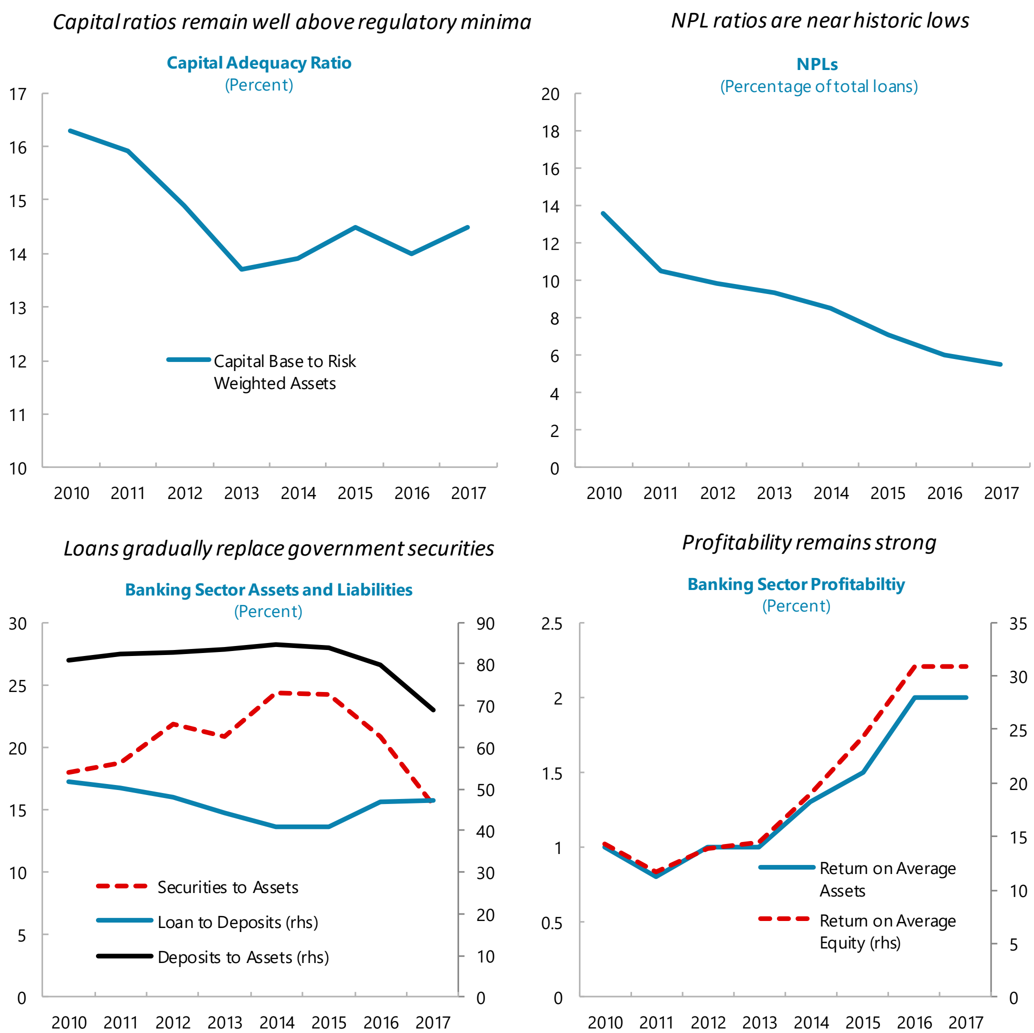
**34. The banking sector is resilient to moderate shocks.** A bank-by-bank assessment suggests that capital and operating profits are sufficient to absorb possible loan impairments. Banks maintain solid liquidity buffers and execute active balance sheet management, to mitigate the interest rate and liquidity risks from large holdings of government securities. However, several smaller banks, whose capital adequacy, asset quality, and profitability are below the sector averages, remain vulnerable. Solvency pressures in these banks are often explained by the CBE's stringent capital requirements for excessive loan concentrations. CBE supervision closely monitors implementation of these banks' remediation plans. They do not pose significant risks to financial stability, considering their small market share. Going forward, the CBE will continue to enhance systemic risk oversight and prudential supervision.

**35. The CBE is upgrading their early intervention and resolution frameworks.** It is developing a new regulation with clear differentiation between the early intervention and resolution triggers, matrix of enforcement actions, and provisions of the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes). The authorities and staff agreed that implementation of the resolution framework required incorporation of the Key Attributes in the Law of the Central Bank and the Banking System, and that the use of public funds for systemic bank resolutions and public bank recapitalization should be transferred from the CBE to the MoF, once the budget gains further strength.

**36. Staff recommended developing a clearly articulated and rules-based emergency liquidity (ELA) assistance framework that is consistent with independent monetary policy.** The CBE should have full discretion over ELA provision to solvent and viable banks. ELA should be provided at penal rates on secured basis, with pre-defined 'haircuts' for eligible collateral classes.

The CBE could only provide ELA to a systemic bank against the government guarantee, when solvency, viability, or collateral quality are in doubt. ELA provision should be accompanied with enhanced supervisory oversight and early intervention measures, if necessary. Staff recommended developing clear operational structures and workflows to ensure that conflicts of interest for ELA provision are avoided, and offered Fund technical assistance for operationalizing the ELA framework.

**Egypt: Financial Sector Trends**




Source: The Egyptians authorities.

### Fiscal Policy

**37. Placing public debt on a clearly downward path will remain the program's fiscal anchor.** Egypt has limited fiscal space, reflecting the sizeable stock of debt and high gross financing needs. The authorities' fiscal consolidation path aims to improve the primary balance by about 4 percent of GDP over the next two years, which in combination with strong growth in nominal GDP will reduce general government debt from 103 percent of GDP in 2016/17 to 87 percent of GDP in 2018/19. Beyond the program period, the authorities intend to maintain primary surpluses of about 2 percent of GDP to bring debt further down to about 72 percent of GDP by 2021/22. The updated DSA suggests that Egypt's public debt is sustainable under program policies, but is subject to significant risks. A combination of policy slippages, reform slowdown, and a realization of contingent liabilities would undermine debt dynamics (Annex 1). To limit the potential for unanticipated increases in government debt from outside the budget sector, an indicative target on budget sector debt is proposed going forward.

**38. The 2017/18 budget is facing significant risks.** The shortfalls in the CBE profit transfer[7] and dividends from public banks, net of compensatory measures, are estimated at 0.2 percent of GDP. In view of these shortfalls, the mission supports the authorities' request to modify the primary surplus target and reduce it from 0.4 percent of GDP to 0.2 percent of GDP. Additional risks could come from higher oil prices, and possible revenue shortfalls and spending pressures in the run-up to the elections. Realization of these risks would require additional fiscal measures to preserve the targeted fiscal consolidation. The projections for the wage bill and fuel subsidies remain consistent with the program. The increase in food subsidies in 2017/18 of about 0.5 percent of GDP to mitigate the impact of the increase in energy prices will be covered from the contingency reserved in the budget. The interest bill will also be higher than budgeted by about 0.5 percent of GDP due to the rise in interest rates, resulting in an overall fiscal deficit of the budget sector of 9 percent of GDP. This is slightly weaker than programmed, but still constitutes a significant fiscal consolidation of 1.7 percent of GDP compared to 2016/17 (MEFP ¶14).

**39. The ongoing energy subsidy reform will continue to play a key role in fiscal consolidation.** The fuel subsidy bill has decreased from a peak of 5.9 percent of GDP in 2013/14 to 3.3 percent of GDP in 2016/17. It is expected to decline further to 2.4 percent of GDP in 2017/18. The price-to-cost ratios are estimated at 59 percent for gasoline and diesel, and 64 percent for other products as of end-June 2017. The authorities plan to eliminate all fuel subsidies (excluding LPG) by the end of the program. The Ministry of Petroleum and the MoF are planning to prepare follow-up recommendations for the automatic fuel price indexation. This will include the specification of a fuel product price formula, a rule determining the frequency and magnitude of price changes (such as caps or smoothing mechanism), and the institutional framework of price setting. The mechanism will

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[7] High sterilization costs in 2016/17 reduced CBE's distributable profits. As a partial offsetting measure, the MoF and the CBE agreed to raise the interest rate on the EGP250 billion government bond held by the CBE from zero to 11 percent, which will increase interest payments for the MoF and taxes on government bonds. The bond was a result of securitization of the government overdraft in 2016, as part of the Memorandum of Understanding between the MoF and the CBE.

be discussed with Fund staff and approved by the Prime Minister by end-February 2018 (structural benchmark). The authorities have committed to implement the next fuel price increase and the indexation mechanism by December 2018. The exact timing of implementing the indexation mechanism will be discussed at the time of the third program review. The authorities have also started to publish regularly the costs of fiscal subsidies in fuel products to create greater awareness of the drain on public resources (MEFP ¶18).

**40. PFM reforms will remain an important priority.** With the assistance of Fund TA, the authorities are planning to submit to Cabinet their first Fiscal Strategy Paper in December, which outlines the government's medium-term fiscal objectives, and sets expenditure ceilings reflecting policy priorities. This paper should guide the preparation of the Budget Circular for the next fiscal year, including entity-specific spending limits and key assumptions for budgeting. The fiscal risks statement and the guidance note on broad principles governing issuance of new state guarantees will help manage and contain fiscal risks, especially those related to contingent liabilities. They also intend to improve management, transparency, and accountability to taxpayers of state-owned enterprises. To this end, the authorities intend to prepare and publish by end-December, 2018 a comprehensive report on public enterprises, which will include: a full list of the companies owned by the government, broken down by industry, policy objectives, and the ownership structure; their financial statements and indicators of financial performance; the governance structure; and their impact on government finances (MEFP ¶16).

### Structural Reforms to Support Private Sector-led Growth

**41. Strengthening competition and addressing corruption are key to achieving greater economic efficiency.** Work is also advancing on modifying the Public Procurement law to ensure transparency. The new law is in Parliament and is expected to be approved by end-November 2018. A dedicated online portal for government procurement will be launched by December 2018. As part of the broader government policy to separate regulatory authorities from line ministries and improve the quality of service, by end-June 2018 the authorities are planning to create an independent regulator for public transportation (structural benchmark; MEFP ¶26).

**42. Access to land continues to be one of the main hurdles for the private sector.** At present, a limited amount of industrial land is offered by the government at a fixed price on a 'first-come-first serve' basis. The absence of a market mechanism for land distribution results in misallocation of this critical factor of production and foregone revenue for the state. Land allocation could benefit from a more open and transparent process. The authorities and staff agreed to review the current practice and to explore policy recommendations that would help improve allocational efficiency (MEFP ¶26).

**43. There is a need to build on recent efforts to better integrate women in the labor force.** The authorities have doubled the budget allocation for public nurseries and other facilities to support women from EGP250 million in 2016/17 to EGP500 million in 2017/18 (structural benchmark). They are also exploring ways to simplify registration of home nurseries, expand job opportunities for women, and child care for working mothers. In addition, the women's council is working to identify measures that can address barriers to women participation in the labor force, and the authorities have engaged with UN Women to develop and implement gender budgeting (MEFP ¶26).

**44. The authorities announced a five-year program to divest minority shares in select state-owned enterprises.** The objective is to attract private investment, reduce the role of the state in the economy, and deploy public assets to their most productive use. Private ownership is expected to improve transparency and corporate governance, bring in know-how, and support economic development. The initial step is to sell shares in five or six viable state companies in banking and financial services, oil and gas, petrochemicals, building materials, and real estate. The divestment plan will be announced in January 2018 (structural benchmark) and the shares will be brought to the market by end-June 2019 (MEFP ¶26).

### Financing and Program Issues

**45. The program is financed through December 2018.** This includes $1 billion from the World Banks's third DPF, $500 million from the African Development Bank, $425 million from the G7, and $1.1 billion from international banks. The financing gap for the remaining period of the program is about $1.5 billion, and is expected to be covered from bilateral, gross reserves, and commercial sources.

**46. The authorities request modifications of the quantitative performance criteria for the primary fiscal balance and NDA.** The marginal reduction in the primary fiscal balance reflects a shortfall in the CBE profit transfer because of higher than expected sterilization costs and does not materially affect program objectives. The change in NDA is a result of reclassification of 7-day deposits from reserve money to NDA and has no policy implication. The change in the classification is reflected in the definitions of NDA and reserve money in the TMU.

**47. The authorities have taken action that eliminated the multiple currency practice (MCP) maintained for non-BoP reasons, which was temporarily approved by the Fund until November 2017.** A MCP was found to arise from the multiple price auction system established by the CBE, as the exchange rates for spot transactions in an auction could differ by more than two percent. This MCP was temporarily approved by the Fund until November 2017. In November 2017, the CBE introduced a mechanism eliminating this MCP. The multiple-price auction remains in place and the authorities have not used it since November 2016.

**48. Egypt's capacity to repay is adequate, but risks remain.** Fund credit outstanding as a share of gross reserves is projected to peak at 39 percent by 2019/20, and debt service to the Fund as a ratio of exports of goods and services would reach 0.6 percent in the same year (Table 11). The CBE's reserve position is strong, fiscal balances are improving, and the memorandum of understanding between the CBE and MoF on respective responsibilities for servicing Fund credit should ensure uninterrupted repayments.

**49. The authorities are addressing key recommendations of the safeguards assessment.** The CBE adopted a new policy on the selection and appointment of the central bank's external auditor, which will be effective starting with the 2018 audit. It will gradually phase out its FX deposits in foreign branches of the Egyptian banks over the program period. In addition, it is undertaking a review of the CBE Law. Staff is closely monitoring the implementation of other recommendations from the 2017 safeguards assessment.

# STAFF APPRAISAL

**50. The authorities' reform program is a turning point for the Egyptian economy.** Bold measures taken by the authorities since November 2016 to stabilize the economy and rebuild market confidence are increasingly yielding results. GDP growth has picked up and inflation is moderating. Capital inflows have risen and foreign exchange reserves have reached the highest level since 2011. The outlook is favorable, provided prudent policies are sustained to entrench macroeconomic stability and the reform effort is broadened to facilitate private sector growth and investment.

**51. Generating higher growth and employment requires a concerted reorientation towards private sector and export-led growth.** Egypt's economic potential is constrained by the legacy of largely inward-oriented economic policies and a large role for the state. Reform efforts should be guided by the principles of improving the efficient allocation of resources based on market mechanisms, and hard budget constraints across all entities in the public sector. This needs to be supported by prudent fiscal and monetary policies, and a transparent, predictable, and non-intrusive regulatory framework. The reform plans should be formulated as a matter of priority, and implemented with proper sequencing and pacing for maximum results.

**52. Egypt also needs to create fiscal space for its significant spending needs on infrastructure, health, education, and social protection.** This can be achieved without compromising debt sustainability through continued tax policy and tax administration reforms. It would be important to make the tax system less complex and more equitable by streamlining multiple tax rates, broadening the VAT base, increasing the coverage and progressivity of the personal income tax, improving corporate income tax performance by addressing base erosion and profit shifting, and strengthening compliance through administrative reforms.

**53. Successful transition to a forward-looking monetary policy framework would help secure low and stable inflation.** To this end, the adoption of the flexible exchange rate regime was a critical step. The ongoing efforts to develop institutional and operational structures that support independence of monetary policy are important further steps in this regard.

**54. Inflation remains high, and the CBE should maintain its restrictive monetary policy stance until disinflation is well entrenched.** The CBE is expected to continue to carefully assess inflation expectations and would be advised to consider gradual monetary easing only if key macroeconomic indicators consistently point to the absence of demand pressures and the second-round effects of devaluation and the increases in energy prices and the VAT.

**55. Preserving and further enhancing exchange rate flexibility is critical to sustain the gains in macroeconomic stabilization and improve competitiveness.** The CBE's policy of refraining from interventions in the interbank market, except to potentially mitigate disorderly conditions, is an important element of its policy framework. As the new exchange rate regime has gained credibility and the convertibility risks have dissipated, the usefulness of the repatriation mechanism appears to have run its course, and its orderly and gradual winding down would affirm the strength and credibility of the new monetary policy framework.

**56. The banking sector is broadly healthy and resilient to moderate shocks.** Capital and operating profits are sufficient to absorb possible loan impairments. However, several smaller banks, whose capital adequacy, asset quality, and profitability are below sector averages, remain vulnerable and should be closely monitored. The development of a clearly articulated and rules-based ELA framework is also recommended.

**57. The authorities' goal to bring the Law of the Central Bank and the Banking System in line with best international practices is welcome.** However, the amendments need to be carefully considered as they could have profound implications for monetary policy and the banking system. In this regard, the authorities' request for Fund technical assistance is welcome.

**58. Placing government debt on a clearly downward path remains the program's fiscal anchor.** The programmed fiscal consolidation aims to improve the primary balance by nearly 4 percent of GDP in 2017/18 and 2018/19 cumulatively. The authorities' primary surplus targets of 0.2 percent of GDP in 2017/18 and about 2 percent of GDP thereafter in the medium term are consistent with this objective. However, the 2017/18 budget faces considerable risks, including from higher oil prices and possible revenue shortfalls and spending pressures in the run up to the elections. The authorities' commitment to take necessary measures to achieve the fiscal target for this year is welcome. The authorities should also steadfastly guard against increases in government debt originating from outside the budget sector.

**59. The ongoing energy subsidy reform is critical to support fiscal consolidation.** Recent bold actions to raise fuel prices and reduce subsidies that benefit the rich more than the poor were important steps in this regard. The delay in proposing a specific fuel indexation mechanism underscores the urgency in moving forward on the relevant structural benchmark by end-February 2018, followed by plans for its implementation in 2018. The authorities' commitment to eliminate subsidies on most fuel products by the end of the program, and to implement the fuel price indexation mechanism in consultation with staff, is welcome.

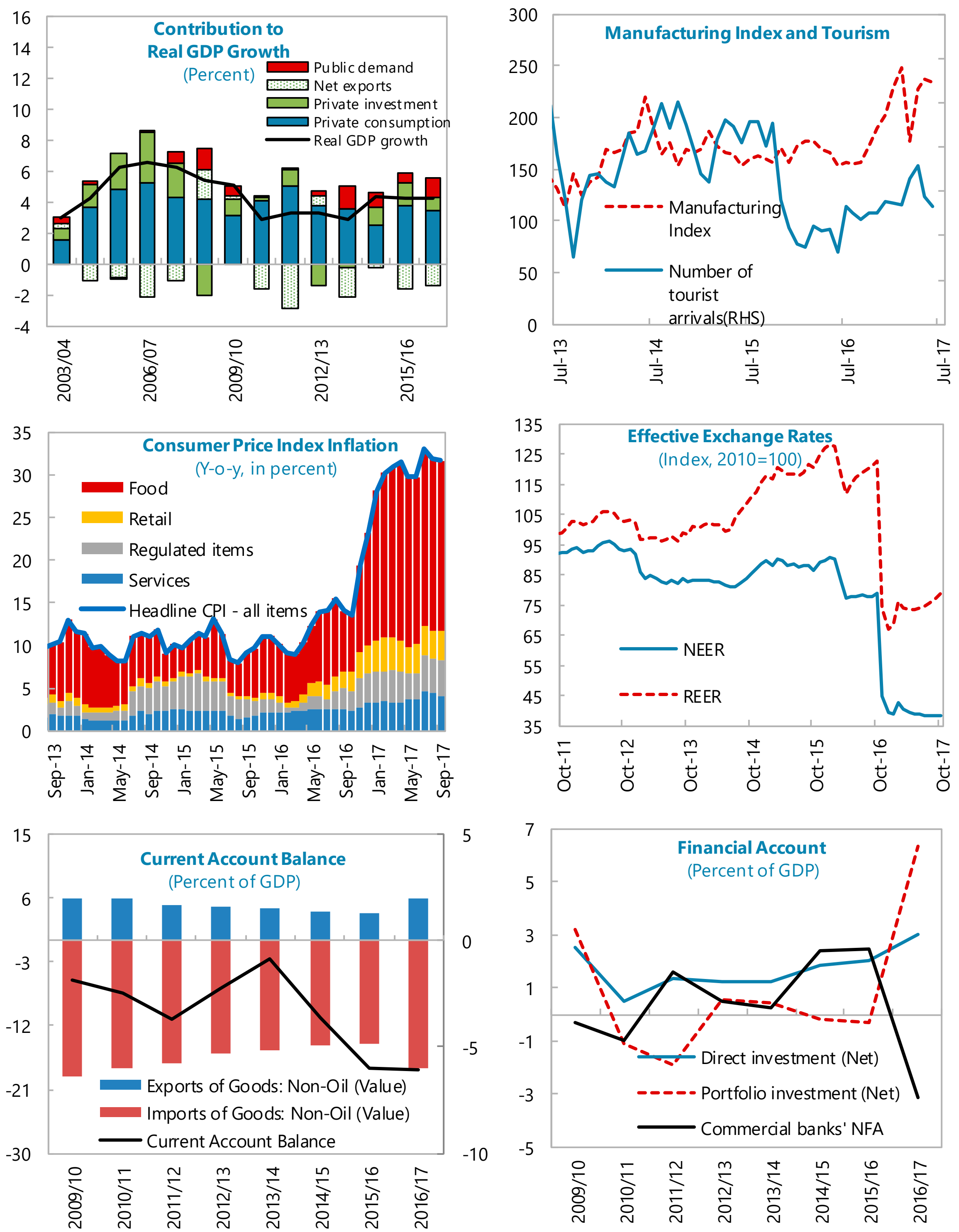
**60. The structural reform agenda aims to remove structural impediments to growth.** Egypt needs to reform regulatory frameworks to address market inefficiencies, enhance competition, remove non-tariff barriers, improve access to finance and land, strengthen governance, transparency, and accountability of SOEs, and address bottlenecks in the labor market. These reforms would help attract investment, support exports, and encourage innovation. To raise its growth potential, targeted reforms are also needed to increase female and youth labor force participation. Making further progress on moving away from fuel and food subsidies to better-targeted cash transfer program would strengthen the social safety net.

**61. The program still faces significant risks.** Premature easing of monetary policy, pre-election pressure to increase spending, and slowdown in the reform momentum could damage confidence, hurt private investment and growth, undermine fiscal goals, and adversely affect inflation expectations. On the external side, a sustained increase in global oil prices could significantly undermine fiscal consolidation goals and weaken the current account, and would require offsetting policy measures. An unexpected tightening of global financial conditions could temper the market appetite for Egyptian government securities.

**62. Staff supports the authorities' request for the completion of the second review under the Extended Arrangement.** Staff also supports the request for the modification of the performance criteria on the primary balance and NDA.

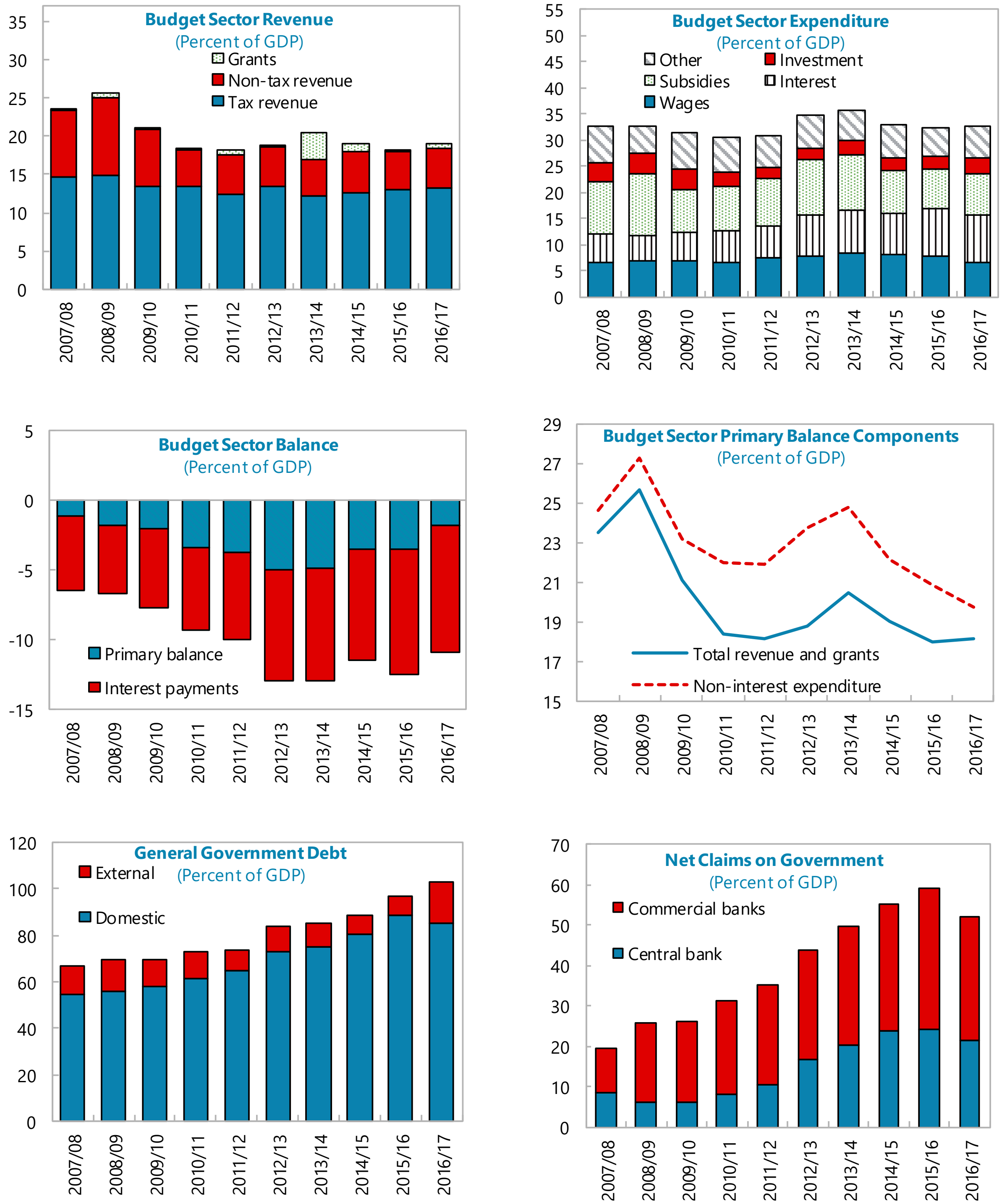
**63. Staff recommends that the next Article IV consultation with Egypt take place in accordance with the 2010 Decision on consultation cycles.**

## Figure 1. Egypt: Real and External Sector Developments



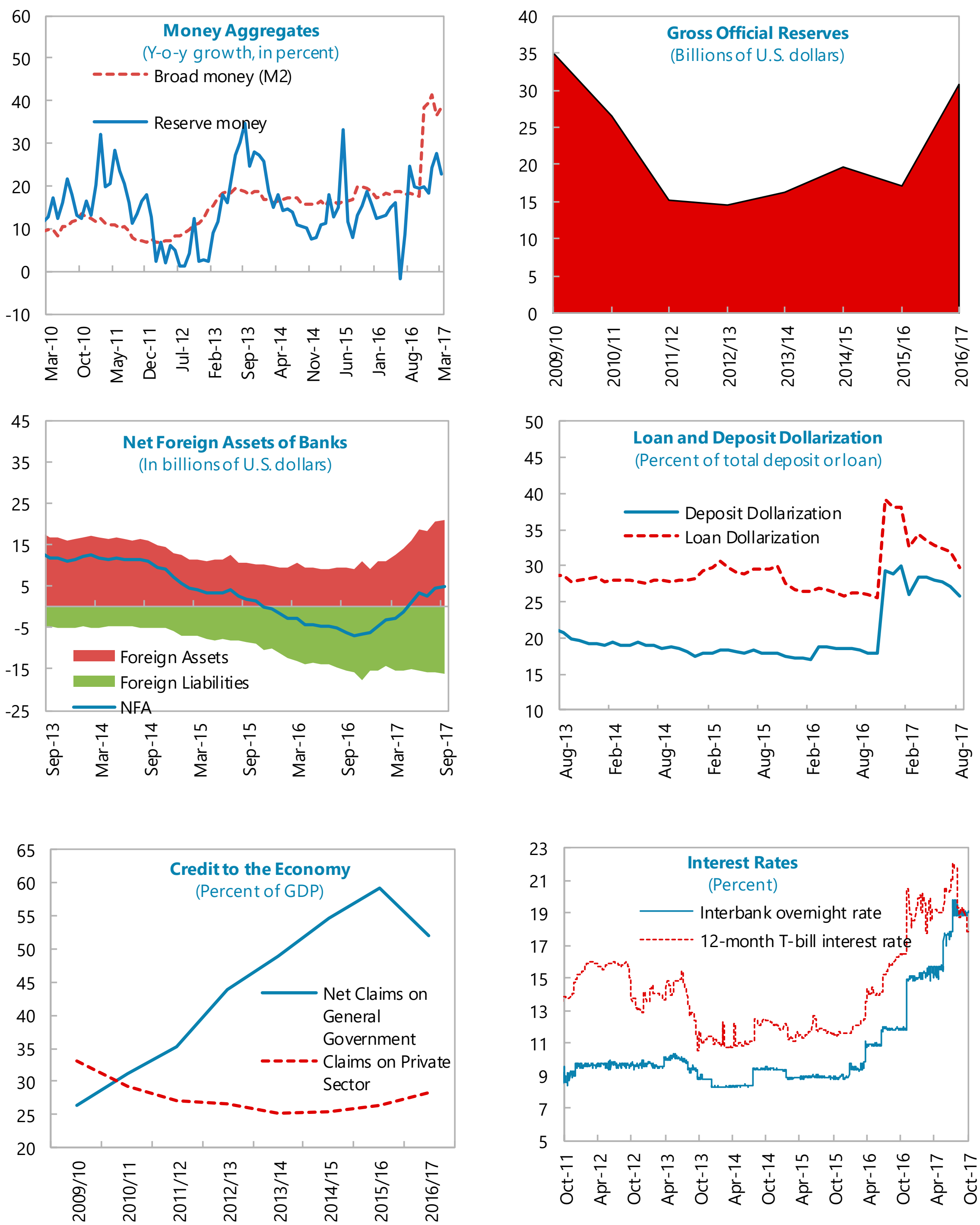

Sources: Egyptian authorities; IMF, *International Financial Statistics*; Bloomberg; Markit Economics; and IMF staff calculations and projections.

## Figure 2. Egypt: Fiscal Sector Developments




Sources: Egyptian authorities; IMF, *International Financial Statistics*; Bloomberg; and IMF staff calculations and projections.

## Figure 3. Egypt: Monetary Sector Developments




Sources: Egyptian authorities; *International Financial Statistics*; Bloomberg; and IMF staff calculations and projections.

## Table 1. Egypt: Selected Macroeconomic Indicators, 2014/15–2018/19 1/

| | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | | 2018/19 | |
|---|---|---|---|---|---|---|---|---|
| | | | First Review | Prel. | First Review | Revised Proj. | First Review | Revised Proj. |
| Output and prices | | | | | | | | |
| Real GDP (market prices) | 4.4 | 4.3 | 3.5 | 4.2 | 4.5 | 4.8 | 5.3 | 5.5 |
| Consumer prices (end of period) | 11.4 | 14.0 | 32.8 | 29.8 | 10.3 | 11.9 | 15.7 | 15.2 |
| Consumer prices (period average) | 11.0 | 10.2 | 23.9 | 23.5 | 22.1 | 21.0 | 13.7 | 13.7 |
| Public finances 2/ | | | | | | | | |
| Gross Debt | 88.5 | 96.9 | 98.4 | 103.3 | 87.7 | 91.3 | 86.4 | 86.7 |
| External | 7.9 | 7.8 | 20.8 | 18.1 | 19.1 | 16.7 | 19.2 | 17.7 |
| Domestic | 80.5 | 89.0 | 77.7 | 85.2 | 68.6 | 74.6 | 67.2 | 69.0 |
| Budget sector 3/ | | | | | | | | |
| Revenue and grants | 19.0 | 18.1 | 18.2 | 19.0 | 18.8 | 18.8 | 18.6 | 18.7 |
| Expenditure (incl. net acquisition of financial assets) | 30.5 | 30.2 | 28.7 | 29.7 | 27.3 | 28.0 | 25.3 | 26.1 |
| *Of which:* Energy subsidies | 4.0 | 3.0 | 3.9 | 4.1 | 3.1 | 3.1 | 1.4 | 1.2 |
| Overall balance | -11.4 | -12.5 | -10.5 | -10.9 | -8.5 | -9.2 | -6.7 | -7.4 |
| Overall balance, excl. grants | -12.5 | -12.7 | -10.5 | -11.4 | -8.6 | -9.2 | -6.7 | -7.5 |
| Primary balance | -3.5 | -3.5 | -1.8 | -1.8 | 0.4 | 0.2 | 2.1 | 2.1 |
| Monetary sector | | | | | | | | |
| Credit to the private sector | 16.7 | 14.2 | 37.8 | 38.0 | 8.7 | 10.5 | 13.0 | 16.1 |
| Reserve money 6/ | 33.3 | 29.3 | 26.8 | -7.8 | 24.5 | 39.4 | 12.7 | 14.7 |
| Broad money (M2) | 16.4 | 18.6 | 35.2 | 39.3 | 22.2 | 20.4 | 23.0 | 19.7 |
| Treasury bill rate, 3 month (average, in percent) | 11.4 | 11.8 | 18.1 | 17.5 | 21.3 | 17.4 | 9.0 | 8.8 |
| External sector | | | | | | | | |
| Exports of goods (in US$, percentage change) | -14.7 | -15.9 | 19.2 | 15.9 | 9.9 | 7.0 | 4.1 | 12.7 |
| Imports of goods (in US$, percentage change) | 1.9 | -6.4 | -0.1 | -0.5 | 4.3 | -0.1 | 4.4 | 7.6 |
| Merchandise trade balance | -8.5 | -9.7 | -14.6 | -11.2 | -13.7 | -9.7 | -13.1 | -8.7 |
| Current account | -3.7 | -6.0 | -5.8 | -6.1 | -4.6 | -4.5 | -3.8 | -4.0 |
| Capital and financial account (incl. errors and omissions) | 5.5 | 5.1 | 4.7 | 5.2 | 4.5 | 3.2 | 2.4 | 1.6 |
| Foreign direct investment (net, in billions of US$) | 6.2 | 6.8 | 8.8 | 7.7 | 9.4 | 8.4 | 10.2 | 9.9 |
| External debt 4/ | 14.5 | 16.8 | 31.6 | 30.8 | 28.7 | 34.6 | 26.2 | 30.3 |
| Gross international reserves (in billions of US$) | 19.5 | 17.1 | 31.0 | 30.7 | 30.2 | 34.5 | 31.0 | 33.0 |
| In months of next year's imports of goods and services | 3.5 | 3.1 | 5.4 | 5.5 | 5.1 | 5.7 | 4.8 | 5.2 |
| In percent of short-term external debt 5/ | 281 | 158 | 117 | 98 | 125 | 89 | 108.3 | 76.9 |
| Financing gap (in billions of US$) | … | … | 0.0 | 0.0 | 1.9 | 0.0 | 1.7 | 2.6 |
| Memorandum items: | | | | | | | | |
| Nominal GDP (in billions of Egyptian pounds) | 2,444 | 2,708 | 3,496 | 3,478 | 4,465 | 4,418 | 5,336.8 | 5,292.2 |
| Nominal GDP (in billions of US$) | 332 | 332 | … | 256 | … | … | … | … |
| GDP per capita (in US$) | 3,731 | 3,685 | … | 2,704 | … | … | … | … |
| Unemployment rate (period average, percent) | 12.9 | 12.7 | 12.6 | 12.1 | 11.8 | 11.2 | 10.7 | 9.9 |
| Poverty rate (percent) | 27.8 | … | … | … | … | … | … | … |
| Population (in millions) | 89.0 | 90.2 | 92.3 | 94.8 | 94.4 | 97.0 | 96.6 | 99.2 |

Sources: Egyptian authorities; and IMF staff estimates and projections.

1/ Fiscal year ends June 30.
2/ General government includes the budget sector, the National Investment Bank (NIB), and social insurance funds.
3/ Budget sector comprises central government, local governments, and some public corporations.
4/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing.
5/ Debt at remaining maturity and stock of foreign holding of T-bills.
6/ Reserve money as of end 2014/15 was affected by cancellation of deposit renewals at CBE due to unexpected announcement of national holiday on June 30, 2015.

## Table 2. Egypt: Balance of Payments, 2014/15–2021/22

(In billions of US$, unless otherwise indicated)

| | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | | 2018/19 | | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | First Review | Prel. | First Review | Revised Proj. | First Review | Revised Proj. | | | |
| Current account | -12.1 | -19.8 | -13.8 | -15.6 | -11.8 | -11.3 | -10.5 | -11.3 | -10.7 | -11.3 | -11.9 |
| Balance on goods and services | -28.3 | -32.2 | -26.0 | -28.6 | -24.5 | -24.3 | -23.9 | -24.5 | -24.7 | -25.9 | -27.3 |
| Exports of goods and services | 44.1 | 34.8 | 39.6 | 38.3 | 44.0 | 42.4 | 47.9 | 47.7 | 51.9 | 56.8 | 61.7 |
| Imports of goods and services | -72.4 | -66.9 | -65.6 | -66.9 | -68.5 | -66.8 | -71.8 | -72.2 | -76.6 | -82.8 | -89.0 |
| Trade balance | -39.1 | -38.7 | -35.0 | -35.4 | -35.3 | -33.9 | -36.9 | -35.3 | -37.1 | -40.2 | -43.7 |
| Oil trade balance | -3.5 | -3.6 | -5.5 | -4.6 | -6.3 | -4.7 | -5.7 | -3.0 | -3.3 | -4.1 | -4.9 |
| Non-oil trade balance | -35.6 | -35.1 | -29.5 | -30.8 | -29.0 | -29.2 | -31.1 | -32.3 | -33.8 | -36.2 | -38.8 |
| Exports of goods | 22.2 | 18.7 | 22.3 | 21.7 | 24.5 | 23.2 | 25.5 | 26.2 | 28.1 | 30.3 | 32.3 |
| Oil | 8.9 | 5.7 | 6.0 | 6.5 | 6.5 | 7.1 | 6.4 | 7.9 | 8.3 | 8.3 | 8.4 |
| Other | 13.4 | 13.0 | 16.3 | 15.1 | 18.0 | 16.1 | 19.1 | 18.3 | 19.8 | 22.0 | 23.8 |
| Imports of goods | -61.3 | -57.4 | -57.3 | -57.1 | -59.8 | -57.1 | -62.4 | -61.4 | -65.2 | -70.5 | -76.0 |
| Oil | -12.4 | -9.3 | -11.5 | -11.2 | -12.7 | -11.8 | -12.1 | -10.8 | -11.6 | -12.4 | -13.3 |
| Other | -48.9 | -48.1 | -45.8 | -45.9 | -47.1 | -45.3 | -50.3 | -50.6 | -53.6 | -58.1 | -62.6 |
| Services (net) | 10.7 | 6.5 | 9.0 | 6.8 | 10.8 | 9.5 | 13.0 | 10.8 | 12.4 | 14.3 | 16.4 |
| Receipts | 21.8 | 16.1 | 17.3 | 16.6 | 19.5 | 19.2 | 22.4 | 21.5 | 23.8 | 26.5 | 29.4 |
| *Of which:* Tourism receipts | 7.4 | 3.8 | 3.5 | 4.4 | 4.4 | 6.0 | 6.2 | 7.2 | 8.5 | 10.0 | 11.7 |
| *Of which:* Suez canal receipts | 5.4 | 5.1 | 5.0 | 4.9 | 5.5 | 5.5 | 6.0 | 5.7 | 6.0 | 6.3 | 6.7 |
| Payments | -11.1 | -9.5 | -8.3 | -9.8 | -8.7 | -9.7 | -9.4 | -10.7 | -11.4 | -12.2 | -13.1 |
| *Of which*: Transportation | -1.5 | -1.3 | -1.3 | -1.3 | -1.3 | -1.3 | -1.4 | -1.5 | -1.6 | -1.7 | -1.8 |
| *Of which:* Travel | -3.3 | -4.1 | -2.7 | -2.7 | -2.8 | -2.7 | -3.0 | -2.9 | -3.1 | -3.3 | -3.4 |
| Primary income (net) | -5.7 | -4.5 | -5.5 | -4.4 | -6.4 | -5.7 | -7.0 | -6.6 | -6.8 | -7.3 | -7.6 |
| Receipts | 0.2 | 0.4 | 0.3 | 0.5 | 0.3 | 0.5 | 0.3 | 0.5 | 0.6 | 0.6 | 0.7 |
| Payments | -5.9 | -4.9 | -5.8 | -4.9 | -6.7 | -6.2 | -7.3 | -7.1 | -7.4 | -7.9 | -8.3 |
| Transfers | 21.9 | 16.8 | 17.6 | 17.5 | 19.1 | 18.7 | 20.3 | 19.8 | 20.8 | 21.9 | 23.0 |
| Official grants | 2.7 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Private remittances | 19.2 | 16.7 | 17.5 | 17.3 | 19.0 | 18.6 | 20.2 | 19.7 | 20.7 | 21.7 | 22.9 |
| Capital and financial account | 17.9 | 21.2 | 11.3 | 13.3 | 11.6 | 8.1 | 6.7 | 4.5 | 8.4 | 14.9 | 11.3 |
| Medium- and long-term loans (net) | -0.2 | 1.3 | 0.1 | 0.4 | 3.4 | 4.3 | 2.8 | 3.1 | 3.0 | 2.9 | 0.2 |
| Drawings | 2.1 | 4.1 | 5.1 | 3.1 | 6.2 | 6.6 | 5.2 | 5.6 | 5.6 | 5.6 | 3.6 |
| Amortization | 2.3 | 2.8 | 4.9 | 2.7 | 2.9 | 2.3 | 2.4 | 2.5 | 2.6 | 2.7 | 3.4 |
| FDI (net) | 6.2 | 6.8 | 8.8 | 7.7 | 9.4 | 8.4 | 10.2 | 9.9 | 11.0 | 12.4 | 13.9 |
| Portfolio investment (net) | -0.6 | -1.1 | 12.0 | 16.2 | 5.0 | 10.4 | 5.0 | 5.0 | 2.4 | 1.0 | -1.4 |
| Commercial banks' NFA | 8.0 | 8.3 | -5.5 | -8.0 | -2.5 | -6.8 | -2.0 | -0.7 | 0.9 | 1.0 | 1.0 |
| Other (including short-term capital and central bank deposits) | 4.7 | 6.1 | -4.1 | -2.9 | -3.7 | -8.1 | -9.4 | -12.7 | -8.9 | -2.3 | -2.4 |
| Errors and omissions (net) | 0.3 | -4.2 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 6.1 | -2.8 | -2.5 | -2.1 | -0.2 | -3.2 | -3.8 | -6.7 | -2.3 | 3.7 | -0.7 |
| Financing | -6.1 | 2.8 | 2.5 | 2.1 | -1.6 | 3.3 | 2.4 | 4.4 | 2.3 | -3.7 | 0.7 |
| Reserves ("-" indicates increase) | -3.3 | 2.5 | -13.9 | -13.6 | 0.8 | -3.9 | -0.8 | 1.5 | 2.3 | -3.4 | 1.2 |
| Change in arrears ("-" indicates decrease) 1/ | -2.4 | 0.0 | -1.8 | -1.3 | -1.2 | -1.1 | -0.8 | -1.1 | 0.0 | 0.0 | 0.0 |
| Net use of IMF resources | 0.0 | 0.0 | 4.0 | 2.7 | 4.0 | 5.2 | 4.0 | 4.0 | 0.0 | -0.2 | -0.6 |
| Other financing | -0.5 | 0.4 | 14.3 | 14.3 | -5.2 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 1.9 | 0.0 | 1.7 | 2.6 | 0.0 | 0.0 | 0.0 |
| Net financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | -0.1 | 1.4 | 2.3 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | | |
| Current account excluding grants | -14.8 | -19.9 | -13.9 | -15.7 | -11.9 | -11.5 | -10.6 | -11.4 | -10.8 | -11.5 | -12.1 |
| Terms of trade (percent change) | -5.3 | -6.3 | 1.5 | 0.6 | 2.0 | 1.0 | -0.5 | -0.5 | -0.2 | 0.1 | 0.1 |
| Gross international reserves (end of period) | 19.5 | 17.1 | 31.0 | 30.7 | 30.2 | 34.5 | 31.0 | 33.0 | 30.8 | 34.2 | 33.0 |
| In months of next year's imports of goods and services | 3.5 | 3.1 | 5.4 | 5.5 | 5.1 | 5.7 | 4.8 | 5.2 | 4.5 | 4.6 | 4.1 |
| External debt | 48.1 | 55.8 | 76.0 | 79.0 | 74.0 | 86.9 | 73.5 | 85.2 | 82.6 | 86.8 | 89.5 |
| External debt service | 2.9 | 3.5 | 6.0 | 3.8 | 4.6 | 4.8 | 4.2 | 5.5 | 5.6 | 5.9 | 6.6 |
| External debt service (in percent of exports of GNFS) | 6.7 | 10.1 | 9.8 | 10.0 | 2.6 | 11.3 | 1.2 | 11.6 | 10.8 | 10.3 | 10.7 |
| Stock of external arrears | 3.5 | 3.5 | 2.3 | 2.2 | 1.1 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real effective exchange rate (period average, percentage change) | 14.1 | 5.9 | … | -26.6 | … | … | … | … | … | … | … |

Sources: Central Bank of Egypt; and IMF staff estimates and projections.

1/ EGPC arrears.

## Table 3. Egypt: Balance of Payments, 2014/15–2021/22

(In percent of GDP, unless otherwise indicated)

| | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | | 2018/19 | | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | First Review | Prel. | First Review | Revised Proj. | First Review | Revised Proj. | | | |
| Current account | -3.7 | -6.0 | -5.8 | -6.1 | -4.6 | -4.5 | -3.8 | -4.0 | -3.6 | -3.5 | -3.4 |
| Balance on goods and services | -8.5 | -9.7 | -10.8 | -11.2 | -9.5 | -9.7 | -8.5 | -8.7 | -8.3 | -8.0 | -7.8 |
| Exports of goods and services | 13.3 | 10.5 | 16.5 | 14.9 | 17.0 | 16.9 | 17.1 | 16.9 | 17.4 | 17.6 | 17.7 |
| Imports of goods and services | -21.8 | -20.1 | -27.3 | -26.1 | -26.5 | -26.6 | -25.6 | -25.6 | -25.7 | -25.6 | -25.5 |
| Trade balance | -11.8 | -11.6 | -14.6 | -13.8 | -13.7 | -13.5 | -13.1 | -12.5 | -12.4 | -12.5 | -12.5 |
| Oil trade balance | -1.0 | -1.1 | -2.3 | -1.8 | -2.4 | -1.9 | -2.0 | -1.1 | -1.1 | -1.3 | -1.4 |
| Non oil trade balance | -10.7 | -10.6 | -12.3 | -12.0 | -11.3 | -11.6 | -11.1 | -11.5 | -11.3 | -11.2 | -11.1 |
| Exports | 6.7 | 5.6 | 9.3 | 8.5 | 9.5 | 9.2 | 9.1 | 9.3 | 9.4 | 9.4 | 9.2 |
| Oil | 2.7 | 1.7 | 2.5 | 2.6 | 2.5 | 2.8 | 2.3 | 2.8 | 2.8 | 2.6 | 2.4 |
| Other | 4.0 | 3.9 | 6.8 | 5.9 | 7.0 | 6.4 | 6.8 | 6.5 | 6.6 | 6.8 | 6.8 |
| Imports | -18.5 | -17.3 | -23.8 | -22.3 | -23.2 | -22.7 | -22.2 | -21.8 | -21.9 | -21.8 | -21.8 |
| Oil | -3.7 | -2.8 | -4.8 | -4.4 | -4.9 | -4.7 | -4.3 | -3.8 | -3.9 | -3.8 | -3.8 |
| Other | -14.7 | -14.5 | -19.1 | -17.9 | -18.2 | -18.0 | -17.9 | -18.0 | -18.0 | -18.0 | -18.0 |
| Services (net) | 3.2 | 2.0 | 3.8 | 2.7 | 4.2 | 3.8 | 4.6 | 3.8 | 4.2 | 4.4 | 4.7 |
| Receipts | 6.6 | 4.8 | 7.2 | 6.5 | 7.5 | 7.7 | 8.0 | 7.6 | 8.0 | 8.2 | 8.4 |
| *Of which:* Tourism receipts | 2.2 | 1.1 | 1.5 | 1.7 | 1.7 | 2.4 | 2.2 | 2.6 | 2.8 | 3.1 | 3.3 |
| *Of which:* Suez canal dues | 1.6 | 1.5 | 2.1 | 1.9 | 2.1 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | 1.9 |
| Payments | -3.3 | -2.9 | -3.4 | -3.8 | -3.4 | -3.9 | -3.3 | -3.8 | -3.8 | -3.8 | -3.7 |
| *Of which*: Transportation | -0.5 | -0.4 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| *Of which:* Travel | -1.0 | -1.2 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.0 | -1.0 | -1.0 | -1.0 |
| Primary income (net) | -1.7 | -1.3 | -2.3 | -1.7 | -2.5 | -2.3 | -2.5 | -2.3 | -2.3 | -2.2 | -2.2 |
| Receipts | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Payments | -1.8 | -1.5 | -2.4 | -1.9 | -2.6 | -2.5 | -2.6 | -2.5 | -2.5 | -2.4 | -2.4 |
| Transfers | 6.6 | 5.1 | 7.3 | 6.8 | 7.4 | 7.5 | 7.2 | 7.0 | 7.0 | 6.8 | 6.6 |
| Official grants | 0.8 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 |
| Private remittances | 5.8 | 5.0 | 7.3 | 6.8 | 7.4 | 7.4 | 7.2 | 7.0 | 6.9 | 6.7 | 6.6 |
| Capital and financial account | 5.4 | 6.4 | 4.7 | 5.2 | 4.5 | 3.2 | 2.4 | 1.6 | 2.8 | 4.6 | 3.2 |
| Medium- and long-term loans (net) | -0.1 | 0.4 | 0.1 | 0.2 | 1.3 | 1.7 | 1.0 | 1.1 | 1.0 | 0.9 | 0.1 |
| Drawings | 0.6 | 1.2 | 2.1 | 1.2 | 2.4 | 2.6 | 1.9 | 2.0 | 1.9 | 1.7 | 1.0 |
| Amortization | 0.7 | 0.8 | 2.1 | 1.0 | 1.1 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 1.0 |
| FDI (net) | 1.9 | 2.0 | 3.7 | 3.0 | 3.7 | 3.3 | 3.7 | 3.5 | 3.7 | 3.8 | 4.0 |
| Portfolio investment (net) | -0.2 | -0.3 | 5.0 | 6.3 | 1.9 | 4.1 | 1.8 | 1.8 | 0.8 | 0.3 | -0.4 |
| Commercial banks' NFA | 2.4 | 2.5 | -2.3 | -3.1 | -1.0 | -2.7 | -0.7 | -0.2 | 0.3 | 0.3 | 0.3 |
| Other (including short-term capital and central bank deposits) | 1.4 | 1.8 | -1.7 | -1.1 | -1.4 | -3.2 | -3.3 | -4.5 | -3.0 | -0.7 | -0.7 |
| Errors and omissions (net) | 0.1 | -1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 1.8 | -0.8 | -1.0 | -0.8 | -0.1 | -1.3 | -1.4 | -2.4 | -0.8 | 1.1 | -0.2 |
| Financing | -1.8 | 0.8 | 1.0 | 0.8 | -0.6 | 1.3 | 0.9 | 1.6 | 0.8 | -1.1 | 0.2 |
| Reserves ("-" indicates increase) | -1.0 | 0.7 | -5.8 | -5.3 | 0.3 | -1.5 | -0.3 | 0.5 | 0.8 | -1.1 | 0.3 |
| Change in arrears ("-" indicates decrease) 1/ | -0.7 | 0.0 | -0.7 | -0.5 | -0.5 | -0.4 | -0.3 | -0.4 | 0.0 | 0.0 | 0.0 |
| Net use of Fund resources | 0.0 | 0.0 | 1.6 | 1.1 | 1.5 | 2.1 | 1.4 | 1.4 | 0.0 | -0.1 | -0.2 |
| Other financing | 0.0 | 0.0 | 5.9 | 5.6 | -2.0 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.0 | 0.6 | 0.9 | 0.0 | 0.0 | 0.0 |
| Net financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 0.0 | 0.5 | 0.8 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | | |
| Current account excluding grants | -4.5 | -6.0 | -5.8 | -6.1 | -4.6 | -4.6 | -3.8 | -4.1 | -3.6 | -3.5 | -3.5 |
| Gross international reserves (end of period) | 5.9 | 5.1 | 12.9 | 12.0 | 11.7 | 13.7 | 11.0 | 11.7 | 10.3 | 10.6 | 9.5 |
| External debt | 14.5 | 16.8 | 31.6 | 30.8 | 28.7 | 34.6 | 26.2 | 30.3 | 27.7 | 26.9 | 25.7 |
| External debt service | 0.9 | 1.1 | 2.5 | 1.5 | 1.8 | 1.9 | 1.5 | 2.0 | 1.9 | 1.8 | 1.9 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections.

1/ EGPC arrears.

## Table 4. Egypt: Budget Sector Operations, 2014/15–2021/22 1/

(In billions of Egyptian pounds, unless otherwise indicated)

| | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | | 2018/19 | | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | First Review | Prel. | First Review | Revised Proj. | First Review | Revised Proj. | | | |
| Revenue and grants | 465.3 | 491.5 | 635.9 | 659.2 | 837.7 | 830.4 | 993.9 | 988.3 | 1,118.1 | 1,268.1 | 1,433.9 |
| Tax revenue | 306.0 | 352.3 | 450.1 | 462.0 | 607.0 | 607.6 | 767.4 | 770.5 | 874.9 | 992.4 | 1,122.2 |
| Income and property | 150.9 | 158.2 | 200.3 | 203.4 | 262.8 | 258.8 | 333.5 | 324.8 | 354.4 | 402.5 | 458.3 |
| Personal income tax | 38.2 | 42.4 | 54.7 | 51.0 | 66.5 | 68.2 | 88.0 | 89.7 | 104.2 | 123.2 | 139.4 |
| Corporate income tax | 91.6 | 87.9 | 108.6 | 115.9 | 146.1 | 136.9 | 181.5 | 169.0 | 184.3 | 209.1 | 239.6 |
| EGPC | 36.0 | 37.3 | 32.1 | 42.5 | 44.2 | 41.6 | 59.5 | 54.9 | 51.7 | 58.7 | 66.4 |
| Other | 55.6 | 65.1 | 76.5 | 73.4 | 101.9 | 95.3 | 121.9 | 114.1 | 132.6 | 150.4 | 173.1 |
| Property | 21.1 | 28.0 | 37.0 | 36.5 | 50.3 | 53.7 | 64.0 | 66.2 | 65.9 | 70.2 | 79.4 |
| Goods and services | 122.9 | 140.5 | 203.9 | 208.6 | 291.1 | 289.6 | 363.3 | 377.8 | 444.7 | 510.4 | 576.9 |
| Oil excises | 13.4 | 13.2 | 13.7 | 33.1 | 17.9 | 20.3 | 9.8 | 24.3 | 27.2 | 30.2 | 34.2 |
| VAT and nonoil excises | 109.5 | 127.3 | 190.3 | 175.6 | 273.2 | 269.3 | 353.5 | 353.5 | 417.6 | 480.1 | 542.7 |
| International trade | 21.9 | 28.1 | 30.1 | 34.3 | 36.4 | 34.2 | 53.0 | 40.8 | 47.4 | 55.2 | 59.5 |
| Other taxes | 10.2 | 11.0 | 15.7 | 15.7 | 16.8 | 25.0 | 17.6 | 27.0 | 28.5 | 24.4 | 27.5 |
| Nontax revenue | 133.8 | 135.6 | 184.2 | 179.5 | 229.6 | 221.6 | 225.4 | 216.7 | 242.0 | 274.5 | 310.4 |
| Oil-related nontax revenue | 31.4 | 12.0 | 26.9 | 13.3 | 37.5 | 37.5 | 51.6 | 48.1 | 46.1 | 52.3 | 59.1 |
| Other nontax revenues | 102.4 | 123.7 | 157.3 | 161.9 | 192.0 | 184.2 | 173.8 | 168.6 | 195.9 | 222.2 | 251.3 |
| *Of which:* interest income | 3.4 | 1.9 | 2.4 | 4.3 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.7 |
| Grants | 25.5 | 3.5 | 1.6 | 17.7 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 |
| Expenditure | 733.3 | 817.6 | 994.3 | 1,031.9 | 1,220.0 | 1,236.8 | 1,348.1 | 1,380.7 | 1,478.9 | 1,536.6 | 1,700.8 |
| Wages and other remunerations | 198.5 | 213.7 | 222.7 | 225.5 | 239.6 | 239.6 | 266.8 | 265.0 | 287.8 | 330.0 | 373.2 |
| Purchases of goods and services | 31.3 | 35.7 | 39.8 | 42.5 | 51.6 | 51.6 | 73.9 | 63.7 | 70.1 | 75.1 | 80.4 |
| Interest | 193.0 | 243.4 | 303.9 | 316.6 | 396.9 | 415.3 | 470.0 | 507.5 | 523.9 | 448.8 | 467.0 |
| Domestic | 188.3 | 238.4 | 291.0 | 307.0 | 371.9 | 384.4 | 435.7 | 474.7 | 486.3 | 413.7 | 432.2 |
| External | 4.7 | 5.1 | 12.9 | 9.6 | 25.0 | 30.9 | 34.3 | 32.8 | 37.7 | 35.1 | 34.8 |
| Subsidies, grants, and social benefits | 198.5 | 201.0 | 278.4 | 276.7 | 330.8 | 329.1 | 323.8 | 346.2 | 369.3 | 432.2 | 503.7 |
| Energy subsidies | 97.5 | 81.1 | 136.3 | 142.6 | 138.2 | 138.9 | 72.4 | 65.6 | 42.4 | 25.8 | 28.7 |
| *Of which:* fuel subsidy | 73.9 | 51.0 | 101.2 | 115.0 | 108.2 | 108.0 | 47.2 | 48.4 | 30.0 | 25.8 | 28.7 |
| Food subsidies 2/ | 40.7 | 41.5 | 47.6 | 47.5 | 63.1 | 82.0 | 59.9 | 90.6 | 101.7 | 115.4 | 130.6 |
| Transfer to SIF | 33.2 | 43.9 | 52.5 | 45.2 | 62.5 | 60.5 | 100.0 | 78.0 | 108.0 | 138.0 | 164.1 |
| Other | 27.1 | 31.3 | 42.0 | 41.4 | 67.0 | 47.8 | 91.5 | 112.0 | 117.2 | 152.9 | 180.3 |
| Other current | 50.3 | 54.6 | 58.6 | 61.5 | 65.8 | 65.7 | 69.3 | 73.6 | 72.1 | 81.8 | 90.6 |
| Investment | 61.7 | 69.3 | 90.9 | 109.1 | 135.4 | 135.4 | 144.2 | 124.6 | 155.6 | 168.7 | 185.9 |
| Cash balance | -268.0 | -326.1 | -358.4 | -372.8 | -382.3 | -406.4 | -354.1 | -392.3 | -360.8 | -268.5 | -266.8 |
| Net acquisition of financial assets | 11.3 | 13.1 | 7.7 | 6.8 | -1.4 | -1.4 | 1.6 | 1.6 | 30.0 | 30.0 | 30.0 |
| Overall balance (IMF staff definition) | -279.3 | -339.3 | -366.1 | -379.6 | -380.8 | -405.0 | -355.8 | -393.9 | -390.8 | -298.5 | -296.8 |
| Overall balance (authorities' definition) 3/ | -274.3 | -339.3 | -366.1 | -379.6 | -380.8 | -405.0 | -355.8 | -393.9 | -390.8 | -298.5 | -296.8 |
| Financing | 279.3 | 333.4 | 366.1 | 379.6 | 357.5 | 405.0 | 355.8 | 393.9 | 390.8 | 298.5 | 296.8 |
| Net domestic | 280.1 | 304.5 | 245.6 | 252.7 | 282.0 | 258.4 | 319.9 | 345.5 | 437.5 | 343.4 | 395.3 |
| Bank | 222.0 | 260.2 | 188.3 | 195.7 | 208.9 | 186.0 | 232.5 | 258.8 | 336.8 | 229.1 | 266.0 |
| Nonbank | 58.1 | 44.4 | 57.3 | 57.0 | 73.2 | 72.4 | 87.5 | 86.7 | 100.8 | 114.3 | 129.3 |
| Net external | -0.8 | 28.9 | 120.4 | 126.9 | 75.5 | 146.6 | 35.8 | 48.4 | -46.7 | -44.9 | -98.5 |
| Financing gap | 0.0 | 5.8 | 0.0 | 0.0 | 23.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | | |
| Primary balance | -86.3 | -95.9 | -62.2 | -63.0 | 16.1 | 10.3 | 114.3 | 113.6 | 133.1 | 150.3 | 170.2 |
| Oil balance 4/ | -16.7 | -18.6 | -63.6 | -53.7 | -38.6 | -39.5 | 48.5 | 61.7 | 82.6 | 115.3 | 131.1 |
| Financing gap (in billions of US$) | 0.0 | 0.7 | 0.0 | 0.0 | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross budget sector debt 5/ | 2,276 | 2,763 | 3,623 | 3,773 | 4,111 | 4,238 | 4,768 | 4,821 | 5,238 | 5,672 | 6,000 |
| Gross general government debt | 2,162 | 2,624 | 3,441 | 3,591 | 3,915 | 4,034 | 4,613 | 4,587 | 4,967 | 5,376 | 5,702 |
| Nominal GDP (in billions of Egyptian pounds) | 2,444 | 2,708 | 3,496 | 3,478 | 4,465 | 4,418 | 5,337 | 5,292 | 6,149 | 6,975 | 7,891 |

Sources: Ministry of Finance; and IMF staff estimates.

1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis.
2/ Food subsidies include subsidies paid to farmers.
3/ The authorities accounted as grants in 2013/14 and 2014/15 the transfer to the budget of special deposits held at the CBE received from abroad following the 1991 Gulf War. Staff recorded these amounts as central bank financing below the line, consistent with GFSM principles.
4/ Oil revenue minus fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.
5/ Includes debt issued to the SIF for settlement of past arrears and implied future liabilities.

## Table 5. Egypt: Budget Sector Operations, 2014/15–2021/22 1/

(In percent of GDP)

| | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | | 2018/19 | | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | First Review | Prel. | First Review | Revised Proj. | First Review | Revised Proj. | | | |
| Revenue and grants | 19.0 | 18.1 | 18.2 | 19.0 | 18.8 | 18.8 | 18.6 | 18.7 | 18.2 | 18.2 | 18.2 |
| Tax revenue | 12.5 | 13.0 | 12.9 | 13.3 | 13.6 | 13.8 | 14.4 | 14.6 | 14.2 | 14.2 | 14.2 |
| Income and corporate tax | 6.2 | 5.8 | 5.7 | 5.8 | 5.9 | 5.9 | 6.2 | 6.1 | 5.8 | 5.8 | 5.8 |
| Personal income tax | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.6 | 1.7 | 1.7 | 1.8 | 1.8 |
| Corporate income tax | 3.7 | 3.2 | 3.1 | 3.3 | 3.3 | 3.1 | 3.4 | 3.2 | 3.0 | 3.0 | 3.0 |
| EGPC | 1.5 | 1.4 | 0.9 | 1.2 | 1.0 | 0.9 | 1.1 | 1.0 | 0.8 | 0.8 | 0.8 |
| Other | 2.3 | 2.4 | 2.2 | 2.1 | 2.3 | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |
| Property | 0.9 | 1.0 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.1 | 1.0 | 1.0 |
| Goods and services | 5.0 | 5.2 | 5.8 | 6.0 | 6.5 | 6.6 | 6.8 | 7.1 | 7.2 | 7.3 | 7.3 |
| Oil excises | 0.5 | 0.5 | 0.4 | 1.0 | 0.4 | 0.5 | 0.2 | 0.5 | 0.4 | 0.4 | 0.4 |
| VAT and nonoil excises | 4.5 | 4.7 | 5.4 | 5.0 | 6.1 | 6.1 | 6.6 | 6.7 | 6.8 | 6.9 | 6.9 |
| International trade | 0.9 | 1.0 | 0.9 | 1.0 | 0.8 | 0.8 | 1.0 | 0.8 | 0.8 | 0.8 | 0.8 |
| Other taxes | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 | 0.6 | 0.3 | 0.5 | 0.5 | 0.3 | 0.3 |
| Nontax revenue | 5.5 | 5.0 | 5.3 | 5.2 | 5.1 | 5.0 | 4.2 | 4.1 | 3.9 | 3.9 | 3.9 |
| Oil-related nontax revenue | 1.3 | 0.4 | 0.8 | 0.4 | 0.8 | 0.8 | 1.0 | 0.9 | 0.7 | 0.7 | 0.7 |
| Other nontax revenues | 4.2 | 4.6 | 4.5 | 4.7 | 4.3 | 4.2 | 3.3 | 3.2 | 3.2 | 3.2 | 3.2 |
| *Of which:* interest income | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 1.0 | 0.1 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure | 30.0 | 30.2 | 28.4 | 29.7 | 27.3 | 28.0 | 25.3 | 26.1 | 24.1 | 22.0 | 21.6 |
| Wages and other remunerations | 8.1 | 7.9 | 6.4 | 6.5 | 5.4 | 5.4 | 5.0 | 5.0 | 4.7 | 4.7 | 4.7 |
| Purchases of goods and services | 1.3 | 1.3 | 1.1 | 1.2 | 1.2 | 1.2 | 1.4 | 1.2 | 1.1 | 1.1 | 1.0 |
| Interest | 7.9 | 9.0 | 8.7 | 9.1 | 8.9 | 9.4 | 8.8 | 9.6 | 8.5 | 6.4 | 5.9 |
| Domestic | 7.7 | 8.8 | 8.3 | 8.8 | 8.3 | 8.7 | 8.2 | 9.0 | 7.9 | 5.9 | 5.5 |
| External | 0.2 | 0.2 | 0.4 | 0.3 | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 |
| Subsidies, grants and social benefits | 8.1 | 7.4 | 8.0 | 8.0 | 7.4 | 7.4 | 6.1 | 6.5 | 6.0 | 6.2 | 6.4 |
| Energy subsidies | 4.0 | 3.0 | 3.9 | 4.1 | 3.1 | 3.1 | 1.4 | 1.2 | 0.7 | 0.4 | 0.4 |
| *Of which:* fuel subsidy | 3.0 | 1.9 | 2.9 | 3.3 | 2.4 | 2.4 | 0.9 | 0.9 | 0.5 | 0.4 | 0.4 |
| Food subsidies 2/ | 1.7 | 1.5 | 1.4 | 1.4 | 1.4 | 1.9 | 1.1 | 1.7 | 1.7 | 1.7 | 1.7 |
| Transfers to SIF | 1.4 | 1.6 | 1.5 | 1.3 | 1.4 | 1.4 | 1.9 | 1.5 | 1.8 | 2.0 | 2.1 |
| Other | 1.1 | 1.2 | 1.2 | 1.2 | 1.5 | 1.1 | 1.7 | 2.1 | 1.9 | 2.2 | 2.3 |
| Other current | 2.1 | 2.0 | 1.7 | 1.8 | 1.5 | 1.5 | 1.3 | 1.4 | 1.2 | 1.2 | 1.1 |
| Investment | 2.5 | 2.6 | 2.6 | 3.1 | 3.0 | 3.1 | 2.7 | 2.4 | 2.5 | 2.4 | 2.4 |
| Cash balance | -11.0 | -12.0 | -10.3 | -10.7 | -8.6 | -9.2 | -6.6 | -7.4 | -5.9 | -3.8 | -3.4 |
| Net acquisition of financial assets | 0.5 | 0.5 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.4 | 0.4 |
| Overall balance (IMF staff definition) | -11.4 | -12.5 | -10.5 | -10.9 | -8.5 | -9.2 | -6.7 | -7.4 | -6.4 | -4.3 | -3.8 |
| Overall balance (authorities' definition) 3/ | -11.2 | -12.5 | -10.5 | -10.9 | -8.5 | -9.2 | -6.7 | -7.4 | -6.4 | -4.3 | -3.8 |
| Financing | 11.4 | 12.3 | 10.5 | 10.9 | 8.0 | 9.2 | 6.7 | 7.4 | 6.4 | 4.3 | 3.8 |
| Net domestic | 11.5 | 11.2 | 7.0 | 7.3 | 6.3 | 5.8 | 6.0 | 6.5 | 7.1 | 4.9 | 5.0 |
| Bank | 9.1 | 9.6 | 5.4 | 5.6 | 4.7 | 4.2 | 4.4 | 4.9 | 5.5 | 3.3 | 3.4 |
| Nonbank | 2.4 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Net external | 0.0 | 1.1 | 3.4 | 3.6 | 1.7 | 3.3 | 0.7 | 0.9 | -0.8 | -0.6 | -1.2 |
| Financing gap | 0.0 | 0.2 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | | |
| Primary balance | -3.5 | -3.5 | -1.8 | -1.8 | 0.4 | 0.2 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 |
| Oil balance 4/ | -0.7 | -0.7 | -1.8 | -1.5 | -0.9 | -0.9 | 0.9 | 1.2 | 1.3 | 1.7 | 1.7 |
| Gross budget sector debt 5/ | 93.1 | 102.0 | 103.6 | 108.5 | 92.1 | 95.9 | 89.3 | 91.1 | 85.2 | 81.3 | 76.0 |
| Nominal GDP (in billions of Egyptian pounds) | 2,444 | 2,708 | 3,496 | 3,478 | 4,465 | 4,418 | 5,337 | 5,292 | 6,149 | 6,975 | 7,891 |

Sources: Ministry of Finance; and IMF staff estimates.

1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis.

2/ Food subsidies include subsidies paid to farmers.

3/ The authorities accounted as grants in 2013/14 and 2014/15 the transfer to the budget of special deposits held at the CBE received from abroad following the 1991 Gulf War. Staff recorded these amounts as central bank financing below the line, consistent with GFSM principles.

4/ Oil revenue minus fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.

5/ Includes debt issued to the SIF for settlement of past arrears and implied future liabilities.

## Table 6. Egypt: General Government Operations, 2014/15–2021/22 1/

| | 2014/15 | 2015/16 | 2016/17 First Review | 2016/17 Prel. | 2017/18 First Review | 2017/18 Revised Proj. | 2018/19 First Review | 2018/19 Revised Proj. | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (In billions of Egyptian pounds) | | | | | | | | | | |
| Revenue and grants | 538.4 | 582.7 | 752.0 | 741.8 | 979.4 | 920.6 | 1,122 | 1,111 | 1,259.8 | 1,443.3 | 1,633.3 |
| Tax revenue | 306.0 | 352.3 | 450.1 | 462.0 | 607.0 | 607.6 | 767.4 | 770.5 | 874.9 | 992.4 | 1,122.2 |
| Income and property | 150.9 | 158.2 | 200.3 | 203.4 | 262.8 | 258.8 | 333.5 | 324.8 | 354.4 | 402.5 | 458.3 |
| Personal income tax | 38.2 | 42.4 | 54.7 | 51.0 | 66.5 | 68.2 | 88.0 | 89.7 | 104.2 | 123.2 | 139.4 |
| Corporate income tax | 91.6 | 87.9 | 108.6 | 115.9 | 146.1 | 136.9 | 181.5 | 169.0 | 184.3 | 209.1 | 239.6 |
| EGPC | 36.0 | 37.3 | 32.1 | 42.5 | 44.2 | 41.6 | 59.5 | 54.9 | 51.7 | 58.7 | 66.4 |
| Other | 55.6 | 65.1 | 76.5 | 73.4 | 101.9 | 95.3 | 121.9 | 114.1 | 132.6 | 150.4 | 173.1 |
| Goods and services | 122.9 | 140.5 | 203.9 | 208.6 | 291.1 | 289.6 | 363.3 | 377.8 | 444.7 | 510.4 | 576.9 |
| Oil excises | 13.4 | 13.2 | 13.7 | 33.1 | 17.9 | 20.3 | 9.8 | 24.3 | 27.2 | 30.2 | 34.2 |
| VAT and nonoil excises | 109.5 | 127.3 | 190.3 | 175.6 | 273.2 | 269.3 | 353.5 | 353.5 | 417.6 | 480.1 | 542.7 |
| International trade taxes | 21.9 | 28.1 | 30.1 | 34.3 | 36.4 | 34.2 | 53.0 | 40.8 | 47.4 | 55.2 | 59.5 |
| Other taxes | 10.2 | 11.0 | 15.7 | 15.7 | 16.8 | 25.0 | 17.6 | 27.0 | 28.5 | 24.4 | 27.5 |
| Nontax revenue | 207.0 | 226.9 | 300.3 | 262.2 | 371.2 | 311.9 | 353.6 | 339.8 | 383.7 | 449.8 | 509.8 |
| *Of which:* Interest income | 12.5 | 12.8 | 14.6 | 9.6 | 18.8 | 8.6 | 20.7 | 9.4 | 9.6 | 12.6 | 15.2 |
| Grants | 25.5 | 3.5 | 1.6 | 17.7 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 |
| Expenditure | 805.6 | 872.7 | 1,064 | 1,137.3 | 1,301.2 | 1,365.5 | 1,422 | 1,463 | 1,615.5 | 1,688.2 | 1,898.5 |
| Wages and other remunerations | 200.9 | 216.6 | 226.4 | 228.1 | 244.2 | 244.1 | 272.3 | 270.4 | 299.1 | 331.1 | 373.2 |
| Purchases of goods and services | 31.6 | 36.0 | 40.1 | 42.8 | 51.9 | 52.1 | 74.3 | 64.3 | 70.7 | 75.8 | 81.1 |
| Interest | 179.0 | 221.7 | 277.4 | 308.3 | 363.1 | 402.6 | 430.4 | 425.7 | 463.3 | 394.8 | 418.4 |
| Domestic interest | 174.3 | 216.7 | 264.5 | 279.1 | 338.1 | 372.1 | 396.1 | 393.9 | 426.5 | 359.4 | 382.1 |
| External interest | 4.7 | 5.1 | 12.9 | 9.6 | 25.0 | 30.4 | 34.3 | 31.8 | 36.9 | 35.4 | 36.2 |
| Subsidies, grants, and social benefits | 282.1 | 267.6 | 370.6 | 387.2 | 440.3 | 465.0 | 431.1 | 503.9 | 554.1 | 635.5 | 749.2 |
| Other current | 50.3 | 61.7 | 58.9 | 61.7 | 66.1 | 66.1 | 69.7 | 74.0 | 72.5 | 82.2 | 90.6 |
| Investment | 61.7 | 69.4 | 91.1 | 109.3 | 135.6 | 135.6 | 144.3 | 124.8 | 155.7 | 168.9 | 186.0 |
| Net acquisition of financial assets | 11.3 | 13.1 | 7.7 | 1.9 | -1.4 | -26.1 | 1.6 | -4.1 | -2.9 | 30.0 | 30.0 |
| Overall balance | -278.5 | -303.2 | -320.1 | -397.3 | -320.3 | -418.8 | -301.5 | -347.5 | -352.8 | -274.9 | -295.2 |
| Financing | 278.5 | 303.2 | 369.0 | 397.3 | 369.0 | 418.8 | 374.2 | 347.5 | 352.8 | 274.9 | 295.2 |
| Net domestic | 279.3 | 274.3 | 252.7 | 270.4 | 292.8 | 272.2 | 333.0 | 299.1 | 399.5 | 319.8 | 393.7 |
| Bank | 221.2 | 229.9 | 184.4 | 213.4 | 207.1 | 199.8 | 233.1 | 212.4 | 298.8 | 205.5 | 264.4 |
| Nonbank | 58.1 | 44.4 | 68.3 | 57.0 | 85.7 | 72.4 | 99.8 | 86.7 | 100.8 | 114.3 | 129.3 |
| Net external | -0.8 | 28.9 | 120.4 | 126.9 | 75.5 | 146.6 | 35.8 | 48.4 | -46.7 | -44.9 | -98.5 |
| Other | 0.0 | 0.0 | -4.2 | 0.0 | 0.7 | 0.0 | 5.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | -48.9 | 0.0 | -48.7 | 0.0 | -72.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| | (In percent of GDP, unless otherwise indicated) | | | | | | | | | | |
| Revenue and grants | 22.0 | 21.5 | 21.5 | 21.3 | 21.9 | 20.8 | 21.0 | 21.0 | 20.5 | 20.7 | 20.7 |
| Tax revenue | 12.5 | 13.0 | 12.9 | 13.3 | 13.6 | 13.8 | 14.4 | 14.6 | 14.2 | 14.2 | 14.2 |
| Nontax revenue | 8.5 | 8.4 | 8.6 | 7.5 | 8.3 | 7.1 | 6.6 | 6.4 | 6.2 | 6.4 | 6.5 |
| *Of which:* Interest income | 0.5 | 0.5 | 0.4 | 0.3 | 0.4 | 0.2 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| Grants | 1.0 | 0.1 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure | 33.0 | 32.2 | 30.4 | 32.7 | 29.1 | 30.9 | 26.6 | 27.6 | 26.3 | 24.2 | 24.1 |
| Wages and other remunerations | 8.2 | 8.0 | 6.5 | 6.6 | 5.5 | 5.5 | 5.1 | 5.1 | 4.9 | 4.7 | 4.7 |
| Purchases of goods and services | 1.3 | 1.3 | 1.1 | 1.2 | 1.2 | 1.2 | 1.4 | 1.2 | 1.1 | 1.1 | 1.0 |
| Interest | 7.3 | 8.2 | 7.9 | 8.9 | 8.1 | 9.1 | 8.1 | 8.0 | 7.5 | 5.7 | 5.3 |
| Subsidies, grants, and social benefits | 11.5 | 9.9 | 10.6 | 11.1 | 9.9 | 10.5 | 8.1 | 9.5 | 9.0 | 9.1 | 9.5 |
| Other current | 2.1 | 2.3 | 1.7 | 1.8 | 1.5 | 1.5 | 1.3 | 1.4 | 1.2 | 1.2 | 1.1 |
| Investment | 2.5 | 2.6 | 2.6 | 3.1 | 3.0 | 3.1 | 2.7 | 2.4 | 2.5 | 2.4 | 2.4 |
| Net acquisition of financial assets | 0.5 | 0.5 | 0.2 | 0.1 | 0.0 | -0.6 | 0.0 | -0.1 | 0.0 | 0.4 | 0.4 |
| Overall balance | -11.4 | -11.2 | -9.2 | -11.4 | -7.2 | -9.5 | -5.7 | -6.6 | -5.7 | -3.9 | -3.7 |
| Financing | 11.4 | 11.2 | 10.6 | 11.4 | 8.3 | 9.5 | 7.0 | 6.6 | 5.7 | 3.9 | 3.7 |
| Net domestic | 11.4 | 10.1 | 7.2 | 7.8 | 6.6 | 6.2 | 6.2 | 5.7 | 6.5 | 4.6 | 5.0 |
| Bank | 9.1 | 8.5 | 5.3 | 6.1 | 4.6 | 4.5 | 4.4 | 4.0 | 4.9 | 2.9 | 3.4 |
| Nonbank | 2.4 | 1.6 | 2.0 | 1.6 | 1.9 | 1.6 | 1.9 | 1.6 | 1.6 | 1.6 | 1.6 |
| Net external | 0.0 | 1.1 | 3.4 | 3.6 | 1.7 | 3.3 | 0.7 | 0.9 | -0.8 | -0.6 | -1.2 |
| Other | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | -1.4 | 0.0 | -1.1 | 0.0 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | | |
| Primary balance | -4.1 | -3.0 | -1.2 | -2.6 | 1.0 | -0.4 | 2.4 | 1.5 | 1.8 | 1.7 | 1.6 |
| Gross debt | 88.5 | 96.9 | 98.4 | 103.3 | 87.7 | 91.3 | 86.4 | 86.7 | 80.8 | 77.1 | 72.3 |
| Net debt | 78.8 | 88.2 | 91.7 | 94.0 | 82.4 | 79.9 | 82.0 | 77.2 | 72.6 | 69.9 | 65.9 |
| Gross debt (in billions of LE) | 2,162 | 2,624 | 3,441 | 3,591 | 3,915 | 4,034 | 4,613 | 4,587 | 4,967 | 5,376 | 5,702 |
| Net debt (in billions of LE) | 1,927 | 2,389 | 3,206 | 3,269 | 3,680 | 3,531 | 4,378 | 4,084 | 4,465 | 4,873 | 5,200 |
| Nominal GDP (in billions of LE) | 2,444 | 2,708 | 3,496 | 3,478 | 4,465 | 4,418 | 5,337 | 5,292 | 6,149 | 6,975 | 7,891 |

Sources: Ministry of Finance; and IMF staff estimates.

1/ General government includes budget sector, National Investment Bank (NIB) and social insurance funds. Fiscal year ends June 30. Cash basis.

## Table 7a. Egypt: Central Bank Accounts, 2014/15–2021/22

| | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | | 2018/19 | | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | First Review | Prel. | First Review | Revised Proj. | First Review | Revised Proj. | | | |
| | (end-period, in billions of Egyptian Pounds, unless otherwise indicated) | | | | | | | | | | |
| Net foreign assets | 25 | -45 | 21 | 4 | 160 | 174 | 364 | 436 | 566 | 706 | 690 |
| Foreign assets | 148 | 150 | 528 | 552 | 532 | 590 | 636 | 672 | 632 | 764 | 745 |
| Foreign liabilities | 123 | 195 | 507 | 548 | 371 | 416 | 272 | 236 | 66 | 58 | 54 |
| Net domestic assets | 461 | 673 | 586 | 575 | 595 | 634 | 558 | 515 | 517 | 536 | 681 |
| Net domestic credit | 498 | 679 | 467 | 400 | 493 | 447 | 495 | 393 | 400 | 463 | 614 |
| Net credit to central government | 585 | 658 | 846 | 740 | 815 | 813 | 813 | 807 | 725 | 606 | 614 |
| Net credit to public economic authorities | -61 | -39 | -33 | -32 | -24 | -27 | -30 | -24 | -19 | -15 | -15 |
| Credit to banks | 25 | 120 | 219 | 284 | 252 | 259 | 264 | 234 | 183 | 183 | 183 |
| Banks' deposits in foreign currency | -51 | -61 | -132 | -130 | -153 | -150 | -185 | -185 | -197 | -213 | -214 |
| Open market operations | 0 | 0 | -433 | -464 | -396 | -448 | -368 | -438 | -292 | -99 | 46 |
| Other items net | -37 | -6 | 118 | 176 | 101 | 187 | 63 | 122 | 118 | 74 | 68 |
| Reserve money 1/ | 486 | 628 | 606 | 579 | 755 | 807 | 922 | 951 | 1083 | 1242 | 1372 |
| Currency in circulation | 293 | 347 | 420 | 419 | 517 | 480 | 637 | 570 | 640 | 752 | 834 |
| Reserves and highly liquid assets of banks | 193 | 281 | 186 | 160 | 238 | 327 | 284 | 381 | 443 | 490 | 537 |
| Cash in vaults | 21 | 22 | 24 | 33 | 27 | 36 | 30 | 39 | 42 | 42 | 42 |
| Reserves | 172 | 110 | 133 | 126 | 182 | 271 | 225 | 322 | 381 | 428 | 475 |
| Deposits on overnight | 0 | 150 | 30 | 2 | 30 | 20 | 30 | 20 | 20 | 20 | 20 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections.
1/ Reserve money in 2014/15 was affected by the cancellation of deposit renewals at the CBE due to unexpected announcement of national holiday on June 30, 2015.

## Table 7b. Egypt: Monetary Survey, 2014/15–2021/22

| | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | | 2018/19 | | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | First Review | Prel. | First Review | Revised Proj. | First Review | Revised Proj. | | | |
| | | | | | (End-period, in billions of Egyptian pounds) | | | | | | |
| Net foreign assets | 51 | -87 | 32 | 61 | 216 | 346 | 470 | 655 | 768 | 904 | 869 |
| Central bank | 25 | -45 | 21 | 4 | 160 | 174 | 364 | 436 | 566 | 706 | 690 |
| Commercial banks | 26 | -43 | 11 | 57 | 55 | 172 | 106 | 219 | 202 | 198 | 178 |
| Net domestic assets | 1,714 | 2,182 | 2,800 | 2,857 | 3,244 | 3,169 | 3,785 | 3,553 | 4,059 | 4,513 | 5,032 |
| Net claims on central and local government | 1,333 | 1,603 | 1,859 | 1,809 | 2,121 | 1,985 | 2,392 | 2,269 | 2,607 | 2,838 | 3,104 |
| Net claims on public economic authorities | -42 | 52 | 120 | 171 | 174 | 165 | 212 | 204 | 212 | 235 | 238 |
| Claims on public sector companies | 63 | 93 | 171 | 149 | 205 | 170 | 229 | 191 | 205 | 225 | 242 |
| Claims on private sector | 624 | 712 | 981 | 983 | 1,067 | 1,086 | 1,232 | 1,207 | 1,359 | 1,578 | 1,816 |
| Net other items | -264 | -278 | -330 | -254 | -323 | -237 | -280 | -319 | -323 | -363 | -367 |
| Broad money (M2) | 1,765 | 2,094 | 2,832 | 2,918 | 3,460 | 3,515 | 4,255 | 4,208 | 4,827 | 5,417 | 5,901 |
| Domestic currency component (M2D) | 1,502 | 1,771 | 2,135 | 2,224 | 2,669 | 2,742 | 3,302 | 3,255 | 3,812 | 4,322 | 4,795 |
| Currency outside banks | 293 | 347 | 420 | 419 | 517 | 480 | 637 | 570 | 640 | 752 | 834 |
| Domestic currency deposits | 1,210 | 1,424 | 1,715 | 1,805 | 2,152 | 2,262 | 2,664 | 2,685 | 3,172 | 3,570 | 3,961 |
| Foreign currency deposits | 263 | 324 | 697 | 694 | 791 | 773 | 953 | 953 | 1,014 | 1,096 | 1,106 |
| | | | | | (Annual percent change, unless otherwise indicated) | | | | | | |
| Broad money (M2) | 16.4 | 18.6 | 35.2 | 39.3 | 22.2 | 20.4 | 23.0 | 19.7 | 14.7 | 12.2 | 8.9 |
| Domestic currency component (M2D) | 17.3 | 17.8 | 20.6 | 25.6 | 25.0 | 23.3 | 23.7 | 18.7 | 17.1 | 13.4 | 11.0 |
| Reserve money 1/ | 33.3 | 29.3 | 26.8 | -7.8 | 24.5 | 39.4 | 22.1 | 17.8 | 13.9 | 14.7 | 10.4 |
| Contribution to Broad Money Growth | 16.4 | 18.6 | 35.2 | 39.3 | 22.2 | 20.4 | 23.0 | 19.7 | 14.7 | 12.2 | 8.9 |
| Net foreign assets | -4.5 | -7.9 | 5.7 | 7.1 | 6.5 | 9.8 | 7.3 | 8.8 | 2.7 | 2.8 | -0.7 |
| Net domestic assets | 20.9 | 26.5 | 29.5 | 32.2 | 15.7 | 10.7 | 15.6 | 10.9 | 12.0 | 9.4 | 9.6 |
| Credit to the private sector | 16.7 | 14.2 | 37.8 | 38.0 | 8.7 | 10.5 | 15.5 | 11.2 | 12.5 | 16.1 | 15.1 |
| Credit to government and public sector companies | 28.7 | 21.5 | 19.7 | 15.4 | 14.6 | 10.1 | 12.7 | 14.2 | 14.3 | 8.9 | 9.2 |
| Memorandum items: | | | | | | | | | | | |
| Velocity | | | | | | | | | | | |
| Velocity GDP/M2D (level) | 1.8 | 1.7 | 1.8 | 1.8 | 1.9 | 1.7 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 |
| Velocity GDP/M2 (level) | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| M2 (in percent of GDP) | 72.2 | 77.3 | 81.0 | 83.9 | 77.5 | 79.6 | 79.7 | 79.5 | 78.5 | 77.7 | 74.8 |
| Money multiplier (M2D / reserve money) | 3.1 | 2.8 | 3.5 | 3.8 | 3.5 | 3.4 | 3.6 | 3.4 | 3.5 | 3.5 | 3.5 |
| Money multiplier (M2 / reserve money) | 3.6 | 3.3 | 4.7 | 5.0 | 4.6 | 4.4 | 4.6 | 4.4 | 4.5 | 4.4 | 4.3 |
| M2 (in real terms) | 4.5 | 4.1 | 1.8 | 7.4 | 10.8 | 7.6 | 6.3 | 3.9 | 5.9 | 4.7 | 1.8 |
| Domestic currency deposit (in real terms) | 7.6 | 3.3 | -9.3 | -2.3 | 13.8 | 12.0 | 7.0 | 3.0 | 9.1 | 5.0 | 3.7 |
| Claims on private sector (in real terms) | 4.7 | 0.2 | 3.7 | 6.4 | -1.4 | -1.3 | -0.2 | -3.5 | 3.9 | 8.3 | 7.6 |
| Foreign currency deposits (in percent of total deposits) | 17.9 | 18.5 | 28.9 | 27.8 | 26.9 | 25.5 | 26.4 | 26.2 | 24.2 | 23.5 | 21.8 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections.

1/ Reserve money as of end 2014/15 was affected by cancellation of deposit renuewals at CBE due to unexpected announcement of national holiday on June 30, 2015.

## Table 8a. Egypt: Summary of National Accounts, 2011/12–2021/22

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | | | |
| | | | | | (Annual change, in percent) | | | | | | |
| Real GDP at market price | 2.2 | 3.3 | 2.9 | 4.4 | 4.3 | 4.2 | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 |
| Domestic demand (absorption) | 5.9 | 2.5 | 4.5 | 4.2 | 5.4 | 5.1 | 2.2 | 4.6 | 4.9 | 5.5 | 5.3 |
| Private | 6.8 | 2.5 | 3.5 | 3.9 | 5.6 | 4.6 | 3.7 | 6.0 | 5.2 | 6.0 | 5.4 |
| Public | 0.0 | 2.2 | 10.9 | 6.7 | 4.5 | 8.4 | -6.9 | -5.2 | 3.3 | 2.3 | 4.0 |
| Consumption | 6.1 | 4.4 | 4.9 | 3.6 | 4.5 | 4.0 | 1.7 | 4.4 | 3.6 | 4.4 | 3.9 |
| Private | 6.5 | 4.7 | 4.4 | 3.1 | 4.6 | 4.2 | 3.4 | 5.0 | 3.9 | 4.6 | 3.8 |
| Public | 3.1 | 2.2 | 8.4 | 7.0 | 3.9 | 2.5 | -9.6 | -0.7 | 0.5 | 2.6 | 4.3 |
| Investment | 4.8 | -8.4 | 1.7 | 8.6 | 11.2 | 11.3 | 4.9 | 5.8 | 12.2 | 11.2 | 11.6 |
| Gross fixed capital formation | 7.1 | -7.8 | 1.4 | 9.8 | 19.6 | 7.7 | 8.4 | 5.8 | 12.2 | 11.2 | 11.6 |
| Private | 11.7 | -9.6 | -2.9 | 10.9 | 22.5 | 2.2 | 10.0 | 12.0 | 12.0 | 13.0 | 13.0 |
| Public | -13.6 | 2.5 | 23.7 | 5.3 | 7.2 | 34.8 | 2.3 | -18.9 | 13.6 | 1.3 | 3.2 |
| Net exports of goods and services 1/ | -2.8 | 0.6 | -1.9 | -0.2 | -1.6 | -1.3 | 2.3 | 0.6 | 0.5 | 0.1 | 0.4 |
| Exports of goods and services | -2.3 | 4.5 | -10.9 | -0.6 | -14.5 | 86.0 | 5.5 | 11.5 | 8.6 | 9.0 | 8.1 |
| Imports of goods and services | 10.8 | 0.6 | 0.1 | 0.6 | -1.9 | 52.5 | -4.0 | 6.3 | 4.8 | 6.8 | 5.1 |
| Real GDP at factor cost | 2.2 | 3.3 | 2.9 | 3.4 | 2.3 | 3.6 | 4.5 | 5.0 | 5.5 | 5.9 | 6.0 |
| Agriculture | 2.9 | 3.0 | 3.0 | 3.1 | 3.1 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 |
| Construction | 3.3 | 3.7 | 7.4 | 9.8 | 11.2 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 |
| Industry | 0.7 | 0.2 | 0.8 | 0.0 | -1.4 | 0.5 | 3.6 | 4.6 | 5.6 | 6.6 | 6.8 |
| Services | 2.7 | 6.3 | 3.7 | 4.6 | 3.2 | 5.5 | 5.5 | 5.7 | 6.1 | 6.2 | 6.3 |
| General government | 2.9 | 3.4 | 5.3 | 7.5 | 5.0 | 3.0 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Suez Canal | 3.9 | -1.9 | 2.2 | 2.4 | 2.2 | 1.4 | 2.0 | 2.0 | 3.0 | 4.0 | 4.0 |
| | | | | | (Contribution to real growth, in percent 2/) | | | | | | |
| Real GDP at market price | 2.2 | 3.3 | 2.9 | 4.4 | 4.3 | 4.2 | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 |
| Domestic demand (absorption) | 6.1 | 2.7 | 4.8 | 4.6 | 5.9 | 5.6 | 2.4 | 4.9 | 5.3 | 5.9 | 5.6 |
| Private | 6.1 | 2.4 | 3.3 | 3.6 | 5.2 | 4.3 | 3.5 | 5.7 | 4.9 | 5.6 | 5.1 |
| Public | 0.0 | 0.3 | 1.5 | 1.0 | 0.7 | 1.2 | -1.1 | -0.7 | 0.4 | 0.3 | 0.5 |
| Consumption | 5.4 | 4.1 | 4.5 | 3.4 | 4.2 | 3.8 | 1.6 | 4.0 | 3.2 | 3.9 | 3.4 |
| Private | 5.0 | 3.8 | 3.6 | 2.6 | 3.7 | 3.5 | 2.8 | 4.0 | 3.2 | 3.7 | 3.0 |
| Public | 0.4 | 0.2 | 0.9 | 0.8 | 0.5 | 0.3 | -1.1 | -0.1 | 0.0 | 0.2 | 0.4 |
| Investment | 0.8 | -1.4 | 0.2 | 1.2 | 1.7 | 1.8 | 0.8 | 1.0 | 2.1 | 2.0 | 2.2 |
| Gross fixed capital formation | 1.0 | -1.2 | 0.2 | 1.3 | 2.7 | 1.2 | 1.4 | 1.0 | 2.1 | 2.0 | 2.2 |
| Private | 1.4 | -1.2 | -0.3 | 1.1 | 2.5 | 0.3 | 1.3 | 1.6 | 1.7 | 2.0 | 2.1 |
| Public | -0.3 | 0.1 | 0.5 | 0.1 | 0.2 | 0.9 | 0.1 | -0.6 | 0.4 | 0.0 | 0.1 |
| Net exports of goods and services | -2.8 | 0.6 | -1.9 | -0.2 | -1.6 | -1.3 | 2.3 | 0.6 | 0.5 | 0.1 | 0.4 |
| Exports of goods and services | -0.4 | 0.7 | -1.8 | -0.1 | -2.0 | 9.7 | 1.1 | 2.3 | 1.8 | 2.0 | 1.8 |
| Imports of goods and services | -2.4 | -0.1 | 0.0 | -0.1 | 0.4 | -11.1 | 1.2 | -1.8 | -1.4 | -1.9 | -1.4 |
| Real GDP at factor cost | 2.2 | 3.3 | 2.9 | 3.4 | 2.3 | 3.6 | 4.5 | 5.0 | 5.5 | 5.9 | 6.0 |
| Agriculture | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Construction | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 |
| Industry | 0.3 | 0.1 | 0.3 | 0.0 | -0.5 | 0.2 | 1.1 | 1.4 | 1.7 | 1.9 | 2.0 |
| Services | 1.1 | 2.5 | 1.5 | 1.9 | 1.3 | 2.3 | 2.3 | 2.5 | 2.6 | 2.7 | 2.7 |
| General government | 0.3 | 0.3 | 0.5 | 0.7 | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Suez Canal | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |

Sources: Egyptian authorities; and IMF staff estimates and projections.
1/ Contribution to growth.
2/ Components do not sum up to total due to statistical discrepancies associated with changes of base years.

## Table 8b. Egypt: Summary of National Accounts, 2011/12–2021/22

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | | | |
| | | | | | (In percent of nominal GDP) | | | | | | |
| GDP at market price | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Domestic demand (absorption) | 107.9 | 106.3 | 108.4 | 108.5 | 109.2 | 112.2 | 109.8 | 108.8 | 108.3 | 108.1 | 107.9 |
| Private | 94.6 | 92.9 | 94.1 | 94.2 | 95.3 | 98.9 | 98.0 | 98.2 | 98.0 | 98.1 | 98.1 |
| Public | 13.3 | 13.5 | 14.3 | 14.3 | 14.0 | 13.2 | 11.7 | 10.5 | 10.3 | 10.0 | 9.8 |
| Consumption | 91.9 | 92.1 | 94.8 | 94.2 | 94.2 | 96.9 | 93.8 | 92.8 | 91.3 | 90.3 | 89.1 |
| Private | 80.7 | 80.8 | 82.9 | 82.4 | 82.8 | 86.9 | 85.2 | 84.6 | 83.6 | 82.7 | 81.7 |
| Public | 11.2 | 11.4 | 11.8 | 11.8 | 11.4 | 10.1 | 8.7 | 8.2 | 7.8 | 7.5 | 7.4 |
| Investment | 16.0 | 14.2 | 13.6 | 14.3 | 15.0 | 15.2 | 15.9 | 16.0 | 17.0 | 17.8 | 18.8 |
| Gross fixed capital formation | 14.7 | 13.0 | 12.4 | 13.7 | 15.0 | 14.8 | 15.9 | 16.0 | 17.0 | 17.8 | 18.8 |
| Private | 12.5 | 10.9 | 10.0 | 11.1 | 12.5 | 12.2 | 12.8 | 13.6 | 14.4 | 15.4 | 16.4 |
| Public | 2.1 | 2.1 | 2.5 | 2.5 | 2.6 | 3.1 | 3.1 | 2.4 | 2.5 | 2.4 | 2.4 |
| Net exports of goods and services | -7.9 | -6.3 | -8.4 | -8.5 | -9.2 | -12.2 | -9.8 | -8.8 | -8.3 | -8.1 | -7.9 |
| Exports of goods and services | 16.4 | 17.0 | 14.2 | 13.2 | 10.4 | 16.3 | 17.0 | 17.1 | 17.5 | 17.7 | 17.8 |
| Imports of goods and services | -24.3 | -23.4 | -22.7 | -21.7 | -19.6 | -28.4 | -26.8 | -25.8 | -25.8 | -25.8 | -25.7 |
| Net factor income | -2.3 | -2.6 | -2.4 | -1.7 | -1.3 | -1.9 | -2.3 | -2.3 | -2.3 | -2.2 | -2.2 |
| Net remittances inflows | 6.4 | 6.4 | 6.0 | 5.8 | 5.0 | 7.3 | 7.4 | 7.0 | 6.9 | 6.7 | 6.6 |
| Net official transfers | 0.2 | 0.3 | 3.9 | 0.8 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Gross National Disposable Income | 104.3 | 104.1 | 107.6 | 104.9 | 103.7 | 105.5 | 105.2 | 104.7 | 104.7 | 104.5 | 104.4 |
| Investment | 16.0 | 14.2 | 13.6 | 14.3 | 15.0 | 15.2 | 15.9 | 16.0 | 17.0 | 17.8 | 18.8 |
| Private (incl. change in inventories) | 13.9 | 12.1 | 11.2 | 11.8 | 12.5 | 12.7 | 12.8 | 13.6 | 14.4 | 15.4 | 16.4 |
| Public | 2.1 | 2.1 | 2.5 | 2.5 | 2.6 | 3.1 | 3.1 | 2.4 | 2.5 | 2.4 | 2.4 |
| National savings | 12.3 | 12.0 | 12.8 | 10.6 | 9.1 | 9.2 | 11.4 | 12.0 | 13.4 | 14.3 | 15.4 |
| Private | 20.2 | 22.8 | 21.6 | 19.0 | 17.2 | 17.4 | 18.4 | 16.3 | 16.7 | 15.4 | 16.4 |
| Public | -7.9 | -10.8 | -8.8 | -8.4 | -8.1 | -8.2 | -7.0 | -4.3 | -3.3 | -1.1 | -1.0 |
| Savings-investment balance | -3.7 | -2.2 | -0.9 | -3.7 | -6.0 | -6.1 | -4.5 | -4.0 | -3.6 | -3.5 | -3.4 |
| Private | 6.3 | 10.7 | 10.4 | 7.3 | 4.7 | 4.7 | 5.6 | 2.6 | 2.2 | 0.0 | -0.1 |
| Public | -10.0 | -12.9 | -11.3 | -10.9 | -10.7 | -11.4 | -10.1 | -6.6 | -5.8 | -3.5 | -3.4 |
| GDP at factor cost | 100.0 | 100.4 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Agriculture | 11.0 | 11.0 | 10.9 | 11.3 | 11.9 | 11.7 | 11.6 | 11.4 | 11.2 | 10.9 | 10.5 |
| Construction | 4.1 | 4.3 | 4.3 | 4.8 | 5.4 | 5.7 | 6.0 | 6.3 | 6.5 | 6.7 | 6.9 |
| Industry | 34.2 | 34.6 | 34.2 | 31.4 | 27.5 | 28.6 | 28.5 | 28.4 | 28.4 | 28.5 | 28.5 |
| Services | 40.0 | 39.8 | 39.2 | 40.9 | 43.3 | 42.9 | 43.0 | 43.3 | 43.6 | 43.9 | 44.3 |
| General government | 8.8 | 9.1 | 9.7 | 10.1 | 10.3 | 8.9 | 8.7 | 8.5 | 8.3 | 8.0 | 7.7 |
| Suez Canal | 1.8 | 1.7 | 1.7 | 1.6 | 1.5 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.0 |

Sources: Egyptian authorities; and IMF staff estimates and projections.

## Table 9. Egypt: Medium-Term Macroeconomic Framework, 2011/12–2021/22

(In percent of GDP, unless otherwise indicated)

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | | | |
| Growth and prices | | | | | | | | | | | |
| Real GDP (annual change, in percent) | 2.2 | 3.3 | 2.9 | 4.4 | 4.3 | 4.2 | 4.5 | 5.5 | 5.8 | 6.0 | 6.0 |
| CPI inflation (end-of-period, in percent) | 7.3 | 9.8 | 8.2 | 11.4 | 14.0 | 29.8 | 11.9 | 15.2 | 8.3 | 7.2 | 7.0 |
| CPI inflation (average, in percent) | 8.6 | 6.9 | 10.1 | 11.0 | 10.2 | 23.5 | 21.0 | 13.7 | 10.0 | 7.2 | 7.1 |
| Unemployment rate (period average, in percent) | 12.4 | 13.0 | 13.4 | 12.9 | 12.7 | 12.1 | 11.2 | 9.9 | 8.3 | 6.7 | 4.9 |
| Savings-investment balance | -3.7 | -2.2 | -0.9 | -3.7 | -6.0 | -6.1 | -4.5 | -4.0 | -3.6 | -3.5 | -3.4 |
| Investment | 16.0 | 14.2 | 13.6 | 14.3 | 15.0 | 15.2 | 15.9 | 16.0 | 17.0 | 17.8 | 18.8 |
| Domestic savings | 12.3 | 12.0 | 12.8 | 10.6 | 9.1 | 9.2 | 11.4 | 12.0 | 13.4 | 14.3 | 15.4 |
| Public finances | | | | | | | | | | | |
| General government | | | | | | | | | | | |
| Revenue and grants | 20.8 | 21.7 | 24.4 | 22.0 | 21.5 | 21.3 | 20.8 | 21.0 | 20.5 | 20.7 | 20.7 |
| Expenditure and NAFA | 30.7 | 35.0 | 36.2 | 33.4 | 32.7 | 32.8 | 30.3 | 27.6 | 26.2 | 24.6 | 24.4 |
| Overall balance | -9.9 | -13.3 | -11.8 | -11.4 | -11.2 | -11.4 | -9.5 | -6.6 | -5.7 | -3.9 | -3.7 |
| Overall balance, excl. grants | -10.5 | -13.5 | -16.3 | -12.4 | -11.3 | -11.9 | -9.5 | -6.6 | -5.8 | -4.0 | -3.8 |
| Primary balance | -4.3 | -6.0 | -4.3 | -4.1 | -3.0 | -2.6 | -0.4 | 1.5 | 1.8 | 1.7 | 1.6 |
| Gross debt | 73.8 | 84.0 | 85.1 | 88.5 | 96.9 | 103.3 | 91.3 | 86.7 | 80.8 | 77.1 | 72.3 |
| Domestic | 64.6 | 73.3 | 75.4 | 80.5 | 89.0 | 85.2 | 74.6 | 69.0 | 66.2 | 63.8 | 61.6 |
| External | 9.2 | 10.7 | 9.7 | 7.9 | 7.8 | 18.1 | 16.7 | 17.7 | 14.6 | 13.3 | 10.6 |
| Budget sector | | | | | | | | | | | |
| Revenue and grants | 18.1 | 18.8 | 20.5 | 19.0 | 18.1 | 19.0 | 18.8 | 18.7 | 18.2 | 18.2 | 18.2 |
| Tax revenue | 12.4 | 13.5 | 12.2 | 12.5 | 13.0 | 13.3 | 13.8 | 14.6 | 14.2 | 14.2 | 14.2 |
| Non-tax revenue | 5.1 | 5.1 | 4.7 | 5.5 | 5.0 | 5.2 | 5.0 | 4.1 | 3.9 | 3.9 | 3.9 |
| Grants | 0.6 | 0.3 | 3.5 | 1.0 | 0.1 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure and NAFA | 28.1 | 31.7 | 33.4 | 30.5 | 30.2 | 29.7 | 28.0 | 26.1 | 24.1 | 22.0 | 21.6 |
| *Of which:* Current | 26.0 | 29.5 | 30.4 | 27.5 | 27.1 | 26.3 | 24.9 | 23.7 | 21.0 | 19.2 | 18.8 |
| Capital | 2.1 | 2.1 | 2.5 | 2.5 | 2.6 | 3.1 | 3.1 | 2.4 | 2.5 | 2.4 | 2.4 |
| Overall budget balance | -10.0 | -12.9 | -13.0 | -11.4 | -12.5 | -10.9 | -9.2 | -7.4 | -6.4 | -4.3 | -3.8 |
| Overall budget balance, excl. grants | -10.6 | -13.2 | -16.5 | -12.5 | -12.7 | -11.4 | -9.2 | -7.5 | -6.4 | -4.3 | -3.8 |
| Primary budget balance | -3.7 | -5.0 | -4.8 | -3.5 | -3.5 | -1.8 | 0.2 | 2.1 | 2.2 | 2.2 | 2.2 |
| Balance of payments and external debt | | | | | | | | | | | |
| Current account | -3.7 | -2.2 | -0.9 | -3.7 | -6.0 | -6.1 | -4.5 | -4.0 | -3.6 | -3.5 | -3.4 |
| Trade balance | -8.0 | -6.4 | -8.5 | -8.5 | -9.7 | -11.2 | -9.7 | -8.7 | -8.3 | -8.0 | -7.8 |
| Oil trade balance | -0.2 | 0.3 | -0.3 | -1.0 | -1.1 | -1.8 | -1.9 | -1.1 | -1.1 | -1.3 | -1.4 |
| Non-oil trade balance | -12.2 | -11.1 | -10.9 | -10.7 | -10.6 | -12.0 | -11.6 | -11.5 | -11.3 | -11.2 | -11.1 |
| Capital and financial account (incl. errors and omissions) | -3.7 | 1.1 | 1.0 | 5.5 | 5.1 | 5.2 | 3.2 | 1.6 | 2.8 | 4.6 | 3.2 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 0.0 | 0.0 |
| Official reserves (in billions of US$) | 15.2 | 14.5 | 16.3 | 19.5 | 17.1 | 30.7 | 34.5 | 33.0 | 30.8 | 34.2 | 33.0 |
| (In months of next year's imports of goods and services) | 3.2 | 2.9 | 3.2 | 3.5 | 3.1 | 5.5 | 5.7 | 5.2 | 4.5 | 4.6 | 4.1 |
| External debt (in percent of GDP) | 12.5 | 15.1 | 15.1 | 14.5 | 16.8 | 30.8 | 34.6 | 30.3 | 27.7 | 26.9 | 25.7 |

Sources: Egyptian authorities; and IMF staff estimates and projections.

**Table 10. Egypt: Financial Soundness Indicators of the Banking System**
(end-June, unless otherwise indicated)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Dec 2016 |
|---|---|---|---|---|---|---|---|---|
| *Capital adequacy* | | | | | | | | |
| Regulatory capital to RWA | 15.1 | 16.3 | 15.9 | 14.9 | 13.7 | 13.9 | 14.5 | 14.1 |
| Common equity to RWA | … | … | … | … | 10.7 | 11.4 | 12.1 | 9.0 |
| *Asset quality* | | | | | | | | |
| NPLs to total loans | 13.4 | 13.6 | 10.9 | 9.8 | 9.3 | 8.5 | 7.1 | 5.8 |
| Loan provisions to non-performing loans | 100.4 | 92.5 | 94.6 | 97.1 | 99.8 | 98.9 | 99.0 | 99.1 |
| *Profitability* | | | | | | | | |
| Return on assets | 0.8 | 1.0 | 1.0 | 1.0 | 1.0 | 1.3 | 1.5 | 1.5 |
| Return on average equity | 13 | 14.3 | 14.3 | 13.9 | 14.5 | 18.9 | 24.4 | 24.4 |

Source: Central Bank of Egypt.

## Table 11. Egypt: Capacity to Repay the Fund, 2015/16–2020/21 1/ 2/

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|
| | | Projections | | | | |
| **Fund repurchases and charges** | | | | | | |
| Millions of SDRs | 22.6 | 83.5 | 184.3 | 244.7 | 408.0 | 762.2 |
| Repurchases | 0.0 | 0.0 | 0.0 | 0.0 | 164.2 | 522.4 |
| Charges and fees | 22.6 | 83.5 | 184.3 | 244.7 | 243.9 | 239.8 |
| Millions of US$ | 31.6 | 116.6 | 257.2 | 341.6 | 569.6 | 1,063.9 |
| Percent of exports of goods and nonfactor services | 0.1 | 0.3 | 0.5 | 0.7 | 1.0 | 1.7 |
| Percent of total debt service 3/ | 0.0 | 0.1 | 0.2 | 0.3 | 0.5 | 0.8 |
| Percent of quota | 1.1 | 4.1 | 9.0 | 12.0 | 20.0 | 37.4 |
| Percent of gross international reserves | 0.1 | 0.3 | 0.8 | 1.1 | 1.7 | 3.2 |
| **Fund credit outstanding** | | | | | | |
| Millions of SDRs | 1,970 | 5,731 | 8,597 | 8,597 | 8,432 | 7,910 |
| Millions of US$ | 2,750 | 8,000 | 12,000 | 12,000 | 11,771 | 11,042 |
| Percent of exports of goods and nonfactor services | 7.2 | 18.8 | 25.2 | 23.1 | 20.7 | 17.9 |
| Percent of quota | 96.7 | 281.3 | 422.0 | 422.0 | 413.9 | 388.3 |
| Percent of gross international reserves | 9.0 | 23.2 | 36.3 | 39.0 | 34.4 | 33.5 |
| **Memorandum items:** | | | | | | |
| Exports of goods and nonfactor services (in millions of US$) | 38,284 | 42,446 | 47,663 | 51,927 | 56,806 | 61,699 |
| Debt service (in millions of US$) | 90,703 | 90,584 | 106,780 | 114,545 | 121,371 | 125,871 |
| Quota (in millions of SDRs, end of period) 4/ | 2,037.1 | 2,037.1 | 2,037.1 | 2,037.1 | 2,037.1 | 2,037.1 |
| Quota (millions of US$ at eop exchange rate) | 1,459.3 | 1,459.3 | 1,459.3 | 1,459.3 | 1,459.3 | 1,459.3 |
| Gross international reserves (in millions of US$) | 30,652 | 34,515 | 33,015 | 30,764 | 34,183 | 32,963 |

Source: IMF staff calculations.

1/ Fiscal year starts on July 1 and ends on June 30.
2/ Assumes repurchases are made on obligations schedule.
3/ Debt service includes interest on the entire debt stock and amortization of medium- and long-term debt.
4/ Quota changed from 943.7 to 2037.1 millions SDRs effective as of February 2016

## Table 12. Egypt: External Financing Requirements and Sources, 2016/17–2021/22

(In billions of US$, unless otherwise indicated)

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|
| | | Projections | | | | |
| Gross financing requirements | 30.5 | 23.6 | 23.1 | 21.8 | 23.6 | 26.0 |
| Current account deficit | 15.6 | 11.3 | 11.3 | 10.7 | 11.3 | 11.9 |
| Of which: Net interest payments | 1.1 | 2.5 | 3.0 | 3.0 | 3.1 | 3.2 |
| Maturing short-term debt | 12.3 | 10.0 | 9.3 | 8.6 | 9.6 | 10.6 |
| Private sector | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Public sector | 10.9 | 8.6 | 7.9 | 7.2 | 8.2 | 9.2 |
| Amortization of medium and long-term debt | 2.7 | 2.3 | 2.5 | 2.6 | 2.7 | 3.4 |
| Private sector | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Public sector | 2.5 | 2.3 | 2.5 | 2.5 | 2.7 | 3.3 |
| MLT to external private creditors | 1.0 | 0.7 | 0.7 | 0.8 | 0.6 | 0.1 |
| By domestic private sector | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| By domestic public sector | 0.9 | 0.7 | 0.7 | 0.7 | 0.5 | 0.0 |
| MLT to external official creditors | 1.7 | 1.6 | 1.8 | 1.8 | 2.2 | 3.3 |
| IMF | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.6 |
| To other official creditors | 1.7 | 1.6 | 1.8 | 1.8 | 1.9 | 2.7 |
| By domestic private sector | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| By domestic public sector | 1.7 | 1.6 | 1.8 | 1.8 | 1.9 | 2.7 |
| Sources of financing | 30.5 | 23.7 | 20.7 | 21.8 | 23.6 | 26.0 |
| Foreign direct investment (net) | 7.7 | 8.4 | 9.9 | 11.0 | 12.4 | 13.9 |
| Roll-over of short-term debt | 10.0 | 9.3 | 8.6 | 9.6 | 9.6 | 10.6 |
| Medium- and long-term borrowing | 3.1 | 6.6 | 5.6 | 5.6 | 5.6 | 3.6 |
| Private sector | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Public sector | 2.5 | 6.0 | 5.0 | 5.0 | 5.0 | 3.0 |
| Other net capital flows | 7.6 | -3.9 | -7.7 | -6.6 | -0.3 | -2.8 |
| *Of which:* portfolio investment | 16.2 | 10.4 | 5.0 | 2.4 | 1.0 | -1.4 |
| Net use of Fund resources | 2.7 | 5.2 | 4.0 | 0.0 | -0.2 | -0.6 |
| Other program financing | 14.3 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| World Bank | 2.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| African Development Bank | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| African Export Import Bank | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| G7 countries | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| GCC countries | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| China | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International bank financing | 2.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in reserves (- increase) | -13.6 | -3.9 | 1.5 | 2.3 | -3.4 | 1.2 |
| Change in arrears ("-" indicates decrease) | -1.3 | -1.1 | -1.1 | 0.0 | 0.0 | 0.0 |
| Errors and omissions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net financing gap | 0.0 | -0.1 | 2.3 | 0.0 | 0.0 | 0.0 |
| Gross financing gap | 0.0 | 0.0 | 2.6 | 0.0 | 0.0 | 0.0 |
| Potential sources of financing | | | | | | |
| World Bank | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| African Development Bank | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| G7 countries | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Residual financing gap | 0.0 | 0.0 | 2.6 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | |
| Gross international reserves (GIR) | 30.7 | 34.5 | 33.0 | 30.8 | 34.2 | 33.0 |
| External debt | 79.0 | 86.9 | 85.2 | 82.6 | 86.8 | 89.5 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections.

## Table 13. Egypt: Schedule of Purchases Under the Extended Arrangement

| Date | Amount | | | Condition |
|---|---|---|---|---|
| | Millions of SDR | Millions of US Dollars | Percent of Quota | |
| November 11, 2016 | 1,970.05 | 2,750 | 96.7 | Board approval of the EFF |
| March 15, 2017 | 895.48 | 1,250 | 44.0 | First review and end-December 2016 performance criteria [1] |
| November 11, 2017 | 1,432.76 | 2,000 | 70.3 | Second review and end-June 2017 performance criteria |
| March 15, 2018 | 1,432.76 | 2,000 | 70.3 | Third review and end-December 2017 performance criteria |
| November 11, 2018 | 1,432.76 | 2,000 | 70.3 | Fourth review and end-June 2018 performance criteria |
| March 15, 2019 | 1,432.76 | 2,000 | 70.3 | Fifth review and end-December 2018 performance criteria |
| Total | 8,596.57 | 12,000 | 422.0 | |
| *Memorandum items:* | | | | |
| Quota (SDR, million) | 2037.1 | | | |
| USD/SDR exchange rate | 1.3959 | | | |

Source: IMF staff calculations.

[1] The Executive Board meeting for the first review took place on July 13, 2017

**Table 14. Egypt: Risk Assessment Matrix**[1]
**Potential Deviations from Baseline**

| Source of Risks | Relative Likelihood | Time Horizon |
|---|---|---|
| **Slowdown or reversal of reforms.** This could be due to reform fatigue, opposition by vested interests, or a fear of escalating social tensions in the run up to the Presidential elections. A slowdown in structural reforms would hurt private investment and growth. | Medium | ST, MT |
| **Policy slippages.** Premature easing of monetary policy, non-transparent interventions in the FX market to limit exchange rate movements or fiscal slippages to increase social spending would damage credibility and undermine macroeconomic stabilization. | Medium | ST, MT |
| **Geopolitical uncertainties.** Intensification of the risks of fragmentation/security dislocation in part of the Middle East, Africa, Asia, and Europe, leading to socio-economic disruptions. Worsening of the security situation would weaken tourism in Egypt. | Medium | ST, MT |
| **Tighter global financial conditions.** Fed normalization and tapering by ECB increase global rates and term premia, strengthen the U.S. dollar and the euro vis-à-vis the other currencies, and correct market valuations. Unexpected tightening of global financial conditions could weaken the market appetite for the Egyptian Eurobond. | High | ST |
| **Significant slowdown in key advanced economies, China, other large EMs/frontier economies.** Persistently low inflation (the Euro Area, and Japan) undermine medium-term growth in advanced economies. In large Ems/ frontier economis, resource misallocation and policy missteps exacerbate the impact of declining productivity and potential growth. Lower growth in trading partners would reduce demand for Egyptian exports | Medium | ST, MT |
| **Singnificant increase global oil prices:** Higher global oil prices would weaken the current account and increase the fuel subsidy bill, thereby undermining fiscal consolidation and debt reduction. | Medium | ST |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surroundi the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact an materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize with 1 year and 3 years, respectively.

# Annex I. Public Debt Sustainability Analysis

*The Debt Sustainability Analysis indicates that Egypt's debt is sustainable, but is subject to significant risks. Under the baseline scenario, debt is projected to decline to 87 percent of GDP by the end of the program and 68 percent of GDP by 2022/23. The main risks are weaker growth and less ambitious fiscal consolidation, in which case public debt will decline modestly to 99 percent of GDP by 2022/23 from the current level of 103 percent of GDP. Contingent liabilities arising from state-owned enterprises and government guarantees present additional risks. Sustained fiscal consolidation in combination with structural reforms to boost growth is needed to put Egypt's debt on a steady declining path.*

## A. Baseline Scenario

1. **The baseline projections assume recovery of growth from the low levels since 2011 through mid-2016 and strong fiscal consolidation, supported by policies and reforms under the EFF arrangement.** Real GDP growth is expected to increase from the average growth rate of 3 percent in 2010/11–2015/16 to almost 5 percent in 2017/18 and further to 6 percent over the medium term, which is close to the pre-revolution average growth of 6.2 percent (2005/06–2009/10). The recovery in growth is underpinned by an increase in private investment and a sustained positive contribution from net exports. Average inflation is projected to decline from its peak of 21 percent in 2017/18 to 7 percent in 2022/23. Effective interest rates on general government debt are projected to decline, reflecting expected monetary policy easing and the recent shift in budget sector debt towards long-term external financing with lower interest rates. The primary balance is projected to improve by about 4 percent of GDP in the next two years, driven by the declining wage and energy subsidy bill, and higher revenue from VAT receipts, excises and fees on government services.

2. **Under these assumptions, general government debt is projected to decline to 87 percent of GDP in 2018/19.**[1] Over the medium term, primary fiscal surpluses, sustained high growth, and low effective interest rates will maintain the debt-to-GDP ratio on a downward trajectory to reach about 68 percent of GDP in 2022/23,[2] Given the high starting debt stock and large rollover needs, gross financing needs remain large during the projection period.

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[1] Fiscal projections underlying the DSA have been revised to reflect more granular data, in particular on the operations of entities outside the budget sector, and improved estimation methods. Staff will continue to collect more information on the operations of entities outside the budget sector to further improve general government debt projections.

[2] In line with the MAC DSA guideline note, the DSA captures any potential realization of contingent liabilities through stress tests, see section C ("Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries", IMF 2013).

**3. While the baseline debt projections are favorable, the risks to debt sustainability are significant.** Despite the sharp downward trend, the debt-to-GDP ratio remains above the benchmark of 70 percent of GDP for emerging markets until 2022/23, and gross financing needs are on average 35 percent of GDP during the projection period compared to the 15 percent benchmark. Risks from the debt profile are moderate with the indicators for "market perception," "change in the share of short term debt," and "debt held by nonresidents" below the benchmark levels. The share of foreign currency debt increased due to the devaluation, but at 30 percent of the total, the risk stemming from debt denominated in foreign currency is moderate. The large accumulated deposits of the general government (11 percent of GDP by end-June 2017) is expected to be a significant cushion for the financing requirements.

## B. Realism of Baseline Assumptions and Alternative Scenarios

**4. Past forecasts of macro-economic variables have been mainly on the optimistic side.** The median forecast error was -1.1 percent for growth, 1.2 percent for inflation, and -2.2 percent for the primary balance during 2008–2016, implying an optimistic bias. However, part of the bias is attributed to the exceptional volatility of the sample period, which includes the global financial crisis and two political transitions (2011 and 2013). In the last two years, the forecast errors for GDP have narrowed.

**5. Debt sustainability worsens under the historical scenario.** With growth and the primary balance remaining at their last ten-year averages, the debt-to-GDP ratio would decline only to 99 percent of GDP in 2022/23 compared to 103 percent in 2016/17, and gross financing needs would increase to about 60 percent of GDP. In view of the exceptional volatility of the past decade, as described above, the historical scenario appears excessively severe. Alternatively, a scenario with an unchanged growth forecast but a revision of the envisaged fiscal consolidation of primary surpluses of about 2 percent of GDP in the medium term to primary deficits of 0.4 percent of GDP would imply a debt-to-GDP ratio of 80 percent in 2022/23 compared to 68 percent in the baseline.

## C. Stress Test

**6. The public debt trajectory is vulnerable to macroeconomic shocks and risks from contingent liabilities:**

- Under a *growth shock* where GDP growth is 1½ percentage points lower (one standard deviation) and inflation is 0.4 percentage point lower compared to the baseline in 2018/19 and 2019/20, debt would decline to 71 percent of GDP over the medium term compared to 68 percent in the baseline.

- A *real interest rate shock* with an increase of the interest rate by 500 basis points over the projection period, increases debt by around 5 percent of GDP to 72 percent of GDP over the medium term compared to the baseline.

- A large *real exchange rate shock* with a hundred percent depreciation of the Egyptian pound will increase debt in the same year by 6 percent of GDP compared to the baseline, and by 4 percent of GDP over the medium term.

- A *combined macro-fiscal shock* with lower growth and a looser fiscal stance could weaken favorable debt dynamics. A temporary growth shortfall of 1½ percentage points for two years, a looser fiscal stance by 2 percentage points over four years, and a 100 percent real exchange rate depreciation increases debt to 95 percent of GDP in the same year compared to 87 percent of GDP under the baseline. Over the medium-term, debt would remain about 13 percent of GDP higher than under the baseline.

- *Materializing of contingent liabilities or a call on government guarantees* from state-owned enterprises are another potential source of vulnerability. A customized shock scenario, in which a contingent liability of 10 percent of GDP materializes, leading to a deterioration of the primary balance, higher interest rates and temporary adverse impacts on other macro-economic variables, would increase debt-to-GDP ratio to 98 percent of GDP in 2018/19 compared to 87 percent in the baseline.

- *The most severe shock combines the macro-fiscal shock with a materialization of a contingent liability*. In this case, debt-to-GDP ratio will increase in the same year to 106 percent of GDP. Over the medium-term debt would decline to around 90 percent of GDP and gross financing needs would be about 53 percent of GDP.

## Egypt: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

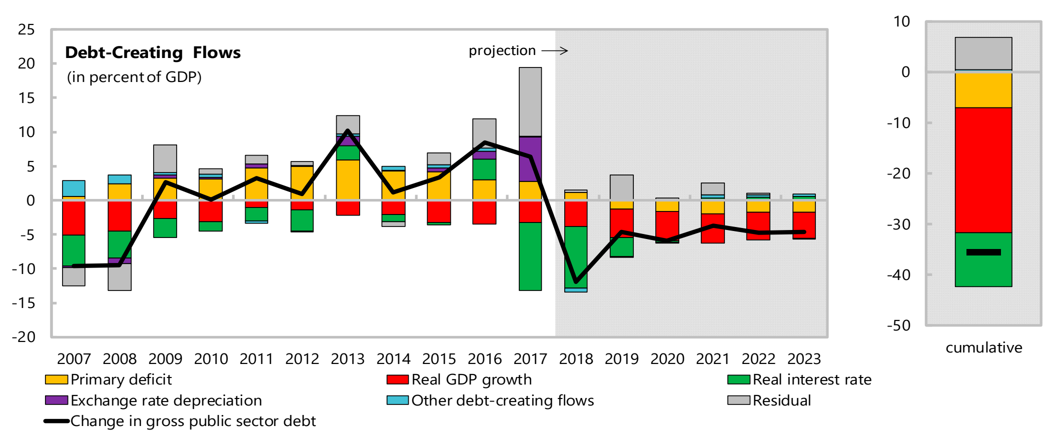
### Debt, Economic and Market Indicators [1]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007-2015 [2] | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Nominal gross public debt | 76.3 | 96.9 | 103.3 | 91.3 | 86.7 | 80.8 | 77.1 | 72.3 | 67.7 |
| Public gross financing needs | 20.6 | 45.2 | 38.4 | 35.6 | 29.1 | 33.8 | 34.1 | 37.7 | 37.1 |
| Real GDP growth (in percent) | 4.3 | 4.3 | 4.2 | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 | 6.0 |
| Inflation (GDP deflator, in percent) | 11.1 | 6.3 | 23.2 | 21.2 | 13.5 | 9.9 | 7.1 | 6.8 | 6.8 |
| Nominal GDP growth (in percent) | 15.9 | 10.8 | 28.4 | 27.0 | 19.8 | 16.2 | 13.4 | 13.1 | 13.1 |
| Effective interest rate (in percent) [4] | 8.6 | 10.3 | 11.7 | 11.2 | 10.6 | 10.1 | 7.9 | 7.8 | 8.1 |

| As of November 13, 2017 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 404 |
| 5Y CDS (bp) | | 353 |
| Ratings | Foreign | Local |
| Moody's | B3 | B3 |
| S&Ps | B- | B- |
| Fitch | B | B |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007-2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | cumulative | debt-stabilizing primary balance [9] |
| Change in gross public sector debt | 0.3 | 8.4 | 6.4 | -12.0 | -4.6 | -5.9 | -3.7 | -4.8 | -4.6 | -35.6 | |
| Identified debt-creating flows | -0.2 | 4.2 | -3.8 | -12.3 | -8.3 | -6.2 | -5.4 | -5.0 | -4.6 | -41.9 | |
| Primary deficit | 3.7 | 3.0 | 2.8 | 1.2 | -1.2 | -1.6 | -2.0 | -1.7 | -1.7 | -7.1 | -2.9 |
| Primary (noninterest) revenue and gra | 23.1 | 21.0 | 21.1 | 20.6 | 20.8 | 20.3 | 20.5 | 20.5 | 20.8 | 123.6 | |
| Primary (noninterest) expenditure | 26.8 | 24.0 | 23.8 | 21.8 | 19.6 | 18.7 | 18.5 | 18.8 | 19.1 | 116.5 | |
| Automatic debt dynamics [5] | -4.4 | 0.8 | -6.6 | -12.9 | -7.0 | -4.5 | -3.9 | -3.6 | -3.2 | -35.2 | |
| Interest rate/growth differential [6] | -4.7 | -0.4 | -13.1 | -12.9 | -7.0 | -4.5 | -3.9 | -3.6 | -3.2 | -35.2 | |
| Of which: real interest rate | -1.9 | 3.0 | -10.0 | -9.0 | -2.8 | -0.2 | 0.3 | 0.4 | 0.6 | -10.7 | |
| Of which: real GDP growth | -2.8 | -3.4 | -3.2 | -3.9 | -4.2 | -4.3 | -4.2 | -4.1 | -3.8 | -24.5 | |
| Exchange rate depreciation [7] | 0.3 | 1.2 | 6.5 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 0.6 | 0.5 | 0.1 | -0.6 | -0.1 | 0.0 | 0.4 | 0.4 | 0.4 | 0.5 | |
| Privatization Proceeds (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| GG: Net Lending | 0.6 | 0.5 | 0.1 | -0.6 | -0.1 | 0.0 | 0.4 | 0.4 | 0.4 | 0.5 | |
| Residual, including asset changes [8] | 0.4 | 4.2 | 10.1 | 0.3 | 3.7 | 0.3 | 1.7 | 0.2 | 0.0 | 6.3 | |




Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

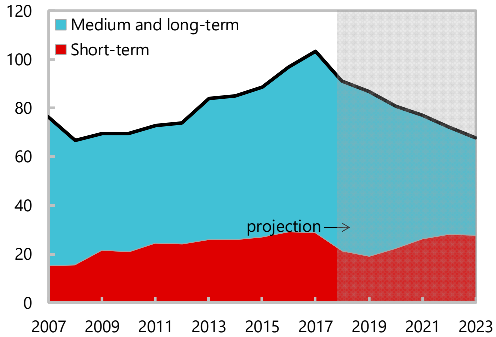
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

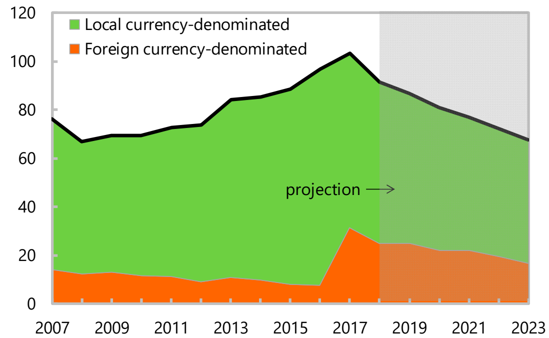
## Egypt: Public DSA - Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

**By Maturity**
(in percent of GDP)



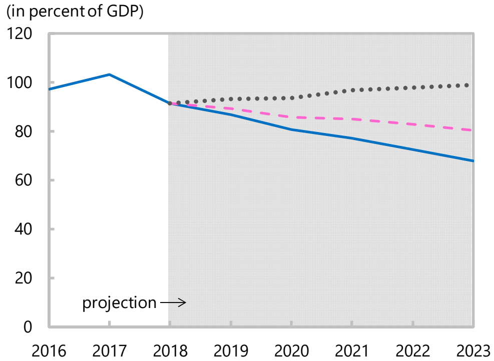

**By Currency**
(in percent of GDP)



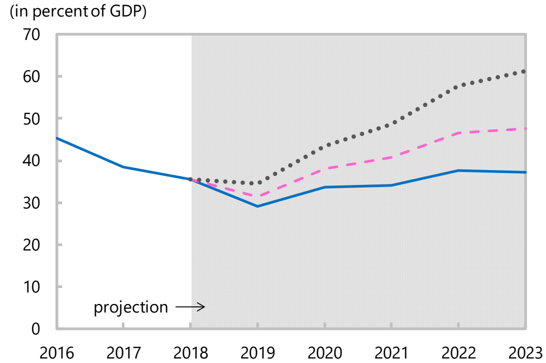

### Alternative Scenarios

Baseline Historical Constant Primary Balance

**Gross Nominal Public Debt**
(in percent of GDP)




**Public Gross Financing Needs**
(in percent of GDP)




### Underlying Assumptions
(in percent)

| Baseline Scenario | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 13.5 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary Balance | -1.2 | 1.2 | 1.6 | 2.0 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 10.6 | 10.1 | 7.9 | 7.8 | 8.1 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 13.5 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary Balance | -1.2 | -1.2 | -1.2 | -1.2 | -1.2 | -1.2 |
| Effective interest rate | 11.2 | 10.6 | 10.1 | 7.9 | 7.6 | 7.9 |

| Historical Scenario | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.8 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Inflation | 21.2 | 13.5 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary Balance | -1.2 | -3.8 | -3.8 | -3.8 | -3.8 | -3.8 |
| Effective interest rate | 11.2 | 10.6 | 9.8 | 7.6 | 7.2 | 7.4 |

Source: IMF staff.

## Egypt: Public DSA Risk Assessment

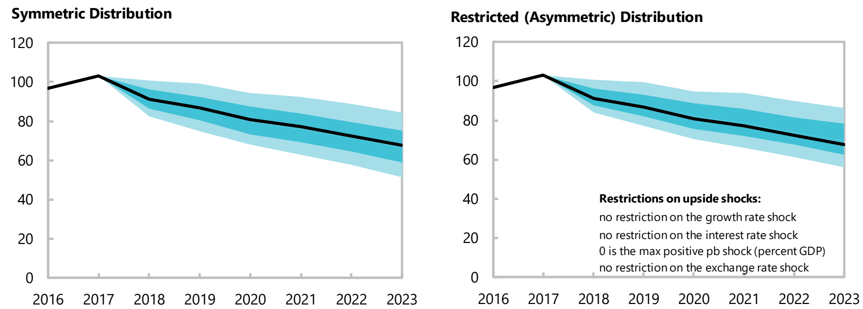
### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level [1/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs [2/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile [3/] | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

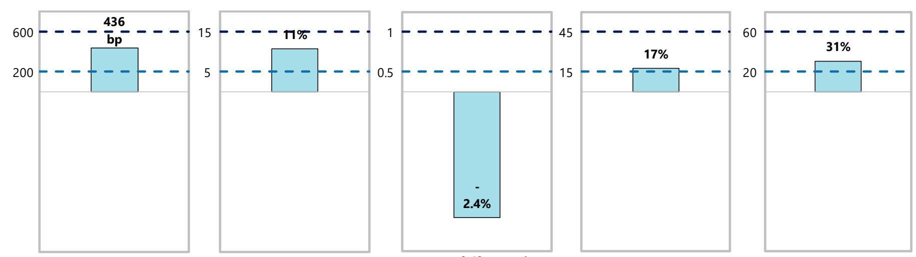
Baseline  Percentiles: 10th-25th  25th-75th  75th-90th




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)

Egypt  Lower early warning  Upper early warning




| EMBIG | External Financing Requirement | Annual Change in Short-Term Public Debt | Public Debt Held by Non-Residents | Public Debt in Foreign Currency |
|---|---|---|---|---|
| (in basis points) 4/ | (in percent of GDP) 5/ | (in percent of total) | (in percent of total) | (in percent of total) |

Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

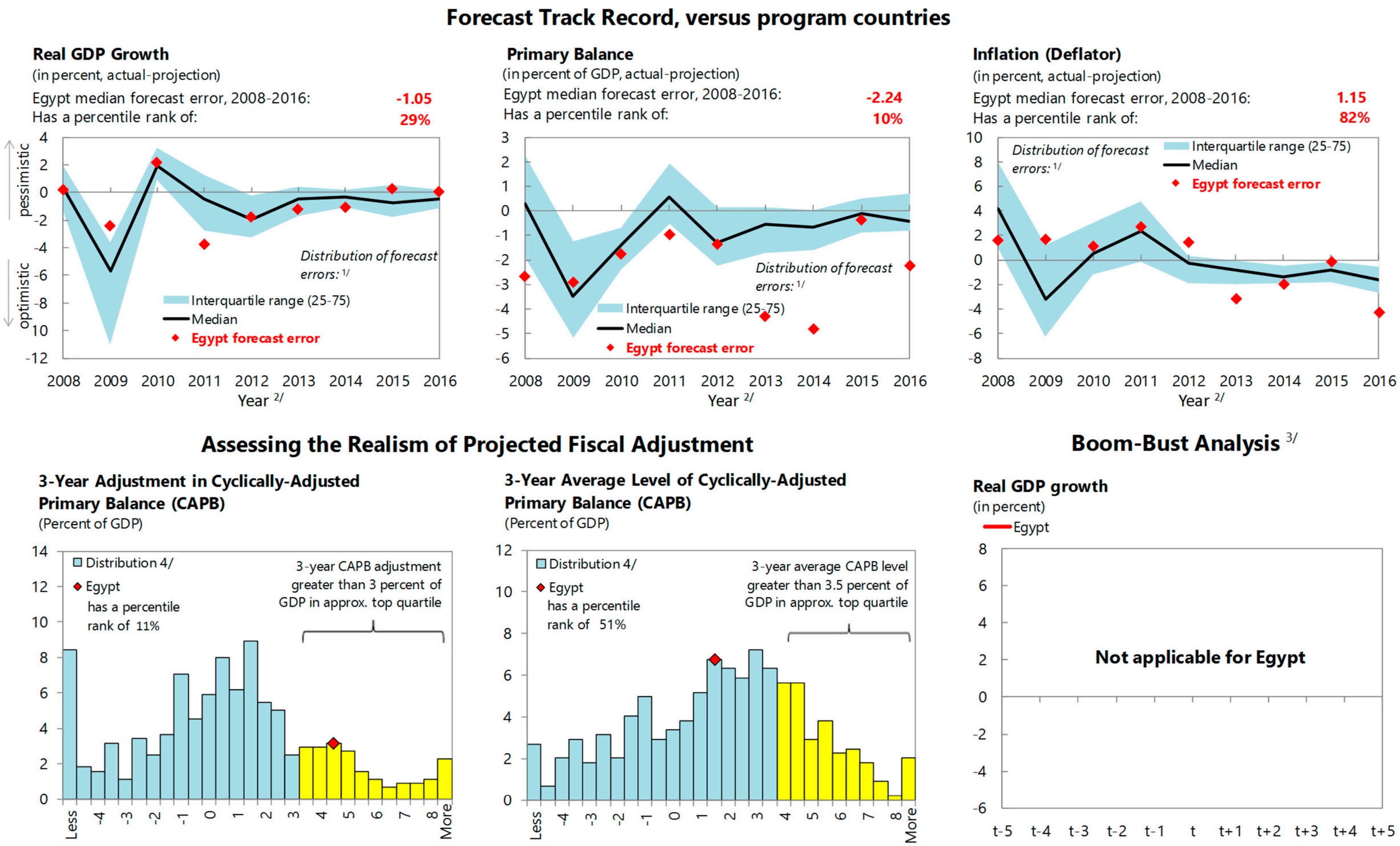
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 15-Aug-17 through 13-Nov-17.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

## Egypt: Public DSA - Realism of Baseline Assumptions




Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

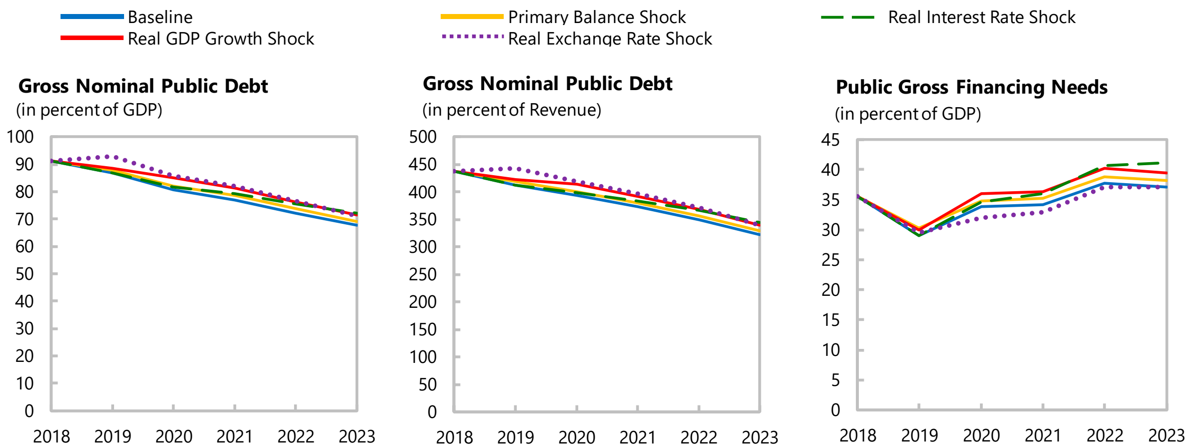
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Egypt, as it meets neither the positive output gap criterion nor the private credit growth criterion.

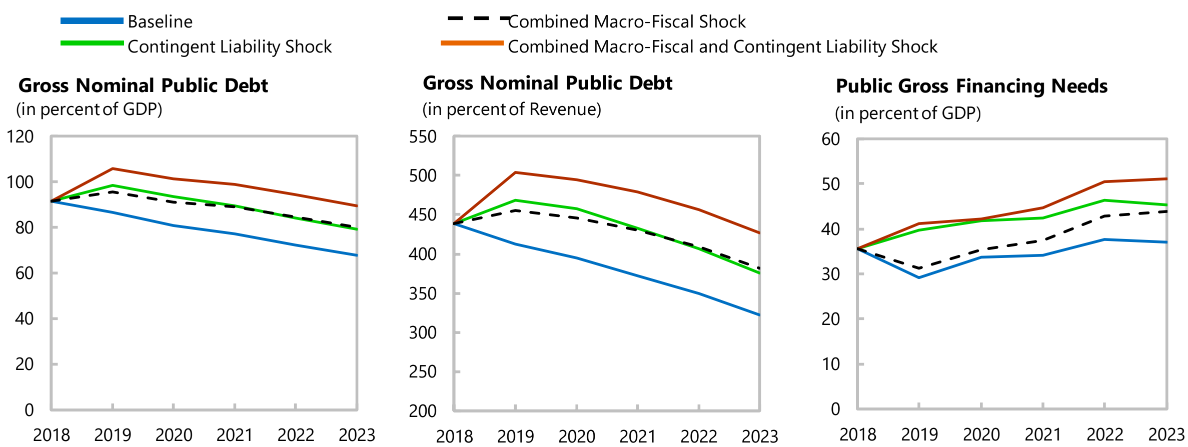
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

## Egypt: Public DSA - Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions

(in percent)

| Primary Balance Shock | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 13.5 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary balance | -1.2 | 0.0 | 1.4 | 1.8 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 10.6 | 10.2 | 8.0 | 7.8 | 8.1 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 13.5 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary balance | -1.2 | 1.2 | 1.6 | 2.0 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 10.6 | 11.3 | 9.8 | 9.7 | 10.2 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 4.8 | 3.9 | 4.2 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 48.3 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary balance | -1.2 | 0.0 | 0.9 | 1.8 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 12.0 | 10.1 | 9.1 | 8.9 | 9.3 |
| **Contingent Liability Shock** | | | | | | |
| Real GDP growth | 4.8 | 3.9 | 4.2 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 13.1 | 9.5 | 7.1 | 6.8 | 6.8 |
| Primary balance | -1.2 | -8.8 | 1.6 | 2.0 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 10.6 | 10.0 | 8.0 | 7.7 | 8.0 |

| Real GDP Growth Shock | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.8 | 3.9 | 4.2 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 13.1 | 9.5 | 7.1 | 6.8 | 6.8 |
| Primary balance | -1.2 | 0.9 | 0.9 | 2.0 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 10.6 | 10.1 | 8.0 | 7.8 | 8.1 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 48.3 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary balance | -1.2 | 1.2 | 1.6 | 2.0 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 12.0 | 8.9 | 7.4 | 7.1 | 7.3 |
| **Combined Macro-Fiscal and Contingent Liability Shock** | | | | | | |
| Real GDP growth | 4.8 | 3.9 | 4.2 | 6.0 | 6.0 | 6.0 |
| Inflation | 21.2 | 48.3 | 9.9 | 7.1 | 6.8 | 6.8 |
| Primary balance | -1.2 | -10.0 | 0.9 | 1.8 | 1.7 | 1.7 |
| Effective interest rate | 11.2 | 12.0 | 10.3 | 9.2 | 8.9 | 9.3 |

Source: IMF staff.

# Annex II. External Debt Sustainability Analysis

**1. Egypt's external debt is sustainable under program assumptions and staff's medium-term projections.** The external debt increased by 14 percentage points of GDP to 30.8 percent in 2016/17 amid large external borrowing by the public sector to finance the BOP need and the impact of the exchange rate depreciation on GDP. It is projected to increase further to about 34½ percent of GDP this year. However, the level of external debt remains relatively low by international standards and is projected to decline to about 25¾ percent of GDP in the medium term on the back of the projected improvement of the external position under program policies. The non-interest current account deficit is projected to fall to about 2½ percent of GDP in the medium term, and will be lower than the 5½ percent of GDP deficit needed to stabilize external debt at 25¾ percent of GDP. Under the 30 percent exchange rate shock, to which the external debt is most sensitive, the level of external debt will increase to about 50 percent of GDP in 2018/19, but will decline to about 43 percent of GDP in the medium term.

**Egypt: External Debt Sustainability Framework, 2013-2023**
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | | | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Debt-stabilizing non-interest current account 6/ |
| 1 **Baseline: External debt** | **15.1** | **15.1** | **14.5** | **16.8** | **30.8** | | | **34.6** | **30.3** | **27.7** | **26.9** | **25.7** | **25.7** | **-5.4** |
| 2 Change in external debt | 2.7 | -0.1 | -0.6 | 2.3 | 14.0 | | | 3.8 | -4.3 | -2.6 | -0.8 | -1.2 | 0.0 | |
| 3 Identified external debt-creating flows (4+8+9) | 0.8 | -1.5 | 0.5 | 3.9 | 7.8 | | | -0.6 | -1.5 | -2.1 | -2.2 | -2.3 | -2.4 | |
| 4 Current account deficit, excluding interest payments | 2.0 | 0.7 | 3.5 | 5.7 | 5.6 | | | 3.5 | 2.9 | 2.6 | 2.5 | 2.5 | 2.5 | |
| 5 Deficit in balance of goods and services | 6.4 | 8.5 | 8.5 | 9.7 | 11.2 | | | 9.7 | 8.7 | 8.3 | 8.0 | 7.8 | 7.7 | |
| 6 Exports | 17.2 | 14.2 | 13.3 | 10.5 | 14.9 | | | 16.9 | 16.9 | 17.4 | 17.6 | 17.7 | 17.8 | |
| 7 Imports | 23.6 | 22.7 | 21.8 | 20.1 | 26.1 | | | 26.6 | 25.6 | 25.7 | 25.6 | 25.5 | 25.5 | |
| 8 Net non-debt creating capital inflows (negative) | -1.0 | -1.4 | -2.0 | -2.1 | -3.2 | | | -3.6 | -3.8 | -4.0 | -4.1 | -4.3 | -4.4 | |
| 9 Automatic debt dynamics 1/ | -0.2 | -0.8 | -1.0 | 0.2 | 5.4 | | | -0.5 | -0.6 | -0.6 | -0.6 | -0.6 | -0.5 | |
| 10 Contribution from nominal interest rate | 0.3 | 0.2 | 0.2 | 0.2 | 0.4 | | | 1.0 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 | |
| 11 Contribution from real GDP growth | -0.4 | -0.4 | -0.6 | -0.6 | -0.9 | | | -1.5 | -1.7 | -1.6 | -1.5 | -1.5 | -1.4 | |
| 12 Contribution from price and exchange rate changes 2/ | 0.0 | -0.6 | -0.6 | 0.6 | 5.9 | | | ... | ... | ... | ... | ... | ... | |
| 13 Residual, incl. change in gross foreign assets (2-3) 3/ | 1.8 | 1.4 | -1.1 | -1.6 | 6.2 | | | 4.4 | -2.8 | -0.5 | 1.4 | 1.1 | 2.4 | |
| External debt-to-exports ratio (in percent) | 88.2 | 105.9 | 109.1 | 160.3 | 206.4 | | | 204.8 | 178.8 | 159.0 | 152.9 | 145.1 | 144.2 | |
| **Gross external financing need (in billions of US dollars) 4/** | 11.3 | 11.9 | 18.1 | 25.2 | 25.3 | | | 25.9 | 23.8 | 22.5 | 22.6 | 25.0 | 26.9 | |
| in percent of GDP | 4.0 | 3.9 | 5.4 | 7.6 | 9.9 | 10-Year | 10-Year | 10.3 | 8.4 | 7.6 | 7.0 | 7.2 | 7.2 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | | | **34.6** | **32.1** | **30.1** | **30.8** | **31.0** | **32.6** | **-4.1** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | Historical Average | Standard Deviation | | | | | | | |
| Real GDP growth (in percent) | 3.3 | 2.9 | 4.4 | 4.3 | 4.2 | 4.0 | 1.6 | 4.8 | 5.5 | 5.8 | 6.0 | 6.0 | 6.0 | |
| GDP deflator in US dollars (change in percent) | 0.2 | 4.0 | 4.1 | -4.0 | -26.0 | 3.1 | 11.7 | -6.5 | 6.2 | 0.3 | 2.2 | 1.9 | 1.9 | |
| Nominal external interest rate (in percent) | 2.2 | 1.5 | 1.4 | 1.6 | 2.1 | 1.8 | 0.3 | 3.2 | 3.4 | 3.5 | 3.8 | 3.6 | 3.8 | |
| Growth of exports (US dollar terms, in percent) | 7.3 | -11.2 | 1.2 | -21.0 | 10.1 | 0.7 | 15.4 | 10.9 | 12.3 | 8.9 | 9.4 | 8.6 | 8.6 | |
| Growth of imports (US dollar terms, in percent) | -0.8 | 3.1 | 4.4 | -7.5 | 0.0 | 4.6 | 13.3 | -0.2 | 8.1 | 6.1 | 8.0 | 7.6 | 7.6 | |
| Current account balance, excluding interest payments | -2.0 | -0.7 | -3.5 | -5.7 | -5.6 | -2.6 | 2.1 | -3.5 | -2.9 | -2.6 | -2.5 | -2.5 | -2.5 | |
| Net non-debt creating capital inflows | 1.0 | 1.4 | 2.0 | 2.1 | 3.2 | 2.5 | 2.0 | 3.6 | 3.8 | 4.0 | 4.1 | 4.3 | 4.4 | |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

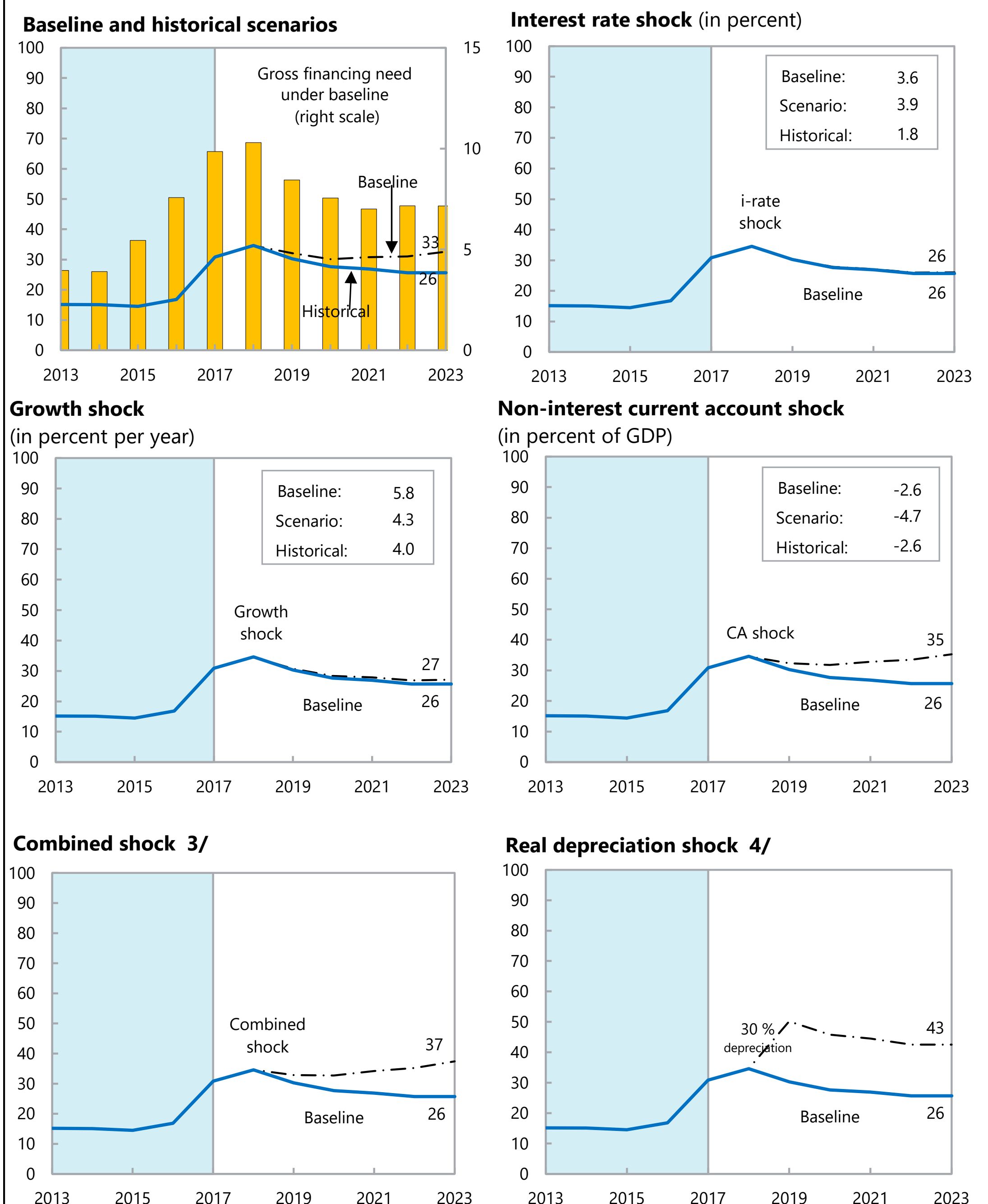
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

## Egypt: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)




Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent one standard deviation shocks applied to nominal interest rate, growth rate, and current account balance.
4/ One-time nominal exchange rate depreciation of 30 percent occurs in 2018/19.

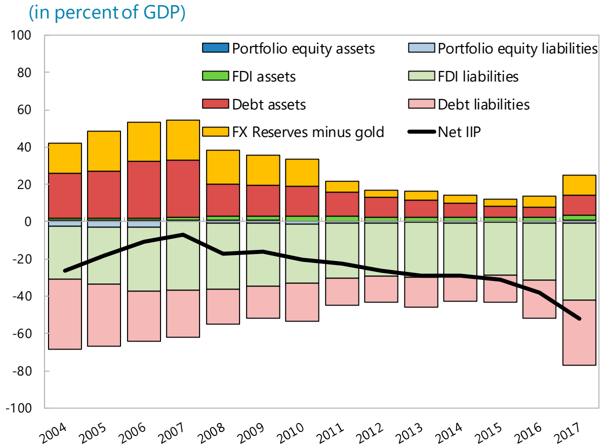
# Annex III. External Sector Assessment

*Egypt's external position in 2016/17 was moderately weaker than implied by fundamentals and desirable policies. Staff assesses that about 7 percent real effective exchange rate depreciation would be needed to correct the estimated current account gap of about -1 percent. Although Egypt's net international investment position (NIIP) has deteriorated rapidly in recent years, external sector sustainability is not a concern currently as the level is not particularly high and staff-projected medium-term current account balance is consistent with stabilizing the NIIP at about -60 percent of GDP. On the other hand, the level of Egypt's gross international reserves is within the Fund's recommended adequacy range.*

## A. External Balance Sheets

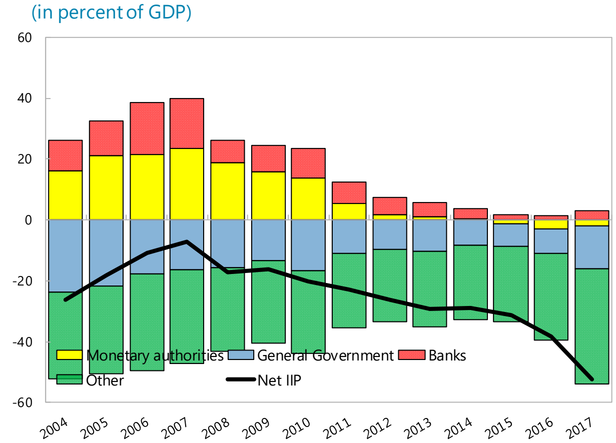
**1. Egypt's net international investment position (NIIP) increased by 14 percentage points of GDP to -52.3 percent at end-2016/17.** The increase was primarily driven by FDI liabilities and public sector external borrowing. External sector sustainability is not, however, currently a major concern since FDI liabilities constitute the largest share of the NIIP and the current account balance is projected to improve in the medium term. The External Sustainability method of the external sector assessment shows that the projected medium-term current account deficit, about 3½ percent of GDP, is consistent with stabilizing NIIP at about -60 percent of GDP. Although the external debt amortization requirements of the public sector for the next two years are very large, they will be met by expected disbursements under Fund program and drawing down of international reserves. Near-term rollover risks are limited as a large share of the debt due in the next two years is owed to official creditors.

**Egypt: IIP Composition, by Instrument**
(in percent of GDP)




Source: Egyptian authorities and IMF staff calculations.

**Egypt: IIP Composition, by sector**
(in percent of GDP)

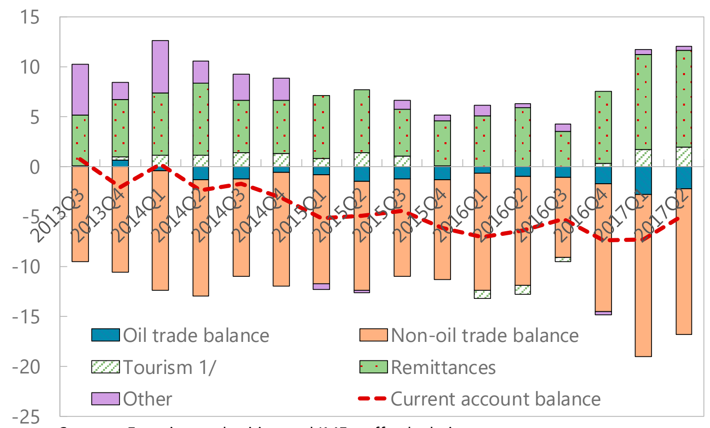



Source: Egyptian authorities and IMF staff calculations.

## B. Current Account

**2. After deteriorating to a deficit of 6 percent of GDP in recent years, the current account balance is showing signs of improvement following the FX liberalization.** The non-oil trade balance deteriorated significantly through the first half of 2016/17 as the overvalued exchange rate undermined competitiveness. At the same time, the oil and gas trade balance switched from surplus to a growing deficit due to the discontinuation of gas exports. Net earnings from tourism has also shrunk following the Arab Spring and the worsening of the security situation more recently. Following the FX liberalization and depreciation of the exchange rate at end-2016, however, the external sector developments have shown signs of improvements. The current account deficit narrowed to about 4¾ percent of GDP in the fourth quarter of 2016/17, from 7½ percent in the second quarter and 6½ percent a year earlier, on account of improvements in remittances and tourism. The current account deficit is projected to narrow further over the medium term, reflecting new gas production (replacing imports), recovery in tourism, and expected improvements in non-traditional exports.

**Egypt: Current Balance**
(In percent of GDP)




Sources: Egyptian authorities and IMF staff calculations.
1/Net of travel payments.

**3. Staff assesses that Egypt's 2016/17 current account was moderately weaker than the level consistent with fundamentals and desirable policies.**[1] The External Balance Assessment Lite (EBA-lite) estimates a cyclically adjusted current account norm of about -3½ percent of GDP and a current account gap of about -2½ percent of GDP. The current account gap, however, narrows to -1 percent of GDP when the actual current account deficit is adjusted for the estimated impacts of distortions and the overvalued exchange rate in the first half of the year. (see Table below)

## C. Exchange Rate and Competitiveness

**4. After depreciating by about 45 percent between October and December 2016, the real effective exchange rate appreciated by 17½ percent through October 2017 as inflation differential with trading partners increased while the nominal effective exchange rate remained stable.** The estimates based on the current account model of EBA-lite show that, after

[1] Values of policy variables such as fiscal balance, real policy interest rate, changes in international reserves, and capital controls, which in staff's judgement are consistent with medium-term macro stability.

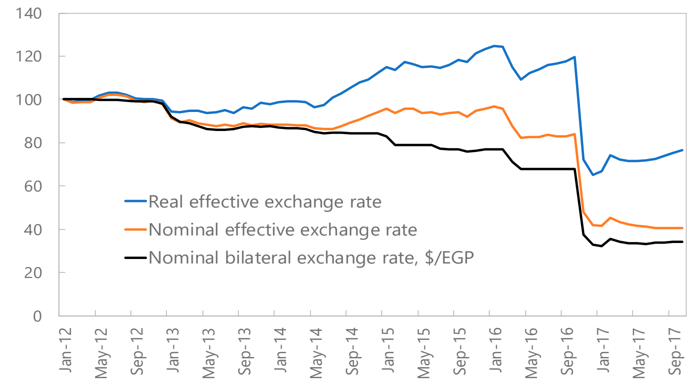
adjusting the 2016/17 current account for the estimated impact of exchange rate overvaluation in the first half of the year, about 7¼ percent REER depreciation would have been needed to correct the current account gap.

**5. The REER model shows a negative REER gap, indicating that the REER was undervalued by about 6¾ percent in 2016/17.** This appears to contradict with Egypt's large current account deficit and its need for BOP financing. The EBA-Lite REER model, which drops fiscal balance since it was found to be statistically insignificant, could be less relevant for countries like Egypt where the public sector plays a predominant role in the economy.

## D. Capital Flows

**6. The current account deficit in recent years has been financed mostly by debt creating flows, although equity flows are increasing steadily as well.** Prior to 2016/17, debt creating flows were mostly accumulation of financial liabilities by the central bank. After the launch of the adjustment program, however, a large share of debt creating flows have been portfolio flows to the local debt market and medium- and long-term loans. In particular, net inflows in debt securities in 2016/17 amounted to $15.7 billion, about $9 billion of which was attracted to locally issued government securities (mostly T-bills). These flows have continued at a steady pace so far this year, amounting to $7.4 billion during July-October. Almost all of the portfolio flows to the local capital market have been channeled through the central bank's repatriation mechanism, which guarantees convertibility to non-resident portfolio investors who choose to sell their FX at the time of entry.

**Egypt: Exchange Rates**
(January 2012= 100)



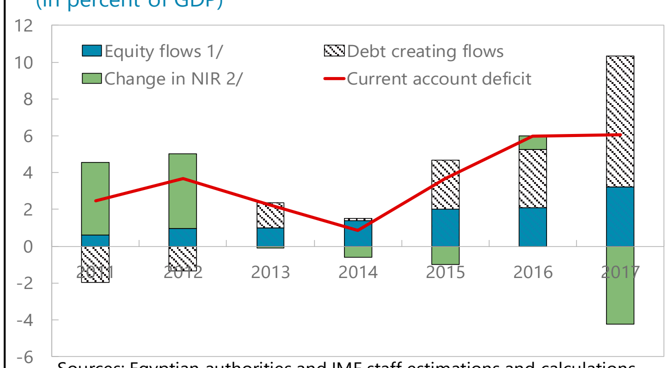

Sources: Egyptian authorities and IMF staff calculations.

**Egypt: CA and REER Assessment, 2016/17 1/**

| | CA model-standard | CA model-adjusted 2/ | REER model |
|---|---|---|---|
| Actual CA 3/ | -6.2 | -4.6 | ... |
| CA norm 3/ | -3.6 | -3.6 | ... |
| CA gap | -2.6 | -1.0 | ... |
| Elasticity | -0.14 | -0.14 | ... |
| REER gap | 18.6 | 7.3 | -6.8 |

1/CA figures in percent of GDP and the REER gap in percent.
2/Adjusted for the estimated impact (-1.6 percent of GDP) of exchange rate overvaluation in the first half of the year.
3/Cyclically adjusted.

**Egypt: Financing the Current Account Deficit**
(in percent of GDP)



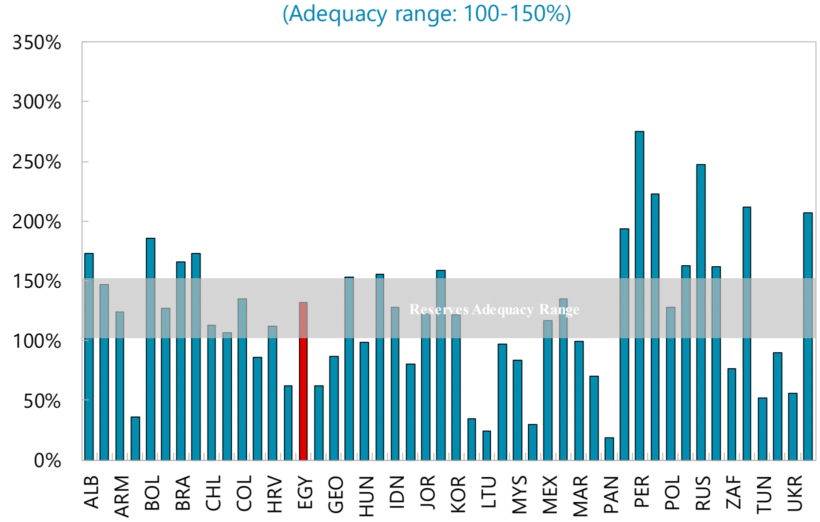

Sources: Egyptian authorities and IMF staff estimations and calculations.
1/Includes FDI and portfolio equity.
2/Negative values indicate accumulation of reserves.

## E. Foreign Exchange Intervention and Reserve Levels

**7. The CBE has not directly intervened in the interbank FX market since the liberalization of the market in November 2016, with the exception of supplying FX to the public sector at market-determined rates.** Nevertheless, as noted above, the central bank purchases and sells FX to non-resident portfolio investors under the repatriation mechanism. While a large share of the FX purchased under this mechanism is deposited in local banks and do not affect the level of reserves, the central bank, at times, transfers FX purchased through the mechanism to its foreign assets.

**8. The level of Egypt's gross international reserves is assessed to be adequate.** At end-June 2016/17, gross international reserves stood at $30.7 billion, or about 130 percent of the Fund's ARA metric, which is within the Fund's suggested adequacy range and is broadly comparable to reserve levels in most emerging economies (see Figure below). Gross international reserves increased further in recent months, reaching $36 billion (or close to 150 percent of the ARA metric) as of end-October.

**Egypt: Reserves/Metric** 1/
(Adequacy range: 100-150%)




Sources: Country authorities and IMF staff calculations.
1/ Year ending June-2017 for Egypt and January-2016 for other countries.

# Appendix I. Letter of Intent

December 10, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) reports on recent economic developments and the implementation of our economic program, and sets out policies and structural reforms that we plan to pursue going forward. The objective of our program is to strengthen macroeconomic stability by reducing inflation and public debt, promote inclusive growth, employment creation and private sector development, and protect the poor and vulnerable. Our policies have remained on track: the end-June 2017 quantitative performance criteria (PC) on central bank's net international reserves (NIR) and net domestic assets (NDA) have been met and most structural benchmarks were implemented on time. To support our efforts, we request the completion of the second review of the extended arrangement under the IMF's Extended Fund Facility and the disbursement of the third tranche in the amount equivalent to SDR 1,432.76 million (70.3 percent of quota and about $2 billion). We also request modification of the performance criteria on primary fiscal balance and NDA for December 2017 and June 2018. As before, IMF resources will be used for budget support and will be maintained in government accounts at the CBE.

We believe that the policies described in the attached MEFP are adequate to achieve the objectives of our program. We will monitor economic developments and performance and we stand ready to take additional measures that may become necessary to achieve our program goals. In accordance with the Fund's policies, we will consult with the IMF on adoption of these measures and in advance of revisions to policies contained in the MEFP. We will continue to supply the Fund with timely and accurate data that are needed for program monitoring. The third review is expected to be completed on or after March 15, 2018 and the fourth review will be completed on or after November 11, 2018. We consent to the publication of this letter, the MEFP including Tables 1 and 2, the TMU and the related staff report.

Sincerely yours,

/s/
Tarek Amer
Governor of the Central Bank of Egypt
Arab Republic of Egypt

/s/
Amr El-Garhy
Minister of Finance
Arab Republic of Egypt

Attachments (2)
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

# Attachment I. Memorandum of Economic and Financial Policies

## A. Recent Economic Development and Program Performance

**1. Key macroeconomic indicators are showing encouraging trends.** Real GDP grew by 4.2 percent in 2016/17 compared to the projected 3.5 percent. On a quarterly basis, it strengthened from 3.4 percent in the first quarter to 5 percent in the fourth quarter. Non-oil industrial output increased by 27.5 percent in 2016/2017. CPI inflation peaked at 33 percent in July 2017 reflecting the increases in energy prices and the VAT rate, but declined since then to 30.8 percent in October. Core inflation (excluding volatile food items and regulated prices) also fell from 35 percent in August to 30.5 percent in October 2017. The current account deficit narrowed by $4.3 billion or 21 percent, but as a share of GDP it increased from 6 percent in 2015/16 to 6.1 percent in 2016/17 as a result of the reduction in dollar GDP due to the devaluation of the pound. Non-oil exports increased by $2.1 billion and non-oil imports declined by $2.2 billion during 2016/2017. Tourism receipts rose by nearly 16 percent. Portfolio investments reached $16 billion, and FDI increased by 14 percent to $7.7 billion. The 2016/17 budget outcome was broadly in line with our projections: as expected, the primary deficit was 1.8 percent of GDP, but the overall deficit exceeded projections by 0.4 percent of GDP and reached 10.9 percent of GDP because of higher interest rates. Spending on energy subsidies and wages was broadly in line with projections at 4.1 percent of GDP and 6.5 percent of GDP respectively. Gross General Government debt reached 103 percent of GDP at end-June, reflecting the deficit overrun and a weaker-than-expected exchange rate.

**2. The foreign exchange market has stabilized.** Following some sharp fluctuations after the float, the exchange rate stabilized at around EGP/$18 since March and appreciated to EGP/$17.6 by mid-November 2017. Substantial portfolio inflows have been absorbed through the repatriation mechanism. The CBE has not intervened in the interbank market. At end-October, gross international reserves reached $36 billion.

**3. Performance under the program was strong.** The two remaining end-June performance criteria on CBE's net international reserves and net domestic assets, and the indicative target (IT) for accumulation of EGPC arrears were met, but two ITs on reserve money and tax revenue were missed, the former by a small margin due to higher-than-projected currency in circulation, and the latter because of the delay in implementing executive regulations for the VAT (Table 1). Most structural benchmarks were also implemented on time. Specifically: Last year's budget spent EGP 250 million on nurseries and other facilities to enhance the participation of women in the labor force. By end-September, the CBE developed a plan to gradually divest its FX deposits in foreign branches of the Egyptian banks, published the 2016 Financial Stability Report, and adopted a new policy on the selection and appointment of an external auditor which is to be implemented next year. The MoF will submit to the Cabinet the fiscal strategy paper with a short delay in December (end-November SB). The automatic fuel price indexation mechanism was submitted to the Prime Minister in October, but was lacking sufficient operational details to meet the requirements of the benchmark. The end-September structural benchmark on developing a system to evaluate and decide on new state guarantees was missed as more time was needed to prepare a comprehensive framework, but as a first step the Prime Minister issued a decree that clarify to all public entities the need to inform the Ministry of Finance at earlier stages of their borrowing needs that requires guarantee and the MoF developed a guidance note on broad principles and circulated it to line ministries.

## B. Economic Program

**4. Our comprehensive reform program aims to improve welfare of all Egyptians by creating a supportive environment for private sector development, inclusive growth and job creation.** In the first year, the program focused on restoring macroeconomic stability and resolving severe domestic and external imbalances. It also embarked on the process of modernizing fiscal and monetary policy frameworks, strengthening the energy sector, and improving the business climate. In the remaining two years, we will continue to implement sound policies to further entrench macroeconomic stabilization by ensuring that implemented reform policies endure and by creating additional fiscal space for investment in infrastructure and human capital. We will broaden the structural reform agenda to raise productivity and growth, and better integrate Egypt with global trade. Our ambition is to become a dynamic well-diversified modern economy that acts as a regional trade and energy hub, and a regional leader in creating a market-friendly environment and attracting investment.

**Monetary and Exchange Policies**

**5. The main goal of the CBE is to reduce inflation to single digits over the medium term.** This will support real incomes and enhance external competitiveness. Inflation peaked at 33 percent in July, and has declined since then to 30.8 percent in October. Going forward, supported by favorable base effects and prudent monetary policy, we expect average inflation to decline to 13 percent in the quarter ending December 2018 reaching the mid-point of the CBE's target range. As inflationary pressures subside, we will consider a measured easing of the monetary stance. This will allow a reduction in interest rates and will support credit growth. However, should inflationary pressures emerge, the CBE will stand ready to delay the easing or tighten the monetary stance as needed.

**6. We will preserve a floating exchange rate regime and maintain adequate official reserves.** The floating regime is critical for competitiveness and serves as an important cushion against external shocks. To maintain macroeconomic stability and market confidence, gross international reserves will remain closer to the upper bound of the Fund's reserve adequacy range. The CBE will continue to supply foreign exchange to the government for servicing foreign debt, and no longer sell to public enterprises as of October 2017. As before, it will not intervene in the interbank FX market, and the exchange rate will remain market-determined in open and transparent trading. However, the CBE will stand ready to make FX sales or purchases in exceptional cases, when unusually large short-term flows pose stability risks to the FX market. These interventions will be done transparently and the objectives will clearly be communicated to the market. To facilitate FX market development, we raised the limit on long net open FX position from 1 percent to 10 percent. The $50,000 cash deposit cap for non-priority goods was removed in November 2017.

**7. We are reviewing the repatriation mechanism.** This mechanism, which has been in place since the 1990s has been tested in different market cycles by foreign investors. Post 2004, and after having heavily relied on the repatriation mechanism, foreign investors gradually and discretionally migrated to the interbank market. This was a natural consequence of strengthened market confidence in our macroeconomic policy framework and an ameliorated external position. We believe this pattern will reoccur with the evolving economic conditions and improving financial indicators. As a first step, and in order to facilitate continuing the smooth functioning of the foreign exchange market, in addition to the fee of 50 basis points that investors are paying for exercising the repatriation option to buy FX from the CBE at the time of exit, on November 29 we introduced a mandatory fee of 100 basis points to sell FX to the CBE at entry. In addition, we will continue to monitor portfolio flows and will review the mechanism in light of domestic conditions, global monetary policy normalization, as well as regional political and economic outturns. This will not in any way affect or apply to balances that have already entered via the mechanism.

**8. The monetary policy framework during the program period will remain based on money targeting.** Reserve money will be an indicative target and reflect our projections of market liquidity consistent with the chosen inflation path. A recent IMF TA mission confirmed that the CBE follows good practices with respect to liquidity management and forecasting framework. To further strengthen our liquidity forecasting capacity and collaboration between the CBE and the MoF, by end-March 2018 we will establish a joint Cash Coordination Committee that will ensure the uninterrupted flow of information between the two institutions and develop a framework for analyzing and reflecting in the monetary program high frequency patterns of cash in circulation, fiscal revenues, expenditures, and external and domestic financing needs. Monetary operations will continue to primarily rely on indirect policy instruments such as deposit auctions and standing facilities, which will enable the CBE to achieve its monetary targets and control liquidity. To minimize liquidity injection through direct credit to government, we will cap the overdraft account at EGP53.8 billion in 2017/18, which is equivalent to 10 percent of the previous three years' revenues as per the CBE law. In the following year, overdrafts will continue to remain below 10 percent of the previous three years' average revenues, as mandated by the CBE law. Any additional holdings of government securities by the CBE will be determined by considerations of monetary policy. CBE lending to commercial banks will be limited to the standing facility (with the interest rate at the upper bound of the interest rate corridor) to be used by banks for short-term liquidity management.

**9. The SMEs and mortgage programs are of high national priority**. We will apply reasonable limits of the subsidized lending programs to medium-sized firms for capital expenditure and working capital, which will be capped system-wide at cumulative EGP5 billion and EGP10 billion respectively. The social housing finance program will be limited to EGP20 billion. We will place a cumulative system-wide limit of EGP30 billion on loans to small and certain segments for agricultural micro enterprises issued after January 1, 2018 that allows commercial banks to reduce their required reserves by the loan amounts. Beyond this limit, the loan subsidies to small enterprises will be financed from the state budget. In addition to improving access to finance by SMEs, we will support development of microfinance institutions.

**10. The CBE will gradually fully divest its holding of FX deposits in foreign branches of domestic banks.** On September 30, these deposits amounted to $4.929 billion. In accordance with the CBE investment guidelines for reserve management, these deposits will be fully reallocated in at least A-rated banks and financial instruments. They will be reduced to $4 billion by end-December (structural benchmark), $3 billion by end-June 2018 (structural benchmark), and eliminated by end-June 2019.

**11. In the medium term, we intend to adopt a forward-looking and interest rate-based monetary policy framework with inflation as the nominal anchor.** For smooth transition, the CBE will continue to strengthen its analytical and liquidity management capacity, further develop money markets to improve the monetary transmission mechanism, and continue improving its communications strategy. In the context of the ongoing revisions to banking legislation (¶12), we will establish price stability as the primary objective of monetary policy and strengthen CBE's institutional and operational autonomy, contain fiscal dominance, and improve the early intervention and resolution framework. Meanwhile, we will continue to regularly publish monetary policy and inflation reports, which inform the markets about the objectives of monetary policy, the central banks' assessment of economic developments and the rationale underlying policy decisions. We will also continue publishing the financial stability reports.

**12. We are reviewing the current legal framework for the banking sector, which covers both the central bank and commercial banks.** Some of the key objectives of the revisions are:

1) Define price stability as the primary objective of monetary policy;
2) Strengthen the CBE's operational autonomy;
3) Limit monetary financing of the deficit;
4) Ensure that CBE lending to banks is only for short-term liquidity support and phase out any development lending by the CBE
5) Ensure that the CBE law prevails against any contradicting provisions in other laws;
6) Clarify the terms of the Board's appointment and provision of non-executive majority;
7) Include a double veto procedure and objective dismissal grounds for all board members;
8) Strengthen Board oversight over CBE management and ensure clear division of labor;
9) Strengthen rules related to the CBE recapitalization and the distribution of unrealized profits;
10) Include specific mechanisms for CBE recapitalization, if required, financed by the government;
11) Clarify the CBE's role and framework in providing emergency liquidity assistance to solvent and viable banks, and work toward a framework where solvency support to state-owned banks and the use of public funds for resolution funding will primarily be covered by budgetary outlays;
12) Require to publish the audited financial statements of the CBE;
13) Further define a supervisory framework for early intervention and resolution of banks.

In view of a more comprehensive review of the law than initially envisaged, we would like to modify the end-December structural benchmark and delay the submission of the draft law to Cabinet to end-June 2018 (structural benchmark). To assist us in this important endeavor, we are considering to request technical assistance from the IMF.

**13. Multiple currency practice and exchange restrictions.** An MCP arises from the multiple price auction system established by the CBE, as the exchange rates for spot transactions in such auctions may differ by more than two percent. The auctions have not been used since the move to the flexible exchange rate regime. On November 11, 2016, the IMF Executive Board temporarily approved the measures that give rise to MCP for one year. On November 10, 2017, we eliminated the MCP.

**Fiscal Policy**

**14. Fiscal policy continues to aim at placing general government debt on a clearly declining path to sustainable levels.** In view of the revision of the starting stock of general government debt, our objective is to reduce it to about 91 percent of GDP in 2017/18 and to 77 percent by 2020/21. To this end, we intend to maintain the same cumulative fiscal consolidation of 5.5 percent of GDP in primary balance as committed in the program and reach a primary surplus of around 2 percent of GDP in 2018/19, which will be broadly maintained through 2020/21. We will target a primary surplus of 0.2 percent of GDP in 2017/2018. This constitutes a fiscal adjustment of 2 percent of GDP compared to the previous year and represent consolidation worth 3.8 percent of GDP (70 percent of the program target) since FY 2015/2016.

**15. The planned fiscal adjustment in 2017/18 is grounded on number of revenue enhancing and expenditure optimization measures.** The key contributors are:

1) Tax revenues will increase by around 0.4 percent of GDP due to the realization of full year impact of the previously implemented tax reforms, increasing the VAT standard rate from 13 percent to 14 percent starting July 1, increasing excises on tobacco products as of end-November 2017, the introduction of a stamp duty on stock market transactions starting July 2017, revising and increasing stamp duty on various licenses and government services, revising and raising fees on free zones, and working on a comprehensive program to improve revenue administration;
2) Energy subsidies will be reduced by 1 percent of GDP;
3) The wage bill will decline by 0.9 percent of GDP thanks to tight control of bonuses and allowances, control on the hiring process, and continuing modernization of the public employment framework in line with the new civil service law, passed by Parliament in August 2016;
4) Public investment, including self-financed projects, will increase by 0.1 percent of GDP to improve public services, upgrade country infrastructure and support private sector-led growth; and other expenditure will be reduced by 0.1 percent of GDP. In our continued effort to improve

female labor force participation, we allocated 0.2 percent of GDP to improve public transportation and enhance the availability and quality of childcare.

5) The contingency fund (0.1 percent of GDP), and savings from energy reforms were channeled towards financing the social welfare package. Despite very limited fiscal space, we will delay lower priority expenditure, including investments, if needed, to meet our primary surplus target, and are prepared to save any revenue overperformance.

**Public Financial Management and Transparency**

**16. We will continue strengthening public financial management.** We already developed a comprehensive statement of fiscal risks and are we are working on developing a fiscal strategy paper that will be submitted to the Cabinet in December 2017. We also issued a guidance note on broad principles governing the issuance of state guarantees, but need till June 2018 to develop a comprehensive system to evaluate and decide on new state guarantees (structural benchmark). Going forward, additional measures will include:

- **Economic authorities.** We continue to review the operational performance and finances of economic authorities to ensure that they are correctly classified in accordance with international standards. Where the economic authorities are found to be providing general government functions, proposals will be made by December 2018 to rationalize and incorporate them in the state budget. To assist us in this area, we will seek technical assistance from the IMF and development partners. Furthermore, in the interest of transparency, accountability to taxpayers and containment of fiscal risks, we will publish by January 2018 main economic authorities' final accounts for FY 2016/2017 to provide information about their operations and financial performance.

- **State-owned enterprises.** In the interest of transparency, accountability to taxpayers and containment of fiscal risks, we will strengthen monitoring of state-owned enterprises.[1] For this purpose, we will prepare a comprehensive report on state-owned enterprises, which will comprise the following elements: a) an overview of the sector during the year, including financial performance; b) a full list of the companies owned by the government, broken down by industry, policy objectives (provision of public services, commercial), and type of ownership (e.g. majority or minority-owned, strategic companies, etc.); c) an overview of how the government has exercised its ownership policy, including the appointment of board members, dividend policy, organizational and governance arrangements; d) the impact of the sector on government finances (budget transfers received and dividends paid, borrowing/lending from other public entities, state guarantees received, etc.) and the economy more broadly; e) Information on individual companies, including abridged financial statements, and indicators of financial performance, a list of board members, management, and auditors, and the amount of subsidies

[1] For the purposes of this report State Owned enterprises are defined as enterprises where the state has significant control through full, majority, or significant minority ownership. In this definition, we include SOEs which are owned by the central and local governments.

received from the budget, if any. The report will be prepared every year and will be published. The first report will be published by December 31, 2018 (structural benchmark). Adequate progress on this front will be a key focus for the next review.

- **Social Insurance Fund (SIF).** The SIF will benefit from a comprehensive reform to ensure its long-term financial sustainability and preserve its ability to pay adequate and equitable pensions to retirees. We will seek technical assistance from development partners and will develop a clear road map of pension reform by June 2018.

- **Medium-term budgeting.** We will strengthen our fiscal planning by introducing the medium-term expenditure framework, which will set multi-year expenditure ceilings by major spending categories. Greater prominence will be given to a functional classification of spending plans in budget discussions and budget documentation. We also commit to continue presenting a pre-budget statement to Parliament with every budget. This statement will brief Parliament on economic and public finance targets, priorities, and the latest developments. We will also update, if needed, the state budget's chart of accounts in line with the Government Finance Statistics Manual.

**Energy Sector Policies**

**17. We are continuing a comprehensive reform program for the energy sector, which comprises petroleum, gas and electricity and aims to improve the financial position of the sector and raise its efficiency.** The current below-the-cost pricing in all three areas (except natural gas) is economically inefficient and not well-targeted. It encourages excessive energy consumption, favors capital-intensive rather than labor-intensive activities, deters private investment in the sector and results in a heavy fiscal burden. The financial performance of the sector has been further undermined by weak governance and a high cost structure. Our objective is to modernize the industry and put it on a sound financial footing to ensure uninterrupted and efficient supply of energy products to businesses and households. We are on track to gradually remove untargeted subsidies and enhance private sector participation. These objectives, with a respective time-bound road map, are reflected in the medium-term strategy for energy sector reforms, which benefited from the diagnostic study conducted by external consultants, and was approved by the Minister of Petroleum on March 30. In July 2017, the Parliament approved the new Gas law, which promotes competition by allowing private sector participation in downstream activities. The law also establishes an independent regulator, which will develop a transparent pricing mechanism to ensure cost recovery, while protecting consumers. The executive regulations will be published by January 2018.

**18. We will continue implementing our energy subsidy reforms to achieve liberalization of energy prices by the end of the program.** We raised electricity tariffs by an average of 30 percent in July 2016, and by another 40 percent in July 2017. Electricity tariffs will increase further in 2018/19, as planned and announced back in 2014, to achieve cost recovery in the coming years. We raised the retail prices for gasoline and diesel by an average of 53 percent in June 2017, as well as prices of

LPG, kerosene and fuel oil by 100, 55 and 40 percent respectively. As a result of these increases and somewhat lower than projected global oil prices, the pre-tax price-to-cost ratios at end-September 2017 reached 68 percent for gasoline and diesel. To achieve our objective of 100 percent cost recovery by the end of 2018/19 (excluding LPG), we will make further increases in average fuel prices as needed during 2018/19. Moreover, we will implement an automatic fuel price indexation mechanism within the first half of FY 2018/2019, which will adjust fuel prices (diesel, gasoline, kerosene, and fuel oil) to changes in the exchange rate, global oil prices, and the share of imported fuel products in the consumption basket to help maintain the cost recovery ratios (structural benchmark). The exact timing of the implementation of the fuel price indexation will be agreed with Fund staff at the time of the third review under the EFF arrangement. The indexation mechanism formula is expected to be discussed and approved by the Prime Minister by February, 2018 and we will consult closely with IMF staff on the design of the mechanism—including the specification of price formula, the rule determining the frequency and magnitude of price changes such as any caps and the institutional framework for price setting, in line with international best practice (structural benchmark). We are developing a communication strategy to prepare the population and the markets for the upcoming changes in the way fuel prices will flexibly adjust to changes in underlying conditions, to entrench the objective of having prices respond to market conditions. To that effect, in December 2017, we started publishing bi-weekly information on the evolution of fuel products unit costs and subsidies and the impact on the overall subsidy bill for the budget. As we develop our institutional setup, we will start publishing product cost data more frequently (on a weekly basis). In the event of major changes in the oil price or the exchange rate from the projected levels, we will be prepared to take measures as needed to achieve the primary balance target.

**19. We are continuing to implement a plan to restore financial viability of the Egyptian General Petroleum Company (EGPC).** The financial condition of the EGPC has deteriorated significantly since the 2011 revolution. Despite the significant decline in international oil prices, EGPC revenues from sale of fuel products continued to fall short of its costs resulting in the need for budget subsidies and expensive borrowing. Because of its difficult financial position, EGPC started accumulating arears to international oil companies. These arrears exceeded $6 billion in 2014 on the back of exceptionally high global oil prices, but have since declined and at end-September 2016 amounted to $3.6 billion. To address the problem, and drawing on the recommendations of the external consultant, we developed and are implementing a plan to place the EGPC on a financially sustainable footing. In addition to the ongoing fuel subsidy reform, which should improve revenues of EGPC, the plan proposed measures to strengthen corporate governance and optimize operating costs. As part of the plan, to encourage the private sector participation, we intend to offer minority shares in several state-owned energy companies to investors. The plan also includes a strategy to gradually settle outstanding arrears. In 2016/17, EGPC cleared $1.3 billion of these arrears, which now stand at $2.3 billion. EGPC will further reduce the arrears to about $1.2 billion in 2017/18 and will fully eliminate them by end-June 2019.

**20. Egypt has an enormous potential to become a major producer and a supplier of natural gas.** Gas production has declined considerably since the 2011 revolution. Daily output fell from 7 billion cubic feet (bcf) in 2010 to about 4 bcf in 2015/16. However, several new fields in the Nile delta and Egypt's territorial waters in the Mediterranean have been discovered in the recent years, of which the Zohr field is the most promising. We have signed 76 new upstream exploration agreements with investment commitments in excess of $15 billion. The fields have been developed during a record timeframe to enhance current production supported by a fast-tracked regulatory and legislative process. As such, gas production has increased during 2016/17 for the first time in years and reached 4.5 bcf by June 2017. Over the next three years the gas production form these fields is projected to increase to 7.7 bcf per day, which exceeds Egypt's domestic need (currently 5.2 bcf per day) and offers an opportunity to export gas to other countries in the region and elsewhere. Moreover, the ongoing offshore explorations suggest that the presence of even larger deposits of gas is highly likely, which if confirmed will further boost Egypt's gas potential. Negotiations with international gas exploration companies on the development of these new fields to reach production sharing agreements that are also of benefit to Egypt are at an advanced stage. The enhanced and higher domestic production of oil and gas along with more efficient electricity plants and higher reliance on renewables would bring down cost per unit of various fuel products and contribute to limiting fiscal burden.

**Financial Sector Policies**

**21. Egypt's banking system remains liquid, profitable and well capitalized.** In June 2017, the average capital adequacy ratio stood at 14.5 percent, well above the Basel-recommended floor of 9.25 percent and the CBE-mandated 11.25 percent; return on equity is at a healthy 30.9 percent and the share of non-performing loans in total loans remained stable at 5.5 percent; moreover, specific loan-loss provisioning coverage is 91.1 percent.

**22. We intend to preserve and further strengthen the health and resilience of Egypt's financial system.** Our regulatory and policy framework strives to infuse public confidence in the banking system so that it plays the key role in financial mediation and efficiently channels savings into productive investments. We will monitor continuously the developments in the sector to ensure that financial surveillance, lending policies, and governance practices are adequate. Our efforts will be focused on: a) strengthening the regulatory and supervisory framework, including consolidated supervision; b) phasing in the capital conservation buffer in line with the Basel timelines; c) promoting competition to enhance efficiency in the delivery of financial services; d) strengthening the crisis management and resolution framework to mitigate potential systemic risks; and e) promoting financial inclusion without compromising credit quality.

**23. We will continue monitoring the banks' ability to withstand exchange rate and interest rate shocks.** The CBE's Banking Supervision department will continue conducting rigorous bank-by-bank stress tests based on adverse macroeconomic scenarios. We will continue monitoring developments in the banking system and will take preventive measures necessary to maintain its stability and soundness. We will continue to closely monitor currency mismatches on the balance sheets of large corporations and state-owned enterprises to mitigate possible credit risks.

**24. We have already taken actions to strengthen banking supervision and the regulatory framework.** These include (a) implementation of the Internal Capital Adequacy Assessment Process (ICAAP) in the banking sector; (b) strengthening the supervisory early warning system; (c) implementation of higher capital requirements for domestic systemically important banks. We are also taking actions to strengthen governance and accountability of bank management.

**25. Effective banking supervision will be complemented with adequate crisis preparedness and management tools.** We plan to implement new emergency liquidity assistance and bank resolution frameworks, in line with best international practices. MoF and CBE will develop clear rules on deploying public funds to maintain financial stability.

**Business Environment and Other Structural Reforms**

**26. Our objective is to unlock Egypt's growth potential through growth enhancing and market friendly reforms that attract investments, raise productivity and support exports and competitiveness with the goal of facilitating the creation of enough jobs to meet the needs of the rapidly growing population.** Towards this end, it is also our ambition to significantly improve our rankings in the Doing Business and Global Competitiveness ratings, where Egypt's position has declined in recent years. In line with this, Parliament has recently passed the new investment law and the industrial licensing law, which are significant steps toward improving the business environment and supporting private sector development. Going forward, some of the key measures are:

- To support SMEs and entrepreneurship and encourage the formalization of the private business sector, we will come up with a modern and effective tax regime for SMEs in 2017/2018; where small tax payers would pay a reduced flat tax rate on annual recorded turnover levels.

- To promote competition and complement the legislative reforms aiming to liberalize the Electricity market, we are working on compiling a plan to financially restructure the Egyptian Electricity Holding Company in order to improve financial soundness of the company and enable it to engage in commercial transactions without Government guarantee and/or support. The plan will be jointly announced by the Ministries of Finance and Electricity by March 2018.

- To promote competition, investment and raise the quality of services in the transportation sector, especially regarding road transport, we will separate the regulatory authority for public transportation from the Ministry of Transportation. The plan is to announce the creation of the independent regulatory authority by June 2018. (structural benchmark)

- To further support competition, optimize public spending and reduce corruption, we intend to modify our public procurement law in line with best international practices. The new law will introduce procurement methods that are in line with best and market practices to accommodate government current and future needs, regulate subcontracting benefits and obligations, and strengthen transparency and complaint mechanism. We will work on the issuance of the new law by the Parliament by end-November 2018). Additionally, to promote transparency we aim to establish a single portal dedicated for government Procurement, where all relevant materials can be publicly accessible online by December 2018 and to introduce a code of Integrity for Government Procurement staff by June 2019.

- To further strengthen competition, we will analyze the functioning of the Egyptian Competition Authority to determine if measures need to be implemented to strengthen its mandate, independence and operational capacity.

- Access to land has been identified as a key impediment to private sector development. We will review the current industrial land allocation mechanism and identify possible policy measures to increase the availability of industrial land, improve land allocation transparency and explore the possibility of introducing competitive bidding processes in the future. Adequate progress on this front will be a key focus for the next review.

- Egypt's non-oil exports of goods were only 6.4 percent of GDP in 2016/17, which is exceptionally low by international standards. To better utilize our export potential and leverage the boost to competitiveness from a more depreciated currency and a more flexible exchange rate regime, we are simplifying our trade regime and targeting reduction of non-tariff barriers. As a first step, by end-March 2018, we will analyze the main constraints to trade, including license requirements, customs procedures and other regulations and identify specific measures to address non-tariff barriers. This will incentivize domestic producers to improve productivity and innovate to compete with international peers.

- Reducing high unemployment is a high priority, especially among women and youth for which both labor participation and employment statistics are particularly weak. In 2016/17 we budgeted and spent EGP250 million to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs. In 2017/18 such spending is budgeted at EGP500 million on nurseries for 0 to 4-year old children (structural benchmark). In April 2017, a joint committee was established that includes relevant stakeholders including Ministry of Labor, Ministry of Social Solidarity, Ministry of Finance, Ministry of Trade and Industry as well as representatives of the Women's council, academia and business community. To improve women participation rate in the labor force, we are working with UN Women to introduce and effectively implement gender budgeting starting FY 2018/2019. In addition, we will work to simplify rules and facilitate registration of home based nurseries, to expand job opportunities for women and child care for working mothers. This aim to increase coverage of registered nurseries from current low level.

- The announced five-year program to attract private investment in public enterprises is part of the government's agenda to reduce the role of the state in the economy and unleash potential of private sector. The program is aimed at redeploying Egypt's public assets to their most productive use by widening the ownership base, enhancing transparency and corporate governance, improve financial management, diversifying investment sources, and attracting new investments that can enhance market capitalization. Consultations are underway with several investment banks and legal consulting firms to put together a list of potential companies along with a detailed plan, including timing and valuation. The initial focus is on viable successful companies in the following sectors: banking and financial services, oil and gas, petrochemicals, building materials, and real estate development. We have created an IPO inter-ministerial committee through a decree issued by the Prime Minister as of end October 2017. The Committee will approve and announce a plan by January 2018 to divest stake in at least 5–6 public entities by end of June 2019 (structural benchmark).

## C. Financing and Program Monitoring

**27. The program is financed for the next 12 months.** The financing gap for 2017/18 as identified during the first review was filled with $1 billion from the World Bank, $500 million from the AfDB; and $425 million from G7. The projected gap for July – December 2018 is about $1.1 billion and will be financed from international banks. The projected gap for the rest of the program period is about $1.5 billion and will be financed with a new Eurobond, additional bilateral support, or from our gross reserves.

**28. We are requesting modifications for the performance criteria on the primary fiscal balance and NDA of the central bank December 2017 and June 2018.** The primary fiscal balance will be slightly lower because of the shortfall in the CBE profit transfer due to high sterilization costs. The revision to the NDA reflects reclassification of 7-day deposits from excess reserves to NDA. Correspondingly, the indicative target for the reserve will also be revised. The TMU is adjusted accordingly. To better control public debt, we are proposing a new indicative target on accumulation of gross debt of the budget sector.

**29. The program will be monitored through prior actions, quantitative performance criteria, indicative targets and structural benchmarks.** To improve monitoring of public debt, we propose to introduce an indicative ceiling on the change in gross debt of the budget sector. Semi-annual program reviews will continue to be based on December and June test dates. All quantitative performance criteria and indicative targets are listed in Table 1, and prior actions and structural benchmarks are set out in Table 2 below. The Technical Memorandum of Understanding is also attached to describe the definitions of quantitative PCs and, consultation as well as data provision requirements.

## Table 1. Egypt: Quantitative Performance Criteria (PC) and Indicative Targets (IT) Under the EFF Arrangement December 2016–December 2018

(In billions of Egyptian pounds unless otherwise indicated)

| | June 2017 | | | | December 2017 | | June 2018 | |
|---|---|---|---|---|---|---|---|---|
| | Program | Adjusted | Actual | Met? | Program | Proposed [2] | Program | Proposed [2] |
| Net international reserves of the CBE ($ million; cumulative change, floor)[1] | 4,175 | 12,756 | 14,620 | Yes | -2,561 | -2,561 | -839 | -839 |
| Net domestic assets of the CBE (at program rates; ceiling)[1] | 204 | 160 | -224 | Yes | 91 | 81 | 66 | 56 |
| Fuel subsidies (cumulative, ceiling)[1, 4] | 62.2 | 62.2 | 115.0 | No | 65 | 65 | 108 | 108 |
| Primary fiscal balance of the budget sector (cumulative, floor)[1, 4] | -29.0 | -29.9 | -63.5 | No | -14 | -14 | 16 | 9 |
| Accumulation of external debt payment arrears ($ million; continuous PC ceiling)[1] | 0 | 0 | 0 | Yes | 0 | 0 | 0 | 0 |
| Average reserve money (ceiling; IT) | 555 | 555 | 564 | No | 705 | 695 | 755 | 745 |
| Tax revenues (cumulative floor; IT)[1] | 473 | 473 | 462 | No | 243 | 243 | 607 | 607 |
| Accumulation of EGPC Arrears ($ million; cumulative ceiling, IT)[1] | -1,200 | -1,200 | -1300 | Yes | -400 | -400 | -1,100 | -1,100 |
| Accumulation of gross debt of the budget sector (cumulative ceiling, IT)[1] | … | … | … | | … | … | … | 475 |
| *Memorandum item:* | | | | | | | | |
| Program disbursements ($ million; cumulative)[1] | 16,300 | | 24,881 | | 2,450 | 2,450 | 5,950 | 5,950 |
| Gross foreign reserve assets acquired through the repatriation mechanism ($ million; cumulative)[3] | … | | … | … | 0 | 0 | 0 | 0 |
| External budget support loans ($ million; cumulative)[1] | 7,450 | | 12,432 | | 3,350 | 3,350 | 8,350 | 8,350 |
| Project loans ($ million, cumulative)[1] | 0 | | 100 | | 0 | 0 | 0 | 0 |

Note: For precise definitions of the aggregates shown and details of the adjustment clauses, see the Technical Memorandum of Understanding (TMU).

[1] Cumulative flow from the beginning of the fiscal year (July 1).

[2] NDA and reserve money are based on the revised TMU.

[3] Cumulative flow from November 1, 2017.

[4] Waivers of non-obeservance for end-June 2017 PCs were approved by the IMF Board at the time of the first review.

| Table 2. Egypt: Prior Actions Structural Benchmarks | | | |
|---|---|---|---|
| Measure | Objective | Timing | Status |
| Spend EGP 250 million to improve the availability of public nurseries and other facilities that can enhance the ability of women to actively seek jobs. | Improve labor force participation for women | June 30, 2017 | Met |
| Submit to Cabinet draft amendments to the CBE law consistent with MEFP ¶11. | Strengthen and modernize the legislative framework governing the central bank. | December 31, 2017 | Reset to June 30, 2018 |
| Develop a medium-term plan to divest CBE FX deposits at foreign branches of the Egyptian banks. Do not place any new funds in these branches, and keep total deposits below the end-April level of $5.4 billion MEFP ¶9. | Strengthen foreign reserve management | September 30, 2017 | Met |
| Adopt new policy for selection and appointment of an external auditor with strengthened criteria on professional experience, capacity, and international affiliations. MEFP ¶11. | Improve transparency and accountability of the central bank | September 30, 2017 | Met |
| Publish 2016 financial stability report. MEFP ¶10. | Increase transparency | September 30, 2017 | Met |
| Based on the findings of the report on state guarantees, develop a system to evaluate and decide on new guarantees and set a plan to limit new guarantees. MEFP ¶16. | Improve debt management | September 30, 2017 | Not met. Reset to June 30, 2018. |
| Provide Cabinet with a fiscal strategy paper that will include a discussion of the medium-term fiscal objectives of government within the context of the official economic outlook, and an overview of how government will be approaching the 2018/19 budget within defined expenditure ceilings. MEFP ¶17. | Improve budget planning | November 30, 2017 | Not met. |

**Table 2. Egypt: Prior Actions and Structural Benchmarks (continued)**

| Measure | Objective | Timing | Status |
|---|---|---|---|
| The Minister of Petroleum will submit to the Prime Minister by end-September 2017 a proposed automatic fuel price indexation mechanism, which will adjust fuel prices (diesel, gasoline, kerosene, fuel oil) to changes in the exchange rate, global oil prices, and the share of imported fuel products in the consumption basket to help maintain the targeted cost recovery ratios. MEFP ¶18. | Strengthen energy subsidy reform | September 30, 2017 | Not met. |
| Spend EGP500 million to improve the availability of public nurseries for 0 to 4-year old children and other facilities that can enhance the ability of women to actively seek jobs. MEFP ¶26. | Improve labor force participation for women | June 30, 2018 | Modified to make the condition specific by adding “for 0 to 4-year old children”. |
| **New Measures** | | | |
| The Prime Minister to approve the fuel price indexation mechanism, which will adjust fuel prices periodically to the changes in the exchange rate, global oil prices and the share of the share of imported fuel products in the consumption basket. The mechanism should be designed in consultation with Fund staff, and should include, at minimum (i) the specification of a fuel product price formula, (ii) a rule determining the frequency and magnitude of price changes such as any caps, and (iii) the institutional framework of price setting. MEFP ¶18 | Strengthen energy subsidy reform | February 28, 2018 | |
| CBE FX deposits at foreign branches of the Egyptian banks not to exceed $4 billion. MEFP ¶10. | Improve foreign exchange reserve management | December 31, 2017 | |

| Table 2. Egypt: Prior Actions and Structural Benchmarks (continued) | | | |
|---|---|---|---|
| Measure | Objective | Timing | Status |
| CBE FX deposits at foreign branches of the Egyptian banks not to exceed $3 billion. MEFP ¶10 | Improve foreign exchange reserve management | June 30, 2018 | |
| Separate the regulatory authority for public transportation from the Ministry of Transportation by establishing the independent regulatory authority for transport. MEFP ¶26 | Improve competition | June 30, 2018 | |
| Publish a report on all state-owned enterprises defined as enterprises where the state has a significant control through full, majority, or significant minority ownership. The report with the following elements: (a) an overview of the sector during 2017/18, including financial performance; (b) a full list of the companies owned by the state, broken down by industry, policy objectives (provision of public services, commercial), and type of ownership (e.g. majority or minority-owned, strategic companies, etc.); (c) an overview of how the government has exercised its ownership policy, including the appointment of board members, dividend policy, organizational and governance arrangements; (d) the impact of the sector on government finances (budget transfers received and dividends paid, borrowing/lending from other public entities, state guarantees received, etc.) and the economy | Improve transparency and accountability of public enterprises | December 31, 2018 | |

| Table 2. Egypt: Prior Actions and Structural Benchmarks (concluded) | | | |
|---|---|---|---|
| Measure | Objective | Timing | Status |
| more broadly; (e) Information on individual companies, including abridged financial statements, and indicators of financial performance, a list of board members, management, and auditors, and the amount of subsidies received from the budget during 2017/18, if any. MEFP ¶16. | | | |
| Publish FY2018/19 plan to raise equity from private sources in public enterprises through listing of shares or other means. MEFP ¶26 | Develop capital markets and reduce the role of the state | January 31, 2018 | |

# Attachment II. Technical Memorandum of Understanding

December 10, 2017

**1. This memorandum sets out the understandings regarding the definitions of quantitative** performance criteria, indicative targets, and the consultation clause, as well as the data reporting requirements for the extended arrangement under the Fund's Extended Fund Facility (EFF) arrangement. The quantitative performance criteria and indicative targets are reported in Table 1 of the MEFP.

**2. Program exchange rates are those prevailing on June 30, 2016.**

| As of June 30, 2016 | Currency Unit per US$ |
|---|---|
| SDR | 0.7056 |
| Euro | 0.9019 |
| British Pound | 0.7462 |
| Japanese Yen | 102.7004 |
| Saudi Riyal | 3.7506 |
| Chinese Yuan | 6.6480 |

For all other foreign currencies, the current exchange rates to the U.S. dollar will be used. Monetary gold is valued at $1,258.65 per troy ounce.

The program exchange rate of the pound against the US dollar is 8.77 for FY2016/17 and 18.0251 (the actual exchange rate on May 31, 2017) for FY 2017/18.

## A. Floor on Net International Reserves (PC)

**3. Net international reserves (NIR)** of the Central Bank of Egypt under the program are defined as the difference between foreign reserve assets and reserve-related liabilities. The program targets the change in NIR which is calculated as the cumulative change since the beginning of the fiscal year. NIR is monitored in US$ and for the program monitoring purposes assets and liabilities in currencies other than US$ are converted into dollar equivalents using the program exchange rates.

**4. Foreign reserve assets** are defined consistent with SDDS as readily available claims on nonresidents denominated in convertible foreign currencies, including the Chinese Yuan. They include the CBE holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, the country's reserve position at the Fund and other official reserve assets. Excluded from foreign reserve assets are any assets that are frozen, pledged, used as collateral, or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps (with original maturity of less than 360 days), claims on residents, precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of September 30, 2017, foreign reserve assets thus defined amounted to $35,879 million.

**5. Foreign reserve-related liabilities** are defined as comprising all short-term foreign exchange liabilities of the CBE to residents and nonresidents with original maturity of less than 360 days, including government's foreign currency deposits with original maturity of less than 360 days, banks' required reserves in foreign currency, and all credit outstanding from the Fund, which is on the balance sheet of the CBE. As of September 30, 2017, foreign reserve-related liabilities thus defined amounted to $8,431 million.

**6. Adjustors.** The NIR floor will be adjusted up (down) by the full amount of the cumulative excess (shortfalls) in program disbursements (as defined in paragraph 8) relative to the projections shown under the memo items in Table 1. Starting on November 1, 2017, the NIR floor will also be adjusted up by the full amount of the cumulative gross foreign reserve assets acquired through the repatriation mechanism relative to the projections shown under the memo items in Table 1.

**7. Program disbursements** are defined as external disbursements of loans (including IMF disbursements), grants and deposits for the budget support purposes, foreign reserve asset creating loans and deposits to the CBE with the original maturity of more than 360 days, and rollovers by more than 360 days of existing foreign loans and foreign reserve-related liabilities, in foreign currency, from official multilateral creditors, official bilateral creditors, and private creditors, including external bond placements. Starting on July 1 2017, program disbursements also include net issuance of government T-bills in foreign currency. Program disbursements exclude project loans and grants.

## B. Ceiling on Average Reserve Money (IT)

**8. Reserve money (RM)** for December 2017 and June 2018 is defined as the sum of currency in circulation outside the CBE (includes cash in vaults), balances on commercial banks' overnight deposits, and banks' correspondent accounts (includes required reserves in local currency at the CBE). Reserve money excludes balances in deposit auctions and 7-day deposits at the CBE. For each semester, average reserve money is calculated from daily balance sheets of the CBE as the average for the last month of the semester. For December 2016, average reserve money thus defined amounted to EGP541.47 billion. For June 2017, reserve money is defined as above, but excluding balances on commercial banks' overnight deposits at the CBE. For the second semester of 2015/16, average reserve money thus defined amounted to EGP460.67 billion.

**9. Adjustor.** In the event of a change in reserve requirement ratio (rr) in local currency, the reserve money ceiling will be adjusted according to the formula:

Revised RM ceiling = Program RM ceiling + banks' correspondent accounts in local currency x (new rr/old rr - 1)

The reserve money targets for December 2017 and June 2018 are based on the following assumptions for the banks' corresponding accounts:

December 2017: EGP165 billion

June 2018: EGP182 billion

## C. Ceiling on Net Domestic Assets of the CBE (PC)

**10. Net domestic assets (NDA)** for December 2017 and June 2018 of the CBE under the program are defined as the sum of net credit of the government, net credit to public economic authorities, credit to banks, and open market operations, excluding overnight deposits of commercial banks at the CBE and foreign currency components such as loans and deposits of the government, public economic authorities and banks. As of December 29, 2016, NDA of the CBE thus defined amounted to EGP573.76 billion. For June 2017, NDA is defined as above but including overnight. As of June 30, 2016, NDA of the CBE thus defined amounted to EGP626.37 billion. The program targets the cumulative change in NDA since the beginning of the fiscal year.

**Adjustors.**

1) NDA targets will be adjusted down (up) by the full amount of the cumulative excess (shortfall) relative to the baseline projections shown under the memo items in Table 1 in external budget support loans and grants, in U.S. dollars, from official multilateral creditors, official bilateral creditors, private creditors, and external bond placements. Project loans and grants are excluded. The U.S. dollar amounts will be converted in Egyptian pounds using the program EGP/$ exchange rates.

2) In the event of a change in reserve requirement ratio (rr) in local currency, the NDA ceiling will be adjusted according to the formula:

Revised NDA ceiling = Program NDA ceiling + banks' correspondent accounts in local currency x (new rr/old rr -1)

## D. Floor on Primary Fiscal Balance of the Budget Sector (PC)

**11. The general government** comprises the budget sector, the Social Insurance Funds and the National Investment Bank (NIB). The budget sector comprises the central government (administration), the governorates (local administration) and public service authorities, including the General Authority for Government Services, other regulatory authorities and supervisory agencies, funds, universities and hospitals.

**12. The primary balance of the budget sector** for December 2017 and June 2018 under the program is defined as the overall balance plus total interest payments of the budget sector. The overall balance is measured as total revenue minus total expenditure and net acquisition of financial assets. These variables are measured on a cumulative basis from the beginning of the fiscal year. For the fiscal year 2015/16 the primary balance of the budget sector was EGP-95.9 billion

**13. The primary balance of the budget sector** under the program is defined as the overall balance plus total interest payments of the budget sector. The overall balance is measured as total revenue minus total expenditure and net acquisition of financial assets. These variables are measured on a cumulative basis from the beginning of the fiscal year. For the fiscal year 2015/16 the primary balance of the budget sector was EGP-91.9 billion.

**14. Off-budget funds.** The authorities will inform IMF staff of the creation of any new off-budgetary funds or programs immediately. This includes any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001.

**15. Adjustor.** The target for the primary balance of the budget sector will be adjusted up (down) by the full amount of the shortfall (excess) in the disbursement of external project loans, i.e. the disbursement shortfalls will reduce primary deficits and excesses will increase them. The U.S. dollar amounts will be converted into Egyptian pounds using the program EGP/$ exchange.

## E. Tax Revenue (IT)

**16. Tax revenue** includes personal income tax, corporate income tax, GST/VAT, excises, international trade taxes, and other taxes.

## F. Fuel Subsidies (PC)

**17. Fuel subsidies** are defined as total amount of subsidies paid by the budget sector for gasoline, diesel, kerosene, LPG and fuel oil. These subsidies are measured in domestic currency on a cumulative basis from the beginning of the fiscal year.

## G. EGPC Arrears (IT)

**18. EGPC arrears.** This ceiling will apply to accumulation of EGPC arrears to foreign creditors (international oil companies) on a net basis, reflecting the common industry practice of attributing payments to the most overdue receivables. EGPC arrears will be measured in $. As of September 30, 2016, the stock of EGPC arrears amounted to $3.6 billion.

## H. Debt of the Budget Sector (IT)

**19.** Debt of the budget sector is defined as the outstanding stock of debt issued by the budget sector. The U.S. dollar amounts will be converted in Egyptian pounds using the program EGP/$ exchange rates. The program target is defined as a cumulative change in debt of the budget sector from the beginning of the fiscal year. As of June 30, 2017, the stock of debt of the budget sector thus defined amounted to EGP3,722 billion.

## I. Continuous Performance Criteria

**20. Non-accumulation of external debt payments (principal and interest) arrears by the general government (as defined in paragraph 12).** No new external debt payments (including on long-term leases) arrears will be accumulated during the program period. For the purposes of this performance criterion, an external debt payment arrear is defined as an amount of payment obligation (principle and interest) due to nonresidents by the general government and the CBE, which has not been made when due under the contract, including any applicable grace period. The performance criterion will apply on a continuous basis throughout the arrangement.

**21. Standard continuous performance criteria include:** (1) prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions; (2) prohibition on the introduction or modification of multiple currency practices; (3) prohibition on the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and (4) prohibition on the imposition or intensification of import restrictions for balance of payments reasons.

## J. Consultation Clause

**22. Direct sales of foreign exchange to SOEs and the government** include sales of foreign exchange by the CBE to the government other than for debt service and to SOEs such as EGPC, GASC, and other.

**23. If foreign exchange sales to SOEs and the government, and commercial banks are excessive, a consultation will be held with the IMF Executive Board on policies comprising the following:** (i) the stance of monetary policy; (ii) the reasons for deviations from the program targets, taking into account compensating factors; and (iii) necessary remedial actions.

## K. Monitoring and Reporting Requirements

**24. Performance under the program will be monitored using data supplied to the IMF by the Ministry of Finance and the CBE as outlined in Tables 3A and 3B, consistent with the program definitions above.** The authorities will transmit promptly to the IMF staff any data revisions.

## L. Data Reporting

**Egypt: Table 3A. Ministry of Finance**

| Item | Frequency | Submission Lag |
|---|---|---|
| Overall deficit of the budget sector | M | 30 calendar days |
| Overall deficit of the general government, NIB and SIFs | M | 45 calendar days |
| Summary of budget sector accounts, including revenues, expenditures and net acquisition of financial assets on a cash basis, consistent with IMF GFS 2001 Manual. | M | 30 calendar days |
| Summary accounts of NIB and SIFs, consistent with presentation of general government accounts | M | 45 calendar days |
| Program disbursements and project loans to the general government | W and M | 30 calendar days |
| Domestic debt stock and debt service costs of the general government and budget sector, including interest payments and amortization | M | 30 calendar days (45 days for the general government) |
| Debt of the budget sector at actual and program exchange rates | M | 30 calendar days |
| Debt guarantees issued by General Government and the CBE | Q | 45 calendar days |
| Stock of bonds issued by the government to Social Insurance Fund | Q | 30 calendar days |
| Net domestic borrowing of the general government and budget sector, including net t-bill and t-bond issuance in local and foreign currency, separately for domestic and foreign investors, and issuance of other government debt instruments | W and M | 30 calendar days (45 days for the general government) |
| Auctions of t-bills and t-bonds via primary dealers, including the number and value of submitted and accepted bids, minimum, maximum and weighted average interest rates and maturity dates | W | 7 working days |
| Gross transfers to EGPC<br>Fuel subsidies to EGPC | Q<br>Q | 90 calendar days<br>90 calendar days |
| Stock of EGPC arrears to foreign creditors | Q | 90 calendar days |
| Use of overdraft facility at the CBE (end of period stock) | W | 15 calendar days |
| Stock of outstanding domestic arrears by creditor | M | 30 calendar days |
| Value and volume of crude oil, oil product, liquid and natural gas, and bunker and jet fuel exports and imports, partner exports and excess cost recovery (separately for liquid and natural gas, and crude oil) (from Ministry of Petroleum) | Q | 90 calendar days |
| Components of foreign direct investment (investments and capital repatriation) to the petroleum sector (from Ministry of Petroleum) | Q | 60 calendar days |

Note: M = Monthly; W = Weekly

| Egypt: Table 3B. Central Bank of Egypt | | |
|---|---|---|
| **Item** | **Frequency** | **Submission Lag** |
| Program net international reserves and its components (foreign reserve assets and foreign reserve-related liabilities) of the CBE at program and current exchange rates | M | 7 working days |
| Program disbursements and its breakdown by components (as defined in paragraph 7 above) | M | 7 working days |
| Breakdown of gross foreign assets and liabilities (including foreign currency liabilities to residents) of the CBE by currency at actual and program exchange rates | M | 15 calendar days |
| Breakdown of foreign reserve-related liabilities (including foreign currency liabilities to residents) of the CBE by original maturity at actual and program exchange rates | M | 15 calendar days |
| Program NDA of the CBE and its components | M | 15 calendar days |
| Stock of outstanding external debt payment arrears of the general government (if any) by creditor | M | 30 calendar days |
| Projections for external debt payments falling due in the next four quarters, interest and amortization | Q | 30 calendar days |
| Monthly cash flow table based on the agreed template, both past outcomes and projections for 12 months | M | 15 calendar days |
| Balance of payments data in electronic format | Q | 90 calendar days |
| CBE foreign exchange deposits held at commercial banks headquartered in Egypt | W | 5 working days |
| Commercial banks (foreign exchange and Egyptian pound) deposits by sector (household, corporate, public) | M | 30 calendar days |
| Commercial banks core FSI indicators by peer group: i) Net open position and ii) Liquidity ratios: measured in both foreign currency and in Egyptian Pounds | M | 30 calendar days |
| Commercial banks core FSI indicators by peer group: i) Capital adequacy ratio defined as regulatory capital as a share of risk weighted assets; ii) Regulatory capital; iii) Nonperforming loans as a share of total loans; and iv) Provisions as a share of NPLs | Q | 75 calendar days |
| Commercial bank-by-bank data: i) balance sheets by currency (foreign exchange and Egyptian pound); ii) income statements; iii) FSI indicators; and iv) profitability indicators | Q | 75 calendar days |
| Other depository corporations (commercial banks) balance sheet information in SRF (preliminary) | M | 30 calendar days |
| Central bank balance sheet in SRF (preliminary) | M | 15 calendar days |

| Egypt: Table 3B. Central Bank of Egypt (concluded) | | |
|---|---|---|
| Central bank's weekly analytical balance sheet (preliminary data to be submitted once a week for the previous week) | W | 7 working days after the end of the week |
| Daily official exchange rates EGP/ $ (data to be submitted once a week for the previous week) | W | 5 working days after the end of the week |
| Central bank daily purchases and sales of foreign exchange by counterparts – commercial banks, EGPC, GASC, government | W | 2 working days after the end of the week |
| Daily average buy and sell exchange rates EGP/$ as quoted by foreign exchange bureaus and banks (data to be submitted once a week for the previous week) | W | 5 working days after the end of the week |
| Daily interbank turnover in the FX spot market | M | 15 working days |
| Note: Q = Quarterly; M = Monthly; W = Weekly | | |

INTERNATIONAL MONETARY FUND

# ARAB REPUBLIC OF EGYPT

## STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

December 11, 2017


Prepared By

The Middle East and Central Asia Department
(In collaboration with other departments)


## CONTENTS

# RELATIONS WITH THE FUND

(As of October 31, 2017)

## A. Financial Relations

**Membership Status:** Joined: December 27, 1945; Article VIII.

| General Resources Account | SDR Million | Percent Quota |
|---|---|---|
| Quota | 2,037.10 | 100.00 |
| Fund holdings of currency | 4629.29 | 227.25 |
| Reserve position in Fund | 275.35 | 13.42 |

| SDR Department | SDR Million | Percent Allocation |
|---|---|---|
| Net cumulative allocation | 898.45 | 100.00 |
| Holdings | 546.29 | 60.80 |

| Outstanding Purchases and Loans | SDR Million | Percent Allocation |
|---|---|---|
| Extended Arrangements | 2865.53 | 140.67 |

**Financial Arrangements (In millions of SDR)**

| Type | Approval Date | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| EFF | Nov 11, 2016 | Nov 10, 2019 | 8596.57 | 2865.53 |
| Stand-By | Oct 11, 1996 | Sep 30, 1998 | 271.40 | 0.00 |
| EFF | Sep 20, 1993 | Sep 19, 1996 | 400.00 | 0.00 |

**Projected Obligations to Fund**
**(SDR million; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Principal | 0.00 | 0.00 | 0.00 | 0.00 | 328.34 |
| Charges/interest | 11.84 | 49.01 | 49.01 | 49.03 | 47.71 |
| **Total** | **11.84** | **49.01** | **49.01** | **49.03** | **376.05** |

**Implementation of HIPC Initiative:** Not Applicable

## B. Nonfinancial Relations

**Exchange Rate Arrangement**

The de jure exchange rate arrangement is floating. Effective November 3, 2016, the CBE announced its decision to move, with immediate effect, to a liberalized exchange rate regime. Pursuant to the above, banks and other market participants are at liberty to quote and trade at any exchange rate. Bid and ask exchange rates are determined by demand and supply. The CBE uses the prevailing market rate for any transactions it undertakes. Accordingly, the de facto exchange rate arrangement was reclassified to floating from other managed. While the Egyptian pound appears to have stabilized since end-March 2017, further observations are necessary to determine the new trend of the exchange rate. Until then, the de facto exchange rate arrangement remains classified as floating.

CBE has supplied foreign exchange at market exchange rates to state-owned enterprises (SOEs) and portfolio investors through the repatriation mechanism. The repatriation mechanism guarantees the availability of FX for capital repatriation to investors that choose to sell FX to the CBE at the time of entry at prevailing exchange rates. The objective is to alleviate convertibility risk for portfolio investors, which was a persistent concern in the period prior to the float and FX market liberalization. In December 2017, the CBE introduced a mandatory fee of 100 basis points for investors, who wish to use the repatriation mechanism as insurance against the convertibility risk. There is also a fee of 50 basis points for exercising the option of buying FX from the CBE at exit.

Egypt is an Article VIII member and maintains one exchange restriction subject to Fund jurisdiction under Article VIII, Section 2(a) and 3 arising from a net debtor position under an inoperative bilateral payment arrangement with Bulgaria."

**Latest Article IV Consultation**

The 2014 Article IV consultation was concluded on January 28, 2015 and the Staff Report (IMF Country Report No. 15/33) was published in February 2015.

**Technical Assistance in 2014-2017**

**Fiscal Sector**. From 2014 to 2017, the Fiscal Affairs Department (FAD) has provided continued technical assistance mainly on value added tax (VAT) implementation, small business taxation, international taxation, budget planning and fiscal reporting, fiscal risk management and medium-term budget planning, SOE-related fiscal risk analysis and management, tax and custom administrations, on-time filing and payment performance, design of compliance management procedures and workshops on GFMIS.

**Monetary and Financial Sector.** In recent three years, the Monetary and Capital Markets Department (MCM) has provided TA primarily on financial stability and liquidity management. METAC carried out TA mainly on bank supervision and regulation in the areas of capacity development on securitization, total loss absorbing capacity, capital planning and IRRBB and supervisory review process. A few missions were provided on regulation draft on ICAAP, prudential framework, SREP manual regulations on concentration risk and draft guidelines on disclosure requirements. Three missions were carried out in 2016 and 2017 for providing training on market risk assessment, stress testing on individual banks and supervision of internal audit in banks.

**Statistics.** The Statistics Department (STA) has provided TA in balance of payments and government statistics. Several missions by STA and METAC on DI position and flow data, trade in service statistics, national accounts, consumer price index were conducted between 2015 and 2017.

**Financial Sector Assessment Program**

Egypt participated in the FSAP in 2002. The FSAP was updated in 2008.

**Senior Resident Representative**

Reza Baqir

# RELATIONS WITH THE WORLD BANK GROUP

**JMAP Implementation**

(As of November 27, 2017)

| Title | Products | Provisional Timing of Missions | Expected Delivery Date |
|---|---|---|---|
| **A. Mutual Information on Relevant Work Programs** | | | |
| Bank work program in next 12 months | Lending Operations: | | |
| | • Third Development Policy Financing | Preparation finalized | Board 12/05/17 |
| | • Women and Youth Entrepreneurship Project | Ongoing | 2018 |
| | • Supporting Egypt's Education Reform Project | Ongoing | 2018 |
| | • Phase 2 of Sustainable Rural Sanitation Services Program for Results | Ongoing | 2018/2019 |
| | Technical assistance on several DPF related areas including debt management, modernization of oil and gas sector, and improving the investment climate | Ongoing | |
| | Poverty assessment and capacity building support to CAPMAS | Ongoing | 2019 |
| | Technical support to help the Government scale up private investment and commercial finance in key economic and social sectors | Ongoing | 2019 |
| | Technical assistance on key social protection areas including on Unified National Registry, pension reform, school feeding, food subsidy, Takafol and Karama Program, Forza program | Ongoing | 2018/2019 |
| | Gender assessment focused on women economic empowerment | Ongoing | 2018/2019 |
| | Technical support on SDG coordination, monitoring and evaluation | Ongoing | 2018 |

# STATISTICAL ISSUES

(As of end-November 2017)

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General**: Data provision is broadly adequate for surveillance, but quality, timeliness, and overall transparency could be improved. Government finance, monetary, and external sector statistics are adequate and recent efforts have improved transparency and dissemination. However, quarterly data on general government are available only with a lag. Finances of state-owned enterprises and their relations to the budget, particularly in the energy sector, remain non-transparent. |
| **National accounts**: The National Accounts Department within the Ministry of Planning compiles annual and quarterly national accounts data based on the *System of National Accounts 1993*. Shortcomings include: inconsistency over time (the base year is often changed without an overlap with the preceding base); inconsistency with balance of payments statistics; weakness in inventory data and deflators for net indirect taxes; and lack of export and import price deflators. |
| **Price statistics**: The Central Agency for Public Mobilization and Statistics (CAPMAS) disseminates a monthly producer price index, as well as monthly consumer price index (CPI) data for Upper, Lower and all Egypt. The CPI is compiled using expenditure weights derived from the 2008–09 household expenditure survey. In October 2009, the Central Bank of Egypt (CBE) began releasing its measure of core inflation, which excludes prices for the most volatile food items and regulated prices, and issuing a monthly Inflation Note. |
| **Government finance statistics**: The authorities have largely adopted the classification of the *Government Finance Statistics Manual 2001 (GSFM 2001)*, for revenue and expense transactions. Nonetheless, data for general government operations (including budget sector, National Investment Bank, and Social Insurance Funds) under the *GFSM 2001* classification are incomplete and lending and repayments are presented based on the GFSM1986 classification. The lack of a *GFSM 2001* compliant presentation of transactions in assets and liabilities, other economic flows, and stock positions limits fiscal analysis. Currently, data on external and domestic public debt are compiled and disseminated separately by the CBE and Ministry of Finance. More comprehensive coverage of government and government-guaranteed debt data within a single database could help improve public debt management. |
| **Monetary and financial statistics**: Monthly monetary and financial statistics are comprehensive and generally reported within two months after the reference period, but the coverage of data should be expanded to include other financial corporations.<br><br>**Financial sector surveillance**: The CBE regularly publishes the financial soundness indicators on its website, but the only aggregate banking sector data is publicly available. The banks' exposure to the large state-owned enterprises remains non-transparent. |

| | |
|---|---|
| **External sector statistics**: The CBE compiles balance of payments statistics based on the Balance of Payments Manual, Fifth Edition (BPM5), and publishes Egypt's Reserve Template on the IMF's website since 2009. Previous assessments noted some shortcomings in balance of payments statistics, which have only partially been addressed, including (i) source data that do not reasonably approximate an accrual basis; (ii) unreliable merchandise trade statistics from customs declarations compelling compilers to estimate using banks' foreign exchange records; and (iii) limited coverage and classification of foreign exchange transactions.<br><br>METAC missions to the CBE and Ministry of Investment have provided advice on the measurement of foreign direct investment (FDI), and the development of an FDI survey and business register. The CBE publishes the international investment position, but some shortcomings remain to be addressed to connect stocks with flows, improve the reporting system on nonguaranteed debt, and address issues related to residency criteria. | |
| **II. Data Standards and Quality** | |
| Egypt began participation in the Special Data Dissemination Standard in 2005. | The data ROSC was published on July 2005. |

## Egypt: Table of Common Indicators Required for Surveillance

(As of end-November 2017)

| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Frequency of Publication[6] | Memo Items: Data Quality–Methodological Soundness[7] | Memo Items: Data Quality–Accuracy and Reliability[8] |
|---|---|---|---|---|---|---|---|
| Exchange Rates | Real time | Real time | D | D | D | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Oct-2017 | Nov-2017 | M | M | M | | |
| Reserve/Base Money | Nov-2017 | Nov-2017 | M | M | M | O,O,LO,LO | O,O,O,O,O |
| Broad Money | Nov-2017 | Nov-2017 | M | M | M | | |
| Central Bank Balance Sheet | Nov-2017 | Nov-2017 | M | M | M | | |
| Consolidated Balance Sheet of the Banking System | June-2017 | Sep-2017 | Q | Q | Q | | |
| Interest Rates[2] | Real time | Real time | D | D | D/I | | |
| Consumer Price Index | Oct-2017 | Oct-2017 | M | M | M | O,O,O,O | LNO,LNO,LN, LO,LO |
| Revenue, Expenditure and Balance — General Government[3] | June-2017 | Oct-2017 | I | I | Q/I | LO,LO,O,O | LO,O,O,O,O |
| Revenue, Expenditure, and Balance— Central Government | Sep-2017 | Oct-2017 | I | I | Q/I | | |
| Stocks of Central Government and Central Government-Guaranteed Debt[4] | June-2017 | Oct-2017 | I | I | A/Q | | |
| External Current Account Balance | Jun-2017 | Oct-2017 | Q | Q | Q | O,LO,LO,LO | LNO,O,O,O,O |
| Exports and Imports of Goods and Services | Jun-2017 | Oct-2017 | Q | Q | Q | | |
| GDP/GNP | 2016/17 Q4 | June-2017 | Q | Q | Q | O,O,O,LO | LO,LO,LO,O, LO |
| Gross External Debt | Jun-2017 | Oct-2017 | Q | Q | Q | | |
| International Investment Position[5] | Jun-2017 | Oct-2017 | Q | Q | Q | | |

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); and Not Available (NA)

[8] Reflects the assessment provided in the data ROSC (published on July 21, 2005, and based on the findings of the mission that took place during October 7–20, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

**Statement by Mr. Beblawi, Executive Director for Arab Republic of Egypt and Ms. Abdelati, Senior Advisor to Executive Director**
**December 20, 2017**

We thank staff for a comprehensive set of reports and for the candid discussions that enrich the dialogue. Staff agrees with our authorities' strategy to raise Egypt's growth rate and to generate jobs and economic opportunities for the population. Our authorities continue to implement their homegrown program, whose credibility was supported by approval of an EFF arrangement one year ago. So far, performance is strong and program objectives are on track and, in some instances, ahead of schedule. The staff papers reflect the positive impact of recent reforms on confidence and economic prospects, and our authorities are hopeful that Egypt will see more substantive gains in 2018 and beyond as they maintain the accelerated reform momentum. This Article IV discussion offers an opportunity to reflect on Egypt's medium-term economic potential, beyond the immediate measures covered under the EFF program.

Floatation of the pound a year ago, together with a fiscal consolidation plan made possible by tax and energy price reforms, marked a key milestone and is widely recognized as a game-changer for Egypt's economy. As part of the shift to a new economic growth model, the authorities have proceeded to implement policies to further entrench the gains in macroeconomic stabilization, improve competitiveness, streamline the investment environment and encourage private sector dynamism. The main elements of the authorities' program continue to be (i) tight monetary policy to bring down inflation to single digits over the medium-term, while maintaining a market-determined exchange rate; (ii) strong fiscal consolidation to lower the general government debt to sustainable levels and to create fiscal space for countercyclical policies; (iii) structural reforms to promote higher, private-sector-led, and more inclusive growth and employment; and (iv) stronger and better targeted social safety net to offset the impact of reforms on the vulnerable. We would underscore that a paradigm shift has already taken place as outlined below.

**Recent Developments and Outlook.** Growth accelerated for four consecutive quarters, reaching 5.2 percent in July-September 2017, compared to 3.4 percent in the same quarter of the previous year, unemployment has declined, inflation continued to decline from the peaks reached following the pound floatation and energy price reforms, fiscal consolidation advanced, and the external position strengthened, while inflows exceeded original program expectations. In the most recent quarter, the current account deficit narrowed markedly compared to a year earlier (to just \$1.6 billion for July-September 2017 compared to \$4.8 billion for July-September 2016), due to stronger remittances, tourism receipts, and lower travel payments. Positive market sentiment reflects growing credibility of economic management. Nevertheless, the authorities are aware that the Egyptian economy is exposed to adverse influences from geopolitical risks and their impact on oil prices and financial flows.

**Monetary and External Policies.** The CBE has announced an inflation target of 13 percent for end-2018 and intends to adopt full-fledged inflation targeting (FFIT) once all conditions are in place. In the transition period, inflation objectives are met by steering short-term interest rates, while monitoring money and credit developments and other factors that may influence underlying inflation. Interest rates, that were raised by a total of 700 bp between November 2016 and July 2017, were kept on hold in spite of four consecutive months of lower inflation data, and the authorities will consider a measured easing of the monetary stance only once totally comfortable that risks surrounding inflation have subsided. A recent IMF TA mission confirmed that the CBE follows good practices with respect to liquidity management and its forecasting framework. Monetary operations rely on indirect policy instruments to control liquidity. Lending to finance the public deficit has been capped through a limit on the overdraft account at below 10 percent of the previous three years' average tax revenues.

Following sharp fluctuations just after its floatation, the Egyptian pound has stabilized, and official reserves strengthened. Reserves are approaching the upper bound of the Fund's reserve adequacy range, which the authorities consider necessary to maintain market confidence. As before, the exchange rate will remain market-determined, and the CBE will not intervene in the interbank FX market, except if unusually large short-term flows pose stability risks to the FX market. As a signal of normalizing market conditions, the CBE removed the remaining FX restrictions and introduced a fee of 100 bp on foreign investors wishing to sell FX to the CBE at entry via the repatriation mechanism. CBE disagrees with staff statements that the repatriation mechanism has diverted FX liquidity from the interbank market and prevented the appreciation of the currency in response to portfolio inflows because (i) at the outset, the program had expected a much more appreciated Egyptian pound without counting on portfolio inflows; (ii) the large majority of FX receipts is generated organically from daily economic activity and goes into the interbank market; and (iii) investors say short-term inflows would have been much lower without a repatriation mechanism. Separately, a mechanism has been introduced to eliminate the multiple currency practice (MCP) arising from the potential that exchange rates for spot market transactions in the auctions may differ by more than two percent, even though the auction has not operated since the float.

While the external sector assessment is benign, it yields contradictory results, perhaps unavoidable, when using historical trends while Egypt undertakes transformative policies. The substantial current account improvement in the quarter of July-September 2017/18 is much stronger than staff projected and suggests the projected deficit for FY2017/18 is overstated, as is the projected medium-term current account gap of 1 percent based on EBA-Lite estimates. A discussion of staff's methodology, the adjustments made, and the underlying data files and calculations could be planned in the form of a workshop during the next mission.

**Fiscal Policy.** The overriding goal is to place government debt on a declining trend and to reduce it to 87 percent of GDP by 2018/19, as adjusted in view of the revision of the stock of debt due mainly to exchange rate valuations. The primary deficit for the fiscal year ending June 2017 was in line with expectations, but the higher than expected interest rates pushed the overall deficit beyond targets, in spite of considerable off-setting measures. The authorities still aim to achieve a cumulative fiscal consolidation of 5½ percent of GDP by 2018/19 and reach a primary fiscal surplus of 2 percent of GDP in 2018/19 to place debt on a declining path. In the current fiscal year, ending June 2018, the authorities aim at a primary deficit of 0.2 percent of GDP, which constitutes a fiscal adjustment of 2 percent of GDP compared to the previous year and 3.8 percent of GDP compared to 2015/16.

A number of revenue measures will help achieve the 2017/18 fiscal consolidation, including increases in the excises on tobacco products, the VAT rate, and duties and fees on various licenses and government services, as well as a new stamp duty on stock market transactions. But most of the adjustment will come from the expenditure side, primarily from energy subsidies and the wage bill (each to decline by around 1 percent of GDP).

To strengthen the institutional framework for fiscal policy, the authorities have embarked on administrative reforms within the Ministry of Finance. A fiscal strategy paper has been completed, and they recently issued principles to govern the issuance of state guarantees. They plan to introduce a medium-term expenditure framework as a step towards program based budgeting with Fund support. The authorities are currently reviewing the operational performance and finances of economic authorities and of state-owned enterprises with a view to improve the efficiency of public resources and accountability. A review and a road map for reform of the Social Insurance Fund is also planned.

Efforts continue to deepen the social safety net, enhance the targeting of social transfers, and expand coverage to newly identified needy individuals. The Ministry of Social Solidarity has improved the database of households eligible for social assistance. The food subsidy program more than doubled the monthly semi-cash allowance for each beneficiary. Budgetary outlays for nurseries was also doubled in the current budget. A committee was established in April

2017 to improve women's participation in the labor force, and the authorities are working to implement gender budgeting starting with FY18/19.

**Financial Sector Policies.** Egypt's financial system is profitable, liquid, and well capitalized, well above Basel III requirements, and the CBE is actively seeking to continuously upgrade its oversight frameworks. Nonperforming loans remain stable at 5.5 percent of total loans even after the exchange rate and interest rate shocks, and loan loss provisioning covers 91 percent. CBE's banking supervision department conducts rigorous bank-by-bank stress tests of the impact of adverse macroeconomic scenarios. The results of CBE's stress tests and detailed results of its intensive supervision were shared with the staff team who had expected to see a significant adverse impact of the exchange rate and interest rate shock, which was not found, so we trust this fully reassured staff of the strength of regulation and supervision.

With the help of outside advisors, the CBE prepared amendments to the banking law that, in the first instance, focused on the recommendations from the Safeguards Assessment and most of the recommendations received from MCM and LEG. The current banking and monetary system law, No. 88 of 2003, mandates the central bank to ensure price stability and banking soundness. Low inflation is considered essential to maintain business confidence, investment, and growth. Regarding the ongoing redrafting of the law, the CBE aims to modernize it in line with domestic needs and global best practices, enhancing governance and independence of the CBE, as well as accelerating the momentum toward greater financial inclusion. However, there is a tradeoff between complexity and comprehensiveness, and timely implementation of the elements most relevant for Egypt's current situation.

**Financial Inclusion.** Recognizing its critical importance for inclusive growth, job creation and for reducing poverty and inequality, the CBE has raised the profile of financial inclusion. It is considered essential to reach the under-served to enable them to save safely, with particular focus on increasing access to finance for women, youth and micro and small enterprises. This has been complimented by efforts to shift to digital and online services, including with the establishment of the National Payment Council in February 2017.

**Structural Reforms--Energy.** In the energy sector, a combination of higher production, price reform, reliance on renewables, increased competitiveness from the private sector, and ongoing operational efficiency gains aim to raise production, bring down cost per unit of production, and reduce the fiscal burden. Production had declined post-2011 partly due to FX shortages and subsidized pricing that led to a built-up in arrears to foreign partners. However, most of the arrears were paid back since 2014 and revised production sharing agreements incentivized exploration and production activity culminating in the discovery of the giant gas field Zohr among others. Domestic gas prices already cover costs, and industries that once relied on cheap gas prices are no longer subsidized. Electricity prices were raised several times as announced in 2014, and a block tariff structure charges escalating rates to discourage high usage. Fuel price adjustments have brought the price to cost ratio (gasoline and diesel) to 68 percent by September 2017, which would have been higher if it weren't for the huge devaluation that substantially increased the cost of petroleum products in local currency and partially offset the savings from price adjustments. Starting December 2017, the authorities began publishing information on fuel product unit costs, as a first step toward introducing an automatic fuel price adjustment mechanism, and are developing a public communication strategy.

Egypt's energy sector is well-placed to become a regional hub, a major growth driver, an investment destination, a transit route, and an exporter. Towards that purpose, the authorities embarked on liberalizing the energy sector by separating the operational and regulatory functions of public enterprises in the sector and opening the door for more private sector involvement. Within this framework, a new Electricity Law was issued in 2015, which paved the way to sizeable private investments (worth US$1.8 billion) in renewable energies through the Feed-in Tariff program. A new Gas Law was passed in July 2017 to allow private sector involvement in downstream activities. Following new exploration contracts and new discoveries, production rebounded and exports over domestic consumption needs are to begin as soon as next year, while new discoveries are considered likely.

**Improving Competitiveness and the Business Climate**. To unlock Egypt's growth potential, raise export' competitiveness, and create more private sector jobs, the authorities have embarked on a broad-based strategy of market-friendly reforms. In 2017, Parliament passed a new investment law and an industrial land and licensing law. The Ministry of Investment has opened an investor center to facilitate all approval and licensing procedures in one location. The authorities are implementing a plan to improve the finances, operating efficiency, and corporate governance of the Egyptian General Petroleum Company and Egyptian Electricity Holding Company to enable them to engage in commercial transactions without Government guarantee and/or support. Access to industrial land has become more readily available as nearly 17 million sqm of land was provided in 2016/17 compared to 9.5 mn for the whole period of 2007-15. An inter-ministerial committee was established in October 2017 to further develop the announced plans to divest shares in public companies, initially in the areas of financial services, oil and gas, petrochemicals, building materials, and real estate, with a view to reduce the role of the state and improve market capitalization. The Export Development Authority was set up, in cooperation with the International Trade Center of Geneva, as one of several initiatives to support exporters. During 2017, the number of documents required to export was reduced from 9 to 5, and to import from 11 to 6, and a further reduction is targeted in 2018 that aims to reduce the time to export to 2 days.

Key reforms in the pipeline include a new bankruptcy law, currently with Parliament, and a single proprietor company law that aims to encourage SMEs. A new public procurement law was already presented to Parliament and the establishment of a single portal for government procurement aims to increase access to government procurement information, improve transparency, and encourage SME participation. The authorities plan to liberalize the transportation sector by engaging the private sector in public transportation and establish an independent regulatory authority, that is separated from the Cairo Transport Authority. In line with the reforms to improve governance and accountability of public sector entities, the authorities plan to publish in early 2018 the financial accounts of the economic authorities for FY 2016/17.

Upgrading infrastructure has been a key element to enhance the investment climate, with an unprecedented pace of development in the past three years. Power capacity was increased by over 50 percent to meet growing domestic demand. The Suez Canal was expanded within one year to more than double its capacity, four tunnels are near completion as well as four floating bridges to improve connectivity between Sinai and the main land and facilitate developments efforts in Sinai's lagging areas. The newly established Suez Canal Axis Development Authority has recently signed agreements for new investment projects for the development of ports. Twenty-two industrial clusters are planned that would make available utilities and logistical support to small and large investors. New roads have been extended, representing 44 percent of planned new roads and a 15 percent increase over existing roads as of April 2017.

**Entrepreneurship and Innovation**. With improved overall confidence and growing credibility of the government's program, private sector entrepreneurship is becoming more visible, and there is growing interest by foreign investors, including in the newly established industrial free zones. Egypt has been highlighted as the fastest growing location for startups with growth of over 100 percent in the last year, reaching over 500 registered startups, and with very promising prospects for rapid growth. The MOIC initiated an incubator scheme which has received a large number of applications and provided entrepreneurship training. A range of other training programs for entrepreneurs, youth, women, and technical support services has been established or expanded, and the vocational training curricula has been upgraded. In addition to the financial inclusion efforts of the CBE, several initiatives support access to finance and entrepreneurship, including a movable assets law, a new microfinance law, a mortgage financing scheme, a financial leasing and factoring law, and reduced flat tax rates for SME to be introduced by end 2018.

We trust that the staff reports and our statement provide Directors with a flavor of the authorities' ambitious wide-scale economic reform program, and achievements to date, which they believe is necessary to unlock the immense potential of the Egyptian economy and improve opportunities for all. We take this opportunity to thank staff and management, and to thank Directors for their continued support to Egypt, including during the last two Board discussions.