INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/290

ARAB REPUBLIC OF EGYPT

September 2017

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUESTS FOR WAIVERS FOR NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the First Review under the Extended Arrangement Under the Extended Fund Facility and Requests for Waivers for Nonobservance and Applicability 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.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 13, 2017, following discussions that ended on May 11, 2017, with the officials of the Arab Republic of Egypt on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on July 6, 2017.
- 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*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/281
FOR IMMEDIATE RELEASE
July 13, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review under the Extended Fund Facility (EFF) with the Arab Republic of Egypt

On July 13, 2017, the Executive Board of the International Monetary Fund (IMF) completed the first review of Egypt's economic reform program supported by an arrangement under the Extended Fund Facility (EFF). The completion of the review allows the authorities to draw the equivalent of SDR 895.48 million (about US$1.25 billion), bringing total disbursements to SDR 2,865.53 million about US$4 billion.

The three-year EFF arrangement in the amount equivalent to SDR 8.597 billion (about US$12 billion at the time of approval, or 422 percent of quota) was approved by the Executive Board on November 11, 2016 (see Press Release No. 16/501) to support the authorities' economic reform program.

The authorities' reform program supported by the EFF will help Egypt restore macroeconomic stability and promote inclusive growth. Policies supported by the program aim to correct external imbalances and restore competitiveness, reduce the budget deficit and place public debt on a declining path, boost growth and create jobs while protecting vulnerable groups. In completing the review, the Executive Board approved the authorities' request for waivers of the June performance criteria for the primary fiscal balance and the fuel subsidy bill. These were missed due to higher costs of imported food and fuel products caused by large depreciation of the pound. The waiver was approved in view of the important measures taken in June to contain fuel subsidies and the planned stronger fiscal adjustment in the next two years, which will keep the program objectives on track.

Following the Executive Board discussion on Egypt, Mr. David Lipton, First Deputy Managing Director and Acting Chair, said:

Egypt's reform program is off to a good start. The transition to a flexible exchange rate went smoothly. The parallel market has virtually disappeared and central bank reserves have increased significantly. The energy subsidy reform, wage restraint, and the new VAT have all contributed to reducing the fiscal deficit and helped free up space for social spending to support the poor. Market confidence is returning and capital flows are increasing. These augur well for future growth.

The authorities' immediate priority is to reduce inflation, which poses a risk to macroeconomic stability and hurts the poor. The Central Bank of Egypt has taken significant steps to reduce inflation by raising policy interest rates and absorbing excess liquidity. It has also developed a monetary framework with a clearly defined policy anchor and is stepping up its communication with markets and with the public to manage inflation expectations. The CBE has also committed to maintain the flexible exchange rate, which is critical to cushion shocks, preserve competitiveness, and accumulate reserves.

The continued fiscal consolidation aims to place public debt on a declining path. Consistent with this objective, the 2017/18 budget targets a primary surplus for the first time in a decade. The main deficit-reducing measures are the increase of the VAT rate, continued reforms of energy subsidies and wage restraint. At the same time, the budget includes a strong social component to ease the burden of adjustment on the poor and the vulnerable.

Significant progress has been made on structural reforms. An industrial licensing law and a new investment law have been passed, and a new insolvency law is in the Parliament. These are critical pieces of legislation necessary to strengthen the business climate, attract investments, and promote growth. The government's reform agenda is now directed at improving public finance management, promoting competition, encouraging female participation in the labor force, and strengthening the financial sector. These reforms will further improve the business environment and support private sector development.

Macroeconomic stability is still fragile and the reform agenda is difficult, but the authorities have demonstrated a strong resolve to contain the risks. A flexible exchange rate regime, a strong monetary policy framework, and a commitment to a continued fiscal adjustment will help rebuild policy buffers. Strong ownership of the program will support implementation of the reform agenda.

Table 1. Egypt: Selected Macroeconomic Indicators, 2014/15–2017/18 1/

	2014/15	2015/16	2016/17		2017/18	
		Prel.	EFF	Revised	EFF	Revised
Output and prices						
Real GDP (market prices)	4.4	4.3	4.0	3.5	4.8	4.5
Consumer prices (end of period)	11.4	14.0	16.6	32.8	11.1	10.3
Consumer prices (period average)	11.0	10.2	18.2	23.9	13.3	22.1
Public finances 2/						
Gross Debt	88.5	96.9	93.8	98.4	89.1	87.7
External	7.9	7.7	10.1	20.8	8.9	19.1
Domestic	80.5	89.0	83.7	77.7	80.2	68.6
Budget sector 3/						
Revenue and grants	19.0	18.0	20.7	18.2	18.8	18.8
Expenditure (incl. net acquisition of financial assets)	30.5	30.3	30.5	28.7	27.2	27.3
Of which: Energy subsidies	4.0	3.0	2.6	3.9	1.4	3.1
Overall balance	-11.4	-12.3	-9.8	-10.5	-8.4	-8.5
Overall balance, excl. grants	-12.5	-12.5	-9.9	-10.5	-8.5	-8.6
Primary balance	-3.5	-3.4	-0.8	-1.8	1.1	0.4
Monetary sector						
Credit to the private sector	16.7	14.2	8.3	37.8	15.9	8.7
Reserve money 6/	33.3	-1.6	16.1	26.8	18.9	24.5
Broad money (M2)	16.4	18.6	16.7	35.2	20.6	22.2
Treasury bill rate, 3 month (average, in percent)	11.4	11.8	19.7	18.1	14.9	21.3
External sector						
Exports of goods (in US$, percentage change)	-14.6	-16.1	12.8	19.2	8.4	9.9
Imports of goods (in US$, percentage change)	2.3	-6.2	1.7	-0.1	7.4	4.3
Merchandise trade balance	-11.7	-11.6	-12.5	-14.6	-12.6	-13.7
Current account	-3.6	-6.0	-5.2	-5.8	-4.4	-4.6
Capital and financial account (incl. errors and omissions)	5.4	5.1	1.7	4.7	4.2	4.5
Foreign direct investment (net, in billions of US$)	6.6	6.8	9.4	8.8	10.4	9.4
External debt 4/	14.5	16.8	22.9	31.6	26.9	28.7
Gross international reserves (in billions of US$)	19.5	17.1	22.0	31.0	29.0	30.2
In months of next year's imports of goods and services	3.5	3.1	3.7	5.4	4.7	5.1
In percent of short-term external debt 5/	280.6	157.7	283.1	117.2	390.0	125.2
Financing gap (in billions of US$)	…	0.0	16.3	0.0	9.4	1.9
Memorandum items:						
Nominal GDP (in billions of Egyptian pounds)	2,443.9	2,708.3	3,434.1	3,496.0	4,084.7	4,464.6
Nominal GDP (in billions of US$)	332.5	332.3	…	…	…	…
GDP per capita (in US$)	3,736	3,684	…	…	…	…
Unemployment rate (period average, percent)	12.9	12.7	12.3	12.6	11.3	11.8
Poverty rate (percent)	…	…	…	…	…	…

Population (in millions)	89.0	90.2	92.3	92.3	94.4	94.4

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.

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

July 6, 2017

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUESTS FOR WAIVERS FOR NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA

KEY ISSUES

The launch of Egypt's reform program was a reversal from past policies, which had led to a buildup of large external and fiscal imbalances. With the liberalization of the foreign exchange (FX) market, the parallel market was eliminated and FX shortages virtually disappeared. The ongoing fuel subsidy reform, wage restraint, and significant revenue gains from the new value-added tax (VAT) underpin fiscal consolidation, which is critical for debt sustainability. Structural reforms to revive growth and employment are progressing well. The reform program received strong approval from the business community, international development partners and foreign investors.

However, the large depreciation of the pound fueled inflation and strained the budget. Inflation was 30 percent in May, causing deep public concern and hardship. Energy subsidies also increased as the fuel price increases implemented last November were insufficient to cover higher costs due to the depreciation. This undermined the programmed fiscal consolidation path. Public debt further rose because of the revaluation of the foreign currency denominated debt. Nevertheless, the authorities have successfully resisted pressures to spend more from the budget, and preserved the credibility of the float by abstaining from foreign exchange interventions in support of the pound.

The authorities are responding with strong policy measures to preserve the program objectives. The central bank raised policy rates by 400 basis points and tightened liquidity to contain inflation. The government increased diesel and gasoline prices by 53 percent on average, and the budget raised the VAT rate from 13 to 14 percent and implemented tight expenditure controls, including on wages, to reduce the primary deficit and place public debt on a declining path, as intended in the program.

Structural reforms will be focused on public finance management, the financial sector, the energy sector, the business climate and social protection.

All quantitative performance criteria for December 2016 were met, but a large depreciation of the pound is posing policy challenges. Because of higher costs of fuel products, the end-June targets for the fuel subsidy bill and the primary deficit are likely to have been missed. The authorities are taking corrective measures by implementing a stronger fiscal adjustment in the next two years, including through the fuel subsidy reform, and are requesting waivers of nonobservance for these PCs. Other end-June PC appear on track, but since at the time of the Board meeting data are unavailable to assess the performance of net international reserves and net domestic assets of the Central Bank of Egypt (CBE), the authorities are requesting waivers of applicability for these PCs. An indicative target on tax revenues was missed because of the delay in issuing executive regulations for the VAT. Most structural benchmarks were met though three of them were implemented with a short delay.

The authorities secured financing assurances for 2017/18. The financing gap is $2 billion after the Fund disbursement and will be financed with a combination of multilateral and bilateral financing.

Risks to the program arise from still fragile macro stability and the difficult reform agenda. If entrenched, high and persistent inflation could pose a threat to macroeconomic stability. It may also impede effectiveness of the new monetary policy framework. Discretionary attempts to minimize exchange rate volatility, including through moral suasion, could weaken the confidence in the float. Pressures to raise spending, including on wages, could further undermine the program's fiscal objective. Opposition by vested interests, corruption, and fear of escalating social tensions could derail structural reforms. Lower growth in trade partners would weaken demand for Egyptian output, but removal of flight bans would give a boost to tourism. Worsening of domestic security conditions could undermine market confidence and the business climate. These risks are mitigated by the strength of the policies under the program, the flexible exchange rate regime, structural reforms which reduce opportunities for corruption, and the program's backing at the highest political level.

Staff supports the authorities' request for the completion of the first review under the Extended Arrangement under the Extended Fund Facility (the EFF Arrangement). Staff also supports the authorities' request for the waivers of nonobservance of the end-June performance criteria for the primary balance and the fuel subsidy bill and waivers of applicability of the end-June performance criteria for net international reserves and net domestic assets of the CBE.

Approved By
Juha Kähkönen and Sanjaya Panth

Discussions were held in London in March and in Cairo in May. The mission team comprised Chris Jarvis (head), Nikoloz Gigineishvili, Gohar Minasyan, Bénédicte Baduel (MCD), Matthew Simmonds and Emmanouil Kitsios (FAD), Frantisek Ricka (SPR), Carlos de Barros Serrao and Oleksandr Pysaruk (MCM), and Randa Elnagar (COM). Wafa Abdelati (OED) participated in discussions. Kyung Kwak, Anjum Rosha (LEG) and Aditya Gaiha (MCM) conducted an Article VIII mission during May 14–21.

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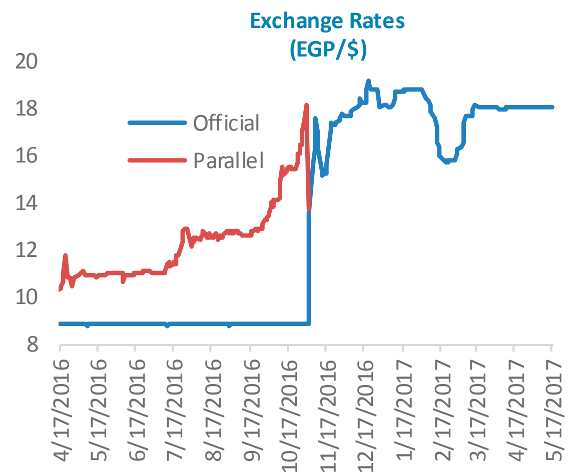
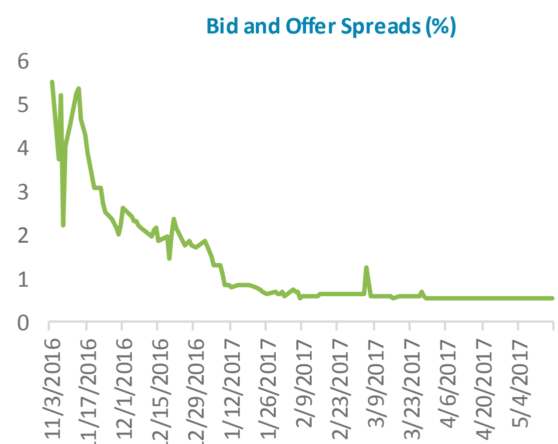
APPENDIX

RECENT DEVELOPMENTS

1. **The authorities' program is off to a promising start.** The authorities have demonstrated strong ownership from the beginning of the program. They adopted the value-added tax (VAT), floated the exchange rate, and increased fuel prices. The reform program was strongly welcomed by foreign investors, as was demonstrated by successful Eurobond placements of $4 billion in January 2017 and $3 billion in May 2017, and increasing portfolio inflows. International reserves are growing, and the balance of payments is improving.

2. **The foreign exchange (FX) market normalized after the float, but the depreciation was larger than expected.** FX shortages and the parallel market have virtually disappeared, and bid/ask spreads have narrowed. The Central Bank of Egypt (CBE) has not intervened in the FX market and only supplied FX to state-owned enterprises (SOEs) for critical imports. At end-May, after a period of volatility, the exchange rate stabilized at about EGP/$18 compared to EGP/$8.8 before the float. The initial depreciation was larger than anticipated, partly because of excess liquidity and continued uncertainty over FX backlogs, and more persistent because some portfolio investments that were absorbed by the CBE through the repatriation mechanism,[1] did not flow in to the FX market.





3. **The unification of the exchange rate and elimination of FX shortages has attracted informal trade into formal channels.** As a result, the underlying strengthening of the trade balance because of depreciation and higher import tariffs (see ¶17) has been masked by a larger share of imports being captured in the official statistics. Consequently, the current account deficit in 2016/17 is expected to reach 5.8 percent of GDP, which is 0.6 percentage points of GDP more than in the program. Portfolio inflows have increased with at least $5 billion registered since the float. Gross reserves rose from $16.4 billion in October to $28 billion in April 2017.

4. **Inflation reached 31 percent in April, but eased to 30 percent in May, while growth recovery was slightly slower.** High inflation was

[1] The repatriation mechanism guarantees the availability of FX for capital repatriation to portfolio investors that choose to sell FX to the CBE at the time of entry at the average daily exchange rate.

mainly driven by the depreciation of the pound, the new VAT, and the increases in electricity and fuel prices, but the continued strong credit growth, negative real interest rates and, reportedly, growing private sector wages point to demand pressures that need to be addressed. GDP growth was less than expected in July-December 2016 but accelerated in the first quarter of 2017 from 3.6 percent to 4.3 percent, led by manufacturing, construction, tourism, and retail trade.

5. Program performance through December was strong, but two end-June performance criteria (PC) are likely to have been missed. All end-December PCs were met, while the indicative target on tax revenues was missed because of the delay in issuing executive regulations for the VAT. Because of the large depreciation of the pound, which increased the price in pounds of imported oil products and food, end-June performance criteria for the primary balance and the fuel subsidy bill will be missed by about 1 percent of GDP each. Nevertheless, the program objectives remain achievable and the slippages in 2016/17 will be made up in the next two years. Other quantitative end-June targets appear on track, but data are not available yet to fully assess performance against the targets. Most structural benchmarks were implemented, albeit some with short delays. Specifically, new investment guidelines for reserve management were approved in May as more time was needed to study best international practices. A comprehensive fiscal risks statement and, contained in it, a report on state guarantees were also delayed to April, but the coverage was extended through March 2017 instead of December 2016.

OUTLOOK AND RISKS

6. The updated macroeconomic projections reflect recent developments, including the impact of the larger-than-expected depreciation. The current account deficit is projected to narrow to 4.6 percent of GDP in 2017/18 and 3.8 percent of GDP in 2018/19. Improved competitiveness from depreciation and productivity gains from the reforms are expected to support exports and contain imports, while tourism is projected to recover as security conditions improve. International reserves are expected to reach $30 billion in 2017/18 and $31 billion, or 120 percent of the ARA metric for floating regimes in 2018/19. Annual inflation for June 2017 was revised from 17 to 33 percent to account for the larger depreciation than expected. It is expected to return to the programed path by end-2017/18 in view of the recent monetary tightening as the first-round effects of the VAT and energy price increases fade. The growth projections for 2016/17 and 2017/18 have been reduced slightly to 3.5 and 4.5 percent respectively because of weaker than expected growth in the second half of 2016. However, because of higher inflation, nominal GDP in 2017/18 is now forecast 11 percent higher than before. The planned fiscal consolidation, higher nominal GDP and the negative growth-interest differential improved the debt outlook—gross public debt is projected to decline from 98 percent of GDP in 2016/17 to 88 percent of GDP in 2017/18 and 78 percent in 2020/21.

7. Risks to the program arise from still fragile stability, the difficult reform agenda, and possible deterioration of security conditions. If entrenched, high and persistent inflation could pose a threat to macroeconomic stability. It may also impede credibility of the new monetary policy framework. Any discretionary attempts to minimize exchange rate volatility, including through moral suasion or non-transparent interventions, could weaken the confidence in the float. Pressures to raise spending, including on wages, could further undermine the program's fiscal objective. Opposition by vested interests, corruption, and fear of escalating social tensions could derail structural reforms and hurt medium-term growth prospects. Lower growth in trade partners would weaken demand for Egyptian output, but removal of flight bans would support tourism. Worsening of domestic security could undermine market confidence and the business climate. These risks are mitigated by the strength of the policies under the program, the flexible exchange rate regime and the program's backing at the highest political level.

POLICY DISCUSSIONS

8. **The program objectives remain unchanged.** These are: to address external and fiscal imbalances and achieve macroeconomic stability, promote inclusive growth and support job creation, and ensure that the poor are protected during the adjustment. The updated Memorandum of Economic and Financial Polices reflects the authorities' continued commitment to these objectives. It outlines the planned policies to deal with two immediate challenges: high inflation, which reduces real incomes; and stronger fiscal pressures, including from energy subsidies. The reform agenda has been updated to account for the progress achieved and the new priorities identified by the authorities.

A. Monetary and Exchange Rate Policies

9. **The CBE tightened monetary policy to contain inflation.** Although inflation is partly supply driven, the authorities recognized that, if entrenched, inflation expectations would carry significant costs to macroeconomic stability and impose a heavy burden on the middle class and the poor. Until mid-May, policy interest rates remained unchanged since the last increase on November 3 and excess liquidity built up in the banking system during this period. There were also early signs that wages in the private sector were growing by 20–35 percent, adding to the risk of the second-round effects. In response, the CBE raised its policy rates by 200 basis points in May and 200 basis points in July, and drained excess liquidity with open market operations. Using deposit auctions with maturities of 90–270 days it reduced balances on banks' overnight and 7-day deposits (a measure of liquidity surplus) from nearly EGP 100 billion in March to below EGP 30 billion by mid-June, which the CBE estimates to correspond to banks' precautionary reserves. At the same time, to send a clear signal of its policy goals and to anchor expectations, the CBE announced that its objective is to bring inflation down to single digits over the medium term, and explained how its actions would help achieve this objective.

10. **The CBE noted that subsequent policy adjustments will depend on inflation dynamics and its assessment of inflation expectations.** Stronger than anticipated and sustained dis-inflation, and weakening of inflation expectations would allow for a measured easing of the monetary stance, but should inflationary pressures remain strong, the CBE will stand ready to tighten policy further, as needed. In the medium term, the CBE's objective is to reduce inflation to mid-single digits. This will be possible after the first-round effects of the devaluation, the energy

price reforms and the VAT dissipate, provided monetary policy remains adequately tight. It was agreed that successful disinflation requires a clear nominal anchor and a strong monetary policy framework.

11. The CBE will mainly rely on indirect policy instruments. It will manage banks' excess reserves and money supply using deposit auctions while the interest rate corridor will provide the upper and lower bounds for overnight interbank rates. The CBE will further improve its liquidity management capacity and strengthen its liquidity forecasting in close collaboration with the Ministry of Finance (MoF). Policy rates in the interest rate corridor will signal the monetary stance consistent with inflation expectations and demand pressures, but the CBE may also resort to reserve requirements if liquidity surpluses or shortages are viewed to be structural. CBE lending to the government will remain within the limits set in the Memorandum of Understanding with the MoF. Lending to banks will primarily be provided for short-term liquidity support, but the CBE intends to maintain its subsidized lending programs to commercial banks in support of small and medium enterprises and mortgages to qualified low income households. The CBE decided to cap the total volume of new loans in 2017/18 at EGP 31 billion. The mission stressed that such lending undermines the effectiveness of monetary policy, and recommended that the practice be discontinued or financed from the budget.

12. The authorities will maintain the flexible exchange rate regime. They agreed that allowing the exchange rate to move freely is critical to preserve competitiveness. The CBE will continue to refrain from FX interventions in the interbank market except to mitigate disorderly market conditions. The profit repatriation mechanism has a similar effect to FX interventions, and the mission recommended phasing it out. However, the authorities believe that at present the mechanism plays an important role in attracting foreign capital and prefer to maintain it. The CBE intends to manage its international reserves in line with the new investment guidelines. It decided not place any new funds in foreign subsidiaries and branches of Egyptian banks, and to keep such deposits below the end-April level of $5.4 billion. If FX sales become excessive, the CBE will consult the Fund on the needed policy adjustments.

13. The CBE initiated amendments to the CBE law to improve its governance and accountability. Among other provisions the amendments envisage strengthening its governance structure, improving the recapitalization and profit distribution rules, normalizing the financial relationship with the government and commercial banks, enhancing transparency, and separating the emergency liquidity assistance and bank resolution frameworks whereby the CBE retains the former function, while solvency support to troubled banks becomes primarily the responsibility of the government. The amendments will be submitted to Cabinet by December 31, 2017 (structural benchmark). Financial reporting will be better aligned with the IFRS, and the procedures for selecting external auditors will be modified in accordance with best international practices (structural benchmark).

14. An Article VIII assessment mission was conducted in May. The mission found that, in addition to the existing multiple currency practice (MCP) arising from the multiple price auction, which was temporarily approved by the Board until November 2017, the inoperative bilateral payment arrangement (BPA) between Egypt and Bulgaria gave rise to an exchange restriction.[2] The exchange restriction arising from the BPA has no implications for the standard continuous PC against the imposition or intensification of exchange restrictions since it predates the EFF. Staff does not recommend approval of the exchange restriction arising from the BPA, given its discriminatory nature. In June, the CBE eliminated the restriction on resident individuals to transfer abroad no more than $100,000 annually without an underlying commercial transaction. By December 2017 the authorities will also remove the $50,000 cash deposit cap for non-priority goods.

B. Fiscal Policy and Public Finance Management

15. The 2016/17 primary deficit is expected at 1.8 percent of GDP, which exceeds the program target by 1 percent of GDP. Part of the underperformance is due to a tax revenue shortfall reflecting the delayed implementation of the VAT executive regulations, but the bulk comes from higher energy subsidies resulting from the weaker pound and higher world oil prices. The subsidy overruns will be partly offset by small savings in wages and goods and services spending (0.2 and 0.1 percent of GDP, respectively). The authorities noted that the expected outcome for the 2016/17 budget still constitutes a sizeable consolidation of nearly 1.6 percent of GDP compared to the previous year.

16. In the medium term, the fiscal program remains anchored to placing public debt on a downward path. The MoF aims at maintaining the three-year cumulative fiscal consolidation of 5.5 percent of GDP, as in the program, and by the end of the program reduce gross public debt to about 86 percent of GDP. For that purpose, the 1 percent of GDP shortfall in fiscal adjustment in 2016/17 will be phased over the next two years to avoid excessive fiscal adjustment in any one year given the still fragile growth outlook.

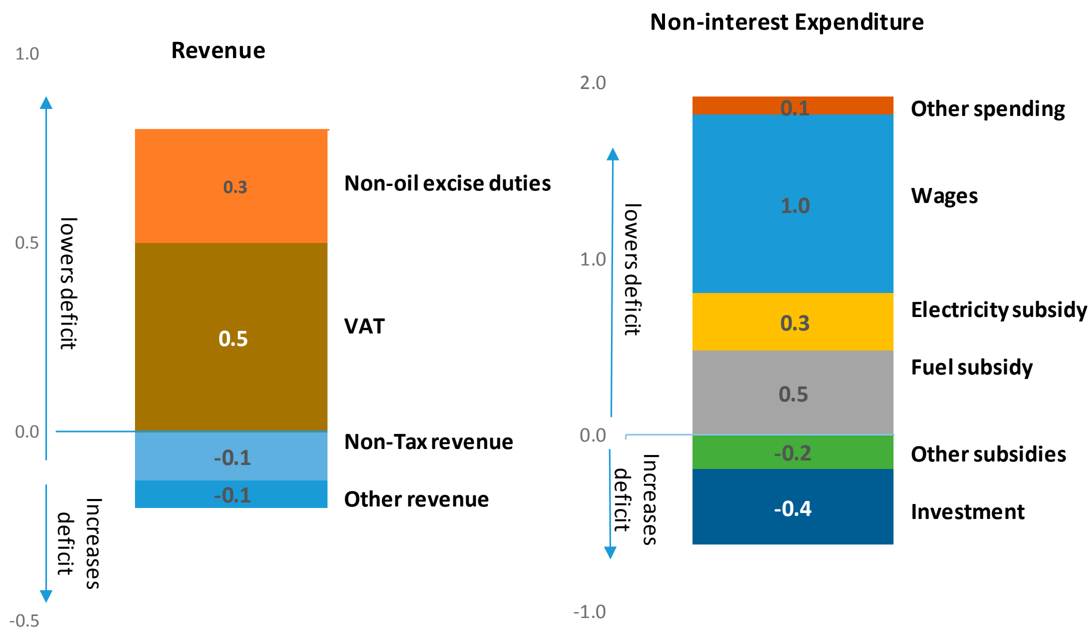
17. The 2017/18 budget is consistent with the authorities' medium-term objectives. The budget was passed by Parliament on June 21, 2017 (prior action). Its expenditure framework reflects authorities' policies as agreed under the program. The primary surplus is projected at 0.4 percent of GDP, which would constitute fiscal consolidation of 2.2 percent of GDP. The overall deficit is projected to decline by 1.8 percent of GDP as monetary tightening will temporarily raise debt service costs. Tax revenue is projected to increase by 0.7 percent of GDP due to the increase in the VAT rate from 13 to 14 percent, which becomes effective on July 1, 2017, higher excises, and the new stamp duty on stock market transactions. Tax administration reform pilots have started to produce encouraging results, and the authorities, supported by the IMF and other agencies, are looking to expand these reforms to reduce tax evasion and corruption. The authorities also raised some import tariffs to offset revenue shortfalls from lower import volumes,[3] which the staff does not

[2] The BPA with Bulgaria gives rise to an exchange restriction since the period for settlement under the BPA exceeds three months.

[3] Import tariffs were increased in December 2016 on 364 product categories within the WTO limits.

support. The structure of expenditure will improve by lowering wage spending and energy subsidies, while increasing investment and strengthening targeted social protection (see Text Box). The wage bill will decline by 1 percent of GDP. The nominal wage increases of 7–10 percent, which is below inflation, and the expected reduction in headcount due to natural attrition will permit this outcome. Despite negative real wage growth, the wage policy is sustainable given the significant wage increases in previous years. Energy subsidies are expected to decline by 0.8 percent of GDP of which 0.5 percent is a fuel subsidy reduction. At the same time, public investments will increase by 0.4 percent of GDP. The authorities have included in the budget a contingency fund of 0.2 percent of GDP as a cushion for possible fiscal slippages. They are also prepared to delay low-priority spending, if needed.

Fiscal Measures in the 2017/18 Budget
(percent of GDP)



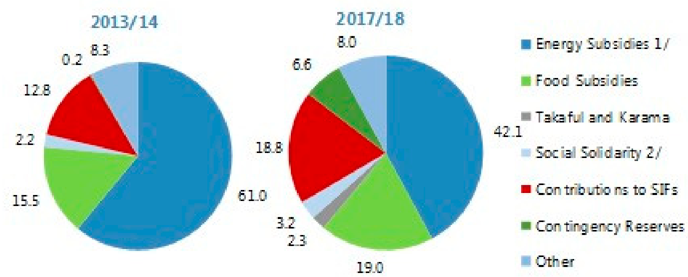
18. Energy subsidy reforms remain central to the planned fiscal consolidation and social equity. They represent a big share of government spending and mostly benefit the rich. Reducing subsidies will help reduce the deficit and allow more social spending that directly help the most vulnerable. The authorities raised electricity tariffs by about 20 percent in July 2016, and will increase them again in July 2017 sufficiently to reduce electricity subsidies in 2017/18 to the budgeted 0.6 percent of GDP. On fuel, the gains in price-to-cost ratios from the price increases last November have been eroded by large depreciation and higher oil prices. In June, the authorities increased average gasoline and diesel prices by 53 percent and prices for kerosene and fuel oil (for cement) by 55 percent and 40 percent respectively to achieve a pre-tax price-to-cost ratios of 55 percent for gasoline and diesel and 58 percent for all fuel products. They also doubled LPG prices. The authorities plan to further raise gasoline and diesel prices to reach full cost-recovery and eliminate fuel subsidies in 2018/19 except for LPG. Moreover, to maintain the targeted price-to-cost ratios, by end-September 2017 the Ministry of Petroleum will propose to the Prime Minister an automatic price indexation mechanism, which will adjust fuel prices (diesel, gasoline, kerosene, fuel oil) to changes in the exchange rate, oil prices, and the share of imported fuel products in the consumption basket (structural benchmark). The timing and details of implementation of the mechanism will be discussed in subsequent reviews. The authorities are also prepared to adjust fuel prices or take other measures as needed to offset any larger-than-projected costs of fuel production.

Box 1. Egypt: Moving to Targeted Social Protection

Egypt is moving from a social protection system relying on energy subsidies to a better-targeted social safety net. Energy subsidies are costly and inequitable. To better target the poorest households, the authorities plan to expand cash transfer programs and increase semi-cash allowances under the food subsidy program.

Cash transfer programs include Takaful, Karama, and the Social Solidarity Pensions. Takaful and Karama were created in 2015 to provide income support to families with children, and to elderly poor and people with disabilities. The authorities plan to increase the coverage of Takaful and Karama from the current 1.5 million households to 1.7 million in 2017/18.

Breakdown of Subsidies, Grants and Social Benefits (in percent)



1/ Energy subsidies include subsidies for electricity and petroleum products.
2/ Social solidarity spending includes pension and medical insurance expenditure for the most vulnerable.

The Social Solidarity Pension provides cash transfers to the vulnerable, such as widows, orphans and senior citizens. it covers 1.7 million households and provides between EGP 323 and EGP 450 depending on the size of the household. The 2016/17 budget also includes provisions to cover medical insurance for the social solidarity pension beneficiaries.

Under the food subsidies scheme, beneficiaries are entitled to up to five loaves of subsidized bread per day and ration cards for purchasing certain food. The monthly allowance per ration card increased from EGP 15 to EGP 21 in 2016, and will increase to EG P50 in 2017 for about 69 million beneficiaries.

Tax credits and an increased minimum personal income tax threshold will enhance tax relief at the lower income level. Extensive VAT exemptions continue to support the poor.

19. **PFM reforms will focus on strengthening fiscal risk management and enhancing top-down expenditure restraint.** To strengthen the institutional framework for macroeconomic forecasting the authorities intend to establish an interagency technical committee comprising representatives of relevant ministries and agencies. This committee will coordinate macroeconomic forecasts, which will become official projections for budget preparation. Using these projections, the MoF will prepare and submit to Cabinet by end-November 2017 a fiscal strategy paper, which will outline the medium-term fiscal objectives of the government and its approach to setting expenditure ceilings (structural benchmark). The Budget Circular for the next budget cycle will be guided by the Fiscal Strategy Paper, and will provide spending units with aggregate and entity-specific expenditure ceilings, and the assumptions for their budget preparation.

C. Financial Stability

20. **Banks weathered well the transition to a floating regime.** Aggregate capital adequacy at 14.9 in March 2017, remains well above the national prudential norm and the Basel requirement. This was possible thanks to banks' high profitability, sufficient capital buffers, the restriction of dividend payments, and the CBE permission to include current-year profits in the capital adequacy ratio calculation. The liquidity ratio in local currency declined slightly, but remained above the regulatory limits, and in foreign currency it improved, as FX shortages eased. Despite depreciation, NPLs remain low at 5.7 percent of gross loans as most FX lending is to borrowers with FX revenues. Stringent CBE loan classification requirements ensure adequate reporting and high specific provisioning at 91.5 percent. A combination of depreciation, inflation and higher interest rates would impact asset quality, but operating profits should remain sufficient to absorb possible loan impairment.

21. **The bank-by-bank assessment conducted by the mission suggests that in general the banking sector is healthy and resilient to moderate shocks.** Capital and liquidity buffers are sufficient to withstand further moderate depreciation and higher interest rates despite banks' large exposure to government securities. In the absence of an active market for government bonds, large holdings of government securities create interest rate and liquidity risks. Reclassification of T-bonds by banks from 'available for sale' to 'held to maturity' minimized mark-to-market losses from the CBE's rate hike in November 2016. Banks' active balance sheet management and liquidity buffers in local and foreign currencies reduce risks resulting from such a reclassification. However, the assessment also revealed vulnerabilities in a few smaller banks, whose capital adequacy, asset quality and profitability are below the sector averages. These banks are under close monitoring of the CBE and do not pose significant risks to financial stability, considering their small market share.

22. **The CBE has professional staff and strong supervisory and enforcement capacity.** Core elements of Basel II and Basel III are part of the CBE's prudential framework. Additional capital charges for excessive loan concentrations and high-risk financing effectively result in higher capital adequacy ratios. Implementation of Basel III liquidity coverage and net stable funding ratios should enhance liquidity management and monitoring. Going forward, the authorities will further strengthen the supervisory framework and crisis management capacity, promote competition to enhance efficiency in the delivery of financial services, and deepen financial inclusion.

23. **The central bank will strengthen the emergency liquidity assistance and bank resolution frameworks.** The CBE's current practice of providing subordinated loans to state-owned banks to boost their capital distorts monetary policy and could create conflict of interests. The MoF and the CBE will develop clear rules on deploying public funds to maintain financial stability. The CBE plans to implement new emergency liquidity assistance and bank resolution frameworks, in line with best international practices. This would require amendments to the CBE law and bank resolution laws.

D. Structural Reforms for Growth and Employment

24. Reforms to improve governance and the business climate, and attract investment will continue. Excessive regulations, lack of transparency, heavy licensing requirements and the punitive insolvency regime create opportunities for corruption and significantly impede entrepreneurship. Private sector development and job creation also might be hindered by involvement of entities under the Ministry of Defense, including in addressing occasional product shortages in conjunction with entities under the Ministries of Health as well as Supply and Internal Trade. Staff noted that promoting competition and improving market infrastructure would help address market inefficiencies that cause these shortages and would reduce the perceived need for involvement of such entities in commerce. Going forward, there will also be a need to strengthen governance, transparency, and accountability further to reduce the scope for corruption.

25. In April 2017, the Parliament adopted a new industrial licensing law. It eliminates a long and cumbersome licensing process and establishes more simplified procedures that will no longer require pre-approval, including by Civil Defense and Fire Safety authorities, and provides for automatic renewal of existing business licenses. In industries that do not have vital public functions, businesses are required to comply only with health, safety and environmental norms. For industries with vital public functions the requirements are more stringent, but considerably simpler than before. The new law is expected to reduce the time needed to start a business from more than 600 days to under 30 days. It also significantly reduces the scope for corruption in the licensing process.

26. The revised draft insolvency law is in the Parliament. The draft is in line with international standards and regulates both liquidation and restructuring procedures. Importantly, it de-criminalizes insolvency and allows companies, under certain conditions, to restructure or choose a settlement instead of starting bankruptcy procedures. At the same time, the law strengthens sanctions for financial fraud, concealing transactions, and accounting negligence.

27. The authorities will continue to promote female employment. The 2016/17 budget allocated EGP 250 million for improving the availability of public nurseries. In 2017/18, the authorities will increase funding for public nurseries to EGP 500 million to support women's labor force participation, and will also allocate resources to improving the safety of public transportation.

FINANCING AND PROGRAM ISSUES

28. The program is fully financed in 2017/18. The financing gap is projected at about $2 billion. The financing has been secured from the following sources: $1 billion from the World Bank, $350 million from the African Development Bank, and $600 million from G7 countries.[4] The financing gap for 2018/19 is slightly larger, but can be covered with multilateral support, rollovers of

[4] Some of the amounts were pledged at the start of the program, but not yet disbursed.

some maturing liabilities, and market financing. Financing assurances for 2018/19 will be obtained during the third review.

29. An updated safeguards assessment was completed in April 2017. The assessment found that the CBE maintained a strong control framework, and strengthened internal audit and risk management. Nevertheless, capacity constraints were identified in both external audit and financial reporting practices. Key recommendations from the safeguards assessment are incorporated as structural benchmarks and include the strengthening of the CBE Law; developing a medium-term plan to unwind FX deposits at foreign branches of state-owned Egyptian banks; and adoption of a robust external auditor selection and appointment policy.

30. Staff proposes revisions to the program definitions of reserve money, net domestic assets (NDA), and the primary balance of the budget. The mission and the authorities agreed to reclassify highly liquid overnight and 7-day deposits at the CBE from NDA to reserve money. As a result, the latter will more accurately reflect excess liquidity and be more informative as an intermediate target. It was also agreed that the primary deficit would be measured more accurately from above-the-line given the difficulties in accounting for valuation changes of FX-denominated deposits. The quantitative targets for end-December 2017 and beyond will be based on these definitions.

31. Egypt's capacity to repay the Fund is adequate, but risks remain. By the end of the arrangement in 2018/19 Fund credit outstanding as a share of gross reserves is projected to peak at 39 percent, after which it is expected to decline. Debt service to the Fund as a ratio of exports of goods and services would reach 0.5 percent in the same year (Table 11). The CBE and MoF signed a memorandum of understanding on respective responsibilities for servicing Fund credit to ensure uninterrupted repayments.

STAFF APPRAISAL

32. The authorities have made a strong start to the program. The crucial early weeks of the move to a flexible exchange rate went smoothly, thanks in large part to the CBE's decision to refrain from intervention and allow a foreign exchange market to develop. The MoF has been steadfast in containing discretionary expenditure and exercising restraint in wage policies, which are crucial for the adjustment process. Other parts of the government have acted to strengthen the social safety net and pursued structural reform objectives.

33. Program objectives remain achievable, but the path has changed due to a more depreciated exchange rate than expected. While the weaker pound helps the external sector, it led to higher energy subsidies and undermined fiscal consolidation. The adjusted path of fiscal adjustment is adequate to keep the program on track.

34. The top priority is to bring inflation under firm control. Depreciation has fed inflation, causing headline rates to rise above 30 percent. After some delay, the CBE took vigorous monetary policy actions to contain demand and anchor inflationary expectations by increasing policy interest rates significantly and tightening liquidity. Continued fiscal adjustment will also be important to remove the root cause of high inflation in Egypt over the last decade.

35. The government is consistently pursuing fiscal adjustment. The authorities prepared a credible 2017/18 budget, which can deliver the first primary surplus in a decade. They remain committed to setting public debt on a clear downward trajectory, which will reduce Egypt's vulnerability to shocks.

36. Energy subsidy reforms remain critical, but delayed. Annual increases in electricity tariffs and two significant fuel price increases in November 2016 and June 2017 were critical steps toward achieving cost-recovery. However, because of depreciation, the fuel price increases have been barely enough to contain the fuel subsidy bill as a share of GDP and to increase price-to-cost ratios compared to the pre-program levels. The commitment to eliminate subsidies for most fuel products by June 2019 is encouraging, but the plan to pause until 2018/19 before another significant increase carries a risk of slippage related to global oil prices and the exchange rate. Staff would have preferred earlier periodic price increases, and in this respect, it welcomes the authorities' intention to introduce an automatic fuel price adjustment mechanism and the commitment to adjust fuel prices or take other measures as needed to offset any larger-than-projected costs of fuel production.

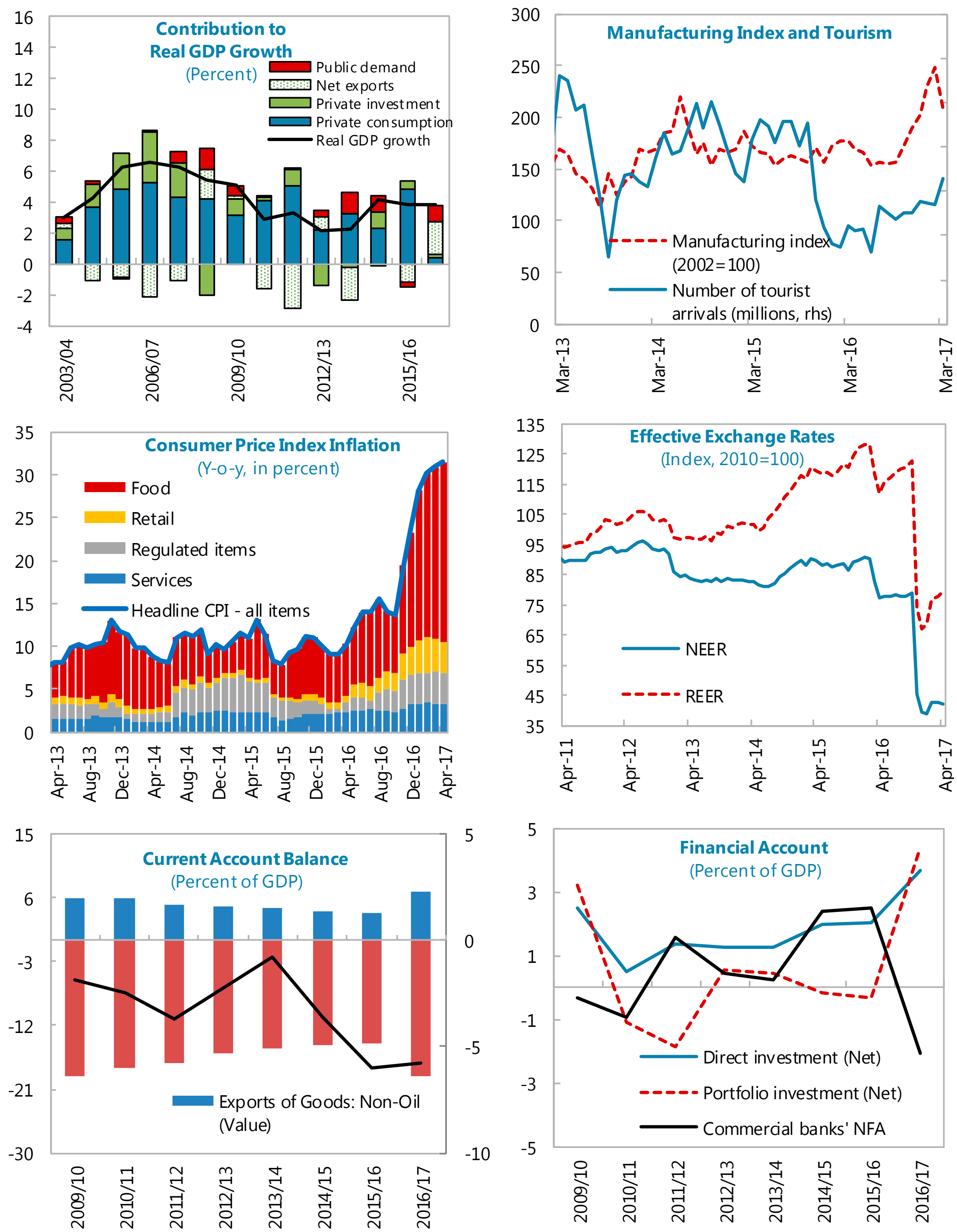
37. Stepped-up social assistance will ameliorate the costs of adjustment on the vulnerable. The broadened coverage of the social assistance programs will help the elderly and poor families with young children. Other targeted programs such as spending on nurseries, free school meals, and improving access to safe public transportation, will help vulnerable groups and in some cases, also support women's participation in the labor force, which remains extremely low.

38. Parliamentary approvals of the Industrial Licensing Law and the Investment Law were crucial steps in improving the business climate and fighting corruption. It will be equally important to follow these through with other supporting legislation (e.g., the insolvency law) and with strong implementing regulations. To support private sector development, it will also be important to limit involvement by entities under the Ministry of Defense in commerce, including in correcting problems in commodity markets in conjunction with entities under the Ministries of Health as well as Supply and Internal Trade, and take steps to strengthen governance, transparency, and accountability.

39. Many risks and challenges remain for the program supported by the Extended Fund Facility (EFF), but the authorities have shown themselves ready to act to contain them. The most difficult steps in transitioning to a flexible exchange rate regime and to a monetary policy based on inflation targeting have been taken. However, much remains to be done to ensure that the foreign exchange market functions well and monetary policy gains credibility under the new exchange rate regime. The authorities have begun the fiscal adjustment process well, but it will be a long haul. A worsening of the security situation could undermine the authorities' strong adjustment efforts, impede growth and worsen living standards.

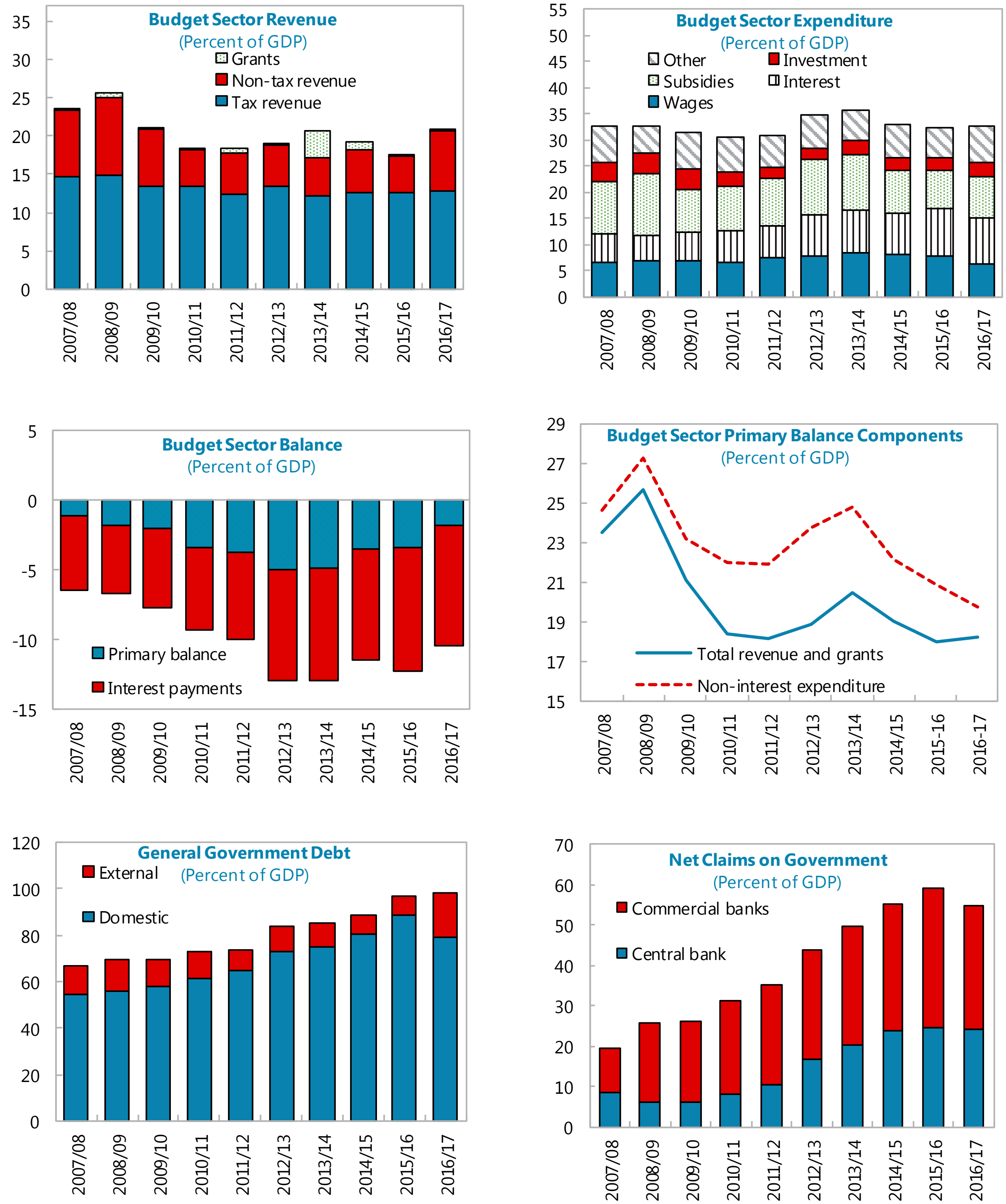
40. The staff supports the authorities' request for the completion of the first review under the EFF arrangement. It also supports the requests for waivers of applicability of end-June performance criteria for NDA and net international reserves, and waivers of nonobservance of end-June performance criteria for the primary fiscal balance and the fuel subsidy bill given that the authorities' proposed policy adjustment is strong enough to keep the program objectives intact.

Figure 1. Egypt: Real and External Sector Developments



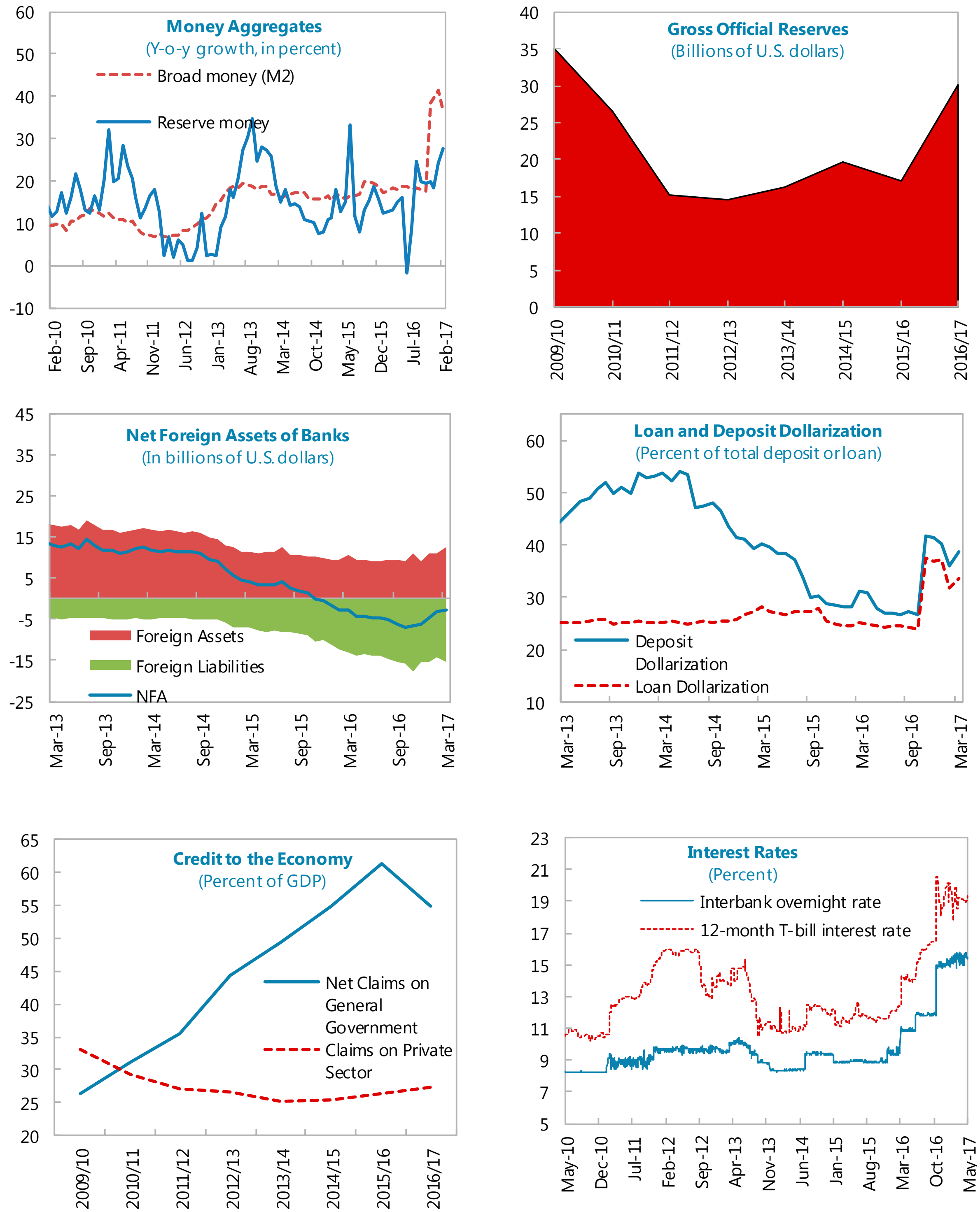
Sources: Egyptian authorities; IMF, *International Financial Statistics*; Bloomberg; Markit Economics; and IMF staff calculations and projections.

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, 2014/15–2017/18 1/

	2014/15	2015/16	2016/17		2017/18	
		Prel.	EFF	Revised	EFF	Revised
Output and prices						
Real GDP (market prices)	4.4	4.3	4.0	3.5	4.8	4.5
Consumer prices (end of period)	11.4	14.0	16.6	32.8	11.1	10.3
Consumer prices (period average)	11.0	10.2	18.2	23.9	13.3	22.1
Public finances 2/						
Gross Debt	88.5	96.9	93.8	98.4	89.1	87.7
External	7.9	7.7	10.1	20.8	8.9	19.1
Domestic	80.5	89.0	83.7	77.7	80.2	68.6
Budget sector 3/						
Revenue and grants	19.0	18.0	20.7	18.2	18.8	18.8
Expenditure (incl. net acquisition of financial assets)	30.5	30.3	30.5	28.7	27.2	27.3
Of which: Energy subsidies	4.0	3.0	2.6	3.9	1.4	3.1
Overall balance	-11.4	-12.3	-9.8	-10.5	-8.4	-8.5
Overall balance, excl. grants	-12.5	-12.5	-9.9	-10.5	-8.5	-8.6
Primary balance	-3.5	-3.4	-0.8	-1.8	1.1	0.4
Monetary sector						
Credit to the private sector	16.7	14.2	8.3	37.8	15.9	8.7
Reserve money 6/	33.3	-1.6	16.1	26.8	18.9	24.5
Broad money (M2)	16.4	18.6	16.7	35.2	20.6	22.2
Treasury bill rate, 3 month (average, in percent)	11.4	11.8	19.7	18.1	14.9	21.3
External sector						
Exports of goods (in US$, percentage change)	-14.6	-16.1	12.8	19.2	8.4	9.9
Imports of goods (in US$, percentage change)	2.3	-6.2	1.7	-0.1	7.4	4.3
Merchandise trade balance	-11.7	-11.6	-12.5	-14.6	-12.6	-13.7
Current account	-3.6	-6.0	-5.2	-5.8	-4.4	-4.6
Capital and financial account (incl. errors and omissions)	5.4	5.1	1.7	4.7	4.2	4.5
Foreign direct investment (net, in billions of US$)	6.6	6.8	9.4	8.8	10.4	9.4
External debt 4/	14.5	16.8	22.9	31.6	26.9	28.7
Gross international reserves (in billions of US$)	19.5	17.1	22.0	31.0	29.0	30.2
In months of next year's imports of goods and services	3.5	3.1	3.7	5.4	4.7	5.1
In percent of short-term external debt 5/	280.6	157.7	283.1	117.2	390.0	125.2
Financing gap (in billions of US$)	…	0.0	16.3	0.0	9.4	1.9
Memorandum items:						
Nominal GDP (in billions of Egyptian pounds)	2,443.9	2,708.3	3,434.1	3,496.0	4,084.7	4,464.6
Nominal GDP (in billions of US$)	332.5	332.3	…	…	…	…
GDP per capita (in US$)	3,736	3,684	…	…	…	…
Unemployment rate (period average, percent)	12.9	12.7	12.3	12.6	11.3	11.8
Poverty rate (percent)	…	…	…	…	…	…
Population (in millions)	89.0	90.2	92.3	92.3	94.4	94.4

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
		Prel.	EFF	Revised	EFF	Revised	EFF	Revised			
Current account	-12.0	-19.8	-14.9	-13.8	-13.6	-11.8	-10.1	-10.5	-10.6	-11.5	-10.3
Balance on goods and services	-28.1	-32.2	-26.7	-26.0	-27.0	-24.5	-24.4	-23.9	-24.6	-26.1	-25.3
Exports of goods and services	44.1	34.8	39.5	39.6	44.3	44.0	49.5	47.9	52.5	57.8	63.9
Imports of goods and services	-72.2	-66.9	-66.2	-65.6	-71.2	-68.5	-73.9	-71.8	-77.1	-83.9	-89.2
Trade balance	-38.9	-38.7	-36.2	-35.0	-38.7	-35.3	-39.0	-36.9	-39.9	-44.1	-46.6
Oil trade balance	-3.4	-3.6	-4.6	-5.5	-5.0	-6.3	-3.9	-5.7	-6.5	-7.5	-6.7
Non-oil trade balance	-35.4	-35.1	-31.6	-29.5	-33.7	-29.0	-35.2	-31.1	-33.4	-36.6	-39.9
Exports of goods	22.3	18.7	21.1	22.3	22.9	24.5	24.7	25.5	27.1	28.8	30.8
Oil	8.9	5.7	6.8	6.0	7.3	6.5	7.5	6.4	6.4	6.5	6.9
Other	13.4	13.0	14.3	16.3	15.6	18.0	17.1	19.1	20.6	22.2	23.8
Imports of goods	-61.2	-57.4	-57.3	-57.3	-61.5	-59.8	-63.7	-62.4	-67.0	-72.9	-77.3
Oil	-12.4	-9.3	-11.4	-11.5	-12.3	-12.7	-11.4	-12.1	-13.0	-14.0	-13.6
Other	-48.8	-48.1	-45.9	-45.8	-49.2	-47.1	-52.3	-50.3	-54.1	-58.9	-63.7
Services (net)	5.0	2.1	3.8	3.6	6.1	4.4	8.6	6.1	8.0	10.2	13.0
Total Receipts	22.0	16.5	18.7	17.6	21.8	19.8	25.2	22.7	25.8	29.4	33.6
Of which: Tourism receipts	7.4	3.8	4.6	3.5	6.5	4.4	8.5	6.2	8.0	10.3	13.3
Of which: Suez canal receipts	5.4	5.1	5.3	5.0	5.8	5.5	6.3	6.0	6.4	6.8	7.1
Total payments	-17.1	-14.4	-14.9	-14.0	-15.7	-15.4	-16.6	-16.7	-17.8	-19.1	-20.6
Of which: Investment income	-6.0	-4.9	-6.0	-5.8	-6.0	-6.7	-6.4	-7.3	-7.7	-8.2	-8.7
Transfers	21.9	16.9	17.5	17.6	19.0	19.1	20.3	20.3	21.3	22.4	23.2
Official grants	2.7	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Of which: Official grants from GCC countries	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private remittances	19.2	16.8	17.4	17.5	18.9	19.0	20.2	20.2	21.2	22.3	23.1
Capital and financial account	18.3	21.2	5.0	11.3	12.9	11.6	7.0	6.7	13.7	14.5	9.5
Medium- and long-term loans (net)	-0.4	1.3	2.8	0.1	7.3	3.4	4.2	2.8	2.1	0.0	-3.4
Drawings	1.9	4.1	7.3	5.1	9.4	6.2	6.1	5.2	5.2	5.2	3.2
Amortization 1/	2.3	2.8	4.5	4.9	2.1	2.9	1.9	2.4	3.1	5.2	6.6
FDI (net)	6.6	6.8	9.4	8.8	10.4	9.4	11.5	10.2	11.0	12.0	13.0
Portfolio investment (net)	-0.6	-1.1	0.0	12.0	2.0	5.0	3.0	5.0	4.4	5.0	3.3
Commercial banks' NFA	8.0	8.3	-2.0	-5.5	-3.0	-2.5	-3.0	-2.0	0.0	0.0	0.0
Other (including short-term capital and central bank deposits)	4.9	6.1	-5.1	-4.1	-3.8	-3.7	-8.7	-9.4	-3.9	-2.5	-3.4
Of which: Deposits from GCC countries	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions (net) 2/	-0.2	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.1	-2.8	-9.9	-2.5	-0.7	-0.2	-3.1	-3.8	3.1	3.1	-0.8
Financing	-6.1	2.8	-6.1	2.5	-8.2	-1.6	-5.1	2.4	-3.1	-3.1	0.8
Reserves ("-" indicates increase)	-3.3	2.5	-4.9	-13.9	-7.0	0.8	-4.0	-0.8	-0.5	-3.1	0.8
Change in arrears ("-" indicates decrease) 3/	-2.4	0.0	-1.2	-1.8	-1.2	-1.2	-1.1	-0.8	0.0	0.0	0.0
Net use of IMF resources	0.0	0.0	0.0	4.0	0.0	4.0	0.0	4.0	0.0	0.0	0.0
Other program financing	0.0	0.0	0.0	14.3	0.0	-5.2	0.0	0.0	-2.6	0.0	0.0
Financing gap	0.0	0.0	16.3	0.0	9.4	1.9	8.9	1.7	0.0	0.0	0.0
Net financing gap	0.0	0.0	16.0	0.0	8.9	1.8	8.2	1.4	0.0	0.0	0.0
Memorandum items:											
Current account excluding grants	-14.7	-19.9	-15.0	-13.9	-13.7	-11.9	-10.2	-10.6	-10.8	-11.6	-10.4
Non-energy export volume growth (in percent)	0.9	2.9	10.3	25.0	7.5	7.9	9.5	5.3	7.0	6.5	6.6
Non-energy import volume growth (in percent)	10.1	4.5	3.1	-5.6	2.7	0.4	3.4	4.8	5.7	7.0	5.1
Terms of trade (percent change)	-5.2	-6.2	1.2	1.5	2.2	2.0	0.5	-0.5	-0.4	-0.1	0.0
Gross international reserves (end of period)	19.5	17.1	22.0	31.0	29.0	30.2	33.0	31.0	31.5	34.6	33.8
In months of next year's imports of goods and services	3.5	3.1	3.7	5.4	4.7	5.1	5.0	4.8	4.5	4.6	4.2
External debt 4/	48.1	55.8	66.0	76.0	82.3	74.0	94.9	73.5	70.4	70.2	66.7
External debt service	2.9	3.5	5.8	6.0	3.5	4.6	3.4	4.2	4.9	7.0	8.3
External debt service (in percent of exports of GNFS)	3.8	5.8	8.0	9.8	1.4	2.6	0.8	1.2	2.5	6.0	7.7
Stock of external arrears	3.5	3.5	2.3	2.3	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	…	…	…	…	…	…	…	…	…

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

1/ Includes the amortization of official external financing from Gulf Cooperation Council (GCC) countries and EGPC arrears.
2/ In 2010/11 to 2012/13, includes accumulation of EGPC arrears.
3/ EGPC arrears.
4/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing (in 2011/12).

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
		Prel.	EFF	Revised	EFF	Revised	EFF	Revised			
Current account	-3.6	-6.0	-5.2	-5.8	-4.4	-4.6	-3.0	-3.8	-3.5	-3.5	-2.9
Balance on goods and services	-8.5	-9.7	-9.3	-10.8	-8.8	-9.5	-7.2	-8.5	-8.2	-7.9	-7.1
Exports of goods and services	13.3	10.5	13.7	16.5	14.5	17.0	14.7	17.1	17.4	17.6	17.9
Imports of goods and services	-21.7	-20.1	-22.9	-27.3	-23.3	-26.5	-21.9	-25.6	-25.5	-25.5	-25.0
Trade balance	-11.7	-11.6	-12.5	-14.6	-12.6	-13.7	-11.6	-13.1	-13.2	-13.4	-13.0
Oil trade balance	-1.0	-1.1	-1.6	-2.3	-1.6	-2.4	-1.1	-2.0	-2.2	-2.3	-1.9
Non oil trade balance	-10.7	-10.6	-10.9	-12.3	-11.0	-11.3	-10.4	-11.1	-11.1	-11.2	-11.2
Exports	6.7	5.6	7.3	9.3	7.5	9.5	7.3	9.1	9.0	8.8	8.6
Oil	2.7	1.7	2.3	2.5	2.4	2.5	2.2	2.3	2.1	2.0	1.9
Other	4.0	3.9	5.0	6.8	5.1	7.0	5.1	6.8	6.8	6.8	6.7
Imports	-18.4	-17.3	-19.9	-23.8	-20.1	-23.2	-18.9	-22.2	-22.2	-22.2	-21.7
Oil	-3.7	-2.8	-3.9	-4.8	-4.0	-4.9	-3.4	-4.3	-4.3	-4.3	-3.8
Other	-14.7	-14.5	-15.9	-19.1	-16.1	-18.2	-15.5	-17.9	-17.9	-17.9	-17.8
Services (net)	1.5	0.6	1.3	1.5	2.0	1.7	2.5	2.2	2.6	3.1	3.6
Total receipts	6.6	5.0	6.5	7.3	7.1	7.7	7.5	8.1	8.5	8.9	9.4
Of which: Tourism receipts	2.2	1.1	1.6	1.5	2.1	1.7	2.5	2.2	2.6	3.1	3.7
Of which: Suez canal dues	1.6	1.5	1.8	2.1	1.9	2.1	1.9	2.1	2.1	2.1	2.0
Total payments	-5.1	-4.3	-5.2	-5.8	-5.1	-6.0	-4.9	-5.9	-5.9	-5.8	-5.8
Of which: Investment income	-1.8	-1.5	-2.1	-2.4	-2.0	-2.6	-1.9	-2.6	-2.5	-2.5	-2.4
Transfers	6.6	5.1	6.1	7.3	6.2	7.4	6.0	7.2	7.1	6.8	6.5
Official grants	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Official grants from GCC countries	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private remittances	5.8	5.1	6.0	7.3	6.2	7.4	6.0	7.2	7.0	6.8	6.5
Capital and financial account	5.5	6.4	1.7	4.7	4.2	4.5	2.1	2.4	4.5	4.4	2.7
Medium- and long-term loans (net)	-0.1	0.4	1.0	0.1	2.4	1.3	1.2	1.0	0.7	0.0	-1.0
Drawings	0.6	1.2	2.5	2.1	3.1	2.4	1.8	1.9	1.7	1.6	0.9
Amortization 1/	0.7	0.8	1.5	2.1	0.7	1.1	0.6	0.9	1.0	1.6	1.9
FDI (net)	2.0	2.0	3.2	3.7	3.4	3.7	3.4	3.7	3.7	3.7	3.7
Portfolio investment (net)	-0.2	-0.3	0.0	5.0	0.7	1.9	0.9	1.8	1.5	1.5	0.9
Commercial banks' NFA	2.4	2.5	-0.7	-2.3	-1.0	-1.0	-0.9	-0.7	0.0	0.0	0.0
Other (including short-term capital and central bank deposits)	1.5	1.8	-1.8	-1.7	-1.2	-1.4	-2.6	-3.3	-1.3	-0.8	-1.0
Of which: Deposits from GCC countries	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions (net) 2/	-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	-3.4	-1.0	-0.2	-0.1	-0.9	-1.4	1.0	0.9	-0.2
Financing	-1.8	0.8	-2.1	1.0	-2.7	-0.6	-1.5	0.9	-1.0	-0.9	0.2
Reserves ("-" indicates increase)	-1.0	0.7	-1.7	-5.8	-2.3	0.3	-1.2	-0.3	-0.2	-0.9	0.2
Change in arrears ("-" indicates decrease) 3/	-0.7	0.0	-0.4	-0.7	-0.4	-0.5	-0.3	-0.3	0.0	0.0	0.0
Net use of Fund resources	0.0	0.0	0.0	1.6	0.0	1.5	0.0	1.4	0.0	0.0	0.0
Official financing	0.0	0.0	0.0	5.9	0.0	-2.0	0.0	0.0	-0.9	0.0	0.0
Financing gap	0.0	0.0	5.6	0.0	3.1	0.8	2.6	0.6	0.0	0.0	0.0
Net financing gap	0.0	0.0	5.5	0.0	2.9	0.7	2.4	0.5	0.0	0.0	0.0
Memorandum items:											
Current account excluding grants	-4.4	-6.0	-5.2	-5.8	-4.5	-4.6	-3.0	-3.8	-3.6	-3.5	-2.9
Gross international reserves (end of period)	5.9	5.1	7.6	12.9	9.5	11.7	9.8	11.0	10.4	10.5	9.5
External debt 4/	14.5	16.8	22.9	31.6	26.9	28.7	28.2	26.2	23.3	21.4	18.7
External debt service	0.9	1.1	0.2	2.5	0.1	1.8	0.1	1.5	1.6	2.1	2.3

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

1/ Includes the amortization of official external financing from Gulf Cooperation Council (GCC) countries and EGPC arrears.
2/ For FY 2010/11 to FY 2012/13, includes EGPC arrears.
3/ EGPC arrears.
4/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing (in 2011/12).

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
		Prel.	EFF	Revised	EFF	Revised	EFF	Revised			
Revenue and grants	465.3	487.9	710.2	635.9	769.7	837.7	909.4	993.9	1,140.0	1,333.5	1,515.6
Tax revenue	306.0	339.4	473.2	450.1	584.4	607.0	694.2	767.4	881.3	1,040.8	1,183.0
Income and property	150.9	160.4	202.5	200.3	257.1	262.8	309.5	333.5	359.1	413.4	469.8
Personal income tax	38.2	43.9	56.5	54.7	73.1	66.5	92.2	88.0	107.8	135.2	153.7
Corporate income tax	91.6	87.9	108.1	108.6	135.0	146.1	168.5	181.5	204.0	229.4	260.7
EGPC	36.0	20.2	26.3	32.1	30.0	44.2	41.7	59.5	62.6	61.2	69.5
Other	55.6	67.7	81.8	76.5	105.0	101.9	126.9	121.9	141.5	168.2	191.2
Property	21.1	28.6	37.9	37.0	49.0	50.3	48.8	64.0	47.2	48.8	55.4
Goods and services	122.9	141.3	218.2	203.9	273.2	291.1	328.4	363.3	442.3	538.3	611.8
Oil excises	13.4	14.6	11.7	13.7	12.6	17.9	13.5	9.8	10.3	11.0	12.4
VAT and nonoil excises	109.5	126.7	206.5	190.3	260.7	273.2	314.9	353.5	431.9	527.4	599.4
International trade	21.9	26.7	36.7	30.1	38.5	36.4	40.4	53.0	62.4	71.6	81.3
Other taxes	10.2	11.0	15.8	15.7	15.6	16.8	16.0	17.6	17.6	17.6	19.9
Nontax revenue	133.8	144.3	234.8	184.2	183.1	229.6	212.9	225.4	257.4	291.5	331.3
Oil-related nontax revenue	31.4	27.2	18.9	26.9	20.3	37.5	32.3	51.6	55.1	52.9	60.1
Other nontax revenues	102.4	117.1	215.9	157.3	162.8	192.0	180.6	173.8	202.3	238.6	271.2
Of which: interest income	3.4	1.9	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.7
Grants	25.5	4.2	2.2	1.6	2.2	1.1	2.2	1.2	1.2	1.2	1.3
Expenditure	733.3	806.8	1,043.3	994.3	1,106.5	1,220.0	1,180.6	1,348.1	1,436.6	1,584.8	1,759.9
Wages and other remunerations	198.5	212.0	228.7	222.7	255.3	239.6	281.4	266.8	274.6	317.4	360.7
Purchases of goods and services	31.3	33.2	44.2	39.8	59.0	51.6	73.5	73.9	88.0	113.1	128.5
Interest	193.0	241.5	315.8	303.9	384.5	396.9	378.0	470.0	463.3	438.2	448.7
Domestic	188.3	236.5	290.9	291.0	359.7	371.9	355.8	435.7	426.5	403.5	409.3
External	4.7	5.0	24.8	12.9	24.9	25.0	22.2	34.3	36.8	34.7	39.4
Subsidies, grants, and social benefits	198.6	197.8	246.4	278.4	250.7	330.8	266.3	323.8	368.7	453.9	523.9
Energy subsidies	97.5	81.1	91.0	136.3	56.3	138.2	29.2	72.4	50.5	30.8	35.1
Of which: fuel subsidy	73.9	51.0	62.2	101.2	36.5	108.2	19.0	47.2	29.1	30.8	35.1
Food subsidies 2/	40.7	41.5	48.5	47.6	51.0	63.1	53.2	59.9	61.2	74.7	84.8
Transfer to SIF	33.2	43.9	52.5	52.5	71.8	62.5	93.2	100.0	139.0	189.8	215.7
Other	27.1	31.3	54.4	42.0	71.6	67.0	90.8	91.5	118.0	158.7	188.4
Other current	50.3	54.3	58.3	58.6	62.6	65.8	68.6	69.3	75.3	81.9	93.1
Investment	61.7	68.1	149.9	90.9	94.4	135.4	112.6	144.2	166.6	180.3	205.0
Cash balance	-268.0	-318.9	-333.1	-358.4	-336.8	-382.3	-271.2	-354.1	-296.6	-251.3	-244.3
Net acquisition of financial assets	11.3	14.5	11.7	7.7	3.9	-1.4	7.2	1.6	30.0	30.0	30.0
Overall balance (IMF staff definition)	-279.3	-333.4	-344.8	-366.1	-340.7	-380.8	-278.3	-355.8	-326.6	-281.3	-274.3
Overall balance (authorities' definition) 3/	-274.3	-333.4	-344.8	-366.1	-340.7	-380.8	-278.3	-355.8	-326.6	-281.3	-274.3
Financing	279.3	333.4	256.1	366.1	267.3	357.5	222.3	355.8	326.6	281.3	274.3
Net domestic	272.9	304.5	314.7	245.6	296.3	282.0	250.5	319.9	340.5	306.6	301.6
Bank	214.8	260.1	259.8	188.3	231.0	208.9	175.0	232.5	238.8	191.0	170.3
Nonbank	58.1	44.4	54.9	57.3	65.3	73.2	75.5	87.5	101.7	115.5	131.3
Net external	-0.8	29.0	-58.6	120.4	-29.0	75.5	-28.2	35.8	-13.9	-25.3	-27.3
Financing gap	0.0	0.0	88.7	0.0	73.4	23.4	56.1	0.0	0.0	0.0	0.0
Memorandum items:											
Primary balance	-86.3	-91.9	-29.0	-62.2	43.9	16.1	99.7	114.3	136.7	156.9	174.4
Oil balance 4/	-16.7	-19.0	-34.2	-63.6	6.5	-38.6	58.3	48.5	77.5	94.2	107.0
Financing gap (in billions of US$)	0.0	0.0	7.5	0.0	5.5	1.4	4.0	0.0	0.0	0.0	0.0
Gross budget sector debt 5/	2,276	2,763	3,398	3,623	3,821	4,111	4,194	4,768	5,168	5,643	5,988
Gross general government debt	2,162	2,624	3,220	3,441	3,641	3,915	4,057	4,613	5,044	5,502	5,827
Nominal GDP (in billions of Egyptian pounds)	2,444	2,708	3,434	3,496	4,085	4,465	4,726	5,337	6,203	7,051	8,014

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
		Prel.	EFF	Revised	EFF	Revised	EFF	Revised			
Revenue and grants	19.0	18.0	20.7	18.2	18.8	18.8	19.2	18.6	18.4	18.9	18.9
Tax revenue	12.5	12.5	13.8	12.9	14.3	13.6	14.7	14.4	14.2	14.8	14.8
Income and corporate tax	6.2	5.9	5.9	5.7	6.3	5.9	6.5	6.2	5.8	5.9	5.9
Personal income tax	1.6	1.6	1.6	1.6	1.8	1.5	2.0	1.6	1.7	1.9	1.9
Corporate income tax	3.7	3.2	3.1	3.1	3.3	3.3	3.6	3.4	3.3	3.3	3.3
EGPC	1.5	0.7	0.8	0.9	0.7	1.0	0.9	1.1	1.0	0.9	0.9
Other	2.3	2.5	2.4	2.2	2.6	2.3	2.7	2.3	2.3	2.4	2.4
Property	0.9	1.1	1.1	1.1	1.2	1.1	1.0	1.2	0.8	0.7	0.7
Goods and services	5.0	5.2	6.4	5.8	6.7	6.5	6.9	6.8	7.1	7.6	7.6
Oil excises	0.5	0.5	0.3	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.2
VAT and nonoil excises	4.5	4.7	6.0	5.4	6.4	6.1	6.7	6.6	7.0	7.5	7.5
International trade	0.9	1.0	1.1	0.9	0.9	0.8	0.9	1.0	1.0	1.0	1.0
Other taxes	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Nontax revenue	5.5	5.3	6.8	5.3	4.5	5.1	4.5	4.2	4.2	4.1	4.1
Oil-related nontax revenue	1.3	1.0	0.5	0.8	0.5	0.8	0.7	1.0	0.9	0.8	0.8
Other nontax revenues	4.2	4.3	6.3	4.5	4.0	4.3	3.8	3.3	3.3	3.4	3.4
Of which: interest income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Grants	1.0	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	30.0	29.8	30.4	28.4	27.1	27.3	25.0	25.3	23.2	22.5	22.0
Wages and other remunerations	8.1	7.8	6.7	6.4	6.3	5.4	6.0	5.0	4.4	4.5	4.5
Purchases of goods and services	1.3	1.2	1.3	1.1	1.4	1.2	1.6	1.4	1.4	1.6	1.6
Interest	7.9	8.9	9.2	8.7	9.4	8.9	8.0	8.8	7.5	6.2	5.6
Domestic	7.7	8.7	8.5	8.3	8.8	8.3	7.5	8.2	6.9	5.7	5.1
External	0.2	0.2	0.7	0.4	0.6	0.6	0.5	0.6	0.6	0.5	0.5
Subsidies, grants and social benefits	8.1	7.3	7.2	8.0	6.1	7.4	5.6	6.1	5.9	6.4	6.5
Energy subsidies	4.0	3.0	2.6	3.9	1.4	3.1	0.6	1.4	0.8	0.4	0.4
Of which: fuel subsidy	3.0	1.9	1.8	2.9	0.9	2.4	0.4	0.9	0.5	0.4	0.4
Food subsidies 2/	1.7	1.5	1.4	1.4	1.2	1.4	1.1	1.1	1.0	1.1	1.1
Transfers to SIF	1.4	1.6	1.5	1.5	1.8	1.4	2.0	1.9	2.2	2.7	2.7
Other	1.1	1.2	1.6	1.2	1.8	1.5	1.9	1.7	1.9	2.3	2.4
Other current	2.1	2.0	1.7	1.7	1.5	1.5	1.5	1.3	1.2	1.2	1.2
Investment	2.5	2.5	4.4	2.6	2.3	3.0	2.4	2.7	2.7	2.6	2.6
Cash balance	-11.0	-11.8	-9.7	-10.3	-8.2	-8.6	-5.7	-6.6	-4.8	-3.6	-3.0
Net acquisition of financial assets	0.5	0.5	0.3	0.2	0.1	0.0	0.2	0.0	0.5	0.4	0.4
Overall balance (IMF staff definition)	-11.4	-12.3	-10.0	-10.5	-8.3	-8.5	-5.9	-6.7	-5.3	-4.0	-3.4
Overall balance (authorities' definition) 3/	-11.2	-12.3	-10.0	-10.5	-8.3	-8.5	-5.9	-6.7	-5.3	-4.0	-3.4
Financing	11.4	12.3	7.5	10.5	6.5	8.0	4.7	6.7	5.3	4.0	3.4
Net domestic	11.2	11.2	9.2	7.0	7.3	6.3	5.3	6.0	5.5	4.3	3.8
Bank	8.8	9.6	7.6	5.4	5.7	4.7	3.7	4.4	3.9	2.7	2.1
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	-1.7	3.4	-0.7	1.7	-0.6	0.7	-0.2	-0.4	-0.3
Financing gap	0.0	0.0	2.6	0.0	1.8	0.5	1.2	0.0	0.0	0.0	0.0
Memorandum items:											
Primary balance	-3.5	-3.4	-0.8	-1.8	1.1	0.4	2.1	2.1	2.2	2.2	2.2
Oil balance 4/	-0.7	-0.7	-1.0	-1.8	0.2	-0.9	1.2	0.9	1.2	1.3	1.3
Gross budget sector debt 5/	93.1	102.0	99.0	103.6	93.5	92.1	88.7	89.3	83.3	80.0	74.7
Nominal GDP (in billions of Egyptian pounds)	2,444	2,708	3,434	3,496	4,085	4,465	4,726	5,337	6,203	7,051	8,014

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		2017/18		2018/19		2019/20	2020/21	2021/22
		Prel.	EFF	Revised	EFF	Revised	EFF	Revised			
	(In billions of Egyptian pounds)										
Revenue and grants	538.4	574.3	799.1	752.0	877.8	979.4	1,024.0	1,122.1	1,289.2	1,509.5	1,715.7
Tax revenue	306.0	339.4	473.2	450.1	584.4	607.0	694.2	767.4	881.3	1,040.8	1,183.0
Income and property	150.9	160.4	202.5	200.3	257.1	262.8	309.5	333.5	359.1	413.4	469.8
Personal income tax	38.2	43.9	56.5	54.7	73.1	66.5	92.2	88.0	107.8	135.2	153.7
Corporate income tax	91.6	87.9	108.1	108.6	135.0	146.1	168.5	181.5	204.0	229.4	260.7
EGPC	36.0	20.2	26.3	32.1	30.0	44.2	41.7	59.5	62.6	61.2	69.5
Other	55.6	67.7	81.8	76.5	105.0	101.9	126.9	121.9	141.5	168.2	191.2
Goods and services	122.9	141.3	218.2	203.9	273.2	291.1	328.4	363.3	442.3	538.3	611.8
Oil excises	13.4	14.6	11.7	13.7	12.6	17.9	13.5	9.8	10.3	11.0	12.4
VAT and nonoil excises	109.5	126.7	206.5	190.3	260.7	273.2	314.9	353.5	431.9	527.4	599.4
International trade taxes	21.9	26.7	36.7	30.1	38.5	36.4	40.4	53.0	62.4	71.6	81.3
Other taxes	10.2	11.0	15.8	15.7	15.6	16.8	16.0	17.6	17.6	17.6	19.9
Nontax revenue	207.0	230.7	323.7	300.3	291.2	371.2	327.6	353.6	406.7	467.5	531.4
Of which: Interest income	12.5	12.8	15.0	14.6	17.6	18.8	18.1	20.7	20.6	18.5	21.0
Grants	25.5	4.2	2.2	1.6	2.2	1.1	2.2	1.2	1.2	1.2	1.3
Expenditure	806.0	854.4	1,132.6	1,064.4	1,219.1	1,301.2	1,304.1	1,422.0	1,527.1	1,706.5	1,905.4
Wages and other remunerations	201.0	214.9	232.3	226.4	259.6	244.2	286.3	272.3	280.9	324.6	368.9
Purchases of goods and services	31.6	33.4	44.5	40.1	59.3	51.9	73.9	74.3	88.5	113.5	129.0
Interest	179.0	220.0	298.1	277.4	367.0	363.1	360.5	430.4	424.5	401.5	411.5
Domestic interest	174.3	215.0	273.3	264.5	342.2	338.1	338.3	396.1	387.7	366.8	372.0
External interest	4.7	5.0	24.8	12.9	24.9	25.0	22.2	34.3	36.8	34.7	39.4
Subsidies, grants, and social benefits	282.1	263.3	349.0	370.6	375.6	440.3	401.5	431.1	490.7	604.2	697.4
Other current	50.3	54.6	58.6	58.9	63.0	66.1	69.0	69.7	75.7	82.3	93.5
Investment	61.9	68.2	150.0	91.1	94.6	135.6	112.7	144.3	166.8	180.5	205.1
Net acquisition of financial assets	11.3	14.5	11.7	7.7	3.9	-1.4	7.2	1.6	30.0	30.0	34.1
Overall balance	-278.9	-294.6	-345.1	-320.1	-345.2	-320.3	-287.3	-301.5	-267.9	-227.0	-223.8
Financing	271.9	324.8	255.8	369.0	271.1	369.0	230.4	374.2	361.7	331.7	377.0
Net domestic	277.4	307.0	320.7	252.7	304.6	292.8	260.1	333.0	359.1	330.9	376.1
Bank	211.0	252.9	254.8	184.4	226.7	207.1	172.1	233.1	245.0	201.8	229.4
Nonbank	66.5	54.1	65.9	68.3	77.9	85.7	88.0	99.8	114.0	129.1	146.7
Net external	-0.8	29.0	-58.6	120.4	-29.0	75.5	-28.2	35.8	-13.9	-25.3	-28.7
Other	-4.8	-11.1	-6.3	-4.2	-4.4	0.7	-1.6	5.4	16.5	26.1	29.7
Financing gap	7.0	-30.2	89.3	-48.9	74.1	-48.7	56.9	-72.7	-93.9	-104.7	-153.2
	(In percent of GDP, unless otherwise indicated)										
Revenue and grants	22.0	21.2	23.3	21.5	21.5	21.9	21.7	21.0	20.8	21.4	21.4
Tax revenue	12.5	12.5	13.8	12.9	14.3	13.6	14.7	14.4	14.2	14.8	14.8
Nontax revenue	8.5	8.5	9.4	8.6	7.1	8.3	6.9	6.6	6.6	6.6	6.6
Of which: Interest income	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Grants	1.0	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	33.0	31.5	33.0	30.4	29.8	29.1	27.6	26.6	24.6	24.2	23.8
Wages and other remunerations	8.2	7.9	6.8	6.5	6.4	5.5	6.1	5.1	4.5	4.6	4.6
Purchases of goods and services	1.3	1.2	1.3	1.1	1.5	1.2	1.6	1.4	1.4	1.6	1.6
Interest	7.3	8.1	8.7	7.9	9.0	8.1	7.6	8.1	6.8	5.7	5.1
Subsidies, grants, and social benefits	11.5	9.7	10.2	10.6	9.2	9.9	8.5	8.1	7.9	8.6	8.7
Other current	2.1	2.0	1.7	1.7	1.5	1.5	1.5	1.3	1.2	1.2	1.2
Investment	2.5	2.5	4.4	2.6	2.3	3.0	2.4	2.7	2.7	2.6	2.6
Net acquisition of financial assets	0.5	0.5	0.3	0.2	0.1	0.0	0.2	0.0	0.5	0.4	0.4
Overall balance	-11.4	-10.9	-10.0	-9.2	-8.5	-7.2	-6.1	-5.7	-4.3	-3.2	-2.8
Financing	11.1	12.0	7.4	10.6	6.6	8.3	4.9	7.0	5.8	4.7	4.7
Net domestic	11.4	11.3	9.3	7.2	7.5	6.6	5.5	6.2	5.8	4.7	4.7
Bank	8.6	9.3	7.4	5.3	5.5	4.6	3.6	4.4	4.0	2.9	2.9
Nonbank	2.7	2.0	1.9	2.0	1.9	1.9	1.9	1.9	1.8	1.8	1.8
Net external	0.0	1.1	-1.7	3.4	-0.7	1.7	-0.6	0.7	-0.2	-0.4	-0.4
Other	-0.2	-0.4	-0.2	-0.1	-0.1	0.0	0.0	0.1	0.3	0.4	0.4
Financing gap	0.3	-1.1	2.6	-1.4	1.8	-1.1	1.2	-1.4	-1.5	-1.5	-1.9
Memorandum items:											
Primary balance	-4.1	-2.8	-1.4	-1.2	0.5	1.0	1.6	2.4	2.5	2.5	2.3
Gross debt	88.5	96.9	93.8	98.4	89.1	87.7	85.8	86.4	81.3	78.0	72.7
Net debt	78.8	88.2	86.9	91.7	83.4	82.4	80.9	82.0	77.5	74.7	69.8
Gross debt (in billions of LE)	2,162	2,624	3,220	3,441	3,641	3,915	4,057	4,613	5,044	5,502	5,827
Net debt (in billions of LE)	1,927	2,389	2,985	3,206	3,406	3,680	3,822	4,378	4,809	5,267	5,592
Nominal GDP (in billions of LE)	2,444	2,708	3,434	3,496	4,085	4,465	4,726	5,337	6,203	7,051	8,014

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
			EFF	Revised	EFF	Revised	EFF	Revised			
	(end-period, in billions of Egyptian Pounds, unless otherwise indicated)										
Net foreign assets	25	-45	-59	21	34	160	149	364	531	657	648
Foreign assets	148	150	286	528	396	532	474	636	649	772	761
Foreign liabilities	123	195	345	507	362	371	325	272	118	116	113
Net domestic assets	461	673	614	586	626	595	618	558	540	550	675
Net domestic credit	498	689	690	467	648	493	634	495	478	529	659
Net credit to central government	585	668	794	846	785	815	772	813	737	620	518
Net credit to public economic authorities	-61	-39	-29	-33	-30	-24	-31	-30	-31	-32	-32
Credit to banks	25	120	153	219	184	252	184	264	264	271	272
Banks' deposits in foreign currency	-51	-61	-110	-132	-120	-153	-132	-185	-203	-233	-245
Open market operations	0	0	-119	-433	-171	-396	-159	-368	-288	-97	146
Other items net	-37	-16	-76	118	-22	101	-16	63	61	20	16
Reserve money 1/	486	628	555	606	660	755	767	922	1070	1207	1324
Currency in circulation	293	347	401	420	470	517	544	637	748	852	942
Reserves and highly liquid assets of banks	193	281	154	186	190	238	223	284	323	355	381
Cash in vaults	21	22	25	24	29	27	34	30	33	33	33
Reserves	172	110	129	133	160	182	189	225	260	292	319
Deposits on overnight and seven day instruments	0	150	n.a.	30	n.a.	30	n.a.	30	30	30	30

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
			EFF	Revised	EFF	Revised	EFF	Revised			
	(End-period, in billions of Egyptian pounds)										
Net foreign assets	51	-87	-95	32	37	216	195	470	637	772	764
Central bank	25	-45	-59	21	34	160	149	364	531	657	648
Commercial banks	26	-43	-37	11	3	55	46	106	106	115	116
Net domestic assets	1,714	2,182	2,540	2,800	2,912	3,244	3,236	3,785	4,245	4,748	5,224
Net claims on central and local government	1,333	1,603	1,963	1,859	2,194	2,121	2,369	2,392	2,650	2,861	3,051
Net claims on public economic authorities	-42	52	4	120	9	174	13	212	223	253	287
Claims on public sector companies	63	93	118	171	135	205	153	229	246	276	305
Claims on private sector	624	712	771	981	894	1,067	1,015	1,232	1,380	1,559	1,778
Net other items	-264	-278	-316	-330	-318	-323	-313	-280	-254	-201	-197
Broad money (M2)	1,765	2,094	2,445	2,832	2,949	3,460	3,430	4,255	4,881	5,520	5,988
Domestic currency component (M2D)	1,502	1,771	1,928	2,135	2,375	2,669	2,789	3,302	3,831	4,318	4,721
Currency outside banks	293	347	401	420	470	517	544	637	748	852	942
Domestic currency deposits	1,210	1,424	1,527	1,715	1,905	2,152	2,245	2,664	3,083	3,466	3,779
Foreign currency deposits	263	324	516	697	574	791	641	953	1,051	1,203	1,267
	(Annual percent change, unless otherwise indicated)										
Broad money (M2)	16.4	18.6	16.7	35.2	20.6	22.2	16.3	23.0	14.7	13.1	8.5
Domestic currency component (M2D)	17.3	17.8	8.9	20.6	23.2	25.0	17.4	23.7	16.0	12.7	9.3
Reserve money 1/	33.3	-1.6	16.1	26.8	18.9	24.5	16.2	22.1	16.1	12.7	9.7
Contribution to Broad Money Growth	16.4	18.6	16.7	35.2	20.6	22.2	16.3	23.0	14.7	13.1	8.5
Net foreign assets	-4.5	-7.9	-0.4	5.7	5.4	6.5	5.4	7.3	3.9	2.8	-0.1
Net domestic assets	20.9	26.5	17.1	29.5	15.2	15.7	11.0	15.6	10.8	10.3	8.6
Credit to the private sector	16.7	14.2	8.3	37.8	15.9	8.7	13.6	15.5	12.0	13.0	14.0
Credit to government and public sector companies	28.7	21.5	15.9	19.7	11.9	14.6	8.3	12.7	10.5	8.3	7.0
Memorandum items:											
Velocity											
Velocity GDP/M2D (level)	1.8	1.7	1.9	1.8	1.9	1.9	1.8	1.8	1.7	1.7	1.8
Velocity GDP/M2 (level)	1.5	1.4	1.5	1.4	1.5	1.4	1.5	1.4	1.4	1.4	1.4
M2 (in percent of GDP)	72.2	77.3	71.2	81.2	72.2	77.3	72.6	79.7	78.4	78.0	74.6
Money multiplier (M2D / reserve money)	3.1	3.7	3.5	3.5	3.6	3.5	3.6	3.6	3.6	3.6	3.6
Money multiplier (M2 / reserve money)	3.6	4.4	4.4	4.7	4.5	4.6	4.5	4.6	4.6	4.6	4.5
M2 (in real terms)	4.5	4.1	0.1	1.8	8.6	10.8	6.7	6.3	6.1	5.2	1.4
Domestic currency deposit (in real terms)	7.6	3.3	-8.1	-9.3	12.3	13.8	8.2	7.0	7.0	4.5	1.9
Claims on private sector (in real terms)	4.7	0.2	-7.1	3.7	4.3	-1.4	4.2	-0.2	3.5	5.1	6.6
Foreign currency deposits (in percent of total deposits)	17.9	18.5	25.3	28.9	23.2	26.9	22.2	26.4	25.4	25.8	25.1

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
					Prel.	Projections					
	(Annual change, in percent)										
Real GDP at market price	2.2	3.3	2.9	4.4	4.3	3.5	4.5	5.3	5.8	6.0	6.0
Domestic demand (absorption)	5.9	2.5	4.5	4.2	5.4	1.4	3.7	4.6	5.5	5.8	5.1
Private	6.8	2.5	3.5	3.8	5.6	3.1	4.6	5.2	6.2	5.5	5.0
Public	0.0	2.2	10.9	6.8	4.1	-9.7	-2.4	0.5	-1.1	8.0	5.8
Consumption	6.1	4.4	4.9	3.6	4.5	0.7	2.3	3.9	4.4	4.6	3.5
Private	6.5	4.7	4.4	3.1	4.6	2.8	3.7	4.0	5.2	4.1	3.3
Public	3.1	2.2	8.4	7.0	3.9	-13.4	-9.0	2.9	-3.1	10.5	5.7
Investment	4.8	-8.4	1.7	8.6	11.2	5.8	12.0	8.6	10.9	11.2	12.0
Gross fixed capital formation	7.1	-7.8	1.4	9.8	19.6	5.8	12.0	8.6	10.9	11.2	12.0
Private	11.7	-9.6	-2.9	10.8	23.0	5.5	10.0	12.0	12.0	13.0	13.0
Public	-13.6	2.5	23.7	5.6	5.0	7.0	21.8	-6.2	5.2	0.9	6.0
Net exports of goods and services 1/	-2.8	0.6	-1.9	-0.2	-1.6	1.9	0.4	0.3	0.0	-0.1	0.6
Exports of goods and services	-2.3	4.5	-10.9	-0.6	-14.5	6.8	6.3	8.7	9.1	9.1	9.8
Imports of goods and services	10.8	0.6	0.1	0.6	-1.9	-5.4	1.6	3.8	5.9	6.9	3.6
Real GDP at factor cost	2.2	3.3	2.9	3.4	2.3	3.0	4.2	4.5	5.3	5.9	5.9
Agriculture	2.9	3.0	3.0	3.1	3.1	3.2	3.2	3.5	3.5	3.5	3.5
Construction	3.3	3.7	7.4	9.8	11.2	8.7	9.0	9.0	9.0	9.0	9.0
Industry	0.7	0.2	0.8	0.0	-1.4	1.2	2.9	3.4	5.5	6.4	6.5
Services	2.7	6.3	3.7	4.6	3.2	3.6	5.2	5.5	5.8	6.4	6.4
General government	2.9	3.4	5.3	7.5	5.0	3.9	2.5	2.5	2.5	2.5	2.5
Suez Canal	3.9	-1.9	2.2	2.4	2.2	-2.1	2.0	2.0	5.0	6.0	6.0
	(Contribution to real growth, in percent 2/)										
Real GDP at market price	2.2	3.3	2.9	4.4	4.3	3.5	4.5	5.3	5.8	6.0	6.0
Domestic demand (absorption)	6.1	2.7	4.8	4.6	5.9	1.6	4.0	5.0	5.8	6.1	5.4
Private	6.1	2.4	3.3	3.6	5.3	3.0	4.3	4.9	5.9	5.3	4.8
Public	0.0	0.3	1.5	1.0	0.6	-1.4	-0.3	0.1	-0.1	0.8	0.6
Consumption	5.4	4.1	4.5	3.4	4.2	0.7	2.1	3.5	3.8	4.0	3.0
Private	5.0	3.8	3.6	2.6	3.7	2.3	3.0	3.2	4.1	3.2	2.6
Public	0.4	0.2	0.9	0.8	0.5	-1.6	-0.9	0.3	-0.3	0.8	0.5
Investment	0.8	-1.4	0.2	1.2	1.7	0.9	1.9	1.5	1.9	2.1	2.4
Gross fixed capital formation	1.0	-1.2	0.2	1.3	2.7	0.9	1.9	1.5	1.9	2.1	2.4
Private	1.4	-1.2	-0.3	1.1	2.6	0.7	1.3	1.7	1.8	2.1	2.2
Public	-0.3	0.1	0.5	0.1	0.1	0.2	0.6	-0.2	0.1	0.0	0.2
Net exports of goods and services	-2.8	0.6	-1.9	-0.2	-1.6	1.9	0.4	0.3	0.0	-0.1	0.6
Exports of goods and services	-0.4	0.7	-1.8	-0.1	-2.0	0.8	0.7	1.0	1.1	1.2	1.3
Imports of goods and services	-2.4	-0.1	0.0	-0.1	0.4	1.1	-0.3	-0.7	-1.1	-1.3	-0.7
Real GDP at factor cost	2.2	3.3	2.9	3.4	2.3	3.0	4.2	4.5	5.3	5.9	5.9
Agriculture	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Construction	0.1	0.2	0.3	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.6
Industry	0.3	0.1	0.3	0.0	-0.5	0.4	0.9	1.0	1.6	1.9	1.9
Services	1.1	2.5	1.5	1.9	1.3	1.5	2.2	2.3	2.5	2.7	2.8
General government	0.3	0.3	0.5	0.7	0.5	0.4	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	0.1	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
					Prel.	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	110.7	109.7	108.7	108.4	108.1	107.2
Private	94.6	92.9	94.1	94.2	95.3	98.6	98.4	97.9	98.3	97.8	96.9
Public	13.3	13.5	14.3	14.3	14.0	12.1	11.3	10.8	10.1	10.3	10.3
Consumption	91.9	92.1	94.8	94.2	94.2	95.3	93.2	91.7	90.5	89.4	87.5
Private	80.7	80.8	82.9	82.4	82.8	85.8	84.9	83.6	83.1	81.6	79.7
Public	11.2	11.4	11.8	11.8	11.4	9.5	8.3	8.1	7.4	7.7	7.7
Investment	16.0	14.2	13.6	14.3	15.0	15.4	16.5	17.0	17.8	18.7	19.8
Gross fixed capital formation	14.7	13.0	12.4	13.7	15.0	15.4	16.5	17.0	17.8	18.7	19.8
Private	12.5	10.9	10.0	11.1	12.5	12.8	13.5	14.3	15.1	16.1	17.2
Public	2.1	2.1	2.5	2.5	2.5	2.6	3.0	2.7	2.7	2.6	2.6
Net exports of goods and services	-7.9	-6.3	-8.4	-8.5	-9.2	-10.7	-9.7	-8.7	-8.4	-8.1	-7.2
Exports of goods and services	16.4	17.0	14.2	13.2	10.4	16.2	16.8	16.8	17.1	17.3	17.6
Imports of goods and services	-24.3	-23.4	-22.7	-21.7	-19.6	-26.9	-26.4	-25.5	-25.5	-25.4	-24.9
Net factor income	-2.3	-2.6	-2.4	-1.7	-1.3	-2.3	-2.5	-2.5	-2.4	-2.4	-2.3
Net remittances inflows	6.4	6.4	6.0	5.8	5.1	7.3	7.4	7.2	7.0	6.8	6.5
Net official transfers	0.2	0.3	3.9	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross National Disposable Income	104.3	104.1	107.6	104.8	103.7	105.1	104.9	104.8	104.6	104.4	104.2
Investment	16.0	14.2	13.6	14.3	15.0	15.4	16.5	17.0	17.8	18.7	19.8
Private (incl. change in inventories)	13.9	12.1	11.2	11.8	12.5	12.8	13.5	14.3	15.1	16.1	17.2
Public	2.1	2.1	2.5	2.5	2.5	2.6	3.0	2.7	2.7	2.6	2.6
National savings	12.3	12.0	12.9	10.7	9.1	9.6	11.9	13.3	14.3	15.2	16.9
Private	20.2	22.8	21.7	19.1	16.9	16.0	16.1	16.2	15.5	15.4	16.7
Public	-7.9	-10.8	-8.8	-8.4	-7.8	-6.3	-4.2	-2.9	-1.1	-0.2	0.2
Savings-investment balance	-3.7	-2.2	-0.8	-3.6	-6.0	-5.8	-4.6	-3.8	-3.5	-3.5	-2.9
Private	6.3	10.7	10.5	7.3	4.4	3.2	2.6	1.9	0.3	-0.7	-0.5
Public	-10.0	-12.9	-11.3	-10.9	-10.3	-8.9	-7.2	-5.6	-3.8	-2.8	-2.4
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	12.0	11.9	11.8	11.5	11.3	11.0
Construction	4.1	4.3	4.3	4.8	5.4	5.7	6.0	6.3	6.5	6.7	6.8
Industry	34.2	34.6	34.2	31.4	27.5	27.1	27.0	26.8	26.9	27.1	27.2
Services	40.0	39.8	39.2	40.9	43.3	43.3	43.2	43.6	43.8	44.1	44.4
General government	8.8	9.1	9.7	10.1	10.3	10.4	10.3	10.1	9.8	9.5	9.1
Suez Canal	1.8	1.7	1.7	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4

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
					Prel.	Projections					
Growth and prices											
Real GDP (annual change, in percent)	2.2	3.3	2.9	4.4	4.3	3.5	4.5	5.3	5.8	6.0	6.0
CPI inflation (end-of-period, in percent)	7.3	9.8	8.2	11.4	14.0	32.8	10.3	15.7	8.2	7.5	7.0
CPI inflation (average, in percent)	8.6	6.9	10.1	11.0	10.2	23.9	22.1	13.7	10.0	7.3	7.5
Unemployment rate (period average, in percent)	12.4	13.0	13.4	12.9	12.7	12.6	11.8	10.7	9.1	7.4	5.7
Savings-investment balance	-3.7	-2.2	-0.8	-3.6	-6.0	-5.8	-4.6	-3.8	-3.5	-3.5	-2.9
Investment	16.0	14.2	13.6	14.3	15.0	15.4	16.5	17.0	17.8	18.7	19.8
Domestic savings	12.3	12.0	12.9	10.7	9.1	9.6	11.9	13.3	14.3	15.2	16.9
Public finances											
General government											
Revenue and grants	20.8	21.7	24.4	22.0	21.2	21.5	21.9	21.0	20.8	21.4	21.4
Expenditure and NAFA	30.7	35.0	36.2	33.4	32.1	30.7	29.1	26.7	25.1	24.6	24.2
Overall balance	-9.9	-13.3	-11.8	-11.4	-10.9	-9.2	-7.2	-5.7	-4.3	-3.2	-2.8
Overall balance, excl. grants	-10.5	-13.5	-16.3	-12.5	-11.0	-9.2	-7.2	-5.7	-4.3	-3.2	-2.8
Primary balance	-4.3	-6.0	-4.3	-4.1	-2.8	-1.2	1.0	2.4	2.5	2.5	2.3
Gross debt	73.8	84.0	85.1	88.5	96.9	98.4	87.7	86.4	81.3	78.0	72.7
Domestic	64.6	73.3	75.4	80.5	89.0	77.7	68.6	67.2	64.9	62.7	59.5
External	9.2	10.7	9.7	7.9	7.7	20.8	19.1	19.2	16.4	15.3	13.2
Budget sector											
Revenue and grants	18.1	18.8	20.5	19.0	18.0	18.2	18.8	18.6	18.4	18.9	18.9
Tax revenue	12.4	13.5	12.2	12.5	12.5	12.9	13.6	14.4	14.2	14.8	14.8
Non-tax revenue	5.1	5.1	4.7	5.5	5.3	5.3	5.1	4.2	4.2	4.1	4.1
Grants	0.6	0.3	3.5	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and NAFA	28.1	31.7	33.4	30.5	30.3	28.7	27.3	25.3	23.6	22.9	22.3
Of which: Current	26.0	29.5	30.4	27.5	27.3	25.8	24.3	22.6	20.5	19.9	19.4
Capital	2.1	2.1	2.5	2.5	2.5	2.6	3.0	2.7	2.7	2.6	2.6
Overall budget balance	-10.0	-12.9	-13.0	-11.4	-12.3	-10.5	-8.5	-6.7	-5.3	-4.0	-3.4
Overall budget balance, excl. grants	-10.6	-13.2	-16.5	-12.5	-12.5	-10.5	-8.6	-6.7	-5.3	-4.0	-3.4
Primary budget balance	-3.7	-5.0	-4.8	-3.5	-3.4	-1.8	0.4	2.1	2.2	2.2	2.2
Balance of payments and external debt											
Current account	-3.7	-2.2	-0.8	-3.6	-6.0	-5.8	-4.6	-3.8	-3.5	-3.5	-2.9
Trade balance	-11.3	-10.8	-11.0	-11.7	-11.6	-14.6	-13.7	-13.1	-13.2	-13.4	-13.0
Oil trade balance	-0.2	0.3	-0.3	-1.0	-1.1	-2.3	-2.4	-2.0	-2.2	-2.3	-1.9
Non-oil trade balance	-11.1	-11.1	-10.8	-10.7	-10.6	-12.3	-11.3	-11.1	-11.1	-11.2	-11.2
Capital and financial account (incl. errors and omissions)	-3.7	1.1	0.9	5.4	5.1	4.7	4.5	2.4	4.5	4.4	2.7
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.6	0.0	0.0	0.0
Official reserves (in billions of US$)	15.2	14.5	16.3	19.5	17.1	31.0	30.2	31.0	31.5	34.6	33.8
(In months of next year's imports of goods and service:	2.7	2.5	2.7	3.5	3.1	5.4	5.1	4.8	4.5	4.6	4.2
External debt (in percent of GDP)	12.5	15.1	15.1	14.5	16.8	31.6	28.7	26.2	23.3	21.4	18.7

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/

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Projections					
Fund repurchases and charges							
Millions of SDRs	0.1	27.1	79.9	173.7	231.2	394.5	827.9
Repurchases	0.0	0.0	0.0	0.0	0.0	164.2	597.0
Charges and fees	0.1	27.1	79.9	173.7	231.2	230.3	230.9
Millions of US$	0.1	37.8	111.5	242.5	322.7	550.6	1,155.6
Percent of exports of goods and nonfactor services	0.0	0.1	0.3	0.5	0.6	1.0	1.8
Percent of total debt service 3/	0.0	0.0	0.1	0.2	0.3	0.4	6.3
Percent of quota	0.0	1.3	3.9	8.5	11.3	19.4	40.6
Percent of gross international reserves	0.0	0.1	0.4	0.8	1.0	1.6	3.4
Fund credit outstanding							
Millions of SDRs	0	2,866	5,731	8,597	8,597	8,432	8,194
Millions of US$	0	4,000	8,000	12,000	12,000	11,771	11,437
Percent of exports of goods and nonfactor services	0.0	10.1	18.2	25.1	22.9	20.4	17.9
Percent of quota	0.0	140.7	281.3	422.0	422.0	413.9	402.2
Percent of gross international reserves	0.0	12.9	26.5	38.7	38.1	34.1	33.9
Memorandum items:							
Exports of goods and nonfactor services (in millions of US$)	34,784	39,597	43,965	47,883	52,474	57,767	63,935
Debt service (in millions of US$)	152,425	100,983	112,460	122,355	128,951	131,874	18,325
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	2,037.1
Quota (millions of US$ at eop exchange rate)	1,460.1	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$)	17,097	31,039	30,200	31,000	31,492	34,552	33,758

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	25.8	23.8	17.0	18.0	21.2	21.7
Current account deficit	13.8	11.8	10.5	10.6	11.5	10.3
Of which: Net interest payments	0.8	1.4	1.5	1.4	1.4	1.3
Maturing short-term debt	7.0	9.1	4.1	4.3	4.5	4.8
Private sector	7.0	9.1	4.1	4.3	4.5	4.8
Public sector	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of medium and long-term debt	4.9	2.9	2.4	3.1	5.2	6.6
Private sector	0.0	0.0	0.0	0.0	0.0	0.0
Public sector	2.3	1.8	1.7	1.7	2.2	2.2
MLT to external private creditors	0.0	0.0	0.0	0.0	0.0	0.0
By domestic private sector	0.0	0.0	0.0	0.0	0.0	0.0
By domestic public sector	0.0	0.0	0.0	0.0	0.0	0.0
MLT to external official creditors	2.3	1.8	1.7	1.7	2.2	2.2
IMF	0.0	0.0	0.0	0.0	0.0	0.0
To other official creditors	2.3	1.8	1.7	1.7	2.2	2.2
By domestic private sector	0.0	0.0	0.0	0.0	0.0	0.0
By domestic public sector	2.3	1.8	1.7	1.7	2.2	2.2
Sources of financing	25.8	21.9	15.5	18.0	21.2	21.7
Foreign direct investment (net)	8.8	9.4	10.2	11.0	12.0	13.0
Roll-over of short-term debt	9.1	4.1	4.3	4.5	4.5	4.8
Medium- and long-term borrowing	5.1	6.2	5.2	5.2	5.2	3.2
Private sector	2.1	1.2	0.2	0.2	0.2	0.2
Public sector	3.0	5.0	5.0	5.0	5.0	3.0
Other net capital flows	0.4	3.8	-6.6	0.3	2.5	-0.1
Of which: portfolio investment	12.0	5.0	5.0	4.4	5.0	3.3
Net use of Fund resources	4.0	4.0	4.0	0.0	0.0	0.0
Other program financing	14.3	-5.3	0.0	-2.6	0.0	0.0
World Bank	2.0	0.0	0.0	0.0	0.0	0.0
African Development Bank	0.5	0.0	0.0	0.0	0.0	0.0
African Export Import Bank	3.2	-3.2	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	-2.6	0.0	0.0
International bank financing	2.0	-2.0	0.0	0.0	0.0	0.0
Change in reserves (- increase) `	-13.9	0.8	-0.8	-0.5	-3.1	0.8
Change in arrears ("-" indicates decrease)	-1.8	-1.2	-0.8	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	1.8	1.4	0.0	0.0	0.0
Gross financing gap	0.0	1.9	1.7	0.0	0.0	0.0
Potential sources of financing						
World Bank	0.0	1.0	0.0	0.0	0.0	0.0
African Development Bank	0.0	0.4	0.0	0.0	0.0	0.0
G7 countries	0.0	0.6	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	1.7	0.0	0.0	0.0
Memorandum items:						
Gross international reserves (GIR)	31.0	30.2	31.0	31.5	34.6	33.8
External debt	76.0	74.0	73.5	70.4	70.2	66.7

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

Table 13. Egypt: Proposed 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
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.

Annex I. Public Debt Sustainability Analysis

Egypt's public debt is sustainable, but risks are significant. Under program assumptions, general government debt is projected to result in debt falling from 98 percent of GDP this year to 73 percent of GDP in 2021/22. The program assumptions of significant improvements in the primary balance and broader macroeconomic reform underpin the positive debt dynamics. As a result, the DSA highlights the risk of program implementation, especially with regards to growth-enabling reforms. A large captive domestic investor base, limited growth in short-term financing and moderate external debt levels represent important mitigating factors.

1. The main factor driving the increase in debt stock in 2016/17 is the large than anticipated depreciation in the exchange rate. Revaluation of foreign-exchange denominated debt and the success of the authorities in raising foreign financing have resulted in an increase in foreign debt from 13 percent of GDP in 2015/16 to 22 percent this year. This more than offsets the reduction in domestic debt from 84 to 76 percent. As a result, total debt stock for 2016/17 is expected to increase to 98 percent from 97 percent last year.

2. Over the medium-term, the baseline scenario implies a considerable reduction in debt as a share of GDP. This is underpinned by the following assumptions:

- *Real GDP growth* is forecast to increase from 3.5 percent in 16/17 to 6 percent over the medium term. The growth recovery is driven by rising investment and exports. Export recovery is based on increasing competitiveness resulting from the free float of the exchange rate and structural reforms that reduce the cost of doing business. The investment boost is based on public investment in social and economic infrastructure, private sector investment due to the weaker exchange rate, large investments in the energy sector, and the discovery of a major gas field.

- *Inflation* (defined in this annex as the GDP deflator) is estimated to temporarily increase from around 6.3 percent in 2015/16 to 24.8 percent in 2016/17, but is projected to decline to around 7 percent over the medium term.

- The *primary balance* of the general government is projected to switch from deficits to surpluses from 2017/18. These projections are based on the program that includes considerable revenue and expenditure measures. The following expenditure side measures are included: (i) controlling the public sector wage bill; (ii) implementing the next phase of energy subsidy reform; and (iii) improving the targeting of social transfers. Revenue measures include: (i) increase in VAT rate from current 13 percent to 14 percent in the next fiscal year, (ii) improvements in tax administration, and (iii) continued increases in excise taxes. The staff report provides more detailed discussion of the fiscal program.

3. The baseline projections are ambitious, with risks on the downside. Egypt's forecasts for growth, primary balance, and inflation tend to be optimistic. Forecast errors are generally within the benchmark, but the median forecast error for all three indicators highlight the economic and policy related risks to the program. The projected fiscal adjustment in the cyclically-adjusted primary balance is large by comparison to the benchmark countries.

4. The decline in debt over the medium-term reflects the projected path of fiscal adjustment and favorable interest rate-growth differential. Despite the increase in debt due to the impact of the exchange rate on the value of foreign debt, the programed fiscal and economic path continues to generate an unambiguous decline in the debt stock.

5. Program implementation and growth represents the largest risk to achieving the debt path. The fiscal consolidation strategy assumes considerable expenditure restraint and subsidy reductions over the projection horizon. Economic reforms that enable an acceleration in growth and declining inflation are also critical in achieving the positive debt dynamics.

6. Projections of debt and financing needs are particularly sensitive to growth and contingent liability shocks:

- *Growth shock*. Assuming a decline in growth by one standard deviation for 2017/18 and 2018/19, the debt-to-GDP ratio declines less rapidly, falling to 78 percent by 2021/22. However, considering the importance of nominal GDP growth in the medium-term debt dynamics, an alternative growth shock scenario (two standard deviations) results in the debt stock and financing requirement being broadly unchanged by 2018/19.

- *Macro-fiscal shock*. Considering a stress scenario in which shocks to growth, interest rate, and primary balance occur simultaneously, the debt-to-GDP ratio remains broadly unchanged until 2018/19, declining to around 89 percent in 2021/22.

- *Contingent liability shock*. In the absence of concrete estimates of contingent liabilities, a standardized shock of 10 percent of banking assets is used to represent a hypothetical realization of such contingent liabilities. In such a scenario, the debt-to-GDP ratio declines to only 95 percent by 2018/19 and 81 percent in 2021/22.

7. The fan charts show significant uncertainty around the baseline. The width of the symmetric fan chart (around 25 percent of GDP) illustrates the uncertainty for equal-probability upside and downside shocks. However, considering the downside risks associated with program implementation, the asymmetric fan chart constrains upside shocks to growth and the primary balance to zero, resulting in a less downward-sloping debt path. This reflects a balance of risks skewed to the downside.

8. Egypt's debt profile is relatively benign. Public debt in foreign currency and the change in short-term debt as a share of total financing are both below the lower risk-assessment benchmark. Market perceptions, external financing needs and the percentage of public debt held by non-residents are above the lower risk-assessment benchmark but comfortably below the upper risk-assessment benchmark.

9. Risks to debt sustainability need to be weighed against mitigating factors.

- *Investor base*. Debt is held largely by domestic financial institutions, including the CBE. This, coupled with relatively low demand for private sector credit and limited regional investment opportunities, has resulted in a captive investor base. As a result, it is likely that the authorities continue to be able to relying on domestic private sources of budget financing.

- *Buffers*. There are also significant cash cushions in the form of deposits accumulated by the general government, mostly in local authorities. The average figure for government deposits is around 10 percent of GDP, implying a markedly lower public debt-to-GDP ratio on a net basis and some liquidity cushion in terms of coverage of financing needs for few months.

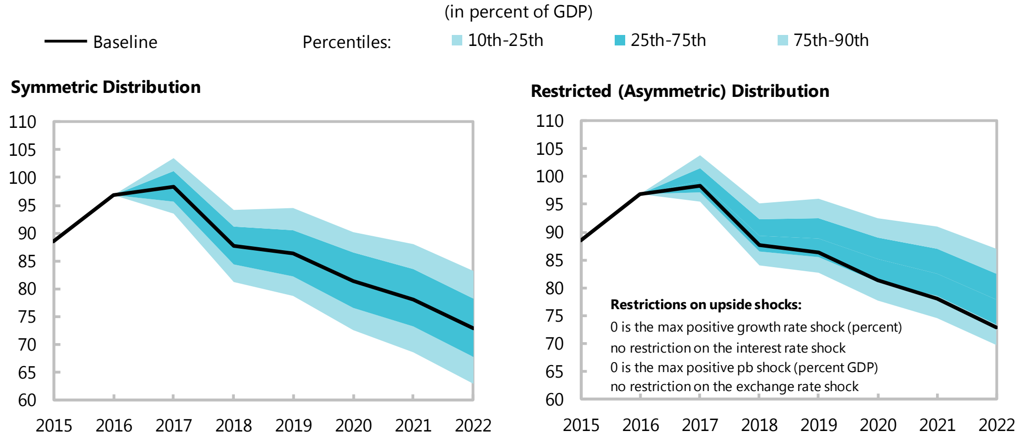
Egypt Public DSA Risk Assessment

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

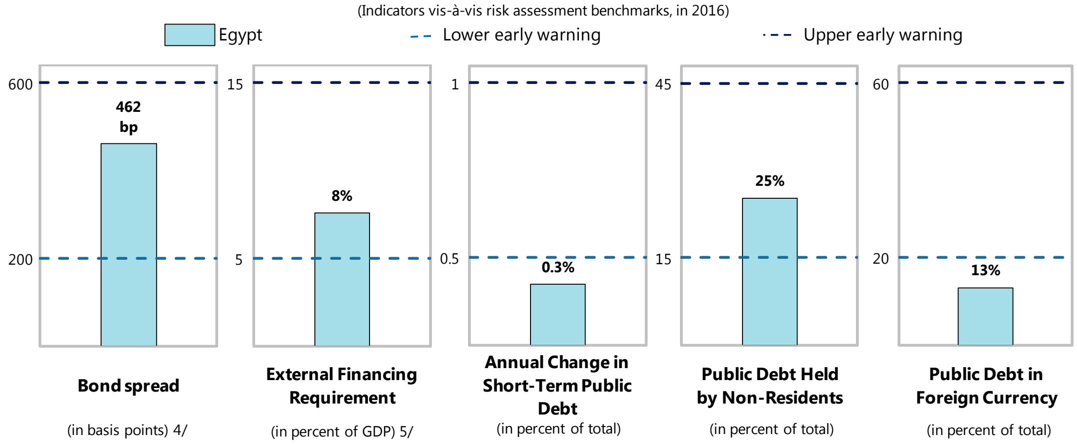
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



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/ Long-term bond spread over German bonds, an average over the last 3 months, 30-Dec-15 through 29-Mar-16.

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 Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

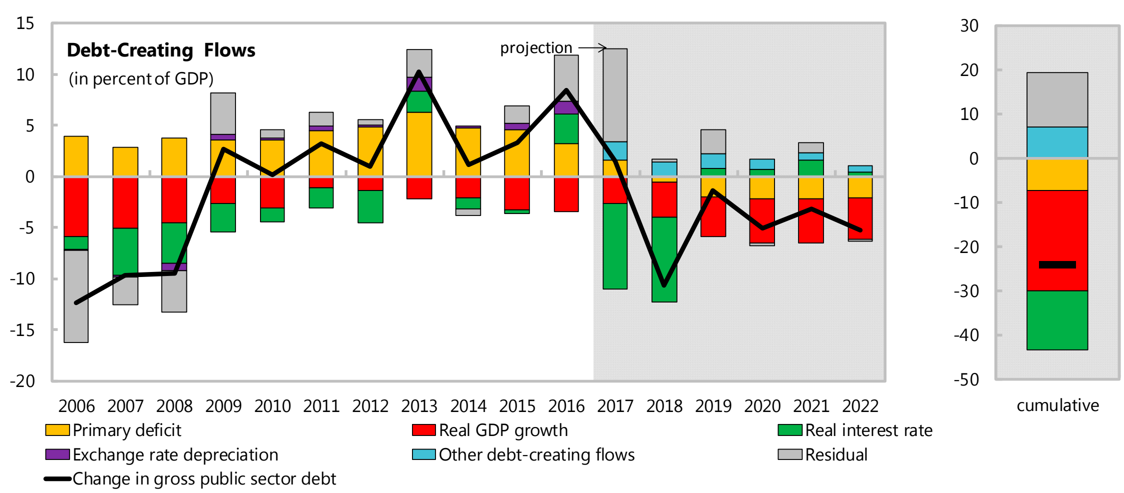
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2006-2014 [2]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	76	88	97	98	88	86	81	78	73
Public gross financing needs	20.6	39.2	45.4	38.0	33.4	33.2	33.5	35.2	33.7
Real GDP growth (in percent)	4.6	4.4	4.3	3.5	4.5	5.3	5.8	6.0	6.0
Inflation (GDP deflator, in percent)	10.8	9.9	6.3	24.8	22.3	13.5	9.8	7.2	7.2
Nominal GDP growth (in percent)	15.9	14.7	10.8	29.1	27.7	19.5	16.2	13.7	13.7
Effective interest rate (in percent) [4]	8.2	9.9	10.2	14.4	12.5	15.3	11.3	9.9	8.2

As of March 29, 2016		
Sovereign Spreads		
EMBIG (bp) 3/	426	
5Y CDS (bp)	393	
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B-	B-
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-1.5	3.3	8.4	1.5	-10.6	-1.4	-5.0	-3.2	-5.3	-24.0	
Identified debt-creating flows	-0.7	1.6	3.9	-7.6	-10.8	-3.7	-4.8	-4.1	-5.1	-36.2	
Primary deficit	4.2	4.6	3.2	1.6	-0.5	-2.0	-2.2	-2.2	-2.1	-7.4	-3.0
Primary (noninterest) revenue and gra	23.7	21.5	20.7	21.1	21.5	20.6	20.5	21.1	21.1	126.0	
Primary (noninterest) expenditure	27.9	26.1	24.0	22.7	21.0	18.6	18.3	18.9	19.1	118.6	
Automatic debt dynamics [5]	-4.9	-3.0	0.7	-11.0	-11.7	-3.1	-3.6	-2.7	-3.7	-35.9	
Interest rate/growth differential [6]	-5.1	-3.6	-0.5	-11.0	-11.7	-3.1	-3.6	-2.7	-3.7	-35.9	
Of which: real interest rate	-2.0	-0.4	2.9	-8.4	-8.3	0.8	0.7	1.6	0.4	-13.3	
Of which: real GDP growth	-3.1	-3.2	-3.4	-2.6	-3.4	-3.9	-4.3	-4.3	-4.1	-22.6	
Exchange rate depreciation [7]	0.2	0.6	1.2	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	1.8	1.4	1.4	1.0	0.8	0.7	7.1	
Please specify (1) (e.g., drawdown of	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	1.8	1.4	1.4	1.0	0.8	0.7	7.1	
Please specify (2) (e.g., ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-0.8	1.8	4.5	9.1	0.2	2.3	-0.3	0.9	-0.1	12.2	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ 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 $r - \pi (1+g)$ and the real growth contribution as -g.

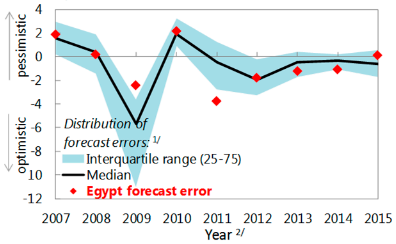
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

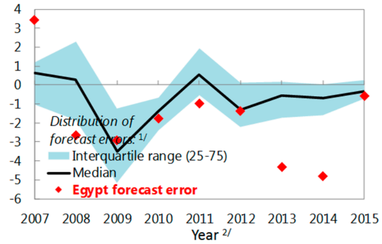
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Forecast Track Record, versus program countries

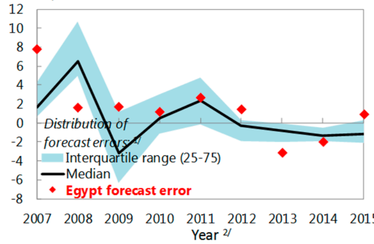
Real GDP Growth
(in percent, actual-projection)
Egypt median forecast error, 2007-2015: **-1.05**
Has a percentile rank of: **26%**



Primary Balance
(in percent of GDP, actual-projection)
Egypt median forecast error, 2007-2015: **-1.75**
Has a percentile rank of: **22%**

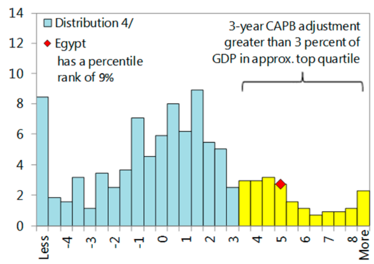


Inflation (Deflator)
(in percent, actual-projection)
Egypt median forecast error, 2007-2015: **1.43**
Has a percentile rank of: **74%**

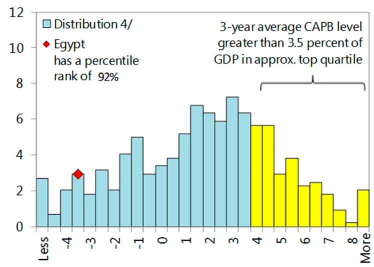


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

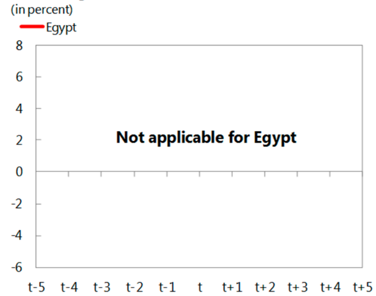


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)

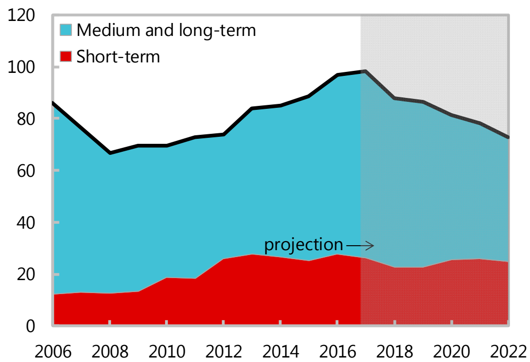


Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Egypt, as it meets neither the positive output gap criterion nor the private credit growth criterion.
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.

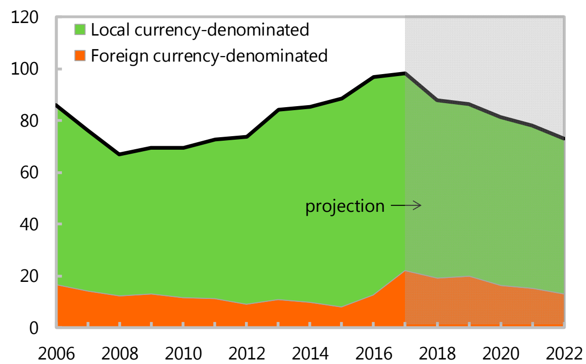
Egypt Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



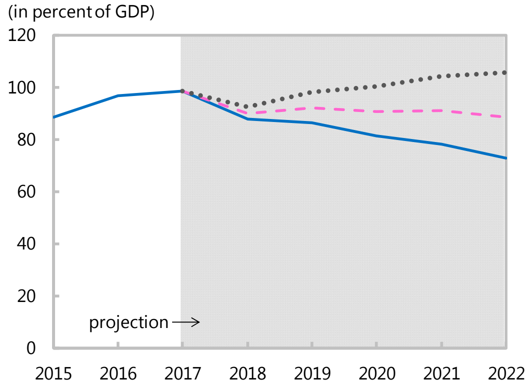
By Currency
(in percent of GDP)



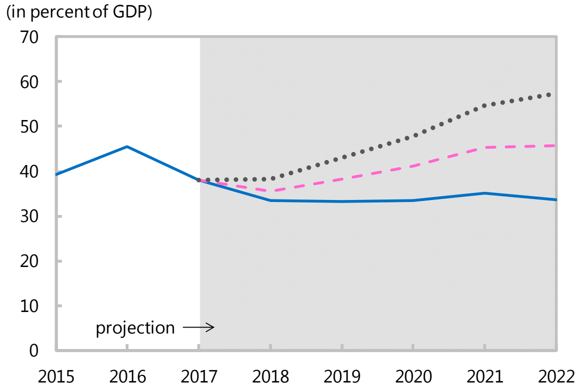
Alternative Scenarios

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)

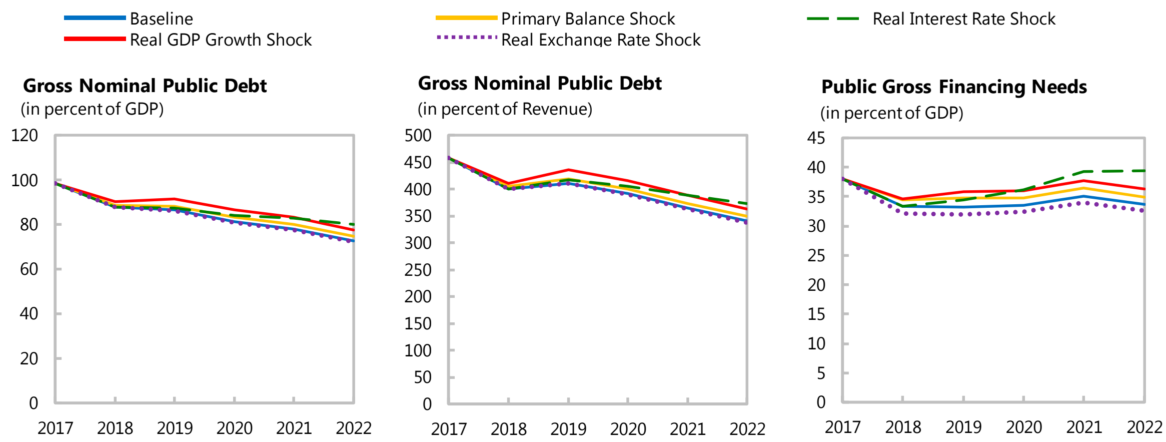
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.5	4.5	5.3	5.8	6.0	6.0
Inflation	24.8	22.3	13.5	9.8	7.2	7.2
Primary Balance	-1.6	0.5	2.0	2.2	2.2	2.1
Effective interest rate	14.4	12.5	15.3	11.3	9.9	8.2
Constant Primary Balance Scenario						
Real GDP growth	3.5	4.5	5.3	5.8	6.0	6.0
Inflation	24.8	22.3	13.5	9.8	7.2	7.2
Primary Balance	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	14.4	12.5	15.3	11.3	9.7	8.1

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.5	4.3	4.3	4.3	4.3	4.3
Inflation	24.8	22.3	13.5	9.8	7.2	7.2
Primary Balance	-1.6	-4.2	-4.2	-4.2	-4.2	-4.2
Effective interest rate	14.4	12.5	15.2	11.2	9.6	8.0

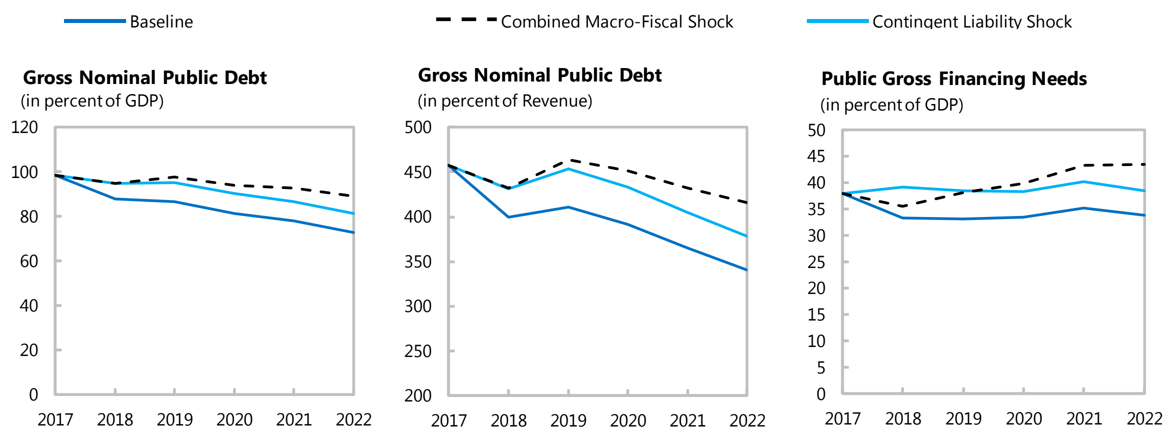
Source: IMF staff.

Egypt Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	3.5	4.5	5.3	5.8	6.0	6.0
Inflation	24.8	22.3	13.5	9.8	7.2	7.2
Primary balance	-1.6	-0.6	1.3	2.1	2.2	2.1
Effective interest rate	14.4	12.5	15.4	11.4	9.9	8.2
Real Interest Rate Shock						
Real GDP growth	3.5	4.5	5.3	5.8	6.0	6.0
Inflation	24.8	22.3	13.5	9.8	7.2	7.2
Primary balance	-1.6	0.5	2.0	2.2	2.2	2.1
Effective interest rate	14.4	12.5	17.0	13.7	12.7	11.4
Combined Shock						
Real GDP growth	3.5	2.6	3.4	5.8	6.0	6.0
Inflation	24.8	21.8	13.1	9.8	7.2	7.2
Primary balance	-1.6	-0.6	1.2	2.1	2.2	2.1
Effective interest rate	14.4	12.6	16.4	13.3	12.4	11.1

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	3.5	2.6	3.4	5.8	6.0	6.0
Inflation	24.8	21.8	13.1	9.8	7.2	7.2
Primary balance	-1.6	0.1	1.2	2.2	2.2	2.1
Effective interest rate	14.4	12.5	15.3	11.4	9.9	8.2
Real Exchange Rate Shock						
Real GDP growth	3.5	4.5	5.3	5.8	6.0	6.0
Inflation	24.8	27.7	13.5	9.8	7.2	7.2
Primary balance	-1.6	0.5	2.0	2.2	2.2	2.1
Effective interest rate	14.4	12.6	14.8	11.0	9.6	8.0
Contingent Liability Shock						
Real GDP growth	3.5	2.6	3.4	5.8	6.0	6.0
Inflation	24.8	21.8	13.1	9.8	7.2	7.2
Primary balance	-1.6	-3.8	2.0	2.2	2.2	2.1
Effective interest rate	14.4	13.3	15.5	11.4	9.9	8.2

Source: IMF staff.

Annex II. External Debt Sustainability Analysis

Table 1. Country: External Debt Sustainability Framework, 2012-2021

(In percent of GDP, unless otherwise indicated)

		Actual							Projections					
		2012	2013	2014	2015	2016	10-Year Historical Average	10-Year Standard Deviation	2017	2018	2019	2020	2021	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: External debt**	12.5	15.1	15.3	14.5	16.8			**31.2**	**28.0**	**26.3**	**23.4**	**21.5**	**-5.2**
2	Change in external debt	-1.6	2.7	0.1	-0.8	2.3			14.3	-3.1	-1.7	-2.9	-2.0	
3	Identified external debt-creating flows (4+8+9)	2.7	0.0	-1.7	0.5	3.9			1.0	-0.7	-1.5	-1.8	-1.7	
4	Current account deficit, excluding interest payments	3.5	2.0	0.5	3.5	5.7			5.3	3.9	3.1	2.9	3.0	
5	Deficit in balance of goods and services	8.0	6.4	8.4	8.5	9.7			10.9	9.5	8.6	8.2	8.0	
6	Exports	16.6	17.2	14.5	13.3	10.5			16.5	17.1	17.2	17.5	17.7	
7	Imports	24.6	23.6	22.9	21.7	20.1			27.4	26.7	25.7	25.7	25.7	
8	Net non-debt creating capital inflows (negative)	0.5	-1.8	-1.7	-1.8	-2.1			-4.0	-4.0	-4.0	-3.9	-3.9	
9	Automatic debt dynamics 1/	-1.2	-0.2	-0.6	-1.2	0.2			-0.4	-0.6	-0.7	-0.8	-0.8	
10	Contribution from nominal interest rate	0.2	0.3	0.2	0.2	0.2			0.4	0.7	0.6	0.6	0.5	
11	Contribution from real GDP growth	-0.3	-0.3	-0.3	-0.6	-0.6			-0.8	-1.3	-1.4	-1.4	-1.3	
12	Contribution from price and exchange rate changes 2/	-1.2	-0.2	-0.5	-0.8	0.6			...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	-4.3	2.6	1.8	-1.3	-1.6			13.3	-2.5	-0.2	-1.1	-0.3	
	External debt-to-exports ratio (in percent)	75.3	88.2	105.7	109.6	160.3			188.2	163.6	153.3	134.1	121.4	
	Gross external financing need (in billions of US dollars) 4/	14.9	11.3	11.6	18.1	25.2			25.8	23.8	17.0	18.0	21.2	
	in percent of GDP	5.4	4.0	3.8	5.5	7.6			10.8	9.3	6.1	6.0	6.5	
	Scenario with key variables at their historical averages 5/								**16.6**	**11.5**	**8.3**	**4.8**	**2.0**	**-3.6**
	Key Macroeconomic Assumptions Underlying Baseline													
	Real GDP growth (in percent)	2.2	2.1	2.2	4.2	4.3	4.3	2.2	3.5	4.5	5.3	5.8	6.0	
	GDP deflator in US dollars (change in percent)	8.9	1.4	3.3	5.3	-4.2	8.8	4.7	-30.0	2.7	3.3	1.6	2.7	
	Nominal external interest rate (in percent)	1.5	2.2	1.7	1.4	1.6	1.8	0.3	1.9	2.3	2.5	2.4	2.5	
	Growth of exports (US dollar terms, in percent)	-5.7	7.3	-11.1	0.7	-20.7	5.5	15.0	13.8	11.0	8.9	9.6	10.1	
	Growth of imports (US dollar terms, in percent)	10.0	-0.8	2.6	4.2	-6.9	9.9	14.6	-2.0	4.4	4.8	7.5	8.8	
	Current account balance, excluding interest payments	-3.5	-2.0	-0.5	-3.5	-5.7	-1.0	2.1	-5.3	-3.9	-3.1	-2.9	-3.0	
	Net non-debt creating capital inflows	-0.5	1.8	1.7	1.8	2.1	3.4	4.1	4.0	4.0	4.0	3.9	3.9	

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.

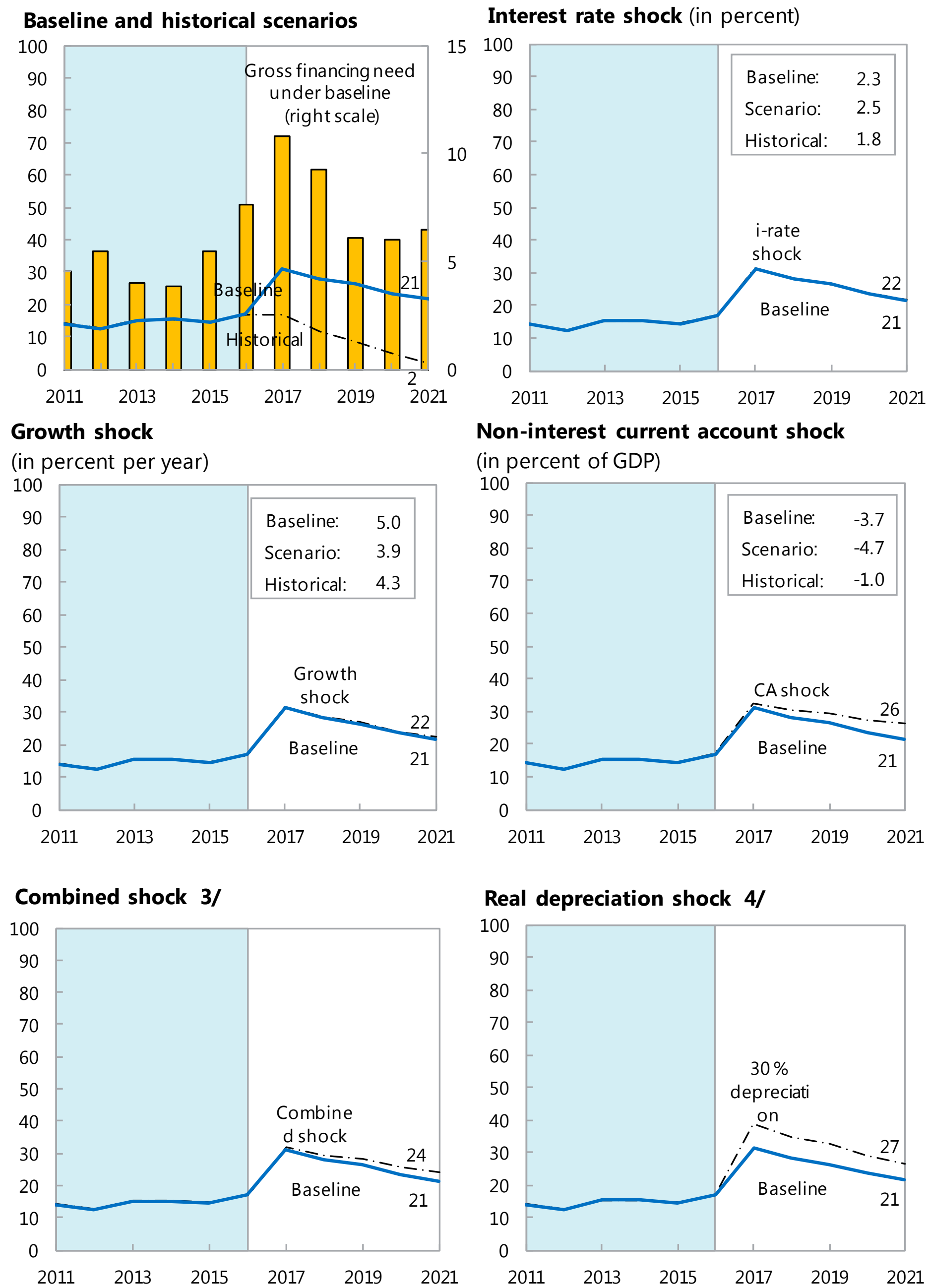
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 1. Country: 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-half 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 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2016/17 above and beyond the actual figure.

Appendix I. Letter of Intent

July 6, 2017

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

Dear Ms. Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP of November 7, 2016. It reports on recent economic developments and reviews progress in implementing the Egypt's economic program and sets out macroeconomic policies and structural reforms that the Government plans to pursue in the remaining period of 2016/17 and in 2017/18. The overarching objectives of our program remain unchanged: to maintain macroeconomic stability by addressing fiscal and external imbalances, promote inclusive growth and employment creation, support private sector development, and protect the poor and vulnerable. Our policies have remained on track with all end-December quantitative performance criteria (PC) met and the structural benchmarks broadly implemented. To support our efforts, we request the completion of the first review of the extended arrangement under the IMF's Extended Fund Facility and the disbursement of the second tranche in the amount equivalent to SDR 895.48 million (44 percent of quota and about $1.25 billion). We have secured sufficient financing assurances for the program through 2017/18.

We have successfully adopted a free-floating exchange rate regime, which from its inception has allowed the exchange rate to be determined in free trading. However, because of the larger-than-expected depreciation of the pound, the end-June targets for fuel subsidies and the primary balance are no longer achievable. As a corrective measure, we will implement a stronger fiscal adjustment in the next two years, including through the fuel subsidy reform, to offset the shortfalls of 2016/17 and preserve the program's medium-term objectives. We therefore request waivers of nonobservance for these quantitative PCs. While all other end-June PCs are on track to be met, data are not yet available to assess the performance and we also request waivers of applicability for net international reserves and net domestic assets of the CBE.

In line with Fund's policy, a safeguards assessment was completed in February, and its recommendations have been incorporated in the program. As before, IMF resources will be used for budget support and will be maintained in government accounts at the Central Bank of Egypt (CBE). The CBE and the Ministry of Finance signed a memorandum of understanding that clarifies the responsibilities related to this agreement.

We believe that the policies described in the attached MEFP are adequate to achieve the objectives of our program over the medium-term. We will monitor economic developments and performance and we stand ready to take additional measures that may become necessary to achieve our program objectives. 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 second review is expected to be completed on or after November 11, 2017 and the third review will be completed on or after March15, 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. **Economic growth began to pick up in the second quarter of 2016/17, while inflation increased.** The foreign exchange shortages that were the main impediment to growth were resolved in November following the launch of the reform program, and the availability of foreign currency is starting to positively affect national accounts statistics. We are seeing an initial recovery in tourism and as well as resilient real estate performance. The non-petroleum manufacturing sector - key for job creation - is showing signs of a solid rebound, recording year-on-year growth of 9 percent in the last quarter of 2016. In addition, natural gas output picked up for the first time since 2012, posting real growth of 4.9 percent compared to a contraction of 12 percent during the same quarter last year. CPI inflation rose to 30 percent in May, largely reflecting pass-through from the stronger than expected depreciation of the pound as well as other supply-side factors. Core inflation (excluding volatile food items and regulated prices) was 31 percent in May 2017. Meanwhile, monthly headline inflation has been declining since February 2017, dropping to 1.7 percent in May from an average of 4 percent between November 2016 and January 2017.

2. **With the move to a floating exchange rate regime in early November, the foreign exchange market was liberalized and the exchange rate was unified.** The pound depreciated from the pre-float official rate of EGP/$8.8 to almost EGP/$19 in January 2017, reflecting significant overshooting. From early February, however, the markets regained confidence and the exchange rate started to stabilize around EGP/$18 since mid-March. The CBE has not sold foreign exchange in the interbank market except for the $100 million auctioned on the day of the float, and has only been supplying FX to SOE's to finance critical imports, as envisaged in the program. Gross international reserves reached $30.4 billion at end-May, significantly exceeding the programmed June target of $22 billion.

3. **The current account deficit narrowed in the second quarter of 2016/17.** Supported by real effective depreciation of the pound by 26.8 percent, compared to the previous year, non-oil exports increased significantly. Private remittances and portfolio investments also increased considerably, as the liberalized foreign exchange market, improved outlook and attractive returns on Egyptian assets started to draw in foreign capital. Workers' remittances increased by 13 percent and reached about $8.0 billion since the float. Portfolio investments also increased considerably. Holdings of the Egyptian Treasury bills by non-residents rose to about $5.8 billion by April 2017 compared with only $40.6 million a year ago. Total FDI inflows climbed to $4.0 billion in the second quarter of 2016/17, which is the highest level since Q1 2015.

4. **Performance under the program was strong.** All five quantitative performance criteria and two out of three indicative targets for December have been met, some with sizeable margins (Table 1). The indicative target for tax revenues was missed because it took some time to prepare and pass executive regulations for the VAT. Most structural benchmarks were also implemented as planned.

Specifically: in the monetary area, in December 2016 the stock of government overdrafts has been eliminated by converting EGP250 billion into securities; and monetary policy and financial stability reports have been published on March 30, 2017. In the fiscal area, a stamp tax on stock exchange transactions was introduced by end-May 2017, effective from July 1; In the energy sector, drawing on the recommendations of the external consultants the government adopted a medium-term energy sector reform strategy and is implementing an action plan to address EGPC's financial difficulties. Finally, in late April the Parliament passed the new Industrial Licensing law, which is consistent with the structural benchmark. The law became effective early in May 2017 after the President signed it. Three structural benchmarks were implemented with a short delay: the new investment guidelines for reserve management were approved in May as more time was needed to align the document with the best international practices; and a comprehensive fiscal risks statement and, contained in it, a report on the outstanding stock of state guarantees were prepared in April to allow a more extended coverage through March 2017. The remaining two structural benchmarks are due by end-June and are well on track.

B. Economic Program

5. We are continuing to implement our comprehensive reform program that aims to resolve macro imbalances and remove constraints that hold back the Egyptian economy. The key objectives of the program remain unchanged. These are: to restore macroeconomic stability, strengthen fiscal and external sustainability, and lay a solid foundation for inclusive and robust growth, and employment creation. We have demonstrated our strong commitment to the program by front-loading critical policy decisions and reforms such as floating the exchange rate, reducing the budgetary burden of energy subsidies and related market distortions, and introducing the VAT that has been long awaited. These were accompanied by prudent fiscal and monetary policies that were aimed at reducing inflation and public debt, and by launching broad-ranging structural reforms to support private sector development, and improve governance and the business climate. Our efforts have already paid off in terms of restoring confidence of international capital markets as demonstrated by growing private capital inflows and successful Eurobond placements of a $4 billion in January 2017 and $3 billion in May. Building on these initial successes, we believe that the policy package as outlined below will continue to strengthen Egypt's international standing, attract investments, especially FDI, and catalyze financial support from our multilateral and bilateral partners. Our objectives and policies are broadly unchanged from the previous MEFP, but have been adjusted in view of economic outcomes so far, notably the weaker than expected exchange rate that led to higher inflation.

Monetary and Exchange Policies

6. Monetary policy will continue to aim to control and gradually reduce inflation to single digits over the medium term. This will support real incomes and enhance external competitiveness. In 2016/17 inflation increased significantly, primarily due to the pass-through from the depreciation of the pound as well as other supply-side factors such as the introduction of the VAT, the increases in import tariffs, and the increases in energy prices. In 2017/18 too, prices will be affected by the increase in the VAT rate from 13 to 14 percent and the increase in electricity prices. As before, while the first-round inflation effects of these measures will be accommodated, the monetary stance will be geared toward containing the second-round effects. We have already tightened the monetary stance since mid-May by reducing balances on overnight and 7-day deposits to below EGP30 billion and raising the CBE policy rates by 200 basis points in May and another 200 basis points in July to tame underlying inflationary pressures and send a clear signal to markets about the CBE's intention. As inflation starts to moderate, the CBE envisages a measured easing of the monetary stance to allow a reduction in interest rates and support credit growth. However, should underlying inflationary pressures persist, the CBE will stand ready to delay the easing or even tighten the monetary stance as needed.

7. **We will continue to maintain a floating exchange rate regime and maintain adequate official reserves.** The new floating regime will play a critical role in preserving competitiveness and serve as an important buffer against external shocks. We aim to raise gross international reserves to $31 billion in 2018/19, which is equivalent to 120 percent of the Fund's reserve adequacy metric for flexible exchange rate regimes, and is adequate to maintain macroeconomic stability and market confidence. The CBE will continue to supply foreign exchange to the government for servicing foreign debt. The CBE will, in general, continue not to 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.

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. We will continue to strengthen our liquidity management and forecasting framework to encompass all segments of the money market, the government securities market, and the foreign exchange market. We will strengthen collaboration between the CBE and the MoF to incorporate public sector flows in the monetary program, and develop capacity for analyzing and forecasting high frequency patterns for fiscal revenues, expenditures, external financing and domestic financing needs. Monetary operations will primarily rely on indirect policy instruments such as deposit auctions and standing facilities, which will enable the CBE to achieve its monetary targets and redistribute liquidity among banks. However, it may also resort to changing reserve requirements as needed whenever liquidity surpluses or shortages are viewed to be structural. To minimize liquidity injection through direct credit to government, we will cap the overdrafts account at EGP47.5 billion in 2016/17 and at EGP52.9 billion in 2017/18. In the following year, overdrafts will continue to remain below 10 percent of the previous three years' average tax revenues, as mandated by the CBE law. Any additional holdings of government securities by the CBE will be determined by considerations of monetary policy. In 2017/18, the CBE may be lending to commercial banks in support of SME and mortgage programs up to EGP 31 billion. Beyond these loans, CBE lending to commercial banks will be mainly 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 CBE continues to strengthen its reserve management practices. In December 2016, the Board of the CBE approved key principles of the new investment guidelines for reserve management, but more time was needed to prepare a full-fledged document consistent with international practices. In May, we developed a complete set of guidelines for reserve management which encompasses a) clear objectives for reserve management; b) a framework for accountability and transparency of reserve management activities and their outcomes; c) sound institutional and governance structures; and d) a prudent risk management framework, including guidance on the currency distribution and exposure limits. The guidelines were approved by the CBE board in May 2017. The CBE is also developing a medium-term plan to divest its FX deposits at foreign branches of Egyptian banks, to be submitted by end-September 2017. Meanwhile, the CBE will not place any new funds in these branches, and will keep total deposits below the end-April level of $5.4 billion (structural benchmark).

10. To enhance the effectiveness of monetary and exchange rate policies, the CBE has strengthened its communication strategy. We believe that transparent and frequent communication of monetary policy objectives, the reasons behind policy decisions and the central banks' assessment of economic developments would help steer market expectations in the right direction and minimize surprises. This strengthens perceptions of stability and contributes to policy credibility. In March 2017, the CBE published the 2014 financial stability report, the latest available, as well as its first quarterly monetary policy and inflation report, which discussed monetary, exchange rate and interest rate developments, the causes of inflation and the measures taken to control it, and offered the CBE's views of the outlook, risks to that projection and the policy direction. We are finalizing the 2016 financial stability report, which will also be duly published once approved by the CBE board (structural benchmark). We will continue to regularly publish these reports.

11. The CBE is reviewing its current legal framework, the governance structure, and accountability with a view to update it as needed. The amendments to the CBE Law will contain the following provisions: 1) The CBE law prevails against contradicting provisions in other laws; 2) Clarify the terms of the Board appointment and provision of non-executive majority; 3) Include a double veto procedure and objective dismissal grounds for all board members; 4) Strengthen Board oversight over CBE management and ensure clear division of labor; 5) Strengthen rules related to the CBE recapitalization and the distribution of unrealized profits; 6) Limit monetary financing; 7) Provide specific recapitalization mechanisms financed by the government; 8) Clarify the CBE's role and framework in providing emergency liquidity assistance to solvent but illiquid banks, while solvency support to troubled banks and resolution funding will primarily be the role of the government; 9) Require to publish the audited financial statements of the CBE. The new law will be submitted to Cabinet by end-December 2017 (structural benchmark). In addition, we will strengthen our financial reporting practices following the recent move to accounting standards in line with the IFRS, and will modify the external auditor selection and appointment policy, tailored to the central bank, with strengthened criteria on professional experience, capacity, and international affiliations (structural benchmark).

12. In June, the CBE eliminated the restriction on resident individuals to transfer abroad no more than $100,000 annually without an underlying commercial transaction. Transfers by resident corporations for bona fide current transactions, and by non-residents, remain unrestricted. By December 2017 we will also remove the $50,000 cash deposit cap for non-priority goods.

Fiscal Policy

13. Despite policy commitment and tight fiscal control over government spending, the 2016/17 budget has come under additional pressure due to larger-than-expected depreciation of the pound and higher global oil prices. Spending on energy subsidies and selected other expenditure with large import content have increased considerably, making the primary deficit and the fuel subsidies targets unreachable without unreasonable cuts in growth-friendly spending and social programs. To contain the deficit slippage, we maintained a tight control over the wage bill, as well as other current expenditure items other than social spending and meeting the objectives set in the Constitution. We now project the fuel subsidies to increase to EGP101.2 billion, and the primary deficit to reach EGP62.2 billion, or 1.8 percent of GDP, which is still a significant fiscal consolidation of 1.6 percent of GDP compared to 2015/16. The full year estimate of the fiscal effort in 2016/2017 is around 4.5 percent of GDP compared to the baseline outcome (without any fiscal consolidation measures or fiscal tightening), and when including the additional savings achieved in government spending compared to budget targets. At the same time, as an offsetting measure, we identified additional savings in the wage bill of about EGP6 billion and in goods and services in the amounts of EGP3 billion, and have raised prices for gasoline, diesel, LPG, kerosene and fuel oil. Electricity tariffs will also be increased in July, 2017 as planned (see ¶19).

14. Fiscal policy in 2017/18 aims to place public debt on a clearly declining path to sustainable levels. The depreciation of the exchange rate significantly increased the pound value of our debt, which is now estimated to reach 98.4 percent of GDP by end-June 2017. Our objective is to reduce it to about 87.8 percent of GDP in 2017/18 and to 78 percent by 2020/21. To this end, we intend to maintain the same cumulative fiscal consolidation of 5.5 percent of GDP as committed to in the program and reach a surplus of around 2.1 percent of GDP in 2018/19, which will be broadly maintained through 2020/21. In 2017/18 we will achieve a primary surplus of 0.4 percent of GDP for the first time in years. This constitutes a fiscal adjustment of 2.2 percent of GDP compared to the previously programmed 1.9 percent. Should external budget support (program disbursements) exceed the programmed levels, we will consider using part of the excess for public investment projects with high rates of social and/or economic returns. In such cases, we will seek modification to the performance criteria on the primary fiscal deficit and net international reserves, consistent with the objectives of the program, in the context of the next program review. As required by the budget law, we will request approval from Parliament of any changes in expenditure that are required to implement the program budget.

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

(1) Tax revenues will increase by around 0.7 percent of GDP due to the realization of full year impact of the previously implemented tax reforms, increasing the VAT rate from the current 13 percent to 14 percent starting July 1, increasing excise collections from tobacco sales by revising the tax structure, the introduction of a stamp duty on stock market transactions, revising and increasing stamp duty on various licenses and government services, raising fees on free zones, and working on a comprehensive program to improve revenue administration;

(2) Energy subsidies will be reduced by 0.8 percent of GDP;

(3) The wage bill will decline by 1 percent of GDP thanks to the elimination of indexation of bonuses and allowances in the budget law, strict 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 0.4 percent of GDP to improve country infrastructure and support private sector-led growth; and other expenditure will be reduced by 0.9 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 budget has a contingency fund of 0.1 percent of GDP, to preserve the deficit target in the event of revenue or expenditure slippages during the year. In addition, we will be prepared to delay lower priority expenditure, including investments.

Public Financial Management and Transparency

16. We will continue strengthening public financial management. To this end, in April 2017 we finalized a comprehensive statement of fiscal risks covering macroeconomic risks including those related to public debt management, policy, budget execution and resource mobilization risks, contingent liabilities of both the budget sector entities and the wider public sector including public enterprises, and pensions. The statement includes the assessment of the outstanding state guarantees as of March 2017, which is the first step to improve monitoring of risks in this area. We also established a committee headed by the Minister of Finance and including senior Ministry of Finance officials to evaluate all requests for new guarantee, assess the motivation and risks associated with the request, and make a recommendation whether to grant a guarantee. By September 30, 2017 the committee will develop a plan to control the issuance of new guarantees (structural benchmark). Going forward, additional measures will include:

- **Economic authorities.** we are planning 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 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.

- **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 the retired Egyptians. We will seek technical assistance from development partners and will develop a clear road map of pension reform by December 2017.

- **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.

- **Macro-Fiscal Framework**. We will strengthen our institutional framework for coordinating macroeconomic forecasts among different policy-making bodies. To this end, by September 30, 2017 we will establish an interagency technical committee comprising representatives of the Ministry of Finance (Macro-Fiscal Policy Unit), the Ministry of Planning, the CBE, the Ministry of Trade and Industry, CAPMAS, and others to discuss measures to improve national accounts as well as means to enhance the reliability and accuracy of macroeconomic forecasts. These forecasts will be the basis of fiscal, revenue and expenditure planning. Before December 31, 2017, we will 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 (structural benchmark).

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 the Parliament approved the new Gas law which promotes competition by allowing the 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.

18. We will continue implementing our energy subsidy reforms to achieve liberalization of energy prices by the end of the program. After raising electricity tariffs by an average of 40 percent last July, we will increase them further in July 2017 to ensure that the budget allocations to the electricity subsidy bill of 0.7 percent of GDP is achieved. Electricity tariffs will increase further in 2018/19 as planned and announced back in 2014, with a view to achieving cost recovery in the coming years. We raised the retail prices for gasoline and diesel by an average of 53 percent in June, as well as prices of LPG, kerosene and fuel oil by 100, 55 and 40 percent respectively. These bring the end-of-period pre-tax price-to-cost ratio to 58 percent for all fuel products and 55 percent for gasoline and diesel at the end of 2016/17. Our objective is to achieve 100 percent cost recovery in 2018/19, excluding LPG. Meantime, we will monitor quarterly price-to-cost ratios for each product. The Ministry 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 (structural benchmark). We will make additional increases in average fuel prices as needed during 2018/19 to achieve full cost recovery, excluding LPG. The prices for other fuel products will also be increased commensurately to eliminate subsidies by end-2018/19, excluding LPG. 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. Progress toward achieving these targets will be assessed at each program review.

19. One of the main challenges is to restructure 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. Immediate actions are needed to restore financial sustainability of the EGPC and to minimize risks for the budget. To address the problem, and drawing on the recommendations of the external consultant presented by March 31, 2017 we developed and started to implement 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 through the Initial Public Offerings. The plan also includes a strategy to gradually settle the 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 $1.1 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 have been developed in the Nile delta and Egypt's territorial waters in the Mediterranean 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. In addition, several other key projects have been accelerated to enhance current production earlier than planned. As such, gas production has increased during 2016/17 for the first time in years and is set to reach 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 excellent opportunity to save excess quantities for future generations and/or export gas to other countries in the region and elsewhere. Moreover, the ongoing offshore explorations suggest that a presence of even larger deposits of gas is highly likely, which once confirmed will further boost Egypt's gas potential. Negotiations with international gas exploration companies on development these new fields and on favorable to Egypt production sharing agreements 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 has weathered well the transition to a floating exchange rate regime. EGP depreciation and higher interest rate had a moderate impact on bank capital adequacy, asset quality, profitability and liquidity. The banking system recorded aggregate profits of EGP62 billion in 2016, which cushioned the impact of the exchange rate devaluation on banks' capital. Based on March 2017 data, the average capital adequacy ratio stood at 14.9 percent, well above the Basel-recommended floor of 8.625 percent and the CBE-mandated 11.25 percent; return on equity is at a healthy 24.4 percent and the share of non-performing loans in total loans remained stable at 5.7 percent; moreover, specific loan-loss provisioning coverage is 91.5 percent. Net open FX positions are very small, limiting the impact of currency risk.

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; 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 also closely monitor currency mismatches on the balance sheets of large corporations and state-owned enterprises to mitigate possible credit risks.

24. We are also taking actions to strengthen banking supervision and the regulatory framework. These will 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; and d) strengthening 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, increase exports and industrial production as well as create adequate and well-paid jobs to absorb rapidly growing labor force. It is our ambition to significantly improve our ratings in Doing Business and Global Competitiveness, where Egypt's rank has declined in recent years. The reform measures we are implementing aim at creating a competitive business environment, boosting exports and manufacturing, attracting investment and increasing productivity to provide fertile ground for private sector activity. The following are the key measures:

- In April 2017, the Parliament passed a new Industrial Licensing law, under which the existing licenses are automatically renewed annually instead of issuing temporary permits for 3-5 years. The law also simplifies the issuance of new licenses by eliminating a cumbersome and time-consuming pre-approvals, including for Civil Defense and Fire safety, and hence the wait time for new licenses is expected to decline to 30 days from an average of 634 days before. The law also guarantees that investors will receive a license if they comply with health, safety and environmental regulations. Exceptions are for the industries that affect vital public interests. For these industries, the licenses will be issued by the respective ministries under more rigorous rules, but still considerably more simplified than before. The industrial register will be used for statistical purposes only and will not be linked to the exercise of industrial activities.

- We have also submitted to Parliament a revised insolvency law in line with best international standards. The new law now governs not only liquidation, but also restructuring allowing companies under certain conditions to restructure or choose a settlement instead of starting bankruptcy procedures. Special bankruptcy divisions of the economic courts will handle the bankruptcy cases, including mediation, restructuring and settlements, and the filings can be done by either a debtor, creditor, or the Prosecutor General. At the same time, the law introduces adequate sanctions for fraudulent bookkeeping, concealing financial records and accounting negligence.

- Egypt's non-oil exports of goods are only 6.8 percent of GDP, 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, by we are reforming our export promotion regime to provide adequate support to small and new exporters. We are also targeting reduction of non-tariff barriers.

- Reducing high unemployment is a high priority, especially among women and youth for which both labor participation and employment statistics are particularly poor. While the macroeconomic policies and structural reforms that we are adopting will all support job creation, we also intend to enhance active labor market policies. We are developing specialized training programs for youth and job intermediation schemes. In 2016/17 we have budgeted and spent EGP 250 million to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs. In 2017/18 we will increase such spending to EGP500 million (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 labor, force the committee will prepare a set of measures. We will also seek support under the Women's Empowerment Project from the World Bank.

- The announced five-year IPO program is part of the government's agenda to unleash potential of Egypt's public assets, widen ownership base, enhance transparency and corporate governance in state owned companies, diversify investment sources, and attract investments. 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. The first offering is expected to take place in the last quarter of 2017.

C. Financing and Program Monitoring

27. In support of this program, we will mobilize funds from international capital markets and our foreign partners to close the remaining financing gap. The current projections suggest that with the policies outlined in this memorandum the remaining financing gap for 2017/18 is $1.9 billion after accounting for the $4 billion from the IMF. We expect to close this gap as follows: $1 billion from the World Bank, $350 million from the AfDB; and $600 million from G7.

28. The program will be monitored through prior actions, quantitative performance criteria, indicative targets and structural benchmarks. 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–June 2018

(In billions of Egyptian pounds unless otherwise indicated)

	Dec. 2016				June 2017	December 2017	June 2018
	Program	Adjusted	Prel.	Met?	Program	Proposed Program	Proposed Program
Net international reserves of the CBE ($ million; cumulative change, floor)[1]	1,920	4,724	7,538	Yes	4,175	-2,561	-839
Net domestic assets of the CBE (at program rates; ceiling)[1]	196	204	-115	Yes	204	91	66
Fuel subsidies (cumulative, ceiling)[1]	45.0	45.0	0	Yes	62.2	65	108
Primary fiscal balance of the budget sector (cumulative, floor)[1]	-52.0	-52.9	-39.0	Yes	-29.0	-14	16
Accumulation of external debt payment arrears ($ million; continuous PC ceiling)[1]	0	0	0	Yes	0	0	0
Average reserve money (ceiling; IT)	531	531	519	Yes	555	705	755
Tax revenues (cumulative floor; IT)[1]	180	180	155	No	473	243	607
Accumulation of EGPC Arrears ($ milliom; cumulative ceiling, IT)[1]	0	0	0	Yes	-1,200	-400	-1,100
Memorandum item:							
Program disbursements ($ million; cumulative)[1]	10,350		13,154		16,300	2,450	5,950
External budget support loans ($ million; cumulative)[1]	4,700		3,804		7,450	3,350	8,350
Project loans ($ million, cumulative)[1]	0		100		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 for December 2017 and June 2018 reflect the revised definitions in line with the TMU.

Table 2. Egypt: Prior Actions and Structural Benchmarks

Measure	Objective	Timing	Status	Comments
Monetary, Exchange Rate and Financial Sector Policies				
If FX sales in auctions or the interbank market are excessive, the CBE will tighten monetary policy. The CBE may decide to conduct such tightening by raising policy rates or increasing the volume of deposit auctions, or raising reserve requirements	Ensure adequate monetary conditions to facilitate accumulation of international reserves	Continuous	Met	
Reduce the stock of the government overdrafts to EGP75 billion by converting EGP 250 billion of into securities	Improve liquidity management and remove fiscal dominance	December 31, 2016	Met	
The Board of the CBE to approve new investment guidelines for foreign exchange reserve management to clearly define its objectives and the accountability framework, and permit the CBE to allocate its reserves only in reputable international banks and financial instruments with reference to minimum acceptable credit ratings. The allocations in banks headquartered in Egypt and located abroad will be capped at the current stock of $5.6 billion	Strengthen foreign exchange reserves management	December 31, 2016	Not met, Implemented with delay in May 2017.	The guidelines were approved on December 30 by the CBE board, but more time was needed to reflect all operational aspects and align the document with best international practices. The CBE Board approved the revised investment guidelines in May 2017.

Table 2. Egypt: Prior Actions and Structural Benchmarks (continued)				
Measure	Objective	Timing	Status	Comments
Start publishing quarterly monetary policy and/or	Increase transparency	March 31, 2017	Met	The monetary policy report was published on March 31, 2017.
inflation reviews and financial stability reports	of monetary policy			The financial stability report for 2014 was published on March 30, 2017. The CBE is preparing a report for 2016, which will also be published.
Fiscal Policy and Public Financial Management				
Introduce capital gains tax or stamp tax on stock exchange transactions to be effective no later than 2017/18	Improve revenue collection	May 31, 2017	Met	
Increase social spending on programs such as cash transfers, social pension, school meals, health insurance and free medicine for the poor, etc. by at least EGP 25 billion	Strengthen social protections	June 30, 2017	On track	
Prepare a report on outstanding stock of state guarantees at end June 2016	Improve debt management	January 31, 2017	Not met, Implemented with delay in April 2017.	The coverage was extended through March 2017
Prepare a comprehensive statement of fiscal risks covering all key areas including macroeconomic risks, public enterprises, debt management, contingent liabilities, pensions, resource mobilization, etc.	Improve monitoring and management of fiscal risks	March 31, 2017	Not met, Implemented with delay in April 2017	The coverage was extended through March 2017

Table 2. Egypt: Prior Actions and Structural Benchmarks (continued)				
Measure	Objective	Timing	Status	Comments
Energy Sector Reforms				
The government to adopt an energy sector reform strategy based on the report produced by an external consultant	Improve efficiency of the energy sector	March 31, 2017	Met	
Develop an action plan that will place the EGPC on a financially sustainable footing	Improve efficiency of EGPC and minimize the related fiscal risks	March 31, 2017	Met	
Business Environment and Other Reforms				
Adopt a new licensing law which will 1) abolish industrial licensing with the exception of industries that affect vital public interests and retain only factory permitting; 2) limit Civil Defense and Fire pre-approvals to high-risk facilities	Streamline the licensing regime and reduce the time and effort needed to obtain a license	March 31, 2017	Met	
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	On track	

Table 2. Egypt: Prior Actions and Structural Benchmarks (continued)			
New Measures			
Measure	Objective	Timing	Status
Submission to Parliament of a budget consistent with program objectives.	Ensure fiscal consolidation consistent with program objectives.	Prior action	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	
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	
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	
Publish 2016 financial stability report. MEFP ¶10.	Increase transparency	September 30, 2017	
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	
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	

Table 2. Egypt: Prior Actions and Structural Benchmarks (concluded)			
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	
Spend EGP500 million to improve the availability of public nurseries 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	

Attachment II. Technical Memorandum of Understanding

July 6, 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 Jen	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 18.05 (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 June 30, 2016, foreign reserve assets thus defined amounted to $17,097 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 June 30, 2016, reserve-related liabilities thus defined amounted to $9,144 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 7) relative to the baseline 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, and balances on commercial banks' overnight deposits, 7-day deposits, correspondent accounts, and required reserves in local currency at the CBE (this excludes balances in deposit auctions and in term 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 EGP611.1 billion. For June 2017, reserve money is defined as above, but excluding balances on commercial banks' overnight deposits and 7-day 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)

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 and 7-day 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 EGP648.76 billion. For June 2017, NDA is defined as above but including overnight and 7-day deposits. 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)

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-91.9 billion

13. **The primary balance of the budget sector** for June 2017 under the program is defined as the overall balance of the budget sector plus total interest paid. The overall balance is measured from the financing side and includes the following with the minus sign: (i) net domestic financing of the budget sector; and (ii) net foreign financing of the budget sector.

i. Net domestic financing consists of:

- The cumulative change from the beginning of the fiscal year of the outstanding stocks of loans, advances, and overdrafts of the budget sector (as defined in paragraph 11) from the CBE, holdings of government securities and promissory notes by the CBE, and all other CBE accounts receivable due from the budget sector, minus all deposits of the budget sector at the CBE.

- The cumulative change from the beginning of the fiscal year of the outstanding stock of loans, advances, and overdrafts of the budget sector from domestic commercial banks, holdings of government securities and promissory notes by domestic commercial banks, and all other accounts receivable by commercial banks from the budget sector, minus all deposits of the budget sector at domestic commercial banks.

- The cumulative change from the beginning of the fiscal year of the outstanding stock of domestic debt held outside the central bank and domestic commercial banks including domestically issued government securities held by non-residents. This includes the private sector as well as loans and advances to, and holdings of government securities and promissory notes by public entities not covered by the budget sector accounts, with the exception of bonds issued by the government to the Social Insurance Fund (SIF) to securitize the past arrears.

ii. Net external financing is measured on a cumulative basis from the beginning of the fiscal year and is defined as disbursements minus amortization of budget support loans, project loans, Euro-bonds and similar instruments, and any other forms of government external debt, excluding domestically issued government securities held by non-residents. The definition of debt is set out in point 8 of Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board Decision No. 15688-(14/107 adopted on December 5, 2014). Net external financing will be measured in domestic currency at the official exchange rate on the date of the transactions.

iii. Interest paid is measured on a cumulative basis from the beginning of the fiscal year and is defined as the total interest bill paid by the budget sector on all its interest-bearing liabilities.

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. Continuous Performance Criteria

19. 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.

20. 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.

I. Consultation Clause

21. 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.

22. 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.

J. Monitoring and Reporting Requirements

23. 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.

K. Data Reporting

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 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 Fuel subsidies to EGPC	Q Q	90 calendar days 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

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

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

Statement by Hazem Beblawi, Executive Director for the Arab Republic of Egypt and Wafa F. Abdelati, Senior Advisor to the Executive Director
July 13, 2017

1. **Egypt is undertaking fundamental reforms of historic proportions that aim to deliver macroeconomic stability, an investment led-recovery, and inclusive growth.** Many difficult reforms have been implemented in recent months as part of the government's reform program, despite the risk of adverse public reactions: the Egyptian pound was floated; a VAT was introduced (and its standard rate increased from 10 to 14 percent); a second and third fuel price hike was implemented (by an average of 35 and 55 percent, respectively) as well as electricity tariff increases (of 40 and 37 percent, respectively) within a 9 month period; three large interest rate hikes (amounting to 700 bps) were undertaken since November 2016; and a range of structural reforms were completed or initiated.

2. **The measures undertaken under the government's home-grown reform program have been hailed by the business and international community, as reflected in a growing appetite for Egyptian assets.** The home-grown program has had the strong political support of the President throughout. The public, already burdened by the economic slowdown since 2011, has so far shown resilience to the short-term impact of the policy shocks and continues to support the leadership, although with inevitable complaints over the burden of reforms and yet-to-materialize positive spillovers. Accordingly, a sizeable fiscal support package was designed to mitigate the impact on the most vulnerable, to the extent feasible. Building on the successful implementation to date, the authorities consider it essential to see a revival of private investment that generates broad-based growth. In this regard, the support of the Fund and international community is highly appreciated. Recognition of the achievements to date would further bolster recent confidence gains and greater economic cooperation would boost broad-based investment-led growth.

Recent developments

3. **A recovery appears to be underway.** Although consumption remains weak, growth picked up in the first quarter of 2017 to 4.3 percent with a strong contribution from net exports and to a lesser extent investment, both of which are expected to continue to drive growth in the near term. Tourism, natural gas, trade, construction and non-petroleum manufacturing were the main sectors driving economic growth, partly supported by recovery in external demand and boost in competitiveness in view of the exchange rate depreciation. Tourist arrivals are gradually picking up, but remain well below capacity levels. New export orders rose at the fastest pace since the inception of a Purchasing Managers' Index survey in early 2011, although overall orders remain low. The depreciated pound is prompting a recovery in foreign exchange liquidity and a steady buildup of the banking sector's foreign assets. Gross official reserves are at the highest level since 2011, approaching 6 months of imports. Net portfolio inflows exceeded $16 billion since the float. The much larger-than-

anticipated depreciation pushed inflation up beyond 30 percent, but has been slowing down on a month-to-month basis from 4 percent in January to 1.7 percent in both April and May, and 0.8 percent in June. The June 29 fuel price hikes will add inflationary pressure.

Fiscal policies

4. **The magnitude of the fiscal adjustment is immense** and aims to improve spending composition, enhance buoyancy of tax regime, and reduce the deficit, which will in turn lower public debt and tackle the root cause of inflation. The goal is to bring down fiscal deficits that have exceeded 10 percent of GDP annually from FY2011-2017 to 3.5 percent of GDP by 2022. A key challenge this year has been the impact of the larger-than-anticipated devaluation, which eroded the fiscal savings achieved from the November fuel price increases and required additional measures. Deficit-reducing measures amounted to 3.9 percent of GDP in 2016/17 and an additional 3.4 percent of GDP in 2017/18[1], which will allow for the deficit to be reduced despite a higher interest bill and sizable increases in investment and social spending. Social spending will increase by 1 percent of GDP in addition to the measures shown in the chart on page 10 and is financed in a way that safeguards the program's fiscal targets. The primary balance will turnaround by 3.8 percent of GDP in two years to register a surplus in 2017/18 on the back of persistent efforts to widen the tax base and contain discretionary spending. Wage bill reforms are noteworthy, especially the consistent annual decline in wages as a percent of GDP from 8.1 in 2014/15 to 5.4 in 2017/18, which is an exceptional rate of decline.

5. **The budget includes a strong fiscal support package to shield low-income groups** with improved targeting, which included: a more than doubling of the allowance allocated through the food subsidy scheme; raising pension benefits for the lower pension categories; a one-time pay allowance for public employees due to high inflation; providing for graduated tax credits that target lower-income groups; and expanding the social solidarity pensions to include medical coverage, as well as widening the coverage and increasing monthly cash transfers to Takaful and Karama beneficiaries.

6. **With a targeted primary budget surplus in the budget sector of 0.4 percent of GDP in 2017/2018, debt will retreat from its peak of 98 percent of GDP in June 2017 to a projected 88 percent in June 2018[2].** The debt sustainability analysis considers the debt dynamics benign and resilient to moderate shocks. External public debt doubled in the last year from a low base to reach 20 percent of GDP, partly reflecting the policy shift to

[1] The 3.9 figure for 2016/17 is consistent with staff Table on page 14 of EBS/16/100 of November 2016, which compares the program values to the baseline "zero policy change" estimates by the authorities, but the 3.4 figure for 2017/18 differs from the chart on page 10 of EBS/17/76 which compares budget line items to the previous year.

[2] The primary surplus amounts to 1 percent for the general government as shown in Table 9.

temporarily reduce reliance on domestic financing and, more importantly, the revaluation effect from the sharp depreciation on the stock of debt. Meanwhile, some higher priced domestic debt was already retired as part of the Ministry of Finance's debt strategy, reducing domestic public debt from a peak of 89 percent in June 2016 to 78 percent of GDP in June 2017. T-bill rates soared with the rate hikes and the interest cost will exceed 30 percent of total expenditure in 2016/2017.

7. **The Ministry of Finance is undertaking a wide range of institutional and administrative reforms to strengthen public financial management and revenue administration.** A comprehensive statement of fiscal risks was prepared in April that also covered a list of state guarantees and contingent liabilities, and a new committee will develop a plan for the approval of new guarantees. Finances of the economic authorities are under review. A road map for pension reform will be prepared by December 2017. Tax administration initiatives are producing encouraging results. To strengthen coordination of macroeconomic forecasts among the different policy-making bodies, an interagency committee will be established, meet regularly, and form the basis for macroeconomic forecasts underlying the budget and multi-year fiscal objectives.

External sector policies

8. **The Egyptian pound float was well-executed and, although the overshoot well exceeded expectations, no intervention was undertaken and the parallel market was eliminated.** Following the currency float on November 3, the Egyptian pound depreciated from the central bank rate of 8.8 to the dollar to peak at 19.6 in mid-December before stabilizing around 18 since March 2017. This overshooting and the level at which it settled far exceeded staff's projections that were built into program design and on an assessment of the equilibrium rate based on economic fundamentals. The reasons for the sizeable overshooting are not entirely clear. The staff report attributes the overshooting to "excess liquidity and continued uncertainty over FX backlogs, and because some portfolio investments that were absorbed by the Central Bank of Egypt (CBE) through the repatriation mechanism, did not flow in to the FX market". The CBE mopped up liquidity in long tenor deposit auctions, amounting to EGP 474 billion between November 6 and July 10, and raised interest rates by a staggering total of 700 bps since the floatation, in line with plans endorsed by the Fund.[3] As for inflows via the repatriation mechanism, they were limited in the initial 3 months following the float and could not have been a contributor to the larger-than-staff-projected exchange rate, which was based on the assumption of zero net portfolio inflows.

[3] It is worth noting that the amount of liquidity absorbed and the current corridor rates are at a lifetime high, reflecting tightened monetary conditions. Furthermore, banks are subject to a ceiling on their long foreign currency position of 1 percent of their capital base, which prevents possible speculation on the foreign currency even if EGP liquidity were available.

9. **One factor that may have contributed to the overshooting was the Fund's public statements** about an awaited devaluation in the days preceding the float. The parallel market rate moved from 13 to 18 EGP/$ ahead of the float, and this affected the initial level at which the exchange rate settled. Other factors that may have contributed to the overshooting include the understandably slow inflow of foreign exchange receipts to banks relative to pent-up demand.

10. **The Egyptian pound has steadily appreciated since June 22**, reflecting a gradual improvement in banks' net foreign asset positions, higher remittance receipts, deeper and more active foreign currency interbank market (due to a larger surplus in foreign currency resources), and confidence gains following the approval of the budget and subsidy reduction. No intervention has taken place since the float. This approach has helped to build confidence in the new system and strengthen reserves, which increased from a low of $15.5 billion in July 2016 to $31.3 billion in June 2017, well above program targets, and approaching its peak in 2011. The balance of payments showed immediate but so far modest adjustments, reflecting inelasticity of some import demand and a positive export reaction[4]. A new export development authority will streamline exporting procedures and aim to enhance the quality of exported goods to better meet international standards. The current account balance is expected to narrow considerably in the coming years, likely beyond staff's conservative expectations.

11. **A Fund Article VIII mission confirmed the absence of any new multiple currency practice[5].** The temporary foreign exchange limit on bank transfers was removed and the remaining deposit restriction will be phased out as planned. The mission also confirmed the smooth operation of the foreign exchange market without evidence of suasion or intervention.

Monetary policies

12. **Monetary tightening has aimed to stem the inflationary impact of the exchange rate depreciation and removal of subsidies**. Inflation shot up from a range of 8-15 percent between 2011 and 2016 (or an average of 10 percent over that period) to 22 percent in December 2016 and peaked at 31.5 percent in April 2017. As earlier stated, The CBE has raised interest rates by 700 bps since November, in three stages, to reach policy rates in the range of 18.75-19.75. In conjunction with the rate hikes, liquidity absorption operations withdrew EGP 474 billion, or 13.6 percent of GDP, from the banking system, and shifted banks' deposits with CBE into longer term variable rate instruments.

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[4] Improved capture of imports by official statistics due to a shift from unofficial to official trade channels may also be a factor, as noted in the staff report.

[5] The Board granted one year from EFF approval to introduce a mechanism to prevent deviations of more than 2 percent in FX transactions conducted at the CBE auctions. CBE has not conducted any auctions since the float.

13. **The CBE issued a statement[6] on July 6 reporting on the Monetary Policy Committee's decision to raise rates by an additional 200 bps, which reiterated CBE's inflation target of 13 percent by end-2018 and single digits thereafter**. Restrained public sector wage increases and modest private sector wage adjustments, as well as the fiscal consolidation without recourse to CBE financing, and possible continuation of the recent exchange rate appreciation will all contribute to disinflation. The CBE issued its first quarterly Monetary Policy Report in March 2017 and the June report is forthcoming.

Financial stability

14. **Banking sector indicators remain strong, and scrutiny by Fund experts has confirmed the high caliber of banking regulation and supervisory capacity**. The authorities appreciate staff's objective and thorough assessment which confirms their earlier assurances provided to staff and should lay to rest financial stability concerns. Banks are well capitalized, well above prudential norms, which in many instances exceed Basel III requirements, and are highly profitable and compliant with best practice regulations. In this regard, the authorities have recently published their first Financial Stability Report in March 2017 and a second report is forthcoming. Emergency liquidity assistance and the bank resolution framework will be further strengthened, but these were previously tested and proved effective under the 2004 banking reforms.

Structural policies

15. **Energy sector reforms promise to yield substantial gains to Egypt in the near term**. The government adopted an energy sector reform strategy in March 2017 and developed an action plan to place the Egyptian General Petroleum Corporation (EGPC) on a sound financial basis and to improve the efficiency of its operations. More broadly, they seek to encourage private sector participation and promote more efficient energy consumption. Recent fuel and electricity price increases, which aim to improve cost recovery ratios, will translate into improving EGPC finances. The authorities remain committed to eliminate subsidies on most fuel products by June 2019 and are studying an automatic price indexation mechanism to adjust fuel prices periodically, which will also further strengthen the sector's finances. Moreover, following six years of contraction, gas production will expand in 2017 with the start of production of BP's West Nile Delta project and Eni's Zohr field—both ahead of schedule. Recent gas discoveries are enhancing FDI and reducing energy imports, and suggesting that Egypt will soon be a major supplier of natural gas, beyond domestic consumption needs.

[6] http://www.cbe.org.eg/Highlights%20Documents/MPC%20Press%20release%20July%206%202017.pdf

16. **Ongoing structural reforms aim to improve the business climate and spur investment.** A new investment law was passed and its implementing regulations will be introduced in August, which is expected to positively reflect on investor sentiment in 2017/18. The new law will ease the process of establishing companies. A new industrial licensing law was introduced to streamline and expedite the process; it is expected to reduce the time it takes to start a new business by twentyfold. A long-awaited insolvency law is with Parliament, which will decriminalize insolvency in line with international standards and strengthens sanctions for financial fraud, concealing transactions, and accounting negligence. It is expected to be passed in 2017/18, as well as a new labor law, which diminishes dramatically the state's role in labor affairs, and a new natural gas law, which will allow contractors and third parties access to the distribution grid, thereby diversifying supply to the domestic market.

17. **Unemployment has declined from peak levels, but further reducing youth and female unemployment is a key priority**. Accordingly, specialized training programs are being developed as well as job intermediation schemes. The 2017/18 budget includes allocations for these initiatives, as well as for increasing public child care facilities to facilitate female labor force participation.

18. **The government has been dealing with a very difficult situation and multiple challenges since the decision to float the currency.** One key priority for the government has been to ensure sufficient and adequate availability of basic and critical commodities to the public, as well as to address any monopolistic and unfair trade practices.

19. The authorities and my office team thank Directors for their willingness to accept a shorter circulation period. The authorities thank the hard-working staff team, the staff reviewers, and management for their engagement on Egypt. They look forward to continued close dialogue and request more careful Fund public communications to avoid disruptive market influences and to safeguard the strong ownership of the program.