



# ARAB REPUBLIC OF EGYPT

April 2019

## FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the Fourth Review Under the Extended Arrangement Under the Extended Fund Facility, 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 February 4, 2019, following discussions that ended on October 31, 2019, 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 January 28, 2019.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- 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



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February 4, 2019

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Fourth Review under the Extended Fund Facility (EFF)**

On February 4, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth 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 1,432.76 million (about US\$2 billion), bringing total disbursements to SDR 7,163.81 million (about US\$10 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.

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

The macroeconomic outlook remains favorable, supported by strong policy implementation. Robust growth and a narrowing of the current account deficit reflect a rebound in tourism and strong remittances, while unemployment has declined to its lowest level since 2011. The public-debt-to-GDP ratio declined markedly last year and is projected to decline further over the medium term due to the authorities' fiscal consolidation efforts and high nominal GDP growth.

While the outlook remains favorable, a more difficult external environment poses new challenges as global financial conditions have tightened. Egypt has successfully weathered recent capital outflows, but consistent policy implementation will be essential to further strengthen policy buffers, including by containing inflation, enhancing exchange rate flexibility, and reducing public debt.

Monetary policy remains anchored by the medium-term objective of bringing inflation to single digits. The recent pick-up in headline inflation reflected temporary increases in food and energy prices, but a restrictive monetary policy stance has helped to reverse the increase and keep core inflation well anchored. The authorities have taken important steps to deepen the foreign exchange market and allow greater exchange rate flexibility, including by eliminating the repatriation mechanism.

This year's primary surplus target of 2 percent of GDP appears on track, which would achieve a cumulative fiscal adjustment of 5.5 percent of GDP in three years. The authorities remain committed to reaching cost recovery for most fuel products by mid-2019 and implementing automatic fuel price indexation, which together are critical to encourage more efficient energy use, and combined with revenue enhancing reforms will help create fiscal space for high-priority spending on health and education.

The authorities' structural reform agenda aims to support inclusive growth by addressing long-standing constraints to private sector development. These include reforms to improve competition policy, public procurement, management of SOEs, and land allocation. Sustained implementation of these reforms is essential to reduce opportunities for rent seeking and to support strong and inclusive medium-term growth and job creation.

Table 1. Egypt: Selected Macroeconomic Indicators, 2015/16–2019/20 1/

	2015/16	2016/17	2017/18		2018/19		2019/20
			Third Review	Prel.	Third Review	Revised Proj.	
<b>Output and prices</b>							
Real GDP (market prices)	4.3	4.2	5.2	5.3	5.5	5.5	5.9
Consumer prices (end of period)	14.0	29.8	12.6	14.4	13.1	14.5	10.7
Consumer prices (period average)	10.2	23.5	20.8	20.9	14.4	15.8	12.8
<b>Public finances 2/</b>							
Gross Debt	96.9	103.2	92.4	92.6	86.2	86.0	83.3
External	7.8	18.1	18.5	19.2	17.0	18.0	17.6
Domestic	89.0	85.0	73.9	73.4	69.2	68.0	65.7
<b>Budget sector 3/</b>							
Revenue and grants	18.1	19.0	18.2	18.2	18.6	18.3	17.8
Expenditure (incl. net acquisition of financial assets)	30.7	29.9	27.9	27.9	26.7	26.6	24.5
<i>Of which: Energy subsidies</i>	3.0	4.1	3.4	3.4	2.1	2.1	1.2
Overall balance	-12.5	-10.9	-9.7	-9.8	-8.1	-8.3	-6.7
Overall balance, excl. grants	-12.7	-11.4	-9.7	-9.8	-8.1	-8.3	-6.7
Primary balance 4/	-3.5	-1.8	0.2	0.2	2.0	2.0	2.0
<b>Monetary sector</b>							
Credit to the private sector	14.2	38.0	7.5	10.1	18.2	19.2	18.9
Reserve money	29.3	-7.8	40.2	28.3	27.6	34.2	20.7
Broad money (M2)	18.6	39.3	23.4	18.5	19.8	20.8	20.5
Treasury bill rate, 3 month (average, in percent)	11.8	17.5	18.5	18.8	...	...	...
<b>External sector</b>							
Exports of goods (in US\$, percentage change)	-15.9	16.2	13.8	18.9	16.5	14.4	5.3
Imports of goods (in US\$, percentage change)	-6.4	2.8	4.5	6.9	10.0	6.4	3.1
Merchandise trade balance	-11.6	-14.5	-14.5	-14.9	-12.5	-12.4	-11.3
Current account	-6.0	-5.6	-2.8	-2.4	-2.6	-2.5	-1.8
Capital and financial account (incl. errors and omissions)	5.1	4.8	5.0	4.0	1.8	2.0	2.0
Foreign direct investment (net, in billions of US\$)	6.8	7.8	7.8	7.4	9.5	9.5	11.2
External debt 5/	18.3	41.3	34.5	37.4	29.9	34.4	31.3
Gross international reserves (in billions of US\$)	17.1	30.7	44.4	43.5	44.8	44.9	45.4
In months of next year's imports of goods and services	3.0	5.0	6.8	6.6	6.1	6.6	6.3
In percent of short-term external debt 6/	173.7	124.5	146.2	139.1	191.4	160.2	147.7
Financing gap (in billions of US\$)	...	...	0.0	0.0	1.1	0.0	0.0
<b>Memorandum items:</b>							
Nominal GDP (in billions of Egyptian pounds)	2,709	3,470	4,436	4,437	5,365	5,414	6,458
Nominal GDP (in billions of US\$)	332	256	250	250	...	...	...
GDP per capita (in US\$)	3,686	2,704	2,578	2,573	...	...	...
Unemployment rate (period average, percent)	12.7	12.2	11.1	10.9	9.7	9.6	8.3
Population (in millions)	90.2	94.8	97.0	97.0	99.2	99.2	101.5

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/ The primary balance for 2017/18 excludes the recapitalization of the CBE for EGP 6 billion.

5/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing.

6/ Debt at remaining maturity and stock of foreign holding of T-bills.



# ARAB REPUBLIC OF EGYPT

## FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

January 28, 2019

### KEY ISSUES

**Egypt's macroeconomic situation has improved markedly since the initiation of the authorities' reform program in November 2016.** The liberalization of the foreign exchange market, prudent monetary policy, and ambitious fiscal consolidation have helped stabilize the macroeconomic environment. Growth has accelerated; external and fiscal deficits have narrowed; international reserves have risen; and public debt, inflation, and unemployment have declined. Fiscal savings were in part deployed to enhance social protection and ease the burden of adjustment on the poor. Furthermore, ongoing structural reforms aim at promoting private sector-led inclusive growth and job creation. The remainder of the Extended Fund Facility-supported program is focused on consolidating the gains in macroeconomic stabilization, further rebuilding fiscal buffers, and advancing reforms to ensure that lasting progress is achieved.

**The external environment has shifted in recent months, posing new policy challenges.** The tightening of global financial conditions and heightened global risk aversion have contributed to a pullback by investors from emerging markets. The resulting capital outflows have increased Egypt's domestic and external borrowing costs. Despite the new challenges, the authorities maintain their commitment to meet the program's objectives.

**The outlook remains favorable, provided policies agreed under the program are implemented, but the balance of risks has shifted.** The authorities' prudent policies have been instrumental in preserving macroeconomic stability, even as the external environment has weakened notably. Growth is expected to strengthen further to about 6 percent over the medium term, assuming sustained implementation of reforms; inflation would reach single digits; the current account deficit would narrow; and public debt is expected to continue to decline. A sustained increase in real interest rates due to a tightening of global financial conditions or an abrupt depreciation of the pound may adversely affect public debt dynamics. Continued stability of the pound's exchange rate against the appreciating U.S. dollar could result in overvaluation and discourage capital inflows. Short foreign exchange positions of some banks expose them to exchange rate risk and have also prevented the currency from adjusting to supply and demand. Higher global oil prices would increase the fiscal burden and require a larger

adjustment of domestic fuel prices to meet budgetary goals. A realization of the government's significant contingent liabilities could put additional pressure on public debt. Additional risks include a deterioration of the security situation that could disrupt the ongoing rebound in tourism, and adjustment fatigue and resistance from vested interests that could weaken reform momentum. These risks are mitigated by the authorities' record of reform implementation, and their commitment to sound macroeconomic policies.

**The program is broadly on track.** All end-June 2018 and end-December 2018 performance criteria and indicative targets were met, except for the end-June indicative target on public debt, which was missed because of higher-than-programmed interest expenditure (December data is not yet available and the end-December IT on payment of EGPC arrears, reflecting prepayments in 2017/18). The progress on structural reforms has been mixed, but the program objectives remain achievable. Sustained efforts are needed to advance critical reforms in competition, industrial land allocation, transparency and governance of state-owned enterprises, and public procurement.

**Staff supports the authorities' request for the completion of the fourth review under the Extended Arrangement under the Extended Fund Facility (the EFF Arrangement).**

Approved By  
**Juha Kähkönen and  
 Sanjaya Panth**

Discussions were held in Cairo during October 17–31. The mission team comprised Subir Lall (head), Nikoloz Gigineishvili, Matthew Gaertner, Lahcen Bounader (all MCD), Emine Hanedar (FAD), Melesse Tashu (SPR), Carlos de Barros Serrao and Oleksandr Pysaruk (both MCM), Randa Elnagar (COM), and Reza Baqir (Senior Resident Representative). Ms. Abdelati (OED) also participated in the discussions.

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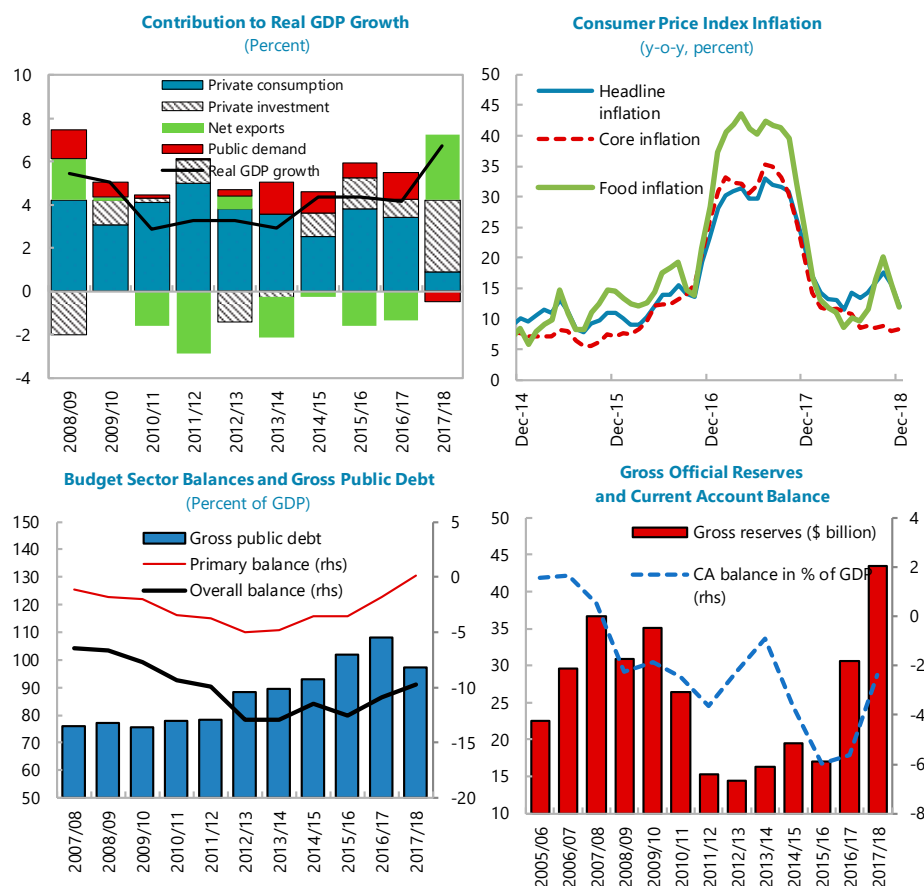
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# RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

**1. Egypt has preserved macroeconomic stability thanks to the authorities' sound policy implementation.** GDP growth rose from 4.2 percent in 2016/17 to 5.3 percent in 2017/18, supported by the recovery in net exports and investment that offset the softening in domestic consumption. The unemployment rate has declined to single digits and is at its lowest since 2011. The current account deficit narrowed to 2.4 percent of GDP from 5.6 percent in the previous year, reflecting rising tourism and robust remittance inflows. Gross international reserves stood at around 6 months of prospective imports at end-2018. After declining to 11 percent in May, headline inflation rose to 17.7 percent in October primarily because of the energy price increases in June and a jump in the prices of some vegetables but fell again to 12 percent in December as the rise in vegetable prices was partially reversed. Core inflation remained contained at around 8 percent. The budget recorded a primary

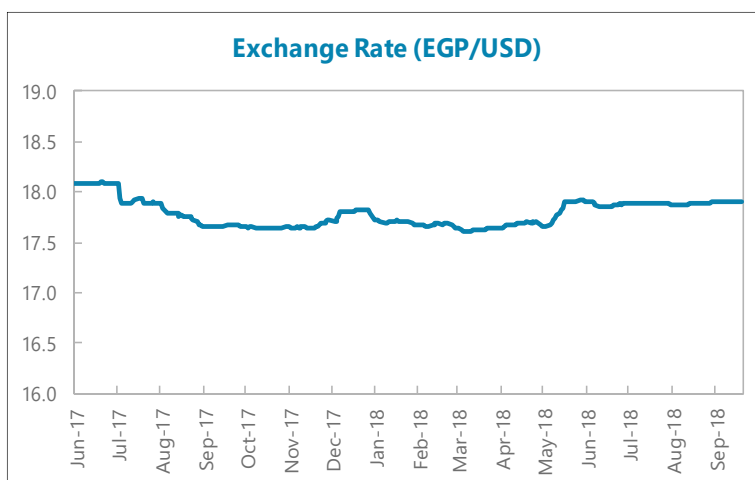
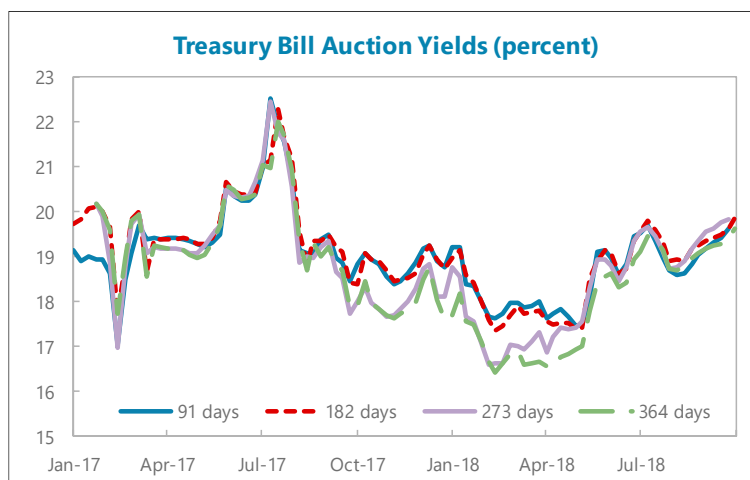
**Figure 1. Egypt: Recent Macroeconomic Developments**



Sources: Egyptian authorities and IMF staff calculations.

surplus of 0.2 percent of GDP in 2017/18,<sup>1</sup> constituting an improvement of 2 percent of GDP from 2016/17, as programmed, which together with strong growth in nominal GDP reduced general government gross debt from 103 percent of GDP to 93 percent in one year.

**2. The external environment has deteriorated.** The tightening of global financing conditions and pullback of investors from emerging markets has led to considerable net portfolio outflows from Egypt since April. This has pushed up yields on government securities by around 300–400 basis points, with the authorities cancelling a number of domestic bond auctions and shortening maturities of new issuances to contain interest costs. The decline in foreign demand for treasury securities was partly offset by an increase in purchases by the state-owned National Investment Bank<sup>2</sup> limiting the resulting increase in domestic yields. The remaining shortfall in domestic financing was met by drawing on the government's overdraft facility with the Central Bank of Egypt (CBE), which exceeded the statutory limit in mid-September but was subsequently contained.<sup>3</sup> Despite sizable capital outflows, the exchange rate of the Egyptian pound against the dollar remained stable through mid-January. International reserves of the CBE stood at a comfortable \$42 billion in December, equivalent to 6 months of imports.



**3. Program performance has been broadly on track.** All end-June and end-December performance criteria and indicative targets were met, except for the end-June indicative target (IT) on public debt, which was breached because of higher-than-programmed interest expenditure (December data is not yet available) and the end-December IT on payment of EGPC arrears, with the shortfall having been pre-paid in 2017/18. However, a number of structural benchmarks (SB) have

<sup>1</sup> Excluding EGP6 billion of CBE recapitalization.

<sup>2</sup> The stated objective of the National Investment Bank is mobilizing local savings for infrastructure development. It does not have a banking license and is not subject to banking supervision.

<sup>3</sup> The CBE Law sets a ceiling on overdrafts at ten percent of average revenues over the past three years.

been delayed or missed, partly because of capacity constraints. Foreign exchange deposits of the CBE in foreign branches of domestic banks were reduced to under \$1.5 billion on January 3, 2019 instead of December 31, 2018; the working group on the reform of industrial land allocation was formed in September (end-June SB) due to the cabinet reshuffle; the two reports on state-owned enterprises (SOEs) were implemented as planned by end-June and end-December respectively, but due to capacity constraints had gaps in coverage and information; the submission of the draft law on the Egyptian Competition Authority to Parliament was delayed to January 2019 instead of October 2018; the formation of the independent regulatory authority for transport was not completed by end-December 2018 and is proposed as a structural benchmark for end-March 2019; the reform plan for industrial land allocation was incomplete as it lacked sufficient operational details particularly with regard to the application of broad market-based principles; and the draft banking law was submitted to Cabinet in December instead of September to allow more time to fully reflect the recommendations of Fund technical assistance. Despite the delays, the program objectives remain achievable.

## OUTLOOK AND RISKS

**4. The outlook is favorable, provided policies as agreed under the program are implemented.** The continued strengthening of tourism and construction, and rising production of natural gas are projected to raise GDP growth to 5.5 percent in 2018/19. Growth is projected to rise further to 6 percent over the medium term as ongoing structural reforms are fully implemented and translate into stronger private investment. Inflation is expected in the range of 13–14 percent by the end of the fiscal year, and to reach single digits in 2020. The current account deficit is projected to gradually narrow from 2.4 percent of GDP in 2017/18 to under 2 percent of GDP in the medium term, and general government gross debt to continue to decline to 74 percent of GDP by 2022/23.

**5. The balance of risks has worsened with the recent tightening of global financial conditions.** A sustained increase in real interest rates or an abrupt depreciation of the pound could result in adverse public debt dynamics. Moreover, limited exchange rate flexibility is discouraging inflows into the local treasury market, while the short foreign exchange (FX) position of some banks leaves them exposed to a disorderly adjustment of the exchange rate. An unexpected increase in global oil prices would increase the fuel subsidy bill in 2018/19 and require a larger adjustment in fuel prices to achieve cost recovery and preserve medium-term fiscal consolidation. Calls on state-guaranteed loans, which have been increasingly used to finance large infrastructure projects by public entities, or other contingent liabilities could also put pressure on public debt. Additional risks include a deterioration of the security situation that would disrupt the recovery in tourism, resistance from vested interest that could weaken the reform momentum, and concerns about public reaction to reforms of the fuel subsidy system could complicate their implementation. These risks are mitigated by the authorities' record of reform implementation. The more challenging external environment heightens the importance of maintaining sound policies, including greater exchange rate flexibility.

## POLICY DISCUSSIONS

*In light of the persistent nature of global financial tightening, discussions focused on the needed adjustments to the macroeconomic policy framework to ensure that program objectives remain achievable. The authorities are undertaking additional efforts to enhance exchange rate flexibility, which is essential to prevent the build-up of external pressures; and will maintain a tight monetary policy stance until the dis-inflation trend is reestablished. The planned completion of the fuel subsidy reform is critical to free up fiscal space for priority expenditures and to improve the efficiency of energy consumption. The authorities are also implementing structural reforms to improve the business climate and reduce opportunities for rent seeking. These reforms are important to attract private investment, increase productivity and generate higher growth and more jobs.*

### Monetary, Exchange Rate, and Financial Sector Policies

**6. Monetary policy will remain anchored to the CBE's medium-term objective of guiding inflation down to single digits.** While the pick-up in inflation in recent months was driven primarily by supply-side factors (energy and food prices), the monetary policy stance is expected to remain restrictive to contain possible second-round effects. Sustained disinflation would provide scope for market interest rates to ease. However, should demand pressures reemerge, the CBE remains prepared to tighten the policy stance further as needed. To achieve its operational targets set in terms of reserve money, the CBE will continue to manage domestic liquidity using open market operations, while containing government overdrafts (proposed end-March 2019 PC). Beginning in fiscal year 2019/20, all overdrafts will be issued at market rates.<sup>4</sup> To address the historically high volatility of food prices, the government is taking measures to address supply bottlenecks by improving logistics and transport infrastructure.

**7. Exchange rate flexibility is essential to buffer external shocks and preserve competitiveness.** The Egyptian pound has remained stable against the dollar but appreciated against other trading partner currencies in both nominal and real effective terms.<sup>5</sup> If this pattern persists, it could limit further narrowing of the current account deficit. A significant share of portfolio outflows has been absorbed through the repatriation mechanism,<sup>6</sup> with no effect on the exchange rate or reserves. The remainder, has passed through the interbank market, but its impact on the exchange rate has largely been offset by foreign currency sales by some large state-owned banks, which have breached their regulatory limits on net open FX positions (NOP). To enhance exchange rate flexibility and deepen the FX market, in November the CBE eliminated the repatriation

<sup>4</sup> Currently, overdrafts under the limit are issued at a fixed rate of 12.25 percent, with any amount above the limit at the policy rate plus 400 basis points.

<sup>5</sup> The EBA-light assessment shows that Egypt's external position in 2017/18 was broadly in line with fundamentals and desirable policies.

<sup>6</sup> 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. Apart from selling FX to investors under the repatriation mechanism, the CBE has not intervened in the FX market.

mechanism for new inflows. Moreover, since the persistent breach of FX exposure limits could weaken the rules-based system of banking supervision that underpins financial stability, and expose banks to exchange rate risk, the CBE will no longer grant exemptions from the NOP limit and will strictly enforce sanctions as envisaged in banking regulations (proposed continuous SB, MEFP ¶20). Notwithstanding these, the position of the banking system has overall remained unchanged from the previous review: banks remain liquid, profitable, and generally well capitalized, and nonperforming loans are contained and well provisioned.

**8. International reserves remain adequate.** Gross international reserves stood at about 125 percent of the Fund's Assessing Reserve Adequacy (ARA) metric at end-2018 and are projected to be maintained at about the same level throughout the program period. As part of an ongoing effort to strengthen reserve management, the CBE reduced its holding of FX deposits in foreign branches of domestic banks to below \$1.5 billion in early January (a small delay from the end-December SB), and will reallocate the rest in at least A-rated banks and financial instruments, in line with the previously announced schedule (MEFP ¶18).

**9. The CBE intends to gradually move to an interest rate-based monetary policy framework anchored to inflation in the medium term.** To strengthen its institutional framework, a revised draft Banking Law was finalized with the support of Fund technical assistance and sent to Cabinet. The new draft law will improve collegial decision making in the CBE, establish price stability as the primary objective of monetary policy, limit monetary financing and strengthen the CBE's institutional and operational autonomy. It will also limit CBE lending to banks for short-term liquidity support and clarify the role of the CBE and government in crisis management. Finally, it will strengthen the supervisory framework for early intervention and resolution (MEFP ¶10).

## Fiscal Policy

**10. The 2018/19 budget is on track to reach the targeted primary surplus of 2 percent of GDP.** This will complete the programmed three-year fiscal consolidation of 5.5 percent of GDP. The overall deficit is also projected to narrow from 9.8 percent of GDP in 2017/18 to 8.3 percent in 2018/19, which is 0.2 percent of GDP higher than programmed due to higher borrowing costs. Tax revenue is expected to fall slightly short of the programmed number but would remain unchanged from the previous year at 14.2 percent of GDP. The consolidation is being driven by the projected reduction in the energy subsidy bill (by 1.4 percent of GDP), of which 0.9 percent of GDP is due to lower fuel subsidies as higher oil prices have been partly offset by reduced consumption, and a smaller wage bill (by 0.3 percent of GDP). Part of these savings will be used to increase investment (0.3 percent of GDP). A smaller overall deficit and high nominal GDP growth are projected to reduce general government gross debt from 93 percent of GDP last year to about 86 percent this year. The authorities remain committed to delaying non-priority spending if needed to reach the primary surplus target. At the same time, to create fiscal space for the needed spending in health, education, infrastructure, and social protection, they are implementing a Medium-Term Revenue Strategy, which aims to strengthen and modernize revenue mobilization. The Fund is providing technical assistance in this area.

**11. Strengthening social protection has been the authorities' priority since the start of the reform program.** Since product subsidies are inefficient, costly and inequitable, the authorities have been gradually expanding better-targeted social programs. These include (1) Takafol and Karama—cash transfer programs to the poorest households, the coverage of which has been expanded to more than 10 million people<sup>7</sup>; (2) Forsa—a program that helps create job opportunities; (3) Mastoura, which helps with microcredit for women; and (4) Sakan Karim—a program that promotes access to clean drinking water and sanitation. Additional measures to compensate the impact of the adjustment, including on the lower middle class, include lump-sum public wage bonuses, a 15 percent increase in pensions, and progressive tax credits. The authorities are also considering a broader reform of the pension system, the distributional implications of which will need to be assessed carefully.

**12. The reform of fuel subsidies is on track to be completed in 2018/19.** The authorities are committed to reaching full cost recovery by the end of 2018/19 for all fuel products, except for LPG and fuel oil used in bakeries and electricity generation (SB for June 15, 2019)<sup>8</sup>. At current oil prices, these are priced at about 85-90 percent of cost recovery. The authorities have opted for a phased approach to the planned introduction of fuel price indexation for all products indicated at the time of the third review. In December the Prime Minister issued a decree to implement the fuel price indexation mechanism for gasoline Octane 95 from end-December 2018 with the first price adjustment at end-March 2019.<sup>9</sup> Indexation for other fuel products will be introduced by June 5, 2019 with the first price adjustment at end-September 2019 (proposed SB). The authorities are also planning to hedge oil prices, but the mission advised caution in using financial instruments with upfront costs that protect only temporarily against extreme price movements. Reform of electricity subsidies will continue as planned towards the goal of full elimination by 2020/21.

**13. A steady reduction in public debt remains the key objective of fiscal policy in the medium term.** The updated debt sustainability analysis indicates that Egypt's debt is sustainable, but subject to significant risks (Annex 1), including from less favorable financing conditions. Egypt's interest cost as a share of tax revenue is higher compared to peers, while the increased reliance on shorter-term debt and foreign currency financing have increased rollover and exchange rate risks. With the sizable exit of foreign investors from the treasury securities' market, higher local currency yields may be unavoidable in the near term, and cancelling bond auctions to avoid high rates may result in financing shortfalls or the need to resort frequently to CBE overdrafts—which can be inflationary and would undermine the CBE's inflation targeting ambitions. Going forward, the

<sup>7</sup> The estimated cost in 2018/19 is about 0.3 percent of GDP.

<sup>8</sup> Increasing prices on fuel oil used in electricity generation would shift the subsidy to the electricity sector. Moreover, by 2019/20 electricity generation is expected to fully shift from fuel oil to natural gas, which is not subsidized.

<sup>9</sup> The mechanism will adjust fuel prices quarterly to changes in underlying costs including global oil prices, the exchange rate, and the share of imported fuel in domestic consumption to maintain cost-recovery levels. It includes a 10 percent cap on each quarterly adjustment to facilitate smooth changes in retail prices.

authorities will reject only outlier bids in auctions, while allowing the winning bids to reflect market conditions. The ultimate resolution of Egypt's still-high debt will rely on maintaining primary surpluses of around 2 percent of GDP in the coming years. This is well above the debt stabilizing primary deficit of 2.7 percent of GDP. These efforts need to be supported by the continued implementation of reforms to raise Egypt's growth potential.

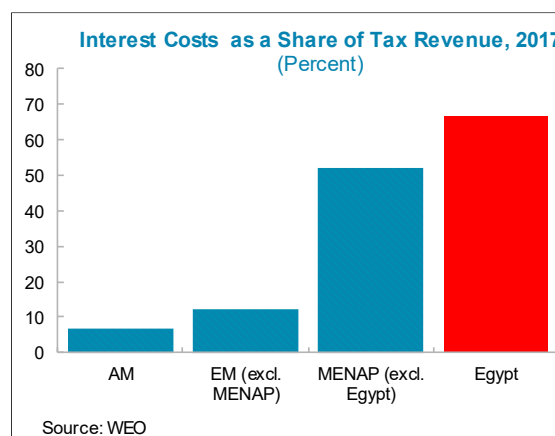
**14. Significant progress was achieved in improving transparency and accountability of**

**SOEs.** The authorities issued an update to the June report at end-December, which now includes about 300 SOEs with abridged financial statements added for most of them. They also published a supplementary report, which among other useful information contains a description of the legal framework governing state ownership of SOEs and the impact of the SOE sector on government finances. It lacked, however, details on the impact of the SOE sector on the economy. Despite the shortfalls, the reports constitute a significant achievement in disseminating information on SOE governance. As the authorities develop capacity, they plan to improve the quality of SOE reports, which will be published annually. The reports will serve as a basis for the planned work on a comprehensive SOE reform strategy to streamline and modernize the legal, governance, and operational frameworks for the sector. Other priority areas include pension reforms, revisions to the PFM law to introduce medium-term budgeting, and improvements in fiscal transparency and accountability (MEFP ¶15).

**15. The authorities intend to restructure the National Investment Bank (NIB), which is part of the general government.** NIB maintains significant retail deposits in the form of investment certificates and has a large portfolio of SOE loans, but is not subject to banking regulations and supervision. Coinciding with the exit of foreign portfolio investors in recent months, NIB has expanded its balance sheet considerably by investing the proceeds from increased issuance of certificates in treasury securities. The authorities are planning to strengthen its financial position, and as a first step they will form an inter-ministerial committee, which by end-March 2019 will develop a plan, endorsed by the Prime Minister, with NIB's revised mandate, new business model, and the proposed financial structure of the entity going forward (SB).

## Structural Reforms

**16. The structural reform agenda for the remainder of the program remains ambitious (MEFP ¶25).** Egypt advanced eight positions in the World Bank's Ease of Doing Business ranking for 2019 and 15 positions on World Economic Forum's 2018 Global Competitiveness index, reflecting the reforms implemented so far. The authorities acknowledge that more needs to be done to make Egypt an attractive destination for private investment. To this end, they have prioritized reforms that address key impediments to private sector-led growth and have potential to generate significant economic returns over a relatively short period of time. These reforms aim to improve the efficiency of resource allocation by strengthening competition, improving governance and limiting the scope



for corruption, and reducing the role of the state. The reforms have progressed well thus far, with some delays due in part to capacity constraints. The authorities are committed to carry the momentum forward beyond the program period.

**17. Improving availability and access to industrial land is critical for private sector development.** The current system of industrial land allocation, which narrowly prescribes land use and sells it at a nominal fixed price on a first-come-first-served basis, is inefficient. It leads to land misallocation and forgone revenue for the state, and is prone to perceptions of corruption. In September the authorities formed a working group under the Prime Minister to prepare a reform plan for moving to a transparent, competitive, and market-based mechanism for industrial land allocation operated through an online platform. The first draft of the plan, prepared in December 2018, was an important step forward in this direction. However, it fell short of the structural benchmark in providing sufficient operational details to form the basis for land allocation guidelines. Notably, it did not envisage competitive bidding, which is critical to minimize land misallocation. Nevertheless, the authorities expressed commitment to develop new guidelines for industrial land allocation based on the same key principles. The guidelines will be approved by a Ministerial decree and published by end-March 2019 (proposed modified SB).

**18. The reform of public procurement is advancing.** The new Government Procurement Act was signed into a law by the President on October 3, 2018 and became effective on November 2. The authorities are now developing executive regulations to standardize procurement procedures across all government entities covered by the law and to ensure a transparent and competitive bidding. Because of the delayed enactment of the law, it is proposed that the SB on approval of the executive regulations be reset from end-March to end-May 2019. Further, the e-Procurement portal will be launched by end-May 2019 (SB), and by June 15, 2019 the Prime Minister will approve a plan to align SOE's procurement rules with the new law (SB).

**19. To strengthen competition the authorities are revamping the law on the Egyptian Competition Authority (ECA).** The objective is to strengthen the institutional, financial, and operational independence of the competition watchdog, while enhancing its accountability and transparency. The draft law was submitted to Parliament in January (end-October 2018 SB). It strengthens operational autonomy of the ECA and provides it with the necessary administrative fining powers, but does not exclude the ECA from the salary cap for public employees because the ECA is part of the civil service. It also does not provide a single digit budget, which would be inconsistent with the Constitution, but ensures financial autonomy of the ECA. The draft law is expected to be passed by Parliament by end-March 2019.

**20. The authorities are moving forward with other reforms.** To attract private investment and reduce the role of the state in the economy, minority stakes in five SOEs are currently being divested (end-December 2018 SB) and more are planned for 2019. The expenditure of EGP600 million in 2018/19 to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs is on track. Work is ongoing to separate the regulatory authority for public transportation from the Ministry of Transportation (SB), but because of complexity of the reform, the authorities are requesting to reset the SB to March 31, 2019.



## Financing and Program Issues

**21. The program is fully financed until its expiration.** Tighter external financing is expected to be alleviated by \$1 billion of the World Bank's new DPF loan and \$250 million from the German authorities. If needed, additional financing can be raised with a Eurobond issuance and/or from gross reserves, depending on financial market conditions.

**22. Egypt's capacity to repay is adequate, but risks remain.** Fund credit outstanding as a share of gross reserves is projected to peak at 26.7 percent by the end of this year, and debt service to the Fund as a ratio of exports of goods and services would reach 0.9 percent in 2020/21 (Table 10). External risks have increased, as tightening global financial conditions have contributed to a pullback by investors from emerging markets, but Egypt remains well positioned to manage any increase in capital outflows. The CBE's reserve position is strong, the current account and fiscal balances are improving, and the memorandum of understanding between the CBE and MoF on respective responsibilities for servicing Fund credit should ensure uninterrupted repayments.

**23. The CBE continues the implementation of the 2017 safeguards recommendations, albeit with some delays.** The CBE engaged a consulting firm to align its financial reporting practices with Egyptian Accounting Standards starting with the 2018 audit and continues to unwind its holding of FX deposits in foreign branches of domestic banks, with full divestment expected by end-June 2019. Draft amendments to the banking law to strengthen independence and governance of the CBE were submitted in December 2018 (end-September SB). However, the Fund has not yet received a management letter issued by the external auditor of the CBE for the 2017/18 financial year. Staff will continue to follow up.

## STAFF APPRAISAL

**24. Egypt's macroeconomic situation has improved markedly since the start of the program.** Growth has accelerated; external and fiscal deficits have narrowed; international reserves have increased, and public debt, inflation, and unemployment have declined. Social protection was strengthened to ease the burden of adjustment on the poor. The authorities' structural reform agenda, which aims at promoting private sector-led inclusive growth and job creation, has improved Egypt's position among peers. The remainder of the program focuses on consolidating the gains in macroeconomic stabilization and advancing reforms to strengthen medium-term growth prospects.

**25. The outlook is positive, but a more difficult external environment is posing new policy challenges.** Under the programmed policies, growth should continue to strengthen, inflation and public debt decline, and the current account deficit narrow. The tightening of global financial conditions has led to capital outflows, pressure on the external accounts, and higher borrowing costs. Risks include any realization of contingent liabilities which could increase public debt, an increase in global oil prices, a deterioration of the security situation that would disrupt the recovery in tourism, resistance from vested interest that could weaken reform momentum. These risks highlight the importance of sound policies to accelerate structural reforms and further strengthen

policy buffers, including by enhancing exchange rate flexibility, preserving adequate international reserves, and reducing public debt.

**26. Exchange rate flexibility and a prudent monetary stance are critical to preserve macroeconomic stability.** While the recent resurgence of inflation was caused by transitory factors, staff supports the CBE's intention to maintain a restrictive monetary policy stance until the disinflation trend is firmly reestablished. The repatriation mechanism and the sale of foreign exchange by some large state-owned banks in excess of regulatory limits on net open FX positions have prevented the exchange rate from moving with supply and demand. Therefore, staff welcomes the decisions to eliminate the repatriation mechanism and to strengthen the enforcement of regulatory rules on open FX positions of banks. To support the credibility of the monetary policy framework, monetary financing of the deficit should be minimized.

**27. This year's budget is on track to achieve a primary surplus of 2 percent of GDP, which would complete the programmed fiscal adjustment of 5.5 percent of GDP in three years.** Projected at 86 percent of GDP by end-2018/19, general government debt remains high and the related interest cost poses a heavy burden on public finances and risks crowding out social spending. To address Egypt's challenging debt burden, it will be important to maintain primary surpluses at around 2 percent of GDP over the medium term. Implementing structural reforms to raise GDP growth is also essential. At the same time, more tax revenue is needed to create fiscal space for spending on human capital, infrastructure, and social protection. To this end, the authorities are implementing a Medium-Term Revenue Strategy, supported by the Fund technical assistance.

**28. The fuel subsidy reform is advancing.** The authorities remain committed to reaching cost-recovery prices for most June products by mid-June 2019. This will encourage energy efficiency, attract investment in more labor-intensive industries, and free up fiscal space for high-priority expenditures, including targeted cash transfers to poor households. The automatic fuel price indexation mechanism is critical to preserve cost-recovery levels and, once full cost recovery is reached, to safeguard the budget from re-emergence of subsidies, which benefit the wealthy more than the poor.

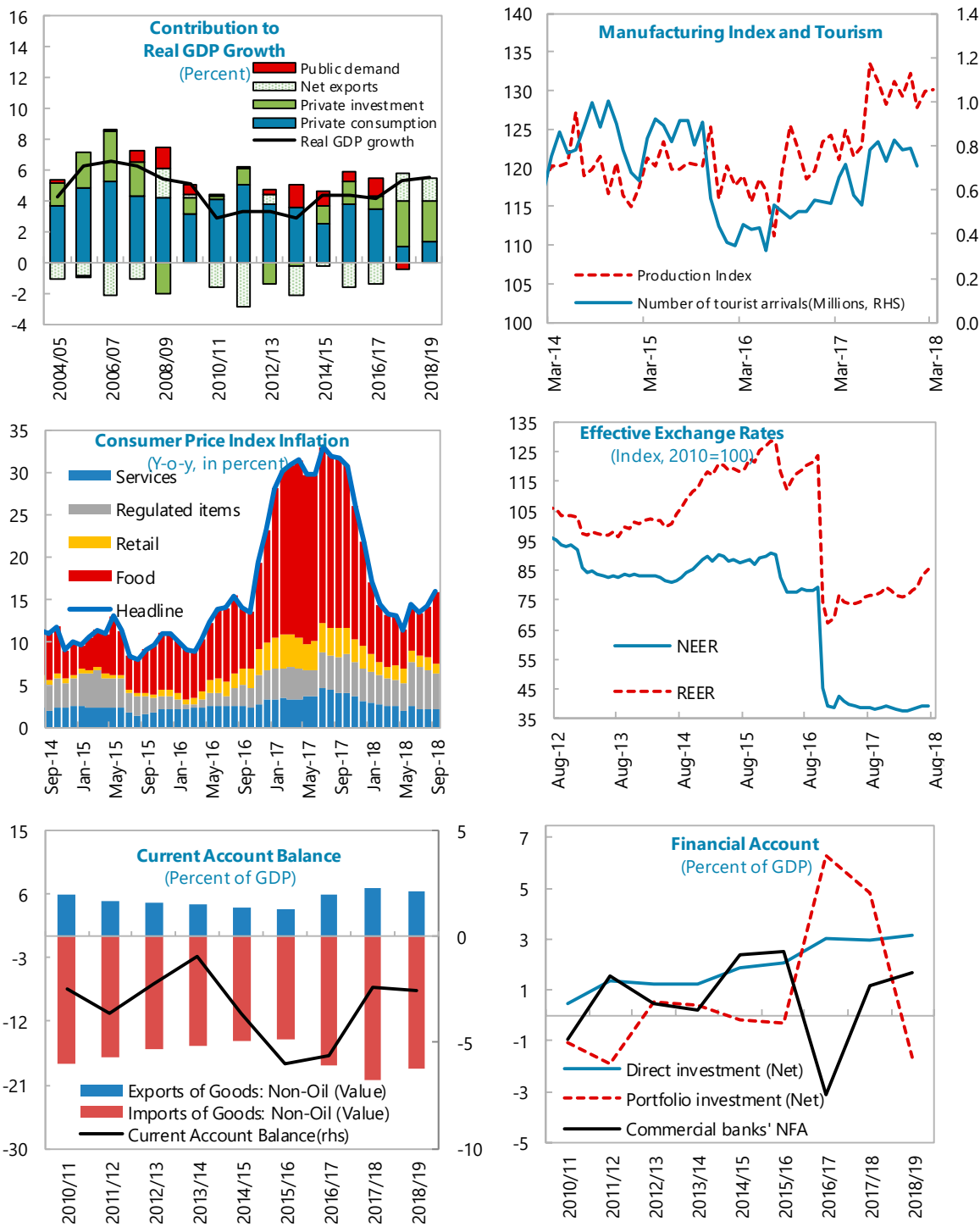
**29. The banking sector remains healthy, but the NIB needs to be restructured.** The authorities are reviewing NIB's operations to revise its mandate and business model and ensure that it has a commensurate financial structure. The two largest public banks are financially stable but may require additional capital in the next two years if strong lending growth continues. Several smaller banks, whose financials are below sector averages, will require CBE's continued monitoring.

**30. Structural reforms aim to strengthen the business environment, improve transparency and promote inclusive growth and job creation.** Egypt's growth model needs to evolve by allowing the private sector to take the lead in investment and job creation. This has been impeded by long-standing problems of weak governance, poor competition, inadequate access to land, and heavy presence of the state in the economy. To address these constraints, the authorities have launched reforms of competition policy, the public procurement system, management and

transparency of SOEs, industrial land allocation, and management of public finances. These reforms have the potential to significantly improve the investment climate and governance, and reduce opportunities for rent seeking and corruption. To make them enduring, the reform efforts should be stepped up and carried forward beyond the program period. The pickup in growth in the medium term assumes sustained implementation of reforms.

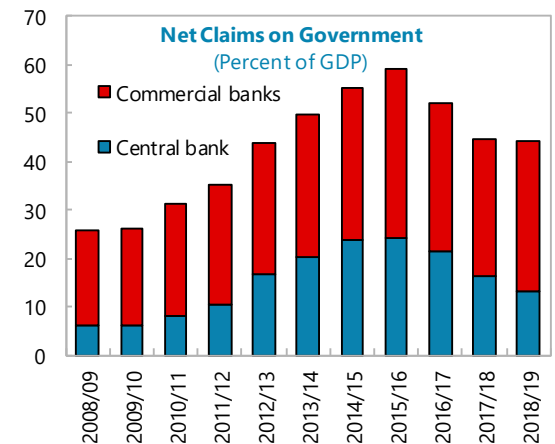
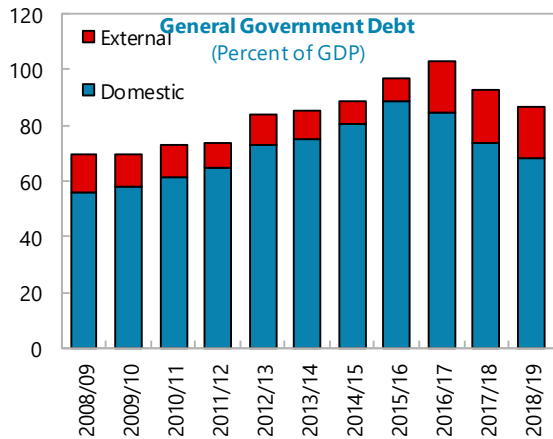
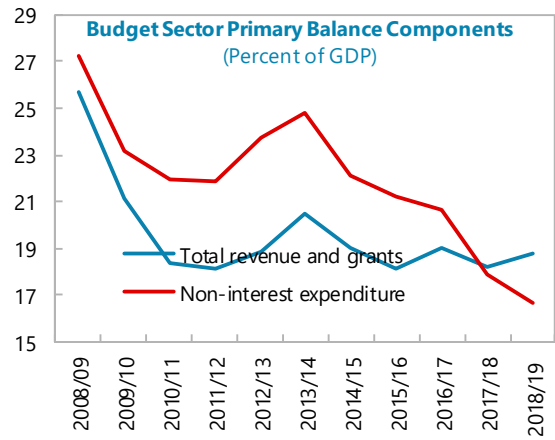
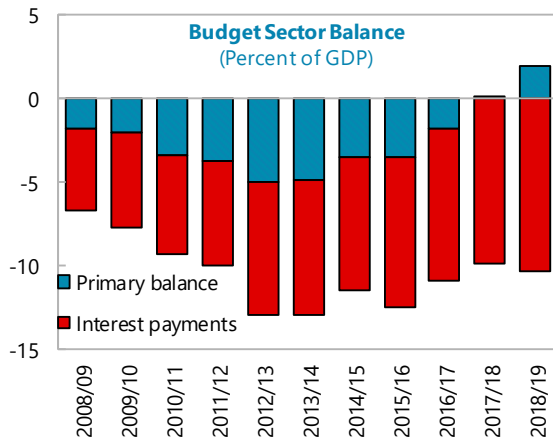
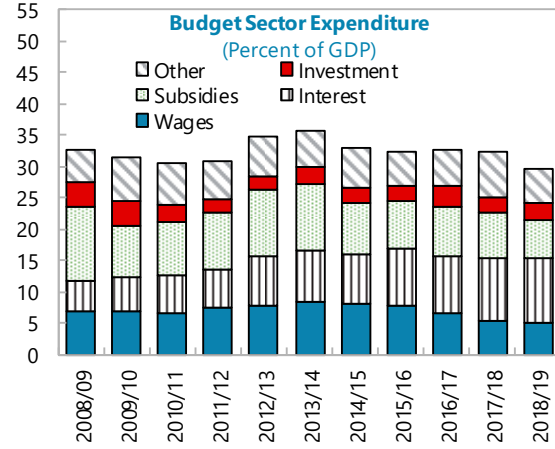
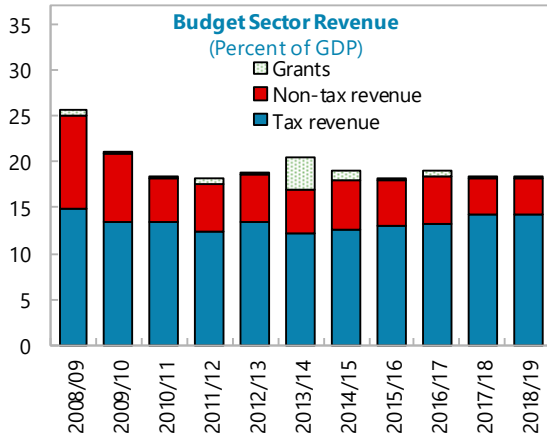
**31. Staff supports the authorities' request for the completion of the fourth review under the Extended Arrangement.** Staff also supports the request to establish end-March 2019 PCs for the fifth review.

**Figure 2. Egypt: Real and External Sector Developments**



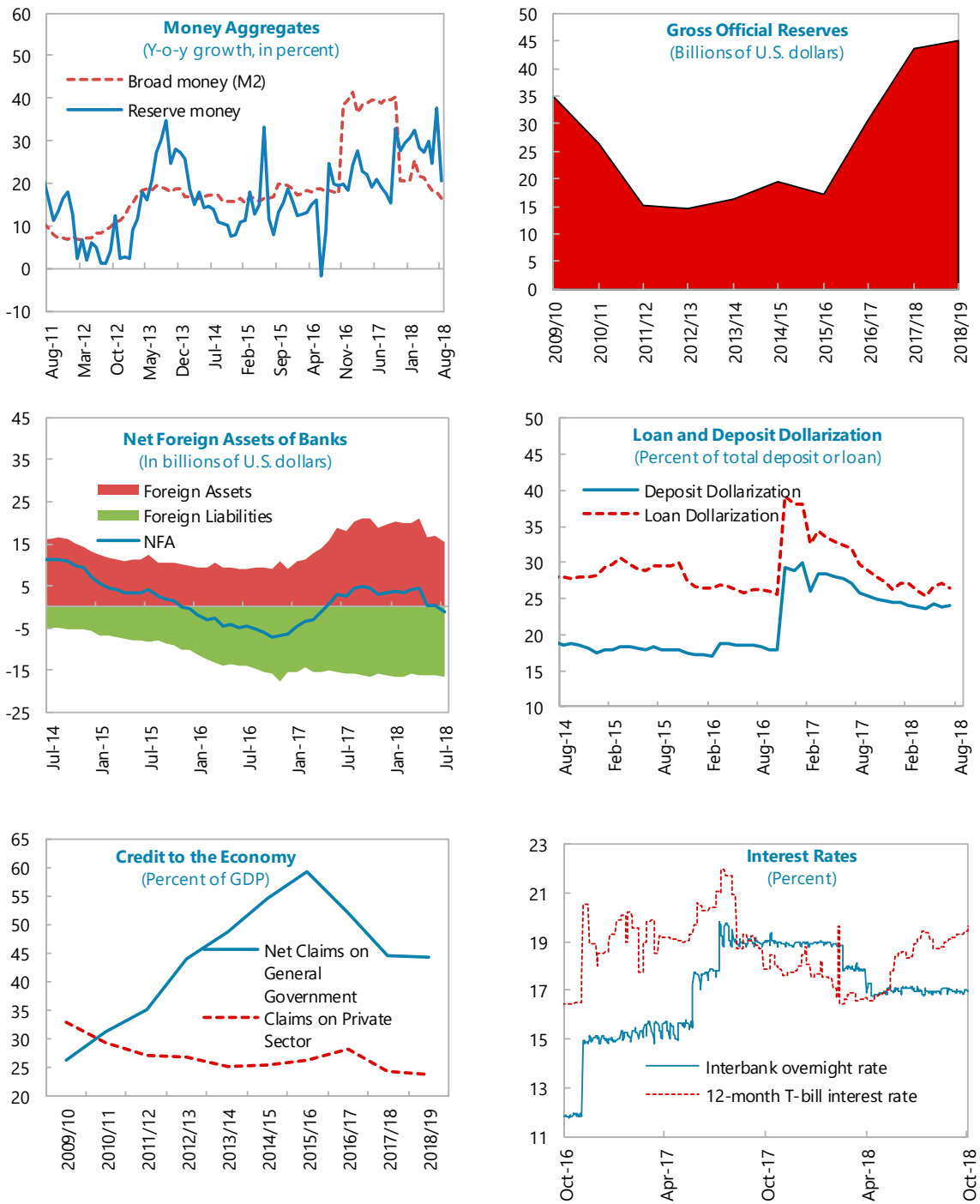
Sources: Egyptian authorities; IMF, *International Financial Statistics*; and IMF staff calculations and projections.

**Figure 3. Egypt: Fiscal Sector Developments**



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

**Figure 4. Egypt: Monetary Sector Developments**



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

**Table 1. Egypt: Selected Macroeconomic Indicators, 2015/16–2019/20 1/**

	2015/16	2016/17	2017/18		2018/19		2019/20
			Third Review	Prel.	Third Review	Revised Proj.	
<b>Output and prices</b>							
Real GDP (market prices)	4.3	4.2	5.2	5.3	5.5	5.5	5.9
Consumer prices (end of period)	14.0	29.8	12.6	14.4	13.1	14.5	10.7
Consumer prices (period average)	10.2	23.5	20.8	20.9	14.4	15.8	12.8
<b>Public finances 2/</b>							
Gross Debt	96.9	103.2	92.4	92.6	86.2	86.0	83.3
External	7.8	18.1	18.5	19.2	17.0	18.0	17.6
Domestic	89.0	85.0	73.9	73.4	69.2	68.0	65.7
<b>Budget sector 3/</b>							
Revenue and grants	18.1	19.0	18.2	18.2	18.6	18.3	17.8
Expenditure (incl. net acquisition of financial assets)	30.7	29.9	27.9	27.9	26.7	26.6	24.5
<i>Of which: Energy subsidies</i>	3.0	4.1	3.4	3.4	2.1	2.1	1.2
Overall balance	-12.5	-10.9	-9.7	-9.8	-8.1	-8.3	-6.7
Overall balance, excl. grants	-12.7	-11.4	-9.7	-9.8	-8.1	-8.3	-6.7
Primary balance 4/	-3.5	-1.8	0.2	0.2	2.0	2.0	2.0
<b>Monetary sector</b>							
Credit to the private sector	14.2	38.0	7.5	10.1	18.2	19.2	18.9
Reserve money	29.3	-7.8	40.2	28.3	27.6	34.2	20.7
Broad money (M2)	18.6	39.3	23.4	18.5	19.8	20.8	20.5
Treasury bill rate, 3 month (average, in percent)	11.8	17.5	18.5	18.8	...	...	...
<b>External sector</b>							
Exports of goods (in US\$, percentage change)	-15.9	16.2	13.8	18.9	16.5	14.4	5.3
Imports of goods (in US\$, percentage change)	-6.4	2.8	4.5	6.9	10.0	6.4	3.1
Merchandise trade balance	-11.6	-14.5	-14.5	-14.9	-12.5	-12.4	-11.3
Current account	-6.0	-5.6	-2.8	-2.4	-2.6	-2.5	-1.8
Capital and financial account (incl. errors and omissions)	5.1	4.8	5.0	4.0	1.8	2.0	2.0
Foreign direct investment (net, in billions of US\$)	6.8	7.8	7.8	7.4	9.5	9.5	11.2
External debt 5/	18.3	41.3	34.5	37.4	29.9	34.4	31.3
Gross international reserves (in billions of US\$)	17.1	30.7	44.4	43.5	44.8	44.9	45.4
In months of next year's imports of goods and services	3.0	5.0	6.8	6.6	6.1	6.6	6.3
In percent of short-term external debt 6/	173.7	124.5	146.2	139.1	191.4	160.2	147.7
Financing gap (in billions of US\$)	...	...	0.0	0.0	1.1	0.0	0.0
<b>Memorandum items:</b>							
Nominal GDP (in billions of Egyptian pounds)	2,709	3,470	4,436	4,437	5,365	5,414	6,458
Nominal GDP (in billions of US\$)	332	256	250	250	...	...	...
GDP per capita (in US\$)	3,686	2,704	2,578	2,573	...	...	...
Unemployment rate (period average, percent)	12.7	12.2	11.1	10.9	9.7	9.6	8.3
Population (in millions)	90.2	94.8	97.0	97.0	99.2	99.2	101.5

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/ The primary balance for 2017/18 excludes the recapitalization of the CBE for EGP 6 billion.

5/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing.

6/ Debt at remaining maturity and stock of foreign holding of T-bills.

**Table 2a. Egypt: Balance of Payments, 2015/16–2022/23**  
(In billions of U.S. dollars, unless otherwise indicated)

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Third Review	Prel.	Third Review	Revised Proj.				
Current account	-19.8	-14.4	-6.9	-6.0	-8.1	-7.5	-6.2	-4.3	-3.3	-3.4
Balance on goods and services	-32.2	-31.7	-25.3	-26.2	-25.5	-24.2	-23.1	-22.7	-23.7	-25.8
Exports of goods and services	34.8	37.1	45.8	47.3	53.1	54.8	58.9	63.2	66.5	69.1
Imports of goods and services	-66.9	-68.8	-71.1	-73.5	-78.5	-79.0	-82.0	-85.9	-90.2	-94.9
Trade balance	-38.7	-37.3	-36.2	-37.3	-38.2	-37.6	-38.2	-39.7	-42.2	-45.5
Oil and gas	-3.6	-5.7	-4.2	-3.9	-2.8	-1.2	-0.5	-1.1	-1.9	-2.7
Other	-35.0	-31.6	-32.0	-33.4	-35.4	-36.4	-37.7	-38.5	-40.3	-42.8
Exports of goods	18.7	21.7	24.7	25.8	28.7	29.5	31.1	32.9	34.0	34.7
Oil and gas	5.7	6.4	8.4	8.6	10.7	9.1	8.4	8.6	8.6	8.8
Other	13.0	15.4	16.3	17.2	18.0	20.4	22.7	24.4	25.4	26.0
Imports of goods	-57.4	-59.0	-60.9	-63.1	-67.0	-67.2	-69.3	-72.6	-76.2	-80.2
Oil and gas	-9.3	-12.0	-12.6	-12.5	-13.5	-10.3	-8.9	-9.7	-10.5	-11.5
Other	-48.1	-47.0	-48.3	-50.6	-53.5	-56.8	-60.4	-62.9	-65.7	-68.7
Services (net)	6.5	5.6	10.9	11.1	12.7	13.4	15.1	16.9	18.5	19.7
Receipts	16.1	15.4	21.1	21.5	24.3	25.2	27.8	30.3	32.5	34.4
Of which: Tourism receipts	3.8	4.4	9.1	9.8	11.2	12.5	14.2	15.8	17.1	18.1
Of which: Suez canal receipts	5.1	4.9	5.6	5.7	6.0	6.1	6.3	6.6	7.0	7.3
Payments	-9.5	-9.8	-10.3	-10.4	-11.6	-11.8	-12.7	-13.3	-14.0	-14.7
Of which: Transportation	-1.3	-1.3	-1.4	-1.5	-1.6	-1.7	-1.8	-1.8	-1.9	-2.0
Of which: Travel	-4.1	-2.7	-2.3	-2.5	-2.8	-3.0	-3.3	-3.4	-3.6	-3.8
Primary income (net)	-4.5	-4.6	-6.3	-6.3	-8.7	-10.9	-12.0	-11.7	-10.9	-10.0
Receipts	0.4	0.5	0.5	0.8	0.6	1.0	1.1	1.2	1.2	1.3
Payments	-4.9	-5.1	-6.8	-7.1	-9.3	-11.9	-13.1	-12.9	-12.1	-11.2
Transfers	16.8	21.8	24.7	26.5	26.1	27.6	28.9	30.1	31.2	32.3
Official grants	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Private remittances	16.7	21.7	24.6	26.3	25.9	27.4	28.7	29.9	31.0	32.1
Capital and financial account	21.2	15.3	12.5	13.1	5.4	6.1	6.7	5.7	5.7	7.3
Medium- and long-term loans (net)	1.3	2.8	3.5	1.0	2.5	-0.2	-0.4	-0.7	-0.4	-0.4
Drawings	4.1	5.4	6.0	3.3	5.0	2.3	2.3	2.3	2.3	2.3
Amortization	2.8	2.6	2.5	2.3	2.6	2.5	2.7	3.0	2.8	2.7
FDI (net)	6.8	7.8	7.8	7.4	9.5	9.5	11.2	12.6	14.1	15.0
Portfolio investment (net)	-1.1	16.2	17.9	12.1	-2.0	-5.0	2.4	1.0	-1.2	-0.2
Commercial banks' NFA	8.3	-8.0	-4.5	2.9	6.4	5.0	6.3	-1.6	-1.0	-1.5
Other (including short-term capital and central bank deposits)	6.1	-3.2	-8.3	-10.1	-12.1	-3.2	-12.8	-5.5	-5.7	-5.6
Errors and omissions (net)	-4.2	-3.1	0.0	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.8	-2.1	5.8	4.0	-2.7	-1.4	0.5	1.4	2.4	3.9
Financing	2.8	2.1	-5.8	-4.0	1.7	1.4	-0.5	-1.4	-2.4	-3.9
Reserves ("-" indicates increase)	2.5	-13.6	-13.7	-12.8	-0.4	-1.4	-0.5	-1.2	-1.7	-2.6
Change in arrears ("-" indicates decrease) 1/	0.0	-1.3	-0.5	-1.2	-1.9	-1.2	0.0	0.0	0.0	0.0
Net use of IMF resources	0.0	2.7	5.3	5.3	4.0	4.0	0.0	-0.2	-0.7	-1.3
Other financing	0.4	14.3	3.2	4.8	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account excluding grants	-19.9	-14.5	-7.0	-6.2	-8.2	-7.7	-6.4	-4.5	-3.5	-3.6
Terms of trade (percent change)	-2.7	1.6	2.6	2.4	0.0	-0.3	-1.4	0.2	0.3	0.4
Gross international reserves (end of period)	17.1	30.7	44.4	43.5	44.8	44.9	45.4	46.5	48.2	50.8
In months of next year's imports of goods and services	3.0	5.0	6.8	6.6	6.1	6.6	6.3	6.2	6.1	5.9
External debt	55.8	79.0	86.9	92.6	91.5	104.4	98.1	95.2	92.5	88.8
External debt service	5.1	7.3	12.0	13.2	14.7	21.0	21.9	15.1	12.9	13.5
External debt service (in percent of exports of G	14.6	19.7	26.3	28.0	27.7	38.4	37.2	23.8	19.4	19.6
Stock of external arrears	3.7	2.4	1.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Real effective exchange rate (period average, percentage change)	5.9	-26.6	...	-12.9	...	...	...	...	...	...

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

1/ EGPC arrears.



**Table 2b. Egypt: Balance of Payments, 2015/16–2022/23**  
(In percent of GDP, unless otherwise indicated)

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Third Review	Prel.	Third Review	Revised Proj.				
Current account	-6.0	-5.6	-2.8	-2.4	-2.6	-2.5	-1.8	-1.2	-0.9	-0.9
Balance on goods and services	-9.7	-12.3	-10.1	-10.5	-8.3	-8.0	-6.9	-6.5	-6.5	-6.7
Exports of goods and services	10.5	14.5	18.3	19.0	17.4	18.1	17.5	18.0	18.2	18.0
Imports of goods and services	-20.1	-26.8	-28.4	-29.4	-25.7	-26.1	-24.4	-24.5	-24.6	-24.8
Trade balance	-11.6	-14.5	-14.5	-14.9	-12.5	-12.4	-11.3	-11.3	-11.5	-11.9
Oil and gas	-1.1	-2.2	-1.7	-1.6	-0.9	-0.4	-0.1	-0.3	-0.5	-0.7
Other	-10.5	-12.3	-12.8	-13.4	-11.6	-12.0	-11.2	-11.0	-11.0	-11.2
Exports	5.6	8.5	9.9	10.3	9.4	9.8	9.2	9.4	9.3	9.1
Oil and gas	1.7	2.5	3.3	3.5	3.5	3.0	2.5	2.4	2.4	2.3
Other	3.9	6.0	6.5	6.9	5.9	6.7	6.7	7.0	6.9	6.8
Imports	-17.3	-23.0	-24.3	-25.3	-21.9	-22.2	-20.6	-20.7	-20.8	-20.9
Oil and gas	-2.8	-4.7	-5.0	-5.0	-4.4	-3.4	-2.6	-2.8	-2.9	-3.0
Other	-14.5	-18.3	-19.3	-20.3	-17.5	-18.8	-17.9	-17.9	-17.9	-17.9
Services (net)	2.0	2.2	4.3	4.5	4.2	4.4	4.5	4.8	5.1	5.2
Receipts	4.8	6.0	8.4	8.6	8.0	8.3	8.3	8.6	8.9	9.0
Of which: Tourism receipts	1.1	1.7	3.6	3.9	3.7	4.1	4.2	4.5	4.7	4.7
Of which: Suez canal dues	1.5	1.9	2.2	2.3	2.0	2.0	1.9	1.9	1.9	1.9
Payments	-2.9	-3.8	-4.1	-4.2	-3.8	-3.9	-3.8	-3.8	-3.8	-3.8
Of which: Transportation	-0.4	-0.5	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Of which: Travel	-1.2	-1.1	-0.9	-1.0	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0
Primary income (net)	-1.3	-1.8	-2.5	-2.5	-2.8	-3.6	-3.6	-3.3	-3.0	-2.6
Receipts	0.1	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Payments	-1.5	-2.0	-2.7	-2.9	-3.0	-3.9	-3.9	-3.7	-3.3	-2.9
Transfers	5.1	8.5	9.9	10.6	8.5	9.1	8.6	8.6	8.5	8.4
Official grants	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Private remittances	5.0	8.5	9.8	10.5	8.5	9.0	8.5	8.5	8.5	8.4
Capital and financial account	6.4	6.0	5.0	5.3	1.8	2.0	2.0	1.6	1.6	1.9
Medium- and long-term loans (net)	0.4	1.1	1.4	0.4	0.8	-0.1	-0.1	-0.2	-0.1	-0.1
Drawings	1.2	2.1	2.4	1.3	1.6	0.8	0.7	0.7	0.6	0.6
Amortization	0.8	1.0	1.0	0.9	0.8	0.8	0.8	0.9	0.8	0.7
FDI (net)	2.0	3.0	3.1	3.0	3.1	3.1	3.3	3.6	3.9	3.9
Portfolio investment (net)	-0.3	6.3	7.1	4.8	-0.7	-1.7	0.7	0.3	-0.3	0.0
Commercial banks' NFA	2.5	-3.1	-1.8	1.2	2.1	1.7	1.9	-0.5	-0.3	-0.4
Other (including short-term capital and central bank deposits)	1.8	-1.1	-3.3	-3.3	-3.9	-4.0	-2.6	-0.6	-0.6	-0.8
Errors and omissions (net)	-1.3	-1.2	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	-0.8	2.3	1.6	-0.9	-0.5	0.1	0.4	0.7	1.0
Financing	0.8	0.8	-2.3	-1.6	0.6	0.5	-0.1	-0.4	-0.7	-1.0
Reserves ("-" indicates increase)	0.7	-5.3	-5.5	-5.1	-0.1	-0.4	-0.1	-0.3	-0.5	-0.7
Change in arrears ("-" indicates decrease) 1/	0.0	-0.5	-0.2	-0.5	-0.6	-0.4	0.0	0.0	0.0	0.0
Net use of Fund resources	0.0	1.1	2.1	2.1	1.3	1.3	0.0	-0.1	-0.2	-0.4
Other financing	0.0	5.6	1.3	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account excluding grants	-6.0	-5.7	-2.8	-2.5	-2.7	-2.6	-1.9	-1.3	-1.0	-0.9
Gross international reserves (end of period)	5.6	16.0	17.6	17.6	14.6	14.8	14.5	13.6	14.0	13.5
External debt	18.3	41.3	34.5	37.4	29.9	34.4	31.3	27.8	26.8	23.7
External debt service	1.5	2.9	4.8	5.3	4.8	6.9	6.5	4.3	3.5	3.5

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

1/ EGPC arrears.

**Table 3a. Egypt: Budget Sector Operations, 2015/16–2022/23 1/**  
(In billions of Egyptian pounds, unless otherwise indicated)

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Third Review	Prel.	Third Review	Revised Proj.				
Revenue and grants	491.5	659.2	808.7	805.7	999.5	988.5	1,147.0	1,321.8	1,508.5	1,716.0
Tax revenue	352.3	462.0	625.5	628.1	780.5	770.2	904.4	1,039.9	1,188.1	1,352.6
Income and property	158.2	203.4	259.3	258.3	327.6	338.2	384.4	441.6	505.3	573.2
Personal income tax	42.4	51.0	67.4	64.4	85.6	84.8	101.2	119.9	136.4	154.7
Corporate income tax	87.9	115.9	140.1	142.5	170.0	180.7	215.6	252.1	289.6	330.5
EGPC	37.3	42.5	44.0	52.0	47.2	57.4	68.5	78.5	89.2	101.2
Other	65.1	73.4	96.1	90.6	122.8	123.3	147.1	173.6	200.4	229.3
Property	28.0	36.5	51.8	51.4	72.0	72.7	67.6	69.6	79.4	88.0
Goods and services	140.5	208.6	293.3	293.8	377.5	358.9	432.4	497.6	568.0	649.2
Oil excises	13.2	33.1	30.6	40.4	21.4	25.2	25.1	26.8	23.4	26.6
VAT and nonoil excises	127.3	175.6	262.7	253.4	356.1	333.6	407.3	470.8	544.6	622.6
International trade	28.1	34.3	39.1	37.5	44.6	42.2	50.8	62.5	71.5	81.0
Other taxes	11.0	15.7	33.8	38.5	30.9	30.9	36.8	38.2	43.3	49.1
Nontax revenue	135.6	179.5	182.0	175.7	217.8	217.1	241.5	280.8	319.1	361.9
Oil-related nontax revenue	12.0	13.3	23.5	19.5	49.3	30.7	42.1	52.2	59.4	67.3
Other nontax revenues	123.7	161.9	158.5	156.2	168.4	186.5	199.4	228.6	259.7	294.6
Of which: interest income	1.9	4.3	2.4	3.3	3.7	3.7	2.4	2.4	2.7	3.1
Grants	3.5	17.7	1.1	2.0	1.2	1.2	1.2	1.2	1.3	1.5
Expenditure	817.6	1,031.9	1,229.7	1,229.1	1,430.4	1,435.2	1,567.6	1,703.9	1,858.3	2,079.8
Wages and other remunerations	213.7	225.5	240.0	236.9	266.1	270.1	317.2	367.0	417.1	473.1
Purchases of goods and services	35.7	42.5	48.1	47.9	60.1	60.1	67.8	73.3	80.5	91.3
Interest	243.4	316.6	433.5	437.4	542.7	558.4	563.0	546.5	539.0	575.7
Domestic	238.4	307.0	406.7	415.2	511.2	523.1	525.7	507.1	490.6	522.5
External	5.1	9.6	26.8	22.2	31.5	35.3	37.4	39.4	48.4	53.2
Subsidies, grants, and social benefits	201.0	276.7	331.0	329.1	337.3	326.9	348.8	398.7	452.6	516.2
Energy subsidies	81.1	142.6	150.9	149.4	115.1	115.6	75.8	26.8	29.5	33.4
Of which: fuel subsidy	51.0	115.0	120.9	120.8	99.1	99.6	63.4	26.8	29.5	33.4
Food subsidies 2/	41.5	47.5	82.6	81.2	87.2	88.3	87.1	121.9	138.6	157.2
Transfer to SIF	43.9	45.2	52.5	52.5	69.0	64.0	98.0	128.0	151.9	172.3
Other	31.3	41.4	45.0	46.0	66.0	58.9	87.8	122.0	132.7	153.3
Other current	54.6	61.5	65.8	72.3	75.7	75.7	90.3	103.5	117.7	133.4
Investment	69.3	109.1	111.4	105.6	148.5	144.0	180.6	215.0	251.4	290.1
Cash balance	-326.1	-372.8	-421.0	-423.4	-430.9	-446.7	-420.6	-382.0	-349.8	-363.8
Net acquisition of financial assets	13.1	6.8	9.3	9.3	3.8	3.8	13.2	17.7	20.0	22.7
Overall balance (IMF staff definition)	-339.3	-379.6	-430.4	-432.7	-434.7	-450.5	-433.8	-399.7	-369.8	-386.5
Overall balance (authorities' definition)	-339.3	-379.6	-430.4	-432.7	-434.7	-450.5	-433.8	-399.7	-369.8	-386.5
Financing	333.4	379.6	430.4	432.7	434.7	450.5	433.8	399.7	369.8	386.5
Net domestic	304.5	252.7	216.8	228.0	341.3	327.1	422.7	425.3	457.8	480.6
Bank	260.2	276.7	144.0	155.2	392.3	430.8	417.7	417.3	448.7	470.3
Nonbank	44.4	-24.0	72.8	72.8	-51.0	-103.7	5.0	8.0	9.1	10.3
Net external	28.9	126.9	213.5	204.7	73.7	123.3	11.1	-25.6	-88.0	-94.1
Financing gap	5.8	0.0	0.0	0.0	19.7	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance 3/	-95.9	-63.0	9.1	10.7	108.0	107.9	129.2	146.8	169.2	189.2
Oil balance 4/	-18.6	-53.7	-52.8	-37.5	2.9	-2.3	59.8	130.7	142.5	161.7
Financing gap (in billions of US\$)	0.7	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0
Gross budget sector debt 5/	2,764	3,749	4,297	4,314	4,855	4,872	5,627	6,213	6,917	7,497
Gross general government debt	2,624	3,580	4,098	4,110	4,623	4,654	5,378	5,919	6,555	7,080
Nominal GDP (in billions of Egyptian pounds)	2,709	3,470	4,436	4,437	5,365	5,414	6,458	7,402	8,415	9,544

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 primary balance for 2017/18 excludes the recapitalization of the CBE for EGP 6 billion.

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 3b. Egypt: Budget Sector Operations, 2015/16–2022/23 1/**  
(In percent of GDP)

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Third Review	Prel.	Third Review	Revised Proj.				
Revenue and grants	18.1	19.0	18.2	18.2	18.6	18.3	17.8	17.9	17.9	18.0
Tax revenue	13.0	13.3	14.1	14.2	14.5	14.2	14.0	14.0	14.1	14.2
Income and corporate tax	5.8	5.9	5.8	5.8	6.1	6.2	6.0	6.0	6.0	6.0
Personal income tax	1.6	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Corporate income tax	3.2	3.3	3.2	3.2	3.2	3.3	3.3	3.4	3.4	3.5
EGPC	1.4	1.2	1.0	1.2	0.9	1.1	1.1	1.1	1.1	1.1
Other	2.4	2.1	2.2	2.0	2.3	2.3	2.3	2.3	2.4	2.4
Property	1.0	1.1	1.2	1.2	1.3	1.3	1.0	0.9	0.9	0.9
Goods and services	5.2	6.0	6.6	6.6	7.0	6.6	6.7	6.7	6.7	6.8
Oil excises	0.5	1.0	0.7	0.9	0.4	0.5	0.4	0.4	0.3	0.3
VAT and nonoil excises	4.7	5.1	5.9	5.7	6.6	6.2	6.3	6.4	6.5	6.5
International trade	1.0	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.4	0.5	0.8	0.9	0.6	0.6	0.6	0.5	0.5	0.5
Nontax revenue	5.0	5.2	4.1	4.0	4.1	4.0	3.7	3.8	3.8	3.8
Oil-related nontax revenue	0.4	0.4	0.5	0.4	0.9	0.6	0.7	0.7	0.7	0.7
Other nontax revenues	4.6	4.7	3.6	3.5	3.1	3.4	3.1	3.1	3.1	3.1
Of which: interest income	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Grants	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	30.2	29.7	27.7	27.7	26.7	26.5	24.3	23.0	22.1	21.8
Wages and other remunerations	7.9	6.5	5.4	5.3	5.0	5.0	4.9	5.0	5.0	5.0
Purchases of goods and services	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Interest	9.0	9.1	9.8	9.9	10.1	10.3	8.7	7.4	6.4	6.0
Domestic	8.8	8.8	9.2	9.4	9.5	9.7	8.1	6.9	5.8	5.5
External	0.2	0.3	0.6	0.5	0.6	0.7	0.6	0.5	0.6	0.6
Subsidies, grants and social benefits	7.4	8.0	7.5	7.4	6.3	6.0	5.4	5.4	5.4	5.4
Energy subsidies	3.0	4.1	3.4	3.4	2.1	2.1	1.2	0.4	0.3	0.3
Of which: fuel subsidy	1.9	3.3	2.7	2.7	1.8	1.8	1.0	0.4	0.3	0.3
Food subsidies 2/	1.5	1.4	1.9	1.8	1.6	1.6	1.3	1.6	1.6	1.6
Transfers to SIF	1.6	1.3	1.2	1.2	1.3	1.2	1.5	1.7	1.8	1.8
Other	1.2	1.2	1.0	1.0	1.2	1.1	1.4	1.6	1.6	1.6
Other current	2.0	1.8	1.5	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Investment	2.6	3.1	2.5	2.4	2.8	2.7	2.8	2.9	3.0	3.0
Cash balance	-12.0	-10.7	-9.5	-9.5	-8.0	-8.3	-6.5	-5.2	-4.2	-3.8
Net acquisition of financial assets	0.5	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Overall balance (IMF staff definition)	-12.5	-10.9	-9.7	-9.8	-8.1	-8.3	-6.7	-5.4	-4.4	-4.0
Overall balance (authorities' definition)	-12.5	-10.9	-9.7	-9.8	-8.1	-8.3	-6.7	-5.4	-4.4	-4.0
Financing	12.3	10.9	9.7	9.8	8.1	8.3	6.7	5.4	4.4	4.0
Net domestic	11.2	7.3	4.9	5.1	6.4	6.0	6.5	5.7	5.4	5.0
Bank	9.6	8.0	3.2	3.5	7.3	8.0	6.5	5.6	5.3	4.9
Nonbank	1.6	-0.7	1.6	1.6	-1.0	-1.9	0.1	0.1	0.1	0.1
Net external	1.1	3.7	4.8	4.6	1.4	2.3	0.2	-0.3	-1.0	-1.0
Financing gap	...	...	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance 3/	-3.5	-1.8	0.2	0.2	2.0	2.0	2.0	2.0	2.0	2.0
Oil balance 4/	-0.7	-1.5	-1.2	-0.8	0.1	0.0	0.9	1.8	1.7	1.7
Gross budget sector debt 5/	102.0	108.0	96.9	97.2	90.5	90.0	87.1	83.9	82.2	78.6
Nominal GDP (in billions of Egyptian pounds)	2,709	3,470	4,436	4,437	5,365	5,414	6,458	7,402	8,415	9,544

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 primary balance for 2017/18 excludes the recapitalization of the CBE for 6 billion Egyptian pounds.

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 4. Egypt: General Government Operations, 2015/16–2022/23 1/**

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Third Review	Prel.	Third Review	Revised Proj.				
(In billions of Egyptian pounds)										
Revenue and grants	549.0	755.1	908.4	916.0	1,097.0	1,086.0	1,267.9	1,454.4	1,662.1	1,883.0
Tax revenue	352.3	462.0	625.5	628.1	780.5	770.2	904.4	1,039.9	1,188.1	1,352.6
Income and property	158.2	203.4	259.3	258.3	327.6	338.2	384.4	441.6	505.3	573.2
Personal income tax	42.4	51.0	67.4	64.4	85.6	84.8	101.2	119.9	136.4	154.7
Corporate income tax	87.9	115.9	140.1	142.5	170.0	180.7	215.6	252.1	289.6	330.5
EGPC	37.3	42.5	44.0	52.0	47.2	57.4	68.5	78.5	89.2	101.2
Other	65.1	73.4	96.1	90.6	122.8	123.3	147.1	173.6	200.4	229.3
Goods and services	140.5	208.6	293.3	293.8	377.5	358.9	432.4	497.6	568.0	649.2
Oil excises	13.2	33.1	30.6	40.4	21.4	25.2	25.1	26.8	23.4	26.6
VAT and nonoil excises	127.3	175.6	262.7	253.4	356.1	333.6	407.3	470.8	544.6	622.6
International trade taxes	28.1	34.3	39.1	37.5	44.6	42.2	50.8	62.5	71.5	81.0
Other taxes	11.0	15.7	33.8	38.5	30.9	30.9	36.8	38.2	43.3	49.1
Nontax revenue	193.2	275.4	281.8	285.9	315.3	314.7	362.4	413.4	472.7	528.9
Of which: Interest income	4.6	9.9	15.0	15.0	9.4	9.4	9.6	12.6	15.2	18.0
Grants	3.5	17.7	1.1	2.0	1.2	1.2	1.2	1.2	1.3	1.5
Expenditure	886.9	1,117.0	1,326.9	1,336.0	1,511	1,543	1,675.5	1,817.5	1,986.1	2,223.0
Wages and other remunerations	216.2	227.7	242.9	239.1	268.3	272.5	320.0	370.2	420.7	477.2
Purchases of goods and services	35.9	42.8	48.5	48.3	60.6	60.9	68.8	74.4	81.6	92.5
Interest	225.4	284.7	396.8	415.1	493.3	521.0	532.0	520.5	513.7	549.6
Domestic interest	220.4	274.9	370.0	392.9	461.8	485.6	494.6	481.1	465.3	496.5
External interest	5.1	9.6	26.8	22.2	31.5	35.3	37.4	39.4	48.4	53.2
Subsidies, grants, and social benefits	285.5	386.3	456.4	455.5	461.5	468.7	483.4	533.5	600.4	679.5
Other current	54.6	66.2	70.8	72.3	78.7	76.0	90.6	103.9	118.1	133.9
Investment	69.4	109.2	111.5	105.7	148.5	144.1	180.7	215.1	251.5	290.3
Net acquisition of financial assets	-11.5	4.5	10.1	5.4	8.1	0.6	10.9	15.2	17.5	21.6
Overall balance	-326.4	-366.4	-428.5	-425.4	-422.0	-457.8	-418.5	-378.3	-341.4	-361.6
Financing	326.4	366.4	428.5	425.4	422.0	457.8	418.5	378.3	341.4	361.6
Net domestic	297.5	239.5	215.0	220.7	328.6	334.5	407.4	403.9	429.4	455.6
Bank	253.1	263.5	142.2	147.9	379.6	438.2	402.4	395.9	420.3	445.3
Nonbank	44.4	-24.0	72.8	72.8	-51.0	-103.7	5.0	8.0	9.1	10.3
Net external	28.9	126.9	213.5	204.7	73.7	124.5	11.1	-25.6	-88.0	-94.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	19.7	-1.1	0.0	0.0	0.0	0.0
(In percent of GDP, unless otherwise indicated)										
Revenue and grants	20.3	21.8	20.5	20.6	20.4	20.1	19.6	19.6	19.8	19.7
Tax revenue	13.0	13.3	14.1	14.2	14.5	14.2	14.0	14.0	14.1	14.2
Nontax revenue	7.1	7.9	6.4	6.4	5.9	5.8	5.6	5.6	5.6	5.5
Of which: Interest income	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2
Grants	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	32.7	32.2	29.9	30.1	28.2	28.5	25.9	24.6	23.6	23.3
Wages and other remunerations	8.0	6.6	5.5	5.4	5.0	5.0	5.0	5.0	5.0	5.0
Purchases of goods and services	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Interest	8.3	8.2	8.9	9.4	9.2	9.6	8.2	7.0	6.1	5.8
Subsidies, grants, and social benefits	10.5	11.1	10.3	10.3	8.6	8.7	7.5	7.2	7.1	7.1
Other current	2.0	1.9	1.6	1.6	1.5	1.4	1.4	1.4	1.4	1.4
Investment	2.6	3.1	2.5	2.4	2.8	2.7	2.8	2.9	3.0	3.0
Net acquisition of financial assets	-0.4	0.1	0.2	0.1	0.2	0.0	0.2	0.2	0.2	0.2
Overall balance	-12.0	-10.6	-9.7	-9.6	-7.9	-8.5	-6.5	-5.1	-4.1	-3.8
Financing	12.0	10.6	9.7	9.6	7.9	8.5	6.5	5.1	4.1	3.8
Net domestic	11.0	6.9	4.8	5.0	6.1	6.2	6.3	5.5	5.1	4.8
Bank	9.3	7.6	3.2	3.3	7.1	8.1	6.2	5.3	5.0	4.7
Nonbank	1.6	-0.7	1.6	1.6	-1.0	-1.9	0.1	0.1	0.1	0.1
Net external	1.1	3.7	4.8	4.6	1.4	2.3	0.2	-0.3	-1.0	-1.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance	-3.7	-2.4	-0.7	-0.2	1.3	1.2	1.8	1.9	2.0	2.0
Gross debt	96.8	103.2	92.4	92.6	86.2	86.0	83.3	80.0	77.9	74.2
Gross debt (in billions of LE)	2,624	3,580	4,098	4,110	4,623	4,654	5,378	5,918	6,555	7,080
Nominal GDP (in billions of LE)	2,709	3,470	4,436	4,437	5,365	5,414	6,458	7,402	8,415	9,544

Sources: Ministry of Finance; and IMF staff estimates.

1/ General government includes budget sector, National Investment Bank (NIB) and Social Insurance Funds (SIF). Fiscal year ends June 30. Cash basis.

**Table 5. Egypt: Central Bank Accounts, 2015/16–2022/23**

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Third Review	Prel.	Third Review	Revised Proj.				
(end-period, in billions of Egyptian Pounds, unless otherwise indicated)										
Net foreign assets	-45	4	361	301	484	369	661	765	936	1072
Foreign assets	150	552	781	776	784	801	936	1009	1180	1299
Foreign liabilities	195	548	420	474	300	431	275	245	244	226
Net domestic assets	673	575	451	442	553	628	542	644	692	817
Net domestic credit	679	400	209	263	315	454	432	561	687	847
Net credit to central government	658	740	765	731	711	713	710	727	744	762
Net credit to public economic authorities	-39	-32	-21	-15	-24	-24	-4	-4	-4	-4
Credit to banks	120	284	383	326	295	280	165	165	166	166
Banks' deposits in foreign currency	-61	-130	-136	-125	-137	-128	-136	-146	-171	-179
Open market operations	0	-464	-782	-653	-529	-386	-303	-181	-47	102
Other items net	-6	176	241	178	238	174	110	84	5	-30
Reserve money 1/	628	579	812	743	1036	997	1203	1409	1628	1890
Currency in circulation	347	419	480	442	622	596	727	856	993	1159
Reserves and highly liquid assets of banks	281	160	332	301	414	401	476	554	636	731
Cash in vaults	22	33	35	44	37	39	43	47	51	55
Reserves	110	126	277	234	357	342	413	487	565	656
Deposits on overnight	150	2	20	24	20	20	20	20	20	20

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

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

**Table 6. Egypt: Monetary Survey, 2015/16–2022/23**

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Third Review	Prel.	Third Review	Revised Proj.				
(End-period, in billions of Egyptian pounds)										
Net foreign assets	-87	61	497	310	506	288	437	564	735	902
Central bank	-45	4	361	301	484	369	661	765	936	1,072
Commercial banks	-43	57	135	8	22	-82	-225	-201	-201	-171
Net domestic assets	2,182	2,857	3,105	3,147	3,807	3,888	4,596	5,270	6,004	6,812
Net claims on central and local government	1,603	1,809	1,953	1,972	2,344	2,402	2,860	3,292	3,781	4,267
Net claims on public economic authorities	52	171	215	246	283	305	360	372	407	420
Claims on public sector companies	93	149	152	160	208	210	234	254	281	304
Claims on private sector	712	983	1,056	1,083	1,248	1,290	1,535	1,775	2,053	2,380
Net other items	-278	-254	-272	-313	-276	-318	-393	-423	-518	-560
Broad money (M2)	2,094	2,918	3,601	3,457	4,313	4,176	5,032	5,834	6,739	7,713
Domestic currency component (M2D)	1,771	2,224	2,901	2,740	3,599	3,448	4,173	4,910	5,697	6,626
Currency outside banks	347	419	480	442	622	596	727	856	993	1,159
Domestic currency deposits	1,424	1,805	2,421	2,299	2,977	2,852	3,446	4,055	4,704	5,467
Foreign currency deposits	324	694	700	717	714	728	860	923	1,042	1,088
(Annual percent change, unless otherwise indicated)										
Broad money (M2)	18.6	39.3	23.4	18.5	19.8	20.8	20.5	15.9	15.5	14.5
Domestic currency component (M2D)	17.8	25.6	30.4	23.2	24.1	25.8	21.0	17.7	16.0	16.3
Reserve money 1/	29.3	-7.8	40.2	28.3	27.6	34.2	20.7	17.1	15.5	16.1
Contribution to Broad Money Growth	18.6	39.3	23.4	18.5	19.8	20.8	20.5	15.9	15.5	14.5
Net foreign assets	-7.9	7.1	14.9	8.5	0.3	-0.6	3.6	2.5	2.9	2.5
Net domestic assets	26.5	32.2	8.5	9.9	19.5	21.4	16.9	13.4	12.6	12.0
Credit to the private sector	14.2	38.0	7.5	10.1	18.2	19.2	18.9	15.7	15.6	15.9
Credit to government and public sector companies	21.5	15.4	7.5	8.9	21.2	22.5	18.5	14.6	14.6	12.5
Memorandum items:										
Velocity										
Velocity GDP/M2D (level)	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Velocity GDP/M2 (level)	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3
M2 (in percent of GDP)	77.3	84.1	81.2	77.9	80.4	77.1	77.9	78.8	80.1	80.8
Money multiplier (M2D / reserve money)	2.8	3.8	3.6	3.7	3.5	3.5	3.5	3.5	3.5	3.5
Money multiplier (M2 / reserve money)	3.3	5.0	4.4	4.7	4.2	4.2	4.2	4.1	4.1	4.1
M2 (in real terms)	4.1	7.4	9.6	3.6	5.9	5.5	8.8	7.6	7.7	7.0
Domestic currency deposit (in real terms)	3.3	-2.3	19.2	11.3	8.7	8.4	9.1	9.3	8.2	8.7
Claims on private sector (in real terms)	0.2	6.4	-4.5	-3.7	4.5	4.1	7.4	7.4	7.8	8.4
Foreign currency deposits (in percent of total deposits)	18.5	27.8	22.4	23.8	19.3	20.3	20.0	18.6	18.1	16.6

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 renewals at CBE due to unexpected announcement of national holiday on June 30, 2015.

**Table 7a. Egypt: Summary of National Accounts, 2015/16–2022/23**  
(In percent, unless otherwise indicated)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Projections							
	(Annual change, in percent)							
Real GDP at market price	4.3	4.2	5.3	5.5	5.9	6.0	6.0	6.0
Domestic demand (absorption)	5.5	5.0	3.1	3.9	4.9	5.3	5.9	6.1
Private	5.6	4.5	4.0	4.4	4.6	5.1	5.8	6.1
Public	4.5	8.4	-3.3	-0.3	7.3	6.9	6.4	6.6
Consumption	4.6	4.0	1.2	2.3	4.8	4.4	5.0	5.2
Private	4.7	4.2	1.1	3.4	4.7	4.2	5.0	5.1
Public	3.9	2.5	1.7	-7.2	6.0	5.8	5.5	6.1
Investment	11.2	11.3	15.7	12.8	5.4	10.0	9.8	10.5
Gross fixed capital formation	19.6	7.7	16.9	10.9	9.4	10.0	9.8	10.5
Private	22.5	2.2	26.7	8.0	9.0	10.0	10.0	11.0
Public	7.2	34.8	-19.3	27.7	11.3	10.1	9.0	7.8
Net exports of goods and services 1/	-1.6	-1.3	1.8	1.2	0.5	0.2	-0.3	-0.6
Exports of goods and services	-14.5	86.0	32.2	13.9	8.3	5.6	3.4	2.1
Imports of goods and services	-1.9	52.5	11.3	5.1	4.0	3.3	3.5	3.7
Real GDP at factor cost	2.3	3.6	5.2	5.6	5.9	6.0	6.0	6.0
Agriculture	3.1	3.2	3.1	3.0	3.2	3.2	3.2	3.2
Construction	11.2	9.5	10.0	10.0	10.0	10.0	10.0	10.0
Industry	-1.4	0.5	6.0	6.9	6.1	5.6	5.7	5.5
Services	3.4	5.4	5.3	5.5	6.7	7.2	7.1	7.1
General government	5.0	3.0	1.5	2.0	2.5	2.5	2.5	2.5
Suez Canal	2.2	1.4	9.6	5.0	3.0	4.0	4.0	4.0
	(Contribution to real growth, in percent 2/)							
Real GDP at market price	4.3	4.2	5.3	5.5	5.9	6.0	6.0	6.0
Domestic demand (absorption)	5.9	5.5	3.5	4.3	5.3	5.8	6.3	6.6
Private	5.3	4.3	4.0	4.3	4.5	5.0	5.6	5.8
Public	0.7	1.2	-0.4	0.0	0.8	0.8	0.8	0.8
Consumption	4.3	3.7	1.1	2.2	4.4	4.0	4.5	4.6
Private	3.8	3.4	1.0	2.9	3.9	3.5	4.0	4.1
Public	0.5	0.3	0.2	-0.7	0.5	0.5	0.5	0.5
Investment	1.7	1.8	2.4	2.1	1.0	1.8	1.8	2.0
Gross fixed capital formation	2.7	1.2	2.5	1.8	1.6	1.8	1.8	2.0
Private	2.5	0.3	3.1	1.1	1.3	1.5	1.5	1.8
Public	0.2	0.9	-0.6	0.7	0.3	0.3	0.3	0.3
Net exports of goods and services	-1.6	-1.3	1.8	1.2	0.5	0.2	-0.3	-0.6
Exports of goods and services	-2.0	9.7	5.1	2.8	1.8	1.2	0.7	0.5
Imports of goods and services	0.4	-11.1	-3.3	-1.6	-1.2	-1.0	-1.0	-1.1
Real GDP at factor cost	2.3	3.6	5.2	5.6	5.9	6.0	6.0	6.0
Agriculture	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Construction	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Industry	-0.5	0.2	1.8	2.1	1.8	1.7	1.7	1.7
Services	1.4	2.3	2.3	2.4	2.8	3.1	3.1	3.1
General government	0.5	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Suez Canal	0.0	0.0	0.2	0.1	0.1	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 7b. Egypt: Summary of National Accounts, 2015/16–2022/23**  
(In percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
						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
Domestic demand (absorption)	109.6	113.5	110.5	108.0	106.9	106.5	106.5	106.7
Private	95.6	100.3	99.7	97.4	96.3	95.8	95.8	96.0
Public	14.0	13.2	10.7	10.6	10.6	10.7	10.7	10.7
Consumption	94.5	98.2	93.8	91.1	89.4	88.4	87.7	87.2
Private	83.1	88.1	85.4	83.2	81.7	80.6	80.0	79.5
Public	11.4	10.1	8.4	7.9	7.8	7.7	7.7	7.7
Investment	15.0	15.3	16.7	16.9	17.4	18.1	18.7	19.5
Gross fixed capital formation	14.5	14.8	16.3	16.9	17.4	18.1	18.7	19.5
Private	11.9	11.7	13.9	14.2	14.6	15.2	15.7	16.5
Public	2.6	3.1	2.4	2.7	2.8	2.9	3.0	3.0
Net exports of goods and services	-9.6	-13.5	-10.5	-8.0	-6.9	-6.5	-6.5	-6.7
Exports of goods and services	10.3	15.8	18.9	18.0	17.5	18.0	18.1	18.0
Imports of goods and services	-19.9	-29.3	-29.4	-26.0	-24.3	-24.5	-24.6	-24.7
Net factor income	-1.3	-1.9	-2.5	-3.6	-3.6	-3.3	-3.0	-2.6
Net remittances inflows	5.0	9.2	10.5	9.0	8.5	8.5	8.5	8.4
Net official transfers	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gross National Disposable Income	103.7	107.3	108.1	105.5	105.0	105.2	105.6	105.8
Investment	15.0	15.3	16.7	16.9	17.4	18.1	18.7	19.5
Private (incl. change in inventories)	12.5	12.1	14.3	14.2	14.6	15.2	15.7	16.5
Public	2.6	3.1	2.4	2.7	2.8	2.9	3.0	3.0
National savings	9.1	9.7	14.3	14.4	15.6	16.8	17.8	18.6
Private	19.0	16.9	21.4	20.2	19.1	18.8	18.7	19.2
Public	-9.9	-7.3	-7.1	-5.8	-3.5	-2.0	-0.9	-0.5
Savings-investment balance	-6.0	-5.6	-2.4	-2.5	-1.8	-1.2	-0.9	-0.9
Private	6.5	4.8	7.1	6.0	4.5	3.7	2.9	2.7
Public	-12.5	-10.4	-9.5	-8.4	-6.3	-4.9	-3.8	-3.6
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.9	11.7	11.5	11.3	11.0	10.7	10.4	9.4
Construction	5.4	5.7	5.9	6.2	6.5	6.7	6.9	6.7
Industry	27.4	28.6	30.0	30.6	30.7	30.6	30.4	28.2
Services	43.3	42.9	43.0	42.5	42.6	43.1	43.7	47.9
General government	10.3	8.9	7.4	7.2	7.0	6.7	6.5	5.8
Suez Canal	1.5	2.2	2.2	2.2	2.2	2.1	2.1	1.9

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



**Table 8. Egypt: Medium-Term Macroeconomic Framework, 2015/16–2022/23**  
(In percent of GDP, unless otherwise indicated)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
						Projections		
<b>Growth and prices</b>								
Real GDP (annual change, in percent)	4.3	4.2	5.3	5.5	5.9	6.0	6.0	6.0
CPI inflation (end-of-period, in percent)	14.0	29.8	14.4	14.5	10.7	7.7	7.2	6.9
CPI inflation (average, in percent)	10.2	23.5	20.9	15.8	12.8	8.1	7.2	6.9
Unemployment rate (period average, in percent)	12.7	12.2	10.9	9.6	8.3	7.6	7.0	6.4
<b>Savings-investment balance</b>								
Investment	15.0	15.3	16.7	16.9	17.4	18.1	18.7	19.5
Domestic savings	9.1	9.7	14.3	14.4	15.6	16.8	17.8	18.6
<b>Public finances</b>								
<b>General government</b>								
Revenue and grants	20.3	21.8	20.6	20.1	19.6	19.6	19.8	19.7
Expenditure and NAFA	32.3	32.3	30.2	28.5	26.1	24.8	23.8	23.5
Overall balance	-12.0	-10.6	-9.6	-8.5	-6.5	-5.1	-4.1	-3.8
Overall balance, excl. grants	-12.2	-11.1	-9.6	-8.5	-6.5	-5.1	-4.1	-3.8
Primary balance	-3.7	-2.4	-0.2	1.2	1.8	1.9	2.0	2.0
Gross debt	96.8	103.2	92.6	86.0	83.3	80.0	77.9	74.2
Domestic	89.0	85.0	73.4	68.0	65.7	64.2	63.4	61.8
External	7.8	18.1	19.2	18.0	17.6	15.7	14.5	12.3
<b>Budget sector</b>								
Revenue and grants	18.1	19.0	18.2	18.3	17.8	17.9	17.9	18.0
Tax revenue	13.0	13.3	14.2	14.2	14.0	14.0	14.1	14.2
Non-tax revenue	5.0	5.2	4.0	4.0	3.7	3.8	3.8	3.8
Grants	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and NAFA	30.7	29.9	27.9	26.6	24.5	23.3	22.3	22.0
<i>Of which:</i> Current	28.1	26.8	25.5	23.9	21.7	20.4	19.3	19.0
Capital	2.6	3.1	2.4	2.7	2.8	2.9	3.0	3.0
Overall budget balance	-12.5	-10.9	-9.8	-8.3	-6.7	-5.4	-4.4	-4.0
Overall budget balance, excl. grants	-12.7	-11.4	-9.8	-8.3	-6.7	-5.4	-4.4	-4.1
Primary budget balance	-3.5	-1.8	0.2	2.0	2.0	2.0	2.0	2.0
<b>Balance of payments and external debt</b>								
Current account	-6.0	-5.6	-2.4	-2.5	-1.8	-1.2	-0.9	-0.9
Trade balance	-11.6	-14.5	-14.9	-12.4	-11.3	-11.3	-11.5	-11.9
Oil and gas	-1.1	-2.2	-1.6	-0.4	-0.1	-0.3	-0.5	-0.7
Other	-10.5	-12.3	-13.4	-12.0	-11.2	-11.0	-11.0	-11.2
Capital and financial account (incl. errors and omissions)	5.1	4.8	4.0	2.0	2.0	1.7	1.6	1.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official reserves (in billions of US\$)	17.1	30.7	43.5	44.9	45.4	46.7	48.4	51.0
(In months of next year's imports of goods and services)	3.0	5.0	6.6	6.6	6.3	6.2	6.1	6.0
External debt (in percent of GDP)	18.3	41.3	37.4	34.4	31.3	27.8	26.8	23.7

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

**Table 9. Egypt: Financial Soundness Indicators of the Banking System, 2009–2017**  
(end-June, percent)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
<i>Capital adequacy</i>									
Regulatory capital to RWA	15.1	16.3	15.9	14.9	13.7	13.9	14.5	14	15.2
Common equity to RWA	...	...	...	...	10.7	11.4	12.1	11.7	8.8
<i>Asset quality</i>									
NPLs to total loans	13.4	13.6	10.9	9.8	9.3	8.5	7.1	6	4.9
Loan provisions to non-performing loans	100.4	92.5	94.6	97.1	99.8	98.9	99.0	99.1	98.7
<i>Profitability</i>									
Return on assets	0.8	1.0	1.0	1.0	1.0	1.3	1.5	2.0	2.0
Return on average equity	13	14.3	14.3	13.9	14.5	18.9	24.4	30.9	30.9

Source: Central Bank of Egypt.

**Table 10. Egypt: Capacity to Repay the Fund, 2016/17–2022/23 1/ 2/**

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
					Projections		
<b>Fund repurchases and charges</b>							
Millions of SDRs	22.6	78.7	177.4	276.4	447.7	800.1	1,240.6
Repurchases	0.0	0.0	0.0	0.0	164.2	522.4	955.2
Charges and fees	22.6	78.7	177.4	276.4	283.5	277.7	285.4
Millions of US\$	31.6	109.8	247.6	385.9	624.9	1,116.8	1,731.7
Percent of exports of goods and nonfactor services	0.1	0.2	0.5	0.7	1.0	1.7	2.5
Percent of total debt service 3/	0.0	0.1	0.2	0.4	0.5	0.9	1.3
Percent of quota	1.1	3.9	8.7	13.6	22.0	39.3	60.9
Percent of gross international reserves	0.1	0.3	0.6	0.9	1.3	2.3	3.4
<b>Fund credit outstanding</b>							
Millions of SDRs	1,970	5,731	8,597	8,597	8,432	7,910	6,955
Millions of US\$	2,750	8,000	12,000	12,000	11,771	11,042	9,708
Percent of exports of goods and nonfactor services	7.4	16.9	21.9	20.4	18.6	16.6	14.0
Percent of quota	96.7	281.3	422.0	422.0	413.9	388.3	341.4
Percent of gross international reserves	9.0	18.4	26.8	26.5	25.3	22.9	19.1
<b>Memorandum items:</b>							
Exports of goods and nonfactor services (in millions of US\$)	37,128	47,314	54,751	58,862	63,199	66,475	69,106
Debt service (in millions of US\$)	89,099	87,031	113,219	108,951	122,440	129,508	137,646
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)	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3
Gross international reserves (in millions of US\$)	30,652	43,497	44,850	45,351	46,542	48,195	50,763

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 11. Egypt: External Financing Requirements and Sources, 2015/16–2022/23**  
(In billions of dollars, unless otherwise indicated)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
						Projections		
Gross financing requirements	29.6	31.3	22.9	29.6	36.4	27.7	26.1	27.1
Current account deficit	19.8	14.4	6.0	7.5	6.2	4.3	3.3	3.4
Of which: Net interest payments	0.4	1.2	2.2	3.2	3.9	3.9	3.8	3.5
Maturing short-term debt	7.0	12.3	12.3	13.7	16.2	16.7	16.7	16.7
Private sector	2.1	1.4	2.1	2.1	2.1	2.1	2.1	2.1
Public sector	4.9	10.9	10.2	11.6	14.1	14.6	14.6	14.6
Amortization of medium and long-term debt	2.8	4.6	4.7	8.3	14.0	6.7	6.1	7.0
Private sector	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.1
Public sector	2.7	4.5	4.5	8.3	14.0	6.7	6.1	7.0
MLT to external private creditors	0.1	3.0	2.4	1.1	1.6	2.4	2.1	2.0
By domestic private sector	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.1
By domestic public sector	0.0	2.9	2.2	1.0	1.6	2.3	2.1	2.0
MLT to external official creditors	2.7	1.4	1.2	1.8	2.0	2.2	2.2	2.2
IMF	0.0	0.0	0.0	0.0	0.0	0.2	0.7	1.3
To other official creditors	2.7	1.6	2.3	7.3	12.4	4.1	3.2	3.7
By domestic private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By domestic public sector	2.7	1.6	2.3	7.3	12.4	4.1	3.2	3.7
Sources of financing	29.6	31.3	22.9	29.6	36.4	27.7	26.1	27.1
Foreign direct investment (net)	6.8	7.8	7.4	9.5	11.2	12.6	14.1	15.0
Roll-over of short-term debt	7.0	12.3	12.3	13.7	16.2	16.7	16.7	16.7
Medium- and long-term borrowing	6.7	26.9	14.5	14.6	5.3	3.3	3.3	3.3
Private sector	1.6	2.9	1.3	0.3	0.3	0.3	0.3	0.3
Public sector	5.2	24.0	13.2	14.3	5.0	3.0	3.0	3.0
Other net capital flows	10.8	-0.4	0.6	-9.7	4.2	-3.4	-5.6	-4.0
Of which: portfolio investment	-1.1	16.2	12.1	-5.0	2.4	1.0	-1.2	-0.2
Net use of Fund resources	0.0	2.7	5.3	4.0	0.0	-0.2	-0.7	-1.3
Change in reserves (- increase) `	2.5	-13.6	-12.8	-1.4	-0.5	-1.2	-1.7	-2.6
Change in arrears ("-" indicates decrease)	0.0	-1.3	-1.2	-1.2	0.0	0.0	0.0	0.0
Errors and omissions	-4.2	-3.1	-3.2	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves (GIR)	17.1	30.7	43.5	44.9	45.4	46.5	48.2	50.8
External debt	55.8	79.0	92.6	104.4	98.1	95.2	92.5	88.8

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

**Table 12. Egypt: Schedule of Purchases Under the Extended Arrangement**

Date	Amount		Percent of Quota	Condition
	Millions of SDR	Millions of US Dollars		
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 <sup>1</sup>
November 11, 2017	1,432.76	2,000	70.3	Second review and end-June 2017 performance criteria <sup>2</sup>
March 15, 2018	1,432.76	2,000	70.3	Third review and end-December 2017 performance criteria <sup>3</sup>
November 11, 2018	1,432.76	2,000	70.3	Fourth review and end-June 2018 performance criteria
June 20, 2019	1,432.76	2,000	70.3	Fifth review and end-March 2019 performance criteria
Total	8,596.57	12,000	422.0	
<i>Memorandum items:</i>				
Quota (SDR, million)	2037.1			
USD/SDR exchange rate	1.3959			

Source: IMF staff calculations.

<sup>1</sup> The Executive Board meeting for the First review took place on July 13, 2017.

<sup>2</sup> The Executive Board meeting for the Second review took place on December 20, 2017.

<sup>3</sup> The Executive Board meeting for the Third review took place on June 29, 2018.

## Annex I. Public/External Debt Sustainability Analysis

*The Debt Sustainability Analysis indicates that Egypt's debt is sustainable, but is subject to significant risks. Under the baseline scenario, debt is projected to decline to 86 percent of GDP by the end of the program and to about 71 percent of GDP by 2023/24. The main risks are a sustained increase in interest rates due to a further tightening of global financial conditions, weaker growth, less ambitious fiscal consolidation. Contingent liabilities arising from state-owned enterprises and government guarantees present additional risks. Sustained fiscal consolidation in combination with structural reforms to boost growth is needed to put Egypt's debt on a steady declining path.*

### Baseline Scenario

**1. The baseline projections assume recovery of growth from the low levels since 2011 through mid-2016 and strong fiscal consolidation, supported by policies and reforms under the Extended Fund Facility arrangement.** Real GDP growth is expected to increase from the average growth rate of 3 percent in 2010/11–2015/16 to almost 5½ percent in 2018/19 and to 6 percent over the medium term, which is close to the pre-revolution average growth of 6.2 percent (2005/06–2009/10). The recovery in growth is underpinned by the recovery in net exports and ongoing structural reforms that translate into stronger private investment. Average inflation is projected to decline from its peak of 21 percent in 2017/18 to 7 percent in 2023/24. Effective interest rates on general government debt are projected to decline, reflecting expected monetary policy easing and the recent shift in budget sector debt towards long-term external financing at lower interest rates. The primary balance is projected to improve by about 2 percent of GDP this year, driven mainly by the declining wage and energy subsidy bill.

**2. Under these assumptions, general government debt is projected to decline to 86 percent of GDP in 2018/19.**<sup>1</sup> Over the medium term, primary fiscal surpluses, sustained high growth, and low effective interest rates will maintain the debt-to-GDP ratio on a downward trajectory to reach about 71 percent of GDP in 2023/24.<sup>2</sup> Given the high starting debt stock and large rollover needs, gross financing needs remain large during the projection period.

**3. While the baseline debt projections are favorable, the risks to debt sustainability are significant.** Despite the sharp downward trend, the debt-to-GDP ratio remains above the benchmark of 50 percent of GDP for emerging markets in the medium term, and gross financing needs are on average 36 percent of GDP during the projection period compared to the 10 percent of GDP benchmark. Risks from the debt profile are moderate for the indicators for “market

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

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

perception,” and “debt held by nonresidents”. Risks from the indicator “change in the share of short-term debt” is high due to the increased reliance on shorter-term debt in the previous year. The share of foreign currency debt increased due to the devaluation, but at 30 percent of the total in 2018/19, the risk stemming from debt denominated in foreign currency is moderate.

## Realism of Baseline Assumptions and Alternative Scenarios

### 4. Past forecasts of macro-economic variables have been mainly on the optimistic side.

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

**5. Debt sustainability worsens under the historical scenario.** With growth and the primary balance remaining at their last 10-year averages, the debt-to-GDP ratio would increase to 100 percent of GDP in 2023/24 compared with 93 percent in 2017/18, and gross financing needs would increase to about 60 percent of GDP in 2023/24. In view of the exceptional volatility of the past decade, as described above, the historical scenario appears excessively severe. Alternatively, a scenario with an unchanged growth forecast but a temporary revision of the envisaged fiscal consolidation of primary surpluses by 0.8 percent of GDP would imply a debt-to-GDP ratio of 81 percent in 2020/21 compared with 79 percent of GDP in the baseline.

## Stress Test

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

- Under a *growth shock* where GDP growth is 1.2 percentage points lower (one standard deviation) and inflation is 0.3 percentage point lower compared to the baseline in 2018/19 and 2019/20, debt would decline to 72 percent of GDP over the medium term compared to 69 percent in the baseline.
- A *real interest rate shock* with an increase of the interest rate by about 350 basis points over the projection period, increases debt by around 3 percentage point of GDP to 72 percent of GDP over the medium term compared to the baseline.
- A large *real exchange rate shock* with a hundred percent depreciation of the Egyptian pound will increase debt in the next year by 6 percentage point of GDP compared to the baseline, and by 3 percentage point of GDP over the medium term.

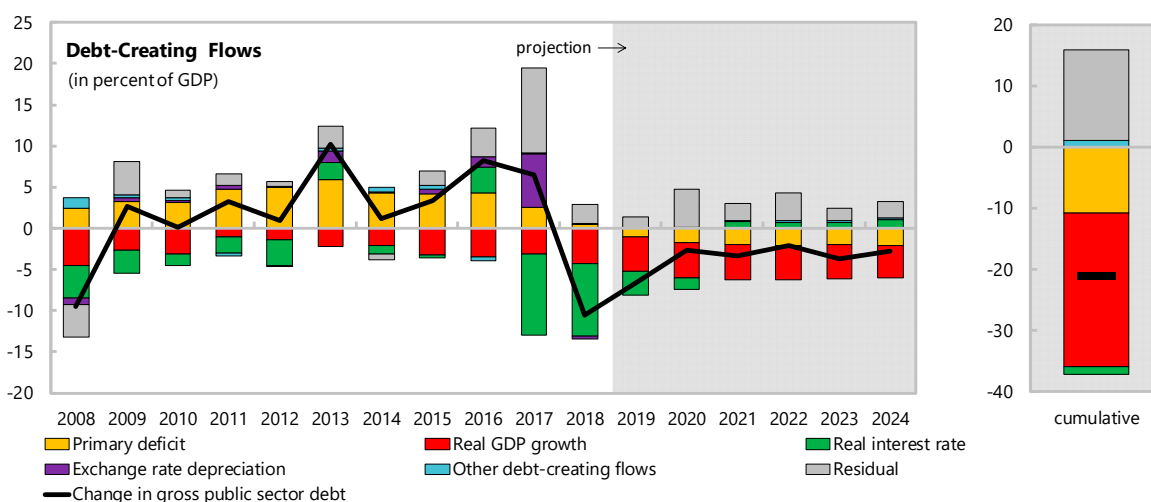
- A *combined macro-fiscal shock* with lower growth and a looser fiscal stance could weaken favorable debt dynamics. A temporary growth shortfall of 1.2 percentage points for two years, a looser fiscal stance by about 1 percentage points over two years, and about 140 percent of nominal exchange rate depreciation increases debt to 90 percent of GDP in the following year compared to 82 percent of GDP under the baseline. Over the medium-term, debt would remain about 10 percentage point of GDP higher than under the baseline.
- *Materializing of contingent liabilities or a call on government guarantees* from state-owned enterprises are another potential source of vulnerability. A customized shock scenario, in which a contingent liability of 10 percent of GDP materializes, leading to a deterioration of the primary balance, higher interest rates and temporary adverse impacts on other macro-economic variables, would increase debt-to-GDP ratio to 93 percent of GDP in 2019/20 compared to 82 percent in the baseline.
- *The most severe shock combines the macro-fiscal shock with a materialization of a contingent liability.* In this case, debt-to-GDP ratio will increase in the next year to 100 percent of GDP. Over the medium-term debt would decline to around 88 percent of GDP and gross financing needs would be about 50 percent of GDP.



**Figure 1. Egypt: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario**  
(In percent of GDP unless otherwise indicated)

	Debt, Economic and Market Indicators <sup>1/</sup>										As of November 12, 2018			
	Actual			Projections										
	2008-2016 <sup>2/</sup>	2017	2018	2019	2020	2021	2022	2023	2024					
Nominal gross public debt	78.5	103.2	92.6	86.0	83.3	80.0	77.9	74.2	71.4			Sovereign Spreads EMBIG (bp) <sup>3/</sup>	467	
Public gross financing needs	25.3	38.2	32.3	36.2	31.9	35.3	36.4	37.5	38.3			5Y CDS (bp)	367	
Real GDP growth (in percent)	4.0	4.2	5.3	5.5	5.9	6.0	6.0	6.0	6.0			Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	10.4	22.9	21.4	15.7	12.6	8.1	7.2	7.0	7.0			Moody's	B3	B3
Nominal GDP growth (in percent)	14.8	28.1	27.9	22.0	19.3	14.6	13.7	13.4	13.5			S&Ps	B	B
Effective interest rate (in percent) <sup>4/</sup>	9.0	10.9	11.6	12.7	11.4	9.7	8.7	8.4	9.0			Fitch	B	B

	Contribution to Changes in Public Debt										cumulative	debt-stabilizing primary balance <sup>9/</sup>
	Actual			Projections								
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024			
Change in gross public sector debt	2.3	6.5	-10.5	-6.6	-2.7	-3.3	-2.1	-3.7	-2.8	-21.2		
Identified debt-creating flows	1.1	-3.8	-12.9	-8.1	-7.3	-5.3	-5.4	-5.2	-4.7	-36.1		
Primary deficit	4.1	2.5	0.4	-1.0	-1.8	-2.0	-2.1	-2.0	-2.0	-10.9		
Primary (noninterest) revenue and grants	22.5	21.5	20.3	19.9	19.5	19.5	19.6	19.5	19.6	117.5		
Primary (noninterest) expenditure	26.6	24.0	20.8	18.9	17.7	17.5	17.5	17.5	17.5	106.7		
Automatic debt dynamics <sup>5/</sup>	-3.3	-6.4	-13.4	-7.1	-5.7	-3.6	-3.5	-3.5	-2.9	-26.2		
Interest rate/growth differential <sup>6/</sup>	-3.7	-13.0	-13.1	-7.1	-5.7	-3.6	-3.5	-3.5	-2.9	-26.2		
Of which: real interest rate	-1.0	-9.8	-8.8	-2.9	-1.4	0.8	0.7	0.7	1.0	-1.2		
Of which: real GDP growth	-2.6	-3.2	-4.3	-4.2	-4.2	-4.4	-4.2	-4.1	-4.0	-25.1		
Exchange rate depreciation <sup>7/</sup>	0.4	6.5	-0.3	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.3	0.1	0.1	0.0	0.2	0.2	0.2	0.2	0.2	1.0		
Privatization Proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
GG: Net Lending	0.3	0.1	0.1	0.0	0.2	0.2	0.2	0.2	0.2	1.0		
Residual, including asset changes <sup>8/</sup>	1.1	10.3	2.3	1.4	4.6	2.0	3.3	1.5	2.0	14.8		



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as  $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gr)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = 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).

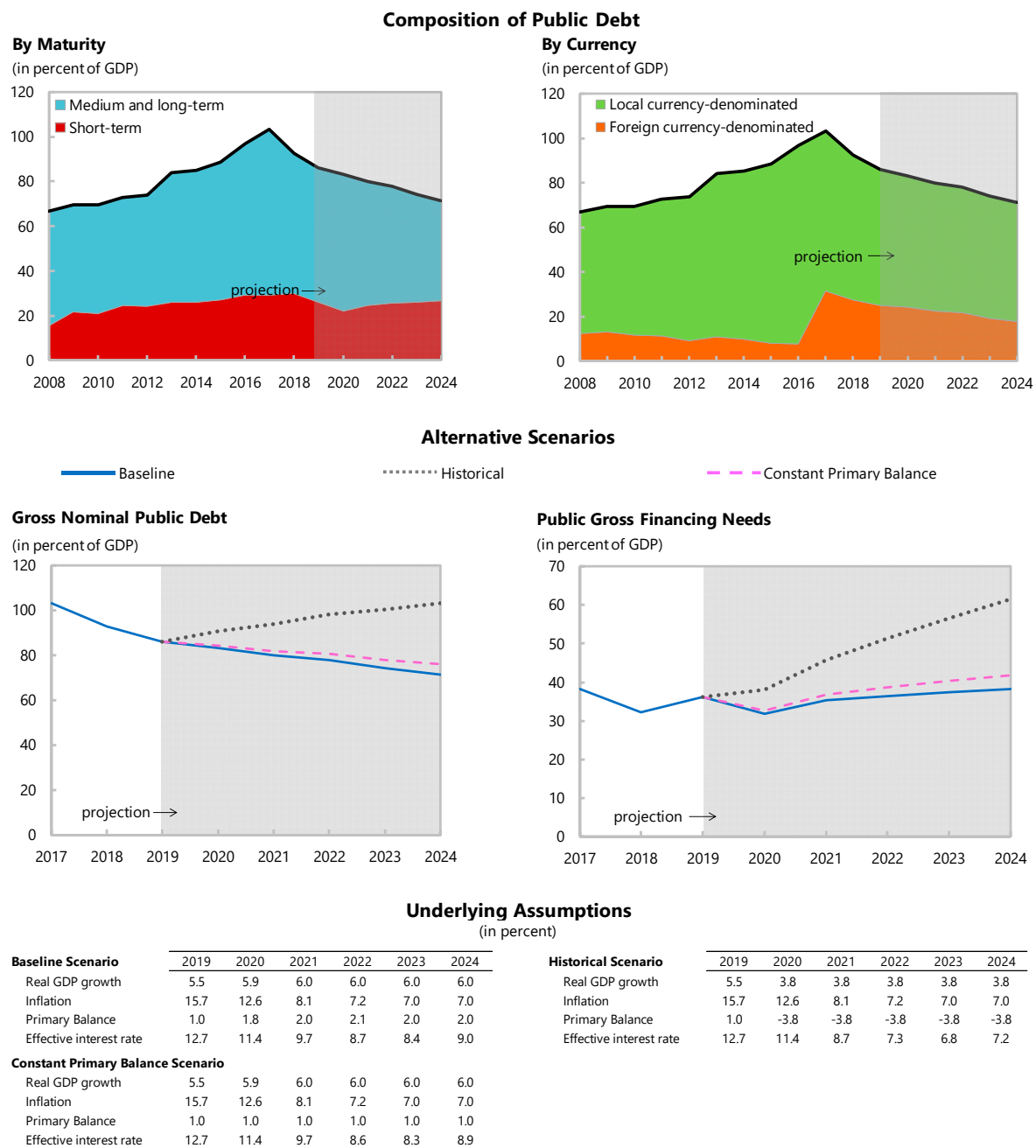
6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

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.

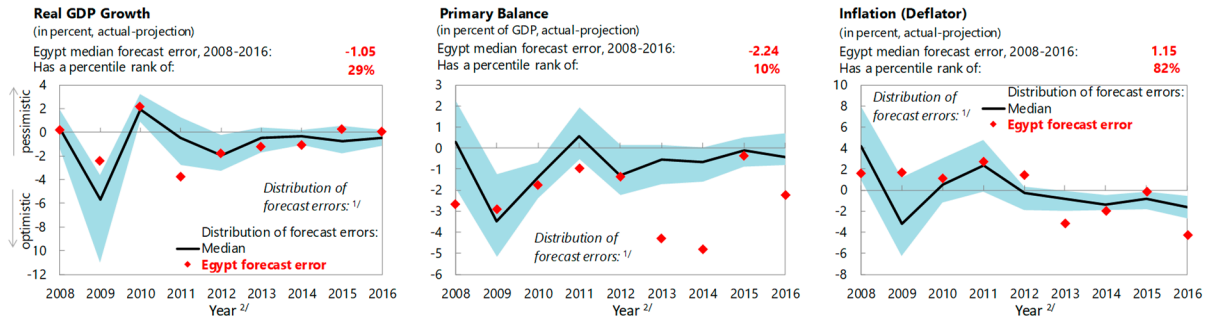
**Figure 2. Egypt: Public DSA - Composition of Public Debt and Alternative Scenarios**



Source: IMF staff.

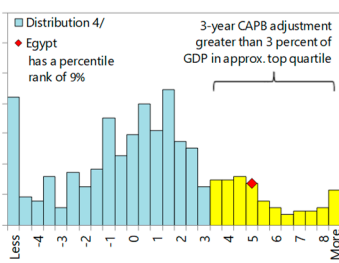
**Figure 3. Egypt: Public DSA – Realism of Baseline Assumptions**

**Forecast Track Record, versus program countries**

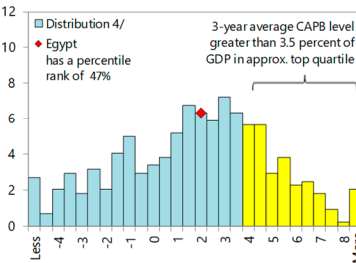


**Assessing the Realism of Projected Fiscal Adjustment**

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

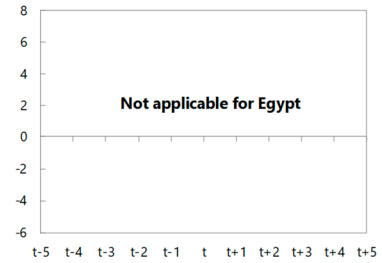


**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)



**Boom-Bust Analysis<sup>3/</sup>**

**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 observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

**Figure 4. Egypt: Public DSA Risk Assessment**

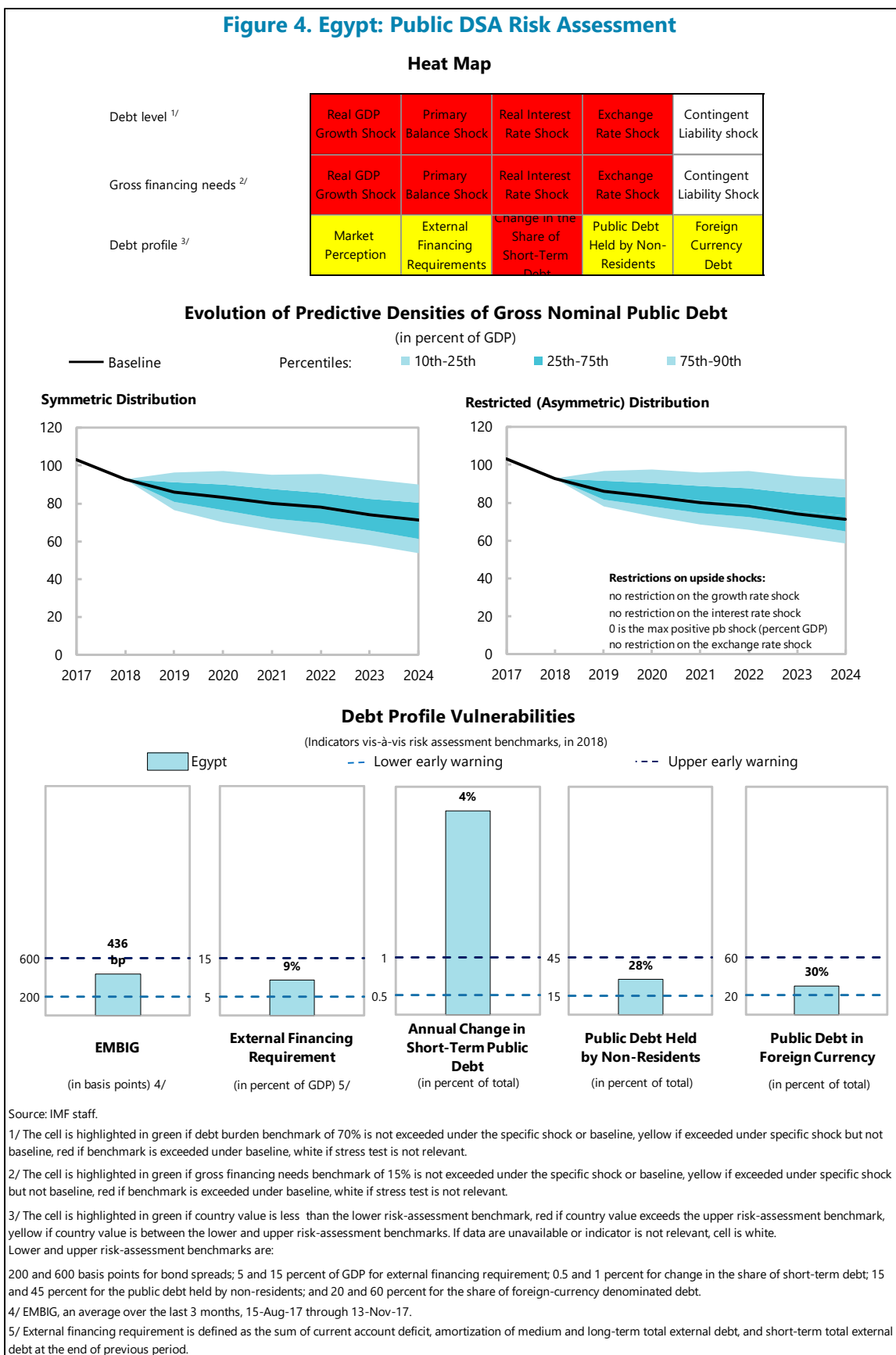
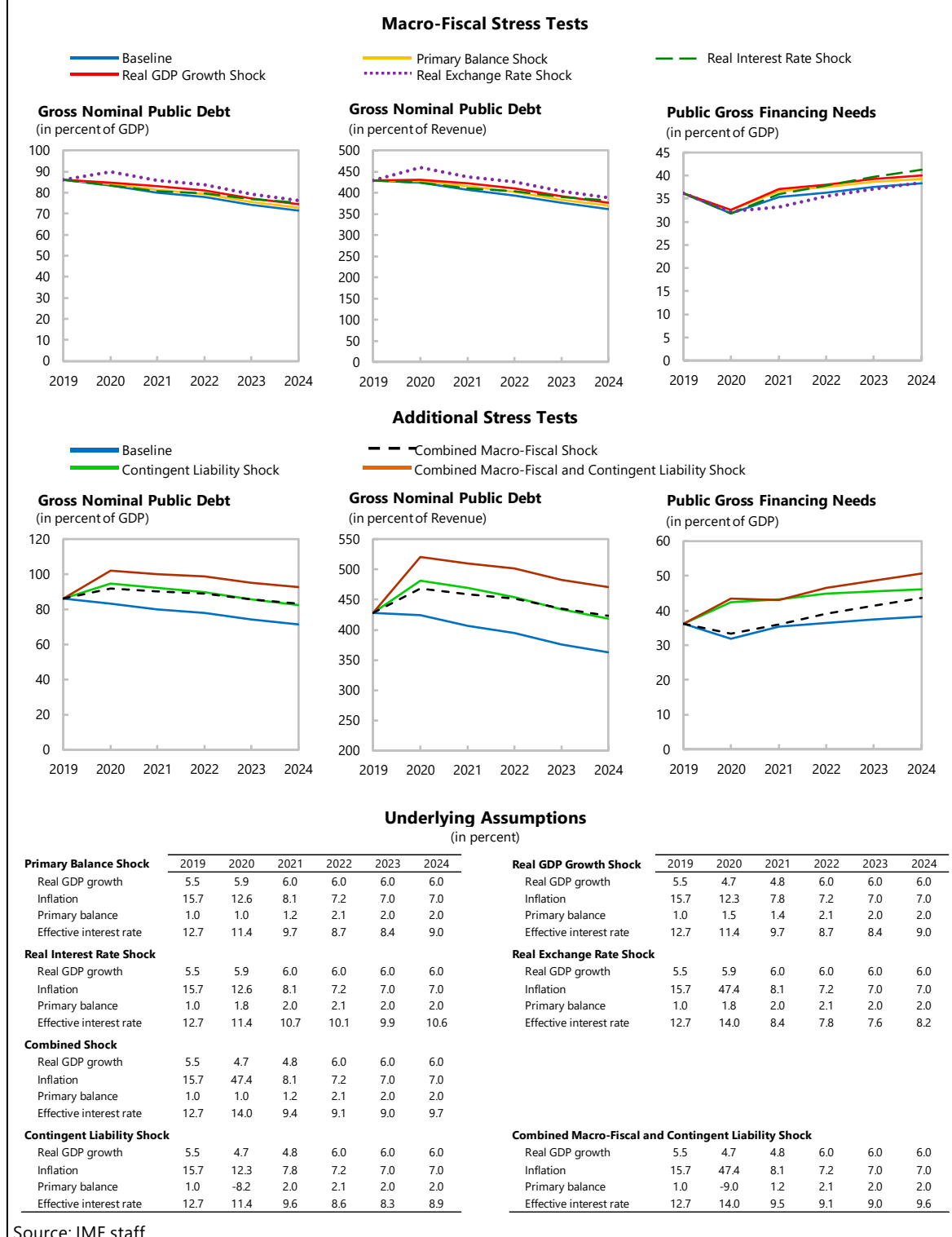


Figure 5. Egypt: Public DSA - Stress Tests



**Table 1. Egypt: External Debt Sustainability Framework, 2013–2023**  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -4.3	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
<b>Baseline: External debt</b>	<b>16.3</b>	<b>15.5</b>	<b>15.0</b>	<b>18.3</b>	<b>41.3</b>	<b>37.4</b>	<b>34.4</b>	<b>31.3</b>	<b>27.8</b>	<b>26.8</b>	<b>23.7</b>		
Change in external debt	4.0	-0.8	-0.5	3.3	23.0	-3.9	-3.0	-3.1	-3.5	-1.0	-3.1		
Identified external debt-creating flows (4+8+9)	0.8	-1.4	0.4	3.9	7.9	-2.8	-2.6	-3.6	-4.4	-4.8	-4.8		
Current account deficit, excluding interest payments	2.0	0.7	3.5	5.7	5.1	1.5	1.4	0.7	0.1	-0.1	0.0		
Deficit in balance of goods and services	6.3	8.5	8.5	9.7	12.3	10.5	8.0	6.9	6.5	6.5	6.7		
Exports	17.0	14.2	13.3	10.5	14.5	19.0	18.1	17.5	18.0	18.2	18.0		
Imports	23.4	22.7	21.8	20.1	26.8	29.4	26.1	24.4	24.5	24.6	24.8		
Net non-debt creating capital inflows (negative)	-1.0	-1.4	-2.0	-2.1	-3.2	-3.3	-3.4	-3.6	-3.9	-4.1	-4.2		
Automatic debt dynamics 1/	-0.2	-0.7	-1.0	0.2	5.9	-1.1	-0.6	-0.7	-0.6	-0.5	-0.6		
Contribution from nominal interest rate	0.2	0.3	0.2	0.3	0.5	1.2	1.1	1.2	1.2	1.1	1.0		
Contribution from real GDP growth	-0.4	-0.4	-0.6	-0.7	-1.0	-2.3	-1.7	-1.8	-1.8	-1.6	-1.5		
Contribution from price and exchange rate changes 2/	0.0	-0.5	-0.6	0.6	6.4	...	...	...	...	...	...		
Residual, incl. change in gross foreign assets (2-3) 3/	3.1	0.6	-0.9	-0.6	15.1	-1.0	-0.4	0.5	0.9	3.8	1.7		
External debt-to-exports ratio (in percent)	95.8	108.7	113.1	174.7	285.1	197.3	190.3	179.0	154.3	147.6	131.2		
<b>Gross external financing need (in billions of US dollars) 4/</b>	<b>11.3</b>	<b>12.0</b>	<b>18.1</b>	<b>25.2</b>	<b>24.0</b>	<b>20.5</b>	<b>22.3</b>	<b>22.6</b>	<b>23.6</b>	<b>22.8</b>	<b>22.9</b>		
in percent of GDP	3.9	3.9	5.4	7.6	9.4	10-Year	10-Year	8.2	7.4	6.7	6.7	6.2	6.0
<b>Scenario with key variables at their historical averages 5/</b>						<b>37.4</b>	<b>40.7</b>	<b>41.2</b>	<b>39.5</b>	<b>41.3</b>	<b>40.7</b>	<b>-4.5</b>	
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						Historical Average	Standard Deviation						
Real GDP growth (in percent)	3.3	2.9	4.4	4.3	4.2	4.0	1.6	5.3	5.5	5.9	6.0	6.0	
GDP deflator in US dollars (change in percent)	0.0	3.1	4.1	-4.0	-26.0	3.1	11.8	-7.6	15.0	4.9	-1.7	-1.5	
Nominal external interest rate (in percent)	1.9	1.7	1.4	1.7	2.2	1.8	0.3	2.7	3.5	3.7	3.9	4.0	
Growth of exports (US dollar terms, in percent)	7.3	-11.3	1.4	-21.0	6.7	0.4	15.2	27.4	15.7	7.5	7.4	5.2	
Growth of imports (US dollar terms, in percent)	-0.8	3.1	4.4	-7.5	2.8	4.9	13.3	6.8	7.5	3.8	4.8	5.0	
Current account balance, excluding interest payments	-2.0	-0.7	-3.5	-5.7	-5.1	-2.5	2.0	-1.5	-1.4	-0.7	-0.1	0.1	
Net non-debt creating capital inflows	1.0	1.4	2.0	2.1	3.2	2.5	2.0	3.3	3.4	3.6	3.9	4.1	

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).

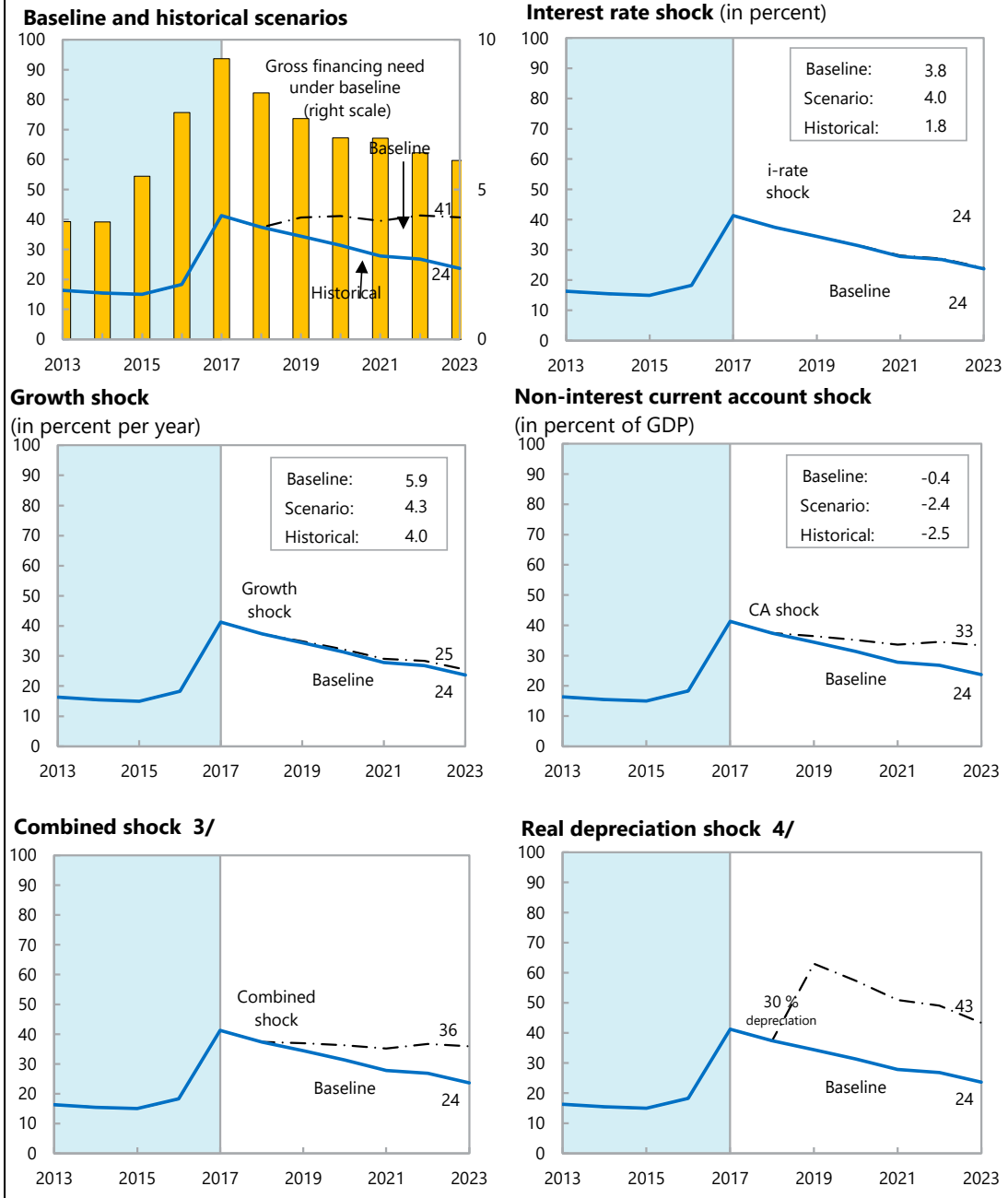
3/ For projection, line includes the impact of price and exchange rate changes.

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 6. Egypt: External Debt Sustainability: Bound Tests 1/ 2/**  
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent one standard deviation shocks applied to nominal interest rate, growth rate, and current account balance.

4/ One-time real exchange rate depreciation of 30 percent occurs in 2018/19.

## Appendix I. Letter of Intent

January 27, 2019

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

Dear Ms. Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) reports on recent economic developments and the implementation of our economic program and sets out policies and structural reforms that we plan to pursue going forward. The objective of our program is to further strengthen macroeconomic stability by reducing inflation and public debt, promote inclusive growth, employment creation and private sector development, and protect the poor and vulnerable. Our policies have remained on track: all end-June 2018 and end-December quantitative performance criteria (PC) have been met, but a number of structural benchmarks were implemented with a delay or missed. To support our efforts, we request the completion of the fourth review of the extended arrangement under the IMF's Extended Fund Facility and the disbursement of the fifth tranche in the amount equivalent to SDR 1,432.76 million (70.3 percent of quota and about \$2 billion). As before, IMF resources will be used for budget support and will be maintained in government accounts at the CBE.

We believe that the policies described in the attached MEFP are adequate to achieve the objectives of our program. We will monitor economic developments and performance and we stand ready to take additional measures that may become necessary to achieve our program goals. In accordance with the Fund's policies, we will consult with the IMF on adoption of these measures and in advance of revisions to policies contained in the MEFP. We will continue to supply the Fund with timely and accurate data that are needed for program monitoring. The fifth and the final review is expected to be completed on or after June 20, 2019 and we request setting end-March 2019 PCs as shown in the MEFP Table 1. 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/

Mohamed Maait  
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. The Egyptian economy has continued to perform well.** Real GDP growth accelerated from 4.2 percent in 2016/17 to 5.3 percent in 2017/18 led by natural gas, tourism, and non-petroleum manufacturing. CPI inflation declined from 33 percent in July 2017 to 12 percent in December 2018, as the temporary spike in the prices of selected fresh vegetables in late summer subsided. Core inflation (excluding volatile food items and regulated prices) declined from a peak of 35.3 percent to 8.3 percent by December. The current account deficit narrowed to 2.4 percent of GDP in 2017/18 from 5.6 percent the year before, primarily driven by strong remittance inflows, improvement in oil trade deficit, and a recovery in tourism. However, the non-oil trade balance declined as the increase in non-oil imports outpaced that of non-oil exports. The budget outcome in 2017/18 was in line with our projections, and gross general government debt declined from 103 percent of GDP in 2016/17 to about 93 percent of GDP in 2017/18. Despite significant portfolio outflows, the bilateral exchange rate of the pound against the US dollar has remained stable since May.

**2. Performance under the program was favorable.** All end-June 2018 and end-December 2018 performance criteria and indicative targets (IT) were met (Table 1) except for the end-June IT on the nominal accumulation of the budget sector debt (December data is not yet available), and the end-December IT on clearance of EGPC arrears given the difference was paid in advance in 2017/18. However, debt to GDP ratios for both the central and general government in June 2018 were in line with projected targets under the program. Most structural benchmarks were also implemented, despite some delays. Specifically: the FX deposits of the CBE in foreign branches of the Egyptian banks have been reduced to \$2.9 billion by June 30, 2018 and further to under \$1.5 billion on January 3, 2019; a new system to evaluate and decide on new guarantees was finalized as planned; EGP500 million was spent in 2017/18 to improve the availability of nurseries. Among other benchmarks, a working group to prepare the reform plan for industrial land allocation was formed with a delay in August due to the Cabinet reshuffle; draft amendments to the CBE law were finalized and submitted to Cabinet in December instead of September because more time was required in view of a much broader scope of the revisions than originally envisioned; the draft law on the Egyptian Competition Authority (ECA) was submitted to the Parliament in January 2019 instead of October 2018, with the delay due to the need for extensive consultations with stakeholders; separating the regulatory authority for public transportation from the Ministry of Transportation by establishing the independent regulatory authority for transport was not completed by end-December 2018 and is proposed as a structural benchmark for end-March 2019; the reform plan for industrial land allocation was completed in January instead of December 15, 2018, but still needs additional spelling out of further details regarding few guidelines; and the two reports on state-owned enterprises were prepared on time and published, yet the first one was partially incomplete as it inadvertently omitted a number of SOEs and did not

include abridged financial statements due to delays in collecting information. The second updated report, issued in late December 2018, expanded coverage and added abridged financial statements for most SOEs. The report also included details on the relation between these companies and the treasury and how the government exercised its ownership rights but did not include the impact of the sector on the economy. Economic authorities were covered in a separate report, which was also published.

## B. Economic Program

**3. Our comprehensive reform program aims to improve the welfare of all Egyptians by creating a supportive environment for private sector development, inclusive growth and job creation.** In the first year, the program focused on restoring macroeconomic stability and resolving severe domestic and external imbalances, while protecting the most vulnerable. It also embarked on the process of modernizing fiscal and monetary policy frameworks, strengthening the energy sector, and improving the business climate. We are implementing and will continue to implement sound policies to further entrench macroeconomic stabilization by implementing durable reforms and create additional fiscal space for investment in human development that benefits the middle class and in infrastructure to improve public services and crowd in private investments, while placing our debt on a declining path. We will broaden the structural reform agenda to raise productivity and growth, and better integrate Egypt in global trade. Our ambition is to become a dynamic, well-diversified, and modern economy that acts as a regional trade and energy hub, and a regional leader in creating a market-friendly environment for attracting investment and job creation.

### Monetary and Exchange Policies

**4. The main goal of the CBE is to reduce inflation to single digits over the medium term.** This will support real incomes and enhance external competitiveness. Supported by favorable base effects and prudent monetary policy, annual inflation declined from the peak of 33 percent in July 2017 to 12 percent in December 2018, as the temporary spike in the prices of selected fresh vegetables in late summer subsided. In light of the recent temporary spike in food prices, the government is developing a series of measures to resolve structural impediments that cause supply shocks to inflation, including new storage facilities, especially in remote areas, improvements in transportation infrastructure and the creation of agricultural hubs. To contain possible second round effects, and in view of the tightening of global financing conditions, the CBE has kept policy rates unchanged since April. Going forward, monetary policy will remain data-driven with decisions on interest rates based on inflation expectations. As inflation continues to trend down and subject to demand pressures remaining contained, the CBE may consider easing the monetary stance, but should inflation pressures reemerge, it will stand ready to tighten monetary policy as needed.

**5. We will maintain the flexibility of the exchange rate and preserve adequate official reserves.** An exchange rate which is market-determined in open and free trading is critical for competitiveness and as a cushion against external shocks, especially in the context of tighter global financial conditions and the pull-back by investors from emerging markets. To support the flexibility

of the pound, we announced the elimination of the repatriation mechanism for all new inflows of foreign capital on November 28, 2018. This elimination does not affect the balances that had already entered via the mechanism prior to that date. The CBE will not, in general, intervene in the interbank FX market, and will continue to supply foreign exchange to the government for servicing foreign debt, while public enterprises will continue to meet their FX needs in the market. 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 be clearly communicated to the market. Our gross international reserves are projected at 130 percent of the Fund's ARA metric for floating regimes for June 2019, adequate for macroeconomic stability and market confidence, and we intend to maintain reserves within the Fund's adequacy range.

**6. The monetary policy framework during the program period will remain based on money targeting.** Reserve money will be an indicative target and reflect our projections of market liquidity consistent with the chosen inflation path. A recent IMF TA mission confirmed that the CBE follows good practices with respect to liquidity management and the forecasting framework. To further strengthen our liquidity forecasting capacity and the collaboration between the CBE and the MoF, in February 2018 we established a joint Cash Coordination Committee to ensure an uninterrupted flow of information between the two institutions. We have also developed a framework for analyzing and reflecting in the monetary program high frequency patterns of cash in circulation, fiscal revenues, expenditures, and external and domestic financing needs. Monetary operations will continue to primarily rely on indirect policy instruments such as deposit auctions and standing facilities, which will enable the CBE to achieve its monetary targets and control liquidity. To minimize liquidity injection through direct credit to government, the overdraft account will be capped at EGP66 billion in 2018/19, which is equivalent to 10 percent of the previous three years' revenues, in line with the CBE law. In September, this cap was temporarily exceeded to compensate a budget financing shortfall in view of the unexpected jump in auction yields, but the overdraft balances have been swiftly reduced significantly to below the limit by October 23 and remained below the limit since then. The overdraft facility reached EGP 21.2 billion by end December 2018. To avoid a breach of the overdraft limit in the future, we propose to set a PC on the level of the overdraft as shown in Table 1 for end-March 2019. We will modify the Memorandum of Understanding between the CBE and MoF to indicate that overdrafts will be issued at market rates starting from July 1, 2019. Any additional holdings of government securities by the CBE will be determined by monetary policy considerations. CBE lending to commercial banks will be done for monetary policy (short-term liquidity management) and, if needed, for emergency liquidity assistance purposes.

**7. The subsidized lending by the CBE for SME and social housing programs will be gradually phased out once the system-wide cumulative flow limits are exhausted.** The EGP10 billion limit on loans for SME's working capital that receive an interest rate subsidy was reached in March 2018, and the initiative has been discontinued. Among other programs as of end-September 2018: of the EGP5 billion limit for medium-sized firms' capital expenditure, EGP2.6 billion has been utilized; of the EGP20 billion limit for social housing programs, EGP17 billion has been

utilized; and of the EGP30 billion limit on loans to small and certain segments of agricultural micro enterprises issued after January 1, 2018 that allows commercial banks to reduce their required reserves by the loan amounts, EGP20 billion has been utilized. Term loans issued under these initiatives will amortize according to the contractual schedules, while working capital facilities may be renewed for existing borrowers. Beyond these limits, the loan subsidies to small enterprises will be financed from the state budget. In addition to improving access to finance by SMEs, we will support development of microfinance institutions.

**8. The CBE will continue to gradually divest its holding of FX deposits in foreign branches of domestic banks.** These deposits were reduced to below \$3 billion by end-June 2018, and below \$1.5 billion on January 3, 2019, marginally missing the end-December structural benchmark. In accordance with the CBE investment guidelines for reserve management, these deposits will be fully reallocated in at least A-rated banks and financial instruments by 15 June 2019 (structural benchmark).

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

**10. We are revamping the current legal framework for the banking sector, which covers both the central bank and commercial banks.** The Fund has provided extensive technical assistance in drafting amendments to the CBE law. Our objective is to develop a law which is in line with best international practices and meets the needs of a modern central bank. We submitted the draft to Cabinet in December 2018 and expect it to be approved by Parliament before end-March 2019. Some of the key objectives of the revisions are:

- 1) Define price stability as the primary objective of monetary policy;
- 2) Strengthen the CBE's operational autonomy;
- 3) Limit monetary financing of the deficit;
- 4) Ensure that CBE lending to banks is only for short-term liquidity support and phase out any development lending by the CBE as indicated in ¶7 above.
- 5) Ensure that the CBE law prevails against any contradicting provisions in other laws;
- 6) Clarify the terms of the Board's appointment and provision of non-executive majority;
- 7) Include a double veto procedure and objective dismissal grounds for all board members;
- 8) Strengthen Board oversight over CBE management and ensure clear division of labor;
- 9) Strengthen rules related to the CBE recapitalization and the distribution of unrealized profits;

- 10) Include specific mechanisms for CBE recapitalization, if required, financed by the government;
- 11) Clarify the CBE's role and framework in providing emergency liquidity assistance to solvent and viable banks, and work toward a framework where solvency support to state-owned banks and the use of public funds for resolution funding will primarily be covered by budgetary outlays;
- 12) Publish the audited financial statements of the CBE;
- 13) Further define a supervisory framework for early intervention and resolution of banks.

## Fiscal Policy

**11. Fiscal policy in 2018/19 will continue to aim at keeping general government debt on a clearly declining path.** We project it to decline from 93 percent of GDP in 2017/18 to 86 percent of GDP by end-2018/19. To this end, the 2018/19 budget targets a primary surplus of the budget sector of 2 percent of GDP, consistent with the programmed 3-year consolidation of the primary balance of 5.5 percent of GDP (excluding capital injection in the CBE). Beyond 2018/19, we will maintain primary surpluses at about 2 percent of GDP to reduce gross general government debt to 72 percent of GDP by 2022/23.

**12. The main policy measures in the 2018/19 budget are as follows:**

- 1) Tax revenue will increase thanks to the full year impact of the increased collections of VAT, higher excises on tobacco products, revising and increasing stamp duty on various licenses and government services, implementation of simplified tax regime for SMEs, introducing a tax dispute settlement law, base broadening of the corporate income tax and a comprehensive program to improve revenue administration;
- 2) Energy subsidies will be reduced by 1.3 percent of GDP;
- 3) The wage bill will decline by 0.3 percent of GDP due to earlier containment of base salary growth, tight control on bonuses and allowances and 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 will increase to 2.7 percent of GDP. Excluding self-financed projects which are deficit neutral, public investment is budgeted to increase by 0.2 percent of GDP. A large share of the higher public investment envelope is directed to human development and to lagging regions.
- 5) Other expenditure will be reduced by 0.2 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.
- 6) To mitigate the impact of the energy price reform on the most vulnerable, a social package was introduced consisting of progressive lump sum public wage bonuses in addition to the regular salary increase, an increase in pensions by 15 percent and a progressive revision of tax credits. Moreover, despite limited fiscal space, we will delay lower priority expenditure as well as investments, if needed to meet our primary surplus target. We are also prepared to save any revenue overperformance.

**13. The overall fiscal deficit is expected to be in line with budget estimates.** Despite less favorable global financial conditions that raised Egypt's cost of borrowing, resulting in a higher interest bill, the overall deficit as percent of GDP would only marginally increase to 8.5 percent of GDP due to higher projected nominal GDP. We now project the overall deficit of the budget sector to reach 8.5 percent of GDP compared to 8.4 percent of GDP as approved by the Parliament last June. The deficit will continue to be financed from external and domestic sources. We are considering a \$3-5 billion Eurobond in the first half of 2019 and will seek additional foreign financing from bilateral and multilateral partners. Domestic financing will continue to be mobilized primarily through quarterly announced auctions of government securities at market interest rates. The auctions will be held in accordance with the pre-announced calendar, and the Ministry of Finance will principally abide by announced auctions and may reject extreme outlier bids.

### Improving Revenues

**14. We undertook a new initiative to implement a Medium-term Revenue Strategy (MTRS) to strengthen and modernize revenue mobilization, simplify and streamline procedures and create fiscal space for investments in health and education, infrastructure and a sustainable social safety net to support inclusive growth.** This government-led policy initiative covers both tax policy and tax administration. We will revise tax policy and related legislation and modernize the Egyptian Tax Administration (ETA). The current reform initiatives, supported by technical assistance from the Fund, will be consolidated into a Medium-term Revenue Strategy (MTRS). We will develop a fully integrated and segment-based structure supported by reformed IT systems and processes. Income taxes and VAT will be administered in a single integrated organizational structure. Modern IT will replace many outmoded processes that are costly to run for both the ETA and businesses. Strengthening the capacity of the staff will provide high quality and accurate services to businesses and taxpayers. Measures to address non-compliance will be undertaken to prevent tax-evasion and non-payment. As a result, fairness and tax certainty for business and taxpayers at large will be enhanced. To support the MTRS, we established a Working Group in November comprising high level representatives from MoF top management and key revenue mobilization agencies and a dedicated Technical Secretariat in October. We published an Action Plan to develop and implement the MTRS that was approved by the Cabinet in September. We intend and plan to publish our MTRS.

### Public Financial Management and Transparency

**15. We will continue strengthening management of our public finances.** We submitted to the Cabinet a fiscal strategy paper in December 2017, and by end-June 2018 have finalized an updated fiscal risks statement and a comprehensive system to evaluate and decide on new state guarantees. Going forward, additional measures will include:

- **Debt management strategy.** We are revamping our debt management strategy to ensure sustained declining path of public debt over the medium term coupled with optimized debt profile in terms of maturity and diversification to allow adequate funding that meet the government's financing needs on the most favorable terms. This is also important for macroeconomic stability and to support financial sector development. To this end, we have

established a high-level committee under the Prime Minister, comprising senior officials from relevant ministries and the CBE, which will coordinate the implementation of our debt management strategy. It will contain assessments of the current debt stock and the related vulnerabilities, a sensitivity analysis, as well as guidance on future borrowing. The committee will oversee central and general government debt as well as boarder public sector debt. The strategy will be approved by the Prime Minister by end-March 2019.

- **Economic authorities.** We continue to review the operational performance and finances of economic authorities to ensure that they are correctly classified in accordance with international standards. Information about their operations and financial performance is already publicly available. In the interest of transparency, accountability to taxpayers and containment of fiscal risks, we intend to introduce proper sectoral classification for economic authorities in accordance with the GFSM2014. Consolidated fiscal accounts integrating their accounts in the general government accounts will be prepared for analytical purposes by end-March 2019 for which we may seek assistance from the IMF and development partners.
- **State-owned enterprises.** In the interest of transparency, accountability to taxpayers and containment of fiscal risks, we are strengthening monitoring of state-owned enterprises.<sup>1</sup> For this purpose, in June 2018 we published a report on state-owned enterprises with the following elements: (a) an overview of the sector during the year, including financial performance; (b) a list of companies owned by the government, broken down by industry, policy objectives (provision of public services, commercial), and type of ownership (e.g., majority or minority-owned, strategic companies, etc.); (c) information on individual companies and indicators of financial performance, a list of board members, management, and auditors, and the amount of subsidies received from the budget, if any. However, in view of the logistical delays in collecting the necessary information, the coverage of the original report was incomplete. Specifically, some of the SOEs had been left out. The report highlighted key financial indicators for each SOE, but the abridged financial statements were missing. The updated report, published in late December 2018, was expanded to cover all SOEs with abridged financial statements added for most of them. The second report provided an overview of the laws and regulations on government ownership of SOEs, including the appointment of board members, dividend policy, organizational and governance arrangements. It also included an analysis of the impact of SOEs by sectors on government finances (budget transfers received and dividends paid, borrowing/lending from other public entities, state guarantees received, etc.), but did not contain the assessment of the SOE sector on the economy (structural benchmark). Economic authorities are covered in a separate report, which is also published. As we build more capacity, these reports will be enhanced and published every year. Based on this stocktaking we will develop a comprehensive SOE reform strategy aimed at streamlining and modernizing the legal,

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



governance and operational frameworks for the sector, and strengthening its financial performance and oversight.

- **We are planning to restructure National Investment Bank (NIB).** Its assets consist of long-term loans related to public projects, government debt securities, and publicly listed stocks. Its funding comes from certificates of deposits marketed to retail clients through commercial bank networks, balances of state-sponsored pension funds, and post office savings accounts. NIB's balance sheet expanded by 40 percent during 2017/18, reflecting large inflows into their certificates, which pay higher deposit rates than banks. This increase in funding was primarily channeled into purchases of Treasury bills, with NIB becoming an active investor in the market. Under its current status, NIB is not subject to banking supervision. Given its systemic importance, we will create a committee comprising representatives of the ministries of Planning, Monitoring and Administrative Reform, as well as Finance, and the CBE to review NIB's operations and finances, and by March 31, 2019 will develop a plan, endorsed by the Prime Minister, with the revised mandate, the business model and the proposed financial structure of the entity going forward (structural benchmark).
- **Social Insurance Fund (SIF).** The SIF will benefit from a comprehensive reform to ensure its long-term financial sustainability and preserve its ability to pay adequate and equitable pensions to retirees. Starting 2017/2018, we increased the minimum value of pensionable monthly wage from EGP160 to EGP400. The minimum pensionable monthly wage would also automatically increase by 25 percent annually for the coming 5-years and by 10 percent thereafter. At the same time, we increased maximum pensionable wage by 15 percent on average over past years and will continue to do so. Based on recent presidential directions, we are working on developing a comprehensive reform plan for the social insurance funds and pension system by end of the current fiscal year and we intend to seek support of key International Financial Institutions in that regard.
- **Public Finance Management framework.** Our objective is to put in place a modern PFM law, which will revamp the entire budget process, from planning, to implementation, to monitoring, and will give the MoF a clear mandate as the custodian of the state's financial resources and a responsibility for coordinating the government's macroeconomic policy aimed at achieving and sustaining macroeconomic stability. For this purpose, we intend to undertake a review of the existing PFM legal framework, which involves a diagnostic of the extent to which the PFM legislation enables introduction of a more strategic medium-term budget framework and associated reforms for budget preparation. This would strengthen our fiscal planning by introducing a medium-term expenditure framework to set multi-year expenditure ceilings by major spending categories and improving the functional classification of spending plans in budget discussions and budget documentation. To help us in this endeavor, the IMF has provided extensive technical assistance. 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.

- **Fiscal transparency and accountability.** We are strengthening fiscal transparency to enhance access to information and increase public trust and confidence in government policies. We publish six standard reports throughout the budget cycle including a mid-year review report, a pre-budget statement, and a citizen's budget. We intend to continue to improve these reports to meet public demand and requests. The financial statement that is sent to Parliament annually and is published on our website has been augmented to include data on fiscal risks, guarantees, as well as the administrative classification of spending. Citizen engagement has been a priority for the Ministry of Finance with various activities being pursued, including holding conferences with civil society, workshops with journalists and NGOs, focus group meetings, stakeholder discussions, university visits, and visits to governorates. As a result, Egypt's ranking in the fiscal transparency index, which had sharply declined after 2010, improved significantly in the past two years, and we will continue to exert efforts to improve it further. In October 2018, well ahead of schedule, we established a Transparency and Public Participation Unit within the Ministry of Finance and are currently working on creating a citizen follow-up mechanism and an online platform to strengthen accountability. Partnership protocols will be signed with various public and private entities to build public awareness and monitoring.

## Energy Sector Policies

**16. 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, yet significantly reduced over past three years, 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 high costs. 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, 2017. In July 2017, the Parliament approved the new Gas law, which promotes competition by allowing private sector participation in downstream activities. The law also establishes an independent regulator, which will develop a transparent pricing mechanism to ensure cost recovery, while protecting consumers. The executive regulations were published in February 2018.

**17. We will continue implementing our energy subsidy reforms.** We raised electricity tariffs by an average of 30 percent in July 2016, 40 percent in July 2017, and 26 percent in July 2018. These tariffs will be increased further to achieve cost recovery in the coming years. We raised retail prices for gasoline and diesel by an average of 53 percent in June 2017, as well as prices of LPG, kerosene and fuel oil by 100, 55 and 40 percent respectively. In June 2018, we increased fuel prices by another 44 percent on average. As a result, at current global oil prices the pre-tax price-to-cost ratios are at

about 85-90 percent for gasoline, diesel, kerosene and fuel oil (excluding fuel oil used for electricity generation and bakeries). We will make additional increases to achieve our objective of 100 percent cost recovery by June 15, 2019 (excluding LPG and fuel oil used for electricity generation and bakeries; structural benchmark). In December 2018 the Prime Minister issued a decree to introduce automatic fuel price indexation mechanism for gasoline Octane 95 with the first price adjustment scheduled at end-March 2019. Indexation for other fuel products will be introduced in June 2019 with the first price adjustments scheduled by end-September (SB). The mechanism will be asymmetric for Octane 95 until full cost recovery is reached in June, i.e. it will only adjust the price when the underlying costs increase (e.g. due to depreciation or the increase in oil prices). From June onwards, the mechanism will be symmetric for all fuel products. The mechanism is intended to maintain the cost-recovery ratios for fuel products and safeguard the budget from unexpected changes in the exchange rate and global oil prices. Price adjustments will take place quarterly and will be capped at 10 percent as a smoothing mechanism. Meanwhile, to keep the public informed, we have launched a public awareness campaign including publishing the evolution of unit costs and subsidies of fuel products and the impact on the overall subsidy bill for the budget. Since the adjustment formula includes a smoothing mechanism to prevent sharp moves in retail fuel prices in the event of major changes in the oil price or the exchange rate, and may therefore occasionally cause temporary re-emergence of subsidies, we will be prepared to take necessary fiscal measures to achieve the primary balance target. In addition, we introduced a hedging mechanism to further protect the budget from commodity price shocks including oil prices.

**18. We are continuing to implement a plan to restore financial viability of the Egyptian General Petroleum Company (EGPC).** The financial condition of the EGPC has deteriorated significantly since the 2011 revolution as its revenues from the sale of fuel products continued to fall short of its costs, resulting in the need for budget subsidies and expensive borrowing. As a result, EGPC accumulated more than \$6 billion in arrears to international oil companies by end-2014. To address the problem, and drawing on the recommendations of the external consultant, we developed and are implementing a plan to place EGPC on a financially sustainable footing. In addition to the ongoing fuel subsidy reform, which should improve the revenues of EGPC, the plan proposed measures to strengthen corporate governance and optimize operating costs. As part of the plan, to encourage private sector participation, we intend to offer minority shares in several state-owned energy companies to investors, as part of the government's wider IPO program. The plan also includes a strategy to gradually settle outstanding arrears. EGPC was able to clear only \$200 million in the first half of 2017/18, instead of the planned \$400 million, because of persisting financial difficulties in view of higher than expected global oil prices but more than made up the shortfall in the second half by clearing another \$1 billion. An additional \$187 million was paid during June-December 2018, which was reduced from the programmed \$1 billion by the amount prepaid in 2017/18. As a result, at end-December 2018 the stock of arrears amounted to \$1.043 billion. We will fully eliminate the arrears by end-June 2019.

**19. Egypt has an enormous potential to become a major producer and a supplier of natural gas.** Gas production declined considerably after the 2011 revolution, with daily output falling from 7 billion cubic feet (bcf) in 2010 to about 4 bcf in 2015/16. However, the development of

several new fields in the Nile delta and Egypt's territorial waters in the Mediterranean has resulted in a significant increase in production, with gas output increasing to 6 bcf by September 2018, matching Egypt's domestic consumption. Gas production is projected to rise further to 7.7 bcf by end-2019 and offers an opportunity to export gas to other countries in the region and elsewhere. Moreover, ongoing offshore exploration suggests the presence of additional gas deposits, which if confirmed will further boost Egypt's gas potential. 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 electricity and contribute to limiting the fiscal burden.

### Financial Sector Policies

**20. Egypt's banking system remains liquid, profitable and well capitalized.** In June 2018, the average capital adequacy ratio stood at 15.6 percent, well above the Basel-recommended floor of 9.875 percent and the CBE-mandated 11.875 percent; return on equity is at a healthy 21.5 percent and the share of non-performing loans in total loans declined from 4.9 percent in 2017 to 4.3 percent. Specific loan-loss provisioning coverage is at 89.3 percent. However, the net open foreign exchange position (NOP) of the banking system has changed from long 17.75 percent of regulatory capital in December 2017 to short 12.1 percent in September 2018. Going forward, the CBE will ensure that all banks are in strict compliance with the NOP limits, will not grant exemptions to any bank, and apply sanctions to all violators as prescribed by the regulations (continuous structural benchmark). Any non-compliant bank will bring down its NOP to regulatory limit by May 2019. In the interest of transparency, starting from end-June 2019 data, we will disseminate system-wide NOP figures along with other FSIs, published quarterly by the CBE.

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

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

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

**24. 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**

**25. Our objective is to unlock Egypt's growth potential through market friendly reforms that will attract investments, raise productivity and competitiveness, support exports and create jobs.** Towards this end, it is also our ambition to significantly improve our rankings in the Doing Business and Global Competitiveness ratings, where in the latest reports Egypt has already advanced by 8 and 15 positions respectively. This reflects successfully implemented reforms such as the new investment law, the industrial licensing law, the companies law and the insolvency law, which were significant steps toward supporting private sector development. Going forward, some of the key measures are:

- Availability and access to land has been identified as a key impediment to private sector development. We consider it particularly macro critical, especially for SMEs and exports, which should become the main drivers of growth and job creation. We intend to streamline the process of industrial land allocation whereby the Industrial Development Authority (IDA) currently determines in some cases specific economic activities for the land use and subsequently sells land at a nominal pre-determined price based on government review of applications. This approach is not optimal for the future allocation of land, as it forgoes revenue for the state, and creates opportunities for rent seeking. Our objective is to increase the availability of land to the private sector, and introduce a transparent, competitive, and market-based mechanism that conform with international best practices, which will broaden the range of land utilization and ensure its efficient allocation to its most productive use. To this end, in September we formed a working group, which reports directly to the Prime Minister, and is tasked with preparing a reform plan. We also recruited a consulting firm, which conducted interviews and focus groups with a broad range of industry stakeholders and referred to best practices conducted by various emerging and developing countries. They also helped to compile a report that entails several recommendations for the working group. The first draft of the plan was prepared in December 2018, but was lacking operational details related to a few guidelines, mainly provisions of competitive bidding. We will work on finalizing the plan shortly, which will provide the basis to develop new guidelines for industrial land allocation, to be approved by a Ministerial decree and published by March 31, 2019. As committed before, the guidelines will cover the following specific components: (a) permissible use of land by investors for broad industrial purposes with only limited restrictions; (b) market-based land allocation mechanisms

that ensure open, transparent and competitive bidding process; (c) clear eligibility criteria for bidders; (d) simplified and standardized document requirements; and (e) establishing an online platform and moving the entire process online, including all industrial land tender announcements, document and bidding submissions, and reporting auction results. We request to modify the current end-March structural benchmark accordingly.

- To further support competition, optimize public spending and reduce corruption, we are modifying our public procurement system. The objective is to ensure optimal allocation of public funds to procure best quality of goods, works and services at best prices (achieve value for money objectives). The new Government Procurement Act was approved by Parliament in July and signed into a law by the President on October 3. We are now drafting the executive regulations to align procurement procedures with best international practices based on core principles of transparency, fairness, open competition, and sound procedural management. These regulations will standardize government procurement rules, procedures and document requirements to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution. The regulations will be applied consistently and uniformly to all government entities' tenders, including to procurement conducted by budget entities, local authorities and economic authorities. Once the executive regulations are enacted, we will form a committee to conduct a careful assessment of the existing procurement regulations and practices of SOEs. Based on the recommendations of the committee the Prime Minister will approve by June 15, 2019 a reform plan needed to ensure that SOE's procurement rules are consistent with best practices as highlighted in the new Government Procurement law (structural benchmark). The role and capacity of the General Authority for Government Services (GAGS), the procurement oversight body which reports directly to the Minister of Finance, will also be enhanced to ensure proper oversight of procurement activities conducted by the entities governed by the law. In view of the delay in parliamentary approval of the law, we would like to request to reset the structural benchmark on the approval of the executive regulations from end-March to end-May 2019 (structural benchmark). Additionally, to promote transparency and reduce corruption, we will start developing a single e-Procurement portal, which will manage procurement process (tender announcements, bidding, contract awarding, results reporting) and where all relevant materials can be publicly accessible. The e-Procurement portal will start to be operational by end-May 2019 (structural benchmark) and will gradually replace the paper-based procurement system. We will also introduce a code of Integrity for public sector procurement staff before end of 2019.
- To support SMEs and entrepreneurship and encourage the formalization of the private sector, we are working on a modern and effective tax regime for SMEs, where small taxpayers would pay a reduced flat tax rate on annual recorded turnover levels. The new legislation is expected to be submitted to Cabinet by end-January 2019 and approved by Parliament before end of 2018/2019.
- To promote competition and complement the legislative reforms aiming to liberalize the electricity market, we are working on compiling a plan to financially restructure the Egyptian

Electricity Holding Company in order to improve the financial soundness of the company and enable it to engage in commercial transactions without a Government guarantee and/or support. The plan will be jointly announced by the Ministries of Finance and Electricity by end-May 2019.

- To promote competition, investment and raise the quality of services in the transportation sector, especially regarding road transport, we will separate the regulatory authority for public transportation from the Ministry of Transportation (structural benchmark). As this important reform requires more time than anticipated, we request to reset the structural benchmark to March 31, 2019.
- To support competition and a vibrant private sector we will strengthen the institutional, financial, and operational independence of the Egyptian Competition Authority (ECA) and the enforcement of its decisions, while also enhancing its accountability through greater transparency in its operations and clear criteria on assessing its performance. Specifically, we will pass a law (a) to ensure that the ECA reports directly to the Prime Minister and is independent from any Minister to avoid conflict of interest; (b) to provide the ECA with administrative fining powers, eliminate the representation of the government and increase the representation of the judiciary and the technical experts in the ECA's board of directors, and provide it with an earmarked budget as a single digit subject to the review of the Administrative Control Authority; (c) issue implementing regulations to Article 15 (3) giving the ECA independence in hiring; (d) establish clear criteria for assessing the performance of the ECA and its chairperson; (e) strengthen the transparency of ECA's operations by requiring it to (i) publish motivated decisions together with a non-confidential versions of the case files (including the investigation report and the parties submissions) and market studies, (ii) introduce a referencing system for all board decisions, and (iii) update its web site to include non-confidential versions of all previous and future cases and decisions with supporting analyses; the regulation clarifying procedures and conditions to receive exemptions from the prohibitions of the competition law; the guidelines to calculate fines and settlements; the guidelines to grant leniency on cartel cases; and the methodology to identify and remove barriers to competition in legislation, policies, or decrees which negatively affect competition. The draft law was submitted to Parliament with a short delay in January instead of end-October 2018 (structural benchmark) but did not include the provision that excludes the ECA from the salaries cap because the ECA is part of the public sector. It also did not provide a single digit budget, which is inconsistent with the Constitution, but insures ECA's financial autonomy. The draft law is expected to be passed before end-March 2019.
- To enhance transparency and accountability in the operations of government, improve the performance of public agencies, and reduce perceptions of corruption, we will initiate an open and transparent consultative process with key stakeholders on developing a Right to Information Law and its associated implementing regulations. Building on these consultations we will aim to pass such a law that conforms to international good practices.

- Egypt's non-oil exports of goods were only 6.8 percent of GDP in 2017/18, which is exceptionally low by international standards. To better utilize our export potential and leverage the boost to competitiveness from a more depreciated currency and a more flexible exchange rate regime, we are simplifying our trade regime and targeting reduction of non-tariff barriers. As a first step, we have identified key constraints to trade and initiated reforms in the following areas: (i) In FY2018/19, we are planning to reduce the number of documents and the time required to export and import, as we roll-out standard unified custom clearance forms in all ports and develop digital links to connect all stakeholders to expedite clearance; (ii) We plan to facilitate financing through export guarantees and export credit facilities, and to establish an Export Guarantee Agency; (iii) We will improve marketing support through facilitating co-financing exhibitions and trade fairs abroad, inviting foreign buyers to domestic exhibitions, and providing training; (iv) We will strengthen logistical support by providing training in export logistics through the newly established Export Development Authority and providing assistance in obtaining quality certificates through the Center for Business Services for Export Development; (v) To overcome capacity limits in port infrastructure, we are developing large inland dry ports, the first of which is a PPP project currently being tendered at 6<sup>th</sup> October City with direct rail connectivity to major cities to facilitate transportation. Work is under way to set up a Single Window Platform for exporters and importers and to further develop electronic connectivity between ports and the Customs Authority.
- Reducing high unemployment is a high priority, especially among women and youth for which both labor participation and employment statistics are particularly weak. In 2016/17 we budgeted and spent EGP250 million to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs. In 2017/18 we spent EGP500 million on nurseries for 0 to 4-year old children, and the amount spent will increase to EGP600 million in 2018/19. It is proposed that this measure is dropped as a 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's participation rate in the labor force, we are working with UN Women to introduce and effectively implement gender budgeting starting 2018/2019. We will also work to simplify rules and facilitate registration of home-based nurseries, to expand job opportunities for women and child care for working mothers. This aims to increase coverage of registered nurseries from current low level.
- The announced five-year program to attract private investment in public enterprises is part of the government's agenda to reduce the role of the state in the economy and unleash potential of the private sector. The program is aimed at redeploying Egypt's public assets to their most productive use by widening the ownership base, enhancing transparency and corporate governance, improving financial management, diversifying investment sources, and attracting new investments that can enhance market capitalization. We have created an IPO inter-ministerial committee through a decree issued by the Prime Minister as of end October 2017. The Committee approved and announced a detailed plan in April 2018, in consultations with



multiple stakeholders inside the government as well as with investment banks, to divest stakes in at least 23 SOEs over 24-30 months, of which stakes in five SOEs are currently being divested and another four are intended to follow in 2019. The planned divestment is estimated to generate around EGP80 billion and bring total market capitalization of these companies to EGP430 billion.

### C. Financing and Program Monitoring

**26. The program is financed for the next 12 months.** The balance of payments gap for 2018/19 is financed by \$1 billion from the World Bank's new Development Program Financing for Enabling Private Sector and Territorial Development for Inclusive Growth, \$250 million from Germany, and Eurobonds.

**27. The program will be monitored through prior actions, quantitative performance criteria, indicative targets and structural benchmarks.** The fifth program review will be based on a test date of March 2019. 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 2017–June 2019**

(In billions of Egyptian pounds unless otherwise indicated)

	December 2017				June 2018				December 2018			March 2019	
	Program	Adjusted	Actual	Met?	Program	Adjusted	Actual	Met?	Program	Adjusted	Prel.	Met?	Proposed
Net international reserves of the CBE (\$ million; cumulative change, floor) <sup>1</sup>	-2,561	2,297	5,500	Yes	-839	11,896	12,482	Yes	-1,500	-1,621	-959	Yes	-2,819
Net domestic assets of the CBE (at program rates; ceiling) <sup>1</sup>	81	145	-103	Yes	56	-34	-189	Yes	303	330	-37	Yes	177
Fuel subsidies (cumulative, ceiling) <sup>1</sup>	65	65	23	Yes	121	121	121	Yes	50	50	45	Yes	75
Primary fiscal balance of the budget sector (cumulative, floor) <sup>1</sup>	-14	-14	-14	No	9	9	11	Yes	15	15	21	Yes	35
Accumulation of external debt payment arrears (\$ million; continuous PC ceiling) <sup>1</sup>	0	0	0	Yes	0	0	0	Yes	0	0	0	Yes	0
Government overdraft at the CBE (EGP billion, PC, ceiling)	...	...	...	...	...	...	...	...	...	...	...	...	66
Average reserve money (ceiling; IT)	695	761	686	Yes	745	745	729	Yes	969	969	696	Yes	850
Tax revenues (cumulative floor; IT) <sup>1</sup>	243	243	263	Yes	607	607	628	Yes	300	300	304	Yes	450
Accumulation of EGPC Arrears (\$ million; cumulative ceiling, IT) <sup>1</sup>	-400	-400	-200	No	-500	-500	-1,200	Yes	-1,000	-1,000	-300	No	0
Accumulation of gross debt of the budget sector (cumulative ceiling, IT) <sup>1</sup>	...	...	...	...	475	475	578	No	260	260	...	...	400
<i>Memorandum item:</i>													
Program disbursements (\$ million; cumulative) <sup>1</sup>	2,450	6,628			5,950	18,685			4,000	3,879			5,879
Gross foreign reserve assets acquired through the repatriation mechanism (\$ million; cumulative) <sup>2</sup>	0	680			0	0			0	0			0
External budget support loans (\$ million; cumulative) <sup>1</sup>	3,350	3,450			8,350	13,359			2,000	498			2,498
Project loans (\$ million, cumulative) <sup>1</sup>	0	0			0	0			0	0			0

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

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

2 For FY2017/18, cumulative flows are from November 1, 2017. For FY2018/19, cumulative flows are from July 1, 2018.

**Table 2. Egypt: Structural Benchmarks**

Measure	Objective	Timing	Status
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 ¶15.	Improve debt management	June 30, 2018	Met
Spend EGP500 million to improve the availability of public nurseries for 0 to 4-year old children and other facilities that can enhance the ability of women to actively seek jobs. MEFP ¶25.	Improve labor force participation for women	June 30, 2018	Met
CBE FX deposits at foreign branches of the Egyptian banks not to exceed \$3 billion. MEFP ¶8	Improve foreign exchange reserve management	June 30, 2018	Met
Form a working group, which will report directly to the Prime Minister, and will be tasked with preparing a reform plan for industrial land allocation. MEFP ¶25	Improve access to land	June 30, 2018	Not met Implemented with delay in July.
Publish a report on all state-owned enterprises defined as enterprises where the state has a significant control through full, majority, or significant minority ownership. The report should have the following elements: (a) an overview of the sector, including financial performance based on the latest available information; (b) a full list of the companies owned by the state, broken down by industry, policy objectives (provision of public services, commercial), and type of ownership (e.g., majority or minority-owned, strategic companies, etc.); (c) Information on individual companies, including abridged financial statements, and	Improve transparency and accountability of public enterprises	June 30, 2018	Not met The report was incomplete, with several enterprises and abridged financial tables omitted.

**Table 2. Egypt: Structural Benchmarks (continued)**

Measure	Objective	Timing	Status
indicators of financial performance, a list of board members, management, and auditors, and the amount of subsidies received from the budget during, if any, based on the latest available information. MEFP ¶15.			
CBE will not grant exemptions for commercial banks to breach net FX open position limits and apply sanctions to any banks that violate the limits, in accordance with the regulations. MEFP ¶20	Safeguard financial stability	Continuous structural benchmark	Proposed Benchmark
Submit to Cabinet draft amendments to the CBE law consistent with MEFP ¶10.	Strengthen and modernize the legislative framework governing the central bank.	September 30, 2018	Not met Implemented with delay in December 2018.
Submit to Parliament a draft law which will (a) ensure that the ECA reports directly to the Prime Minister and is independent from any Minister to avoid conflict of interest; (b) provides the ECA with administrative fining powers, eliminates the representation of the government and increase the representation of the judiciary and the technical experts in the ECA's board of directors, and provides it with an earmarked budget as a single digit subject to the review of the Administrative Control Authority; c) exempts the ECA from the salaries cap provides the ECA independence in hiring; (d) establishes clear criteria for assessing the performance of the,	Strengthen competition	October 30, 2018	Not met The law was submitted in January 2019 but was missing items under b) and c) due to conflicts with existing laws.

**Table 2. Egypt: Structural Benchmarks (continued)**

Measure	Objective	Timing	Status
<p>ECA and its chairperson; (e) strengthen the transparency of ECA's operations by requiring it to (i) publish motivated decisions together with a non-confidential versions of the case files (including the investigation report and the parties submissions) and market studies, (ii) introduce a referencing system for all board decisions, and (iii) publish non-confidential versions of all previous and future cases and decisions with supporting analyses; the regulation clarifying procedures and conditions to receive exemptions from the prohibitions of the competition law; the guidelines to calculate fines and settlements; the guidelines to grant leniency on cartel cases; and the methodology to identify and remove barriers to competition in legislation, policies or decrees which negatively affect competition. MEFP 125</p>			
<p>Finalize the reform plan for industrial land allocation to include the following specific components: a) permissible use of land by investors for any industrial purposes with limited restrictions; b) market-based land allocation mechanisms that ensure open, transparent and competitive bidding process; c) clear eligibility criteria for bidders; d) simplified and standardized document requirements; and e) establishing an online platform and moving the entire process online, including all</p>	<p>Improve access to land</p>	<p>December 15, 2018</p>	<p>Not met</p>

**Table 2. Egypt: Structural Benchmarks (continued)**

Measure	Objective	Timing	Status
industrial land tender announcements, document and bidding submissions, and reporting auction results. MEFP ¶25			
Eliminate the repatriation mechanism. This elimination will not apply to balances that have availed of the repatriation mechanism prior to its cancellation. MEFP ¶15	Improve functioning of the FX market and allow more exchange rate flexibility	December 31, 2018	Met
Separate the regulatory authority for public transportation from the Ministry of Transportation by establishing the independent regulatory authority for transport. MEFP ¶25	Improve competition	December 31, 2018	Not met
Separate the regulatory authority for public transportation from the Ministry of Transportation by establishing the independent regulatory authority for transport. MEFP ¶25	Improve competition	March 31, 2019	
CBE FX deposits at foreign branches of the Egyptian banks not to exceed \$1.5 billion. MEFP ¶8	Improve foreign exchange reserve management	December 31, 2018	Not met Implemented with delay on January 3, 2019.
Establish a Transparency and Public Participation Unit within the Ministry of Finance. MEFP ¶15	Improve transparency of public finances	December 31, 2018	Met
Publish a report on all state-owned enterprises defined as enterprises where the state has a significant control through full, majority, or significant minority ownership. The report should cover 2017/18 and have the following elements: (a) an overview of how the government	Improve transparency and accountability of public enterprises	December 31, 2018	Not met The report was incomplete, missing an assessment of the SOE sector on the economy.

**Table 2. Egypt: Structural Benchmarks (continued)**

Measure	Objective	Timing	Status
has exercised its ownership policy, including the appointment of board members, dividend policy, organizational and governance arrangements; (b) the impact of the sector on government finances (budget transfers received and dividends paid, borrowing/lending from other public entities, state guarantees received, etc.) and the economy more broadly. MEFP ¶15.			
A committee comprising representatives of the ministries of Planning, Monitoring and Administrative Reform and Finance, and the CBE will review NIB's operations and finances, and develop a plan, approved by the Prime Minister, with the revised mandate, the business model and the proposed financial structure of the entity going forward. MEFP ¶15	Strengthen public finances and contain risks to the financial sector	March 31, 2019	Proposed Benchmark
Approve by Ministerial decree and publish new guidelines for industrial land allocation. The guidelines to include the following components: a) permissible use of land by investors for any industrial purposes with limited restrictions; b) market-based land allocation mechanisms that ensure open, transparent and competitive bidding process; c) clear eligibility criteria for bidders; d) simplified and standardized document requirements; and e) establishing an online platform and moving the entire process online, including all industrial land tender announcements, document and	Improve access to land	March 31, 2019	Proposed modified SB

Table 2. Egypt: Structural Benchmarks (concluded)			
Measure	Objective	Timing	Status
bidding submissions, and reporting auction results. MEFP ¶25			
Approve executive regulations for the Government Procurement Law to standardize procurement rules, procedures and document requirements to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution. The procurement regulations to be applied consistently and uniformly to all government entities, including central and local authorities and economic authorities. MEFP ¶25	Strengthen competition, optimize public spending and reduce corruption	March 31, 2019	To be reset to May 31, 2019
The e-Procurement portal will start operating. MEFP ¶25	Strengthen competition, optimize public spending and reduce corruption	May 31, 2019	
Issue and publish in the official gazette a Prime Ministerial decree to implement fuel price indexation mechanism for all fuel products except gasoline Octane 95 (a decree was already issued in December 2018), LPG and fuel oil used in bakeries and electricity generation.	Eliminate fuel subsidies	June 2019	
Increase fuel prices to raise price-to-cost ratios to 100 percent. MEFP ¶17	Eliminate fuel subsidies	June 15, 2019	
CBE FX deposits at foreign branches of the Egyptian banks eliminated. MEFP ¶18	Improve foreign exchange reserve management	June 15, 2019	
Bring to market shares in at least four SOEs. MEFP ¶25	Develop capital markets and reduce the role of the state	June 15, 2019	
The Prime Minister to approve a reform plan to ensure that SOE's procurement rules are consistent with the new Government Procurement law. MEFP ¶25		June 15, 2019	



## Attachment II. Technical Memorandum of Understanding

January 27, 2019

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

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

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

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

The program exchange rate of the pound against the US dollar is 18.0251 (the actual exchange rate on May 31, 2017) for FY 2017/18 and 17.8572 (the actual exchange rate on May 31, 2018) for FY 2018/19.

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

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

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

gold, assets in nonconvertible currencies, and illiquid assets. As of September 30, 2017, foreign reserve assets thus defined amounted to \$35,879 million.

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

**6. Adjustors.** The NIR floor will be adjusted up (down) by the full amount of the cumulative excess (shortfalls) in program disbursements (as defined in paragraph 7) relative to the projections shown under the memo items in Table 1. The NIR floor will also be adjusted up by the full amount of the cumulative gross foreign reserve assets acquired through the repatriation mechanism relative to the projections shown under the memo items in Table 1.

**7. Program disbursements** are defined as external disbursements of loans (including IMF disbursements), grants and deposits for the budget support purposes, foreign reserve asset creating loans and deposits to the CBE with the original maturity of more than 360 days, and rollovers by more than 360 days of existing foreign loans and foreign reserve-related liabilities, in foreign currency, from official multilateral creditors, official bilateral creditors, and private creditors, including external bond placements. 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)** is defined as the sum of currency in circulation outside the CBE (includes cash in vaults), balances on commercial banks' overnight deposits, and banks' correspondent accounts (includes required reserves in local currency at the CBE). Reserve money excludes balances in deposit auctions and 7-day deposits at the CBE. For each semester, average reserve money is calculated from daily balance sheets of the CBE as the average for the last month of the semester. For December 2016, average reserve money thus defined amounted to EGP541.47 billion.

**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:

$$\text{Revised RM ceiling} = \text{Program RM ceiling} + \text{banks' correspondent accounts in local currency} \times (\text{new rr}/\text{old rr} - 1)$$

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

June 2018: EGP182 billion

December 2018: EGP 317 billion

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

**10. Net domestic assets (NDA)** of the CBE under the program are defined as the sum of net credit of the government, net credit to public economic authorities, credit to banks, and open market operations, excluding overnight deposits of commercial banks at the CBE and foreign currency components such as loans and deposits of the government, public economic authorities and banks. As of December 29, 2016, NDA of the CBE thus defined amounted to EGP573.76 billion. 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:

$$\text{Revised NDA ceiling} = \text{Program NDA ceiling} + \text{banks' correspondent accounts in local currency} \times (\text{new rr/old rr} - 1)$$

The assumptions about banks' correspondent accounts are the same as in ¶19.

### 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** under the program is defined as the overall balance plus total interest payments of the budget sector and any capital injection in the CBE. 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 2016/17 the primary balance of the budget sector was EGP-63 billion.

**13. 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.

**14. 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)

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

## F. Fuel Subsidies (PC)

**16. 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. Government overdraft at the CBE (PC)

**17. Government overdraft at the CBE** is defined as the balance on the government's overdraft account at the CBE minus government's foreign currency deposits at the CBE. As of December 31, 2018, the government overdraft at the CBE amounted to EGP 21.2 billion.

## H. 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 December 31, 2018, the stock of EGPC arrears amounted to \$1.0 billion.

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

**19. Debt of the budget sector is defined as the outstanding stock of debt issued by the budget sector.** The U.S. dollar amounts will be converted in Egyptian pounds using the program EGP/\$ exchange rates. The program target is defined as a cumulative change in debt of the budget sector from the beginning of the fiscal year.

## J. Continuous Performance Criteria

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

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

## K. Consultation Clause

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

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

## L. Monitoring and Reporting Requirements

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

## M. 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 of the budget sector at actual and program exchange rates	M	30 calendar days
Debt guarantees issued by General Government and the CBE	Q	45 calendar days
Stock of bonds issued by the government to Social Insurance Fund	Q	30 calendar days
Net domestic borrowing of the general government and budget sector, including net T-bill and T-bond issuance in local and foreign currency, separately for domestic and foreign investors, and issuance of other government debt instruments	W and M	30 calendar days (45 days for the general government)
Auctions of T-bills and T-bonds via primary dealers, including the number and value of submitted and accepted bids, minimum, maximum and weighted average interest rates and maturity dates	W	7 working days
Gross transfers to EGPC	Q	90 calendar days
Fuel subsidies to EGPC	Q	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

**Table 3A. Ministry of Finance (concluded)**

Financial information of NIB: i) detailed balance sheet, including interest on assets and liabilities across maturities (<1 month, 1-3 months, 3-6 months, 6-12 months, 1-2 years, >2 years); ii) income statement; iii) cash flow projections for the next 12 months; iv) list of non-performing loans (overdue for more than 90 days), including loan amounts and days overdue; v) enforced (available for sale) collateral, including breakdown by asset classes and estimated market value.	Q	30 calendar days
Note: Q= quarterly; M = Monthly; W = Weekly		

**Table 3B. Central Bank of Egypt**

<b>Item</b>	<b>Frequency</b>	<b>Submission Lag</b>
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
Bank-by-bank foreign exchange net open position	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



**Table 3B. Central Bank of Egypt (concluded)**

Central bank's weekly analytical balance sheet (preliminary data to be submitted once a week for the previous week)	W	7 working days after the end of the week
Daily reserve money	W	14 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 Mr. Beblawi, Executive Director  
and Ms. Abdelati, Senior Advisor on the Arab Republic of Egypt  
February 4, 2019**

*We thank Executive Directors for their continued support for the authorities' achievements. Importantly, all PCs were met, and most SBs were also met, some with minor delay or slightly incomplete with justification, as further explained below. We welcome the January 25, 2019 press statement by the Managing Director that helped assuage market and media concerns about the delay.*

**Egypt's performance under its economic reform program, and since approval of the EFF in November 2016, has exceeded most expectations.** The country had been facing growing challenges from acute foreign exchange shortages, persistently large fiscal deficits, stagnating industrial production, dwindling non-construction investment, and high unemployment reaching 13 percent. Strong policies over the past two years have led to solid growth reaching 5.3 percent last year, led by natural gas, manufacturing, and tourism, as well as a recovery in investment and a decline in unemployment to single digits. Meanwhile, gross international reserves reached an all-time high and public debt, which peaked in FY2016/17, has been on a clear declining path. The growth outlook remains promising, expected to rise further to 6 percent in FY2019/20, and the economy is better prepared for a changing external environment. The authorities remain guided by the vision of their homegrown program: to safeguard macroeconomic stability with lower inflation and debt, transform the economy to attain sustained higher levels of private sector-led inclusive growth, and improve the quality of life for citizens.

**The authorities share staff's assessment of the favorable outlook but consider some of the risks to be overstated and the progress on structural reforms understated.** Continued recovery of tourism and rising natural gas production should help support growth in the medium-term. Solid economic performance and improved confidence in government policies leaves Egypt well-prepared to navigate the further tightening of global financial conditions and the shift in sentiment away from emerging markets. Like other countries, uncertainties relate to a possible deterioration in the security situation, potentially higher global oil prices, or possible drag on the reform momentum from adjustment fatigue.

**In spite of portfolio outflows related to the pullback of investors from emerging markets since May 2018, gross international reserves reached a peak level,** approaching \$44 billion, or 130 percent of the Fund's Assessing Reserve Adequacy (ARA) metric at end-November 2018 before declining to \$41.8 billion at end-December. Since the liberalization of the foreign exchange regime, distortions in the domestic foreign currency market were eliminated and the exchange rate is driven by the forces of supply and demand. The Egyptian pound lost two-thirds of its value relative to 2010, which has allowed the current account to adjust, narrowing from nearly 6 percent to 2½ percent of GDP for the year ending June 2018, and it is projected to decline further. Foreign currency inflows exceeded \$117 billion since November 3, 2016, helping to fulfill market needs. Consistent with the commitment to a flexible exchange rate, the Central Bank of Egypt (CBE) has refrained from any intervention. Egypt has seen a resumption of investor appetite for portfolio flows this month, which has spurred a modest strengthening of the Egyptian pound.

**CBE continues to utilize its monetary policy tools to anchor inflation expectations and bring inflation down to single digits over the medium-term**, once the fuel price adjustments have taken their course. Headline (core) inflation had peaked to 33 (35.3) percent in July 2017 following economic reform measures but fell in December 2018 to 12 (8.3) percent. The government has acted to resolve structural impediments that cause supply shocks to inflation, including increasing storage facilities and improving transport infrastructure. Monetary policy will remain data-driven and based on the evolution of inflationary pressures. In the medium-term, CBE intends to adopt a forward looking and interest-based monetary policy framework with inflation as a nominal anchor. CBE also presented amendments to the banking law, which was expanded to include, for example, a modified bank resolution framework, as suggested by Fund TA experts.

**The fiscal adjustment is one of the highest across the largest Fund programs.** Fiscal policy has been prudently managed to reduce public debt to near 70 percent of GDP by FY2022/23. A primary fiscal surplus was first registered in the past fiscal year and is expected to reach 2 percent of GDP in this fiscal year—consistent with the commitment to achieve a 3-year consolidation in the primary balance of 5.5 percent of GDP. The overall budget deficit, excluding grants, is projected to reach 8½ percent of GDP for the year, falling from an average 13¾ percent of GDP in FY13-16. Accordingly, public debt declined last year by 10 percentage points of GDP and will decline by another 7 percentage points of GDP by June 2019 to 86 percent of GDP. This is no small achievement in light of accelerated spending on infrastructure, targeted social protection and human development, and primarily reflects a much lower wage and subsidy bill relative to GDP and improvements in tax collections. Preserving these fiscal gains, including through subsidy reform has been a high priority. The current FY19 budget is based on an oil price assumption of \$74pbl, with additional buffers that can accommodate up to \$ 78 pbl. well above the current oil price<sup>1</sup>. Furthermore, the authorities have developed a hedging mechanism, after careful study, to protect the budget from world oil price volatility.

**The fiscal policy framework is being strengthened through lasting institutional reforms at the Ministry of Finance (MoF).** Last year, the MoF completed a comprehensive statement of fiscal risks, including those related to debt management, budget execution, resource mobilization, contingent liabilities, and pensions. They also prepared a list of state guarantees and established a committee to oversee the granting of guarantees. This year, they prepared a Debt Management Strategy and are implementing a Medium-term Revenue Strategy (MTRS)—both of which are government initiated and led and not staff-proposed. A Transparency and Public Participation Unit was established within the MoF to improve accountability and communication with the public. They continue to review the operational performance and finances of economic authorities. More recently, a stock taking of state-owned enterprises has been under way, including, as a first step, an overview of the sector prepared in June 2018. An updated and more detailed 1000-page report was published in December 2018, which will form the basis for preparing a reform strategy to improve

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<sup>1</sup> The average fuel price to cost ratio is now estimated at 85percent compared to 73 percent at the time of the mission, as reported in the December 2018 staff report.

financial performance and oversight in the future<sup>2</sup>. MoF aims to put in place a PFM law to revamp the entire budget process. The operations of the National Investment Bank will be reviewed to consider its future objectives and mandate. The authorities are also working on a comprehensive reform plan for the social insurance funds and the pension system to ensure long-term fiscal sustainability. Steps already taken have resulted in improvements in Egypt's fiscal transparency ranking in the last two years, and further improvements are expected.

It is worth highlighting that the primary surplus target was over-achieved for July-December 2018 despite **accelerated spending on education and health**, whose budget allocations increased by 27 and 22 percent respectively. This reflects the rolling out of the new education system and the adoption of several new health initiatives, including scanning of the entire population for hepatitis C and free treatment of all identified cases, accelerating free treatment of critical cases through public hospitals, and upgrading public hospitals to prepare for the implementation of the newly-adopted universal health system.

**Wide-ranging structural reforms are being implemented, despite the socioeconomic and technical challenges.** The authorities aim to facilitate private sector investment and job creation by focusing on the areas considered likely to yield greater gains. Following the adoption of a new investment law, an insolvency law, and the simplification of licensing procedures, Egypt's rankings have improved in indices of the business climate and competitiveness. The authorities are now working on a large number of initiatives to attract investment, improve competitiveness, and create more jobs. A working group has completed its work that included a review of stakeholder views and other country experiences on the land allocation mechanism and has made recommendations for a new transparent system that is based on competitive bidding, as endorsed by UNIDO and the World Bank<sup>3</sup>. The competition agency is being strengthened and a new law was introduced, broadly as had been agreed with the Fund<sup>4</sup>. Procurement procedures are being modernized and upgraded through a single e-procurement portal. Furthermore, the authorities are preparing to separate the regulatory authority for public transport from the Ministry of Transport; however, this requires additional time to be completed, and they plan to restructure the electricity company. They have identified key constraints to trade and initiated reforms to better utilize export potential. The divestiture of stakes in public entities is planned, as soon as market conditions allow, to attract

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<sup>2</sup> The SOE report includes elements of the impact on the economy (fiscal and financial), while the impact on employment, labor income, investment, exports, etc. is already published and has been in the public domain for years, e.g. Tables 39, 42, and 45 in the CBE monthly bulletin, which show that the SOE sector accounts for 3.5 percent of employment, 13 percent of investment, and 4.5 percent of GDP. See also [بيانات عن إجمالي قطاع الأعمال العام](#) and disaggregated national accounts. Moreover, at staff's suggestion, additional pages were added to the SOE report in January.

<sup>3</sup> Staff consider a price auction as the only acceptable bidding approach(¶17), while UNIDO and a 2014 World Bank [report](#) suggest with few exceptions, countries avoid price bidding and instead use other competitive bidding approaches.

<sup>4</sup> However, the draft law did not exempt the agency from the public salary cap as this is not allowed under local laws, and it did not include a single budget line for the agency as this is not allowed under the constitution. The authorities consider the omissions justified and the related SB should be considered met, if with delay.

private investment in public enterprises and reduce the role of the state. These are some of the key structural reforms the authorities see as essential to promoting private sector led inclusive growth.

**Validating the reforms already implemented and the attendant business confidence, economic indicators point to stronger private sector activity.** This is seen in a sustained upward trend in the PMI index, a strong contribution of the private sector to growth during the past fiscal year and first quarter of this year (particularly for private investment), and a strong rebound in the real growth rates of manufacturing, natural gas, and tourism sectors, all of which are dominated by the private sector.

**There is a very extensive list of structural conditionality to be completed between June 2018 and June 2019**, in addition to the authorities' broader reform agenda outside of commitments under the EFF. While an EFF is intended to address structural bottlenecks, and the authorities have aimed for an ambitious agenda and pace of reform, realism is needed to calibrate the reforms against domestic realities, especially in areas where the Fund is not in a position to provide TA. *Where conditionality is important, but not part of the core Fund areas, conditions should be carefully designed, and staff should at least provide best practices from other country experiences.* For instance, if any land allocation policy practices and SOE reports had been shared by the Fund with the authorities, this would have facilitated the timely completion of these measures. The authorities would still welcome relevant examples from peer countries.

**The Egyptian authorities take pride in the achievements of their home-grown economic reform program and are keen to transform the economy and deliver better prospects for all.** They have every intention of pushing through with the same momentum to bring about a transformative change to the economy. They thank the Fund for its support and the staff team for its continued efforts.