INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/266

# ARAB REPUBLIC OF EGYPT

August 2020

## REQUEST FOR A 12-MONTH STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the Request for a 12-Month Stand-By Arrangement, 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 June 26, 2020, following discussions that ended on June 5, 2020, with the officials of the Arab Republic of Egypt on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 17, 2020.
- A **Staff Statement** updating information on recent developments.
- An **Assessment of the Risks to the Fund and the Fund's Liquidity Position**.
- A **Statement by the Executive Director** for the Arab Republic of Egypt.

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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PRESS RELEASE

PR20/248

# IMF Executive Board Approves 12-month US$5.2 Billion Stand-By Arrangement for Egypt

**FOR IMMEDIATE RELEASE**

- The IMF approved a 12-month Stand-by Arrangement (SBA), with total access of about US$5.2 billion to address balance of payments financing needs arising from the COVID-19.
- The SBA will support the authorities' efforts to preserve the macroeconomic achievements made over the past four years, and advance key structural reforms.
- Structural reforms will aim to continue strengthening the frameworks for public finances, improve governance and transparency, and reduce barriers to competition to ensure a path towards sustainable and inclusive private sector-led growth.
- Approval of the SBA enables the immediate disbursement of about US$ 2 billion.

**Washington, DC – June 26, 2020** The Executive Board of the International Monetary Fund (IMF) approved today a 12-month Stand-by Arrangement for Egypt, with access equivalent to SDR 3.76 billion (about US$5.2 billion or 184.8 percent of quota). The new arrangement aims to help Egypt cope with challenges posed by the COVID-19 pandemic by providing Fund resources to meet Egypt's balance of payments needs and to finance the budget deficit. The Fund-supported program would also help the authorities preserve the achievements made over the past four years, support health and social spending to protect vulnerable groups, and advance a set of key structural reforms to put Egypt on a strong footing for sustained recovery with higher and more inclusive growth and job creation over the medium term.

After a strong track record of successfully completing a home-grown economic reform program supported by the IMF's Extended Fund Facility in 2016-2019, Egypt was one of the fastest growing emerging markets prior to the COVID-19 outbreak. However, the significant domestic and global disruptions from the pandemic have worsened the economic outlook and reshuffled policy priorities.

The authorities' economic policy framework, supported by the SBA, aims to maintain Egypt's macroeconomic stability with priorities to: (i) protect necessary social and health spending while avoiding an excessive build-up of public debt; (ii) anchor inflation expectation and safeguard financial stability while maintaining a flexible exchange rate; and (iii) implement key structural reforms to strengthen transparency, governance, and competition.

Following the Executive Board's discussion on Egypt, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"Over the past few years, Egypt saw strong growth, falling unemployment, moderate inflation, buildup of strong reserve buffers, and significant reduction in public debt. The authorities were looking to broaden and deepen structural reforms begun under the Extended Fund Facility, but the COVID-19 pandemic has temporarily refocused government priorities to address the economic and health crisis. The government has responded decisively to the crisis with a comprehensive package that supports health care needs, the economy, and the most affected individuals and sectors. The Central Bank of Egypt has also taken several actions to support economic activity and borrowers.

“The new Stand-By Arrangement, together with recent RFI, supports the authorities’ ongoing efforts to mitigate the economic and social impact of the crisis while maintaining macroeconomic stability and safeguarding past achievements. Together with the support of Egypt’s development partners, disbursements from the SBA will help address large financing needs.

“Policies supported by the SBA will focus on addressing the immediate crisis needs including critical spending on health, social programs to protect the most vulnerable, and assist directly affected sectors while safeguarding medium-term fiscal sustainability, anchoring inflation expectations, and preserving exchange rate flexibility. Structural reforms will aim to continue strengthening the frameworks for public finances, improve governance and transparency, and reduce barriers to competition to ensure a path towards sustainable and inclusive private sector-led growth.

“As the economic recovery takes hold, fiscal policy will need to work toward resuming the downward trajectory of public debt. The Central Bank of Egypt aims to continue to provide a stable anchor for inflation expectation and financial stability while rebuilding reserve buffers and allowing orderly exchange rate adjustments.

“Achieving program objectives is subject to risks. At the global level, uncertainty about the severity and length of the downturn remains exceptionally high. On the domestic side, the authorities will need to continue their strong track record of steadfast policy implementation.

“Maintaining social cohesion during this crisis period will be paramount for the success of the program. Enhanced communication and transparency around the policies and their implementation will be crucial to ensure broad support for the government’s reform efforts on behalf of the Egyptian people.”

INTERNATIONAL MONETARY FUND

# ARAB REPUBLIC OF EGYPT

## REQUEST FOR A 12-MONTH STAND-BY ARRANGEMENT

June 17, 2020

## EXECUTIVE SUMMARY

**Context.** Egypt's hard-won macroeconomic stability achieved during the three-year arrangement under the Extended Fund Facility (EFF) now faces a significant disruption due to the COVID-19 pandemic. Growth is expected to slow in both FY2019/20 and FY2020/21 as tourism has been halted and domestic activity curtailed. The external accounts have come under pressure due to capital outflows and the shock to tourism and remittances. The authorities responded with a broad package to scale up the health system's capacity and policies to support the people and the economy.

**Request for a Stand-By Arrangement.** The authorities have requested a 12-month Stand-By Arrangement (SBA) of 184.8 percent of quota (SDR 3.76 billion or about $5.2 billion) to alleviate the urgent balance of payments need. The request follows the purchase approved under the Rapid Financing Instrument (RFI) on May 11, 2020, as part of the authorities' two-step plan to address financing needs over the next year. The RFI and the SBA will alleviate financing needs and help catalyze additional funding to fill the remaining financing gap, supported by a balanced policy framework that helps preserve gains achieved under the EFF. The proposed SBA will have semi-annual reviews.

**Key policies.** The SBA will aim to maintain macroeconomic stability amid the crisis while continuing to advance structural reforms to strengthen prospects for higher medium-term growth and job creation. Policies to achieve these objectives include:

- Easing fiscal policy in FY2019/20 and FY2020/21 to support crisis spending on health and targeted support for the most impacted sectors and people, and resuming the downward trajectory of public debt from FY2021/22;
- Calibrating monetary policy to maintain inflation in the central bank's target range of 9 ±3 percent;
- Maintaining exchange rate flexibility with intervention limited to disorderly market conditions;
- Safeguarding financial stability while supporting heavily affected borrowers in the wake of the pandemic, and reforming the National Investment Bank (NIB);
- Strengthening the public finance framework to reduce the gross financing need, mobilize additional revenues, and modernize public financial management; and
- Continuing structural reforms to support private sector development and improve governance.

**Exceptional access.** Financing under the SBA requires exceptional access as Egypt already exceeded the normal cumulative access limit of 435 percent of quota under the RFI. The proposed level of access under the SBA would also exceed the normal annual access limit of 145 percent of quota. Staff assesses that Egypt meets the criteria for exceptional access. Egypt's capacity to repay the Fund is adequate. The authorities' favorable track record and commitment to strong policies should support a solid rebound and continued market access as conditions normalize.

**Risks:** A more delayed recovery or a renewed outbreak of the pandemic would further aggravate pressure on public finances, resulting in greater financing needs, higher public debt, and increased risks to debt sustainability. Additional output losses may lead to even higher unemployment, rising poverty and inequality, and financial stability risks, and this may undermine social support for the government's reform efforts. A further tightening of global financial conditions could put renewed pressure on capital flows and the government's borrowing costs.

Approved By
**Juha Kähkönen and Petya Koeva-Brooks**

The staff team comprised Uma Ramakrishnan (head), Deeksha Kale, Matthew Gaertner, Nikoloz Gigineishvili, Suchanan Tambunlertchai (all MCD), Randa Elnagar (COM), Geoffrey Keim (SPR), Emine Hanedar (FAD), Constant Verkoren (MCM), Said Bakhache (Senior Resident Representative), and Karim Badr (Resident Representative Office). The team was supported by Mmes. Marianne Azer and Maria de Mesa and Messrs. Yufei Cai and Alex de Keyserling. Ms. Abdelati (OED) also participated in the discussions. Virtual discussions were held on May 19 –June 5, 2020 with Mohammed Maait, Minister of Finance; Tarek Amer, Governor of the Central Bank of Egypt; and other senior officials.

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**ANNEXES**

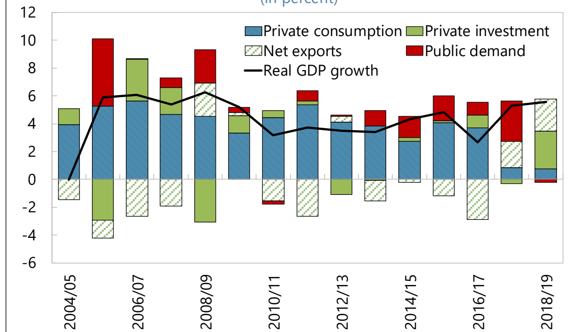


**APPENDIX**

# RECENT DEVELOPMENTS

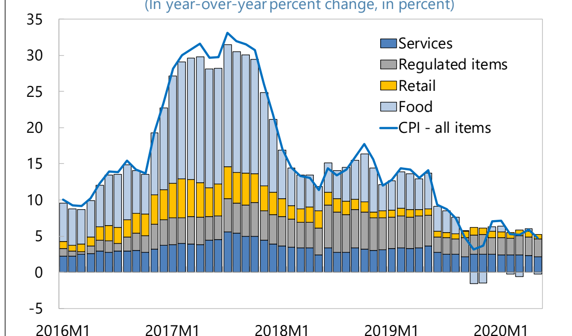
1. **Prior to the COVID-19 pandemic, Egypt was one of the fastest growing emerging markets, having achieved macroeconomic stabilization after a successful economic reform program.** The authorities' ambitious program supported by the Extended Fund Facility (EFF) during 2016–19 addressed large external and domestic imbalances, raised growth, and expanded social safety nets while sharply reducing public debt. Prior to the pandemic, Egypt's economic outlook was favorable. Real GDP was 5.6 percent (y/y) in the first half of FY2019/20. Public debt was on a downward trajectory, underpinned by a projected fiscal primary surplus of 2 percent of GDP. At end-February, gross international reserves stood at $45 billion (125 percent of the ARA metric). Inflation had eased, with core inflation well anchored at 1.9 percent (y/y). The aggregate banking system was well capitalized, with ample liquidity, capital buffers, and loan provisioning. In addition, Egypt issued $2 billion in Eurobonds in November 2019 that included a 40-year tranche. The authorities remained committed at the highest levels to advance structural reforms to achieve more inclusive private sector-led growth and jobs and reduce poverty and inequality.

**Contributions to Real GDP Growth**
(In percent)




Source: Egyptian Ministry of Planning; and IMF staff calculations; based on available data as of June 15, 2020

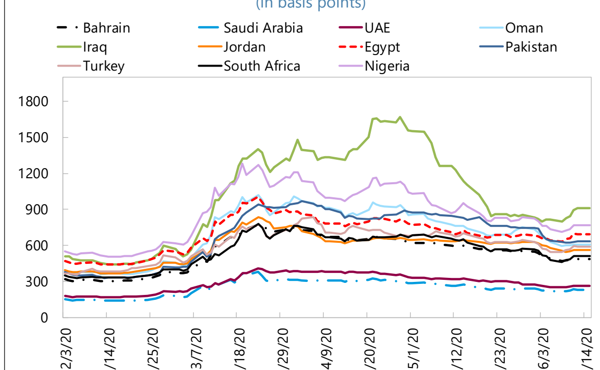
**Consumer Price Index Inflation**
(In year-over-year percent change, in percent)




Sources: Central Bank of Egypt; Haver Analytics; and IMF staff calculations; based on available data as of June 15, 2020.

2. **Despite relatively strong buffers going into the crisis, Egypt now faces considerable uncertainty from domestic and global economic disruptions.** As the pandemic spread around the world by mid-March, measures implemented by different countries to stem the virus contagion caused a sudden stop in foreign and domestic activities while risk-off sentiments resulted in financial market turbulence, a significant reversal of capital flows, and large reserves losses. Like other EMs, Egypt saw a sudden spike in sovereign spreads, with the EMBI spread peaking above 900 bps (from around 500) in late March. Despite this, ratings agencies affirmed Egypt's sovereign credit ratings and stable outlook. As global market turmoil subsided in late-April and May, capital

**Sovereign Spreads: Egypt and Select Countries**
(in basis points)




Source: Bloomberg; based on available data as of June 15, 2020.

flow pressures receded, and spreads have declined. On May 21, Egypt was among the first EMs to return to the international bond market, raising $5 billion in 4-, 12-, and 30-year tranches. The issue was more than four times oversubscribed, reflecting investors' confidence in Egypt's medium-term economic prospects and the attractive dollar-denominated yields.

3. **The authorities responded to the crisis with a comprehensive package to contain the health and economic impact of the shock (Box 1).** In March, the government announced that EGP 100 billion (around 1.8 percent of GDP) would be allocated for health, fiscal, monetary, and financial sector responses. The Central Bank of Egypt (CBE) reduced its policy interest rate by 300 basis points to 9.25 percent to support economic activity while undertaking several initiatives to support borrowers. The authorities also scaled up testing and healthcare capacity and introduced containment measures to facilitate social distancing and slow the spread of the virus.

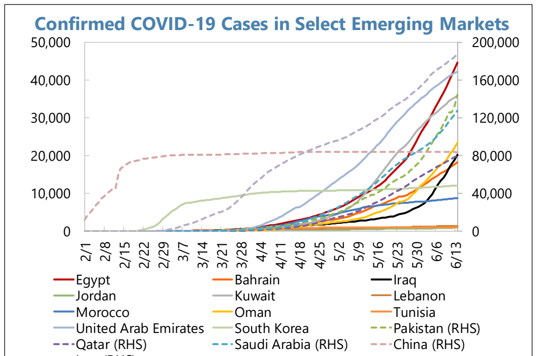
4. **The economic impact of the COVID-19 shock has already been significant.** The fallout from the pandemic was immediately felt through a sudden stop in tourism—which accounts for around 12 percent of GDP, 10 percent of employment, and about 4 percent of GDP in FX revenue—and its associated activities. Lockdown measures have resulted in a sharp slowdown in domestic activity. Remittances, which were at 8.2 percent of GDP FY2018/19, are expected to drop as global recession disrupts this important source of FX inflows, particularly from countries in the Gulf Cooperation Council (GCC). Receipts from the Suez Canal could also fall as restrictions and constraints on trade and travel persist. In addition, Egypt saw more than $15 billion of portfolio outflows in March and April as investors pulled money out of emerging markets in a flight to safety.

5. **Against this backdrop of falling FX inflows, the Egyptian authorities have requested a 12-month Stand-By Arrangement (SBA) to support their macroeconomic stabilization plans.** The authorities' $2.8 billion purchase under the Rapid Financing Instrument (RFI) approved on May 11, 2020, helped address the urgent financing needs earlier in the crisis. The RFI along with the request for a SBA have already helped catalyze additional market financing (¶2). The 12-month SBA would focus on supporting a balanced policy framework to maintain macroeconomic stability amid the heightened uncertainty from the pandemic, and catalyze further external financing. Given the importance of unlocking Egypt's growth potential, the program will also address selected critical structural reforms, including debt management, transparency of state-owned enterprises (SOEs), and the business climate.

# OUTLOOK AND RISKS

6. **The COVID-19 pandemic has altered Egypt's macroeconomic outlook.** At the time of the RFI, growth in FY2019/20 and FY2020/21 had already been lowered to 2 and 2.8 percent, compared to the pre-pandemic baseline of 5–6 percent in both years. As the global recovery is now expected to be more gradual and domestic activity is projected to remain weak for longer, growth in FY2020/21 has been further revised down to 2 percent.

**Confirmed COVID-19 Cases in Select Emerging Markets**



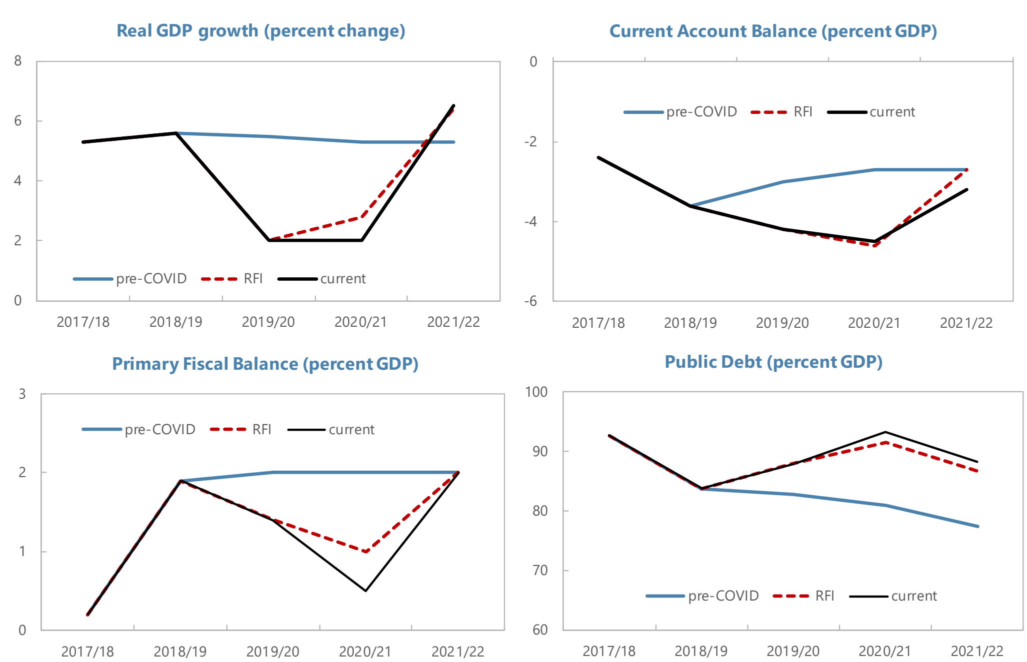

Source: Johns Hopkins University CSSE; based on data available as of June 15, 2020.

- ***Domestic activity*** is projected to contract in Q2 and Q3 of 2020, with a small recovery beginning in Q4 and a potentially stronger rebound in 2021 as domestic activity normalizes and tourism slowly recovers. The latter is expected to return to pre-crisis levels only by the second half of 2022, as health concerns and global recovery conditions likely continue to weigh on international travel.

- ***Inflation*** is projected to rise from 5.8 percent (y/y) in FY2019/20 to about 8 percent on average in FY2020/21. The increase reflects several underlying factors including unfavorable base effects.

- ***Public finances*** are under pressure. To prepare for a more prolonged economic support, including the government's purchases of grains and medical supplies to bolster its strategic stockpile to protect food and health security, the current baseline envisages primary surpluses of 1.4 and 0.5 percent of GDP in FY2019/20 and FY2020/21, respectively (¶9–10). As a result, public debt is projected to rise to 93 percent in FY2020/21 before resuming its downward path accompanied by a planned return to primary surpluses of 2 percent of GDP.

**COVID-19 Related Revisions to Projections**




Source: IMF staff projections; based on available data as of June 15, 2020.

- ***The banking system*** has remained stable. The most recent data indicate that the system was liquid, profitable, and well capitalized heading into the crisis, but risks around banks' loan portfolios, capital costs, and profitability have increased due to the economic slowdown.

- ***External balances*** are expected to deteriorate compared to the baseline under the RFI, reflecting the significantly weaker global outlook and lower foreign inflows.

**7. There is considerable uncertainty around the outlook, with risks tilted to the downside.** Staff's baseline projections are predicated on normalization of domestic and global economic activity by end-2020. However, a more severe and/or prolonged shock to economic activity and delayed recovery could further aggravate public finances, resulting in greater financing needs, and higher public debt and risks to debt sustainability. The greater output losses could also lead to higher unemployment, rising poverty and inequality, and financial stability risks, all of which could undermine social support for the government's reform plans. Moreover, a further tightening of global financial conditions could put renewed pressure on capital flows and the government's borrowing costs.

# PROGRAM POLICIES

**8. The authorities' policies, supported by the SBA, will aim to maintain macroeconomic stability while pursuing targeted structural reforms to improve debt management and private sector-led growth.** An important challenge is trying to design the right policies in a highly uncertain environment. Thus, the SBA seeks to strike a balance between providing the crucial short-term stimulus to minimize the human and economic toll of the pandemic while avoiding buildup of imbalances in the medium term. Recalibrating policies and priorities to continue to strike this balance may be necessary as the crisis evolves.

## A. Balancing Fiscal Priorities in a Crisis

**9. To confront the health and economic crisis, fiscal policy will provide much-needed support to the most-affected individuals and sectors.** Expansion of social support for the vulnerable has been scaled up—the targeted conditional cash transfer program Takaful and Karama will now reach around 3½ million families. Since the outbreak of the pandemic, resources have also been directed towards the provision of food as well as medical and sanitation supplies to remote villages and other vulnerable groups (Boxes 1 and 2). Reflecting lower revenue due to the weaker economy, the fiscal outturn for FY2019/20 is expected to be 1.4 percent of GDP, corresponding to a fiscal easing of about 0.5 percentage point of GDP.

**Fiscal Costs of Measures in Response to COVID-19 (as of May 2020)**
(Percent of GDP)

| Measure | Cost |
|---|---|
| Reduction in electricity and natural gas tariffs for industries | 0.178 |
| Additional funding for contractors implementing government investment programs | 0.174 |
| Additional funding for medical equipment, supplies, and higher wage appropriations for public health staff | 0.141 |
| Financing to purchase additional quantities of basic commodities | 0.087 |
| 3-month cash payment to workers impacted by the crisis | 0.052 |
| Options for delayed payment of corporate income taxes in installments | 0.035 |
| Additional funding for public work programs | 0.035 |
| Higher subsidy pay-outs for exporter | 0.025 |
| Financial support for the aviation sector | 0.012 |
| 6-month holiday on property taxes and deferral of government fees for the tourism sector | 0.007 |
| Financing for touristic establishments | 0.006 |
| 3-month deferral of property tax payments | 0.004 |
| Increase in the share of production in duty free zones that can be sold in the domestic market | 0.000 |
| **Total** | **0.756** |

**10. The program targets a primary surplus of 0.5 percent of GDP for FY2020/21 to balance crisis-related spending with avoiding an excessive increase in public debt.** The target reflects the significant spending pressures that have emerged relative to the pre-pandemic baseline with a primary surplus of about 2 percent of GDP. The draft FY2020/21 budget submitted to Parliament, and expected to pass in June (prior action), was prepared mostly on the basis of pre-COVID-19 projections and thus still projected a primary surplus of 2 percent of GDP. However, the authorities have committed to including a provision in the budget that establishes a floor for the primary surplus of 0.5 percent of GDP in FY2020/21 per the program target (proposed performance criterion). This approach internalizes the crisis-related uncertainty and the difficulty in estimating revenue and expenditure in the current environment. A supplementary budget could be needed in December to reflect updated fiscal projections as the impact of the crisis becomes clearer. If needed, the authorities are also prepared to delay low priority current and capital spending in favor of essential spending (particularly on health and targeted social protection (Memorandum of Economic and Financial Policies (MEFP) ¶11).

**Revenue Measures in the Budget for FY2020/21**
(Percent of GDP)

| Measure | Share |
|---|---|
| Development Fees | 0.238 |
| Green fee on the consumption of gasoline and diesel products | 0.087 |
| New Development Fee Law | 0.054 |
| 5 percent development fee on imported mobile phones and accessories | 0.044 |
| 10 percent development fee on iron and steel products | 0.032 |
| Development fee on tobacco | 0.016 |
| 2.5 percent on internet bill paid by companies and establishments | 0.006 |
| Increase in excises on tobacco and cigarette products | 0.111 |
| Collection of additional surpluses from public banks | 0.089 |
| Taxation of digital services, e-commerce, and online trade | 0.048 |
| Revision in bank secrecy law to comply with global forum for taxation | 0.032 |
| Amendment of income tax law to allow for more progressivity | 0.032 |
| **Total** | **0.549** |

- On the revenue side, the budget projection includes several measures, including the new development fee law which increases existing fees on items such as tobacco and introduces new fees on some products and services such as a green fee on the consumption of gasoline and diesel products. These revenue measures yield about ½ percent of GDP in the budget. In addition, Parliament passed a broadly revenue-neutral reform of the Personal Income Tax to increase progressivity, in line with IMF technical assistance recommendations. To ensure a minimum level of tax revenues to help meet the spending pressures, the authorities are committed to meeting a floor on tax revenue (proposed indicative target). In this regard, the authorities have prepared additional revenue measures such as the proposed one-percent tax on salaries of public and private employees across all sectors and 0.5 percent on pension payments over 12 months which could raise around EGP10 billion (around 0.18 percent of GDP) to support the health sector as well as firms and workers hit by the crisis.

- On the expenditure side, allocations for health spending are projected to be higher by 26 percent in FY2020/21 (y/y), the highest annual growth for any ministry or sector and almost triple the annual growth in total expenditure. Allocations projected for social protection have increased by nearly 10 percent (y/y). Given the criticality of these two spending categories in the current crisis, a minimum spending floor for these categories is proposed as an indicative target.

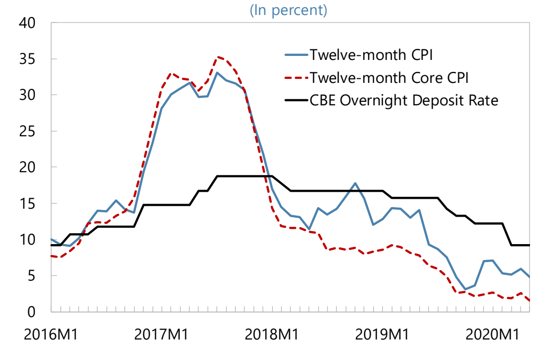
**11. The current baseline aims to restore the pre-crisis primary surplus of 2 percent of GDP in FY2021/22 and resume the reduction in public debt.** The envisaged fiscal envelope for FY2020/21 would temporarily raise government debt to about 93 percent of GDP (from 84 percent of GDP in

FY2018/19). Under current assumptions, the authorities aim to unwind the temporary crisis-related expenditures and return to fiscal consolidation to resume the downward path of public debt in FY2021/22. They are also committed to continuing their efforts to reduce the gross financing needs from the current level of around 36 percent of GDP to further safeguard debt sustainability (¶17). If the projected recovery remains weaker for longer, the authorities noted that efforts will be made to attain a primary surplus of at least 1.4 percent of GDP in FY2021/22 and 2 percent of GDP thereafter (MEFP ¶8).

## B. Anchoring Inflation and Maintaining Financial Resilience

**12. It was agreed that monetary policy should remain data driven and anchor inflation expectations within the CBE's target range.** The CBE stands ready to adjust monetary policy as appropriate to maintain inflation within the announced target range of 9 ±3 percent on average for 2020Q4 (MEFP ¶16). In addition to assessing the pass-through to inflation from the recent rate cut and inflation expectations, the authorities noted that the monetary policy committee (MPC) will consider other macroeconomic indicators such as domestic activity and financial conditions to determine policy action.

**Inflation and Interest Rates**
(In percent)




Source: Haver Analytics, and IMF staff calculations; based on available data as of June 15, 2020.

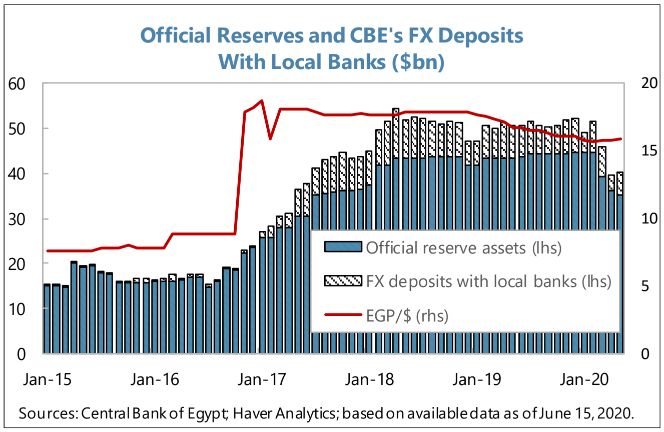
**13. A monetary policy consultation clause (MPCC) is proposed to monitor inflation performance.** With the MPCC, a band around an inflation target of 9 percent is established. If inflation falls outside the inner band of 9 ±3 percent, the authorities will engage with staff on reasons for the deviation and the CBE's proposed remedies to restore inflation within the band. A similar consultation with the Executive Board will be triggered if inflation falls outside the outer band of 9 +4/-5 percent (MEFP ¶17).

**14. The authorities are committed to exchange rate flexibility and gradually accumulating international reserves.**

- During March–May, gross official reserves fell by $9.5 billion to $35.2 billion as the authorities accommodated large capital outflows through a drawdown in official reserves and other FX deposits.[1] The authorities deemed such action necessary in the context of the abrupt and severe turbulence in the global financial markets, and to maintain domestic confidence. The capital outflows also resulted in a large drop in banks' net foreign assets. Despite appreciation in the real exchange rate during 2020, the overall external position is assessed to be broadly in line with

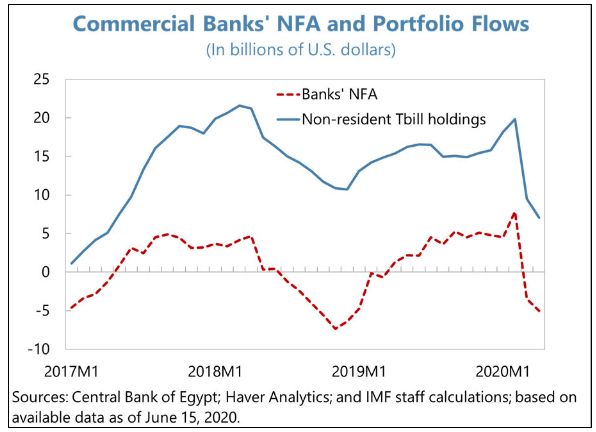
[1] The CBE maintains FX deposits in domestic commercial banks which are not part of official reserves. The drawdown from these FX deposits during March to May was $7 billion. At end-May 2020, the amount of these deposits totaled about $5 billion.

fundamentals and desirable policies reflecting structural reforms since 2016 and expectations that the current shock will be temporary (Annex II).




**Official Reserves and CBE's FX Deposits With Local Banks ($bn)**

Sources: Central Bank of Egypt; Haver Analytics; based on available data as of June 15, 2020.

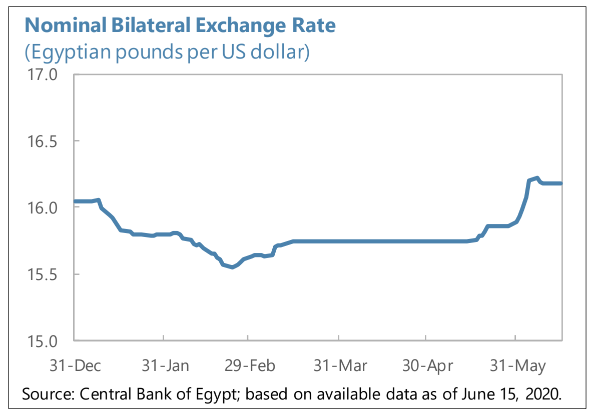



**Commercial Banks' NFA and Portfolio Flows**

(In billions of U.S. dollars)

Sources: Central Bank of Egypt; Haver Analytics; and IMF staff calculations; based on available data as of June 15, 2020.

- The authorities have committed to continue letting the exchange rate reflect market forces, limiting intervention only to instances of disorderly market conditions (MEFP ¶22). Since mid-May, the exchange rate has depreciated by around 3 percent. Net reserve accumulation of $3 billion is expected by March 2021 (proposed performance criterion). Given the large financing gap and the reduced FX inflows in 2020, reserve accumulation is more likely to take place starting in 2021 when economic and market conditions are projected to begin to normalize. Under this baseline, reserves would remain at or above 110 percent of the ARA metric throughout the program.




**Nominal Bilateral Exchange Rate**

(Egyptian pounds per US dollar)

Source: Central Bank of Egypt; based on available data as of June 15, 2020.

**15. Promulgation and implementation of the Banking and CBE Act recently approved by the Parliament will further strengthen the frameworks for monetary policy and banking sector legislation.** The law—once signed by the President—will establish the CBE's price stability mandate, strengthen operational independence, and improve the legal framework for early intervention and bank resolution. The CBE's subsidized lending schemes that pre-date the COVID-19 outbreak constitute a quasi-fiscal activity. The CBE will not introduce any new subsidized lending schemes and will not renew or replenish the existing schemes once the allocated resources are fully committed. For any uncommitted portion of the facilities at end-May 2021, the authorities agreed that interest costs related to lending activities from this portion will henceforth be incurred by the government. (MEFP ¶20). In addition, the CBE will continue to limit direct short-term lending to the government via overdrafts in accordance with the legal framework (i.e., not to exceed 10 percent of the average revenues of the public budget in the previous three years), while ensuring that such financing is provided at market rates (proposed indicative target, MEFP ¶19).

**16. The authorities are seeking to provide relief to heavily affected borrowers, while maintaining financial stability and ensuring a stable flow of credit to the real economy.** After granting a 6-month repayment moratorium on existing credit facilities, the authorities are urging banks to work with heavily affected clients to prudently and preemptively restructure loans. To facilitate targeted relief and support credit, the CBE has provided a one-year waiver for additional risk-weights imposed on portfolio concentrations and may consider allowing banks to temporarily draw down prudential buffers if needed (e.g., the capital conservation buffer) to help absorb pandemic-related losses and maintain key financial services to the real economy. The authorities are closely monitoring financial sector conditions for signs of increased risk as the economic slowdown could begin to erode banks' asset quality and profitability. It was agreed that the exceptional financial sector measures taken in response to the COVID-19 crisis would be wound down as soon as conditions allow to avoid potential buildup in vulnerabilities (MEFP ¶23).

## C. Structural Reforms

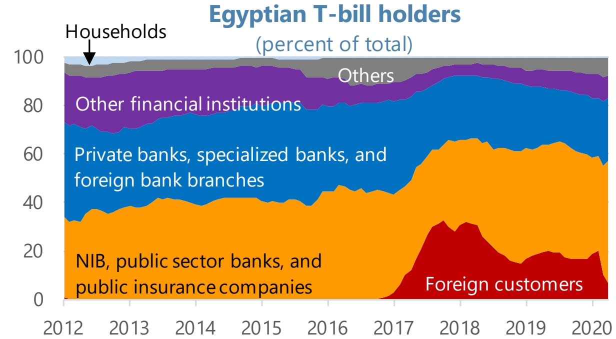
**17. The authorities are committed to continuing structural reforms that already began under the EFF.** Accordingly, measures are being taken to improve the efficiency of resource allocation by enhancing transparency and accountability, increasing competition, improving governance, and, thereby, reducing the scope for corruption.

### Fiscal Structural Reforms

**18. To reduce risks to debt sustainability, enhance revenue mobilization, strengthen fiscal governance,** the authorities are committed to the following actions.

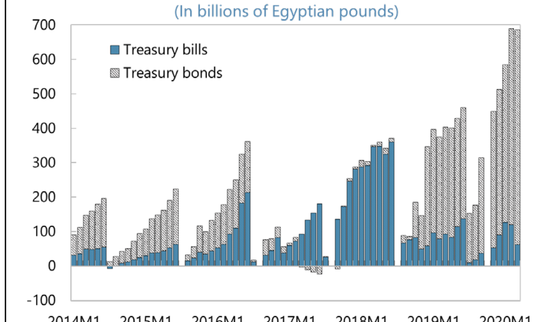
- ***Lowering gross financing needs*** (GFN) is critical for limiting debt sustainability risks. While rollover risks are mitigated by the large presence of domestic financial institutions in the government securities market, the authorities are fully cognizant of the vulnerability posed by the high GFN. Efforts are already underway to lengthen debt maturities, by reducing net T-bill issuances and building the domestic yield curve going out to 10 years. To make further progress, the authorities are committed to updating the medium-term debt strategy (MTDS) by end-December 2020 (proposed structural benchmark)—with support from the World Bank and IMF—to target a reduction in the GFN to below 30 percent of GDP by FY2024/25. To aid in this objective, a quantitative ceiling has been established on the share of net new short-term domestic issuance to total domestic treasury issuances (proposed indicative target, MEFP ¶13).

**Egyptian T-bill holders**
(percent of total)




Source: Haver Analytics; based on available data as of June 15, 2020.

**Net Issuance of Government Securities**
(In billions of Egyptian pounds)




Sources: Egyptian Ministry of Finance; and Haver Analytics; based on available data as of June 15, 2020.

- ***Improving the social safety net*** remains an important priority. The authorities are looking into expanding social support to include more vulnerable groups including at-risk women, the elderly, and school children (feeding program). They are committed to a public expenditure review, supported by the World Bank, that covers social protection, health, and education programs. The immediate focus of the review will be on evaluating the effectiveness of social spending, identifying gaps, and providing recommendations by April 2021 (proposed structural benchmark, MEFP ¶15), to be followed by reviews of the health and education programs.

- ***Revenue mobilization*** will support higher primary surpluses to create room for priority spending on health, education, and social protection. Prior to the COVID-19 crisis, the draft medium-term revenue strategy (MTRS)—developed with support from the IMF—had identified a range of institutional and compliance reforms for both the tax and customs agencies, as well as tax policies to increase revenue by 2 percent of GDP over four years. Additional support was also received from the World Bank and other IFIs, including the OECD on international tax and digital economy issues. The MTRS is currently being revised to reflect the post-COVID-19 outlook in revenue and expenditure, with a view to receiving Cabinet approval by end-December 2020 (proposed structural benchmark). Potential revenue measures will be specified as the MTRS is finalized. In the meantime, certain revenue measures from the draft MTRS have been accelerated and embedded in the FY2020/21 budget (¶10, MEFP ¶12).

- ***Revisions to the public financial management (PFM) law*** are underway, with Parliamentary submission aimed for end-December 2020 (proposed structural benchmark). The revisions will strengthen the budget process by including: (i) a fiscal responsibility provision to guide macro-fiscal policy; (ii) a medium-term budget framework; (iii) main elements of the budget calendar; (iv) minimum contents of the budget documentation; (v) robust provisions on reallocation of resources, contingency reserves, and supplementary appropriations, and (vi) accounting rules for all public entities including economic authorities (MEFP ¶14).

### Enhancing the Role of the Private Sector

**19. Despite the COVID-19 shock reshuffling near-term priorities, the authorities remain committed to advancing structural reforms to support private-sector-led growth and job creation.** The government is strongly committed to broadening and deepening the structural reforms that began under the EFF and preserving that momentum through the current crisis to the extent feasible (MEFP ¶¶24-28). To that end, the authorities plan to undertake the following actions:

- ***To enhance transparency in the operations of the state-owned enterprises (SOEs),*** the authorities will build on the report done under the EFF and publish an updated SOE report with complete detailed financial information disclosure for FY2018/19 on all SOEs. A separate report on Economic Authorities (EAs) with the same detailed financial information for FY2018/19 will also be prepared. Both reports are expected to be published by end-September 2020 (proposed structural benchmark, MEFP ¶25).

- ***To facilitate trade and reduce non-tariff barriers,*** the authorities expect to pass the draft customs law no later than March 2021 (proposed structural benchmark). The amended law is expected to streamline customs procedures, including document requirements, mandatory registration of manufacturers of imported goods, and shipment inspections. It will also streamline valuation procedures to accept commercial invoices for valuation of imports and exports while clearly defining the conditions for exceptions (MEFP ¶25).

- ***To strengthen competition and level the playing field*** across all economic agents private and public, the authorities will submit to Parliament by end-December 2020 draft amendments to the previously submitted Egyptian Competition Law, including to ensure competitive neutrality of procurement operations (proposed structural benchmark). The amendments will help empower the Egyptian Competition Authority (ECA) to regulate mergers and acquisitions and act when warranted against anti-competitive economic behaviors by economic agents. The amendments will also protect small and medium enterprises against certain forms of takeover, ensure that acquisition of minority shareholdings does not adversely affect the competitive structure of the market, and enable businesses to request the ECA to issue opinions on the competitive impact of certain public regulations. These provisions will apply equally to all market participants including state-owned enterprises (MEFP ¶27).

**20. Reforming the National Investment Bank (NIB) is a priority.** The statutory objective of the NIB is mobilizing local savings to finance projects in the state's national economic and social development plan. While it performs some banking functions, it does not have a banking license and is not supervised. An international auditor was hired late last year to evaluate the NIB's financial position. This assessment will inform the government's decision on the reform plan for the institution, including its revised mandate, business model, and financial structure (proposed structural benchmark, MEFP ¶29). Potential public sector costs associated with the NIB reform will be accommodated in the program via an adjustor on the primary balance targets (Technical Memorandum of Understanding (TMU) ¶11).

# PROGRAM MODALITIES

**21. Access under the 12-month SBA is proposed at SDR 3,763.64 million (about $5.2 billion or 184.8 percent of quota).** Staff proposes that access be slightly frontloaded, with a purchase of SDR 1,447.56 million (about $2 billion) upon approval of the SBA. The remaining amount of SDR 2,316.08 million (about $3.2 billion) will be equally distributed between the two reviews (Table 12).

**22. Financing for the program entails exceptional access as Egypt has already exceeded its normal annual and cumulative access limits with the recent purchase under the RFI.** Staff assesses that Egypt meets the four criteria for exceptional access, with the CBE deposit rollovers by official GCC creditors helping strengthen safeguards to the Fund (Box 3). The larger financing gap relative to that projected at the time of the RFI, despite the successful Eurobond issuance in May, reflects the expectation of weaker FX inflows driven by lower remittances, portfolio flows, and FDI as the global recovery is weaker than previously expected. Thus, the dearth in private inflows requires essential financing needs of the government to be temporarily and partially met with official and market sources to avoid large FX market disruptions. With the proposed schedule of purchases, the residual financing needs in FY2019/20 and FY2020/21 narrow to $4.5 billion and $9.0 billion, respectively. Financing assurances for the next 12 months have been secured from the World Bank, the African Development

Bank, the Arab Monetary Fund, France, and Japan. External commercial borrowings, including through possible market access, will fill the remaining financing gap.

**23. Fund purchases would help address balance of payments needs and be used for budget support.** In this regard, the CBE and the Ministry of Finance will sign a memorandum of understanding on the respective responsibilities for timely servicing of the obligations to the Fund. Given that the program will entail exceptional access to Fund resources and will be used for budgetary purposes, the authorities have committed to undergo a fiscal safeguards review as required under Fund policy (Letter of Intent (LOI) ¶5).

**24. The ongoing update to the safeguards assessment of the CBE is expected to be well-advanced at the time of the Executive Board's approval of the SBA.** The CBE has strengthened its external audit arrangements since the previous assessment and the audit opinion on its 2019 financial statements is unmodified (clean). The assessment will follow up on the next steps for the Banking and CBE Act recently approved by the Parliament and ensure the central bank's financial reporting practices fully comply with Egyptian Accounting Standards starting with the 2020 financial statements. Both of these reforms stem from the 2017 safeguards assessment and remain key goals under the SBA.

**25. Egypt's capacity to repay the Fund is adequate, albeit with some risks.** Fund credit outstanding as a share of gross reserves is projected to peak at 49.5 percent in FY2020/21, and debt service to the Fund as a ratio of exports of goods and services would reach 8.3 percent in FY2024/25, with some concentration in FY2023/24 and FY2024/25. As the global crisis abates and macroeconomic stability is maintained, improvements in the fiscal and external positions are expected to ensure Egypt's continued market access and adequate capacity to repay. Continued engagement to roll over maturing official deposit liabilities at the CBE at longer maturities even after the program would further strengthen the capacity to repay.

**26. The program will be monitored through semi-annual reviews.** Passage of the FY2020/21 budget by the Parliament consistent with the program understandings is a prior action for the SBA approval. Quantitative targets are set with test dates for end-September 2020 and end-March 2021, with indicative targets for the intermediate quarter. The first review would be in December 2020. Performance criteria are proposed on net international reserves, the primary balance, and non-accumulation of external debt payment arrears by the general government. Indicative targets are proposed on government overdrafts with the CBE, tax revenues, floor for social spending, share of net new short-term issuances of treasury securities to total domestic treasury issuances, and the accumulation of gross debt of the budget sector. The quantitative targets and structural benchmarks are presented in Tables 13 and 14.

**Egypt: Summary External Financing Needs and Sources**

| | Pre COVID-19 | | Post COVID-19 | |
|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2019/20 | 2020/21 |
| | (billion dollars) | | | |
| **Financing needs** | **37.2** | **35.8** | **38.0** | **42.0** |
| Current account deficit | 11.2 | 10.6 | 14.8 | 16.2 |
| Tourism receipts | 15.9 | 17.8 | 10.0 | 2.7 |
| Private remittances | 25.2 | 26.2 | 21.6 | 18.7 |
| Maturing short-term debt | 14.4 | 16.9 | 16.2 | 19.2 |
| Amortization of medium and long-term debt | 11.6 | 8.2 | 7.0 | 6.6 |
| | | | | |
| **Financing sources** | **37.2** | **35.8** | **28.8** | **29.8** |
| FDI, net | 9.6 | 10.8 | 8.0 | 5.5 |
| Portfolio investment, net 1/ | 4.4 | 5.0 | -7.5 | 3.5 |
| Rollover of short-term debt | 14.4 | 16.9 | 16.2 | 19.2 |
| July 2019 EFF Purchase | 2.0 | -0.2 | 2.0 | -0.2 |
| Other net capital flows | 6.1 | 4.2 | 4.1 | 5.2 |
| Change in reserves | 1.8 | -0.8 | 7.1 | -3.3 |
| Change in arrears | -1.0 | 0.0 | -1.0 | 0.0 |
| | | | | |
| **Financing gap** | | | | |
| Financing gap before RFI | 0.0 | 0.0 | -9.2 | -12.2 |
| RFI disbursement | 0.0 | 0.0 | -2.8 | 0.0 |
| Financing gap before SBA | 0.0 | 0.0 | -6.5 | -12.2 |
| SBA disbursements | 0.0 | 0.0 | -2.0 | -3.2 |
| Other prospective financing: | 0.0 | 0.0 | -4.5 | -9.0 |
| Multilateral institutions | 0.0 | 0.0 | 0.0 | -2.0 |
| World Bank | 0.0 | 0.0 | 0.0 | -0.9 |
| Arab Monetary Fund | 0.0 | 0.0 | 0.0 | -0.6 |
| African Development Bank | 0.0 | 0.0 | 0.0 | -0.5 |
| Bilateral creditors | 0.0 | 0.0 | -0.3 | -0.4 |
| Japan | 0.0 | 0.0 | -0.2 | -0.3 |
| France | 0.0 | 0.0 | -0.1 | -0.2 |
| Ext. commercial loans (incl. Eurobonds) | 0.0 | 0.0 | -4.1 | -6.5 |

Sources: Central Bank of Egypt; IMF staff estimates; based on available data as of June 15, 2020.

1/ Includes Eurobond issuances of $2 billion in November 2019 and $5 billion in May 2020.

# STAFF APPRAISAL

27. **The COVID-19 pandemic has presented an unprecedented shock that imperils Egypt's hard-won macroeconomic stability and creates balance of payments needs.** The authorities' bold reforms under the EFF and sound policy framework left Egypt in a relatively strong position to confront the crisis, but the economic sudden stop has increased vulnerabilities around growth and debt sustainability. The immediate tasks for the authorities therefore are to tackle the health crisis and address social needs while rebuilding buffers and guiding the macroeconomy back to a position of strength. In this regard, the authorities' response to the crisis has been comprehensive, with timely actions on the fiscal, monetary, financial sector, and social protection fronts. However, it is important

that the exceptional COVID-19-related measures be unwound as soon as circumstances allow to avoid a buildup in imbalances.

**28. The authorities' economic program supported by the proposed SBA offers a credible plan for maintaining macroeconomic stability amid the uncertainty.** The policies appropriately aim to prioritize higher health and social spending, reduce risks to debt sustainability, rebuild FX reserves, further strengthen the monetary policy framework, and maintain financial stability. These policies are complemented by focused structural reforms to continue past efforts to support private sector development. The reform program provides flexibility to respond to additional crisis-related spending needs that may arise, while also safeguarding fiscal and external balances. Given the considerable uncertainty in the outlook, flexibility will be necessary to nimbly recalibrate the program as needed to respond to crisis needs while preserving the integrity of program objectives. In this regard, staff welcomes the authorities' willingness to consider additional policies to safeguard stability if the crisis gets deeper or lasts longer than currently envisaged (LOI ¶4, MEFP ¶9). Moreover, as reiterated in the LOI (¶3), the authorities remain committed to maintaining the transparency and accountability of crisis spending by tracking and reporting it, including in a consolidated manner on the Ministry of Finance website.

**29. Staff supports the authorities' goals of restoring the primary surplus to 2 percent of GDP by FY2021/22 and improving public debt sustainability.** High levels of public debt and gross financing needs make debt sustainable but not with high probability (Annex I). The impact of the COVID-19 shock on the domestic and external environment has further increased these risks. Thus, under the current baseline, the authorities' commitment to resume and maintain a primary surplus of 2 percent of GDP, supported by the updated MTRS and MTDS, will be essential to put public debt back on a downward trajectory. Staff supports the authorities' ongoing efforts to reduce gross financing needs. Further lengthening of maturities of government securities will be critical to reduce rollover risks and durably improve the debt path.

**30. The monetary framework is being modernized with a gradual shift to inflation targeting supported by exchange rate flexibility.** The recently approved Banking and CBE Act to be signed into law later this year will mandate financial stability and price stability as the objectives of the CBE, and strengthen, inter alia, its governance, financial structure, operational and institutional autonomy. Staff supports the CBE's data-driven policy approach to anchor inflation expectations, which has so far delivered low and stable inflation. Staff welcomes the exchange rate flexibility evidenced since mid-May; continued flexibility will be an important shock absorber for Egypt.

**31. Staff supports the authorities' goal to rebuild official reserves as economic conditions normalize**. While Egypt's reserve adequacy remains above the relevant benchmarks, some rebuilding of reserve buffers is appropriate and prudent given the still heightened global uncertainty and the potential role of reserves as a backstop for additional financing needs. While accumulating reserves in a weak global environment with limited FX inflows could be challenging, the CBE should make every effort to rebuild its reserve buffers, particularly as these constraints dissipate and economic activity resumes in 2021.

**32. Staff welcomes the authorities' strong commitment to financial stability.** The ongoing close monitoring of financial sector conditions is essential to quickly identify and address any signs of stress that may arise. Staff supports the authorities' plans to wind down measures taken in response to the COVID-19 crisis as soon as conditions allow to avoid buildup of financial sector vulnerabilities.

**33. The forthcoming reform strategy for the NIB should provide for timebound actions while minimizing public sector costs.** Notwithstanding efforts in previous years to strengthen the institution's governance and oversight, further improvements remain critically important. Informed by the independent evaluation of the NIB's financial position, the strategy should address its envisaged mandate, business model and financial structure, and provide an implementation timetable with clear milestones. The NIB is currently not supervised by the CBE. However, should NIB continue to accept funds from the public (e.g., through issuance of savings certificates), transforming it into a licensed entity—following a thorough licensing process to ensure compliance with prudential requirements—would provide important safeguards.

**34. Progress on structural reforms is essential to unlock Egypt's higher growth potential.** The structural reforms to enhance SOE transparency, improve competition, and facilitate trade are critical for incentivizing private sector participation and will help strengthen governance and reduce corruption vulnerabilities. These efforts, when complemented by reforms to strengthen the social safety nets, will contribute to promote human capital and business investments and raise overall productivity. The reforms supported under this SBA will help set the stage to address the medium-term challenge of achieving and sustaining higher and more inclusive private-sector-led growth and job creation.

**35. Staff supports the authorities' request for a 12-month SBA.** Financing assurances for the next 12 months have been secured. The attached LOI and MEFP present a strong set of policies and the authorities' commitment to pursue the objectives of the program.

## Box 1. Egyptian Authorities' Response to the COVID-19 Crisis

**Containment measures:** The government has significantly expanded testing, set up hospitals for treatment as well as quarantine, stepped up the provision of necessary medical infrastructure and supplies, and suspended exports of personal protective equipment as well as legumes. The authorities have also introduced a nighttime curfew, suspended air travel, and closed schools, places of worship and most other places of public congregation. Banking and stock exchange hours were reduced. Civil servants are encouraged to work from home. The Health Ministry has announced a three-stage coronavirus management plan that contains required procedures for the gradual easing of restrictions.

**Policy response:** The government announced that EGP 100 billion would be allocated for fiscal, monetary, and financial sector responses.

- **Health sector support:** About EGP 8 billion has been allocated to support healthcare, including providing medical supplies and disbursing bonuses for medical staff working in quarantine hospitals and labs. Pay increases were also authorized for medical professionals. Treatment costs for COVID-19 have been capped in private hospitals.
- **Fiscal measures**
    - *Relief for vulnerable groups and irregular workers*. The coverage of the cash transfer programs—Takaful and Karama—has been expanded. Support for irregular workers in the most affected sectors will provide EGP 500 in monthly grants for 3 months.
    - *Relief for the industrial and tourism sectors*. Real estate tax relief has been provided for the industrial and tourism sectors; subsidy pay-out for exporters has been raised; discount on fuel price has been announced for the aviation sector; and energy costs have been lowered for the industrial sector.
    - *Tax relief, guarantees, and support measures for equity markets.* The current moratorium on the agricultural land tax has been extended for 2 years. The stamp duty on transactions and tax on dividends have been reduced. A capital gains tax has been postponed. EGP 3 billion government guarantee on loans for the tourism industry under the CBE's tourism sector initiative was announced.
- **Monetary and financial sector measures**
    - *Policy rate reduction by 300bps* to help support economic activity and alleviate pressures in domestic financial markets.
    - *Several measures to ensure liquidity for the most impacted sectors.* The preferential interest rates on loans for the tourism sector, industry and housing for low- and middle-income families were reduced. The CBE has also approved a credit guarantee of EGP 100 billion, backed by the CBE though Credit Guarantee Company, for up to 80 percent of loans at preferential rates to the manufacturing, agriculture and construction sectors. Firms in the tourism sector can access loans with a two-year grace period. Small projects impacted by COVID-19, especially in the industrial and labor-intensive sectors, can access loans of up to a year to secure the necessary liquidity for operational expenses during the crisis. The limit for electronic payments via mobile phones was raised substantially for individuals and corporations.
    - *Actions to reduce pressures on borrowers.* Repayments under existing credit facilities for all customers were automatically postponed for six months. The CBE also announced a debt relief initiative for non-performing individuals and corporates that, under certain rescheduling arrangements, enables the dismissal of lawsuits and removal from the blacklist in the CBE's credit registry system. Microlenders have been instructed by the Financial Regulatory Authority to prudently consider payment delays of up to 50 percent of monthly installments for struggling clients.
    - *Potential support for the stock market.* The CBE has also launched an EGP 20 billion stock purchase program, which has thus far remained minimally used.

## Box 2. Social Spending in Egypt

**The Egyptian government is committed to achieving the Sustainable Development Goals (SDGs) as reflected in their national strategy, "Sustainable Development Strategy: Egypt Vision 2030."** Egypt's SDG index, which tracks performance across all SDGs, is above the average for the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region but below the emerging market average. Despite significant progress to reduce poverty and improve health outcomes, challenges remain.

**Egypt's broad approach to social spending focuses on cash transfers, in-kind provisions, health, employment opportunities, maternal and child programs, housing projects, and public awareness.**

**Social Assistance**

**Egypt has made significant efforts to reduce poverty and inequality and improve the well-being of its citizens.** The main cash transfer program Takaful and Karama (targeting poor households with children, the elderly, and people with disabilities) have increased its coverage rapidly to 3.6 million households (around 14 million citizens). Beneficiaries are concentrated in the poorest regions and more than 85 percent of primary beneficiaries are women. The employment program Forsa focuses on youth economic empowerment through job placement, asset transfer, training and skills development as they graduate from the Takaful and Karama program. The National School Feeding Program supports children in rural community schools. The Sakan Karim program has improved home conditions in poor rural areas, including roofing, flooring, and water connections. Women are provided job opportunities through the microfinance program Mastoura and by providing more nurseries. Other programs are focused on maternal and infant care, reducing illiteracy among women, and increasing awareness about marriage, family planning and violence. Despite the significant progress, challenges remain to reduce poverty and inequality and further decrease the prevalence of stunting among children. The COVID-19 crisis will likely pose additional challenges and require decisive steps to alleviate the impact on the most vulnerable.

**Health Care**

**Egypt's 2014 constitution provides each citizen the right to universal healthcare.** In line with the constitution, the government aims to increase the insurance rate from 58 percent in 2013 to 100 percent by 2030. Egypt is expanding coverage and access to healthcare with support from the World Bank. In addition, the government is covering medical treatment expenses for the poor. In recent years, maternal and infant mortality rates have decreased significantly, and life expectancy is in line with the average of Egypt's peers. Facing one of the world's largest Hepatitis epidemics in 2014, Egypt achieved remarkable success in the reduction of the prevalence of Hepatitis C and plans to eliminate the disease by 2023. The presidential initiatives (2018–2020) aim to close the remaining gaps in areas such as Hepatitis C screening and treatment, early detection of non-communicable diseases, women's health, maternal and child health programs, reducing wait times for treatments, and access for the poor.

**COVID-19 Response**

**The government's focus is to contain COVID-19 and mitigate its health and social impact.** The government was already planning to improve the coverage and efficiency of the Takaful and Karama program with assistance from the World Bank. These efforts have taken on added urgency in the current crisis. Social assistance has been expanded with in-kind provisions to facilitate stay-at-home restrictions. Efforts also include providing isolated villages with food and sanitation kits. To mitigate the health impact, Egypt has set up a Command and Control Center for COVID-19 to align and coordinate the strategy and policies among local authorities and stakeholders. Triage hospitals were established in all 27 governorates for testing. Confirmed cases are being treated at isolated hospitals, with hotels being used for less severe cases. Testing has expanded to more than 34 lab centers around the country. Egypt's strong disease surveillance system and effective contact tracing efforts have received praise from the World Health Organization.

## Box 3. Exceptional Access Criteria

**While the environment under which the SBA would be implemented is subject to considerable uncertainty, staff assesses that Egypt meets all four criteria for exceptional access.**

**Criterion 1—***The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account resulting in a need for Fund financing that cannot be met within the normal limits.*

Egypt is facing exceptional balance of payments pressures arising from the unprecedented COVID-19 related disruptions to tourism, remittances and capital flows, with an estimated financing gap of $21.4 billion in FY2019/20 and FY2020/21. The need for exceptional access relates to Egypt's prior use of Fund resources. Egypt has outstanding purchases of 422 percent of quota under the EFF and 100 percent of quota under the RFI. Thus, the cumulative access limit (435 percent of quota) has already been exceeded. Moreover, the combined RFI and SBA purchases will cause the annual access limit (145 percent of quota) to be exceeded.

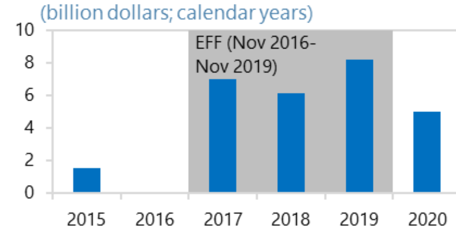
**Criterion 2—** *A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources***.**

Vulnerabilities arise from the elevated level of public debt (84 percent of GDP at the end of FY2018/19), gross financing needs (more than 30 percent of GDP), compounded by the impact on economic activity from the COVID-19 pandemic that temporarily affects growth and fiscal balances. While the COVID-19 shock will result in higher public debt than previously projected in FY2019/20 and FY2020/21, the primary surplus under the current baseline is expected to return to 2 percent of GDP from FY2021/22 and public debt is accordingly projected to resume its downward trajectory. The authorities are cognizant of debt risks and have made efforts to lengthen maturities in their treasury issuances and will continue to do so in the context of the proposed SBA. Additionally, several factors—including the high share of local currency debt held by domestic financial institutions, retention of market access, affirmation of credit ratings and a stable outlook by major ratings agencies since the COVID-19 crisis, and sizeable buffers coming into this crisis—help mitigate the risks. Overall, staff's assessment is that Egypt's debt is sustainable, but not with high probability. Safeguards, in the form of non-Fund external debt obligations are adequate for the SBA request. These exposures include the stock of Eurobonds (about $25 billion including the $5 billion issuance in May 2020), with the first maturity in 2022. The authorities have also secured agreements with all three official GCC bilateral creditors to rollover $13.4 billion of their deposits at the CBE coming due in the next 12 months. Bilateral financing expected during the program would further strengthen safeguards to the Fund.

**Criterion 3—***The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*

Egypt had favorable market access prior to the pandemic and has already re-established market access at the time of this program request with a $5 billion Eurobond issuance in May. This issuance—following the RFI and public statements regarding SBA discussions—is in line with the catalytic role of Fund

**Egypt: Eurobond Issuances**
(billion dollars; calendar years)




Source: CBE; IMF staff calculations; based on available data as of June 15, 2020.

### Box 3. Exceptional Access Criteria (concluded)

financing. The country also has a strong track record of maintaining investor confidence during times of temporary stress—market access was regained promptly following the 2016 crisis with total issuances of about $21 billion during 2017–19. Close engagement with the Fund—including in the context of this SBA—should help ensure the maintenance of a strong policy framework to support a solid rebound after the crisis, which should further reinforce investor confidence and ensure continued market access at a level adequate for Egypt to meet its Fund obligations.

**Criterion 4—***The policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.*

The authorities' strong program ownership and track record of implementation under the 2016–19 EFF was critical in stabilizing the economy, establishing credibility, and restoring confidence. The authorities' steadfast commitment to policies needed to support macroeconomic stability and more inclusive growth, including further progress on structural reforms, has been reinforced at the highest political level. With Fund support under the proposed SBA, the authorities intend to pursue all necessary policies to alleviate the BOP pressures and maintain economic and financial stability. Institution building to support strong policy frameworks is ongoing, including through capacity development support from the IMF. The government appears to have broad support to implement its policies. Managing the crisis in a way that minimizes the socio-economic impact will be important to maintain social support for the reforms.

## Table 1. Egypt: Selected Macroeconomic Indicators, 2017/18–2023/24 1/

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|---|---|
| | | | Proj. | Proj. | Proj. | Proj. | Proj. |
| Output and prices | | | | (percent change) | | | |
| Real GDP (market prices) | 5.3 | 5.6 | 2.0 | 2.0 | 6.5 | 5.3 | 5.3 |
| Consumer prices (end of period) | 14.4 | 9.4 | 6.2 | 9.0 | 8.5 | 8.0 | 7.5 |
| Consumer prices (period average) | 20.9 | 13.9 | 5.8 | 8.2 | 8.7 | 8.1 | 7.8 |
| Public finances 2/ | | | | (percent of GDP) | | | |
| Gross Debt | 92.7 | 83.8 | 88.0 | 93.3 | 88.3 | 84.5 | 80.8 |
| External | 19.2 | 17.9 | 19.8 | 23.8 | 21.8 | 21.0 | 19.8 |
| Domestic | 73.5 | 65.9 | 68.2 | 69.5 | 66.4 | 63.5 | 61.0 |
| Budget sector 3/ | | | | | | | |
| Revenue and grants | 18.5 | 17.7 | 17.0 | 17.8 | 18.2 | 18.7 | 19.0 |
| Expenditure (incl. net acquisition of financial assets) | 28.3 | 25.8 | 25.3 | 26.5 | 24.3 | 23.7 | 23.9 |
| *Of which:* Energy subsidies | 3.4 | 1.9 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 |
| Overall balance | -9.7 | -8.1 | -8.3 | -8.7 | -6.1 | -5.0 | -5.0 |
| Overall balance, excl. grants | -9.8 | -8.1 | -8.4 | -8.7 | -6.1 | -5.1 | -5.0 |
| Primary balance 4/ | 0.2 | 1.9 | 1.4 | 0.5 | 2.0 | 2.0 | 2.0 |
| Monetary sector | | | | (percent change) | | | |
| Credit to the private sector | 10.1 | 12.4 | 13.5 | 13.5 | 14.0 | 15.0 | 15.0 |
| Reserve money | 24.0 | -4.5 | 15.5 | 13.0 | 13.0 | 13.0 | 13.0 |
| Broad money (M2) | 18.5 | 11.8 | 13.3 | 12.4 | 12.2 | 11.0 | 13.6 |
| Treasury bill rate, 3 month (average, in percent) | 18.8 | 18.6 | … | … | … | … | … |
| External sector | | | | (percent of GDP, unless otherwise indicated) | | | |
| Exports of goods (in US$, percentage change) | 18.9 | 10.3 | -9.0 | -11.2 | 19.8 | 9.1 | 5.7 |
| Imports of goods (in US$, percentage change) | 6.9 | 5.4 | -12.3 | -18.6 | 15.3 | 17.8 | 13.9 |
| Merchandise trade balance | -14.9 | -12.6 | -9.1 | -6.9 | -7.3 | -8.6 | -9.7 |
| Current account | -2.4 | -3.6 | -4.2 | -4.5 | -3.2 | -2.4 | -2.3 |
| Capital and financial account (incl. errors and omissions) | 4.0 | 1.3 | -0.7 | 2.1 | 3.6 | 2.9 | 4.3 |
| Foreign direct investment (net, in billions of US$) | 7.4 | 7.9 | 8.0 | 5.5 | 8.3 | 11.4 | 15.5 |
| External debt 5/ | 37.4 | 34.1 | 34.4 | 38.0 | 34.9 | 31.6 | 28.9 |
| Gross international reserves (in billions of US$) | 43.5 | 43.9 | 36.8 | 40.1 | 40.7 | 41.5 | 45.1 |
| In months of next year's imports of goods and services | 6.7 | 7.6 | 8.0 | 7.4 | 6.4 | 5.8 | 5.8 |
| In percent of short-term external debt 6/ | 139.1 | 167.6 | 116.6 | 114.6 | 109.5 | 102.4 | 111.6 |
| Financing gap (in billions of US$) | 0.0 | 0.0 | -9.2 | -12.2 | 0.0 | 0.0 | 0.0 |
| Rapid Financing Instrument purchase | 0.0 | 0.0 | -2.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stand-By Arrangement purchases | 0.0 | 0.0 | -2.0 | -3.2 | 0.0 | 0.0 | 0.0 |
| Other prospective financing | 0.0 | 0.0 | -4.5 | -8.9 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | |
| Exchange rate (EGP/$, ep) | 17.9 | 16.7 | … | … | … | … | … |
| Nominal GDP (in billions of Egyptian pounds) | 4,437 | 5,322 | 5,743 | 6,320 | 7,326 | 8,346 | 9,475 |
| Nominal GDP (in billions of US$) | 250 | 302 | … | … | … | … | … |
| GDP per capita (in US$) | 2,580 | 3,047 | … | … | … | … | … |
| Unemployment rate (period average, percent) | 10.9 | 8.6 | … | … | … | … | … |
| Population (in millions) | 97.0 | 99.2 | 101.5 | 103.8 | 106.2 | 108.7 | 111.2 |

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of June 15, 2020.
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, 2017/18–2024/25
(In billions of US$, unless otherwise indicated)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Current account | -6.0 | -10.9 | -14.8 | -16.2 | -12.0 | -9.6 | -10.0 | -10.9 |
| Balance on goods and services | -26.2 | -25.0 | -22.2 | -20.1 | -17.6 | -16.0 | -17.7 | -19.9 |
| Exports of goods and services | 47.3 | 52.9 | 46.7 | 34.7 | 47.4 | 60.3 | 68.7 | 76.2 |
| Imports of goods and services | -73.5 | -77.9 | -69.0 | -54.9 | -65.0 | -76.3 | -86.5 | -96.1 |
| Trade balance | -37.3 | -38.0 | -32.4 | -24.5 | -27.2 | -34.4 | -41.7 | -48.6 |
| Oil and gas | -3.7 | 0.0 | 1.9 | 2.0 | 0.8 | -0.1 | -1.6 | -3.3 |
| Other | -33.6 | -38.0 | -34.4 | -26.5 | -28.0 | -34.3 | -40.0 | -45.3 |
| Exports of goods | 25.8 | 28.5 | 25.9 | 23.0 | 27.6 | 30.1 | 31.8 | 33.2 |
| Oil and gas | 8.8 | 11.6 | 10.5 | 8.3 | 7.7 | 7.3 | 7.3 | 7.1 |
| Other | 17.1 | 16.9 | 15.4 | 14.7 | 19.9 | 22.8 | 24.5 | 26.1 |
| Imports of goods | -63.1 | -66.5 | -58.4 | -47.5 | -54.8 | -64.5 | -73.4 | -81.8 |
| Oil and gas | -12.5 | -11.5 | -8.6 | -6.3 | -6.9 | -7.4 | -8.9 | -10.4 |
| Other | -50.6 | -55.0 | -49.8 | -41.1 | -47.9 | -57.1 | -64.5 | -71.4 |
| Services (net) | 11.1 | 13.0 | 10.2 | 4.3 | 9.6 | 18.4 | 23.9 | 28.7 |
| Receipts | 21.5 | 24.4 | 20.8 | 11.7 | 19.8 | 30.2 | 37.0 | 43.0 |
| *Of which:* Tourism receipts | 9.8 | 12.6 | 10.0 | 2.7 | 8.8 | 16.7 | 21.8 | 26.1 |
| *Of which:* Suez canal receipts | 5.7 | 5.7 | 5.2 | 4.9 | 5.3 | 5.7 | 6.0 | 6.3 |
| Payments | -10.4 | -11.4 | -10.6 | -7.4 | -10.2 | -11.8 | -13.1 | -14.3 |
| *Of which* : Transportation | -1.5 | -1.8 | -1.6 | -1.3 | -1.6 | -1.9 | -2.1 | -2.3 |
| *Of which:* Travel | -2.5 | -2.9 | -2.8 | -0.8 | -2.6 | -2.8 | -3.0 | -3.2 |
| Primary income (net) | -6.3 | -11.0 | -14.5 | -15.1 | -16.5 | -16.7 | -16.5 | -16.3 |
| Receipts | 0.8 | 1.0 | 1.2 | 1.2 | 1.3 | 1.3 | 1.4 | 1.5 |
| Payments | -7.1 | -12.0 | -15.7 | -16.3 | -17.8 | -18.0 | -17.9 | -17.8 |
| Transfers | 26.5 | 25.1 | 21.9 | 19.1 | 22.1 | 23.1 | 24.2 | 25.3 |
| Official grants | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |
| Private remittances | 26.3 | 24.8 | 21.6 | 18.7 | 21.7 | 22.7 | 23.8 | 25.0 |
| Capital and financial account | 13.1 | 4.2 | 1.3 | 7.6 | 13.3 | 11.7 | 18.2 | 22.9 |
| Medium- and long-term loans (net) | 1.0 | 1.2 | 1.0 | 0.6 | 0.9 | 0.5 | 0.2 | 0.4 |
| Drawings | 3.3 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.7 | 3.8 |
| Amortization | 2.3 | 2.5 | 2.7 | 3.1 | 2.8 | 3.2 | 3.5 | 3.4 |
| FDI (net) | 7.4 | 7.9 | 8.0 | 5.5 | 8.3 | 11.4 | 15.5 | 17.1 |
| Portfolio investment (net) | 12.1 | 4.1 | -7.5 | 3.5 | 7.0 | 8.0 | 7.4 | 8.4 |
| Commercial banks' NFA | 2.9 | -1.7 | 6.0 | 1.3 | 3.2 | 3.7 | -0.5 | 0.0 |
| Other (including short-term capital and central bank deposits) | -10.1 | -7.1 | -6.2 | -3.3 | -6.2 | -11.9 | -4.3 | -3.1 |
| Errors and omissions (net) | -3.2 | -0.1 | -3.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 4.0 | -6.8 | -17.3 | -8.6 | 1.3 | 2.2 | 8.2 | 12.0 |
| Financing | -4.0 | 6.8 | 8.0 | -3.5 | -1.3 | -2.2 | -8.2 | -12.0 |
| Reserves ("-" indicates increase) | -12.8 | 0.2 | 7.1 | -3.3 | -0.6 | -0.9 | -3.5 | -6.0 |
| Change in arrears ("-" indicates decrease) 1/ | -1.2 | -0.2 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net use of IMF resources | 5.3 | 2.0 | 2.0 | -0.2 | -0.7 | -1.3 | -4.6 | -6.0 |
| Other financing | 4.8 | 4.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | -9.2 | -12.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rapid Financing Instrument purchase | 0.0 | 0.0 | -2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stand-By Arrangement purchases | 0.0 | 0.0 | -2.0 | -3.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other prospective financing | 0.0 | 0.0 | -4.5 | -8.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | |
| Current account excluding grants | -6.2 | -11.2 | -15.1 | -16.5 | -12.4 | -9.9 | -10.4 | -11.3 |
| Terms of trade (percent change) | 2.7 | -0.2 | -3.2 | -0.4 | 1.9 | 1.3 | 0.6 | 0.3 |
| Gross international reserves (end of period) | 43.5 | 43.9 | 36.8 | 40.1 | 40.7 | 41.5 | 45.1 | 51.0 |
| In months of next year's imports of G&S | 6.7 | 7.6 | 8.0 | 7.4 | 6.4 | 5.8 | 5.8 | 5.9 |
| In percent of ARA metric (floating) | 153 | 138 | 111 | 119 | 109 | 102 | 103 | 109 |
| External debt | 92.6 | 108.7 | 119.6 | 126.7 | 127.3 | 122.6 | 119.8 | 119.3 |
| External debt service | 13.2 | 13.4 | 14.0 | 15.3 | 19.7 | 26.1 | 23.5 | 22.3 |
| External debt service (in percent of exports of GNFS) | 28.0 | 25.3 | 30.0 | 44.0 | 41.6 | 43.3 | 34.2 | 29.3 |
| Stock of external arrears | 1.2 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real effective exchange rate (period average, percentage change) | -12.9 | 14.9 | … | … | … | … | … | … |

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of June 15, 2020.

1/ EGPC arrears.

## Table 2b. Egypt: Balance of Payments, 2017/18–2024/25

(In percent of GDP, unless otherwise indicated)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Current account | -2.4 | -3.6 | -4.2 | -4.5 | -3.2 | -2.4 | -2.3 | -2.4 |
| Balance on goods and services | -10.5 | -8.3 | -6.2 | -5.6 | -4.7 | -4.0 | -4.2 | -4.3 |
| Exports of goods and services | 18.9 | 17.5 | 13.1 | 9.7 | 12.6 | 15.0 | 16.1 | 16.6 |
| Imports of goods and services | -29.4 | -25.8 | -19.4 | -15.4 | -17.3 | -19.0 | -20.2 | -20.9 |
| Trade balance | -14.9 | -12.6 | -9.1 | -6.9 | -7.3 | -8.6 | -9.7 | -10.6 |
| Oil and gas | -1.5 | 0.0 | 0.5 | 0.6 | 0.2 | 0.0 | -0.4 | -0.7 |
| Other | -13.4 | -12.6 | -9.7 | -7.4 | -7.5 | -8.6 | -9.4 | -9.9 |
| Exports | 10.3 | 9.4 | 7.3 | 6.4 | 7.3 | 7.5 | 7.4 | 7.2 |
| Oil and gas | 3.5 | 3.8 | 2.9 | 2.3 | 2.0 | 1.8 | 1.7 | 1.5 |
| Other | 6.8 | 5.6 | 4.3 | 4.1 | 5.3 | 5.7 | 5.7 | 5.7 |
| Imports | -25.2 | -22.0 | -16.4 | -13.3 | -14.6 | -16.1 | -17.2 | -17.8 |
| Oil and gas | -5.0 | -3.8 | -2.4 | -1.8 | -1.8 | -1.9 | -2.1 | -2.3 |
| Other | -20.2 | -18.2 | -14.0 | -11.5 | -12.8 | -14.2 | -15.1 | -15.6 |
| Services (net) | 4.4 | 4.3 | 2.9 | 1.2 | 2.6 | 4.6 | 5.6 | 6.2 |
| Receipts | 8.6 | 8.1 | 5.8 | 3.3 | 5.3 | 7.5 | 8.7 | 9.4 |
| *Of which:* Tourism receipts | 3.9 | 4.2 | 2.8 | 0.8 | 2.3 | 4.2 | 5.1 | 5.7 |
| *Of which:* Suez canal dues | 2.3 | 1.9 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Payments | -4.1 | -3.8 | -3.0 | -2.1 | -2.7 | -2.9 | -3.1 | -3.1 |
| *Of which* : Transportation | -0.6 | -0.6 | -0.5 | -0.4 | -0.4 | -0.5 | -0.5 | -0.5 |
| *Of which:* Travel | -1.0 | -1.0 | -0.8 | -0.2 | -0.7 | -0.7 | -0.7 | -0.7 |
| Primary income (net) | -2.5 | -3.6 | -4.1 | -4.2 | -4.4 | -4.2 | -3.9 | -3.5 |
| Receipts | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Payments | -2.8 | -4.0 | -4.4 | -4.6 | -4.7 | -4.5 | -4.2 | -3.9 |
| Transfers | 10.6 | 8.3 | 6.2 | 5.3 | 5.9 | 5.8 | 5.7 | 5.5 |
| Official grants | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Private remittances | 10.5 | 8.2 | 6.1 | 5.3 | 5.8 | 5.7 | 5.6 | 5.4 |
| Capital and financial account | 5.2 | 1.4 | 0.4 | 2.1 | 3.6 | 2.9 | 4.3 | 5.0 |
| Medium- and long-term loans (net) | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Drawings | 1.3 | 1.2 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 |
| Amortization | 0.9 | 0.8 | 0.8 | 0.9 | 0.7 | 0.8 | 0.8 | 0.7 |
| FDI (net) | 3.0 | 2.6 | 2.2 | 1.5 | 2.2 | 2.8 | 3.6 | 3.7 |
| Portfolio investment (net) | 4.8 | 1.4 | -2.1 | 1.0 | 1.9 | 2.0 | 1.7 | 1.8 |
| Commercial banks' NFA | 1.2 | -0.6 | 1.7 | 0.4 | 0.9 | 0.9 | -0.1 | 0.0 |
| Other (including short-term capital and central bank deposits) | -4.0 | -2.4 | -1.7 | -0.9 | -1.6 | -3.0 | -1.0 | -0.7 |
| Errors and omissions (net) | -1.3 | 0.0 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 1.6 | -2.3 | -4.8 | -2.4 | 0.3 | 0.5 | 1.9 | 2.6 |
| Financing | -1.6 | 2.3 | 2.3 | -1.0 | -0.3 | -0.5 | -1.9 | -2.6 |
| Reserves ("-" indicates increase) | -5.1 | 0.1 | 2.0 | -0.9 | -0.2 | -0.2 | -0.8 | -1.3 |
| Change in arrears ("-" indicates decrease) 1/ | -0.5 | -0.1 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net use of Fund resources | 2.1 | 0.7 | 0.6 | -0.1 | -0.2 | -0.3 | -1.1 | -1.3 |
| Other financing | 1.9 | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | -2.6 | -3.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rapid Financing Instrument purchase | 0.0 | 0.0 | -0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stand-By Arrangement Purchaes | 0.0 | 0.0 | -0.6 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other prospective financing | 0.0 | 0.0 | -1.3 | -2.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | |
| Current account excluding grants | -2.5 | -3.7 | -4.3 | -4.6 | -3.3 | -2.5 | -2.4 | -2.5 |
| Gross international reserves (end of period) | 17.6 | 13.8 | 10.6 | 12.0 | 11.2 | 10.7 | 10.9 | 11.4 |
| External debt | 37.4 | 34.1 | 34.4 | 38.0 | 34.9 | 31.6 | 28.9 | 26.7 |
| External debt service | 5.3 | 4.4 | 3.9 | 4.3 | 5.3 | 6.5 | 5.5 | 4.9 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of June 15, 2020.

1/ EGPC arrears.

## Table 3a. Egypt: Budget Sector Operations, 2017/18–2024/25 1/

(In billions of Egyptian pounds, unless otherwise indicated)

| | 2017/18 | 2018/19 | 2019/20 Proj. | 2020/21 Proj. | 2021/22 Proj. | 2022/23 Proj. | 2023/24 Proj. | 2024/25 Proj. |
|---|---|---|---|---|---|---|---|---|
| Revenue and grants | 821.1 | 941.9 | 975.3 | 1,125.3 | 1,333.6 | 1,556.7 | 1,798.5 | 2,089.8 |
| Tax revenue | 629.3 | 736.1 | 716.1 | 807.7 | 965.4 | 1,137.2 | 1,322.3 | 1,547.6 |
| Income and property | 258.6 | 309.0 | 302.6 | 347.9 | 413.1 | 493.4 | 579.5 | 684.3 |
| Personal income tax | 64.6 | 87.3 | 101.2 | 111.8 | 136.8 | 158.8 | 187.3 | 223.3 |
| Corporate income tax | 142.7 | 162.8 | 147.0 | 165.2 | 201.7 | 234.8 | 276.6 | 324.9 |
| EGPC | 52.0 | 42.5 | 29.8 | 41.6 | 48.2 | 54.9 | 62.4 | 71.0 |
| Other | 90.7 | 120.2 | 117.2 | 123.6 | 153.5 | 179.9 | 214.2 | 253.9 |
| Property | 51.4 | 58.9 | 54.5 | 70.9 | 74.6 | 99.7 | 115.7 | 136.1 |
| Goods and services | 294.3 | 350.6 | 346.1 | 398.3 | 477.4 | 553.9 | 636.8 | 740.1 |
| Oil excises | 40.5 | 41.5 | 25.9 | 16.8 | 24.4 | 32.8 | 40.3 | 50.9 |
| VAT and nonoil excises | 253.8 | 309.1 | 320.2 | 381.6 | 453.0 | 521.1 | 596.5 | 689.3 |
| International trade | 37.9 | 42.0 | 37.0 | 33.2 | 42.2 | 52.7 | 63.7 | 75.0 |
| Other taxes | 38.5 | 34.5 | 30.3 | 28.2 | 32.7 | 37.3 | 42.3 | 48.2 |
| Nontax revenue | 188.6 | 203.2 | 254.1 | 315.4 | 365.6 | 416.5 | 472.9 | 538.5 |
| Oil-related nontax revenue | 19.8 | 15.4 | 24.9 | 21.8 | 25.2 | 28.8 | 32.7 | 37.2 |
| Other nontax revenues | 156.2 | 187.8 | 229.3 | 293.6 | 340.4 | 387.8 | 440.2 | 501.3 |
| *Of which:* interest income | 3.3 | 6.0 | 2.4 | 2.4 | 2.7 | 3.1 | 3.5 | 4.0 |
| Grants | 3.2 | 2.6 | 5.1 | 2.2 | 2.6 | 2.9 | 3.3 | 3.8 |
| Expenditure | 1,244.4 | 1,369.9 | 1,446.4 | 1,661.7 | 1,756.9 | 1,952.6 | 2,242.0 | 2,529.3 |
| Wages and other remunerations | 240.1 | 266.1 | 294.3 | 335.0 | 373.3 | 425.3 | 487.9 | 560.5 |
| Purchases of goods and services | 53.1 | 62.4 | 70.1 | 100.2 | 113.9 | 139.8 | 163.7 | 191.4 |
| Interest | 437.4 | 533.0 | 555.1 | 579.5 | 588.1 | 585.3 | 661.2 | 685.0 |
| Domestic | 415.2 | 497.8 | 524.7 | 540.3 | 531.8 | 522.2 | 589.2 | 600.0 |
| External | 22.2 | 35.2 | 30.4 | 39.2 | 56.3 | 63.1 | 72.0 | 85.0 |
| Subsidies, grants, and social benefits | 329.4 | 287.5 | 271.1 | 326.3 | 369.8 | 417.0 | 464.0 | 527.6 |
| Energy subsidies | 149.4 | 100.7 | 37.0 | 28.2 | 29.5 | 33.6 | 38.2 | 43.4 |
| *Of which:* fuel subsidy | 120.8 | 84.7 | 37.0 | 28.2 | 29.5 | 33.6 | 38.2 | 43.4 |
| Food subsidies 2/ | 81.2 | 87.6 | 87.6 | 85.2 | 101.9 | 108.2 | 114.9 | 117.8 |
| Transfer to SIF | 52.5 | 48.5 | 71.2 | 130.0 | 137.3 | 145.0 | 153.1 | 161.7 |
| Other | 46.3 | 50.7 | 75.3 | 82.9 | 101.1 | 130.2 | 157.8 | 204.7 |
| Other current | 74.8 | 77.6 | 90.4 | 105.0 | 121.7 | 138.7 | 157.4 | 179.3 |
| Investment | 109.7 | 143.3 | 165.4 | 215.7 | 190.0 | 246.5 | 307.8 | 385.5 |
| Cash balance | -423.3 | -428.0 | -471.1 | -536.3 | -423.3 | -395.9 | -443.4 | -439.5 |
| Net acquisition of financial assets | 9.3 | 2.0 | 5.0 | 10.7 | 20.0 | 22.8 | 25.9 | 29.5 |
| Overall balance | -432.6 | -430.0 | -476.1 | -547.0 | -443.3 | -418.7 | -469.3 | -468.9 |
| Financing | 432.6 | 430.0 | 476.1 | 547.0 | 443.3 | 418.7 | 469.3 | 468.9 |
| Net domestic | 228.5 | 299.8 | 285.3 | 361.8 | 437.9 | 383.6 | 453.2 | 400.1 |
| Bank | 162.7 | 245.4 | 587.7 | 350.5 | 422.9 | 371.4 | 436.7 | 387.7 |
| Nonbank | 65.8 | 54.3 | -302.4 | 11.4 | 15.0 | 12.2 | 16.5 | 12.4 |
| Net external | 204.1 | 130.2 | 42.3 | -30.9 | 5.4 | 35.1 | 16.1 | 68.8 |
| Financing gap | 0.0 | 0.0 | 148.5 | 216.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which IMF* | | | 77.5 | 56.7 | | | | |
| *of which other* | | | 72.6 | 159.4 | | | | |
| Memorandum items: | | | | | | | | |
| Primary balance 3/ | 10.9 | 103.1 | 79.0 | 32.5 | 144.8 | 166.6 | 191.9 | 216.1 |
| Oil balance 4/ | -37.2 | -1.3 | 43.6 | 52.0 | 68.4 | 82.9 | 97.2 | 115.6 |
| Financing gap (in billions of US$) | 0.0 | 0.0 | 9.2 | 12.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross budget sector debt 5/ | 4,315 | 4,802 | 5,450 | 6,355 | 7,017 | 7,696 | 8,422 | 9,163 |
| Nominal GDP (in billions of Egyptian pounds) | 4,437 | 5,322 | 5,743 | 6,320 | 7,326 | 8,346 | 9,475 | 10,789 |

Sources: Ministry of Finance; and IMF staff estimates; based on available data as of June 15, 2020.

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, 2017/18–2024/25 1/
(In percent of GDP)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Revenue and grants | 18.5 | 17.7 | 17.0 | 17.8 | 18.2 | 18.7 | 19.0 | 19.4 |
| Tax revenue | 14.2 | 13.8 | 12.5 | 12.8 | 13.2 | 13.6 | 14.0 | 14.3 |
| Income and corporate tax | 5.8 | 5.8 | 5.3 | 5.5 | 5.6 | 5.9 | 6.1 | 6.3 |
| Personal income tax | 1.5 | 1.6 | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.1 |
| Corporate income tax | 3.2 | 3.1 | 2.6 | 2.6 | 2.8 | 2.8 | 2.9 | 3.0 |
| EGPC | 1.2 | 0.8 | 0.5 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Other | 2.0 | 2.3 | 2.0 | 2.0 | 2.1 | 2.2 | 2.3 | 2.4 |
| Property | 1.2 | 1.1 | 0.9 | 1.1 | 1.0 | 1.2 | 1.2 | 1.3 |
| Goods and services | 6.6 | 6.6 | 6.0 | 6.3 | 6.5 | 6.6 | 6.7 | 6.9 |
| Oil excises | 0.9 | 0.8 | 0.5 | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 |
| VAT and nonoil excises | 5.7 | 5.8 | 5.6 | 6.0 | 6.2 | 6.2 | 6.3 | 6.4 |
| International trade | 0.9 | 0.8 | 0.6 | 0.5 | 0.6 | 0.6 | 0.7 | 0.7 |
| Other taxes | 0.9 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Nontax revenue | 4.3 | 3.8 | 4.4 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Oil-related nontax revenue | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other nontax revenues | 3.5 | 3.5 | 4.0 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| *Of which:* interest income | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure | 28.0 | 25.7 | 25.2 | 26.3 | 24.0 | 23.4 | 23.7 | 23.4 |
| Wages and other remunerations | 5.4 | 5.0 | 5.1 | 5.3 | 5.1 | 5.1 | 5.1 | 5.2 |
| Purchases of goods and services | 1.2 | 1.2 | 1.2 | 1.6 | 1.6 | 1.7 | 1.7 | 1.8 |
| Interest | 9.9 | 10.0 | 9.7 | 9.2 | 8.0 | 7.0 | 7.0 | 6.3 |
| Domestic | 9.4 | 9.4 | 9.1 | 8.5 | 7.3 | 6.3 | 6.2 | 5.6 |
| External | 0.5 | 0.7 | 0.5 | 0.6 | 0.8 | 0.8 | 0.8 | 0.8 |
| Subsidies, grants and social benefits | 7.4 | 5.4 | 4.7 | 5.2 | 5.0 | 5.0 | 4.9 | 4.9 |
| Energy subsidies | 3.4 | 1.9 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| *Of which:* fuel subsidy | 2.7 | 1.6 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Food subsidies 2/ | 1.8 | 1.6 | 1.5 | 1.3 | 1.4 | 1.3 | 1.2 | 1.1 |
| Transfers to SIF | 1.2 | 0.9 | 1.2 | 2.1 | 1.9 | 1.7 | 1.6 | 1.5 |
| Other | 1.0 | 1.0 | 1.3 | 1.3 | 1.4 | 1.6 | 1.7 | 1.9 |
| Other current | 1.7 | 1.5 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Investment | 2.5 | 2.7 | 2.9 | 3.4 | 2.6 | 3.0 | 3.2 | 3.6 |
| Cash balance | -9.5 | -8.0 | -8.2 | -8.5 | -5.8 | -4.7 | -4.7 | -4.1 |
| Net acquisition of financial assets | 0.2 | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Overall balance | -9.7 | -8.1 | -8.3 | -8.7 | -6.1 | -5.0 | -5.0 | -4.3 |
| Financing | 9.7 | 8.1 | 8.3 | 8.7 | 6.1 | 5.0 | 5.0 | 4.3 |
| Net domestic | 5.1 | 5.6 | 5.0 | 5.7 | 6.0 | 4.6 | 4.8 | 3.7 |
| Bank | 3.7 | 4.6 | 10.2 | 5.5 | 5.8 | 4.4 | 4.6 | 3.6 |
| Nonbank | 1.5 | 1.0 | -5.3 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 |
| Net external | 4.6 | 2.4 | 0.7 | -0.5 | 0.1 | 0.4 | 0.2 | 0.6 |
| Financing gap | 0.0 | 0.0 | 2.6 | 3.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which IMF* | | | 1.3 | 0.9 | | | | |
| *of which other* | | | 1.3 | 2.5 | | | | |
| Memorandum items: | | | | | | | | |
| Primary balance 3/ | 0.2 | 1.9 | 1.4 | 0.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Oil balance 4/ | -0.8 | 0.0 | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 1.1 |
| Gross budget sector debt 5/ | 97.3 | 90.2 | 94.9 | 100.6 | 95.8 | 92.2 | 88.9 | 84.9 |

Sources: Ministry of Finance; and IMF staff estimates; based on available data as of June 15, 2020.

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, 2017/18–2024/25 1/

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (In billions of Egyptian pounds) | | | | | | | |
| Revenue and grants | 918.4 | 1,070.8 | 1,125.9 | 1,271.1 | 1,487.8 | 1,728.7 | 1,993.8 | 2,312.2 |
| Tax revenue | 629.3 | 736.1 | 716.1 | 807.7 | 965.4 | 1,137.2 | 1,322.3 | 1,547.6 |
| Income and property | 258.6 | 309.0 | 302.6 | 347.9 | 413.1 | 493.4 | 579.5 | 684.3 |
| Personal income tax | 64.6 | 87.3 | 101.2 | 111.8 | 136.8 | 158.8 | 187.3 | 223.3 |
| Corporate income tax | 142.7 | 162.8 | 147.0 | 165.2 | 201.7 | 234.8 | 276.6 | 324.9 |
| EGPC | 52.0 | 42.5 | 29.8 | 41.6 | 48.2 | 54.9 | 62.4 | 71.0 |
| Other | 90.7 | 120.2 | 117.2 | 123.6 | 153.5 | 179.9 | 214.2 | 253.9 |
| Goods and services | 294.3 | 350.6 | 346.1 | 398.3 | 477.4 | 553.9 | 636.8 | 740.1 |
| Oil excises | 40.5 | 41.5 | 25.9 | 16.8 | 24.4 | 32.8 | 40.3 | 50.9 |
| VAT and nonoil excises | 253.8 | 309.1 | 320.2 | 381.6 | 453.0 | 521.1 | 596.5 | 689.3 |
| International trade taxes | 37.9 | 42.0 | 37.0 | 33.2 | 42.2 | 52.7 | 63.7 | 75.0 |
| Other taxes | 38.5 | 34.5 | 30.3 | 28.2 | 32.7 | 37.3 | 42.3 | 48.2 |
| Nontax revenue | 285.9 | 332.1 | 404.8 | 461.1 | 519.8 | 588.5 | 668.1 | 760.8 |
| *Of which:* Interest income | 15.0 | 9.4 | 9.6 | 12.6 | 15.2 | 18.0 | 18.0 | 18.0 |
| Grants | 3.2 | 2.6 | 5.1 | 2.2 | 2.6 | 2.9 | 3.3 | 3.8 |
| Expenditure | 1,336.0 | 1,465.1 | 1,570.6 | 1,788.1 | 1,866.8 | 2,092.1 | 2,372.5 | 2,717.4 |
| Wages and other remunerations | 239.1 | 268.5 | 297.1 | 338.1 | 376.9 | 429.4 | 492.5 | 565.8 |
| Purchases of goods and services | 48.3 | 63.2 | 71.1 | 101.3 | 115.0 | 141.0 | 165.0 | 192.7 |
| Interest | 415.1 | 469.7 | 527.3 | 557.5 | 544.0 | 555.5 | 595.9 | 649.0 |
| Domestic interest | 392.9 | 439.3 | 496.9 | 518.3 | 487.7 | 492.3 | 523.9 | 563.9 |
| External interest | 22.2 | 30.4 | 30.4 | 39.2 | 56.3 | 63.2 | 72.0 | 85.1 |
| Subsidies, grants, and social benefits | 455.5 | 442.4 | 418.8 | 470.0 | 518.6 | 580.5 | 653.3 | 741.5 |
| Other current | 72.3 | 77.9 | 90.8 | 105.4 | 122.1 | 139.1 | 157.9 | 181.8 |
| Investment | 105.7 | 143.5 | 165.5 | 215.8 | 190.2 | 246.6 | 308.0 | 386.7 |
| Unidentified Measures | | | | | | | | |
| Net acquisition of financial assets | 5.4 | -1.2 | 2.7 | 8.2 | 17.5 | 21.7 | 24.8 | 28.3 |
| Overall balance | -423.0 | -393.1 | -447.3 | -525.2 | -396.5 | -385.1 | -403.5 | -433.5 |
| Financing | 423.0 | 393.1 | 447.3 | 525.2 | 396.5 | 385.1 | 403.5 | 433.5 |
| Net domestic | 218.9 | 262.9 | 256.5 | 340.0 | 391.1 | 350.1 | 387.4 | 364.7 |
| Bank | 146.1 | 366.6 | 251.5 | 332.0 | 381.8 | 339.5 | 375.4 | 351.1 |
| Nonbank | 72.8 | -103.7 | 5.0 | 8.0 | 9.3 | 10.6 | 12.0 | 13.7 |
| Net external | 204.1 | 130.2 | 42.3 | 105.5 | 5.4 | 35.1 | 16.1 | 68.8 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 148.5 | 216.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which IMF* | | | 77.5 | 56.7 | | | | |
| *of which other* | | | 72.6 | 159.4 | | | | |
| | (In percent of GDP, unless otherwise indicated) | | | | | | | |
| Revenue and grants | 20.7 | 20.1 | 19.6 | 20.1 | 20.3 | 20.7 | 21.0 | 21.4 |
| Tax revenue | 14.2 | 13.8 | 12.5 | 12.8 | 13.2 | 13.6 | 14.0 | 14.3 |
| Nontax revenue | 6.4 | 6.2 | 7.0 | 7.3 | 7.1 | 7.1 | 7.1 | 7.1 |
| Grants | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure | 30.1 | 27.5 | 27.3 | 28.3 | 25.5 | 25.1 | 25.0 | 25.2 |
| Wages and other remunerations | 5.4 | 5.0 | 5.2 | 5.3 | 5.1 | 5.1 | 5.2 | 5.2 |
| Purchases of goods and services | 1.1 | 1.2 | 1.2 | 1.6 | 1.6 | 1.7 | 1.7 | 1.8 |
| Interest | 9.4 | 8.8 | 9.2 | 8.8 | 7.4 | 6.7 | 6.3 | 6.0 |
| Subsidies, grants, and social benefits | 10.3 | 8.3 | 7.3 | 7.4 | 7.1 | 7.0 | 6.9 | 6.9 |
| Other current | 1.6 | 1.5 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Investment | 2.4 | 2.7 | 2.9 | 3.4 | 2.6 | 3.0 | 3.3 | 3.6 |
| Net acquisition of financial assets | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 |
| Financing | 9.5 | 7.4 | 7.8 | 8.3 | 5.4 | 4.6 | 4.3 | 4.0 |
| Net domestic | 4.9 | 4.9 | 4.5 | 5.4 | 5.3 | 4.2 | 4.1 | 3.4 |
| Bank | 3.3 | 6.9 | 4.4 | 5.3 | 5.2 | 4.1 | 4.0 | 3.3 |
| Nonbank | 1.6 | -1.9 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Net external | 4.6 | 2.4 | 0.7 | 1.7 | 0.1 | 0.4 | 0.2 | 0.6 |
| Financing gap | 0.0 | 0.0 | 2.6 | 3.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| *of which IMF* | | | 1.3 | 0.9 | | | | |
| *of which other* | | | 1.3 | 2.5 | | | | |
| Memorandum items: | | | | | | | | |
| Primary balance | -0.2 | 1.4 | 1.4 | 0.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Gross debt | 92.7 | 83.8 | 88.0 | 93.3 | 88.3 | 84.5 | 80.8 | 76.9 |
| Gross debt (in billions of EGP) | 4,111 | 4,460 | 5,053 | 5,895 | 6,466 | 7,050 | 7,654 | 8,300 |
| Nominal GDP (in billions of EGP) | 4,437 | 5,322 | 5,743 | 6,320 | 7,326 | 8,346 | 9,475 | 10,789 |

Sources: Ministry of Finance; and IMF staff estimates; based on available data as of June 15, 2020.

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, 2017/18–2024/25

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (end-period, in billions of EGP, unless otherwise indicated) | | | | | | | |
| Net foreign assets | 301 | 264 | 143 | 227 | 253 | 289 | 387 | 555 |
| Foreign assets | 776 | 734 | 607 | 761 | 817 | 894 | 1029 | 1235 |
| Foreign liabilities | 474 | 470 | 464 | 533 | 565 | 605 | 642 | 680 |
| Net domestic assets | 415 | 420 | 647 | 665 | 756 | 851 | 901 | 901 |
| Net domestic credit | 239 | 143 | 367 | 433 | 543 | 661 | 707 | 712 |
| Net credit to central government | 731 | 747 | 671 | 776 | 785 | 795 | 804 | 814 |
| Net credit to public economic authorities | -15 | -1 | -4 | -4 | -4 | -4 | -4 | -4 |
| Credit to banks | 326 | 300 | 262 | 276 | 237 | 193 | 194 | 195 |
| Banks' deposits in foreign currency | -125 | -121 | -111 | -139 | -147 | -151 | -156 | -169 |
| Open market operations | -677 | -782 | -452 | -476 | -327 | -172 | -131 | -124 |
| Other items net | 175 | 277 | 280 | 233 | 213 | 190 | 194 | 189 |
| Reserve money | 716 | 684 | 790 | 893 | 1009 | 1140 | 1288 | 1455 |
| Currency in circulation | 439 | 487 | 590 | 660 | 748 | 836 | 964 | 1094 |
| Reserves and highly liquid assets of banks | 277 | 197 | 200 | 232 | 260 | 304 | 324 | 362 |
| Cash in vaults | 44 | 49 | 35 | 35 | 35 | 35 | 35 | 35 |
| Reserves | 234 | 148 | 165 | 197 | 225 | 269 | 289 | 327 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of June 15, 2020.

## Table 6. Egypt: Monetary Survey, 2017/18–2024/25

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (End-period, in billions of EGP) | | | | | | | |
| Net foreign assets | 310 | 300 | 79 | 129 | 83 | 27 | 122 | 273 |
| Central bank | 301 | 264 | 143 | 227 | 253 | 289 | 387 | 555 |
| Commercial banks | 8 | 36 | -64 | -99 | -169 | -262 | -266 | -282 |
| Net domestic assets | 3,147 | 3,564 | 4,298 | 4,791 | 5,435 | 6,100 | 6,837 | 7,584 |
| Net claims on central and local government | 1,972 | 2,217 | 2,805 | 3,155 | 3,578 | 3,950 | 4,386 | 4,774 |
| Net claims on public economic authorities | 246 | 211 | 190 | 194 | 209 | 230 | 249 | 269 |
| Claims on public sector companies | 160 | 162 | 162 | 170 | 179 | 188 | 198 | 209 |
| Claims on private sector | 1,083 | 1,217 | 1,381 | 1,568 | 1,787 | 2,056 | 2,364 | 2,730 |
| Net other items | -313 | -244 | -240 | -296 | -319 | -324 | -360 | -397 |
| Broad money (M2) | 3,457 | 3,864 | 4,378 | 4,919 | 5,518 | 6,127 | 6,959 | 7,857 |
| Domestic currency component (M2D) | 2,740 | 3,149 | 3,718 | 4,160 | 4,714 | 5,266 | 6,074 | 6,889 |
| Currency outside banks | 439 | 487 | 590 | 660 | 748 | 836 | 964 | 1,094 |
| Domestic currency deposits | 2,299 | 2,662 | 3,127 | 3,500 | 3,966 | 4,430 | 5,110 | 5,796 |
| Foreign currency deposits | 717 | 715 | 660 | 759 | 804 | 861 | 885 | 968 |
| | (Annual percent change, unless otherwise indicated) | | | | | | | |
| Broad money (M2) | 18.5 | 11.8 | 13.3 | 12.4 | 12.2 | 11.0 | 13.6 | 12.9 |
| Domestic currency component (M2D) | 23.2 | 14.9 | 18.1 | 11.9 | 13.3 | 11.7 | 15.3 | 13.4 |
| Reserve money | 24.0 | -4.5 | 15.5 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 |
| Contribution to broad money growth | 18.5 | 11.8 | 13.3 | 12.4 | 12.2 | 11.0 | 13.6 | 12.9 |
| Net foreign assets | 8.5 | -0.3 | -5.7 | 1.1 | -0.9 | -1.0 | 1.5 | 2.2 |
| Net domestic assets | 9.9 | 12.0 | 19.0 | 11.2 | 13.1 | 12.1 | 12.0 | 10.7 |
| Credit to the private sector | 10.1 | 12.4 | 13.5 | 13.5 | 14.0 | 15.0 | 15.0 | 15.5 |
| Credit to government and public sector companies | 8.9 | 11.6 | 24.7 | 12.1 | 13.0 | 10.1 | 10.8 | 8.7 |
| Memorandum items: | | | | | | | | |
| Velocity | | | | | | | | |
| Velocity GDP/M2D (level) | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Velocity GDP/M2 (level) | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.5 |
| M2 (in percent of GDP) | 77.9 | 72.6 | 76.2 | 77.8 | 75.3 | 73.4 | 73.4 | 72.8 |
| Money multiplier (M2D/reserve money) | 3.8 | 4.6 | 4.7 | 4.7 | 4.7 | 4.6 | 4.7 | 4.7 |
| Money multiplier (M2/reserve money) | 4.8 | 5.6 | 5.5 | 5.5 | 5.5 | 5.4 | 5.4 | 5.4 |
| M2 (in real terms) | 3.6 | 2.2 | 6.7 | 3.1 | 3.4 | 2.8 | 5.6 | 5.5 |
| Domestic currency deposits (in real terms) | 11.3 | 5.9 | 10.7 | 2.6 | 4.5 | 3.4 | 7.3 | 6.0 |
| Claims on private sector (in real terms) | -3.7 | 2.8 | 6.9 | 4.1 | 5.1 | 6.4 | 7.0 | 7.9 |
| Foreign currency deposits (in percent of total deposits) | 23.8 | 21.2 | 17.4 | 17.8 | 16.9 | 16.3 | 14.8 | 14.3 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of June 15, 2020.

**Table 7a. Egypt: Summary of National Accounts, 2017/18–2024/25**
(In percent)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| | | | (Annual change, in percent) | | | | | |
| Real GDP at market price | 5.3 | 5.6 | 2.0 | 2.0 | 6.5 | 5.3 | 5.3 | 5.6 |
| Domestic demand (absorption) | 3.0 | 2.9 | -0.1 | 0.6 | 4.9 | 5.1 | 5.4 | 5.8 |
| Private | 8.1 | 3.1 | -0.7 | -1.6 | 5.1 | 4.6 | 5.1 | 5.5 |
| Public | -3.3 | 1.2 | 4.8 | 9.5 | 1.4 | 7.3 | 6.8 | 7.6 |
| Consumption | 1.1 | 1.1 | -1.3 | -0.8 | 5.6 | 4.0 | 4.2 | 4.2 |
| Private | 1.0 | 0.9 | -2.1 | -2.2 | 6.0 | 3.6 | 3.8 | 3.7 |
| Public | 1.7 | 2.8 | 4.9 | 10.3 | 3.0 | 7.3 | 6.9 | 7.5 |
| Investment | 15.7 | 13.1 | 6.3 | 7.0 | 1.9 | 10.2 | 10.4 | 12.2 |
| Gross fixed capital formation | 16.9 | 13.2 | 8.4 | 7.0 | 1.9 | 10.2 | 10.4 | 12.2 |
| Private | -2.5 | 36.9 | 12.0 | 8.0 | 8.0 | 12.0 | 13.0 | 15.0 |
| Public | 38.5 | -5.4 | 4.3 | 5.7 | -5.8 | 7.6 | 6.5 | 7.7 |
| Net exports of goods and services 1/ | 1.9 | 2.3 | 2.1 | 1.4 | 1.4 | 0.0 | -0.2 | -0.4 |
| Exports of goods and services | 31.6 | -2.1 | -4.3 | -20.9 | 32.3 | 24.0 | 11.4 | 8.1 |
| Imports of goods and services | 10.6 | -8.9 | -11.0 | -25.7 | 15.7 | 20.1 | 10.9 | 8.7 |
| Real GDP at factor cost | 5.6 | 5.1 | 1.6 | 2.0 | 6.5 | 5.3 | 5.3 | 5.6 |
| Agriculture | 3.1 | 3.3 | 3.5 | 3.5 | 4.0 | 4.0 | 4.0 | 4.0 |
| Construction | 10.0 | 8.8 | -2.3 | 1.9 | 10.2 | 9.0 | 10.0 | 10.0 |
| Industry | 6.0 | 5.1 | 4.0 | 5.8 | 4.9 | 3.9 | 4.9 | 5.2 |
| Services | 5.3 | 5.4 | -0.3 | -1.2 | 8.4 | 6.4 | 5.5 | 6.0 |
| General government | 1.5 | 2.7 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Suez Canal | 9.6 | 7.9 | 1.9 | 3.8 | 10.0 | 8.0 | 8.0 | 8.0 |
| | | | (Contribution to real growth, in percent 2/) | | | | | |
| Real GDP at market price | 5.3 | 5.6 | 2.0 | 2.0 | 6.5 | 5.3 | 5.3 | 5.6 |
| Domestic demand (absorption) | 3.4 | 3.2 | -0.1 | 0.6 | 5.1 | 5.3 | 5.5 | 6.0 |
| Private | 0.6 | 3.5 | -0.9 | -0.9 | 5.3 | 4.0 | 4.3 | 4.6 |
| Public | 2.9 | -0.2 | 0.8 | 1.5 | -0.2 | 1.3 | 1.2 | 1.4 |
| Consumption | 1.0 | 1.0 | -1.2 | -0.7 | 4.8 | 3.4 | 3.5 | 3.5 |
| Private | 0.9 | 0.8 | -1.7 | -1.7 | 4.5 | 2.6 | 2.8 | 2.7 |
| Public | 0.2 | 0.3 | 0.5 | 1.0 | 0.3 | 0.7 | 0.7 | 0.8 |
| Investment | 2.4 | 2.2 | 1.1 | 1.3 | 0.4 | 1.9 | 2.0 | 2.5 |
| Gross fixed capital formation | 2.5 | 2.2 | 1.5 | 1.3 | 0.4 | 1.9 | 2.0 | 2.5 |
| Private | -0.2 | 2.7 | 1.1 | 0.8 | 0.9 | 1.3 | 1.5 | 1.9 |
| Public | 2.7 | -0.5 | 0.4 | 0.5 | -0.5 | 0.6 | 0.5 | 0.6 |
| Net exports of goods and services | 1.9 | 2.3 | 2.1 | 1.4 | 1.4 | 0.0 | -0.2 | -0.4 |
| Exports of goods and services | 5.0 | -0.4 | -0.8 | -4.5 | 4.0 | 3.7 | 2.1 | 1.6 |
| Imports of goods and services | -3.1 | 2.7 | 2.9 | 6.0 | -2.6 | -3.7 | -2.3 | -1.9 |
| Real GDP at factor cost | 5.6 | 5.1 | 1.6 | 2.0 | 6.5 | 5.3 | 5.3 | 5.6 |
| Agriculture | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 |
| Construction | 0.6 | 0.5 | -0.1 | 0.1 | 0.6 | 0.6 | 0.6 | 0.7 |
| Industry | 1.6 | 1.5 | 1.1 | 0.3 | 0.9 | 1.2 | 1.4 | 1.5 |
| Services | 2.6 | 2.3 | -0.1 | -0.1 | 3.3 | 2.7 | 2.3 | 2.5 |
| General government | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| Suez Canal | 0.2 | 0.2 | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of June 15, 2020.
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, 2017/18–2024/25**
(In percent of GDP)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | 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) | 110.5 | 108.2 | 106.2 | 105.6 | 104.7 | 104.0 | 104.1 | 104.3 |
| Private | 93.0 | 92.3 | 89.9 | 88.3 | 88.7 | 87.7 | 87.6 | 87.6 |
| Public | 17.5 | 15.9 | 16.3 | 17.3 | 16.0 | 16.3 | 16.5 | 16.7 |
| Consumption | 93.8 | 90.4 | 87.6 | 86.0 | 85.9 | 84.4 | 83.6 | 82.6 |
| Private | 85.4 | 82.7 | 79.7 | 77.5 | 77.7 | 76.0 | 75.1 | 73.9 |
| Public | 8.4 | 7.7 | 7.9 | 8.5 | 8.3 | 8.4 | 8.5 | 8.6 |
| Investment | 16.7 | 17.9 | 18.7 | 19.6 | 18.7 | 19.6 | 20.5 | 21.8 |
| Gross fixed capital formation | 16.3 | 17.6 | 18.7 | 19.6 | 18.7 | 19.6 | 20.5 | 21.8 |
| Private | 7.1 | 9.3 | 10.2 | 10.8 | 11.0 | 11.7 | 12.5 | 13.6 |
| Public | 9.1 | 8.2 | 8.4 | 8.8 | 7.7 | 7.9 | 8.0 | 8.1 |
| Net exports of goods and services | -10.5 | -8.2 | -6.2 | -5.6 | -4.7 | -4.0 | -4.1 | -4.3 |
| Exports of goods and services | 18.9 | 17.5 | 13.1 | 9.7 | 12.6 | 15.0 | 16.1 | 16.6 |
| Imports of goods and services | -29.4 | -25.7 | -19.4 | -15.4 | -17.3 | -19.0 | -20.2 | -20.9 |
| Net factor income | -2.5 | -3.6 | -4.1 | -4.2 | -4.4 | -4.2 | -3.9 | -3.5 |
| Net remittances inflows | 10.5 | 8.2 | 6.1 | 5.3 | 5.8 | 5.7 | 5.6 | 5.4 |
| Net official transfers | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Gross National Disposable Income | 108.1 | 104.7 | 102.1 | 101.1 | 101.5 | 101.6 | 101.8 | 102.0 |
| National savings | 14.3 | 14.3 | 14.5 | 15.1 | 15.5 | 17.2 | 18.2 | 19.4 |
| Private | 21.3 | 19.0 | 19.4 | 19.8 | 18.1 | 18.6 | 18.9 | 19.6 |
| Public | -7.0 | -4.7 | -4.9 | -4.8 | -2.6 | -1.4 | -0.7 | -0.2 |
| Savings-investment balance | -2.4 | -3.6 | -4.2 | -4.5 | -3.2 | -2.4 | -2.3 | -2.4 |
| Private | 14.2 | 9.7 | 9.1 | 9.0 | 7.1 | 6.9 | 6.4 | 5.9 |
| Public | -16.2 | -12.9 | -13.3 | -13.5 | -10.3 | -9.3 | -8.7 | -8.3 |
| GDP at factor cost | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Agriculture | 11.5 | 11.4 | 11.6 | 11.7 | 11.4 | 10.4 | 9.5 | 8.6 |
| Construction | 5.9 | 6.2 | 6.0 | 6.0 | 6.1 | 5.8 | 5.6 | 5.4 |
| Industry | 29.9 | 30.5 | 31.1 | 30.7 | 29.5 | 26.8 | 24.6 | 22.6 |
| Services | 43.1 | 43.2 | 42.6 | 42.7 | 44.3 | 49.1 | 53.0 | 56.7 |
| General government | 7.4 | 6.8 | 6.8 | 6.9 | 6.6 | 6.0 | 5.4 | 4.9 |
| Suez Canal | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 | 1.9 | 1.8 | 1.7 |

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of June 15, 2020.

## Table 8. Egypt: Medium-Term Macroeconomic Framework, 2017/18–2024/25

(In percent of GDP, unless otherwise indicated)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| Growth and prices | | | | | | | | |
| Real GDP (annual change, in percent) | 5.3 | 5.6 | 2.0 | 2.0 | 6.5 | 5.3 | 5.3 | 5.6 |
| CPI inflation (end-of-period, in percent) | 14.4 | 9.4 | 6.2 | 9.0 | 8.5 | 8.0 | 7.5 | 7.0 |
| CPI inflation (average, in percent) | 20.9 | 13.9 | 5.8 | 8.2 | 8.7 | 8.1 | 7.8 | 7.2 |
| Unemployment rate (period average, in percent) | 10.9 | 8.6 | … | … | … | … | … | … |
| Savings-investment balance | -2.4 | -3.6 | -4.2 | -4.5 | -3.2 | -2.4 | -2.3 | -2.4 |
| Investment | 16.3 | 17.6 | 18.7 | 19.6 | 18.7 | 19.6 | 20.5 | 21.8 |
| Domestic savings | 13.9 | 14.0 | 14.5 | 15.1 | 15.5 | 17.2 | 18.2 | 19.4 |
| Public finances | | | | | | | | |
| General government | | | | | | | | |
| Revenue and grants | 20.7 | 20.1 | 19.6 | 20.1 | 20.3 | 20.7 | 21.0 | 21.4 |
| Expenditure and NAFA | 30.2 | 27.5 | 27.4 | 28.4 | 25.7 | 25.3 | 25.3 | 25.4 |
| Overall balance | -9.5 | -7.4 | -7.8 | -8.3 | -5.4 | -4.6 | -4.3 | -4.0 |
| Overall balance, excl. grants | -9.6 | -7.4 | -7.9 | -8.3 | -5.4 | -4.6 | -4.3 | -4.1 |
| Primary balance | -0.2 | 1.4 | 1.4 | 0.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Gross debt | 92.7 | 83.8 | 88.0 | 93.3 | 88.3 | 84.5 | 80.8 | 76.9 |
| Domestic | 73.5 | 65.9 | 68.2 | 69.5 | 66.4 | 63.5 | 61.0 | 57.9 |
| External | 19.2 | 17.9 | 19.8 | 23.8 | 21.8 | 21.0 | 19.8 | 19.0 |
| Budget sector | | | | | | | | |
| Revenue and grants | 18.5 | 17.7 | 17.0 | 17.8 | 18.2 | 18.7 | 19.0 | 19.4 |
| Tax revenue | 14.2 | 13.8 | 12.5 | 12.8 | 13.2 | 13.6 | 14.0 | 14.3 |
| Non-tax revenue | 4.3 | 3.8 | 4.4 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Grants | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure and NAFA | 28.3 | 25.8 | 25.3 | 26.5 | 24.3 | 23.7 | 23.9 | 23.7 |
| *Of which:* Current | 25.8 | 23.1 | 22.4 | 23.0 | 21.7 | 20.7 | 20.7 | 20.1 |
| Capital | 2.5 | 2.7 | 2.9 | 3.4 | 2.6 | 3.0 | 3.2 | 3.6 |
| Overall budget balance | -9.7 | -8.1 | -8.3 | -8.7 | -6.1 | -5.0 | -5.0 | -4.3 |
| Overall budget balance, excl. grants | -9.8 | -8.1 | -8.4 | -8.7 | -6.1 | -5.1 | -5.0 | -4.4 |
| Primary budget balance | 0.2 | 1.9 | 1.4 | 0.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Balance of payments and external debt | | | | | | | | |
| Current account | -2.4 | -3.6 | -4.2 | -4.5 | -3.2 | -2.4 | -2.3 | -2.4 |
| Trade balance | -14.9 | -12.6 | -9.1 | -6.9 | -7.3 | -8.6 | -9.7 | -10.6 |
| Oil and gas | -1.5 | 0.0 | 0.5 | 0.6 | 0.2 | 0.0 | -0.4 | -0.7 |
| Other | -13.4 | -12.6 | -9.7 | -7.4 | -7.5 | -8.6 | -9.4 | -9.9 |
| Capital and financial account (incl. errors and omissions) | 4.0 | 1.3 | -0.7 | 2.1 | 3.6 | 2.9 | 4.3 | 5.0 |
| Financing gap | 0.0 | 0.0 | -2.6 | -3.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Official reserves (in billions of US$) | 43.5 | 43.9 | 36.8 | 40.1 | 40.7 | 41.5 | 45.1 | 51.0 |
| (In months of next year's imports of goods and services) | 6.7 | 7.6 | 8.0 | 7.4 | 6.4 | 5.8 | 5.8 | 5.9 |
| External debt (in percent of GDP) | 37.4 | 34.1 | 34.4 | 38.0 | 34.9 | 31.6 | 28.9 | 26.7 |

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of June 15, 2020.

**Table 9. Egypt: Financial Soundness Indicators of the Banking System**

(Fiscal Year End, unless otherwise indicated) 1/

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | end-June 2019 | end-Dec 2019 |
|---|---|---|---|---|---|---|---|---|
| *Capital adequacy* | | | | | | | | |
| Regulatory capital to RWA | 13.7 | 13.9 | 14.5 | 14.0 | 14.7 | 15.7 | 16.9 | 18.4 |
| Common equity to RWA | 10.7 | 11.4 | 12.1 | 11.7 | 9.2 | 10.4 | 10.4 | 11.7 |
| *Asset quality* | | | | | | | | |
| NPLs to total loans | 9.3 | 8.5 | 7.1 | 6.0 | 4.9 | 4.1 | 4.2 | 4.2 |
| Loan provisions to non-performing loans | 99.8 | 98.9 | 99.0 | 99.1 | 98.3 | 98.0 | 97.8 | 97.6 |
| *Profitability* | | | | | | | | |
| Return on assets | 1.0 | 1.3 | 1.5 | 2.0 | 1.5 | 1.4 | 1.4 | 1.4 |
| Return on average equity | 14.5 | 18.9 | 24.4 | 30.9 | 21.5 | 19.2 | 19.2 | 19.2 |
| *Liquidity* | | | | | | | | |
| Average liquidity ratio | | | | | | | | |
| Local currency | 61.8 | 62.7 | 59.7 | 55.4 | 47.1 | 40.3 | 41.9 | 45.8 |
| Foreign currency | 55.2 | 57.4 | 52.0 | 60.2 | 66.4 | 67.7 | 68.6 | 74.0 |
| Loans to deposits | 44.1 | 40.8 | 40.9 | 47.0 | 46.0 | 46.2 | 46.5 | 44.8 |

Source: Central Bank of Egypt; based on available data as of June 15, 2020.

1/ Fiscal year ends June 30 for public sector banks and December 31 for the rest of the banks.

## Table 10. Egypt: Capacity to Repay the Fund, 2018/19–2029/30 1/ 2/

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Projections | | | | | | | | | | |
| **Fund repurchases and charges** | | | | | | | | | | | | |
| Millions of SDRs | 171.2 | 263.0 | 490.9 | 929.5 | 1,394.6 | 3,717.6 | 4,551.8 | 2,370.0 | 1,295.3 | 924.1 | 482.6 | 120.6 |
| Repurchases | 0.0 | 0.0 | 164.2 | 522.4 | 955.2 | 3,345.2 | 4,333.1 | 2,301.3 | 1,268.6 | 910.4 | 477.6 | 119.4 |
| Charges and fees | 171.2 | 263.0 | 326.7 | 407.1 | 439.5 | 372.4 | 218.6 | 68.7 | 26.7 | 13.7 | 5.0 | 1.2 |
| Millions of US$ | 239.0 | 367.2 | 685.2 | 1,297.4 | 1,946.8 | 5,189.5 | 6,353.8 | 3,308.3 | 1,808.1 | 1,289.9 | 673.6 | 168.3 |
| Percent of exports of goods and nonfactor services | 0.5 | 0.8 | 2.0 | 2.7 | 3.2 | 7.5 | 8.3 | 3.8 | 1.8 | 1.1 | 0.5 | 0.1 |
| Percent of total debt service 3/ | 0.2 | 0.3 | 0.6 | 1.2 | 1.7 | 4.5 | 5.4 | 2.5 | 1.2 | 0.7 | 0.3 | 0.1 |
| Percent of quota | 8.4 | 12.9 | 24.1 | 45.6 | 68.5 | 182.5 | 223.4 | 116.3 | 63.6 | 45.4 | 23.7 | 5.9 |
| Percent of gross international reserves | 0.5 | 1.0 | 1.7 | 3.2 | 4.7 | 11.5 | 12.4 | 5.7 | 2.7 | 1.7 | 0.8 | 0.2 |
| Percent of GDP | 0.1 | 0.1 | 0.2 | 0.3 | 0.5 | 1.2 | 1.4 | 0.6 | 0.3 | 0.2 | 0.1 | 0.0 |
| Percent of general government revenues | 0.4 | 0.5 | 1.0 | 1.7 | 2.3 | 5.8 | 6.5 | 3.0 | 1.4 | 0.9 | 0.4 | 0.1 |
| **Fund credit outstanding** | | | | | | | | | | | | |
| Millions of SDRs | 7,164 | 12,081 | 14,233 | 13,711 | 12,756 | 9,410 | 5,077 | 2,776 | 1,507 | 597 | 119 | 0 |
| Millions of US$ | 10,000 | 16,864 | 19,868 | 19,139 | 17,806 | 13,136 | 7,087 | 3,875 | 2,104 | 833 | 167 | 0 |
| Percent of exports of goods and nonfactor services | 18.9 | 36.1 | 57.2 | 40.4 | 29.5 | 19.1 | 9.3 | 4.5 | 2.1 | 0.7 | 0.1 | 0.0 |
| Percent of quota | 351.7 | 593.1 | 698.7 | 673.1 | 626.2 | 462.0 | 249.2 | 136.3 | 74.0 | 29.3 | 5.9 | 0.0 |
| Percent of gross international reserves | 22.8 | 45.9 | 49.5 | 47.0 | 42.9 | 29.1 | 13.9 | 6.7 | 3.2 | 1.1 | 0.2 | 0.0 |
| Percent of GDP | 3.3 | 4.7 | 5.6 | 5.1 | 4.4 | 3.1 | 1.5 | 0.7 | 0.4 | 0.1 | 0.0 | 0.0 |
| Percent of general government revenues | 16.4 | 24.2 | 27.7 | 25.1 | 21.4 | 14.6 | 7.2 | 3.5 | 1.6 | 0.6 | 0.1 | 0.0 |
| **Memorandum items:** | | | | | | | | | | | | |
| Exports of goods and nonfactor services (in millions of US$) | 52,919 | 46,717 | 34,745 | 47,408 | 60,258 | 68,749 | 76,187 | 86,752 | 98,783 | 112,483 | 128,082 | 145,844 |
| Total debt service (in millions of US$) | 113,818 | 139,134 | 117,138 | 112,112 | 117,797 | 116,605 | 117,176 | 133,426 | 151,929 | 172,999 | 196,991 | 224,309 |
| 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 | 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 | 1,459.3 | 1,459.3 | 1,459.3 | 1,459.3 | 1,459.3 |
| Gross international reserves (in millions of US$) | 43,860 | 36,776 | 40,097 | 40,684 | 41,540 | 45,080 | 51,041 | 58,120 | 66,180 | 75,358 | 85,808 | 97,708 |

Source: IMF staff calculations; based on available data as of June 15, 2020.

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, 2017/18–2024/25**
(In billions of US$, unless otherwise indicated)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|
| | | | Projections | | | | | |
| Gross financing requirements | 22.9 | 26.1 | 38.0 | 42.0 | 44.5 | 51.8 | 46.3 | 46.5 |
| Current account deficit | 6.0 | 10.9 | 14.8 | 16.2 | 12.0 | 9.6 | 10.0 | 10.9 |
| Tourism receipts | 9.8 | 12.6 | 10.0 | 2.7 | 8.8 | 16.7 | 21.8 | 26.1 |
| Private remittances | 26.3 | 24.8 | 21.6 | 18.7 | 21.7 | 22.7 | 23.8 | 25.0 |
| Maturing short-term debt | 12.3 | 11.1 | 16.2 | 19.2 | 21.8 | 24.8 | 24.3 | 24.3 |
| Private sector | 2.1 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| Public sector | 10.2 | 8.5 | 13.7 | 16.7 | 19.2 | 22.2 | 21.7 | 21.7 |
| Amortization of medium and long-term debt | 4.7 | 4.2 | 7.0 | 6.6 | 10.7 | 17.4 | 12.0 | 11.3 |
| Private sector | 0.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.2 | 0.3 | 0.3 |
| Public sector | 4.5 | 3.8 | 7.0 | 6.5 | 10.7 | 17.2 | 11.6 | 11.0 |
| MLT to external private creditors | 2.4 | 1.3 | 2.2 | 3.8 | 3.6 | 3.6 | 1.3 | 0.3 |
| By domestic private sector | 0.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.2 | 0.3 | 0.3 |
| By domestic public sector | 2.2 | 1.0 | 2.2 | 3.8 | 3.6 | 3.4 | 1.0 | 0.0 |
| MLT to external official creditors | 2.3 | 2.8 | 4.8 | 2.7 | 7.1 | 13.8 | 10.7 | 11.0 |
| IMF | 0.0 | 0.0 | 0.0 | 0.2 | 0.7 | 1.3 | 4.6 | 6.0 |
| To other official creditors | 2.3 | 2.8 | 4.8 | 2.5 | 6.4 | 12.5 | 6.1 | 6.0 |
| By domestic private sector | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| By domestic public sector | 2.3 | 2.8 | 4.8 | 2.5 | 6.4 | 12.5 | 6.1 | 5.0 |
| Sources of financing | 22.9 | 26.1 | 28.8 | 29.8 | 44.5 | 51.8 | 46.3 | 46.5 |
| Foreign direct investment (net) | 7.4 | 7.9 | 8.0 | 5.5 | 8.3 | 11.4 | 15.5 | 17.1 |
| Portfolio investment (net) 1/ | 12.1 | 4.1 | -7.5 | 3.5 | 7.0 | 8.0 | 7.4 | 8.4 |
| Roll-over of short-term debt | 12.3 | 11.1 | 16.2 | 19.2 | 21.8 | 24.8 | 24.3 | 24.3 |
| Other net capital flows | -0.1 | 1.1 | 4.1 | 5.2 | 8.7 | 9.8 | 7.3 | 8.7 |
| Net use of Fund resources 2/ | 5.3 | 2.0 | 2.0 | -0.2 | -0.7 | -1.3 | -4.6 | -6.0 |
| Change in reserves (- increase) ` | -12.8 | 0.2 | 7.1 | -3.3 | -0.6 | -0.9 | -3.5 | -6.0 |
| Change in arrears ("-" indicates decrease) | -1.2 | -0.2 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | -9.2 | -12.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rapid Financing Instrument purchase | 0.0 | 0.0 | -2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stand-By Arrangement purchases | 0.0 | 0.0 | -2.0 | -3.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other prospective financing | 0.0 | 0.0 | -4.5 | -8.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | |
| Gross international reserves (GIR) | 43.5 | 43.9 | 36.8 | 40.1 | 40.7 | 41.5 | 45.1 | 51.0 |
| External debt | 92.6 | 108.7 | 119.6 | 126.7 | 127.3 | 122.6 | 119.8 | 119.3 |

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of June 15, 2020.
1/ Includes Eurobond issuances of $2 billion in November 2019 and $5 billion in May 2020.
2/ Includes repurchases under the RFI and SBA, which begin in 2023/24.

## Table 12. Egypt: Proposed Schedule of Reviews and Purchases Under the Stand-By Arrangement

| Availability Date | Amount | | Condition |
|---|---|---|---|
| | Millions of SDR | Percent of Quota | |
| June 26, 2020 | 1,447.56 | 71.1 | Board approval of the SBA |
| December 1, 2020 | 1,158.04 | 56.8 | First review and end-September 2020 quantitative targets |
| June 1, 2021 | 1,158.04 | 56.8 | Second review and end-March 2021 quantitative targets |
| Total | 3,763.64 | 184.8 | |
| *Memorandum items:* | | | |
| Quota (SDR, million) | 2,037.10 | | |

Source: IMF staff calculations.

## Table 13. Egypt: Proposed Quantitative Performance Criteria and Indicative Targets for FY2020/2021

(In billions of Egyptian pounds unless otherwise indicated)

| | end-September 2020 | end-December 2020 | end-March 2021 |
|---|---|---|---|
| | Test date | Indicative | Test date |
| **I. Quantitative Performance Criteria 1/** | | | |
| Net international reserves of the CBE ($ million; cumulative change, floor) 2/ | 0 | 0 | 3,000 |
| Primary fiscal balance of the budget sector (cumulative, floor) 3/ | 0 | 7 | 15 |
| Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling) | 0 | 0 | 0 |
| **II. Indicative Targets** | | | |
| Government overdraft at the CBE (ceiling) 3/ | 93 | 93 | 93 |
| Tax revenues (cumulative floor) 3/ | 121 | 304 | 484 |
| Social spending of the budget sector (floor) 3/ | 23 | 52 | 81 |
| Share of short-term net new domestic issuance to total domestic treasury issuances (ceiling) 3/ | 40 | 40 | 30 |
| Accumulation of gross debt of the budget sector (cumulative ceiling) 3/ | 226 | 450 | 679 |
| **III. Monetary Policy Consultation** | | | |
| (12-month change in consumer prices) | | | |
| Upper outer band | 13 | 13 | 13 |
| Upper inner band | 12 | 12 | 12 |
| Center target | 9 | 9 | 9 |
| Lower inner band | 6 | 6 | 6 |
| Lower outer band | 4 | 4 | 4 |
| *Memorandum items:* | | | |
| Program disbursements at completion of review ($ million; cumulative change) 2/ | 10,100 | 12,315 | 12,930 |
| External commercial loans (including Eurobonds) assumed under the program ($ million) 2/ | 6,500 | 6,500 | 6,500 |
| External program financing assumed under the program ($ million) 2/ | 1,600 | 2,215 | 2,830 |
| IMF financing assumed under the program ($ million) 2/ | 2,000 | 3,600 | 3,600 |

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

1/ The targets for December 2020 are indicative.

2/ From May 31, 2020.

3/ From the beginning of the fiscal year (July 1, 2020).

**Table 14. Egypt: Prior Action and Structural Benchmarks Under an SBA**

| Policy Measure | Objective | Timing |
|---|---|---|
| Approval by Parliament of FY2020/21 budget, consistent with the program understandings with a provision for primary balance of no less than 0.5 percent of GDP | Strengthen fiscal sustainability | Prior action |
| Develop a reform plan for NIB, approved by the Prime Minister in line with MEFP ¶29 | Strengthen public finances and contain risks to the financial sector | End-January 2021 |
| Publish an updated SOE report to include detailed financial information for FY2018/19 on all SOEs and a separate one for Economic Authorities that includes detailed financial information for FY2018/19 | Fiscal transparency and governance | End-September 2020 |
| Cabinet approval of the updated MTRS | Increase tax revenue | End-December 2020 |
| Submission to Parliament of the revised PFM law to strengthen the entire budget process, including by i) fiscal responsibility provisions to guide macro-fiscal policy; ii) a medium-term budget framework; iii) main elements of the budget calendar; iv) minimum contents of the budget documentation; v) robust provisions on reallocation of resources, contingency reserve and supplementary appropriations; and vi) accounting rules for all public entities including economic authorities | Strengthen PFM, improve governance/and reduce corruption risks | End-December 2020 |
| Update the debt management strategy with the focus on lengthening maturities | Reduce debt vulnerabilities | End-December 2020 |
| Submit to Parliament amendments to the competition law to add a new chapter on mergers and acquisitions in line with MEFP ¶27 | Private Sector | End-December 2020 |
| Pass the draft customs law that streamlines customs procedures in line with MEFP ¶25 | Business climate | End-March 2021 |
| Complete Public Expenditure Review to enhance social protection | Social protection | End-April 2021 |

# Annex I. Public and External Debt Sustainability Analyses[1]

*The Debt Sustainability Analysis indicates that Egypt's debt remains sustainable, but not with a high probability. Under the baseline scenario, debt is projected to increase in FY2019/20 and FY2020/21 before resuming its downward trajectory to 77 percent of GDP by FY2024/25. The main risks are a more prolonged and severe impact of the COVID-19 pandemic, a sustained increase in interest rates due to tightening of global financial conditions, and a less ambitious fiscal consolidation path. The high share of local currency debt and the quick return to the international capital markets following the COVID-19 shock are important risk mitigating factors. Contingent liabilities arising from state-owned enterprises present additional risks. Recognizing the high gross financing needs (GFNs), the authorities are already extending their debt maturities and intend to extend them further. Over the medium term, sustained fiscal consolidation in combination with structural reforms to boost growth is needed to put Egypt's debt on a steadily declining path. External debt is moderate, with sufficient longer-term non-Fund external debt obligations that provide safeguards to the Fund.*

## Baseline Scenario

**1. The baseline projections assume a temporary two-quarter shock to growth that spills from FY2019/20 into FY2020/21.** Real GDP growth is expected to decline from an average of 5½ percent of GDP in FY2017/18 and FY2018/19 to 2 percent in FY2019/20 (after recording 5.6 percent in the first half of the fiscal year) and to 2 percent in FY2020/21. Growth is projected to recover to 5½ percent over the medium term. Average inflation is expected to increase from about 6 percent in FY2019/20 to 8 percent in FY2020/21 and decline to 7 percent in the medium term. Effective interest rates on general government debt are projected to decline, in line with inflation.

**2. As discussed in previously published IMF staff reports, Egypt's debt has been assessed to be sustainable but subject to significant risks.** Despite the sharp downward trend since FY2016/17, the debt-to-GDP ratio remains above the benchmark of 70 percent of GDP for emerging markets (EMs). The COVID-19 crisis has exacerbated debt as growth has significantly slowed and fiscal balances are projected to be smaller. As a result, and given the temporary nature of the shock, general government debt is projected to increase from 84 percent of GDP in FY2018/19 to about 93 percent of GDP in FY2020/21. Over the medium term, primary surpluses and sustained high growth will restore the debt-to-GDP ratio to a firm downward trajectory to reach 77 percent of GDP in FY2024/25.

**3. The baseline debt projections are subject to significant risks but also accompanied by a number of mitigating factors.** Risks stem from the high level of debt relative to the benchmark as well as high gross financing needs which stand above 30 percent of GDP compared to the 15 percent of GDP benchmark for EMs. In April, spreads increased from their pre-COVID-19 level of about 465 basis points to well above the high-risk benchmark of 600 basis points, reflecting the global risk-off sentiment (rather than Egypt-specific shock). These spreads have come back down recently as

[1] Public debt sustainability analysis covers general government debt.

pressures on EMs have subsided. Risks to debt sustainability are mitigated by the large share of participants in the local treasury security market that are domestic financial institutions. The share of debt held by non-residents and that denominated in foreign currency are 26 and 28 percent, respectively, putting these indicators in the moderate risk category, well below the high-risk benchmark levels of 45 and 60 percent. In addition, the authorities have already begun to extend maturities—as evidenced by the decline in short-term public debt—and are planning to extend maturities further.

### Realism of Baseline Assumptions

**4. The current forecasts entail higher-than-usual uncertainty.** Past forecasts of macro-economic variables have been mixed. The median forecast error was -0.1 percent for growth, 1.2 percent for inflation, and -1.1 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). While the forecast errors for GDP have narrowed over the last two years, current forecasts are subject to exceptional uncertainty due to the evolving impact of the COVID-19 crisis.

**5. Additional risks stem from tighter global financial conditions, lower primary surplus, and materialization of contingent liabilities.** Tighter global financial conditions could lead to an increase in interest rates and cause debt to deviate from the projected debt path. A higher-than-projected impact of the COVID-19 crisis on revenue or spending pressures could lower the primary balance and increase debt compared to the baseline scenario. Contingent liabilities could arise from a call on government guaranteed debt.

### Alternative Scenarios and Stress Test

**6. Debt sustainability worsens under the historical and primary balance shock scenarios.** With growth and the primary balance remaining at their 10-year averages, the debt-to-GDP ratio would increase to 98 percent of GDP by FY2024/25, while gross financing needs would increase to about 40 percent of GDP in 2024/25. Alternatively, a scenario with an unchanged growth forecast but a temporary delay of the envisaged primary balance consolidation by about 1 percent of GDP would imply a debt-to-GDP ratio of 79 percent in FY2024/25 compared with 77 percent of GDP in the baseline.

**7. 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 than the baseline in FY2019/20 and FY2020/21, debt would increase to 81 percent of GDP over the medium term compared to 77 percent in the baseline.

- A *real interest rate shock* with an increase in the interest rate by about 350 basis points over the projection period, increases debt to 80 percent of GDP over the medium term.
- A large *real exchange rate shock* with a hundred percent depreciation of the Egyptian pound will increase debt in the next year by 7 percentage points of GDP, reaching 82 percent of GDP over the medium term.
- A *combined macro-fiscal shock* with lower growth and a looser fiscal stance could weaken debt dynamics significantly. A temporary growth shortfall of 1.2 percentage points for two years, a looser fiscal stance by about 1 percentage point over two years, and a 140 percent nominal exchange rate depreciation increase debt to 103 percent of GDP in the following year compared to 93 percent of GDP under the baseline. Over the medium term, debt would remain about 12 percentage points of GDP higher than under the baseline.
- *Materialization of contingent liabilities* or a call on government guarantees on 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 macroeconomic variables, would increase debt-to-GDP ratio to 105 percent of GDP in FY2020/21 compared to 93 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 112 percent of GDP. Over the medium term, debt would decline to around 98 percent of GDP instead of 77 percent of GDP in the baseline and gross financing needs would be 35 percent of GDP.

**External Debt**

**8. External debt is expected to peak at about 38 percent of GDP in 2021 and decline thereafter**. The standard shock scenarios suggest that external debt would remain near or below its current level in the medium term. A significant portion of external debt is scheduled to mature in the next years, in part reflecting the maturity of large deposits of three Gulf Cooperation Council (GCC) members at the CBE. Cognizant of the need to extend maturities on external debt, the authorities have reached agreements with the three creditors to roll over $13.4 billion of their deposits scheduled to mature during FY2019/20 and FY2020/21 and are finalizing terms. In the medium term, continued rollovers of deposits at the CBE would help contain risks, particularly as large payments to the Fund come due towards the end of the projection horizon. The maturity profile on external private debt is quite favorable in the near term.

## Figure 1. Egypt: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

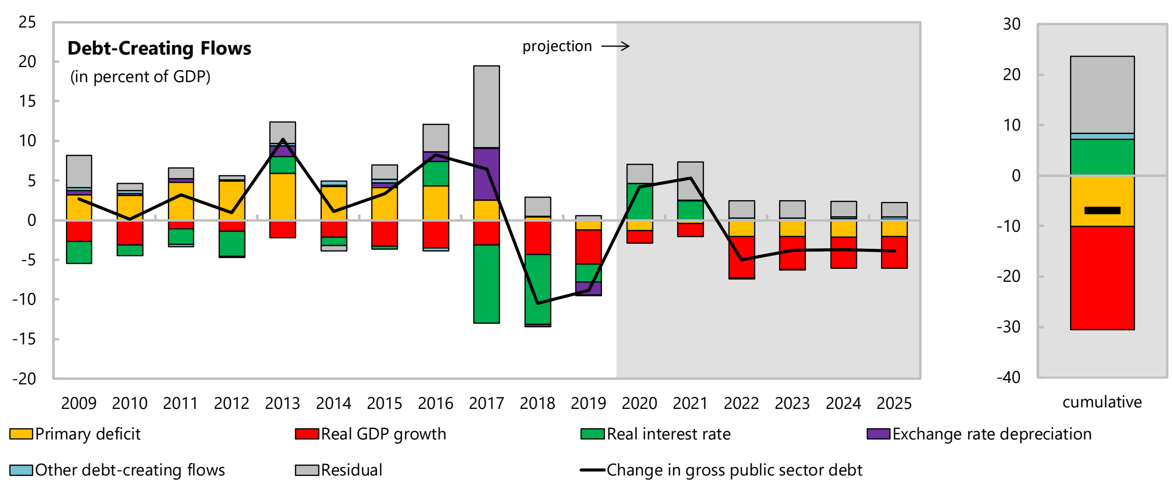
### Debt, Economic and Market Indicators 1/

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009-2017 2/ | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Nominal gross public debt | 82.6 | 92.7 | 83.8 | 88.0 | 93.3 | 88.3 | 84.5 | 80.8 | 76.9 |
| Public gross financing needs | 28.0 | 37.6 | 36.2 | 37.7 | 34.6 | 30.9 | 30.7 | 28.8 | 27.4 |
| Real GDP growth (in percent) | 3.6 | 5.3 | 5.6 | 2.0 | 2.0 | 6.5 | 5.3 | 5.3 | 5.6 |
| Inflation (GDP deflator, in percent) | 11.6 | 21.4 | 13.6 | 5.7 | 7.8 | 8.8 | 8.2 | 7.8 | 7.8 |
| Nominal GDP growth (in percent) | 15.7 | 27.9 | 19.9 | 7.9 | 10.0 | 15.9 | 13.9 | 13.5 | 13.9 |
| Effective interest rate (in percent) 4/ | 9.5 | 11.6 | 11.4 | 11.8 | 11.0 | 9.2 | 8.6 | 8.5 | 8.5 |

| As of June 2, 2020 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 674 |
| 5Y CDS (bp) | | 562 |
| Ratings | Foreign | Local |
| Moody's | B2 | B2 |
| S&Ps | B | B |
| Fitch | B+ | B+ |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009-2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | cumulative | debt-stabilizing primary balance 9/ |
| Change in gross public sector debt | 4.0 | -10.5 | -8.9 | 4.2 | 5.3 | -5.0 | -3.8 | -3.7 | -3.8 | -6.9 | |
| Identified debt-creating flows | 1.3 | -12.9 | -9.4 | 1.8 | 0.5 | -7.2 | -6.0 | -5.6 | -5.7 | -22.1 | |
| Primary deficit | 4.1 | 0.4 | -1.2 | -1.3 | -0.4 | -2.0 | -2.1 | -2.1 | -2.1 | -10.0 | -3.6 |
| Primary (noninterest) revenue and grants | 22.0 | 20.4 | 19.9 | 19.4 | 19.9 | 20.1 | 20.5 | 20.9 | 21.3 | 122.1 | |
| Primary (noninterest) expenditure | 26.1 | 20.8 | 18.7 | 18.2 | 19.5 | 18.1 | 18.4 | 18.8 | 19.2 | 112.0 | |
| Automatic debt dynamics 5/ | -2.9 | -13.4 | -8.2 | 3.0 | 0.8 | -5.4 | -4.1 | -3.8 | -3.8 | -13.3 | |
| Interest rate/growth differential 6/ | -4.2 | -13.1 | -6.6 | 3.0 | 0.8 | -5.4 | -4.1 | -3.8 | -3.8 | -13.3 | |
| Of which: real interest rate | -1.7 | -8.8 | -2.3 | 4.6 | 2.4 | -0.2 | 0.0 | 0.2 | 0.2 | 7.2 | |
| Of which: real GDP growth | -2.5 | -4.3 | -4.3 | -1.6 | -1.6 | -5.2 | -4.1 | -3.9 | -4.0 | -20.5 | |
| Exchange rate depreciation 7/ | 1.3 | -0.3 | -1.6 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 0.2 | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 1.2 | |
| 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 | 0.2 | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 1.2 | |
| Residual, including asset changes 8/ | 2.7 | 2.4 | 0.6 | 2.4 | 4.8 | 2.2 | 2.2 | 1.9 | 1.8 | 15.3 | |




Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ 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 $ae(1+r)$.

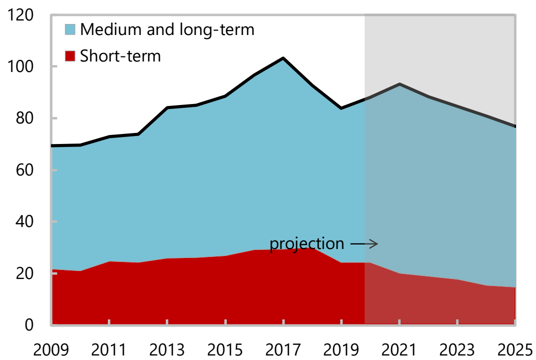
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

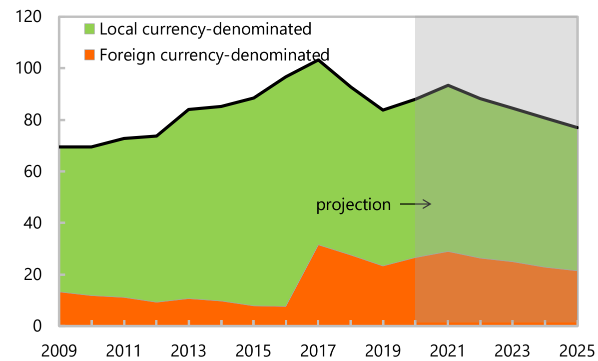
## Figure 2. Egypt: Public DSA - Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

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



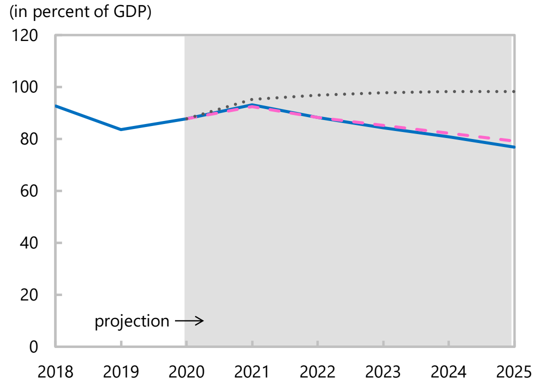

**By Currency**
(in percent of GDP)



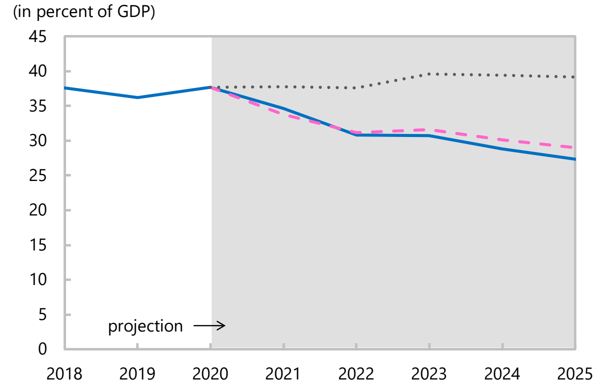

### Alternative Scenarios

Baseline Historical Constant Primary Balance

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




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



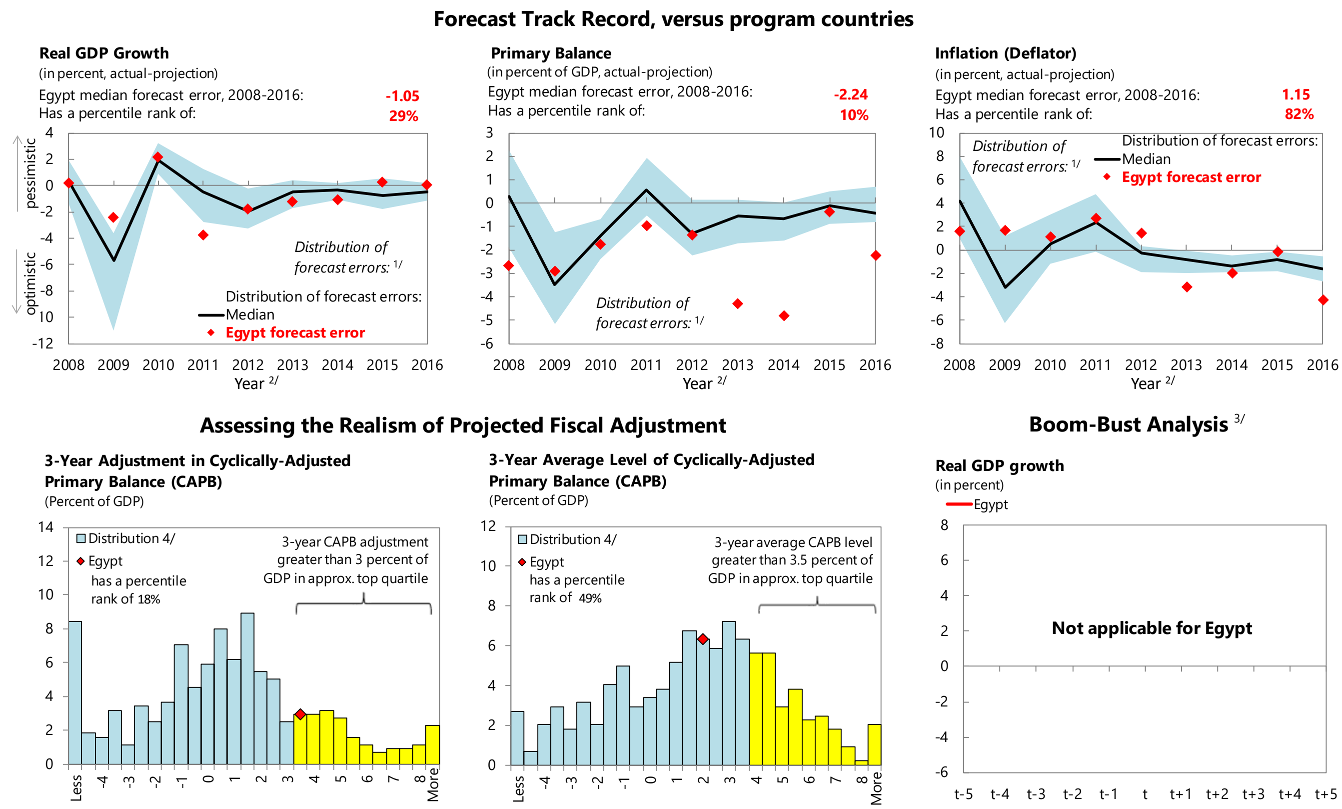

### Underlying Assumptions
(in percent)

| Baseline Scenario | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.0 | 2.0 | 6.5 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 7.8 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary Balance | 1.3 | 0.4 | 2.0 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 11.0 | 9.2 | 8.6 | 8.5 | 8.5 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 2.0 | 2.0 | 6.5 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 7.8 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary Balance | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Effective interest rate | 11.8 | 11.0 | 9.3 | 8.6 | 8.4 | 8.4 |

| Historical Scenario | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.0 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| Inflation | 5.7 | 7.8 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary Balance | 1.3 | -3.3 | -3.3 | -3.3 | -3.3 | -3.3 |
| Effective interest rate | 11.8 | 11.0 | 8.0 | 6.6 | 6.1 | 5.8 |

Source: IMF staff.

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




Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Egypt, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

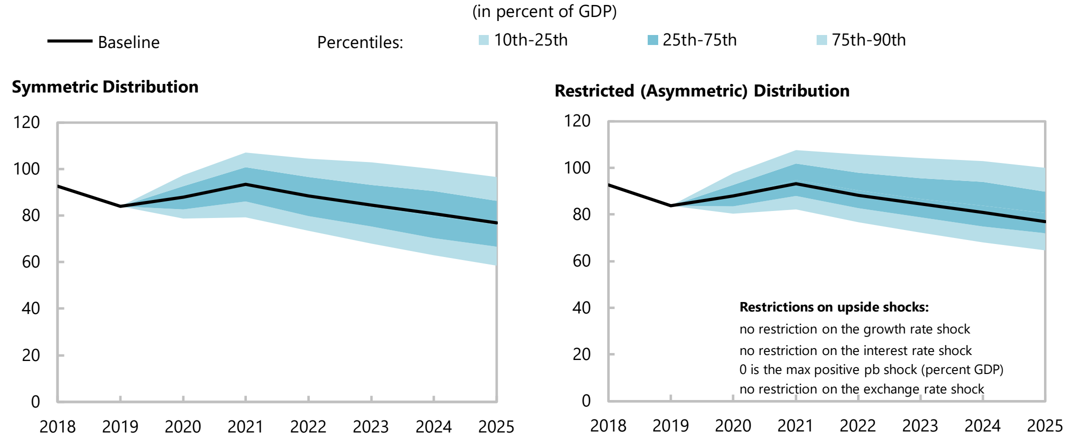
## Figure 4. Egypt: Public DSA Risk Assessment

### Heat Map

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

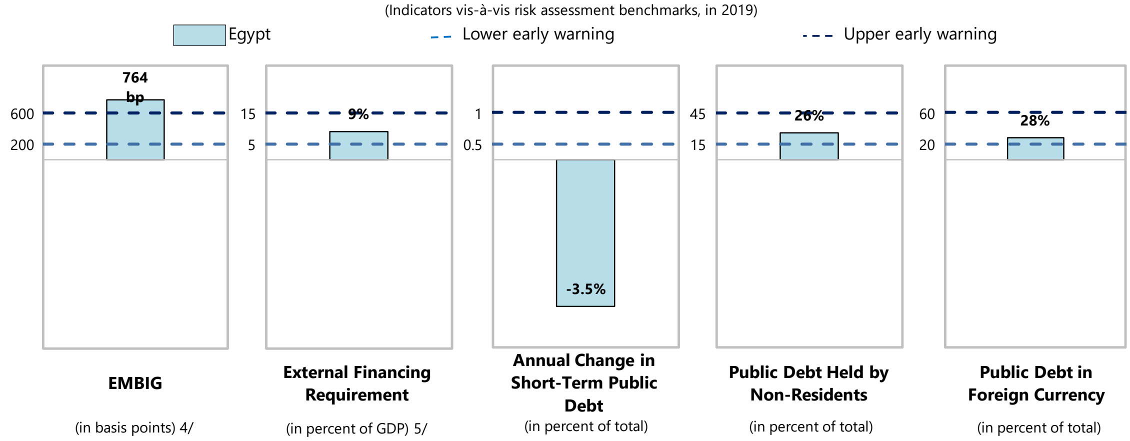
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)




Source: IMF staff.

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

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

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

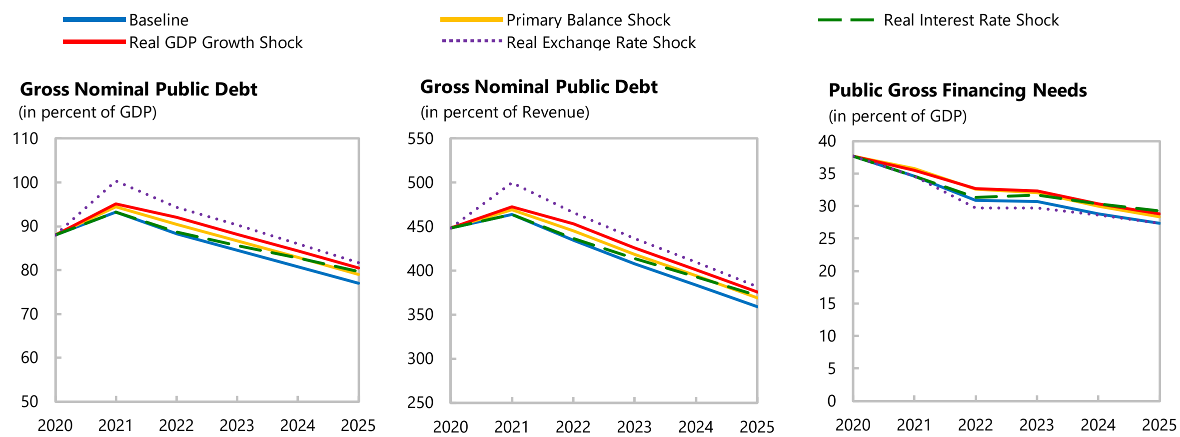
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, March 2 2020 - June 2 2020.

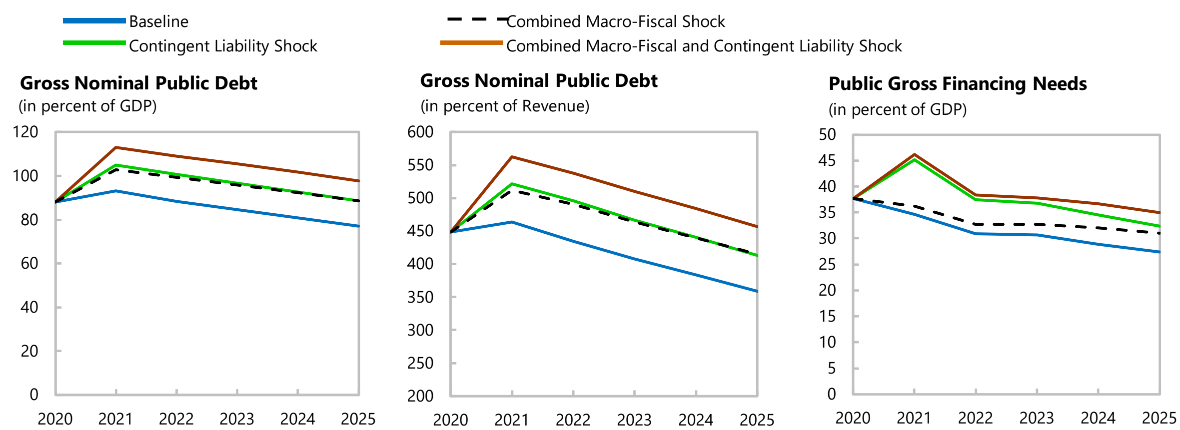
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

## Figure 5. Egypt: Public DSA – Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions

(in percent)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Primary Balance Shock** | | | | | | |
| Real GDP growth | 2.0 | 2.0 | 6.5 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 7.8 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary balance | 1.3 | -0.7 | 0.9 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 11.0 | 9.3 | 8.7 | 8.5 | 8.5 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 2.0 | 2.0 | 6.5 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 7.8 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary balance | 1.3 | 0.4 | 2.0 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 11.0 | 9.8 | 9.5 | 9.6 | 9.7 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 2.0 | 0.7 | 5.2 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 42.6 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary balance | 1.3 | -0.7 | 0.9 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 12.7 | 8.4 | 8.7 | 8.7 | 8.9 |
| **Contingent Liability Shock** | | | | | | |
| Real GDP growth | 2.0 | 0.7 | 5.2 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 7.5 | 8.5 | 8.2 | 7.8 | 7.8 |
| Primary balance | 1.3 | -9.6 | 2.0 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 11.0 | 8.9 | 8.8 | 8.5 | 8.5 |

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Real GDP Growth Shock** | | | | | | |
| Real GDP growth | 2.0 | 0.7 | 5.2 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 7.5 | 8.5 | 8.2 | 7.8 | 7.8 |
| Primary balance | 1.3 | 0.1 | 1.5 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 11.0 | 9.2 | 8.6 | 8.5 | 8.5 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 2.0 | 2.0 | 6.5 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 42.6 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary balance | 1.3 | 0.4 | 2.0 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 12.7 | 7.9 | 7.8 | 7.7 | 7.7 |
| **Combined Macro-Fiscal and Contingent Liability Shock** | | | | | | |
| Real GDP growth | 2.0 | 0.7 | 5.2 | 5.3 | 6.0 | 5.6 |
| Inflation | 5.7 | 42.6 | 8.8 | 8.2 | 7.8 | 7.8 |
| Primary balance | 1.3 | -10.7 | 0.9 | 2.1 | 2.1 | 2.1 |
| Effective interest rate | 11.8 | 12.7 | 8.2 | 8.9 | 8.8 | 8.9 |

Source: IMF staff.

## Table 1. Egypt: External Debt Sustainability Framework, 2015–2025

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Debt-stabilizing non-interest current account 6/ |
| **Baseline: External debt** | **15.0** | **18.3** | **41.3** | **37.4** | **34.1** | | | **34.4** | **38.0** | **34.9** | **31.6** | **28.9** | **26.7** | **-4.4** |
| Change in external debt | -0.1 | 3.3 | 23.0 | -3.9 | -3.3 | | | 0.2 | 3.7 | -3.1 | -3.3 | -2.8 | -2.1 | |
| Identified external debt-creating flows (4+8+9) | 0.5 | 3.9 | 7.9 | 0.6 | -5.4 | | | 1.3 | 2.4 | -1.2 | -2.1 | -2.8 | -2.8 | |
| Current account deficit, excluding interest payments | 3.5 | 5.7 | 5.1 | 1.5 | 2.5 | | | 2.9 | 3.2 | 1.7 | 1.0 | 1.1 | 1.2 | |
| Deficit in balance of goods and services | 8.5 | 9.7 | 12.3 | 10.5 | 8.3 | | | 6.2 | 5.6 | 4.7 | 4.0 | 4.2 | 4.3 | |
| Exports | 13.3 | 10.5 | 14.5 | 18.9 | 17.5 | | | 13.1 | 9.7 | 12.6 | 15.0 | 16.1 | 16.6 | |
| Imports | 21.8 | 20.1 | 26.8 | 29.4 | 25.8 | | | 19.4 | 15.4 | 17.3 | 19.0 | 20.2 | 20.9 | |
| Net non-debt creating capital inflows (negative) | -2.0 | -2.1 | -3.2 | -3.1 | -2.6 | | | -2.2 | -1.5 | -2.2 | -2.8 | -3.6 | -3.7 | |
| Automatic debt dynamics 1/ | -1.0 | 0.2 | 5.9 | 2.2 | -5.4 | | | 0.6 | 0.7 | -0.8 | -0.3 | -0.2 | -0.3 | |
| Contribution from nominal interest rate | 0.2 | 0.3 | 0.5 | 1.2 | 1.1 | | | 1.2 | 1.4 | 1.6 | 1.5 | 1.3 | 1.2 | |
| Contribution from real GDP growth | -0.6 | -0.7 | -1.0 | -2.2 | -1.7 | | | -0.6 | -0.7 | -2.4 | -1.7 | -1.6 | -1.5 | |
| Contribution from price and exchange rate changes 2/ | -0.6 | 0.6 | 6.4 | 3.3 | -4.7 | | | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 3/ | -0.5 | -0.6 | 15.1 | -4.5 | 2.1 | | | -1.1 | 1.3 | -1.9 | -1.2 | 0.0 | 0.7 | |
| External debt-to-exports ratio (in percent) | 113.1 | 174.7 | 285.1 | 197.8 | 194.9 | | | 261.7 | 390.7 | 276.2 | 210.5 | 179.4 | 161.1 | |
| **Gross external financing need (in billions of US dollars) 4/** | 18.1 | 25.2 | 24.0 | 20.5 | 25.7 | | | 28.6 | 35.6 | 34.1 | 34.6 | 38.3 | 38.7 | |
| in percent of GDP | 5.4 | 7.6 | 9.4 | 8.2 | 8.5 | | | 8.0 | 10.0 | 9.1 | 8.6 | 8.9 | 8.4 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | **34.4** | **35.0** | **32.6** | **32.0** | **32.4** | **33.5** | **-2.9** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.4 | 4.3 | 4.1 | 5.3 | 5.6 | 3.9 | 1.3 | 2.0 | 2.0 | 6.5 | 5.3 | 6.0 | 5.6 | |
| GDP deflator in US dollars (change in percent) | 4.1 | -4.0 | -25.9 | -7.3 | 14.5 | 1.1 | 11.6 | 15.3 | -1.7 | -1.3 | 1.6 | 1.2 | 1.7 | |
| Nominal external interest rate (in percent) | 1.4 | 1.7 | 2.2 | 2.7 | 3.5 | 2.0 | 0.6 | 4.0 | 4.0 | 4.4 | 4.5 | 4.5 | 4.6 | |
| Growth of exports (US dollar terms, in percent) | 1.4 | -21.0 | 6.7 | 27.4 | 11.8 | 2.0 | 13.2 | -11.7 | -25.6 | 36.4 | 27.1 | 14.1 | 10.8 | |
| Growth of imports (US dollar terms, in percent) | 4.4 | -7.5 | 2.8 | 6.8 | 6.1 | 2.8 | 5.6 | -11.5 | -20.4 | 18.4 | 17.3 | 13.4 | 11.1 | |
| Current account balance, excluding interest payments | -3.5 | -5.7 | -5.1 | -1.5 | -2.5 | -2.8 | 1.6 | -2.9 | -3.2 | -1.7 | -1.0 | -1.1 | -1.2 | |
| Net non-debt creating capital inflows | 2.0 | 2.1 | 3.2 | 3.1 | 2.6 | 1.9 | 1.0 | 2.2 | 1.5 | 2.2 | 2.8 | 3.6 | 3.7 | |

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.

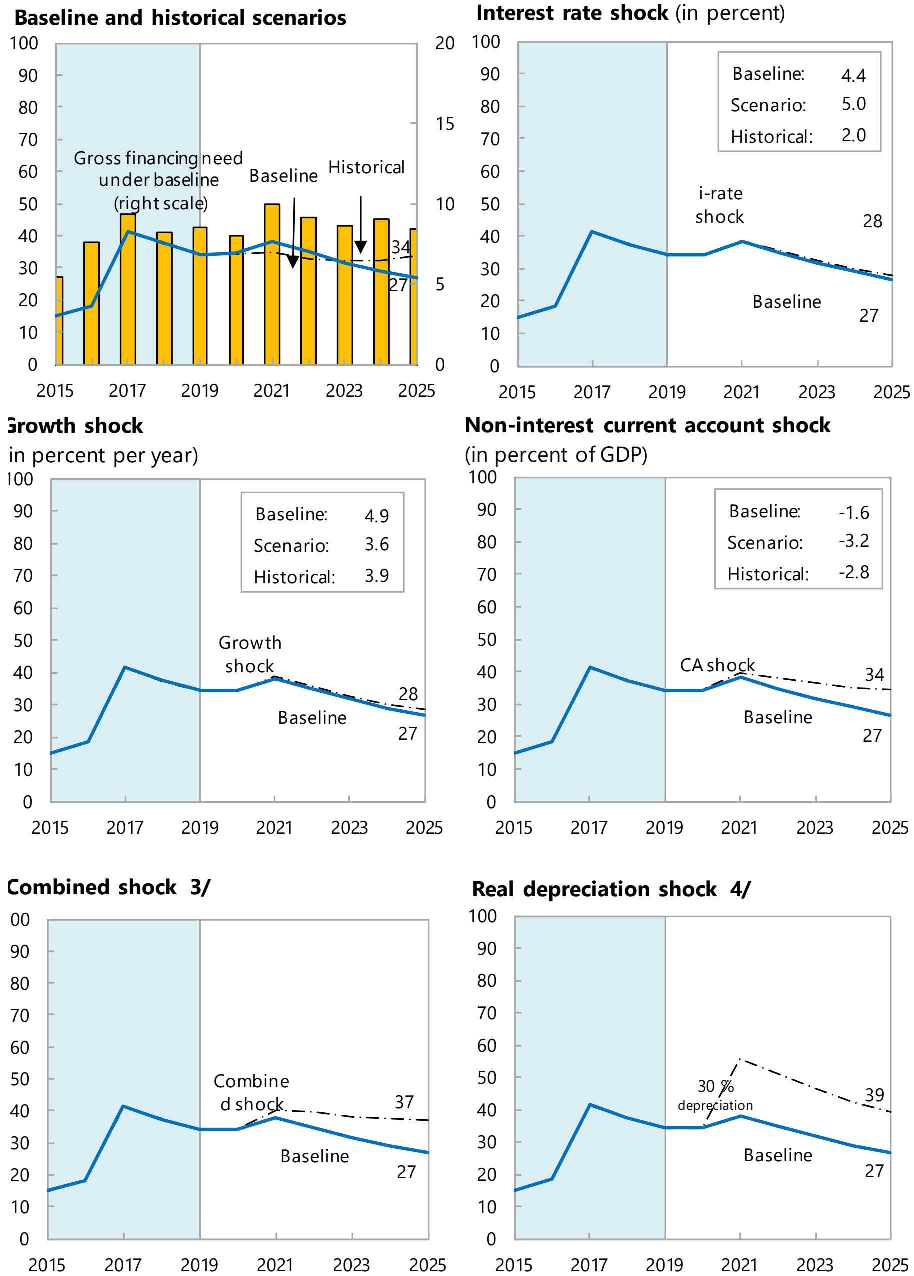
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

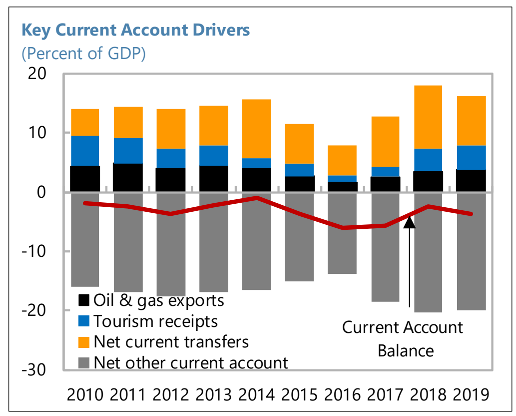
4/ One-time real exchange rate depreciation of 30 percent occurs in 2018/2019.

# Annex II. External Sector Assessment

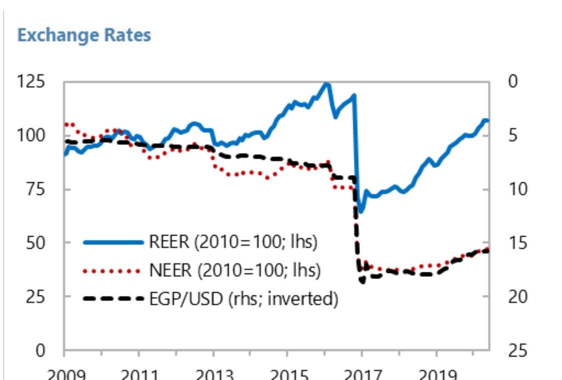
*Notwithstanding the significant uncertainty brought by the current crisis, the external sector assessment concludes that Egypt's overall external position is in line with fundamentals and desirable policies. This determination reflects conditions prevailing before the global shutdown, the specific nature of the COVID-19 shock, and the recent exchange rate depreciation. Going forward, continued commitment to the flexible exchange rate regime and the structural reform agenda are essential for further improvements in competitiveness.*

**1. Prior to the crisis, most indications were consistent with a finding that the overall external position was in line with fundamentals and desirable policies.**

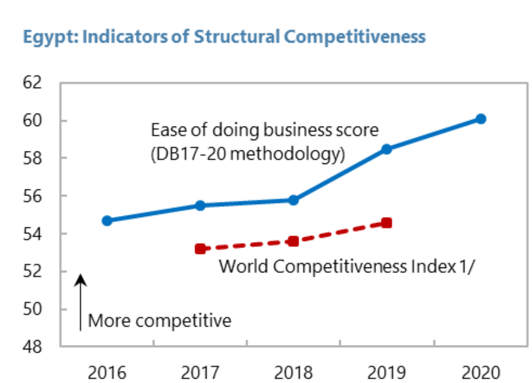
- **Current account developments:** The current account deficit had narrowed significantly—from a trough of about 6 percent of GDP in FY2016/17 to about 3½ percent of GDP in FY2018/19. The improvement was largely driven by a strong recovery in tourism receipts as well as a major increase in oil and gas exports (largely related to the development of a major gas field). Import compression related to the November 2016 devaluation also contributed.




- **Exchange rate developments:** The nominal exchange rate had been generally appreciating since February 2018. With the reforms introduced during the EFF, the exchange rate was market-determined and independent of the CBE's intervention. Because inflation remained elevated until recently, the real appreciation was strong, and the REER had returned to the levels close to those prevailing before the November 2016 devaluation. However, improved fundamentals, as illustrated by rising indicators of structural competitiveness and reflective of the authorities' reform agenda was consistent with an appreciated equilibrium real exchange rate.




Sources: Central Bank of Egypt; Information Notice System; and Haver Analytics; based on available dat as of June 15, 2020.




Sources: World Bank, *Doing Business* and World Economic Forum.
1/ 2017 value is a backcast.

2. **Reserves:** The CBE, allowing the market to set the exchange rate, had accumulated reserves. Prior to the crisis, international reserves were very adequate, at over 130 percent of the floating ARA metric, and well above levels prevailing prior to the EFF (around 66 percent of the fixed ARA metric).

3. **External balance approach:** In line with the observations noted above, the latest EBA estimates for the current account approach indicate that the current account was broadly consistent with fundamentals and desirable policy settings in 2019. The external sustainability approach suggests that the current account was stronger than required to stabilize net foreign assets. However, this approach continues to be less applicable in Egypt's case, given the government's need to reduce indebtedness, including with respect to external creditors.

**Egypt: EBA estimates for 2019** [1/]

(percent of GDP unless otherwise indicated)

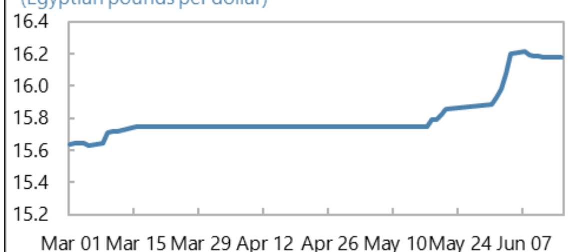
| | |
|---|---|
| Overvaluation based on CA gap (%) | 6.0 |
| Cyclically adjusted CA | -3.6 |
| Cyclically adjusted norm | -2.8 |
| CA GAP | -0.9 |
| REER gap (ES approach; %) | -9.0 |
| Memo: | |
| Semi-elasticity of CA/GDP to REER | 0.14 |

1/ As of February 2020.

4. **Exchange rates**: The (nominal) exchange rate was unchanged from mid-March until mid-May, including during a period of heavy capital outflows. Since then, the Egyptian pound has begun moving again, depreciating by around 3 percent between mid-May and mid-June. The latest data for real effective exchange rate show appreciation through May 2020 by almost 12.9 percent (y/y).

**Nominal Bilateral Exchange Rate**

(Egyptian pounds per dollar)




Source: Central Bank of Egypt; based on available data as of June 15, 2020.

5. **Reserves/capital outflows**: Reflecting the authorities' decision to intervene in the FX market in the face of large capital outflows, reserves declined by $9.5 billion between end-February and end-May. Additionally, a portion of the capital outflows were addressed by a reduction in the CBE's net foreign assets (outside of reserves). The features of the current crisis make it difficult to use conventional approaches and relations when evaluating the overall external position, including:

- **The temporary nature of the current shock**: The overall external position was assessed as being in line with fundamentals ahead of the crisis. The impact of the pandemic on the equilibrium real exchange rate is highly uncertain. However, because the current shock is assessed as being of a temporary nature, there is no clear basis for determining that the underlying fundamentals of the economy have shifted in a durable way that would warrant revising the pre-shock assessment.

- **Limited role for the exchange rate to affect current conditions**: A further-depreciated exchange rate would not boost exports or promote (domestic) expenditure switching in the current environment. The projected drop in tourism receipts is due to the global effort to curb the pandemic. Thus, a more depreciated exchange rate in the current environment is unlikely to improve tourism-related exports. Likewise, petroleum-related exports reflect international market developments; any movement in the EGP is unlikely to have a significant impact.

**6. Nevertheless, the exchange rate will need to continue to be flexible, with its movements determined by supply and demand in the FX market.** Thus, movements in the exchange rate will need to continue occurring (in either direction) based on market developments, with the involvement of the CBE confined strictly to episodes of disorderly market conditions. Likewise, continued implementation of further structural reforms is necessary to assure further improvements in structural competitiveness. In the event that a renewed and extended period of heavy CBE interventions or a loss of reform momentum materialized, are downside risks to this assessment.

# Appendix I. Letter of Intent

June 17, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva,

1. The global COVID-19 outbreak has affected the Egyptian economy in multiple ways and has necessitated a quick and decisive response. In our letter of intent of May 4, 2020 requesting a purchase under the Rapid Financing Instrument, we explained how the Government of Egypt has made significant progress in its prevention efforts in the health sector and in adopting precautionary measures to contain the spread of the virus. The combination of domestic measures, the global slowdown, and the financial market turmoil have significantly slowed economic growth. The impact is further compounded by large capital outflows, a complete halt in tourism, lower remittances, and a slowdown in industrial and real estate activity.

2. To deal with the negative impact of the crisis and to safeguard the hard-won gains of the past three years, we requested a 2-step financing from the IMF. As a first step, the emergency financing of $2.8 billion under the Rapid Financing Instrument was approved on May 11. This served as a bridge to the second step, which is our current request for a 12-month Stand-By Arrangement (SBA) in the amount of SDR 3,763.64 million or 184.8 percent of quota, to support a comprehensive policy framework to maintain macroeconomic stability, including debt sustainability, credible monetary and exchange rate policy, and sustained structural reforms agenda to continue supporting fiscal transparency, governance and private sector-led growth. These policies are described in the attached Memorandum of Economic and Financial Policies (MEFP). In addition to supporting our policy objectives, the SBA will also provide additional fiscal and external financing related to the current COVID-19 crisis. Our other multilateral partners—including the African Development Bank, Arab Monetary Fund, and the World Bank—and bilateral partners such as France and Japan have also committed to additional financing to help ensure that the proposed program is fully financed along with a recent $5 billion Eurobond issuance on the international capital market. Our strong macroeconomic program, with support from the IMF and other partners, will bolster confidence in the Egyptian economy and help us weather the impact of the crisis and pave the ground for a solid and swift economic recovery once global and domestic conditions permits.

3. Our program entails implementing policies to ensure fiscal and debt sustainability, a strong and credible monetary and exchange rate policy framework, safeguarding the resilience of the financial sector, and continue providing tailored and timely support to the most affected sectors and the vulnerable. Spending will be focused on meeting the heath sector needs to deal with the crisis and on alleviating the negative impact on the most vulnerable people and businesses. All crisis-

related measures will be temporary and targeted, and will be rolled back when conditions allow. In the interest of transparency and accountability, we will continue to track and report all crisis-related spending, including through our various fiscal documents published throughout the budget cycle in line with international best practices. We intend to publish all crisis-related spending in a consolidated manner on the Ministry of Finance web site and will publish government procurement plans and awarded contracts for the emergency responses to COVID-19, including the names of the awarded companies and information on beneficial ownership in accordance with the applicable law. As is customary, the Accountability State Authority will audit crisis-mitigating inflows and spending including ex-post validation of delivery and publish the results of such COVID-19 spending review after the end of the fiscal year.

4. In addition, we are committed to make any necessary adjustments to the budget for FY2020/21 by reducing relatively lower priority spending to accommodate more urgent spending needs and any unexpected revenue decline. Based on the outlook in the current baseline, our aim is to return to a primary balance of 2 percent of GDP and resume the downward trajectory of the debt path starting from FY2021/22. Measures introduced by the CBE to address the immediate effects of the crisis will be rolled back as the economy recovers. We are also strongly committed to exchange rate flexibility and allowing its market-based movement, with intervention limited only for disorderly market conditions. While focusing on the immediate needs of the economy in light of the crisis, we will continue to implement feasible structural reform measures from our home-grown reform plan while responding to the pandemic and its consequences, as well as help preparing for a solid economic recovery. Finally, recognizing the unusually high uncertainty in the economic environment, we stand ready to consider additional policies, beyond the measures outlined in the attached MEFP, to safeguard stability in the event the crisis is deeper or more prolonged than anticipated at this time.

5. In line with the Fund's policy, a safeguards assessment of the CBE is currently underway and is expected to be well-advanced at the time of the Board consideration of the SBA request. Also, in line with the Fund's policy, we are committed to undergo a fiscal safeguards review, given that the SBA financing will entail exceptional access to IMF resources and will be used for budgetary financing. The CBE and the Ministry of Finance will sign a memorandum of understanding that clarifies the responsibilities for timely servicing of the obligations to the Fund related to this agreement, similar to our commitment at the time of the request for RFI financing.

6. We believe that the policies described in the attached MEFP are adequate to safeguard macroeconomic stability despite the ongoing crisis. We will monitor economic developments and performance and we stand ready to take additional measures that may become necessary to achieve our program objectives. In accordance with the Fund's policies, we will consult with the IMF on adoption of these measures and in advance of revisions to policies contained in the MEFP. We will supply the Fund with timely and accurate data that are needed for program monitoring and the semi-annual program reviews. The first review is expected to be completed on or after December 1, 2020 and the second review will be completed on or after June 1, 2021.

7. We authorize the IMF to publish this letter, the MEFP including Tables 1 and 2, the TMU and the related staff report.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| **Tarek Amer** | **Mohamed Maait** |
| Governor of the Central Bank of Egypt | Minister of Finance |
| Arab Republic of Egypt | Arab Republic of Egypt |

Attachments (2)

# Attachment I. Memorandum of Economic and Financial Policies

## A. Introduction

**1. Egypt is facing several challenges as a result of the ongoing COVID-19 pandemic and its domestic and global economic implications.** The number of confirmed cases has increased in recent days—as of June 4, 2020 there were 28,615 confirmed cases and 1,088 deaths, up from 779 as of April 1, 2020, and only 2 cases as of March 1, 2020. Domestic activity has slowed down as a result of the precautionary measures put in place to contain the virus. Tourism has been brought to a standstill since mid-March 2020, remittances are likely to be affected in the coming months and a slowdown in manufacturing and real estate sectors is expected. Turbulent global market conditions have resulted in a significant reversal of capital flows, although outflows have slowed significantly in recent weeks. As a result, growth has slowed down, even as additional socio-economic consequences are unfolding.

**2. The significant buffers accumulated over the past three years have helped Egypt withstand the shock thus far and enabled the government to respond decisively with a comprehensive support package comprising virus containment as well as fiscal, monetary, and financial sectors measures to alleviate the impact of the shock.** Significant progress has been made in expanding testing, conducting sanitation operations, setting up hospitals for treatment and quarantine, bringing back Egyptians abroad while availing needed precautionary heath measures, and stockpiling personal protective equipment. A host of mitigation measures have also been taken, including setting up testing centers, imposing a partial curfew, halting air travel, closing places of worship, schools and universities, and encouraging civil servants to work from home. The government's support package of EGP 100 billion (about 1.8 percent of GDP), includes an expansion of targeted cash transfer social programs to the poor and to irregular workers, targeted support for the most severely impacted sectors, and additional allocation to the healthcare sector. The Central Bank of Egypt (CBE) reduced policy interest rates by 300 basis points in mid-March, to help support economic activity and alleviate pressures in domestic financial markets. Banks have been instructed to defer repayment obligations for all customers by six months. A debt relief initiative for individuals at risk of default, and a stock-purchase program to support the domestic equity market have also been announced.

**3. Nonetheless, as elsewhere in the world, the short-term macroeconomic impact of the shock is expected to be significant.** The economic fallout from the pandemic is being felt through tourism, which is at a standstill, and a significant reversal of capital flows since early March. Remittances are likely to significantly decline, domestic activity is slowing as a result of the measures to contain the spread of the virus, and export-oriented sectors and activities are affected as well due to significant reduction in global demand. Like other emerging markets, Egypt experienced sizable capital outflows, decline in foreign currency reserves, and increase in sovereign spreads, notwithstanding a recent improvement. The government's finances are also under pressure, as the economic slowdown impacts revenue collection just as spending pressures increase to support critical health needs and other spending to support vulnerable people and businesses.

**4. To ensure all necessary mitigation measures are being taken, a phased plan has been put in place to resume domestic activity.** Phase one applies precautionary measures including social distancing and compulsory wearing of masks. Phase 2 is less restrictive and will start after observing daily decreases in the number of infections for 14 consecutive days. Phase 3 is the least restrictive and will start after observing no spike in number of infections for 28 days. Egypt has decided to resume business activities, including allowing hotels to initially open with 25 percent capacity under phase one, in a cautious and gradual manner. Relaxing constraints on business activity is expected to help businesses stay afloat and allow workers to remain employed. Still, Egypt stands ready to tighten or adjust precautionary measures as needed.

## B. Recent Economic Development and Outlook

**5. Egypt's pre-COIVD macroeconomic performance remained strong in the first half of FY2019/20 and up to February 2020 the growth outlook was favorable, but it is expected to be affected with the COVID-19 shock.** Critical macroeconomic reforms implemented under the government's reform program, supported by the 2016–19 EFF, were successful in achieving macroeconomic stabilization and addressing large external and domestic imbalances. Supported by a recovery in tourism and rising natural gas production, real GDP increased by 5.6 percent (year-on-year) in the first half of FY2019/20 and by 5 percent (year-on –year) for the third quarter (January-March) of the year, supporting a steady decline in unemployment to 8 percent down from above 9 percent a year earlier, and a slowdown in the annual headline consumer price inflation from 14 percent in May 2019 to 5.9 percent in April 2020. The reforms have restored balance to the external sector and helped achieve a primary fiscal balance of 2 percent in FY2018/19 for the first time in many years. The budget also recorded around EGP 51 billion primary balance during July-April of FY2019/20, and we were on track to reach the budget target of around 2 percent of GDP due to the strong fiscal performance prior to the COVID-19 shock. This strong performance resulting from bold economic reforms enhanced Egypt's economic resilience and led to the build-up of strong buffers that proved indispensable to face the current crisis.

**6. However, the COVID-19 outbreak has caused significant adverse economic ramifications.** While there is considerable uncertainty regarding the outlook and projections vary significantly, the COVID-19 outbreak is driving a downward revision to Egypt's growth by the IMF from 5.5 percent to 2 percent in FY2019/20, and from 5.2 to 2 percent in FY2020/21, particularly to reflect the sharp slowdown in tourism and supporting industries as well as manufacturing, real estate and trade, despite construction, oil refinery, and agriculture remaining fairly robust. Assuming that macroeconomic stability will be maintained, a strong rebound of 6.5 percent is expected in FY2021/22 as domestic activity starts to normalize, although a full recovery in tourism to pre-crisis levels could take longer given public health concerns may continue to weigh on international travel. Inflationary pressures are expected to remain contained with annual headline inflation increasing from just under 6 percent on average in FY2019/20 to about 8.2 percent in FY2020/21, affected mainly by unfavorable base effects and macroeconomic developments of the COVID-19 outbreak

**7. The external position is expected to be affected in FY2019/2020 although the sharp decline in imports is likely to be an important offsetting factor.** The current account deficit is projected to widen from 3.6 percent of GDP in FY2019/20 to 4.2 percent of GDP in FY2020/21 and 4.5 in FY2021/22 and improve thereafter. While Egypt experienced large capital outflows, particularly in March and April 2020, up to around $15.6 billion, the capital flows have stabilized since then.

**8. The fiscal position is likely to come under pressure due to weaker revenues and increasing spending needs.** As a result, public debt is likely to rise in FY2019/20 and FY 2020/21. Revenue is expected to be lower than projected prior to the COVID-19 crisis. Thus, primary surplus will be less than the budgeted 2 percent at around 1.4 percent of GDP in FY2019/20 and at least 0.5 percent of GDP in FY2020/21. Based on the outlook in the current baseline, our aim is to return to a primary balance of 2 percent of GDP and resume the downward trajectory of the debt path starting from FY2021/22. Reflecting the shock to growth and the fiscal pressures, debt is expected to rise to around 93 percent of GDP in FY2020/21 before resuming a declining path once again.

## C. Economic Program

**9. We are implementing a set of strong policies to address the COVID-19 shock and to place the economy on a strong footing to rebound after the crisis.** The objective of our economic program is to safeguard macroeconomic stability, provide the necessary support to affected people and the economy while preventing the accumulation of acute imbalances over the medium term. Policies will therefore focus on enhancing health and social programs while ensuring fiscal and debt sustainability, adopting a strong and credible monetary and exchange rate policy framework, and safeguarding the resilience of the financial sector. We will also continue to implement a set of structural reform measures, while not losing focus of the immediate crisis. In addition to the measures outlined below, we are ready to consider additional policies as needed to safeguard stability in the event the crisis is deeper or more prolonged than anticipated at this time.

### Budget FY2020/21

**10. Effective COVID-19 response will require counter-cyclical easing of fiscal policy.** The government is providing relief to the most vulnerable and liquidity constrained individuals and businesses such as irregular workers and MSMEs, especially those in the worst affected sectors such as tourism, manufacturing that employ a large share of Egypt's labor force, and the hard-hit exporting sectors. Additional resources are also allocated to ensure adequate compensation of public health sector professionals. Conditional cash transfer programs (Takaful and Karama) have been scaled up to reach over 3 million families, and the government is working with non-governmental organizations to ensure support for additional needy people. These programs include providing food and basic needs to quarantined villages and vulnerable groups that are not covered by Takaful and Karama, in addition to supplying medical and sanitation products to vulnerable groups and poor villages. Moreover, these families benefit from bread and food subsidies provided by the government.

**11. To safeguard macroeconomic stability, the budget for FY2020/21 is focused on addressing the crisis with temporary and targeted measures that will be rolled back as soon as conditions allow.** While significant uncertainty remains regarding the impact of the crisis particularly on revenues, the draft budget that was prepared mostly pre COVID-19 and submitted to parliament targeted a primary surplus of about 2 percent of GDP based mostly on pre-COVID-19 projections of revenues and expenditures. However, recognizing the high level of uncertainty and as COVID-19-related economic slowdown continues, it is likely that the tax revenue will under-perform, and spending pressures be higher relative to the draft budget. The government is committed to accommodate priority spending as the needs arise. As such, the draft budget contains a provision to ensure that the primary surplus does not fall below 0.5 percent of GDP, to support crisis-related spending. We expect the draft budget to be approved by parliament by June 20, 2020 (prior action). If additional spending needs arise or revenues underperform, we are prepared to delay low priority current and capital spending in favor of essential spending (particularly on health and targeted social protection). We stand ready to consider a supplementary budget, if needed. The expected lower primary surplus and higher overall deficit are expected to result in higher debt in FY2019/20 and FY2020/21, but we are committed to a ceiling on the accumulation of gross debt of the budget sector (indicative target) In addition, given the government's responsibility to support health and targeted social programs for the most vulnerable people, we are committing to a minimum amount of social spending for FY2020/21 (indicative target).

### Fiscal Structural Reforms

**12. Starting FY2021/22, and based on the outlook in the current baseline, we expect to roll back crisis-related measures, delay non-essential spending, and mobilize additional revenue through a strengthened medium-term revenue strategy (MTRS).**

- We will update and finalize our MTRS including specifying potential revenue measures by end-December 2020 which aims to achieve a higher revenue path, with support from the IMF and other IFIs including the OECD, to reflect the post-COVID-19 environment (structural benchmark). For this, we will build on the planned institutional reforms to improve compliance and performance at both tax and customs administrations. We are working on reengineering and automating the tax process to ensure higher compliance and higher and more efficient collection. We are also working on strengthening the risk management system to enhance the efficiency of tax collection.

- Despite the COVID-19 shock, the government was able to frontload and implement a number of measures targeted under the draft MTRS. Thus, the Government increased in February 2020 excises on cigarettes and tobacco products including bringing to the tax net new products such as heated cigarettes. In addition, a new development fee law was recently approved by parliament that increases the rate of existing fees on several items including raw tobacco, as well as introduce new fees on selected services and products including a green fee on the consumption of gasoline and diesel products. In addition, the personal income tax regime was adjusted recently and will be effective starting FY 2020/21 so as to become more equitable and progressive by increasing the exemption threshold for low and middle income earners by up to 60 percent, introducing a higher tax bracket of 25 percent for higher income earners, and addressing distortions such as abolishing tax credits. We are also exploring options to raise revenue through tax reforms, such as applying VAT to digital services and e-commerce, eliminating profit-based tax incentives, implementing a temporary one percent solidarity tax on personal income as well as 0.5 percent on earned pension.

**13. For the medium term, the Government of Egypt is committed to restoring the downward trend of public debt and to continue recent efforts of containing and reducing public gross financing needs (GFN).**

- Continued improvement in debt management is key to the government's ongoing efforts to strengthen debt sustainability. While GFN are high (about 36 percent of GDP including principal repayments and the overall deficit), the government has a strong track record in meeting these needs, especially given the reliable domestic investor base which significantly reduces rollover risk. We have increased the share of longer-term bonds significantly over the past two years as domestic interest rates started to decline and the real interest rate began reverting to normal levels. We are committed to have at least 70 percent of net new domestic issuance in FY2020/21 in long-term maturities to continue our efforts to lengthen maturities with a view to reduce the GFN. In this regard, the share of net new short-term domestic debt issuance in total net domestic issuances will be limited to 40 percent by end-September 2020 and to 30 percent by end-March 2021(indicative target).

- In addition, the existing medium-term debt strategy (MTDS) will be updated by end-December 2020 to elaborate targets to underpin a significant reduction in the GFN to below 30 percent of GDP in five years and will be revised on an annual basis. This is particularly important given that financial and economic conditions are likely to be more uncertain in the post-COVID-19 environment. The government will seek technical assistance from the World Bank and the IMF to support those efforts, as needed. We are also working to meet the requirements to make domestic-currency debt eligible to be settled through Euroclear in order to open the domestic market to a larger audience of foreign investors and expect to have completed this process by the first quarter of 2021.

**14. We are working to further improve public financial management (PFM). A new draft PFM law will be submitted to parliament by end-December 2020 to strengthen the entire budget process.** It will include (i) a fiscal responsibility provision to guide macro-fiscal policy; (ii) a medium-term budget framework; (iii) main elements of the budget calendar; (iv) minimum contents of the budget documentation; (v) robust provisions on reallocation of resources, contingency reserve and supplementary appropriations; and (vi) accounting rules for all public entities including economic authorities. We will update the fiscal risks statement for the next budget cycle in FY2021/22 or earlier if a supplementary budget becomes necessary.

**15. Efforts are underway to introduce a new social protection legislation.** We aim to merge social pension and cash transfer programs, enhance targeting by redefining conditionality, add grievance redressal mechanisms, include more vulnerable groups, and link social care with social protection. Furthermore, social protection programs aim to expand coverage to various vulnerable groups including offering decent housing to vulnerable groups, social protection for at-risk women, assistance to support micro, small and medium businesses, social protection to elderly, and school feeding programs. In addition, to meet our Sustainable Development Goals (SDGs) for health and education, we are committed to prioritizing much needed reforms in these sectors too. To ensure sufficient and appropriate reallocation of resources and achieve the maximum efficiency, we plan to undertake with the help of World Bank a public expenditure review (PER) on all three areas, namely social protection spending, health, and education. Priority will be given to conclude the PER for social protection by end-April 2021 (structural benchmark). We are committed to begin the PER for health and education subsequently, building on the experience of the PER on social protection.

**Monetary and Exchange Policy**

**16. The monetary policy objective is to achieve low and stable inflation over the medium term in line with the targeted disinflation path and in the context of a flexible foreign exchange market, with measured intervention limited to counter disorderly market conditions.** The CBE has announced a target for Q4 2020 that is an average of 9 percent with a ±3 percent band. Inflation has remained below the target mid-point during 2020, with core inflation below 3 percent, affected by the release of the 10th CPI series as well as its linking methodology with the 9th CPI series and further supported by favorable base effects, but overall indicating that demand pressures are contained. In March 2020, the CBE took a proactive and frontloaded step to lower the policy interest rate by 300 basis points to 9.25 percent to help support economic activity and alleviate pressures in domestic financial markets against the impact of the COVID-19 shock. Current interest rates remain consistent at anchoring inflation expectations within the inflation target range of 9 percent (± 3 percentage points).

**17. Within the CBE's inflation targeting framework, monetary policy decisions aim at anchoring inflation expectations around the targeted levels taking into account the monetary, economic, and financial conditions.** We stand ready to adjust the monetary stance to steer projected inflation into the targeted range, in line with the CBE's price stability mandate. We will support the monitoring of inflation with a Monetary Policy Consultation Clause (MPCC). The MPCC will trigger consultations with IMF staff, when inflation falls outside the 9 ±3 percent range (i.e., inflation falls outside (6 to 12 percent), and with the Executive Board if inflation falls outside the 9 +4/-5 percent range (i.e. inflation falls outside 4 to 13 percent).

| In percent | September 2020 | March 2021 |
|---|---|---|
| Outer upper limit | 13 | 13 |
| Inner upper limit | 12 | 12 |
| **Inflation target** | **9** | **9** |
| Inner lower limit | 6 | 6 |
| Outer lower limit | 4 | 4 |

**18. We will continue to further strengthen the monetary policy framework and the governance and stability frameworks in the banking sector.** In this regard, we expect the new draft Banking and CBE law to be promulgated by the President by September 2020. Under the new law, the CBE mandate is financial sector stability and price stability. Moreover, it will strengthen CBE's governance, financial structure, operational and institutional autonomy, and improve the legal framework for early intervention and resolution. The CBE will continue to further strengthen its analytical and liquidity management capacity, further develop money markets to improve monetary transmission, and continue strengthening its communications strategy. By end-March 2021, we will revamp our financial reporting practices to comply with the Egyptian Accounting Standards starting with the FY2019/2020 financial statements.

**19. Short-term direct lending to the government—overdrafts—will be used only in exceptional situations to bridge financing from other sources.** The stock of overdrafts will not exceed 10 percent of the average revenues of the public budget in the previous three years (indicative target); with full repayment to be made within twelve months. In addition, by end-June 2020 the CBE and the MoF will sign a memorandum of understanding on the conditions of overdrafts, including remuneration at prevailing market interest rates.

**20. With a view to safeguarding the independence of the central bank and safeguarding its financial position, the CBE will not introduce any new subsidized lending schemes and the existing schemes will not be renewed once the currently allocated resources are fully committed.** If there is still an uncommitted portion of the facilities by end-May 2021, the Government and the CBE will sign a Memorandum of Understanding that all interest subsidies related to the uncommitted portion of the facilities will henceforth be incurred by the Government. Any forms of lending to banks by the CBE will be done only for monetary policy (short-term liquidity management) and, if needed, emergency liquidity assistance purposes and other forms of support to banks to safeguard the stability of the banking system in accordance with the CBE Law.

**21. The exchange rate has been generally moving to reflect market forces.** In 2019 the pound strengthened by 12 percent against the US dollar and by another 2 percent in early 2020 as portfolio inflows resumed. Large capital outflows in March and April were met through a drawdown in reserves in the context of disorderly market conditions reflected in the severe turbulence in global financial markets, and to maintain domestic confidence. Official reserves fell from $44.7 billion at end-February to $36.3 billion at end-April. Commercial banks' net foreign assets also dropped in March and April to meet demand for FX outflow.

**22. We will remain committed to a flexible exchange rate and maintaining a healthy level of international reserves. the exchange rate will continue to reflect market forces and to** absorb exogenous shocks, while focusing foreign exchange interventions to addressing disorderly market conditions. We will strictly continue enforcement of regulatory ceilings for commercial banks' net open FX positions. Our goal is to maintain an adequate level of international reserves throughout the program period (keeping gross reserves above 110 percent of the IMF's ARA metric for flexible exchange rate regimes, including through an accumulation of net international reserves (performance criterion). We will also continue to engage with official bilateral creditors to roll over their deposits at the CBE for a period after the program.

### Financial Sector Policies

**23. We will closely monitor financial sector risks while supporting borrowers most negatively impacted by the economic slowdown.** Egypt's banking system entered the COVID-19 crisis well capitalized, with ample liquidity, and sizeable buffers. However, the crisis could affect asset quality and put pressure on liquidity. We will continue to encourage commercial banks to work closely with borrowers heavily affected by the crisis to restructure their loans as needed to enable uninterrupted debt servicing as the current moratorium on repayment obligations is set to expire in September 2020. To support restructurings and boost the provision of credit to the real economy, the CBE might allow banks to temporarily draw down their prudential buffers if needed (e.g., capital conservation buffer and stock of high quality liquid assets), subject to temporary restrictions on capital distributions (e.g., dividends, share buybacks and discretionary bonus payments) to preserve capital resources. However, to ensure transparency and prevent a potential build-up of vulnerabilities, loan classification rules and provisioning requirements will be strictly enforced, and banks will need to closely assess the creditworthiness of their borrowers—especially those that benefit from temporary concessions. We will also ensure that supervisors discuss capital restoration plans with banks at early stages, if losses were to have material impact on banks' capital. Exceptional financial sector measures, taken in response to the COVID-19 outbreak (including but not limited to the CBE's stock purchase program) will be rolled back when conditions allow.

### Structural Reforms

**24. The Government of Egypt is determined to push ahead the necessary reforms to strengthen the role of the private sector.** Our objective is to continue to modernize Egypt's growth model with the private sector as the main engine of growth. In this context, while our immediate focus is addressing the current crisis and safeguarding macroeconomic stability, we also are keen to continue implementation of structural reforms to improve the business and investment environment, strengthening competition and governance, and removing customs and trade barriers.

**25. We will continue to enhance transparency of the operations of state-owned enterprises (SOEs) by (i) publishing an updated SOE report to include detailed financial** information for FY2018/19 on all SOEs and a separate report on Economic Authorities that also includes detailed financial information for FY2018/19 by end-September 2020 (structural benchmark); and (ii) improving the business climate including by passing the draft customs law currently with the Parliament by March 2021 (structural benchmark) to streamline customs procedures and facilitate trade. The draft customs law aims to reduce non-tariff barriers with respect to shipment inspections, documentation requirements, valuation of goods, and mandatory registration of imported goods manufacturers.

**26. Beyond the above immediate reforms, we are continuing our efforts to redefine the role of the SOE sector in Egypt.** For this purpose, we will work towards developing an SOE reform strategy aimed at increasing transparency of SOE operations; modernizing the legal, governance, and operational frameworks for the sector; defining the policy of government ownership of commercial enterprises; and explicitly define rules for the provision of government aid to SOEs, financial and otherwise.

**27. We also intend to take further steps to strengthen competition by leveling the playing field across all economic agents, private and public.** We have already submitted a draft to amend the Egyptian Competition Law to Parliament; additional amendments concerning the Egyptian

Competition Authority (ECA)'s power to scrutinize mergers and acquisitions would be submitted to Parliament by end-December 2020 (structural benchmark).

- The current draft law includes: (i) provisions that ensure the institutional independence of ECA, making its decision making more efficient by reducing the number of government and business representation in the board of directors, enabling ECA's members to carry out market investigation efficiently, and empowering ECA to enact administrative fines and/or measures subject to judicial review; and (ii) provisions to enlarge the scope of exemption afforded to businesses.
- The additional amendments will include (i) provisions that empower ECA to regulate mergers and acquisitions that meet certain thresholds. These transactions shall be subject to prior notification and standstill obligations enabling ECA to review concentrations before their consummation and assess their competitive impact and if necessary, impose the adequate measures to protect the competitive structure of the market; (ii) provisions to ensure protection for SMEs against certain forms of takeover, and that acquisition of minority shareholdings does not adversely affect the competitive structure of the market. These provisions shall apply equally to all market participants including SOEs and ensure smooth disposal of failing assets or the restructure of existing ones; (iii) measures to ensure a transparent and neutral review that respect the parties' due process rights; and (iv) provisions that will enable businesses to request ECA to issue opinions on the competitive impact of certain public regulations. They shall include the measures and remedies that ECA may recommend in this regard. ECA will issue guidelines on public procurement processes to ensure competitive neutrality of procurement operations, encourage the establishment of fair, non-discriminatory procedures and neutral tendering processes, and establish a transparent, fair and open tendering procedures.

**28. We are planning to assess the impact of the recently revised guidelines for industrial land allocation, which were adopted in 2019.** Based on this assessment, for which we will seek World Bank assistance, we will consider revisions to the guidelines to ensure efficient and market-based allocation.

**29. Reforming the National Investment Bank (NIB)—whose mandate is to finance projects included in the state's national economic and social development plan—is a priority.** For this purpose, we hired an international auditor late last year to evaluate NIB's financial position. Based on the findings of the auditor, we will make decisions regarding the NIB reform plan including the institution's revised mandate, business model and its financial structure. We commit to sharing the auditor's report on the NIB, including its financial position, with IMF staff by July 7, 2020. The NIB reform plan, which will include an initial implementation calendar with timebound actions and finalization of its financial structure, will be finalized by end-January 2021 (structural benchmark).

## D. Financing and Program Monitoring

**30. We will continue to mobilize resources from international partners and markets to support our COVID-19 response, stabilization, and economic recovery program.**

**31. The program will be monitored through a prior action, performance criteria, indicative targets, and structural benchmarks as listed in Tables 1 and 2.** Semi-annual program reviews will be based on end-September 2020 and end-March 2021 test dates. The Technical Memorandum of Understanding describes the definitions as well as data provision requirements.

## Table 1. Egypt: Proposed Quantitative Performance Criteria and Indicative Targets for FY2020/21
(In billions of Egyptian pounds unless otherwise indicated)

| | end-September 2020 | end-December 2020 | end-March 2021 |
|---|---|---|---|
| | Test date | Indicative | Test date |
| **I. Quantitative Performance Criteria 1/** | | | |
| Net international reserves of the CBE ($ million; cumulative change, floor) 2/ | 0 | 0 | 3,000 |
| Primary fiscal balance of the budget sector (cumulative, floor) 3/ | 0 | 7 | 15 |
| Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling) | 0 | 0 | 0 |
| **II. Indicative Targets** | | | |
| Government overdraft at the CBE (ceiling) 3/ | 93 | 93 | 93 |
| Tax revenues (cumulative floor) 3/ | 121 | 304 | 484 |
| Social spending of the budget sector (floor) 3/ | 23 | 52 | 81 |
| Share of short-term net new domestic issuance to total domestic treasury issuances (ceiling) 3/ | 40 | 40 | 30 |
| Accumulation of gross debt of the budget sector (cumulative ceiling) 3/ | 226 | 450 | 679 |
| **III. Monetary Policy Consultation** | | | |
| (12-month change in consumer prices) | | | |
| Upper outer band | 13 | 13 | 13 |
| Upper inner band | 12 | 12 | 12 |
| Center target | 9 | 9 | 9 |
| Lower inner band | 6 | 6 | 6 |
| Lower outer band | 4 | 4 | 4 |
| *Memorandum items:* | | | |
| Program disbursements at completion of review ($ million; cumulative change) 2/ | 10,100 | 12,315 | 12,930 |
| External commercial loans (including Eurobonds) assumed under the program ($ million) 2/ | 6,500 | 6,500 | 6,500 |
| External program financing assumed under the program ($ million) 2/ | 1,600 | 2,215 | 2,830 |
| IMF financing assumed under the program ($ million) 2/ | 2,000 | 3,600 | 3,600 |

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

1/ The targets for December 2020 are indicative.

2/ From May 31, 2020.

3/ From the beginning of the fiscal year (July 1, 2020).

| Table 2. Prior Action and Structural Benchmarks Under the 12-Month SBA | | |
|---|---|---|
| **Policy Measure** | **Objective** | **Timing** |
| Approval by Parliament of FY2020/21 budget, consistent with the program understandings with a provision for primary balance of no less than 0.5 percent of GDP | Strengthen fiscal sustainability | Prior action |
| Develop a reform plan for NIB, approved by the Prime Minister in line with MEFP ¶29 | Strengthen public finances and contain risks to the financial sector | End-January 2021 |
| Publish an updated SOE report to include detailed financial information for FY2018/19 on all SOEs and a separate one for Economic Authorities that includes detailed financial information for FY2018/19 | Fiscal transparency and governance | End-September 2020 |
| Cabinet approval of the updated MTRS | Increase tax revenue | End-December 2020 |
| Submission to Parliament of the revised PFM law to strengthen the entire budget process, including by (i) fiscal responsibility provisions to guide macro-fiscal policy; (ii) a medium-term budget framework; (iii) main elements of the budget calendar; (iv) minimum contents of the budget documentation; (v) robust provisions on reallocation of resources, contingency reserve and supplementary appropriations; and (vi) accounting rules for all public entities including economic authorities | Strengthen PFM, improve governance/and reduce corruption risks | End-December 2020 |
| Update the debt management strategy with the focus on lengthening maturities | Reduce debt vulnerabilities | End-December 2020 |
| Submit to Parliament amendments to the competition law to add a new chapter on mergers and acquisitions in line with MEFP ¶27 | Private Sector | End-December 2020 |
| Pass the draft customs law that streamlines customs procedures in line with MEFP ¶25 | Business climate | End-March 2021 |
| Complete Public Expenditure Review to enhance social protection | Social protection | End-April 2021 |

# Attachment II. Technical Memorandum of Understanding

June 17, 2020

**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 IMF Stand-By Arrangement. The quantitative performance criteria and indicative targets are reported in Table 1 of the MEFP.

**2. Program exchange rates are those prevailing on May 31, 2020.**

| As of May 31, 2020 | Currency Unit per US$ |
|---|---|
| SDR | 0.7289 |
| Euro | 0.8980 |
| British Pound | 0.8114 |
| Japanese Yen | 107.1400 |
| Saudi Riyal | 3.7321 |
| Chinese Yuan | 7.1463 |

For all other foreign currencies, the current exchange rates to the U.S. dollar will be used. Monetary gold is valued at $1,731.6 per troy ounce (rate as of May 31).

The program exchange rate of the pound against the US dollar is 15.8270 (the actual exchange rate on May 31, 2020) for FY2020/21.

## 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 May 31, 2020. 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 end-May 2020, foreign reserve assets thus defined amounted to $35,238 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 May 31, 2020, foreign reserve-related liabilities thus defined amounted to $14,519 million.

**6. Adjustors.** The NIR floor will be adjusted for the following:

- *Deviations in program disbursements relative to projections*. The NIR floor will be adjusted up by the full amount of any excess in program disbursements relative to the cumulative projections below and in Table 1. It will be adjusted down by the full amount of the shortfall in program disbursements (as defined in paragraph 7) relative to the cumulative projections below, except for shortfalls in external bond issuances (e.g. Eurobonds), for which there will be no downward adjustment.

- *Repo margin calls*. The NIR floor will be adjusted down (up) by any margin call payments (receipts) associated with the CBE's repo facilities.

- *Arbitration payments*. The NIR floor will be adjusted down by the amount of arbitration payments agreed before May 31, 2020.

The cumulative projections for program disbursements are $10,100 million as of September 2020 and $12,930 as of March 2021.

**7. Program disbursements** are defined as external disbursements of loans, grants and deposits for the budget support purposes, IMF purchases under the Stand-By arrangement, 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. Floor on Primary Fiscal Balance of the Budget Sector (PC)

**8. 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, a number of regulatory authorities, funds, universities and hospitals.

**9. The primary fiscal balance of the budget sector** under the program is defined as the overall balance minus total interest payments of the budget sector. The overall balance is measure 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 FY2018/19 the primary balance of the budget sector was EGP-103.1 billion.

**10. 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.

**11. 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 program financing, i.e., the disbursement shortfalls will reduce primary deficits and excesses will increase them, relative to the cumulative projections in Table 1. The U.S. dollar amounts will be converted into Egyptian pounds using the program EGP/$ exchange. Any impact on the primary balance arising from fiscal operations associated with the restructuring of the National Investment Bank will result in the primary balance target being adjusted down by that amount. Any impact on the primary balance arising from the transfer of the cost of quasi-fiscal lending operations of the CBE to the budget and/or implementation of the new CBE law approved by Parliament will result in the primary balance target being adjusted by that amount.

## C. Government overdraft at the CBE (IT)

**12. Government overdraft at the CBE** is defined as the balance on the government's overdraft account at the CBE including government's foreign currency deposits at the CBE. As of May 31, 2020, the government overdraft at the CBE amounted to EGP 0.0 billion. The ceiling on the overdraft facility is EGP93 billion for FY2020/21.

## D. Social Spending Floor (IT)

**13. The social spending floor** includes spending related to the budget of the Ministry of Solidarity and the Ministry of Health. The total annual budgeted spending for FY2020/21 amounts to EGP 115 billion.

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

**14. 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 to Egyptian pounds using the program EGP/$ exchange rate. The program target is defined as a cumulative change in debt of the budget sector from the beginning of the fiscal year.

## F. Tax Revenue (IT)

**15. Tax revenue** includes both sovereign and non-sovereign taxes such as personal income tax, corporate income tax, GST/VAT, excises, international trade taxes, and other taxes.

## G. Short-term domestic issuance (IT)

**16. Domestic debt issuance is defined as EGP-denominated marketable securities issued by the budget sector.** The program target is defined as the net increase in domestic securities with a maturity of less than 12-months as a share of the total net increase in domestic marketable debt from the beginning of the fiscal year.

## H. Monetary Policy Consultation Clause

**17. Definitions:** Inflation is defined as the year-on-year change in the end-of-period headline urban consumer price index (average FY2018/19 = 100), as measured and published by the Central Agency for Public Mobilization and Statistics (CAPMAS).

**18. Reporting:** Data will be provided to the Fund with a lag of no more than 10 business/ working days after the test date.

**19. Consultation with IMF Board would be triggered for the end-September 2020 and end-March 2021 test dates if inflation (year on year) falls below 4 percent or is above 13 percent.** The consultation with the Board will be on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA. Specifically, the consultation will explain (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for deviations from the specified band; and (iii) on proposed remedial actions, as deemed necessary. In addition, a staff consultation whereby the CBE will consult with IMF staff on the outlook for inflation and the CBE's proposed remedies will be triggered if inflation (y/y) falls below 6 percent or above 12 percent for both the end-September 2020 and end-March 2021 test dates.

## I. Continuous Performance Criteria

**20. Non-accumulation of external debt payments (principal and interest) arrears by the general government (as defined in paragraph 8).** No new external debt payments (including on long-term leases) arrears will be accumulated during the program period. For the purposes of this performance criterion, an external debt payment arrear is defined as an amount of payment obligation (principle and interest) due to nonresidents by the general government and the CBE, which has not been made when due under the contract, including any applicable grace period. The performance criterion will apply on a continuous basis throughout the arrangement.

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

## J. Monitoring and Reporting Requirements

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

## K. Data Reporting

**Table 1A. 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 | Q | 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. Expenditures to include data on health and social spending. | M | 30 calendar days |
| Summary accounts of NIB and SIFs, consistent with presentation of general government accounts | Q | 60 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 | Q | 30 calendar days (60 days for the general government) |
| Debt of the budget sector by maturity of issuance, at actual and program exchange rates | M | 30 calendar days |
| Debt guarantees issued by General Government and the CBE | Q | 45 calendar days |
| Gross and net stock of bonds issued by the government to Social Insurance Fund | Q | 30 calendar days |
| Gross and net domestic borrowing of the budget sector, including gross and 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 (60 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 |
| 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 |
| Financial information of NIB: i) detailed balance sheet, including interest on assets and liabilities across maturities; 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 | Q | 60 calendar days |
| Note: Q= quarterly; M = Monthly; W = Weekly | | |

| Table 1B. Central Bank of Egypt | | |
| --- | --- | --- |
| **Item** | **Frequency** | **Submission Lag** |
| Program net international reserves and its components (foreign reserve assets and foreign reserve-related liabilities) of the CBE at program and current exchange rates | M | 7 working days |
| Program disbursements and its breakdown by components (as defined in paragraph 7 above) | M | 7 working days |
| Breakdown of gross foreign assets and liabilities (including foreign currency liabilities to residents) of the CBE by currency at actual and program exchange rates | M | 15 calendar days |
| Breakdown of foreign reserve-related liabilities (including foreign currency liabilities to residents) of the CBE by original maturity at actual and program exchange rates | M | 15 calendar days |
| Stock of outstanding external debt payment arrears of the general government (if any) by creditor | M | 30 calendar days |
| Amortization schedule for external debt payments, 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, international investment position and external debt 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 |
| Bank-by-bank foreign exchange net open position | M | 30 calendar days |
| Commercial bank-by-bank data: i) balance sheets by currency (foreign exchange and Egyptian pound); ii) income statements; iii) breakdown of loan classification, deposits, due from/to, securities holdings, repos, fixed and repossessed assets, and net open positions; and iv) FSI indicators (capital, asset quality, earnings and liquidity). | 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 1B. Central Bank of Egypt (concluded) | | |
|---|---|---|
| Central bank's weekly analytical balance sheet (preliminary data to be submitted once a week for the previous week) | W | 7 working days after the end of the week |
| Daily official exchange rates EGP/ $ (data to be submitted once a week for the previous week) | W | 5 working days after the end of the week |
| Central bank daily purchases and sales of foreign exchange by counterparts – commercial banks, EGPC, GASC, government | W | 2 working days after the end of the week |
| Daily average buy and sell exchange rates EGP/$ as quoted by foreign exchange bureaus and banks (data to be submitted once a week for the previous week) | W | 5 working days after the end of the week |
| Daily interbank turnover in the FX spot market | M | 15 working days |
| Note: Q = Quarterly; M = Monthly; W = Weekly | | |

**Statement by the Staff Representative on Arab Republic of Egypt**
**June 26, 2020**

*This statement provides an update on developments since the issuance of the staff report on Request for a 12-Month Stand-By Arrangement on June 17. This information does not in any way alter staff's appraisal.*

1. **The authorities have passed the FY2020/21 budget consistent with program targets, meeting the prior action for the SBA request.** The new budget also contains an article to ensure the authorities will meet a primary balance floor of 0.5 percent of GDP in the upcoming fiscal year, in line with the understandings and quantitative targets under the SBA. The government's ongoing response to the COVID-19 pandemic is reflected in the increases in budget allocations for health, agriculture, and education. In particular, allocations for health-related spending were increased by 26 percent and those for social spending by around 10 percent.

**2. The update to the safeguards assessment of the Central Bank of Egypt (CBE) is nearly complete.** Under normal circumstances, the assessment would be completed by the time of the Board approval of the SBA following an emergency financing. However, the pace of developments in response to the health and economic crisis created by the COVID-19 pandemic—with the RFI approved last month—has precluded this possibility. Nevertheless, the remote safeguards mission is substantially complete. The mission found that the CBE continues to have a strong control framework. The draft bill for the Banking and CBE Act, approved by Parliament and expected to be enacted in September, remains substantively consistent with staff advice. The CBE is working toward full implementation of Egyptian Accounting Standards in the 2020 financial statements.

# ARAB REPUBLIC OF EGYPT

June 18, 2020

## ASSESSMENT OF THE RISKS TO THE FUND AND THE FUND'S LIQUIDITY POSITION

## EXECUTIVE SUMMARY


This Supplement assesses the risks to the Fund and the Fund's liquidity position, as required under the Fund's exceptional access policy, in light of Egypt's request for a 12-month Stand-By Arrangement (SBA) for 184.8 percent of quota (SDR 3.764 billion or about US$5.2 billion). The proposed level of access under the 12-month SBA would exceed both the annual access limit of 145 percent of quota and the cumulative limit of 435 percent of quota.

**Key Issues and Findings**

- The proposed SBA will have a modest impact on the Fund's liquidity, and—together with Egypt's prior purchases under the EFF and RFI—a moderate impact on the Fund's credit exposure. The Fund's Forward Commitment Capacity would fall by 2¼ percent and Egypt would remain the Fund's second-largest borrower.

- Egypt's capacity to repay the Fund remains adequate, albeit with some risks. The risks relate in part to a bunching of repurchases.

- Repurchases under the SBA will largely coincide with those under the recently approved RFI. Combined also with repurchases under the earlier extended arrangement under the Extended Fund Facility ("EFF arrangement"), this leads to a considerable bunching of debt service payments during FY2023/24–FY2024/25. In these two years, total debt service to the Fund will amount to some SDR 8.3 billion (about USD 11.5 billion), or almost 24 percent of gross international reserves.

- The authorities' favorable track record and commitment to strong policies, and continued access to international capital markets (even as recently as May 2020), are important risk-mitigating factors.

Approved By
**Andrew Tweedie and Petya Koeva Brooks**

Prepared by the Finance and Strategy, Policy, and Review Departments.

## CONTENTS

# INTRODUCTION

**1. This note assesses the risks to the Fund arising from Egypt's request for a 12-month Stand-By Arrangement (SBA) and its effects on the Fund's liquidity, in accordance with the policy on exceptional access**. The Egyptian authorities have requested an SBA with the Fund of 184.8 percent of quota (SDR 3.764 billion or about US$5.2 billion) to help alleviate an urgent balance-of-payments need from the global economic and financial consequences of COVID-19. This shock has severely affected the Egyptian economy, with growth expected to slow in both FY2019/20 and FY2020/21 as tourism and domestic activity have been curtailed. The external accounts have also come under further pressure from capital outflows and significantly lower remittances. The proposed SBA, together with the recent purchase under the Rapid Financing Instrument (RFI), will help close the external financing gap in 2019/20 and 2020/21 and is expected to help catalyze additional sources of external official and market financing. The proposed level of access under the 12-month SBA would exceed both the annual access limit of 145 percent of quota and the cumulative limit of 435 percent of quota.

# BACKGROUND

**2. Egypt is currently the Fund's second largest credit exposure, following its recent purchase under the RFI, and its completion of a three-year EFF arrangement in 2019, Egypt's first Fund arrangement since the 1990s**.

- Egypt purchased an amount of SDR 2,037.1 million (100 percent of quota) under the RFI on May 11, 2020.

- Egypt's most recent Fund arrangement was an EFF arrangement for an amount of SDR 8,597 million, or approximately US$12 billion (422 percent of quota), approved on November 11, 2016. All reviews were concluded and the arrangement fully drawn, with the Executive Board completing the fifth and final review on July 24, 2019. Egypt's EFF-supported program was largely successful in achieving macroeconomic stabilization, addressing external and domestic imbalances, and putting debt on a downward trajectory while also implementing a first wave of structural reforms. Still, public debt remains elevated and gross financing needs are still large, while a significant structural reform agenda remains.

- In the 1990s, Egypt had three arrangements with the Fund, including two that were treated as precautionary (Table 1): a two-year precautionary SBA, approved on October 11, 1996, for an amount of SDR 271 million (40 percent of quota); and a three-year arrangement under the Extended Fund Facility (EFF), approved on September 20, 1993, for SDR 400 million (59 percent of quota). Egypt purchased SDR 147 million out of SDR 234 million (51 percent of quota) available under an SBA approved on May 17, 1991.

**Table 1. Egypt: IMF Financial Arrangements and Fund Exposure, 1986–2030**
(in millions of SDRs)

| Year | Type of New Arrangement | Date of Arrangement | Date of Expiration or Cancellation | Amount of New Arrangement | Amount Drawn | Fund Exposure 1/ | |
|---|---|---|---|---|---|---|---|
| 1986 | | | | | | 25.0 | |
| 1987 | SBA | 15-May-1987 | 30-Nov-1988 | 250.0 | 116.0 | 128.5 | |
| 1988 | | | | | | 116.0 | |
| 1989 | | | | | | 116.0 | |
| 1990 | | | | | | 87.0 | |
| 1991 | SBA | 17-May-1991 | 31-May-1993 | 234.4 | 147.2 | 89.0 | |
| 1992 | | | | | | 147.2 | |
| 1993 | EFF | 20-Sep-1993 | 19-Sep-1996 | 400.0 | 0.0 | 147.2 | |
| 1994 | | | | | | 132.2 | |
| 1995 | | | | | | 69.5 | |
| 1996 | SBA | 11-Oct-1996 | 30-Sep-1998 | 271.4 | 0.0 | 10.9 | |
| 1997 | | | | | | 0.0 | |
| : | | | | | | : | |
| : | | | | | | : | |
| 2015 | | | | | | 0.0 | |
| 2016 | EFF | 11-Nov-2016 | 29-Jul-2019 | 8,596.6 | 8,596.6 | 1,970.1 | |
| 2017 | | | | | | 4,298.3 | |
| 2018 | | | | | | 5,731.1 | |
| 2019 | | | | | | 8,596.6 | |
| 2020 | RFI/SBA | | | *4,642.70* | | *10,633.7* | 2/ 3/ |
| 2021 | SBA | June 2021 | | *1,158.04* | | *14,069.0* | 2/ |
| 2022 | | | | | | *13,233.2* | 2/ |
| 2023 | | | | | | *11,287.5* | 2/ |
| 2024 | | | | | | *7,243.8* | 2/ |
| 2025 | | | | | | *3,781.9* | 2/ |
| 2026 | | | | | | *2,059.6* | 2/ |
| 2027 | | | | | | *955.2* | 2/ |
| 2028 | | | | | | *358.2* | 2/ |
| 2029 | | | | | | *0.0* | 2/ |
| 2030 | | | | | | *0.0* | 2/ |

Source: Finance Department.

1/ As of end-December, unless otherwise stated.
2/ Figures including transactions under the proposed program are in italics. Fund exposure is derived assuming purchases are made as per schedule and Egypt remains current on all its scheduled repurchases.
3/ Includes a purchase of SDR 2,037.10 million under the RFI in May 2020, and purchases of SDR 1,447.56 million upon approval of the SBA and SDR 1,158.04 million upon completion of the first review.

3. **Egypt's total external debt has risen considerably since 2016.** Total external debt rose in the wake of the sharp devaluation in November 2016, peaking at around 37 percent of GDP at end-2017/18 (Table 2). The largest component of external debt is medium- and long-term borrowings by the public sector. Overall external debt as a share of GDP is relatively modest in comparison with other exceptional access borrowers, but public external debt is slightly above the median (Figure 1).

**Table 2. Egypt: External Debt Structure, 2013/14–2019/20 1/**

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|---|
| | (In billions of U.S. Dollars) | | | | | | |
| Total External Debt | 46.1 | 48.1 | 55.8 | 79.0 | 92.6 | 108.7 | 112.7 |
| **Medium and long-term debt** | 42.4 | 45.5 | 48.7 | 66.8 | 80.4 | 97.6 | 101.4 |
| Bonds | 6.1 | 4.9 | 3.5 | 9.0 | 14.3 | 19.4 | 20.9 |
| *of which* Public | 6.1 | 4.9 | 3.5 | 9.0 | 14.3 | 19.4 | 20.9 |
| Loans | 36.3 | 40.5 | 45.3 | 57.8 | 66.1 | 78.3 | 80.5 |
| Public | 36.3 | 40.5 | 45.1 | 57.6 | 65.6 | 77.9 | 80.2 |
| Multilateral | 12.2 | 12.2 | 14.1 | 21.8 | 28.4 | 32.8 | 34.7 |
| *of which* IMF | 1.4 | 1.3 | 1.3 | 4.0 | 9.3 | 11.2 | 13.1 |
| Use of Fund Credit | 0.0 | 0.0 | 0.0 | 2.7 | 8.1 | 10.0 | 11.9 |
| SDR Allocation | 1.4 | 1.3 | 1.3 | 1.2 | 1.3 | 1.2 | 1.2 |
| Bilateral (including official deposits) | 23.5 | 26.7 | 27.8 | 29.4 | 28.8 | 30.0 | 30.3 |
| Repo and suppliers' credit | 0.5 | 1.5 | 3.1 | 6.5 | 8.4 | 15.1 | 15.2 |
| Private non-guaranteed | 0.0 | 0.0 | 0.2 | 0.2 | 0.5 | 0.4 | 0.4 |
| **Short-term external debt** | 3.7 | 2.6 | 7.0 | 12.3 | 12.3 | 11.1 | 11.3 |
| Central Bank | 0.5 | 0.0 | 3.2 | 8.2 | 6.3 | 3.2 | 3.2 |
| Banks | 0.9 | 1.4 | 1.9 | 1.1 | 1.8 | 3.7 | 3.4 |
| Other sectors | 2.3 | 1.1 | 1.9 | 3.0 | 4.1 | 4.2 | 4.8 |
| | (In Percent of GDP) | | | | | | |
| Total External Debt | 15.1 | 14.5 | 16.8 | 30.8 | 37.0 | 36.0 | 31.7 |
| **Medium and long-term debt** | 13.9 | 13.7 | 14.7 | 26.0 | 32.1 | 32.3 | 28.5 |
| Bonds | 2.0 | 1.5 | 1.1 | 3.5 | 5.7 | 6.4 | 5.9 |
| *of which* Public | 2.0 | 1.5 | 1.1 | 3.5 | 5.7 | 6.4 | 5.9 |
| Loans | 11.9 | 12.2 | 13.6 | 22.5 | 26.4 | 25.9 | 22.6 |
| Public | 11.9 | 12.2 | 13.6 | 22.5 | 26.2 | 25.8 | 22.5 |
| Multilateral | 4.0 | 3.7 | 4.2 | 8.5 | 11.4 | 10.9 | 9.8 |
| *of which* IMF | 0.5 | 0.4 | 0.4 | 1.6 | 3.7 | 3.7 | 3.7 |
| Use of Fund Credit | 0.0 | 0.0 | 0.0 | 1.1 | 3.2 | 3.3 | 3.3 |
| SDR Allocation | 0.5 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.3 |
| Bilateral (including official deposits) | 7.7 | 8.1 | 8.4 | 11.5 | 11.5 | 9.9 | 8.5 |
| Repo and suppliers' credit | 0.2 | 0.5 | 0.9 | 2.5 | 3.4 | 5.0 | 4.3 |
| Private non-guaranteed | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 |
| **Short-term external debt** | 1.2 | 0.8 | 2.1 | 4.8 | 4.9 | 3.7 | 3.2 |
| Central Bank | 0.2 | 0.0 | 1.0 | 3.2 | 2.5 | 1.1 | 0.9 |
| Banks | 0.3 | 0.4 | 0.6 | 0.4 | 0.7 | 1.2 | 0.9 |
| Other sectors | 0.7 | 0.3 | 0.6 | 1.2 | 1.6 | 1.4 | 1.3 |

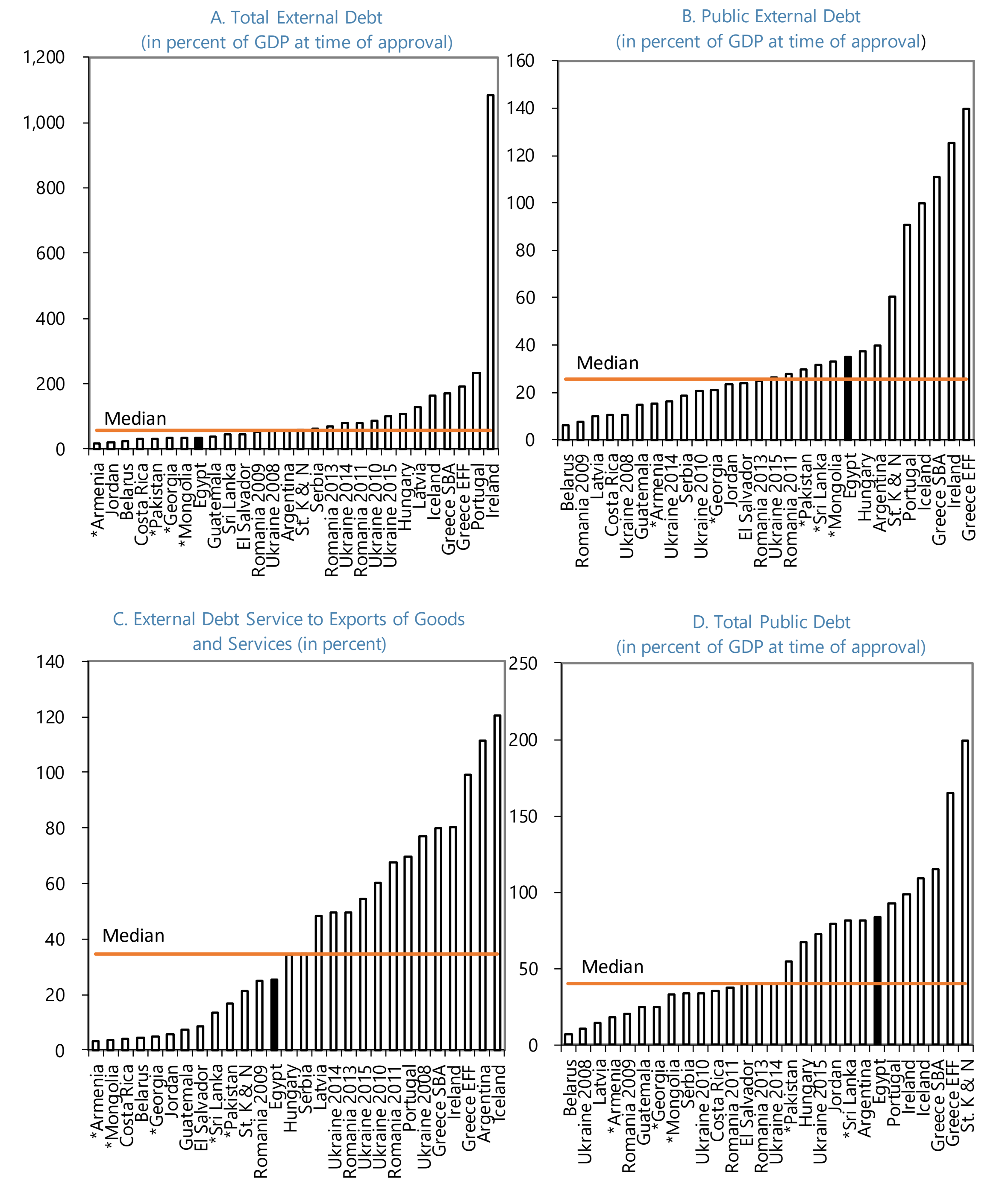
Source: Egyptian Authorities and IMF staff estimates.

1/ End of fiscal year (July 1st–June 30th) except for 2019/20, where data are for December 2019.

4. **Public debt and gross financing needs remain high**. Gross public debt, projected to reach 93 percent of GDP in 2020/21, is well above the median for recent exceptional access cases (Figure 1) and considerably exceeds the MAC DSA debt benchmark of 70 percent of GDP for emerging markets. Domestic debt is already high and under upward pressure from the impact of the COVID-19 pandemic, with additional risks from contingent liabilities related to state-owned enterprises. Moreover, gross financing needs are projected to exceed 30 percent of GDP through 2023, more than double the existing MAC DSA framework's benchmark of 15 percent of GDP for emerging markets. Another risk is that the cost of borrowing from private external creditors does not decline as envisaged in the projections. Debt sustainability risks are, however, mitigated by: (i) the authorities' commitment to resuming fiscal consolidation as the crisis abates; (ii) their continuing efforts to extend maturities on the large stock of treasury bills, supported by program

conditionality (indicative target on the share of short-term debt and structural benchmark on the medium-term debt strategy); (iii) room for domestic financing from Egypt's large (and partly public sector-controlled) domestic banking system, which limits rollover risks; (iv) continued access to international capital markets, with Egypt being among the first emerging markets to return to the international bond market in May 2020, raising US$5 billion in 4-, 12-, and 30-year tranches; and (v) the securing of agreements with three official GCC bilateral creditors to extend maturities on their deposits at the CBE (amounting to US$13.4 billion).

**Figure 1. Debt Ratios for Recent Exceptional Access Arrangements** [1/ 2/]




Source: Egyptian authorities and IMF staff estimates.

1/ Estimates as reported as in relevant staff reports on the request or augmentation of SBAs or EFF arrangements approved since September 2008. For Egypt, ratios reflect FY2019/20 data.
2/ Asterisks indicate PRGT-eligible countries at the time of the program.

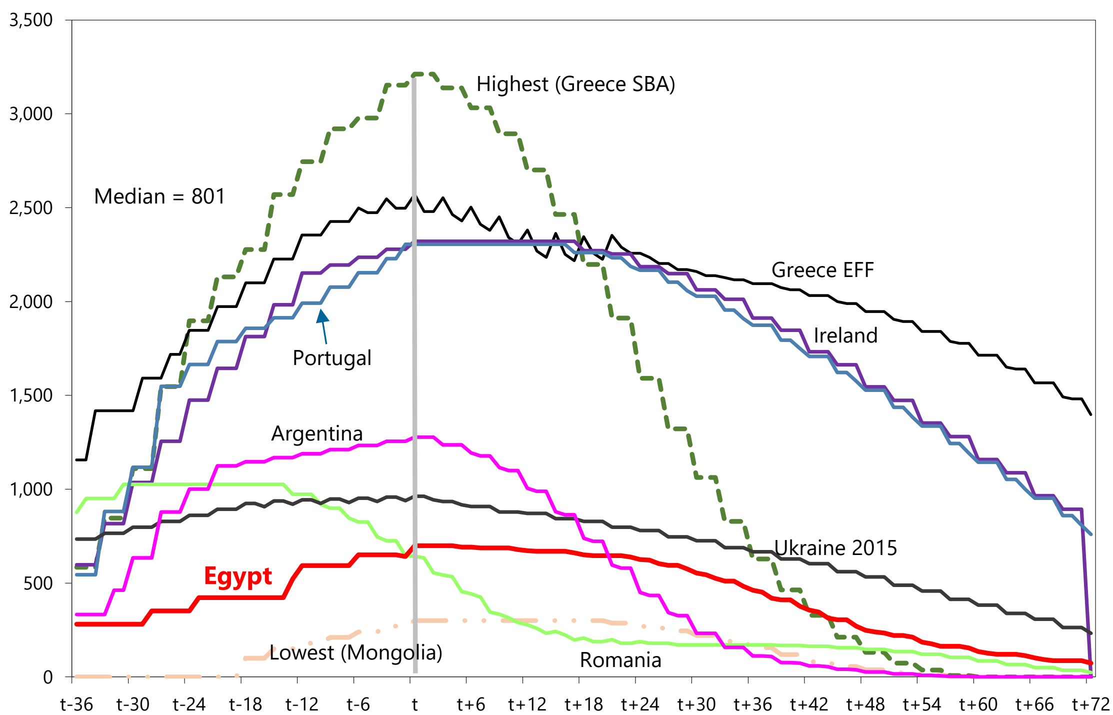
# ACCESS UNDER THE SBA—RISKS AND IMPACT ON FUND FINANCES

## A. Risks to the Fund

5. **Access under the proposed SBA entails exceptional access and will imply a further moderate increase in total credit outstanding to Egypt** (Figure 2). Since the cumulative access limit of 435 percent of quota was already exceeded with Egypt's recent purchase under the RFI, further financing under the SBA also entails exceptional access. Credit outstanding to the Fund will rise from 522 percent to 593 percent of quota upon approval of the proposed SBA, and is scheduled to peak at 699 percent in June 2021 after completion of the second and final review. This peak remains somewhat below the median of other recent exceptional access cases, including the large arrangements to support European borrowers in the early 2010s and the more recent arrangement with Argentina. The proposed level of access under the 12-month SBA would also exceed the annual access limit of 145 percent of quota.

**Figure 2. Credit Outstanding in the GRA Around Peak Borrowing 1/**

(in percent of quota 2/)

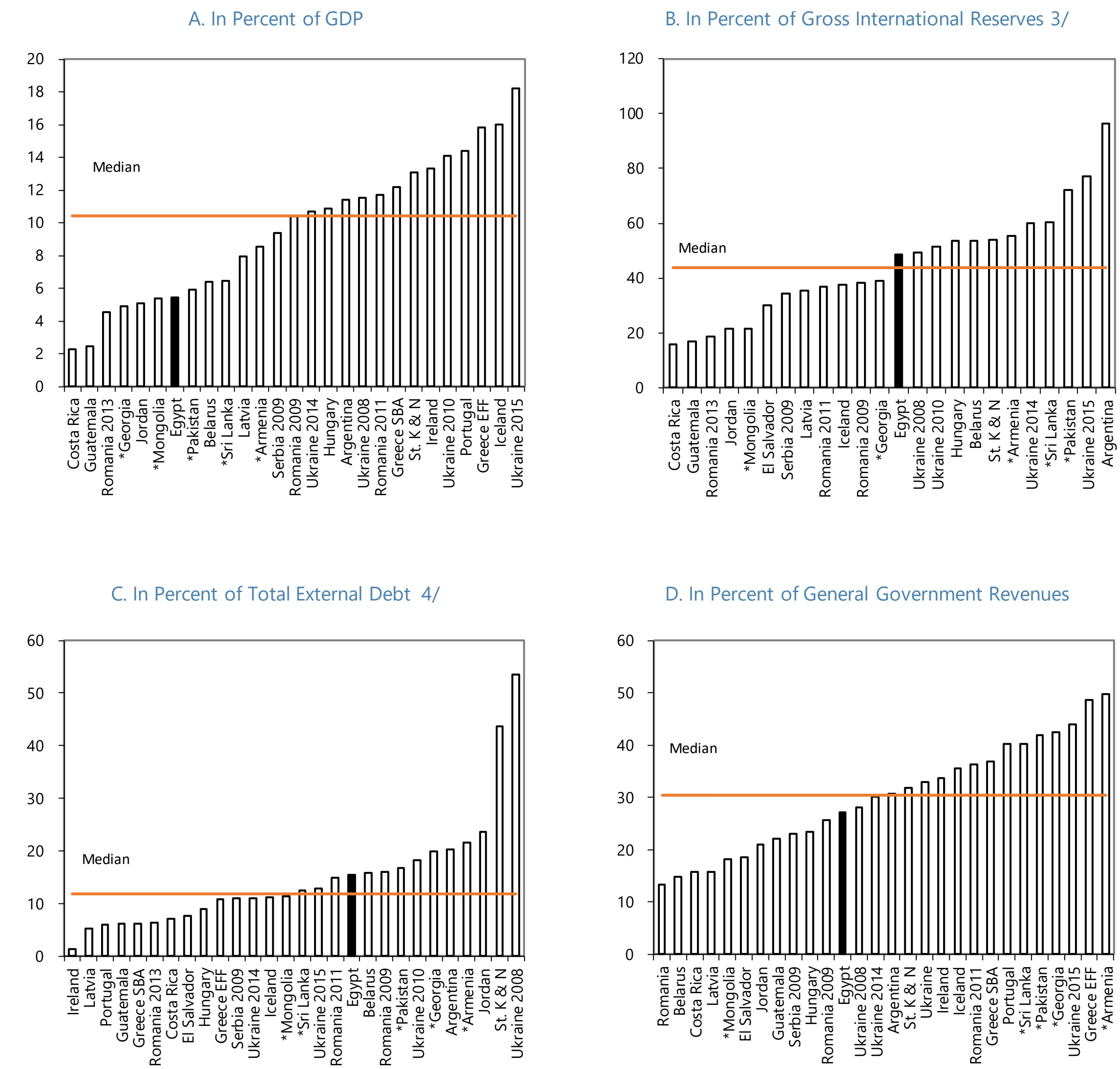



Source: IMF Finance Department and IMF staff estimates.

1/ Peak borrowing "t" is defined as the highest level of credit outstanding for a member. Repurchases are assumed to be on an obligations basis.

2/ Based on quotas at the time of approval, i.e., pre-14th Review quotas for all countries except Argentina and Egypt. Median credit outstanding at peak is 801 percent of quota; average is 1,028 percent of quota.

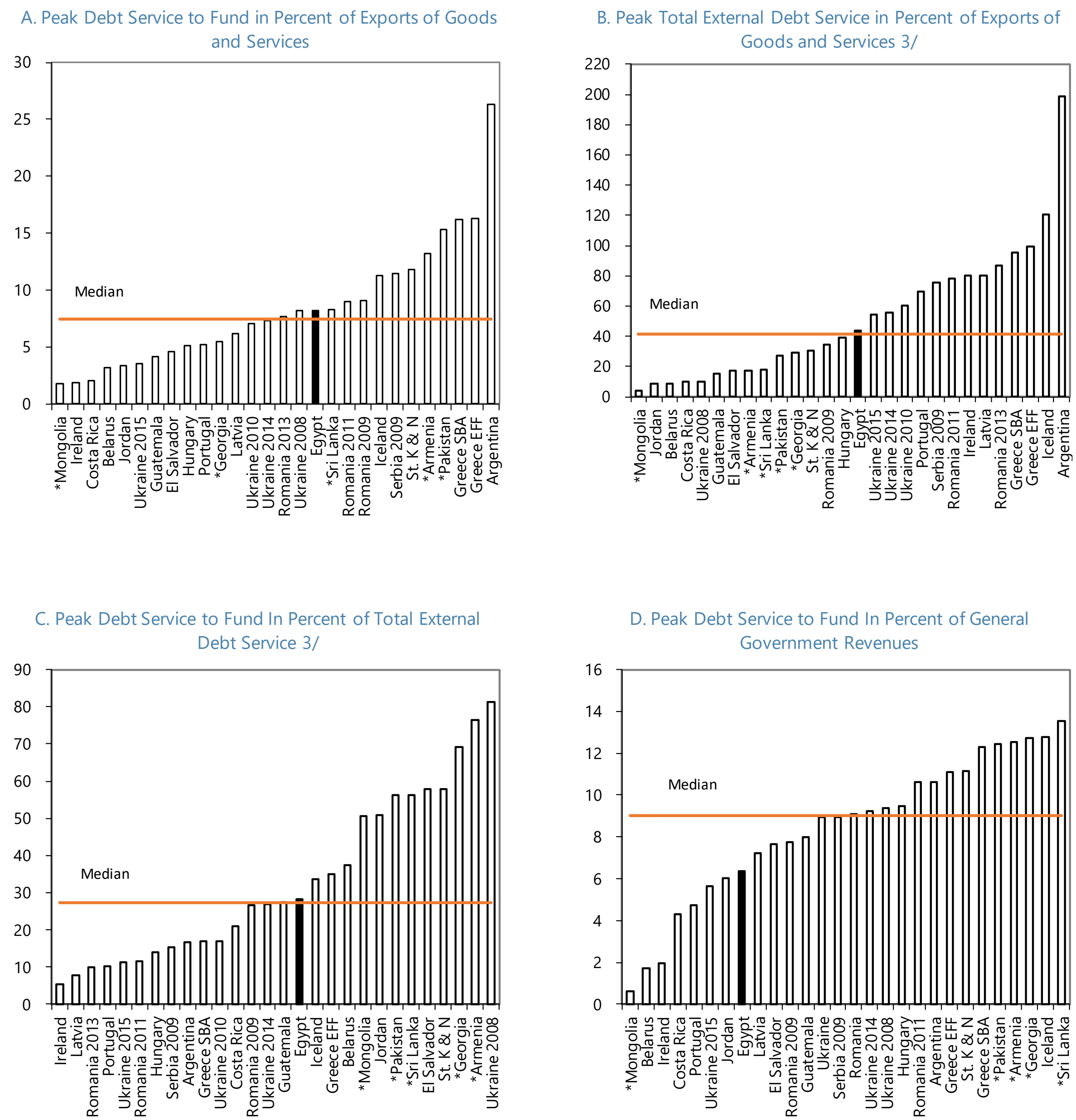
## Figure 3a. Peak Fund Exposure Ratios for Recent Exceptional Access Cases 1/ 2/




Source: IMF staff estimates and World Economic Outlook.

1/ Estimates are reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008.
2/ Asterisks indicate PRGT-eligible countries at the time of the program. In Panel F, Georgia's debt service to the Fund includes one from PRGF loan.
3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.
4/ For arrangements for which total external debt (or debt service) ratio is not available, public external debt (or debt service) ratio is shown instead.

## Figure 3b. Peak Debt Service Ratios for Recent Exceptional Access Cases [1/ 2/]




Source: IMF staff estimates and World Economic Outlook.

1/ Estimates as reported in relevant staff reports on the request of SBA or arrangements under the EFF approved since September 2008.
2/ Asterisks indicate PRGT-eligible countries at the time of the program. Georgia's debt service to the Fund includes one from a PRGF loan.
3/ For arrangements for which total external debt service ratio is not available, public external debt ratio is shown instead.

## Table 3. Egypt: Capacity to Repay Indicators [1/ 2/]

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Exposure and Repayments (In SDR millions)** | | | | | | | | | | | | |
| GRA credit to Egypt | 12,081.2 | 14,233.1 | 13,710.8 | 12,755.6 | 9,410.4 | 5,077.3 | 2,776.0 | 1,507.4 | 597.0 | 119.4 | 0.0 | 0.0 |
| (In percent of quota) | 593.1 | 698.7 | 673.1 | 626.2 | 462.0 | 249.2 | 136.3 | 74.0 | 29.3 | 5.9 | 0.0 | 0.0 |
| Charges due on GRA credit 3/ | 263.0 | 326.7 | 407.1 | 439.5 | 372.4 | 218.6 | 68.7 | 26.7 | 13.7 | 5.0 | 1.1 | 0.8 |
| Repurchases under EFF | 0.0 | 164.2 | 522.4 | 955.2 | 1,313.4 | 1,432.8 | 1,432.8 | 1,268.6 | 910.4 | 477.6 | 119.4 | 0.0 |
| Repurchases under RFI | 0.0 | 0.0 | 0.0 | 0.0 | 1,018.6 | 1,018.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repurchases under SBA | 0.0 | 0.0 | 0.0 | 0.0 | 1,013.3 | 1,881.8 | 868.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt service due on GRA credit 4/ | 263.0 | 490.9 | 929.5 | 1,394.6 | 3,717.6 | 4,551.8 | 2,370.0 | 1,295.3 | 924.1 | 482.6 | 120.5 | 0.8 |
| **Debt and Debt Service Ratios** | | | | | | | | | | | | |
| In percent of GDP | | | | | | | | | | | | |
| Total external debt | 33.6 | 35.5 | 33.9 | 30.5 | 28.0 | 26.0 | 24.1 | 22.4 | 20.8 | 19.5 | 18.4 | 17.4 |
| External debt, public | 32.5 | 34.0 | 32.2 | 28.7 | 26.1 | 24.0 | 22.3 | 20.7 | 19.3 | 18.1 | 17.0 | 16.1 |
| GRA credit to Egypt | 4.6 | 5.5 | 5.0 | 4.4 | 3.0 | 1.5 | 0.7 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 |
| Total external debt service | 3.9 | 4.3 | 5.3 | 6.5 | 5.5 | 4.9 | 4.2 | 3.9 | 3.7 | 3.4 | 3.2 | 3.0 |
| Public external debt service | 2.8 | 2.4 | 3.7 | 4.6 | 5.2 | 4.5 | 3.9 | 3.6 | 3.4 | 3.2 | 3.0 | 2.8 |
| Debt service due on GRA credit | 0.1 | 0.2 | 0.3 | 0.5 | 1.2 | 1.4 | 0.6 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 |
| In percent of Gross International Reserves | | | | | | | | | | | | |
| Total external debt | 325.2 | 316.0 | 312.8 | 295.0 | 265.8 | 233.7 | 216.5 | 201.0 | 187.4 | 175.6 | 165.3 | 156.3 |
| External debt, public | 314.1 | 303.0 | 297.1 | 277.4 | 247.7 | 216.0 | 200.2 | 185.9 | 173.3 | 162.3 | 152.8 | 144.5 |
| GRA credit to Egypt | 44.9 | 48.6 | 46.2 | 42.2 | 28.7 | 13.7 | 6.6 | 3.1 | 1.1 | 0.2 | 0.0 | 0.0 |
| Debt service due on GRA credit | 1.0 | 1.7 | 3.1 | 4.6 | 11.3 | 12.3 | 5.6 | 2.7 | 1.7 | 0.8 | 0.2 | 0.0 |
| In percent of Exports of Goods and Services | | | | | | | | | | | | |
| Total external debt service | 30.0 | 44.0 | 41.6 | 43.3 | 34.2 | 29.3 | 25.6 | 23.7 | 22.0 | 20.5 | 19.2 | 18.1 |
| Public external debt service | 21.6 | 24.5 | 29.4 | 30.8 | 32.1 | 27.3 | 23.7 | 21.9 | 20.4 | 19.0 | 17.8 | 16.7 |
| Debt service due on GRA credit | 0.8 | 1.9 | 2.7 | 3.2 | 7.4 | 8.2 | 3.8 | 1.8 | 1.1 | 0.5 | 0.1 | 0.0 |
| In percent of General Government Revenues | | | | | | | | | | | | |
| Total external debt service | 20.1 | 21.3 | 25.9 | 31.4 | 26.1 | 22.7 | 19.8 | 18.4 | 17.1 | 15.9 | 14.9 | 14.0 |
| Public external debt service | 14.4 | 11.8 | 18.3 | 22.3 | 24.6 | 21.1 | 18.3 | 17.0 | 15.8 | 14.7 | 13.8 | 13.0 |
| Debt service due on GRA credit | 0.5 | 0.9 | 1.7 | 2.3 | 5.7 | 6.4 | 2.9 | 1.4 | 0.9 | 0.4 | 0.1 | 0.0 |
| In percent of Total External Debt | | | | | | | | | | | | |
| GRA credit to Egypt | 13.8 | 15.4 | 14.8 | 14.3 | 10.8 | 5.9 | 3.0 | 1.6 | 0.6 | 0.1 | 0.0 | 0.0 |
| In percent of Total External Debt Service | | | | | | | | | | | | |
| Debt service due on GRA credit | 2.6 | 4.4 | 6.5 | 7.3 | 21.7 | 28.1 | 14.7 | 7.6 | 5.1 | 2.5 | 0.6 | 0.0 |
| In percent of Total Public External Debt | | | | | | | | | | | | |
| GRA credit to Egypt | 14.3 | 16.0 | 15.5 | 15.2 | 11.6 | 6.3 | 3.3 | 1.7 | 0.6 | 0.1 | 0.0 | 0.0 |
| In percent of Total Public External Debt Service | | | | | | | | | | | | |
| Debt service due on GRA credit | 3.6 | 7.9 | 9.1 | 10.3 | 23.1 | 30.2 | 15.9 | 8.2 | 5.6 | 2.7 | 0.6 | 0.0 |

Source: Egyptian authorities, IMF Finance Department, and IMF staff estimates.
1/ Assumes full drawings and indicators based on the adverse macroeconomic scenario presented in the staff report.
2/ Includes GRA basis rate of charge, surcharges, service fees, and SDR charges.
3/ Includes charges due on GRA credit repurchases.
4/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, are based on the staff report for the proposed augmentation of the SBA up to 2023 and extended to 2026.

**6. While Egypt already has sizable Fund credit outstanding, other peak Fund exposure metrics would generally remain below or close to recent exceptional access cases**. Peak Fund exposure ratios (stock of outstanding obligations to the Fund as a share of GDP, gross international reserves, total external debt, and general government revenues) are below or close to the median for exceptional access cases approved by the Fund since September 2008 (Figure 3a). The same applies for most key external debt service ratios, including peak debt service obligations to the Fund and peak total external debt service in percent of exports of goods and services and of general government revenues (Figure 3b). Capacity to repay indicators (Table 3) are also broadly in line with those for recent exceptional access borrowers from the GRA in recent years.

**7. Nonetheless, the proposed SBA would contribute to a bunching of repayment obligations to the Fund in FY2023/24 and FY2024/25**. In particular, total debt service obligations to the Fund—from the previous EFF arrangement and recent RFI purchase, as well as the proposed SBA—rise sharply in FY2023/24 and FY2024/25 to SDR 3.7 and 4.6 billion, respectively, thus totaling some SDR 8.3 billion or about US$11.5 billion. As a share of exports of goods and services, obligations to the Fund rise from 3.2 percent in FY2022/23 to 7.4 percent and 8.2 percent, respectively, in FY2023/24 and FY2024/25; and as a share of gross international reserves, from 4.6 percent in FY2022/23 to 11.3 percent and 12.3 percent, respectively, in the following two years (or almost 24 percent of total reserves in these two years combined). In view of the repayment profile, and more broadly in the context of the high uncertainties facing Egypt and the global economy in the wake of the pandemic, the envisaged reserve accumulation during the program period and the authorities' commitment to exchange rate flexibility are prudent and appropriate, both to restore buffers and to limit risks to capacity to repay.

## B. Impact on the Fund's Liquidity Position and Credit Exposure

**8. The proposed SBA would have a relatively modest impact on the Fund's liquidity position**. Following approval of the SBA, the Fund's Forward Commitment Capacity (FCC) would decline by around 2.3 percent from its current level of SDR 164 billion (Table 4). Since Egypt is not a member of the Financial Transactions Plan (FTP), there would be no additional second-round impact on the FCC, when Egypt purchases under the SBA upon approval or at subsequent reviews.

**9. The proposed SBA would add further to the concentration of the Fund's lending portfolio** (Table 4, Figures 4 and 5).

- Egypt will remain the Fund's second-largest borrower under the current GRA lending portfolio. Together with the recent purchase under the RFI and previous purchases under the 2016–19 EFF arrangement, Egypt's GRA credit outstanding after all purchases under the proposed SBA will account for over 17 percent of total Fund credit outstanding (second to Argentina, at 38½ percent, by a large margin).

- Credit concentration measured by the Fund's exposure to the top five borrowers would increase marginally from 74.9 percent to 76.0 percent.

- However, Egypt's share in total GRA repurchases is projected to rise sharply over the medium term, from 5 percent in FY2022/23 to 30 percent in FY2024/25 and to 56 percent in FY2025/26, based on currently approved arrangements. However, these ratios and the very high projected concentration of repurchases in FY2024/25 and FY2025/26 would moderate to the extent that the Fund approves new arrangements for other GRA borrowers in the period ahead.

- The Fund's level of precautionary balances significantly exceeds the credit exposure to Egypt. The exposure to Egypt after the initial drawing under the SBA would amount to 72 percent of the estimated FY2020 level of precautionary balances (PBs). The estimated ratio of total Fund credit outstanding to PBs would rise from 474 percent to 497 percent after the first drawing.

- Were Egypt to accrue arrears on charges, the Fund's burden sharing mechanism would be clearly insufficient to cover such arrears. GRA charges for Egypt, projected at SDR 327 million for 2020/21, significantly exceed the Fund's residual burden-sharing capacity, which has very low capacity in the current interest rate environment.

**Table 4. Egypt: Impact on GRA Resources**
(in millions of SDR, unless otherwise noted)

| | As of 6/08/2020 |
|---|---|
| **Liquidity measures** | |
| Current one-year Forward Commitment Capacity (FCC) 1/ | 163,600.0 |
| Impact of the SBA approval on the FCC 2/ | -3,763.6 |
| (in percent of current one-year FCC) | -2.3 |
| **Prudential measures** | |
| Fund GRA credit outstanding to Egypt 3/ | 12,081 |
| In percent of current precautionary balances | 72.3 |
| In percent of total GRA credit outstanding | 14.6 |
| Fund GRA credit outstanding to top five borrowers | |
| In percent of total GRA credit outstanding | 74.9 |
| In percent of total GRA credit outstanding including Egypt's initial drawing under the SBA | 76.0 |
| Egypt's annual GRA charges in percent of Fund's residual burden sharing capacity for 2020/21 | 3,088 |
| **Memorandum items** | |
| Fund's precautionary balances (end-FY2020) | 16,700 |
| Fund's residual burden-sharing capacity 4/ | 10.6 |

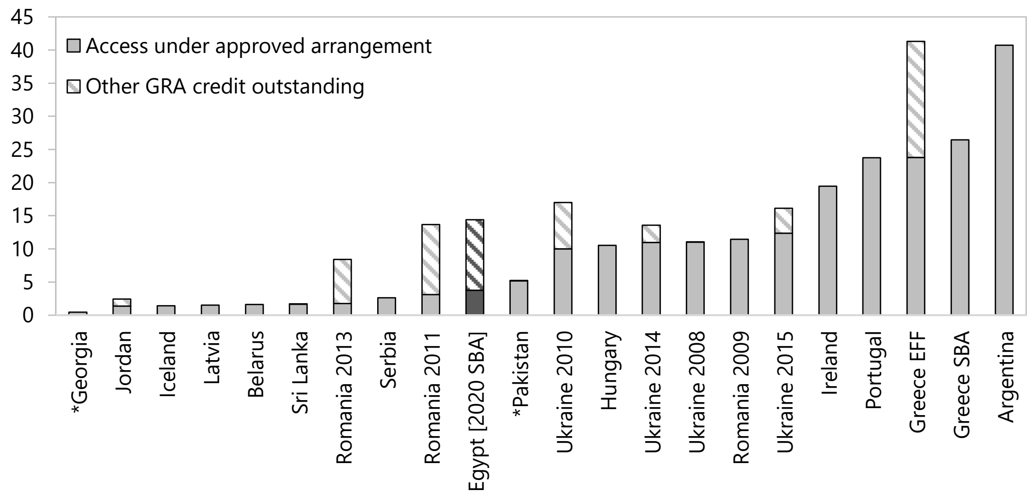
Source: Egyptian Authorities, IMF Finance Department, World Economic Outlook, and IMF staff estimates.

1/ As of April 1, 2011, the FCC reflects activation of the expanded NAB for the first activation period through end-September 2011 and subsequent six-month activation periods thereafter. The FCC does not include about US$461 billion in bilateral pledges from members to boost IMF resources. These resources will only be counted towards the FCC once: (i) individual bilateral agreements are effective; and (ii) the associated resources are available for use by the IMF, as determined by the IMF Executive Board.
2/ A single country's negative impact on the FCC is defined as the countries sum of Fund credit and undrawn commitments minus repurchases one-year forward.
3/ Projected credit outstanding for Egypt at time of approval of the proposed SBA based on current repayment schedule and including first drawing.
4/ Burden-sharing capacity is calculated based on the floor for renumeration which, under current policies, is 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

## Figure 4. Exceptional Access Levels and Credit Concentration

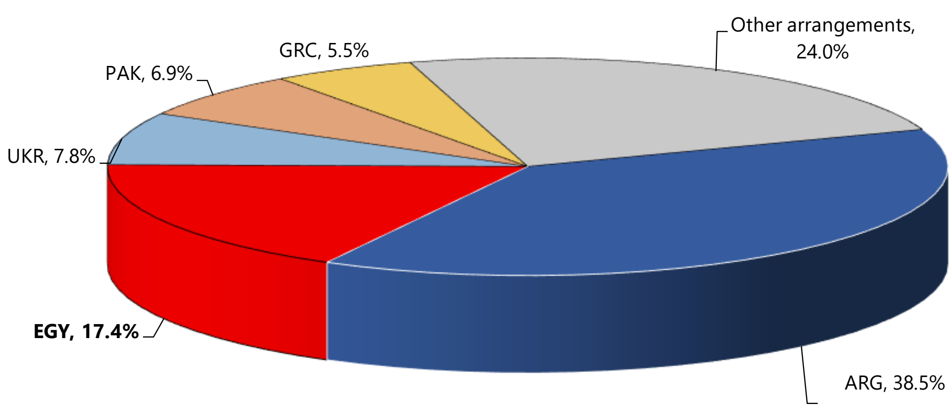
A. Total Access of Recent Exceptional Access Arrangements [1/]

(in billions of SDRs)




B. Credit Concentration of Fund GRA Exposure [2/]

(as a percentage of total credit outstanding)

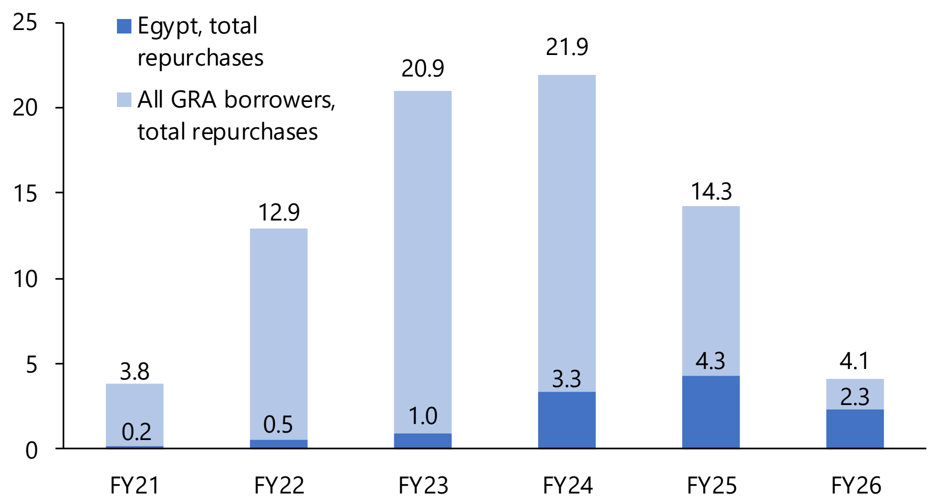



Source: Finance Department.

1/ Does not include FCL arrangements as well as arrangements with relatively low access in SDRs. Asterisks indicate countries that were PRGT-Eligible at the time of approval.

2/ Total credit outstanding refers to credit outstanding as of May 1, 2020 plus Egypt's proposed access under the SBA.

**Figure 5. Egypt: Share of Total Scheduled Repurchases to the GRA [1/]**
(in billions of SDRs)




Source: IMF Finance Department.

1/ Fiscal year is July to June.

# ASSESSMENT

**10. The proposed SBA is intended to help Egypt maintain macroeconomic stability and cope with the impact of the COVID-19 pandemic, while starting to rebuild buffers**. A sharp slowdown in domestic activity is expected as a result of the containment measures introduced to slow the spread of the virus. At the same time, the external balance deteriorated following the outbreak of the pandemic due to portfolio outflows, weaker FDI, the shock to tourism, and weaker remittances. The SBA aims to maintain macroeconomic stability amid the crisis while continuing to advance structural reforms to strengthen prospects for higher medium-term growth and job creation. The proposed SBA entails exceptional access, with the previous RFI purchase already exceeding the cumulative access limit, and proposed access under the SBA exceeds both the annual and cumulative access limits.

**11. The proposed SBA will have a relatively modest impact on the Fund's liquidity, and—together with Egypt's prior purchases under the EFF arrangement and RFI—imply a further moderate increase in the Fund's overall credit exposure to Egypt**. On approval, the Fund's liquidity will be reduced by the full amount of the purchase and the Fund's remaining lending capacity will fall by 2.3 percent. While Egypt's peak Fund exposure metrics generally remain below or close to recent exceptional access cases, Egypt will remain the second largest borrower of GRA resources (following Argentina by a large margin). The SBA will leave the Fund's credit exposure to

Egypt at 72 percent of current precautionary balances, and at over 17 percent of total GRA credit outstanding.

**12. Egypt's capacity to repay the Fund is adequate, albeit with some risks**. Capacity to repay indicators are broadly in line with those for other recent exceptional access arrangements. However, repayment obligations to the Fund are bunched after FY2022/23, with debt service payments to the Fund accounting for relatively high shares of gross official reserves and of exports: total debt service payments to the Fund for FY2023/24 and FY2024/25 would amount to around SDR 8.3 billion (about US$11.5 billion) or almost 24 percent of gross international reserves. This underscores the importance of the authorities' efforts to rebuild their reserve buffers and lengthen the maturity of external debt. Another risk is that the cost of borrowing from private external creditors (through for example issuance of international bonds) may not decline as projected in the baseline. Factors mitigating risks include the high share of domestic currency debt held by domestic financial institutions; retention of market access and affirmation of credit ratings of a stable outlook by major ratings agencies since the COVID-19 crisis; substantial foreign exchange reserve buffers coming into the crisis; and the authorities' commitment to exchange rate flexibility as a crucial shock absorber. Moreover, Egypt's successful international bond issuance in May 2020 of this year bodes well for its ability to access international capital markets on reasonable terms and repay its financial obligations to the Fund. The authorities have also secured agreements with all three official GCC bilateral creditors to roll over US$13.4 billion of their deposits at the CBE coming due in the next 12 months. Policies under the SBA, including fiscal and monetary policies and structural reforms, are expected to enhance confidence in the Egyptian economy over the medium term, in turn mitigating risks to Fund finances.

**Statement by Hazem Beblawi, Executive Director for Arab Republic of Egypt, and Ms. Wafa Abdelati, Senior Advisor to the Executive Director**
**June 26, 2020**

On behalf of the Egyptian authorities, I would like to thank Management and the Board for their support in response to the sudden balance of payment shock under the RFI, and their continued support under this SBA request. We also thank staff for the close engagement during remote missions and the careful deliberations and reports. The authorities are in broad agreement with the assessment of the fallout on the economy from the COVID-19 pandemic and the policy response. I will focus this statement on the policies to mitigate the shock and support economic recovery and key priorities for the medium-term.

**Prior to COVID-19**, the economy was growing at close to 6 percent in 2019/20 with low and well-anchored core inflation, unemployment rates were firmly on a declining path, investment and savings rate had increased, and debt was on a declining path to reach 70 percent of GDP by 2023/24. Gross international reserves stood at 125 percent of the ARA metric. The banking system remained well capitalized, with strong loan provisions and ample liquidity. Structural reforms continued to advance over the past year in many areas, including approval of the banking law, further expansion of social programs, strengthening the competition agency, enhancing the financial sustainability of the pension system, modernizing the public procurement system, developing medium-term debt and revenue strategies and improving the debt profile. The authorities have been proud of these achievements. Egypt had built up buffers, growth was among the highest among EMs with a very positive outlook, adequate jobs have been created, policy credibility was high, and investor confidence was strong.

**Economic policy priorities**, as stated in 2019 and outlined in Box 1 below, have 3 pillars. Egypt has made investment in people a top priority, and human development a key pillar of its strategy. Another key pillar is to pursue investment-friendly policies to encourage a larger role and contribution by the private sector. The third is to continue to safeguard macroecomic stability and support a high job-rich growth. The authorities continue to advance this agenda with rigor, and at the fastest pace possible, in order to raise Egypt's growth potential and competitiveness as well as to move towards a shared prosperity. The support of development partners for different aspects of this agenda is instrumental.

**Set-back from the pandemic**. Even though a sound policy framework had left Egypt in a relatively strong position, the COVID-19 health crisis and ensuing sharp global recession and fallout from the lockdowns have derailed the economy from an auspicious path. Loss of foreign exchange earnings from the halt in tourism, slowdown in remittances and in Suez Canal earnings—as well as sudden capital outflows, opened a wide gap in the balance of payments. The tourism-related and service sectors are the hardest hit, yet the slowdown has affected almost all sectors, and with prolonged global slowdown, the pandemic would have a bigger adverse impact than was initially estimated. Fiscal support to affected individuals and firms increased while tax collection shrank, making the once-assured 2 percent of GDP primary fiscal surplus impossible to reach, and it is now expected to be around 1.4 percent of GDP, which would be among the highest for emerging countries. Debt vulnerabilities, which were receding, increased.

**Uncertainty about the path of the pandemic** and its impact on the economy remains high. GDP growth registered 5.6 percent in the first half of 2019/20, then 5 percent in Q1–2020 and is estimated to show a sharp decline in Q2–2020. The annual growth rate has been revised down from 5.5–6 percent in 2019/20 and 2020/21 prior to COVID-19 to 2–4 percent for both years. Unemployment, which had been on a steadily declining trend is starting to rise, and poverty is expected to rise in light of adverse economic impacts of the COVID 19 pandemic.

**Government policies and targets.** The Central Bank (CBE) and Government of Egypt responded promptly with stringent containment measures and a package of targeted and transparent fiscal and health-support measures equivalent to 1.8 percent of GDP, announced March 14, 2020. Additional CBE initiatives and measures would complement such sizeable government support package. Policies are geared toward providing crucial temporary support while limiting the buildup of imbalances.

**Managing outflows and the drop in FX receipts**. In the face of a halt in tourism and around $15 billion in outflows, CBE's gross reserves fell by $8 billion between February and May 2020. The RFI provided welcome support on May 11, but the sharp rise in external financing needs calls for additional Fund assistance and other financing. Egypt was among the first EMs to return to international bond markets, when on May 21 it raised $5 billion in 4-, 12-, and 30- year tranches, which was more than four times oversubscribed. Rating agencies have affirmed Egypt's sovereign credit ratings and a stable outlook: the authorities expect to raise more in the coming 12 months to meet the external financing gap. Combined Fund financing will meet about one fifth of the gap or 25 percent after the reserve drawdown.

**Anchoring inflation remains a key objective**. Monetary policy will remain data-driven, preserving the gains achieved so far in anchoring inflation expectations. CBE stands ready to adjust monetary policy as appropriate, and the Monetary Policy Committee will consider all relevant monetary, financial and economic data to determine policy action. Staff will be consulted in the case of large deviations from the inflation target.

**Exchange rate flexibility will be maintained**. The Egyptian pound strengthened by 14 percent from early 2019 to February 2020 on the back of steady portfolio inflows. Large outflows in March and April were met through a drawdown in reserves by $8.4 billion, to avoid disorderly conditions given the severe global market turbulence. Commercial banks' net foreign assets also dropped to meet demand for FX outflow. The exchange rate has since depreciated by over 4 percent. CBE aims to resume accumulation of reserves to above 110 percent of the ARA metric as soon as conditions allow.

**The 2020/21 budget** targets a primary surplus of no less than 0.5 percent of GDP to meet crisis-related spending while revenue collection is constrained. The budget was approved by Parliament on June 17th, with a primary balance target of 2 percent of GDP, as initially prepared, but with an added provision that the primary balance is not fall below 0.5 percent of GDP. To offset the higher COVID-19 related spending needs and expected shortfall in revenues , the budget incorporates measures identified in an earlier draft of the MTRS, which would yield around 0.5 percent in additional revenues compared to what was budgeted for including a green tax on diesel and gasoline, higher fees on selected products and services, as well as measures to improve compliance and performance in the tax and customs administration.

**Structural reforms.** The Ministry of Finance will continue to strengthen the **fiscal policy framework** to preserve macroeconomic stability. Several steps were taken to improve the predictability of policies by publishing a number of medium-term strategies, including a fiscal strategy, and a debt management strategy while medium term revenue strategy is being updated to be presented to Cabinet in the coming months. The Ministry is also enhancing its fiscal risk capabilities, including through adopting a new framework for evaluating state guarantees to continue reducing this source of contingent liabilities. An internal audit unit was established, and a dedicated team is working regularly now on hedging strategies to protect the budget from commodity price fluctuations, complementing the fuel price indexation mechanism. Transparency of the financial operations of SOEs and economic authorities is being enhanced as well as strengthening their governance and accountability.

**Implementation of the medium-term strategies**, and hiring appropriate staff, has already yielded a lengthening of debt maturities, and a slowdown in the growth of guarantees (three quarters of which are to the energy sector). The share of new short-term domestic debt issuance will be limited to 30 percent in 2020/2021 in order to reduce Gross Financing Needs. The Ministry is working toward making domestic-currency debt eligible to be settled through Euroclear, by early 2021, in order to open the domestic market to a larger base of foreign investors. To take account of the post-COVID environment, the authorities will update the MTRS and the MTDS by December 2020.

**Public financial management** reforms will continue and have been prepared in close consultation with FAD staff. A new PFM Law will be submitted to Parliament by December 2020 to strengthen the budget process and will include a fiscal responsibility provision and accounting rules for all budget entities. The budgeting process is being enhanced with the setting of early budget assumptions, setting allocations in line with government priorities, and setting objectives and ceilings to budget entities while giving them more implementation autonomy. Egypt's rank in the Open Budget Index continue to improve over the past years with more notable progress being identified in areas related to citizen engagement.

**The social protection system** is being further strengthened. Egypt has relied on the system established by the Ministry of Social Solidarity since 2014 to vet households for eligibility for cash transfers, which provided crucial support during the removal of fuel subsidies. The targeted cash transfer programs are supplemented by social pensions and other programs, such as social care and microfinance assistance. The universal health care system that was introduced in 2018 and is now being rolled out across the country is an important aspect of social protection and is a major endeavor as Egypt has the 15$^{th}$ largest population in the world. Efforts are underway to introduce a new social protection law that merges different programs. A planned Public Expenditure Review with the World Bank by April 2021, with a focus on social protection, will provide useful assessment and recommendations.

**The National Investment Bank** is part of the General Government, was established to finance projects in line with public and social development objectives. Recognizing a deterioration in its financial position, the authorities have set up a reform committee since early 2019 and have resolved a significant share of its nonperforming loans through asset swaps. An international audit firm was hired in late 2019 to conduct an assessment, which is nearly completed. Following a review of this assessment, a reform plan will be put in place by January 2021 to address and contain any macro-financial risks posed by the bank.

**Promoting private sector led growth** and encouraging investment is a key pillar of the economic agenda. Steps to further competition are contemplated through amendments to the draft Competition Law. The authorities plan to review the new guidelines for industrial land allocation adopted in 2019, and consider revisions, if needed, to ensure efficient allocation. Egypt has recently improved its rank in the Doing Business Report and Competitiveness Report and aims to improve it further.

The **structural conditionality** under the SBA is consistent with the authorities' priorities, macro-relevant to meet medium term objectives, and feasible under the circumstances. The authorities are confident that, absent unforeseen obstacles, these can be achieved over the coming 12 months, and no effort will be spared to meet the agreed timetable. **Given the high degree of uncertainty, policies and targets may need to be recalibrated** in the context of the first review, while continuing to strike a balance between critical short-term stimulus to minimize the human, economic and social damage, while avoiding undue buildup of imbalances.

**Text Box 1: Three Pillars of Egypt's Economic Policy Priorities**

The authorities continue to advance the three pillars in order to raise Egypt's growth potential and move towards a shared prosperity, with the support of development partners for different aspects of this agenda.

**1) Enhancing institutional frameworks and capacities to safeguards macroeconomic stability, build resilience, and support a high job rich growth trajectory.** This was to be achieved through the
•Adoption of an effective inflation targeting regime that targets single digit inflation, flexible exchange rate, and safeguarding the strong soundness of the banking system.
•Compile, publish and implement Medium Term Debt Strategy (MTDS) to extend maturities and lower gross financing needs, following institutional enhancement of Debt Management Office
•Compile, publish and implement Medium Term Revenues Strategy (MTRS) to broaden the revenue base and enhance the buoyancy and progressivity of the tax system.
•Introduce a new PFM law to strengthen the budget process, include a fiscal responsibility provision and set accounting rules for all budget entities. Publishing a citizen's budget.
•Enhance fiscal risk management, including through fuel price indexation, strengthening internal audit framework, and a clear framework to contain the issuance of public guarantees
•Undertake comprehensive pension reform system that ensures financial sustainability of the system (completed)
•Enhance transparency of public finance and enhance SOE governance and accountability (ongoing).
•Reform of NIB to address financial stability risks
•Ensuring food and water resource security for Egypt's large population and making appropriate steps toward green transformation of the economy.

**2) Deepen structural reforms to encourage investment and enhance private sector led growth**
•A new export support package with clear KPIs to allow for a wider, diversified and more competitive export base along with higher value-added products.
•A new customs law to better facilitate trade and limit non-tariff barriers
•Adopt modern & dynamic industrial land regime to enhance transparency and competition
•Implement reforms to facilitate all aspects of doing business and improve Egypt's ranking in the Doing Business Report (ongoing)
•Introduced modern, simple and attractive tax regime for SMEs, and initiatives to support small and micro finance
•Enhance independence, ability and capacity of Egyptian Competition Authority
•Encourage tech-startups, venture capital, and entrepreneurship
•Proceed with the IPO Program as markets conditions allow
•Adopt modern procurement procedures to ensure value for money and enhance competition (completed)
•Focus on automation of government services as well as payment and collection of government revenues

**3) Enhance human development, social protection, and opportunities for all, consistent with SDG goals.**
•More efficient spending on health and education, including an ongoing educational reform and rollout of a universal health system, and higher budget allocations for education and health programs and initiatives
•Prioritize reforms to health and education to meet SDGs in those sectors
•Implement reforms that address labor force skills mismatch (skills upgrade for the youth and women) and/or enhance labor market participation and productivity.
•Continue to expand the social protection system and develop a more efficient network, filling gaps, streamlining eligibility criteria, replacing subsidies with cash transfers, and better targeted support for the most vulnerable groups. A new social protection legislation is being considered to merge social protection and the cash transfer program, further enhance targeting, and include more vulnerable groups.
•Enhance financial inclusion and access to finance, including through digital technologies.