INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/33

ARAB REPUBLIC OF EGYPT

February 2015

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with Egypt, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 28, 2015, following discussions that ended on November 25, 2014, with the officials of the Arab Republic of Egypt on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 13, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its January 28, 2015 consideration of the staff report that concluded the Article IV consultation with the Arab Republic of Egypt.
- A **Statement by the Executive Director** for the Arab Republic of Egypt.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

January 13, 2015

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

KEY ISSUES

The 2014 Article IV consultation takes place when the authorities have started to address longstanding economic challenges. For a number of years Egypt has suffered from low and non-inclusive growth and from high unemployment. Since 2011 these problems have been compounded by large fiscal deficits and rising public debt and by external fragility evidenced by loss of foreign exchange reserves. In 2014, Egypt adopted a new constitution and elected a new president who was candid with the electorate on the need to reform the economy. The government has developed a plan centered on structural reform and investment promotion to raise growth and create jobs, and fiscal adjustment to bring the budget deficit and public debt under control. Crucially, the authorities have already begun to implement fuel subsidy reform, raising prices by 40–80 percent in July 2014. They have also begun the reforms needed to raise tax revenue and to make Egypt a more attractive destination for investment.

There was agreement that the authorities' objectives are ambitious but are broadly within reach with steady policy implementation. The authorities aim to raise growth to 6 percent per annum, reduce annual inflation to 7 percent, bring down the fiscal deficit to 8 percent of GDP and debt to 80–85 percent of GDP, and increase foreign exchange reserves to 3½ months of imports, all within the next five years. Staff considers these objectives appropriately ambitious, although targeting a higher level of reserves would be prudent. It believes that the authorities' policies, if followed steadfastly, are broadly consistent with these objectives, but noted that a number of policies—including the details of some fiscal measures and structural measures to improve the business environment—are still being formulated.

The authorities and the staff differed somewhat on the extent of vulnerabilities and risks. The authorities are confident that they will be able to follow through on their policies and that improved confidence will lead to a surge in foreign investment, a pickup in tourism, and strong economic growth. Staff emphasized that the authorities' policies would still leave significant vulnerabilities, namely high public debt and large financing gaps, which would need to be covered by greater adjustment or financing, or a combination of the two. Staff also pointed to the difficulty of maintaining tight fiscal and monetary policies over a long period, the risks of dilution of structural reform efforts, and the uncertain regional security environment. To contain these vulnerabilities and risks, staff recommended developing contingency measures in the budget, taking steps to build up reserves buffers, and greater exchange rate flexibility to restore competitiveness. However, staff also agreed that with steadfast commitment to reform, Egypt's prospects could be stronger than assumed in staff's projections. In particular, the recovery in investment could exceed expectations.

Approved By
Juha Kähkönen and Sanjaya Panth

Discussions took place in Cairo during November 11–25, 2014. The staff team comprised Chris Jarvis (head), Amina Lahreche, Eric Mottu, Bénédicte Baduel (all MCD), Lorenzo Forni (FAD), Haruto Takimura (MCM), and Gilda Fernandez (SPR). Ms. Randa Elnagar (COM) joined part of the mission. Mr. Hazem Beblawi and Ms. Wafa Abdelati (both OED) participated in the policy discussions. The mission met with Finance Minister Hany Kadry Dimian, Planning Minister Ashraf El-Araby, Minister of International Cooperation Naglaa El-Ahwani, Minister of Industry Mounir Abdel Nour, Minister of Petroleum Sherif Ismail, Minister of Investment Ashraf Salman, Minister of Social Solidarity Ghada Waly, Minister of Supply and Internal Trade Khaled Hanafy, Governor of the Central Bank of Egypt Hisham Ramez, other senior officials, members of the banking and corporate sector, and the diplomatic community. Jonah Rosenthal, Cecilia Pineda, and Vanessa Panaligan (all MCD) contributed to producing the report.

CONTENTS

TABLES

APPENDICES

CONTEXT

1. **Egypt has been going through a period of dramatic change.** The momentous events of January 2011 ushered in a period of great hope but also great challenges. The political transition entered a new phase with the change of government in July 2013. This was followed by the approval of a new constitution in January 2014 and the election of a new president in May. The political process is still continuing: parliamentary elections are scheduled for March-April 2015. Underlying political and social tensions also remain. As recently as last month demonstrators and security officers were killed during protests. Many protesters have been jailed and terrorist attacks against security personnel and civilians are still taking place.

2. **The past four years of political instability have taken a toll on confidence, economic activity, investment, and tourism.** Amidst political turmoil, chronic economic problems were left unaddressed and new problems became acute. Fiscal revenue and foreign exchange earnings collapsed while expenditure rose sharply, causing persistent inflation, large budget deficits, sizable external imbalances, and reserve loss.

3. **The restoration of relative political stability has given the authorities an opportunity—which they have seized—to address Egypt's longstanding economic challenges.** The economic reform agenda is a long one. The authorities' policies to achieve inclusive growth and job creation focus on pursuing structural reforms, promoting investment, and protecting the poor. They are seeking to restore macroeconomic stability through fiscal adjustment, supported by a tight monetary policy to contain inflation. Measures implemented so far, along with some recovery in confidence, are starting to produce a turnaround. But the authorities' success in meeting their goals will depend on their steady efforts, willingness to take additional actions as needed, and continued external support.

4. **The authorities see this Article IV consultation as an important step on the road to recovery.** They hope that their policies will resonate with the international community and with investors who they will invite to an economic conference in March 2015, and see the views of the Fund as an important contribution to their planning.

RECENT ECONOMIC DEVELOPMENTS

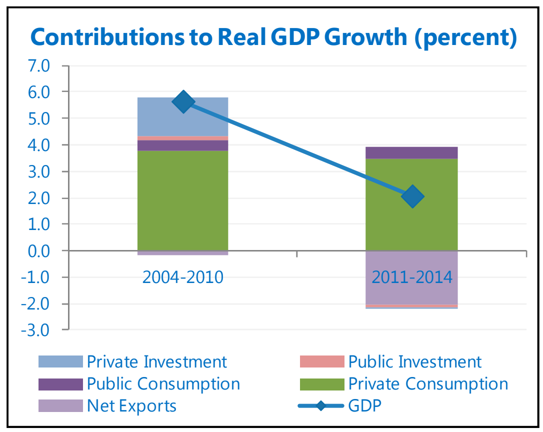
5. **Egypt is facing major economic challenges, some of them longstanding.** Recent difficulties—especially low growth and high unemployment—should be seen in the context of structural weaknesses which largely predate 2011. These stem mainly from large macroeconomic imbalances, microeconomic distortions, low human capital, poor infrastructure, low access to finance, and poor external competitiveness (Box 1). Structural challenges are exemplified by poor rankings in business climate and competitiveness indicators. Egypt ranked 112 out of 189 in the World Bank 2015 Doing Business survey, reflecting considerable red tape, cumbersome regulations, and poor enforcement of contracts and minority investors. The country

ranked only 119 out of 144 in the World Economic Forum 2014–15 Global Competitiveness Index due to a deteriorated macroeconomic environment and particularly poor scores on labor and goods market efficiency, financial market development, and education.

Box 1. Growth Diagnostic and Constraints to Growth

Growth was buoyant during 2004–10 (5½ percent annually on average) but did not generate jobs sufficiently to absorb the young and growing population and to ensure inclusiveness. Growth was driven mainly by consumption while investment lagged behind and the external sector contributed negatively. Growth remained constrained by the insufficient quality of employed labor and lackluster gains in productivity, with total factor productivity growing by a mere 0.8 percent per year.

Staff analysis suggests that the most binding constraints to growth and job creation in Egypt are macroeconomic risks, microeconomic distortions, low productivity, low access to finance, and poor external competitiveness.



- **Macroeconomic risks** are reflected in fiscal and external vulnerabilities which affect confidence and investment.
- **Microeconomic distortions** stem from still high subsidies, inefficient labor markets, weak governance, perceived corruption, and constraints to doing business. High energy subsidies generate a bias in favor of capital and energy-intensive industries and divert resources, including FDI, toward these sectors at the expense of more efficient or labor-intensive industries. Inefficient labor markets push firms and workers into the informal sector. Poor enforcement of contracts and an unpredictable judicial system are major impediments to doing business. The public sector is large, generating 39 percent of formal GDP in 2013/14. Despite privatization operations in the past decade, public institutions still control the majority of assets in the banking and insurance sectors; are important players in the telecom and transportation sectors; and are dominant in sectors such as oil and gas, refining, and electricity. Anecdotal evidence suggests that the military exercises significant control over some public enterprises and land, although it is difficult to estimate the share of military ownership.
- **Low human capital**, as evidenced by poor health and education indicators, and **poor infrastructure**—especially roads and electricity—weigh on productivity. Education is underfunded and does not prepare young people for productive employment, while public health services are subpar, limiting health outcomes and human capital formation. The rising infrastructure deficit has been reflected in poor transportation infrastructure, traffic congestion, distribution bottlenecks, and electricity, fuel, and water shortages.
- **Low access to finance** is an important constraint to growth. Credit to the private sector has been on a declining trend as a share of GDP over the past decade. Low credit reflects crowding out from public sector borrowing, which pushes interest rates up and reduces incentives to lend to the private sector. Structural deficiencies are also significant, as reflected in low bank penetration and bank deposits. Credit to SMEs is very low.
- **The negative contribution of the external sector** to growth reflects poor overall competitiveness. Nonoil merchandise exports were only 4.8 percent of GDP in 2013/14. Limited external linkages, real exchange rate appreciation, and the unfavorable business environment have been obstacles.

6. The political turmoil of January 2011 triggered a sharp capital account reversal and left growth depressed, while policy accommodation widened fiscal and external imbalances. The protracted political and institutional uncertainty, a perception of rising insecurity, and sporadic unrest dented confidence. Large capital outflows ensued, along with declining investment and tourism (Figures 1–4):

- Real GDP dropped by 0.8 percent in calendar year 2011 and growth only recovered to about 2 percent annually in the following years, weighed by continued disruption of domestic production due to political turmoil, and widespread energy shortages and electricity blackouts.

- The fiscal deficit and debt rollover needs soared, pushing up domestic borrowing costs. Delayed reforms, lower revenue, and rising wage, subsidy, and interest payments led to double-digit budget deficits reaching close to 14 percent of GDP in 2012/13.

- Faced with capital outflows, weak foreign direct investment (FDI), and widening current account deficits, the Central Bank of Egypt (CBE) supplied large amounts of foreign currency to stabilize the exchange rate. While this provided an anchor to maintain confidence, it depleted international reserves from $35 billion (6.8 months of imports) at end-2010 to $14.5 billion (2.5 months) in June 2013. Exchange rate pressures were particularly strong in December 2012 and the first half of 2013, when reserves were only supported by sizable official financing from Gulf countries, rapid depreciation, and foreign exchange rationing, which compressed imports and generated a parallel market.

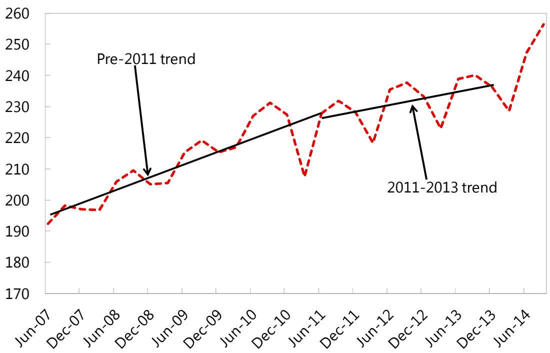
- Social outcomes, which were already lagging, deteriorated further post-2011. Unemployment peaked at 13.4 percent in 2013/14, with the highest levels found among youth and women. Poverty rose to 26.3 percent in 2012/13, with another 20 percent of the population estimated to be close to the poverty line.

Thus, by June 2013, Egypt's economy was in a precarious position with low growth, high unemployment, wide fiscal and external imbalances, and low reserves buffers.

Figure 1. Egypt: Real Sector Developments, 2002/03–2013/14

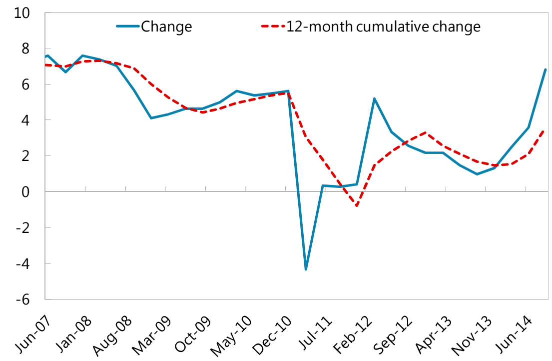
Growth slowed down post-2011.

Real GDP
(In billions of EGP, 2006/07 prices)



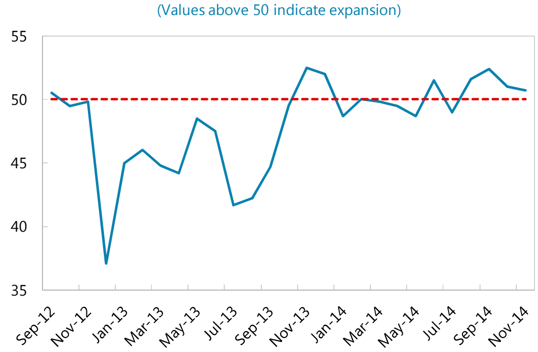
The economy has begun to recover after four years of slow activity…

Real GDP Growth
(Y-o-y, in percent)



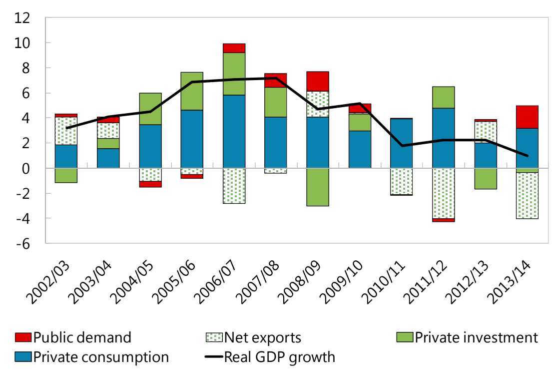
…But the recent recovery remains tentative.

Purchasing Managers' Index
(Values above 50 indicate expansion)



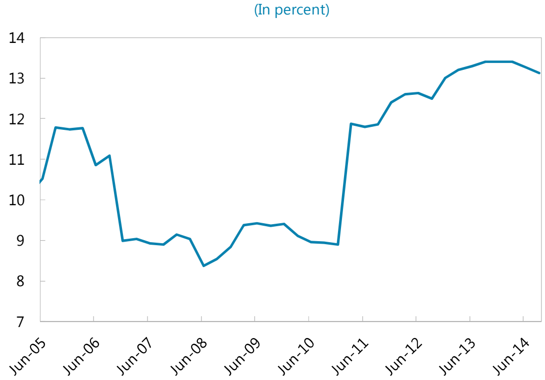
Growth has been mainly driven by domestic demand, not by the external sector.

Contribution to Real GDP Growth
(In percent)



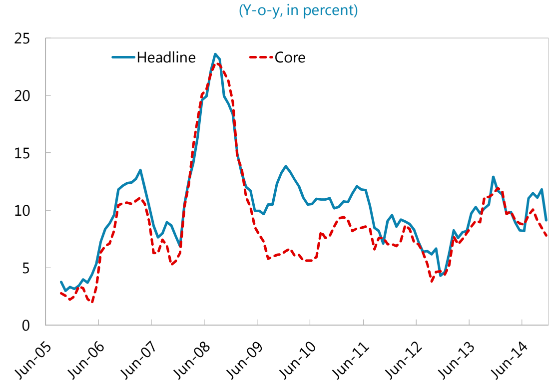
Unemployment picked up after 2011 and remains high.

Unemployment
(In percent)



Headline inflation has hovered around 10 percent over the past few years.

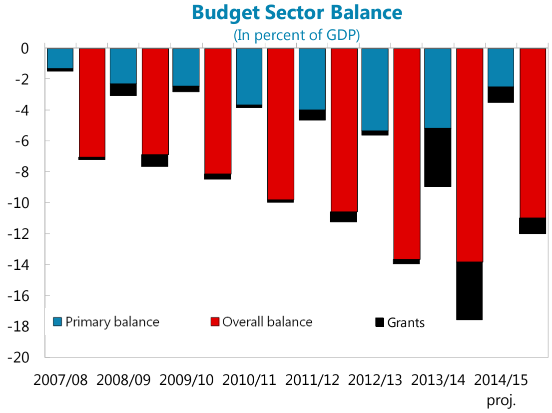
Consumer Price Index Inflation
(Y-o-y, in percent)



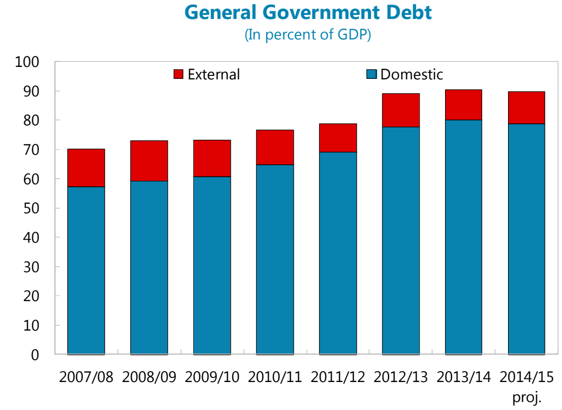
Sources: Egyptian authorities; and IMF staff calculations and projections.

Figure 2. Egypt: Fiscal Sector Developments, 2007/08–2014/15

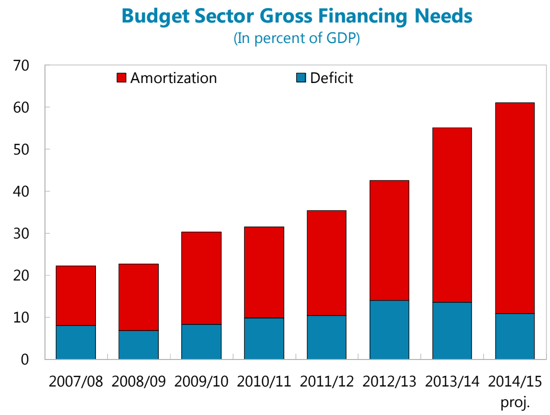
The 2014/15 budget represents a policy shift following rising deficits...



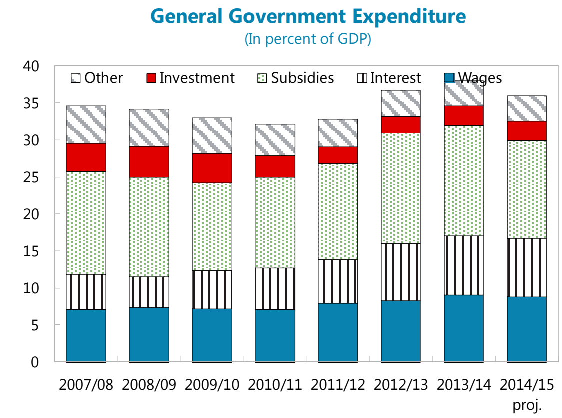
...Which have pushed up debt.



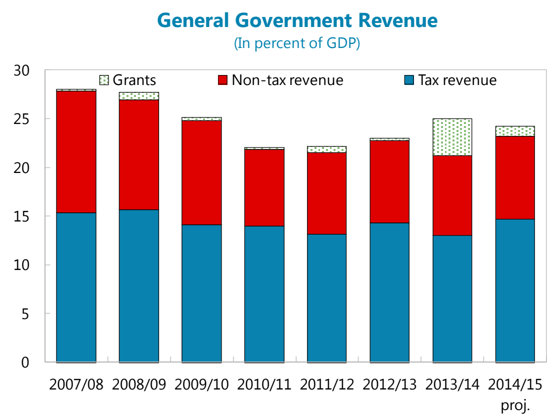
Gross financing needs are large and rising.



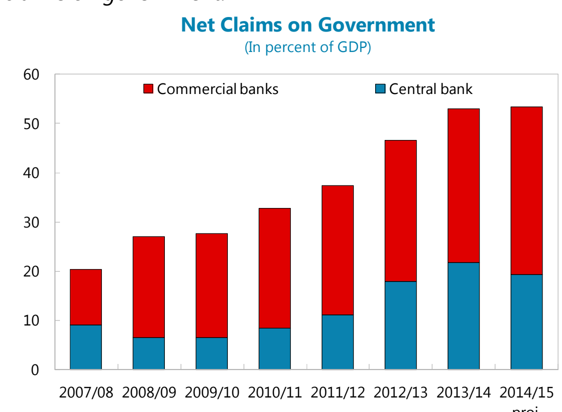
Expenditure is dominated by wages, subsidies and pensions, and interest payments.



Revenue, both tax and nontax, has been falling.



Banks and the central bank have accumulated large claims on government.

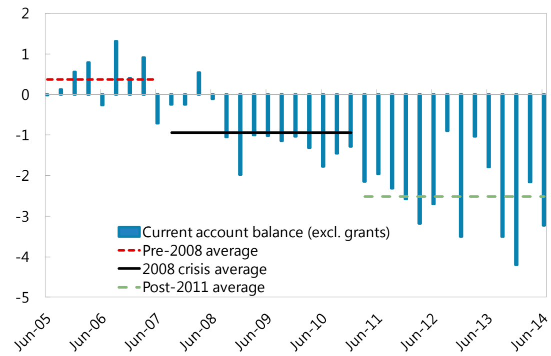


Sources: Ministry of Finance; Central Bank of Egypt; and IMF staff calculations and projections.

Figure 3. Egypt: External Sector Developments, 2003–14

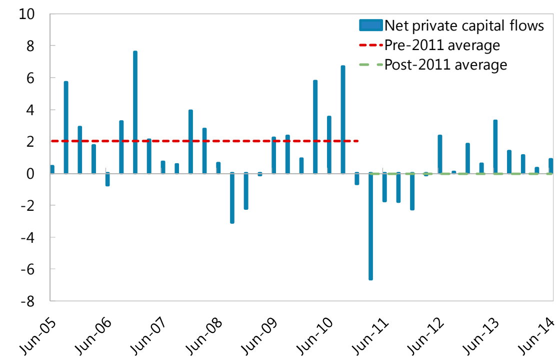
The current account has deteriorated in two stages, post-2008 and post-2011.

Current Account Balance (excl. Grants)
(In billions of U.S. dollars)



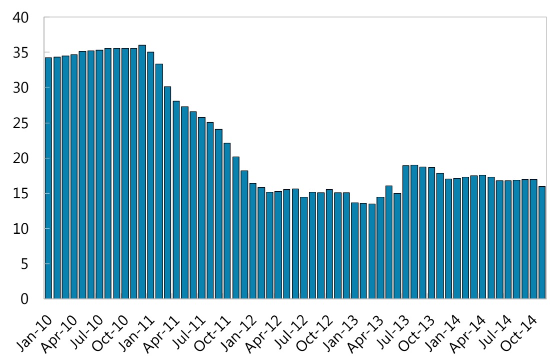
Private capital inflows have yet to recover.

Net Private Capital Flows
(In billions of U.S. dollars)



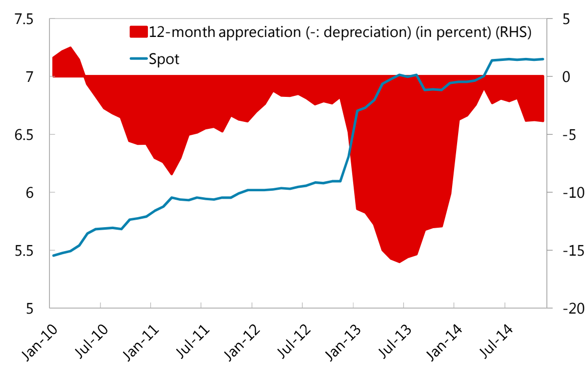
Foreign reserves dropped significantly post-2011.

Gross Official Reserves
(In billions of U.S. dollars)



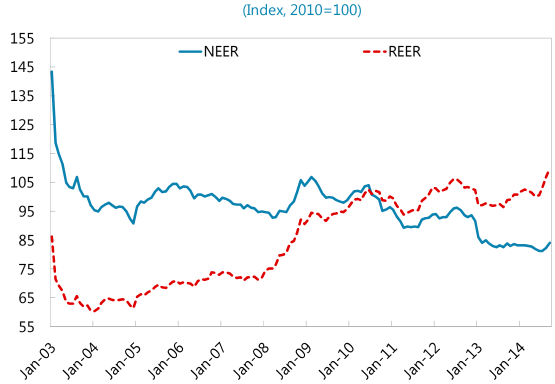
Exchange rate movements have been limited, except during rare episodes of stress.

Exchange Rate
(EGP/USD)



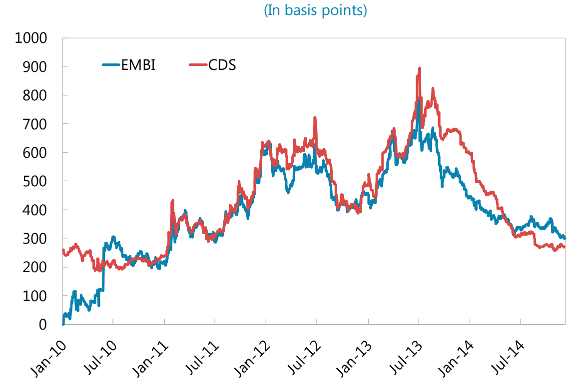
The REER has trended upward over the past few years.

Effective Exchange Rates
(Index, 2010=100)



Spreads have come down from their post-2011 highs.

Spreads
(In basis points)

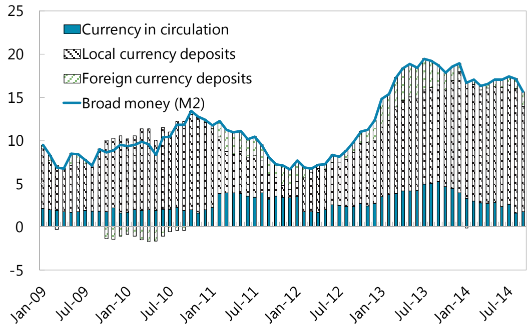


Sources: Egyptian authorities; *International Financial Statistics*; Information Notice System; Bloomberg; and IMF staff calculations and projections.

Figure 4. Egypt: Monetary Sector Developments, 2008/09–2013/14

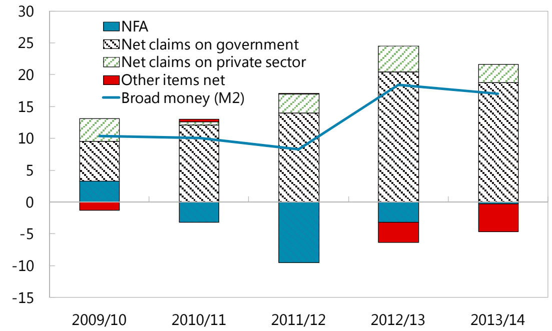
Broad money growth accelerated in 2012/13.

Money Aggregates
(Y-o-y growth and contributions to growth, in percent)



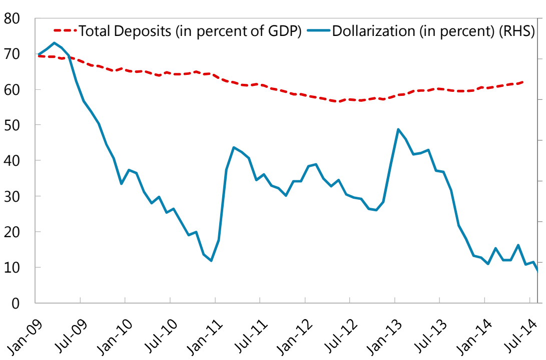
Money growth has been mainly driven by government financing needs.

Contribution to Broad Money Growth
(Y-o-y, in percent)



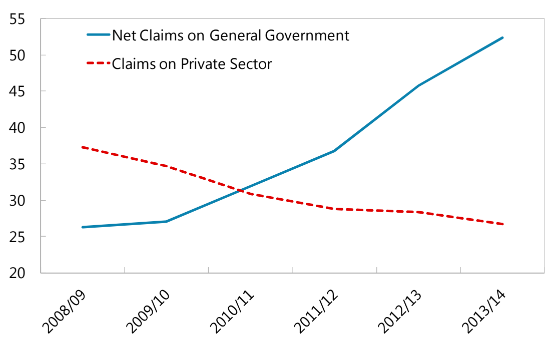
Deposits have held up well, and dollarization remained moderate except during rare episodes of stress.

Deposits and Deposit Dollarization



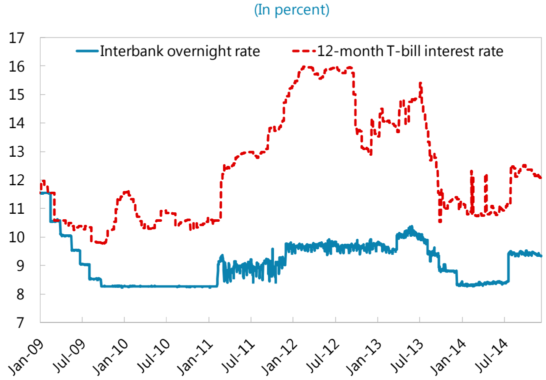
Government borrowing has crowded out private sector credit.

Credit to the Economy
(In percent of GDP)



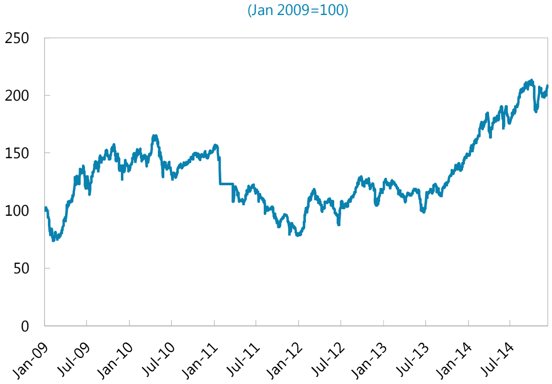
Interest rates have come down from their post-2011 highs.

Interest Rates
(In percent)



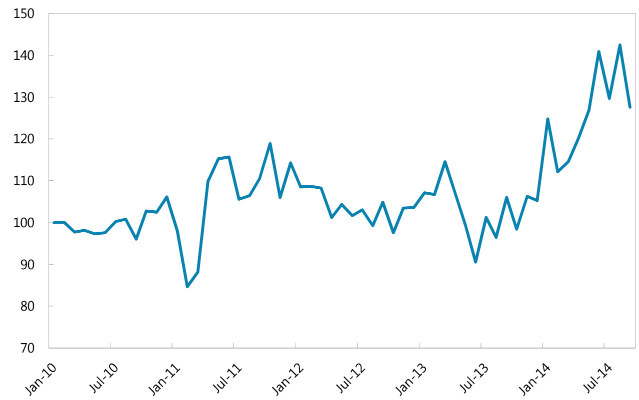
The stock market has recovered over the past year and a half.

Stock Market
(Jan 2009=100)



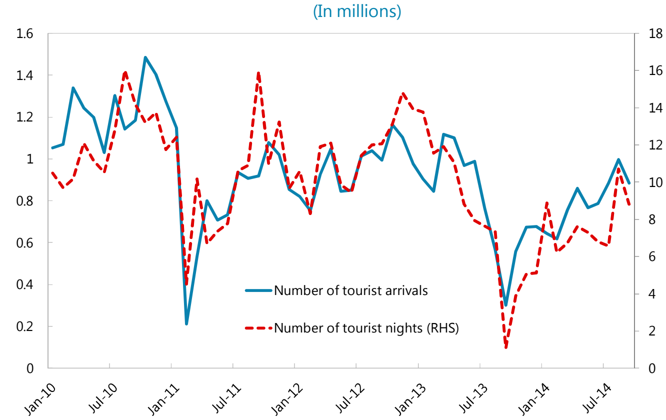
Sources: Central Bank of Egypt; Bloomberg; and IMF staff calculations and projections.

Manufacturing Index
(January 2010=100, seasonally adjusted data)



Source: Egyptian authorities.

Monthly Tourist Arrivals
(In millions)



Source: Egyptian authorities.

7. Growth remained slow in 2013/14, but the economy has now begun to recover. In 2013/14, GDP grew by 2.2 percent. Tourism and natural gas extraction were adversely affected by security concerns and some $6 billion in arrears to oil and gas investors. Unemployment remained stubbornly high at 13.1 percent in Q3 of 2014. However, growth rebounded to 6.8 percent y-o-y in Q3. The pick-up was particularly strong in manufacturing and tourism.

8. Inflation remains close to 10 percent, though core inflation is lower. Inflation was 10.1 percent on average in 2013/14. It then picked up in Q3 2014 due to fuel and tobacco price hikes implemented in July 2014 and increases in school tuition fees, reaching 11.8 percent in October. Interest rate action by the Central Bank of Egypt's (CBE) helped contain second-round effects, and headline inflation receded to 10.1 percent in December. Core inflation was 7.7 percent.

9. In 2013/14, two stimulus packages and revenue shortfalls widened the budget deficit to 13.8 percent of GDP, notwithstanding large external grants. To support domestic demand, the government raised infrastructure and social spending by 1.8 percent of GDP, increased the minimum wage for government workers by 70 percent, and raised wages of teachers and doctors. The budget sector deficit was contained only thanks to grants from Gulf countries of 3.8 percent of GDP.[1] Budget sector debt rose to 95.5 percent of GDP, while general government debt rose to 90.5 percent of GDP (a lower level because of cross holdings of debt by social insurance funds).

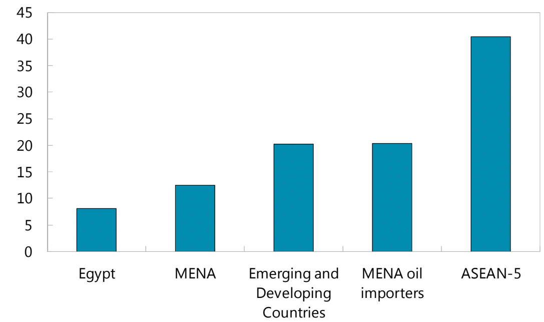
10. The 2014/15 budget represents a policy shift as the authorities implemented bold energy price and tax hikes at the outset of the fiscal year to reduce the deficit. The adopted budget targets a deficit of 10 percent of GDP (including grants equivalent to 1 percent of GDP). The main measures already implemented include energy subsidy reforms (through price hikes for fuel products by 40–80 percent and electricity by 20 percent), introduction of taxes on dividends and capital gains, a 5 percent additional tax on high incomes, increases in excises on tobacco and

[1] The authorities' accounting of the budget sector deficit in 2013/14 is lower (12.8 percent of GDP), as they count as grants the transfer to the budget of special deposits held at the CBE (equivalent to 1 percent of GDP), which had been received from abroad after the 1991 Gulf war. Staff records those amounts as central bank financing below the line, following *Government Finance Statistics Manual* (GFSM) principles.

alcohol, and a revamped property tax. These measures are expected to yield savings of 2½ percent of GDP. The introduction of a fully fledged value-added tax (VAT) conforming to international standards to replace the sales tax, the sale of a telecom license, and the adoption of a new mining law are planned later in the fiscal year, with an expected yield of about 1 percent of GDP.

11. The underlying current account deficit widened significantly in 2013/14 as tourism plummeted, but the imbalance was covered by support from Gulf countries. In 2013/14, a 50 percent drop in tourism receipts widened the current account balance to 5 percent of GDP (excluding grants), while nonoil exports dropped below 5 percent of GDP. Net FDI remained flat as political and judicial uncertainty (including court cases reversing past privatization deals) affected the investment climate. External financing gaps were covered by some $20 billion in Gulf aid (grants, deposits, and oil shipments). Reserves were $14.9 billion at end-December 2014 (2½ months of imports).

Non-Oil Exports
(In percent of GDP, 2005-13 average)



Sources: WEO; and IMF staff calculations.

12. The official exchange rate has remained broadly unchanged since June 2013, but this has generated a parallel market and a backlog of demand for foreign exchange. The pound depreciated by 13 percent in the six months following the introduction of the CBE's tightly managed foreign exchange auctions in December 2012. However, since June 2013, large support from Gulf countries allowed the CBE to stabilize the official exchange rate, which depreciated by less than 2 percent against the U.S. dollar. This has led the real effective exchange rate to appreciate by 18 percent at end-November 2014, due to high inflation differentials with trading partners and the appreciation of the dollar against other major currencies. Restrictions in the auctions and on the interbank market prevented a market-clearing adjustment, with the parallel market premium fluctuating between 2–7 percent. Backlogs of foreign exchange requests from commercial banks were only partially cleared through occasional large auctions. In December 2014, the CBE increased the weekly auctioned amounts by 25 percent.

13. The CBE's monetary policy sought to balance concerns over inflation and the need to support growth and finance the fiscal deficit. Overall, the monetary stance has remained broadly accommodative, as the central bank accommodated the government's financing needs by allowing continuous use of the government overdraft facility. As a result, the CBE's net credit to the government increased to 24.1 percent of GDP in November 2014 (against 18 percent in June 2013). However, the CBE acted decisively in July 2014 to keep inflation in check when it raised its policy rates by 100 bps to preempt second-round effects of regulated price hikes. Credit to the economy has remained subdued, growing at 8.5 percent in 2013/14 and falling in real terms. High nominal interest rates discouraged credit demand while compressed differentials between lending rates and earnings on government securities created little incentive for banks to lend to the private sector.

14. Aggregate financial soundness indicators point to the system's resilience despite the prolonged economic difficulties. Banking sector reforms in the 2000s, including restructuring and consolidation, some privatization operations, and a cleanup of non-performing loans (NPL) meant that banks faced shocks from a relatively strong position. As a result, profitability remained high and system-wide NPLs declined further from 10.5 percent in 2011 to 9.1 percent in June 2014, with provisioning coverage reaching 98 percent. Forbearance measures benefitting the hard-hit tourism sector did not have a significant impact given the small share of such loans. Stress tests regularly performed by the CBE suggest that plausible losses could be absorbed by banks' profits and capital buffers, and exchange rate exposure is not significant. However, despite ample domestic currency liquidity, limited availability of foreign exchange generates sizable backlogs for bank customers.

Egypt: Banking Sector Financial Soundness Indicators, 2011–14 1/

(In percent)

	FY2011	FY2012	FY2013	Jun. 2014
Regulatory capital to risk-weighted assets 2/	15.9	14.9	13.7	13.0
Net worth to assets	6.8	7.2	7.1	6.9
Nonperforming loans to total loans	10.5	9.8	9.3	9.1
Loan provisions to nonperforming loans	94.5	97.1	99.8	98.0
Return on assets	0.8	1.0	1.0	1.0
Return on equity	11.7	13.9	14.5	14.5
Liquidity ratio: local currency	55.6	58.4	61.8	62.9
foreign currency	51.8	56.3	55.2	61.2
Loans to deposits	50.2	48.1	44.1	41.1

Source: Central Bank of Egypt.

1/ Fiscal year ends June 30 for public banks and Dec. 31 for other banks.

2/ Basel II regulations introduced in Dec. 2012, except for banks whose fiscal year end in June.

15. Data provision is broadly adequate for surveillance, but quality, timeliness, and overall transparency could be improved. Government finance, monetary, and external sector statistics are adequate, and transparency and dissemination have improved recently. However, only aggregate banking data are available, and data on general government are available only with a lag.

OUTLOOK AND RISKS

16. Starting from a difficult position, the authorities seek to achieve higher and more inclusive growth and job creation, while reducing inflation and the budget deficit. By 2018/19, they target 6 percent GDP growth and 7 percent inflation, a budget deficit reduced to 8–8½ percent of GDP and a budget sector debt down to 80–85 percent of GDP.

17. As the authorities further flesh out and implement their policy initiatives, prospects for growth, employment and macroeconomic stability will improve (Figures 5–6, Table 9). With consistent implementation of policy plans in the coming years, staff projects that actual and potential growth could reach 5 percent by 2018/19, due to structural reforms to raise investment and improve productivity. If this materializes, unemployment could fall to 10 percent. Fiscal and inflation objectives could be met, as lower domestic financing of the budget would support a deceleration of inflation. In the short term, growth is expected to pick up, from a low base, to 3.8 percent this fiscal year. However, despite an expected rebound in tourism, FDI, and portfolio investment, high domestic demand and limited competitiveness will keep the trade and current account deficits elevated. External financing gaps are expected to remain throughout the projection period, with part of the gaps associated with a limited buildup of reserves to 3½ months of imports. The authorities have somewhat more upbeat forecasts (see paragraph 34).

18. Lower global oil prices are expected to improve Egypt's overall prospects, although weaker GCC external positions could affect official transfers and remittances. Lower prices will reduce the net cost of energy in the balance of payments, although the impact will be relatively small given the close-to-balance energy position. Lower prices will reduce significantly the fiscal cost of fuel subsidies. Staff projections reflect the January 2015 *World Economic Outlook* projections, although prospects remain highly uncertain and policies should be set in a prudent way that factors in the possibility of a faster rebound of oil prices than implicit in futures prices. In particular, subsidy reform should continue at the planned pace given the large remaining gap between retail prices and cost recovery.

19. Downside risks stem from Egypt's current high vulnerability to global, regional, and domestic shocks and from possible policy slippages. With the economy still in the early stages of recovery and its fragile external reserves position, Egypt remains particularly vulnerable to adverse shocks. There is a high likelihood of slower growth in advanced and emerging economies, and this or an abrupt surge in global financial market volatility could have a large impact on expected external inflows, including official support, FDI, and tourism, particularly from Russia. A slowdown in global trade would affect Suez Canal revenues, offsetting some of the projected higher revenue derived from the planned increase in the canal's capacity. There is a moderate likelihood that regional conflicts could intensify, especially in countries bordering Egypt. This or a deterioration in domestic security conditions or perceived departures from the rule of law, could affect confidence, investment, and tourism. Finally, policy delays could derail fiscal consolidation, widen imbalances, and set back progress. Hence for the reform effort to succeed, it will need to be steadfastly pursued. Risks could be mitigated by strengthening macroeconomic policies, preparing contingency measures, and building buffers. In case of adverse developments further fiscal adjustment, greater exchange rate depreciation and additional external financing may be needed. The authorities considered the risks to be somewhat overstated, pointing to the progress already made in implementing measures. They were also confident that their policies would reduce vulnerabilities and the impact of shocks.

20. There are also opportunities and upside risks, in particular those stemming from successful implementation of the authorities' policies. Early reform success and completion of the political roadmap could boost confidence and restore macroeconomic stability more rapidly than anticipated, and lead to higher growth and job creation and higher capital inflows. In particular, tourism and FDI could recover more quickly than projected, especially if the investor conference in March 2015 is successful. Several sectors such as energy, manufacturing, mining, construction, and telecom could rebound on the back of the government's structural reforms and renewed investment. Portfolio investment could return more strongly than anticipated along with renewed confidence and macroeconomic stability, possibly bringing down financing gaps. Internal market reforms could reduce supply bottlenecks and have a beneficial impact on inflation. In sum, strong policy implementation and a positive domestic and international response could lead to better outcomes.

POLICY DISCUSSIONS

21. Policy discussions focused on the authorities' strategy to achieve high growth and job creation through structural reforms and investment promotion, while strengthening social protection. Some elements of the strategy are already in place. Others are still being formulated, and key decisions on details remain to be taken. However, there was broad agreement that given the significant economic challenges, the authorities' objectives are appropriately ambitious, and that if their policy plans are fully implemented, they are broadly achievable.

22. Staff and the authorities agreed that restoring macroeconomic stability is a prerequisite for growth. The authorities have started to address the large fiscal deficit with actions on subsidies, wages, and taxes, and intend to do more over the next months and years to achieve a sustainable fiscal position and reduce public debt. They have raised policy rates to anchor inflation expectations, and indicated their intention to pursue a tight monetary policy as needed to achieve their inflation targets despite the anticipated upward pressure on prices from continued energy subsidy reforms. There was agreement that external sustainability can be achieved by improving competitiveness through structural reforms, lower inflation, and exchange rate flexibility, although staff put more emphasis on exchange rate flexibility than the authorities. In the meantime, foreign capital inflows and external financing will be needed.

A. A Strategy for Inclusive Growth

23. Staff and the authorities agreed that structural reforms and investment are needed to unlock Egypt's growth potential and generate jobs for the growing population. The authorities' initiatives, which are consistent with staff's analysis of growth constraints, appropriately prioritize improving the business climate, including through an ambitious overhaul of the regulatory framework. They also aim to develop the financial sector, increase access to finance for SMEs, and encourage higher investment. The social safety net is being strengthened to address poverty and social needs.

Pursuing Structural Reforms and Financial Development

24. The authorities are working on reforms of the regulatory framework for businesses and investment to foster private sector-led growth. They have amended the competition law and are preparing major revisions to the investment, bankruptcy, and corporate laws and regulations, as well as those pertaining to access to land, with a view to removing burdensome regulations, leveling the playing field for all businesses, supporting SMEs, and addressing the perceived high corruption.

In most cases legislation has not been finalized, and it will be important that the authorities avoid dilution of the proposed reforms in the process of enaction, and ensure that implementation is consistent and evenhanded. However, the authorities are certainly focusing on the right issues. They have also settled a number of disputes with local and foreign investors and are advancing toward further settlements. Reforms being prepared regarding public sector pay and hiring practices will help reduce labor market distortions.

25. Initiatives are underway to develop the financial sector and enhance financial inclusion. The financial sector remains underdeveloped, as bank lending is low while capital markets are relatively small. The authorities are revising the regulatory and supervisory framework to support mortgage finance (the central bank is subsidizing bank lending to low and middle-income borrowers through a fund equivalent to 0.9 percent of GDP), modernize capital markets, and upgrade the framework for insurance. Enhancing the secondary market for government securities would help further develop the yield curve for banks to price risks. The new microfinance law is expected to support access to finance and create the conditions for further credit growth. Ongoing efforts to develop mobile payments could also help increase the banks' customer base and develop financial inclusion.

Promoting Investment

26. Staff and the authorities agreed that increasing investment is a priority, and would boost demand and raise potential growth. Investment in people and physical capital can be financed from both domestic and foreign sources, through public and private sector initiatives. The increases in public spending on health, education, and scientific research mandated by the new constitution can improve human and physical capital, if the additional spending is accompanied by reforms to improve service delivery. Investment in infrastructure is needed, although caution is warranted given the already high public debt. The March 2015 conference will be an opportunity to raise private investment through FDI and PPPs. The authorities stressed that the latter will be structured to minimize direct and contingent liabilities for the budget.

27. The megaprojects, which are a cornerstone of the authorities' growth strategy, offer prospects for improvement but also carry risks (Appendix I). The flagship Suez Canal project represents a major undertaking, and the successful domestic issuance of investment certificates for its financing suggests strong confidence in the project and the country's economic prospects. Further development of the Suez Canal area and other megaprojects planned in housing, land reclamation, energy, roads, and infrastructure have the potential to generate jobs and growth. At the same time, these projects should be carefully designed and monitored to limit potential fiscal risks, for example if they entail additional public investment, large contingent liabilities, or lower budget revenues.[2] Staff welcomed the fact that tax exemptions were not being considered. The projects'

[2] Only the Suez Canal project is explicitly included in the staff's fiscal projections, as other projects are at a too early stage of development for their fiscal implications to be clear.

impact on growth and employment should also be assessed, and priority should be given to projects contributing to the country's long-term growth and exports potential.

28. Renewed investment in the energy sector is also a priority and presents opportunities for long-term growth. The authorities understand that energy sector reforms and sizable investments are critical to reduce energy supply bottlenecks, raise potential growth, and increase exports. In this regard, the government's efforts to settle some $6 billion in arrears to foreign companies will help, and already implemented and planned increases in fuel and electricity prices give some confidence that new arrears will not be incurred in the future. The government reports growing interest in private investment in oil, gas, and electricity, although the willingness of investors to commit resources may be reduced by recent falls in the oil price. There are also encouraging long-term prospects for investment in renewable energy such as solar and wind.

Strengthening Social Protection and Fostering Employment

29. Protecting the poor and the vulnerable is an essential element of the government's program. To complement the existing social solidarity pension system which covers 1.5 million households, the authorities have launched two innovative cash transfer schemes: an unconditional benefit for the elderly and disabled, and a conditional transfer for families to support children's health and education in poor areas. These are being piloted on 600,000 families in Upper Egypt and are expected to cover 1.5 million households once fully rolled out. Moreover, bread subsidies were streamlined and food ration cards reformed to allow greater flexibility in the choice of goods and reduce leakages. Agricultural services, grain storage, and farmers' access to finance will be improved to reduce rural poverty. The planned increases in education and health spending, which will be partly financed by savings from subsidy reforms, should also improve social outcomes.

30. Prospects for higher employment should improve as the authorities' policies are implemented. Higher growth and structural reforms aimed at improving the business climate will support employment. Increased education spending will also help in the medium term, especially if it focuses on closing the jobs-skills mismatch and improving the employability of the working age population. Reforms to public service pay should also help by limiting reservation wages, thereby creating incentives towards private sector employment.

B. Reducing the Fiscal Deficit

31. Staff welcomed the government's plans to reduce the budget deficit over the next five years. The government's objectives are to reduce the budget deficit to 8–8½ percent of GDP and budget sector debt to 80–85 percent of GDP, while at the same time increasing significantly spending on health, education, and scientific research as mandated by the new constitution (Appendix II). The strategy is to reduce large inefficient spending items—such as energy subsidies—and widen the tax base, including by raising taxes on high earners, to create fiscal space for increased social spending and investment, while reducing the deficit to make room for the private sector. Key reform measures include:

- **Subsidy reform.** Following the July 2014 increase, the government intends to continue raising fuel and electricity prices over the next 4–5 years. At the time, the plan would have required fuel prices to rise by about 20 percent every year to reach close to cost recovery by 2018/19. However, at current global oil prices, the phasing out of the subsidies could be achieved sooner—which the staff would recommend—or with lower annual price increases. A new system of smart cards has been launched to monitor wholesale and retail sales and combat smuggling (Box 2).
- **Containing the wage bill.** The government recently set a ceiling for public sector wages, subjected bonuses to income taxes and discontinued the automatic inclusion of bonuses in basic wages after five years. New hires have been centralized and require approval by the finance ministry, and the use of public entities' own resources for additional rewards to employees has been discontinued. The authorities are also working on a thorough revision of the public pay system and introducing an attrition scheme limiting the number of retirees to be replaced.
- **Other spending.** Through reprioritization, the authorities expect to reduce non-priority capital spending by about 1 percent of GDP, while increasing health and education investment by about the same amount, and to stabilize purchases of goods and services after the substantial decline of the last few years. The non-priority spending to be cut has in most cases not yet been identified.
- **VAT reform.** The government plans to replace the current sales tax with a fully fledged VAT in the spring of 2015 (Appendix III). A draft law following international standards has been prepared and the tax administration is finalizing preparatory steps. Work is also underway to develop a simplified tax regime for SMEs alongside the new VAT, and to improve tax compliance and control systems.

32. Staff and the authorities agreed that these plans could achieve the targeted deficit and debt reduction, although it would be important to offset any delays and slippages. For 2014/15, staff estimates that the budget deficit will likely reach about 11 percent of GDP. However, there are potential risks to this projection, as several pieces of legislation or actions such as the VAT law, the mining taxation law, and the sale of an additional telecom license (yielding about 1 percent of GDP) remain to be passed. Some elements of this, including the VAT rate, are still being finalized, and it will be important that the decisions taken on these are consistent with the authorities' revenue goals. There are also risks related to the performance of SOEs, as illustrated by a buildup of EGPC tax arrears last year (1–1¾ percent of GDP). In 2015/16 and in the following years, it will be key for the government to follow through on its plans to step up subsidy reform by raising energy prices again, ensure that a well-functioning VAT is in place, identify spending cuts to offset the planned increases in health and education spending, and more generally to keep expenditure in check to reduce the budget deficit as targeted. With steadfast implementation of reforms, the authorities' deficit objective can be met by 2016/17 and their debt objective three years later (although general government debt will fall below 80 percent of GDP already in 2018/19, see Tables 5 and 9, and Appendix IV). At the same time, the authorities should be prepared to take contingency measures in case of adverse shocks or if the expected savings are not fully achieved.

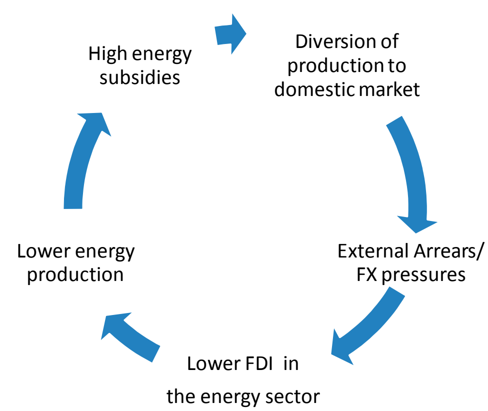
Possible measures would include further steps to control public sector wage growth and hiring, setting a higher VAT rate than currently envisaged, or raising it over time, and further strengthening property taxation. The authorities' plans to strengthen governance of SOEs would also mitigate fiscal risks.

Box 2. Energy Subsidy Reform

Price subsidies for energy products have long been an important component of the social contract in Egypt. The budgetary cost of these untargeted subsidies reached over 6 percent of GDP in 2013/14, reflecting their universal provision as well as high international oil prices. In fact, this underestimates the true economic costs as the Egyptian General Petroleum Company (EGPC) receives free crude oil and natural gas as part of its production-sharing contracts. Moreover, when international prices exceeded budget assumptions, the excess cost was borne by EGPC, affecting its financial performance and resulting in large arrears to foreign partners and suppliers.

Over time, the price distortions associated with the subsidies have resulted in a worsening energy crisis, causing large budget deficits and weighing on growth. The negative feedback loop between subsidies and FDI in the energy sector stems from the diversion of an increasing share of energy production to satisfy the domestic market. This has led to external arrears to foreign energy companies and a reduction of their investment in new exploration.

Moreover, despite large subsidies from the government, SOEs in the energy sector have generally not been able to meet the high energy demand resulting from low prices. For example, retail prices of LPG cylinders have often been multiples of their official price, defeating the purpose of the subsidy. Electricity outages have also become more frequent.



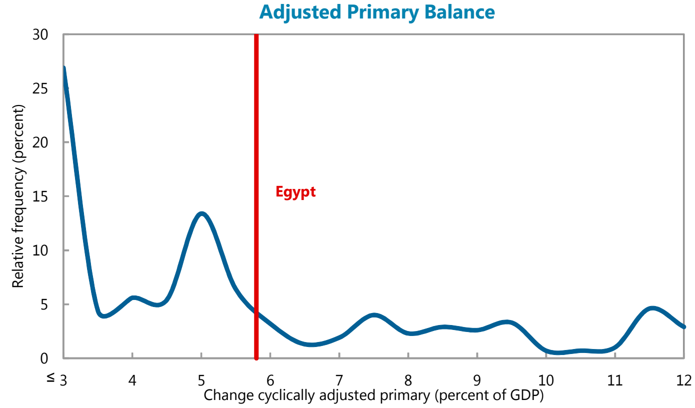
Against this background, the authorities intend to eliminate all subsidies over the next five years, with the exception of those for LPG which are targeted to the poor. In July 2014, they substantially increased prices for both households and commercial uses, with expected budget savings of close to 2 percent of GDP annually.[1] The authorities' strategy also includes rolling out smart cards to monitor consumption and limit smuggling. The recent fall in oil prices will reduce the cost recovery price and will give some breathing space to the budget, although the amount of subsidies to EGPC for this year has been set in the 2014/15 budget law, and there may be limited room to change it.

The benefits of the untargeted energy price subsidies accrue mostly to high-income households in Egypt, as they tend to consume a higher quantity of energy products. Based on staff estimates, the direct effect of the July price increases for gasoline and diesel is mildly progressive, also reflecting low car ownership among low and middle-income households.

[1] Prices increased by 64 percent for diesel, 78 percent for Octane 80 gasoline, and 41 percent for Octane 92 gasoline.

33. The planned fiscal consolidation is ambitious, but necessary. The authorities are planning a very substantial adjustment: among cases of adjustment in emerging and developing countries, 65 percent saw a change in the cyclically adjusted primary balance of less than 5.8 percentage points of GDP (the planned adjustment in Egypt over the next five years). The authorities are appropriately calibrating the adjustment to limit the adverse effects on growth and on the poor. In particular, the effects of subsidies reform and VAT introduction will be felt most by the relatively well-off.[3] However, even with this ambitious adjustment, general government debt will remain high at the end of the projection period—although on a clear declining path—and the government will still need substantial credit from the banking sector, limiting the scope for needed increases in private sector credit.

Developing Economies: Estimated Density for Change in Cyclically Adjusted Primary Balance



Sources: Escolano , Jaramillo, Mulas-Granados, Terrier (2014); data cover the period 1945–2012.

C. Achieving a Secure External Position

34. Views differed somewhat on balance of payments prospects. In staff's view, the external sector presents vulnerabilities. Staff projects that despite some external adjustment, financing gaps will still reach about $36 billion (or about $7 billion per year on average) through 2018/19, of which about half will be used to build up reserves to 3½ months of imports, which is the authorities' medium-term target. On the positive side, the external debt would remain low in the medium term (at about 17 percent of GDP). The rebound in tourism together with sustained remittance inflows and additional Suez Canal revenue will support the current account, and rising FDI and portfolio investment should provide much-needed external financing (Appendix V). However, the trade balance deficit is expected to persist, as the growth of non-oil exports will be insufficient to cover imports, the current account deficit will remain around 3½–4½ percent of GDP, and the magnitude of future capital inflows remains highly uncertain. The authorities believe, however, that the current account deficit will not exceed 3 percent of GDP on account of stronger prospects, notably for tourism, and that higher FDI inflows will help reduce remaining financing gaps.

35. Staff and the authorities agreed that at a higher reserves level would provide more adequate buffers in case of shocks. Staff proposed targeting a level equivalent to 4½ months of imports. This would bring reserves in line with the IMF's reserve adequacy metric for flexible exchange rate regimes and would protect against possible shocks to the current or capital

[3] The expansion of the VAT to services will mostly affect high-income earners consuming services currently exempt. Similarly, the simplified regime for small businesses will reduce the burden of thousands of taxpayers currently registered under the GST, and some of the resulting savings are likely to be passed on to their (mostly low-income) customers.

account—such as a decline in global output that could affect exports and external financing, or capital flight due to regional or domestic developments.[4] It would also instill greater investor confidence and, hence, help attract investment. The authorities indicated that if balance of payments developments are more favorable, they will consider targeting a level of reserves higher than the currently planned 3½ months of imports.

36. There was agreement that more exchange rate flexibility would be desirable in the future, though views differed on the priority to be attached to this and on the timing. The staff sees the avoidance of excessive real appreciation as critical to ensure external sustainability, and recommends that this be achieved through introducing greater exchange rate flexibility with support from other macroeconomic policies. The CBE agrees that more flexibility in the future is desirable, but only once conditions are appropriate: at present it emphasizes the importance of an orderly foreign exchange market.

- In staff's view, the sizable real appreciation of the past year (estimated at about 18 percent between June 2013 and November 2014) combined with large shocks to economic fundamentals and the poor investment climate has affected competitiveness, leading to an overvaluation of the Egyptian pound estimated between 3 and 28 percent. Although estimates of exchange rate overvaluation are subject to significant uncertainty, they are consistent with the persistently high non-oil trade deficit and a decline in Egypt's share of world non-oil exports, as well as with the fact that the current account deficit is larger than the norm (Appendix VI). The current account norm, estimated at about -2.5 percent of GDP, is the level considered sustainable given Egypt's macroeconomic fundamentals. The CBE believes that the recovery of tourism and FDI inflows will durably improve the balance of payments position, removing any perception of overvaluation.

- Staff favors a flexible exchange rate policy that would allow the real exchange rate to move with fundamentals. Flexibility can be achieved in the near term by removing restrictions in foreign exchange auctions and in the market, which would eliminate the parallel market premium and allow a market-clearing exchange rate with movements in both directions to avoid one-way bets. The CBE, however, believes that a move before conditions are appropriate would lead to speculation. It acknowledges the importance of improving the availability of foreign exchange through formal channels, to close the existing backlog and reassure investors that demand for foreign exchange will be met.

[4] Reserves equivalent to 4½ months of imports translates to a reserve coverage of 77 percent of the standard reserve adequacy metrics under a fixed exchange rate regime and 139 percent under a flexible exchange rate regime. The latter falls within the 100–150 percent range that is considered adequate.

D. Stabilizing Inflation and Supporting Private Sector Credit Growth

37. There was agreement that a strong, independent monetary policy is needed. Staff and the authorities agreed that lower inflation would be critical to support competitiveness, protect the poor, and foster growth. Hence, staff supported the CBE's inflation objectives and welcomed its willingness to tighten monetary policy as needed to achieve them. While monetary policy has been constrained by large fiscal deficits, the upcoming consolidation will help bring inflation down by containing domestic demand. That said, the planned VAT and fuel price increases will continue to put upward pressure on prices and may necessitate further increases in policy interest rates to contain second-round effects. In time, as inflation comes down and expectations become better anchored, there should be room to reduce interest rates.

38. A strong banking sector will be critical to support private sector growth. The banking system has been resilient in the face of economic turmoil in recent years. Profitability remains high, NPLs are low, and domestic liquidity is ample. This result, however, was achieved along with low credit to the private sector, as banks benefitted from investing in high-yielding, zero-risk weighted government debt. High exposure to the sovereign puts a premium on maintaining public debt sustainability. Risks are mitigated by the banks' stable funding base through deposits, and most lending is denominated in domestic currency. High credit concentration in banks' loan portfolios could represent a risk, although prudential regulations limit the size of exposures and banks are seeking to diversify their lending.[5] Lower fiscal deficits would make it possible for banks to increase private sector lending, and business climate reforms may increase demand for credit.

39. Staff welcomes the CBE's intention to continue strengthening the regulatory and supervisory framework. The CBE is completing Pillar 2 of Basel II and is on track to implement Basel III according to the internationally agreed schedule. The macro-prudential supervision framework has been strengthened, including through regular stress testing, which the CBE is refining on a continuous basis. The CBE also plans to increase the timeliness and scope of disclosure of banking sector data, and will consider publishing regular financial stability reports to enhance their communication strategy and increase confidence in banking sector soundness.

[5] Credit concentration limits follow international standards and appear to be well enforced, but exposure to large companies dominates in the loan book, implying that many banks have nearly reached their limits, and in one instance the limit was increased on an ad hoc basis to increase lending to an SOE.

E. Article VIII Issues

40. Staff is assessing whether aspects of the foreign exchange system give rise to exchange restrictions or multiple currency practices subject to Fund approval under Article VIII, Section 2(a) and 3, in view of the reported backlogs in accessing foreign exchange for the making of payments and transfers for current international transactions, the wide spread between the official and parallel markets, and the insufficient supply of foreign exchange through the auction mechanism. Staff is seeking relevant information and clarifications from the authorities to finalize its assessment.

STAFF APPRAISAL

41. Egypt has chosen a path of adjustment and reform which, if followed resolutely, will lead to economic stability and growth. The choice is epitomized by reform of fuel subsidies, which have been at the heart of Egypt's structural and fiscal problems for years. The significant increase in fuel prices and the commitment to multi-year subsidy reform was a transformative and welcome step. Similarly, the first steps to reduce the budget deficit and improve the investment climate suggest strong commitment to reform.

42. The authorities' first task is to implement policies which will restore growth, create jobs and protect the poor. The three strands of the authorities' strategy can be woven together to produce a durable improvement in living standards.

- The first strand includes priority measures to unlock private sector-led growth, notably a thorough reform of the regulatory framework for businesses and investment. It will be important that as legislation is formulated and implemented the authorities preserve aspects of the reforms which encourage open competition and support growth, and avoid capture by special interests. Financial sector development will also be increasingly important as the budget deficit recedes.

- The second strand is investment to repair Egypt's fraying infrastructure. Energy sector reforms and sizable investments are critical to reduce energy supply bottlenecks. There are also ambitious plans for investment in other areas, from industrial development, to land reclamation to housing. Here priorities will need to be set and the private sector closely involved, given limited resources and already high public debt. The focus should be on investment which will create jobs in the short term and increase potential growth and exports in the long term. Projects should also be carefully designed and monitored to avoid large actual or contingent budget liabilities.

- The third strand is protection of the poor. The launch of a cash transfer scheme and the reform of food ration cards are welcome, as is the government's commitment to take further steps to improve targeting and increase benefits. More public spending on education and health, if managed wisely, can improve the quality and availability of public services, support long-term growth, and help the poor and other vulnerable groups.

43. Fiscal consolidation is essential for stability and medium-term sustainability. Successive governments have grappled with how to restrain the budget deficit in an environment of low growth and political uncertainty. Now, the combination of relative political stability, financing from Gulf countries, and a recovering economy provide an opportunity for reform. The government has made an excellent start, but it will be important to keep up the momentum. The immediate priority is to enact a modern VAT with the rate and coverage consistent with the authorities' fiscal targets. The next will be to implement the second stage of subsidy reforms. Meanwhile broader tax reform and wage and other spending control initiatives should continue. Fiscal adjustment is essential to restore debt sustainability. It will also give space to the CBE to conduct the independent monetary policy needed to anchor inflation firmly down to single digits.

44. The authorities' plans for fiscal adjustment are well calibrated to minimize the drag on growth, improve medium-term prospects, and protect the poor. The fiscal program envisages gradual consolidation and a rebalancing of public spending toward investment, education, and health financed by an increase in tax revenues and cuts in inefficient, untargeted energy subsidies and containment of the wage bill. This will increase human and physical capital, productivity, and potential growth. However, improving the quality of public spending in social sectors will be critical to ensure that additional funds are well spent and targeted. Ongoing and planned reforms of wage-setting and hiring rules in the government sector will be important to increase efficiency, reduce labor market distortions, and free resources for more productive uses. The government should also be ready to increase social transfers further to protect the poor from the impact of fiscal adjustment.

45. The balance of payments remains vulnerable, and should be strengthened by policy adjustment. The current account deficit excluding grants rose last year to five percent of GDP, significantly above the norm. As a result of the rising deficit and of capital outflows, Egypt has lost half its reserves of 2011. There is also continued evidence of foreign exchange shortages, in the form of a parallel market and a backlog of foreign exchange demands from companies. Looking forward, the authorities' policies would still leave significant vulnerabilities, namely high public debt and large financing gaps, which would need to be covered by greater adjustment or financing, or a combination of the two. While there has been some movement of the nominal exchange rate over the past two years, a more flexible exchange rate policy focused on achieving a market-clearing rate and avoiding real appreciation would improve the availability of foreign exchange, strengthen competitiveness, support exports and tourism, and attract foreign direct investment. This would foster growth and jobs and reduce financing needs.

46. Egypt is also vulnerable to a deterioration of the security situation and domestic policy reversals. In addition to a supportive economic environment, investor confidence depends on security and evenhanded application of the rule of law. The authorities have made significant progress in re-establishing security: the level of disruption of economic life is much less than in the recent past, although the country remains vulnerable to regional and indigenous terrorism. With regard to the rule of law, some recent judicial decisions have disconcerted international observers and could raise concerns among investors. There are also implementation risks given the magnitude of the required adjustment. For the reform effort to succeed it will need to be pursued steadfastly: with reform objectives being translated into coherent and consistently implemented laws. The measures already taken by the authorities demonstrate their commitment to reform. However, all of these risks suggest a need to build financial and policy buffers. Raising international reserves and preparing contingency plans for the budget in case risks materialize would be useful to address unforeseen shocks and boost confidence.

47. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Egypt: Selected Macroeconomic Indicators, 2010/11–2015/16 1/

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
					Projections	
	(Annual percentage change)					
Output and prices						
Real GDP (market prices)	1.8	2.2	2.1	2.2	3.8	4.3
Consumer prices (end of period)	11.8	7.3	9.8	8.2	11.0	10.5
Consumer prices (period average)	11.1	8.6	6.9	10.1	10.4	10.1
	(In percent of GDP at market prices)					
Public finances						
General government 2/						
Revenue and grants	22.0	22.1	23.0	25.0	24.3	23.7
Expenditure (incl. net acquisition of financial assets)	31.8	32.7	37.1	38.6	35.2	32.2
Of which : Interest	5.6	5.9	7.7	8.0	7.9	7.5
Overall balance	-9.8	-10.5	-14.1	-13.6	-11.0	-8.5
Overall balance, excl. grants	-10.0	-11.2	-14.4	-17.4	-12.0	-8.6
Primary balance	-4.7	-5.1	-6.6	-6.1	-3.6	-1.4
Gross Debt	76.6	78.9	89.0	90.5	89.8	87.1
External	11.8	9.8	11.4	10.4	11.0	12.2
Domestic	64.8	69.1	77.6	80.1	78.8	74.9
Budget sector 3/						
Revenue and grants	19.3	19.3	20.0	21.8	21.3	20.9
Expenditure (incl. net acquisition of financial assets)	29.2	29.9	33.7	35.7	32.2	29.4
Of which: Fuel subsidies	4.9	6.1	6.8	6.3	3.1	1.2
Of which: Food subsidies	2.4	1.9	1.9	1.8	1.4	1.3
Overall balance	-9.8	-10.6	-13.7	-13.8	-11.0	-8.5
Overall balance, excl. grants	-10.0	-11.2	-14.0	-17.6	-12.0	-8.6
Primary balance	-3.7	-4.0	-5.3	-5.2	-2.5	-0.4
	(Annual percentage change)					
Monetary sector						
Credit to the private sector	1.0	7.1	9.8	7.4	11.7	14.9
Reserve money	23.6	5.1	20.4	14.8	16.2	11.2
Broad money (M2)	10.1	8.3	18.4	17.1	15.2	11.8
Treasury bill rate, 3 month (average, in percent)	10.2	13.4	13.4	11.3	9.5	11.2
	(In percent of GDP, unless otherwise indicated)					
External sector						
Exports of goods (in US$, percentage change)	13.1	-7.1	7.6	-3.2	-14.0	-5.9
Imports of goods (in US$, percentage change)	10.4	9.5	-2.6	3.7	-1.4	4.7
Merchandise trade balance	-11.5	-13.0	-11.3	-11.8	-11.4	-11.5
Current account	-2.6	-3.9	-2.4	-0.8	-3.4	-4.3
Capital and financial account (incl. errors and omissions)	-1.1	-2.8	2.1	1.6	3.1	3.2
Foreign direct investment (net, in billions of US$)	1.2	3.7	3.6	3.8	6.9	7.6
External debt 4/	14.8	13.1	15.9	16.1	16.4	17.3
Gross international reserves (in billions of US$)	26.4	15.2	14.5	16.3	18.7	21.2
In months of next year's imports of goods and services	4.7	2.7	2.5	2.8	3.1	3.2
In percent of short-term external debt 5/	542.4	308.8	138.1	191.9	116.9	115.2
Memorandum items:						
Nominal GDP (in billions of Egyptian pounds)	1,371.1	1,575.5	1,753.3	1,997.6	2,295.4	2,631.3
Nominal GDP (in billions of US$)	235.6	262.3	271.4	286.4	…	…
GDP per capita (in US$)	2,930	3,183	3,205	3,304	…	…
Unemployement rate (period average, percent)	10.4	12.4	13.0	13.4	13.2	12.7
Poverty rate (percent)	25.2	n.a.	26.3	…	…	…
Population (in millions)	80.4	82.4	84.7	86.7	88.4	90.2

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

1/ Fiscal year ends June 30.
2/ General government includes the budget sector, the National Investment Bank (NIB), and social insurance funds.
3/ Budget sector comprises central government, local governments, and some public corporations.
4/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing (in 2011/12).
5/ Debt at remaining maturity and stock of foreign holding of T-bills.

Table 2. Egypt: Balance of Payments, 2009/10–2018/19
(In billions of U.S. dollars, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
						Projections				
Current account	-4.3	-6.1	-10.1	-6.4	-2.4	-10.8	-15.4	-16.9	-18.4	-19.5
Balance on goods and services	-10.4	-13.2	-22.1	-18.2	-25.4	-26.9	-30.2	-31.3	-32.4	-33.5
Exports of goods and services	46.6	48.4	45.7	49.0	43.6	42.1	42.6	48.2	54.0	59.8
Imports of goods and services	-57.0	-61.6	-67.8	-67.3	-69.0	-69.0	-72.7	-79.4	-86.4	-93.3
Trade balance	-25.1	-27.1	-34.1	-30.7	-33.7	-36.5	-40.6	-44.3	-47.6	-50.9
Oil trade balance	2.9	1.0	-2.5	-0.7	-1.7	-0.9	-1.3	-1.8	-2.6	-3.4
Non-oil trade balance	-28.0	-28.1	-31.6	-30.0	-32.0	-35.6	-39.3	-42.5	-45.0	-47.6
Exports of goods	23.9	27.0	25.1	27.0	26.1	22.5	21.1	23.8	26.5	29.1
Oil	8.0	10.2	9.3	11.4	11.6	8.5	6.9	7.5	7.8	7.8
Gas	2.2	1.9	2.0	1.6	0.9	0.9	0.7	0.8	0.8	0.9
Other	13.6	14.9	13.8	14.0	13.7	13.1	13.5	15.5	17.9	20.5
Imports of goods	-49.0	-54.1	-59.2	-57.7	-59.8	-59.0	-61.8	-68.2	-74.1	-80.0
Oil	-5.2	-9.3	-11.8	-12.1	-13.2	-9.4	-8.2	-9.4	-10.3	-11.2
Other	-43.8	-44.8	-47.4	-45.6	-46.6	-49.6	-53.6	-58.8	-63.8	-68.9
Services (net)	10.3	7.9	5.6	5.0	1.0	3.9	5.0	6.4	7.5	8.9
Total Receipts	23.6	21.9	20.9	22.2	17.6	19.9	21.8	25.0	28.4	31.9
Of which: Tourism receipts	11.6	10.6	9.4	9.8	5.1	7.0	8.0	9.3	10.8	12.4
Of which: Suez canal receipts	4.5	5.1	5.2	5.0	5.4	5.6	6.1	6.9	7.6	8.3
Total payments	13.2	14.0	15.3	17.2	16.7	16.1	16.8	18.5	20.9	23.0
Of which: Investment income	5.2	6.5	6.7	7.6	7.5	6.0	5.9	7.2	8.6	9.7
Transfers	10.5	13.1	18.4	19.3	30.4	21.8	20.2	21.0	21.7	22.5
Official grants	1.0	0.8	0.6	0.8	11.9	2.7	0.4	0.5	0.5	0.5
Of which: Official grants from GCC countries	…	…	…	…	11.9	2.4	0.0	0.0	0.0	0.0
Private remittances	9.5	12.4	17.8	18.4	18.4	19.1	19.8	20.5	21.3	22.0
Capital and financial account	9.0	-4.2	1.0	9.8	4.9	10.0	11.3	10.4	14.5	17.6
Medium- and long-term loans (net)	0.1	-0.9	-0.3	0.7	-1.4	1.0	0.4	-2.2	0.0	-1.1
Drawings	1.9	1.2	1.7	2.8	0.8	9.2	6.9	4.1	4.1	3.1
Of which: Drawings from GCC countries	…	…	…	…	0.0	8.6	1.8	0.0	0.0	0.0
Amortization 1/	1.8	2.1	2.0	2.0	2.2	8.1	6.5	6.3	4.1	4.2
FDI (net)	5.8	1.2	3.7	3.6	3.8	6.9	7.6	9.2	10.2	14.1
Portfolio investment (net)	7.4	-2.7	-5.2	1.5	1.3	2.7	4.5	4.6	5.8	6.2
Commercial banks' NFA	-0.7	-2.4	4.3	1.3	0.7	-0.7	-1.1	-1.1	-1.5	-1.5
Other (including short-term capital and central bank deposits)	-3.5	0.5	-1.5	2.7	0.3	0.0	0.0	0.0	0.0	0.0
Of which: Deposits from GCC countries	…	…	1.0	5.5	1.9	0.0	0.0	0.0	0.0	0.0
Errors and omissions (net) 2/	-0.4	1.6	-8.4	-4.1	-0.3	0.0	0.0	0.0	0.0	0.0
Overall balance	4.3	-8.6	-17.5	-0.6	2.1	-0.9	-4.1	-6.5	-3.9	-1.9
Financing	-4.3	8.6	17.5	0.6	-2.1	-5.5	-4.5	-3.3	-2.7	-3.3
Reserves ("-" indicates increase)	-3.7	8.6	11.2	0.8	-1.8	-2.4	-2.5	-2.6	-2.7	-3.3
Change in arrears ("-" indicates decrease) 3/	…	0.0	6.3	-0.2	-0.3	-3.1	-2.0	-0.8	0.0	0.0
Financing gap	…	…	…	…	…	6.4	8.6	9.8	6.5	5.2
Memorandum items:										
Current account excluding grants	-5.3	-6.8	-10.8	-7.2	-14.3	-13.6	-15.8	-17.4	-18.8	-20.0
Non-energy export volume growth (in percent)	-6.7	0.8	-10.5	2.5	-0.3	-2.2	4.7	15.4	15.5	14.4
Non-energy import volume growth (in percent)	2.0	-7.0	0.9	-2.1	4.9	10.3	10.4	9.7	8.2	7.7
Gross international reserves (end of period) 4/	35.1	26.4	15.2	14.5	16.3	18.7	21.2	23.8	26.4	29.7
In months of next year's imports of goods and services	6.8	4.7	2.7	2.5	2.8	3.1	3.2	3.3	3.4	3.5
External debt 5/	33.7	34.9	34.4	43.2	46.1	52.5	61.2	68.6	74.8	78.6
External debt service	…	2.8	2.7	2.7	2.7	8.8	7.2	6.8	4.5	4.6
External debt service (in percent of exports of GNFS)	5.1	5.5	5.6	5.7	6.6	21.6	18.5	16.5	11.3	10.7
Stock of external arrears	…	0.0	6.3	6.2	5.9	2.8	…	…	…	…
Real effective exchange rate (period average, percentage change)	8.0	0.9	3.0	-1.2	-0.3	…	…	…	…	…

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

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

Table 3. Egypt: Balance of Payments, 2009/10–2018/19

(In percent of GDP, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
						Projections				
Current account	-2.0	-2.6	-3.9	-2.4	-0.8	-3.4	-4.3	-4.3	-4.2	-4.1
Balance on goods and services	-4.8	-5.6	-8.4	-6.7	-8.9	-8.4	-8.5	-8.0	-7.5	-7.1
Exports of goods and services	21.3	20.6	17.4	18.1	15.2	13.2	12.0	12.3	12.5	12.7
Imports of goods and services	-26.1	-26.2	-25.8	-24.8	-24.1	-21.6	-20.5	-20.2	-19.9	-19.8
Trade balance	-11.5	-11.5	-13.0	-11.3	-11.8	-11.4	-11.5	-11.3	-11.0	-10.8
Oil trade balance	1.3	0.4	-1.0	-0.3	-0.6	-0.3	-0.4	-0.5	-0.6	-0.7
Non oil trade balance	-12.8	-11.9	-12.1	-11.0	-11.2	-11.2	-11.1	-10.8	-10.4	-10.1
Exports	10.9	11.5	9.6	9.9	9.1	7.0	6.0	6.1	6.1	6.2
Oil	3.7	4.3	3.5	4.2	4.0	2.7	1.9	1.9	1.8	1.6
Gas	1.0	0.8	0.7	0.6	0.3	0.3	0.2	0.2	0.2	0.2
Other	6.2	6.3	5.3	5.1	4.8	4.1	3.8	4.0	4.1	4.3
Imports	-22.4	-23.0	-22.6	-21.3	-20.9	-18.5	-17.4	-17.4	-17.1	-17.0
Oil	-2.4	-3.9	-4.5	-4.5	-4.6	-2.9	-2.3	-2.4	-2.4	-2.4
Other	-20.0	-19.0	-18.1	-16.8	-16.3	-15.5	-15.1	-15.0	-14.7	-14.6
Services (net)	4.7	3.3	2.1	1.9	0.3	1.2	1.4	1.6	1.7	1.9
Total receipts	10.8	9.3	8.0	8.2	6.2	6.2	6.2	6.4	6.5	6.8
Of which: Tourism receipts	5.3	4.5	3.6	3.6	1.8	2.2	2.3	2.4	2.5	2.6
Of which: Suez canal dues	2.1	2.1	2.0	1.9	1.9	1.8	1.7	1.8	1.8	1.8
Total payments	6.0	5.9	5.8	6.3	5.8	5.0	4.8	4.7	4.8	4.9
Of which: Investment income	2.4	2.7	2.6	2.8	2.6	1.9	1.7	1.8	2.0	2.1
Transfers	4.8	5.6	7.0	7.1	10.6	6.8	5.7	5.3	5.0	4.8
Official grants	0.4	0.3	0.2	0.3	4.2	0.9	0.1	0.1	0.1	0.1
Of which: Official grants from GCC countries	…	…	…	…	4.2	0.8	0.0	0.0	0.0	0.0
Private remittances	4.3	5.3	6.8	6.8	6.4	6.0	5.6	5.2	4.9	4.7
Capital and financial account	4.1	-1.8	0.4	3.6	1.7	3.1	3.2	2.7	3.3	3.7
Medium- and long-term loans (net)	0.0	-0.4	-0.1	0.3	-0.5	0.3	0.1	-0.6	0.0	-0.2
Drawings	0.9	0.5	0.7	1.0	0.3	2.9	1.9	1.0	0.9	0.6
Of which: Drawings from GCC countries	…	…	…	…	0.0	2.7	0.5	0.0	0.0	0.0
Amortization 1/	0.8	0.9	0.8	0.7	0.8	2.6	1.8	1.6	0.9	0.9
FDI (net)	2.6	0.5	1.4	1.3	1.3	2.2	2.2	2.3	2.3	3.0
Portfolio investment (net)	3.4	-1.1	-2.0	0.6	0.5	0.8	1.3	1.2	1.3	1.3
Commercial banks' NFA	-0.3	-1.0	1.7	0.5	0.2	-0.2	-0.3	-0.3	-0.3	-0.3
Other (including short-term capital and central bank depo	-1.6	0.0	0.5	2.4	0.6	0.0	0.0	0.0	0.0	0.0
Of which: Deposits from GCC countries	…	…	…	…	0.6	0.0	0.0	0.0	0.0	0.0
Errors and omissions (net) 2/	-0.2	0.7	-3.2	-1.5	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance	2.0	-3.7	-6.7	-0.2	0.7	-0.3	-1.1	-1.7	-0.9	-0.4
Financing	-2.0	3.7	6.7	0.2	-0.7	-1.7	-1.3	-0.8	-0.6	-0.7
Reserves ("-" indicates increase)	-1.7	3.7	4.3	0.3	-0.6	-0.8	-0.7	-0.7	-0.6	-0.7
Change in arrears ("-" indicates decrease) 3/	…	0.0	2.4	-0.1	-0.1	-1.0	-0.6	-0.2	0.0	0.0
Financing gap	…	…	…	…	…	2.0	2.4	2.5	1.5	1.1
Memorandum items:										
Current account excluding grants	-2.4	-2.9	-4.1	-2.7	-5.0	-4.3	-4.5	-4.4	-4.3	-4.2
Gross international reserves (end of period) 4/	16.0	11.2	5.8	5.3	5.7	5.9	6.0	6.1	6.1	6.3
External debt 5/	15.4	14.8	13.1	15.9	16.1	16.4	17.3	17.5	17.3	16.7
External debt service	…	0.2	0.2	0.2	0.1	0.4	0.3	0.2	0.1	0.1

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

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

Table 4. Egypt: Budget Sector Operations, 2011/12–2018/19 1/

(In billions of Egyptian pounds, unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
				Projections				
Revenue and grants 2/	303.6	350.3	436.3	453.1	468.8	526.8	588.0	649.0
Tax revenue	207.4	251.1	260.3	303.4	329.8	375.4	422.5	469.2
Income and property	104.3	134.2	139.7	162.8	170.8	191.8	212.0	231.8
Personal income tax	21.7	26.2	31.4	36.6	43.0	50.4	59.1	68.1
Corporate income tax	69.5	91.5	89.5	104.7	105.1	116.3	126.0	135.7
EGPC	34.1	45.8	46.1	47.0	39.3	41.1	41.7	42.3
Other	35.5	45.7	43.5	57.7	65.8	75.2	84.3	93.4
Property	13.1	16.5	18.8	21.4	22.7	25.1	26.9	28.0
Goods and services	84.6	92.9	91.9	109.6	126.3	147.7	171.4	194.8
Oil excises	10.6	13.4	5.1	11.6	12.8	13.9	15.0	15.0
GST and nonoil excises	74.0	79.6	86.8	98.1	113.4	133.8	156.4	179.8
International trade	14.8	16.8	17.7	18.2	19.9	23.1	26.3	29.9
Other taxes	3.7	7.2	11.1	12.8	12.8	12.8	12.8	12.8
Nontax revenue	86.1	94.0	100.6	125.9	137.0	149.2	163.6	177.9
Oil-related nontax revenue	17.8	21.7	23.5	32.5	28.0	29.0	29.5	30.1
Other nontax revenues	68.3	72.3	77.1	93.4	109.0	120.2	134.1	147.8
Of which: interest income	1.1	0.8	0.7	1.8	1.8	1.8	1.8	1.8
Grants	10.1	5.2	75.4	23.8	2.0	2.2	1.9	1.9
Expenditure 2/	471.0	588.2	701.5	755.8	800.6	899.9	1034.5	1163.0
Wages and other remunerations	122.8	143.0	178.6	199.5	218.4	235.0	264.5	288.8
Purchases of goods and services	26.8	26.7	27.2	33.1	37.9	43.4	49.6	55.9
Interest	104.4	147.0	173.1	196.5	214.8	243.4	275.8	306.1
Domestic	101.0	143.1	168.2	189.5	203.2	226.6	253.1	279.0
External	3.4	3.9	5.0	7.0	11.6	16.8	22.7	27.1
Subsidies, grants, and social benefits	150.2	197.1	228.6	221.6	223.8	265.2	316.1	370.6
Fuel subsidies	95.5	120.0	126.2	116.3	103.7	131.1	159.1	191.3
Food subsidies 3/	30.7	33.4	36.1	33.2	34.5	37.2	39.9	41.9
Transfer to SIF	6.2	16.4	29.2	33.2	44.0	51.8	68.6	85.9
Other	17.8	27.3	37.1	38.9	41.7	45.0	48.6	51.5
Other current	30.8	35.0	41.1	43.5	47.8	53.1	60.3	65.3
Investment	35.9	39.5	52.9	61.7	58.0	59.8	68.1	76.3
Net acquisition of financial assets	-0.7	1.9	10.7	2.3	3.2	1.9	2.5	2.6
Identified measures (cumulative, deficit-reducing)	...	...	...	52.9	111.8	140.1	186.7	225.5
Tax measures	...	...	...	34.7	81.1	102.8	120.1	139.8
Fuel subsidy reforms	...	...	...	41.2	73.8	105.9	142.4	172.3
Food subsidy reforms	...	...	...	-0.4	0.4	3.0	4.4	4.5
Minimum wage increase	...	...	...	-3.5	-4.0	-4.0	-4.0	-4.0
Increased spending on education, health and R&D	...	...	...	-11.4	-30.9	-57.9	-66.3	-75.8
Social transfers	...	...	...	-7.8	-8.6	-9.7	-9.9	-11.2
Overall balance (IMF staff definition)	-166.7	-239.8	-275.9	-252.1	-223.2	-234.9	-262.3	-291.1
Overall balance (authorities' definition) 4/	-166.7	-239.8	-255.4	-247.1	-223.2	-234.9	-262.3	-291.1
Financing	166.7	239.8	275.9	206.1	159.7	159.5	210.3	248.0
Net domestic	182.4	270.6	277.3	206.0	158.5	178.1	212.0	259.3
Bank	146.4	221.3	244.4	161.6	106.7	125.5	159.0	206.3
Nonbank	36.0	49.3	33.0	44.4	51.9	52.6	53.0	53.0
Net external	-9.1	20.3	4.0	0.2	1.2	-18.6	-1.7	-11.2
Financing gap	0.0	0.0	0.0	45.9	63.5	75.5	52.0	43.0
Memorandum items:								
Primary balance	-63.3	-93.6	-103.5	-57.4	-10.2	6.7	11.7	13.2
Oil balance 5/	-33.0	-39.1	-51.5	20.9	49.2	53.3	59.3	52.3
Financing gap (in billions of US$)	0.0	0.0	0.0	6.4	8.6	9.8	6.5	5.2
Spending on education	...	...	93.0	110.9	132.6	157.9	180.9	206.7
Spending on health	...	...	42.1	51.3	63.9	78.9	90.4	103.4
Spending on research and development	...	...	1.8	2.0	12.6	26.3	30.1	34.5
Gross budget sector debt	1,310.4	1,641.7	1,908.3	2,198.9	2,456.7	2,724.8	3,012.6	3,321.5

Sources: Ministry of Finance; and IMF staff estimates.

1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis. Cash basis consistent with the GFS 2001 classification.
2/ Projections exclude measures.
3/ Food subsidies include subsidies paid to farmers.
4/ The authorities accounted as grants in 2013/14 and 2014/15 the transfer to the budget of special deposits held at the CBE received from abroad following the 1991 Gulf War. Staff recorded these amounts as central bank financing below the line, consistent with GFSM principles.
5/ 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.

Table 5. Egypt: Budget Sector Operations, 2011/12–2018/19 1/
(In percent of GDP)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
					Proj.			
Revenue and grants 2/	19.3	20.0	21.8	19.7	17.8	17.5	17.1	16.7
Tax revenue	13.2	14.3	13.0	13.2	12.5	12.5	12.3	12.1
Income and corporate tax	6.6	7.7	7.0	7.1	6.5	6.4	6.2	6.0
Personal income tax	1.4	1.5	1.6	1.6	1.6	1.7	1.7	1.8
Corporate income tax	4.4	5.2	4.5	4.6	4.0	3.9	3.7	3.5
EGPC	2.2	2.6	2.3	2.0	1.5	1.4	1.2	1.1
Other	2.3	2.6	2.2	2.5	2.5	2.5	2.4	2.4
Property	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.7
Goods and services	5.4	5.3	4.6	4.8	4.8	4.9	5.0	5.0
Oil excises	0.7	0.8	0.3	0.5	0.5	0.5	0.4	0.4
GST and nonoil excises	4.7	4.5	4.3	4.3	4.3	4.4	4.5	4.6
International trade	0.9	1.0	0.9	0.8	0.8	0.8	0.8	0.8
Other taxes	0.2	0.4	0.6	0.6	0.5	0.4	0.4	0.3
Nontax revenue	5.5	5.4	5.0	5.5	5.2	5.0	4.7	4.6
Oil-related nontax revenue	1.1	1.2	1.2	1.4	1.1	1.0	0.9	0.8
Other nontax revenues	4.3	4.1	3.9	4.1	4.1	4.0	3.9	3.8
Of which: interest income	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0
Grants	0.6	0.3	3.8	1.0	0.1	0.1	0.1	0.0
Expenditure 2/	29.9	33.5	35.1	32.9	30.4	29.9	30.0	30.0
Wages and other remunerations	7.8	8.2	8.9	8.7	8.3	7.8	7.7	7.4
Purchases of goods and services	1.7	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Interest	6.6	8.4	8.7	8.6	8.2	8.1	8.0	7.9
Domestic	6.4	8.2	8.4	8.3	7.7	7.5	7.3	7.2
External	0.2	0.2	0.3	0.3	0.4	0.6	0.7	0.7
Subsidies, grants and social benefits	9.5	11.2	11.4	9.7	8.5	8.8	9.2	9.5
Fuel subsidies	6.1	6.8	6.3	5.1	3.9	4.4	4.6	4.9
Food subsidies 3/	1.9	1.9	1.8	1.4	1.3	1.2	1.2	1.1
Transfers to SIF	0.4	0.9	1.5	1.4	1.7	1.7	2.0	2.2
Other	1.1	1.6	1.9	1.7	1.6	1.5	1.4	1.3
Other current	2.0	2.0	2.1	1.9	1.8	1.8	1.8	1.7
Investment	2.3	2.3	2.6	2.7	2.2	2.0	2.0	2.0
Net acquisition of financial assets	0.0	0.1	0.5	0.1	0.1	0.1	0.1	0.1
Identified measures (cumulative, deficit-reducing)	...	...	...	2.3	4.2	4.6	5.4	5.8
Tax measures	...	...	...	1.5	3.1	3.4	3.5	3.6
Fuel subsidy reforms	...	...	...	1.8	2.8	3.5	4.1	4.4
Food subsidy reforms	...	...	...	0.0	0.0	0.1	0.1	0.1
Minimum wage increase	...	...	...	-0.2	-0.2	-0.1	-0.1	-0.1
Increased spending on education, health and R&D	...	...	...	-0.5	-1.2	-1.9	-1.9	-2.0
Social transfers	...	...	...	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance (IMF staff definition)	-10.6	-13.7	-13.8	-11.0	-8.5	-7.8	-7.6	-7.5
Overall balance (authorities' definition) 4/	-10.6	-13.7	-12.8	-10.8	-8.5	-7.8	-7.6	-7.5
Financing	10.6	13.7	13.8	9.0	6.1	5.3	6.1	6.4
Net domestic	11.6	15.4	13.9	9.0	6.0	5.9	6.2	6.7
Bank	9.3	12.6	12.2	7.0	4.1	4.2	4.6	5.3
Nonbank	2.3	2.8	1.6	1.9	2.0	1.7	1.5	1.4
Net external	-0.6	1.2	0.2	0.0	0.0	-0.6	0.0	-0.3
Financing gap	0.0	0.0	0.0	2.0	2.4	2.5	1.5	1.1
Memorandum items:								
Primary balance	-4.0	-5.3	-5.2	-2.5	-0.4	0.2	0.3	0.3
Oil balance 5/	-2.1	-2.2	-2.6	0.9	1.9	1.8	1.7	1.3
Spending on education	...	...	5.3	5.5	5.8	6.0	6.0	6.0
Spending on health	...	...	2.4	2.6	2.8	3.0	3.0	3.0
Spending on research and development	...	...	0.1	0.1	0.6	1.0	1.0	1.0
Gross budget sector debt	83.2	93.6	95.5	95.8	93.4	90.4	87.4	85.5
Nominal GDP (in billions of Egyptian pounds)	1,575.5	1,753.3	1,997.6	2,295.4	2,631.3	3,014.2	3,445.7	3,883.2

Sources: Ministry of Finance; and IMF staff estimates.

1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis.
2/ Projections exclude measures.
3/ Food subsidies include subsidies paid to farmers.
4/ The authorities accounted as grants in 2013/14 and 2014/15 the transfer to the budget of special deposits held at the CBE received from abroad following the 1991 Gulf War. Staff recorded these amounts as central bank financing below the line, consistent with GFSM principles.
5/ 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.

Table 6. Egypt: General Government Operations, 2011/12–2018/19 1/

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
				Projections				
	(In billions of Egyptian pounds)							
Revenue and grants 2/	348.9	403.6	498.9	522.2	541.8	606.6	679.8	745.5
Tax revenue	207.4	251.1	260.3	303.4	329.8	375.4	422.5	469.2
Income and property	104.3	134.2	139.7	162.8	170.8	191.8	212.0	231.8
Personal income tax	21.7	26.2	31.4	36.6	43.0	50.4	59.1	68.1
Corporate income tax	69.5	91.5	89.5	104.7	105.1	116.3	126.0	135.7
EGPC	34.1	45.8	46.1	47.0	39.3	41.1	41.7	42.3
Other	35.5	45.7	43.5	57.7	65.8	75.2	84.3	93.4
Goods and services	84.6	92.9	91.9	109.6	126.3	147.7	171.4	194.8
Oil excises	10.6	13.4	5.1	11.6	12.8	13.9	15.0	15.0
GST and nonoil excises	74.0	79.6	86.8	98.1	113.4	133.8	156.4	179.8
International trade taxes	14.8	16.8	17.7	18.2	19.9	23.1	26.3	29.9
Other taxes	3.7	7.2	11.1	12.8	12.8	12.8	12.8	12.8
Nontax revenue	131.4	147.3	163.3	195.0	209.9	229.1	255.4	274.4
Of which: Interest income	8.6	4.8	9.3	10.9	11.8	12.6	13.9	14.0
Grants	10.1	5.2	75.4	23.8	2.0	2.2	1.9	1.9
Expenditure 2/	516.4	644.1	759.8	824.5	874.3	978.4	1,127.9	1,261.8
Wages and other remunerations	124.5	145.1	180.8	202.1	221.3	238.3	268.4	293.1
Purchases of goods and services	27.1	27.2	27.5	33.4	38.2	43.8	50.0	56.4
Interest	93.4	135.3	159.3	180.9	197.9	225.7	258.3	288.6
Domestic interest	90.0	131.4	154.3	174.0	186.4	209.0	235.6	261.5
External interest	3.4	3.9	5.0	7.0	11.6	16.8	22.7	27.1
Subsidies, grants, and social benefits	204.5	261.8	298.0	302.5	310.7	357.3	422.3	481.6
Other current	31.1	35.1	41.2	43.7	48.1	53.3	60.7	65.7
Investment	36.0	39.6	53.0	61.8	58.1	60.0	68.2	76.5
Net acquisition of financial assets	-1.9	6.4	10.7	2.3	3.2	1.9	2.5	2.6
Identified measures (cumulative, deficit-reducing)	…	…	…	52.9	111.8	140.1	186.7	225.5
Overall balance	-165.7	-246.9	-271.6	-251.7	-224.0	-233.6	-264.0	-293.3
Financing	165.7	246.9	271.6	205.3	160.0	157.6	211.4	249.5
Net domestic	184.0	268.7	279.8	210.3	164.0	183.6	219.4	266.8
Bank	145.3	213.7	242.1	157.6	102.5	119.9	153.7	201.2
Nonbank	38.7	55.0	37.6	52.7	61.5	63.7	65.7	65.6
Net external	-9.1	20.3	4.0	0.2	1.2	-18.6	-1.7	-11.2
Other	-9.3	-42.1	-12.2	-5.2	-5.2	-7.4	-6.4	-6.0
Financing gap	0.0	0.0	0.0	46.4	64.0	76.0	52.6	43.8
	(In percent of GDP, unless otherwise indicated)							
Revenue and grants 2/	22.1	23.0	25.0	22.7	20.6	20.1	19.7	19.2
Tax revenue	13.2	14.3	13.0	13.2	12.5	12.5	12.3	12.1
Nontax revenue	8.3	8.4	8.2	8.5	8.0	7.6	7.4	7.1
Of which: Interest income	0.5	0.3	0.5	0.5	0.4	0.4	0.4	0.4
Grants	0.6	0.3	3.8	1.0	0.1	0.1	0.1	0.0
Expenditure 2/	32.8	36.7	38.0	35.9	33.2	32.5	32.7	32.5
Wages and other remunerations	7.9	8.3	9.1	8.8	8.4	7.9	7.8	7.5
Purchases of goods and services	1.7	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Interest	5.9	7.7	8.0	7.9	7.5	7.5	7.5	7.4
Subsidies, grants, and social benefits	13.0	14.9	14.9	13.2	11.8	11.9	12.3	12.4
Other current	2.0	2.0	2.1	1.9	1.8	1.8	1.8	1.7
Investment	2.3	2.3	2.7	2.7	2.2	2.0	2.0	2.0
Net acquisition of financial assets	-0.1	0.4	0.5	0.1	0.1	0.1	0.1	0.1
Identified measures (cumulative, deficit-reducing)	0.0	0.0	0.0	2.3	4.2	4.6	5.4	5.8
Overall balance	-10.5	-14.1	-13.6	-11.0	-8.5	-7.8	-7.7	-7.6
Financing	10.5	14.1	13.6	8.9	6.1	5.2	6.1	6.4
Net domestic	11.7	15.3	14.0	9.2	6.2	6.1	6.4	6.9
Bank	9.2	12.2	12.1	6.9	3.9	4.0	4.5	5.2
Nonbank	2.5	3.1	1.9	2.3	2.3	2.1	1.9	1.7
Net external	-0.6	1.2	0.2	0.0	0.0	-0.6	0.0	-0.3
Other	-0.6	-2.4	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2
Financing gap	0.0	0.0	0.0	2.0	2.4	2.5	1.5	1.1
Memorandum items:								
Primary balance	-5.1	-6.6	-6.1	-3.6	-1.4	-0.7	-0.6	-0.5
Gross debt	78.9	89.0	90.5	89.8	87.1	84.1	81.3	79.7
Net debt	67.9	78.1	81.9	82.3	80.6	78.4	76.3	75.3
Gross debt (in billions of LE)	1,243.1	1,561.0	1,807.3	2,061.3	2,292.1	2,533.8	2,801.5	3,096.4
Net debt (in billions of LE)	1,069.8	1,369.6	1,635.3	1,889.4	2,120.2	2,361.8	2,629.6	2,924.5
Nominal GDP (in billions of LE)	1,575.5	1,753.3	1,997.6	2,295.4	2,631.3	3,014.2	3,445.7	3,883.2

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Projections exclude measures.

Table 7. Egypt: Monetary Survey, 2009/10–2018/19

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
						Projections				
	(End-period, in billions of Egyptian pounds)									
Net foreign assets	282.4	253.5	157.6	123.2	119.2	129.3	142.2	176.2	215.7	264.0
Central bank	190.2	147.2	76.1	35.8	37.4	41.1	42.5	64.0	87.9	118.7
Commercial banks	92.2	106.3	81.6	87.5	81.8	88.3	99.8	112.2	127.8	145.3
Net domestic assets	635.1	756.8	936.8	1,172.5	1,397.4	1,618.2	1,811.4	2,036.5	2,303.3	2,623.6
Net claims on government	326.1	437.3	578.7	802.5	1,045.2	1,207.2	1,314.5	1,440.8	1,600.5	1,807.6
Claims on public sector companies	30.0	33.0	40.6	42.9	45.4	53.2	61.7	70.8	80.5	90.8
Claims on private sector	419.0	423.3	453.3	497.7	534.5	597.3	686.2	787.9	898.0	1,002.4
Net other items	-140.0	-136.8	-135.8	-170.7	-227.7	-239.5	-251.1	-263.0	-275.6	-277.2
Broad money (M2)	917.5	1,010.3	1,094.4	1,295.7	1,516.6	1,747.5	1,953.6	2,212.7	2,519.1	2,887.6
Domestic currency component (M2D)	759.3	833.3	908.4	1,071.5	1,280.5	1,488.1	1,654.5	1,855.8	2,088.7	2,366.3
Currency outside banks	135.2	167.9	194.0	240.6	270.9	312.2	345.2	385.4	432.1	488.0
Domestic currency deposits	624.1	665.4	714.3	830.9	1,009.7	1,175.9	1,309.3	1,470.4	1,656.6	1,878.4
Foreign currency deposits	158.1	177.0	186.0	224.2	236.1	259.4	299.1	356.8	430.4	521.2
Memorandum item:										
Reserve money	203.1	251.0	263.7	317.5	364.5	423.5	470.9	528.2	594.5	673.5
	(Annual percent change, unless otherwise indicated)									
Broad money (M2)	10.4	10.1	8.3	18.4	17.1	15.2	11.8	13.3	13.8	14.6
Domestic currency component (M2D)	14.4	9.7	9.0	18.0	19.5	16.2	11.2	12.2	12.5	13.3
Reserve money	16.0	23.6	5.1	20.4	14.8	16.2	11.2	12.2	12.5	13.3
Contribution to Broad Money Growth	10.4	10.1	8.3	18.4	17.1	15.2	11.8	13.3	13.8	14.6
Net foreign assets	3.2	-3.2	-9.5	-3.1	-0.3	0.7	0.7	1.7	1.8	1.9
Net domestic assets	7.1	13.3	17.8	21.5	17.4	14.6	11.1	11.5	12.1	12.7
Credit to the private sector	7.7	1.0	7.1	9.8	7.4	11.7	14.9	14.8	14.0	11.6
Credit to government and public sector companies	15.8	32.1	31.7	36.5	29.0	15.6	9.2	9.8	11.2	12.9
Memorandum items:										
Velocity										
Velocity GDP/M2 (level)	1.7	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Velocity GDP/M2D (level)	1.4	1.4	1.5	1.5	1.4	1.4	1.4	1.4	1.5	1.4
M2 (in percent of GDP)	76.0	73.7	69.5	73.9	75.9	76.1	74.2	73.4	73.1	74.4
Money multiplier (M2D / reserve money)	3.7	3.3	3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5
Money multiplier (M2 / reserve money)	4.5	4.0	4.2	4.1	4.2	4.1	4.1	4.2	4.2	4.3
M2 (in real terms)	0.4	-1.5	1.0	7.9	8.2	3.8	1.2	3.0	5.4	7.1
Domestic currency deposit (in real terms)	4.0	-4.6	0.1	6.0	12.3	4.9	0.8	2.1	4.3	6.0
Claims on private sector (in real terms)	-2.0	-9.6	-0.2	0.0	-0.7	0.7	4.0	4.4	5.5	4.3
Foreign currency deposits (in percent of total deposits)	20.2	21.0	20.7	21.3	19.0	18.1	18.6	19.5	20.6	21.7

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

Table 8a. Egypt: Summary of National Accounts, 2009/10–2018/19

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
						Projections				
	(Annual change, in percent)									
Real GDP at market price	5.1	1.8	2.2	2.1	2.2	3.8	4.3	4.5	4.7	5.0
Domestic demand (absorption)	4.9	3.8	6.0	0.4	4.4	5.5	5.5	4.3	4.4	4.6
Private	5.1	4.9	7.0	0.0	3.6	5.1	6.4	4.7	4.6	4.9
Public	3.9	-2.5	-0.7	3.5	9.4	7.8	0.0	1.4	3.5	2.9
Consumption	4.2	5.3	6.0	2.7	4.3	5.0	5.6	4.0	4.1	4.3
Private	4.1	5.5	6.5	2.6	4.1	4.9	6.2	4.5	4.2	4.6
Public	4.5	3.8	3.1	3.5	5.8	5.7	1.3	0.5	3.2	2.3
Investment	8.0	-2.2	5.8	-9.6	4.6	7.6	5.1	5.6	5.9	6.3
Gross fixed capital formation	7.6	-4.0	6.9	-7.8	1.4	8.7	5.6	6.1	6.3	6.6
Private	9.2	0.1	11.4	-9.8	-3.0	7.2	8.3	6.5	6.8	7.0
Public	2.3	-19.0	-13.6	3.4	23.9	14.8	-4.3	4.5	4.4	5.0
Change in inventories	20.7	54.1	-15.5	-45.8	116.9	-9.7	-9.1	-8.8	-8.4	-6.9
Net exports of goods and services 1/	0.1	-2.1	-4.0	1.7	-3.7	-1.1	-1.8	-0.3	-0.3	-0.2
Exports of goods and services	-3.0	1.2	-2.3	5.9	-12.6	16.6	-3.1	10.6	10.3	10.0
Imports of goods and services	-3.2	8.3	10.8	-0.6	0.9	14.9	2.8	8.0	7.7	7.6
Real GDP at factor cost	5.1	1.9	2.2	2.1	2.1	3.8	4.3	4.5	4.7	5.0
Agriculture	3.5	2.7	2.9	3.0	3.0	3.1	3.2	3.4	3.5	3.7
Construction	13.2	3.7	3.3	5.9	5.6	19.4	11.6	9.8	7.5	7.5
Industry	3.0	0.0	0.6	-0.1	1.3	0.7	2.4	3.5	4.2	4.7
Services	7.0	1.9	2.7	3.4	1.3	5.3	5.5	5.2	5.4	5.6
General government	4.2	3.7	2.9	3.0	4.1	2.5	2.9	3.0	3.1	3.2
Suez Canal	-2.9	11.5	3.9	-3.8	2.7	3.5	7.5	6.9	6.0	5.5
	(Contribution to real growth, in percent 2/)									
Real GDP at market price	5.1	1.8	2.2	2.1	2.2	3.8	4.3	4.5	4.7	5.0
Domestic demand (absorption)	5.0	3.9	6.2	0.5	4.7	5.9	6.1	4.8	4.9	5.2
Private	4.4	4.3	6.3	0.0	3.3	4.8	6.1	4.6	4.4	4.8
Public	0.6	-0.4	-0.1	0.5	1.3	1.2	0.0	0.2	0.5	0.4
Consumption	3.4	4.3	5.1	2.4	3.8	4.6	5.1	3.7	3.8	4.0
Private	3.0	3.9	4.8	2.0	3.2	3.9	5.0	3.7	3.4	3.7
Public	0.5	0.4	0.3	0.4	0.7	0.7	0.2	0.1	0.4	0.3
Investment	1.6	-0.4	1.1	-1.9	0.8	1.4	0.9	1.1	1.1	1.2
Gross fixed capital formation	1.5	-0.8	1.3	-1.5	0.2	1.5	1.0	1.1	1.2	1.3
Private	1.4	0.0	1.7	-1.6	-0.4	1.0	1.2	1.0	1.0	1.1
Public	0.1	-0.8	-0.4	0.1	0.7	0.5	-0.2	0.2	0.2	0.2
Change in inventories	0.1	0.3	-0.1	-0.3	0.5	-0.1	-0.1	-0.1	0.0	0.0
Net exports of goods and services	0.1	-2.1	-4.0	1.7	-3.7	-1.1	-1.8	-0.3	-0.3	-0.2
Exports of goods and services	-0.9	0.3	-0.6	1.5	-3.4	3.8	-0.8	2.6	2.6	2.7
Imports of goods and services	1.0	-2.4	-3.4	0.2	-0.3	-4.9	-1.0	-2.9	-2.9	-2.9
Real GDP at factor cost	5.1	1.9	2.2	2.1	2.1	3.8	4.3	4.5	4.7	5.0
Agriculture	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Construction	0.5	0.2	0.1	0.3	0.3	0.9	0.6	0.6	0.5	0.5
Industry	1.1	0.0	0.2	0.0	0.5	0.3	0.8	1.1	1.4	1.5
Services	2.3	0.7	0.9	1.2	0.5	1.8	1.9	1.8	1.9	2.0
General government	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Suez Canal	-0.1	0.2	0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.1

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

Table 8b. Egypt: Summary of National Accounts, 2009/10–2018/19

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
						Projections				
	(In percent of nominal GDP)									
GDP at market price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand (absorption)	105.2	104.1	108.4	106.7	108.9	108.4	108.5	108.0	107.5	107.1
Private	90.1	89.8	94.8	92.8	94.2	93.3	93.9	93.8	93.5	93.4
Public	15.2	14.4	13.6	13.9	14.7	15.1	14.6	14.1	14.0	13.7
Consumption	85.7	87.0	92.0	92.5	94.8	93.9	93.8	93.1	92.5	91.9
Private	74.6	75.6	80.7	80.9	82.8	81.7	81.9	81.7	81.2	80.9
Public	11.2	11.5	11.4	11.7	12.0	12.2	11.9	11.4	11.3	11.0
Investment	19.5	17.1	16.4	14.2	14.0	14.6	14.7	14.8	15.0	15.2
Gross fixed capital formation	19.5	17.1	15.6	13.8	13.3	13.9	14.1	14.3	14.6	14.8
Private	15.2	13.8	13.3	11.5	10.6	11.0	11.4	11.6	11.9	12.1
Public	4.0	2.9	2.3	2.3	2.7	2.9	2.7	2.7	2.7	2.7
Change in inventories	0.3	0.4	0.8	0.4	0.8	0.7	0.6	0.5	0.4	0.4
Net exports of goods and services	-5.2	-4.1	-8.4	-6.7	-8.9	-8.4	-8.5	-8.0	-7.5	-7.1
Exports of goods and services	21.3	20.6	17.4	18.1	15.2	13.2	12.0	12.3	12.4	12.7
Imports of goods and services	-26.6	-24.7	-25.8	-24.8	-24.1	-21.6	-20.5	-20.2	-19.9	-19.7
Net factor income	-2.0	-2.6	-2.5	-2.7	-2.5	-1.8	-1.5	-1.7	-1.8	-1.8
Net remittances inflows	4.3	5.3	6.8	6.8	6.4	6.0	5.6	5.2	4.9	4.7
Net official transfers	0.4	0.3	0.2	0.3	4.2	0.9	0.1	0.1	0.1	0.1
Gross National Disposable Income	102.8	103.0	104.5	104.4	108.1	105.0	104.2	103.7	103.2	103.0
Investment	19.5	17.1	16.4	14.2	14.0	14.6	14.7	14.8	15.0	15.2
Private (incl. change in inventories)	15.5	14.2	14.1	11.9	11.4	11.6	12.0	12.1	12.3	12.5
Public	4.0	2.9	2.3	2.3	2.7	2.9	2.7	2.7	2.7	2.7
National savings	17.5	14.5	12.5	11.8	13.2	11.2	10.3	10.5	10.8	11.1
Private	21.3	21.7	20.9	23.3	23.6	19.3	16.5	16.2	16.4	16.6
Public	-3.8	-7.2	-8.4	-11.5	-10.4	-8.2	-6.2	-5.7	-5.6	-5.5
Savings-investment balance	-2.0	-2.6	-3.9	-2.4	-0.8	-3.4	-4.3	-4.3	-4.2	-4.1
Private	5.9	7.5	6.8	11.4	12.2	7.7	4.5	4.1	4.1	4.1
Public	-7.8	-10.1	-10.6	-13.7	-13.1	-11.1	-8.9	-8.4	-8.3	-8.2
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	14.0	14.5	14.5	14.5	14.5	14.4	14.2	14.1	13.9	13.8
Construction	4.6	4.6	4.5	4.6	4.7	5.4	5.7	6.0	6.2	6.3
Industry	33.0	33.0	34.8	34.6	35.3	34.2	33.5	33.1	32.9	32.7
Services	36.3	35.4	34.0	34.0	33.0	33.7	34.2	34.6	34.9	35.2
General government	10.0	10.2	10.2	10.4	10.6	10.5	10.4	10.2	10.1	9.9
Suez Canal	2.2	2.2	2.1	1.9	1.9	1.9	2.0	2.1	2.1	2.1

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

Table 9. Egypt: Medium-Term Macroeconomic Framework, 2009/10–2018/19
(In percent of GDP, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
						Projections				
Growth and prices										
Real GDP (annual change, in percent)	5.1	1.8	2.2	2.1	2.2	3.8	4.3	4.5	4.7	5.0
CPI inflation (end-of-period, in percent)	10.6	11.8	7.3	9.8	8.2	11.0	10.5	10.0	8.0	7.0
CPI inflation (average, in percent)	11.7	11.1	8.6	6.9	10.1	10.4	10.1	9.7	9.2	7.4
Unemployment rate (period average, in percent)	9.2	10.4	12.4	13.0	13.4	13.2	12.7	12.0	11.1	10.1
Savings-investment balance	-2.0	-2.6	-3.9	-2.4	-0.8	-3.4	-4.3	-4.3	-4.2	-4.1
Investment	19.5	17.1	16.4	14.2	14.0	14.6	14.7	14.8	15.0	15.2
Domestic savings	17.5	14.5	12.5	11.8	13.2	11.2	10.3	10.5	10.8	11.1
Public finances										
General government										
Revenue and grants	25.1	22.0	22.1	23.0	25.0	24.3	23.7	23.5	23.2	22.8
Expenditure and NAFA	33.4	31.8	32.7	37.1	38.6	35.2	32.2	31.3	30.9	30.4
Overall balance	-8.3	-9.8	-10.5	-14.1	-13.6	-11.0	-8.5	-7.8	-7.7	-7.6
Overall balance, excl. grants	-8.6	-10.0	-11.2	-14.4	-17.4	-12.0	-8.6	-7.8	-7.7	-7.6
Primary balance	-3.8	-4.7	-5.1	-6.6	-6.1	-3.6	-1.4	-0.7	-0.6	-0.5
Gross debt	73.2	76.6	78.9	89.0	90.5	89.8	87.1	84.1	81.3	79.7
Domestic	60.8	64.8	69.1	77.6	80.1	78.8	74.9	71.1	68.2	66.9
External	12.4	11.8	9.8	11.4	10.4	11.0	12.2	12.9	13.1	12.9
Budget sector										
Revenue and grants	22.2	19.3	19.3	20.0	21.8	21.3	20.9	20.9	20.6	20.3
Tax revenue	14.1	14.0	13.2	14.3	13.0	14.7	15.6	15.9	15.7	15.7
Non-tax revenue	7.7	5.2	5.5	5.4	5.0	5.5	5.2	5.0	4.7	4.6
Grants	0.4	0.2	0.6	0.3	3.8	1.0	0.1	0.1	0.1	0.0
Expenditure and NAFA	30.3	29.2	29.9	33.7	35.7	32.2	29.4	28.7	28.2	27.8
Of which: Current	26.3	26.4	27.6	31.3	32.5	29.2	26.6	25.9	25.4	25.1
Capital	4.0	2.9	2.3	2.3	2.7	2.9	2.7	2.7	2.7	2.7
Overall budget balance	-8.1	-9.8	-10.6	-13.7	-13.8	-11.0	-8.5	-7.8	-7.6	-7.5
Overall budget balance, excl. grants	-8.5	-10.0	-11.2	-14.0	-17.6	-12.0	-8.6	-7.9	-7.7	-7.5
Primary budget balance	-2.5	-3.7	-4.0	-5.3	-5.2	-2.5	-0.4	0.2	0.3	0.3
Balance of payments and external debt										
Current account	-2.0	-2.6	-3.9	-2.4	-0.8	-3.4	-4.3	-4.3	-4.2	-4.1
Trade balance	-11.5	-11.5	-13.0	-11.3	-11.8	-11.4	-11.5	-11.3	-11.0	-10.8
Oil trade balance	1.3	0.4	-1.0	-0.3	-0.6	-0.3	-0.4	-0.5	-0.6	-0.7
Non-oil trade balance	-12.8	-11.9	-12.1	-11.0	-11.2	-11.2	-11.1	-10.8	-10.4	-10.1
Capital and financial account (incl. errors and omissions)	3.9	-1.1	-2.8	2.1	1.6	3.1	3.2	2.7	3.3	3.7
Financing gap	n.a.	n.a.	n.a.	0.0	0.0	2.0	2.4	2.5	1.5	1.1
Official reserves (in billions of US$)	35.1	26.4	15.2	14.5	16.3	18.7	21.2	23.8	26.4	29.7
(In months of next year's imports of goods and services)	6.8	4.7	2.7	2.5	2.8	3.1	3.2	3.3	3.4	3.5
External debt (in billions of US$)	33.7	34.9	34.4	43.2	46.1	52.5	61.2	68.6	74.8	78.6
External debt (in percent of GDP)	15.4	14.8	13.1	15.9	16.1	16.4	17.3	17.5	17.3	16.7

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

Appendix I. Megaprojects

1. **The authorities' strategy to boost growth and employment relies on increasing domestic investment.** To this end, they are working to improve the business climate and attract FDI, and are also designing large infrastructure projects.

2. **Although preliminary, the list of possible megaprojects includes:** (1) the Suez Canal Regional Development project, which comprises the digging of a parallel canal and the widening of the current one by mid-2015 and, in a second stage, the development of services around the Canal's core activities; (2) the building of one million houses around greater Cairo; (3) the construction and rehabilitation of 3,000 km of new roads; (4) the reclamation of one million acres of land; (5) renewable energy projects; and (6) the "Golden Triangle" aiming at exploiting the natural resources in the region between Qena, Quseir and Safaga while developing the area for touristic, industrial, commercial, and agricultural activities.

3. **The Suez Canal project is the most advanced and is the only one incorporated in staff's projections.** To finance its first stage, the Suez Canal Authority (SCA) issued in September 2014 LE64 billion (about $9 billion) non-tradable investment certificates with a maturity of five years and an interest of 12 percent. Interest and principal will be paid by the SCA and will therefore reduce budget revenues correspondingly through lower corporate income taxes and dividends by about $13 billion over five years.

4. **The feasibility of the other projects is currently still being considered, and plans to finance them are being prepared to minimize direct and contingent liabilities for the budget.** Government involvement will be constrained by current limitations in managing a large number of public investment projects. Still, since most of these projects are large infrastructure ventures, there are risks of generating contingent liabilities for the budget. Based on staff's understanding of current plans, the housing megaprojects would be mostly financed through the sale of the properties and land, although incentives for homebuyers are planned. The construction of new roads would involve mainly public funds within the planned envelope for public investment and in some instances (i.e. toll roads) with involvement of private capital. The land reclamation project could benefit from support from IFIs, although the needed infrastructure will have to be financed by the budget. The renewable energy projects (mainly solar and wind) should involve mainly private investors, although the government has recently adopted a "feed-in tariff" which guarantees the price of the energy produced, and will also guarantee the bank loans of the private investors.

Appendix II. Increasing Spending on Education, Health, and Scientific Research

1. The new 2014 constitution mandates an increase in spending for basic education, higher education, health and scientific research to reach, respectively, 4 percent, 2 percent, 3 percent, and 1 percent of GDP in the budget by 2016/2017. In 2012, spending on health and education in Egypt was well below those levels, and also below those of Jordan and Tunisia, two countries in the region for which the functional classification is available.

Spending on Health and Education, 2012

(GFS functional classification; percent of GDP)

	Egypt	Jordan	Tunisia
Health	1.4%	3.0%	1.7%
Education	3.6%	3.8%	5.7%

Note: The functional classification does not single out spending on research, which is allocated across all functions.

2. The authorities are currently assessing whether their compilation of the functional classification, which identifies health and education spending exclusively according to the respective line ministries, is appropriate. Indeed, international accounting standards allow for a broader definition that would include health and education expenditure carried out by other ministries, for example when they operate hospitals or provide education. Using such broader definition, the finance ministry's preliminary estimates suggest that overall spending on education, health, and research amounted to 5.3 percent, 2.4 percent, and 0.1 percent of GDP, respectively, in 2013/14.

3. On this basis, spending on these items should increase by 2.2 percent of GDP by 2016/17. The 2014/15 budget already incorporates an initial increase in health and education spending of 0.5 percent of GDP. Hence, the remaining 1.7 percent of GDP would be allocated to the next two budgets.

4. The additional spending should aim at improving health, education and research outcomes and not simply increase the size of the government. A rapid spending increase could lead to waste, inefficiencies, and/or an increase in public wages (a legitimate concern, as wages represent about 63 percent of spending on health and 85 percent on education) instead of targeted initiatives and investment. Even though the short timeframe will not allow for the development of a full-fledged program-based framework to plan and monitor these programs, the authorities should announce the goals they intend to achieve in terms of education, health, and research outcomes, allocate funds accordingly, and monitor results.

Appendix III. Tax Revenues in Historical Perspective

1. Total tax revenues in Egypt declined significantly over the past two decades from a peak of 19 percent of GDP in 1993/94 to 13 percent in 2013/14. This reflected mainly the loss of 3 percent of GDP in custom duties (taxes on international trade) and a 1½ percent of GDP tax decline in other (mainly trade-related) taxes. Taxes on goods and services remained virtually flat over the period at about 5½–6 percent of GDP (except in 2013/14 when some SOEs failed to remit part of their tax collections) following the introduction of the GST in 1991.

2. Income taxes were the largest source of tax revenue, but were volatile as about half of the proceeds came from corporate taxes on EGPC and the Suez Canal (which depend on external factors including world oil prices and volume of international trade) and occasionally from the central bank; less than 20 percent of income tax proceeds now derive from personal income. The rise in property taxes over the past five years was due to the introduction of a 10 percent tax on interest earned on T-bills and bonds (recorded as a tax on property).

Egypt: Budget Sector Tax Revenues, 1989-2014 1/

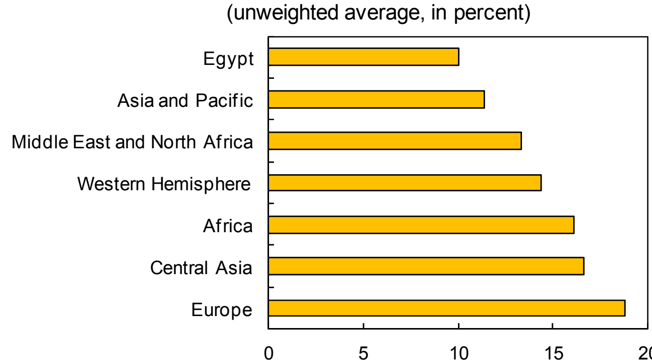
	1989/90	1993/94	2002/03	2008/09	2012/13	2013/14
			(in percent of GDP)			
Taxes	13.2	19.0	13.3	15.7	14.3	13.0
Income	4.4	6.9	5.0	7.7	6.7	6.1
excl. EGPC, Suez Canal, CBE	…	…	3.3	3.4	2.9	2.8
Property	0.3	0.2	0.2	0.3	0.9	0.9
Goods and services	4.2	6.2	5.5	6.0	5.3	4.6
International trade	3.2	3.8	2.0	1.4	1.0	0.9
Other	1.1	2.0	0.7	0.3	0.4	0.6
			(in percent of total)			
Taxes	100.0	100.0	100.0	100.0	100.0	100.0
Income	33.5	36.0	37.4	49.2	46.9	46.5
excl. EGPC, Suez Canal, CBE	…	…	24.4	21.9	20.5	21.7
Property	1.9	1.2	1.4	1.7	6.6	7.2
Goods and services	32.0	32.7	41.5	38.4	37.0	35.3
International trade	24.0	19.8	14.8	8.6	6.7	6.8
Other	8.6	10.3	4.9	2.1	2.9	4.2

Source: Egyptian finance ministry, GFS database, IMF staff reports.

1/ Fiscal year ending June 30.

3. The decline in custom duties—due to tariff reductions, trade agreements, and rising discretionary exemptions—was originally expected to be compensated by increases in domestic taxes on goods and services. However, the GST's standard rate was kept at 10 percent (significantly lower than the average for non-OECD countries) and its base has yet to be broadened to services (the yield of 1 percentage point of GST in Egypt is only about 0.2 percent of GDP, against typically 0.4 percent or more in emerging economies).

Standard VAT Rate in Non-OECD Countries, mid-2012
(unweighted average, in percent)



Source: International Bureau of Fiscal Documentation.

4. Going forward, converting the GST into a modern VAT, with a unified rate extended to services and with exemptions limited to essential food items, could reverse the declining trend in revenues. The introduction of a tax on income from dividends and capital gains, which took effect in July 2014, has also helped.

Appendix IV. Public Debt Sustainability Analysis

Public debt sustainability risks remain significant although mitigated by an ambitious fiscal adjustment plan and a friendly domestic investor base. General government debt stands at about 90 percent of GDP and is projected to fall below 80 percent by 2018/19. Gross financing requirements are large, at about 50 percent of GDP. Moreover, the average maturity of the debt is low at about two years. While most debt profile indicators are above early warning benchmarks, the relatively low external debt together with a captive domestic investor base shelters the domestic bond market from changes in global market perceptions.

1. The baseline scenario assumes a general government balance moving from 13.6 percent of GDP in 2013/14 to 11.0 and 8.5 percent of GDP, respectively, in 2014/15 and 2015/16. The deficit dynamics results from containing spending pressures while at the same time introducing measures of 2.3 percent of GDP in the current fiscal year and up to almost 6 percent of GDP by the end of the projection period. External debt is projected to remain broadly constant as a share to GDP. Growth is projected to rebound to 3.8 percent in 2014/15, from 2.2 percent in 2013/14, as conditions normalize and the economy recovers.

2. The heat map suggests that both the debt level and the gross financing requirement are above safe levels. This raises the risk of financing through the central bank to cover the financing gaps. In contrast, the debt profile is rather favorable. Sovereign spreads and external debt in foreign currency are relatively low. Short term debt is assumed to fall as a share to GDP, consistent with the authorities' plans to lengthen the average maturity. The analysis of debt-creating flows shows that debt going forward is mainly driven by a favorable dynamics of the interest rate-growth differential, which remains negative over the projection period.

3. Risks around this central scenario are mainly tilted to the downside. Growth projections have been optimistic in the recent past (Figure *Realism of Baseline Assumptions*), while at the same time growth has been supported by an expansionary fiscal stance (Figure *Realism of Baseline Assumptions, continued*). Recent projections of the primary deficit have also turned out to underestimate the extents of fiscal pressures. Moreover, the planned maximum reduction in the cyclically adjusted balance over three years of 5.6 percent is rather ambitious. The starting primary deficit, however, is very large and on the high side of the distribution.

4. Stress tests suggest that the main risk for the debt dynamics is related to growth and interest rates. A one standard deviation fall in growth compared to baseline would drive debt up to almost 95 percent of GDP. Given the short maturity of the debt, changes in domestic real interest rates would have a significant pass-through to the budget in terms of interest expenditures and imply a persistently high debt over the medium term. A combination of the main macro-fiscal shocks would drive the debt to almost 100 percent of GDP within two years.

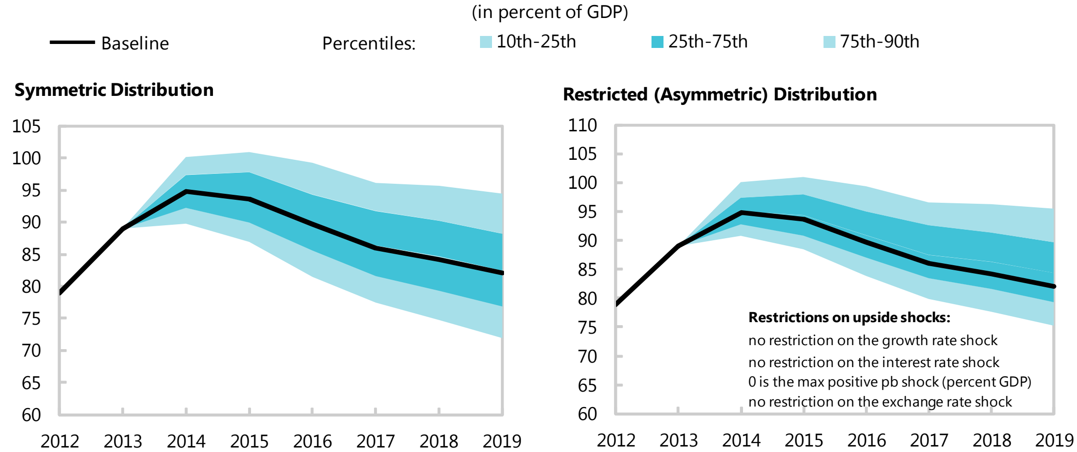
Egypt Public DSA Risk Assessment

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

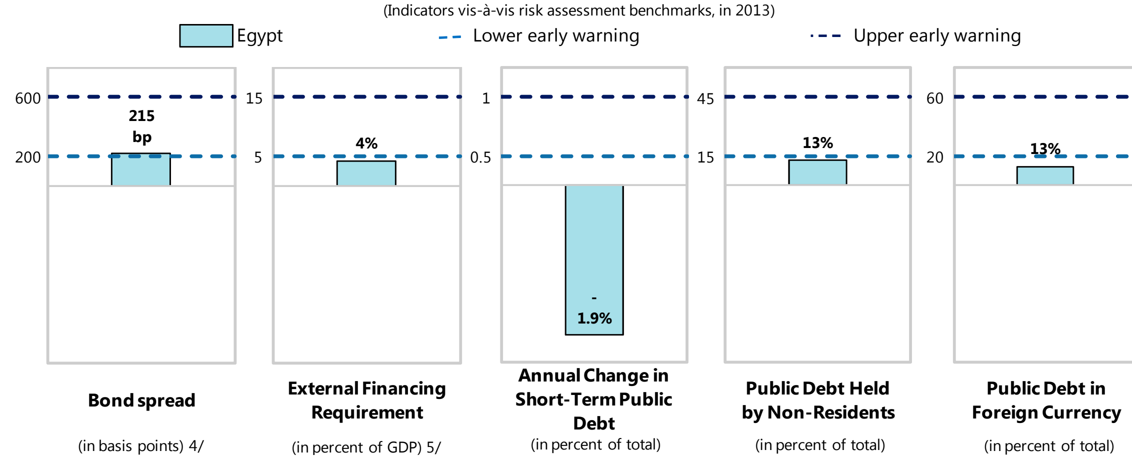
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

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

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

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

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

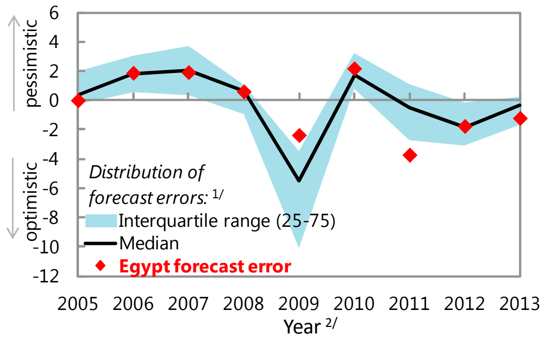
4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 13-Oct-14 through 11-Jan-15.

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

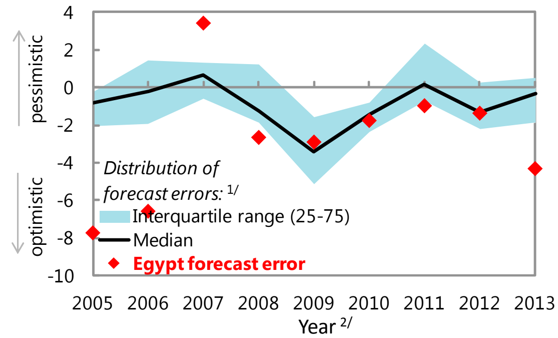
Egypt Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus program countries

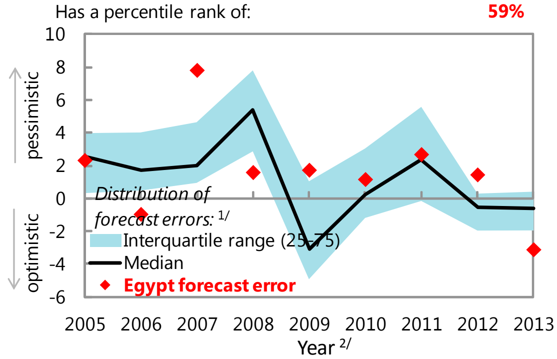
Real GDP Growth
(in percent, actual-projection)
Egypt median forecast error, 2005-2013: **-0.03**
Has a percentile rank of: **54%**



Primary Balance
(in percent of GDP, actual-projection)
Egypt median forecast error, 2005-2013: **-2.65**
Has a percentile rank of: **10%**

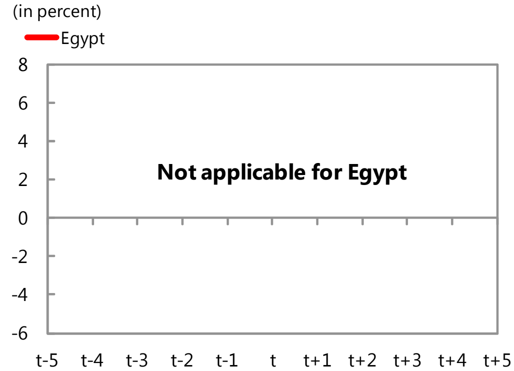


Inflation (Deflator)
(in percent, actual-projection)
Egypt median forecast error, 2005-2013: **1.57**
Has a percentile rank of: **59%**



Boom-Bust Analysis [3/]

Real GDP growth
(in percent)



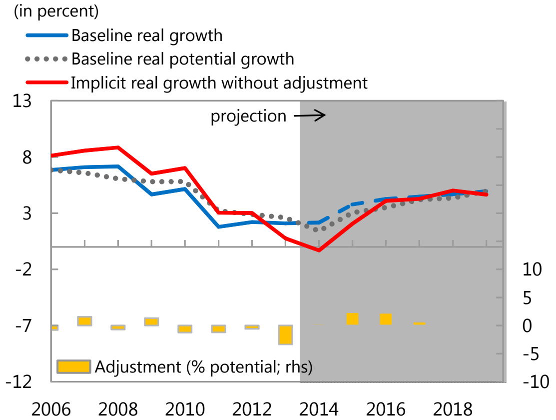
Source : IMF staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries
2/ Projections made in the spring WEO vintage of the preceding year
3/ Not applicable for Egypt, as it meets neither the positive output gap criterion nor the private credit growth criterion.

Egypt Public DSA - Realism of Baseline Assumptions (concluded)

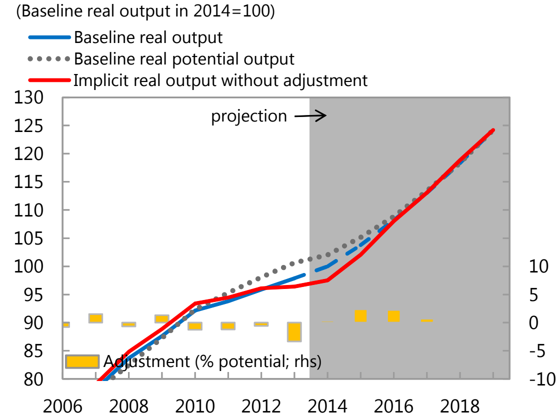
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.5, persistence of 1

Real GDP Growth
(in percent)

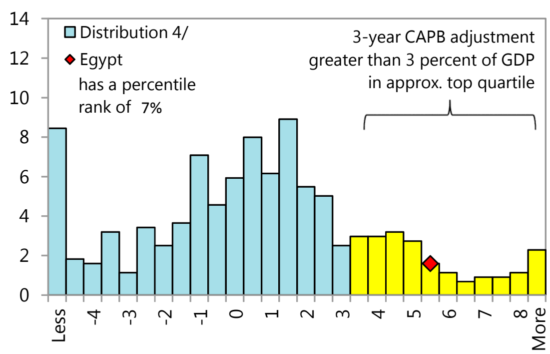


Real Output Level
(Baseline real output in 2014=100)

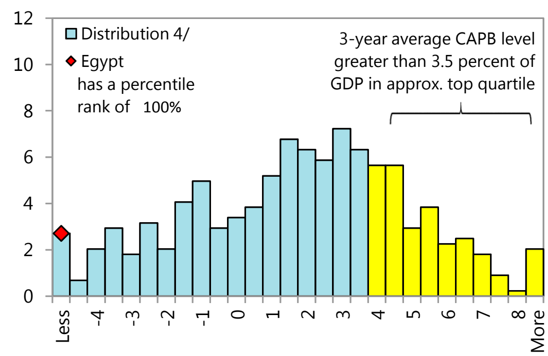


Assessing the Realism of Projected Fiscal Adjustment

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



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



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

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

(in percent of GDP unless otherwise indicated)

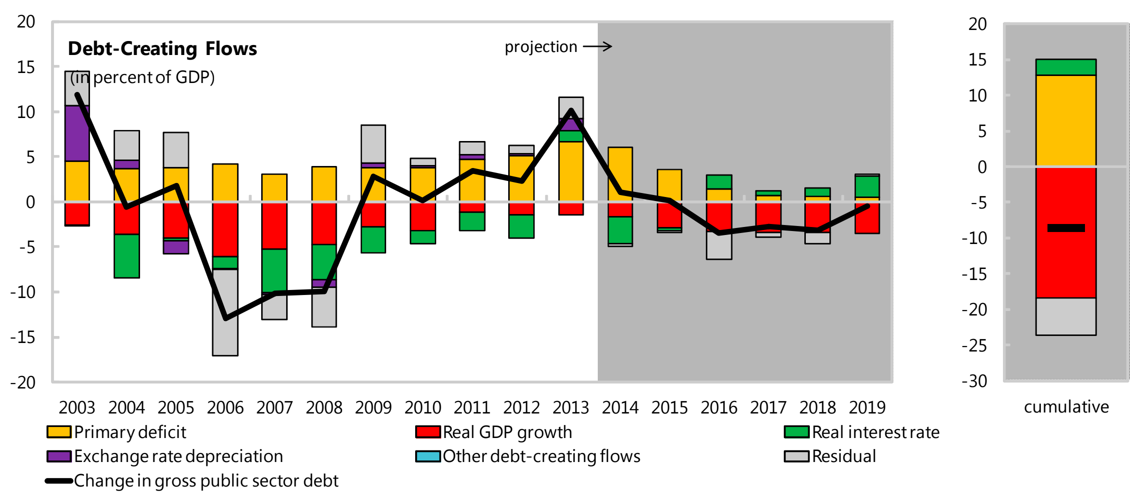
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	85.6	78.9	89.0	90.1	90.3	86.9	84.1	80.9	80.4
Public gross financing needs	25.8	35.4	42.6	54.3	64.3	61.5	56.6	52.2	52.4
Net public debt	85.6	78.9	89.0	90.1	90.2	86.5	83.6	80.7	80.4
Real GDP growth (in percent)	4.9	2.2	2.1	2.2	3.8	4.3	4.5	4.7	5.0
Inflation (GDP deflator, in percent)	10.0	12.4	9.0	11.5	10.7	10.0	9.6	9.2	7.4
Nominal GDP growth (in percent)	15.4	14.9	11.3	13.9	14.9	14.6	14.6	14.3	12.7
Effective interest rate (in percent) [4/]	7.1	8.9	10.9	7.9	10.8	12.3	10.7	11.0	11.1

As of January 11, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		240
5Y CDS (bp)		280
Ratings	Foreign	Local
Moody's	Caa1	Caa1
S&Ps	B-	B-
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.5	2.3	10.1	1.1	0.1	-3.4	-2.8	-3.2	-0.5	-8.6	
Identified debt-creating flows	-1.6	1.3	7.8	1.4	0.4	-0.4	-2.2	-1.9	-0.7	-3.4	
Primary deficit	3.9	5.1	6.6	6.1	3.6	1.4	0.7	0.6	0.5	12.8	-1.1
Primary (noninterest) revenue and gra	25.3	21.6	22.7	24.5	23.8	23.2	23.1	22.8	22.4	139.9	
Primary (noninterest) expenditure	29.3	26.7	29.4	30.6	27.3	24.7	23.8	23.4	22.9	152.7	
Automatic debt dynamics [5/]	-5.5	-3.8	1.1	-4.7	-3.2	-1.8	-2.9	-2.5	-1.1	-16.2	
Interest rate/growth differential [6/]	-6.2	-4.0	-0.3	-4.7	-3.2	-1.8	-2.9	-2.5	-1.1	-16.2	
Of which: real interest rate	-2.4	-2.5	1.2	-3.0	-0.2	1.5	0.5	1.0	2.4	2.2	
Of which: real GDP growth	-3.8	-1.5	-1.5	-1.7	-3.0	-3.4	-3.4	-3.4	-3.6	-18.4	
Exchange rate depreciation [7/]	0.6	0.2	1.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
0 (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	
Please specify (2) (e.g., ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.1	1.0	2.3	-0.3	-0.2	-3.0	-0.6	-1.3	0.2	-5.2	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

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

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

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

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

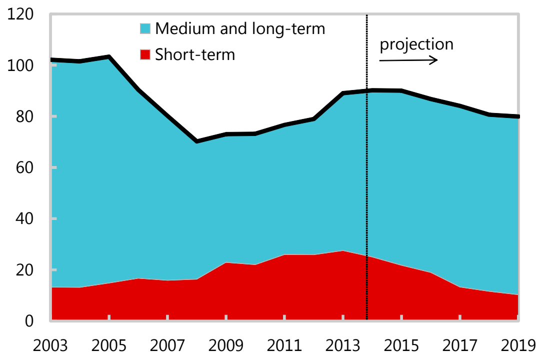
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Egypt Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

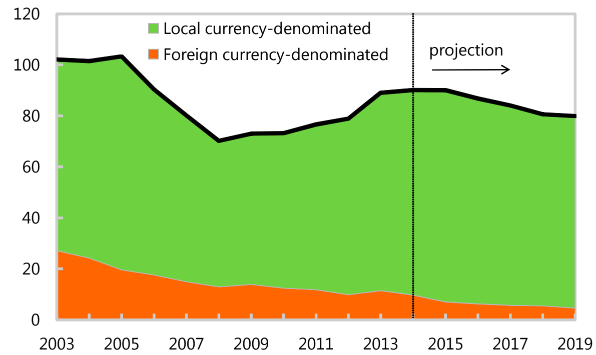
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

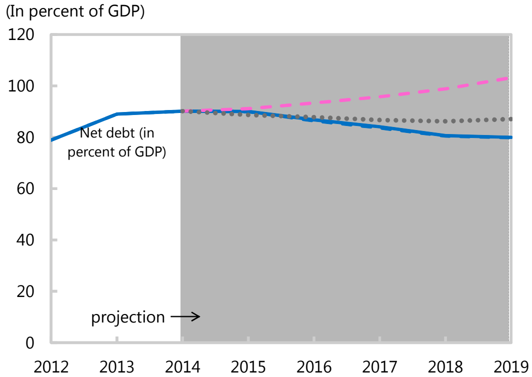


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

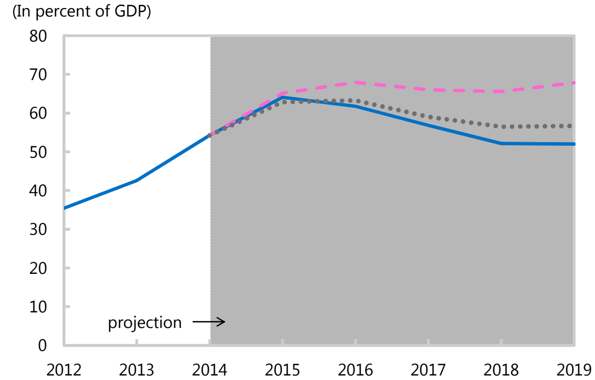
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

(In percent)

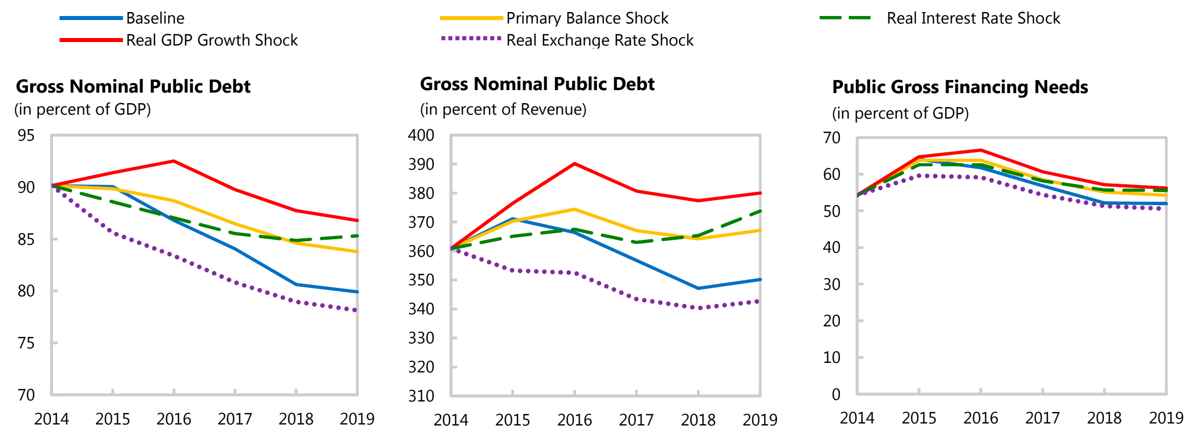
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.2	3.8	4.3	4.5	4.7	5.0
Inflation	11.5	10.7	10.0	9.6	9.2	7.4
Primary Balance	-6.1	-3.6	-1.4	-0.7	-0.6	-0.5
Effective interest rate	7.9	10.6	12.2	10.8	10.9	11.2
Constant Primary Balance Scenario						
Real GDP growth	2.2	3.8	4.3	4.5	4.7	5.0
Inflation	11.5	10.7	10.0	9.6	9.2	7.4
Primary Balance	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1
Effective interest rate	7.9	8.8	10.1	10.3	11.0	10.9

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.2	4.6	4.6	4.6	4.6	4.6
Inflation	11.5	10.7	10.0	9.6	9.2	7.4
Primary Balance	-6.1	-4.3	-4.3	-4.3	-4.3	-4.3
Effective interest rate	7.9	8.8	8.6	7.9	8.2	8.1

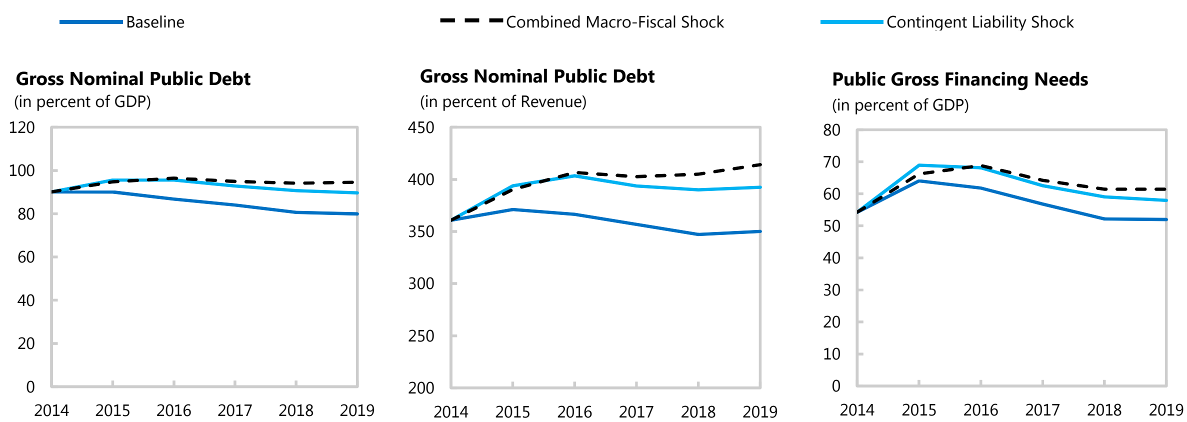
Source: IMF staff.

Egypt Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	2.2	3.8	4.3	4.5	4.7	5.0
Inflation	11.5	10.7	10.0	9.6	9.2	7.4
Primary balance	-6.1	-4.8	-2.5	-1.0	-0.6	-0.5
Effective interest rate	7.9	8.8	10.3	10.6	11.3	11.2
Real Interest Rate Shock						
Real GDP growth	2.2	3.8	4.3	4.5	4.7	5.0
Inflation	11.5	10.7	10.0	9.6	9.2	7.4
Primary balance	-6.1	-3.6	-1.4	-0.7	-0.6	-0.5
Effective interest rate	7.9	8.8	11.1	12.0	13.0	12.9
Combined Shock						
Real GDP growth	2.2	1.7	2.2	4.5	4.7	5.0
Inflation	11.5	10.2	9.4	9.6	9.2	7.4
Primary balance	-6.1	-4.8	-2.7	-1.0	-0.6	-0.5
Effective interest rate	7.9	8.9	10.9	11.8	12.9	12.9

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	2.2	1.7	2.2	4.5	4.7	5.0
Inflation	11.5	10.2	9.4	9.6	9.2	7.4
Primary balance	-6.1	-4.2	-2.7	-0.7	-0.6	-0.5
Effective interest rate	7.9	8.8	10.2	10.6	11.3	11.2
Real Exchange Rate Shock						
Real GDP growth	2.2	3.8	4.3	4.5	4.7	5.0
Inflation	11.5	18.4	10.0	9.6	9.2	7.4
Primary balance	-6.1	-3.6	-1.4	-0.7	-0.6	-0.5
Effective interest rate	7.9	8.9	10.0	10.4	11.2	11.1
Contingent Liability Shock						
Real GDP growth	2.2	1.7	2.2	4.5	4.7	5.0
Inflation	11.5	10.2	9.4	9.6	9.2	7.4
Primary balance	-6.1	-7.9	-1.4	-0.7	-0.6	-0.5
Effective interest rate	7.9	9.5	10.5	10.7	11.2	11.1

Source: IMF staff.

Appendix V. External Debt Sustainability Analysis

1. **Egypt's external debt is projected to rise but to remain at moderate levels in the medium term.** External debt amounted to $46.1 billion at end-2013/2014 (16.1 percent of GDP), marginally higher than the previous year. About 92 percent of total is medium- to long-term debt and 99 percent is owed to official creditors, mainly by the government. In 2012/13, external debt rose sharply by about 26 percent, the largest increase in the past 10 years, due mainly to financial assistance provided by Libya and Qatar. In 2013/14, Kuwait, Saudi Arabia, and the United Arab Emirates provided substantial financial support, mostly in the form of grants. In 2014/15, support is expected mostly from the UAE in the form of loans, which will increase the external debt stock. Going forward, external debt is projected to remain between 16–17½ percent of GDP over the medium term, reflecting reliance on temporary financial assistance from countries in the region.

2. **External debt trajectories would downtrend in case of shocks based on historical values.** The shock levels under the stress tests are based on 10-year historical deviations, representing plausible rather than extreme and permanent shocks. Currently, average historical real GDP growth and the current account balance are higher compared to medium-term projections, which would lead to a decline in external debt-to-GDP ratios if such historical values are applied. On the other hand, an increase in external interest rates causes only a marginal deviation in the outlook.

3. **Among the stress tests, a large depreciation of the real exchange rate would have the largest impact on external debt.** A 30 percent real exchange rate depreciation in 2014 would lead to a 10 percentage point increase in the external debt-to-GDP ratio in 2019 compared to the baseline. This, however, is a static analysis and does not reflect the trade adjustments that would likely take place. A shock to the current account would also lead to a considerable increase in the external debt-to-GDP ratio, which would rise by 5 percentage points compared to the baseline.

Table 1. Egypt: External Debt Sustainability Framework, 2009–19 1/
(In percent of GDP, unless otherwise indicated)

	Actual					10-Year	10-Year	Projections						
	2009	2010	2011	2012	2013	Historical Average	Standard Deviation	2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 7/
1 **Baseline: External debt**	16.7	15.4	14.8	13.1	15.9			**16.1**	**16.4**	**17.3**	**17.5**	**17.3**	**16.7**	**-6.1**
2 Change in external debt	-4.1	-1.3	-0.6	-1.7	2.8			0.2	0.4	0.8	0.2	-0.2	-0.6	
3 Identified external debt-creating flows (4+8+9)	0.7	-6.6	2.0	2.9	0.1			-1.3	-0.1	0.3	0.1	-0.2	-0.9	
4 Current account deficit, excluding interest payments	2.7	2.2	2.8	4.1	2.6			1.1	3.7	4.7	4.7	4.7	4.6	
5 Deficit in balance of goods and services	6.8	4.8	5.6	8.4	6.7			8.9	8.4	8.5	8.0	7.5	7.1	
6 Exports	24.9	21.3	20.6	17.4	18.1			15.2	13.2	12.0	12.3	12.5	12.7	
7 Imports	31.7	26.1	26.2	25.8	24.8			24.1	21.6	20.5	20.2	19.9	19.8	
8 Net non-debt creating capital inflows (negative)	1.3	-6.2	0.6	0.5	-1.9			-1.8	-3.0	-3.4	-3.5	-3.7	-4.3	
9 Automatic debt dynamics 2/	-3.2	-2.6	-1.3	-1.7	-0.7			-0.6	-0.9	-1.0	-1.1	-1.2	-1.3	
10 Contribution from nominal interest rate	-0.3	-0.3	-0.2	-0.2	-0.3			-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	
11 Contribution from real GDP growth	-0.8	-0.7	-0.3	-0.3	-0.3			-0.3	-0.5	-0.6	-0.7	-0.7	-0.8	
12 Contribution from price and exchange rate changes 3/	-2.1	-1.6	-0.8	-1.2	-0.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	-4.9	5.3	-2.6	-4.5	2.8			1.4	0.5	0.5	0.1	-0.1	0.3	
External debt-to-exports ratio (in percent)	67.0	72.3	72.0	75.3	88.2			105.8	124.6	143.8	142.4	138.6	131.4	
Gross external financing need (in billions of US dollars) 5/	9.3	8.3	11.2	14.9	11.3			11.6	22.6	24.6	25.7	24.7	25.7	
in percent of GDP	4.9	3.8	4.7	5.7	4.2			4.0	7.1	6.9	6.5	5.7	5.5	
Scenario with key variables at their historical averages 6/								**16.1**	**12.0**	**8.4**	**4.8**	**1.5**	**-1.3**	**-3.8**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.7	5.1	1.8	2.2	2.1	4.6	2.1	2.2	3.8	4.3	4.5	4.7	5.0	
GDP deflator in US dollars (change in percent)	10.9	10.3	5.8	8.9	1.4	8.1	6.6	3.3	7.4	6.5	5.9	5.5	3.7	
Nominal external interest rate (in percent)	-1.8	-1.8	-1.6	-1.5	-2.2	-1.9	0.2	-1.7	-2.1	-2.6	-2.7	-2.9	-2.9	
Growth of exports (US dollar terms, in percent)	-11.7	-0.9	3.9	-5.7	7.3	11.5	15.3	-11.1	-3.3	1.0	13.2	12.1	10.8	
Growth of imports (US dollar terms, in percent)	-5.1	-4.7	8.1	10.0	-0.8	14.1	15.4	2.6	0.1	5.3	9.2	8.7	8.0	
Current account balance, excluding interest payments	-2.7	-2.2	-2.8	-4.1	-2.6	-0.5	2.7	-1.1	-3.7	-4.7	-4.7	-4.7	-4.6	
Net non-debt creating capital inflows	-1.3	6.2	-0.6	-0.5	1.9	4.0	4.2	1.8	3.0	3.4	3.5	3.7	4.3	

1/ Reflects fiscal years (July-June).

2/ 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.

3/ 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).

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

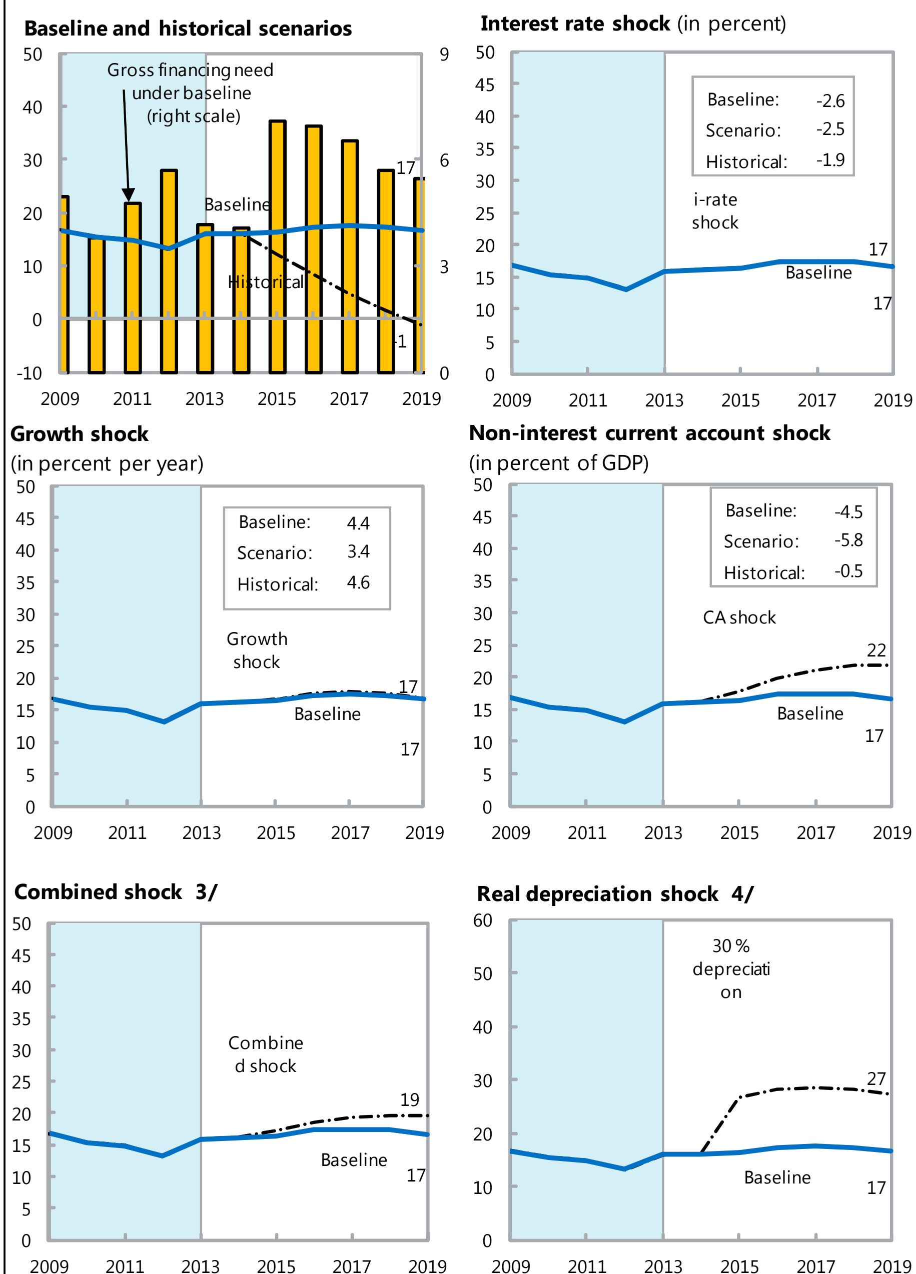
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ 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.

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

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

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

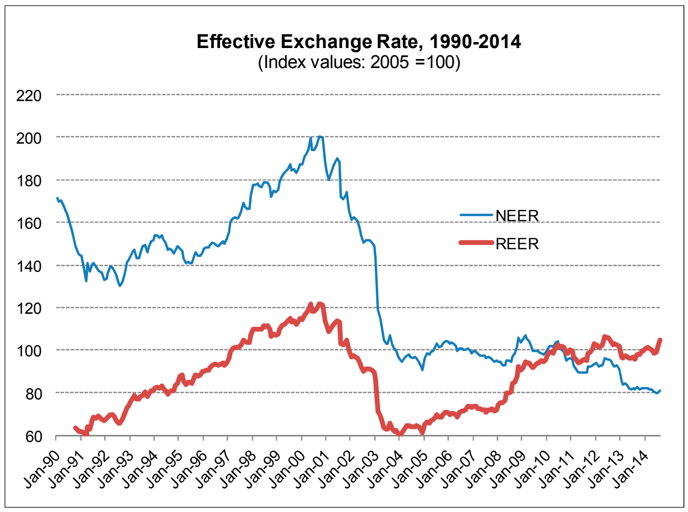
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

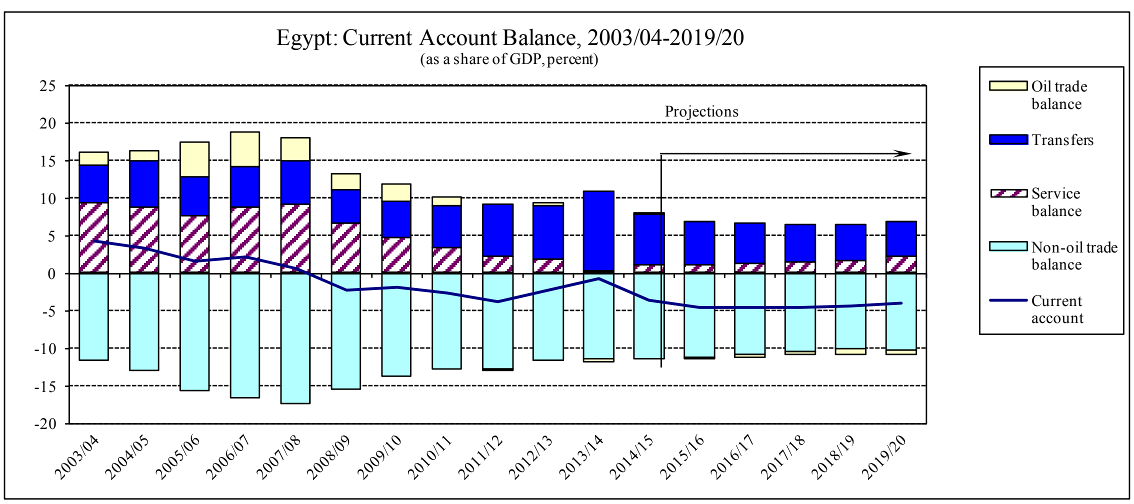
4/ One-time real depreciation of 30 percent occurs in 2013.

Appendix VI. External Sector Assessment

Staff analysis suggests that the direction of exchange rate policy will be extremely important for the sustainability of Egypt's external sector. Serious risks could arise from the combination of inflation above that of trading partners with limited movement of the nominal exchange rate during the projection period. Macroeconomic and structural reforms that would restore investor confidence and boost competitiveness, coupled with the introduction of greater exchange rate flexibility, would improve sustainability and reduce risks. The exchange rate appears overvalued based on the standard IMF methodologies. The current account has recently been supported by temporary GCC financing. Global trade shares have declined and capital flows are low and volatile, although there are initial signs that investor confidence is coming back. Qualitative indicators point to structural weaknesses. The reserve level is below standard levels of adequacy based on the Fund's reserve adequacy metric.

1. Exchange rate assessment. As of October 2014, Egypt's real effective exchange rate (REER) has appreciated by 11 percent since end-2010 due to persistent inflation differentials with trading partners and limited exchange rate flexibility despite several nominal adjustments totaling 19 percent (Figure 1). Similarly, over a longer time horizon, the REER has appreciated considerably, mainly due to the episode of high inflation due to rising food prices starting in 2008, which reversed much of the competitiveness gains from the nominal depreciation in the early 2000s. As a result, the current REER level is about 28 percent above its average of the past 15 years and 29 percent above its average of the past 10 years (Table 1).





2. Egypt's real exchange rate appears overvalued. The various methods used in the IMF's REER assessment yield an estimated overvaluation ranging from 3–28 percent (Table 1). These estimates are subject to uncertainty, including due to structural changes in the economy. However, the limited price competitiveness suggested by these estimates are consistent with the persistently high non-energy trade deficit, largely financed by official transfers in the past few years, and the decline in Egypt's share of world non-oil exports. Survey-based measures further suggest that Egypt's non-price competitiveness is weaker than that of its peers, and that there is considerable scope for macroeconomic policies and structural reforms to improve competitiveness (see below).

Egypt: Assessment of the Real Effective Exchange Rate

	I. November 2014 REER difference against:		II. Macroeconomic balance	III. External sustainability 1/	IV. ERER 4/	Average
	10-year average	15-year average	2018/19 2/			
	(Misalignment as percentage deviation from estimated equilibrium, overvaluation (+), undervaluation (-)).					
Country Team	28.8	27.8	3.3 3/	17.7	28.1	16.4

1/ Estimates the adjustment needed to stabilize Egypt's net foreign assets to GDP ratio.

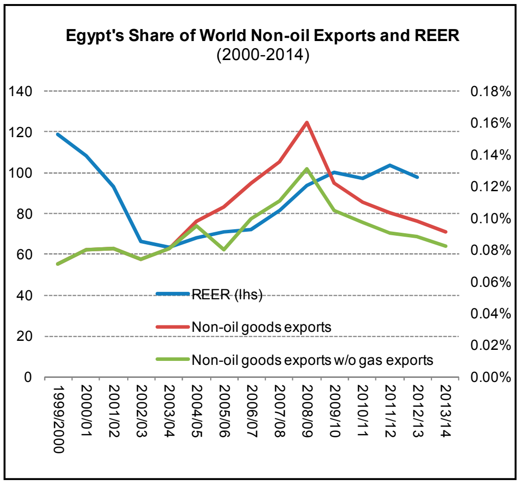
2/ Based on data for Egypt's financial year (July 1-June 30), including for the real effective exchange rate.

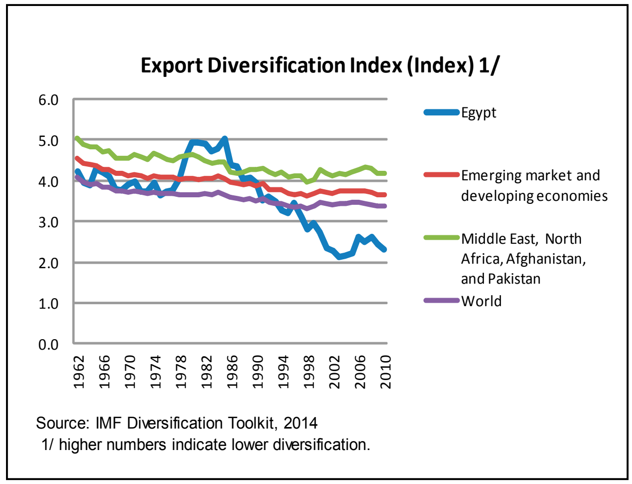
3/ Based on CGER methodology.

4/ Based on equilibrium real exchange rate approach.

3. Egypt's share in global trade has declined over the past five years. The share of nonoil exports fell by more than 40 percent between 2008/09 and 2013/14 to 0.09 percent of global nonoil exports. Factors that undermine competitiveness include exchange rate overvaluation, a deterioration in macroeconomic fundamentals, political instability, and structural weaknesses. On the positive side, Egypt has succeeded in diversifying its economy in the last 20 years, and is relatively more diversified compared to other countries in the region as well as to emerging and developing economies as a group. However, oil and gas exports still represent close to 50 percent of total exports in 2013/14.[1]

[1] Oil imports are broadly of the same magnitude as exports. The oil trade balance is about -0.6 percent of GDP.





4. Qualitative indicators highlight important structural challenges to competitiveness. Egypt ranks 112 out of 189 in the World Bank 2014 Doing Business survey, suggesting considerable red tape, cumbersome regulations, and poor enforcement of contracts and minority investors. It ranks only 119 out of 144 in the World Economic Forum 2014–15 Global Competitiveness Index due to a deteriorated macroeconomic environment and particularly poor scores on labor and goods market efficiency, financial market development, and education. A rising infrastructure deficit is visible in poor transportation infrastructure, traffic congestion, distribution bottlenecks, and electricity, fuel, and water shortages.

5. The current account deficit has declined in recent years, largely due to GCC financing. The latter has mostly been in the form of official transfers, government deposits, and in-kind oil grants. Some GCC countries have pledged to provide substantial financing in 2014/15, but early indications suggest that this will take the form of loans rather than grants. Future financing prospects from the GCC beyond 2014/15 are less certain, and the continued decline in oil prices may weigh on the downside, potentially discouraging FDI that could unlock higher future production and oil exports.

GCC Assistance FY13/14

(US$ Billion)

Donor	Deposit at the CBE*	Grant**	Energy products**	Total
Saudi Arabia	2.0	2.0	3.8	**7.8**
UAE	2.0	2.7 ***	3.2	**7.9**
Kuwait	2.0	--	0.7	**2.7**
Qatar	--	--	0.2	**0.2**
Total	**6**	**4.7**	**7.9**	**18.6**

* Debt creating. To be repaid
** Grants, non-debt creating and not to be repaid
*** Preliminary

6. FDI has been on a declining trend since 2009, but now appears to be picking up. Political instability, the deterioration of macroeconomic fundamentals, and the poor business environment have kept investors away. FDI in the past three years has been less than 1.5 percent of GDP. Portfolio investment has been historically low and highly volatile, with massive outflows during periods of global financial stress and domestic political instability. However, the return of political stability and measures to address long-standing subsidy and energy-related issues have improved investor confidence. In particular, FDI registered strong growth in Q1 2014/15, and investors' interest has started to return, particularly in the oil sector.

7. Despite large GCC financing, foreign exchange reserves remain below standard metrics of adequacy.[2] As of end-December 2014, reserves stood at 2½ months of imports or 40 percent of the standard reserve adequacy metric for fixed exchange rate regimes. This represents a large drop from the average coverage of 117 percent of the reserve adequacy metric for the past 10 years.

[2] See "Assessing Reserve Adequacy—Further Considerations," IMF Policy Paper, November 2013.

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 13, 2015

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of December 31, 2014)

A. Financial Relations

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

General Resources Account	SDR Million	Percent Quota
Quota	943.70	100.00
Fund holdings of currency	943.71	100.00
Reserve position in Fund	0.00	0.00

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	898.45	100.00
Holdings	827.17	92.07

Outstanding Purchases and Loans None

Financial Arrangements (In millions of SDR)

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SBA	Oct 11, 1996	Sep 30, 1998	271.40	0.00
EFF	Sep 20, 1993	Sep 19, 1996	400.00	0.00
SBA	May 17, 1991	May 31, 1993	234.40	147.20

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	0.04	0.04	0.04	0.04	0.04
Total	**0.04**	**0.04**	**0.04**	**0.04**	**0.04**

Implementation of HIPC Initiative: Not Applicable

B. Nonfinancial Relations

Exchange Rate Arrangement

1. Between January 29, 2003 and February 2, 2009, the Egyptian pound was allowed to float, and the exchange arrangement was classified as "managed float with no pre-announced path for the exchange rate." In December 2004, the CBE launched the foreign exchange interbank market with no controls on rates, governed by a formal interbank convention on foreign exchange trading. Effective February 1, 2005 Egypt's exchange rate was reclassified to a conventional pegged arrangement, and subsequently adjusted to managed floating with no predetermined path for the exchange rate (effective August 1, 2007,) other managed arrangement (effective April 30, 2008), crawl-like arrangement against a composite basket (effective March 12, 2009), stabilized arrangement (effective April 1, 2011), crawl-like arrangement (effective November 10, 2011), and stabilized arrangement (effective July 3, 2013).

2. Egypt maintains a bilateral payment arrangement with Sudan which has been inoperative since the late 1990s.

3. Effective December 30, 2012, the CBE introduced a multiple price auction mechanism to buy and sell foreign exchange. In addition to its regular weekly auctions, the CBE held occasional exceptional auctions to cover outstanding import needs for priority imports. Restrictions imposed by the CBE on the auctions and on the interbank market led to an insufficient supply of foreign exchange at the daily exchange rate determined by the central bank and contributed to the development of a parallel foreign exchange market.

Latest Article IV Consultation

The 2010 Article IV consultation was concluded on March 24, 2010 and the Staff Report (IMF Country Report No. 10/94) was published in April 2010.

Technical Assistance in 2013 and 2014

- FAD and METAC missions in November 2011, January and June 2013, August–September 2014 and November 2014 on public financial management.
- FAD missions in July 2011, April–May 2014, June 2014 and August–September 2014 on revenue administration.
- FAD missions in October and December 2013, February, April, June, and September 2014 on tax policy.
- FAD mission in May 2011 on expenditure and tax policy.
- METAC missions in March 2012, March 2013, and September 2014 on prices and external sector statistics.

- METAC mission in September and December 2014 on bank supervision.
- MCM mission in February 2012 on monetary policy.
- LEG missions in December 2013, January 2014 and August-September 2014 on tax legislation.

Financial Sector Assessment Program

Egypt participated in the FSAP in 2002. The FSAP was updated in 2007.

Resident Representative/Advisor None

RELATIONS WITH THE WORLD BANK GROUP

JMAP Implementation, FY14

(As of December 23, 2014)

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	Provide support to the preparation of the Economic Development Conference (March 13–15, 2015).	Ongoing support	Dec 2014–March 2015
	Draft a white Paper for Government of Egypt on the energy sector, to support preparation of the Economic Summit of March 2015, and to lay the medium to long term agenda for the sector's reforms.		January 2015
	Provide hands-on support to the Debt Management Unit of the Ministry of Finance.		December 2014
	Provide programmatic technical assistance to the government to improve the targeting mechanisms and efficiency of the social sectors and support capacity building.		18-months program
	Produce a new poverty assessment.		January 2015 (concept note)
	Help the Ministry of Planning to establish a macro policy unit and to enhance their macroeconomic and poverty forecasting capacity.		
	Provide strategic and operational advice to the Macro Fiscal Policy Unit (Ministry of Finance) with regards currently used forecasting tools and techniques as well as means to enhance reporting on macroeconomic and fiscal issues including producing a quarterly macroeconomic risk assessment report		

Title	Products	Provisional Timing of Missions	Expected Delivery Date
IMF work program in next 12 months	2014 Article IV Consultation Staff Visit 2015 Article IV Consultation Technical assistance missions on: • Public financial management • Revenue administration • Bank supervision (METAC) • External sector statistics (METAC) • Public financial management • Revenue administration Additional TA missions are planned on tax policy, revenue administration and public financial management and banking supervision for the remainder of FY15	Nov 11–25, 2014 May 2015 November 2015 November 2014 September 2014 September 2014 September 2014 August 2014 June 2014	January 2015 May 2015 January 2016 November 2014 September 2014 September 2014 September 2014 August 2014 June 2014
B. Requests for Work Program Inputs			
Fund request to Bank	Sectoral analysis		Ongoing
Bank request to Fund	Assessment of macroeconomic stance and prospects		Ongoing
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Continuous close coordination on the reform agenda		Ongoing

STATISTICAL ISSUES

(As of end-December 2014)

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

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

Egypt: Table of Common Indicators Required for Surveillance

(As of end-December 2014)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality–Methodological Soundness[8]	Memo Items: Data Quality–Accuracy and Reliability[9]
Exchange Rates	Real time	Real time	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct-14	Nov-14	M	M	M		
Reserve/Base Money	Oct-14	Nov-14	M	M	M	O,O,LO,LO	O,O,O,O,O
Broad Money	Oct-14	Nov-14	M	M	M		
Central Bank Balance Sheet	Oct-14	Nov-14	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct-14	Nov-14	M	M	M		
Interest Rates[2]	Real time	Real time	D	D	D		
Consumer Price Index	Nov-14	Dec-14	M	M	M	O,O,O,O	LNO,LNO,LN, LO,LO
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Jul-14	Nov-14	I	I	Q/I	LO,LO,O,O	LO,O,O,O,O
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	Oct-14	Nov-14	I	I	Q/I		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March-14	Nov-14	I	I	A/Q		
External Current Account Balance	Jun-14	Oct-14	Q	Q	Q	O,LO,LO,LO	LNO,O,O,O,O
Exports and Imports of Goods and Services	Jun-14	Oct-14	Q	Q	Q		
GDP/GNP	2014Q3	Nov-14	Q	Q	Q	O,O,O,LO	LO,LO,LO,O, LO
Gross External Debt	Jun-14	Oct-14	I	I	Q		
International Investment Position[6]	Jun-14	Oct-14	Q	Q	Q		

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

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

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

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

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

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

[9] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 15/44
FOR IMMEDIATE RELEASE
February 11, 2015

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

IMF Executive Board Concludes 2014 Article IV Consultation with the Arab Republic of Egypt

On January 28, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Arab Republic of Egypt.

Following four years of political uncertainty and economic slowdown, the authorities have started implementing policies to raise growth, create jobs and restore macroeconomic stability. To achieve inclusive growth and job creation, the authorities are pursuing structural reforms, promoting investment, and developing measures to protect the poor. To restore macroeconomic stability, they are designing an ambitious fiscal adjustment, supported by tight monetary policy to contain inflation.

The starting point is difficult. The political turmoil of 2011 triggered a sharp capital account reversal and left growth depressed, while policy accommodation widened fiscal and external imbalances. For the last four years, growth has been only 2 percent on average, and the unemployment rate has risen to over 13 percent. Poverty increased to 26.3 percent in 2012/13. Fiscal deficits have been above 10 percent of GDP since 2011, and have been largely financed domestically, thereby contributing to the relatively high level of inflation; general government debt reached 90.5 percent of GDP in mid-2014. Political uncertainties have weighed on both tourism and capital flows, leading to a decline in reserves from 6.8 months of imports in mid-2010 to 2½ months of imports in December 2014. Nevertheless, the banking system, starting from a relatively strong position, has been resilient to the shocks and has maintained profitability, low non-performing loans, and high liquidity.

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

The measures implemented so far, along with some recovery in confidence, are starting to produce a turnaround. As the authorities implement policy initiatives, prospects for growth, employment, and macroeconomic stability will improve. Growth is projected to reach 3.8 percent in 2014/15 and to rise steadily to 5 percent over the medium term, which would create jobs and reduce unemployment.

Fiscal consolidation will bring the budget deficit below 8 percent of GDP by 2018/19 and set government debt on a downward path. The adjustment is designed to preserve growth and inclusiveness: it accommodates the increase in spending on health, education, and scientific research mandated by the constitution, reforms subsidies to make them more efficient and equitable, raises taxes on high earners, and strengthens social safety nets through the development of cash transfer systems. Lower fiscal deficits will support the targeted reduction in inflation to 7 percent over the medium term. The authorities aim to increase reserves to the equivalent of 3 months of imports by the end of 2014/15 and 3½ months of imports over the medium term, although continued external financing will be needed to achieve these goals.

Egypt is vulnerable to adverse global economic developments, regional security risks, domestic shocks and possible policy slippages, but upside risks could also materialize from a successful implementation of the authorities' policies and reforms.

Executive Board Assessment[2]

Executive Directors welcomed this first Article IV consultation since the events of 2011, noting the significance of economic developments and policies in Egypt for its people and for the region. Directors welcomed the improved economic outlook and supported the authorities' plans to restore macroeconomic stability and spur inclusive growth and employment. They underscored the importance of policies to restore growth, create jobs, and protect the poor. They viewed reforms of the regulatory framework for businesses and investment and financial sector development as critical to encourage open competition and unlock private sector-led growth.

Directors welcomed the authorities' focus on improving infrastructure and reforming the energy sector. They stressed that investment should be designed to create jobs in the short term and increase potential growth and exports in the long term. Directors agreed that limited public resources and an already high public debt call for a careful design and monitoring of projects to avoid actual or contingent liabilities.

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

Directors welcomed the authorities' policies to protect the poor. They supported the launch of a new cash transfer scheme and the reform of food ration cards, together with the government's commitment to further improve targeting and increase benefits. They considered that the increase in public spending on education, health, and research, if managed wisely, can improve the quality and availability of public services and support long-term inclusive growth.

Directors underscored that fiscal consolidation is essential for macroeconomic stability and medium-term sustainability. They commended the authorities for the recent measures to increase revenues and contain spending, especially the fuel subsidy reform that began in 2014. Directors stressed the importance of maintaining the pace of reforms to set the public debt-to-GDP ratio on a declining path. In this regard, they agreed on the need to broaden tax revenues and control current spending, including by enacting swiftly a modern VAT and continuing reforms of subsidies and of public sector wage-setting and hiring. For energy subsidies, Directors emphasized that the recent decline in oil prices provides an opportunity to accelerate reforms. Directors noted that fiscal consolidation would support the Central Bank of Egypt's objective of bringing inflation down to single digits.

Directors considered that while the envisaged policy adjustment would strengthen the balance of payments, financing needs would remain in the medium term. Therefore, a combination of further adjustment and financing would be needed. Directors saw a more flexible exchange rate, reflecting supply and demand and consistent with an adequate level of reserves, as a way to improve the availability of foreign exchange for households and businesses, strengthen competitiveness, support the current account, and attract foreign direct investment. In this regard, they welcomed the recent movements in the exchange rate as an important step in the right direction.

Directors noted that the economic situation remains difficult given regional and domestic security risks. In view of these risks, Directors stressed the importance of building confidence and creating adequate buffers by implementing swiftly the reform agenda, strengthening international reserves, and preparing contingency plans for the budget.

Egypt: Selected Macroeconomic Indicators, 2009/10–2015/16 1/

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
					Projections	
	(Annual percentage change)					
Output and prices						
Real GDP (market prices)	1.8	2.2	2.1	2.2	3.8	4.3
Consumer prices (end-of-period)	11.8	7.3	9.8	8.2	11.0	10.5
Consumer prices (period average)	11.1	8.6	6.9	10.1	10.4	10.1
	(In percent of GDP at market prices)					
Public finances						
General government 2/						
Revenue and grants	22.0	22.1	23.0	25.0	24.3	23.7
Expenditure (incl. net acquisition of financial assets)	31.8	32.7	37.1	38.6	35.2	32.2
Of which : Interest	5.6	5.9	7.7	8.0	7.9	7.5
Overall balance	-9.8	-10.5	-14.1	-13.6	-11.0	-8.5
Overall balance, excl. grants	-10.0	-11.2	-14.4	-17.4	-12.0	-8.6
Primary balance	-4.7	-5.1	-6.6	-6.1	-3.6	-1.4
Gross Debt	76.6	78.9	89.0	90.5	89.8	87.1
External	11.8	9.8	11.4	10.4	11.0	12.2
Domestic	64.8	69.1	77.6	80.1	78.8	74.9
Budget sector 3/						
Revenue and grants	19.3	19.3	20.0	21.8	21.3	20.9
Expenditure (incl. net acquisition of financial assets)	29.2	29.9	33.7	35.7	32.2	29.4
Of which: Fuel subsidies	4.9	6.1	6.8	6.3	3.1	1.2
Of which: Food subsidies	2.4	1.9	1.9	1.8	1.4	1.3
Overall balance	-9.8	-10.6	-13.7	-13.8	-11.0	-8.5
Overall balance, excl. grants	-10.0	-11.2	-14.0	-17.6	-12.0	-8.6
Primary balance	-3.7	-4.0	-5.3	-5.2	-2.5	-0.4
	(Annual percentage change)					
Monetary sector						
Credit to the private sector	1.0	7.1	9.8	7.4	11.7	14.9
Reserve money	23.6	5.1	20.4	14.8	16.2	11.2
Broad money (M2)	10.1	8.3	18.4	17.1	15.2	11.8
Treasury bill rate, 3 month (average, in percent)	10.2	13.4	13.4	11.3	9.5	11.2
	(In percent of GDP, unless otherwise indicated)					
External sector						
Exports of goods (in US$, percentage change)	13.1	-7.1	7.6	-3.2	-14.0	-5.9
Imports of goods (in US$, percentage change)	10.4	9.5	-2.6	3.7	-1.4	4.7
Merchandise trade balance	-11.5	-13.0	-11.3	-11.8	-11.4	-11.5
Current account	-2.6	-3.9	-2.4	-0.8	-3.4	-4.3
Capital and financial account (incl. errors and omissions)	-1.1	-2.8	2.1	1.6	3.1	3.2
Foreign direct investment (net, in billions of US$)	1.2	3.7	3.6	3.8	6.9	7.6
External debt 4/	14.8	13.1	15.9	16.1	16.4	17.3
Gross international reserves (in billions of US$)	26.4	15.2	14.5	16.3	18.7	21.2
In months of next year's imports of goods and services	4.7	2.7	2.5	2.8	3.1	3.2
In percent of short-term external debt 5/	542.4	308.8	138.1	191.9	116.9	115.2
Memorandum items:						
Nominal GDP (in billions of Egyptian pounds)	1,371.1	1,575.5	1,753.3	1,997.6	2,295.4	2,631.3
Nominal GDP (in billions of US$)	235.6	262.3	271.4	286.4	…	…
GDP per capita (in US$)	2,930	3,183	3,205	3,304	…	…
Unemployment rate (period average, percent)	10.4	12.4	13.0	13.4	13.2	12.7
Poverty rate (percent)	25.2	n.a.	26.3	…	…	…
Population (in millions)	80.4	82.4	84.7	86.7	88.4	90.2

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

1/ Fiscal year ends June 30.

2/ General government includes the budget sector, the National Investment Bank (NIB), and social insurance funds.

3/ Budget sector comprises central government, local governments, and some public corporations.

4/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing (in 2011/12).

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

Statement by Hazem Beblawi, Executive Director for the Arab Republic of Egypt
Executive Board Meeting
January 28, 2015

1. This is a moment of opportunity for Egypt. With relative political stability restored Egypt is moving resolutely to invigorate the economy. While recognizing the full range of socio-economic challenges, the authorities are keen to strengthen economic prospects and improve the well being of all Egyptians. Accordingly, steps were immediately undertaken by the new government to begin structural reforms and promote investment, starting with a 2014/15 budget that aims to adjust spending allocations, contains the fiscal deficit to eventually bring down public debt, and is supported by monetary policies to contain inflation. Investment promotion and job creation are key priorities, to be anchored in fundamental economic reforms and a predictable and competitive investment environment. To this end, the March Conference in Sharm El Sheikh will bring together investors to participate in projects that aim to reinvigorate the Egyptian economy.

2. The authorities broadly share staff's overall assessment of long-standing challenges facing the Egyptian economy. However, they differ on specific areas of the assessment related to the prospects, risks, and resilience of the Egyptian economy. They anticipate a stronger turnaround in business confidence and a larger role for investment flows. The authorities appreciate the diligent work of the team, constructive spirit of the discussions, and their openness to different perspectives and to adjusting some of their assumptions and previous perceptions.

Outlook

3. A turnaround in growth is clearly visible, helped by an improved sense of security, and a return to normalcy on the streets and in everyday life. Following four years of growth averaging 2 percent, the pace of economic activity is expected to double in 2014/15, and to further increase thereafter. Growth rebounded to 6.8 percent y-o-y in Q3 of 2014 with a strong pickup in manufacturing and tourism. The authorities recognize the merits of starting from conservative growth projections. However, they see scope for a stronger growth rebound from the energy sector, new project investments, tourism, communications, and construction. They also anticipate a more positive spillover from the impact of lower oil prices on economic activity in Egypt's trading partners.

4. The authorities are well aware of the challenges and risks. They see limited risks from policy delays, given the stakes at hand and the current social and political acceptance of the necessity of reforms. Indeed, for the first time in Egypt, there is a clear national consensus on the need to implement reforms that would achieve more inclusive growth and strengthen the economy's resilience to external shocks. The authorities anticipate a boost to medium-term growth from investment in industrial projects, energy generation, superhighways, social sectors, as well as regulatory reforms to facilitate startups, and support to small and medium enterprises. The Suez Canal Regional Development project, the flagship of the government's investment recovery program, will provide many opportunities for investors as it sets the stage to enlarge and cement Egypt's role as a global trading and logistics hub. Plans include four new seaports in the three provinces surrounding the canal, a new airport, a new industrial zone west of the Gulf of Suez and a "technology valley" in Ismailia.

Fiscal Policy

5. The authorities' commitment to restoring fiscal sustainability is unwavering as they see the planned large fiscal consolidation as unavoidable. All the gains that were made in reducing the large fiscal deficits in the years prior to the global financial crisis have since been reversed. Debt has increased by one third and the budget sector's gross financing needs have nearly tripled. In 2013/14, the budget deficit peaked due to revenue shortfalls associated with the petroleum sector, and two stimulus packages that raised infrastructure and social spending. This included allocations for increases in cash transfers, low income housing, and public transport. Additional fiscal savings will be needed to accommodate the floor on public spending on health and education, as mandated in the new constitution.

6. This year's budget targets a deficit of 10 percent of GDP. They agree with staff's assessment that the budget strikes the right balance between moving toward fiscal sustainability, supporting the recovery, and improving social conditions. The budget incorporates subsidy cuts through the fuel price increases of 40-80 percent that were implemented last July, gas price increases to households by over 200 percent, as well as tax measures on dividends and capital gains, implementation of a new property tax, income taxes at the higher income brackets, and excises on tobacco and alcohol, which together yield 2½ percent of GDP. Measures were also introduced to contain the public wage bill, and an overhaul of the public pay system is under consideration. Additional measures are planned for later this year and in next year's budget with a view to reduce the deficit to 8 percent of GDP and to bring government debt to a declining path, reaching 80-85 percent of GDP within five years. The pace of fiscal consolidation is calibrated to limit the adverse impact on growth and on lower income groups, as recognized in the staff report.

7. An important element of the fiscal strategy is to reform the subsidy system. In this connection, the new food ration cards were well-received and are already yielding substantial savings in food subsidy cost due to lower wheat consumption and better targeting. For

subsidized fuel, smart cards have been distributed and used in five governorates so far and are being further extended to enable future targeting of fuel subsidies. The recent oil price decline has substantially reduced the budgetary cost of fuel subsidies for this fiscal year. However, the authorities recognize the possibility of a faster rebound of oil prices than is implicit in futures prices. They have every intention to seize this opportunity to continue with subsidy reforms and to further narrow the gap between retail prices and cost recovery. Moreover, the authorities paid $3.5 billion in amounts due to foreign oil companies since July which is leading to new investments. Power shortages will be addressed by new power projects as well as inviting private sector participation to invest in renewable energy based on a newly established feed-in tariff, which was three times over-subscribed.

Monetary, Exchange Rate, and Financial Sector Policies

8. The Central Bank of Egypt's (CBE) monetary and exchange rate policies seek to gradually reduce inflation to maintain real incomes and enhance external competitiveness. The Monetary Policy Committee of the CBE raised interest rates by 100 basis points in July 2014 in a courageous step to help contain the second round effects of the increase in fuel prices as subsidies were cut. On January 15, 2015 the Committee cut the benchmark interest rate 50 basis points reflecting an improved inflation outlook on the back of the drop in international oil prices and the subsequent revision of food price forecasts. Monetary policy will continue to aim at reducing inflation and closing the competitiveness gap with Egypt's trading partners.

9. The CBE's medium-term objective is to anchor low and stable inflation expectations, while supporting growth and employment. Since inflation in Egypt has been partly due to domestic supply shocks and distribution problems, the CBE has highlighted the causes of inflation in goods and services, particularly food, and the need to undertake structural reforms to ease bottlenecks and improve competition.

10. The CBE's foreign exchange rate policy is geared toward achieving a flexible exchange rate that reflects the underlying forces of supply and demand and is consistent with an adequate level of reserves, while avoiding excess volatility. The CBE has conducted the foreign exchange auctions with a view to maintain an orderly foreign exchange market. Following a period of stability, the exchange rate depreciated in the central bank auctions by 3½ percent in the week of January 18, 2015. The CBE expects to benefit from returning capital inflows, particularly in the form of foreign direct investment, given renewed confidence in the economy. FDI and tourism have already begun to recover and they expect a more positive impact on the balance of payments than assumed in staff's projections. The authorities consider imports and exports relatively inelastic to the exchange rate as exports are constrained by non price factors and given the large share of wheat and intermediate inputs in imports. Indeed, the large depreciations of the REER in 2003 were not followed by a strong response in net exports, as seen in the fourth panel of Figure 1. The authorities are concerned that the exchange rate assessment, as presented in the staff appraisal and in the

report and Appendix, could lead to undue pressures on the currency despite known problems with these methodologies.

11. The banking system's resilience remains intact, in spite of the economic slowdown associated with a prolonged political transition, as confirmed by robust and improving financial soundness indicators. They welcome the staff's confirmation of banking sector soundness and effective supervision. Building on the far-reaching reforms over the past decade, profitability continues to improve and nonperforming loans further decline, while provisioning coverage has reached 98 percent. The CBE's regularly conducted stress tests indicate that plausible losses could be absorbed by banks' profits and capital buffers.

Structural Reforms for Sustainable Growth

12. The authorities' blueprint aims to raise Egypt's growth potential and medium-term growth rates to levels that meaningfully lower unemployment and raise the standards of living of all Egyptians. They appreciate the staff report's emphasis on the importance of these objectives. To complement measures to restore macroeconomic stability, the authorities' initiatives give priority to enhancing financial inclusion and improving the business climate. A new microfinance law and plans to develop mobile banking will enhance access to financial services. Efforts are under way to tackle the regulatory and bureaucratic obstacles that stand in the way of domestic and foreign investors, as well as policies to ensure transparency and that the rule of law prevails. Accordingly, the authorities have recently introduced amendments to the competition and anti-monopoly laws. They have taken steps to remove legal hurdles facing private contracts with the government and will introduce amendments to the investment law that will further streamline processes for foreign investment. They are looking to the March conference as a landmark event to jumpstart investment flows.

Selected Issues Paper

13. The authorities welcome work that identifies the binding constraints to growth and advice that specifies and prioritizes structural reform recommendations, as intended by the "Growth Diagnostics" approach. They do not disagree with most of the views in the Selected Issues Paper. However, they would have welcomed more empirical evidence on some stated views, further prioritizing of reforms, and a clearer connection with paragraph 42 of the staff appraisal. In the table on the most problematic factors for doing business in Egypt, which is based on perceptions survey data from the World Economic Forum, the rankings fluctuate widely from year to year, with the exception of political stability and access to finance, making it difficult to draw conclusions.

Egypt is a founding member of the Fund and looks forward to continued close collaboration with the institution. The authorities value the professional work of the staff and appreciate the excellent and timely technical assistance.