June 2005
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Arab Republic of Egypt: 2005 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; 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 2005 Article IV consultation with the Arab Republic of Egypt, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 16, 2005, 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 April 25, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 18, 2005 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for the Arab Republic of Egypt.

The document listed below has been or will be separately released:

Selected Issues Paper

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INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the
2005 Consultation with the Arab Republic of Egypt

Approved by Lorenzo Pérez and Carlo Cottarelli

April 25, 2005

- Discussions for the 2005 Article IV consultation were held in Cairo from February 2–16, 2005. The team comprised Mr. Savastano (head), Ms. Laframboise, Mr. Rabanal, and Ms. Ivanova (all MCD), Mr. Almekinders (PDR), and Ms. Guin-Siu (FAD). Mr. Pérez (MCD) and Mr. Shaalan (OED) participated in the policy discussions. The team was assisted by Mr. Sassanpour, senior resident representative in Cairo.
- The mission met with Ministers Boutros-Ghali (Finance), Mohieldin (Investment), and Osman (Planning), Central Bank Governor El-Okdah, and other government officials and private sector representatives.
- At the conclusion of the last Article IV consultation in May 2004, Executive Directors advised bolstering the recovery by improving the monetary framework and tightening monetary policy to support a flexible exchange rate and reduce inflationary pressures. Directors stressed the importance of further improvements in budgetary management and control, and saw a need for fiscal consolidation in order to arrest the rise in public debt. Directors encouraged the authorities to accelerate significantly the pace of structural reform to reduce the role of the state in the economy and remove administrative barriers to market forces.
- Egypt subscribed to the Special Data Dissemination Standard in January 2005.
- Egypt accepted the obligations of Article VIII, Sections 2, 3, and 4, on January 2, 2005. Staff is undertaking the necessary review of Egypt's foreign exchange system in connection with this acceptance.

Contents Page

Appendices

Executive Summary

Economic Developments

- **Egypt's new economic team has moved aggressively on key structural reforms** and launched plans to restructure the financial system, privatize state companies, modernize the fiscal accounts, and strengthen monetary policy. Egypt has increased transparency and made the transition to a unified, flexible exchange rate regime.

- **The externally-driven recovery has gained steam,** underpinned by a moderate revival in consumption and improved confidence. The Egyptian pound has appreciated, the stock market has reached record highs, and the current account surplus has increased, enabling banks and the Central Bank of Egypt (CBE) to strengthen their net foreign asset position.

- **Macroeconomic policies were accommodative in 2004:** monetary policy did not contain inflation below double digit rates (though inflation dropped sharply to single digits in the first two months of 2005), and government borrowing and debt remained high. As in previous years, most of the borrowing was related to "other debt-creating operations" not captured in the published measure of the general government deficit. The credit excesses of the late-1990s continued to weigh heavily on banks, hindering their ability to contribute to the recovery. Bank credit to the private sector declined again in real terms.

Policy Discussions

- The unification of the exchange rate was a major accomplishment. The CBE agreed with staff advice to continue tolerating short-term fluctuations in the exchange rate to allow it to work as a shock absorber.

- The authorities are committed to developing, over time, a cohesive monetary policy framework in the context of a flexible exchange rate. Lacking a nominal anchor, the CBE agreed with staff that the near-term monetary policy strategy needs to be defined and communicated more clearly in order to provide better guidance to the market. Progress in this area will be constrained by the lack of a reliable inflation measure.

- The high levels of government borrowing and debt in Egypt are inimical to growth and impede sustained increases in private investment. A multi-year strategy of fiscal consolidation is needed to lower borrowing and place public debt on a declining path. The impending costs of financial sector reform strengthen the case for consolidation. Institutional reform will be necessary to achieve control over government spending.

- The privatization and financial sector reform programs are most welcome and cover the key issues, but need more specifics on the modalities, timeframe, and sequence of their components.

- Further improvements in Egypt's macroeconomic database are needed.

I. Overview and Recent Economic Developments

A. Overview

1. **Egypt changed the direction of economic policies sharply in 2004** with the appointment in July of a pro-reform cabinet led by Prime Minister Nazif. The new cabinet quickly established its credentials by implementing a number of economic reforms and announcing plans to restructure the financial sector and privatize most state enterprises. Since then, work has continued at a steady pace, although the challenges that lie ahead to build a dynamic, private sector-driven economy are considerable. Output growth remains below the minimum required to absorb labor force growth, the financial sector is weak, and government borrowing remains high, raising concerns about fiscal vulnerability and crowding out. Presidential elections are scheduled for September 2005; the cabinet has to resign prior to the elections and its reappointment will remain at the discretion of the President-elect.[1]

2. **The reform program of the new cabinet covers the areas regarded as critical in recent Article IV consultations**. Fund technical assistance has supplemented staff discussions with the authorities in many of those areas, including tax and customs reform, budget classification, the exchange rate system, monetary policy, bank restructuring, and statistics. During 2004, the authorities made substantial progress at reforming the exchange rate system and liberalizing trade. They also started work to modernize the budget, improve the monetary framework, restructure the banking system and improve the quality of statistics, although more remains to be done in all of these areas.

B. Recent Economic Developments

3. **The economic recovery gained steam in 2004.** Driven by strong growth in exports of goods and services, as well as a moderate revival in consumption, real GDP advanced by 4.8 percent in the first half of 2004/05 (July-December) compared to 4.2 percent in the first half of 2003/04.[2] Confidence has rebounded, as reflected in the surge of activity in the stock market following the appointment of the new government.[3] Fitch and Standard & Poor's upgraded Egypt's credit rating, to *stable* from *negative,* in December 2004 and March 2005, respectively.

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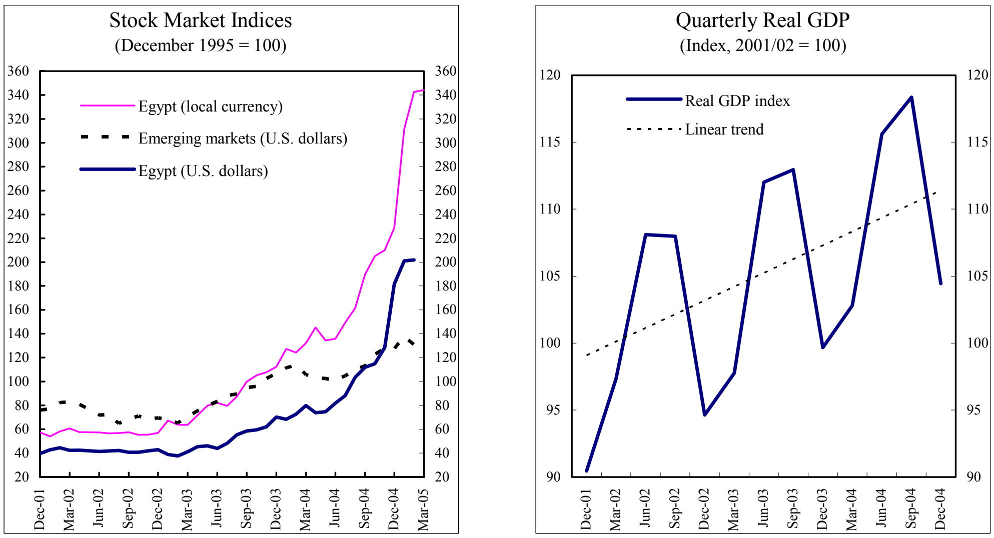
[1] In March 2005, the Egyptian Parliament approved an amendment to the constitution that allows the next president to be elected by direct popular vote from multiple candidates, rather than by a referendum on a single candidate.

[2] Fiscal year ends June 30.

[3] Egypt's stock market has been among the top global performers since 2003. The stock market rally was losing momentum in early 2004 but resumed strength mid-year; from July 2004 to March 2005, the share price index rose by over 130 percent. Compared to the 2003 rally, which was driven by only three companies, the recent surge in share prices has been broad based. Turnover and market capitalization have also increased, though they remain low by international standards.

Figure 1. Performance Indicators, 2001/02–04/05

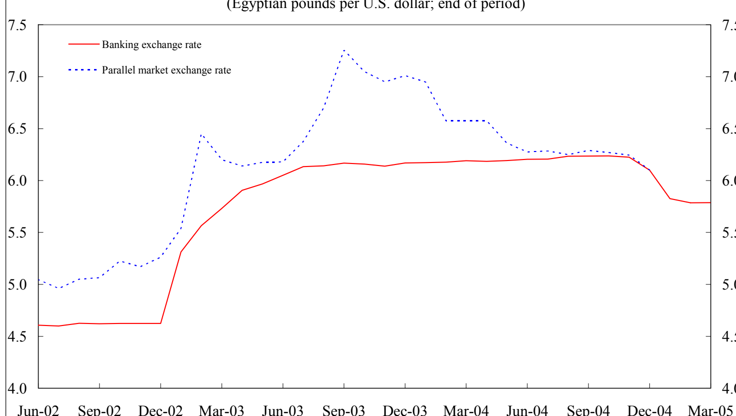


Sources: Standard & Poor's; Egyptian authorities; and IMF staff estimates.

4. **Egypt made the transition to a unified, flexible exchange rate regime during 2004**. The parallel market rate, which had a premium of over 15 percent in late 2003, converged with the banking rate in the second half of 2004 as a result of strong current account inflows and higher interest rates. In December, the government abolished the surrender requirement (introduced in 2003) and formally launched an interbank market by enacting a convention governing foreign exchange trading among all signatory banks. On January 2, 2005, Egypt accepted the obligations of Article VIII, Sections 2-4. In subsequent weeks, activity in the interbank market surged and flexibility in rate-setting was restored. By end-March 2005, the pound had appreciated by over 5 percent.

Figure 2. Exchange Rates, June 2002–March 2005

(Egyptian pounds per U.S. dollar; end of period)

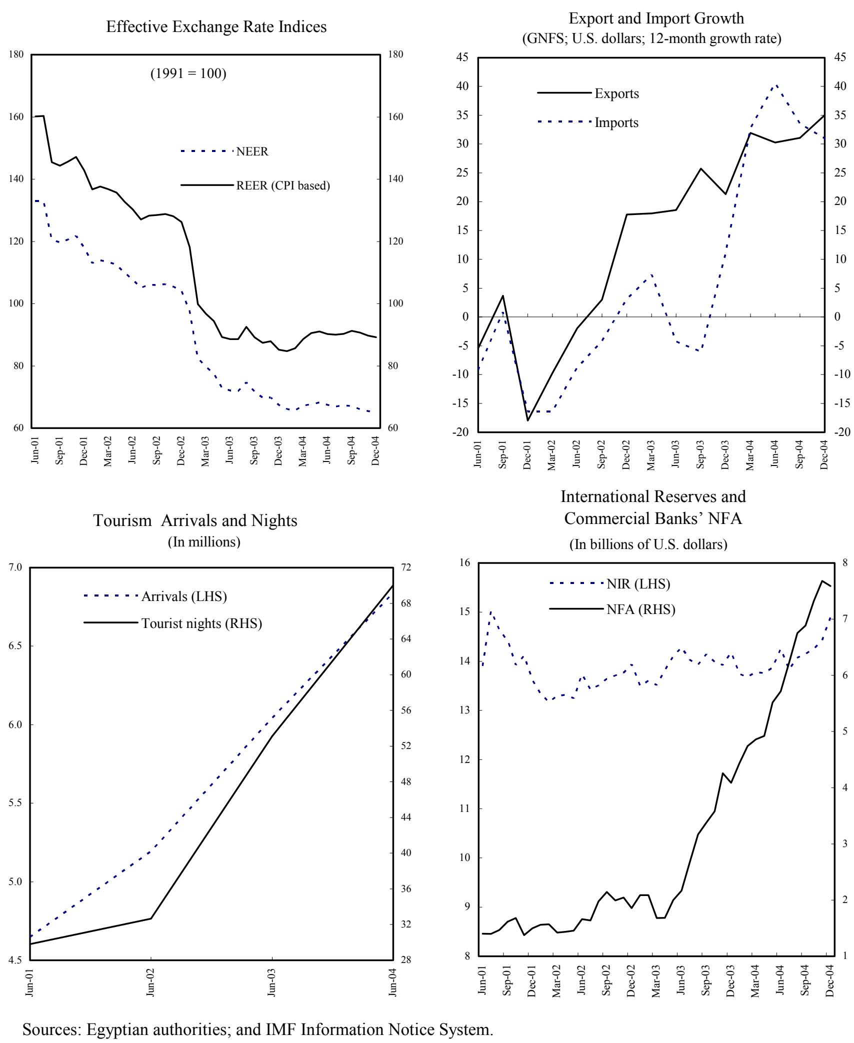


Sources: Central Bank of Egypt; and Reuters.

5. **Egypt's external position strengthened further.** All foreign exchange generating activities exhibited robust growth during 2004, which helped offset a sharp rise in non-oil imports to their pre-2001 level. The surplus in the external current account rose to 4.4 percent of GDP in 2003/04, and is expected to be slightly higher in 2004/05. This strength mainly reflects improved competitiveness stemming from the large real depreciation of the pound since 2001, although external factors, such as higher oil prices and higher Suez Canal traffic,

also played a role. The official capital account remains in deficit.[4] Foreign borrowing has been negligible, foreign direct investment (FDI) remains very low, and resident banks continue accumulating net foreign assets—over US$5 billion in the 18 months to December 2004. Official international reserves remained stable at around $14.5 billion during most of 2004, but began to rise at year-end as the CBE took advantage of market conditions to build up its reserve position. At end-February, official reserves stood at $17.3 billion, equivalent to 7.2 months of imports. Total external debt remained stable at about US$29 billion (31 percent of GDP) at end-2004.

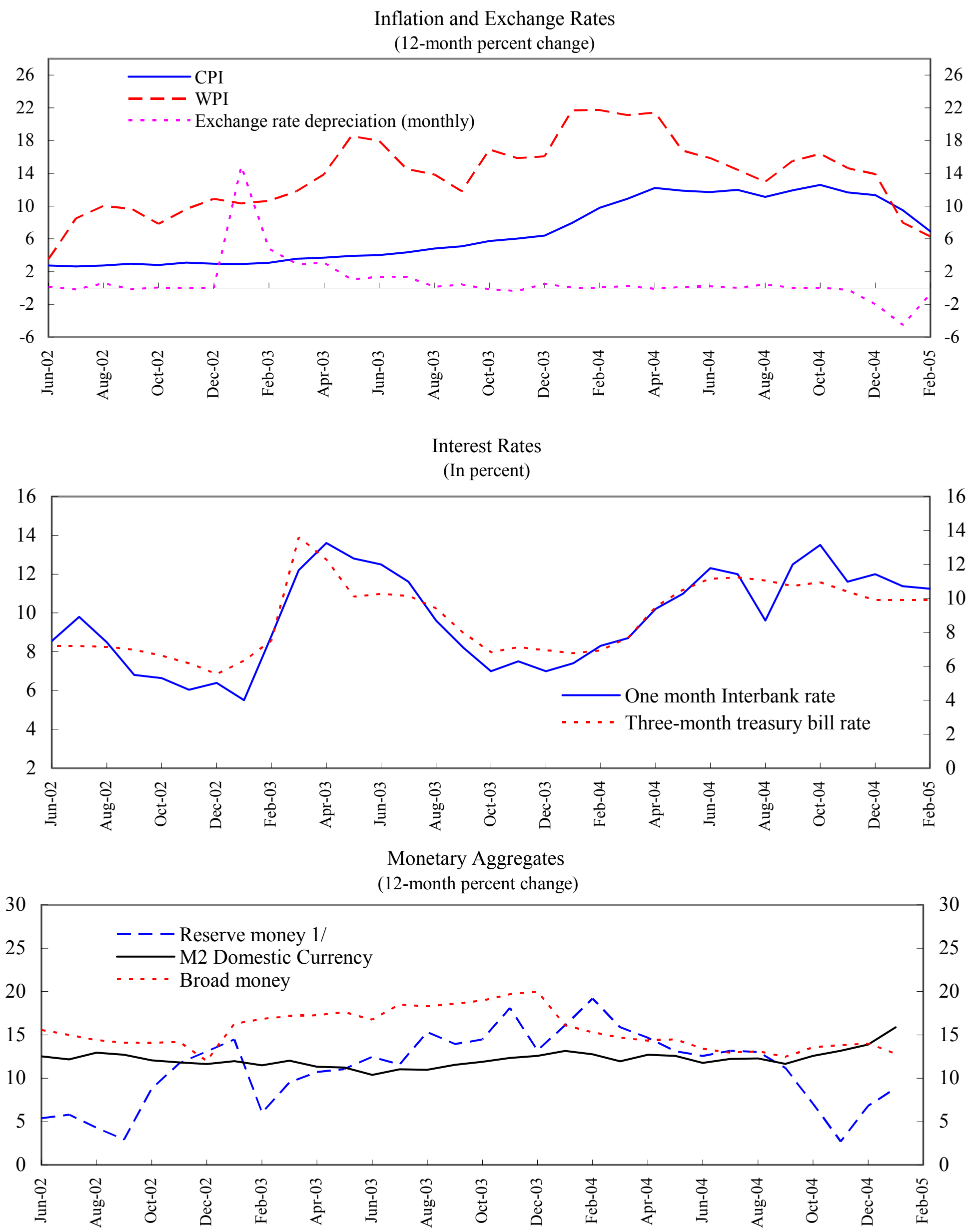
Figure 3. External Sector Developments, 2001–04



Sources: Egyptian authorities; and IMF Information Notice System.

[4] There is some uncertainty about the accuracy of official balance of payments data owing to problems with source data and methodologies—see Section II.C.

Figure 4. Inflation, Interest Rates, and Money Supply, June 2002–February 2005



Source: Egyptian authorities.
1/ See Appendix III, Table 1, Footnote 3.

6. **Inflation accelerated during 2004.** Annual CPI inflation (12-month rate) was close to 12 percent every month from May to December 2004, while average annual WPI inflation remained at about 17 percent over this period. The higher inflation reflected lagged pass-through pressures from the large nominal depreciation of the pound and lax monetary policy during 2003; for the CPI, the rise also reflected changes in the composition of the

index made in early 2004.[5] Prices actually fell from end-2004 to February 2005: the WPI and the CPI fell cumulatively by 0.7 percent and 0.2 percent, respectively, bringing 12-month rates of inflation to below 7 percent.

7. **Real interest rates remained very low,** despite a tightening of monetary conditions in 2004. The CBE allowed interest rates to rise early in the year and moved more aggressively to absorb liquidity mid-year.[6] Accordingly, money growth rates stabilized at around 14 percent from June onwards. Long- and short-term interest rates, however, stayed in the 10–13 percent range from April to December 2004, yielding real interest rates of about, or below, zero throughout 2004. Nominal interest rates declined somewhat in early 2005.

8. **Government borrowing remained high.** Total financing to the general government in 2003/04 was 6.6 percent of GDP, 0.5 percentage points lower than in 2002/03. Borrowing was driven in part by the deficit of the general government as measured by the authorities, which was 2.5 percent of GDP—broadly unchanged from 2002/03. However, as in previous years, most of the borrowing (4.1 percent of GDP) was related to general government operations captured in the official financing data but not in the published measure of the deficit (henceforth referred to as other debt-creating operations). Roughly half of those operations were related to the National Investment Bank (NIB), while payments of investment arrears and suppliers' credits accounted for the rest.[7] The general government continued borrowing exclusively from domestic sources, primarily through the placement of non-indexed bonds with financial institutions (including the CBE).

9. **Preliminary data suggest a continuation of recent trends in government borrowing in 2004/05**. Staff projects a small increase in the general government deficit, to 3.1 percent of GDP, on account of lower customs and nontax revenues.[8] Under the assumption that other debt-creating operations remain broadly at last year's level, staff envisages that the total financing needs of the government will be about 7 percent of GDP during 2004/05.[9]

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[5] The CPI in Egypt, including the revised CPI, has significant shortcomings which hinder assessments of inflation. See Appendix III, and Arab Republic of Egypt—Selected Issues.

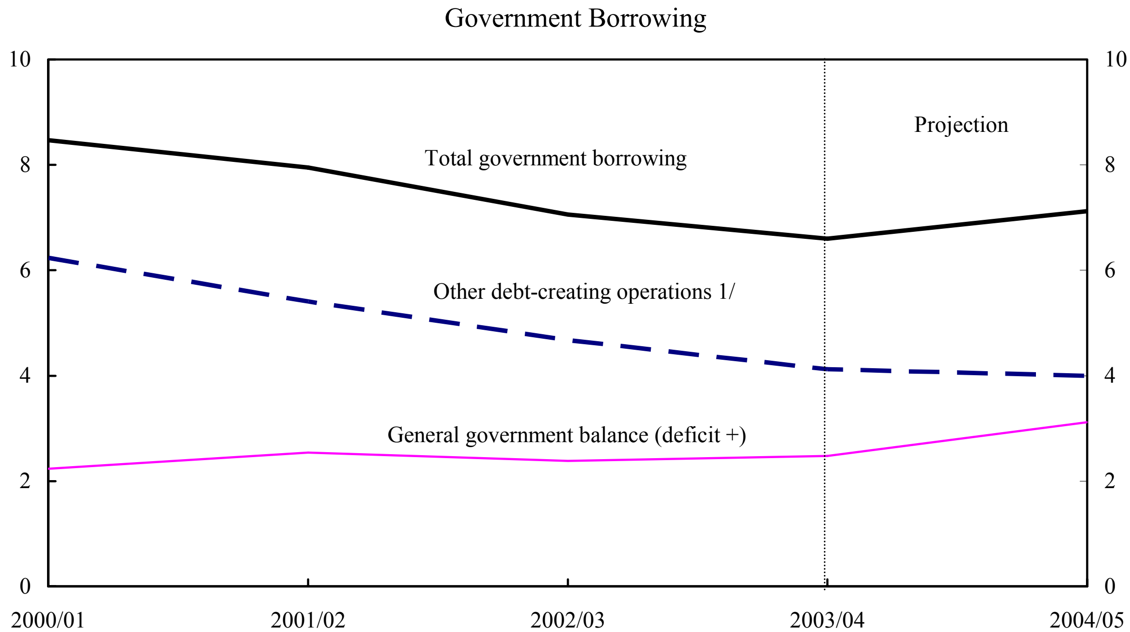
[6] In mid-2004, the CBE introduced reverse repurchase operations as an additional instrument to absorb liquidity.

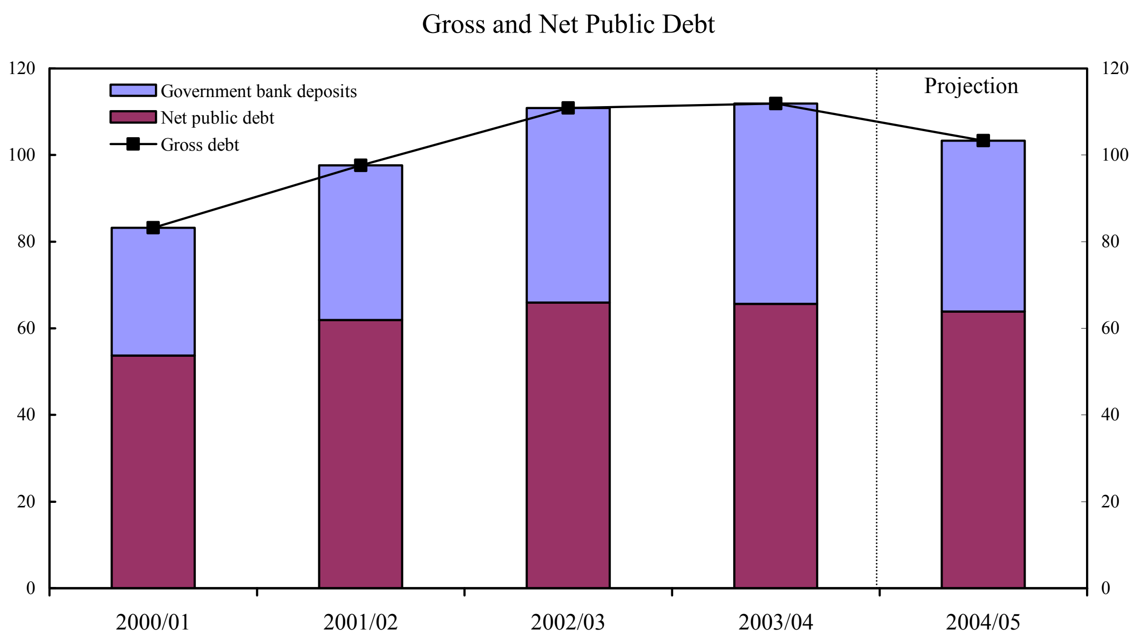
[7] The NIB finances the government's capital expenditure program (which is not controlled by the Ministry of Finance). The NIB records unrealized interest income as current revenue, consistently overestimating the resources at its disposal, and giving rise to financing needs that are higher than its operating balance.

[8] The authorities expect to receive proceeds of at least US$1 billion from a forward sale of petroleum by the Egypt General Petroleum Company (EGPC) before the end of 2004/05. Staff assumes that this transaction is more likely to be completed in 2005/06.

[9] At the time of the consultation, the authorities had data on revenues and expenditures for the first half of 2004/05 (July-December 2004), but had only preliminary financing data.

Figure 5. Government Borrowing and Public Debt, 2000/01–2004/05
(In percent of GDP)





Sources: Egyptian authorities; and IMF staff estimates and projections.
1/ Includes arrears payments, suppliers' credits, NIB debt-creating operations, and statistical discrepancy.

10. **Public debt has continued to rise.** Net public debt is now projected to reach LE 350 billion by end-June 2005, up from LE 312 billion at end-June 2004.[10] As a percent of GDP, however, net public debt is expected to remain below the peak of 66 percent reached in June 2003, primarily reflecting the large (mostly price-driven) increase in nominal GDP during this period. Gross public debt reached a peak of 112 percent of GDP in June 2004, but government deposits with banks grew at a faster pace, reflecting continued deficiencies in the government's asset-liability management, reaching 46 percent of GDP by end-2003/04. The cost and maturity structure of government debt, and the implied near- and medium-term vulnerabilities, have not deteriorated, and are expected to remain broadly unchanged during 2004/05 (Box 1).

Box 1. Public Debt in Egypt, 2000–04

Egypt's gross public debt rose by 36 percentage points of GDP from 2000 to 2004. The rise was driven mostly by domestic debt, particularly securities; bank loans to the government declined from 10 to 1 percent of GDP. The share of external debt in total debt dropped steadily. Government deposits with banks have grown significantly, especially since 2002. Part of these deposits are repayments of rescheduled external debt kept in "blocked accounts" until they become due. The other deposits come from several sources.

The structure of Egypt's domestic debt stock sheds light on possible sources of vulnerability:

- Domestic securities are mostly non-indexed; less than 25 percent are fully tradable and have maturities below one year.
- Almost half of domestic debt is held by the CBE and just over 25 percent is held by the financial sector (mostly banks). The debt held by households is in the form of saving certificates from the NIB and post offices.

The investor base and composition of Egypt's public debt limit the risk of a destabilizing debt spiral. Large bank holdings of public debt, however, create other challenges, including for the valuation of banks' net work.

(End-June)	**2000**	**2004**
	(percent of GDP)	
Gross public debt	75.4	111.9
Domestic	48.9	76.6
of which: securities	38.6	75.3
External	26.5	35.2
Deposits with banks	28.0	46.2
Net public debt	47.4	65.7
Domestic	31.9	45.7
External	15.5	20.0

Structure of Domestic Debt 1/		**2004**
By category indicated:		*(percent of total)*
Maturity:	long-term	75.8
	short-term	24.2
Marketability:	fully tradable	23.1
	limited	43.6
	nontradable	33.4
Currency:	domestic	94.3
	foreign	5.7
Held by:	CBE	46.9
	financial 2/	26.6
	households	26.5

Sources: Egyptian authorities; and IMF staff estimates.

1/ Refers to securities only.

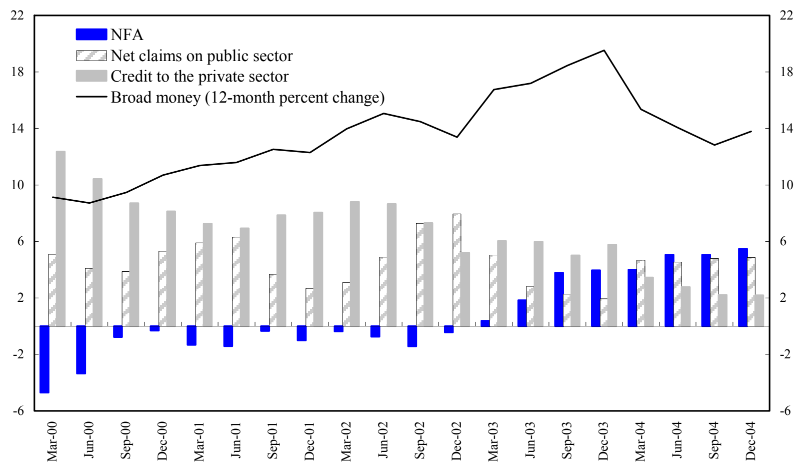
2/ Primarily banks, including state banks.

[10] Net public debt is defined as the sum of the general government's external and domestic debt, minus government net deposits with banks—including the "blocked accounts" on rescheduled Paris Club debt held at the CBE. This definition excludes the contingent pension liabilities of the government's social insurance funds and includes all government-guaranteed external debt.

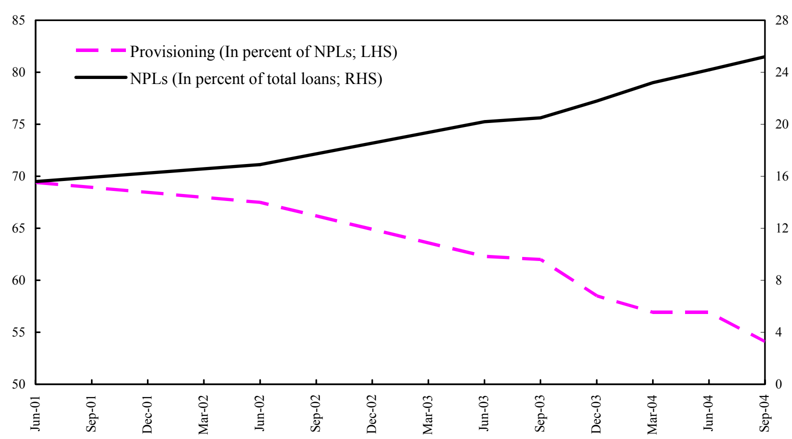
11. **The banking system is still not contributing to the recovery.** The credit excesses of the late 1990s continue to weigh heavily on Egypt's banks. Credit to the private sector continues to decline in real terms, and most of the recent expansion in banks' domestic claims is to the government. Nonperforming loans (NPLs) rose to over 25 percent of total loans in September 2004, compared to 20 percent in June 2003, and provisioning continued falling. Given the dearth of new credit, the recent behavior of these indicators mostly reflects improved classification of old loans and stricter enforcement of prudential regulations. A scheme outlined by the authorities in early 2004 to restructure the NPLs of public enterprises has not been finalized, but is part of the new financial sector reform program.

Figure 6. Sources of Money Growth and Nonperforming Loans

Sources of Broad Money Growth, 2000–04



Nonperforming Loans and Provisioning, 2001–04



Sources: Egyptian authorities; and IMF staff estimates.

12. **The new cabinet moved aggressively on key structural reforms during its first months in office** (Box 2). The authorities see the modernization of government and increased private sector participation as key pillars for attaining sustained economic growth. They have launched ambitious plans to restructure the financial system and privatize most state companies. Work to increase the transparency and efficiency of government operations and strengthen the monetary policy framework also has started. The Fund has intensified its technical assistance to Egypt to support these reforms (see Appendix I).

13. **The new authorities have improved the transparency of economic policies.** They moved rapidly to resolve the outstanding obstacles to subscription to the Special Data Dissemination Standard (SDDS), to which Egypt officially subscribed in January 2005. The authorities agreed to the issuance of a press release at the conclusion of the 2005 Article IV consultation mission, and submitted their official response to the 2003 Data ROSC in March 2005.[11]

II. Policy Discussions

A. Exchange Rate and Monetary Policy

14. **Staff welcomed the establishment of the interbank market for foreign exchange,** a key milestone in Egypt's transition to a unified flexible exchange rate system. Favorable trends in the balance of payments and increased confidence contributed to the high volume of trading during the initial weeks of the market's operation, and to the appreciation of the pound in January 2005. Staff supported the CBE's decision to take advantage of favorable market conditions to strengthen its reserve position.

15. **Discussions covered mechanisms to ensure an orderly functioning of the interbank market over the medium term,** including well-crafted CBE statements to market participants and opportunistic purchases of foreign exchange. Staff stressed the importance of continuing to refrain from exerting moral suasion and from resisting pressures on the nominal exchange rate in either direction. Noting that the normal operation of the market would give rise to daily and weekly exchange rate fluctuations, staff encouraged the authorities to tolerate those fluctuations and allow the exchange rate to work as a shock absorber. The CBE reaffirmed its commitment to allowing market forces to determine the exchange rate, and agreed with the merits of developing, over time, indicators of "abnormal" conditions that might warrant a policy response.

[11] IMF Press Release No. 05/29; February 16, 2005.

Box 2. Economic Reform Initiatives of the Nazif Cabinet: July 2004–March 2005

Exchange rate system
- Set up interbank market for foreign exchange (September).
- Formally adopted convention governing interbank foreign exchange trading (December).
- Abolished surrender requirement on export proceeds (December).

Trade regime
- Cut average tariff rate (from 14.6 percent to 9.1 percent—weighted), reduced number of tariff bands, and eliminated import fees and surcharges (September).
- Set up Qualified Industrial Zones allowing products manufactured in the zones tariff-free entry into the United States provided 11.7 percent of components are of Israeli origin (December). These zones are expected to partly offset export losses related to the expiry of the Multi Fibre Agreement.

Public sector
- Raised prices of subsidized fuel (September) and electricity (December).
- Modified Income Tax Law—draft submitted to Congress in December—changes include the simplification of the rate structure, cuts in personal and corporate income tax rates, and a higher minimum threshold.
- Initiated public expenditure management reforms with initial focus on (1) upgrading budget classification and (2) establishing a Treasury Single Account.
- Currently formulating plans to reform tax administration.

Financial sector
- Announced comprehensive financial sector restructuring plan (September) with a five-year horizon comprising mergers, sale of stakes in joint venture banks, resolution of NPLs from public and private enterprises, privatization of a state bank, and reform of nonbank financial sector.
- Imposed deadline of June 2005 for banks to meet LE 500 million in paid up capital.
- Established a Bank Restructuring Unit staffed by professional bankers at CBE; identified Bank of Alexandria as the state bank to be sold by end-2005; two small banks were absorbed by larger banks; the state's share in one bank and one securities trading firm were sold for a total of LE 536 million.

Privatization
- Announced plans to privatize most state-owned firms, including in sectors previously off-limits.
- Between July 2004 and March 2005, 17 nonfinancial companies were privatized, generating proceeds of LE 2.35 billion.

Transparency
- Outstanding issues for subscription to SDDS resolved (December); subscribed in January 2005.
- Sent official response to 2003 Data ROSC (March).

16. **The CBE has made progress at improving the focus of monetary policy and strengthening its technical capacities.** In addition to adding reverse repurchase operations to its toolkit, the CBE is formulating plans, with the assistance of MFD, to increase the efficiency of monetary operations, including through the creation of a standing facility to reduce the volatility of interbank rates. Work to examine the channels of transmission and the lags of monetary policy is also underway. Staff encouraged further improvements in this direction.

17. **However, developing a cohesive monetary policy framework will take some time.** Considerable work is needed to make monetary operations effective, increase interest rate flexibility, and effectively anchor inflation expectations under a flexible exchange rate. All modifications to monetary policy should be closely linked to the CBE's medium-term framework; piecemeal changes that could send confusing signals should be avoided. The CBE should also give priority to upgrading the technical skills of its staff, including through increased interactions with visiting experts. Staff regretted the delays in producing a reliable price series, stressing that improvements in monetary policy will only be partial as long as the inflation measure remains imperfect.

18. **The monetary policy strategy in the near term needs to be defined more clearly.** Staff argued that the monetary regime had been without a clear anchor for inflation expectations for some time. In addition, as of December 2004, real interest rates were negative, the slowdown in broad money growth had ceased, asset prices had surged, and the available measures of inflation did not show a declining trend. Staff underscored the risk that high inflation expectations could become entrenched. To bolster the credibility of the CBE's commitment to low inflation, staff argued for a tightening of liquidity conditions. The authorities did not agree, noting that higher interest rates would have adverse effects on output growth.

19. **Clear communication about the general direction of monetary policy should be a critical component of the near-term strategy.** Periodical announcements by the CBE will provide guidance to the market and help anchor inflation expectations while the main pillars of the monetary policy framework are being developed. The authorities agreed that monetary policy announcements would be valuable, and were considering moving rapidly on this front.

B. Fiscal Policy and Public Debt

20. **Staff welcomed the decisive fiscal actions taken in the areas of tariff reform, income tax reform, and subsidies since September 2004 (Box 2).** The authorities highlighted the importance they attach to fiscal reform in their overall agenda. Staff noted that reforming Egypt's public sector would be a demanding and complex task, and agreed with the authorities on the importance of assessing carefully the sequencing of reforms and securing continued political support.

21. **Plans to reform subsidies and tax administration are being developed.** The authorities intend to move gradually all implicit subsidies onto the budget to increase the transparency of public spending.[12] Staff welcomed these plans, and recommended replacing across-the-board subsidies with better targeted social programs. The authorities regard the modernization of Egypt's tax system as a priority, and are studying the recommendations of a December 2004 FAD mission on tax administration.

22. **The official measure of the fiscal deficit underestimates the borrowing needs of the government.** Official estimates of the general government deficit (and its financing) explain a relatively small part of the annual changes in Egypt's net indebtedness. Staff presented an augmented fiscal deficit equal to the sum of the official deficit and other debt creating operations obtained from the consolidation of financing data.[13] This measure accounts for the bulk of the rise in public debt recorded in recent years; staff regards this as the best available indicator of Egypt's fiscal stance, and recommended that it be the key focus of fiscal policy.

23. **Ongoing efforts to modernize Egypt's budget and improve treasury cash management will not necessarily reduce government borrowing.** Although the 2005/06 budget had not been finalized at the time of the consultation and was not discussed in detail, the authorities noted that it was being prepared in accordance with the modified *GFSM-2001* classification suggested by FAD. The authorities also intend to follow FAD recommendations for the establishment of a Treasury Single Account (TSA). Staff agreed that the new budget classification would improve the transparency of the fiscal accounts, and that a TSA would help prevent a continued accumulation of government bank deposits. However, while these reforms are necessary conditions for an efficient control of government expenditure, they will not result in lower levels of spending, nor affect the fiscal stance in 2005/06, unless supplemented with concrete expenditure-reducing measures.

24. **The overriding goal of Egypt's public sector reform should be to achieve fiscal consolidation** in order to lower government borrowing and place government debt on a firmly declining path. The levels of government borrowing and public debt recorded in recent years are inimical to growth and hinder private investment through many channels, including by crowding out bank credit and fueling expectations of future tax increases. A multi-year fiscal consolidation would reduce the risks associated with maintaining government borrowing and debt at current levels, and would create room for a sustained resumption of private investment. The lion's share of the consolidation should fall on government expenditures (including those financed with the other debt-creating operations), although there is also scope to strengthen the revenue side. Staff argued that bringing the investment budget under the full control of the Ministry of Finance (with its attendant consequences for

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[12] Implicit subsidies (on electricity and fuel products) are much higher than the subsidies recorded in the budget. The total cost of subsidies has increased in recent years to about 7.7 percent of GDP in 2003/04.

[13] These data are prepared by the authorities in accordance with the fiscal reporting framework agreed with the Fund in 2000, and are shared with staff only during missions.

the NIB) was critical for the success of this strategy, and encouraged the authorities to make the integration of Egypt's current and capital expenditure budgets a priority.

25. **The impending fiscal costs of financial sector reform strengthen the case for fiscal consolidation.** Staff stressed the importance of producing realistic estimates of the size and expected timing of the net additions to government debt associated with the future recapitalization of public banks.[14] Those additions will be inevitable and have to be well timed to minimize their adverse effects on market perceptions of Egypt's fiscal solvency. Staff encouraged the authorities to revise and update the estimates periodically, including their distribution over time, and evaluate the effects they may have on public debt dynamics.

26. **Staff projections show that Egypt's public debt-to-GDP ratio will not fall unless the government reduces its total borrowing.** The medium-term fiscal scenarios presented to the authorities linked explicitly the augmented fiscal deficit to changes in net public debt under the current policy stance, and under various paths of fiscal consolidation. Egypt's high levels of public debt and government borrowing were assumed to impede sustained increases in private investment and restrain output growth below its long-run average of 5.2 percent under all scenarios (Box 3). Figure 7 and Tables 5–6 summarize the results from two scenarios: the first (baseline) scenario assumes that government borrowing remains between 6 ½–7 percent of GDP until 2009/10, while the second assumes that government borrowing falls by about 1 percent of GDP per annum.[15] Two results are noteworthy. First, keeping government borrowing at the levels of recent years would not reduce the public debt-to-GDP ratio, and could lead to a ratio of 80 percent by 2009/10 if growth slowed suddenly. Second, a decline in government borrowing of 1 percent of GDP per annum for five years would lower the public debt ratio by about 8 percentage points of GDP; staff regards this as the minimum adjustment needed to place public debt on a firmly declining path, thereby creating room to absorb shocks and contingent liabilities, particularly related to bank restructuring.[16]

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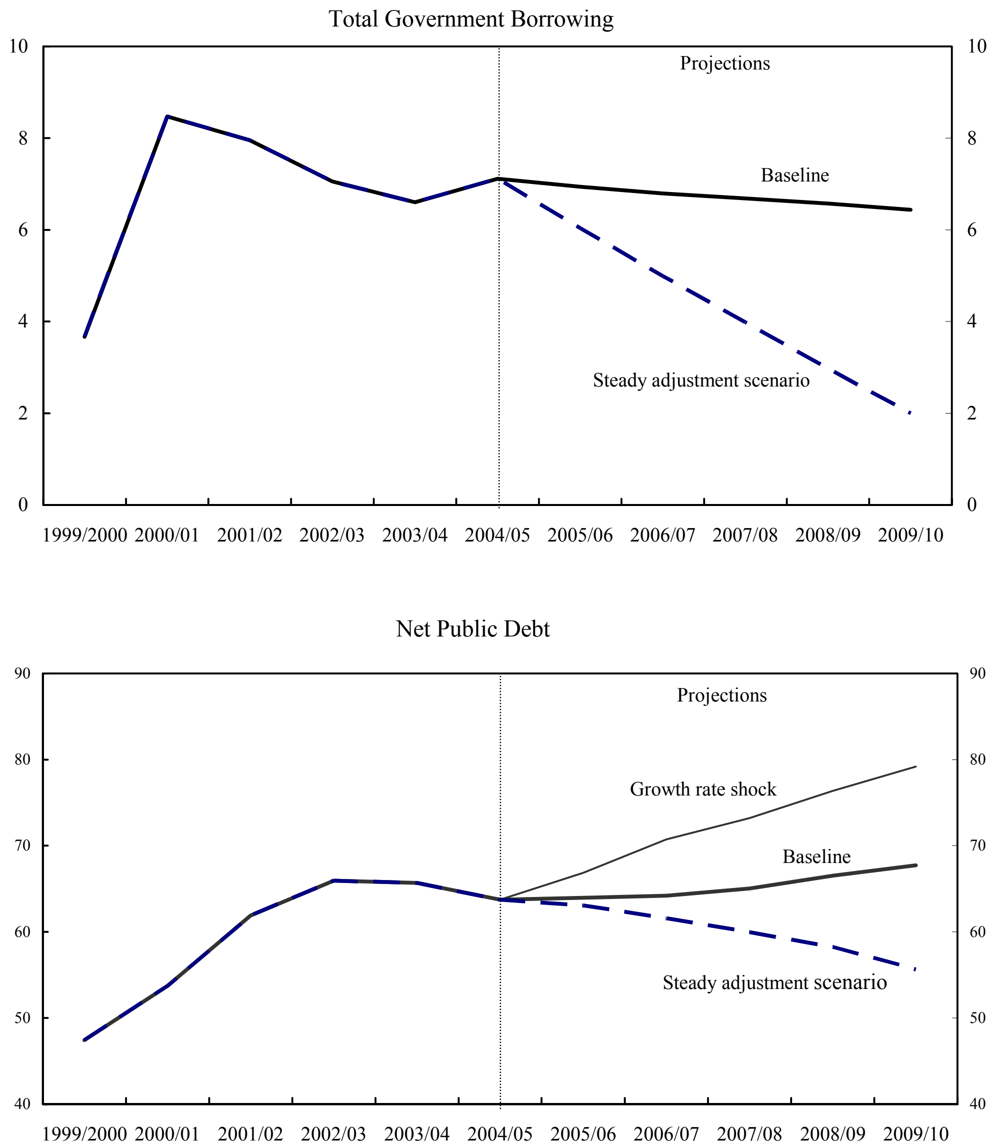
[14] One estimate of the total cost of the bank reform mentioned by the authorities is US$7 billion (8 percent of 2004/05 GDP). The basis for this estimate, and the distribution over time of the expected costs, are unclear.

[15] The baseline (current policy stance) scenario assumes that the other debt-creating operations remain at their 2003/04 level (4 percent of GDP) and that the general government deficit falls to 2.4 percent of GDP by 2009/10 on account of a gradual recovery in current revenues (from higher income tax intake and improvements in tax administration) and restraint in current expenditures (including wages). The steady adjustment scenario is compatible with many fiscal consolidation strategies. Staff recommended an approach that placed the burden of adjustment on total government expenditures (paragraph 24).

[16] Owing to the uncertainties surrounding its expected fiscal cost (see footnote 14), the scenarios did not incorporate explicitly any government borrowing related to financial sector reform.

Figure 7. Government Borrowing and Public Debt Scenarios
(In percent of GDP)



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

Box 3. Accounting for Growth in Egypt, 1960–2004

Economic growth in Egypt slowed from 6 percent (annual average) during the 1960s and 70s, to 4.8 percent during the 1980s and 90s, and further to 3.5 percent from 2001–04. Physical capital accumulation was the biggest contributor to growth in output per worker from 1961–2000, but its contribution fell sharply after 2000.

Period	Growth in Output	Growth in Output per Worker	Contribution of: Physical Capital	Contribution of: Human Capital	Contribution of: Factor Productivity
1961–2004	**5.2**	**2.5**	**1.0**	**0.6**	**0.9**
1961–1980	6.0	3.4	1.2	0.4	1.7
1981–2000	4.8	1.8	0.9	0.9	0.1
2001–2004	3.5	1.3	0.2	0.5	0.7

Staff estimates suggest that investment growth would need to recover strongly, and/or be compensated by sustained increases in productivity, for output growth to rise to its historical average. For example, assuming TFP growth at its long-run average (0.9 percent), real gross fixed investment would need to increase by 12.4 percent per year on average in order for output growth to rise to 4.8 percent, the rate prevailing from 1981–2000.

27. **The authorities stated their commitment to reducing the fiscal deficit,** but were not prepared to endorse staff's recommendation of adopting a multi-year fiscal consolidation strategy. They noted that the ongoing modernization of the budget, supported by a tightening of intra-government financial linkages, would reduce the other debt-creating operations and contribute to lower public debt. The authorities also stressed that progress in lengthening the maturity of domestic debt will continue.

C. External Sector

28. **The medium-term outlook for Egypt's balance of payments remains favorable.** The strong export performance since end-2002 has been broad based and is underpinned by favorable global and regional conditions. Continued development of its tourism potential and vast gas resources will strengthen further Egypt's supply of foreign exchange. Staff's medium-term projections show that a marked slowdown in the pace of current account inflows could accommodate non-oil import growth of about 7 percent per annum and still leave the current account (and the overall balance of payments) in surplus over the medium term (Table 7). The projections also suggest that there is scope for some real appreciation of the pound over the medium term. In the staff's view, only the joint occurrence of several adverse shocks (i.e., to oil/gas prices, Suez Canal traffic, or tourism) would weaken significantly Egypt's external outlook. As in the last Article IV consultation, Egypt's external debt sustainability analysis reveals no major vulnerability; the external debt-to-GDP ratio and the external debt service ratio are projected to decline steadily over the medium term, even in the face of adverse shocks (Table 8).

29. **Staff highlighted weaknesses in official estimates of Egypt's balance of payments.** Long-standing deficiencies in source data and in the methodologies used to construct the balance of payments distort the information content of the current, capital, and financial accounts. For example, correcting for under-recording of FDI inflows, including in the oil and gas sector, and for inadequate estimates of outflows in the capital account

associated with tourism, the capital and financial accounts would register a surplus rather than the deficit recorded in the official estimates (about US$5 billion in 2003/04).[17] [18] Current account surpluses would also be lower if the trade balance was estimated using partner country data for exports and imports. While these problems were not seen as fundamentally altering Egypt's medium-term external outlook, staff stressed that they hampered the assessment of cyclical macroeconomic conditions and external competitiveness. They also hindered the authorities' ability to undertake timely policy responses, including to sudden movements in capital flows. The authorities were generally receptive to these observations, and indicated that their first priority was to improve the recording of FDI flows.

D. Macroeconomic Data

30. **Staff welcomed the progress made in strengthening the macroeconomic database during 2004,** but noted that considerable work was still needed to improve the quality of Egypt's data. Staff welcomed in particular Egypt's subscription to the SDDS, noting that the process had helped mobilize the different sources and data outputs in the country. The authorities indicated that they now plan to turn their attention to improving the quality of statistics. Staff supported this change in focus, and stressed that Egypt's economic data continues to suffer from a number of deficiencies (Appendix III) that hamper the authorities' ability to monitor macroeconomic developments, as well as the effectiveness of Fund surveillance.

31. **The authorities should move rapidly to revamp Egypt's overall statistics strategy.** Increased coordination among agencies would accelerate improvements in the quality of statistics, and maximize gains from technical assistance. Staff advised the authorities to undertake the recommendations in the 2003 Data ROSC, and to give priority to the fiscal accounts, price statistics, and the balance of payments. Improvements in all indicators of economic activity and in employment and wage data also are needed. Staff highlighted the importance of reliable time series for the formulation of macroeconomic policy, and encouraged the authorities to adopt the practice of updating historical time series in a consistent manner.

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[17] See Arab Republic of Egypt–Selected Issues.

[18] The difference between a headcount-based estimate of tourism-related inflows (US$5.5 billion in 2003/04) and the estimates obtained from banking sector data (US$2.3 billion in 2003/04) are recorded as an outflow in the capital account. Staff recommended recording only the flows based on direct estimates of tourist arrivals, and to let the errors and omissions line offset any upward bias implicit in that estimate. The balance of payments in Table 7 follows this methodology.

III. Financial Sector Issues

32. **Staff commended the government for its ambitious financial sector reform plan.** The authorities have been working diligently to advance progress according to the plan's broad objectives (Box 2). The task at hand is formidable: the plan contemplates cutting the number of banks roughly in half and raising the market share of private banks significantly above its present level of about one third over a five-year period.[19] It also aims at increasing private sector participation in the insurance industry, developing the mortgage market, and consolidating regulations and supervision for all financial entities. While the plan covers all the key issues, the specifics concerning the modalities and sequence of some critical components still need to be developed, particularly the mechanisms to resolve the NPLs of public and private enterprises, and the assessment of banks' recapitalization needs. Staff emphasized the importance of developing concrete action plans in all of these areas to avoid ad-hoc implementation and ensure sustained political support for the reform.

33. **The next step should be a diagnosis of the financial position of the state banks** to ascertain the quality of their assets and recapitalization needs. The authorities indicated that work on assessing the financial status of all banks was underway, including through external audits by international firms.[20] The authorities were encouraged to move expeditiously to deliver on near–term targets, particularly the divestiture of joint venture banks and the sale of Bank of Alexandria by end-2005. In addition, staff recommended that any debt issued in connection with the bank restructuring be fully tradable, and be issued by the government rather than the central bank or any other entity.

IV. Structural Reforms and Other Issues

34. **Staff welcomed the relaunching of Egypt's privatization program.** The recent sale of the remaining stake in a large cement company attests to the government's renewed commitment to the program. The authorities should adhere closely to their targets, and prepare periodical estimates of the proceeds expected from the divestitures, given their fiscal implications.[21] Staff advised the authorities to allocate most of the privatization proceeds to reducing government debt, and to establish mechanisms of accountability for the use of the proceeds. The authorities indicated that the government had decided to channel all privatization proceeds through the Ministry of Finance.

35. **The September 2004 reform of Egypt's tariff regime was an important milestone** (Box 2). Staff encouraged the authorities to consider further cuts in import tariffs as well as

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[19] Egypt's banking system has total assets of about US$100 billion and consists of 54 banks: six state banks (56 percent of total assets), 35 joint venture banks (38 percent), and 13 foreign banks (6 percent).

[20] The World Bank has been asked to take the lead in coordinating the financial and technical support for the financial sector reform, but the authorities count on continued technical assistance from MFD.

[21] For calendar year 2005, the government has offered for sale 54 nonfinancial "government assets" (companies, shares in companies) as well as government shares in 29 nonfinancial joint venture companies. The list is available at: www.investment.gov.eg.

reductions in the extensive system of exemptions and duty relief schemes, which were not addressed by last year's reform.

36. **The authorities should continue forging ahead with structural reforms that create employment opportunities and help alleviate poverty**. Staff noted that a modern labor market legislation would reinforce the positive incentives for private investment and employment generated by the reforms undertaken by the new government, and suggested adding labor market reform to the agenda.

37. **The authorities are committed to making further progress in the area of transparency,** and are considering publishing the 2003 Data ROSC.

38. Staff was not apprised of any new information regarding the pending issues related to fiscal reporting under the 1996–98 IMF program.[22]

V. Staff Appraisal

39. **Economic performance during 2004 showed improvement.** The externally-driven recovery gained steam, underpinned by a moderate revival in consumption and improved confidence. The current account surplus increased, enabling banks (including the CBE) to strengthen their net foreign asset position, and facilitating the unification of the exchange rate. Monetary policy was supportive of the exchange rate unification, but did not contain inflation below double digit rates. Government domestic borrowing remained high and bank credit to the private sector remained sluggish.

40. **The economic reform program being pursued by the present cabinet is commendable.** The program attaches top priority to modernizing government and to reducing government interference in market mechanisms, necessary conditions for accelerating Egypt's transformation into a dynamic, private sector-driven economy. In its first eight months in office, the new cabinet has shown strong commitment to economic reform by implementing decisive measures in the areas of customs tariffs, taxes, and subsidies; by launching ambitious programs of privatization and financial sector reform; and by significantly increasing transparency. The Fund has intensified its technical assistance in support of the authorities' reform efforts. Modernizing Egypt's government, however, will be a challenging and complex task. The authorities should continue assessing carefully the sequencing of reforms, and securing the political support needed to maintain momentum.

41. **The unification of the exchange rate was a major achievement.** The disappearance of the parallel market premium has removed a serious distortion from the economy. The launching of the interbank market for foreign exchange and Egypt's acceptance of the obligations of Article VIII are also very positive. An exchange system free of restrictions with a market-determined rate will be beneficial for foreign investment, increase the economy's resilience to shocks, and improve macroeconomic management. The authorities

[22] The explanation of a possible discrepancy between data on government financing and government debt for 1997/98 and earlier years remains outstanding. See Appendix III.

should continue to tolerate short-term fluctuations in the exchange rate to fully reap the benefits of a flexible exchange rate system.

42. **Monetary policy should be more forward-looking and provide better guidance to the market.** The conduct of monetary policy improved during 2004, but central bank actions were not always clearly aimed at reducing inflation, and the system lacks a nominal anchor. The CBE should intensify its efforts to develop a cohesive monetary policy framework that effectively anchors inflation expectations in the context of a flexible exchange rate, and that relies on a proactive interest rate policy. This process, however, will take some time to complete. Moreover, the serious shortcomings with the inflation measures in Egypt pose an important handicap to assessments of the monetary policy stance, and to improvements in monetary policy formulation. While the main pillars of the medium-term framework (including a reliable inflation series) are being developed, the central bank should monitor carefully all price indicators, including asset prices, and communicate more clearly its near-term monetary policy strategy. Periodical announcements by the CBE about the general direction of monetary policy would be particularly well suited for this purpose. A tightening of liquidity conditions could enhance the effectiveness of the first announcement.

43. **Fiscal consolidation should be the cornerstone of Egypt's public sector reform.** The high levels of government borrowing and public debt recorded in recent years are inimical to growth and impede sustained increases in private investment. **A multi-year strategy of fiscal consolidation** that lowers total government borrowing and places public debt on a firmly declining path will increase the likelihood of a robust response from private investment and higher medium-term growth. The fiscal costs of the financial sector reform, which are likely to be significant, further strengthen the case for sizable medium-term fiscal consolidation.

44. **Effective control over all government spending is necessary to design an efficient fiscal consolidation strategy.** Ongoing efforts to modernize budget processes and improve treasury cash management will help attain this goal, though they will have to be supplemented by concrete expenditure-reducing measures to tighten the stance of fiscal policy. Bringing the investment budget under the full control of the Ministry of Finance would provide a more solid basis to control government spending over the medium term and ensure its most productive use. Staff encourages the authorities to make the necessary institutional changes (including those affecting the NIB) a priority of Egypt's public sector reform.

45. **Clear goalposts and adherence to targets will help sustain progress in the privatization and financial sector reform programs.** The companies listed for sale in 2005 (posted on the Ministry of Investment's website) is a welcome first step. Similar dissemination vehicles could be useful for aspects of the financial sector reform program, such as the planned divestiture of joint-venture banks. In order to fully incorporate the fiscal implications of these programs, the authorities have to be more specific about the timeframe and modalities of key reforms, particularly the plans to resolve the NPLs of public and private enterprises, and the assessment of banks' recapitalization needs.

46. **Further improvements in Egypt's macroeconomic database are needed.** Longstanding shortcomings in the fiscal accounts, price statistics, the balance of payments, and indicators of economic activity affect the authorities' ability to monitor economic developments. They also hinder the quality of economic analysis and macroeconomic policy formulation. Closer coordination among agencies is necessary to accelerate improvements in the quality of statistics. Staff encourages the authorities to undertake the changes needed to facilitate this coordination and to implement promptly the methodological improvements suggested in the 2003 Data ROSC.

47. It is recommended that the next Article IV consultation be conducted on the standard 12-month cycle.

Table 1. Egypt: Selected Macroeconomic Indicators, 2001/02–2005/06 1/
(Quota: SDR 943.7 million)
Population (2003): 69.2 million; Per capita GDP (2003): $1,172

	2001/02	2002/03	Rev. 2003/04	Proj. 2004/05	Proj. 2005/06
National accounts	(Annual percentage change, unless otherwise indicated)				
Nominal GDP at market prices (in billions of LE)	378.9	417.5	474.4	550.2	625.9
Nominal GDP (in billions of U.S. dollars)	87.5	81.4	77.0	91.7	102.6
Real GDP	3.2	3.1	4.1	4.8	5.0
CPI inflation (average)	2.4	3.2	8.1	9.6	8.0
CPI inflation (end-of-period)	2.7	4.0	11.7	9.0	7.0
Unemployment rate (percent)	10.2	11.0	10.7	10.4	10.1
Oil and gas sector					
Total oil and gas exports (in billions of U.S. dollars)	2.4	3.2	3.9	5.7	7.1
Average Egyptian oil export price (in U.S. dollar/barrel)	20.1	25.6	27.5	38.9	40.4
Crude oil production (in millions of barrels/day)	0.70	0.70	0.68	0.66	0.65
Investment and savings	(In percent of GDP at market prices)				
Investment	18.3	17.0	17.1	17.6	17.7
Gross national savings	19.0	19.4	21.5	22.2	21.1
Savings/investment balance	0.7	2.4	4.4	4.5	3.4
General government operations					
Revenue and grants	27.5	27.7	27.4	26.5	26.6
Expenditure and net lending	30.0	30.1	29.9	29.6	29.5
Balance	-2.5	-2.4	-2.5	-3.1	-2.9
Other debt creating operations	-5.4	-4.7	-4.1	-4.0	-4.0
Augmented fiscal balance	-7.9	-7.1	-6.6	-7.1	-6.9
Net public debt	61.9	65.9	65.7	63.7	63.9
Monetary sector (excluding valuation effects)	(Annual percentage change, unless otherwise indicated)				
Net foreign assets (contribution to M2 growth)	-1.7	0.9	5.0	6.0	6.4
Net domestic assets (contribution to M2 growth)	13.1	8.4	7.7	11.4	7.2
Broad money (M2)	11.4	9.3	12.6	17.4	13.5
Velocity of broad money	1.50	1.50	1.52	1.52	1.50
Credit to private sector	7.9	1.6	3.9	3.9	4.2
Treasury bills (91-day rate, period average) 2/	7.8	8.3	8.4	9.9	...
Stock market index (Local currency, end of period) 2/	57.2	82.2	135.7	342.6	...
External sector	(In billions of U.S. dollars, unless otherwise indicated)				
Exports of goods and nonfactor services	15.8	18.0	22.9	28.9	31.9
Of which: non-oil goods	4.7	5.0	6.5	8.3	9.1
Imports of goods and nonfactor services	19.5	19.6	23.3	28.7	31.3
Current account balance	0.6	1.9	3.4	4.2	3.5
In percent of GDP	0.7	2.4	4.4	4.5	3.4
External public and publicly guaranteed debt	28.7	28.7	28.9	28.7	29.0
In percent of GDP	32.8	35.3	37.6	31.3	28.2
External debt service (as a percent of exports of GNFS)	13.2	12.4	10.9	11.1	8.3
Gross official reserves	14.1	14.8	14.8	17.2	20.0
In months of imports (of GNFS)	8.7	9.1	7.6	7.2	7.6
Memorandum items:					
Nominal effective exchange rate (1991=100, period average)	117.0	92.9	69.0	...	...
Real effective exchange rate (1991=100, period average)	141.3	112.8	88.5	...	...
Exchange rate (Egyptian pounds per U.S. dollar; average) 2/	4.33	5.13	6.16	5.79	...

Sources: Egyptian authorities; and IMF staff estimates.

1/ Egyptian fiscal year ends June 30.
2/ For 2004/05, last observation is February 2005.

Table 2. Egypt: Monetary Survey, 2001/02–2005/06

	2001/02	2002/03	2003/04	Projections 2004/05	2005/06
	(End-period stocks, in billions of Egyptian pounds)				
Net foreign assets	17.3	25.4	45.2	67.7	107.2
Net international reserves	69.3	99.3	123.6	145.2	190.6
Central bank	61.8	86.2	88.2	98.0	125.4
Other banks	7.5	13.1	35.4	47.2	65.3
CBE medium- and long-term liabilities	-4.2	-5.7	-6.1	-6.0	-6.6
Blocked accounts (Rescheduled loans)	-47.8	-68.1	-72.3	-71.5	-76.8
Net domestic assets	310.6	359.1	390.1	425.2	466.1
Net claims on government sector	83.9	88.8	106.2	133.6	149.9
Claims on public sector companies	31.1	35.0	35.6	39.4	42.2
Claims on private sector companies	232.9	249.8	260.9	267.4	284.4
Net other items	-37.4	-14.5	-12.5	-15.2	-10.4
Broad money	327.9	384.6	435.4	492.9	573.3
Domestic currency component	252.5	278.7	311.5	361.5	416.8
Foreign currency component	75.4	105.8	123.8	131.4	156.5
Memorandum items:					
Summary central bank balance sheet					
Reserve money 1/ 2/	73.8	83.0	93.4	105.1	118.4
Net international reserves	61.8	86.2	88.2	98.0	125.4
Net domestic assets 3/	40.0	47.3	75.3	91.2	87.6
of which: net claims on government sector	55.2	62.4	58.8	81.9	90.5
	(Annual percent change, unless otherwise indicated)				
Broad money	15.3	17.3	13.2	13.2	16.3
Reserve money	5.4	12.4	12.6	12.5	12.7
Money multiplier (ratio) 4/	4.4	4.6	4.7	4.7	4.8
Excluding exchange rate valuation effects					
Broad money	11.4	9.3	12.6	17.4	13.5
NFA component	-1.7	0.9	5.0	6.0	6.4
NDA component	13.1	8.4	7.7	11.4	7.2
M2 domestic currency 5/	12.5	10.4	11.8	16.0	15.3
Domestic currency velocity (ratio)	1.5	1.5	1.5	1.5	1.5
Private sector credit	7.9	1.6	3.9	3.9	4.2
Net claims to the government and GASC	25.5	24.2	20.3	17.6	16.1

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

1/ Excludes reverse repos and deposit auctions; see Appendix III, Table 1, Footnote 3 for CBE definition.

2/ Excludes reserve requirements on foreign currency deposits.

3/ Including blocked accounts.

4/ Ratio of broad money to reserve money.

5/ Broad money less foreign currency deposits.

Table 3. Egypt: Summary of General Government Operations, 2001/02–2005/06 1/

(In percent of GDP)

	2001/02	2002/03	2003/04	Proj. 2004/05	Proj. 2005/06
Total revenue and grants	27.5	27.7	27.4	26.5	26.6
Total revenue	26.5	27.0	26.7	25.9	26.1
Current revenue	26.2	26.5	26.2	25.3	24.6
Tax revenue	13.7	13.8	13.7	13.7	12.9
Income taxes	5.7	5.6	5.7	5.8	5.1
Goods and services	5.4	5.5	5.4	5.7	5.6
International trade	2.5	2.7	2.5	2.1	2.1
Nontax revenue	12.5	12.7	12.5	11.6	11.7
Capital revenue 2/	0.3	0.5	0.6	0.6	1.5
Grants	1.0	0.7	0.7	0.6	0.4
Total expenditure and net lending	30.0	30.1	29.9	29.6	29.5
Total expenditure	28.1	28.4	28.4	28.0	27.9
Current expenditure	24.1	24.4	24.5	24.3	24.2
Wages and salaries 3/	7.5	7.6	7.6	7.4	7.4
Defense 4/	2.7	2.7	2.6	2.4	2.4
Interest	5.4	5.8	6.0	6.2	6.1
Goods and services	2.1	2.0	1.9	1.7	1.7
Subsidies and transfers 5/	6.4	6.3	6.3	6.6	6.6
Capital expenditure	4.0	4.0	3.9	3.7	3.7
Lending minus repayments	1.9	1.7	1.6	1.6	1.6
General government balance 6/	-2.5	-2.4	-2.5	-3.1	-2.9
Other debt-creating operations	-5.4	-4.7	-4.1	-4.0	-4.0
NIB	-2.4	-1.6	-2.3	...	...
Suppliers’ credits 7/	-0.6	-1.0	-0.9	...	...
Arrears payments 7/	-1.5	-1.0	-0.9	...	...
Other 8/	-0.8	-1.1	-0.1	...	...
Augmented fiscal balance	-7.9	-7.1	-6.6	-7.1	-6.9
Total financing	7.9	7.1	6.6	7.1	6.9
Foreign	0.7	-1.0	-1.1	-0.7	0.3
Domestic	7.3	8.1	7.7	7.8	6.7
Memorandum item:					
Nominal GDP (in billions of Egyptian pounds)	378.9	417.5	474.4	550.2	625.9

Sources: Egyptian authorities; and IMF staff estimates.

1/ The General Government comprises the budget sector, the NIB, GASC, and the Social Insurance Funds.
2/ Includes a US$1 billion (1 percent of GDP) capital transfer from EGPC in 2005/06.
3/ Includes social security contributions.
4/ Includes wages, and goods and services; excludes grant–financed expenditures.
5/ Includes transfers to social insurance funds.
6/ As recorded above the line (official estimate of overall balance of the general government).
7/ Information on the stock of suppliers’ credits and arrears is not available.
8/ Includes assumption of debt and statistical discrepancy, adjusted for privatization proceeds.

Table 4. Egypt: Summary of Budget Sector Operations, 2001/02–2005/06 1/

(In percent of GDP)

	2001/02	2002/03	2003/04	Proj. 2004/05	Proj. 2005/06
Total revenue and grants	20.8	20.7	21.0	20.8	20.8
Total revenue	19.9	20.0	20.3	20.1	20.4
Current revenue	19.5	19.5	19.7	19.5	18.8
Tax revenue	13.7	13.8	13.7	13.7	12.9
Income taxes	5.7	5.6	5.7	5.8	5.1
Goods and services	5.4	5.5	5.4	5.7	5.6
International trade	2.5	2.7	2.5	2.1	2.1
Nontax revenue	5.9	5.7	6.1	5.9	5.9
Capital revenue 2/	0.3	0.5	0.6	0.6	1.5
Grants	1.0	0.7	0.7	0.6	0.4
Total expenditure and net lending	26.7	26.8	27.0	26.7	26.6
Total expenditure	26.6	26.8	26.9	26.6	26.5
Current expenditure	22.6	22.8	23.0	22.9	22.8
Wages and salaries 3/	7.5	7.6	7.6	7.3	7.4
Defense 4/	2.7	2.7	2.6	2.4	2.4
Interest	6.0	6.4	6.7	6.9	6.7
Goods and services	1.9	1.8	1.8	1.6	1.6
Subsidies and transfers 5/	4.5	4.3	4.4	4.8	4.8
Capital expenditure	4.0	4.0	3.9	3.7	3.7
Lending minus repayments	0.1	0.0	0.2	0.0	0.0
Budget sector balance 6/	-5.9	-6.1	-6.0	-5.9	-5.8
Memorandum item:					
Nominal GDP (in billions of Egyptian pounds)	378.9	417.5	474.4	550.2	625.9

Sources: Egyptian authorities; and IMF staff estimates.

1/ The budget sector comprises central and local government agencies (administrative authorities and local authorities).

2/ Includes a US$1 billion (1 percent of GDP) capital transfer from EGPC in 2005/06.

3/ Includes social security contributions.

4/ Includes wages, and goods and services; excludes grant-financed expenditures.

5/ Includes transfers to social insurance funds.

6/ As recorded above the line (official estimate of the budget sector balance).

Table 5. Egypt: Medium-Term Scenarios, 2001/02–2009/10

				Projections					
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
				(In percent of GDP, unless otherwise indicated)					
Current account balance	0.7	2.4	4.4	4.5	3.4	2.5	1.9	1.7	1.5
Gross national savings	19.0	19.4	21.5	22.2	21.1	20.0	19.3	19.0	18.7
Investment	18.3	17.0	17.1	17.6	17.7	17.5	17.3	17.3	17.3
Real GDP growth (in percent)	3.2	3.1	4.1	4.8	5.0	4.8	4.5	4.5	4.5
Fiscal Accounts: Baseline scenario 1/									
General government balance 2/	-2.5	-2.4	-2.5	-3.1	-2.9	-2.8	-2.7	-2.6	-2.4
Other debt creating operations 3/	-5.4	-4.7	-4.1	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Augmented fiscal balance	-7.9	-7.1	-6.6	-7.1	-6.9	-6.8	-6.7	-6.6	-6.4
Total government borrowing requirement 4/	7.9	7.1	6.6	7.1	6.9	6.8	6.7	6.6	6.4
Net public debt 5/	61.9	65.9	65.7	63.7	64.0	64.2	65.0	66.5	67.7
Gross public debt 6/	97.6	110.9	111.9	103.1	99.3	95.7	93.5	92.4	91.1
Steady Adjustment scenario 1/									
Total government borrowing requirement 4/	7.9	7.1	6.6	7.1	6.0	5.0	4.0	3.0	2.0
Net public debt 5/	61.9	65.9	65.7	63.7	63.1	61.6	60.0	58.2	55.7
Gross public debt 6/	97.6	110.9	111.9	103.1	98.4	93.1	88.4	84.1	79.1

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

1/ The baseline scenario assumes that the general government deficit declines slightly, while other debt creating operations remain at the 2003/04 level. The steady adjustment scenario assumes that total financing needs decline by 1 percent of GDP per year starting in 2005/06.

2/ As recorded above the line (official estimate of the general government deficit).

3/ Includes arrears payments, assumption of debt, suppliers' credits, other NIB debt-creating operations, and statistical discrepancy.

4/ Projections do not include any estimate for the costs of bank restructuring or privatization receipts.

5/ Net of government deposits with banks. Deposits include the "blocked accounts" on rescheduled Paris Club debt held at the CBE. Deposits with banks are projected to remain constant in nominal terms; blocked accounts are projected to decrease according to the repayment schedule.

6/ Includes government guaranteed debt, but excludes the contigent pension liabilities of the government's social insurance funds.

Table 6. Egypt. Public Sector Debt Sustainability Framework, 2001/02–09/10
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					
	2001/02	2002/03	2003/04			2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
						I. Baseline Projections					
1 **Net public sector debt 1/**	61.9	65.9	65.7			**63.7**	**64.0**	**64.2**	**65.0**	**66.5**	**67.7**
Deposits with the banking sector 2/	35.7	44.9	46.2			39.3	35.4	31.5	28.4	25.9	23.4
Gross public sector debt 3/	97.6	110.9	111.9			103.1	99.3	95.7	93.5	92.4	91.1
2 Change in public sector debt	0.0	4.1	-0.3			-1.9	0.2	0.2	0.8	1.5	1.2
3 Identified debt-creating flows (4+7+12)	4.8	1.9	-3.5			-4.5	-3.1	-1.8	-1.1	-0.2	-0.3
4 Primary deficit 4/	-2.8	-3.4	-3.5			-3.1	-3.1	-3.1	-3.1	-3.0	-2.9
5 Revenue and grants	27.5	27.7	27.4			26.5	26.6	26.4	26.5	26.4	26.3
6 Primary (noninterest) expenditure	24.6	24.3	24.0			23.4	23.4	23.4	23.4	23.4	23.4
7 Automatic debt dynamics 5/	2.2	0.7	-4.1			-5.4	-4.0	-2.8	-2.0	-1.2	-1.4
8 Contribution from interest rate/growth differential 6/	0.6	-2.0	-4.4			-5.4	-4.0	-2.8	-2.0	-1.2	-1.4
9 *Of which:* contribution from real interest rate	2.2	-0.3	-2.0			-2.7	-1.2	0.0	0.7	1.5	1.4
10 *Of which:* contribution from real GDP growth	-1.6	-1.7	-2.4			-2.7	-2.8	-2.8	-2.6	-2.7	-2.8
11 Contribution from exchange rate depreciation 7/	1.6	2.7	0.3			...	...	...	...	...	...
12 Other identified debt-creating flows	5.4	4.7	4.1			4.0	4.0	4.0	4.0	4.0	4.0
13 Privatization receipts (negative)	-0.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
14 Recognition of implicit or contingent liabilities	1.9	1.0	1.0			0.8	0.8	0.8	0.8	0.8	0.8
15 Other 8/	3.6	3.7	3.1			3.2	3.2	3.2	3.2	3.2	3.2
16 Residual, including asset changes (2–3) 9/	3.4	2.1	3.2			2.6	3.3	2.1	1.9	1.7	1.5
Total government borrowing requirements	7.9	7.1	6.6			7.1	6.9	6.8	6.7	6.6	6.4
General government deficit (+)	2.5	2.4	2.5			3.1	2.9	2.8	2.7	2.6	2.4
12 Other debt creating outlays	5.4	4.7	4.1	5-Year	5-Year	4.0	4.0	4.0	4.0	4.0	4.0
Key Macroeconomic and Fiscal Assumptions				Hist. ave.	Stand. dev.						
Real GDP growth (percent)	3.2	3.1	4.1	4.2	1.2	4.8	5.0	4.8	4.5	4.5	4.5
Average nominal interest rate on public debt (percent) 10/	6.8	6.5	6.1	6.7	0.4	6.5	6.7	6.6	6.6	6.5	6.3
Average real interest rate (nominal rate less change in GDP deflator, percent)	4.4	-0.3	-3.0	2.4	3.5	-4.2	-1.6	0.3	1.4	2.6	2.4
Inflation rate (GDP deflator, percent)	2.4	6.9	9.1	4.3	3.2	10.7	8.3	6.3	5.3	3.8	3.9
Growth of real primary spending (deflated by GDP deflator, percent)	1.0	1.6	2.8	2.8	1.6	2.4	5.2	4.5	4.5	4.5	4.5
Primary deficit 4/	-2.8	-3.4	-3.5	-3.5	0.6	-3.1	-3.1	-3.1	-3.1	-3.0	-2.9
A. Alternative Scenarios						**II. Stress Tests for Public Debt Ratio**					
A1. Key macroeconomic variables are at their historical averages in 2005–09						**63.7**	**66.3**	**67.8**	**69.0**	**70.0**	**70.8**
A2. Steady adjustment scenario; total financing needs decline by 1 percent of GDP per year from 2005/06						**63.7**	**63.1**	**61.6**	**60.0**	**58.2**	**55.7**
B. Bound Tests											
B1. Real interest rate is at historical average plus two standard deviations in 2005/06 and 2006/07						**63.7**	**70.1**	**75.9**	**76.4**	**77.7**	**78.6**
B2. Real GDP growth is at historical average minus two standard deviations in 2005/06 and 2006/07						**63.7**	**66.8**	**70.7**	**73.2**	**76.4**	**79.2**
B3. Primary balance is at historical average minus two standard deviations in 2005/06 and 2006/07 4/						**63.7**	**64.9**	**65.9**	**66.7**	**68.2**	**69.3**
B4. Combination of B1–B3 using one standard deviation shocks						**63.7**	**69.8**	**75.0**	**75.8**	**77.3**	**78.4**
B5. One time 30 percent real depreciation in 2005/06						**63.7**	**66.8**	**66.9**	**67.7**	**69.1**	**70.2**
B6. 10 percent of GDP increase in other debt-creating flows in 2005/06						**63.7**	**74.0**	**73.8**	**74.4**	**75.7**	**76.7**

Sources: Egyptian authorities; and IMF staff estimates.

1/ General government debt minus deposits with banks. Deposits include the "blocked accounts" on rescheduled Paris Club debt held at the CBE.

2/ Deposits with banks are projected to remain constant in nominal terms, while blocked accounts are projected to decrease according to the repayment schedule.

3/ Includes government guaranteed external debt, but excludes contigent pension liabilities of the government's social insurance funds.

4/ Based on official presentation. Is not a meaningful measure of the "primary deficit" because it omits outlays that are captured in the financing data.

5/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = 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 denominator 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 $\alpha\varepsilon(1+r)$.

8/ Includes suppliers' credits, NIB debt-creating operations, and statistical discrepancy as reported by MoF.

9/ For projections, this line includes exchange rate changes.

10/ Derived as nominal interest expenditure divided by previous period gross debt stock.

Table 7. Egypt: Medium-Term Balance of Payments, 2001/02–2009/10

	2001/02	2002/03	2003/04	Proj. 2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	(In billions of U.S. dollars, unless otherwise indicated)								
Current account balance	0.6	1.9	3.4	4.2	3.5	2.7	2.3	2.1	1.9
Trade balance	-7.5	-6.6	-7.8	-9.1	-9.2	-10.1	-11.3	-12.3	-13.3
Exports	7.1	8.2	10.5	14.0	16.2	16.9	17.4	18.2	19.2
Of which: oil	2.4	3.2	3.9	5.3	5.4	4.9	4.6	4.4	4.3
gas	0.0	0.0	0.0	0.4	1.7	2.2	2.2	2.3	2.3
Imports	-14.6	-14.8	-18.3	-23.1	-25.4	-27.1	-28.7	-30.6	-32.6
Of which: oil	-2.5	-2.3	-2.6	-3.4	-3.7	-3.6	-3.5	-3.6	-3.7
Services (net)	3.9	4.9	7.3	8.8	8.4	8.5	9.2	9.9	10.6
Receipts	9.6	10.4	13.0	15.5	16.8	17.7	18.5	19.4	20.3
Of which: Tourism	3.4	3.8	5.5	6.4	6.7	6.9	7.2	7.4	7.7
Suez canal dues	1.8	2.2	2.8	3.3	3.5	3.6	3.8	3.9	4.1
Investment income	0.9	0.6	0.5	0.6	1.1	1.3	1.5	1.6	1.7
Payments	5.7	5.5	5.7	6.7	8.4	9.2	9.3	9.4	9.7
Interest payments	0.7	0.6	0.6	0.7	0.8	0.9	0.9	0.9	0.9
Profit remittances	0.2	0.1	0.1	0.4	1.7	2.0	1.8	1.5	1.4
Travel payments	1.2	1.4	1.3	1.3	1.4	1.5	1.6	1.7	1.8
Transfers	4.3	3.6	3.9	4.4	4.3	4.3	4.4	4.5	4.6
Official grants	1.1	0.7	0.9	0.9	0.7	0.6	0.5	0.5	0.5
Private remittances	3.1	2.9	3.0	3.5	3.6	3.7	3.9	4.0	4.1
Capital account	1.2	-0.4	-1.8	-1.8	-0.8	-0.7	-0.2	-0.1	0.1
Medium- and long-term loans (net)	0.2	-0.9	-0.6	-1.1	0.1	-0.9	-0.7	-0.7	-0.8
Drawings	1.6	0.7	1.3	1.5	1.9	1.9	1.4	1.4	1.4
Government market borrowing	1.4	0.0	0.0	0.0	1.0	1.0	0.5	0.5	0.5
Other 1/	0.2	0.7	1.3	1.5	0.9	0.9	0.9	0.9	0.9
Amortization	-1.4	-1.6	-1.9	-2.6	-1.8	-2.8	-2.1	-2.1	-2.2
FDI	0.4	0.7	0.3	1.0	1.0	1.0	1.0	1.0	1.0
Portfolio investment	0.0	-0.4	-0.1	0.0	0.4	0.4	0.4	0.4	0.4
Commercial banks' NFA	-0.2	-0.6	-3.5	-2.5	-2.1	-1.0	-0.8	-0.6	-0.4
Errors and Omissions (net)	-2.3	-1.0	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-0.5	0.5	-0.2	2.4	2.7	2.1	2.0	2.0	2.0
Of which: net international reserves	0.5	-0.5	0.2	-2.4	-2.7	-2.1	-2.0	-2.0	-2.0
Memorandum items:									
Current account (percent of GDP)	0.7	2.4	4.4	4.5	3.4	2.5	1.9	1.7	1.5
Trade balance (percent of GDP)	-8.6	-8.1	-10.2	-9.9	-9.0	-9.3	-9.7	-10.0	-10.1
Gross reserves (US$ billions, end of period)	14.1	14.8	14.8	17.2	19.9	22.0	24.0	26.0	28.0
In months of imports of GNFS	8.7	9.1	7.6	7.2	7.6	7.9	8.2	8.3	8.4
GDP (US$ billions)	87.5	81.4	77.0	91.7	102.6	109.4	116.3	123.8	131.9
External debt (US$ billions)	28.7	28.7	28.9	28.7	29.0	28.2	27.7	27.2	26.6
External debt service (percent of exports GNFS)	13.2	12.4	10.9	11.1	8.3	11.1	8.6	8.4	8.1

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

1/ Includes multilateral and bilateral public sector borrowing and private borrowing.

Table 8. Egypt: External Debt Sustainability Framework, 1999/2000–2009/10

(In percent of GDP, unless otherwise indicated)

	Actual					Projections					
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
						I. Baseline Projections					
1 **External debt**	28.0	27.8	32.8	35.3	37.6	**31.3**	**28.2**	**25.8**	**23.8**	**22.0**	**20.2**
2 Change in external debt	-3.4	-0.2	4.9	2.6	2.2	-6.3	-3.1	-2.4	-2.0	-1.9	-1.8
3 Identified external debt-creating flows (4+8+9)	-3.0	0.9	2.7	3.2	-8.0	-7.1	-6.1	-4.9	-4.1	-3.7	-3.4
4 Current account deficit, excluding interest payments	0.4	-0.7	-1.5	-3.2	-5.2	-5.3	-4.2	-3.3	-2.7	-2.4	-2.1
5 Deficit in balance of goods and services	-29.2	-29.4	-29.2	-34.5	-47.1	-50.6	-50.1	-49.4	-48.6	-48.1	-47.7
6 Exports	16.1	17.7	18.1	22.1	29.8	31.5	31.1	30.4	29.6	29.1	28.7
7 Imports	-13.1	-11.6	-11.1	-12.4	-17.3	-19.1	-19.0	-19.0	-19.0	-19.1	-19.1
8 Net nondebt creating capital inflows (negative)	-1.6	-0.8	-0.5	-0.3	0.0	-1.1	-1.3	-1.2	-1.1	-1.0	-1.0
9 Automatic debt dynamics 1/	-1.7	2.4	4.7	6.7	-2.8	-0.8	-0.6	-0.4	-0.3	-0.3	-0.2
10 Contribution from nominal interest rate	0.8	0.8	0.8	0.8	0.7	0.7	0.9	0.8	0.8	0.7	0.7
11 Contribution from real GDP growth	-1.6	-1.0	-1.0	-1.2	-1.3	-1.5	-1.5	-1.2	-1.1	-1.0	-0.9
12 Contribution from price and exchange rate changes 2/	-1.0	2.6	4.9	7.0	-2.1	...	...	...	...	...	...
13 Residual, including change in gross foreign assets (2–3) 3/	-0.4	-1.1	2.2	-0.6	10.3	0.8	3.0	2.5	2.2	1.8	1.6
External debt-to-exports ratio (percent)	173.9	156.9	181.4	159.7	126.1	99.3	90.9	84.8	80.5	75.5	70.4
Gross external financing need (in billions of U.S. dollars) 4/	4.0	2.7	2.5	1.3	-0.1	-0.1	0.7	2.6	2.5	2.9	3.3
In percent of GDP	4.1	2.8	2.8	1.6	-0.2	-0.2	0.7	2.4	2.2	2.4	2.5
Key Macroeconomic Assumptions											
Real GDP growth (percent)	5.4	3.5	3.2	3.1	4.1	4.8	5.0	4.8	4.5	4.5	4.5
GDP deflator in U.S. dollars (percent change)	3.2	-8.6	-14.9	-17.6	6.4	18.1	-1.8	4.9	2.5	1.9	2.9
Nominal external interest rate (percent)	2.7	2.6	2.6	2.2	2.1	2.3	2.9	3.1	3.2	3.2	3.3
Growth of exports (U.S. dollar terms, percent)	18.0	5.9	-6.6	14.0	27.5	25.9	10.3	4.4	3.5	4.6	4.9
Growth of imports (U.S. dollar terms, percent)	0.7	-14.3	-12.3	3.5	32.2	31.6	11.1	6.7	6.2	6.9	6.7
Current account balance, excluding interest payments	-0.4	0.7	1.5	3.2	5.2	5.3	4.2	3.3	2.7	2.4	2.1
Net nondebt creating capital inflows	1.6	0.8	0.5	0.3	0.0	1.1	1.3	1.2	1.1	1.0	1.0
A. Alternative Scenarios						**II. Stress Tests for External Debt Ratio**					
A1. Key macroeconomic variables are at their historical averages in 2005/06–09/10						**31.3**	**31.2**	**32.7**	**33.0**	**32.9**	**32.7**
B. Bound Tests											
B1. Nominal interest rate is at historical average plus two standard deviations in 2005/06 and 2006/07						**31.3**	**28.6**	**26.4**	**24.4**	**22.5**	**20.7**
B2. Real GDP growth is at historical average minus two standard deviations in 2005/06 and 2006/07						**31.3**	**29.3**	**27.7**	**25.8**	**23.9**	**22.1**
B3. Change in U.S. dollar GDP deflator is at historical average minus two standard deviations in 2005/06 and 2006/07						**31.3**	**35.8**	**45.1**	**43.5**	**41.8**	**40.0**
B4. Non-interest current account is at historical average minus two standard deviations in 2005/06 and 2006/07						**31.3**	**35.4**	**38.9**	**36.4**	**34.1**	**31.9**
B5. Combination of B1–B4 using one standard deviation shocks						**31.3**	**37.1**	**45.8**	**42.8**	**39.9**	**37.2**
B6. One time 30 percent nominal depreciation in 2005/06						**31.3**	**37.9**	**35.7**	**33.8**	**32.0**	**30.2**
Historical Statistics for Key Variables (1994/95–2003/04)			Historical Average		Standard Deviation		Average 04/05–09/10				
Current account balance, excluding interest payments			1.3		2.1		3.3				
Net nondebt creating capital inflows			0.8		0.5		1.1				
Nominal external interest rate (percent)			2.8		0.6		3.0				
Real GDP growth (percent)			4.8		1.4		4.7				
GDP deflator in U.S. dollars (percent change)			-0.3		10.0		4.8				

Sources: Egyptian authorities; and IMF staff estimates.

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

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

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

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

Table 9. Egypt: Selected Vulnerability Indicators, 2001/02–2004/05

	2001/02	2002/03	2003/04	Proj. 2004/05
Key Economic and Market Indicators				
Real GDP growth (percent)	3.2	3.1	4.1	4.8
CPI inflation (period average, percent)	2.4	3.2	8.1	9.6
Short-term interest rate (91-day Treasury bill rate, percent)	7.8	8.3	8.4	9.9
5-year Eurobond spread (basis points, over U.S. Treasury)	265	208	123	87
Exchange rate (LE per dollar, end-of-period)	4.65	6.03	6.19	...
External Sector				
Exchange rate regime	Unified flexible exchange rate since December 2004			
Current account balance (percent of GDP)	0.7	2.4	4.4	4.5
Net FDI inflows (percent of GDP)	0.5	0.8	0.3	1.0
Exports (percentage change of US$ value, GNFS)	-6.6	14.0	27.5	25.9
Real effective exchange rate (1991=100)	141.3	112.8	88.5	...
Gross international reserves (GIR) (US$ billions)	14.1	14.8	14.8	17.2
GIR in percent of debt at remaining maturity 1/	463.8	498.3	437.4	353.6
GIR in percent of debt at remaining maturity and banks' FX deposits 1/	72.8	72.9	63.5	62.7
Net international reserves (US$ billions)	14.0	14.8	14.8	17.2
Total gross external debt in percent of GDP	32.8	35.3	37.6	31.3
Of which: short term external debt (original maturity, percent of total)	5.8	4.7	5.1	8.1
external debt of domestic private sector (percent of total)	6.0	3.8	3.8	5.9
Total gross external debt in percent of exports of GNFS	181.4	159.7	126.1	99.3
Gross external financing requirement (US$ billions) 2/	0.8	-0.3	-1.5	-1.6
Public Sector 3/				
General government balance (percent of GDP)	-2.5	-2.4	-2.5	-3.1
Primary balance (percent of GDP) 4/	2.8	3.4	3.5	3.1
Debt-stabilizing primary balance (percent of GDP) 4/ 5/	8.4	7.6	1.4	-0.7
Government borrowing requirement (percent of GDP) 6/	7.9	7.1	6.6	7.1
Public sector gross debt (percent of GDP)	97.6	110.9	111.9	103.1
Public sector net debt (percent of GDP)	61.9	65.9	65.7	63.7
Financial Sector 7/				
Capital adequacy ratio (percent) 8/	9.9	11.0	11.1	11.4
NPLs in percent of total loans 8/	16.9	20.2	24.2	25.2
Provisions in percent of NPLs 8/	67.5	62.3	57.0	54.1
Return on average assets (percent) 8/	0.7	0.5	0.5	0.5
Return on equity (percent) 8/	12.4	8.9	9.8	10.3
FX deposits (percent of total deposits)	26.6	31.3	32.6	32.0
FX loans (percent of total loans)	18.8	21.7	21.3	21.0
Government debt held by financial sector (percent of total assets)	25.5	26.9	29.7	31.9
Credit to private sector (percent change)	7.9	1.6	3.9	3.9
Memorandum item:				
Nominal GDP (US$ billions)	87.5	81.4	77.0	91.7

Sources: Egyptian authorities; and IMF staff estimates.

1/ Debt at remaining maturity is defined as external short-term debt plus maturing medium- and long-term external debt.
2/ Current account deficit plus amortization of external debt.
3/ Public sector covers the general government.
4/ Measure of primary balance based on official accounts/presentation; omits operations captured in financing data.
5/ Excludes exchange rate effects.
6/ General government balance plus other debt creating operations captured in the financing data.
7/ The financial sector includes commercial banks (public and private), business and investment banks, and specialized banks.
8/ For 2004/05, last observation is September 2004.

Egypt: Fund Relations
(As of March 31, 2005)

I. Membership Status: Joined 12/27/45; Article VIII[1]

II. General Resources Account:

	SDR Million	Percent of Quota
Quota	943.70	100.00
Fund holdings of currency	943.72	100.00

III. SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	135.92	100.00
Holdings	62.16	45.73

IV. Outstanding Purchases and Loans: None

V. Financial Agreements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	10/11/96	9/30/98	271.40	0.00
EFF	9/20/93	9/19/96	400.00	0.00
Stand-by	5/17/91	5/31/93	234.40	147.20

VI. Projected Obligations to the Fund:[2]
(SDR million; based on existing use of resources and present holding of SDRs)

	Forthcoming				
	2005	2006	2007	2008	2009
Charges/interest	1.37	1.83	1.83	1.84	1.83
Total	1.37	1.83	1.83	1.84	1.83

1/ Egypt accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 2, 2005. Staff is undertaking the necessary review of Egypt's foreign exchange system in connection with its acceptance of Article VIII.

2/ The projection of charges and interest assume that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

VII. Exchange Rate Arrangement (As of February 28, 2005)

Prior to January 29, 2003, the Egyptian pound was pegged to the dollar, with all foreign exchange transactions taking place within a ±3 percent range around the central rate, which was announced by the Central Bank of Egypt (CBE). Effective January 29, 2003, the Egyptian pound was allowed to float. As a result, the exchange arrangement of Egypt was reclassified to the category "managed float with no preannounced path for the exchange rate," from the category "pegged exchange rate within horizontal bands." However, from February 2003 to August 2004, not all current account transactions were satisfied in the banking exchange market and demands were channeled and cleared in an illegal parallel market at a variable premium that consistently exceeded 2 percent. In December 2004, the CBE officially launched a foreign exchange interbank market with no restrictions on rates, governed by a formal interbank convention on foreign exchange trading. There have been no quotes of the parallel market rate since December 2004. The CBE buys and sells foreign exchange daily at the average exchange rate observed in the interbank market at the end of the prior day. On any day, the differential between the banking exchange rate and the exchange rate used by the CBE has been consistently below 2 percent.

Egypt accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 2, 2005. Fund staff is undertaking the necessary review of Egypt's foreign exchange system in connection with its acceptance of Article VIII. Egypt still maintains bilateral payments arrangements with Sudan and Russia (the latter non-operative), which represent exchange restrictions under the Fund's jurisdiction.

VIII. Article IV Consultation

Consultations with Egypt are on a 12-month cycle. The last Article IV consultation discussions were held in Cairo from February 2 to 16, 2005. The 2004 Article IV staff report was discussed by the Executive Board on May 24, 2004.

IX. Review of Standards and Codes (ROSC)

ROSC Missions

FAD	Fiscal module of ROSC	June 2001
MFD	Financial Sector Assessment Program (FSAP)	May/June 2002
STA	Data ROSC	October 2003

The FSSA report was discussed by the Executive Board on November 13, 2002. The authorities are not expected to publish the fiscal module of the ROSC, which was completed in 2001.

X. Technical Assistance (since 2000)

Missions	Topic	Date
STA	National accounts statistics	August 2000
FAD	Fiscal reporting	November 2000
FAD	Tax administration	June 2001
FAD	Customs administration reform and tariff policy	April/May 2002
MFD	Foreign exchange expert	June 2002
FAD	Customs administration follow-up	September 2002
MFD	Monetary policy instruments	December 2002
MFD	Foreign exchange market development	February 2003
FAD	Tariff reform	May 2003
FAD	First visit of peripatetic customs admin. advisor	May 2003
FAD	Second visit of peripatetic customs admin. advisor	Sept/Oct. 2003
MFD	Foreign exchange expert	December 2003
FAD	Customs administration follow-up	December 2003
FAD	Income tax reform	January 2004
MFD	Needs assessment mission	February 2004
MFD	Needs assessment on monetary operations, payments systems and banking supervision	April 2004
MFD	Banking Reform	May 2004
FAD	Budget system reforms, classification	August 2004
LEG	Income tax legislation reform	August 2004
MFD	Monetary Policy Expert (first two of six visits)	August 2004 October 2004
MFD	Reassessment of CBE TA needs	October 2004
FAD	Budget classification (follow-up)	October 2004
LEG	Income tax legislation reform (follow-up)	November 2004
FAD	Income tax reform (follow-up)	November 2004
FAD	Revenue Administration, tax and customs administration modernization	December 2004
STA	Preparation for subscription to the SDDS	December 2004
FAD	Treasury Single Account, Macro fiscal unit	January 2005
MFD	Monetary Policy Expert (third of six visits)	February 2005
MFD	Monetary Policy	February 2005
METAC	Needs assessment on bank restructuring and Supervision	February 2005
MFD	Bank restructuring	February 2005
METAC	Needs assessment on statistics (multisector)	February 2005
FAD	Resident macro fiscal advisor (start date)	March 2005
FAD	Tax administration	March 2005
METAC	Foreign Direct Investment Statistics	March/April 2005

XI. Resident Representative

Mr. Cyrus Sassanpour has been Senior Resident Representative in Cairo since October 2004.

Egypt: Relations with the World Bank
(as of February 2005)

1. **Partnership for Development.** The key development objectives and targets of the Government of Egypt are expressed in the fifth Five Year Plan for Socio-Economic Development covering the years 2002–2007. Overall, Egypt seeks to achieve growth with equity by enhancing the role of the private sector in the development process; focusing the public sector on delivering public goods; and strengthening the social safety net system.

2. **World Bank Country Assistance Strategy.** Within the context of a modest lending program relative to the size and importance of the country, the government and the World Bank are currently discussing a Country Assistance Strategy (CAS) which is likely to increase substantially the program of World Bank lending and non-lending assistance over the medium-term. The current Bank program is based on the CAS for the period FY02–FY04 which was endorsed by the Board of Directors on July 3, 2001. The main areas of support identified in that CAS were interventions that (i) supported higher and sustained growth; (ii) targeted direct poverty reduction; and (iii) aimed at indirect poverty reduction. During 2004/05, the Bank program commenced support for the government's efforts: (i) to assess impediments to investment and to implement structural reforms (including financial sector reforms); (ii) improve public expenditure management; and (iii) develop the mortgage market. Work on the new CAS started in October 2004, with consultations in Cairo with the authorities, development partners and civil society. This CAS, which will cover the period fiscal years 2006-2009, is expected to be presented to the World Bank's Board in June 2005.

IBRD/IDA Portfolio

3. As of February 28, 2005, the Bank had approved 110 projects for Egypt, valued at about US$5.2 billion (excluding grants and cancellations), of which about US$4.6 billion has been disbursed, and about US$650 million remain undisbursed. The current portfolio has 16 active projects with a commitment value of about US$1 billion. The sectoral composition of the current portfolio (by value) is as follows: 34 percent for infrastructure, 28 percent for agriculture, 20 percent for education, 10 percent for health and nutrition, 5 percent for social protection, and 3 percent for environment. The largest project in the portfolio is an Airports Development Project for US$335 million.

International Finance Corporation (IFC) Investments

4. The IFC is actively involved in Egypt with 24 operations in its portfolio. As of December 2004, the IFC's committed portfolio in Egypt amounted to US$299 million, with an additional US$313 million in B loans. These investments are in a range of sectors, including the financial sector, infrastructure, small and medium enterprises, manufacturing, chemicals, and tourism. In 2003/04, the IFC committed to five new investments for US$60 million in the following sectors: housing finance, financial institutions, manufacturing, infrastructure and gas resources. Commitments to date for 2004/05 amount to US$15 million, with several projects in the pipeline.

Multilateral Investment Guarantee Agency (MIGA) Exposures

5. As of March 14, 2005, MIGA's outstanding portfolio in Egypt consisted of four contracts of guarantee in the waste management sector with a gross exposure of US$6.4 million and net exposure of US$5.76 million.

World Bank Group Activities
As of February 28, 2005
(In millions of U.S. dollars)

	IBRD	IDA	TOTAL
IBRD/IDA Lending Operations			
Disbursed	2,924.5	1,671.4	4,595.9
Undisbursed and committed	491.4	159.0	650.4
Number of closed loans/credit = **94**			
Ongoing operations 1/			
Agriculture	196.7	93.3	290.0
Education	75.50	125.00	200.5
Environment	20.0	15.0	35.0
Health, Nutrition & Population	0.0	107.2	107.2
Social Protection	0.0	55.0	55.0
Infrastructure	335.0	0.0	335.0
Total	**627.2**	**395.5**	**1022.7**
IFC Investments 2/			299.0
MIGA (gross exposure)			6.4

Source: World Bank Group.

1/ Original commitments less cancellations.
2/ Loans plus equity, disbursed portfolio, February 28, 2005.

EGYPT: STATISTICAL ISSUES

1. **National accounts.** National accounts data are compiled on an annual fiscal year basis and on a quarterly basis by the National Accounts Department within the Ministry of Planning in current and constant prices, using the 1993 System of National Accounts (*SNA 1993*). The data have a number of shortcomings, including inconsistencies with the balance of payments and the absence of a reliable series on GDP at constant market prices. In addition, the base year is often changed and no backward revision is made to previous series to allow for historical comparison. Coverage of an apparently large informal sector remains an issue. Shortcomings in the accuracy and reliability of annual and quarterly data prevent a reliable and timely analysis of economic developments. The problem is exacerbated by the absence of a reliable system of short-term indicators of economic activity. The authorities requested IMF technical assistance in this area in 2000. An STA consultant joined the 2001 Article IV mission and provided specific recommendations in the compilation and dissemination of high frequency real sector data. The authorities have been collecting a monthly index of industrial production since January 2002, which was first published in April 2003. This index is unsatisfactory, comprising a manufacturing index based on production valued at constant wholesale prices in Egyptian pounds, a Suez Canal index based on receipts in U.S. dollars, and other indices based on volumes. In January 2005, the components of the industrial production index were re-weighed and the base was modified in a way that precludes making month-to-month comparisons of the index. The October 2003 Data ROSC mission found that work to improve national accounts statistics was still needed, including a more critical review of source data. There are no periodic user surveys or an oversight body to provide guidance on the quality of national accounts. USAID is assisting the Ministry of Planning in the construction of a reliable historical series on investment and the capital stock.

2. **Price and labor market statistics.** The October 2003 Data ROSC determined that the CPI index may not be accurate. The basket and outlet samples used to compile the CPI are outdated, and subsidized and controlled goods and services dominate the basket, introducing downward bias in the index. An updated CPI with new weights based on the results of the 1999–2000 household expenditure survey was first published in April 2004; the first observation covered by the new index was July 2003. This new CPI suffers from the same shortcomings as its predecessor. No systematic reviews are undertaken to identify shortcomings. The authorities have upgraded their computer equipment and are developing a comprehensive price database, through the USAID-supported Data Project team. Plans are underway to replace the wholesale price index with a producer price index and to improve the external trade price indices (the latter are also unreliable and available only annually). In early 2005, the authorities requested further technical assistance from the Fund to improve the CPI and PPI. The request is being considered by STA in coordination with METAC and the USAID's Data Project. The timeliness of employment and unemployment data, as well as the periodicity and timeliness of wages/earnings data, do not yet meet SDDS requirements.

3. **Balance of Payments statistics.** The balance of payments statistics, compiled by the CBE and reported to the Fund, have been revised with Fund technical assistance in

accordance with the Fifth Edition of the *Balance of Payments Manual*. Although the national presentation is less detailed than in *BPM5*, data are provided to international organizations using *BPM5* format. The October 2003 Data ROSC noted that Egypt's balance of payments statistics face problems with source data. Because merchandise trade statistics based on customs declarations have serious problems, the balance of payments has to rely on banks' foreign exchange records for exports and imports of goods. However, the coverage and classification of foreign exchange transactions are not keeping pace with economic liberalization and source data do not reasonably approximate accrual basis. Capital flows in the balance of payments also suffer from serious deficiencies. In particular, the differences between direct estimates of tourism receipts and those collected from the banking sector are incorrectly booked as an outflow in the capital and financial accounts. Another main data problem is the large discrepancy in the FDI data published by the CBE and the General Administration of Foreign Investments and Free Zones (GAFI). The discrepancy mainly stems from differences in the definitions of FDI employed by the two agencies. Technical assistance is currently being provided to help reconcile the concepts and methodologies, and the government has created a committee to coordinate the work on FDI. A December 2004 STA mission noted that the CBE had started to disseminate quarterly balance of payments data and provide detailed sources and methods on the CBE website on the basis of *BPM5*.

4. **External debt and international investment position (IIP) data.** Data on the IIP and external debt now meet SDDS requirements. The authorities are drawing on advice from Fund staff and other outside advisers on forming a strategy to strengthen the reporting system on nonguaranteed debt. A December 2004 STA mission reached agreement with the authorities on the treatment of expected loan disbursement data in the foreign currency liquidity template. Anticipating loan disbursements is not permitted under the *International Reserve and Foreign Currency Liquidity: A Guidelines for a Data Template (Reserves Template Guidelines)*. In order to accommodate the authorities' concerns over the potential market reaction, a new section containing the relevant data was included at the end of the Reserves Template.

5. **Fiscal data**. Questions arose in the 2000 Article IV consultation as to whether the fiscal data provided by the authorities were adequate for surveillance. A key issue was the discrepancy between data on government financing and on government debt, which led to an upward revision of the fiscal deficit for 1998/99. Subsequently, an updated comprehensive fiscal reporting framework was developed with the authorities, covering fiscal data from 1998/99 onwards. Data for earlier years, for which discrepancies between debt and financing data also exist, have not been revised. In 2001, the authorities began to use the new fiscal reporting framework for the compilation and provision of fiscal data to Fund staff. Refinements in the calculations of government financing were made in early 2002. Staff resources at the Ministry of Finance for the calculation of fiscal data are limited, and all processes in the accounting system are done manually, which has an impact on efficiency. Fiscal data are reported primarily on a cash basis. However, investment expenditures in the budget sector and the accounts of the Social Insurance Funds and economic authorities are reported on an accrual basis. A new budget classification system broadly in compliance with *GFSM-2001* was developed during 2004 with assistance from FAD, and will be used for the

2005/06 budget. Since SDDS subscription, fiscal data are published on a quarterly basis with a lag of 45 days. Egypt does not report fiscal data for publication in the *International Financial Statistics* (*IFS)*; annual data—through 2002—are reported for the *Government Finance Statistics* (*GFS) Yearbook.* The authorities will be encouraged to resume regular reporting of fiscal data.

6. **Monetary statistics**. The statistics are comprehensive and reported regularly. The 2003 Data ROSC identified the possibility that foreign assets and foreign liabilities of the banking sector, as recorded in the monetary statistics, could be overstated because one offshore bank located in Egypt is erroneously treated as a nonresident entity. Since October 2002, the CBE has been recording outstanding auction balances and reverse repurchase operations as part of reserve money rather than excluding them as suggested in the *Monetary and Financial Statistics Manual.*

7. **Data dissemination.** Egypt subscribed to the SDDS on January 31, 2005. Egypt availed itself of its two allowed flexibility options under the SDDS on issues related to the timeliness and periodicity of government operations, and labor market data.

8. **Data ROSC.** A data ROSC was conducted in October 2003. The authorities provided their official response to the draft in March 2005, but have not yet indicated their consent to publishing the ROSC. Consequently, data ROSC ratings are not reflected in the Table of Common Indicators Required for Surveillance (TCIRS).

Table 1. Egypt: Common Indicators Required For Surveillance

As of April 7, 2005

	Date of latest observation	Date received	Frequency of Data 1/	Frequency of Reporting 1/	Frequency of publication 1/
Exchange Rates	real time	real time	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 2/	Feb 05	10 Mar 05	M	M	M
Reserve/Base Money 3/	Jan 05	Mar 05	M	M	M
Broad Money	Jan 05	Mar 05	M	M	M
Central Bank Balance Sheet	Jan 05	Mar 05	M	M	M
Consolidated Balance Sheet of the Banking System	Jan 05	Mar 05	M	M	M
Interest Rates 4/	real time	real time	D	D	D/I
Consumer Price Index 5/	Feb 05	31 Mar 05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – General Government 6/ 7/ 8/ 9/	Q2 2004/05	Feb 2005	I	I	Q/I
Revenue, Expenditure, Balance and Composition of Financing – Budget sector 6/ 7/ 9/	Q2 2004/05	Feb 2005	I	I	Q/I
Stocks of General Government and General Government-Guaranteed Debt 10/ 11/	Dec 2004	Feb 2005	I	I	A/Q
External Current Account Balance 12/ 13/	Q2 2004/05	Feb 2005	I	I	Q
Exports and Imports of Goods and Services 12/ 13/	Q2 2004/05	Feb 2005	I	I	Q
GDP/GNP 14/	Q2 2004/05	31 Mar 05	Q	Q	Q
Gross External Debt 15/	Q1 2004/05	Feb 2005	I	I	Q

Footnotes

1/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

2/ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

3/ The authorities' definition includes reverse repurchase operations and deposit auctions as part of reserve money.

4/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds. Market rates are available daily (D), but the frequency of official rates, and the calendar of auctions, are irregular (I).

5/ The basket and outlet samples are outdated; subsidized and controlled goods and services dominate the sample, introducing downward bias in the index; statistical techniques used to compile data are outdated; assessment and validation are limited to simple techniques.

6/ The general government consists of the budget sector (state and local governments), GASC, NIB and the social insurance funds.

Table 1: Common Indicators Required For Surveillance (continued)

7/ Some financing data are available in the quarterly report of the Ministry of Finance; comprehensive, detailed data on financing, are obtained during IMF staff missions only.

8/ The consolidation of the general government does not include many debt-creating operations that should be recorded as expenditures (or foregone revenues) of the various entities. These are only captured in disaggregated financing data. When consolidating the financing data, these operations are recorded as negative financing items, thereby understating the true fiscal position.

9/ State-owned enterprises and banks carry out quasi-fiscal activities (e.g. fuel and electricity subsidies, concessional loans) that are not reported in budget documents. Defense data excludes grant-financed expenditure. In addition, the mixture of accounting methods (mainly cash basis for current spending and partial accruals-basis for investment and capital spending) further distorts fiscal aggregates and creates difficulties for fiscal analysis.

10/ Domestic debt data is produced on a monthly basis, whereas data on external debt is produced on an annual basis.

11/ The consolidation of public debt data in official reports: (i) does not eliminate transactions and reciprocal stock positions among entities belonging to the same government unit; and (ii) does not include the stock of government arrears because the data is not available. Debt data received by Fund staff does not include details on the structure of debt (e.g. currency denomination and maturity composition).

12/ Oil exports by foreign oil companies operating in Egypt are not recorded, and spending in the Egyptian economy by these companies is included as a foreign exchange inflow in the current account.

13/ Source data for merchandise trade have problems (see www.data-egypt.org). Source data for other current account items, based on banks' foreign exchange records, also have weaknesses.

14/ The business register is outdated; the unorganized private sector is largely not covered; no current statistics are available to track household final consumption expenditures; and no adjustment is made to commercial data on inventories and consumption of fixed capital. The quarterly GDP series is not well established (undergoes frequent revisions), and no extensive investigations into the accuracy of the sources is made.

15/ Flows in short-term external debt as per the balance of payments are inconsistent with changes in the stock of short-term external debt.

Statement by A. Shakour Shaalan, Executive Director for the Arab Republic of Egypt
May 18, 2005

Introductory Background

We thank staff for their work on Egypt. However, the staff report before us does not do justice in capturing the recent economic developments in the country. Essentially, the report provides a snapshot of the many reforms that have been introduced since the new government took office last summer, without reflecting the scope and scale of the efforts made thus far, especially when gauged against the relatively short time span in which they were introduced. More importantly, the report makes no attempt to take into account the new reforms in assessing the economic outlook for the country.

The sharp turnaround in the direction of economic policies since mid-2004 ushers in a new and more dynamic economy underpinned by reforms in key areas. The measures already taken, along with those contemplated for implementation, are comprehensive in nature, including in particular monetary and exchange rate policy, fiscal and financial sector reforms, and several key structural reforms described by staff as an "aggressive set of reforms" which the authorities believe will not only fuel higher economic growth but further integrate the country in the global economy. It is particularly noteworthy that the staff analysis contrasts sharply with a range of market-based assessments. These are reflected in the strong behavior of the stock market, the stability of the exchange rate, the narrowing of Egypt's spread on external bonds to 83 basis points above comparable Treasuries, the upward revision of the long-term outlook on local currency from negative to stable by credit rating agencies, as well as the increased inflows of funds from abroad.

Building on the economic recovery initiated last year, economic growth further accelerated to 4.8 percent in the first half of 2004/05, on account of strong growth in exports and some pick up in consumption, while inflation declined significantly to 5.7 percent in March 2005 and the exchange rate stabilized following the float in January 2003. Underpinning this recovery and its sustainability is the accelerated pace of economic reforms. In addition to several reforms in the fiscal area, accomplishments include significant cuts in tariff rates, accelerated privatization of state enterprises, and time-bound divestiture of state ownership in the banking and non-banking sectors. The overall stimulus from the reform is expected to increase growth and expand revenue generating capacity in the medium term.

Fiscal Policy and Reforms

A major pillar of the reform program is fiscal consolidation as well as a strengthening of the budget structure. A new income tax law to reduce tax rates, simplify the tax structure, and render it more transparent is currently being discussed by the People's Assembly. Under the proposed new law, tax rates on corporate profits and across sources of personal income would be unified. While rate reductions would lower revenues in the short run, other measures introduced by the legislation, notably the elimination of all exemptions and tax holidays, in addition to the increase in prices of domestic energy products and electricity should offset this shortfall. The law also introduces measures to expand the tax base, including through provisions to encourage the informal economy to legalize its status.

Efforts to increase budget transparency are also underway, most notably through the inclusion of implicit subsidies in explicit lines in the budget. The authorities are also intensifying efforts to improve public expenditure management. To this end, a budget classification that conforms to the GFS Standards will be used for the 2005/06 budget and work is ongoing to establish a Single Treasury Account. Despite slightly tightened expenditures, the consolidated fiscal deficit, which includes the budget sector, the National Investment Bank, the General Authority for the Supply of Commodities, and the Social Insurance Funds, is expected to widen by 0.6 percent to 3.1 percent of GDP, mainly on account of reduced revenues from tariffs. Other debt creating operations amount to about 4 percent of GDP. It is well to note that public borrowing related to other debt-creating operations has been on a declining trend since 2001/02. The authorities intend to further reduce these expenditures through additional fiscal measures over the next three years.

The staff report contends that the authorities were not prepared to endorse staff recommendations for a multi-year fiscal consolidation strategy. There must have been a misunderstanding as the Minister of Finance clearly indicated to me that this was not the case. The budget proposal for 2005/06 (fiscal year beginning July 1) was not ready by mid-February when the mission visited Egypt. Subsequently, the proposed budget for the year was submitted to the People's Assembly and is based on a multi-year framework which aims at reducing the budget deficit to half its present level, excluding the Social Insurance Funds.

Debt Sustainability Analysis

No one can doubt the usefulness of debt sustainability analyses as an important diagnostic tool in identifying debt problems and addressing them in a timely manner. An important, or even crucial, input in such analysis is the set of assumptions underlying the medium-term debt projections. The authorities are well aware that the level of net domestic public debt is on the high side and is to be reduced in the medium term, particularly in view of the cost of the planned financial sector reforms. The external debt is not vulnerable even under adverse scenarios, in view of the adequate level of reserves in relation to short term foreign debt and the strong balance of payments position. But the staff's view is unduly reserved when they maintain there is "no major vulnerability".

The authorities have difficulty in accepting the debt projections. A comparison of baseline projections of debt contained in last year's Article IV report shows that without additional measures to those anticipated, there would be a sharp deterioration in the debt-to-GDP ratio by 2008/09. In the report before us, the net public debt-to-GDP ratio in 2004/05 is now projected to decline from the earlier staff projections. Thus, whereas the projection made in 2004 indicates a 14 percentage point increase in the debt ratio over the period 2003/04–2008/09, in this year's staff report, and for the same years, the baseline scenario indicates an increase of only 2 percentage points. In view of the above, there appears to be a flaw in the methodology and/or the assumptions underlying the projections that needs to be addressed.

The adjustment scenario, assuming an annual one percentage point decline, allows for the debt ratio to fall to sustainable levels, even though the assumptions underlying the staff projections suffer from a number of shortcomings. First, the rate of growth going forward is assumed to remain below 5 percent because it is constrained, as staff put it, by the budget deficit and the high debt. Second, privatization proceeds, the major part of which will be used to reduce the stock of debt, are not taken into account in the projections. Finally, the impact of the far-reaching reforms that have taken place, and those being readied for implementation, are not explicitly taken into account in the debt ratio calculations. Addressing these shortcomings in the projections should reduce the debt ratios further.

Monetary, Exchange Rate, and External Sector Issues

As Directors may recall, the Egyptian pound was pegged to the dollar, within a trading band of 3 percent around the central bank rate until January 2003 when the pound was permitted to float with no pre-announced path for the exchange rate. However, owing to the pressures on the rate and in the absence of complete flexibility, a parallel market emerged as not all current account transaction demands were met by the banking system. Over time, the parallel market and the banking rates converged, and in December 2004 an official interbank market with no exchange restrictions was launched. Since then, Egypt has successfully floated the pound without intervention from the central bank. Trading activity in the interbank market has surged since its launching, and has now stabilized in terms of volume and portfolio composition. Consequently, the exchange rate stabilized, and even appreciated in early 2005. The difference between the interbank exchange rate and the central bank rate has been consistently below 2 percent. Although the authorities clearly informed the staff that they will allow market forces to determine the exchange rate, staff insists on encouraging them to tolerate fluctuations. This is needless advice which imparts the idea that the authorities were planning to intervene to prevent potential fluctuations, which is not the case.

While the road to attaining a freely floating rate was at times bumpy, the establishment of a freely floating exchange rate system represents a major accomplishment that this Board has been calling for over the years. Since the float, foreign exchange reserves have increased to more than US$18 billion (equivalent to 7.5 months of imports), underpinned by a healthy surplus on the current account with exports continuing to benefit from the real depreciation of the pound that took place during the past two years. The balance of payments is in a strong position and all indications point to a resilient continuation of this trend. Further on the external sector, export surrender requirements, which were introduced during the transition to a freely floating rate, have been abolished. The long overdue acceptance of obligations under Article VIII, Sections 2, 3, and 4 was communicated to the Fund earlier this year.

The authorities are committed to a monetary policy framework that promotes price stability. The central bank has been receiving technical assistance from the Fund, the European Central Bank and donor countries to establish a robust infrastructure to this end. The central bank has tightened monetary policy in the second half of 2004 largely in preparation for launching the float. While it is true that pressures on prices were emerging, these reflected the increases in domestic prices of energy and electricity, the pass-through effect of the exchange rate depreciation, as well as the global spike in commodity prices. The staff attributes the pressure on prices to loose monetary policy and further add that the monetary tightening of the second half of 2004 was insufficient, and that until December 2004, no indications of lower prices appeared on the horizon. That is not surprising. Even if price pressures had emanated from the accommodative policy stance, the transmission from the policy to prices is not instantaneous. After peaking in October to over 12 percent, inflation eased considerably in the first two months of 2005, but the staff refer to that casually. Following the return of the mission the CPI fell further to 5.7 percent in March 2005, largely on account of the fading impact of the depreciation. These developments in the CPI rate certainly point to the higher probability that the increase in prices last year was more depreciation-related.

It is well to note that, with real interest rates now positive and with the central bank absorbing sizable amounts of incremental liquidity from the system, the proposed additional tightening of monetary policy suggested by staff was, and still is, not warranted. Growth in private sector credit has remained sluggish. While this may reflect the lingering effects of credit excesses experienced in the late 1990s and an excessively cautious lending stance by commercial banks, the slow recovery in private sector credit is of concern to the authorities, who have undertaken a series of financial sector reforms to accelerate the recovery of private sector activity.

The authorities are advancing firmly towards an inflation targeting framework for monetary policy. To this end, the central bank has taken steps on two parallel fronts. The first focuses on enhancing the design and focus of its monetary policy, including, as referred to by staff, through introducing additional instruments to its toolkit such as reverse repurchase operations, and developing in-house capability to devise and implement, as mentioned earlier, a coherent monetary policy framework. The second front focuses on improving the construction of key inflation measures, namely the consumer price and the wholesale or producer price indices, through technical assistance from the Fund and other national statistical agencies.

Financial Sector Reforms

To reduce the size of the public sector and enhance the role of the private sector, the authorities have embarked on an ambitious and comprehensive financial sector reform plan to be completed over a five-year span. The cornerstone of this reform agenda is a major public sector restructuring in the banking and insurance sectors. The authorities disagree with staff's contention on the lack of specifics regarding the modalities and time frame for implementation of financial sector reforms. Indeed, the reform process is far from ad-hoc and is guided by a well thought out master plan that addresses specific tasks with defined target dates. This plan has been reviewed and endorsed by the World Bank along with a number of renowned international bankers, lawyers and restructuring specialists. The program is now in the implementation phase and ahead of schedule. Specifically, the reform strategy is framed to methodically and systematically address three key issues: (i) strengthening the banking system through consolidation and privatization of smaller joint venture and public sector banks, (ii) restructuring of public sector banks, including through recapitalization, and (iii) resolution of the problem of non-performing loans (NPLs).

Main accomplishments to date include the completion of four merger and/or sale transactions of joint venture banks with nine more transactions expected by end-2005, as well as the initiation of the privatization process of Bank of Alexandria under the supervision of an international audit firm whose terms of reference conform to the IAS standards. With respect to restructuring, an international team of expertise is in place to evaluate the loan portfolios of public sector banks and assess their risk profiles, under the supervision of the Banking and Restructuring Unit (BRU) of the central bank and in collaboration with the European Union. The European Central Bank has also been actively involved in the restructuring of banking supervision at the central bank through a project that it describes as the largest in its history.

With respect to funding the recapitalization needs of the public sector banks, the central bank is contemplating the activation of a US$2 billion guarantee facility under the supplemental agreement with the U.S. Treasury to partly finance the recapitalization. The World Bank has also been solicited to coordinate part of the international funding to be raised from donor countries and agencies, as well as assist in setting the mechanisms and timing of the recapitalization process with a view of linking recapitalization to the resolution of NPLs.

Regarding NPLs, a monitoring unit was established in the central bank, with counterpart units in public sector banks. A number of very large cases have been resolved, resulting in the successful rescheduling of over 26 percent of private sector NPLs with public sector banks. Consequently, the central bank initiated a new comprehensive program for resolving conflicts between borrowers and banks which was approved by the central bank board and communicated to the market. In its initial stage, the program targets 246 borrowers with over LE 100 million each and comprising 55 percent of NPLs in the public sector. The Arbitration Committees to oversee the documentation and procedures for this complex process have already been established. Additionally, target dates have been set for the resolution of all NPLs in public sector banks within 18 months, the progress of which is being monitored on a quarterly basis by the BRU of the central bank.

In the insurance sector, the plan aims to expand private sector participation, including through privatization of one of four state-owned insurance companies. Other measures are underway to develop the mortgage market, deepen the capital market, and strengthen financial regulation and supervision. These measures represent an important initiative to stimulate private sector growth.

Structural Reforms and Other Issues

The government has stepped up its privatization program while also modifying its approach in privatizing state-owned companies by offering these companies for sale before their restructuring is completed. The sale price therefore reflects the commitment of the buyer to future investment in the company and assumption of its liabilities, including its workforce. Under this approach, the government is relieved of the substantial investment costs typically incurred to restructure these companies prior to their sale. Between July 2004 and April 2005, a total of 22 companies had been privatized, yielding approximately LE 3.3 billion in proceeds—which exceed the combined proceeds of the past four years. The majority of these proceeds will be used to reduce the stock of government debt. It should be pointed that total employment in state-owned enterprises has been reduced drastically from 1.3 million workers to 400 thousand workers since the privatization process began in 1991.

As regards the trade and the regulatory regimes, these have been liberalized considerably with the implementation of tariff reforms in September 2004. The weighted average tariff rate was reduced from 14.6 percent to 9.1 percent, with the biggest cuts effected on imports of raw and intermediate industrial products. The tariff structure was simplified and rendered more transparent by reducing the number of *ad valorem* tariff rates from 27 to 6. Various exemptions were removed and all export taxes, as well as several service fees and import surcharges, were eliminated. The trade system was rendered more business friendly by removing sources of discretionary determination of custom rates on industrial and non-industrial imports. These tariff reductions are only the first step to further reductions in tariff levels. Customs administration reforms aimed at simplifying the system have been underway for some time.

Egypt has also met some important milestones with respect to data issues. In January 2005, Egypt formally subscribed to the IMF Special Data Dissemination System (SDDS). Additionally, the authorities participated in a Data ROSC in 2003, the recommendations of which are currently being adopted by the relevant authorities, with technical assistance from the Fund. Specifically, the authorities have recognized the shortcomings in the balance of payments statistics, particularly in recording FDI inflows, and in their price statistics. The authorities have requested Fund assistance in these two areas, given the importance of FDI flows to the oil and gas sector in Egypt, and in view of their efforts to move to a full fledged inflation targeting regime over a two-year span. The government has a heightened awareness of the importance of improving the country's statistical base to keep up with the pace of its reforms and to support its ambitious reform agenda. Work on this aspect is underway.

Finally, the authorities recognize the challenges that lie ahead in sustaining the pace of economic reforms to reinvigorate the domestic economy and stimulate private and foreign investment. The accomplishments thus far have instilled a renewed sense of confidence in the economy and could act as an impetus for further far-reaching reforms to address the ambitious agenda. I would like to conclude by expressing our gratitude to the Fund for the provision of valuable technical assistance in support of the reform effort.

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IMF Executive Board Concludes 2005 Article IV Consultation with the Arab Republic of Egypt

On May 18, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Arab Republic of Egypt.[1]

Background

The direction of economic policies in Egypt changed sharply in 2004 with the appointment of a pro-reform cabinet led by Prime Minister Nazif. The new economic team moved aggressively on key structural reforms in the areas of trade, taxes, and subsidies, and launched plans to restructure the financial system, privatize most state companies, modernize the fiscal accounts, and strengthen monetary policy. Thus far, the authorities have sold their stake in 17 nonfinancial companies and two financial entities. In January 2005, Egypt subscribed to the IMF's Special Data Dissemination Standard (SDDS) and accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement.

The economic recovery gained steam in 2004. Driven by strong growth in exports of goods and services, real GDP advanced by 4.8 percent in the first half of 2004/05 (July-December). Confidence has rebounded, as reflected in the surge in the stock market and the recent appreciation in the pound. Egypt made the transition to a unified, flexible exchange rate regime in December 2004 with the establishment of a formal interbank market for foreign exchange

[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. 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.

and the elimination of the surrender requirement. Favorable trends in the balance of payments have contributed to the orderly functioning of the market since its inception.

Egypt's external position has strengthened further. All foreign exchange generating activities exhibited robust growth during 2004. The surplus in the external current account rose to 4.4 percent of GDP in 2003/04, and is expected to be slightly higher in 2004/05. This strength reflects improved competitiveness stemming from the real depreciation of the pound since 2001, as well as other external factors, such as higher oil prices and higher Suez Canal traffic. Strong current account flows enabled banks to strengthen their net foreign asset position; the Central Bank of Egypt (CBE) also took advantage of market conditions to build up its reserve position. Total external debt remained stable at about US$29 billion (31 percent of GDP) at end-2004.

Monetary policy was tightened in 2004, but not by enough to contain inflation at single digit rates. Annual CPI inflation (12-month rate) stayed close to 12 percent for most of the year. With nominal interest rates remaining in the 10–13 percent range, real interest rates were close to, or below, zero throughout 2004. Recently released data shows a decline in consumer and wholesale prices in the first two months of 2005, bringing 12-month rates of inflation into single digits.

Total government borrowing in 2003/04 was 6.6 percent of GDP, due in part to the deficit of the general government, which was 2.5 percent of GDP (unchanged from 2002/03). As in previous years, however, most of the borrowing (4.1 percent of GDP) was related to other debt-creating operations of the government captured in the official financing data but not included in the published measure of the deficit. Over half of those operations were related to transactions of the National Investment Bank (NIB). Gross public debt reached a peak of 112 percent of GDP in June 2004, but government deposits with banks grew at a faster pace, reaching 46 percent of GDP by end-2003/04. Net public debt was LE 312 billion in June 2004 (65.7 percent of GDP). The cost and maturity structure of government debt, and the implied vulnerabilities, have not deteriorated.

The credit excesses of the late-1990s have continued to weigh heavily on banks, hindering their ability to contribute to the recovery. Bank credit to the private sector declined again in real terms in 2004, and most of the recent expansion in banks' domestic claims has been to the government. Nonperforming loans rose to over 25 percent of total loans in September 2004, compared to 20 percent in June 2003.

In the period ahead, external conditions are expected to remain favorable, and the recovery is likely to firm. Preliminary data suggest a continuation of recent trends in government borrowing in 2004/05. This outlook implies a small increase in the general government deficit on account of lower customs and nontax revenues, and no change in the level of other debt-creating operations. Net public debt is expected to rise to LE 350 billion by June 2005. Presidential elections by direct popular vote are scheduled for September 2005.

Executive Board Assessment

Directors welcomed the clear change in the direction of economic policies in Egypt since the 2004 consultation. They commended the authorities on their comprehensive economic reform program and the impressive achievements to date. Directors welcomed the priority being attached to modernizing the public sector and to reducing government interference in market mechanisms. They welcomed the decisive measures taken in the areas of customs tariffs, taxes, and subsidies, the ambitious programs of privatization and financial sector reform, and the improvements in transparency. Directors considered that these policy achievements have increased market confidence. They also noted the strengthening of the externally-driven recovery, as well as the positive developments in the foreign exchange market and the recent good news on the inflation front.

Notwithstanding the substantial progress attained since mid-2004, Directors noted that the challenges ahead to build a dynamic, private sector-driven economy in Egypt remain considerable. They noted that output growth remains below the minimum required to absorb labor force growth, the financial sector is weak, and government borrowing and debt are still high, while acknowledging that the structure of Egypt's public debt makes it less vulnerable to exchange rate and interest rate shocks. Directors encouraged the authorities to sustain the current pace of structural reform while pursuing fiscal consolidation and a prudent monetary policy. These policies would help bring about the robust responses of private investment and output growth that are needed to reduce unemployment and poverty. Directors were encouraged by the authorities' awareness of these challenges and their commitment to implement the reforms necessary to address them.

Directors congratulated the authorities on the successful unification of the exchange rate. In particular, they applauded the disappearance of the parallel market premium, which has removed a serious distortion from the economy, and the launching of the interbank market for foreign exchange. Directors also welcomed Egypt's acceptance of the obligations of Article VIII, Sections 2, 3 and 4. They noted that a market-determined, flexible exchange rate would be beneficial for foreign investment, increase the economy's resilience to shocks, and improve macroeconomic management. Directors welcomed the authorities' commitment to continue to let the exchange rate be determined by market forces and to tolerate short-term fluctuations in the rate.

Directors recognized that the Central Bank of Egypt (CBE) has continued work to strengthen the monetary policy framework over the past year. They encouraged the CBE to intensify these efforts, and to continue developing a cohesive and credible monetary policy framework that effectively anchors inflation expectations in the context of a flexible exchange rate, and that relies on a proactive interest rate policy. In this context, the importance of strengthening central bank independence was stressed. Many Directors also pointed to the shortcomings with the price indices in Egypt and highlighted the difficulties these posed for assessing the monetary policy stance and for improving monetary policy formulation. Directors therefore urged the authorities to intensify efforts to produce more reliable price statistics.

While the conduct of monetary policy has improved during 2004, Directors were of the view that, in the near term, monetary policy needs to be more forward-looking and provide better guidance to the market, including with a well-understood nominal anchor. In this regard, a number of Directors encouraged the central bank to communicate more clearly its short-term monetary policy strategy, including by making periodic announcements about the general direction of monetary policy. These actions would also enhance the credibility and transparency of the central bank and help anchor inflationary expectations while the monetary policy framework is being strengthened. Directors therefore welcomed the central bank's intention to improve its communications policy. They underscored that monetary policy should continue to focus on achieving low inflation, and encouraged the authorities to remain vigilant with a view to adapting monetary conditions as necessary.

Directors welcomed the authorities' focus on fiscal reform in their overall policy agenda. In particular, they praised the decisive actions taken during 2004 in the areas of tariff reform, income tax reform, and subsidies, and welcomed the plans being developed to increase the transparency of subsidies and improve tax administration. Directors also welcomed the ongoing efforts to modernize Egypt's budget and improve treasury cash management. Directors agreed that the latter reforms were necessary conditions for an efficient control of government expenditure and would improve the measurement of the fiscal balance. However, most Directors noted that these reforms by themselves would not result in lower government spending or borrowing unless supplemented with concrete expenditure-reducing measures, such as pruning subsidies and the government wage bill.

Directors emphasized that implementing a multi-year strategy of fiscal consolidation that lowers total government borrowing and places public debt on a firmly declining path would be crucial for achieving a robust response from private investment and growth. Directors also noted that the fiscal costs of the financial sector reform, which can be significant, further strengthen the case for sizable medium-term fiscal consolidation. They therefore welcomed the authorities' commitment to set ambitious deficit-reduction targets using a multi-year framework. However, as the official deficit accounts for only a fraction of total government borrowing, a few Directors suggested setting specific targets on government borrowing to ensure that government debt follows a declining path.

Directors indicated that effective control over all government spending is necessary to design an efficient fiscal consolidation strategy. Many Directors also attached importance to reducing off-budget outlays and integrating them into the budget. In this regard, they noted that bringing the investment budget under the full control of the Ministry of Finance would strengthen control over government spending over the medium term. Directors encouraged the authorities to make the necessary institutional changes, including those affecting the National Investment Bank, a priority of Egypt's public sector reform.

Directors commended the progress made in strengthening the macroeconomic database during 2004 and praised Egypt's subscription to the Special Data Dissemination Standard (SDDS). Directors were pleased to learn that the authorities are turning their attention to improving the quality of statistics, noting that the country's economic data continue to suffer from a number of deficiencies. Directors encouraged the authorities to improve coordination among agencies and to implement the methodological improvements suggested in the 2003 Data ROSC. In this connection, they noted that priority should be given to improving the fiscal accounts, price statistics, and the balance of payments.

Directors strongly endorsed the financial sector reform and privatization programs launched by the government, which focus on strengthening the banking system through consolidation and privatization of small joint venture and public sector banks; restructuring of public sector banks, including through recapitalization; and resolution of the problem of non-performing loans. They were encouraged that the process encompasses key goalposts with defined target dates, and encouraged the authorities to implement the program fully and to adhere to the envisaged time frame. Directors supported the authorities' efforts to obtain a diagnosis of the financial position of state banks, noting that an estimate of their potential recapitalization needs would be critical for the success of the program and efficient fiscal consolidation.

Directors welcomed the relaunching of Egypt's privatization program. They noted that the sales finalized since late 2004 and the public listing of companies up for sale in 2005 attested to the government's commitment to the program. Directors encouraged the authorities to closely adhere to their targets, and to incorporate the proceeds expected from the divestitures in a medium-term fiscal framework. Directors welcomed the authorities' decision to channel all privatization proceeds through the Ministry of Finance, and to allocate the bulk of the proceeds to retiring government debt.

Directors applauded the September 2004 reform of Egypt's tariff regime, and encouraged the authorities to consider further cuts in import tariffs as well as streamlining the exemptions and duty relief schemes not addressed by last year's reform. More generally, Directors encouraged the authorities to continue forging ahead with structural reforms that create employment opportunities and help alleviate poverty, including reforms to labor market legislation.

Directors noted that external vulnerability is low, and that the medium-term outlook for Egypt's balance of payments remains favorable. They were of the view that the ongoing development of Egypt's tourism potential and vast gas resources bodes well for Egypt's balance of payments over the medium term. Several Directors pointed to weaknesses in the official estimates of Egypt's balance of payments, noting that those weaknesses affect the authorities' ability to assess cyclical macroeconomic conditions and to undertake timely policy responses. Directors welcomed the authorities' resolve to address these issues.

Directors welcomed the increase in the transparency of economic policies in Egypt. They took note of the authorities' intentions to make further progress in the area of transparency.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report for the 2004 Article IV Consultation is also available.

Arab Republic of Egypt: Selected Economic Indicators 1/

	2001/0	2002/0	2003/0	Proj. 2004/0	Proj. 2005/0
Real Sector					
Real GDP growth	3.2	3.1	4.1	4.8	5.0
CPI inflation (12-month change, average)	2.4	3.2	8.1	9.6	8.0
Unemployment rate (in percent)	10.2	11.0	10.7	10.4	10.1
Public Finances					
Balance of the general government (in percent	-2.5	-2.4	-2.5	-3.1	-2.9
Other debt creating operations (in percent of	-5.4	-4.7	-4.1	-4.0	-4.0
Net public debt (in percent of GDP)	61.9	65.9	65.7	63.7	63.9
Money and credit					
Broad money growth (annual rate)	15.3	17.3	13.2	13.2	16.3
Net claims on government sector (annual	25.5	24.2	20.3	17.6	16.1
Credit to the private sector (annual growth rate)	7.9	1.6	3.9	3.9	4.2
Interest rates on 91-day treasury bills (in	7.8	8.3	8.4	...	...
External Sector					
Trade balance (in percent of GDP)	-8.6	-8.1	-10.2	-9.9	-9.0
Current account balance (in percent of GDP)	0.6	1.9	3.4	4.2	3.5
Reserves (in billions of U.S. dollars)	14.1	14.8	14.8	17.2	19.9
(in months of imports of goods and	8.7	9.1	7.6	7.2	7.6
Gross external debt (in percent of GDP)	32.8	35.3	37.6	31.3	29.0
Exchange rates					
Egyptian pounds per U.S. dollar (average)	4.33	5.13	6.16	...	...
Real effective exchange rate (average; percent change)	-13.0	-20.1	-21.6	...	...

Sources: Egyptian authorities; and IMF Staff estimates.

1/ Egyptian fiscal year ends June 30.