



# ARAB REPUBLIC OF EGYPT

July 2018

## REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND FOR MODIFICATION OF A PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the Third Review Under the Extended Arrangement Under the Extended Fund Facility, and Requests for a Waiver of Nonobservance of a Performance Criterion and for Modification of a Performance Criterion, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 29, 2018, following discussions that ended on May 17, 2018, with the officials of the Arab Republic of Egypt on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 20, 2018.
- A **Statement by the Executive Director** for the Arab Republic of Egypt.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Arab Republic of Egypt\*  
Memorandum of Economic and Financial Policies by the authorities of the Arab Republic of Egypt\*

Technical Memorandum of Understanding\*

\*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND



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July 2, 2018

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Washington, D.C. 20431 USA

### **Egypt: IMF Executive Board Completes Third Review under the Extended Fund Facility (EFF)**

On June 29, 2018, the Executive Board of the International Monetary Fund (IMF) completed the third review of Egypt's economic reform program supported by an arrangement under the Extended Fund Facility (EFF). The completion of the review allows the authorities to draw the equivalent of SDR 1,432.76 million (about US\$ 2.02 billion), bringing total purchases to SDR 5,731.05 million (about US\$ 8.06 billion).

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

In completing the review, the Executive Board also approved the authorities' requests for a waiver of non-observance and modification of performance criteria.

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

The economic situation has continued to improve during 2018. Strong program implementation and generally positive performance has been instrumental in achieving macroeconomic stabilization, with external and fiscal deficits narrowing, inflation and unemployment declining, and growth accelerating. The near-term growth outlook is favorable, supported by a recovery in tourism and rising natural gas production, while the current account deficit is expected to remain below 3 percent of GDP and the public debt ratio to decline markedly by 2023.

Monetary tightening in 2017 helped anchor inflation expectations after the devaluation and fuel price hikes in 2016. The Central Bank of Egypt should maintain its restrictive stance to contain second-round effects of fuel and electricity price increases, with future policy

changes guided by inflation expectations and demand pressures. Exchange rate flexibility is critical to safeguard competitiveness and help cushion against external shocks.

The authorities' fiscal consolidation plan remains on track, and this year's surplus target appears likely to be met. The ongoing energy subsidy reform is critical to support fiscal consolidation and encourage more efficient energy use, and next year's budget continues to replace poorly targeted energy subsidies with programs that support poor households. The recently approved automatic fuel price indexation mechanism, once implemented, will also help safeguard the budget from unexpected changes in the exchange rate and global oil prices, and ensure that fiscal resources are available to support the most vulnerable.

A more inclusive private sector-led growth model is essential to absorb the significant increase in the labor force expected over the next five years. The expanded structural reform agenda under the authorities' reform program aims to address key impediments to private sector development, including steps to enhance transparency in industrial land allocation, strengthen competition and public procurement, improve transparency and accountability of state-owned enterprises, and tackle corruption.

External risks have increased in recent months, with a shift to capital outflows as tightening global financial conditions have contributed to a pullback by investors from emerging markets. The healthy level of foreign reserves and flexible exchange rate leaves Egypt well positioned to manage any acceleration in outflows, but this reinforces the importance of a sound macroeconomic framework and consistent policy implementation.

**Table 1. Egypt: Selected Macroeconomic Indicators, 2014/15–2018/19 1/**

	2014/15	2015/16	2016/17	2017/18		2018/19	
				Second Review	Revised Proj.	Second Review	Revised Proj.
Output and prices				(Annual percentage change)			
Real GDP (market prices)	4.4	4.3	4.2	4.8	5.2	5.5	5.5
Consumer prices (end of period)	11.4	14.0	29.8	11.9	12.6	15.2	13.1
Consumer prices (period average)	11.0	10.2	23.5	21.0	20.8	13.7	14.4
Public finances 2/				(In percent of GDP at market prices)			
Gross Debt	88.5	96.9	103.0	91.3	92.4	86.7	86.2
External	7.9	7.8	18.1	16.7	18.5	17.7	17.0
Domestic	80.5	89.0	84.9	74.6	73.9	69.0	69.2
Budget sector 3/							
Revenue and grants	19.0	18.1	19.0	18.8	18.2	18.7	18.6
Expenditure (incl. net acquisition of financial assets)	30.5	30.7	29.9	28.0	27.9	26.1	26.7
<i>Of which: Energy subsidies</i>	4.0	3.0	4.1	3.1	3.4	1.2	2.1
Overall balance	-11.4	-12.5	-10.9	-9.2	-9.7	-7.4	-8.1
Overall balance, excl. grants	-12.5	-12.7	-11.4	-9.2	-9.7	-7.5	-8.1
Primary balance 4/	-3.5	-3.5	-1.8	0.2	0.2	2.1	2.0
Monetary sector				(Annual percentage change)			
Credit to the private sector	16.7	14.2	38.0	10.5	7.5	11.2	18.2
Reserve money 5/	33.3	29.3	-7.8	39.4	40.2	17.8	27.6
Broad money (M2)	16.4	18.6	39.3	20.4	23.4	19.7	19.8
Treasury bill rate, 3 months (average, in percent)	11.4	11.8	17.5	17.4	18.5	...	...
External sector				(In percent of GDP, unless otherwise indicated)			
Exports of goods (in US\$, percentage change)	-14.7	-15.9	15.9	7.0	13.8	12.7	16.5
Imports of goods (in US\$, percentage change)	1.9	-6.4	1.5	-0.1	4.5	7.6	10.0
Merchandise trade balance	-11.8	-11.6	-14.3	-13.5	-14.5	-12.5	-12.5
Current account	-3.7	-6.0	-6.0	-4.5	-2.8	-4.0	-2.6
Capital and financial account (incl. errors and omissions)	5.5	5.1	5.2	3.2	5.0	1.6	1.8
Foreign direct investment (net, in billions of US\$)	6.2	6.8	7.7	8.4	7.8	9.9	9.5
External debt 6/	15.0	18.3	41.3	34.6	34.5	30.3	29.9
Gross international reserves (in billions of US\$)	19.5	17.1	30.7	34.5	44.4	33.0	44.8
In months of next year's imports of goods and services	3.5	3.0	5.2	5.7	6.8	5.2	6.1
In percent of short-term external debt 7/	280.6	157.7	121.3	89.3	146.2	76.9	191.4
Financing gap (in billions of US\$)	...	...	...	0.0	0.0	2.6	1.1
Memorandum items:							
Nominal GDP (in billions of Egyptian pounds)	2,444	2,709	3,470	4,418	4,436	5,292	5,365
Nominal GDP (in billions of US\$)	332	332	256	...	...	...	...
GDP per capita (in US\$)	3,731	3,686	2,704	...	...	...	...
Unemployment rate (period average, percent)	12.9	12.7	12.2	11.2	11.1	9.9	9.7
Poverty rate (percent)	27.8	...	...	...	...	...	...
Population (in millions)	89.0	90.2	94.8	97.0	97.0	99.2	99.2

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

1/ Fiscal year ends June 30.

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

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

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

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

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

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



# ARAB REPUBLIC OF EGYPT

June 20, 2018

## THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION AND FOR MODIFICATION OF A PERFORMANCE CRITERION

### KEY ISSUES

**Outlook:** Macroeconomic conditions have continued to improve during 2017/18, with external and fiscal deficits narrowing, inflation and unemployment declining, and growth accelerating. The near-term growth outlook is favorable, supported by the recovery in tourism and rising natural gas production, while the current account deficit has fallen below 3 percent of GDP and gross international reserves stood at 7 months of prospective imports at end-May. Inflation is expected to temporarily rise in 2018/19, reflecting increases in fuel and electricity prices, but the monetary policy stance appears appropriate to contain second-round effects. The government debt ratio is projected to decline markedly in response to fiscal consolidation and high nominal GDP growth.

**Risks:** There has been a shift to capital outflows in recent months as tightening global financial conditions have contributed to a pullback by investors from emerging markets more broadly. Should these patterns intensify, financial conditions could tighten appreciably. A further increase in global oil prices would put pressure on the budget, and require a larger adjustment of domestic fuel prices to achieve cost-recovery. A deterioration of the security situation would disrupt the emerging recovery in tourism. In addition, adjustment fatigue may weaken reform momentum. These risks are mitigated by the authorities' record of sound macroeconomic policies and strong program implementation.

**Program performance:** All end-December quantitative targets were met, except for the performance criterion (PC) on the primary fiscal balance, which was missed by EGP0.1 billion, and the indicative target on Egyptian General Petroleum Company arrears, which was missed by \$200 million. Two of the three structural benchmarks (SBs) were implemented with a delay. Most end-June PCs appear within reach, but the fuel subsidy bill is likely to exceed the target due to higher-than-programmed oil prices during 2017/18. The authorities are requesting a modification of this PC. The financing gap for 2018/19 is estimated at about \$1 billion, to be financed with Eurobond issuance and/or from gross reserves.

**Staff supports the authorities' request for the completion of the third review under the Extended Arrangement under the Extended Fund Facility (the EFF Arrangement).** Staff also supports the authorities' requests for the waiver of nonobservance of the end-December PC on the primary balance, and the modification of the PC on the fuel subsidy bill for end-June 2018.

Approved By  
**Juha Kähkönen and  
 Sanjaya Panth**

Discussions were held in Cairo during May 2–17. The mission team comprised Subir Lall (head), Nikoloz Gigineishvili, Bénédicte Baduel, Matthew Gaertner (all MCD), Emine Hanedar (FAD), Melesse Tashu (SPR), Carlos de Barros Serrao and Oleksandr Pysaruk (both MCM), Randa Elnagar (COM), and Reza Baqir (Senior Resident Representative). Ms. Abdelati (OED) also participated in the discussions.

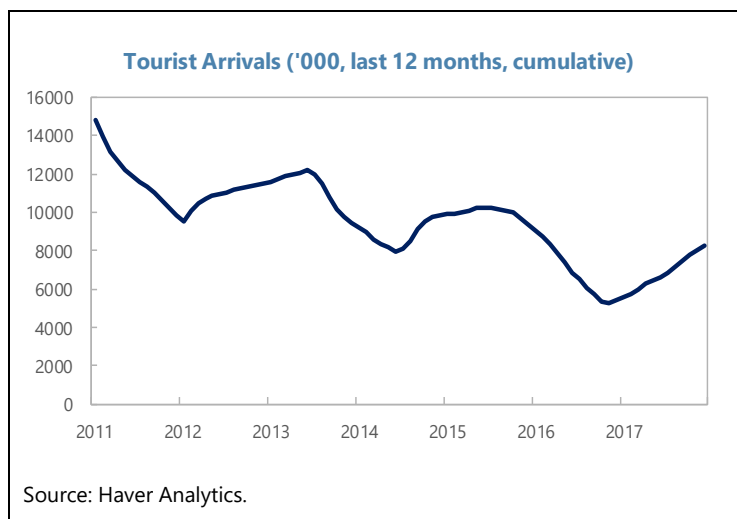
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## RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

**1. Macroeconomic stabilization is taking hold.** Growth accelerated from 4.2 percent in 2016/17 to 5.3 percent over the first three quarters of 2017/18, supported by higher net exports and investment. Unemployment has declined to 10.6 percent, the lowest since 2011. The current account deficit has also declined sharply, reflecting a recovery in tourism and strong growth in remittance inflows, with gross international reserves reaching \$43 billion at end-May. Annual headline inflation declined from a peak of 33 percent in July 2017 to 11.4 percent in May 2018, reflecting last year's monetary tightening as well as large base effects following the devaluation and fuel price hikes in 2016/17. In May, S&P upgraded Egypt's sovereign rating to B, reflecting the improved macroeconomic outlook and sound policy implementation.

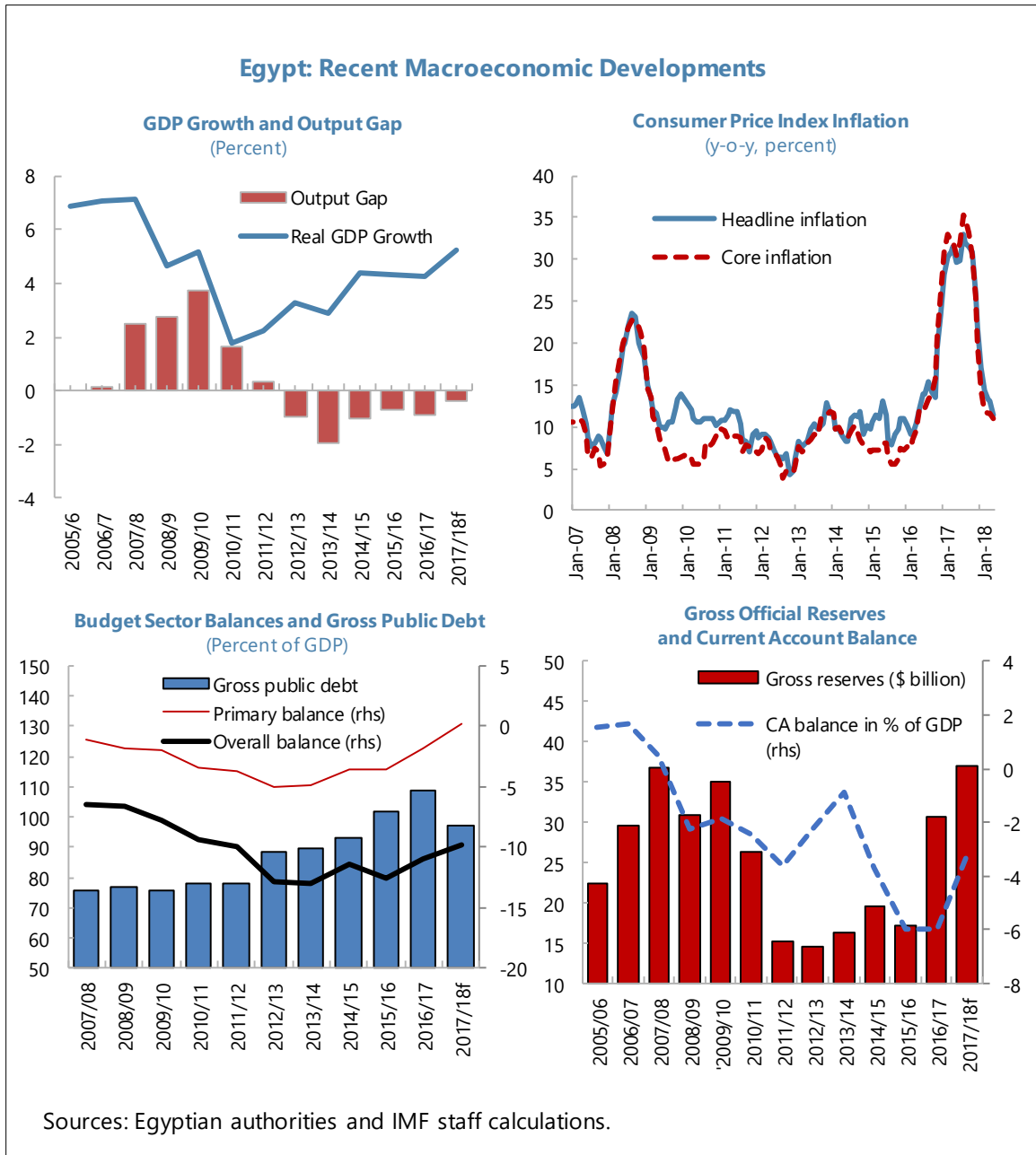


**2. Program performance through December was mixed.** All end-December quantitative targets were met, except for the performance criterion (PC) on the primary fiscal balance, which was missed by a small margin (EGP0.1 billion). In addition, the indicative target on Egyptian General Petroleum Company (EGPC) arrears was missed by \$200 million (compared to the target of \$400 million), reflecting the company's continued financial difficulties which have been aggravated by the rise in world oil prices (MEFP ¶18). Two of the three structural benchmarks (SBs) were met with a delay: the 2018/19 plan to raise equity from divestment of shares in public enterprises (end-January SB) was announced in March; and the fuel price indexation mechanism (end-February SB) was approved in June. Most end-June PCs appear within reach, but the fuel subsidy bill is likely to exceed the target due to higher-than-programmed oil prices during 2017/18. The authorities are requesting a modification of this PC. The end-June indicative target (IT) on budget sector debt is also at risk due in part to higher-than-projected interest expenditures from the repricing of government bonds held by the Central Bank of Egypt (CBE).

## OUTLOOK AND RISKS

**3. The macroeconomic outlook remains favorable.** Real GDP growth is projected to rise to 5.5 percent in 2018/19, supported by the recovery in tourism and rising natural gas production, with the Zohr gas field coming online ahead of schedule. The rebound in tourism is expected to continue, boosted by the stabilization of security conditions and the resumption of direct flights with Russia

after their suspension in 2015; despite a sharp increase last year, tourist arrivals remain well below their pre-2011 levels. Growth is expected to reach 6 percent in the medium term assuming the reform momentum is sustained. Average Inflation is expected to rise to 14.4 percent next year, driven by the recent fuel price hike, before declining to single digits in mid-2020. The current account deficit is projected to fall to 2.6 percent of GDP in 2018/19, compared with 6 percent in 2016/17, and to 2 percent of GDP in the medium term. Gross general government debt is expected to decline from 103 percent of GDP in 2016/17 to 86 percent in 2018/19, and will be around 74 percent by 2022/23.



**4. External risks have increased in recent months.** There has been a shift to capital outflows in recent months as tightening global financial conditions have contributed to a pullback by investors from emerging markets. The comfortable level of foreign reserves leaves Egypt well positioned to manage any acceleration in outflows, but this heightens the importance of maintaining the sound macroeconomic policy framework established under the program and consistent policy implementation. A further increase in global oil prices would also put pressure on the budget, and require a larger adjustment of domestic fuel prices to achieve cost recovery and preserve the fiscal consolidation objectives under the program, which gains added importance in uncertain global financial conditions. Additional risks include a deterioration of the security situation that would disrupt the emerging recovery in tourism, and adjustment fatigue that weakens reform momentum. These risks are mitigated by the authorities' strong record of reform implementation and a sound macroeconomic policy framework, but also highlight the need to broaden and accelerate structural reforms to sustain private sector-led growth that will absorb the rapidly growing labor force and ensure that the benefits are perceived more widely.

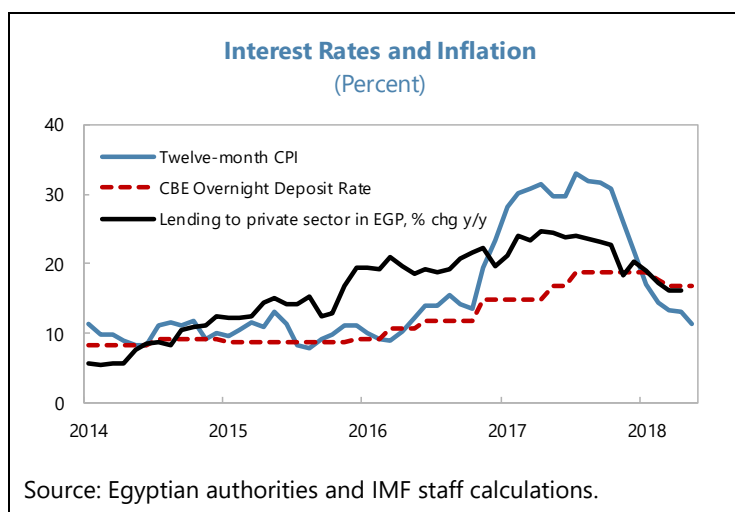
## POLICY DISCUSSIONS

*Policy discussions focused on consolidating the gains from macroeconomic stabilization while broadening the scope of structural reforms to foster sustainable, higher, and inclusive growth, with job creation. The planned fiscal consolidation to anchor public debt reduction remains on track, supported by further energy subsidy reform and well-targeted social spending, while monetary policy will continue to contain second-round effects from higher energy prices. The updated Memorandum of Economic and Financial Policies (MEFP) reflects the authorities' expanded structural reform agenda, including important steps to improve the efficiency of industrial land allocation, strengthen competition and public procurement, improve transparency of state owned enterprises, and tackle corruption.*

### Monetary and Exchange Rate Policies

**5. The current monetary policy stance is appropriate to anchor continued disinflation.**

The monetary policy framework remains based on money targeting, with reserve money growth in line with the IT for December 2017. The CBE reduced its overnight deposit rate in February and March by a cumulative 200 basis points to 16.75 percent as inflationary pressures eased, but real money market and retail lending rates remain significantly positive and credit growth has slowed. Staff and the authorities agreed that monetary



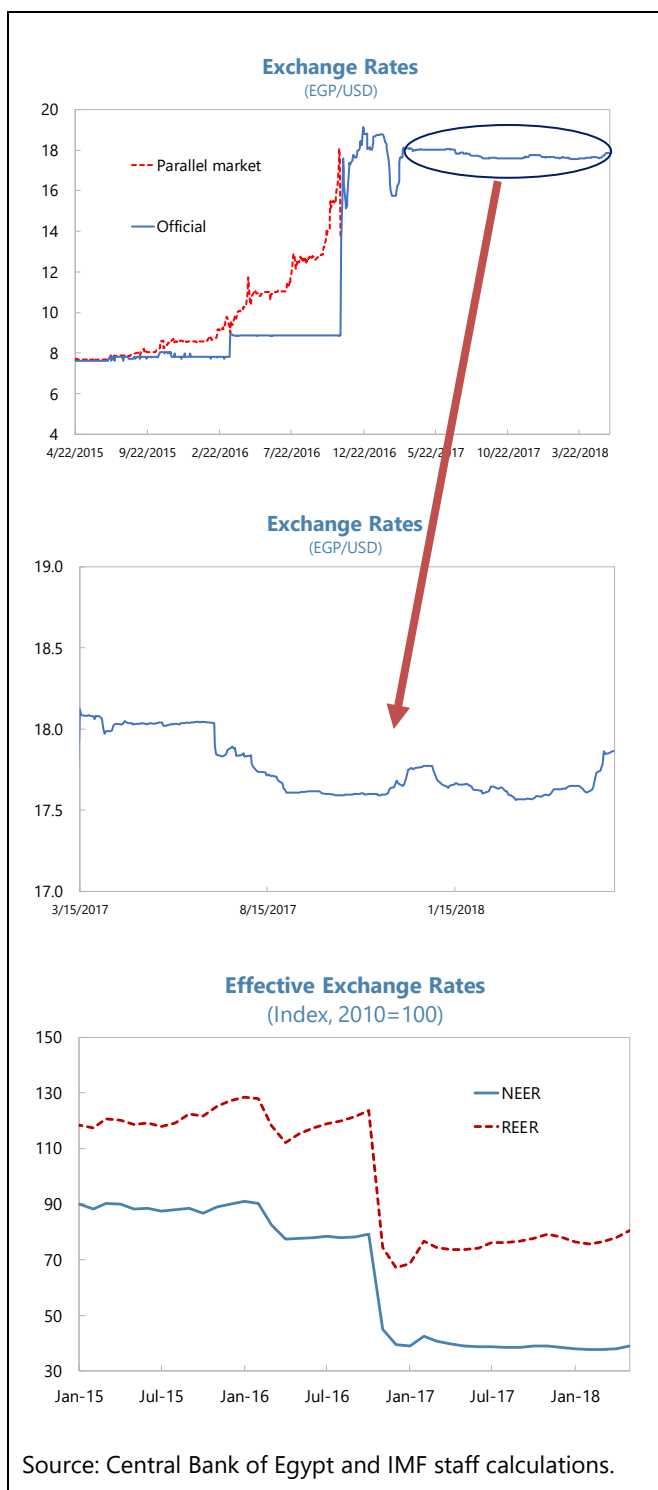
policy should remain cautious to contain second-round effects from the recent increases in energy prices, and that further policy changes should be guided by inflation expectations and demand pressures. The CBE continues to target a further reduction in inflation to single digits over the medium term.

**6. The authorities remain committed to a flexible exchange rate to maintain competitiveness and cushion against external shocks.**

While the CBE has not intervened in the foreign exchange (FX) market or supplied foreign currency to state-owned enterprises (SOEs), the pound has remained broadly stable over the past year, with modest depreciation in recent weeks associated with the recent volatility in capital flows to some emerging markets. The authorities reaffirmed their intention to help deepen the interbank foreign exchange market and enhance exchange rate flexibility (MEFP ¶15). A flexible exchange rate will provide an important buffer against the risk of increased volatility in capital flows to emerging markets as global financing conditions continue to tighten.

**7. The CBE's international reserves are adequate to support macroeconomic stability, and the program's net international reserves (NIR) targets remain appropriate.**

With gross international reserves projected at 143 percent of the Fund's Assessing Reserve Adequacy (ARA) metric at end-June, the program floor on accumulation of net international reserves (flow) is set at -\$1.5 billion for July-December 2018 to accommodate debt service obligations. To align the current reserve allocation with its new investment guidelines for reserve management, the CBE will continue to gradually divest its holding of FX deposits in foreign branches of domestic banks (MEFP ¶18). Specifically, by end-June 2019 these



Source: Central Bank of Egypt and IMF staff calculations.

deposits will be fully reallocated in at least A-rated banks and financial instruments. By end-December 2017 they were reduced to under \$4 billion, and will be reduced further to \$3 billion by end-June 2018 (SB), \$1.5 billion by end-December 2018 (SB) and eliminated by June 15, 2019 (SB).

**8. In the medium term, the CBE plans to adopt a forward-looking and interest rate-based monetary policy framework, with inflation as the nominal anchor.** In preparation, the authorities have undertaken a comprehensive review of the Law of the Central Bank and the Banking System with support from Fund Technical Assistance, TA (MEFP ¶10). The revised central bank law will establish price stability as the primary objective of monetary policy, strengthen the CBE's institutional and operational autonomy, and improve the early intervention and resolution framework (MEFP ¶9). While substantial progress has been made in preparing the draft law, the authorities are requesting a short extension in submission to Cabinet from end-June to end-September 2018 (SB) to ensure that it is fully consistent with the objectives. The mission supported this request. The CBE will also continue to strengthen its analytical and liquidity management capacity, further develop money markets to improve the monetary transmission mechanism, and continue improving its communications strategy.

### Financial Sector Policies

**9. Egypt's banking system remains liquid, profitable, and well capitalized.** The aggregate capital adequacy ratio improved from 14 percent in December 2016 to 15.2 percent in December 2017, while the leverage ratio improved from 4.8 to 6 percent during the same period. The nonperforming loan (NPL) ratio improved from 6 to 4.9 percent due to NPL write-offs. Banks' high profitability is expected to normalize as interest rates decline, but will remain sufficient to absorb a possible increase in credit risk costs. Most banks maintain solid liquidity buffers and actively manage their balance sheets to mitigate interest rate and liquidity risks from large holdings of government securities. The CBE exercises a strict policy on dividend payments by banks, based on the outcomes of the Internal Capital Adequacy Assessment Process.

**10. The banking sector appears resilient to moderate shocks.** The two largest public banks have capital adequacy ratios above the prudential requirements, but both banks may require additional capital in the future to support strong lending growth and IT upgrades. Issuance of high-interest certificates of deposit during 2017 in the context of rising inflation has adversely affected their profitability and internal capital generation. The sale of non-core assets, including real estate and shares in other companies, should cover part of the growing capital needs. The CBE's prohibition of dividend payments, and restrictions on large lending transactions, further help preserve the capital of these banks. Several smaller banks, whose capital adequacy, asset quality, and profitability are below the sector averages, do not pose significant risks to financial stability. Some of these banks will be recapitalized by the shareholders, while others are expected to show gradual improvement in their financial condition over the next 12 months.

**11. The authorities are committed to developing rules on deploying public funds to maintain financial stability.** The amendments to the CBE Law will set the foundation of the new emergency liquidity assistance and bank resolution frameworks, in line with best international

practices (MEFP ¶24). The Ministry of Finance (MoF) and CBE will develop clear rules on deploying public funds to maintain financial stability, with the funding of bank resolution and recapitalization of public banks becoming primarily the responsibility of the government.

## Fiscal Policy

**12. Egypt is on track to achieve a primary surplus of 0.2 percent of GDP in 2017/18, in line with the target under the program.**<sup>1</sup> Fiscal performance benefited from an increase in taxes paid by the CBE on interest income from their stock of government bonds, after these bonds were adjusted to reflect market interest rates. The higher tax paid by the CBE, together with an increase in excises and under-execution of other spending, has helped offset an expected overrun of 0.3 percent of GDP on the fuel subsidy bill due to higher-than-projected world oil prices (MEFP ¶11). Despite a reduction in fuel consumption, the fuel subsidy bill is expected to reach EGP121 billion, above the program target of EGP108 billion. The authorities are requesting a modification of the respective PC. The overall deficit is projected at 9.8 percent of GDP, compared with 9.2 percent projected at the time of the second review, reflecting higher than projected interest expenditures.

**13. The 2018/19 budget targets a primary surplus of 2 percent of GDP, in line with the planned three-year cumulative fiscal consolidation of 5.5 percent.** This would reduce the overall deficit to 8.1 percent of GDP, with general government debt projected to decline to 86 percent of GDP from 103 percent in 2016/17. The budget targets an increase in revenues of 0.4 percent of GDP, primarily from the full year impact of higher value-added tax (VAT) and tobacco excises, higher stamp duties, and improved tax administration. In addition, the public wage bill is projected to decline by 0.5 percent of GDP from containment of wage increases and tight control over new hiring, reflecting the modernization of the public employment framework in line with the new civil service law. In addition, energy subsidies are projected to decrease by 1.3 percent of GDP as fuel

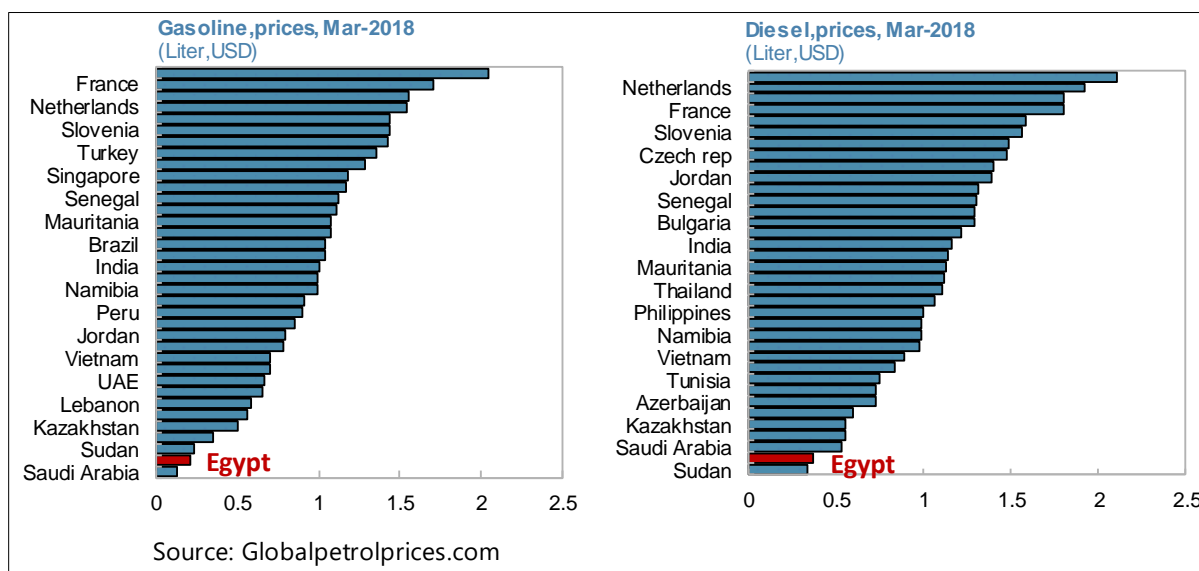
<b>Egypt: Budget Sector Fiscal Consolidation during the Program</b> (Change in percent of GDP)				
	2016/17	2017/18	2018/19	Cumulative
Total revenue and grants	0.9	-0.8	0.4	0.5
o.w. Tax revenue	0.3	0.8	0.4	1.5
Primary expenditure	-0.9	-2.7	-1.5	-5.1
o. w. Wages	-1.4	-1.1	-0.4	-2.9
Energy subsidies	1.1	-0.7	-1.3	-0.8
Primary balance	1.7	1.9	1.9	5.5
Interest	1.1	0.1	0.6	1.1
Overall balance	1.6	1.2	1.6	4.4
Source: IMF staff calculations.				

<sup>1</sup> This excludes a capital transfer of EGP6 billion for the recapitalization of the CBE, as high policy rates and sterilization costs, together with below market interest rates on the stock of government bonds held by the CBE, have eroded the CBE's capital during 2017/18. The stock of government bonds held by the CBE was adjusted to reflect market interest rates, effective from July 2017.

and electricity prices are increased further toward cost-recovery levels. Some of the savings from subsidy reform would be used to increase social spending by 0.3 percent of GDP to mitigate the impact of the energy price reform on the most vulnerable. The authorities will delay lower priority expenditures as a buffer against any revenue underperformance to ensure that the target is achieved (MEFP ¶12).

#### 14. The ongoing energy subsidy reform continues to play a key role in fiscal consolidation.

The fuel subsidy bill has decreased from 3.3 percent of GDP in 2016/17 to a projected 2.7 percent of GDP in 2017/18. It is expected to decline further to 1.8 percent of GDP in 2018/19, despite the significant increase in world oil prices over the past year. Despite significant increases since the start of the program, prices for fuel products in Egypt remain among the lowest in the world, which benefits the well-off disproportionately rather than the poor. In June 2018, the authorities increased fuel prices by another 44 percent on average, which raised the pre-tax price-to-cost ratios to about 73 percent for gasoline, diesel, kerosene, and fuel oil.<sup>2</sup> Additional increases are planned to achieve the objective of full cost recovery by end-2018/19. In June 2018, the Prime Minister approved an automatic fuel price indexation mechanism for most fuel products, which will be implemented by end-December 2018. The mechanism will adjust fuel prices to changes in global oil prices, the exchange rate, and the share of imported fuel in domestic consumption. It is designed to maintain the cost-recovery ratios for fuel products and safeguard the budget from unexpected changes in the exchange rate and global oil prices (MEFP ¶17). In addition, electricity subsidies are projected to decline from 0.7 percent of GDP in 2017/18 to 0.3 percent in 2018/19, and to be fully eliminated by 2020/21.



<sup>2</sup> Excluding LPG and fuel oil used for electricity generation and bakeries. Increasing prices on fuel oil used in electricity generation would simply shift the subsidy to the electricity sector. Moreover, the use of fuel oil for electricity is expected to be eliminated by 2019/20, as power generation continues to shift from fuel oil to natural gas which is not subsidized.

**15. The authorities are planning to strengthen and modernize tax administration.**

Increasing the efficiency of revenue collection is essential to create fiscal space for investments in health and education, infrastructure and a sustainable social safety net. To support these efforts, the authorities are working to develop a fully integrated and segment-based structure supported by reformed IT systems and processes. Income taxes and VAT will be administered in a single integrated organizational structure, with stepped-up efforts to address noncompliance (MEFP ¶14).

**16. Public financial management (PFM) reforms also remain an important priority.** A fiscal strategy paper was submitted to Cabinet in December 2017, and an updated fiscal risks statement and a comprehensive system to assess new state guarantees will be finalized by end-June 2018. Work remains ongoing to prepare consolidated fiscal accounts, including the economic authorities, and to improve monitoring of SOEs. The authorities will publish by end-June 2018 a comprehensive report on public enterprises, which will include: a full list of the companies, majority-owned by the government, broken down by industry, policy objectives, and the ownership structure; and their financial statements and indicators of financial performance. This will be followed by end-December 2018 with a report on the governance structure of all SOEs and their impact on government finances. In addition, the authorities are preparing a roadmap for pension reform and are planning to review the existing PFM law with a view toward introduction of a medium-term budget framework incorporating multi-year expenditure ceilings based on a functional classification of spending. They are also undertaking measures to improve fiscal transparency and accountability (MEFP ¶15).

**Structural Reforms**

**17. Egypt faces long-standing structural challenges stemming from past economic policies that emphasized inward-oriented economic policies and an expansive role of the state.** A more inclusive and private sector-led growth model is needed to absorb the significant increase in the labor force expected over the foreseeable future. This will require deepening and broadening of structural reforms to improve the efficiency of resource allocation and reorient Egypt toward private sector and export-led growth.

**18. Access to land continues to be one of the main hurdles for the private sector.** Most land is owned by the state and the acreage sold each year is insufficient to meet the needs of private sector investors. Moreover, the current process of industrial land allocation, which prescribes specific economic activities for land use and sells land at a pre-set price based on government review of applications, contributes to misallocation and is vulnerable to corruption and speculation. The authorities intend to move to a transparent, competitive, and market-based mechanism, which will broaden the range of land utilization and improve the efficiency of allocation (MEFP ¶25). A working group will be formed by end-June 2018 to prepare a reform plan for industrial land allocation by end-December 2018 (SB). Based on this plan, new guidelines for industrial land allocation will be approved by a Ministerial decree and published by March 31, 2019 (SB). To increase transparency and minimize the risk of corruption, the reform plan will include creation of an online platform, through which the entire process of land allocation will be managed, from tender announcements to reporting of the results.



**19. The authorities are working to strengthen the public procurement system to optimize public spending and reduce corruption.** A new Government Procurement Law was approved in June. It is envisioned that the executive regulations for implementation of the new law will be approved by end-March 2019 (SB). These regulations will standardize government procurement processes to encourage broad and competitive participation by the private sector, and applied uniformly to all government entities' tenders covered by the law (MEFP ¶25). The authorities will also form a committee to ensure that SOE's procurement rules are consistent with best practices as highlighted in the new procurement law. Additionally, to promote transparency and reduce corruption, public procurement will move from a paper-based system to a single e-Procurement portal. The e-Procurement portal will become operational by end-May 2019 (SB).

**20. Strengthening competition and addressing corruption is key to achieving greater economic efficiency and developing a vibrant private sector.** To support competition, the authorities are working to strengthen the institutional, financial, and operational independence of the Egyptian Competition Authority (ECA), and enhance its accountability and transparency (MEFP ¶25). The draft law underpinning these changes will be submitted to Parliament by October 30, 2018 (SB). To enhance transparency and accountability in the operations of government and reduce perceptions of corruption, the authorities will also initiate an open consultative process with stakeholders to develop a Right to Information Law and its implementing regulations (MEFP ¶25).

**21. The authorities are moving forward with a program to divest minority shares in select SOEs.** The objective is to attract private investment, reduce the role of the state in the economy, and deploy public assets to their most productive use (MEFP ¶25). A detailed plan was announced in April 2018 to divest stakes in at least 23 public entities over 24–30 months, of which 4 entities will be completed in 2018/19 (SB).

**22. The authorities will also continue to expand their efforts to better integrate women in the labor force.** Expenditure to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs was increased from EGP250 million in 2016/17 to EGP500 million in 2017/18. This will be raised further to EGP600 million in the 2018/19 budget (SB, MEFP ¶26). The authorities are also working with United Nations Women to implement gender budgeting starting in 2018/2019, and exploring ways to simplify registration of home based nurseries to expand job opportunities for women and child care for working mothers.

## Financing and Program Issues

**23. The program is financed through June 2019.** The financing gap for 2018/19 is estimated at \$1.1 billion and will be financed with Eurobond issuance and/or from gross reserves, depending on financial market conditions.

**24. It is proposed to modify the program definition of the primary fiscal balance to exclude any recapitalization of the CBE.** Staff supports this modification, given that the need for such a direct capital injection does not reflect a change in the fiscal policy stance.

**25. Egypt's capacity to repay is adequate, but risks remain.** Fund credit outstanding as a share of gross reserves is projected to peak at 39 percent by 2019/20, and debt service to the Fund as a ratio of exports of goods and services would reach 0.6 percent in the same year (Table 10). External risks have increased, as tightening global financial conditions have contributed to a pullback by investors from emerging markets, but Egypt remains well positioned to manage any increase in capital outflows. The CBE's reserve position is strong, fiscal balances are improving, and the memorandum of understanding between the CBE and MoF on respective responsibilities for servicing Fund credit should ensure uninterrupted repayments.

**26. The CBE continues the implementation of the 2017 safeguards recommendations.** The CBE engaged a new audit firm in line with its revised policy on the selection and appointment of external auditors and work is underway to align its financial reporting practices with Egyptian Accounting Standards starting with the 2018 audit. In addition, the CBE continues to unwind its holding of FX deposits in foreign branches of domestic banks, with full divestment expected by end-June 2019. Furthermore, the authorities are undertaking a review of the CBE Law with IMF TA and aim to submit the draft amendments to Cabinet by end-September 2018 (initially planned for end-June).

## STAFF APPRAISAL

**27. Macroeconomic conditions have continued to improve during 2018.** The authorities' reform program has played a key role in stabilizing conditions, with external and fiscal deficits narrowing, inflation and unemployment declining, and growth accelerating. The near-term growth outlook looks favorable, supported by the recovery in tourism and rising natural gas production, while the current account deficit is projected to remain below 3 percent of GDP and public debt to fall to 74 percent of GDP by 2022/23. There has been a shift to capital outflows in recent months as tightening global financial conditions have contributed to a pullback by investors from emerging markets, but reserve coverage remains comfortable at about 7 months of prospective imports.

**28. The CBE should maintain its restrictive monetary policy stance until inflation expectations are well anchored.** Monetary tightening in 2017 has helped anchor inflation expectations and rein in inflation after the devaluation and fuel price hikes in 2016/17. Monetary policy should remain cautious to contain second-round effects from the increases in energy prices, with further policy changes guided by inflation expectations and demand pressures.

**29. Preserving and further enhancing exchange rate flexibility is critical to sustain the gains in macroeconomic stabilization, and cushion against external shocks.** The CBE's policy of refraining from interventions in the interbank market, except to potentially mitigate disorderly conditions, is an essential element of its policy framework. Staff believes that phasing out the repatriation mechanism would further deepen the interbank FX market and enhance exchange rate flexibility. Exchange rate flexibility will serve an important shock-absorbing role should the recent volatility in financial markets and withdrawal of investors from some emerging markets expand to include Egypt.

**30. The banking sector is broadly healthy and resilient to moderate shocks.** The two largest public banks are financially stable, but may require recapitalization in the next two years, to support strong lending growth. The CBE should continue close monitoring of several smaller banks, whose capital adequacy, asset quality, and profitability are below sector averages. The development of clear rules on deploying public funds to maintain financial stability is strongly recommended.

**31. Fiscal consolidation remains on track to achieve the planned three-year cumulative fiscal consolidation of 5.5 percent of GDP.** The primary surplus target of 0.2 percent of GDP appears likely to be met, with the authorities expected to be able to contain spending to offset an overrun on the fuel subsidy bill. The 2018/19 budget targets a primary surplus of 2 percent of GDP, which would reduce general government debt to 86 percent of GDP from 103 percent in 2016/17. The authorities' commitment to delay lower priority expenditures in 2018/19 as a buffer against risks from revenue underperformance or higher world oil prices to ensure that the target is achieved is welcome. The authorities should also steadfastly guard against increases in government debt originating from outside the budget sector.

**32. The ongoing energy subsidy reform is critical to support fiscal consolidation.** Prices for fuel products in Egypt remain among the lowest in the world, which benefit the well-off disproportionately rather than the poor. Moreover, this has encouraged inefficient energy use and over-investment in capital intensive industries. The authorities' steps to increase fuel prices to close the gap relative to cost recovery in the context of rising world oil prices was timely. The 2018/19 budget will continue to replace poorly targeted energy subsidies with programs that directly support poor households. It is essential that fuel prices reach cost recovery as planned by the end of 2018/19, and are accompanied by the implementation of the recently approved automatic fuel price indexation mechanism. This would safeguard the budget from unexpected changes in the exchange rate and global oil prices, and help ensure that available fiscal resources support the most vulnerable and not the wealthy. Preserving fiscal consolidation plans gains added importance as financial conditions for emerging markets begin to tighten.

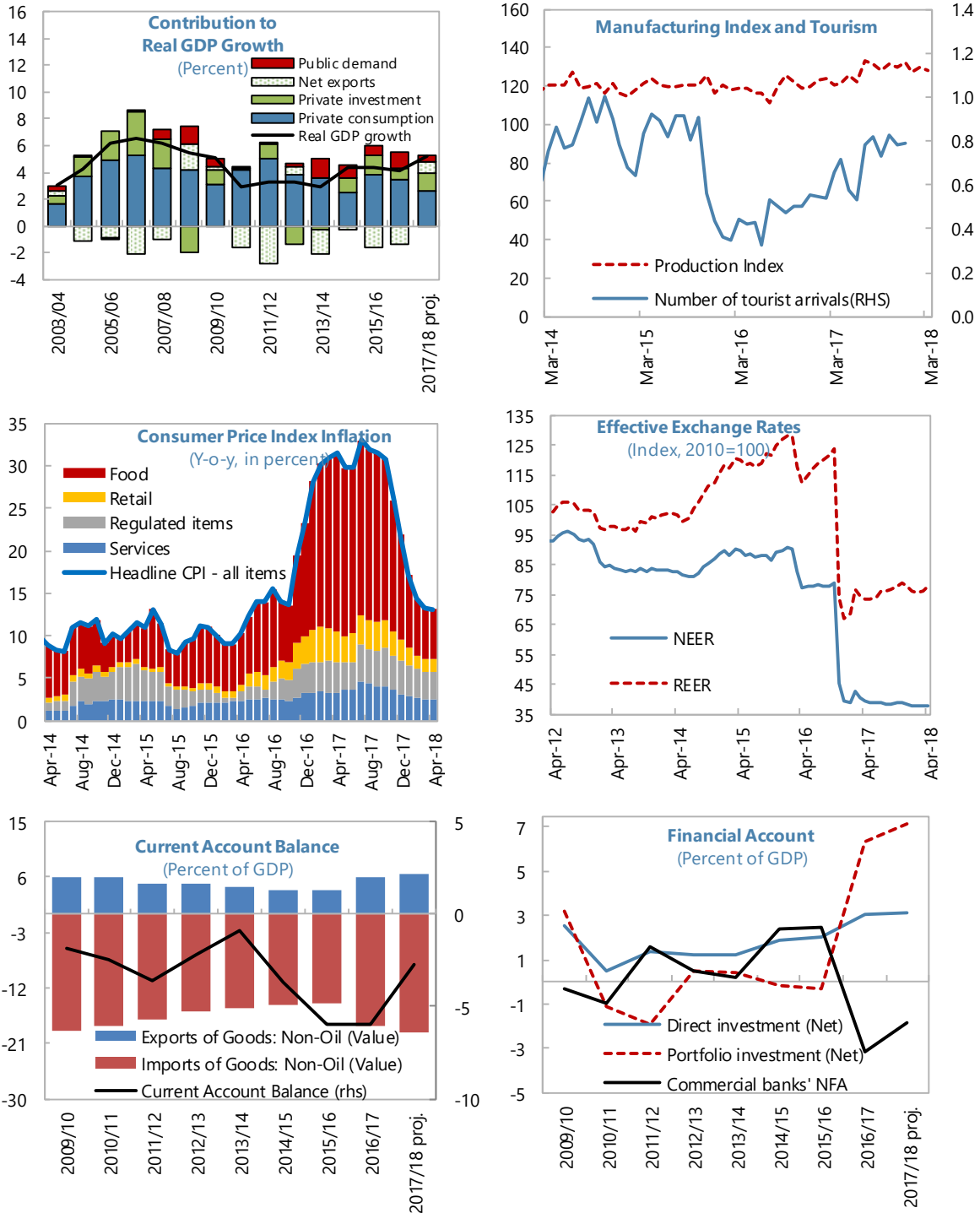
**33. The expanded structural reform agenda under the program aims to address key impediments to growth.** Egypt continues to be constrained by the legacy of largely inward-oriented economic policies, weak governance, and a large role for the state that has resulted in significant misallocation of resources. A more inclusive private sector-led model is needed to absorb the significant increase in the labor force expected over the next five years; this will require deepening and broadening structural reforms to reorient Egypt toward private sector and export-led growth. The structural agenda has been broadened to address some of the key obstacles to private sector, including through important steps to enhance transparency in industrial land allocation, strengthen competition and public procurement, improve transparency and accountability of state owned enterprises, and tackle corruption. This is only a first step, however, as the overall agenda to move to a transparent market-based economy with limited state intervention remains large.

**34. Risks to the program arise from increased global risk aversion, higher international oil prices, and reform fatigue.** External risks have risen in recent months, with a risk of an acceleration in capital outflows as global financial conditions continue to tighten. A further increase in global oil

prices would also put pressure on the budget, and require a larger adjustment of domestic fuel prices to achieve cost recovery. Additional risks include a deterioration of the security situation that would disrupt the emerging recovery in tourism supporting the improved growth outlook, and adjustment fatigue that weakens structural reform momentum. The healthy level of foreign reserves leaves Egypt well positioned to manage any acceleration in outflows, but this heightens the importance of a sound macroeconomic framework and consistent policy implementation.

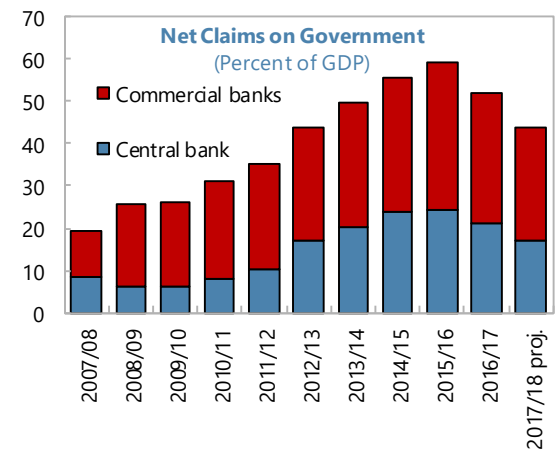
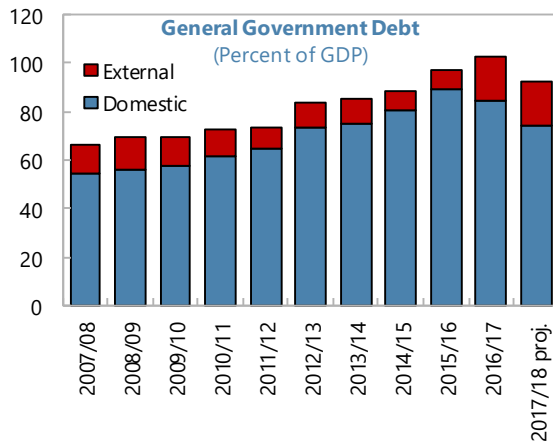
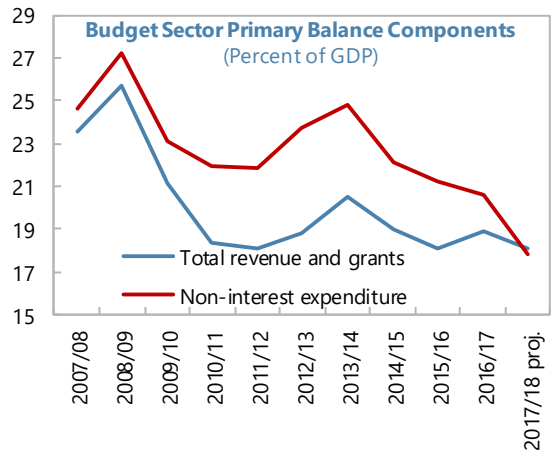
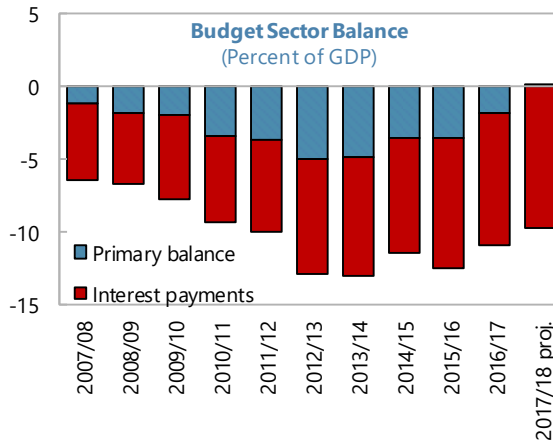
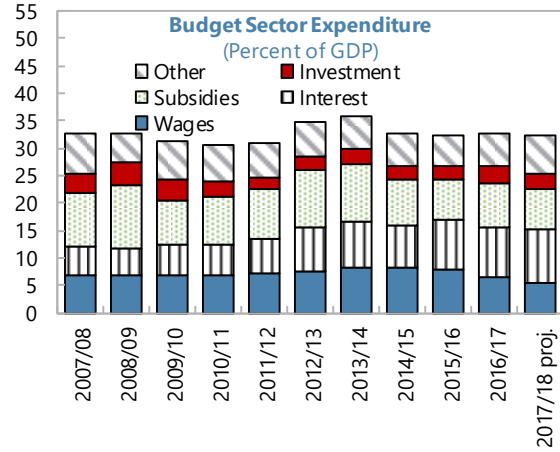
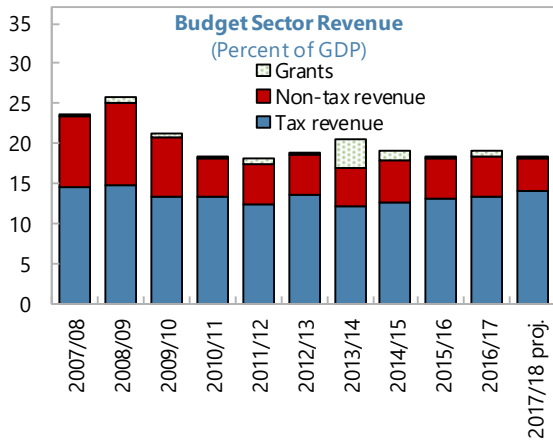
**35. Staff supports the authorities' request for the completion of the third review under the Extended Arrangement.** In view of minor deviation from the target, staff supports the authorities' requests for the waiver of nonobservance of the end-December PC on the primary fiscal balance. Staff also supports the request for the modification of the PC on the fuel subsidy bill for end-June 2018.

**Figure 1. Egypt: Real and External Sector Developments**



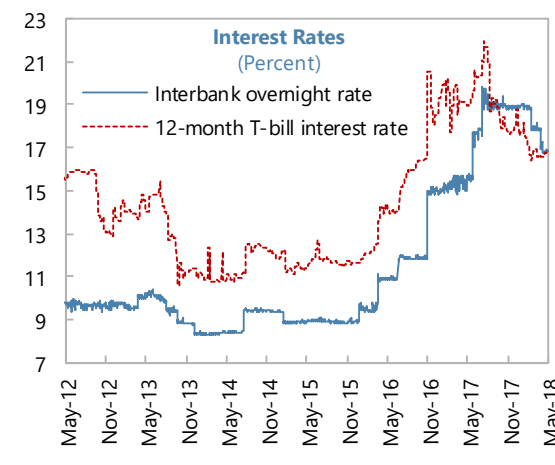
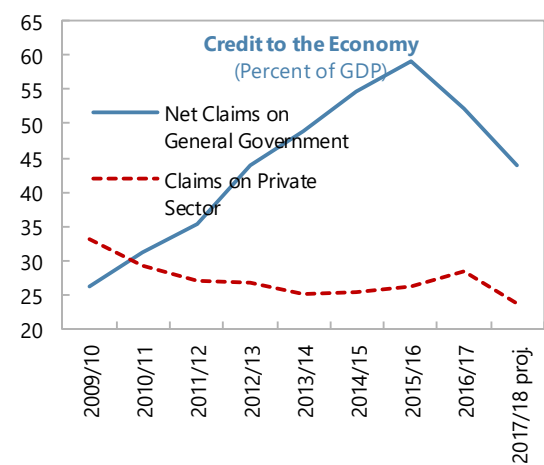
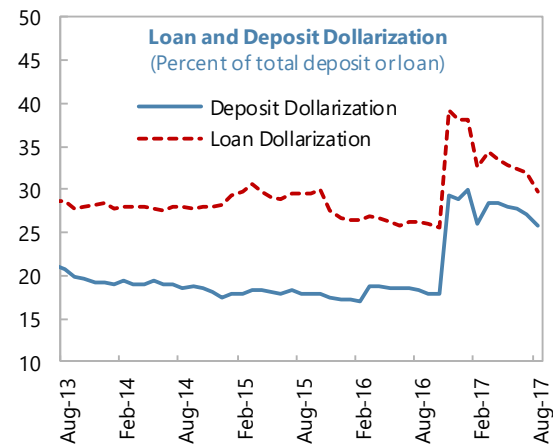
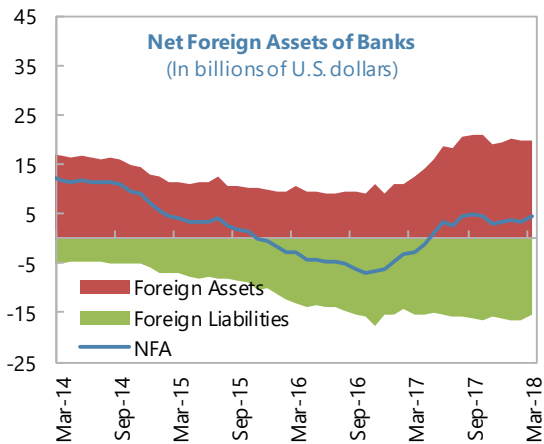
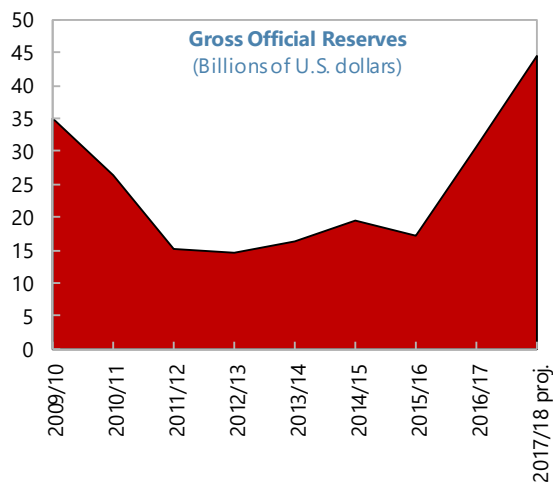
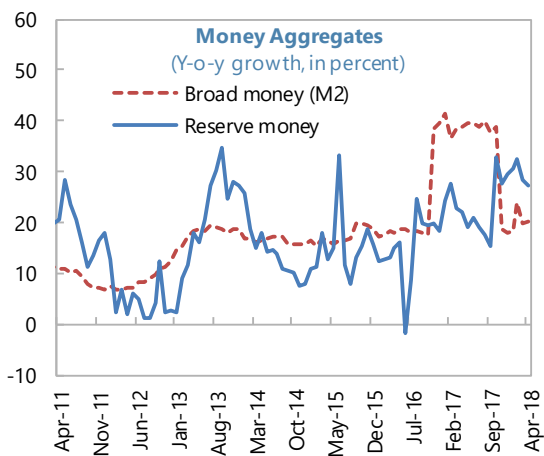
Sources: Egyptian authorities; IMF, *International Financial Statistics*; Bloomberg; Markit Economics; and IMF staff calculations and projections.

**Figure 2. Egypt: Fiscal Sector Developments**



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

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



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

**Table 1. Egypt: Selected Macroeconomic Indicators, 2014/15–2018/19 1/**

	2014/15	2015/16	2016/17	2017/18		2018/19	
				Second Review	Revised Proj.	Second Review	Revised Proj.
Output and prices							
	(Annual percentage change)						
Real GDP (market prices)	4.4	4.3	4.2	4.8	5.2	5.5	5.5
Consumer prices (end of period)	11.4	14.0	29.8	11.9	12.6	15.2	13.1
Consumer prices (period average)	11.0	10.2	23.5	21.0	20.8	13.7	14.4
Public finances 2/							
	(In percent of GDP at market prices)						
Gross Debt	88.5	96.9	103.0	91.3	92.4	86.7	86.2
External	7.9	7.8	18.1	16.7	18.5	17.7	17.0
Domestic	80.5	89.0	84.9	74.6	73.9	69.0	69.2
Budget sector 3/							
Revenue and grants	19.0	18.1	19.0	18.8	18.2	18.7	18.6
Expenditure (incl. net acquisition of financial assets)	30.5	30.7	29.9	28.0	27.9	26.1	26.7
<i>Of which:</i> Energy subsidies	4.0	3.0	4.1	3.1	3.4	1.2	2.1
Overall balance	-11.4	-12.5	-10.9	-9.2	-9.7	-7.4	-8.1
Overall balance, excl. grants	-12.5	-12.7	-11.4	-9.2	-9.7	-7.5	-8.1
Primary balance 4/	-3.5	-3.5	-1.8	0.2	0.2	2.1	2.0
Monetary sector							
	(Annual percentage change)						
Credit to the private sector	16.7	14.2	38.0	10.5	7.5	11.2	18.2
Reserve money 5/	33.3	29.3	-7.8	39.4	40.2	17.8	27.6
Broad money (M2)	16.4	18.6	39.3	20.4	23.4	19.7	19.8
Treasury bill rate, 3 month (average, in percent)	11.4	11.8	17.5	17.4	18.5	...	...
External sector							
	(In percent of GDP, unless otherwise indicated)						
Exports of goods (in US\$, percentage change)	-14.7	-15.9	15.9	7.0	13.8	12.7	16.5
Imports of goods (in US\$, percentage change)	1.9	-6.4	1.5	-0.1	4.5	7.6	10.0
Merchandise trade balance	-11.8	-11.6	-14.3	-13.5	-14.5	-12.5	-12.5
Current account	-3.7	-6.0	-6.0	-4.5	-2.8	-4.0	-2.6
Capital and financial account (incl. errors and omissions)	5.5	5.1	5.2	3.2	5.0	1.6	1.8
Foreign direct investment (net, in billions of US\$)	6.2	6.8	7.7	8.4	7.8	9.9	9.5
External debt 6/	15.0	18.3	41.3	34.6	34.5	30.3	29.9
Gross international reserves (in billions of US\$)	19.5	17.1	30.7	34.5	44.4	33.0	44.8
In months of next year's imports of goods and services	3.5	3.0	5.2	5.7	6.8	5.2	6.1
In percent of short-term external debt 7/	280.6	157.7	121.3	89.3	146.2	76.9	191.4
Financing gap (in billions of US\$)	...	...	...	0.0	0.0	2.6	1.1
Memorandum items:							
Nominal GDP (in billions of Egyptian pounds)	2,444	2,709	3,470	4,418	4,436	5,292	5,365
Nominal GDP (in billions of US\$)	332	332	256	...	...	...	...
GDP per capita (in US\$)	3,731	3,686	2,704	...	...	...	...
Unemployment rate (period average, percent)	12.9	12.7	12.2	11.2	11.1	9.9	9.7
Poverty rate (percent)	27.8	...	...	...	...	...	...
Population (in millions)	89.0	90.2	94.8	97.0	97.0	99.2	99.2

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

1/ Fiscal year ends June 30.

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

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

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

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

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

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



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

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Second Review	Revised Proj.	Second Review	Revised Proj.				
Current account	-19.8	-15.3	-11.3	-6.9	-11.3	-8.1	-10.8	-8.9	-7.1	-6.6
Balance on goods and services	-32.2	-30.5	-24.3	-25.3	-24.5	-25.5	-29.5	-29.0	-28.6	-29.8
Exports of goods and services	34.8	37.6	42.4	45.8	47.7	53.1	57.9	62.5	67.9	74.4
Imports of goods and services	-66.9	-68.0	-66.8	-71.1	-72.2	-78.5	-87.4	-91.5	-96.4	-104.2
Trade balance	-38.7	-36.6	-33.9	-36.2	-35.3	-38.2	-43.8	-45.3	-46.9	-50.6
Oil and gas	-3.6	-4.9	-4.7	-4.2	-3.0	-2.8	-3.9	-4.4	-5.0	-5.2
Other	-35.1	-31.7	-29.2	-32.0	-32.3	-35.4	-39.9	-40.8	-41.9	-45.4
Exports of goods	18.7	21.7	23.2	24.7	26.2	28.7	30.6	32.5	34.9	37.7
Oil and gas	5.7	6.5	7.1	8.4	7.9	10.7	10.2	9.6	9.3	9.1
Other	13.0	15.1	16.1	16.3	18.3	18.0	20.4	22.8	25.6	28.5
Imports of goods	-57.4	-58.3	-57.1	-60.9	-61.4	-67.0	-74.4	-77.8	-81.8	-88.3
Oil and gas	-9.3	-11.4	-11.8	-12.6	-10.8	-13.5	-14.1	-14.1	-14.3	-14.3
Other	-48.1	-46.8	-45.3	-48.3	-50.6	-53.5	-60.3	-63.7	-67.5	-73.9
Services (net)	6.5	6.1	9.5	10.9	10.8	12.7	14.3	16.3	18.3	20.8
Receipts	16.1	15.9	19.2	21.1	21.5	24.3	27.3	30.1	33.0	36.8
Of which: Tourism receipts	3.8	4.4	6.0	9.1	7.2	11.2	13.2	14.8	16.5	19.0
Of which: Suez canal receipts	5.1	4.9	5.5	5.6	5.7	6.0	6.4	6.7	7.0	7.3
Payments	-9.5	-9.8	-9.7	-10.3	-10.7	-11.6	-13.0	-13.8	-14.6	-16.0
Of which: Transportation	-1.3	-1.3	-1.3	-1.4	-1.5	-1.6	-1.8	-1.9	-2.0	-2.2
Of which: Travel	-4.1	-2.7	-2.7	-2.3	-2.9	-2.8	-3.1	-3.3	-3.5	-3.8
Primary income (net)	-4.5	-4.5	-5.7	-6.3	-6.6	-8.7	-8.8	-8.9	-9.0	-8.8
Receipts	0.4	0.5	0.5	0.5	0.5	0.6	0.7	0.7	0.8	0.9
Payments	-4.9	-5.0	-6.2	-6.8	-7.1	-9.3	-9.5	-9.6	-9.8	-9.7
Transfers	16.8	19.6	18.7	24.7	19.8	26.1	27.5	29.0	30.5	32.0
Official grants	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Private remittances	16.7	19.4	18.6	24.6	19.7	25.9	27.4	28.8	30.4	31.9
Capital and financial account	21.2	14.4	8.1	12.5	4.5	5.4	8.4	10.0	9.8	10.3
Medium- and long-term loans (net)	1.3	1.6	4.3	3.5	3.1	2.5	2.3	2.2	-0.4	-3.4
Drawings	4.1	4.2	6.6	6.0	5.6	5.0	5.0	5.0	3.0	1.0
Amortization	2.8	2.6	2.3	2.5	2.5	2.6	2.7	2.8	3.4	4.4
FDI (net)	6.8	7.7	8.4	7.8	9.9	9.5	11.3	12.6	14.3	16.9
Portfolio investment (net)	-1.1	16.2	10.4	17.9	5.0	-2.0	0.4	1.0	-1.2	-0.2
Commercial banks' NFA	8.3	-8.0	-6.8	-4.5	-0.7	6.4	6.9	0.9	1.0	0.8
Other (including short-term capital and central bank deposits)	6.1	-2.8	-8.1	-8.3	-12.7	-12.1	-8.8	-2.2	-2.2	-3.0
Errors and omissions (net)	-4.2	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.8	-2.1	-3.2	5.8	-6.7	-2.7	-2.3	1.1	2.7	3.7
Financing	2.8	2.1	3.3	-5.8	4.4	1.7	2.3	-1.1	-2.7	-3.7
Reserves ("-" indicates increase)	2.5	-13.6	-3.9	-13.7	1.5	-0.4	2.3	-0.9	-1.9	-2.2
Change in arrears ("-" indicates decrease) 1/	0.0	-1.3	-1.1	-0.5	-1.1	-1.9	0.0	0.0	0.0	0.0
Net use of IMF resources	0.0	2.7	5.2	5.3	4.0	4.0	0.0	-0.2	-0.8	-1.5
Other financing	0.4	14.3	3.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	2.6	1.1	0.0	0.0	0.0	0.0
Net financing gap	0.0	0.0	-0.1	0.0	2.3	1.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account excluding grants	-19.9	-15.5	-11.5	-7.0	-11.4	-8.2	-10.9	-9.0	-7.2	-6.8
Terms of trade (percent change)	-4.8	1.5	1.0	2.6	-0.5	0.0	-1.4	-0.8	-0.3	0.1
Gross international reserves (end of period)	17.1	30.7	34.5	44.4	33.0	44.8	42.5	43.4	45.3	47.5
In months of next year's imports of goods and services	3.0	5.2	5.7	6.8	5.2	6.1	5.6	5.4	5.2	5.1
External debt	55.8	79.0	86.9	86.9	85.2	91.5	87.5	87.5	87.1	82.9
External debt service	5.0	7.3	4.8	12.0	5.5	14.7	17.0	10.6	9.1	10.7
External debt service (in percent of exports of G	14.4	19.4	11.3	26.3	11.6	27.7	29.4	16.9	13.4	14.4
Stock of external arrears	3.7	2.4	1.1	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Real effective exchange rate (period average, percentage change)	5.9	-26.6	...	...	...	...	...	...	...	...

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

1/ EGPC arrears.

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

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Second Review	Revised Proj.	Second Review	Revised Proj.				
Current account	-6.0	-6.0	-4.5	-2.8	-4.0	-2.6	-3.1	-2.4	-1.8	-1.6
Balance on goods and services	-9.7	-11.9	-9.7	-10.1	-8.7	-8.3	-8.5	-8.0	-7.4	-7.0
Exports of goods and services	10.5	14.7	16.9	18.3	16.9	17.4	16.8	17.2	17.6	17.6
Imports of goods and services	-20.1	-26.5	-26.6	-28.4	-25.6	-25.7	-25.3	-25.1	-25.0	-24.7
Trade balance	-11.6	-14.3	-13.5	-14.5	-12.5	-12.5	-12.7	-12.4	-12.2	-12.0
Oil and gas	-1.1	-1.9	-1.9	-1.7	-1.1	-0.9	-1.1	-1.2	-1.3	-1.2
Other	-10.5	-12.4	-11.6	-12.8	-11.5	-11.6	-11.6	-11.2	-10.9	-10.7
Exports	5.6	8.5	9.2	9.9	9.3	9.4	8.9	8.9	9.0	8.9
Oil and gas	1.7	2.6	2.8	3.3	2.8	3.5	3.0	2.6	2.4	2.2
Other	3.9	5.9	6.4	6.5	6.5	5.9	5.9	6.3	6.6	6.8
Imports	-17.3	-22.7	-22.7	-24.3	-21.8	-21.9	-21.6	-21.4	-21.2	-20.9
Oil and gas	-2.8	-4.5	-4.7	-5.0	-3.8	-4.4	-4.1	-3.9	-3.7	-3.4
Other	-14.5	-18.3	-18.0	-19.3	-18.0	-17.5	-17.5	-17.5	-17.5	-17.5
Services (net)	2.0	2.4	3.8	4.3	3.8	4.2	4.2	4.5	4.8	4.9
Receipts	4.8	6.2	7.7	8.4	7.6	8.0	7.9	8.3	8.5	8.7
Of which: Tourism receipts	1.1	1.7	2.4	3.6	2.6	3.7	3.8	4.1	4.3	4.5
Of which: Suez canal dues	1.5	1.9	2.2	2.2	2.0	2.0	1.8	1.8	1.8	1.7
Payments	-2.9	-3.8	-3.9	-4.1	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
Of which: Transportation	-0.4	-0.5	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Of which: Travel	-1.2	-1.1	-1.1	-0.9	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9
Primary income (net)	-1.3	-1.7	-2.3	-2.5	-2.3	-2.8	-2.5	-2.4	-2.3	-2.1
Receipts	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Payments	-1.5	-1.9	-2.5	-2.7	-2.5	-3.0	-2.8	-2.6	-2.5	-2.3
Transfers	5.1	7.6	7.5	9.9	7.0	8.5	8.0	8.0	7.9	7.6
Official grants	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Private remittances	5.0	7.6	7.4	9.8	7.0	8.5	7.9	7.9	7.9	7.5
Capital and financial account	6.4	5.6	3.2	5.0	1.6	1.8	2.4	2.7	2.5	2.4
Medium- and long-term loans (net)	0.4	0.6	1.7	1.4	1.1	0.8	0.7	0.6	-0.1	-0.8
Drawings	1.2	1.7	2.6	2.4	2.0	1.6	1.5	1.4	0.8	0.2
Amortization	0.8	1.0	0.9	1.0	0.9	0.8	0.8	0.8	0.9	1.0
FDI (net)	2.0	3.0	3.3	3.1	3.5	3.1	3.3	3.5	3.7	4.0
Portfolio investment (net)	-0.3	6.3	4.1	7.1	1.8	-0.7	0.1	0.3	-0.3	0.0
Commercial banks' NFA	2.5	-3.1	-2.7	-1.8	-0.2	2.1	2.0	0.3	0.2	0.2
Other (including short-term capital and central bank deposits)	1.8	-1.1	-3.2	-3.3	-4.5	-3.9	-2.6	-0.6	-0.6	-0.7
Errors and omissions (net)	-1.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	-0.8	-1.3	2.3	-2.4	-0.9	-0.7	0.3	0.7	0.9
Financing	0.8	0.8	1.3	-2.3	1.6	0.6	0.7	-0.3	-0.7	-0.9
Reserves ("-" indicates increase)	0.7	-5.3	-1.5	-5.5	0.5	-0.1	0.7	-0.2	-0.5	-0.5
Change in arrears ("-" indicates decrease) 1/	0.0	-0.5	-0.4	-0.2	-0.4	-0.6	0.0	0.0	0.0	0.0
Net use of Fund resources	0.0	1.1	2.1	2.1	1.4	1.3	0.0	-0.1	-0.2	-0.4
Other financing	0.0	5.6	1.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.9	0.4	0.0	0.0	0.0	0.0
Net financing gap	0.0	0.0	0.0	0.0	0.8	0.3	0.0	0.0	0.0	0.0
Memorandum items:										
Current account excluding grants	-6.0	-6.0	-4.6	-2.8	-4.1	-2.7	-3.2	-2.5	-1.9	-1.6
Gross international reserves (end of period)	5.6	16.0	13.7	17.6	11.7	14.6	12.8	12.4	12.1	11.3
External debt	18.3	41.3	34.6	34.5	30.3	29.9	26.4	25.0	23.3	19.7
External debt service	1.5	2.8	1.9	4.8	2.0	4.8	4.9	2.9	2.4	2.5

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

1/ EGPC arrears.

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

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Second Review	Revised Proj.	Second Review	Revised Proj.				
Revenue and grants	491.5	659.2	830.4	808.7	988.3	999.5	1,127.0	1,286.8	1,460.6	1,652.4
Tax revenue	352.3	462.0	607.6	625.5	770.5	780.5	901.8	1,026.2	1,165.2	1,318.2
Income and property	158.2	203.4	258.8	259.3	324.8	327.6	370.9	420.9	480.3	543.4
Personal income tax	42.4	51.0	68.2	67.4	89.7	85.6	103.0	123.5	140.0	158.4
Corporate income tax	87.9	115.9	136.9	140.1	169.0	170.0	198.8	226.7	260.0	294.2
EGPC	37.3	42.5	41.6	44.0	54.9	47.2	55.2	63.0	71.4	80.8
Other	65.1	73.4	95.3	96.1	114.1	122.8	143.6	163.7	188.6	213.4
Property	28.0	36.5	53.7	51.8	66.2	72.0	69.1	70.8	80.3	90.8
Goods and services	140.5	208.6	289.6	293.3	377.8	377.5	439.5	501.7	568.0	642.7
Oil excises	13.2	33.1	20.3	30.6	24.3	21.4	25.0	26.5	26.1	29.5
VAT and nonoil excises	127.3	175.6	269.3	262.7	353.5	356.1	414.5	475.2	542.0	613.1
International trade	28.1	34.3	34.2	39.1	40.8	44.6	55.3	66.4	74.8	84.7
Other taxes	11.0	15.7	25.0	33.8	27.0	30.9	36.1	37.1	42.0	47.5
Nontax revenue	135.6	179.5	221.6	182.0	216.7	217.8	224.0	259.4	294.1	332.7
Oil-related nontax revenue	12.0	13.3	37.5	23.5	48.1	49.3	42.1	52.0	58.9	66.7
Other nontax revenues	123.7	161.9	184.2	158.5	168.6	168.4	181.9	207.4	235.1	266.0
Of which: interest income	1.9	4.3	2.4	2.4	2.4	3.7	2.4	2.4	2.7	3.1
Grants	3.5	17.7	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.5
Expenditure	817.6	1,031.9	1,236.8	1,229.7	1,380.7	1,430.4	1,493.2	1,611.4	1,778.0	2,013.8
Wages and other remunerations	213.7	225.5	239.6	240.0	265.0	266.1	306.1	352.5	399.6	452.0
Purchases of goods and services	35.7	42.5	51.6	48.1	63.7	60.1	66.7	71.9	79.1	89.4
Interest	243.4	316.6	415.3	433.5	507.5	542.7	506.9	490.8	503.4	571.8
Domestic	238.4	307.0	384.4	406.7	474.7	511.2	477.9	462.5	467.6	534.6
External	5.1	9.6	30.9	26.8	32.8	31.5	29.0	28.3	35.8	37.2
Subsidies, grants, and social benefits	201.0	276.7	329.1	331.0	346.2	337.3	342.1	390.7	455.5	515.3
Energy subsidies	81.1	142.6	138.9	150.9	65.6	115.1	52.8	26.8	29.5	33.3
Of which: fuel subsidy	51.0	115.0	108.0	120.9	48.4	99.1	40.4	26.8	29.5	33.3
Food subsidies 2/	41.5	47.5	82.0	82.6	90.6	87.2	106.7	123.7	140.3	158.7
Transfer to SIF	43.9	45.2	60.5	52.5	78.0	69.0	98.0	128.0	158.5	179.3
Other	31.3	41.4	47.8	45.0	112.0	66.0	84.5	112.2	127.2	143.9
Other current	54.6	61.5	65.7	65.8	73.6	75.7	93.5	106.6	118.9	134.5
Investment	69.3	109.1	135.4	111.4	124.6	148.5	178.0	199.0	221.6	250.7
Cash balance	-326.1	-372.8	-406.4	-421.0	-392.3	-430.9	-366.3	-324.7	-317.4	-361.4
Net acquisition of financial assets	13.1	6.8	-1.4	9.3	1.6	3.8	17.2	21.2	24.0	27.2
Overall balance (IMF staff definition)	-339.3	-379.6	-405.0	-430.4	-393.9	-434.7	-383.5	-345.9	-341.4	-388.6
Overall balance (authorities' definition)	-339.3	-379.6	-405.0	-430.4	-393.9	-434.7	-383.5	-345.9	-341.4	-388.6
Financing	333.4	379.6	405.0	430.4	393.9	434.7	383.5	345.9	341.4	388.6
Net domestic	304.5	252.7	258.4	216.8	345.5	341.3	406.5	367.1	412.3	482.3
Bank	260.2	276.7	186.0	144.0	258.8	392.3	304.4	250.6	280.2	332.8
Nonbank	44.4	-24.0	72.4	72.8	86.7	-51.0	102.1	116.5	132.1	149.5
Net external	28.9	126.9	146.6	213.5	48.4	73.7	-23.0	-21.2	-70.9	-93.7
Financing gap	5.8	0.0	0.0	0.0	0.0	19.7	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance 3/	-95.9	-63.0	10.3	9.1	113.6	108.0	123.4	144.9	162.0	183.2
Oil balance 4/	-18.6	-53.7	-39.5	-52.8	61.7	2.9	69.5	114.7	127.0	143.6
Financing gap (in billions of US\$)	0.7	0.0	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0
Gross budget sector debt 5/	2,764	3,748	4,238	4,297	4,821	4,855	5,459	6,027	6,573	7,075
Gross general government debt	2,624	3,575	4,034	4,098	4,587	4,623	5,238	5,791	6,322	6,810
Nominal GDP (in billions of Egyptian pounds)	2,709	3,470	4,418	4,436	5,292	5,365	6,272	7,152	8,110	9,175

Sources: Ministry of Finance; and IMF staff estimates.

1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis.

2/ Food subsidies include subsidies paid to farmers.

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

4/ Oil revenue minus fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.

5/ Includes debt issued to the SIF for settlement of past arrears and implied future liabilities.

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

	2015/16		2016/17		2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
	Second Review	Revised Proj.	Second Review	Revised Proj.	Second Review	Revised Proj.	Second Review	Revised Proj.				
Revenue and grants	18.1	19.0	18.8	18.2	18.7	18.6	18.0	18.0	18.0	18.0	18.0	18.0
Tax revenue	13.0	13.3	13.8	14.1	14.6	14.5	14.4	14.3	14.3	14.4	14.4	14.4
Income and corporate tax	5.8	5.9	5.9	5.8	6.1	6.1	5.9	5.9	5.9	5.9	5.9	5.9
Personal income tax	1.6	1.5	1.5	1.5	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.7
Corporate income tax	3.2	3.3	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
EGPC	1.4	1.2	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other	2.4	2.1	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Property	1.0	1.1	1.2	1.2	1.3	1.3	1.1	1.0	1.0	1.0	1.0	1.0
Goods and services	5.2	6.0	6.6	6.6	7.1	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Oil excises	0.5	1.0	0.5	0.7	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3
VAT and nonoil excises	4.7	5.1	6.1	5.9	6.7	6.6	6.6	6.6	6.6	6.7	6.7	6.7
International trade	1.0	1.0	0.8	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Other taxes	0.4	0.5	0.6	0.8	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Nontax revenue	5.0	5.2	5.0	4.1	4.1	4.1	3.6	3.6	3.6	3.6	3.6	3.6
Oil-related nontax revenue	0.4	0.4	0.8	0.5	0.9	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Other nontax revenues	4.6	4.7	4.2	3.6	3.2	3.1	2.9	2.9	2.9	2.9	2.9	2.9
Of which: interest income	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	30.2	29.7	28.0	27.7	26.1	26.7	23.8	22.5	21.9	21.9	21.9	21.9
Wages and other remunerations	7.9	6.5	5.4	5.4	5.0	5.0	4.9	4.9	4.9	4.9	4.9	4.9
Purchases of goods and services	1.3	1.2	1.2	1.1	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0
Interest	9.0	9.1	9.4	9.8	9.6	10.1	8.1	6.9	6.2	6.2	6.2	6.2
Domestic	8.8	8.8	8.7	9.2	9.0	9.5	7.6	6.5	5.8	5.8	5.8	5.8
External	0.2	0.3	0.7	0.6	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.4
Subsidies, grants and social benefits	7.4	8.0	7.4	7.5	6.5	6.3	5.5	5.5	5.6	5.6	5.6	5.6
Energy subsidies	3.0	4.1	3.1	3.4	1.2	2.1	0.8	0.4	0.4	0.4	0.4	0.4
Of which: fuel subsidy	1.9	3.3	2.4	2.7	0.9	1.8	0.6	0.4	0.4	0.4	0.4	0.4
Food subsidies 2/	1.5	1.4	1.9	1.9	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Transfers to SIF	1.6	1.3	1.4	1.2	1.5	1.3	1.6	1.8	2.0	2.0	2.0	2.0
Other	1.2	1.2	1.1	1.0	2.1	1.2	1.3	1.6	1.6	1.6	1.6	1.6
Other current	2.0	1.8	1.5	1.5	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Investment	2.6	3.1	3.1	2.5	2.4	2.8	2.8	2.8	2.7	2.7	2.7	2.7
Unidentified measures			...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash balance	-12.0	-10.7	-9.2	-9.5	-7.4	-8.0	-5.8	-4.5	-3.9	-3.9	-3.9	-3.9
Net acquisition of financial assets	0.5	0.2	0.0	0.2	0.0	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Overall balance (IMF staff definition)	-12.5	-10.9	-9.2	-9.7	-7.4	-8.1	-6.1	-4.8	-4.2	-4.2	-4.2	-4.2
Overall balance (authorities' definition)	-12.5	-10.9	-9.2	-9.7	-7.4	-8.1	-6.1	-4.8	-4.2	-4.2	-4.2	-4.2
Financing	12.3	10.9	9.2	9.7	7.4	8.1	6.1	4.8	4.2	4.2	4.2	4.2
Net domestic	11.2	7.3	5.8	4.9	6.5	6.4	6.5	5.1	5.1	5.1	5.3	5.3
Bank	9.6	8.0	4.2	3.2	4.9	7.3	4.9	3.5	3.5	3.5	3.6	3.6
Nonbank	1.6	-0.7	1.6	1.6	1.6	-1.0	1.6	1.6	1.6	1.6	1.6	1.6
Net external	1.1	3.7	3.3	4.8	0.9	1.4	-0.4	-0.3	-0.9	-0.9	-1.0	-1.0
Financing gap	...	...	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Primary balance 3/	-3.5	-1.8	0.2	0.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Oil balance 4/	-0.7	-1.5	-0.9	-1.2	1.2	0.1	1.1	1.6	1.6	1.6	1.6	1.6
Gross budget sector debt 5/	102.0	108.0	95.9	96.9	91.1	90.5	87.0	84.3	81.1	77.1	77.1	77.1
Nominal GDP (in billions of Egyptian pounds)	2,709	3,470	4,418	4,436	5,292	5,365	6,272	7,152	8,110	9,175	9,175	9,175

Sources: Ministry of Finance; and IMF staff estimates.

1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis.

2/ Food subsidies include subsidies paid to farmers.

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

4/ Oil revenue minus fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.

5/ Includes debt issued to the SIF for settlement of past arrears and implied future liabilities.

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

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Second Review	Revised Proj.	Second Review	Revised Proj.				
(In billions of Egyptian pounds)										
Revenue and grants	549.0	755.1	920.6	908.4	1,111.4	1,097.0	1,241.2	1,416.7	1,603.6	1,819.4
Tax revenue	352.3	462.0	607.6	625.5	770.5	780.5	901.8	1,026.2	1,165.2	1,318.2
Income and property	158.2	203.4	258.8	259.3	324.8	327.6	370.9	420.9	480.3	543.4
Personal income tax	42.4	51.0	68.2	67.4	89.7	85.6	103.0	123.5	140.0	158.4
Corporate income tax	87.9	115.9	136.9	140.1	169.0	170.0	198.8	226.7	260.0	294.2
EGPC	37.3	42.5	41.6	44.0	54.9	47.2	55.2	63.0	71.4	80.8
Other	65.1	73.4	95.3	96.1	114.1	122.8	143.6	163.7	188.6	213.4
Goods and services	140.5	208.6	289.6	293.3	377.8	377.5	439.5	501.7	568.0	642.7
Oil excises	13.2	33.1	20.3	30.6	24.3	21.4	25.0	26.5	26.1	29.5
VAT and nonoil excises	127.3	175.6	269.3	262.7	353.5	356.1	414.5	475.2	542.0	613.1
International trade taxes	28.1	34.3	34.2	39.1	40.8	44.6	55.3	66.4	74.8	84.7
Other taxes	11.0	15.7	25.0	33.8	27.0	30.9	36.1	37.1	42.0	47.5
Nontax revenue	193.2	275.4	311.9	281.8	339.8	315.3	338.3	389.3	437.1	499.7
Of which: Interest income	4.6	9.9	8.6	15.0	9.4	9.4	9.6	12.6	15.2	18.0
Grants	3.5	17.7	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.5
Expenditure	886.9	1,117.0	1,365.5	1,326.9	1,463	1,511	1,637.0	1,745.7	1,925.5	2,186.5
Wages and other remunerations	216.2	227.7	244.1	242.9	270.4	268.3	308.9	355.6	403.1	456.0
Purchases of goods and services	35.9	42.8	52.1	48.5	64.3	60.6	67.2	72.5	79.7	90.1
Interest	225.4	284.7	402.6	396.8	425.7	493.3	514.9	475.2	487.7	554.0
Domestic interest	220.4	274.9	372.1	370.0	393.9	461.8	485.9	446.9	451.9	516.8
External interest	5.1	9.6	30.4	26.8	31.8	31.5	29.0	28.3	35.8	37.2
Subsidies, grants, and social benefits	285.5	386.3	465.0	456.4	503.9	461.5	474.0	536.3	614.4	701.0
Other current	54.6	66.2	66.1	70.8	74.0	78.7	93.9	107.0	118.9	134.5
Investment	69.4	109.2	135.6	111.5	124.8	148.5	178.1	199.1	221.8	250.9
Net acquisition of financial assets	-11.5	4.5	-26.1	10.1	-4.1	8.1	17.5	21.8	24.0	27.2
Overall balance	-326.4	-366.4	-418.8	-428.5	-347.5	-422.0	-413.2	-350.8	-345.9	-394.2
Financing	326.4	366.4	418.8	428.5	347.5	422.0	413.2	350.8	345.9	394.2
Net domestic	297.5	239.5	272.2	215.0	299.1	328.6	436.3	372.0	416.8	487.9
Bank	253.1	263.5	199.8	142.2	212.4	379.6	334.2	255.5	284.7	338.5
Nonbank	44.4	-24.0	72.4	72.8	86.7	-51.0	102.1	116.5	132.1	149.5
Net external	28.9	126.9	146.6	213.5	48.4	73.7	-23.0	-21.2	-70.9	-93.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP, unless otherwise indicated)										
Revenue and grants	20.3	21.8	20.8	20.5	21.0	20.4	19.8	19.8	19.8	19.8
Tax revenue	13.0	13.3	13.8	14.1	14.6	14.5	14.4	14.3	14.4	14.4
Nontax revenue	7.1	7.9	7.1	6.4	6.4	5.9	5.4	5.4	5.4	5.4
Of which: Interest income	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	32.7	32.2	30.9	29.9	27.6	28.2	26.1	24.4	23.7	23.8
Wages and other remunerations	8.0	6.6	5.5	5.5	5.1	5.0	4.9	5.0	5.0	5.0
Purchases of goods and services	1.3	1.2	1.2	1.1	1.2	1.1	1.1	1.0	1.0	1.0
Interest	8.3	8.2	9.1	8.9	8.0	9.2	8.2	6.6	6.0	6.0
Subsidies, grants, and social benefits	10.5	11.1	10.5	10.3	9.5	8.6	7.6	7.5	7.6	7.6
Other current	2.0	1.9	1.5	1.6	1.4	1.5	1.5	1.5	1.5	1.5
Investment	2.6	3.1	3.1	2.5	2.4	2.8	2.8	2.8	2.7	2.7
Net acquisition of financial assets	-0.4	0.1	-0.6	0.2	-0.1	0.2	0.3	0.3	0.3	0.3
Overall balance	-12.0	-10.6	-9.5	-9.7	-6.6	-7.9	-6.6	-4.9	-4.3	-4.3
Financing	12.0	10.6	9.5	9.7	6.6	7.9	6.6	4.9	4.3	4.3
Net domestic	11.0	6.9	6.2	4.8	5.7	6.1	7.0	5.2	5.1	5.3
Bank	9.3	7.6	4.5	3.2	4.0	7.1	5.3	3.6	3.5	3.7
Nonbank	1.6	-0.7	1.6	1.6	1.6	-1.0	1.6	1.6	1.6	1.6
Net external	1.1	3.7	3.3	4.8	0.9	1.4	-0.4	-0.3	-0.9	-1.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance	-3.7	-2.4	-0.4	-0.7	1.5	1.3	1.6	1.7	1.7	1.7
Gross debt	96.8	103.0	91.3	92.4	86.7	86.2	83.5	81.0	78.0	74.2
Net debt	88.2	93.8	79.9	81.1	77.2	76.8	75.5	73.9	71.8	71.7
Gross debt (in billions of LE)	2,624	3,575	4,034	4,098	4,587	4,623	5,238	5,791	6,322	6,810
Net debt (in billions of LE)	2,389	3,254	3,531	3,596	4,084	4,121	4,735	5,289	5,820	6,574
Nominal GDP (in billions of LE)	2,709	3,470	4,418	4,436	5,292	5,365	6,272	7,152	8,110	9,175

Sources: Ministry of Finance; and IMF staff estimates.

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

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

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Second Review	Revised Proj.	Second Review	Revised Proj.				
(end-period, in billions of Egyptian Pounds, unless otherwise indicated)										
Net foreign assets	-45	4	174	361	436	484	686	839	960	1035
Foreign assets	150	552	590	781	672	784	802	884	981	1032
Foreign liabilities	195	548	416	420	236	300	117	45	21	-3
Net domestic assets	673	575	634	451	515	553	501	484	510	613
Net domestic credit	679	400	447	209	393	315	300	329	397	504
Net credit to central government	658	740	813	765	807	711	708	725	742	759
Net credit to public economic authorities	-39	-32	-27	-21	-24	-24	-4	-4	-4	-4
Credit to banks	120	284	259	383	234	295	190	190	191	191
Banks' deposits in foreign currency	-61	-130	-150	-136	-185	-137	-139	-153	-169	-170
Open market operations	0	-464	-448	-782	-438	-529	-456	-430	-363	-272
Other items net	-6	176	187	241	122	238	201	155	113	109
Reserve money 1/	628	579	807	812	951	1037	1187	1323	1470	1648
Currency in circulation	347	419	480	480	570	622	719	804	897	1011
Reserves and highly liquid assets of banks	281	160	327	332	381	414	468	519	573	637
Cash in vaults	22	33	36	35	39	37	39	41	43	45
Reserves	110	126	271	277	322	357	409	458	510	572
Deposits on overnight	150	2	20	20	20	20	20	20	20	20

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

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

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

	2015/16	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23
			Second Review	Revised Proj.	Second Review	Revised Proj.				
(End-period, in billions of Egyptian pounds)										
Net foreign assets	-87	61	346	497	655	506	580	706	797	854
Central bank	-45	4	174	361	436	484	686	839	960	1,035
Commercial banks	-43	57	172	135	219	22	-106	-134	-162	-181
Net domestic assets	2,182	2,857	3,169	3,105	3,553	3,807	4,336	4,782	5,274	5,853
Net claims on central and local government	1,603	1,809	1,985	1,953	2,269	2,345	2,659	2,920	3,209	3,543
Net claims on public economic authorities	52	171	165	215	204	283	319	336	351	352
Claims on public sector companies	93	149	170	152	191	208	227	249	271	291
Claims on private sector	712	983	1,086	1,056	1,207	1,248	1,446	1,637	1,843	2,072
Net other items	-278	-254	-237	-272	-319	-276	-315	-360	-401	-404
Broad money (M2)	2,094	2,918	3,515	3,601	4,208	4,313	4,916	5,488	6,071	6,707
Domestic currency component (M2D)	1,771	2,224	2,742	2,901	3,255	3,599	4,128	4,617	5,146	5,778
Currency outside banks	347	419	480	480	570	622	719	804	897	1,011
Domestic currency deposits	1,424	1,805	2,262	2,421	2,685	2,977	3,409	3,813	4,250	4,768
Foreign currency deposits	324	694	773	700	953	714	788	871	924	929
(Annual percent change, unless otherwise indicated)										
Broad money (M2)	18.6	39.3	20.4	23.4	19.7	19.8	14.0	11.6	10.6	10.5
Domestic currency component (M2D)	17.8	25.6	23.3	30.4	18.7	24.1	14.7	11.8	11.5	12.3
Reserve money 1/	29.3	-7.8	39.4	40.2	17.8	27.6	14.5	11.4	11.1	12.1
Contribution to Broad Money Growth	18.6	39.3	20.4	23.4	19.7	19.8	14.0	11.6	10.6	10.5
Net foreign assets	-7.9	7.1	9.8	14.9	8.8	0.3	1.7	2.6	1.7	0.9
Net domestic assets	26.5	32.2	10.7	8.5	10.9	19.5	12.3	9.1	9.0	9.5
Credit to the private sector	14.2	38.0	10.5	7.5	11.2	18.2	15.8	13.3	12.6	12.4
Credit to government and public sector companies	21.5	15.4	10.1	7.5	14.2	21.2	13.1	9.8	9.8	10.2
Memorandum items:										
Velocity										
Velocity GDP/M2D (level)	1.7	1.8	1.7	1.7	1.8	1.7	1.6	1.6	1.7	1.7
Velocity GDP/M2 (level)	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
M2 (in percent of GDP)	77.3	84.1	79.6	81.2	79.5	80.4	78.4	76.7	74.9	73.1
Money multiplier (M2D / reserve money)	2.8	3.8	3.4	3.6	3.4	3.5	3.5	3.5	3.5	3.5
Money multiplier (M2 / reserve money)	3.3	5.0	4.4	4.4	4.4	4.2	4.1	4.1	4.1	4.1
M2 (in real terms)	4.1	7.4	7.6	9.6	3.9	5.9	3.3	3.5	3.2	3.2
Domestic currency deposit (in real terms)	3.3	-2.3	12.0	19.2	3.0	8.7	3.8	3.7	4.0	4.8
Claims on private sector (in real terms)	0.2	6.4	-1.3	-4.5	-3.5	4.5	5.0	5.0	5.0	5.0
Foreign currency deposits (in percent of total deposits)	18.5	27.8	25.5	22.4	26.2	19.3	18.8	18.6	17.9	16.3

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

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

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

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
						Projections		
	(Annual change, in percent)							
Real GDP at market price	4.3	4.2	5.2	5.5	5.9	6.0	6.0	6.0
Domestic demand (absorption)	5.5	5.0	3.9	4.8	4.9	5.1	5.3	5.3
Private	5.6	4.5	4.1	4.6	4.9	5.1	5.3	5.2
Public	4.5	8.4	2.7	6.4	5.4	5.1	5.0	5.8
Consumption	4.6	4.0	3.2	3.2	3.4	3.7	3.8	3.6
Private	4.7	4.2	3.1	3.1	3.3	3.5	3.5	3.3
Public	3.9	2.5	3.6	3.6	4.4	5.5	5.2	5.8
Investment	11.2	11.3	8.2	13.6	12.1	11.3	11.4	11.8
Gross fixed capital formation	19.6	7.7	11.8	13.6	12.1	11.3	11.4	11.8
Private	22.5	2.2	15.0	13.0	13.0	13.0	13.0	13.0
Public	7.2	34.8	0.0	16.2	8.6	3.9	4.1	6.0
Net exports of goods and services 1/	-1.6	-1.3	0.9	0.3	0.5	0.5	0.4	0.4
Exports of goods and services	-14.5	86.0	23.8	8.0	11.3	9.3	9.2	10.2
Imports of goods and services	-1.9	52.5	12.7	5.0	6.9	5.8	6.1	7.2
Real GDP at factor cost	2.3	3.6	5.0	5.4	5.8	5.8	5.8	5.8
Agriculture	3.1	3.2	3.2	3.0	3.2	3.2	3.2	3.2
Construction	11.2	9.5	9.4	9.5	9.5	10.0	10.0	10.0
Industry	-1.4	0.5	6.2	7.6	6.2	5.6	5.2	5.0
Services	3.4	5.4	4.8	4.8	6.5	6.6	6.9	7.0
General government	5.0	3.0	1.1	2.0	2.5	2.5	2.5	2.5
Suez Canal	2.2	1.4	7.5	3.0	3.0	4.0	4.0	4.0
	(Contribution to real growth, in percent 2/)							
Real GDP at market price	4.3	4.2	5.2	5.5	5.9	6.0	6.0	6.0
Domestic demand (absorption)	5.9	5.5	4.4	5.3	5.4	5.5	5.6	5.6
Private	5.3	4.3	3.9	4.3	4.5	4.7	4.9	4.8
Public	0.7	1.2	0.4	0.9	0.8	0.8	0.7	0.9
Consumption	4.3	3.7	3.0	2.9	3.1	3.3	3.2	3.0
Private	3.8	3.4	2.6	2.5	2.6	2.6	2.7	2.4
Public	0.5	0.3	0.4	0.4	0.5	0.6	0.6	0.6
Investment	1.7	1.8	1.4	2.4	2.3	2.2	2.4	2.6
Gross fixed capital formation	2.7	1.2	1.9	2.4	2.3	2.2	2.4	2.6
Private	2.5	0.3	1.9	1.8	1.9	2.1	2.2	2.4
Public	0.2	0.9	0.0	0.5	0.3	0.1	0.2	0.2
Net exports of goods and services	-1.6	-1.3	0.9	0.3	0.5	0.5	0.4	0.4
Exports of goods and services	-2.0	9.7	4.8	1.9	2.8	2.4	2.4	2.8
Imports of goods and services	0.4	-11.1	-3.9	-1.6	-2.3	-1.9	-2.0	-2.4
Real GDP at factor cost	2.3	3.6	5.0	5.4	5.8	5.8	5.8	5.8
Agriculture	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Construction	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Industry	-0.5	0.2	1.9	2.3	1.9	1.7	1.6	1.5
Services	1.4	2.3	2.0	2.0	2.7	2.8	3.0	3.0
General government	0.5	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Suez Canal	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1

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

1/ Contribution to growth.

2/ Components do not sum up to total due to statistical discrepancies associated with changes of base years.



**Table 7b. Egypt: Summary of National Accounts, 2015/16–2022/23**  
(In percent of GDP)

	2015/16	2015/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Projections					
	(In percent of nominal GDP)							
GDP at market price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand (absorption)	109.6	112.2	109.4	107.7	107.9	107.3	106.7	106.4
Private	95.6	98.9	98.4	97.0	97.3	96.8	96.3	96.0
Public	14.0	13.2	11.0	10.7	10.6	10.5	10.4	10.4
Consumption	94.5	96.9	94.1	91.2	90.5	89.0	87.4	86.0
Private	83.1	86.8	85.6	83.3	82.7	81.2	79.7	78.3
Public	11.4	10.1	8.5	7.9	7.8	7.7	7.7	7.7
Investment	15.0	15.3	15.3	16.4	17.4	18.3	19.3	20.4
Gross fixed capital formation	14.5	14.8	15.3	16.4	17.4	18.3	19.3	20.4
Private	11.9	11.7	12.8	13.7	14.6	15.5	16.6	17.7
Public	2.6	3.1	2.5	2.8	2.8	2.8	2.7	2.7
Net exports of goods and services	-9.6	-12.2	-9.4	-7.7	-7.9	-7.3	-6.7	-6.4
Exports of goods and services	10.3	16.3	18.8	17.8	17.2	17.6	18.0	18.1
Imports of goods and services	-19.9	-28.5	-28.2	-25.5	-25.1	-24.9	-24.8	-24.5
Net factor income	-1.3	-1.9	-2.5	-2.8	-2.5	-2.4	-2.3	-2.1
Net remittances inflows	5.0	8.2	9.8	8.5	7.9	7.9	7.9	7.5
Net official transfers	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Gross National Disposable Income	103.7	106.4	107.4	105.7	105.4	105.5	105.6	105.5
Investment	15.0	15.3	15.3	16.4	17.4	18.3	19.3	20.4
Private (incl. change in inventories)	12.5	12.1	12.8	13.7	14.6	15.5	16.6	17.7
Public	2.6	3.1	2.5	2.8	2.8	2.8	2.7	2.7
National savings	9.1	9.3	12.5	13.8	14.3	15.9	17.4	18.8
Private	19.0	16.6	19.4	18.7	17.7	17.7	18.7	20.1
Public	-9.9	-7.3	-6.9	-4.9	-3.5	-1.8	-1.2	-1.3
Savings-investment balance	-6.0	-6.0	-2.8	-2.7	-3.2	-2.5	-1.9	-1.6
Private	6.5	4.4	6.7	5.0	3.1	2.1	2.1	2.4
Public	-12.5	-10.4	-9.4	-7.7	-6.3	-4.6	-4.0	-4.0
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.9	11.7	11.6	11.3	11.1	10.8	10.5	9.5
Construction	5.4	5.7	6.0	6.3	6.5	6.7	7.0	6.7
Industry	27.4	28.6	29.1	29.6	29.8	29.7	29.4	27.2
Services	43.3	42.9	42.5	42.1	42.3	42.8	43.6	47.8
General government	10.3	8.9	8.6	8.3	8.1	7.8	7.5	6.8
Suez Canal	1.5	2.2	2.3	2.3	2.2	2.2	2.1	1.9

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

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

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
						Projections		
<b>Growth and prices</b>								
Real GDP (annual change, in percent)	4.3	4.2	5.2	5.5	5.9	6.0	6.0	6.0
CPI inflation (end-of-period, in percent)	14.0	29.8	12.6	13.1	10.3	7.9	7.2	7.0
CPI inflation (average, in percent)	10.2	23.5	20.8	14.4	10.9	7.9	7.2	7.0
Unemployment rate (period average, in percent)	12.7	12.2	11.1	9.7	8.1	7.5	6.9	6.3
<b>Savings-investment balance</b>								
Savings-investment balance	-6.0	-6.0	-2.8	-2.6	-3.1	-2.4	-1.8	-1.6
Investment	15.0	15.3	15.3	16.4	17.4	18.3	19.3	20.4
Domestic savings	9.1	9.3	12.5	13.8	14.3	15.9	17.5	18.8
<b>Public finances</b>								
<b>General government</b>								
Revenue and grants	20.3	21.8	20.5	20.4	19.8	19.8	19.8	19.8
Expenditure and NAFA	32.3	32.3	30.1	28.3	26.4	24.7	24.0	24.1
Overall balance	-12.0	-10.6	-9.7	-7.9	-6.6	-4.9	-4.3	-4.3
Overall balance, excl. grants	-12.2	-11.1	-9.7	-7.9	-6.6	-4.9	-4.3	-4.3
Primary balance	-3.7	-2.4	-0.7	1.3	1.6	1.7	1.7	1.7
Gross debt	96.8	103.0	92.4	86.2	83.5	81.0	78.0	74.2
Domestic	89.0	84.9	73.9	69.2	68.2	66.8	65.6	64.3
External	7.8	18.1	18.5	17.0	15.3	14.2	12.4	10.0
<b>Budget sector</b>								
Revenue and grants	18.1	19.0	18.2	18.6	18.0	18.0	18.0	18.0
Tax revenue	13.0	13.3	14.1	14.5	14.4	14.3	14.4	14.4
Non-tax revenue	5.0	5.2	4.1	4.1	3.6	3.6	3.6	3.6
Grants	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and NAFA	30.7	29.9	27.9	26.7	24.1	22.8	22.2	22.2
<i>Of which:</i> Current	28.1	26.8	25.4	24.0	21.2	20.0	19.5	19.5
Capital	2.6	3.1	2.5	2.8	2.8	2.8	2.7	2.7
Overall budget balance	-12.5	-10.9	-9.7	-8.1	-6.1	-4.8	-4.2	-4.2
Overall budget balance, excl. grants	-12.7	-11.4	-9.7	-8.1	-6.1	-4.9	-4.2	-4.3
Primary budget balance	-3.5	-1.8	0.2	2.0	2.0	2.0	2.0	2.0
<b>Balance of payments and external debt</b>								
Current account	-6.0	-6.0	-2.8	-2.6	-3.1	-2.4	-1.8	-1.6
Trade balance	-11.6	-14.3	-14.5	-12.5	-12.7	-12.4	-12.2	-12.0
Oil and gas	-1.1	-1.9	-1.7	-0.9	-1.1	-1.2	-1.3	-1.2
Other	-10.5	-12.4	-12.8	-11.6	-11.6	-11.2	-10.9	-10.7
Capital and financial account (incl. errors and omissions)	5.1	5.2	5.0	1.8	2.4	2.7	2.5	2.4
Financing gap	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Official reserves (in billions of US\$)	17.1	30.7	44.4	44.8	42.5	43.4	45.3	47.5
(In months of next year's imports of goods and services)	3.0	5.2	6.8	6.1	5.6	5.4	5.2	5.1
External debt (in percent of GDP)	18.3	41.3	34.5	29.9	26.4	25.0	23.3	19.7

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

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

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

Source: Central Bank of Egypt.

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

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Projections				
<b>Fund repurchases and charges</b>							
Millions of SDRs	22.6	78.7	193.0	267.5	430.7	783.5	1,344.5
Repurchases	0.0	0.0	0.0	0.0	164.2	522.4	1,074.6
Charges and fees	22.6	78.7	193.0	267.5	266.5	261.1	270.0
Millions of US\$	31.6	109.8	269.4	373.4	601.2	1,093.7	1,876.8
Percent of exports of goods and nonfactor services	0.1	0.2	0.5	0.6	1.0	1.6	2.5
Percent of total debt service <sup>3/</sup>	0.0	0.1	0.3	0.3	0.5	0.7	1.2
Percent of quota	1.1	3.9	9.5	13.1	21.1	38.5	66.0
Percent of gross international reserves	0.1	0.2	0.6	0.9	1.4	2.4	4.0
<b>Fund credit outstanding</b>							
Millions of SDRs	1,970	5,731	8,597	8,597	8,432	7,910	6,835
Millions of US\$	2,750	8,000	12,000	12,000	11,771	11,042	9,542
Percent of exports of goods and nonfactor services	7.3	17.5	22.6	20.7	18.8	16.3	12.8
Percent of quota	96.7	281.3	422.0	422.0	413.9	388.3	335.5
Percent of gross international reserves	9.0	18.0	26.8	28.3	27.2	24.4	20.1
<b>Memorandum items:</b>							
Exports of goods and nonfactor services (in millions of US\$)	37,585	45,781	53,061	57,914	62,528	67,860	74,438
Debt service (in millions of US\$)	89,099	86,142	92,233	120,563	120,381	149,517	156,273
Quota (in millions of SDRs, end of period) <sup>4/</sup>	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1
Quota (millions of US\$ at eop exchange rate)	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3
Gross international reserves (in millions of US\$)	30,652	44,387	44,780	42,458	43,351	45,298	47,464
Source: IMF staff calculations.							
1/ Fiscal year starts on July 1 and ends on June 30.							
2/ Assumes repurchases are made on obligations schedule.							
3/ Debt service includes interest on the entire debt stock and amortization of medium- and long-term debt.							
4/ Quota changed from 943.7 to 2037.1 millions SDRs effective as of February 2016							

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

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Projections					
Gross financing requirements	29.6	30.2	14.2	13.4	15.9	14.1	12.9	13.5
Current account deficit	19.8	15.3	6.9	8.1	10.8	8.9	7.1	6.6
Of which: Net interest payments	0.4	1.2	1.8	3.3	3.4	3.6	3.7	3.5
Maturing short-term debt	7.0	12.3	4.8	2.8	2.4	2.4	2.4	2.4
Private sector	2.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Public sector	4.9	10.9	3.4	1.4	1.0	1.0	1.0	1.0
Amortization of medium and long-term debt	2.8	2.6	2.5	2.6	2.7	2.8	3.4	4.4
Private sector	0.1	0.1	0.2	0.0	0.0	0.0	0.2	0.3
Public sector	2.7	2.5	2.3	2.5	2.7	2.8	3.3	4.1
MLT to external private creditors	0.0	1.0	0.9	0.8	0.8	0.6	0.6	0.6
By domestic private sector	0.0	0.1	0.2	0.0	0.0	0.0	0.2	0.3
By domestic public sector	0.0	0.9	0.7	0.7	0.7	0.6	0.4	0.3
MLT to external official creditors	2.7	1.6	1.6	1.8	2.0	2.2	2.8	3.9
IMF	0.0	0.0	0.0	0.0	0.0	0.2	0.8	1.5
To other official creditors	2.7	1.6	1.6	1.8	2.0	2.0	2.1	2.3
By domestic private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By domestic public sector	2.7	1.6	1.6	1.8	2.0	2.0	2.1	2.3
Sources of financing	29.6	30.2	14.2	12.3	15.9	14.1	12.9	13.5
Foreign direct investment (net)	6.8	7.7	7.8	9.5	11.3	12.6	14.3	16.9
Roll-over of short-term debt	12.3	4.8	2.8	2.4	2.4	2.4	2.4	2.4
Medium- and long-term borrowing	4.1	4.2	6.0	5.0	5.0	5.0	3.0	1.0
Private sector	0.6	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Public sector	3.5	3.3	5.0	4.0	4.0	4.0	2.0	0.0
Other net capital flows	7.8	12.6	3.4	-6.4	-5.1	-4.8	-4.2	-3.1
Of which: portfolio investment	-1.1	16.2	17.9	-2.0	0.4	1.0	-1.2	-0.2
Net use of Fund resources	0.0	2.7	5.3	4.0	0.0	-0.2	-0.8	-1.5
Other program financing	0.4	14.3	3.2	0.0	0.0	0.0	0.0	0.0
Change in reserves (- increase)	2.5	-13.6	-13.7	-0.4	2.3	-0.9	-1.9	-2.2
Change in arrears ("-" indicates decrease)	0.0	-1.3	-0.5	-1.9	0.0	0.0	0.0	0.0
Errors and omissions	-4.2	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net financing gap	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0
Gross financing gap	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0
Potential sources of financing								
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
African Development Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
G7 countries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves (GIR)	17.1	30.7	44.4	44.8	42.5	43.4	45.3	47.5
External debt	55.8	79.0	86.9	91.5	87.5	87.5	87.1	82.9

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

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

Date	Amount		Percent of Quota	Condition
	Millions of SDR	Millions of US Dollars		
November 11, 2016	1,970.05	2,750	96.7	Board approval of the EFF
March 15, 2017	895.48	1,250	44.0	First review and end-December 2016 performance criteria <sup>1</sup>
November 11, 2017	1,432.76	2,000	70.3	Second review and end-June 2017 performance criteria <sup>2</sup>
March 15, 2018	1,432.76	2,000	70.3	Third review and end-December 2017 performance criteria
November 11, 2018	1,432.76	2,000	70.3	Fourth review and end-June 2018 performance criteria
March 15, 2019	1,432.76	2,000	70.3	Fifth review and end-December 2018 performance criteria
Total	8,596.57	12,000	422.0	
<i>Memorandum items:</i>				
Quota (SDR, million)	2037.1			
USD/SDR exchange rate	1.3959			

Source: IMF staff calculations.

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

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

## Annex I. Public/External Debt Sustainability Analysis

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

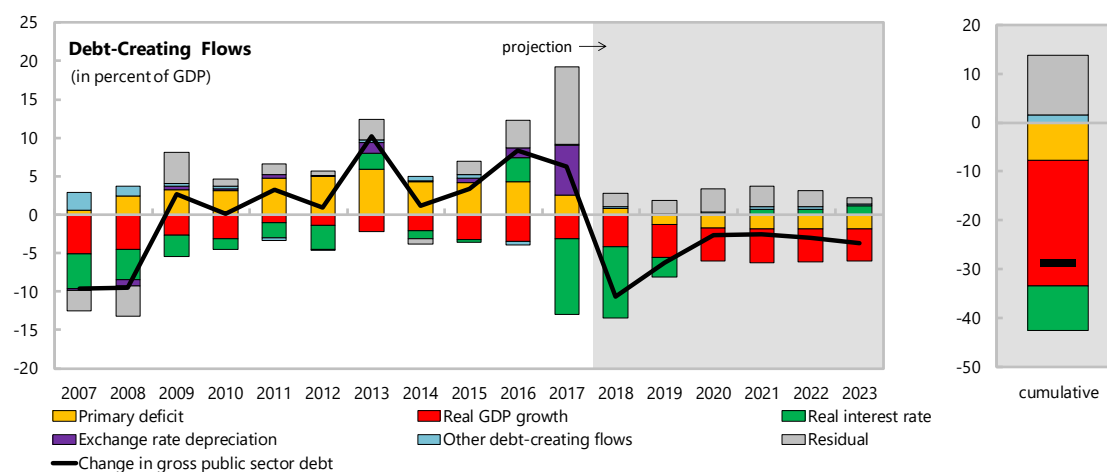
(In percent of GDP unless otherwise indicated)

#### Debt, Economic and Market Indicators <sup>1/</sup>

	Actual			Projections						As of May 23, 2018		
	2007-2015 <sup>2/</sup>	2016	2017	2018	2019	2020	2021	2022	2023	Sovereign Spreads		
Nominal gross public debt	76.3	96.8	103.0	92.4	86.2	83.5	81.0	78.0	74.2	EMBIG (bp) <sup>3/</sup>		413
Public gross financing needs	20.6	46.8	38.2	34.9	31.1	36.9	35.7	41.9	40.4	5Y CDS (bp)		334
Real GDP growth (in percent)	4.3	4.3	4.2	5.2	5.5	5.9	6.0	6.0	6.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	11.1	6.2	22.9	21.5	14.6	10.4	7.6	7.0	6.7	Moody's	B3	B3
Nominal GDP growth (in percent)	15.9	10.9	28.1	27.8	21.0	16.9	14.0	13.4	13.1	S&Ps	B	B3
Effective interest rate (in percent) <sup>4/</sup>	8.6	10.4	10.9	11.1	12.0	11.1	9.1	8.4	8.8	Fitch	B	B3

#### Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023		
Change in gross public sector debt	0.3	8.4	6.2	-10.7	-6.2	-2.7	-2.5	-3.0	-3.7	-28.8	
Identified debt-creating flows	-0.2	4.7	-3.8	-12.4	-8.0	-5.7	-5.2	-5.1	-4.6	-41.0	
Primary deficit	3.7	4.3	2.5	0.8	-1.3	-1.7	-1.9	-1.9	-1.8	-7.8	
Primary (noninterest) revenue and grants	23.1	20.1	21.5	20.1	20.3	19.6	19.6	19.6	19.6	118.9	
Primary (noninterest) expenditure	26.8	24.4	24.0	21.0	19.0	17.9	17.8	17.7	17.8	111.1	
Automatic debt dynamics <sup>5/</sup>	-4.4	0.9	-6.5	-13.5	-6.8	-4.3	-3.6	-3.6	-3.0	-34.7	
Interest rate/growth differential <sup>6/</sup>	-4.7	-0.3	-13.0	-13.5	-6.8	-4.3	-3.6	-3.6	-3.0	-34.7	
Of which: real interest rate	-1.9	3.1	-9.9	-9.3	-2.6	0.1	0.7	0.7	1.1	-9.2	
Of which: real GDP growth	-2.8	-3.5	-3.2	-4.2	-4.2	-4.3	-4.4	-4.3	-4.1	-25.6	
Exchange rate depreciation <sup>7/</sup>	0.3	1.2	6.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.6	-0.4	0.1	0.2	0.2	0.3	0.3	0.3	0.3	1.6	
Privatization Proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
GG: Net Lending	0.6	-0.4	0.1	0.2	0.2	0.3	0.3	0.3	0.3	1.6	
Residual, including asset changes <sup>8/</sup>	0.4	3.6	10.0	1.8	1.8	3.1	2.7	2.1	0.8	12.2	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

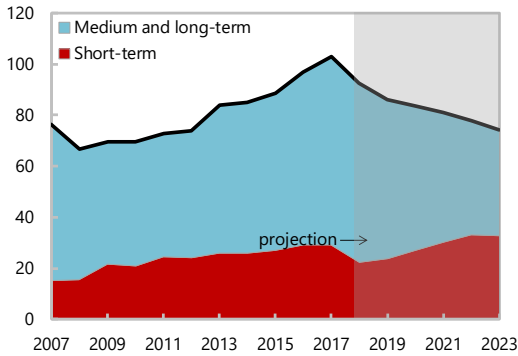
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

### Egypt Public DSA - Composition of Public Debt and Alternative Scenarios

#### Composition of Public Debt

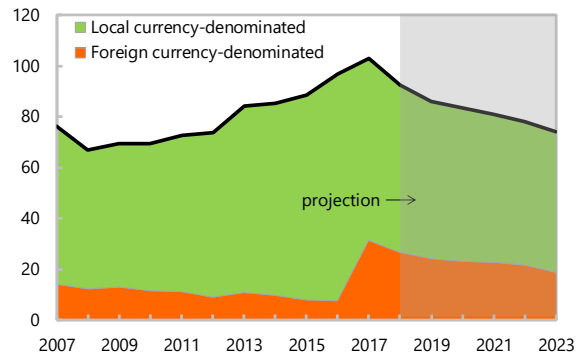
##### By Maturity

(in percent of GDP)



##### By Currency

(in percent of GDP)



#### Alternative Scenarios

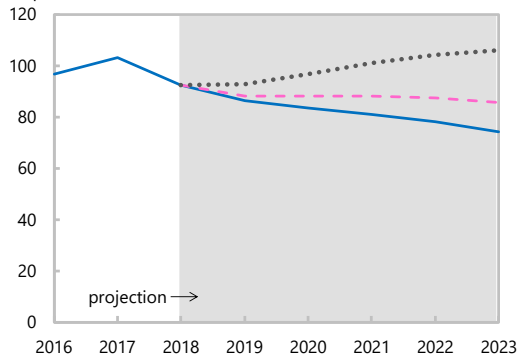
— Baseline

..... Historical

- - - Constant Primary Balance

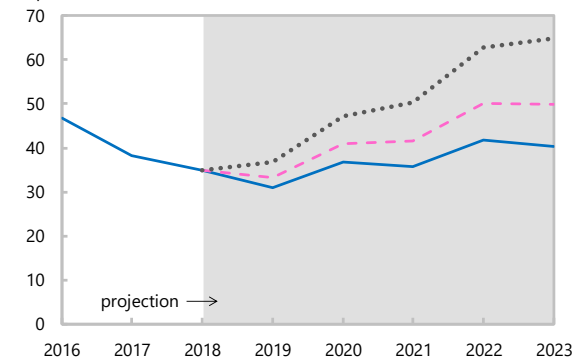
##### Gross Nominal Public Debt

(in percent of GDP)



##### Public Gross Financing Needs

(in percent of GDP)



#### Underlying Assumptions

(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	5.2	5.5	5.9	6.0	6.0	6.0
Inflation	21.5	14.6	10.4	7.6	7.0	6.7
Primary Balance	-0.8	1.3	1.7	1.9	1.9	1.8
Effective interest rate	11.1	12.0	11.1	9.1	8.4	8.8

Constant Primary Balance Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	5.2	5.5	5.9	6.0	6.0	6.0
Inflation	21.5	14.6	10.4	7.6	7.0	6.7
Primary Balance	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	11.1	12.0	11.0	8.9	8.2	8.5

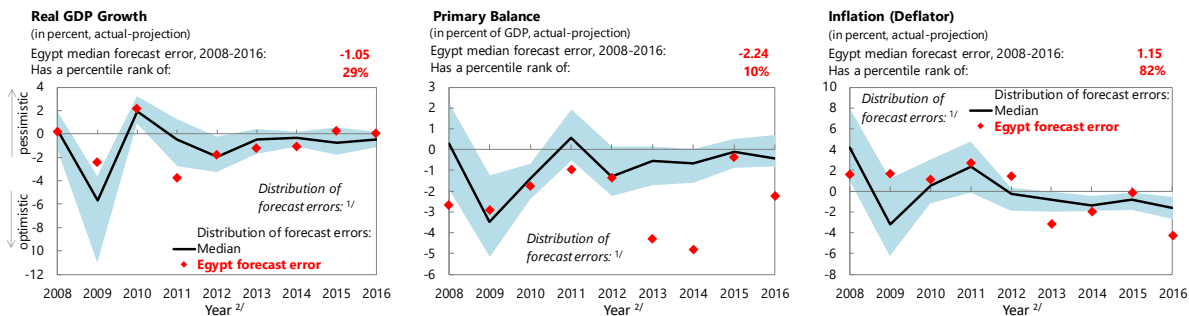
Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	5.2	4.0	4.0	4.0	4.0	4.0
Inflation	21.5	14.6	10.4	7.6	7.0	6.7
Primary Balance	-0.8	-4.0	-4.0	-4.0	-4.0	-4.0
Effective interest rate	11.1	12.0	10.6	8.3	7.4	7.6

Source: IMF staff.



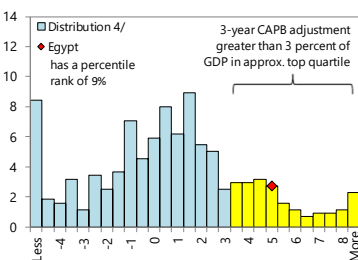
### Egypt Public DSA - Realism of Baseline Assumptions

#### Forecast Track Record, versus program countries

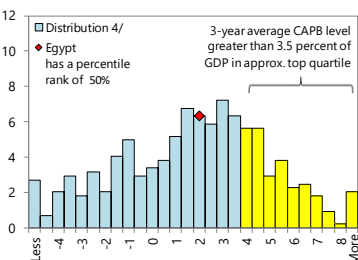


#### Assessing the Realism of Projected Fiscal Adjustment

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

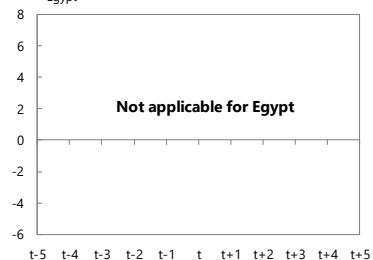


##### 3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB) (Percent of GDP)



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

##### Real GDP growth (in percent)



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Egypt, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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

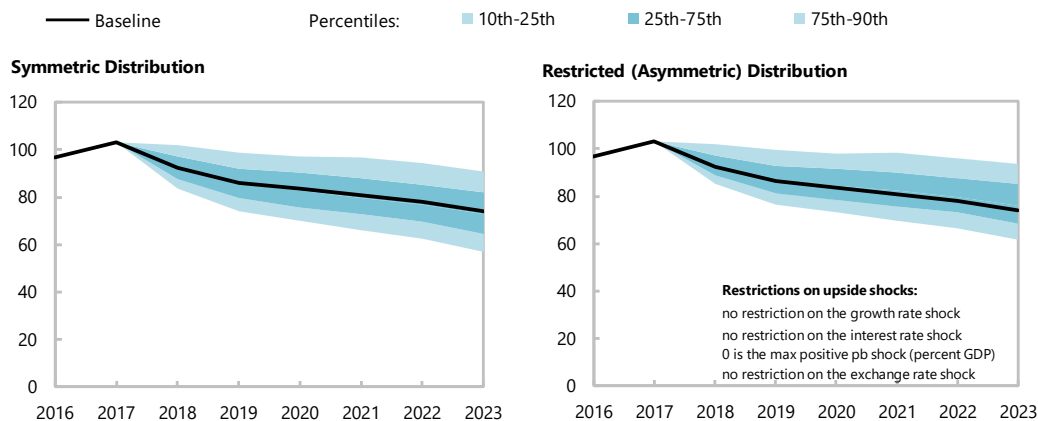
### Egypt Public DSA Risk Assessment

#### Heat Map

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

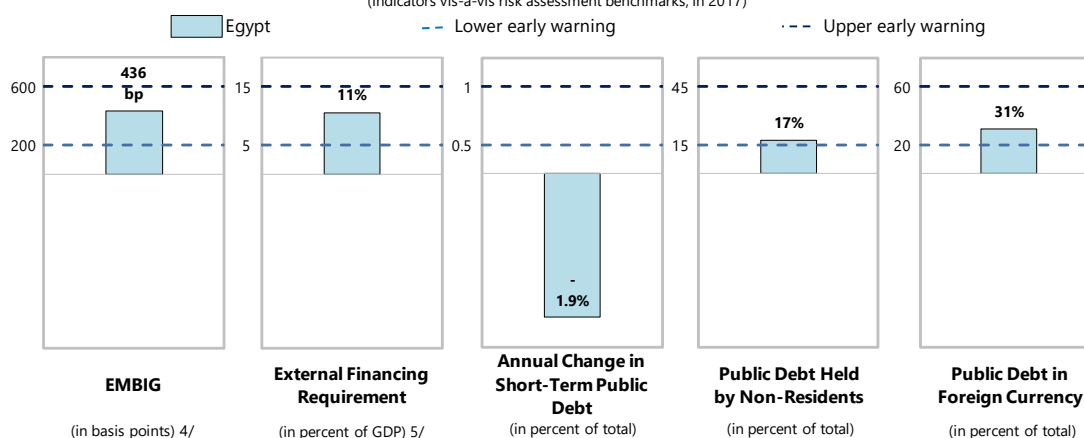
#### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



#### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

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

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

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

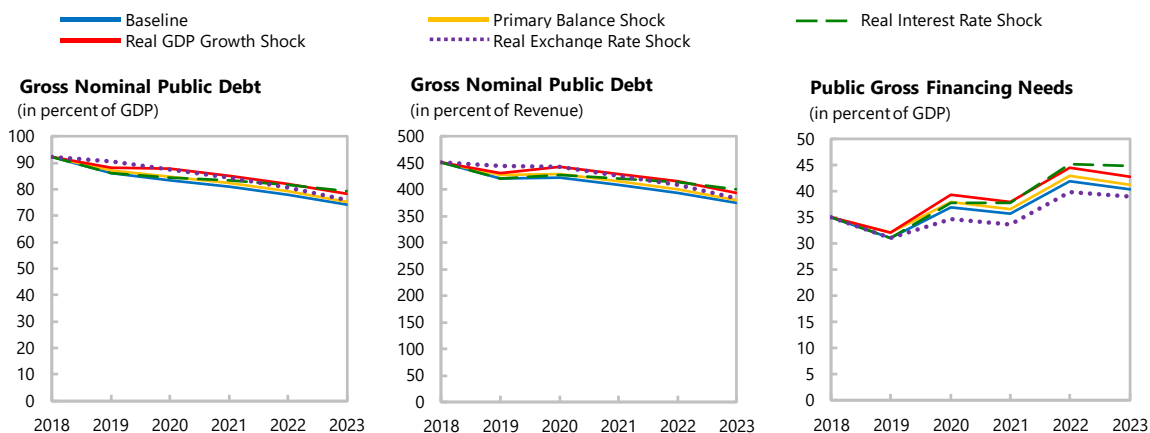
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 15-Aug-17 through 13-Nov-17.

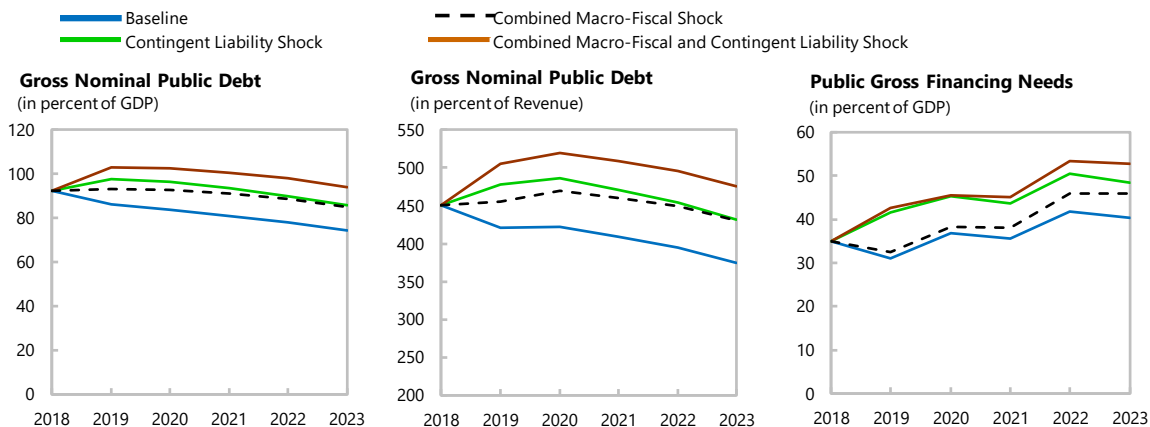
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

### Egypt Public DSA - Stress Tests

#### Macro-Fiscal Stress Tests



#### Additional Stress Tests



#### Underlying Assumptions (in percent)

	2018	2019	2020	2021	2022	2023		2018	2019	2020	2021	2022	2023
<b>Primary Balance Shock</b>							<b>Real GDP Growth Shock</b>						
Real GDP growth	5.2	5.5	5.9	6.0	6.0	6.0	Real GDP growth	5.2	4.0	4.3	6.0	6.0	6.0
Inflation	21.5	14.6	10.4	7.6	7.0	6.7	Inflation	21.5	14.2	10.0	7.6	7.0	6.7
Primary balance	-0.8	0.2	1.5	1.8	1.9	1.8	Primary balance	-0.8	1.0	1.1	1.9	1.9	1.8
Effective interest rate	11.1	12.0	11.2	9.1	8.4	8.7	Effective interest rate	11.1	12.0	11.1	9.1	8.4	8.7
<b>Real Interest Rate Shock</b>							<b>Real Exchange Rate Shock</b>						
Real GDP growth	5.2	5.5	5.9	6.0	6.0	6.0	Real GDP growth	5.2	5.5	5.9	6.0	6.0	6.0
Inflation	21.5	14.6	10.4	7.6	7.0	6.7	Inflation	21.5	49.3	10.4	7.6	7.0	6.7
Primary balance	-0.8	1.3	1.7	1.9	1.9	1.8	Primary balance	-0.8	1.3	1.7	1.9	1.9	1.8
Effective interest rate	11.1	12.0	12.5	11.0	10.3	10.9	Effective interest rate	11.1	14.3	10.1	7.9	7.5	7.8
<b>Combined Shock</b>							<b>Combined Macro-Fiscal and Contingent Liability Shock</b>						
Real GDP growth	5.2	4.0	4.3	6.0	6.0	6.0	Real GDP growth	5.2	4.0	4.3	6.0	6.0	6.0
Inflation	21.5	49.3	10.4	7.6	7.0	6.7	Inflation	21.5	49.3	10.4	7.6	7.0	6.7
Primary balance	-0.8	0.2	1.1	1.8	1.9	1.8	Primary balance	-0.8	-9.8	1.1	1.8	1.9	1.8
Effective interest rate	11.1	14.3	11.3	9.7	9.2	9.8	Effective interest rate	11.1	14.3	11.3	9.7	9.1	9.8
<b>Contingent Liability Shock</b>													
Real GDP growth	5.2	4.0	4.3	6.0	6.0	6.0							
Inflation	21.5	14.2	10.0	7.6	7.0	6.7							
Primary balance	-0.8	-8.7	1.7	1.9	1.9	1.8							
Effective interest rate	11.1	12.0	10.8	9.0	8.2	8.6							

Source: IMF staff.

**Egypt: External Debt Sustainability Framework, 2013-2023**  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing non-interest current account 6/ -5.2	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023			
<b>Baseline: External debt</b>	<b>16.3</b>	<b>15.5</b>	<b>15.0</b>	<b>18.3</b>	<b>41.3</b>	<b>34.5</b>	<b>29.9</b>	<b>26.4</b>	<b>25.0</b>	<b>23.3</b>	<b>19.7</b>			
Change in external debt	4.0	-0.8	-0.5	3.3	23.0	-6.8	-4.6	-3.5	-1.4	-1.7	-3.6			
Identified external debt-creating flows (4+8+9)	0.8	-1.4	0.4	3.9	8.2	-2.6	-2.3	-2.0	-2.7	-3.5	-3.9			
Current account deficit, excluding interest payments	2.0	0.7	3.5	5.7	5.5	2.0	1.6	2.1	1.5	0.9	0.7			
Deficit in balance of goods and services	6.3	8.5	8.5	9.7	11.9	10.1	8.3	8.5	8.0	7.4	7.0			
Exports	17.0	14.2	13.3	10.5	14.7	18.3	17.4	16.8	17.2	17.6	17.6			
Imports	23.4	22.7	21.8	20.1	26.5	28.4	25.7	25.3	25.1	25.0	24.7			
Net non-debt creating capital inflows (negative)	-1.0	-1.4	-2.0	-2.1	-3.2	-3.4	-3.4	-3.6	-3.7	-4.0	-4.2			
Automatic debt dynamics 1/	-0.1	-0.7	-1.0	0.2	5.9	-1.3	-0.5	-0.6	-0.5	-0.4	-0.4			
Contribution from nominal interest rate	0.3	0.2	0.2	0.2	0.5	1.0	1.1	1.0	1.0	1.0	0.9			
Contribution from real GDP growth	-0.4	-0.4	-0.6	-0.7	-1.0	-2.2	-1.6	-1.6	-1.5	-1.4	-1.3			
Contribution from price and exchange rate changes 2/	0.0	-0.5	-0.6	0.6	6.4	...	...	...	...	...	...			
Residual, incl. change in gross foreign assets (2-3) 3/	3.1	0.6	-0.9	-0.6	14.8	-4.2	-2.3	-1.5	1.3	1.8	0.3			
External debt-to-exports ratio (in percent)	95.8	108.6	113.1	174.7	281.6	188.3	172.0	156.9	145.3	132.2	111.6			
<b>Gross external financing need (in billions of US dollars) 4/</b>	<b>11.3</b>	<b>11.9</b>	<b>18.1</b>	<b>25.2</b>	<b>25.0</b>									
in percent of GDP	3.9	3.9	5.4	7.6	9.7	10-Year	10-Year	8.7	5.0	4.7	3.9	3.3	2.9	
<b>Scenario with key variables at their historical averages 5/</b>								<b>34.5</b>	<b>35.6</b>	<b>34.3</b>	<b>34.1</b>	<b>34.6</b>	<b>34.2</b>	<b>-4.2</b>
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						Historical Average	Standard Deviation							
Real GDP growth (in percent)	3.3	2.9	4.4	4.3	4.2	4.0	1.6	5.2	5.5	5.9	6.0	6.0	6.0	
GDP deflator in US dollars (change in percent)	0.0	3.1	4.1	-4.0	-26.0	3.1	11.8	-7.3	15.8	6.5	-0.3	0.0	3.4	
Nominal external interest rate (in percent)	2.2	1.5	1.4	1.6	2.1	1.8	0.3	2.3	3.7	3.7	4.1	4.3	4.0	
Growth of exports (US dollar terms, in percent)	7.3	-11.2	1.2	-21.0	8.1	0.5	15.3	21.8	15.9	9.1	8.0	8.5	9.7	
Growth of imports (US dollar terms, in percent)	-0.8	3.1	4.4	-7.5	1.7	4.8	13.3	4.5	10.4	11.3	4.7	5.4	8.1	
Current account balance, excluding interest payments	-2.0	-0.7	-3.5	-5.7	-5.5	-2.6	2.1	-2.0	-1.6	-2.1	-1.5	-0.9	-0.7	
Net non-debt creating capital inflows	1.0	1.4	2.0	2.1	3.2	2.5	2.0	3.4	3.4	3.6	3.7	4.0	4.2	

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

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

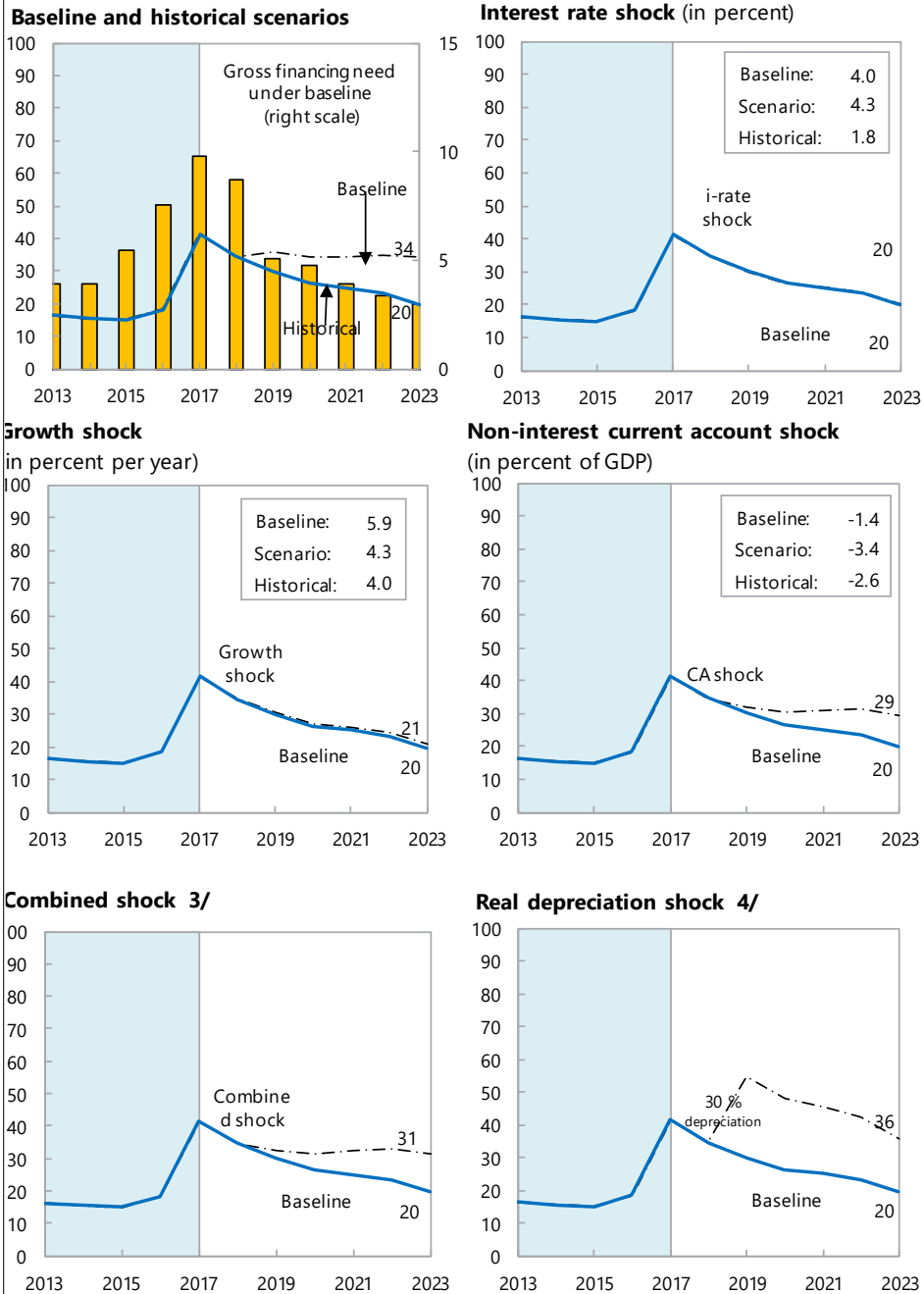
3/ For projection, line includes the impact of price and exchange rate changes.

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

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

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



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

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

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

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

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

## Appendix I. Letter of Intent

June 20, 2018

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

Dear Ms. Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) reports on recent economic developments and the implementation of our economic program, and sets out policies and structural reforms that we plan to pursue going forward. The objective of our program is to further strengthen macroeconomic stability by reducing inflation and public debt, promote inclusive growth, employment creation and private sector development, and protect the poor and vulnerable. Our policies have remained on track: most end-December 2017 quantitative performance criteria (PC) have been met, except for the primary fiscal balance, which was missed by a very small margin, and two structural benchmarks were implemented with delays. To support our efforts, we request the completion of the third review of the extended arrangement under the IMF's Extended Fund Facility and the disbursement of the fourth tranche in the amount equivalent to SDR 1,432.76 million (70.3 percent of quota and about \$2 billion). As before, IMF resources will be used for budget support and will be maintained in government accounts at the CBE.

We also request a waiver of non-observance for the performance criterion on primary fiscal balance for end-December 2017, which was missed by a very small margin, and modification of the performance criterion on the fuel subsidy bill for June 2018, which is not achievable because of higher than projected global oil prices. In June we raised the average fuel prices by 44 percent, approved an automatic fuel price indexation mechanism, which will be introduced during 2018/19. The mechanism will adjust fuel prices to the changes in the exchange rate and oil prices to preserve cost-recovery ratios and safeguard the budget.

We believe that the policies described in the attached MEFP are adequate to achieve the objectives of our program. We will monitor economic developments and performance and we stand ready to take additional measures that may become necessary to achieve our program goals. In accordance with the Fund's policies, we will consult with the IMF on adoption of these measures and in advance of revisions to policies contained in the MEFP. We will continue to supply the Fund with timely and

accurate data that are needed for program monitoring. The fourth review is expected to be completed on or after November 11, 2018 and the fifth review will be completed on or after March 15, 2019. We consent to the publication of this letter, the MEFP including Tables 1 and 2, the TMU and the related staff report.

Sincerely yours,

/s/

Tarek Amer  
Governor of the Central Bank of Egypt  
Arab Republic of Egypt

/s/

Mohamed Maait  
Minister of Finance  
Arab Republic of Egypt

Attachments (2)

Memorandum of Economic and Financial Policies  
Technical Memorandum of Understanding

## Attachment I. Memorandum of Economic and Financial Policies

### A. Recent Economic Development and Program Performance

**1. Macroeconomic stabilization is strengthening.** Real GDP growth accelerated from 4.2 percent in 2016/17 to 5.2 percent in the first half of 2017/18 led by natural gas, construction, and tourism. CPI inflation declined steadily from 33 percent in July 2017 to 11.4 percent in May. Core inflation (excluding volatile food items and regulated prices) also fell from 35.3 percent to 11.1 percent in May. The current account deficit narrowed in the first half of 2017/18 to 2.6 percent of GDP, from 6.5 percent the same period of the last year. Non-oil exports increased by 9.7 percent and non-oil imports increased by 2.9 percent, y-o-y, in the first half of 2017/18. Tourism receipts rose by nearly 214 percent during the same period. Portfolio investments reached \$8 billion, while net FDI flows fell by 12 percent to \$3.8 billion. The budget outcome in the first half of the fiscal year was broadly in line with our projections despite additional pressures stemming from higher oil prices. Gross budget sector debt reached 90.8 percent of GDP at end-December. The exchange rate of the pound to the dollar remained broadly stable, and gross international reserves reached \$43.4 billion in May.

**2. Performance under the program was strong.** All end-December performance criteria and indicative targets (IT) were met, except for a PC on the primary balance, which was missed by only EGP100 million on a EGP14 billion target and an IT on clearance of EGPC arrears, which fell short of the programmed amount due to the company's continued financial difficulties in view of higher oil prices (Table 1). Most structural benchmarks were also implemented, despite some delays. Specifically: the FX deposits of the CBE in foreign branches of the Egyptian banks have been reduced to \$3.9 billion by December 31, 2017; the fuel price indexation mechanism, which will adjust fuel prices periodically to changes in the exchange rate, global oil prices and the share of imported fuel products in the consumption basket was approved by the Prime Minister in June instead of February; and the FY2018/19 plan to raise equity in public enterprises from private sources was published in March instead of January.

### B. Economic Program

**3. Our comprehensive reform program aims to improve welfare of all Egyptians by creating a supportive environment for private sector development, inclusive growth and job creation.** In the first year, the program focused on restoring macroeconomic stability and resolving severe domestic and external imbalances. It also embarked on the process of modernizing fiscal and monetary policy frameworks, strengthening the energy sector, and improving the business climate. We will continue to implement sound policies to further entrench macroeconomic stabilization by implementing reform policies that endure and create additional fiscal space for investment in infrastructure and human capital. We will broaden the structural reform agenda to raise productivity and growth, and better integrate Egypt with global trade. Our ambition is to become a dynamic



well-diversified modern economy that acts as a regional trade and energy hub, and a regional leader in creating a market-friendly environment and attracting investment.

### **Monetary and Exchange Policies**

**4. The main goal of the CBE is to reduce inflation to single digits over the medium term.**

This will support real incomes and enhance external competitiveness. Supported by favorable base effects and prudent monetary policy, annual inflation declined from the peak of 33 percent in July 2017 to 11.4 percent in May 2018. The containment of underlying inflationary pressures allowed the CBE to lower its policy rates twice by 100 basis points each in February and March. Going forward, monetary policy will remain data-driven with decisions on interest rates based on inflation expectations. If the disinflation trend continues and demand pressures remain contained, the CBE may consider further easing of the monetary stance, but should inflationary pressures re-emerge, it will stand ready to further tighten its stance as needed.

**5. We will maintain flexibility of the exchange rate and maintain adequate official reserves.**

The floating regime is critical for competitiveness and serves as an important cushion against external shocks. Projected at 143 percent of the Fund's ARA metric for the floating regimes for June 2018, our gross international reserves are adequate for macroeconomic stability and market confidence and we intend to maintain reserves within the Fund's adequacy range. The CBE will continue to supply foreign exchange to the government for servicing foreign debt, and public enterprises will continue to meet their FX needs in the market. As before, the CBE will not, in general intervene in the interbank FX market, and the exchange rate will remain market-determined in open and transparent trading. However, the CBE will stand ready to make FX sales or purchases in exceptional cases, when unusually large short-term flows pose stability risks to the FX market. These interventions will be done transparently and the objectives will be clearly communicated to the market. Portfolio flows, remained strong in first quarter of 2018 despite the recent lowering of policy interest rates by a cumulative 200 basis points, tighter global financial conditions, and the introduction of the repatriation fee in December. Interest rate differentials with major funding currencies remained attractive to carry trade. We will continue to monitor the ongoing volatility in emerging markets and flows through the repatriation mechanism.

**6. The monetary policy framework during the program period will remain based on money targeting.**

Reserve money will be an indicative target and reflect our projections of market liquidity consistent with the chosen inflation path. A recent IMF TA mission confirmed that the CBE follows good practices with respect to liquidity management and the forecasting framework. To further strengthen our liquidity forecasting capacity and the collaboration between the CBE and the MoF, in February 2018, we established a joint Cash Coordination Committee to ensure an uninterrupted flow of information between the two institutions. We have also developed a framework for analyzing and reflecting in the monetary program high frequency patterns of cash in circulation, fiscal revenues, expenditures, and external and domestic financing needs. Monetary operations will continue to primarily rely on indirect policy instruments such as deposit auctions and standing facilities, which will enable the CBE to achieve its monetary targets and control liquidity. To minimize liquidity injection through direct credit to government, we will cap the overdraft account at

EGP66 billion in 2018/19, which is equivalent to 10 percent of the previous three years' revenues as per the CBE law. Overdrafts will be issued at market rates. Any additional holdings of government securities by the CBE will be determined by considerations of monetary policy. CBE lending to commercial banks will be done for monetary policy (short-term liquidity management) and, if needed, for emergency liquidity assistance purposes.

**7. The subsidized lending by the CBE for SME and social housing programs will be gradually phased out once the system-wide cumulative flow limits are exhausted.** The EGP10 billion limit on loans for SME's working capital that receive interest rate subsidy was reached in March 2018, and the initiative has been discontinued. The limits for other programs are: EGP5 billion for medium-sized firms' capital expenditure, EGP20 billion for social housing programs, and EGP30 billion on loans to small and certain segments of agricultural micro enterprises issued after January 1, 2018 that allows commercial banks to reduce their required reserves by the loan amounts. Term loans issued under these initiatives will amortize according to the contractual schedules, while working capital facilities may be renewed for existing borrowers. Beyond these limits, the loan subsidies to small enterprises will be financed from the state budget. In addition to improving access to finance by SMEs, we will support development of microfinance institutions.

**8. The CBE will continue to gradually divest its holding of FX deposits in foreign branches of domestic banks.** In accordance with the CBE investment guidelines for reserve management, these deposits will be fully reallocated in at least A-rated banks and financial instruments. By end-December 2017 these deposits were reduced to under \$4 billion, and will be reduced further to \$3 billion by end-June 2018 (structural benchmark), \$1.5 billion by end-December 2018 (structural benchmark) and eliminated by 15 June 2019 (structural benchmark).

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

**10. We are reviewing the current legal framework for the banking sector, which covers both the central bank and commercial banks.** The Fund has provided extensive technical assistance in drafting amendments to the CBE law. Our objective is to develop a law, which is in line with best international practices and meets the needs of a modern central bank. To this end, we decided to revamp the entire legislation, which requires more time than envisaged under the structural benchmark. We aim to submit the draft to Cabinet by end-September 2018 instead of

end-June 2018 (structural benchmark), and accordingly would like to request a short extension. Some of the key objectives of the revisions are:

- 1) Define price stability as the primary objective of monetary policy;
- 2) Strengthen the CBE's operational autonomy;
- 3) Limit monetary financing of the deficit;
- 4) Ensure that CBE lending to banks is only for short-term liquidity support and phase out any development lending by the CBE as indicated in ¶7 above;
- 5) Ensure that the CBE law prevails against any contradicting provisions in other laws;
- 6) Clarify the terms of the Board's appointment and provision of non-executive majority;
- 7) Include a double veto procedure and objective dismissal grounds for all board members;
- 8) Strengthen Board oversight over CBE management and ensure clear division of labor;
- 9) Strengthen rules related to the CBE recapitalization and the distribution of unrealized profits;
- 10) Include specific mechanisms for CBE recapitalization, if required, financed by the government;
- 11) Clarify the CBE's role and framework in providing emergency liquidity assistance to solvent and viable banks, and work toward a framework where solvency support to state-owned banks and the use of public funds for resolution funding will primarily be covered by budgetary outlays;
- 12) Publish the audited financial statements of the CBE;
- 13) Further define a supervisory framework for early intervention and resolution of banks.

## Fiscal Policy

**11. The 2017/2018 budget execution came under pressure due to high global oil prices and interest rates.** Average oil prices during the year were about 11 percent higher than projected, because of which the annual fuel subsidy bill will exceed the budgeted figure by about 0.2 percent of GDP. Nevertheless, we will reach the programmed primary surplus of 0.2 percent of GDP, excluding capital injections in the CBE, which constitutes a fiscal adjustment of 2 percent of GDP compared to the previous year. The fuel subsidy overrun and a high interest bill were offset by higher non-tax revenues excluding items related to investments self-financing, higher taxes from CBE bonds, which have been repriced to market rates starting from July 2017, and reductions in other budget spending items. By end-June, general government gross debt is projected to reach 92.7 percent of GDP compared to 103 percent of GDP in June 2017.

**12. Fiscal policy in 2018/19 will continue to aim at keeping general government debt on a clearly declining path.** We now project it to decline to 86 percent of GDP by end-2018/19. To this end, the budget for 2018/19, which was approved by Parliament on June 5, targets a primary surplus of the budget sector of 2 percent of GDP, consistent with the programmed 3-year consolidation of the primary balance of 5.5 percent of GDP (excluding capital injection in the CBE). Beyond 2018/19, we will maintain primary surpluses at about 2 percent of GDP to reduce gross general government debt to 74 percent of GDP by 2022/23.

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

- 1) Tax revenue will increase by 0.4 percent of GDP, reflecting increased collections of VAT, full year impact of higher excises on tobacco products, revising and increasing stamp duty on various licenses and government services, implementation of simplified tax regime for SMEs, effective implementation of higher fees on Free Zone companies and a program to improve revenue administration;
- 2) Energy subsidies will be reduced by 1.3 percent of GDP;
- 3) The wage bill will decline by 0.3 percent of GDP thanks to containment of the growth of base salaries, tight control of bonuses and allowances, control on the hiring process, and continuing modernization of the public employment framework in line with the new civil service law, passed by Parliament in August 2016;
- 4) Public investment will increase to 2.8 percent of GDP. However, excluding self-financed projects which are deficit neutral, public investment is budgeted to increase by 0.3 percent of GDP. Other expenditure will be reduced by 0.1 percent of GDP. In our continued effort to improve female labor force participation, we allocated 0.2 percent of GDP to improve public transportation and enhance the availability and quality of childcare.
- 5) A well planned social package to mitigate the impact of the energy price reform on the most vulnerable, will be partially financed from a contingency of 0.3 percent of GDP that has been set aside. Moreover, despite limited fiscal space, we will delay lower priority expenditure, including investments, if needed to meet our primary surplus target. We are also prepared to save any revenue overperformance.

**Improving Tax Collections**

**14. We aim to strengthen and modernize tax administration to create fiscal space for investments in health and education, infrastructure and a sustainable social safety net to support inclusive growth.** We will revise tax policy and related legislation and modernize the Egyptian Tax Administration (ETA). The current reform initiatives will be consolidated into a Medium-term Revenue Strategy (MTRS). We will develop a fully integrated and segment-based structure supported by reformed IT systems and processes. Income taxes and VAT will be administered in a single integrated organizational structure. Modern IT will replace many outmoded processes that are costly to run for both the ETA and businesses. Strengthening the capacity of the staff will provide high quality and accurate services to businesses. Measures to address non-compliance will be undertaken to prevent tax-evasion and non-payment. As a result, fairness and tax certainty for business will be increased. We will publish a Government Strategy to guide the implementation process. To prepare the high level MTRS roadmap, we will establish a taskforce that will report to the Minister, and will consult with all stakeholders, both in the public and private sector. To support our efforts, we will seek further technical assistance from the Fund.

**Public Financial Management and Transparency**

**15. We will continue strengthening management of our public finances.** We submitted to the Cabinet a fiscal strategy paper in December 2017, and by end-June 2018 will also finalize an

updated fiscal risks statement and a comprehensive system to evaluate and decide on new state guarantees (structural benchmark). Going forward, additional measures will include:

- **Economic authorities.** We continue to review the operational performance and finances of economic authorities to ensure that they are correctly classified in accordance with international standards. Information about their operations and financial performance is already publicly available. In the interest of transparency, accountability to taxpayers and containment of fiscal risks, we intend to introduce proper sectoral classification for economic authorities in accordance with the GFSM2014. Consolidated fiscal accounts integrating their accounts in the general government accounts will be prepared for analytical purposes by end-March 2019 for which we may seek assistance from the IMF and development partners.
- **State-owned enterprises.** In the interest of transparency, accountability to taxpayers and containment of fiscal risks, we will strengthen monitoring of state-owned enterprises.<sup>1</sup> For this purpose, by June 30, 2018 we will prepare and publish a comprehensive report on state-owned enterprises, which will comprise the following elements: (a) an overview of the sector during the year, including financial performance; (b) a full list of the companies owned by the government, broken down by industry, policy objectives (provision of public services, commercial), and type of ownership (e.g., majority or minority-owned, strategic companies, etc.); (c) information on individual companies, including abridged financial statements, and indicators of financial performance, a list of board members, management, and auditors, and the amount of subsidies received from the budget, if any (structural benchmark). Further, by end-December 2018 we will also publish a supplementary report containing (a) an overview of how the government has exercised its ownership policy, including the appointment of board members, dividend policy, organizational and governance arrangements; and (b) the impact of the sector on government finances (budget transfers received and dividends paid, borrowing/lending from other public entities, state guarantees received, etc.) and the economy more broadly (structural benchmark). The reports will be prepared and published every year.
- **Social Insurance Fund (SIF).** The SIF will benefit from a comprehensive reform to ensure its long-term financial sustainability and preserve its ability to pay adequate and equitable pensions to retirees. Starting 2017/2018 we increased minimum value of pensionable monthly wage from EGP160 to EGP400. The minimum pensionable monthly wage would also automatically increase by 25 percent annually for the coming 5-years and by 10 percent thereafter. At the same time, we increased maximum pensionable wage by 15 percent on average over past years and will continue to do so. We will develop a clear road map of pension reform by September 2018.
- **Public Finance Management framework.** Our objective is to put in place a modern PFM law, which will revamp the entire budget process, from planning, to implementation, to monitoring,

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

and will give the MoF a clear mandate as the custodian of the state's financial resources and a responsibility for coordinating the government's macroeconomic policy aimed at achieving and sustaining macroeconomic stability. For this purpose, we intend to undertake a review of the existing PFM legal framework, which involves a diagnostic of the extent to which the PFM legislation enables introduction of a more strategic medium-term budget framework and associated reforms for budget preparation. This would strengthen our fiscal planning by introducing the medium-term expenditure framework to set multi-year expenditure ceilings by major spending categories and improving a functional classification of spending plans in budget discussions and budget documentation. To help us in this endeavor, we would like to request the IMF technical assistance. We also commit to continue presenting a pre-budget statement to Parliament with every budget. This statement will brief Parliament on economic and public finance targets, priorities, and the latest developments.

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

## Energy Sector Policies

**16. We are continuing a comprehensive reform program for the energy sector, which comprises petroleum, gas and electricity and aims to improve the financial position of the sector and raise its efficiency.** The current below-the-cost pricing in all three areas (except natural gas) is economically inefficient and not well-targeted. It encourages excessive energy consumption, favors capital-intensive rather than labor-intensive activities, deters private investment in the sector and results in a heavy fiscal burden. The financial performance of the sector has been further undermined by weak governance and a high cost structure. Our objective is to modernize the industry and put it on a sound financial footing to ensure uninterrupted and efficient supply of energy products to businesses and households. We are on track to gradually remove untargeted subsidies and enhance private sector participation. These objectives, with a respective time-bound road map, are reflected in the medium-term strategy for energy sector reforms, which benefited

from the diagnostic study conducted by external consultants, and was approved by the Minister of Petroleum on March 30, 2017. In July 2017, the Parliament approved the new Gas law, which promotes competition by allowing private sector participation in downstream activities. The law also establishes an independent regulator, which will develop a transparent pricing mechanism to ensure cost recovery, while protecting consumers. The executive regulations were published in February 2018.

**17. We will continue implementing our energy subsidy reforms.** We raised electricity tariffs by an average of 30 percent in July 2016, and by another 40 percent in July 2017. Electricity tariffs were increased by 26 percent starting July 1, 2018 and will be increased further to achieve cost recovery in the coming years. We raised the retail prices for gasoline and diesel by an average of 53 percent in June 2017, as well as prices of LPG, kerosene and fuel oil by 100, 55 and 40 percent respectively. In June 2018, we increased fuel prices by another 44 percent on average, which raised the pre-tax price-to-cost ratios to about 73 percent for gasoline, diesel, kerosene and fuel oil (excluding fuel oil used for electricity generation and bakeries). We will make additional increases to achieve our objective of 100 percent cost recovery by June 15, 2019 (excluding LPG and fuel oil used for electricity generation and bakeries), which will complete the fuel subsidy reform (structural benchmark). In June 2018, the Prime Minister approved an automatic fuel price indexation mechanism, which was designed according to best international practices. The mechanism is intended to maintain the cost-recovery ratios for fuel products and safeguard the budget from unexpected changes in the exchange rate and global oil prices. The indexation mechanism for all fuel products (gasoline, diesel, kerosene and fuel oil, except for fuel oil used for electricity generation and bakeries) will be implemented by end-December 2018. We will consider introducing indexation for Gasoline 95 earlier than this date depending on developments in international oil markets. Meanwhile, we will continue to publish quarterly information on the evolution of unit costs and subsidies of fuel products and the impact on the overall subsidy bill for the budget. We will also launch a communication campaign to familiarize the population with the fuel indexation mechanism and process. Since the adjustment formula includes a smoothing mechanism to prevent sharp moves in fuel prices in the event of major changes in the oil price or the exchange rate, and may therefore occasionally cause temporary re-emergence of subsidies, we will be prepared to take necessary fiscal measures to achieve the primary balance target.

**18. We are continuing to implement a plan to restore financial viability of the Egyptian General Petroleum Company (EGPC).** The financial condition of the EGPC has deteriorated significantly since the 2011 revolution. Despite the significant decline in international oil prices, EGPC revenues from sale of fuel products continued to fall short of its costs resulting in the need for budget subsidies and expensive borrowing. Because of its difficult financial position, EGPC started accumulating arrears to international oil companies. These arrears exceeded \$6 billion in 2014 on the back of exceptionally high global oil prices, but have since declined and at end-June 2017 amounted to \$2.4 billion. To address the problem, and drawing on the recommendations of the external consultant, we developed and are implementing a plan to place the EGPC on a financially sustainable footing. In addition to the ongoing fuel subsidy reform, which should improve revenues of EGPC, the plan proposed measures to strengthen corporate governance and optimize operating

costs. As part of the plan, to encourage the private sector participation, we intend to offer minority shares in several state-owned energy companies to investors, as part of the government's wider IPO program. The plan also includes a strategy to gradually settle outstanding arrears. Because of persisting financial difficulties in view of higher than expected global oil prices, the EGPC was able to clear only \$200 million between end-June 2017 and end-December 2017, instead of the planned \$400 million (indicative target), and will further reduce the arrears to about \$1.9 billion by end-June 2018. We remain committed to fully eliminating arrears by end-June 2019, and would like to request a modification of the end-June 2018 indicative target on arrears clearance from the programmed \$1.1 billion to \$500 million.

**19. Egypt has an enormous potential to become a major producer and a supplier of natural gas.** Gas production has declined considerably since the 2011 revolution. Daily output fell from 7 billion cubic feet (bcf) in 2010 to about 4 bcf in 2015/16. However, several new fields in the Nile delta and Egypt's territorial waters in the Mediterranean have been discovered in the recent years, of which the Zohr field is the most promising. We have signed 76 new upstream exploration agreements with investment commitments in excess of \$15 billion. The fields have been developed during a record timeframe to enhance current production supported by a fast-tracked regulatory and legislative process. As such, gas production has increased during 2016/17 for the first time in years and reached 4.5 bcf by June 2017. Over the next three years the gas production from these fields is projected to increase to 7.7 bcf per day, which exceeds Egypt's domestic need (currently 5.2 bcf per day) and offers an opportunity to export gas to other countries in the region and elsewhere. Moreover, the ongoing offshore explorations suggest that the presence of even larger deposits of gas is highly likely, which if confirmed will further boost Egypt's gas potential. Negotiations with international gas exploration companies on the development of these new fields to reach production sharing agreements that are also of benefit to Egypt are at an advanced stage. The enhanced and higher domestic production of oil and gas along with more efficient electricity plants and higher reliance on renewables would bring down cost per unit of various fuel products and electricity and contribute to limiting the fiscal burden.

### Financial Sector Policies

**20. Egypt's banking system remains liquid, profitable and well capitalized.** In December 2017, the average capital adequacy ratio stood at 15.2 percent, well above the Basel-recommended floor of 9.875 percent and the CBE-mandated 11.875 percent; return on equity is at a healthy 30.9 percent (for FY ending 2016) and the share of non-performing loans in total loans declined from 6 percent in 2016 to 4.9 percent. Specific loan-loss provisioning coverage is at 90.5 percent.

**21. We intend to preserve and further strengthen the health and resilience of Egypt's financial system.** Our regulatory and policy framework strives to infuse public confidence in the banking system so that it plays the key role in financial mediation and efficiently channels savings into productive investments. We will monitor continuously the developments in the sector to ensure that financial surveillance, lending policies, and governance practices are adequate. Our efforts will be focused on: (a) strengthening the regulatory and supervisory framework, including consolidated supervision; (b) phasing in the capital conservation buffer in line with the Basel timelines;



(c) promoting competition to enhance efficiency in the delivery of financial services; (d) strengthening the crisis management and resolution framework to mitigate potential systemic risks; and (e) promoting financial inclusion without compromising credit quality.

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

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

**24. Effective banking supervision will be complemented with adequate crisis preparedness and management tools.** We plan to implement new emergency liquidity assistance and bank resolution frameworks, in line with best international practices. MoF and CBE will develop clear rules on deploying public funds to maintain financial stability.

### **Business Environment and Other Structural Reforms**

**25. Our objective is to unlock Egypt's growth potential through market friendly reforms that will attract investments, raise productivity and competitiveness, support exports and create jobs.** Towards this end, it is also our ambition to significantly improve our rankings in the Doing Business and Global Competitiveness ratings, where Egypt's position has declined in recent years. In line with this, Parliament has recently passed the new investment law, the industrial licensing law, the companies law and the insolvency law, which are significant steps toward improving the business environment and supporting private sector development. Going forward, some of the key measures are:

- Availability and access to land has been identified as a key impediment to private sector development. We consider it particularly macro critical, especially for SMEs and exports, which should become the main drivers of growth and job creation. We intend to streamline the process of industrial land allocation whereby the Industrial Development Authority (IDA) currently determines in some cases specific economic activities for the land use and subsequently sells land at a nominal pre-determined price based on government review of applications. This approach is not optimal for the future allocation of land, as it forgoes revenue for the state, and creates opportunities for rent seeking. Our objective is to increase the availability of land to the private sector, and introduce a transparent, competitive, and market-based mechanism, which will broaden the range of land utilization and ensure its efficient allocation to its most productive use. To this end, by end-June 2018 we will form a working group, which will report directly to the

Prime Minister, and will be tasked with preparing a reform plan (structural benchmark). The plan will be finalized by end-December 2018, and among other will include the following specific components: (a) permissible use of land by investors for broad industrial purposes with only limited restrictions; (b) market-based land allocation mechanisms that ensure open, transparent and competitive bidding process; (c) clear eligibility criteria for bidders; (d) simplified and standardized document requirements; and (e) establishing an online platform and moving the entire process online, including all industrial land tender announcements, document and bidding submissions, and reporting auction results (structural benchmark). Based on this plan, new guidelines for industrial land allocation will be approved by a Ministerial decree and published by March 31, 2019 (structural benchmark).

- To further support competition, optimize public spending and reduce corruption, we intend to modify our public procurement system. The objective is to ensure optimal allocation of public funds to procure best quality of goods, works and services at best prices (achieve value for money objectives). The new Government Procurement Law is in Parliament, expected to be approved in the coming months. Once enacted, drafting of the executive regulations will be initiated, where procurement procedures will be aligned with best international practices based on core principles of transparency, fairness, open competition, and sound procedural management. These regulations will standardize government procurement rules, procedures and document requirements to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution. The regulations will be applied consistently and uniformly to all government entities' tenders, including to procurement conducted by budget entities, local authorities and economic authorities. We will form a committee once the law and its executive regulations are enacted to conduct a careful assessment of the existing procurement regulations and practices of SOEs. Based on the recommendations of the committee the Prime Minister will approve by June 15, 2019 a reform plan needed to ensure that SOE's procurement rules are consistent with best practices as highlighted in the new Government Procurement law (structural benchmark). The role and capacity of the General Authority for Government Services (GAGS), the procurement oversight body which reports directly to the Minister of Finance, will also be enhanced to ensure proper oversight of procurement activities conducted by the entities governed by the law. To this end, we will look into the lessons learned by other countries that have successfully reformed their procurement systems, and will seek cooperation with IFI's to support the implementation of MAPS 2 - "Methodology for Assessing Procurement System" to diagnose the strengths and weaknesses of the procurement system based on the newly enacted and operationalized procurement legal framework. It is envisioned that the executive regulations will be approved by end-March 2019 (structural benchmark). Additionally, to promote transparency and reduce corruption, we will start developing a single e-Procurement portal, which will manage procurement process (tender announcements, bidding, contract awarding, results reporting) and where all relevant materials can be publicly accessible. The e-Procurement portal will start to be operational by end-May 2019 (structural benchmark) and will gradually replace the paper-based procurement system. We will also introduce a code of Integrity for public sector procurement staff before end of 2019.

- To support SMEs and entrepreneurship and encourage the formalization of the private business sector, we are working on a modern and effective tax regime for SMEs, where small taxpayers would pay a reduced flat tax rate on annual recorded turnover levels. The new legislation is expected to be submitted to Cabinet by end-June 2018, and approved by Parliament by end-September.
- To promote competition and complement the legislative reforms aiming to liberalize the electricity market, we are working on compiling a plan to financially restructure the Egyptian Electricity Holding Company in order to improve the financial soundness of the company and enable it to engage in commercial transactions without a Government guarantee and/or support. The plan will be jointly announced by the Ministries of Finance and Electricity by end-August 2018.
- To promote competition, investment and raise the quality of services in the transportation sector, especially regarding road transport, we will separate the regulatory authority for public transportation from the Ministry of Transportation. The plan was to announce the creation of the independent regulatory authority by end-June 2018 (structural benchmark), but because deliberation in the Cabinet took longer than expected, we would like to request an extension of the SB to end-December 2018.
- To support competition and a vibrant private sector we will strengthen the institutional, financial, and operational independence of the Egyptian Competition Authority (ECA) and the enforcement of its decisions, while also enhancing its accountability through greater transparency in its operations and clear criteria on assessing its performance. Specifically, we will pass a law (a) to ensure that the ECA reports directly to the Prime Minister and is independent from any Minister to avoid conflict of interest; (b) to provide the ECA with administrative fining powers, eliminate the representation of the government and increase the representation of the judiciary and the technical experts in the ECA's board of directors, and provide it with an earmarked budget as a single digit subject to the review of the Administrative Control Authority; (c) strengthen the technical expertise in the ECA by exempting it from the salaries cap and issue implementing regulations to Article 15 (3) giving the ECA independence in hiring; (d) establish clear criteria for assessing the performance of the ECA and its chairperson; (e) strengthen the transparency of ECA's operations by requiring it to (i) publish motivated decisions together with a non-confidential versions of the case files (including the investigation report and the parties submissions) and market studies, (ii) introduce a referencing system for all board decisions, and (iii) update its web site to include non-confidential versions of all previous and future cases and decisions with supporting analyses; the regulation clarifying procedures and conditions to receive exemptions from the prohibitions of the competition law; the guidelines to calculate fines and settlements; the guidelines to grant leniency on cartel cases; and the methodology to identify and remove barriers to competition in legislation, policies, or decrees which negatively affect competition. The draft law will be submitted to Parliament by October 30, 2018 (structural benchmark).

- To enhance transparency and accountability in the operations of government, improve the performance of public agencies, and reduce perceptions of corruption, we will initiate an open and transparent consultative process with key stakeholders on developing a Right to Information Law and its associated implementing regulations. Building on these consultations we will aim to pass such a law that conforms to international good practices.
- Egypt's non-oil exports of goods were only 6.4 percent of GDP in 2016/17, which is exceptionally low by international standards. To better utilize our export potential and leverage the boost to competitiveness from a more depreciated currency and a more flexible exchange rate regime, we are simplifying our trade regime and targeting reduction of non-tariff barriers. As a first step, we have identified key constraints to trade and initiated reforms in the following areas: (i) In FY2018/19, we are planning to reduce the number of documents and the time required to export and import, as we roll-out standard unified custom clearance forms in all ports and develop digital links to connect all stakeholders to expedite clearance; (ii) We plan to facilitate financing through export guarantees and export credit facilities, and to establish an Export Guarantee Agency; (iii) We will improve marketing support through facilitating co-financing exhibitions and trade fairs abroad, inviting foreign buyers to domestic exhibitions, and providing training; (iv) We will strengthen logistical support by providing training in export logistics through the newly established Export Development Authority and providing assistance in obtaining quality certificates through the Center for Business Services for Export Development; (v) To overcome capacity limits in port infrastructure, we are developing large inland dry ports, the first of which is a PPP project currently being tendered at 6<sup>th</sup> October City with direct rail connectivity to major cities to facilitate transportation. Work is under way to set up a Single Window Platform for exporters and importers and to further develop electronic connectivity between ports and the Customs Authority.
- Reducing high unemployment is a high priority, especially among women and youth for which both labor participation and employment statistics are particularly weak. In 2016/17 we budgeted and spent EGP250 million to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs. In 2017/18 such spending is budgeted at EGP500 million on nurseries for 0 to 4-year old children (structural benchmark), and it will increase to EGP600 million in 2018/19. In April 2017, a joint committee was established that includes relevant stakeholders including Ministry of Labor, Ministry of Social Solidarity, Ministry of Finance, Ministry of Trade and Industry as well as representatives of the Women's council, academia and business community. To improve women's participation rate in the labor force, we are working with UN Women to introduce and effectively implement gender budgeting starting 2018/2019. We will also work to simplify rules and facilitate registration of home based nurseries, to expand job opportunities for women and child care for working mothers. This aims to increase coverage of registered nurseries from current low level.
- The announced five-year program to attract private investment in public enterprises is part of the government's agenda to reduce the role of the state in the economy and unleash potential of the private sector. The program is aimed at redeploying Egypt's public assets to their most

productive use by widening the ownership base, enhancing transparency and corporate governance, improve financial management, diversifying investment sources, and attracting new investments that can enhance market capitalization. We have created an IPO inter-ministerial committee through a decree issued by the Prime Minister as of end October 2017. The Committee approved and announced a detailed plan in April 2018, in consultations with multiple stakeholders inside the government as well as with investment banks, to divest stakes in at least 23 SOEs over 24-30 months, of which 4 SOEs by June 15, 2019 (structural benchmark). The planned divestment is estimated to generate around EGP80 billion and bring total market capitalization of these companies to EGP430 billion.

### C. Financing and Program Monitoring

- 26. The program is financed for the next 12 months.** The financing gap for 2018/19 is estimated at \$1.1 billion and will be financed with a new Eurobond and/or from gross reserves.
- 27. We are requesting modification of the program definition of the primary fiscal balance to exclude any recapitalization of the CBE from the budget.** Since the need for such direct capital injection is difficult to predict and it does not reflect a change in the fiscal policy stance, we would like to modify the primary balance definition accordingly.
- 28. The program will be monitored through prior actions, quantitative performance criteria, indicative targets and structural benchmarks.** Semi-annual program reviews will continue to be based on December and June test dates. All quantitative performance criteria and indicative targets are listed in Table 1, and prior actions and structural benchmarks are set out in Table 2 below. The Technical Memorandum of Understanding is also attached to describe the definitions of quantitative PCs and, consultation as well as data provision requirements.

**Table 1. Egypt: Quantitative Performance Criteria (PC) and Indicative Targets (IT) Under the EFF Arrangement  
June 2017–December 2018**

(In billions of Egyptian pounds unless otherwise indicated)

	June 2017				December 2017				June 2018		December 2018
	Program	Adjusted	Actual	Met?	Program	Adjusted	Actual	Met?	Program	Proposed	Proposed
Net international reserves of the CBE (\$ million; cumulative change, floor) <sup>1</sup>	4,175	12,756	14,620	Yes	-2,561	2,297	5,500	Yes	-839	-839	-1,500
Net domestic assets of the CBE (at program rates; ceiling) <sup>1</sup>	204	160	-224	Yes	81	145	-103	Yes	56	56	303
Fuel subsidies (cumulative, ceiling) <sup>1</sup>	62	62	115	No	65	65	23	Yes	108	121	50
Primary fiscal balance of the budget sector (cumulative, floor) <sup>1</sup>	-29	-30	-64	No	-14	-14	-14	No	9	9	15
Accumulation of external debt payment arrears (\$ million; continuous PC ceiling) <sup>1</sup>	0	0	0	Yes	0	0	0	Yes	0	0	0
Average reserve money (ceiling; IT)	555	555	564	No	695	761	686	Yes	745	745	969
Tax revenues (cumulative floor; IT) <sup>1</sup>	473	473	462	No	243	243	263	Yes	607	607	300
Accumulation of EGPC Arrears (\$ million; cumulative ceiling, IT) <sup>1</sup>	-1,200	-1,200	-1,300	Yes	-400	-400	-200	No	-1,100	-500	-1,000
Accumulation of gross debt of the budget sector (cumulative ceiling, IT) <sup>1</sup>	...	...	...	...	...	...	...	...	475	475	260
<i>Memorandum item:</i>											
Program disbursements (\$ million; cumulative) <sup>1</sup>	16,300	24,881	2,450	6,628	5,950	5,950	4,000				
Gross foreign reserve assets acquired through the repatriation mechanism (\$ million; cumulative) <sup>2</sup>	...	...	0	680	0	0	0				
External budget support loans (\$ million; cumulative) <sup>1</sup>	7,450	12,432	3,350	3,450	8,350	8,350	2,000				
Project loans (\$ million; cumulative) <sup>1</sup>	0	100	0	0	0	0	0				

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

<sup>1</sup> Cumulative flow from the beginning of the fiscal year (July 1).

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

**Table 2. Egypt: Structural Benchmarks**

Measure	Objective	Timing	Status
Submit to Cabinet draft amendments to the CBE law consistent with MEFP ¶10.	Strengthen and modernize the legislative framework governing the central bank.	June 30, 2018	Reset to September 30, 2018
Based on the findings of the report on state guarantees, develop a system to evaluate and decide on new guarantees and set a plan to limit new guarantees. MEFP ¶15.	Improve debt management	June 30, 2018	
Spend EGP500 million to improve the availability of public nurseries for 0 to 4-year old children and other facilities that can enhance the ability of women to actively seek jobs. MEFP ¶25.	Improve labor force participation for women	June 30, 2018	
The Prime Minister to approve the fuel price indexation mechanism, which will adjust fuel prices periodically to the changes in the exchange rate, global oil prices and the share of imported fuel products in the consumption basket. The mechanism should be designed in consultation with Fund staff, and should include, at minimum (i) the specification of a fuel product price formula, (ii) a rule determining the frequency and magnitude of price changes such as any caps, and (iii) the institutional framework of price setting.	Strengthen energy subsidy reform	February 28, 2018	Not met
CBE FX deposits at foreign branches of the Egyptian banks not to exceed \$4 billion. MEFP ¶8.	Improve foreign exchange reserve management	December 31, 2017	Met
CBE FX deposits at foreign branches of the Egyptian banks not to exceed \$3 billion. MEFP ¶8	Improve foreign exchange reserve management	June 30, 2018	

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

Measure	Objective	Timing	Status
Separate the regulatory authority for public transportation from the Ministry of Transportation by establishing the independent regulatory authority for transport. MEFP ¶25	Improve competition	June 30, 2018	Reset to December 31, 2018.
Publish a report on all state-owned enterprises defined as enterprises where the state has a significant control through full, majority, or significant minority ownership. The report with the following elements: (a) an overview of the sector during 2017/18, including financial performance; (b) a full list of the companies owned by the state, broken down by industry, policy objectives (provision of public services, commercial), and type of ownership (e.g. majority or minority-owned, strategic companies, etc.); (c) an overview of how the government has exercised its ownership policy, including the appointment of board members, dividend policy, organizational and governance arrangements; (d) the impact of the sector on government finances (budget transfers received and dividends paid, borrowing/lending from other public entities, state guarantees received, etc.) and the economy more broadly; (e) Information on individual companies, including abridged financial statements, and indicators of financial performance, a list of	Improve transparency and accountability of public enterprises	December 31, 2018	To be split in two benchmarks: (a), (b) and (e) due by June 30, 2018 and (c) and (d) by December 31, 2018



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

Measure	Objective	Timing	Status
board members, management, and auditors, and the amount of subsidies received from the budget during 2017/18, if any. MEFP ¶15.			
Publish FY2018/19 plan to raise equity from private sources in public enterprises through listing of shares or other means. MEFP ¶25	Develop capital markets and reduce the role of the state	January 31, 2018	Not met. Implemented with delay.
<b>New Measures</b>			
The draft 2018/19 budget, consistent with the program understandings, to be approved by Parliament. MEFP ¶12-13	Strengthen fiscal sustainability	Prior action	
Increase fuel prices to raise price-to-cost ratios to 100 percent. MEFP ¶17	Eliminate fuel subsidies	June 15, 2019	
CBE FX deposits at foreign branches of the Egyptian banks not to exceed \$1.5 billion. MEFP ¶8	Improve foreign exchange reserve management	December 31, 2018	
CBE FX deposits at foreign branches of the Egyptian banks eliminated. MEFP ¶8	Improve foreign exchange reserve management	June 15, 2019	
Establish a Transparency and Public Participation Unit within the Ministry of Finance. MEFP ¶15	Improve transparency of public finances	December 31, 2018	
Publish a report on all state-owned enterprises defined as enterprises where the state has a significant control through full, majority, or significant minority ownership. The report should have the following elements: (a) an overview of the sector, including financial performance based on the latest available information; (b) a full list of the companies owned by the state, broken down by industry, policy objectives (provision of	Improve transparency and accountability of public enterprises	June 30, 2018	The first part of the existing SB

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

Measure	Objective	Timing	Status
public services, commercial), and type of ownership (e.g., majority or minority-owned, strategic companies, etc.); (c) Information on individual companies, including abridged financial statements, and indicators of financial performance, a list of board members, management, and auditors, and the amount of subsidies received from the budget during, if any, based on the latest available information. MEFP ¶15.			
Publish a report on all state-owned enterprises defined as enterprises where the state has a significant control through full, majority, or significant minority ownership. The report should cover 2017/18 and have the following elements: (a) an overview of how the government has exercised its ownership policy, including the appointment of board members, dividend policy, organizational and governance arrangements; (b) the impact of the sector on government finances (budget transfers received and dividends paid, borrowing/lending from other public entities, state guarantees received, etc.) and the economy more broadly. MEFP ¶15.	Improve transparency and accountability of public enterprises	December 31, 2018	The second part of the existing SB
In FY2018/19 spend EGP600 million to improve the availability of public nurseries for 0 to 4-year old children and other facilities that can enhance the ability of women to actively seek jobs. MEFP ¶25.	Improve labor force participation for women	June 30, 2019	

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

Measure	Objective	Timing	Status
<p>Submit to Parliament a draft law which will (a) ensure that the ECA reports directly to the Prime Minister and is independent from any Minister to avoid conflict of interest; (b) provides the ECA with administrative fining powers, eliminates the representation of the government and increase the representation of the judiciary and the technical experts in the ECA's board of directors, and provides it with an earmarked budget as a single digit subject to the review of the Administrative Control Authority; (c) exempts the ECA from the salaries cap provides the ECA independence in hiring; (d) establishes clear criteria for assessing the performance of the ECA and its chairperson; (e) strengthen the transparency of ECA's operations by requiring it to (i) publish motivated decisions together with a non-confidential versions of the case files (including the investigation report and the parties submissions) and market studies, (ii) introduce a referencing system for all board decisions, and (iii) publish non-confidential versions of all previous and future cases and decisions with supporting analyses; the regulation clarifying procedures and conditions to receive exemptions from the prohibitions of the competition law; the guidelines to calculate fines and settlements; the guidelines to grant leniency on, cartel cases; and the methodology</p>	<p>Strengthen competition</p>	<p>October 30, 2018</p>	

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

Measure	Objective	Timing	Status
to identify and remove barriers to competition in legislation, policies or decrees which negatively affect competition. MEFP ¶25			
Approve executive regulations for the Government Procurement Law to standardize procurement rules, procedures and document requirements to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution. The procurement regulations to be applied consistently and uniformly to all government entities, including central and local authorities and economic authorities. MEFP ¶25	Strengthen competition, optimize public spending and reduce corruption	March 31, 2019	
The Prime Minister to approve a reform plan to ensure that SOE's procurement rules are consistent with the new Government Procurement law. MEFP ¶25		June 15, 2019	
The e-Procurement portal will start operating. MEFP ¶25	Strengthen competition, optimize public spending and reduce corruption	May 31, 2019	
Form a working group, which will report directly to the Prime Minister, and will be tasked with preparing a reform plan for industrial land allocation. MEFP ¶25	Improve access to land	June 30, 2018	
Finalize the reform plan for industrial land allocation to include the following specific components: a) permissible use of land by investors for any industrial purposes with limited restrictions; b) market-based land allocation mechanisms that ensure open,	Improve access to land	December 15, 2018	

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

Measure	Objective	Timing	Status
transparent and competitive bidding process; c) clear eligibility criteria for bidders; d) simplified and standardized document requirements; and e) establishing an online platform and moving the entire process online, including all industrial land tender announcements, document and bidding submissions, and reporting auction results. MEFP ¶25			
Approve by Ministerial decree and publish new guidelines for industrial land allocation, consistent with the reform plan. MEFP ¶25	Improve access to land	March 31, 2019	
Bring to market shares in at least four SOEs. MEFP ¶25	Develop capital markets and reduce the role of the state	June 15, 2019	

## Attachment II. Technical Memorandum of Understanding

June 20, 2018

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

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

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

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

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

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

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

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

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

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

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

**7. Program disbursements** are defined as external disbursements of loans (including IMF disbursements), grants and deposits for the budget support purposes, foreign reserve asset creating loans and deposits to the CBE with the original maturity of more than 360 days, and rollovers by more than 360 days of existing foreign loans and foreign reserve-related liabilities, in foreign currency, from official multilateral creditors, official bilateral creditors, and private creditors, including external bond placements. Program disbursements also include net issuance of government T-bills in foreign currency. Program disbursements exclude project loans and grants.

## B. Ceiling on Average Reserve Money (IT)

**8. Reserve money (RM)** is defined as the sum of currency in circulation outside the CBE (includes cash in vaults), balances on commercial banks' overnight deposits, and banks' correspondent accounts (includes required reserves in local currency at the CBE). Reserve money excludes balances in deposit auctions and 7-day deposits at the CBE. For each semester, average reserve money is calculated from daily balance sheets of the CBE as the average for the last month of the semester. For December 2016, average reserve money thus defined amounted to EGP541.47 billion.

**9. Adjustor.** In the event of a change in reserve requirement ratio (rr) in local currency, the reserve money ceiling will be adjusted according to the formula:

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

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

June 2018: EGP182 billion

December 2018: EGP 317 billion

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

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

#### Adjustors.

- 1) NDA targets will be adjusted down (up) by the full amount of the cumulative excess (shortfall) relative to the baseline projections shown under the memo items in Table 1 in external budget support loans and grants, in U.S. dollars, from official multilateral creditors, official bilateral creditors, private creditors, and external bond placements. Project loans and grants are excluded. The U.S. dollar amounts will be converted in Egyptian pounds using the program EGP/\$ exchange rates.
- 2) In the event of a change in reserve requirement ratio (rr) in local currency, the NDA ceiling will be adjusted according to the formula:

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

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

### D. Floor on Primary Fiscal Balance of the Budget Sector (PC)

**11. The general government** comprises the budget sector, the Social Insurance Funds and the National Investment Bank (NIB). The budget sector comprises the central government (administration), the governorates (local administration) and public service authorities, including the General Authority for Government Services, other regulatory authorities and supervisory agencies, funds, universities and hospitals.

**12. The primary balance of the budget sector** under the program is defined as the overall balance plus total interest payments of the budget sector and any capital injection in the CBE. The overall balance is measured as total revenue minus total expenditure and net acquisition of financial assets. These variables are measured on a cumulative basis from the beginning of the fiscal year. For the fiscal year 2016/17 the primary balance of the budget sector was EGP-63 billion.

**13. Off-budget funds.** The authorities will inform IMF staff of the creation of any new off-budgetary funds or programs immediately. This includes any new funds, or other special



budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001.

**14. Adjustor.** The target for the primary balance of the budget sector will be adjusted up (down) by the full amount of the shortfall (excess) in the disbursement of external project loans, i.e. the disbursement shortfalls will reduce primary deficits and excesses will increase them. The U.S. dollar amounts will be converted into Egyptian pounds using the program EGP/\$ exchange.

## E. Tax Revenue (IT)

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

## F. Fuel Subsidies (PC)

**16. Fuel subsidies** are defined as total amount of subsidies paid by the budget sector for gasoline, diesel, kerosene, LPG and fuel oil. These subsidies are measured in domestic currency on a cumulative basis from the beginning of the fiscal year.

## G. EGPC Arrears (IT)

**17. EGPC arrears.** This ceiling will apply to accumulation of EGPC arrears to foreign creditors (international oil companies) on a net basis, reflecting the common industry practice of attributing payments to the most overdue receivables. EGPC arrears will be measured in \$. As of June 30, 2017, the stock of EGPC arrears amounted to \$2.4 billion.

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

**18.** Debt of the budget sector is defined as the outstanding stock of debt issued by the budget sector. The U.S. dollar amounts will be converted in Egyptian pounds using the program EGP/\$ exchange rates. The program target is defined as a cumulative change in debt of the budget sector from the beginning of the fiscal year. As of June 30, 2017, the stock of debt of the budget sector thus defined amounted to EGP3,748.7 billion.

## I. Continuous Performance Criteria

**19. Non-accumulation of external debt payments (principal and interest) arrears by the general government (as defined in paragraph 12).** No new external debt payments (including on long-term leases) arrears will be accumulated during the program period. For the purposes of this performance criterion, an external debt payment arrear is defined as an amount of payment obligation (principle and interest) due to nonresidents by the general government and the CBE,

which has not been made when due under the contract, including any applicable grace period. The performance criterion will apply on a continuous basis throughout the arrangement.

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

## J. Consultation Clause

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

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

## K. Monitoring and Reporting Requirements

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

## L. Data Reporting

<b>Item</b>	<b>Frequency</b>	<b>Submission Lag</b>
Overall deficit of the budget sector	M	30 calendar days
Overall deficit of the general government, NIB and SIFs	M	45 calendar days
Summary of budget sector accounts, including revenues, expenditures and net acquisition of financial assets on a cash basis, consistent with IMF GFS 2001 Manual.	M	30 calendar days
Summary accounts of NIB and SIFs, consistent with presentation of general government accounts	M	45 calendar days
Program disbursements and project loans to the general government	W and M	30 calendar days
Domestic debt stock and debt service costs of the general government and budget sector, including interest payments and amortization	M	30 calendar days (45 days for the general government)
Debt of the budget sector at actual and program exchange rates	M	30 calendar days
Debt guarantees issued by General Government and the CBE	Q	45 calendar days
Stock of bonds issued by the government to Social Insurance Fund	Q	30 calendar days
Net domestic borrowing of the general government and budget sector, including net t-bill and t-bond issuance in local and foreign currency, separately for domestic and foreign investors, and issuance of other government debt instruments	W and M	30 calendar days (45 days for the general government)
Auctions of t-bills and t-bonds via primary dealers, including the number and value of submitted and accepted bids, minimum, maximum and weighted average interest rates and maturity dates	W	7 working days
Gross transfers to EGPC	Q	90 calendar days
Fuel subsidies to EGPC	Q	90 calendar days
Stock of EGPC arrears to foreign creditors	Q	90 calendar days
Use of overdraft facility at the CBE (end of period stock)	W	15 calendar days
Stock of outstanding domestic arrears by creditor	M	30 calendar days
Value and volume of crude oil, oil product, liquid and natural gas, and bunker and jet fuel exports and imports, partner exports and excess cost recovery (separately for liquid and natural gas, and crude oil) (from Ministry of Petroleum)	Q	90 calendar days
Components of foreign direct investment (investments and capital repatriation) to the petroleum sector (from Ministry of Petroleum)	Q	60 calendar days

Note: M = Monthly; W = Weekly

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

<b>Item</b>	<b>Frequency</b>	<b>Submission Lag</b>
Program net international reserves and its components (foreign reserve assets and foreign reserve-related liabilities) of the CBE at program and current exchange rates	M	7 working days
Program disbursements and its breakdown by components (as defined in paragraph 7 above)	M	7 working days
Breakdown of gross foreign assets and liabilities (including foreign currency liabilities to residents) of the CBE by currency at actual and program exchange rates	M	15 calendar days
Breakdown of foreign reserve-related liabilities (including foreign currency liabilities to residents) of the CBE by original maturity at actual and program exchange rates	M	15 calendar days
Program NDA of the CBE and its components	M	15 calendar days
Stock of outstanding external debt payment arrears of the general government (if any) by creditor	M	30 calendar days
Projections for external debt payments falling due in the next four quarters, interest and amortization	Q	30 calendar days
Monthly cash flow table based on the agreed template, both past outcomes and projections for 12 months	M	15 calendar days
Balance of payments data in electronic format	Q	90 calendar days
CBE foreign exchange deposits held at commercial banks headquartered in Egypt	W	5 working days
Commercial banks (foreign exchange and Egyptian pound) deposits by sector (household, corporate, public)	M	30 calendar days
Commercial banks core FSI indicators by peer group: i) Net open position and ii) Liquidity ratios: measured in both foreign currency and in Egyptian Pounds	M	30 calendar days
Commercial banks core FSI indicators by peer group: i) Capital adequacy ratio defined as regulatory capital as a share of risk weighted assets; ii) Regulatory capital; iii) Nonperforming loans as a share of total loans; and iv) Provisions as a share of NPLs	Q	75 calendar days
Commercial bank-by-bank data: i) balance sheets by currency (foreign exchange and Egyptian pound); ii) income statements; iii) FSI indicators; iv) profitability indicators; and v) foreign exchange net open positions.	Q	75 calendar days
Other depository corporations (commercial banks) balance sheet information in SRF (preliminary)	M	30 calendar days
Central bank balance sheet in SRF (preliminary)	M	15 calendar days

<b>Table 3B. Central Bank of Egypt (concluded)</b>		
Central bank's weekly analytical balance sheet (preliminary data to be submitted once a week for the previous week)	W	7 working days after the end of the week
Daily reserve money	W	14 working days after the end of the week
Daily official exchange rates EGP/ \$ (data to be submitted once a week for the previous week)	W	5 working days after the end of the week
Central bank daily purchases and sales of foreign exchange by counterparts – commercial banks, EGPC, GASC, government	W	2 working days after the end of the week
Daily average buy and sell exchange rates EGP/\$ as quoted by foreign exchange bureaus and banks (data to be submitted once a week for the previous week)	W	5 working days after the end of the week
Daily interbank turnover in the FX spot market	M	15 working days

Note: Q = Quarterly; M = Monthly; W = Weekly

**Statement by Mr. Beblawi, Executive Director for Arab Republic of Egypt and  
Ms. Abdelati, Senior Advisor to Executive Director  
June 29, 2018**

**Egypt's economy is strengthening on many fronts**, reflecting sound policy implementation, improved outlook, and confidence gains. On the macro-side, GDP is estimated to have risen to over 5 percent despite a sizeable fiscal consolidation in the year ending June 2018; the primary fiscal deficit is estimated to have shifted to a small surplus; public debt will have significantly declined as a share of GDP; international reserves nearly tripled from their low point and now exceed their earlier peak in 2010; and inflation was brought down to 11.4 percent in May 2018 after having soared to over 33 percent. Wide-ranging structural reforms were implemented, despite the socio-economic and technical challenges. The resulting confidence gains have contributed to deeper access to international financial markets and upgrades from rating agencies. The authorities remain guided by the objectives of their homegrown program and their vision to build on recent gains in macroeconomic stabilization, transform the economy, and deliver better prospects for all. They realize that significant challenges remain to deliver on the promises to the Egyptian people, who wait to see the fruits of their sacrifices, for which they deserve the highest recognition.

**Communication has been key to public acceptance.** The authorities consistently communicate the rationale for difficult reforms that entail considerable public sacrifice, supported by the leadership's statements, at the highest level, explaining the vision for Egypt. The newly formed cabinet has demonstrated continuity, with the new PM Madbouly approving proposals prepared by the prior cabinet in his first hours in office. President ElSisi has tasked the new cabinet, which held its first meeting on June 21, to (i) work toward a growth target of 7 percent while further reducing the budget deficit, unemployment, and inflation; (ii) keep national security a priority; (iii) improve the quality of life for citizens; (iv) expand protections for low-income earners; (v) improve education; and (vi) improve government services.

**The authorities share staff's assessment of the favorable outlook and risks.** Continued recovery of tourism and rising natural gas production should help support growth in the near-term. The recent broad shift in investor sentiment away from emerging markets could lead to further tightening of financial conditions that will need to be evaluated in the period ahead. Uncertainties also relate to global oil prices, any deterioration in the security situation, or the possible drag on the reform momentum from adjustment fatigue.

**The CBE plans to maintain a tight monetary policy and a flexible exchange rate.** The tight monetary stance has brought down inflation following the large devaluation and series of price hikes, in order to firmly anchor inflation expectations. The CBE is keenly aware of second-round effects from recent increases to energy and other prices (water, metro, and

other public transport, etc.). Consistent with the commitment to a flexible exchange rate, CBE has refrained from any intervention since the floating of the pound. Market supply and demand factors, strong portfolio inflows, and banks' rebuilding of net foreign assets have helped the pound stabilize. All in all, the Egyptian pound lost two-thirds of its value relative to 2010, boosting net exports to become an important contributor to GDP growth this year, and allowing the current account deficit to sharply narrow to an estimated 2½ percent of GDP and it is likely to narrow further. Portfolio inflows, which were on a steady upswing, reaching 7 percent of GDP, have seen a tapering off and outflows in recent weeks due to the dampened sentiment towards EMs across the board and not for Egypt-specific reasons.

**The fiscal consolidation is among the largest planned and achieved under a Fund-supported program.** With budget deficits exceeding 10 percent of GDP for several years, debt service accounting for 30 percent of total spending and 10 percent of GDP, and general government debt surpassing 100 percent of GDP last year, a large fiscal consolidation was inevitable and considered a key anchor to the stabilization effort. Despite the large devaluation and much higher oil prices than projected at the start of the program, which led to an over-run of the fuel subsidy bill by 0.3 percent of GDP, the budget position is expected to shift to a small primary surplus this year.

**With further consolidation measures next year, the primary surplus is targeted at 2 percent of GDP and general government debt to decline** (from 103 percent of GDP in 2016/17) to 86 percent of GDP in 2018/19. The primary surplus will be maintained at 2 percent of GDP and debt will decline further to 74 percent of GDP by 2022/23. Debt service cost is projected to decline by 4 percent of GDP over the medium-term. In addition, an automatic price adjustment mechanism was approved by the Prime Minister in June for implementation during 2018/19 to lock-in fuel subsidy reform gains and avoid the recurrence of fuel subsidies. The Minister of Petroleum just publicly affirmed this week that fuel subsidies would be eliminated completely by next year.

**The financial sector has proven to be strong,** profitable, well-regulated and supervised, and resilient to shocks, as verified by Fund experts. The large public banks are comfortable with their current and projected capital positions and, given their continued profitability, consider themselves well-positioned to manage the planned expansion of operations mainly from internally generated capital, and to easily withstand moderate shocks. Banks' capital adequacy ratios stood at over 15 percent in December 2017, and NPL ratios had further declined to 4.9 percent with virtually full provisioning (99 percent). Banks expect private sector credit growth to be revived from currently low levels, once interest rates decline from historically high levels as inflation expectations become durably anchored.

**The Ministry of Finance is modernizing its operations, improving transparency and accountability, and further enhancing institutional capacity.** Notably, a fiscal strategy paper was submitted to Cabinet in December 2017 and an updated statement of fiscal risks is

being finalized with procedures for assessing new state guarantees. A report on public enterprises is to be completed this week to provide a more complete picture of public sector operations. Tax collection will be modernized by integrating the organization structure of income taxes and VAT, and utilizing upgraded IT systems and processes. Gender-budgeting is to be introduced in 2018/19 with the help of United Nations Women program, and several initiatives aim to support women's financial inclusion, training, and labor force participation.

**Structural reforms aim to facilitate private sector activity and encourage investment.**

The adoption of a new investment law, establishment of a consolidated investment center, and simplification of licensing procedures were important steps in the past year—and the authorities are working on many other fronts, including those reflected in the MEFP. A working group is being established to review the allocation mechanism for industrial land and identify potentially needed reforms. A new government Procurement Law was recently approved and is expected to encourage broader participation by the private sector, while a single e-Procurement portal will handle all public procurements. Other steps are being considered to support competition and reassure private investors of an even handed playing field. Last April a detailed plan was announced on the divestiture of stakes in at least 23 public entities over 24-30 months, of which the first 4 would be completed in the next fiscal year.

**A few words of appreciation.** The authorities are highly appreciative of everyone on the IMF team. Candid and constructive discussions are building a good partnership. The May conference in which Mr. Lipton participated usefully touched on the many remaining challenges and the transformative reforms that other countries implemented over a decade or more, and emphasized that Egypt needs to accelerate the pace of the planned transformation.

**Looking forward.** Recent economic gains provide an important motivation to continue with the still large and complex reform agenda so that the benefits can be shared more broadly. The Egyptian people have endured hardships from reforms deemed inevitable to correct earlier imbalances and to place the economy on a path of more inclusive growth. Their endurance, and persistent reform efforts, are critical to realizing the vision of transformative economic change.