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2025 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR EGYPT

In the context of the 2025 Article IV Consultation, Fourth Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for Waivers of Nonobservance and Modification of Performance Criteria and Request for an Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 10, 2025, following discussions in Cairo that ended on November 19, 2025. The discussions with the officials of Arab Republic of Egypt on economic developments and policies continued virtually, with agreement reached on the fourth review under the Extended Fund Facility on December 24, 2024, and on the Resilience and Sustainability Facility on January 26, 2025, and concluding discussions on the 2025 Article IV consultation held on January 10, 2025. Based on information available at the time of these discussions, the staff report was completed on February 10, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Word Bank Assessment Letter** for the Resilience and Sustainability Facility.
- A **Supplementary Information** updating information on recent developments.
- A **Statement by the Executive Director** for Egypt.

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

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PRESS RELEASE

PR25/058

IMF Executive Board Completes the Fourth Review of the Extended Fund Facility Arrangement for Egypt, Approves the Request for an Arrangement Under the Resilience and Sustainability Facility, and Concludes the 2025 Article IV Consultation

FOR IMMEDIATE RELEASE

- *The Executive Board of the International Monetary Fund (IMF) completed the fourth review of Egypt's Extended Fund Facility (EFF) arrangement, allowing the authorities to draw the equivalent of about US$1.2 billion.*
- *The Egyptian authorities preserved macroeconomic stability amid a difficult regional environment, but progress on the structural reform agenda was mixed.*
- *Looking ahead, more decisive implementation of reforms will be critical to secure sustained and robust growth. Priorities comprise boosting domestic revenues, improving the business environment, accelerating divestment, and leveling the playing field, while enhancing governance and transparency.*
- *The Executive Board also approved the authorities' request for an arrangement under the Resilience and Sustainability Facility (RSF) and completed the 2025 Article IV Consultation.*

Washington, DC – March 11, 2025: The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of Egypt's economic reform program supported by the EFF arrangement. This enables the authorities to immediately draw about US$1.2 billion (SDR 922.87 million), bringing Egypt's total purchases under the EFF to about US$3,207 million (SDR 2,420.22 million or 119 percent of quota). Egypt's 46-month EFF arrangement was approved on December 16, 2022. In addition, the IMF Executive Board approved the authorities' request for an arrangement under the Resilience and Sustainability Facility (RSF), with access of about US$1.3 billion (SDR 1 billion). The Executive Board also concluded the 2025 Article IV consultation with Egypt.

The Egyptian authorities have continued to implement key policies to preserve macroeconomic stability, despite ongoing regional tensions that had caused a sharp decline in Suez Canal receipts.[1] While growth slowed to 2.4 percent in FY2023/24, down from 3.8 percent in the previous fiscal year, it recovered back to about 3.5 percent (y/y) in the first quarter of the current fiscal year (FY2024/25). Inflation has trended downward since September 2023. During the same period (FY2023/24), the current account deficit widened to 5.4 percent of GDP, while the primary fiscal balance improved by 1 percentage point to 2.5 percent of GDP, due to tight expenditure controls that have more than offset domestic revenue underperformance.

In light of the difficult external conditions, as well as the challenging domestic economic environment, the Executive Board approved the authorities' request to recalibrate the authorities' medium-term fiscal commitments. In particular, the primary balance surplus (excluding divestment proceeds) is expected to reach

[1] See IMF Press Release 24/500 of December 24, 2024, for further details on recent discussions. IMF Reaches Staff Level Agreement on the Fourth Review of the Extended Fund Facility with Egypt

4 percent of GDP next fiscal year (FY 2025/26) (½ percent of GDP less than earlier program commitments) and then increase to 5 percent of GDP in FY 2026/27 (in line with earlier commitments). Nonetheless, progress toward fiscal consolidation in the first half of FY2024/25 was less strong than initially projected under the program despite strong growth in tax revenue collections. The authorities are taking steps to contain spending in the second-half of the fiscal year, to ensure that the end-year fiscal target for FY 2024/25 is met.

The external environment is expected to remain challenging, as successive external shocks have continued and persisted. The ongoing war with Sudan precipitated a substantial influx of refugees, while trade disruptions in the Red Sea since December 2023 reduced foreign exchange inflows from the Suez Canal by US$6 billion in 2024. At the same time, remittances from Egyptian workers overseas and tourism receipts have remained robust. The shift to a flexible exchange rate regime in March 2024 has continued to produce positive results: gaps with the parallel rate remain closed, backlogs of unmet import demands are eliminated, and trading in the interbank market has increased, but the exchange rate fluctuates within a limited range. Looking ahead, continuous vigilance will be needed to ensure that this reform is consolidated further over time so that economic agents perceive the exchange rate as truly flexible.

Progress with the implementation of the structural reform agenda was mixed, with notable delays on critical reforms related to divestment and leveling the playing field. At the same time the authorities have taken more decisive action this year with the implementation of a number of critical structural reforms, including through (i) steps to enhance the operational independence of the Egyptian Competition Authority (ECA), with a view to improving competition in product and service markets, and (ii) selecting an international consulting company to prepare a study on governance practices related to public banks to increase financial sector efficiency and transparency.

The authorities' efforts to implement medium-term macro-critical reforms to address climate change is welcome. In this regard, the RSF arrangement will support key reforms to accelerate decarbonization, strengthen the management of environmental risks, and assess the effects of investment plans on achieving resilience.

At the conclusion of the Executive Board's discussion, Mr. Nigel Clarke, Deputy Managing Director and Chair made the following statement:

"Since March 2024, the authorities have made considerable progress in stabilizing the economy and rebuilding market confidence despite a challenging external environment marked by persistent and successive external shocks, including regional conflicts and trade disruptions in the Red Sea.

"Notably, GDP growth has shown signs of recovery, inflation is gradually moderating, and foreign exchange reserves are at adequate levels. Fiscal consolidation under the EFF-supported program has progressed, with the government achieving a primary fiscal surplus of 2.5 percent of GDP (excluding divestment proceeds) in FY2023/24, alongside a declining debt-to-GDP ratio. High debt, substantial gross financing needs, and domestic rollover risks continue to present significant medium-term fiscal challenges, while mixed progress on structural reforms is hindering growth prospects, constraining private sector development.

"Strengthening fiscal sustainability requires both effective domestic revenue mobilization and a comprehensive debt management strategy. Broadening the tax base, streamlining tax incentives, and enhancing compliance are essential to creating fiscal space for priority development and social needs. At the same time, ensuring debt sustainability necessitates adopting a medium-term debt management strategy, including to deepen and further develop the domestic debt market, improving transparency over fiscal activities and strengthening fiscal oversight—particularly over off-budget entities—and accelerating divestment.

"To foster resilience and promote dynamic, inclusive, and export-led growth, the authorities must transition to a new economic model. Decisively reducing the state's footprint, leveling the playing field, allowing energy prices to reach cost recovery levels, and addressing governance and transparency issues will enable the private sector to become the primary engine of growth. In this context, a flexible exchange rate, anchored by a robust inflation-targeting regime with an independent central bank and sound fiscal policies, is an essential policy tool that allows the economy to adjust to shocks. Meanwhile, implementing macro-critical climate reforms to address Egypt's growing adaptation and mitigation needs will further enhance resilience.

"Despite progress, risks remain significant and skewed to the downside. The economic outlook is vulnerable to external shocks and domestic policy challenges. In particular, regional conflicts and trade disruptions could further strain fiscal revenues, foreign direct investment, and external stability. Domestically, needed reforms in energy prices and subsidies and tax policy carry social costs that must be carefully managed, while the state's extended role in non-strategic sectors and limited efforts to enhance market competition could impact medium-term growth."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They recognized the authorities' progress in stabilizing the economy and rebuilding market confidence despite a challenging external environment. Directors acknowledged the improvement in economic activity and progress in restoring foreign exchange reserves to adequate levels. They noted however that the economic landscape remains fragile, affected by regional conflicts and trade disruptions in the Red Sea, while debt and gross financing needs are high and present significant medium-term fiscal challenges.

Against the backdrop of mixed program performance, Directors called for stepped up implementation and vigilant monitoring of program commitments. They emphasized the need for strong commitment and ownership of structural reforms to create the conditions for durable and inclusive growth and to ensure a sustained reduction in vulnerabilities while meeting Egypt's development and social goals.

Looking ahead, Directors underlined that strengthening fiscal sustainability is a priority that requires effective domestic revenue mobilization and allowing energy prices to reach cost recovery levels, a comprehensive debt management strategy, strengthened fiscal oversight—particularly over off-budget entities, and accelerated divestment.

Directors agreed that maintaining a liberalized foreign exchange system in the context of a flexible exchange rate regime is critical to avoid the buildup of external imbalances and emphasized the importance of maintaining movements in the foreign exchange rate in response to supply and demand for foreign exchange. They also considered a robust inflation-targeting regime, with an independent central bank and sound fiscal policies, to be essential.

Directors urged the authorities to step up their structural reform efforts to promote higher, sustainable, inclusive, and job-led growth. They emphasized the need to take decisive measures to re-start divestment efforts, firmly reduce the state's footprint, and level the playing field. These efforts will enable the private sector to become the primary engine of growth.

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

Directors noted that implementing macro-critical climate reforms while crowding-in private investors to address Egypt's growing adaptation and mitigation needs will further enhance economic resilience. They agreed that these reforms will complement and reinforce the risk mitigation efforts under the Extended Arrangement.

Directors supported the completion of the fourth review under the EFF arrangement and the authorities' request for waivers of nonobservance and modification of performance criteria. They also supported their request for an arrangement under the Resilience and Sustainability Facility (RSF).

It is expected that the next Article IV consultation with Egypt will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements

Egypt: Selected Macroeconomic Indicators[1]

Population (2023): 105.2 million

Quota: SDR 2,037.1 million
Main exports: Petroleum (crude oil and refined products), gold
Key export markets: USA, UAE, Saudi Arabia, Italy

Per capita GDP (2022/23, US$): 3,728
Literacy/poverty rate: 71 (2017)/ 29.7 (2020)

	2022/23	2023/24	2024/25
Output			
Real GDP growth (%)	3.8	2.4	3.6
Employment			
Unemployment (%)	7.2	6.8	--
Prices			
Inflation (%, end of period)	35.7	27.5	16.6
Inflation (%, period average)	24.4	33.3	22.4
Budget sector[2]			
Revenue and grants (% GDP)	15.4	14.3	15.0
Expenditure (% GDP)	21.4	17.9	25.5
Overall balance (% GDP)	-6.0	-3.6	-10.6
Primary balance (% GDP)	1.6	6.2	4.4
Gross debt, general government (% GDP)	95.9	90.9	86.8
Money and credit			
Broad money (M2, % change)	24.7	28.8	15.9
Credit to the private sector (% change)	25.4	27.8	28.0
Treasury bill rate, 3 month (average, in percent)	--	9.7	9.6
Balance of payments			
Current account (% GDP)	-1.2	-5.4	-5.8
FDI, net (% GDP)	2.5	11.9	3.7
Reserves (months imports)	5.1	6.8	6.2
External debt (% GDP)	41.8	39.9	46.1
Exchange rate			
Real Effective Exchange Rate (% change; appreciation +)	-22.1	-16.3	--
Exchange rate (EGP/$, end-period)			

Sources: Egyptian authorities; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ Budget sector comprises central government, local governments, and some public corporations.

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

February 10, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context: Persistent and successive external shocks have complicated policy execution. The ongoing war in Sudan, which erupted in April 2023, precipitated a significant refugee inflow into Egypt, with some 603,000 Sudanese refugees registered with UNHCR as of December 31, 2024. Trade disruptions in the Red Sea since December 2023 have reduced foreign exchange inflows from the Suez Canal by US$6 billion in 2024, while transit trade volumes remain at about a third of pre-conflict levels, with further negative spillovers to growth and fiscal revenues.

Focus of the Article IV consultation. Since last March, the authorities have made progress in stabilizing the economy. Looking ahead, it is critical not only to consolidate these short-term gains, but also accelerate the implementation of structural reforms. While the policies and reforms implemented so far have successfully averted a macroeconomic crisis, deeper reforms are required to unlock Egypt's growth potential, sustainably reduce its vulnerabilities, and meet its economic and social needs. Decisively reducing the role of the public sector in the economy is an urgent priority. Other essential reforms include transforming the conduct of monetary and exchange rate policy through the implementation of inflation targeting in the context of a flexible exchange rate regime, reducing public sector dominance, implementing a market-based fiscal financing strategy, developing a financial system that supports private sector development, and undertaking bold structural reforms to strengthen governance and transparency as well as the competitiveness of the economy, including by leveling the playing field and reducing red tape. Domestic revenue mobilization is vital to meet priority spending needs and development goals. To address significant climate

vulnerabilities, integrating climate goals into macroeconomic policymaking—such as energy pricing policies and—investment planning– will supporting ongoing mitigation and adaptation efforts. Building domestic consensus for the effective implementation of these policies is also necessary. A concerted effort along all of these dimensions will be key to transitioning Egypt from the current "stabilization" phase toward a more "transformative" phase. This shift would break the cycle of recurrent economic crises, and enable policymakers to focus on policies that deliver higher and more inclusive growth over the medium term.

Program Performance. Program performance is mixed, particularly with respect to progress on reducing the footprint of the state in economic activity. In light of the difficult external conditions, as well as a challenging domestic economic environment, the authorities requested a recalibration of their near-term fiscal commitments. In this regard, the primary balance surplus (excluding divestment proceeds) is expected to reach 4 percent of GDP next fiscal year (FY 2025/26) (½ percent of GDP less than earlier program commitments) and then increase to 5 percent of GDP in FY 2026/27 (in line with earlier commitments). This short-term recalibration seeks to ensure that fiscal consolidation provides some space to increase critical social programs in support of vulnerable groups and the middle class while ensuring debt sustainability.

Request for an arrangement under the Resilience and Stability Facility (RSF). The proposed RSF arrangement with access of SDR 1 billion (49 percent of quota) will support the authorities' effort to implement macro-critical climate reforms, focusing on four broad challenges: (i) accelerating decarbonization, (ii) strengthening the management of climate-related risks and building resilience, (iii) increasing the capacity of the financial sector to identify climate-related risks and support green finance opportunities and (iv) identify the effects of investment plans, programs, and projects on national climate change targets. RSF resources will be applied toward budget support.

Staff supports the authorities' request for the completion of the fourth review under the EFF Arrangement. The authorities have met the two prior actions for the review. Staff supports the authorities' requests for a waiver of non-observance of the end-December 2024 criterion on central bank lending to government agencies on the basis that the deviation was temporary—the central bank received sufficient repayments in January and February to bring the stock of outstanding loans within the end-December 2024 target. Staff also supports the request for a waiver of non-observance of the end-December QPC on the primary fiscal balance including divestment on the basis of the authorities' proposed corrective action—the authorities plan to apply 100 percent of the proceeds from anticipated FDI for US$3 billion in the current fiscal year toward debt reduction, which would significantly exceed the shortfall in the primary balance surplus relative to the end-December 2024 target.

Approved By
Taline Koranchelian and Rishi Goyal

The staff team comprised Ivanna Vladkova Hollar (mission chief), Zeina Hasna, Yevgeniya Korniyenko, John Ralyea (all MCD), Qiaoe Chen (FAD), Julia Faltermeier (SPR), Pornpinun Chantapacdepong and Samer Saab (all MCM), Audrey Yiadom (LEG), Alex Segura-Ubiergo (Senior Resident Representative), and Mouchera Karara (Resident Representative Office). The team was supported by Maria de Mesa, Faris Abdurrachman, and Nethra Sriram. Discussions were held in Cairo from November 5–19, 2024, with Ahmed Kouchouk, Minister of Finance; Hassan Abdalla, Acting Governor of the Central Bank of Egypt; Rania Al-Mashat, Minister of Planning, Economic Development, and International Cooperation; Yasmine Fouad, Minister of Environment; and other senior officials. S. Guimbert (World Bank Country Director) and other World Bank staff joined discussions with the authorities on the RSF. Maya Choueiri and Habiba ElKharbotly (all OED) also participated in the discussions. Discussions continued virtually, with agreement reached on the fourth review under the EFF on December 24, 2024, and on the RSF on January 26, 2025, and concluding discussions held on the Article IV consultation on January 10, 2025.

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CONTEXT

1. Egypt's pursuit of a state-led growth model has constrained the economy's ability to generate sufficient jobs and thrive in a more shock-prone world (Figure 15). In the last ten years, the authorities have sought to stimulate growth and jobs primarily by undertaking large-scale public investment projects, coupled with control over foreign exchange and energy prices, and recourse to tax exemptions. The resulting financial and resource distortions have left Egypt with a large informal economy and few buffers against growing global financial, geopolitical and climate shocks. The war in Ukraine with its initial impact on commodity prices, crystallized these vulnerabilities, precipitating massive foreign exchange (FX) outflows followed by foreign exchange and goods shortages that were further exacerbated by continued national megaproject spending.

2. Successive and persistent external shocks have complicated policy execution, with new challenges on the horizon. The ongoing war in Sudan, which erupted in April 2023, precipitated a significant refugee inflow into Egypt, with some 603,000 Sudanese refugees registered with UNHCR as of December 31, 2024. Trade disruptions in the Red Sea since December 2023 have reduced foreign exchange inflows from the Suez Canal by US$6 billion in 2024 relative to 2023, while transit trade volumes remain at about a third of pre-conflict levels. Looking forward, in the near term, Egypt is vulnerable to global mitigation efforts such as the EU's Carbon Border Adjustment Mechanism, which takes effect in 2026. Over the long run, and with a higher climate risk indicator relative to comparator emerging economies in the region and world-wide, Egypt is vulnerable to the impacts of climate change with key challenges coming from increased temperature and heat stress, rising sea levels and water scarcity, as well as the risk of droughts and floods.

3. In such an environment, economic activity has been sluggish. Growth has averaged 3 percent year-on-year per quarter since early 2022, compared to an average of 4 percent between 2015 and 2020 (pre-pandemic). The primary driver of this slowdown has been declining investment, with private sector investment weakening and public sector investment proving less effective. Despite population growth, Egypt's GDP per capita has outperformed the regional average since the pandemic, though it remains well below that of other emerging markets. This slow growth, fueled by unproductive investment, is straining the labor market. Youth unemployment is rising and is now nearly three times the national rate (Figure 15) fueling further Egypt's informal economy (Figure 16).

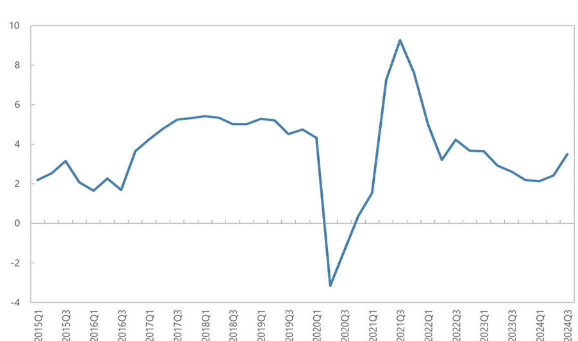
4. To build resilience and spur more dynamic, inclusive, and export-led growth, Egypt needs to transition more decisively to new macroeconomic and growth models. The macroeconomic strategy should be anchored on a flexible exchange rate, a robust inflation targeting regime with an independent central bank, and a fiscal framework that ensures debt sustainability, helps build buffers against shocks and provides sufficient room for development spending to foster inclusive growth. The new growth model should establish legal, regulatory, and competitive conditions that allow the private sector to become the primary driver of economic growth by significantly reducing the state's presence, including military entities, in the economy, leveling the economic playing field between private and state economic agents, allowing energy prices to reflect supply and demand forces, and creating a business and governance environment supportive of competitive markets. This comprehensive reform package would not only boost long-term growth but also foster a more competitive Egyptian private sector that can compete globally, stimulating Egyptian exports and reducing the structural current account deficit. A flexible exchange rate would support development of a more robust export base by dampening the potential for misalignment of the exchange rate that undermines export competitiveness.

5. **Similarly, a coherent regulatory, financial, and market-based framework should be developed in support of the authorities' climate adaptation and mitigation goals.** A more holistic approach that embeds climate goals into macroeconomic policymaking – such as energy-related policies and investment planning - and an organizing framework that ensures progress towards climate objectives and supports efforts to mobilize climate finance would significantly strengthen Egypt's transition to a new climate model. To support these efforts, the authorities requested an arrangement under the RSF with access of SDR 1 billion (49 percent of quota). The articulation of impactful national climate strategies under the RSF has benefitted from strong Bank-Fund collaboration on climate issues in the context of a pilot initiative, as well as from collaboration with other development partners such as EBRD, EU, AIIB and EIB.

RECENT DEVELOPMENTS

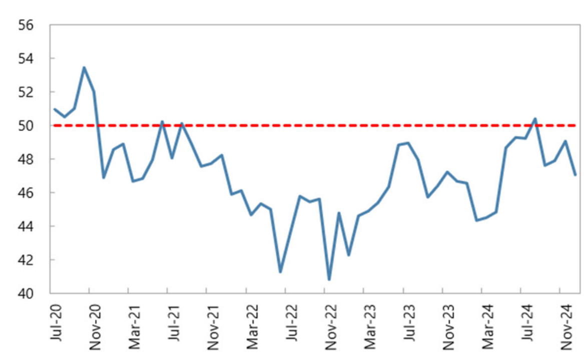
6. **Growth slowed to 2.4 percent in FY2023/24, down from 3.8 percent in the previous fiscal year (Figure 1).** The slowdown was mainly driven by weakened confidence amid foreign exchange shortages, which limited overall investment and economic activity—particularly in the industrial sector. Additionally, contractionary government policies aimed at restoring macroeconomic stability contributed to the decline. The regional conflict has substantially affected Egypt, mainly through its impact on trade and Suez Canal receipts. Suez Canal receipts declined by 62.6 percent in the first 11 months of 2024 compared to the same period last year, even as tourism inflows increased despite the conflict, cushioning the impact on growth. Finally, the difficult business environment has taken a toll on the non-oil private sector as headline Purchasing Managers' Index (PMI) has fallen back below 50 since September 2024 to 48.1 in December 2024, after a brief signal of private optimism in August 2024 (Figure 2). Nonetheless, quarterly real GDP growth picked up to 3.5 percent y/y in Q1 FY2024/25 compared to 2.7 percent y/y in Q1 FY2023/24.

Figure 1. Egypt: Quarterly Real GDP Growth
(Year-on year Percent Change, last data point 2024Q3)



Sources: Egyptian authorities; IMF staff calculations.

Figure 2. Egypt: Purchasing Manager Index
(SA, 50+=Expansion)

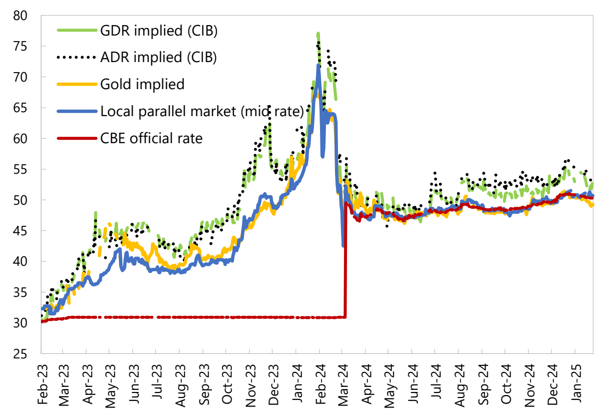


Sources: Standard & Poor's; IMF staff calculation.

7. Gaps with the parallel rate remain closed and trading in the foreign exchange market continues, but the exchange rate fluctuates within a limited range. Since the exchange rate unification in March 2024, the spread between the official rate and measures of market clearing rates has remained essentially closed (Figure 3). While anecdotal evidence indicated some challenges in obtaining FX for current international transactions, market participants did not raise any significant issues on FX access during meetings with staff and the authorities continue to report, no FX demand backlogs at banks and sustained FX interbank trading (Figure 4). Nonetheless, relative to select Emerging Markets, the daily EGP/USD rate tends to trade in a significantly narrower range though it has occasionally appreciated or depreciated more than 1.5 percent (Figure 5). The Central Bank of Egypt (CBE) has not intervened since the unification to influence the rate (outside of select episodes of purchases for the purposes of reserve accumulation under the program), but recent bank NFA dynamics (see ¶13) suggests rising FX demand pressures. While additional FX inflows due to the Ras El-Hekma deal and nonresident investors brought appreciation pressures, high inflation differentials as well as widening of the CA in the short term will likely continue to generate depreciation pressures.

Figure 3. Egypt: Measures of Market Clearing Exchange Rate and the Official Rate

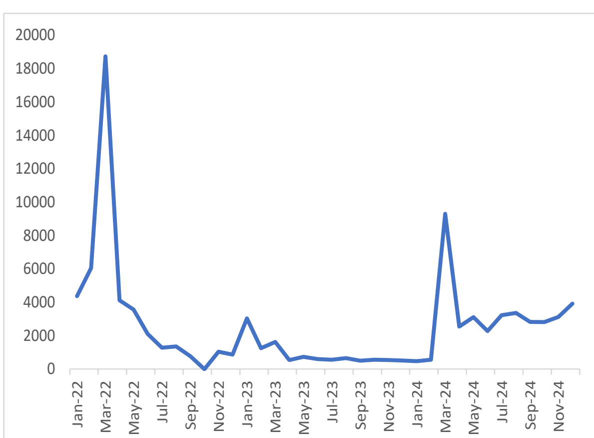
(EGP per USD)



Sources: CBE; Bloomberg; IMF Staff Calculations.

Figure 4. Egypt: Monthly Interbank FX Turnover

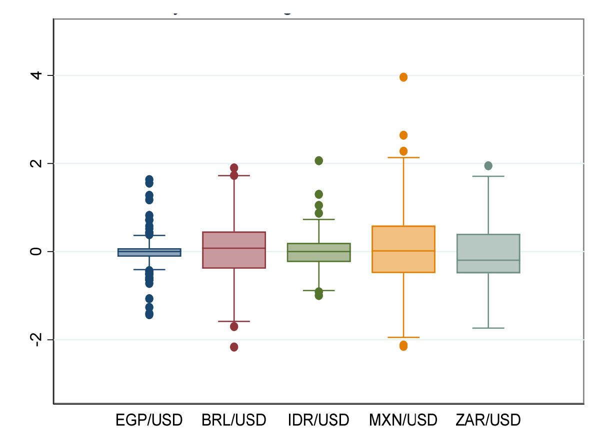
(USD million)



Sources: CBE; IMF Staff Calculations.

Figure 5. Egypt: Exchange Volatility Relative to Select Emerging Markets since March 2024

(Local Currency/USD; percent daily change)

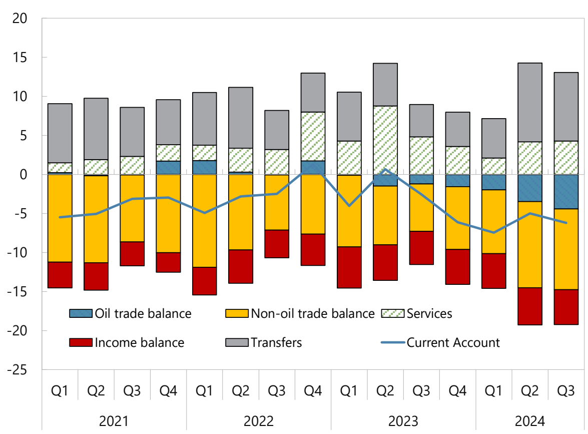


Note: The boxes represent the middle 50 percent interquartile range (IQR) of currency movement. The whiskers extend the boxes by 1.5 times the IQR.

Sources: Bloomberg; IMF Staff Calculations.

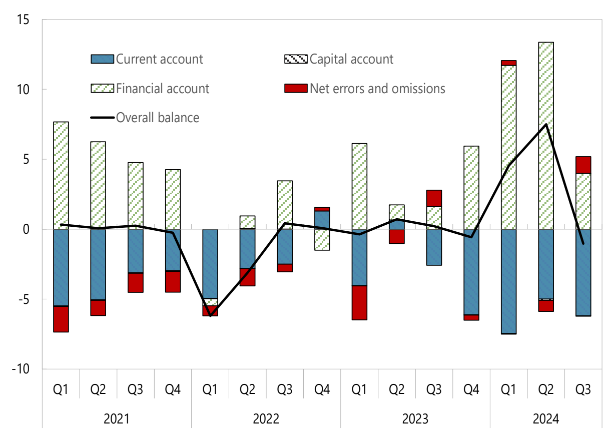
8. **The current account deficit widened to 5.4 percent of GDP in FY2023/24.** The oil and gas trade balance deteriorated as lower oil and gas production lowered exports and rising energy demand increased imports (Figure 6). The decompression of non-oil imports continued in the second half of the fiscal year, although partly offset by recovering non-oil exports after exchange rate unification.[1] The disruptions in the Red Sea continue to weigh on Suez Canal receipts but tourism inflows increased despite the conflict in Gaza and Israel, cushioning the impact on the services balance. Remittances increased by 62 and 85 percent y/y in Q2 and Q3 of CY 2024 respectively after exchange rate unification eliminated the parallel market spread. The CA deficit was fully financed by record FDI inflows of 11.9 percent of GDP, largely due to the Ras El-Hekma deal (Figure 7). The exchange rate unification also triggered significant portfolio inflows as nonresidents holdings of T-bills increased. However, capital flows reversed in early FY2024/25, with moderate portfolio outflows and a decline in commercial bank NFA position partly financing the CA deficit. Net international reserves (NIR) amounted to US$36.5 billion at the end of December 2024 (about US$19 billion higher than at program approval). The external position in FY2023/24 is assessed as weaker than the level implied by medium-term fundamentals and desirable policies (see Annex III).

Figure 6. Egypt: Current Account
(In percent of GDP)



Sources: CBE; IMF staff calculations.

Figure 7. Egypt: Balance of Payments
(In percent of GDP)



Sources: CBE; IMF staff calculations.

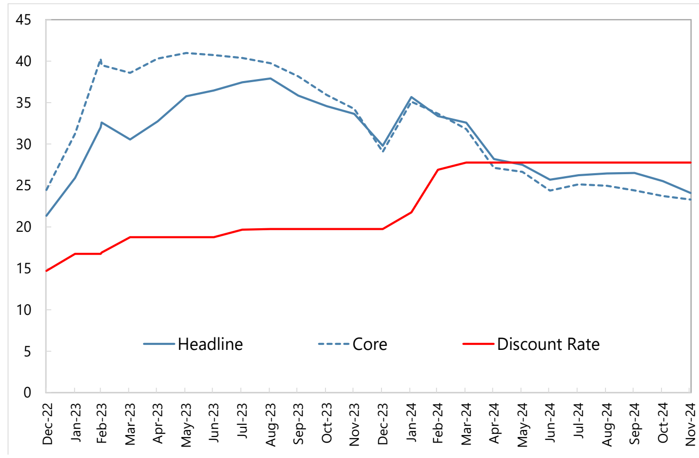
9. **Inflation has trended downward since September 2023, but remains a critical policy challenge in light of its significant impact on purchasing power.** After hitting an all-time high of 38 percent, annual headline urban inflation has declined, though with some fluctuations, as the effects of a depreciated exchange rate diminish, the impact of monetary policy tightening takes hold, and food

[1] On December 26, 2024, the authorities issued a decree outlining the conditions for importing cars for personal use (Decree No. 319 of 2024 issued by the Ministry of Investment and Foreign Trade). The decree limited imports of cars for personal use to one car per importer within a five-year period. The authorities explained that the car import measure is intended to fight fraud and tax evasion and was not imposed for balance of payments purposes. They noted that it only applies to individuals, not dealerships, firms, or other institutions. On this basis, staff does not view this measure as a new or intensification of import restrictions for Balance of Payments reasons.

inflation eases. Headline urban inflation stood at 24.1 percent in December 2024 (Figure 8). In addition, core inflation has been declining since August 2024, reaching 23.2 percent y/y in December 2024, the lowest rate since November 2022. The CBE kept policy rates unchanged and extended inflation targets by two years at its December 26, 2024, MPC meeting. The current inflation targets will be 7 percent, with a symmetrical 2-percentage point band, by end-2026, and 5 percent, with the same band, by end 2028.

Figure 8. Egypt: Interest and Inflation Rates

(In percent, last data point: December 2024)



Sources: CBE; IMF staff calculations.

10. Tight control on spending helped meet the primary balance target despite underperformance of tax revenue in FY2023/24. The budget sector primary surplus, excluding divestment proceeds was 2.5 percent of GDP, representing a 1 percentage point improvement compared with the previous year. A broad-based reduction in primary expenditures by about 2 percent of GDP offset a 1 percent of GDP reduction of total revenue. Tax revenue collection declined by 0.6 percent of GDP due to a decline in Suez Canal tax payments and excise tax collections on tobacco and cigarettes.[2] Windfall revenue to the Ministry of Finance (MoF) from the allocation of half the proceeds from the sale of the development rights in the Ras El-Hekma region lowered gross financing needs and debt, but interest payments, on a cash basis, increased sharply to 9.8 percent of GDP, absorbing 78 percent of total revenues.

11. Good progress has been made toward fiscal consolidation goals for FY2024/25. In the first 5 months of FY2024/25 the primary surplus reached one percent of GDP, more than double the outturn in the same period of last year due to higher tax revenue from imports and interest on T-bills interests and control of on-budget public investment.

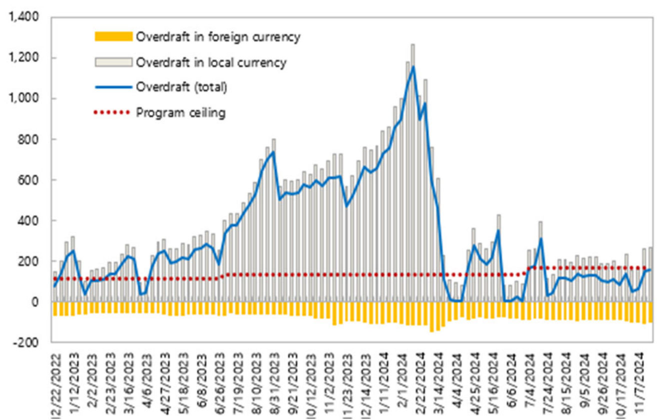
12. There are tentative signs of improved domestic financing conditions, but sustained and exclusive recourse to market-based financing mechanisms has been inconsistent and hampered by market absorption capacity bottlenecks. The authorities have since April relied relatively more heavily on weekly T-bill auctions, increased issuance of longer-term T-bills (such as 9 and 12-month maturities) and medium-term 3-year bonds and brought the use of the overdraft facility down to below the statutory limit since the end of March 2024 with limited temporary breaches. However, although recent auctions of medium-term T-bonds have been heavily oversubscribed, the authorities have been reluctant to accept higher bid volumes mainly on cost considerations due to their expectations of decreasing yields in line with inflation expectations for 2025 and beyond. Nonresident activity has pushed down the 12-month T-bill interest rate below the central bank's discount rate and helped

[2] Since January 2024, the monthly revenue of Suez Canal has dropped by more than 60 percent compared with the first 6 months in FY23/24, and its contribution to government was almost halved in the second half of FY2023/24 even after the exchange rate depreciation effect.

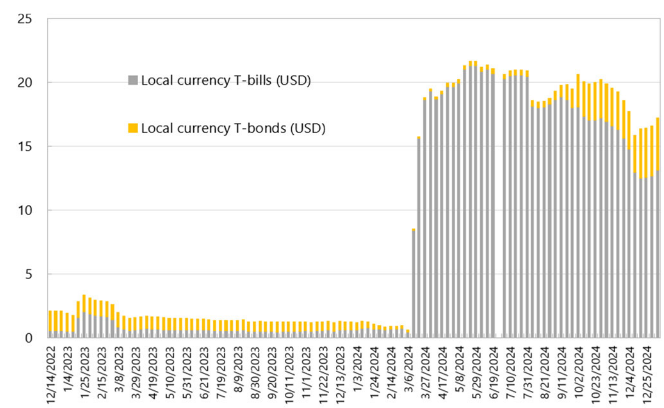
provide pricing leverage for the authorities in auctions against a concentrated local demand base. Moreover, the authorities had been relying less on private placements between April and June, but since July have resorted back to issuing large amounts of short-term privately-placed MoF notes to manage capacity absorption bottlenecks due to bigger-than-average scheduled redemptions. Nevertheless, the proportion of securities issued through auction with original maturity of 1 year and over has steadily risen since July (Figure 9).

Figure 9. Egypt: Financing

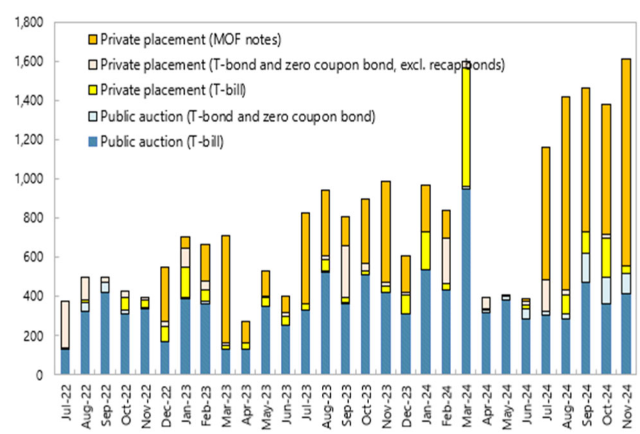
MOF Borrowing from CBE Overdraft Facility
(EGP Billion)



Nonresident Holdings of Egypt Local Currency T-Bills and T-Bonds December 14, 2022–January 5, 2025
(stock, USD billion)



Gross Domestic Issuance by Public Auction and Private Placements
(EGP billion)



Average Accepted Interest Rate for Local Currency T-Bills
(percent)

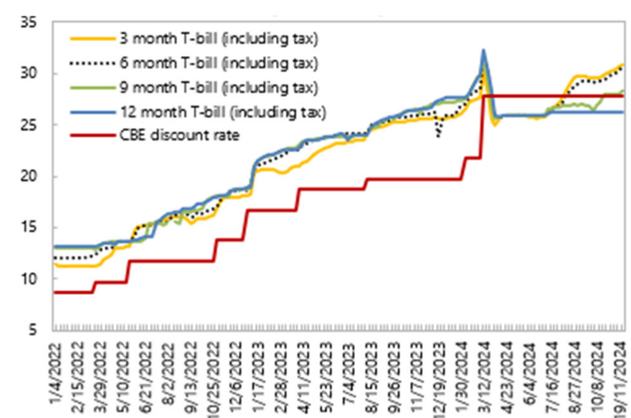
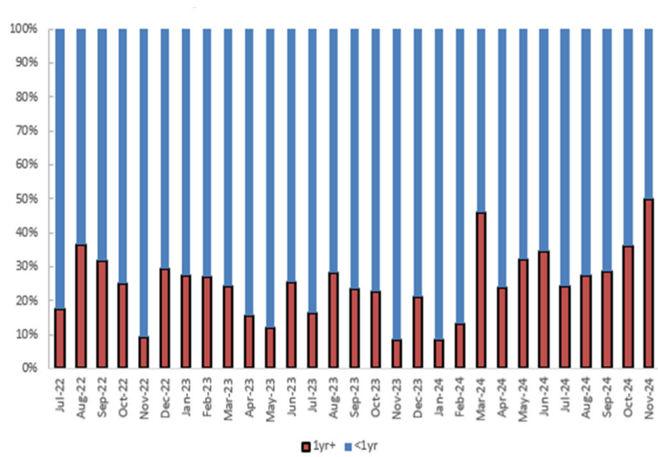
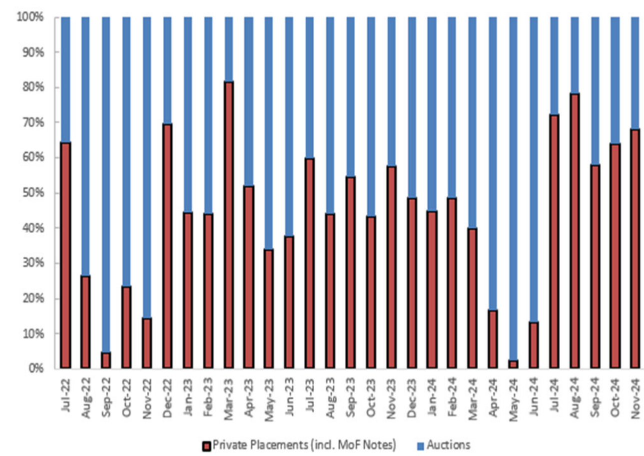


Figure 9. Egypt: Financing (concluded)

Original Maturity of Accepted Bids
(percent of auction issuance)



Domestic Financing Modality
(percent of domestic financing



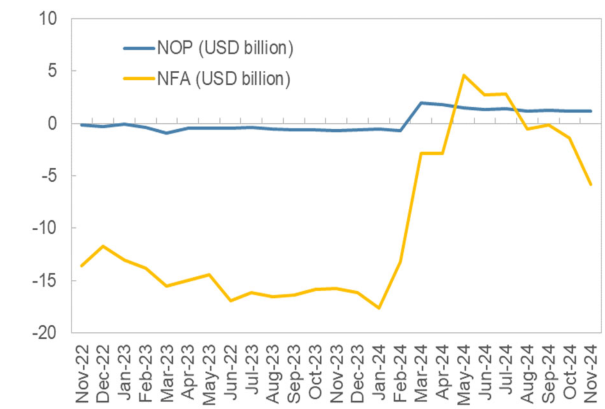
Sources: Egyptian authorities; IMF calculations.

13. The banking system has on average weathered the exchange rate unification and policy rate hike, but granular analysis points to some lingering potential vulnerabilities. Banks on average are increasingly profitable, liquid, and have adequate yet marginally eroding capital that comfortably exceeds prudential minimums. Banks remain compliant with regulatory limits on net foreign exchange open positions. Asset quality has improved with gross NPLs below 2.5 percent as of end-September 2024 and provisioning levels still elevated at around 87 percent of NPLs (but down from a peak of 99 percent in 2015). Average return on assets has improved markedly to around 2 percent, driven mainly by net interest income on lending and investments in government securities. In light of the significant sovereign-bank nexus, sustained banking system health is a clear positive. To preserve that, a few vulnerabilities bear watching. Banks' net foreign asset (NFA) positions rebounded sharply reflecting an increase in capital inflows following the announcement of the Ras El-Hekma deal and completion of the 1st and 2nd reviews under the EFF arrangement but have eroded considerably for more systemic banks since May and turned overall negative in August (Figure 10). While banks are reported to remain compliant with regulatory limits, foreign currency loans, particularly to public sector entities (Figures 11) are not fully matched by foreign currency deposits (particularly on the balance sheets of the biggest banks), which would imply a potential vulnerability to exchange rate movements, including through credit risks. In addition, the share of subordinated debt in EGP in the capital of state-owned banks balance sheets has increased since March, accounting for 46 percent of the combined equity base of the two biggest banks as of June 2024.

14. Implementation of the structural reform agenda to improve growth prospects by empowering the private sector has been mixed. Under the umbrella of the State-Ownership policy, the authorities made progress in the second half of 2024 toward greater transparency regarding state assets, such as publication of an aggregate state-ownership report and data on procurement awards of select

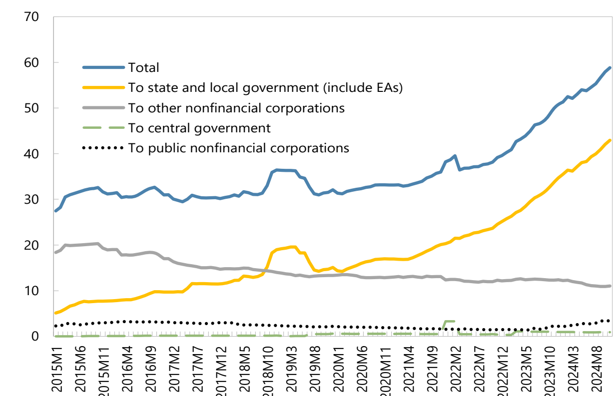
SOEs. A law passed in 2023 removed special tax privileges for SOEs. The immediate focus of the new government has been to make a concerted effort to improve the business environment facing taxpayers, through the approval of a reform package that will reduce the administrative burden, accelerate use of digitalized services, protect taxpayers' rights, and speed up process of tax refunds. At the same time, no material divestments have been announced since October 2022, implying no tangible progress in reducing the state footprint. In addition, the submission of amendments to parliament to strengthen the independence of the competition authority was further delayed.

Figure 10. Egypt: NFA and NOP of Banks
(In USD billions, last date point: end-November 2024)



Source: Egyptian authorities.

Figure 11. Egypt: Banks' FX Loans to Residents
(In USD billions, last date point: end-November 2024)



Source: Egyptian authorities

OUTLOOK AND RISKS

- A recovery in growth is projected for FY2024/25, driven by FDI inflows for development in the North coast region, a pickup in mining and manufacturing-related activities, as well as improving FX market conditions and investor sentiment. Over the medium term, growth is expected to rise to around 5.4 percent, some 0.8 percentage points lower than projected at program approval, as structural reforms aimed at enhancing the business environment and gradually shifting economic activity from the state to the private sector are proceeding slower than anticipated. Inflation is projected to decline over the next year as base effects unwind, the impact of policy tightening takes further hold, and inflation expectations become more anchored.

- The debt-to-GDP ratio is projected to follow a downward trajectory, as primary surpluses are sustained, favorable interest-growth differentials persist, and half of aggregate divestment inflows continue to be allocated to debt reduction.[3] The decline in the debt ratio started in FY2023/24 as a share of the US$35 billion of proceeds from the Ras El-Hekma deal (US$11 billion of deposit conversion and US$24 billion of new inflows) were applied to debt reduction. However, debt, the interest burden, and rollover risk will remain high for some time.

[3] The debt projection also includes the recording by the CBE of government bonds to recapitalize the CBE for prior year's losses. The CBE recorded a profit in FY2023/24 and the CBE does not project any significant recapitalization needs going forward.

- The current account deficit is projected to widen in FY24/25 as imports continue to decompress and weaknesses in the oil trade balance and shortfalls in Suez Canal receipts persist. However, a strong recovery of remittances after exchange unification, a resilient tourism sector and strong FDI inflows support the external balance. In the medium term, the current account deficit is expected to narrow. Ensuring a sustained recovery in external competitiveness requires structural reforms, including progress in trade facilitation and productivity, and payment of arrears to international oil companies, together with exchange rate flexibility to avoid a new build-up of misalignments.

- Projections for NIR for FY2024/25 have been revised upwards relative to the 3rd review, reflecting the larger-than-expected reserve accumulation in FY 2023/24. However, additional reserve accumulation in FY2024/25 is projected to be limited, as the shortfalls of Suez Canal receipts are assumed to persist until end-2025. Nonresident holdings of T-bills declined in H1 FY 2024/25 but are expected to recover somewhat in early 2025 alongside potential issuances of Eurobonds in Q1 2025. The upwards revision in FDI reflects stronger-than-expected FDI, including in the oil sector, as the clearance of arrears with international oil companies increases re-investment (Figure 19).

15. Risks to the outlook are significant and skewed to the downside. The economic outlook is subject to external risks and domestic policy implementation challenges. Critical unfinished reforms—to energy subsidies and to the tax base – have social costs that need to be carefully managed. Decisive actions are needed to ensure that the state does not compete unfairly with the private sector and reduces its presence in non-strategic sectors—without an acceleration of this effort, medium-term growth will be weaker and external vulnerabilities would prevail. Inflation risks stem from global oil price shocks, administrative price adjustments, and unanchored inflation expectations, while regional conflicts, Red Sea disruptions, shifts in trade patterns (including from the EU's CBAM), and capital flight could further strain growth, fiscal revenues, FDI, and external stability. Major fiscal risks, including government guarantees, arrears, and off-budget operations from the national oil company (EGPC) and the urban development authority (NUCA), highlight the need for stronger oversight and accelerated reforms to bring these and other off-budget entities under greater Ministry of Finance control (see Annex I). The risk of taking costly borrowing decisions will remain high until Egypt develops and adopts a coherent medium-term debt management strategy. A potential upside risk is a quicker-than-anticipated return of shipping traffic through the Suez Canal following the Gaza ceasefire agreement.

Authorities' Views

16. The authorities underscored that recent data confirms that the tough reforms undertaken over the course of last year are delivering, specifically pointing to the uptick in FY2024/25 Q1 growth and private investment, the continued good performance of inward FDI, particularly in IT and manufacturing, and Egypt's improving sovereign risk profile. They broadly agreed with the risks to the outlook, particularly on the role of geopolitical shocks and the fiscal risks from the energy sector and EGPC. They argued that a sustained increase in economic activity could facilitate public acceptance of difficult reforms and the authorities' ability to implement them successfully. They noted that they are optimistic about a notable improvement in the debt stock over the next two years, particularly as consolidation continues and divestment proceeds are allocated to the Treasury. However, gross financing needs cannot be reversed by fiscal consolidation alone, and thus reducing this vulnerability will take longer, as a broader structural effort will be needed to increase the share of investors with demand for longer dated securities.

ARTICLE IV CONSULTATION AND POLICY DISCUSSIONS

17. Egypt's main policy priorities are to consolidate the recent macroeconomic stabilization gains and to ensure a more decisive pace of implementation of structural reforms. While the policies and reforms implemented so far have been successful in averting a macroeconomic crisis, partially in line with past IMF advice (Annex IX), more will be needed to unlock Egypt's growth potential and meet the country's increasing economic and social needs. In addition to reducing the role of the state in the economy, which is of urgent priority, this includes transforming the conduct of monetary and exchange rate policy through the implementation of inflation targeting in the context of a flexible exchange rate regime, reducing public sector dominance, a market-based fiscal financing strategy, gearing the financial system toward supporting private sector development, and bold structural reforms to strengthen governance and transparency as well as the competitiveness of the economy, including by leveling the playing field and reducing red tape. Domestic revenue mobilization is key to meeting priority spending needs and development goals. To address significant climate vulnerabilities, embedding climate goals into macroeconomic policymaking—such as energy pricing policies and investment planning—will help sustain mitigation and adaptation efforts. Efforts will be needed to build domestic consensus for the effective implementation of such policies. A concerted push along all these dimensions will be key to help Egypt shift from the current "stabilization" phase toward a more "transformative" phase that breaks with the recent history of recurrent economic crises, and orients policy-making priorities towards higher and more inclusive growth over the medium term.

Exchange Rate and Monetary Policy

18. Exchange rate policy recommendations for Egypt remain focused on sustaining a liberalized exchange system in the context of a flexible exchange rate. Egypt is exposed to fundamental shocks, such as commodity price and productivity shocks, which require the use of the exchange rate as a shock absorber. This puts a premium on a framework that does not allow unsustainable policies to persist – the latter being a hallmark of the Egyptian experience over the last few decades where sharp parity adjustments followed periods of expansionary fiscal policy under a stabilized exchange rate. FXI should only be deployed to address disorderly market conditions through a targeted intervention framework. The limited variability in the exchange rate despite the numerous shocks that have impacted Egypt warrants further analysis, including on interbank market dynamics (see ¶41), to ensure that the reform is sustained. The perceived stability of the exchange rate is a source of risk in the near term, particularly with respect to its impact on portfolio flows.

19. The restrictive monetary policy stance remains appropriate considering still-high inflation. Inflation has declined since its peak in September 2023, but inflation expectations remain strongly influenced by administrative price adjustments, particularly energy costs. Looking forward, the CBE has reiterated its commitment to move toward a full-fledged inflation-targeting regime. In this regard, particularly good progress has been achieved in the development of macroeconomic forecasting models, and the CBE is also actively engaged in efforts to improve outreach and communication, including through requests for technical assistance to the IMF and peer central banks. More generally, the successful adoption of a full-fledged inflation targeting regime will require particular efforts in six inter-related areas: (i) ensuring that the exchange rate regime remains flexible so that Egypt can pursue a relatively independent monetary policy; (ii) pursuing fiscal consolidation and public debt management and a further significant reduction in CBE lending to government agencies, public banks, and the Treasury; (iii) improving monetary policy transmission channel, including via further reducing distortions created by subsidized loans, enhancing financial inclusion, strengthening the banking sector and limiting the reliance on public banks to implement monetary policy; (iv) enhancing strategic communications to build central bank credibility, anchor inflation expectations, and improve the monetary policy transmission channel; (v) continuing ongoing efforts to develop inflation forecasting models, where particularly good progress has been recently achieved; and (vi) assessing whether any changes are needed to further bolster the central bank's legal, financial, and operational independence (See Selected Issues Paper).

Fiscal Policy

20. Low tax revenue and elevated debt and gross financing significantly constrain the government's ability to smooth the impact of economic shocks (Figure 18). Compared with emerging markets, Egypt's tax revenue ranks in the lowest quintile and continued to decline in the past two years to nearly 5 percentage points below the EM average of 17 percent of GDP in 2023. To achieve primary surpluses over the last several years and compensate for lower tax revenues, the authorities have tightened the wage bill and other current spending, limited social programs, and pursued large investment projects (e.g., New Administrative Capital) outside of the regular budget as well as relying on the national oil company to absorb energy subsidies that has led to the emergence of arrears to international oil companies that require clearance. Nonetheless, gross financing needs have averaged over 30 percent of GDP per year over the last several fiscal years due to the elevated debt stock, substantial interest payments, and a very short maturity structure particularly on debt sold at auctions. Interest payments on cash basis, which account for about 50 percent of total expenditure in FY2023/24, have increased sevenfold since FY2014/15 for the central government.

21. On the structural front, the authorities have improved tax administration and public financial management (PFM) since 2021 though significant fiscal activity conducted by public entities outside the budget remains. Under the Medium-Term Revenue Strategy (MTRS) launched in 2021, the authorities have made progress in modernizing the information technology system for core tax administration and improving the overall capacity of the tax authority as well as other structural measures aimed at building greater trust with taxpayers and easing the administrative burden of paying taxes. The authorities also promulgated a new PFM law in 2022 and published the executive regulations in 2024 that benefited from FAD technical assistance. The new PFM framework includes reforms to improve fiscal discipline, strengthen fiscal oversight capacities, promote efficient and effective deployment of public resources and transition to medium-term budget framework and program-based budgeting.[4] To better capture the extent of fiscal activity, the authorities amended the PFM law in 2024 to expand the perimeter of general government fiscal reporting to include 59 Economic Authorities (EAs) and establish an annual debt ceiling for the general government. However, these entities remain outside the general government

[4] The International Budget Partnership in its 2023 Global Report of its Open Budget Survey documents continuous improvement in Egypt's budget transparency since 2012. With a score of 49, Egypt ranks 63 out of 125 countries in the survey. A score of 61 or above indicates a country is likely publishing enough material to support informed public debate on the budget.

budget and direct central government financial oversight and control. The authorities aim to publish the first medium-term budget in FY2025/26, supported by the IMF technical assistance.

22. Egypt has no fiscal space, and fiscal consolidation must continue.[5] Concrete actions in broadening the tax base by eliminating widespread VAT exemptions, streamlining corporate tax incentives, and improving tax administration to boost compliance should be implemented, with large potential gains from 3 to 4.4 percent of GDP according to the authorities' tax expenditure report in 2024. Continued efforts should be made to ensure the untargeted and unaffordable energy subsidies are transitioned to targeted cash transfer program. In addition, greater efforts to limit activity of public entities outside the budget and increasing transparency and control over their operations, including public capital investment, would lower fiscal risks, improve overall economic management to help achieve stability and growth objectives, and crowd-in private investment. Public debt poses a high risk of sovereign stress as outlined in the related Selected Issues Paper on establishing an appropriate debt target, and fiscal consolidation alone may not sufficiently reduce debt vulnerabilities. A stronger asset and liability management strategy, including accelerated divestment and increased earmarking of proceeds towards debt reduction, is needed to lower gross financing needs.

Financial Sector

23. The banking sector is the dominant component of the broader financial sector in Egypt, but its relative size to the economy has marginally shrunk over the years (Figure 17). The last few years have seen rapid nominal growth of banking sector assets, primarily driven by increased credit and exposure to the public sector, including in FX. The lending behavior and deposit offerings of State-owned banks had at times impeded the proper transmission of monetary and exchange rate policy, underscoring staff concerns that they may not have acted at arm's length. The sovereign-bank nexus in Egypt is among the highest in the world, with the last few years registering a steady increase in sovereign risk on banks' balance sheets both through direct lending and holdings of government securities, resulting in poor private sector financial intermediation levels and a significant crowding out effect (Figure 15). Average ROA and ROE is high, with seemingly weak competition and a business model built on lending primarily to the public sector and top tier corporates (in addition to investing in risk-free lucrative government securities) as underlying factors. Financial inclusion, as measured by the number of adults with access to traditional and mobile banking services according to the CBE, has steadily improved over the years, taking advantage of mobile banking technology.

24. Managing the sovereign-bank nexus would require a multi-pronged policy approach. Based on staff analysis (see Annex VII), some elements of the approach, like enhancing the prudential limits on asset concentration and introducing SME lending initiatives, are actively deployed by the CBE. Vulnerabilities in foreign currency lending in commercial banks warrant closer scrutiny and prudential treatment to ensure better net foreign assets (NFA) stability. Additionally, adequate safeguards should be in place to prevent resources from being allocated to SMEs closely tied to the public sector. Staff recommend continued regular publishing of financial stability reports while avoiding past lags in reporting to bolster confidence and oversight. Staff also recommend a regular review of stress test methodology and scope to ensure the timely capture of potential emerging vulnerabilities. Strengthening

[5] In the previous (2021) fiscal space assessment, staff assessed fiscal space to be at risk, as high interest bills and rollover needs left the country vulnerable to external shocks and financing pressures, allowing little scope for discretionary policy.

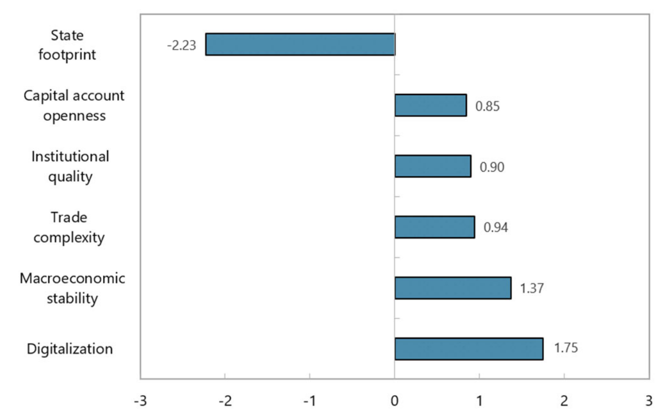
governance practices and promoting competition in the banking sector are critical for financial stability and efficient policy transmission.

Structural Reforms and Governance

25. Egypt's state-led economic model has stifled private sector activity and decreased the economy's resilience to shocks. The economic landscape is dominated by public-driven investments, an uneven playing field, and state-owned entities, including military ones, that operate directly in product markets. In 2022/23, the share of public investment reached 74 percent of total investment, state-owned entities have enjoyed preferential financing and tax treatments, state-owned banks hold about 2/3 of banking system assets, and there are 97 military owned companies spanning various sectors with 73 percent engaged in industrial activity and 15 percent in the service sector (See Annex VIII). State control of the economy in Egypt is perceived to be among the highest, with the private share of investment and credit among the lowest in Emerging Markets (Figure 20). Recent research indicates that an expansive state presence in the economy can detract from productivity growth (Figure 12). Similarly, Egypt's innovative capacity as measured by the complexity of its traded goods falls below the mean within its peer group, which also carries implications for productivity growth and competitiveness (Figure 20). In addition, the fiscal space to support a state-led growth model is depleted.

Figure 12. Middle East and Central Asia: Drivers of TFP Growth, 2000–23

(Estimated marginal impact in percentage points)



Source: October 2024 MCD Regional Economic Outlook, Chapter 2.

26. Egypt would benefit from a decisive implementation of a new growth model to enhance resilience, drive economic growth, and create jobs for its growing population. The new growth model should establish legal, regulatory, and competitive conditions that allow the private sector to become the primary driver of economic growth by significantly reducing the state presence, including military entities, in the economy, leveling the economic playing field between private and state economic agents, and creating a business and governance environment supportive of competitive markets. Decisive implementation of the State-Ownership Policy (SOP) adopted in 2022 should anchor that effort. Some reforms, such as removing special tax exemptions for SOEs have been initiated and need to be fully implemented, but the significant and largely opaque presence of SOEs, including in competitive sectors of the economy, creates uncertainty for potential private investors underlining the need to advance more forcefully with plans to divestment of SOEs from these sectors and further improve overall transparency of SOE operations.

27. Egypt has substantial room for improvement in governance. Perception indices on governance generally place Egypt in the bottom half based on rankings and indicators constructed from 2022 survey data. For example, Egypt ranks below the 50th percentile across all surveyed categories in

Worldwide Governance Indicators compiled by World Bank and particularly low on regulatory quality. Beyond perception, weaknesses in revenue administration and collection, and limited transparency around some public sector transactions and economic structures can increase corruption vulnerabilities.

28. Egypt is undertaking reforms that address some of the macro-critical governance issues that reduce opportunities for corruption and improve the business environment. These reforms aim at liberalizing access to foreign exchange, improving fiscal transparency, increasing the role of digitalization in revenue administration, expanded coverage of operations of public entities outside the budget, and upgrading governance of state-owned banks. For example, the authorities expanded the perimeter of fiscal reporting and established an annual debt ceiling through legal changes to capture 59 EAs that carry out government functions but reside outside the budgetary control of the Ministry of Finance; developed a monitoring and control mechanism established through Prime Ministerial decree that covers all public investment, and began to enhance tax revenue collection and administration through implementation of a Medium-Term Revenue Strategy supported by IMF technical assistance. These and other measures help limit risks of corruption and rent seeking behaviors and build trust through greater transparency.

29. Further improving governance across a range of activities in Egypt would help support robust, sustainable, and inclusive growth. This will require Egypt to further strengthen public sector transparency, revenue administration and financial management, SOE governance and oversight such as further institutionalizing publication of aggregate SOE reports and broadening the set of SOEs that are covered under the new monthly reports on SOE procurement activity, the application of the rule of law particularly as to relates to protecting property rights and contract enforcement, and AML/CFT measures.

Climate Policy

30. To address significant climate vulnerabilities, embedding climate goals into macroeconomic policymaking will help sustain mitigation and adaptation efforts. This includes integrating climate adaptation and mitigation objectives in investment planning and a well-sequenced approach for reforms in the power and oil and gas sectors, including pricing reforms. Egypt has the potential to achieve its mitigation goals effectively through a combination of policy measures, including the removal of fossil fuel subsidies and significantly increased investments in renewable energy. By implementing proper fossil fuel pricing and channeling even 50 percent of the generated revenue toward reducing the budget deficit, Egypt could experience substantial economic benefits, with GDP gains projected to reach up to 7.3 percent by 2030 and 13.8 percent by 2040. These estimates could be larger if Egypt channels more revenue towards reducing the budget, and/or prices fossil fuel domestically in line with international prices (See Selected Issues Paper).

Data Quality

31. Although data remains broadly adequate for surveillance, efforts to improve data quality and availability should continue (Annex IV). The authorities should continue work to fully comply with the special data dissemination standard (SDDS). Further efforts are needed to increase the consistency, timeliness, periodicity, and full coverage of data reporting, including of national accounts, fiscal sector, monetary and financial statistics (MFS), financial soundness indicators (FSIs) and external sector statistics. For MFS and FSIs, there is need to expand coverage to include non-bank financial institutions that comprise of about 10 percent of financial sector assets (Figure 17). For the external sector, data has some shortcomings in the granularity and consistency between financial account flows and the IIP. Moreover, Egypt continues to use the BPM5 standard which increasingly complicates international comparability as peers and trading partners have moved to BPM6. Fiscal data reporting and publication for general government would be strengthened by following the recent CD recommendations. The IMF stands ready to provide additional capacity development. #

CD Strategy for Egypt

32. Capacity development in Egypt aims to support key structural reforms underpinning the authorities' inclusive medium-term growth agenda. One area of emphasis is on fiscal structural reforms that will boost revenue and improve fiscal transparency as well as support for debt management reforms. A second priority is broadening the perimeter of general government fiscal reporting and transitioning towards Government Finance Statistics Manual (GFSM) 2014 standards. Egypt is also receiving assistance on AML/CFT matters, including improving risk-based supervisory systems and enhancing the capacity of the prosecution service and other criminal justice bodies. The recent appointment of a resident debt management advisor at METAC provides Egypt with a dedicated TA resource on the topic going forward with enhanced follow-up for better traction. The overall effectiveness of CD has generally been good (Annex V).

Authorities' Views

33. The authorities generally agreed with the policy recommendations on monetary and FX policies, but disagreed with staff's assessment of the external position and staff's concerns about exchange rate dynamics. Specifically, the authorities disagreed with the staff's assessment of the external position, pointing to a number of concerns about the EBA modeling framework, including the large residual term, which suggests a poor fit for Egypt. The authorities' own analysis of the external position shows an undervaluation of the EGP as of June 2024 and highlights that substantial adjustment has occurred following the unification of the exchange rate in March 2024. The authorities also saw exchange market volatility observed since unification as appropriately reflecting market dynamics, with the exchange rate against the US dollar fluctuating between EGP 46.56—the lowest level since unification on March 23—and EGP 51.07, reached on December 23, 2024. They reiterated their steadfast commitment to maintaining a durable floating exchange rate regime, essential for fostering sustainable economic growth and resilience in the face of global economic volatility, and underpinned by a comprehensive policy framework that prioritizes price stability as the primary objective.

34. The authorities broadly agreed with staff's assessment of fiscal challenges. They agreed with the importance of revenue mobilization, including that the effort should be centered on base-broadening, through removing exemptions and loopholes and reforming incentive schemes. They emphasized the effort to date in reforming tax administration, which they see as having big potential to boost revenues in Egypt at this current juncture. They agreed with the importance of making significant progress on reducing debt and the need for stronger asset and liability management and specifically the need to use divestment proceeds to reducing debt to complement the effort being made through budget sector consolidation. They also agreed with the need for stronger control over public entities and pointed to their ongoing efforts to broaden general government statistical reporting, the ceiling on guarantees established under the EFF arrangement, and the broader public sector debt limits established and approved by Parliament this fiscal year. They highlighted the significant progress they have made in fiscal transparency regarding the state budget, as recognized by the improvement in Egypt's ranking under the International Budget Partnership transparency assessments, but noted that more needs to be done at the broader public sector level.

35. The authorities were generally receptive of staff's assessment of financial sector stability and soundness diagnostic and challenges. The authorities however disagreed with the assessment that the sovereign-bank nexus has led to crowding out of lending to the private sector, pointing to the fact that banks maintain ample liquidity and have expanded their lending to SMEs via targeted initiatives.

36. The authorities agreed with staff's recommendations on the need for transformational structural reforms. Beyond the implementation of the state-ownership policy, the authorities highlighted their specific focus on trade facilitation as a reform area that will help deliver an export-oriented growth model and create a more dynamic competitive economy, which will significantly strengthen both the tax base and the external position. A key near term work plan in that regard is focused on improving the time to clear goods at the border, where progress has already been made, but where the authorities have set for themselves ambitious goals, benchmarking against trading partners. The authorities are making a concerted effort to build trust and better relations with the private sector through measures that reduce the administrative burden and simplify, streamline, and improve the tax system. On governance, the authorities acknowledged that weaknesses exist and that work should continue along the multiple dimensions across which such weaknesses manifest.

37. The authorities noted that many recent reforms are in line with improving governance but noted more could be done to enhance governance and data quality. The authorities highlighted recent reforms around liberalizing access to foreign exchange, improving fiscal transparency, including around public procurement and the operations of entities outside the budget, together with ongoing efforts to strengthen the public financial management system and reforms to improve customs processing times should help limit risks of corruption and rent seeking behaviors. Nonetheless, the authorities concurred that more could be done along the lines proposed by staff. On data, the authorities noted that they are in the process of making the BOP and IIP data consistent and working on migrating to the BPM6 from the previously adopted BPM5. They also plan to continue working toward reporting general government consolidated debt on a gross basis and applying GFSM 2014 principles for general government fiscal reporting and strengthening the coordination among government entities to ensure timely publication of quarterly general government fiscal outturns and debt statistics.

EFF PROGRAM PERFORMANCE

38. Program performance for the fourth review was mixed (MEFP, Table 1). The controlling QPCs for the 4th review are the end-December 2024 QPCs. The authorities met the weekly QPC on the overdraft account at the CBE for end-December 2024, the QPC on NIR, and the continuous performance criteria on non-accumulation of external arrears by the general government.[6] However, they did not meet the QPC on CBE lending to government agencies, although subsequently the CBE received repayments of EGP 122.4 billion in January and EGP 32 billion in early February, which lowered the outstanding balance to the

[6] See also Information Annex.

target set for end-December 2024. They also will not meet the QPC for end-December 2024 on the primary balance due to the absence of divestment proceeds in the first half of the fiscal year, which are included in program definition of the primary balance target. As a corrective action, the authorities plan to apply 100 percent of the proceeds from anticipated FDI of US$3 billion in the current fiscal year toward debt reduction, which would significantly exceed the shortfall in the primary balance surplus of roughly EGP 88 billion (US$1.8 billion). Performance against four of the five end-June 2024 QPCs was already assessed at the time of the 3rd review as data became available ahead of Board consideration for that review. Of those four, three were met and a waiver was granted for the missed QPC on the overdraft facility based on corrective actions that the authorities took. Subsequently, the authorities met the end-June 2024 primary balance floor, as underperformance in tax revenue was offset by broad cut in spending. End-December inflation fell within the upper outer band.

39. Performance relative to the end-June, end-September, and end-December 2024 indicative targets (ITs) for the fourth review was mixed.

- **End-June 2024 ITs:** The authorities met the floor on social spending, the ceiling on the net change in guarantees, and the ceiling on budget sector debt, but did not meet the tax revenue target due to the higher-than-expected decline of contribution from the Suez Canal Authority and underperformance of excise revenue from tobacco and cigarettes nor the ceiling on public investment. As reported at the 3rd review, the IT on extending maturities was not met.

- **End-September 2024 ITs:** The authorities met the ITs on NIR, government balance in the CBE's overdraft account, tax revenue, social spending, guarantees, and the CBE's FX intervention rule and budget. The authorities did not meet the IT on the primary fiscal balance mainly due to a shortfall in divestment proceeds, which are included in the primary balance as defined under the program. Despite increasing the maturity from primary auctions in the previous quarter from 0.56 to 0.84 years, through shifting to floating and fixed 3-year bonds, the authorities narrowly missed the IT on the maturity of new domestic debt issuances. The IT on the balance on CBE lending to government agencies was missed but large repayment in January and February brought the balance below the September target (see above). For the MPCC, the authorities exceeded the upper inner band for end-September 2024 mainly due to the impact of successive rounds of administered price increases. Data on budget sector debt as of end-September 2024 is forthcoming.

- **End-December 2024 ITs:** The authorities missed by a small margin the IT on the maturity of new domestic issuances. The ITs on the CBE's FX intervention rule and budget were also met, as the authorities continue to refrain from intervening in the foreign exchange market. The data for assessing performance relative to the other end-December 2024 ITs is not available.

40. The authorities met eight of the seventeen structural benchmarks (MEFP, Table 2). The authorities met the SBs on the monthly publication of all public procurement contracts that exceed EGP 20 million (recurring SB), the publication of CAO's annual audit for FY2022/23, conducting stress tests of the banking sector, the classification of Economic Authorities (with the support of IMF TA), the assessment of the economic benefits of free zones, the recapitalization plan for the CBE, development of a package of indicators to track implementation of the SOP, and sustaining a flexible exchange rate regime and a liberalized FX system (recurring SB).

41. While a number of structural benchmarks were not met, the authorities made significant progress toward delivering on the objectives of these reforms; one has since been completed with a delay. The authorities published the latest household income and expenditure survey (end-July 2024 SB) in November 2024. Out of the three unmet recurring SBs, the authorities (i) published a basic aggregate report on state-owned enterprises, but the report did not cover all entities under the State Ownership Policy (SOP) as required by the recurring SB because the authorities do not have coverage of all stated-owned companies in the source database; (ii) published procurement awards made by state-owned enterprises and Economic Authorities, but the report only covered about 30 entities compared to the 50 entities required under the SB; and (iii) submitted a report on government payment arrears, but the report did not cover payment arrears to and from MOF with major economic authorities—the authorities are redoubling their efforts to satisfy the recurring SBs' requirements for subsequent reviews. And while the authorities did not meet the SB on the expansion of a customs "Green Lane" because some of the cargo in the "green lane" still requires a documentary check, the customs authority has made firm progress in automating risk-based selection of control channels and increased the numbers of whitelisted companies. Staff proposes to defer discussion on modification and rephasing of this SB to the next review to ensure that all steps required to achieve the international definition of a green lane are adequately captured in the future SB. For the remaining unmet SBs, the authorities requested to modify and convert two to prior actions and modify three others.

- ***Modify and convert to prior actions.*** The following SBs were modified and converted to prior actions: (i) submit to parliament amendments to the VAT law by end-November 2024, with a modification of the composition of the tax package, as this is critical to reach the program objective to increase tax revenue; and (ii) commission an independent assessment of policies, procedures, and controls of state-owned banks by an internationally recognized firm, with completion of the tendering process converted to a prior action, as this is critical to establishing a basis for measures to improve the operation of the financial system and transmission of monetary policy. The authorities have met the prior actions. The authorities submitted to Parliament on January 21, 2025, the final two elements of a tax package of structural measures that would yield about 0.9 percent of GDP on an annual basis. They also completed the tendering process to commission an independent assessment of policies, procedures, and controls of state-owned banks by an internationally recognized firm.

- ***Modify.*** The authorities requested to modify the SBs on the submission to parliament of amendments to the competition law and a CAO law because the submissions were delayed by the change in government. The authorities also requested to modify the timing of the selection process related to the SB on state-owned banks to allow time to adequately vet bidders once the tendering process is completed. Staff supports the authorities' requests.

PROGRAM DISCUSSIONS

The program objectives remain unchanged from program approval - preserving exchange rate flexibility and allowing it to be the first line of policy response to external shocks, bringing inflation down to the central bank's target, undertaking a revenue-led fiscal consolidation coupled with a comprehensive and cohesive multi-pronged debt management strategy to reduce debt and gross financing needs, containing fiscal risks, enhancing the institutional governance framework for state-owned banks, and implementing measures to advance the state-ownership policy, fiscal transparency, and leveling the playing field. The updated

Memorandum of Economic and Financial Polices (MEFP) reflects the authorities' commitment to these objectives.

A. Exchange Rate and Monetary Policies

42. **Metrics monitored under the program do not suggest the emergence of imbalances in the FX market, but the general stability of the exchange rate since unification, notwithstanding the sizable shocks to Egypt's economy, makes Egypt stand out as an outlier.** The CBE continues to report to staff zero foreign exchange backlogs at commercial banks, and has reiterated that the authorities do not have any measures limiting the availability of FX for current international transactions. The significant cumulative decline in commercial banks NFA positions raises concerns about building pressures, but the authorities have explained that part of the decline can be explained by payments of arrears and debt to foreign oil and gas companies of around US$2.7 billion. Staff analysis indicates that turnover in the interbank foreign exchange market is about 20 percent of overall current account flows (Text table 1); notably, since the Suez Canal Authority transfers all foreign currency proceeds from its operations directly to the CBE, the significant declines in FX inflows from disruptions in trade have not directly impacted the supply of FX in the interbank market. To better assess interbank market dynamics, the CBE has committed to a new reporting requirement, providing detailed daily data on individual transactions in the FX interbank market (See TMU).

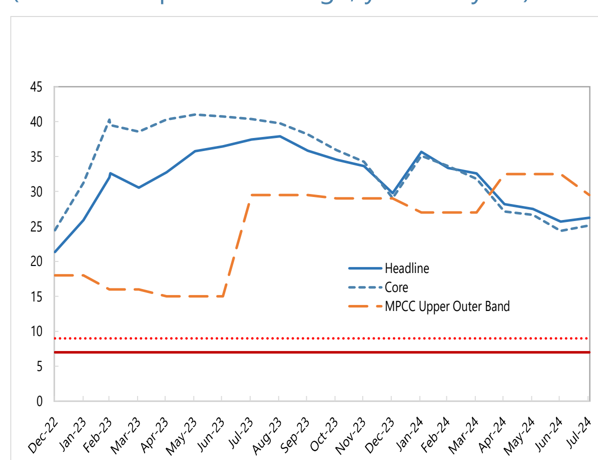
Text Table 1. Egypt: FX Turnover and CA Transactions
(USD billions)

	2022	2023	*2024q1*	*2024q2*	H1 2024	*2024q3*
Banks' Turnover	**44.3**	**11.1**	***10.3***	***7.9***	**18.3**	***10.2***
CBE net cashflow	**-9.8**	**-0.3**	***4.6***	***5.5***	**10.1**	***-1.2***
CBE inflow	52.6	31.3	*15.5*	*13.0*	28.5	*4.3*
CBE outflow	62.4	31.5	*10.9*	*7.5*	18.4	*5.5*
CA net	**-10.5**	**-12.6**	***-7.5***	***-3.7***	**-11.2**	**...**
CA "turnover"	221.3	192.3	*46.3*	*51.2*	97.5	...
CA receipts	105.4	89.9	*19.4*	*23.7*	43.2	...
CA payments	115.9	102.4	*26.9*	*27.5*	54.4	...

Sources: CBE; IMF staff calculations.

43. **Reducing inflation should be the CBE's top policy priority.** Following a significant hike in the policy rate in March, the CBE's Monetary Policy Committee (MPC) has kept rates unchanged since April 2024. Inflation has remained below the Monetary Policy Consultation Clause (MPCC) upper outer band since April (Figure 13). Significant further decline in inflation is expected, with the MPCC upper outer band set at 13 percent for end-December 2025, and convergence to single digits expected by the second half of 2026. CBE is also committed to do the full transition into the IT regime, starting with extending its forecast horizon to signal more credible commitments, and requesting technical assistance to modernize its macroeconomic framework and improve its forecasts. In addition, CBE is conducting an in-depth analysis into market forces in the food sector to

Figure 13. Egypt: Inflation and MPCC Bands
(Inflation in percent change, year-on-year)



Sources: CBE; and IMF staff calculations.

understand the drivers behind food inflation, particularly stickiness of food prices. To position the CBE for the transition to an IT regime, the authorities will also have to make substantial further progress on commitments under the program to reduce its exposure to government agencies, (3.5 percent of GDP at end-September 2024), to adhere to the ceiling on lending to the Treasury through its overdraft account, and support the gradual withdrawal of CBE subordinated loans to public banks.

B. Fiscal Policy and Debt Management

Budget and Fiscal Structural

44. The short-term fiscal consolidation path has been recalibrated in light of the difficult external conditions, as well as a challenging domestic economic environment. While the targeted primary surplus for the current fiscal year remains unchanged at 3.5 percent of GDP (excluding divestment proceeds) relative to the approved FY2024/25 budget, the primary surplus target (excluding divestment proceeds) has been adjusted downward to 4 percent of GDP next fiscal year (FY 2025/26), ½ percent of GDP less than earlier program commitments. This short-term recalibration seeks to ensure that fiscal consolidation provides some space to increase critical social programs in support of vulnerable groups and the middle class while ensuring debt sustainability (Annex II). In FY 2026/27, the primary surplus (excluding divestment proceeds) is then targeted increase to 5 percent of GDP (in line with previous program commitments).

45. The authorities have committed to support the consolidation process through a package of reforms to increase the tax-to-GDP revenue by two percent of GDP over the next two years.

- For FY2025/26, the authorities have proposed a package of tax reforms to yield 1 percent of GDP[7] (Text table 2), of which structural tax measures with yield of 0.9 percent of GDP on an annual basis will be submitted to parliament as a prior action. The tax package relies on three measures: (i) removal of exemptions and reduced rates under the VAT regime (0.62 percent of GDP), namely the removal of exemptions and reduced rates on construction, sale of non-residential property, crude oil, services of news agencies and advertisements and changes in excise tax rate on cigarettes; (ii) a withholding tax on freezone sales to the domestic market (0.10 percent of GDP), (iii) establishing a special tax regime for SMEs intended to reduce informality (0.15 percent of GDP). The rest of structural tax measures with yield of 0.1 percent of GDP include (i) revision of the disability law before end of current fiscal year and to be fully implemented in FY 2025/2026 to close existing loopholes to generate additional tax revenues from customs and VAT on imported cars (0.1 percent of GDP), and (ii) revision of the property tax law that allows for voluntary closure of old disputes, simplifying tax calculation and payment through use of digitalized platforms, and allowing for a partial rollout of updated valuations to be submitted to parliament by April 2025 with estimated yield around 0.05 percent of GDP.

- For FY2026/27, the authorities have committed to legislate additional structural tax measures for the FY2026/27 budget (*new structural benchmark*). Options under consideration include participating in

[7] This package is different from previous' estimation because the authorities included non-VAT tax measures.

the Organization of Economic Cooperation and Development's (OECD) Automatic Exchange of Information (AEOI), on which they advanced by completing the Peer Review on Information Exchange on Request of the OECD,[8] and further removal of VAT exemptions, which is key for tax equity.

46. With fiscal space created by increasing tax revenue and reducing untargeted energy subsidies, the authorities aim to improve social protection. The authorities plan to increase social protection and development spending by 0.5 percent of GDP by FY2026/27 through enhancing targeted cash transfers and allocating more resources to health and education. While the authorities broadened the coverage of the targeted cash transfer program (Takaful and Karama) to 5.2 million households or 21 million citizens in the past years, recent shocks have likely increased poverty and eroded purchasing power of households. The results of the latest household expenditure and income survey (HEICS), published in 2024 (*Structural Benchmark*), should guide further efforts to enhance the targeted cash transfer programs. They have committed to expand the coverage or size of payments under the Takaful and Karama program in FY2025/26 budget to ensure its total spending will be increased to 0.4 percent of GDP in FY2025/26 (*proposed new structural benchmark*). In addition to these programs, social assistance for purchasing essential foodstuff is provided through ration and bread cards. To enhance management efficiency of these programs, a new Social Solidarity and Cash Transfer law was approved in 2024 to pave the way for the consolidation of in-kind subsidy programs into cash transfer programs. Continued adjustment in retail fuel prices toward cost recovery by December 2025 should free up additional fiscal space for targeted assistance.

[8] Egypt is rated as partially compliant to the standard of transparency and exchange of information. The authorities plan to address the recommendations raised in the peer review report and provide a self-assessment report by 2026 to participate AEOI. According to the OECD's report, the total tax return filing rate for registered taxpayers, including legal entities, is low at 22 percent. To improve tax compliance, the authorities are moving towards digitalization of tax registration and E-filing and E-invoicing systems that will strengthen enforcement and supervision to ensure accounting records are in line with accounting standards and are available for at least five years.

Text Table 2. Egypt: Estimates of Tax Revenue from Tax Reform Package, FY2025/26

	Unit: EGP million	% of GDP
Free Zones Policy Reforms		
4% withholding tax on freezone companies' exports to the local market	13,784	0.07%
Informal Economy Policy Reforms		
SME's corporate tax	4,397	0.02%
SME's VAT	24,150	0.12%
Value Added Tax Policy Reforms		
Increase excise tax on cigarette by EGP1	4,200	0.02%
Increase cigarette price by EGP3 (excise tax)	8,800	0.04%
Increase in corporate tax revenue due to the tobacco price increase	2,000	0.01%
Remove exemption on crude oil, with VAT rate at 10%	42,418	0.21%
Remove exemptions on construction	54,783	0.27%
Remove VAT exemptions on non-residential units (administrative buildings)	10,792	0.05%
Remove exemptions on services of news agencies and exempted advertisements	5,044	0.03%
VAT and excise tax on imported cars for the disabled	9,072	0.05%
Other Policy Reforms		
Real estate tax	10,000	0.05%
Amend the disability law and impact on imported cars for the disabled in tariff	5,760	0.03%
Grand Total	**195,234**	**0.98%**
Memorandum items		
GDP	20,000,000	

Source: Egypt Ministry of Finance

47. The authorities are implementing other structural measures to support their fiscal goals. In particular:

- To improve public financial management and fiscal planning in line with the PFM law passed in 2022, beginning from FY2025/26, the authorities will aim to publish a medium-term budget with assistance from IMF TA. To this end, the authorities issued budget circulars to all budget sector entities in December 2024 with guidelines for preparation of the medium-term budget and the cabinet will approve the medium-term budget strategy by February 2025.

- The authorities have also drafted amendments to the law governing the Central Auditing Organization (CAO) that will require annual publication of CAO audits of general government fiscal accounts within six months following fiscal year end to parliament. However, the installation of a new government in July led to a delay in submitting the amendments to parliament. They now plan to submit it to parliament by end-February 2025 (*modified structural benchmark*). In the interim, to achieve the same transparency objectives, they published the CAO's annual audit on the budget sector FY2022/23 (*structural benchmark*).

48. The authorities are taking measures to better monitor and control public sector activity and fiscal risks in some areas.

- ***The authorities did not meet the indicative target on public investment for end June 2024 as noted above.*** More broadly, under the Prime Ministerial decree 739 of 2024 that established a framework for monitoring and controlling public investment, all public agencies are required to report to the Central Audit Agency (CAO) by end-March and end-September the implementation amounts and percentages relative to the pre-agreed targets. The CAO in turn is to submit a semiannual summary report to the Public Economic Governance Committee of the Cabinet reporting on performance for the relevant period. The first report is due in March 2025. The overall investment ceiling for FY2024/25 is EGP 1,000 billion. The tentative ceiling for FY2025/26 is EGP 1,158 billion, consistent with a zero real increase in public investment. Under the ceiling, the authorities plan to prioritize projects financed by concessional lending.

- ***The authorities completed a sector classification of the EAs*** in accordance with the concepts and principles in the Government Finance Statistics Manual (GFSM) 2014 *(existing structural benchmark*), supported by technical assistance from FAD/STA. Out of the recommended reclassification of 11 EAs into public corporations based on the concepts and principles in the GFSM 2014, the authorities applied the reclassification to just one EA, citing the roles the remaining EAs played in executing government functions and other concerns. While the effort to expand the coverage of statistics on the broader public sector operations is welcome, the lack of conformity with international standards could result in a misleading picture of Egypt's public finance, thus hampering data transparency and surveillance; IMF stands ready to provide a medium-term TA to support consolidating the economic authorities into the general government fiscal reporting to be in line with GFSM 2014 standards. In the short term, to further improve transparency over potential risks emanating from EAs, the authorities will publish a fiscal risk statement in conjunction with the annual Budget Statement for FY2025/26 including analysis of macroeconomic risks, with specific effort to provide quantified estimates. The risk statement will also report on the total amount of government guarantees and breakdown the total by entities that benefit materially from guarantees (*new structural benchmark*).

49. Other sources of fiscal risk, such as the national oil company (EGPC) and the National Urban Communities Authority (NUCA) both of which are EAs, require more active risk management. EGPC in particular poses a considerable fiscal risk. Government guarantees issued on behalf of EGPC are about 18 percent of GDP and domestic banks now require government guarantees on all loans to EGPC. EGPC arrears are reported to be US$3-4 billion. Production of oil and gas has fallen steadily since 2022 and EGPC now imports LNG on behalf of the government to help meet domestic natural gas needs. A key EGPC customer, the national electricity company faces difficulties in paying invoices from EGPC. To provide a clearer roadmap of plans for EGPC, the authorities committed to prepare a cabinet approved comprehensive plan to restore EGPC's financial health within a specified period and supported by an updated series of energy price increases (*new structural benchmark and MEFP ¶24*). For NUCA, as a first step toward managing potential risks, the cabinet has issued a decree instructing NUCA to freeze its short-term deposits held in the Treasury Single Account (TSA) worth about EGP 500 billion for 3 years including FY2024/25 or until instructed by the cabinet to treat otherwise. These deposits, on which the government will pay interest, offset reported government borrowing through the TSA.

Debt Management

50. The implementation of the authorities' commitment to gradually phase out nonmarket borrowing mechanisms has been mixed, with progress in some areas. As highlighted above (¶12), the authorities have recently relied relatively more heavily on weekly T-bill auctions, increased issuance of longer-term T-bills and medium-term 3-year bonds, and brought the use of the overdraft facility down to below the program ceiling since the end of March 2024 (amidst a few limited temporary breaches). The decline in short-term privately placed MoF notes that started in April has reversed since July mainly due to larger-than-average scheduled redemptions, despite efforts to broaden local investor participation in auctions through the implementation of the revised Primary Dealership mechanism for securities issuance. The authorities are pursuing an active debt management strategy to reduce GFNs by gradually extending the issuance maturity of domestic debt through auctions, monitorable through an indicative target. While the authorities have narrowly missed the end-September IT, they have gradually improved the yearly cumulative average time to maturity at issuance of government securities from 0.56 years in June 2024 to 0.84 years in September 2024. Staff will continue discussing with the MoF further measures to help improve the maturity structure of domestic debt, such as gradually increasing the issuance bias towards longer-dated bonds at the expense of shorter maturity T-bills and broadening the investor base.

51. The authorities have articulated plans to strengthen the broader public debt management function with comprehensive reforms along key structural and operational pillars. The authorities are cognizant that this would entail an interest cost premium in the short term in favor of medium-term capital markets savings. The main reforms include a revamped institutional and regulatory setup for the public debt management function in the form of a unified Debt Management Office (DMO), domestic debt market development (introducing new instruments like retail bonds and the revamped primary dealership system noted above that broadens access to market participants transparently), and improved debt reporting and investor relations. On debt reporting, the authorities plan to prepare and publish general government debt statistical bulletins and/or reports on a recurring (quarterly), timely, comprehensive basis covering all aspects of debt and borrowing starting with a first publication focused on central government debt in April 2025, with expanded scope in November 2025 onwards (*new recurring structural benchmark*). Recent technical assistance on Local Currency Bond Markets (LCBM) provided a broad diagnosis of the state of the local currency bond market in Egypt and can serve as the blueprint for future reform measures within the EFF timeline and beyond.

52. The authorities re-iterated the DMO's commitment to update and publish by December 2025 a medium-term debt management strategy. The plan will be for the document to articulate a multi-year borrowing strategy updated annually and anchored by a portfolio cost and risk management framework. The strategy document will include debt portfolio risk tolerance thresholds and operational targets, and will cover foreign and domestic debt, cutting across available and potential instruments and sources of financing. Additionally, the MoF is committed to improving debt reporting by including information on key domestic financing instruments for the central and general government in the current debt reporting framework (including auction results, private placements, and overdraft borrowing) (*new structural benchmark*).

C. Financial Sector Policies

53. The CBE's latest stress tests point to adequate capital and liquidity buffers under large, combined exchange rate and interest rate shocks. The CBE completed stress tests of the banking sector and shared detailed results with IMF staff using end-March 2024 data in time to satisfy the end-September deadline *(structural benchmark*); these tests were prepared in consultation with IMF staff, who provided guidance on how to improve design, calibration, and interpretation for current and future exercises. In parallel and using the same dataset to complement the CBE analysis, the mission team conducted internally its own bank-by-bank version of the stress tests, including credit risk, interest rate risk, and FX risk sensitivity analysis scenarios. Summary results show resilience overall to various severe shocks, albeit with pockets of vulnerabilities on credit risk, interest rate risk, and FX risk, including within systemic and state-owned banks, but also across a number of much smaller institutions. FX lending to the public sector remains a primary vulnerability area, in addition to sensitivity to credit events and to changes in net interest income patterns (given the oversized reliance of banks business model on net interest income from lending and government securities investment). Staff advised the CBE on using the findings as an anchor for any potential work plan for strengthening the banks stress testing toolkit and broader risk management framework, potentially including prudential revisions and informing the supervisory engagement.

54. Staff discussed with the authorities the status of reforms to continue strengthening governance practices and competition in the banking sector. The large presence of state-owned banks in the financial sector, their ties with the CBE, and the role they have played in monetary and exchange rate policy requires robust governance practices to safeguard financial health of the banking system, ensure a robust market-based transmission mechanism for monetary policy, and promote competition by levelling the playing field with private banks. The CBE issued new guidelines in July aimed at improving the composition and governance of bank boards, in line with recommendations from technical assistance from METAC.[9] The CBE is also currently in the process of commissioning an independent assessment of policies, procedures, and controls of state-owned banks (with CBE and IMF input and agreement on terms of reference) to an internationally recognized firm, with the tendering process to be completed as a prior action for Board consideration the fourth review and the selection process completed before end-February 2025 (*modified structural benchmark*).

[9] According to the CBE Circular, bank boards must now include a balanced mix of executives and non-executives, with a cap of three executives. At least two independent non-executive members are required and are expected to play a key role in supervising senior management. Non-executive members can serve a maximum of two terms, totaling six years, with a potential three-year extension subject to strong justifications and CBE approval.

D. Structural Reform Policies

55. The State-Ownership policy is the centerpiece of the structural reform agenda under the EFF arrangement. While the SOP envisages noteworthy reforms to improve the economic environment for the private sector, visible implementation of those reforms has been sporadic. The authorities have passed legislation to remove special tax exemptions for most SOEs and to give the competition authority (ECA) greater sway over merger and acquisition activity, created a centralized database of SOEs, and published a basic aggregate annual report on SOEs. They have also published annual updates on implementation of the SOP here and here. Moreover, the authorities proposed a package of four indicators to monitor implementation of the SOP, which met the related end-September 2024 structural benchmark. The proposed indicators are: changes in the share of private sector investment, credit, and employment to total investment, credit, and employment, respectively, as well as measuring the contribution of the private sector to growth. To provide more granularity to the package of indicators, the authorities agreed to establish an indicator related to divestment from entities present in the non-strategic sectors identified in the published SOP document (*new structural benchmark*). However, greater efforts are needed to effectively pursue longstanding commitments to divest (including from military-owned enterprises, see below), implement the legislated removal of SOE tax exemptions, which has not yet yielded material results including in tax collections, and enhance the independence of the ECA through legislation.

56. The authorities should step up efforts to reduce the state's footprint in the economy. The divestment plank of the SOP stalled in 2024 following some initial activity in 2023. The authorities announced 35 companies for sale in early 2023, but have only divested, in most cases partially, from 9 of them (See Figure 20). As one of the most visible signs of the authorities stated desire to rebalance Egypt's economic model more in favor of the private sector activity, the limited progress on divestment and the perception of an increasing role of the military in some economic activities (e.g. the acquisition of commercial land, purchase of private entities, and further development of commercial projects since the program commenced) needs to be corrected to signal a more decisive commitment to supporting private sector led growth. In addition, limited divestment to date relative to commitments at the time of program approval has reduced the resources available for debt reduction and program financing. For the current fiscal year, program projections for U.S. dollar inflows from divestment have been reduced to US$0.6 billion from US$3 billion at the completion of the 3rd review. The shortfall has been reprogrammed to the final two fiscal years covered under the program. In line with the reprogramming, the authorities announced in mid-December a list of SOEs (11 entities)[10], including 2 banks and 4 military-owned entities, they plan to divest through listings on the Egyptian Stock Exchange (EGX) in 2025. The announcement follows the listing of 30 percent of CBE shares in United Bank on the EGX in early December. The authorities have also agreed to a new structural benchmark on hiring investment advisors for a subset of the deals, the completion of which will signal concrete progress toward achieving their divestment goals.

[10] Out of the 11 announced entities, 8 were previously announced as part of the 35 companies in 2023. The newly added companies are Chemical Industries Development Company (CID), Chillout and Silo Foods.

57. Under the SOP, some progress is being made toward leveling the playing field. To highlight implementation of a key reform to improve fairness, the authorities have committed to publish a report that indicates the institutional changes and procedures established to secure collection of taxes from SOEs following the removal of tax privileges through Prime Minister Decree No. 242 of 2024 on the Implementing Regulations of Law No. 159 of 2023. The report will also include the amount collected for each type of special tax privilege (CIT, VAT, other) that was removed, and projected collections on these taxes in FY2025/26 (*new structural benchmark*). Another component of leveling the playing field is access to information on state-owned enterprise activities that is relevant for investor decision-making. The authorities have made some initial steps in this direction. The publication of an annual aggregate report in September on SOEs, while not meeting the associated *structural benchmark* because it did not include all the SOEs covered by the SOP, establishes a base on which future reports can improve with more granular information on SOEs financial health and governance structure and their presence in individual sectors for the benefit of policy makers and investors alike. The authorities plan to expand SOE coverage in subsequent annual reports as well. They also began publishing monthly reports on SOE procurement activities in September; however, the reports do not meet the recurring *structural benchmark* because the reports cover fewer than the 50 entities. The authorities are committed to increasing the number of entities included in the reports by the next review.

58. Strengthening the business climate is another important policy element of the SOP. The ECA has redrafted amendments to the competition law, which were initially submitted to Parliament in 2019, to align the independence of the ECA with the independence of other regulators with comparable mandates including the CBE and the Financial Regulatory Authority (FRA). The redraft also addresses constitutional concerns about ECA's ability to issue direct administrative sanctions. The amendments were reviewed through the United Nations Conference on Trade and Development peer review process and were circulated within the government. However, the formation of a new government in July delayed submission of the amendment to parliament and the related the *structural benchmark* has been modified to end-February 2025. Further improvements in customs clearance would be important and staff will discuss and support next steps needed to build on the authorities' progress and achieve the international definition of a green lane.

EXTENDED FUND FACILITY PROGRAM MODALITIES

59. The Fund-supported program is fully financed. The total financing needed to reach the revised NIR targets is US$11.4 billion and US$5.8 billion for FY2024/25 and FY2025/26, respectively, excluding IMF purchases (Table 11). The divestment strategy will continue to provide external financing, but with a more backloaded profile. Divestment related to program financing in FY2023/24 was US$2 billion, lower than programmed. The projected dollar inflows from asset sales are US$0.6 billion for FY2024/25 and US$3.0 billion in FY2025/26 and US$2.1 billion in FY2026/27. The latter are higher than at the third review to account for the shortfalls in FY2023/24 and FY2024/25 to maintain the overall divestment envelope the authorities agreed at program approval. The authorities have secured a firm financing commitment of about US$3 billion in the form of new FDI inflows this fiscal year. This will help maintain the expected contribution of non-debt creating financing flows in FY2024/25 to offset the divestment shortfall. More broadly, staff confirms that the authorities have secured firm financing commitments for the next 12 months. Relatedly, the EU disbursed EUR 1 billion in late December as part of a contemplated EUR 5 billion macro-financial assistance package The authorities also reconfirmed that assurances remain in place that US$18.3 billion of deposits from official GCC member creditors at the CBE will not be withdrawn until after the expiration of the EFF arrangement in October 2026 unless they are used for the purchase of equities, with the FX proceeds of such sales of equity expected to remain in CBE's foreign reserve assets. There are good prospects for the remainder of the arrangement to be fully financed including through further multilateral support such as from the EU, additional external issuances, and larger policy adjustments, if needed, provided the authorities' meet their divestment targets.

60. The authorities requested modifications of program conditionality to reflect recent developments and to maintain reform momentum. The authorities requested that the QPCs for end-June 2025 on NIR, the primary balance,[11] and the overdraft account at the CBE be modified in light of recent developments and new information. The revised QPC on NIR locks in the stronger reserve accumulation in FY2023/24. The changes to the QPC on the overdraft facility reflect the updated legal ceiling for the overdraft facility.[12] The authorities also requested to modify the latter QPC to clarify that is a periodic QPC that will be assessed semi-annually (on the relevant test date), based on data on their weekly performance. If any weekly ceiling is missed during the relevant semi-annual period, then this QPC will be assessed as not met. The authorities requested an elevation of the existing IT on tax revenues to an QPC for the 6th review to underline the importance of achieving the program objective to boost tax revenue under the program. Further, the authorities requested to convert the indicative target on tax revenue into a QPC and modify the definition of the indicative target on social spending to remove the interest payments as part of the social spending. The authorities requested a slightly revised definition of the issuance maturities IT for end-March 2025 onwards (removing the yearly cumulative element of the quarterly IT calculation). Staff supports the authorities' requests.

61. The authorities also requested modifications to structural benchmarks and staff propose modifications to the reporting requirements of the program. For existing structural benchmarks, the authorities requested the modification and conversion of two to prior actions, and modification of three others. The authorities also requested the inclusion of nine new structural benchmarks (See program performance section above and Table 2 in the MEFP). Staff supports the authorities' requests. Staff propose strengthening the reporting requirements related to the FX interbank market (See TMU).

62. Progress in addressing recommendations in the 2023 Safeguards assessment has been uneven. Following the 2023 safeguards assessment, the CBE has operationalized its ELA framework and expanded financial risk management to cover all its activities. However, other recommendations remain to be fully addressed, including the need to transition to full compliance with the Egyptian Accounting Standards (EAS), development of a program to reduce the CBE's existing claims on public sector agencies

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[11] The slight revision to the QPC on the budget sector's primary balance reflect changes in total revenue and expenditure due to somewhat higher exchange rate depreciation than was previously projected.

[12] The overdraft ceiling is set at the annual legal limit, which is 10 percent of the average of fiscal revenues for the previous three fiscal years.

(new structural benchmark), and other outstanding items. Staff is engaging with the authorities in these issues.

63. Capacity to repay the Fund is adequate but subject to risks and contingent on full program implementation and the materialization of all projected financing. Egypt is the Fund's third largest exposure in the General Resources Account and Egypt's total debt service to the Fund in terms of government revenues and exports of goods and services are above the 75th percentile of comparator countries (Annex VI). Fund obligations as a share of gross reserves and of exports stood at 25.4 percent and 21.8 percent, respectively, at the end of FY2023/24 (See Table 10 and Annex VI). However, credit outstanding under the GRA is expected to decline by about SDR 1.7 billion to SDR 8.6 billion at the end of the Fund-supported program. Egypt's stock of gross and net international reserves exceeds its obligations to the Fund, providing a buffer for repayments. Moreover, the composition of reserves has improved with the conversion of US$11 billion in UAE dollar deposits at the central bank into EGP-equivalent deposits. More generally, improvements in the fiscal and external positions are expected to ensure sustained market access—sovereign spreads have narrowed significantly since early 2024—and adequate capacity to repay.

64. Enterprise risks are significant. Risks stem from incomplete program implementation in a challenging economic and regional context, including unresolved structural reforms to reduce the state's footprint, and sustaining a permanent shift to a flexible exchange rate regime. Failure to implement structural reforms within the remainder of the program horizon could undermine long-term growth and fiscal and debt sustainability, despite near-term stabilization. Risks to analytical accuracy arise from missing or incomplete data and non-standard accounting treatments. Financial risks are heightened by Egypt's high debt levels, reliance on short-term domestic financing, ad-hoc equity financing, and significant exposure under the GRA. Mitigation efforts include strong multilateral and bilateral financial support, measures to protect vulnerable populations, targeted technical assistance, and phased reviews, but the most robust safeguards hinge critically on the authorities to build broad political and social support for implementation of the much-needed transformational policies to boost growth.

RSF—ADDRESSING CLIMATE CHANGE CHALLENGES

A. Background

65. Egypt is vulnerable to the impacts of climate change with key challenges coming from increased temperature and heat stress, rising sea levels and water scarcity, as well as the risk of droughts and floods. Egypt has a higher climate risk indicator relative to comparator emerging economies in the region (MENA) and world-wide, and an almost twice higher risk than advanced economies (Figure 1 in Annex X – Chart 1). Egypt's current susceptibility to climate hazard and exposure impose structural challenges that are likely to be further exacerbated by climate change. Absent adaptation, projections of average temperature and warms spells (Figure 1 in Annex X) will further worsen water scarcity, threaten food security, and displace populations, amongst others (see also Annex X).

66. While Egypt has relatively low per-capita emissions, its emissions are growing at a fast pace. While Egypt's greenhouse gas emissions only constituted 0.73 percent of global emissions in 2022,[13] its greenhouse gas emissions more than doubled since 1990 (Figure 1 in Annex X). In addition, its large population means it is the third largest emitter in the Middle East and North Africa region.[14] This underscores the importance of its participation in global mitigation efforts. Egypt's energy sector constitutes more than 70 percent of national greenhouse gas emissions. The country's energy supply relies predominantly on natural gas (58 percent) and oil (34 percent), with renewables playing only a small role at present. Reducing reliance on fossil fuel imports against the background of growing energy demand will be crucial to reverse Egypt's increasing deficit on the oil and gas trade balance (see Figure 19). The role played by natural gas in supporting export revenues also makes Egypt susceptible to transition risks (see related Climate SIP and Figure 15 - Chart 6).

67. To help support their mitigation and adaptation efforts, the authorities request an arrangement under the Resilience and Sustainability Facility (RSF), with access of SDR 1 billion (49 percent of quota).

B. RSF Matrix of Reform Measures

68. The RSF will reinforce Egypt's climate change agenda by providing an organizing framework that ensures progress towards climate objectives and supporting efforts to mobilize climate finance. The RSF is proposed to focus on ten measures across the following four reform areas. (MEFP Table 3):

- **Reform area 1: Accelerating Egypt's decarbonization.** An actionable decarbonization plan is needed to achieve the government's emission reduction objective as detailed in the updated NDC and other decarbonization pledges. For example, the government committed to produce around 30 percent of its power from renewable energy sources by 2030.[15] To achieve this goal, the government commits to increasing the uptake of renewable energy especially by helping level the playing field and encouraging private sector companies to engage in renewable energy generation and transmission in Egypt.[16] In addition, Egypt's mitigation agenda includes reducing methane emissions as the country joined the global methane pledge in 2022, with a global goal of reducing methane emissions by 30 percent by 2030, and targets a 65 percent reduction in

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[13] Greenhouse Gas Emissions | Climate Change Indicators Dashboard, Country Data | Climate Change Indicators Dashboard

[14] See Timilsina and Sebsibie (2024): https://documents1.worldbank.org/curated/en/099430006042429299/pdf/IDU13edd46ce13af614f4a1a76e193fcc82b1034.pdf

[15] The electricity generation mix as of 2022/2023 included 12.1 percent from renewable sources (Wind = 2.6%, Solar = 2.3%, Hydro = 7.2%). The revised government's renewable energy target is 29.7 percent for 2030 (Wind = 19.3%, Solar = 5.3%, Hydro = 5.1%).

[16] Recent research by IMF staff shows that countries that attract foreign direct investment (FDI) in the renewable energy sector typically have a broad and varied range of domestic climate policies aimed at the electricity sector. Critical policies include mechanisms that guarantee investors a stable revenue in the early stages, such as power purchase agreements, feed-in tariffs, renewable energy targets, and complementary infrastructure investments (see Jaumotte and others, 2024).

overall oil and gas production emissions as stated in the NDC. To this end, the authorities proposed two reform measures in this area:

- *Consistent with the 30 percent target for wind, solar, and hydropower electricity generation capacity by 2030, adopt and publish a schedule for the implementation of renewable energy until 2030.*
- *To reduce GHG emissions from hydrocarbons production, (i) implement a* monitoring, reporting, and verification *(MRV) system to track flaring, fugitive methane, and vented methane emissions at the operator or project level on a quarterly or annual level basis, and (ii) issue a decree mandating operating companies to submit and approve targets for reduction of oil and gas sector emissions in line with Egypt's NDCs and with fines for noncompliance after a grace period of 2 years.*

- **<u>Reform area 2:</u> Analyzing and reporting climate-related fiscal risks, strengthening the management of climate-related data and risks, and building resilience.** Egypt's susceptibility to climate hazards puts a premium on identifying the key risks and vulnerabilities and developing strategies to respond to hazards when they materialize. The authorities proposed three reform measures in this area:
  - *Publish a quantitative analysis of long-term climate-related fiscal risks and climate-sensitive contingent liabilities and describe how the government will manage these risks in the Fiscal Risk Statement starting with the 2026/27 Budget.*
  - *Strengthen disaster risk management capacity through adopting a national disaster risk financing strategy while integrating social assistance measures.*
  - *Establish the National Water Council through a Prime Ministerial decree, chaired by the Prime Minister and including key ministers and stakeholders from MALR, MWRI, MHUUC, MoE, MoPEDIC, which will: (1) oversee the generation, sharing, and publication of data on water demand and supply by sector/subsector/region and analysis to support informed decisions on water allocation by June 2026; (2) introduce a formal process to be defined in first review for water allocation among sectors/regions to manage conflicting demands on water resources at the policy and project planning stage, in line with best international practices, by August 2026.*

- **<u>Reform area 3:</u> Enhancing the resilience of the financial sector to climate shocks and supporting climate finance.** Given Egypt's multiple climate challenges and the need to implement ambitious adaptation and mitigation reforms as per their NDC, the authorities plan to continue our efforts to mobilize domestic and international climate finance. Meanwhile, the CBE will focus on strengthening the ability of the banking sector to analyze and manage climate-related financial risks, including through improving banks' data collection and reporting efforts. Going forward, it will be important for the authorities to maintain a clear separation between better managing climate-related financial risks and supporting the development of green finance, which require different policies and should involve different stakeholders. To this end, the authorities proposed three reform measures in this area:
  - *CBE to issue a directive mandating the banking sector to monitor and report data on their exposures to firms that may have material transition risks related to CBAM adoption.*

- *CBE to issue a binding regulatory framework to mandate Banks to adopt environmental and social risk management system (ESRMS) which will include a climate pillar, along with timeline for implementation. The binding regulations will include guidelines to the banks on the implementation of ESRMS.*
- *In accordance with Egypt's Country Platform for the Nexus of Water, Food, and Energy (NWFE), which is aligned with the National Climate Change Strategy 2050, authorities will add two new sub-projects, one on adaptation and one on mitigation. For each of the projects, pre-feasibility studies will be developed to attract private sector interest and funding; authorities will also build on the experience gathered so far to identify by end-2025 and adopt by June-2026 further measures to facilitate private investments in mitigation and adaptation projects.*

- **Reform area 4: Identifying, measuring, and disclosing the effects of investment plans, programs, and projects on national climate change targets.** In order to achieve this objective, it is critical for Egypt to address gaps in the framework for climate-sensitive public investment including gaps in appraisal and selection processes and in asset management. Adopting a planned MRV system will provide a platform for assessing whether projects are meeting their stated appraisal criteria, climate ambitions and objectives, and for drawing out lessons for the design of the next round of climate-sensitive projects. The authorities propose two reform measures in this area:
    - *Publish climate-change related criteria and processes for project selection and update and publish the project appraisal procedures with standardized climate mitigation and adaptation assumptions, and demonstrate that these criteria and processes have been applied to all new projects exceeding 500 million EGP.*
    - *Expand the existing asset registry pilot to include the Ministries of Transportation, Housing, Utilities and Urban Communities, focusing on large, fixed government assets; conduct internal analyses of location-specific climate risks on these assets within the registry; and prepare and publish a consolidated overview of climate risks across the asset portfolio, including a summary of the government's mitigation measures.*

69. Proposed RSF access. Egypt qualifies for RSF financing as a Group C country. The RSF-supported program would run concurrent with the remaining time under the EFF arrangement (see Table 12b). The authorities plan to use RSF resources for budget support. The proposed RSF access of SDR 1 billion (49 percent of quota), is below the norm of 75 percent of quota, but represents the maximum available under the RSF, given the nominal cap. Maximum access is justified by the strength and breadth of reforms, and capacity to repay the Fund. The proposed access would bolster Egypt's reserve buffers, thereby increasing its ability to confront prospective climate-related BOP pressures. The package of reform measures would accelerate Egypt's progress in addressing key adaptation, mitigation, and transition risks and opportunities. The RSF would also play an important coordinating the role with other IFIs, allowing a harmonized and well-sequenced approach to achieving climate goals. In addition, the RSF would seek to catalyze and encourage greater climate-related investments into Egypt, including through encouraging greater private sector participation as a result of clearer governmental commitments providing certainty for the private sector and improving the business environment. Egypt's updated NDC notes sizable investment needs to achieve Egypt's ambitions, with investments needed for mitigation estimated at US$196 billion, and for adaptation at US$50 billion.

C. Collaboration with the World Bank

70. Egypt is one of the pilot countries in WB-IMF enhanced collaboration on the RSF. The design of the matrix of reforms was done in strong collaboration with the World Bank, particularly on measures related to disaster risk management, water, electricity, and social protection. Text Table 3 details the RMs which build on input from the World Bank, mostly in adaptation and decarbonization, and how they complement existing prior actions in WB's DPO when applicable.

Text Table 3. Egypt: Enhanced Collaboration with World Bank

Reform Measure	Relevant WB Sectoral Teams	Collaboration with WB sectoral teams
Reform Area 1. Accelerating Egypt's decarbonization.		
RM6. Consistent with the 30 percent target for wind, solar, and hydropower generation capacity by 2030, the Cabinet to adopt and publish a schedule for the implementation of renewable energy until 2030.	Electricity Team	The total amount of GW needed for the renewable energy target by 2030 and the annual benchmarks could be informed by the least cost generation planning exercise being carried out by the WB due Spring 2025. Within the green transition pillar, this RM complements PA9 and TR9 which aim at improving the regulations governing the supply of renewable energy between private producers and consumers.
RM8. To reduce GHG emissions from hydrocarbons production, the Ministry of Petroleum will (i) implement an MRV system to track flaring, fugitive methane, and vented methane emissions at the operator or project level on a quarterly or annual level basis, and (ii) issue a decree mandating operating companies to submit and approve targets for reduction of oil and gas sector emissions in line with Egypt's NDCs and with fines for noncompliance after a grace period of 2 years.	Environment Team	This RM aligns with the measures advanced under the Egypt DPF to reduce GHG emissions from hydrocarbon production. WB can support these efforts through its ongoing engagement on the MRV system with the Ministry of Petroleum and the Ministry of Environment.
Reform Area 2. Analyzing and reporting climate-related fiscal risks, strengthening the management of climate-related data and risks, and building resilience.		
RM7. MoF to strengthen disaster risk management capacity through adopting a national disaster risk financing strategy while integrating social assistance measures in collaboration with the Ministry of Social Solidarity.	Disaster Risk Financing Team; Social Protection Team; Poverty Team	IMF staff has been in close discussion with WB Disaster Risk Financing Team. MoF had already asked WB to conduct a diagnostic on disaster risk financing. This RM will build on WB's work and have the government convert WB's recommendations into a governmental disaster risk finance strategy with clarifications on which department does which priority actions under which timeline.

Text Table 3. Egypt: Enhanced Collaboration with World Bank (concluded)		
Reform Measure	**Relevant WB Sectoral Teams**	**Collaboration with WB sectoral teams**
RM10. Authorities to establish the National Water Council through a Prime Ministerial decree, chaired by the Prime Minister and including key ministers and stakeholders from MALR, MWRI, MHUUC, MoE, MPEDoIC, which will: (1) oversee the generation, sharing, and publication of data on water demand and supply by sector/subsector/region and analysis to support informed decisions on water allocation by June 2026; (2) introduce a formal process to be defined in first review for water allocation among sectors/regions to manage conflicting demands on water resources at the policy and project planning stage, in line with best international practices, by August 2026.	Water Team	WB's engagement (SRSSP, the different analytics) is highlighting the importance to shift from supply management towards demand management. This includes a better monitoring of demand and the development of information systems and models to support decisions on water allocation. This reform measure is in line with WB's recommendations and would support the implementation and stronger integration of these important 'softer measures' into WB's engagement (including the new water analytical and advisory program (PASA) that the WB is about to start with the government).
Reform Area 3. Enhancing the resilience of the financial sector to climate shocks and supporting climate finance.		
RM6. CBE to issue a binding regulatory framework to mandate Banks to adopt environmental and social risk management system (ESRMS) which will include a climate pillar, along with timeline for implementation. The binding regulations will include guidelines to the banks on the implementation of ESRMS.	Climate Finance Team	WB has supported the CBE in achieving some reforms e.g. CBE now have established reporting at loan/exposure level for those loans/exposures that have a social or environmental dimension, which is a sub-set of what the supervisors will require for a more comprehensive oversight/supervision of banks' exposure to climate related risks and their management of these risks. This RM provides an opportunity for further reforms with the CBE on climate risks in the banking sector and the WB remains ready to support.

Figure 14. Egypt: RSF Matrix of Reforms

	RSF Approval Feb-25	RSF 1st Review Jun-25	RSF 2nd Review Dec-25	RSF 3rd Review Jun-26	Aug-26
Reform Area 1: Accelerate Egypt's decarbonization		**RM1** Consistent with the 30 percent target for wind, solar, and hydropower generation capacity by 2030, the Cabinet to adopt and publish a schedule for the implementation of renewable energy until 2030.			**RM8** To reduce GHG emissions from hydrocarbons production, the Ministry of Petroleum will (i) implement an MRV system to track flaring, fugitive methane, and vented methane emissions at the operator or project level on a quarterly or annual level basis, and (ii) issue a decree mandating operating companies to submit and approve targets for reduction of oil and gas sector emissions in line with Egypt's NDCs and with fines for noncompliance after a grace period of 2 years.
Reform Area 2: Strengthen the management of climate-related risks and build resilience				**RM5** MoF to publish a quantitative analysis of long-term climate-related fiscal risks and climate-sensitive contingent liabilities and describe how the government will manage these risks in the Fiscal Risk Statement starting with the 2026/27 Budget.	**RM7** MoF to strengthen disaster risk management capacity through adopting a national disaster risk financing strategy while integrating social assistance measures in collaboration with the Ministry of Social Solidarity.
					RM10. Authorities to establish the National Water Council through a Prime Ministerial decree, chaired by the Prime Minister and including key ministers and stakeholders from MALR, MWRI, MHUUC, MoE, MPEDoIC, which will: (1) oversee the generation, sharing, and publication of data on water demand and supply by sector/subsector/region and analysis to support informed decisions on water allocation by June 2026; (2) introduce a formal process to be defined in first review for water allocation among sectors/regions to manage conflicting demands on water resources at the policy and project planning stage, in line with best international practices, by August 2026.
Reform Area 3: Increase the capacity of the financial sector to identify climate-related risks and support green finance opportunities		**RM2** CBE to issue a directive mandating the banking sector to monitor and report data on their exposures to firms that may have material transition risks related to CBAM adoption.		**RM6** CBE to issue a binding regulatory framework to mandate Banks to adopt environmental and social risk management system (ESRMS) which will include a climate pillar, along with timeline for implementation. The binding regulations will include guidelines to the banks on the implementation of ESRMS.	
				RM9 In accordance with Egypt's Country Platform for the Nexus of Water, Food, and Energy (NWFE), which is aligned with the National Climate Change Strategy 2050, authorities will add two new sub-projects, one on adaptation and one on mitigation. For each of the projects, pre-feasibility studies will be developed to attract private sector interest and funding; authorities will also build on the experience gathered so far to identify by end-2025 and adopt by June-2026 further measures to facilitate private investments in mitigation and adaptation projects.	
Reform Area 4: Identify, measure, and disclose the effects of investment plans, programs, and projects on national climate change targets			**RM3** MoPEDIC to publish climate-change related criteria and processes for project selection and update and publish the project appraisal procedures with standardized climate mitigation and adaptation assumptions, and demonstrate that these criteria and processes have been applied to all new projects exceeding 500 million EGP.	**RM4** MoPEDIC to expand the existing asset registry pilot to include the Ministries of Transportation, Housing, Utilities and Urban Communities, focusing on large, fixed government assets; conduct internal analyses of location-specific climate risks on these assets within the registry; and prepare and publish a consolidated overview of climate risks across the asset portfolio, including a summary of the government's mitigation measures.	

Note: Dates reflect expected implementation dates.

STAFF APPRAISAL

71. Policy steps taken by the authorities early in 2024 to stabilize the economy and rebuild market confidence are yielding results, despite the difficult external environment. GDP growth has picked up and inflation is moderating, albeit slowly. Foreign exchange reserve buffers have been restored, with reserves now at adequate levels for flexible exchange rate systems. These improvements took place against a backdrop of spillovers from regional conflicts, with trade disruptions in the Red Sea materially lowering dollar inflows from the Suez Canal, fiscal revenues, and activity. Fiscal consolidation has also proceeded, with the government achieving its primary fiscal surplus (excluding divestment proceeds) of 2.5 percent of GDP in FY2023/24. Debt is on a downward trajectory, although debt levels, gross financing needs, and domestic rollover risks will likely remain high in the medium term. The external position in FY2023/24 is assessed as weaker than the level implied by medium-term fundamentals and desirable policies.

72. Nonetheless, to build resilience and spur more dynamic and inclusive growth, Egypt needs to transition to new macroeconomic, growth, and climate models. The macroeconomic model should be anchored on a flexible exchange rate, a robust inflation targeting regime with an independent central bank, and fiscal policies that support the creation of buffers to insure against shocks and provide sufficient room for development spending to foster inclusive growth. The new growth model should establish legal, regulatory, and competitive conditions that allow the private sector to become the primary driver of economic growth by significantly reducing the state's presence, including military entities, in the economy, leveling the economic playing field between private and state economic agents, allowing energy prices to reflect supply and demand forces, and creating a business and governance environment supportive of competitive markets. Meanwhile, the climate model should address Egypt’s growing adaptation and mitigation needs. The transition and related benefits will not be achieved without more decisive and forceful reforms.

73. Maintaining a liberalized foreign exchange system in the context of a flexible exchange rate regime is critical to avoid a buildup of external imbalances. Movements in the foreign exchange rate in response to supply and demand for foreign exchange would demonstrate to all stakeholders that “this time is different.” In addition, a flexible exchange supports development of a more robust export base by dampening the potential for misalignment of the exchange rate that undermines export competitiveness.

74. Domestic revenue mobilization is key to sustaining the necessary primary surplus. Egypt’s low tax revenue in absolute terms and relative to peers leaves Egypt with no fiscal space to respond to shocks and to meet priority development spending needs. Further efforts are needed to broaden the tax base by removing widespread exemptions, particularly within the VAT regime, streamlining tax incentives in the corporate income tax regime and improving tax administration to enhance tax compliance. Building public support around these reforms will be important to their success, and incidence analysis—particularly on VAT reform—should inform policies around compensatory redistributive social policies. The persistence of the trade disruptions in the Red Sea remains a critical near-term external risk to boosting revenues.

75. To ensure debt sustainability, Egypt must implement a comprehensive multi-pronged strategy to address high gross financing needs, significant domestic rollover risks, and elevated debt levels. Fiscal consolidation efforts have helped reduce debt, but broader efforts will be needed to complement the impact of fiscal consolidation on debt and reduce gross financing needs. These include designing and publishing an enhanced medium-term debt management strategy, implementing stricter control and transparency over off-budget investments and fiscal activities, accelerating divestment with proceeds earmarked for debt reduction, further deepening and developing the domestic debt market, broadening the base of market participants, further extending debt maturities, improving debt reporting, and strengthening investor relations.

76. Economic policies that establish the foundation for the organic development of a competitive and robust private sector would bring the investment, innovation, productivity gains and economic dynamism required to accommodate Egypt's growing population and better withstand external shocks. This would require, *inter alia*, consistent implementation of the State Ownership policy to guide the exit of the state from non-strategic sectors. In that respect, the current stalling of the divestment effort is regrettable, particularly given that this reform area could have significant growth payoffs. A visible re-start of this program would help guide private sector investment decisions. Other ongoing reform efforts in the area of trade facilitation will support a structurally stronger external position and a more dynamic economy. Efforts to crowd-in private investment to facilitate the green transition should be sustained through embedding mitigation and adaptation goals in macroeconomic policies, including energy pricing policies and public investment planning and prioritization.

77. The authorities are committed to implementing macro-critical climate reforms to enhance economic resilience. To this end, they have proposed a strong and comprehensive package of reforms and have requested support under the RSF to help implement those reforms. Staff supports the authorities' request for an arrangement under the RSF.

78. Staff also supports the authorities' request for completion of the fourth review under the EFF arrangement. The authorities have met the two prior actions for this review. Staff supports the authorities' requests for a waiver of non-observance of the end-December 2024 criterion on central bank lending to government agencies on the basis that the deviation was temporary - the central bank received sufficient repayments in January and early February to bring the stock of outstanding loans within the end-December 2024 target. Moreover, staff supports the request for a waiver of non-observance of the end-December 2024 QPC on the primary fiscal balance including divestment on the basis of the authorities' proposed corrective action – the authorities plan to apply 100 percent of the proceeds from an anticipated FDI of US$3 billion in the current fiscal year toward debt reduction. which would significantly exceed the shortfall in the primary balance surplus relative to the end-December 2024 target. While implementation risks are significant, they are mitigated by the authorities' commitment to the program.

79. It is proposed that the next Article IV consultation with Egypt be held on a 24-month cycle, in accordance with Executive Board decisions on consultation cycles.

Table 1. Egypt: Selected Macroeconomic Indicators, 2020/21–2029/30 1/

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices					(percent change)							
Real GDP	3.3	6.7	3.8	2.7	2.4	4.1	3.6	4.1	4.6	5.0	5.2	5.4
Consumer prices (end of period)	4.9	13.2	35.7	29.3	27.5	14.9	16.6	13.4	8.7	5.9	5.4	5.3
Consumer prices (period average)	4.5	8.5	24.4	33.7	33.3	21.2	22.4	15.3	10.7	7.1	5.6	5.3
Public finances 2/					(percent of GDP)							
Gross debt, general government 3/	89.9	88.5	95.9	90.5	90.9	82.8	86.8	83.6	80.3	76.9	73.3	69.0
External	19.0	19.5	25.1	26.1	27.3	21.3	24.0	21.3	19.2	16.6	14.8	13.3
Domestic	70.9	69.0	70.8	64.4	63.6	61.6	62.8	62.3	61.1	60.3	58.5	55.8
Gross debt, general government 4/	88.4	87.2	94.7	…	90.0	…	…	…	…	…	…	…
Budget sector 5/					(percent of GDP)							
Revenue and grants 9/	16.6	17.2	15.4	14.6	14.3	15.4	15.0	16.0	17.2	17.0	16.8	16.4
Expenditure (incl. net acquisition of financial assets)	23.7	23.3	21.4	21.7	17.9	24.6	25.5	24.9	23.6	21.2	19.4	18.0
Of which: Energy subsidies	0.3	0.8	1.3	1.5	1.2	1.2	0.9	0.7	0.6	0.6	0.6	0.5
Overall balance 6/	-7.1	-6.2	-6.0	-7.1	-3.6	-9.2	-10.6	-8.8	-6.4	-4.2	-2.7	-1.6
Overall balance, excl. grants 6/	-7.1	-6.2	-6.1	-7.1	-3.7	-9.2	-10.6	-8.9	-6.4	-4.2	-2.7	-1.6
Primary balance including divestment proceeds	1.4	1.3	1.6	6.2	6.2	4.5	4.4	4.4	5.2	5.0	5.0	5.0
Primary balance (incl. net acqusition of financial assets)			1.6	2.2	2.5	3.5	3.5	4.0	5.0	5.0	5.0	5.0
Monetary sector					(percent change)							
Credit to the private sector	20.5	24.3	25.4	33.9	27.8	28.0	28.0	18.0	18.0	23.1	24.1	25.1
Real credit to the private sector	14.0	18.5	10.9	-1.3	-5.8	-1.0	0.4	1.2	4.0	13.2	17.1	18.7
Reserve money	15.4	20.8	28.2	18.4	28.5	24.1	9.3	10.6	14.3	16.3	18.1	20.5
Broad money (M2)	18.0	23.5	24.7	32.1	28.8	21.5	15.9	17.4	14.8	15.9	17.6	19.7
Policy rate (end of period, in percent)	8.75	11.75	18.75		27.75		…	…	…	…	…	…
External sector				(percent of GDP, unless otherwise indicated)								
Exports of goods (in US$, percentage change)	8.7	53.1	-9.8	-17.7	-17.8	10.0	5.9	15.6	6.6	1.4	6.8	3.2
Imports of goods (in US$, percentage change)	12.6	23.4	-18.9	2.0	1.9	3.0	11.1	5.5	7.8	6.1	9.0	5.6
Merchandise trade balance	-9.9	-9.1	-7.9	-10.4	-10.3	-10.8	-12.9	-11.5	-11.3	-11.2	-11.1	-10.8
Current account	-4.4	-3.5	-1.2	-6.5	-5.4	-4.9	-5.8	-3.4	-3.0	-3.2	-3.3	-3.3
Capital and financial account (incl. errors and omissions)	4.1	1.4	1.0	9.2	7.0	4.7	3.2	3.2	3.1	4.0	4.4	4.3
Foreign direct investment (net, in billions of US$)	4.8	8.6	9.7	32.2	45.6	10.8	13.2	15.6	16.9	18.3	19.8	18.1
External debt 7/	32.6	32.8	41.8	37.9	39.9	40.7	46.1	46.6	43.3	39.4	36.3	34.0
Gross international reserves (in billions of US$)	39.4	31.5	32.8	43.8	44.3	47.2	44.9	49.2	53.7	56.8	62.6	69.9
In months of next year's imports of goods and services	6.8	3.5	5.1	7.7	6.8	7.2	6.2	6.2	6.2	5.9	6.0	5.8
In percent of short-term external debt 8/	93.5	96.0	101.8	74.7	84.3	81.4	88.2	91.9	99.6	101.2	107.8	116.2
Nominal GDP (in billions of Egyptian pounds)	6,663	7,843	10,156	13,862	13,903	17,673	17,643	21,262	24,666	27,802	30,936	34,452
Unemployment rate (period average, percent)	7.3	7.3	7.2	…	6.8	…	…	…	…	…	…	…
Population (in millions)	102.1	103.6	105.2	107.8	107.3	109.9	109.5	111.6	113.9	116.1	118.5	122.0

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/ As defined in the program.
4/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law for FY2020/21 and FY2021/22.
5/ Budget sector comprises central government, local governments, and some public corporations.
6/ Accrued interest expense is not included in the overall balance through FY2023/24 as per the authorities' presentation, while it is included in the overall balance from FY2024/25 onwards as in GFSM 2014.
7/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing.
8/ Debt at remaining maturity excluding stock of foreign holding of T-bills.
9/ In FY2023/24, a portion of the decrease in revenue and grants is related to lower self-financed investment projects. The financing associated with such projects is a component of non-tax revenue.

Table 2a. Egypt: Balance of Payments, 2020/21–2029/30

(In billions of US$, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-18.4	-16.6	-4.7	*-25.0*	-20.8	*-17.6*	-20.4	-13.3	-13.1	-15.2	-17.5	-19.5
Balance on goods and services	-36.9	-32.2	-9.2	*-22.1*	-25.2	*-19.8*	-33.0	-28.5	-30.1	-33.0	-35.5	-37.9
Exports of goods and services	44.7	70.8	74.2	*63.3*	62.8	*67.6*	62.7	73.8	81.7	87.5	96.4	103.0
Imports of goods and services	-81.6	-103.1	-83.4	*-85.4*	-88.0	*-87.4*	-95.7	-102.3	-111.8	-120.5	-131.9	-140.9
Trade balance	-42.1	-43.4	-31.2	*-39.6*	-39.6	*-38.5*	-45.7	-44.7	-48.7	-53.7	-59.5	-64.0
Oil and gas	0.0	4.4	0.4	*-5.5*	-7.6	*-1.3*	-9.8	-4.3	-3.0	-1.1	-1.2	-0.8
Other	-42.1	-47.8	-31.6	*-34.1*	-31.9	*-37.2*	-35.9	-40.5	-45.7	-52.6	-58.4	-63.2
Exports of goods	28.7	43.9	39.6	*32.6*	32.6	*35.9*	34.5	39.8	42.5	43.0	46.0	47.4
Oil and gas	8.6	18.0	13.8	*6.5*	5.7	*9.4*	4.8	9.3	9.2	8.9	8.6	9.2
Other	20.1	25.9	25.8	*26.2*	26.8	*26.5*	29.6	30.6	33.2	34.1	37.3	38.2
Imports of goods	-70.7	-87.3	-70.8	*-72.2*	-72.1	*-74.4*	-80.2	-84.6	-91.2	-96.8	-105.5	-111.5
Oil and gas	-8.6	-13.5	-13.4	*-12.0*	-13.4	*-10.7*	-14.7	-13.5	-12.3	-10.0	-9.8	-10.0
Other	-62.1	-73.8	-57.4	*-60.2*	-58.8	*-63.7*	-65.5	-71.0	-78.9	-86.7	-95.7	-101.4
Of which: from Ras El-Hekma	...	...	...	*0.0*	0.0	*-1.7*	-1.7	-3.3	-3.3	-3.3	-3.3	-2.5
Services (net)	5.1	11.2	21.9	*17.5*	14.4	*18.7*	12.7	16.2	18.7	20.7	24.0	26.1
Receipts	16.0	26.9	34.6	*30.7*	30.2	*31.8*	28.2	34.0	39.2	44.4	50.5	55.5
Of which: Tourism receipts	4.9	10.7	13.6	*14.2*	14.4	*14.3*	15.2	17.1	19.2	21.4	24.3	27.4
Of which: Suez canal receipts	5.9	7.0	8.8	*6.7*	6.6	*7.3*	3.6	6.3	8.2	9.9	11.5	11.9
Payments	-10.9	-15.8	-12.6	*-13.2*	-15.9	*-13.1*	-15.5	-17.8	-20.6	-23.7	-26.4	-29.4
Of which : Transportation	-1.8	-3.0	-2.8	*-3.0*	-3.3	*-3.2*	-3.7	-4.0	-4.4	-4.8	-5.3	-5.7
Of which: Travel	-2.7	-4.5	-5.0	*-5.1*	-5.1	*-4.3*	-4.1	-4.5	-6.0	-7.9	-8.8	-9.8
Primary income (net)	-12.4	-15.8	-17.3	*-24.4*	-17.5	*-22.2*	-19.1	-18.1	-17.8	-18.5	-20.0	-21.9
Receipts	0.6	1.0	2.1	*2.1*	1.9	*2.1*	2.2	2.1	2.4	2.7	3.0	3.3
Payments	-13.0	-16.8	-19.5	*-26.5*	-19.5	*-24.4*	-21.3	-20.2	-20.2	-21.2	-22.9	-25.2
Transfers	30.9	31.4	21.8	*21.5*	21.9	*24.5*	31.7	33.3	34.8	36.3	38.0	40.3
Official grants	-0.3	-0.3	-0.1	*0.1*	0.0	*0.1*	0.1	0.1	0.1	0.1	0.1	0.1
Private remittances	31.2	31.7	21.9	*21.5*	21.9	*24.4*	31.7	33.2	34.7	36.3	37.9	40.2
Capital and financial account	20.4	12.5	7.2	*33.8*	26.4	*16.6*	10.0	12.4	13.3	19.0	23.5	25.4
Capital account	-0.2	-0.1	-0.1	*0.0*	-0.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	20.5	12.6	7.3	*33.9*	26.5	*16.6*	10.0	12.4	13.3	19.0	23.5	25.4
Medium- and long-term loans and supplier credit (net)	3.5	2.2	2.4	*4.7*	1.2	*1.3*	1.0	1.8	0.3	1.1	3.1	3.9
Drawings	6.6	7.6	5.7	*8.2*	4.7	*7.6*	7.4	7.5	6.6	6.9	6.8	7.6
Amortization	3.1	5.5	3.3	*3.5*	3.5	*6.3*	6.4	5.7	6.3	5.8	3.7	3.7
FDI (net)	4.8	8.6	9.7	*32.2*	45.6	*10.8*	13.2	15.6	16.9	18.3	19.8	18.1
Of which Ras El-Hekma 1/	...	...	...	*24.0*	35.0	*5.0*	2.5	5.0	5.0	5.0	5.0	3.8
Portfolio investment (net)	18.0	-21.1	-4.1	*14.9*	14.3	*6.5*	1.4	3.5	3.2	5.3	5.9	8.1
Commercial banks' NFA	-3.5	13.5	5.2	*-16.1*	-20.4	*-0.1*	-1.4	-2.0	-2.0	-0.5	-0.4	0.1
Incurrance of CBE foreign liabilities 1/ 2/	-2.7	15.7	0.3	*-0.9*	-14.9	*-2.0*	-2.1	0.0	0.0	0.0	0.0	0.0
Short-term supplier credit	1.5	-2.9	0.0	*0.4*	7.2	*1.6*	2.4	-2.0	-0.6	-0.6	-0.4	-0.2
Other	-1.0	-3.3	-6.2	*-1.4*	-6.5	*-1.5*	-4.7	-4.6	-4.6	-4.6	-4.6	-4.6
Errors and omissions (net)	-3.1	-5.8	-3.3	*1.3*	0.6	*0.0*	1.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.1	-9.8	-0.8	*10.1*	6.2	*-0.9*	-9.2	-0.9	0.2	3.8	6.0	5.9
Financing	1.1	9.8	-2.2	*-18.6*	-14.1	*-9.2*	-5.4	-7.3	-6.2	-4.3	-6.5	-5.9
Reserves (w/o RSF; "-" indicates increase)	-1.9	10.5	-4.4	*-15.0*	-14.9	*-3.4*	0.5	-4.2	-4.5	-3.1	-5.5	-5.1
Other below the line adjustments 3/	0.0	0.0	3.5	*0.8*	5.2	*0.0*	-0.1	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources (excl. 2022 EFF)	3.0	-0.7	-1.3	*-4.5*	-4.4	*-5.8*	-5.8	-3.0	-1.7	-1.3	-1.0	-0.8
Other financing	0.0	0.0	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	3.0	*8.5*	7.9	*10.1*	14.6	8.2	6.1	0.6	0.5	0.0
Extended Fund Facility	0.0	0.0	0.3	*0.8*	0.8	*3.3*	3.3	2.4	1.2	0.0	0.0	0.0
Other prospective financing	0.0	0.0	2.6	*7.7*	7.1	*6.8*	11.4	5.8	4.9	0.6	0.5	0.0
Residual Gap	0.0	0.0	0.0	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
RSF disbursement	...	...	...	...	...	...	...	0.4	0.9	0.0	0.0	0.0
Change in reserves (with RSF; "-" indicates increase)	...	...	...	...	...	...	...	-4.6	-5.5	-3.1	-5.5	-5.1
Memorandum items:												
Current account excluding grants	-18.2	-16.3	-4.7	*-25.0*	-20.8	*-17.6*	-20.5	-13.4	-13.2	-15.3	-17.6	-19.6
Terms of trade (percent change)	1.6	10.6	1.8	*-1.8*	-1.6	*-0.6*	-0.2	-1.6	-0.5	-0.1	0.0	0.0
GIR & FX deposits in domestic banks (Excl. RSF) 4/	49.6	32.4	37.2	*52.2*	53.8	*55.6*	54.4	58.6	63.1	66.2	72.1	79.3
In months of next year's imports of G&S	6.8	3.5	5.1	*7.7*	6.8	*7.2*	6.2	6.2	6.2	5.9	6.0	5.8
In percent of ARA metric (floating)	79	65	79	*117*	107	*118*	112	112	113	112	112	113
GIR & FX deposits in domestic banks (with RSF) 4/	49.6	32.4	37.2	*52.2*	53.8	*55.6*	54.4	59.0	64.5	67.5	73.4	80.6
In percent of ARA metric (floating)	79	65	79	*117*	112	*118*	112	112	116	114	114	115
Tier 1 GIR (with RSF) 4/	39.4	31.5	32.8	*43.8*	44.3	*47.2*	44.9	49.6	55.0	58.1	64.0	71.2
External debt 4/	137.9	155.7	164.7	*144.9*	152.9	*145.4*	162.7	180.6	186.6	189.1	194.1	202.0
External debt service	15.4	24.5	24.7	*33.7*	33.6	*58.6*	48.0	46.6	45.0	46.6	48.2	49.9
External debt service (in percent of exports of GNFS)	34.5	34.6	33.2	*53.2*	53.5	*86.6*	76.6	63.1	55.1	53.2	50.0	48.4
Stock of external arrears 4/	0.0	0.0	0.0	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Real effective exchange rate (period avg, percent change)	2.1	2.2	-22.1	...	-16.3	...	...	...	...	...	...	...

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

1/ Includes USD 11 bn of UAE deposits converted in FY23/24.

2/ Includes foreign official creditors' deposits at the CBE and the 2021 SDR allocation.

3/ This line includes changes in gold valuation and a statistical correction for program purposes, eliminates transfers from Tier 1 to Tier 2 from errors and omissions.

4/ End of period.

Table 2b. Egypt: Balance of Payments, 2020/21–2029/30

(In percent of GDP, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-4.4	-3.5	-1.2	-6.5	-5.4	-4.9	-5.8	-3.4	-3.0	-3.2	-3.3	-3.3
Balance on goods and services	-8.7	-6.8	-2.3	-5.8	-6.6	-5.5	-9.3	-7.4	-7.0	-6.9	-6.6	-6.4
Exports of goods and services	10.6	14.9	18.8	16.6	16.4	18.9	17.7	19.1	18.9	18.2	18.1	17.3
Imports of goods and services	-19.3	-21.7	-21.2	-22.3	-23.0	-24.5	-27.1	-26.4	-25.9	-25.1	-24.7	-23.7
Trade balance	-9.9	-9.1	-7.9	-10.4	-10.3	-10.8	-12.9	-11.5	-11.3	-11.2	-11.1	-10.8
Oil and gas	0.0	0.9	0.1	-1.4	-2.0	-0.4	-2.8	-1.1	-0.7	-0.2	-0.2	-0.1
Other	-9.9	-10.1	-8.0	-8.9	-8.3	-10.4	-10.1	-10.4	-10.6	-11.0	-10.9	-10.6
Exports	6.8	9.2	10.1	8.5	8.5	10.0	9.8	10.3	9.8	9.0	8.6	8.0
Oil and gas	2.0	3.8	3.5	1.7	1.5	2.6	1.4	2.4	2.1	1.9	1.6	1.6
Other	4.7	5.5	6.6	6.8	7.0	7.4	8.4	7.9	7.7	7.1	7.0	6.4
Imports	-16.7	-18.4	-18.0	-18.9	-18.8	-20.8	-22.7	-21.8	-21.1	-20.2	-19.8	-18.7
Oil and gas	-2.0	-2.9	-3.4	-3.1	-3.5	-3.0	-4.1	-3.5	-2.8	-2.1	-1.8	-1.7
Other	-14.7	-15.5	-14.6	-15.8	-15.3	-17.8	-18.5	-18.3	-18.3	-18.1	-17.9	-17.1
Of which: from Ras El-Hekma ..	...	...	...	0.0	0.0	-0.5	-0.5	-0.9	-0.8	-0.7	-0.6	-0.4
Services (net)	1.2	2.3	5.6	4.6	3.7	5.2	3.6	4.2	4.3	4.3	4.5	4.4
Receipts	3.8	5.7	8.8	8.0	7.9	8.9	8.0	8.8	9.1	9.3	9.4	9.3
Of which: Tourism receipts	1.1	2.3	3.5	3.7	3.8	4.0	4.3	4.4	4.5	4.5	4.5	4.6
Of which: Suez canal dues	1.4	1.5	2.2	1.7	1.7	2.0	1.0	1.6	1.9	2.1	2.1	2.0
Payments	-2.6	-3.3	-3.2	-3.5	-4.1	-3.7	-4.4	-4.6	-4.8	-4.9	-4.9	-4.9
Of which: Transportation	-0.4	-0.6	-0.7	-0.8	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Of which: Travel	-0.6	-0.9	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2	-1.4	-1.6	-1.6	-1.6
Primary income (net)	-2.9	-3.3	-4.4	-6.4	-4.6	-6.2	-5.4	-4.7	-4.1	-3.9	-3.7	-3.7
Receipts	0.1	0.2	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Payments	-3.1	-3.5	-4.9	-6.9	-5.1	-6.8	-6.0	-5.2	-4.7	-4.4	-4.3	-4.2
Transfers	7.3	6.6	5.5	5.6	5.7	6.8	9.0	8.6	8.1	7.6	7.1	6.8
Official grants	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private remittances	7.4	6.7	5.6	5.6	5.7	6.8	9.0	8.6	8.0	7.6	7.1	6.8
Capital and financial account	4.8	2.6	1.8	8.8	6.9	4.7	2.8	3.2	3.1	4.0	4.4	4.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	4.9	2.7	1.8	8.9	6.9	4.7	2.8	3.2	3.1	4.0	4.4	4.3
Medium- and long-term loans and supplier credit (net)	0.8	0.5	0.6	1.2	0.3	0.4	0.3	0.5	0.1	0.2	0.6	0.7
Drawings	1.6	1.6	1.4	2.1	1.2	2.1	2.1	1.9	1.5	1.4	1.3	1.3
Amortization	0.7	1.1	0.8	0.9	0.9	1.8	1.8	1.5	1.5	1.2	0.7	0.6
FDI (net)	1.1	1.8	2.5	8.4	11.9	3.0	3.7	4.0	3.9	3.8	3.7	3.0
Of which: from Ras El-Hekma 1/	...	...	...	6.3	9.1	1.4	0.7	1.3	1.2	1.0	0.9	0.6
Portfolio investment (net)	4.3	-4.4	-1.0	3.9	3.7	1.8	0.4	0.9	0.7	1.1	1.1	1.4
Commercial banks' NFA	-0.8	2.8	1.3	-4.2	-5.3	0.0	-0.4	-0.5	-0.5	-0.1	-0.1	0.0
Incurrance of CBE foreign liabilities 1/ 2/	-0.6	3.3	0.1	-0.2	-3.9	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0
Short-term supplier credit	0.4	-0.6	0.0	0.1	1.9	0.4	0.7	-0.5	-0.1	-0.1	-0.1	0.0
Other	-0.2	-0.7	-1.6	-0.4	-1.7	-0.4	-1.3	-1.2	-1.1	-1.0	-0.9	-0.8
Errors and omissions (net)	-0.7	-1.2	-0.8	0.3	0.2	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.3	-2.1	-0.2	2.6	1.6	-0.3	-2.6	-0.2	0.0	0.8	1.1	1.0
Financing	0.3	2.1	-0.5	-4.9	-3.7	-2.6	-1.5	-1.9	-1.4	-0.9	-1.2	-1.0
Reserves (w/o RSF; "-" indicates increase)	-0.4	2.2	-1.1	-3.9	-3.9	-1.0	0.1	-1.1	-1.0	-0.6	-1.0	-0.9
Other below the line adjustments 3/	0.0	0.0	0.9	0.2	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources (excl. 2022 EFF)	0.7	-0.2	-0.3	-1.2	-1.2	-1.6	-1.6	-0.8	-0.4	-0.3	-0.2	-0.1
Other financing	0.0	0.0	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	0.8	2.2	2.1	2.8	4.1	2.1	1.4	0.1	0.1	0.0
Extended Fund Facility	0.0	0.0	0.1	0.2	0.2	0.9	0.9	0.6	0.3	0.0	0.0	0.0
Other prospective financing	0.0	0.0	0.7	2.0	1.9	1.9	3.2	1.5	1.1	0.1	0.1	0.0
Residual Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF disbursement	...	...	...	...	...	...	...	0.1	0.2	0.0	0.0	0.0
Change in reserves (with RSF; "-" indicates increase)							...	-1.2	-1.3	-0.6	-1.0	-0.9
Memorandum items:												
Current account excluding grants	-4.3	-3.4	-1.2	-6.5	-5.4	-4.9	-5.8	-3.5	-3.1	-3.2	-3.3	-3.3
External debt 4/	32.6	32.8	41.8	37.9	39.9	40.7	46.1	46.6	43.3	39.4	36.3	34.0
External debt service	3.6	5.2	6.3	8.8	8.8	16.4	13.6	12.0	10.4	9.7	9.0	8.4

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

1/ Includes USD 11 bn of UAE deposits converted in FY23/24.

2/ Includes foreign official creditors' deposits at the CBE and the 2021 SDR allocation.

3/ This line includes changes in gold valuation and a statistical correction for program purposes, eliminates transfers from Tier 1 to Tier 2 from errors and omissions.

4/ End of period.

Table 3a. Egypt: Budget Sector Operations, 2020/21–2029/30 1/

(In billions of Egyptian pounds, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	1,109	1,347	1,564	*2,025*	1,988	2,720	2,640	3,408	4,251	4,734	5,187	5,637
Tax revenue	834	990	1,259	*1,690*	1,630	2,237	2,184	2,829	3,573	3,975	4,340	4,708
Income and property	394	475	641	*882*	862	1,111	1,068	1,336	1,631	1,816	1,962	2,118
Personal income tax	124	152	194	*267*	285	363	371	458	532	599	667	743
Corporate income tax	198	234	322	*422*	398	505	425	540	705	857	956	1,043
EGPC	40	30	51	*72*	59	84	63	64	74	83	92	103
Suez Canal Authority	32	39	97		101		68	129	160	172	194	194
Other	125	165	175	*350*	238	421	294	347	472	602	670	746
Property	72	90	125	*193*	179	243	272	338	394	359	339	333
Tax on T-bill/T-bonds interests	57	75	108		157		245	295	345	303	277	264
Goods and services	385	454	556	*714*	683	992	948	1,293	1,560	1,730	1,903	2,071
International trade	36	43	59	*75*	75	106	114	142	164	183	202	214
Other taxes	19	18	2	*19*	10	27	27	27	68	77	86	96
Tax revenue from unidentified Measures	…	…	…	…	…	…	26	32	150	169	188	209
Nontax revenue 8/	272	352	300	*334*	352	479	453	575	673	754	840	922
Oil-related nontax revenue	18	29	35	*13*	11	11	8	9	11	12	14	15
Other nontax revenues	253	323	265	*320*	341	468	445	565	662	742	827	907
Grants	3	3	5	*2*	6	4	4	4	5	6	6	7
Expenditure	1,579	1,831	2,185	*3,569*	3,017	4,512	4,672	5,341	5,825	5,904	6,015	6,204
Wages and other remunerations	319	359	412	*499*	513	575	575	686	794	899	1,008	1,130
Purchases of goods and services	81	100	128	*138*	140	167	167	222	282	318	354	394
Interest 2/	565	585	774	*1,850*	1,363	2,413	2,647	2,811	2,856	2,559	2,374	2,289
Domestic 2/	518	528	666	*1,674*	1,174	2,146	2,341	2,505	2,533	2,230	2,036	1,938
External	48	56	108	*177*	189	267	306	306	323	330	338	351
Subsidies, grants, and social benefits	264	342	454	*615*	559	700	655	744	833	931	1,000	1,056
Energy subsidies	19	60	128	*206*	167	216	159	154	140	180	190	166
Of which: fuel subsidy	19	60	126	*204*	165	213	156	79	95	130	134	103
Food subsidies 3/	83	98	122	*135*	134	150	142	153	149	149	149	163
Transfer to SIF 4/	99	120	127	*135*	135	143	143	151	160	170	180	191
Other	63	65	77	*139*	123	191	212	286	384	432	481	536
Other current	100	115	127	*139*	144	162	162	218	268	302	336	375
Investment	249	330	289	*327*	299	496	466	660	791	893	942	960
Cash balance	-470	-484	-621	*-1,543*	-1,029	-1,792	-2,032	-1,933	-1,574	-1,169	-828	-567
Net acquisition of financial assets (including divestment pro	2	1	-11	*-549*	-526	-170	-167	-53	-7	0	0	0
Overall balance 2/	-472	-484	-610	*-989*	-503	-1,622	-1,865	-1,880	-1,567	-1,169	-828	-567
Financing	472	484	610	*989*	503	1,622	1,865	1,880	1,567	1,169	828	567
Net domestic	323	440	640	*1,217*	608	1,774	1,846	1,845	1,460	1,302	870	572
Net external	149	44	-30	*-229*	-105	-152	19	35	108	-133	-42	-6
Of which RSF financing							0	22	53	0	0	0
Memorandum items:												
Primary balance including divestment proceeds	93	100	164	*856*	860	791	782	931	1,289	1,390	1,547	1,723
Primary balance (including net acquisition of financial assets)			164	*307*	341	620	618	849	1,229	1,390	1,547	1,723
Domestic financing without RSF							1,846	1,867	1,513	1,302	870	572
Domestic financing with RSF							1,846	1,845	1,460	1,302	870	572
Divestment proceeds flowing to the budget			N.A.	*560*	519	177	165	82	60	0	0	0
of which: from Ras El-Hekma				*512*	510							
Gross budget sector debt 5/	6,086	7,183	9,981	*12,925*	12,827	15,147	15,474	17,804	19,611	20,881	21,814	22,486
Gross budget sector debt 6/	5,859	6,931	9,672	…	…	…	…	…	…	…	…	…
Net debt 7/	5,547	6,313	8,616	…	…	…	…	…	…	…	…	…
Nominal GDP (in billions of Egyptian pounds)	6,663	7,843	10,156	*13,859*	13,903	17,673	17,643	21,262	24,666	27,802	30,936	34,452

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/ Through FY2023/24, data is shown as per the authorities' presentation, whereby interest does not include accrued interest expense on T-bills and zero coupon bonds, which is instead included in non-deficit debt creating flows.

Beginning in FY2024/25, interest is defined as in GFSM 2014, and it includes accrued interest expense.

Accrued interest expense is not included in the overall balance through FY2023/24, while it is included in the overall balance beginning in FY2023/24.

3/ Food subsidies include subsidies paid to farmers.

4/ Increased transfers to the SIF starting in 2020/21 reflect impact of pension reform approved in 2019/20.

5/ As defined in the program.

6/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law.

7/ Difference between gross debt (authorities' financial statement basis) and budget sector deposits with commercial banks.

8/ /It includes resources of budget entities to finance their own capital investments. It is budget-neutral.

Table 3b. Egypt: Budget Sector Operations, 2020/21–2029/30 1/

(In percent of GDP)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	3rd review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants 8/	16.6	17.2	15.4	*14.6*	14.3	15.4	15.0	16.0	17.2	17.0	16.8	16.4
Tax revenue	12.5	12.6	12.4	*12.2*	11.7	12.7	12.4	13.3	14.5	14.3	14.0	13.7
Income and corporate tax	5.9	6.1	6.3	*6.4*	6.2	6.3	6.1	6.3	6.6	6.5	6.3	6.1
Personal income tax	1.9	1.9	1.9	*1.9*	2.0	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Corporate income tax	3.0	3.0	3.2	*3.0*	2.9	2.9	2.4	2.5	2.9	3.1	3.1	3.0
EGPC	0.6	0.4	0.5	*0.5*	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3
Suez Canal Authority	0.5	0.5	1.0		0.7		0.4	0.6	0.6	0.6	0.6	0.6
Other	1.9	2.1	1.7	*2.5*	1.7	2.4	1.7	1.6	1.9	2.2	2.2	2.2
Property	1.1	1.1	1.2	*1.4*	1.3	1.4	1.5	1.6	1.6	1.3	1.1	1.0
Tax on T-bill/T-bond interest	0.9	1.0	1.1		1.1		1.4	1.4	1.4	1.1	0.9	0.8
Goods and services	5.8	5.8	5.5	*5.2*	4.9	5.6	5.4	6.1	6.3	6.2	6.2	6.0
Oil excises	0.4	0.7	0.4	*0.3*	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
VAT and nonoil excises	5.4	5.1	5.1	*4.8*	4.7	5.3	5.2	5.9	6.1	6.0	5.9	5.8
International trade	0.5	0.6	0.6	*0.5*	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.6
Other taxes	0.3	0.2	0.0	*0.1*	0.1	0.2	0.2	0.1	0.3	0.3	0.3	0.3
Tax revenue from unidentified measures	…	…	…	*…*	…	…	0.2	0.2	0.6	0.6	0.6	0.6
Nontax revenue 8/	4.1	4.5	3.0	*2.4*	2.5	2.7	2.6	2.7	2.7	2.7	2.7	2.7
Oil-related nontax revenue	0.3	0.4	0.3	*0.1*	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax revenues	3.8	4.1	2.6	*2.3*	2.5	2.6	2.5	2.7	2.7	2.7	2.7	2.6
Grants	0.0	0.0	0.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	23.7	23.3	21.5	*25.7*	21.7	25.5	26.5	25.1	23.6	21.2	19.4	18.0
Wages and other remunerations	4.8	4.6	4.1	*3.6*	3.7	3.3	3.3	3.2	3.2	3.2	3.3	3.3
Purchases of goods and services	1.2	1.3	1.3	*1.0*	1.0	0.9	0.9	1.0	1.1	1.1	1.1	1.1
Interest 2/	8.5	7.5	7.6	*13.3*	9.8	13.7	15.0	13.2	11.6	9.2	7.7	6.6
Domestic 2/	7.8	6.7	6.6	*12.1*	8.4	12.1	13.3	11.8	10.3	8.0	6.6	5.6
External	0.7	0.7	1.1	*1.3*	1.4	1.5	1.7	1.4	1.3	1.2	1.1	1.0
Subsidies, grants and social benefits	4.0	4.4	4.5	*4.4*	4.0	4.0	3.7	3.5	3.4	3.3	3.2	3.1
Energy subsidies	0.3	0.8	1.3	*1.5*	1.2	1.2	0.9	0.7	0.6	0.6	0.6	0.5
Of which: fuel subsidy	0.3	0.8	1.2	*1.5*	1.2	1.2	0.9	0.4	0.4	0.5	0.4	0.3
Food subsidies 3/	1.2	1.2	1.2	*1.0*	1.0	0.8	0.8	0.7	0.6	0.5	0.5	0.5
Transfers to SIF 4/	1.5	1.5	1.3	*1.0*	1.0	0.8	0.8	0.7	0.6	0.6	0.6	0.6
Other	0.9	0.8	0.8	*1.0*	0.9	1.1	1.2	1.3	1.6	1.6	1.6	1.6
Other current	1.5	1.5	1.3	*1.0*	1.0	0.9	0.9	1.0	1.1	1.1	1.1	1.1
Investment	3.7	4.2	2.8	*2.4*	2.1	2.8	2.6	3.1	3.2	3.2	3.0	2.8
Cash balance	-7.1	-6.2	-6.1	*-11.1*	-7.4	-10.1	-11.5	-9.1	-6.4	-4.2	-2.7	-1.6
Net acquisition of financial assets (including divestment procee	0.0	0.0	-0.1	*-4.0*	-3.8	-1.0	-0.9	-0.3	0.0	0.0	0.0	0.0
Overall balance 2/	-7.1	-6.2	-6.0	*-7.1*	-3.6	-9.2	-10.6	-8.8	-6.4	-4.2	-2.7	-1.6
Financing	7.1	6.2	6.0	*7.1*	3.6	9.2	10.6	8.8	6.4	4.2	2.7	1.6
Net domestic	4.8	5.6	6.3	*8.8*	4.4	10.0	10.5	8.7	5.9	4.7	2.8	1.7
Net external	2.2	0.6	-0.3	*-1.7*	-0.8	-0.9	0.1	0.2	0.4	-0.5	-0.1	0.0
Of which RSF financing							0.0	0.1	0.2	0.0	0.0	0.0
Memorandum items:												
Primary balance including divestment proceeds	1.4	1.3	1.6	*6.2*	6.2	4.5	4.4	4.4	5.2	5.0	5.0	5.0
Primary balance(including net accquisition of financial assets)			1.6	*2.2*	2.5	3.5	3.5	4.0	5.0	5.0	5.0	5.0
Domestic financing without RSF							10.5	8.8	6.1	4.7	2.8	1.7
Domestic financing with RSF							10.5	8.7	5.9	4.7	2.8	1.7
Divestment proceeds flowing to the budget			0.0	*4.0*	3.7	1.0	0.9	0.4	0.2	0.0	0.0	0.0
of which: from Ras El-Hekma				*3.7*	3.7							
Gross budget sector debt 5/	91.3	91.6	98.3	*93.2*	92.3	85.7	87.7	83.7	79.5	75.1	70.5	65.3
Gross budget sector debt 6/	87.9	88.4	95.2	*…*	…	…	…	…	…	…	…	…
Net debt 7/	83.3	80.5	84.8	*…*	…	…	…	…	…	…	…	…

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/ Through FY2023/24, data is shown as per the authorities' presentation, whereby interest does not include accrued interest expense on T-bills and zero coupon bonds, which is instead included in non-deficit debt creating flows.

Beginning in FY2024/25, interest is defined as in GFSM 2014, and it includes accrued interest expense.

Accrued interest expense is not included in the overall balance through FY2023/24, while it is included in the overall balance beginning in FY2024/25.

3/ Food subsidies include subsidies paid to farmers.

4/ Increased transfers to the SIF starting in 2020/21 reflect impact of pension reform approved in 2019/20.

5/ As defined in the program.

6/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law.

7/ Difference between gross debt (authorities' financial statement basis) and budget sector deposits with commercial banks.

8/ It includes resources of budget entities to finance their own capital investments. It is budget-neutral.

Table 4. Egypt: General Government Operations, 2020/21–2029/30 1/

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	3rd review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(In billions of Egyptian pounds)								
Revenue and grants	1,239	1,506	1,724	*2,330*	2,199	3,109	2,905	3,727	4,621	5,151	5,651	6,154
Tax revenue	834	991	1,259	*1,690*	1,630	2,237	2,184	2,829	3,573	3,975	4,340	4,708
Income and property	394	475	641	*882*	862	1,111	1,068	1,336	1,631	1,816	1,962	2,118
Personal income tax	124	152	194	*267*	285	363	371	458	532	599	667	743
Corporate income tax	198	234	322	*422*	398	505	425	540	705	857	956	1,043
EGPC	40	30	51	*72*	59	84	63	64	74	83	92	103
Other	125	165	175	*350*	238	421	294	347	472	602	670	746
Goods and services	385	454	556	*714*	683	992	948	1,293	1,560	1,730	1,903	2,071
Oil excises	23	57	37	*43*	31	55	39	47	54	61	68	76
VAT and nonoil excises	362	397	519	*671*	652	937	909	1,246	1,506	1,669	1,835	1,995
International trade taxes	36	43	59	*75*	75	106	114	142	164	183	202	214
Other taxes	19	18	2	*19*	10	27	27	27	68	77	86	96
Nontax revenue	402	510	460	*639*	563	868	717	894	1,043	1,171	1,305	1,439
Of which: Interest income	20	68	31	*32*	47	36	55	62	68	74	81	87
Grants	3	4	5	*2*	6	4	4	4	5	6	6	7
Expenditure	1,702	1,956	2,310	*3,817*	3,188	4,851	5,053	5,878	6,510	6,712	6,942	7,270
Unidentified Spending Measures 2/	0	0	0	*0*	0	0	0	0	0	0	0	0
Wages and other remunerations	295	331	380	*461*	473	531	531	633	733	830	930	1,043
Purchases of goods and services	88	106	128	*139*	140	168	168	223	283	319	355	396
Interest 2/	555	555	724	*1,771*	1,274	2,300	2,579	2,786	2,873	2,604	2,445	2,392
Domestic interest 2/	507	499	616	*1,595*	1,085	2,033	2,272	2,480	2,550	2,275	2,107	2,041
External interest	48	56	108	*177*	189	267	306	306	323	330	338	351
Subsidies, grants, and social benefits	414	516	660	*980*	859	1,193	1,147	1,358	1,561	1,762	1,933	2,105
Other current	101	115	127	*140*	144	163	162	218	268	302	336	375
Investment	249	330	289	*327*	299	496	466	660	791	893	942	960
Net acquisition of financial assets	-4	24	-6	*-550*	-498	-165	-164	-51	-4	2	2	2
Overall balance 2/	-459	-475	-580	*-937*	-492	-1,577	-1,983	-2,100	-1,884	-1,563	-1,293	-1,118
Financing	459	475	580	*937*	492	1,577	1,983	2,100	1,884	1,563	1,293	1,118
Net domestic	310	431	610	*1,166*	597	1,729	1,964	2,066	1,777	1,696	1,336	1,124
Net external	149	44	-30	*-229*	-105	-152	19	35	108	-133	-42	-6
of which: RSF financing							0	22	53	0	0	0
				(In percent of GDP, unless otherwise indicated)								
Revenue and grants	18.6	19.2	17.0	*16.8*	15.8	17.6	16.5	17.5	18.7	18.5	18.3	17.9
Tax revenue	12.5	12.6	12.4	*12.2*	11.7	12.7	12.4	13.3	14.5	14.3	14.0	13.7
Nontax revenue	6.0	6.5	4.5	*4.6*	4.0	4.9	4.1	4.2	4.2	4.2	4.2	4.2
Grants	0.0	0.1	0.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	25.5	24.9	22.7	*27.5*	22.9	27.4	28.6	27.6	26.4	24.1	22.4	21.1
Wages and other remunerations	4.4	4.2	3.7	*3.3*	3.4	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Purchases of goods and services	1.3	1.4	1.3	*1.0*	1.0	0.9	0.9	1.0	1.1	1.1	1.1	1.1
Interest 2/	8.3	7.1	7.1	*12.8*	9.2	13.0	14.6	13.1	11.6	9.4	7.9	6.9
Subsidies, grants, and social benefits	6.2	6.6	6.5	*7.1*	6.2	6.8	6.5	6.4	6.3	6.3	6.2	6.1
Other current	1.5	1.5	1.3	*1.0*	1.0	0.9	0.9	1.0	1.1	1.1	1.1	1.1
Investment	3.7	4.2	2.8	*2.4*	2.1	2.8	2.6	3.1	3.2	3.2	3.0	2.8
Net acquisition of financial assets	-0.1	0.3	-0.1	*-4.0*	-3.6	-0.9	-0.9	-0.2	0.0	0.0	0.0	0.0
Financing	6.9	6.1	5.7	*6.8*	3.5	8.9	11.2	9.9	7.6	5.6	4.2	3.2
Net domestic	4.7	5.5	6.0	*8.4*	4.3	9.8	11.1	9.7	7.2	6.1	4.3	3.3
Net external	2.2	0.6	-0.3	*-1.7*	-0.8	-0.9	0.1	0.2	0.4	-0.5	-0.1	0.0
of which RSF financing							0.0	0.1	0.2	0.0	0.0	0.0
Memorandum items:												
Primary balance including divestment proceeds	1.4	1.0	1.4	*6.0*	5.6	4.1	3.4	3.2	4.0	3.7	3.7	3.7
Gross general government debt 3/	89.9	88.5	95.9	*90.5*	90.9	82.8	86.8	83.6	80.3	76.9	73.3	0.0
Gross general government debt 4/	88.4	87.2	94.7	…	90.0	…	…	…	…	…	…	…
Nominal GDP (in billions of EGP)	6,663	7,843	10,156	*13,862*	13,903	17,673	17,643	21,262	24,666	27,802	30,936	34,452

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Through FY2023/24, data is shown as per the authorities' presentation, whereby interest does not include accrued interest expense on T-bills and zero coupon bonds, which is instead included in non-deficit debt creating flows. Beginning in FY2024/25, interest is defined as in GFSM 2014, and it includes accrued interest expense. Accrued interest expense is not included in the overall balance through FY2023/24, while it is included in the overall balance beginning in FY2024/25.

3/ As defined in the program.

4/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law for FY2020/21 and FY2021/22.

Table 5. Egypt: Central Bank Accounts, 2020/21–2029/30

	2020/21	2021/22	2022/23	2023/24			2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(end-period, in billions of EGP, unless otherwise indicated)												
Net foreign assets	225	-153	-304	*840*	500	*1193*	650	935	1223	1400	1718	2012
Foreign assets	625	611	1046	*2305*	2162	*2670*	2373	2756	3087	3264	3581	3876
Foreign liabilities	400	764	1350	*1465*	1662	*1476*	1723	1821	1864	1864	1864	1864
Net domestic assets	762	1346	1834	*971*	1471	*1053*	1499	1441	1492	1757	2012	2482
Net domestic credit	493	449	420	*702*	506	*1010*	1172	1096	729	843	549	-162
Net credit to central government	758	1059	1413	*1536*	1979	*1636*	2038	2152	2214	2289	2359	2418
Net credit to public economic authoriti	-38	-58	-73	*-73*	-630	*-72*	-616	-616	-615	-615	-615	-614
Credit to banks	377	400	530	*806*	875	*863*	1017	1092	1169	1290	1372	1505
Banks' deposits in foreign currency	-135	-216	-508	*-674*	-601	*-729*	-672	-712	-730	-730	-730	-730
Open market operations	-469	-736	-942	*-893*	-1117	*-688*	-594	-820	-1308	-1391	-1837	-2741
Other items net	269	897	1414	*269*	965	*43*	327	345	763	914	1463	2644
o/w lending to government agencies 1/		515	765	*661*	658	*408*	408	308	208	108	0	0
Reserve money	988	1193	1529	*1810*	1965	*2246*	2149	2376	2715	3157	3729	4494
Currency in circulation	673	779	1009	*1182*	1227	*1479*	1310	1582	1916	2466	2912	3575
Reserves and highly liquid assets of banks	314	414	520	*628*	738	*767*	839	794	799	691	817	919
Cash in vaults	49	59	74	*74*	102	*74*	102	102	102	102	102	102
Reserves	265	355	446	*554*	636	*693*	737	692	697	589	715	817

Sources: Central Bank of Egypt; and IMF staff estimates and projections.
1/ Balance for FY 2022/23 is as of end-February 2023.

Table 6. Egypt: Monetary Survey, 2020/21–2029/30

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(End-period, in billions of EGP)								
Net foreign assets	252	-372	-834	788	632	1,142	869	1,281	1,693	1,902	2,243	2,534
Central bank	225	-153	-304	840	500	1,193	650	935	1,223	1,400	1,718	2,012
Commercial banks	26	-219	-530	-52	132	-51	220	346	470	502	526	522
Net domestic assets	5,105	6,987	9,082	10,111	9,990	12,101	11,438	13,168	14,891	17,317	20,360	24,522
Net claims on central and local government	3,164	3,971	5,075	6,059	5,913	7,414	7,286	8,715	9,816	10,819	11,509	11,976
Net claims on public economic authorities	353	452	765	1,157	1,268	1,591	1,726	1,924	1,911	2,454	3,236	4,273
Claims on public sector companies	149	155	165	191	370	208	393	416	429	514	622	759
Claims on private sector	1,752	2,178	2,732	3,660	3,493	4,683	4,469	5,273	6,222	7,656	9,499	11,879
Net other items	-313	231	345	-955	-1,053	-1,796	-2,437	-3,161	-3,487	-4,126	-4,505	-4,365
Broad money (M2)	5,357	6,614	8,248	10,899	10,622	13,243	12,307	14,449	16,584	19,219	22,603	27,056
Domestic currency component (M2D)	4,706	5,768	6,732	8,568	8,091	10,721	9,497	11,470	13,531	16,166	19,550	24,003
Currency outside banks	673	779	1,009	1,182	1,227	1,479	1,310	1,582	1,916	2,466	2,912	3,575
Domestic currency deposits	4,033	4,990	5,723	7,386	6,864	9,242	8,187	9,888	11,615	13,700	16,639	20,428
Foreign currency deposits	650	846	1,516	2,331	2,531	2,522	2,810	2,979	3,053	3,053	3,053	3,053
				(Annual percent change, unless otherwise indicated)								
Broad money (M2)	18.0	23.5	24.7	32.1	28.8	21.5	15.9	17.4	14.8	15.9	17.6	19.7
Domestic currency component (M2D)	21.5	22.6	16.7	27.3	20.2	25.1	17.4	20.8	18.0	19.5	20.9	22.8
Reserve money	15.4	20.8	28.2	18.4	28.5	24.1	9.3	10.6	14.3	16.3	18.1	20.5
Contribution to broad money growth	18.0	23.5	24.7	32.1	28.8	21.5	15.9	17.4	14.8	15.9	17.6	19.7
Net foreign assets	2.8	-11.6	-7.0	19.7	17.8	3.3	2.2	3.3	2.9	1.3	1.8	1.3
Net domestic assets	15.2	35.1	31.7	12.5	11.0	18.3	13.6	14.1	11.9	14.6	15.8	18.4
Credit to the private sector	20.5	24.3	25.4	33.9	27.8	28.0	28.0	18.0	18.0	23.1	24.1	25.1
Credit to government, public economic authorities and public sector companies	8.1	24.9	31.2	23.3	25.7	24.4	24.6	17.5	10.0	13.4	11.5	10.7
Memorandum items:												
Velocity												
Velocity GDP/M2D (level)	1.6	1.5	1.6	1.8	1.9	1.8	2.0	2.0	2.0	1.9	1.7	1.6
Velocity GDP/M2 (level)	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.5	1.4
M2 (in percent of GDP)	80.4	84.3	81.2	78.6	76.4	74.9	69.8	68.0	67.2	69.1	73.1	78.5
Money multiplier (M2D/reserve money)	4.8	4.8	4.4	4.7	4.1	4.8	4.4	4.8	5.0	5.1	5.2	5.3
Money multiplier (M2/reserve money)	5.4	5.5	5.4	6.0	5.4	5.9	5.7	6.1	6.1	6.1	6.1	6.0
M2 (in real terms)	11.7	17.7	10.2	-2.6	-5.1	-6.0	-9.1	0.7	1.2	6.6	11.0	13.6
Domestic currency deposits (in real terms)	16.7	17.9	1.4	-4.9	-11.6	-3.2	-6.4	3.5	3.6	8.5	14.7	16.5
Claims on private sector (in real terms)	14.0	18.5	10.9	-1.3	-5.8	-1.0	0.4	1.2	4.0	13.2	17.1	18.7
Foreign currency deposits (in percent of total deposits)	13.9	14.5	20.9	24.0	26.9	21.4	25.6	23.1	20.8	18.2	15.5	13.0

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

Table 7a. Egypt: Summary of National Accounts, 2020/21–2029/30

(In percent)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual change, in percent)												
Real GDP at market price 1/	3.3	6.7	3.8	*2.7*	2.4	*4.1*	3.6	4.1	4.6	5.0	5.2	5.4
Domestic demand (absorption)	4.8	5.4	-0.7	*5.5*	6.1	*3.8*	5.0	3.5	5.3	5.9	5.8	5.7
Private	4.9	7.2	-0.3	*7.6*	7.6	*4.5*	6.5	3.3	5.2	6.0	5.8	5.7
Public	4.8	-8.1	-6.9	*-13.7*	-6.0	*-5.5*	-10.5	6.0	6.7	5.5	5.9	6.1
Consumption	6.0	1.7	3.3	*8.4*	6.4	*4.4*	7.4	2.6	4.7	5.2	4.9	4.7
Private	6.3	3.8	3.8	*10.1*	7.4	*5.0*	8.5	2.3	4.5	5.2	4.9	4.6
Public	3.3	-17.3	-2.8	*-11.9*	-5.1	*-3.7*	-6.9	6.4	7.2	5.6	6.0	6.2
Investment	-2.4	30.5	-21.6	*-14.7*	4.0	*-1.9*	-12.3	11.3	10.0	11.0	11.9	12.8
Gross fixed capital formation	-2.5	33.5	-21.7	*-14.5*	4.3	*-3.9*	-9.6	10.1	10.5	11.1	12.0	13.1
Private	-26.6	35.6	-30.4	*0.4*	42.9	*15.0*	15.0	17.0	17.0	17.0	18.0	19.0
Public	12.0	32.7	-18.2	*-19.6*	-8.9	*-11.9*	-22.8	4.5	4.8	5.3	5.4	5.7
Net exports of goods and services 2/	-1.9	0.8	4.5	*-3.0*	-3.9	*0.2*	-1.7	0.3	-1.1	-1.3	-1.1	-0.8
Exports of goods and services	-14.5	51.7	31.4	*-7.0*	-8.5	*4.6*	3.6	12.1	6.6	3.9	6.8	5.2
Imports of goods and services	0.0	25.2	1.1	*7.7*	10.5	*2.9*	10.3	7.0	9.1	7.8	8.7	6.4
Real GDP at factor cost	2.0	6.2	3.6	*2.7*	2.3	*4.1*	3.6	4.1	4.6	5.0	5.2	5.4
Agriculture	3.8	4.0	4.1	*3.8*	3.8	*3.8*	3.6	3.6	3.6	3.6	3.6	4.6
Construction	6.8	7.0	5.2	*3.7*	5.7	*3.0*	3.8	4.0	7.5	11.0	13.0	14.0
Industry	-2.9	6.4	-2.2	*-1.7*	-4.2	*3.0*	4.0	3.0	3.1	3.3	3.4	3.5
Services	3.4	6.5	6.2	*5.2*	5.9	*4.6*	4.4	5.0	5.4	6.0	6.1	6.4
General government	4.9	4.4	3.2	*4.0*	4.1	*3.1*	3.1	3.1	3.1	3.1	3.1	3.1
Suez Canal	0.6	11.7	18.4	*-20.0*	-30.0	*20.0*	-17.5	8.0	8.0	10.0	10.0	10.0
(Contribution to real growth, in percent 3/)												
Real GDP at market price	3.3	6.7	3.8	*2.7*	2.4	*4.1*	3.6	4.1	4.6	5.0	5.2	5.4
Domestic demand (absorption)	5.1	5.9	-0.7	*5.6*	6.3	*4.0*	5.3	3.7	5.6	6.3	6.3	6.2
Private	3.8	4.6	1.4	*8.1*	7.4	*5.0*	7.5	3.1	4.9	5.7	5.6	5.5
Public	1.3	1.2	-2.2	*-2.5*	-1.1	*-1.0*	-2.2	0.6	0.7	0.6	0.7	0.7
Consumption	5.5	1.6	2.9	*7.5*	5.8	*4.2*	6.9	2.5	4.5	5.0	4.7	4.5
Private	5.1	3.3	3.1	*8.4*	6.1	*4.4*	7.3	2.1	4.0	4.6	4.3	4.1
Public	0.3	-1.6	-0.2	*-0.8*	-0.3	*-0.2*	-0.4	0.4	0.4	0.3	0.4	0.4
Investment	-0.4	4.2	-3.7	*-1.9*	0.5	*-0.2*	-1.6	1.2	1.2	1.4	1.6	1.8
Gross fixed capital formation	-0.3	4.1	-3.3	*-1.7*	0.5	*-0.4*	-1.1	1.0	1.1	1.3	1.5	1.7
Private	-1.3	1.2	-1.3	*0.0*	1.3	*0.4*	0.6	0.8	0.9	1.0	1.1	1.4
Public	1.0	2.8	-2.0	*-1.7*	-0.8	*-0.8*	-1.7	0.3	0.3	0.3	0.3	0.3
Net exports of goods and services	-1.9	0.8	4.5	*-3.0*	-3.9	*0.2*	-1.7	0.3	-1.1	-1.3	-1.1	-0.8
Exports of goods and services	-1.9	5.5	4.7	*-1.3*	-1.6	*0.8*	0.6	2.1	1.2	0.7	1.3	1.0
Imports of goods and services	0.0	-4.7	-0.2	*-1.6*	-2.2	*-0.6*	-2.4	-1.7	-2.3	-2.0	-2.4	-1.8
Real GDP at factor cost	2.0	6.2	3.6	*2.7*	2.3	*4.1*	3.6	4.1	4.6	5.0	5.2	5.4
Agriculture	0.4	0.5	0.5	*0.4*	0.4	*0.4*	0.4	0.4	0.4	0.4	0.4	0.5
Construction	0.5	0.5	0.4	*0.3*	0.4	*0.2*	0.3	0.3	0.6	0.9	1.0	1.1
Industry	-0.9	1.8	-0.6	*-0.4*	-1.1	*0.7*	1.0	0.7	0.7	0.8	0.8	0.8
Services	1.5	2.9	2.8	*2.5*	2.8	*2.2*	2.1	2.5	2.7	3.0	3.1	3.3
General government	0.3	0.3	0.2	*0.3*	0.3	*0.2*	0.2	0.2	0.2	0.2	0.2	0.2
Suez Canal	0.0	0.2	0.3	*-0.4*	-0.5	*0.3*	-0.2	0.1	0.1	0.1	0.1	0.1

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

1/ Historical real GDP growth reflects estimates based on the published revised nominal GDP.

2/ Contribution to growth.

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

Table 7b. Egypt: Summary of National Accounts, 2020/21–2029/30

(In percent of GDP)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	3rd review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In percent of nominal GDP)												
GDP at market price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand (absorption)	108.7	106.8	102.2	105.7	106.5	105.5	109.3	107.3	106.9	106.8	106.6	106.3
Private	91.7	88.7	86.9	93.1	92.6	94.4	98.0	95.9	95.4	95.3	95.0	94.7
Public	17.1	18.1	15.4	12.6	13.9	11.0	11.3	11.4	11.5	11.5	11.6	11.6
Consumption	93.6	89.8	89.4	94.7	93.8	94.6	98.0	95.4	94.8	94.6	94.0	94.4
Private	86.0	82.5	82.6	88.9	87.6	89.2	92.4	89.7	88.9	88.7	88.0	88.4
Public	7.6	7.3	6.8	5.9	6.3	5.4	5.6	5.7	5.9	5.9	5.9	5.9
Investment	15.2	17.0	12.9	11.0	12.7	10.9	11.3	11.9	12.1	12.3	12.6	11.9
Gross fixed capital formation	13.2	15.2	11.5	9.6	11.7	9.5	10.3	10.9	11.1	11.3	11.6	10.9
Private	3.7	4.4	2.9	2.9	4.1	3.9	4.6	5.3	5.4	5.6	6.0	5.3
Public	9.5	10.8	8.6	6.8	7.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Net exports of goods and services	-8.7	-6.8	-2.2	-5.7	-6.5	-5.5	-9.3	-7.3	-6.9	-6.8	-6.6	-6.3
Exports of goods and services	10.6	15.1	19.1	16.8	16.6	19.2	18.0	19.3	19.2	18.5	18.3	17.6
Imports of goods and services	-19.3	-21.9	-21.3	-22.5	-23.2	-24.6	-27.3	-26.6	-26.1	-25.3	-24.9	-23.9
Net factor income	-2.9	-3.3	-4.4	-6.4	-4.6	-6.2	-5.4	-4.7	-4.1	-3.9	-3.7	-3.7
Net remittances inflows	7.4	6.7	5.6	5.6	5.7	6.8	9.0	8.6	8.0	7.6	7.1	6.8
Net official transfers	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross National Disposable Income	104.4	103.3	101.1	99.2	101.2	100.6	103.6	103.9	103.9	103.7	103.4	103.1
National savings	10.8	13.5	11.7	4.5	7.2	6.0	5.5	8.5	9.1	9.1	9.3	8.6
Private	14.0	15.3	14.6	12.8	12.2	13.0	15.0	15.5	13.5	11.5	10.5	9.1
Public	-3.2	-1.7	-2.9	-8.4	-5.0	-7.1	-9.5	-7.0	-4.4	-2.4	-1.1	-0.5
Savings-investment balance	-4.4	-3.5	-1.2	-6.5	-5.4	-4.9	-5.8	-3.4	-3.0	-3.2	-3.3	-3.3
Private	10.3	10.9	11.7	9.9	8.1	9.2	10.4	10.2	8.1	5.9	4.5	3.8
Public	-12.7	-12.6	-11.5	-15.1	-12.6	-12.7	-15.2	-12.7	-10.1	-8.1	-6.8	-6.1
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	12.0	11.5	11.2	11.3	11.2	11.2	11.2	11.1	11.0	10.8	10.6	10.5
Construction	7.6	7.6	8.3	8.3	8.4	8.2	8.3	8.2	8.0	7.9	8.0	8.1
Industry	25.2	26.8	26.2	25.1	24.3	24.8	24.3	24.0	23.6	23.2	22.7	22.3
Services	46.8	46.0	46.1	47.5	48.5	47.7	48.9	49.5	50.3	51.0	51.6	52.2
General government	6.9	6.6	5.9	6.0	5.9	5.9	5.9	5.8	5.7	5.6	5.5	5.4
Suez Canal	1.5	1.5	2.4	1.9	1.7	2.2	1.3	1.4	1.4	1.5	1.5	1.6

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

Table 8. Egypt: Medium-Term Macroeconomic Framework, 2020/21–2029/30

(In percent of GDP, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
				3rd review	Actual	*3rd review*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Growth and prices												
Real GDP (annual change, in percent)	3.3	6.7	3.8	*2.7*	2.4	*4.1*	3.6	4.1	4.6	5.0	5.2	5.4
CPI inflation (end-of-period, in percent)	4.9	13.2	35.7	*29.3*	27.5	*14.9*	16.6	13.4	8.7	5.9	5.4	5.3
CPI inflation (average, in percent)	4.5	8.5	24.4	*33.7*	33.3	*21.2*	22.4	15.3	10.7	7.1	5.6	5.3
Unemployment rate (period average, in percent)	7.3	7.3	7.2	*…*	6.8	*…*	…	…	…	…	…	…
Savings-investment balance	-4.4	-3.5	-1.2	*-6.5*	-5.4	*-4.9*	-5.8	-3.4	-3.0	-3.2	-3.3	-3.3
Investment	13.2	15.2	11.5	*9.6*	11.7	*9.5*	10.3	10.9	11.1	11.3	11.6	10.9
Domestic savings	8.9	11.7	10.3	*3.1*	6.3	*4.6*	4.5	7.5	8.1	8.1	8.4	7.7
Public finances												
General government												
Revenue and grants	18.6	19.2	17.0	*16.8*	15.8	*17.6*	16.5	17.5	18.7	18.5	18.3	17.9
Expenditure and net acquisition of financial assets	25.5	25.3	22.7	*23.6*	19.4	*26.5*	27.7	27.4	26.4	24.1	22.4	21.1
Overall balance	-6.9	-6.0	-5.7	*-6.8*	-3.5	*-8.9*	-11.2	-9.9	-7.6	-5.6	-4.2	-3.2
Overall balance, excl. grants	-6.9	-6.1	-5.8	*-6.8*	-3.6	*-8.9*	-11.3	-9.9	-7.7	-5.6	-4.2	-3.3
Primary balance	1.4	1.0	1.4	*6.0*	5.6	*4.1*	3.4	3.2	4.0	3.7	3.7	3.7
Gross debt	89.9	88.5	95.9	*90.5*	90.9	*82.8*	86.8	83.6	80.3	76.9	73.3	69.0
Domestic	70.9	69.0	70.8	*64.4*	63.6	*61.6*	62.8	62.3	61.1	60.3	58.5	55.8
External	19.0	19.5	25.1	*26.1*	27.3	*21.3*	24.0	21.3	19.2	16.6	14.8	13.3
Budget sector												
Revenue and grants	16.6	17.2	15.4	*14.6*	14.3	*15.4*	15.0	16.0	17.2	17.0	16.8	16.4
Tax revenue	12.5	12.6	12.4	*12.2*	11.7	*12.7*	12.4	13.3	14.5	14.3	14.0	13.7
Non-tax revenue	4.1	4.5	3.0	*2.4*	2.5	*2.7*	2.6	2.7	2.7	2.7	2.7	2.7
Grants	0.0	0.0	0.1	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net acquisition of financial assets	23.7	23.3	21.4	*21.7*	17.9	*24.6*	25.5	24.9	23.6	21.2	19.4	18.0
Of which: Current	20.0	19.1	18.6	*19.4*	15.8	*21.8*	22.9	21.8	20.4	18.0	16.4	15.2
Capital	3.7	4.2	2.8	*2.4*	2.1	*2.8*	2.6	3.1	3.2	3.2	3.0	2.8
Overall budget balance	-7.1	-6.2	-6.0	*-7.1*	-3.6	*-9.2*	-10.6	-8.8	-6.4	-4.2	-2.7	-1.6
Overall budget balance, excl. grants	-7.1	-6.2	-6.1	*-7.1*	-3.7	*-9.2*	-10.6	-8.9	-6.4	-4.2	-2.7	-1.7
Primary budget balance including divestment proce	1.4	1.3	1.6	*6.2*	6.2	*4.5*	4.4	4.4	5.2	5.0	5.0	5.0
Balance of payments and external debt												
Current account	-4.4	-3.5	-1.2	*-6.5*	-5.4	*-4.9*	-5.8	-3.4	-3.0	-3.2	-3.3	-3.3
Trade balance	-9.9	-9.1	-7.9	*-10.4*	-10.3	*-10.8*	-12.9	-11.5	-11.3	-11.2	-11.1	-10.8
Oil and gas	0.0	0.9	0.1	*-1.4*	-2.0	*-0.4*	-2.8	-1.1	-0.7	-0.2	-0.2	-0.1
Other	-9.9	-10.1	-8.0	*-8.9*	-8.3	*-10.4*	-10.1	-10.4	-10.6	-11.0	-10.9	-10.6
Capital and financial account (incl. errors and omiss	4.1	1.4	1.0	*9.2*	7.0	*4.7*	3.2	3.2	3.1	4.0	4.4	4.3
Official reserves (in billions of US$)	39.4	31.5	32.8	*43.8*	44.3	*47.2*	44.9	49.2	53.7	56.8	62.6	69.9
(In months of next year's imports of goods and se	6.8	3.5	5.1	*7.7*	6.8	*7.2*	6.2	6.2	6.2	5.9	6.0	5.8
External debt (in percent of GDP)	32.6	32.8	41.8	*37.9*	39.9	*40.7*	46.1	46.6	43.3	39.4	36.3	34.0

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

Table 9. Egypt: Financial Soundness Indicators of the Banking System 1/

(Fiscal year end, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	end-Mar 2024	end-Jun 2024	end-Sep 2024
Capital adequacy												
Regulatory capital to risk-weighted assets	14.5	14.0	14.7	15.7	17.7	20.1	22.2	18.9	18.6	18.1	18.6	19.1
Common equity to risk-weighted assets	12.1	11.7	9.2	10.4	12.7	14.6	13.4	12.0	12.9	11.5	12.3	13.1
Asset quality												
NPLs to total loans	7.1	6.0	4.9	4.1	4.2	4.0	3.4	3.3	2.9	2.6	2.7	2.4
Loan provisions to non-performing loans	99.0	99.1	98.3	98.0	97.6	95.2	92.3	91.9	88.7	86.3	86.2	87.4
Profitability												
Return on assets	1.5	2.0	1.5	1.4	1.8	1.2	1.2	1.2	2.0	2.0	2.0	2.0
Return on average equity	24.4	30.9	21.5	19.2	23.4	14.9	16.1	16.1	32.2	32.2	32.2	32.2
Liquidity												
Average liquidity ratio												
Local currency	59.7	55.4	47.1	40.3	44.4	53.8	45.4	43.3	36.8	37.9	33.1	32.1
Foreign currency	52.0	60.2	66.4	67.7	67.7	71.5	67.9	77.9	67.5	79.3	83.6	77.7
Loans to deposits	40.9	47.0	46.0	46.2	46.7	46.4	48.3	48.0	53.3	59.9	60.3	61.3

Source: Central Bank of Egypt.

1/ Starting in 2021, the financial year ends on December 31 for the banking sector. Prior to that, the financial year ended on June 30 for public sector banks and December 31 for the rest of the banks.

Table 10. Egypt: Capacity to Repay the Fund 2022/23–2046/47 1/ 2/

	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	34/35	35/36	36/37	37/38	38/39	39/40	40/41	41/42	42/43	43/44	44/45	45/46	46/47
			Projection																						
Fund repurchases and charges 3/																									
Millions of SDRs	1,751.8	4,326.8	5,020.2	2,798.6	1,788.1	1,397.5	1,060.6	1,103.4	1,261.8	1,301.3	1,239.5	1,180.1	990.0	539.5	275.0	228.7	224.5	220.5	215.9	211.9	207.7	203.7	199.2	185.2	127.1
Repurchases	955.2	3,345.2	4,333.1	2,301.3	1,290.4	953.9	675.6	753.5	941.7	1,018.6	996.9	975.1	820.6	394.5	141.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	90.0	35.0
GRA	955.2	3,345.2	4,333.1	2,301.3	1,290.4	953.9	675.6	753.5	941.7	1,018.6	996.9	975.1	820.6	384.5	76.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	65.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	90.0	35.0
Charges and fees 4/ 6/	796.7	981.6	687.1	497.3	497.8	443.5	384.9	350.0	320.1	282.7	242.6	205.0	169.4	145.0	133.1	128.7	124.5	120.5	115.9	111.9	107.7	103.7	99.2	95.2	92.1
Millions of US$	2,339.7	5,760.9	6,659.3	3,706.6	2,369.5	1,852.7	1,406.8	1,464.3	1,674.4	1,726.9	1,644.9	1,566.1	1,313.8	715.9	365.0	303.4	297.9	292.6	286.5	281.2	275.6	270.4	264.3	245.8	168.6
Percent of exports of goods and nonfactor services	3.2	9.2	10.6	5.0	2.9	2.1	1.5	1.4	1.5	1.5	1.3	1.1	0.9	0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Percent of total debt service 5/	2.0	4.2	4.3	2.3	1.3	1.0	0.7	0.8	0.8	0.8	0.7	0.6	0.5	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Percent of quota	86.0	212.4	246.4	137.4	87.8	68.6	52.1	54.2	61.9	63.9	60.8	57.9	48.6	26.5	13.5	11.2	11.0	10.8	10.6	10.4	10.2	10.0	9.8	9.1	6.2
Percent of gross international reserves	6.3	10.7	12.2	6.3	3.7	2.7	1.9	1.8	2.0	1.9	1.7	1.5	1.2	0.6	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Percent of GDP	0.6	1.5	1.9	1.0	0.5	0.4	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of general government revenues	4.2	12.6	12.2	5.6	3.0	2.1	1.3	1.3	1.3	1.2	1.0	0.9	0.7	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Fund credit outstanding 3/																									
Millions of SDRs	13,017	10,290	8,420	8,265	8,597	7,643	6,968	6,214	5,273	4,254	3,257	2,282	1,461	1,067	925	825	725	625	525	425	325	225	125	35	0
GRA	13,017	10,290	8,420	7,965	7,597	6,643	5,968	5,214	4,273	3,254	2,257	1,282	461	77	0	0	0	0	0	0	0	0	0	0	0
RST	0	0	0	300	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	990	925	825	725	625	525	425	325	225	125	35	0
Millions of US$	17,330	13,672	11,150	10,949	11,396	10,143	9,256	8,263	7,011	5,657	4,331	3,035	1,943	1,419	1,230	1,097	964	831	698	565	432	299	166	47	0
Percent of exports of goods and nonfactor services	23.4	21.8	17.8	14.8	13.9	11.6	9.6	8.0	6.4	4.8	3.4	2.2	1.3	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0
Percent of quota	639.0	505.1	413.4	405.7	422.0	375.2	342.0	305.1	258.8	208.8	159.9	112.0	71.7	52.4	45.4	40.5	35.6	30.7	25.8	20.9	16.0	11.0	6.1	1.7	0.0
Percent of gross international reserves	46.6	25.4	20.5	18.6	17.7	15.0	12.6	10.2	8.2	6.2	4.5	2.9	1.8	1.2	1.0	0.8	0.7	0.6	0.4	0.3	0.2	0.2	0.1	0.0	0.0
Percent of GDP	4.4	3.6	3.2	2.8	2.6	2.1	1.7	1.4	1.1	0.8	0.6	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Percent of general government revenues	31.1	29.9	20.5	16.6	14.3	11.4	8.7	7.2	5.5	4.0	2.7	1.7	1.0	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Use of Fund credit																									
Purchases (Millions of SDRs)	261.1	618.1	2,463.9	2,145.7	1,622.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRA	261.1	618.1	2,463.9	1,845.7	922.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	300.0	700.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:																									
Exports of goods and nonfactor services (in millions of US$)	74,186	62,808	62,684	73,797	81,697	87,485	96,434	102,987	109,886	118,123	126,978	136,496	146,727	157,725	169,548	182,257	195,919	210,604	226,391	243,361	261,602	281,212	302,291	324,950	349,307
Total debt service (in millions of US$)	117,716	136,294	153,633	163,808	179,777	191,482	195,301	193,726	206,705	222,199	238,855	256,759	276,005	296,694	318,934	342,840	368,539	396,164	425,859	457,781	492,095	528,982	568,633	611,257	657,075
Quota (in millions of SDRs, end of period)	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1
Quota (in millions of US$)	2,712.1	2,706.6	2,697.5	2,698.6	2,700.3	2,703.3	2,706.1	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9	2,708.9
Fund repurchases and charges in percent of net international reserves	13.3	14.7	17.0	8.5	4.9	3.6	2.5	2.5	2.7	2.6	2.3	2.0	1.6	0.8	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Fund credit outstanding in percent of net international reserves	98.6	34.8	28.4	25.2	23.7	19.8	16.3	14.3	11.4	8.5	6.1	4.0	2.4	1.6	1.3	1.1	0.9	0.7	0.5	0.4	0.3	0.2	0.1	0.0	0.0
Gross international reserves (in millions of US$)	37,186	53,837	54,370	59,015	64,466	67,525	73,376	80,630	85,225	90,762	96,657	102,936	109,622	116,743	124,327	132,403	141,003	150,163	159,917	170,305	181,367	193,149	205,695	219,057	233,286

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/ Amounts reported reflect existing and prospective credit.
4/ SDR Service charges, GRA Commitment Fees-Other, SDR Assessments, SDR charges, RSF charges, and RSF service fees
5/ Debt service includes interest on the entire debt stock and amortization of medium- and long-term debt.
6/ Egypt is a Group C country for financing under the RSF.

Table 11. Egypt: External Financing Needs and Sources

(Billions of U.S. dollars)

	2022/23		2023/24		2024/25		2025/26		2026/27	
			3rd		*3rd*		*3rd*		*3rd*	
	Prog.		*review*		*review*	Proj.	*review*	Proj.	*review*	Proj.
External financing needs (A)	**21.5**	**11.3**	**39.8**	**54.6**	**32.9**	**43.2**	**25.9**	**30.4**	**25.9**	**27.5**
Current account deficit	12.6	4.7	25.0	20.8	17.6	20.4	16.0	13.3	16.6	13.1
Medium/long-term loan and supplier credit amortization 1/	6.0	-0.7	8.6	20.4	8.0	11.0	5.6	5.7	6.2	6.3
External bond amortization	…	…	…	2.6	…	1.4	…	3.7	…	1.8
Other sectors' investments	1.7	6.0	1.8	6.3	1.5	4.7	1.3	4.6	1.3	4.6
IMF repayments (2016-19 EFF, 2020 RFI, 2020-21 SBA)	1.3	1.3	4.5	4.4	5.8	5.8	3.1	3.0	1.7	1.7
External financing sources (B)	**21.4**	**12.5**	**44.2**	**55.8**	**26.2**	**27.1**	**24.1**	**26.4**	**26.0**	**25.9**
Foreign direct investment, net	9.7	9.7	32.2	45.6	10.8	13.2	14.9	15.6	16.4	16.9
Portfolio investment 7/	6.1	-4.1	14.9	16.9	6.5	2.8	5.0	7.3	6.2	5.0
Medium/long-term loan disbursements	6.8	5.7	8.2	4.7	7.6	7.4	6.7	7.5	6.7	6.6
CBE's change in foreign asset 2/	0.0	-0.2	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks' change in foreign assets 3/	-2.3	1.4	-11.8	-18.4	-0.3	1.2	-4.2	-2.0	-4.5	-2.0
Net short-term supplier credit	1.0	0.0	0.4	7.2	1.6	2.4	1.6	-2.0	1.2	-0.6
Capital account balance	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions (C) 4/	**0.0**	**0.1**	**2.1**	**5.8**	**0.0**	**1.0**	**0.0**	**0.0**	**0.0**	**0.0**
Incipient change in reserves (D=B-A+C)	**-0.1**	**1.4**	**6.5**	**7.0**	**-6.7**	**-15.1**	**-1.9**	**-4.0**	**0.2**	**-1.6**
Targeted change in reserves (w/o RSF; E)	**6.0**	**4.4**	**15.0**	**14.9**	**3.4**	**-0.5**	**3.3**	**4.2**	**4.0**	**4.5**
Financing gap (F=E-D) 6/	**6.1**	**3.0**	**8.5**	**7.9**	**10.1**	**14.6**	**5.2**	**8.2**	**3.8**	**6.1**
IMF, Extended Fund Facility	0.7	0.3	0.8	0.8	3.3	3.3	2.5	2.4	1.2	1.2
World Bank	1.1	0.4	0.3	0.0	0.7	0.7	0.6	0.8	0.6	1.0
AIIB	0.4	0.0	0.0	0.0	0.3	0.3	…	0.0	…	…
African Development Bank	0.3	0.3	0.2	0.0	0.0	0.0	…	0.0	…	…
Arab Monetary Fund	0.3	0.0	0.4	0.4	0.0	0.2	…	0.0	…	…
China Development Bank and others	1.0	0.0	1.0	1.0	0.0	2.0	…	0.0	…	…
Abu Dhabi Commerical Bank (ADCB)	0.0	1.0	0.0	0.0	0.0	1.8	…	0.0	…	…
UAE Central Bank	…	…	1.4	1.4	0.0	0.0	…	0.0	…	…
Sales of state-owned assets (including to GCC) 8/	2.0	0.0	2.8	2.0	3.6	3.6	0.9	3.0	0.4	2.1
New deposits at CBE (to be converted in divestment)	…	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 5/	…	0.0	1.2	2.4	2.5	2.2	1.2	2.0	1.6	1.8
Residual gap (E-D-F)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF disbursement (G)	…	…	…	…	…	…	…	0.4	…	0.9
Change in reserves (with RSF) (H=G+E)						…		4.6		5.5

Source: IMF staff calculations.

1/ Includes projected change in liabilitites of the CBE and commercial banks (repayments, reflected as +).

2/ Includes only changes in foreign assets of the CBE. Changes in foreign liabilities are reflected under external financing needs/medium and long-term credit amortization.

3/ Includes only changes in foreign assets of commercial banks. Changes in foreign liabilities are reflected under external financing needs/medium and long-term credit

4/ Errors and omissions include other below-the-line adjustments to ensure consisency with the program definition of reserves including foreign currency deposits in commercial banks, as well as change in gold valuations.

5/ "Other" comprises projected credit from France, Japan, United Kingdom, Libya, and the European Union.

6/ In FY2022/23 program column, the financing gap includes US$0.4 billion of an increase in Tier 2 reserves.

7/ Disbursement of external bonds and net inflow on non-resident holdings of T-bills.

8/ For FY24/25, includes US$ 3 bn in land sales.

Table 12a. Egypt: Schedule of Reviews and Purchases Under the Extended Fund Facility with Augmentation

Availability Date	Amount		Condition
	Millions of SDR	Percent of Quota	
December 16, 2022	261.13	12.8	Board approval of the EFF
March 15, 2023	261.13	12.8	First review and end-June 2023 quantitative targets 1/
March 15, 2024	356.98	17.5	Second review and end-June 2023 quantitative targets 1/
June 15, 2024	618.11	30.3	Third review and end-March 2024 quantitative targets
September 15, 2024	922.87	45.3	Fourth review and end-June 2024 quantitative targets
March 15, 2025	922.87	45.3	Fifth review and end-December 2024 quantitative targets
September 15, 2025	922.87	45.3	Sixth review and end-June 2025 quantitative targets
March 15, 2026	922.87	45.3	Seventh review and end-December 2025 quantitative targets
September 15, 2026	922.86	45.3	Eighth review and end-June 2026 quantitative targets
Total	6,111.69	300.0	
Memorandum items:			
Quota (SDR, million)	2,037.10		

Source: IMF staff calculations.

1/ First and second reviews were combined.

Table 12b. Egypt: Proposed Access and Phasing Under the Resilience and Sustainability Facility

Availability Date	Amount		Condition
	Millions of SDR	Percent of Quota	
February 2025	0.00	0.0	Board approval of the RSF
September 15, 2025	100.00	4.9	RSF first review (EFF sixth review) and reform measure 1
September 15, 2025	100.00	4.9	RSF first review (EFF sixth review) and reform measure 2
March 15, 2026	100.00	4.9	RSF second review (EFF seventh review) and reform measure 3
September 15, 2026	100.00	4.9	RSF third review (EFF eighth review) and reform measure 4
September 15, 2026	100.00	4.9	RSF third review (EFF eighth review) and reform measure 5
September 15, 2026	100.00	4.9	RSF third review (EFF eighth review) and reform measure 6
September 15, 2026	100.00	4.9	RSF third review (EFF eighth review) and reform measure 7
September 15, 2026	100.00	4.9	RSF third review (EFF eighth review) and reform measure 8
September 15, 2026	100.00	4.9	RSF third review (EFF eighth review) and reform measure 9
September 15, 2026	100.00	4.9	RSF third review (EFF eighth review) and reform measure 10
Total	1,000.00	49.00	
Memorandum items:			
Eligibility (SDR, millio	1,000.00		

Source: IMF staff calculations.

Table 13. Egypt: Decomposition of Public Debt and Debt Service by Creditor 1/

	Debt Stock (end of period)			Debt Service 2/					
	FY23/24			FY24/25	FY25/26	FY26/27	FY24/25	FY25/26	FY26/27
	(US$ billion)	*(Percent total debt)*	*(Percent GDP)*	*(US$ billion)*			*(Percent GDP)*		
Total budget sector debt	267.1	100.0	92.3	141.0	39.5	37.3	39.9	10.2	8.7
External budget sector debt	79.1	29.6	27.3	17.4	13.8	9.8	4.9	3.6	2.3
Multilateral creditors 3/	40.1	15.0	13.8	9.8	6.7	5.1	2.8	1.7	1.2
IMF	14.6	5.5	5.0						
World Bank	12.2	4.6	4.2						
AfDB	2.6	1.0	0.9						
Other Multilaterals	10.6	4.0	3.7						
Official bilateral creditors	7.6	2.9	2.6	0.4	0.4	0.4	0.1	0.1	0.1
External market financing	30.7	11.5	10.6	6.9	6.4	4.2	2.0	1.6	1.0
Rescheduled debt	0.7	0.3	0.2	0.3	0.3	0.1	0.1	0.1	0.0
Domestic budget sector debt	188.0	70.4	64.9	123.6	25.7	27.5	35.0	6.6	6.4
T-Bills and MOF notes	94.1	35.2	32.5	92.0	0.0	0.0	26.0	0.0	0.0
T-bonds, and Eurobonds held by residents	67.3	25.2	23.2	23.7	21.8	23.5	6.7	5.6	5.4
Nontradable domestic debt	26.6	10.0	9.2	7.9	3.9	4.0	2.2	1.0	0.9
Memo items:									
Nominal GDP	383.1	…	…	…	…	…	…	…	…

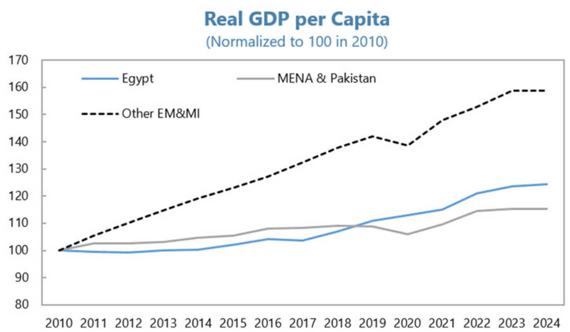
1/ Debt coverage in this table is for the budget sector. The main difference between this table and the debt perimeter in the SRDSF is the treatment of official creditor deposits at the central bank (this table does not include these while the SRDSF includes these). This table is based on the information provided by the authorities in Egyptian Pound, and IMF staff converted it to the US dollar. The information missing due to data availability will be collected in future program reviews.

2/ Debt service on existing debt at end-FY23/24.

3/ Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

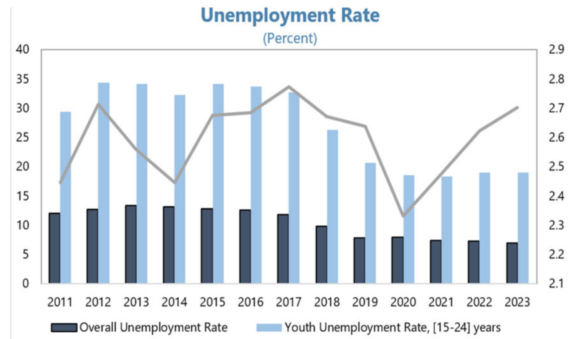
Figure 15. Egypt: Vulnerabilities

Egypt's state-led economic model is not generating enough growth to keep up with other Emerging Markets…



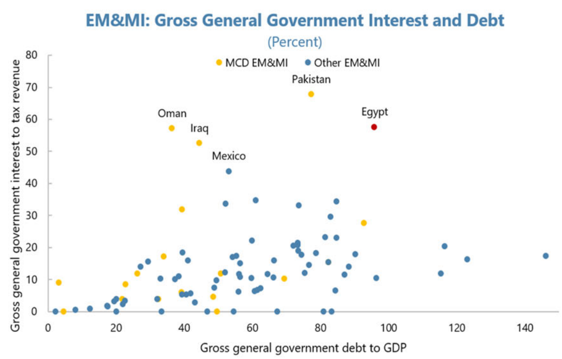
Source: IMF, World Economic Outlook database; and IMF staff calculations.

…or generate jobs for Egypt's youth, whose unemployment level is 2-3 times higher than the national average.



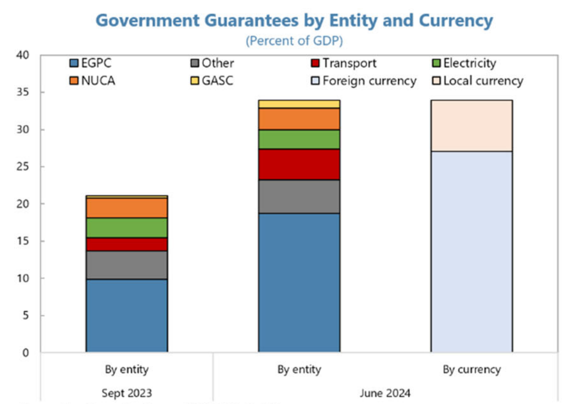
Source: World Bank, ILO and IMF staff calculations

At the same time, low tax revenue and elevated debt and debt service constrain fiscal space to support development…



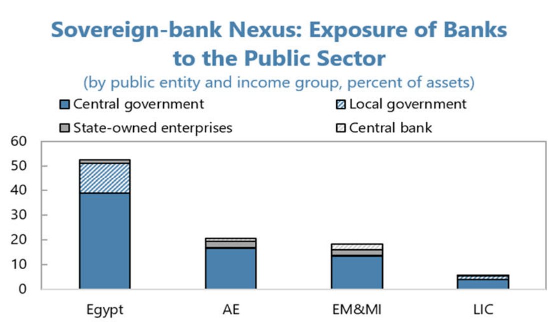
Source: IMF, World Economic Outlook Database; and IMF staff calculations.
Note: EM&MI = emerging market and middle-income economies; MCD = Middle East and Central Asia.

…fiscal risks stemming from government guarantees of off-budget entities also are generating fiscal pressures.



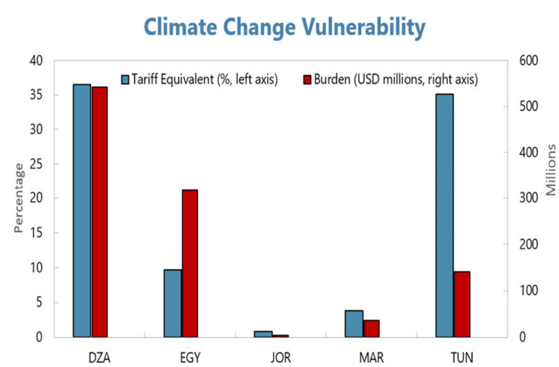
Source: Egyptian authorities; and IMF staff calculations.

The government's approach toward debt has left Egypt with a sovereign-bank nexus that is one of the highest in the world.



Sources: Egyptian authorities; IMF, World Economic Outlook Database; and IMF staff calculations.
Note: AE = advanced economies; EM&MI = emerging markets and middle-income economies; LIC = low-income countries

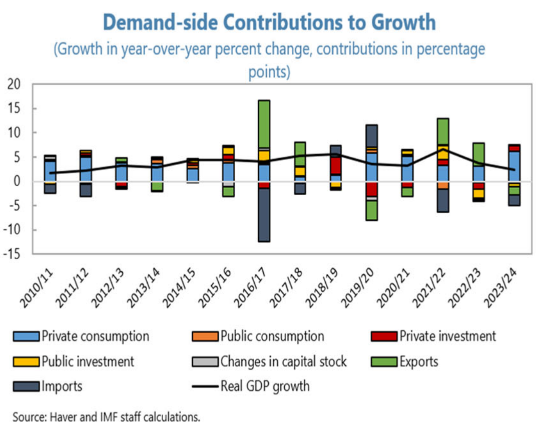
Moreover, Egypt's export base is vulnerable to global efforts to mitigate climate change.



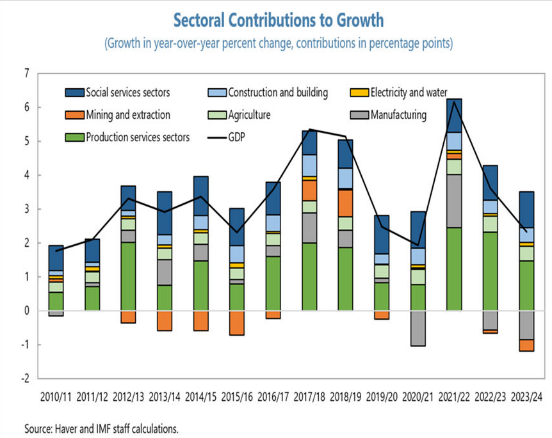
Source: bdou, M., Dudu, H., Gerling, K., Kaddisi, D., 2025, Carbon Costs: Exposure of the Middle East and Central Asia to the EU's Carbon Border Adjustment Mechanism, IMF Working paper (forthcoming)

Figure 16. Egypt: Real Sector, Labor Market, and Inequality

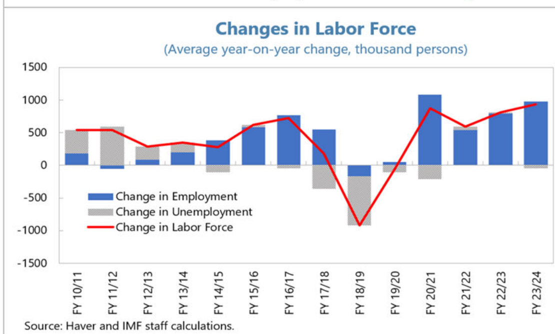
Real GDP growth declined in the last two years, with private investment a drag on growth…



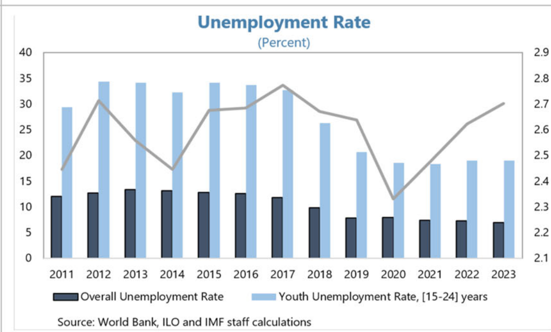
…mirroring the negative contributions to growth from manufacturing and mining.



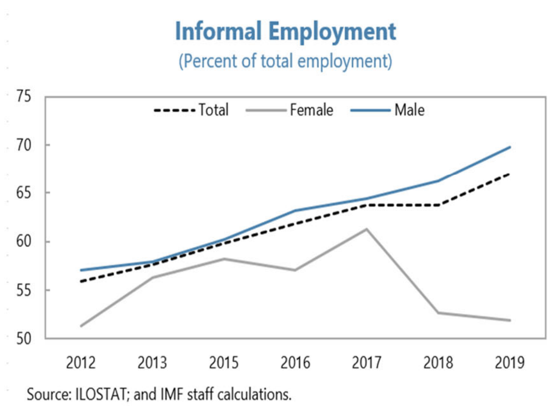
The total number of people entering the labor force annually has increased with increases in employment levels recently…



…but youth unemployment remains elevated, roughly 2-3 times higher than the overall unemployment rate….



… and informal employment remains a "safety valve" for many.



Inequality remains a concern.

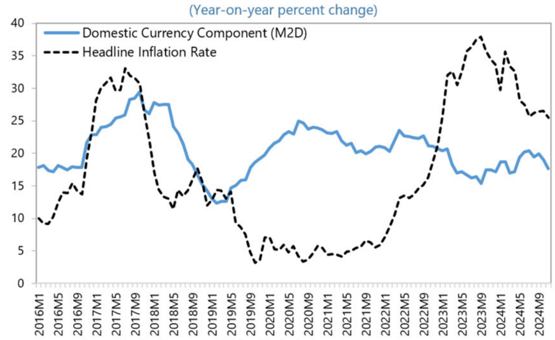
Figure 17. Egypt: Monetary and Financial Sector

Inflation increased to record levels this year following expansions in money supply and depreciation of the currency.

The warranted tightening of monetary policy is reflected in the contraction of Central Bank's assets in FY23/24.

Money Supply and Inflation

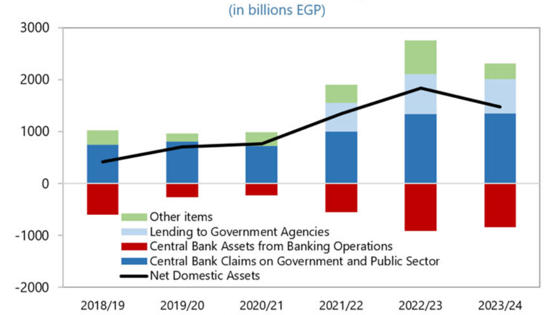
(Year-on-year percent change)



Source: Central Bank of Egypt and IMF staff calculations.

Central Bank's Assets Composition

(in billions EGP)



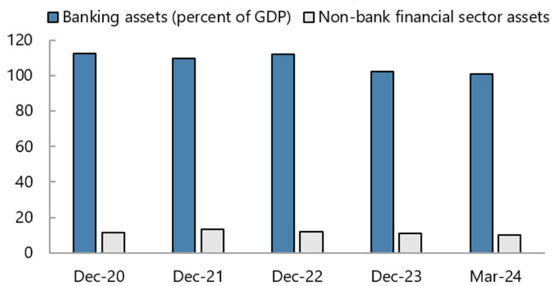
Source: Central Bank of Egypt and IMF staff calculations.

The financial sector is dominated by the banking system and has shrunk mildly relative to GDP in recent years...

...despite significant nominal growth in credit to the public sector, with...

Size of Financial Sector

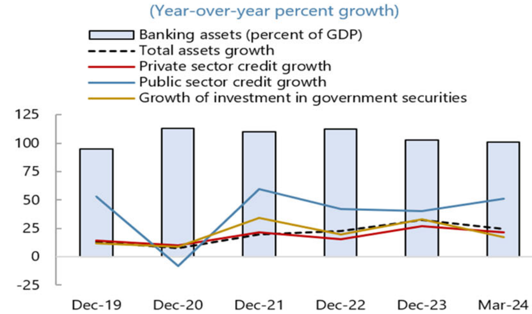
(Percent of GDP)



Sources: Egyptian authorities; and IMF staff calculations.

Annual Asset and Credit Growth

(Year-over-year percent growth)



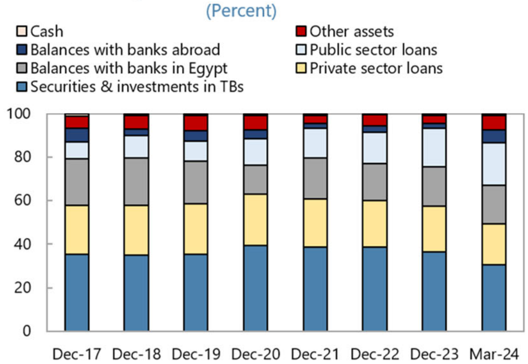
Sources: Egyptian authorities; and IMF staff calculations.

...government securities holdings and credit to the public sector account for the bulk of the banking sector's balance sheet.

Importantly, there has been significant improvement in financial inclusion over the last 6-7 years.

Composition of Bank Assets

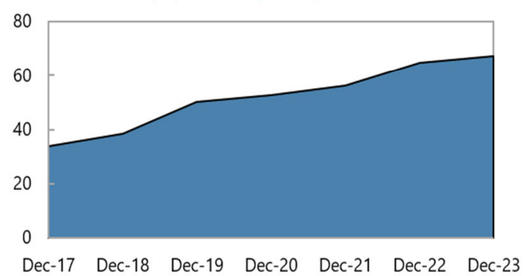
(Percent)



Sources: Egyptian authorities; and IMF staff calculations.

Financial Inclusion

(Percent of population ages 16 years and above)

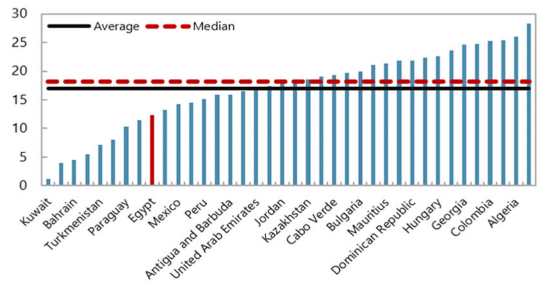


Sources: Egyptian authorities; and IMF staff calculations.
Note: Financial inclusion is defined as having access to bank account, mobile payments, or prepaid cards.

Figure 18. Egypt: Fiscal Sector

Egypt's tax revenue is low relative to other Emerging Markets.

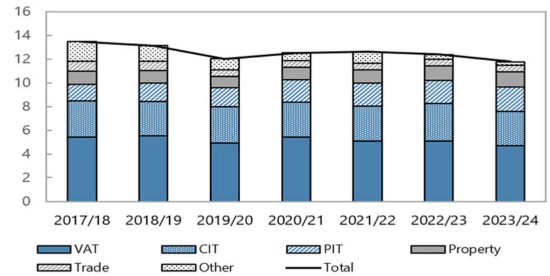
General Government Tax Revenue, 2023
(Percent of GDP)



Source: IMF, Egyptian Authorities, World Economic Outlook Database and IMF staff calculations.

In addition, Egypt's tax revenue to GDP has declined the last few years largely due to lower VAT and excise revenues.

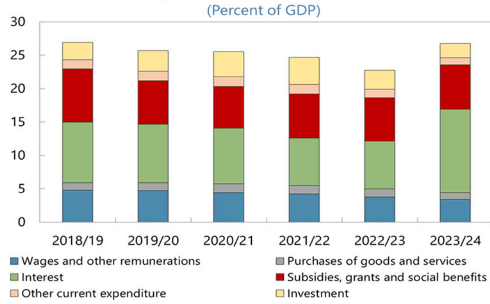
Composition of Tax Revenues
(Percent)



Source: Egyptian Authorities and IMF staff calculations.

At the same time, the interest burden has grown to account for almost 50 percent of expenditures...

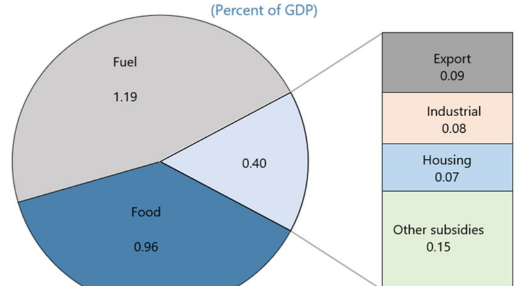
Expenditure Decomposition
(Percent of GDP)



Sources: Egyptian authorities; and IMF staff calculations.

...while untargeted fuel subsidies dominate the subsidy budget...

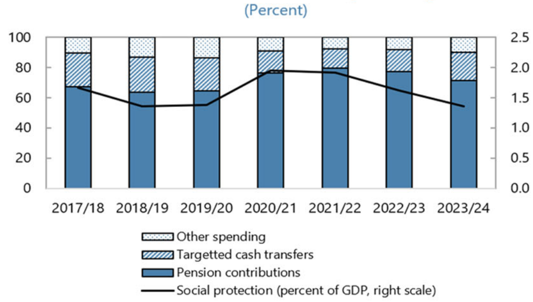
Breakdown of Subsidies, FY 2023/24
(Percent of GDP)



Source: IMF, Egyptian Authorities, and IMF staff calculations.

...and both are squeezing the capacity to improve social spending.

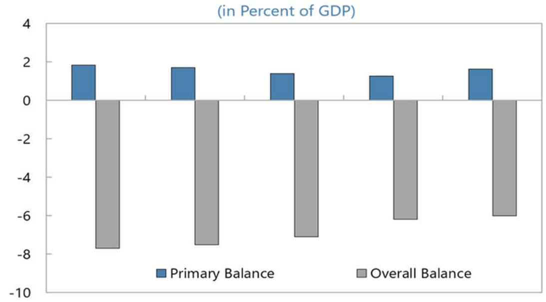
Breakdown of Social Spending
(Percent)



Source: Egyptian Authorities and IMF staff calculations.

Further, low tax revenues and large interest bills generate overall deficits that add to debt despite primay surpluses.

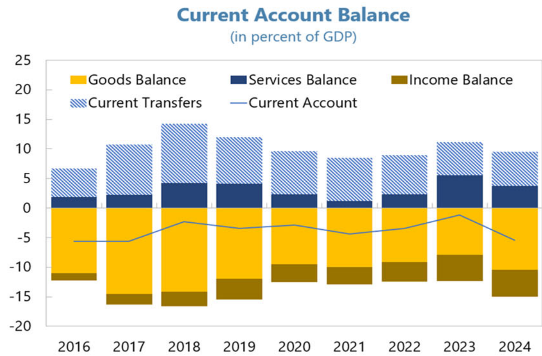
Fiscal Balances
(in Percent of GDP)



Sources: Egyptian Authorities, IMF Staff Calculations

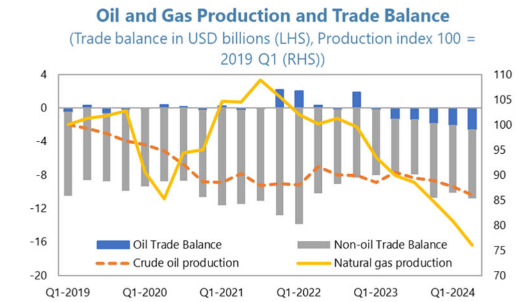
Figure 19. Egypt: External Sector

Egypt's runs a chronic current account deficit, which widened in FY2023/24, as the services balance and good exports dipped …



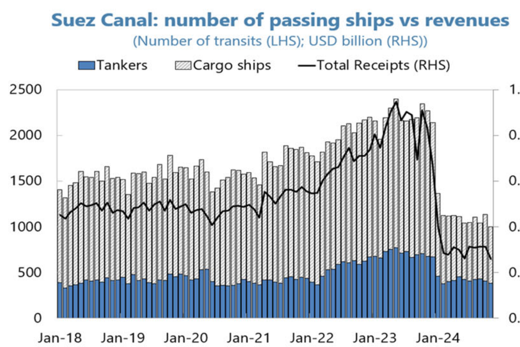
Sources: CBE, IMF staff calculations.

…amid a significant deterioration in oil and gas production and the oil trade balance.



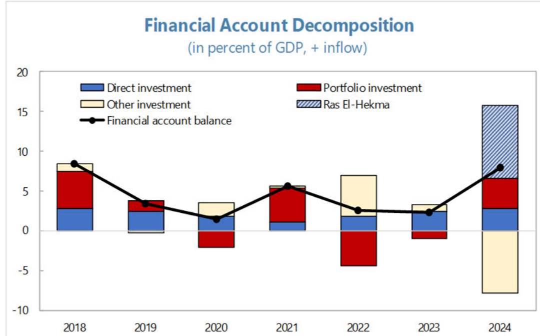
Source: Haver Analytics; and IMF staff calculations.

The fall in Suez Canal revenue by over 60 percent amid tensions in the Red Sea weighed on the services balance.



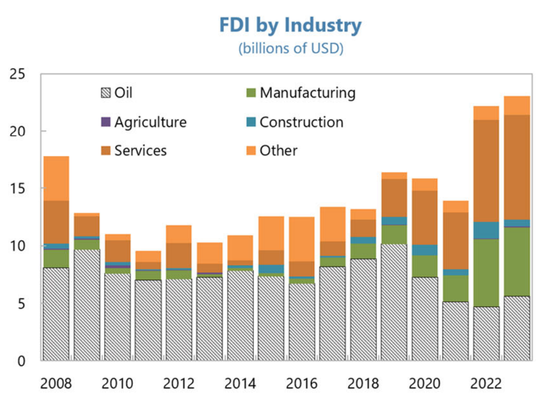
Sources: Haver Analytics; and IMF staff calculations

Large capital inflows in FY24 (e.g. from the Ras El-Hekma deal) reversed a recent deterioration in the financial account…



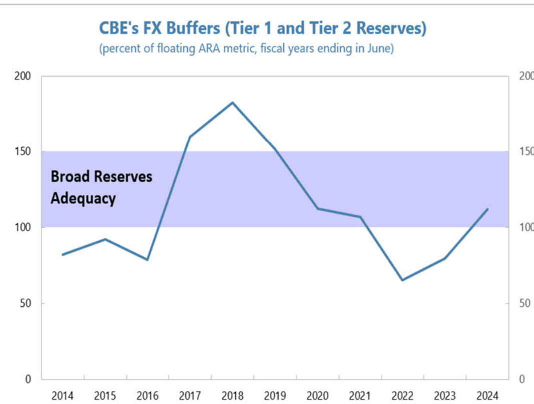
Source: CBE; and IMF staff calculations.

…while the services industry has surpassed the oil and gas sectors as largest recipient of FDI.



Sources: Haver Analytics, IMF staff calculations.

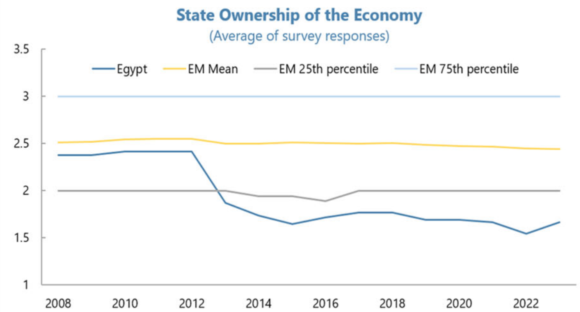
Reserve buffers recovered in 2024.



Sources: Egyptian authorities; and IMF staff calculations

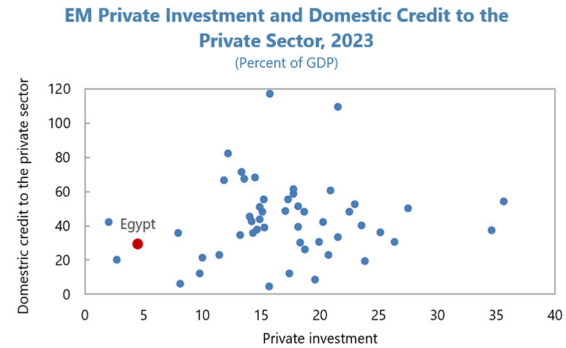
Figure 20. Egypt: Structural

A large state footprint in the economy likely plays a role in constraining private sector activity…	*…whose share in investment and domestic credit as a percent of GDP is low relative to other Emerging Markets.*



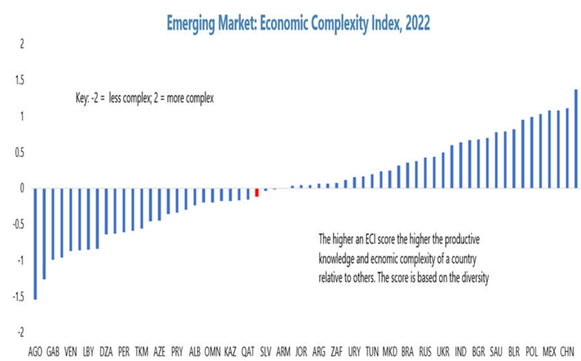
Source: Varieties of Democracy dataset; and IMF staff calculations.

Note: Average of survey responses to question that gauges the degree to which the state owns and controls capital (including land)" "in the industrial, agricultural, and service sectors. Range is 0 - 4, with a higher value representing less perceived state control.

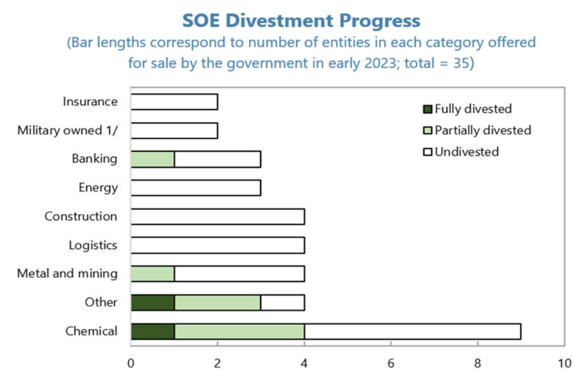


Source: IMF, WEO Database; and IMF staff calculations.
Note: EM = emerging markets.

A large state-foot print may also be holding back productive capabilities possibly limiting future growth.	*But progress toward reducing the state's oversized presence in commercial activities is slow.*

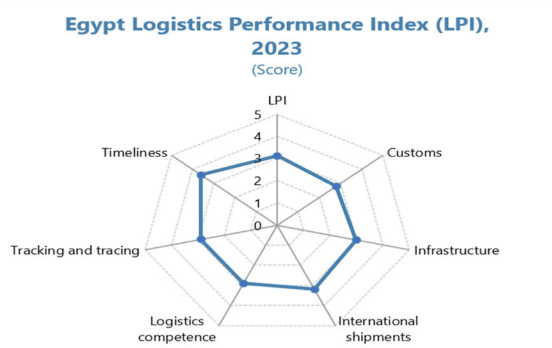


Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity. http://www.atlas.cid.harvard.edu.

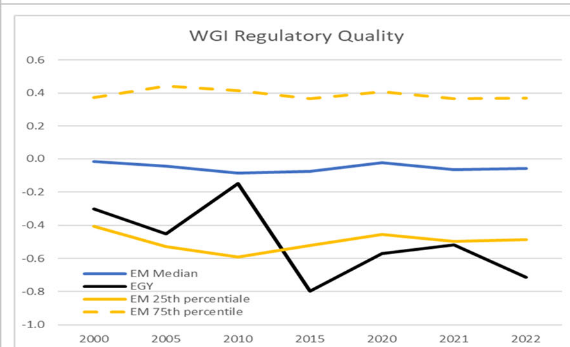


Source: Egyptian authorities. Note: SOE = state-owned enterprises.
1/ Composed of two entities: one in retail fuel and the other in bottled water industry.

Other factors reducing the attractiveness of Egypt, include perceptions of challenging trade logistics…	*…relatively weak regulatory governance, including concerns about unfair competition and burden of regulation.*



Source: World Bank Logistics Performance Index.



Source: Note: Worldwide Governance Indicators. D. Kaufman (Natural Resource GoverInstitute and Brookings Institution) and A. Kraay (World Bank). Estimate of governance perfromance ranges from approximately -2.5 (weak) to 2.5 (strong).

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Likelihood	Impact if Realized	Recommended Policy Response
Global Risks			
Intensification of regional conflicts	**High**	**High** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	Allow the exchange rate to act as a shock absorber. Improve inclusiveness of government policies, via well-targeted measures and strengthened social safety net. Implement structural reforms to diversify economy and increase exports to add sources of FX revenue
Commodity price volatility	**High**	**High** Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	Allow the exchange rate to act as a shock absorber. Improve inclusiveness of government policies, via well-targeted measures and strengthened social safety net. Implement structural reforms to diversify economy and increase exports to add sources of FX revenue.
Abrupt global slowdown or recession	**Medium**	**Medium** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	Allow exchange rate flexibility to be the first line of defense against capital outflows. Implement the MTDS and MTRS to reduce debt vulnerabilities and build fiscal buffers, respectively. Reprioritize spending to reduce financing pressure.
Social discontent	**Medium**	**High** High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	Improve inclusiveness of government policies, via well-targeted measures and strengthened social safety net, including education and health spending. Implement structural reforms to diversify economy.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Domestic Risks			
Failure to allow for exchange rate flexibility	**Medium**	**High** A build-up of external imbalances eventually leads to a sudden and large exchange rate adjustment, with implications on sovereign borrowing and debt service costs and inflation.	Implement package of consistent reforms including maintaining a flexible exchange rate regime and a liberalized foreign exchange system.
Suez Canal revenue tourism revenue, and/or remittances suffer amidst the conflict in Gaza and Israel and the continued war in Ukraine.	**Medium**	**Medium/High** Lower Suez Canal inflows, remittances, and tourism, impact economic activity and dampen the growth outlook, reduced foreign exchange revenue puts pressure on the exchange rate, and lower Suez Canal Authority receipts reduces fiscal revenue.	Allow the exchange rate to act as a shock absorber. Implement structural reforms to diversify economy and increase exports to add sources of foreign exchange revenue.
Vested interests cause slower-than-expected structural reform implementation	**Medium**	**Medium/High** Lack of reform leads to re-accumulation of imbalances, lowering growth potential and leaving country more vulnerable to shocks.	Aggressively implement the structural reform agenda focusing on priority areas such as SOE reform, competition and the investment climate, trade facilitation, and health and education reform to address key constraints to growth.
Materialization of fiscal contingent liabilities	**Medium**	**Medium/High** Economic Authorities (EAs), including the national oil company, and fail to pay debt guaranteed by the government, putting pressure on public expenditure while increasing public debt.	Improve transparency, governance, and financial reporting of EAs and SOEs. Implement state ownership policy. Clearly define and separate commercial and non-commercial activities of Economic Authorities and SOEs. Continue to prohibit central bank lending to public sector agencies excluding the Ministry of Finance.

Annex II. Sovereign Risk and Debt Sustainability Framework

Figure 1. Egypt: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	**High**	The overall risks of sovereign stress are assessed as high, based on the medium term and long term risk assessments below.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	**High**	**High**	Medium-term risks are assessed as high, given the risk signals from the debt fanchart module and the GFN module. The high risk signal from the GFN module reflects high average gross financing needs over the forecast horizon related to large issuances of short-term bills and the large claims of domestic banks on the government. Contingent liability related to publicly-guaranteed debt (EGP4,698 billion as of June 2024) poses significant medium-term risks.
Fanchart	**Moderate**	…	
GFN	**High**	…	
Stress test	Cont. Liab.	…	
Long term	…	**Moderate**	Long-term risks are assessed as moderate, as the debt ratio and gross financing needs are projected to trend downwards with sustained primary surpluses and favorable interest-growth differentials, while there are risks to public debt related to pension and health cost as well as to adaptation and mitigation costs.
Sustainability assessment 2/		Sustainable but not with high probability	Public debt is assessed as sustainable but not with high probability. This is based on high risks related to gross financing needs, while considering the mitigating impact from the country's track record of sustaining high gross financing needs, supported by stable financing by domestic banks, as well as the mitigating impact from the Ras El-Hekma deal.
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Public debt is assessed as sustainable but not with high probability, and overall risks of sovereign stress are assessed as high. Over the medium term, risks are assessed as high, given the risk signals from the GFN module and the debt fanchart modules. The GFN module signals a high risk, given high average gross financing needs over the medium term and the large claims of the domestic banks on the government. Contingent liability related to publicly-guaranteed debt poses significant medium-term risks. Over the long term, risks are assessed as moderate, as the debt ratio and gross financing needs are projected to trend downwards. The sustainability assessment considers the the risk mitigating impact from the country's track record of sustaining high gross financing needs, supported by stable financing by domestic banks, as well as the mitigating impact from the Ras El-Hekma deal.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Egypt: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	Yes	
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	Yes	Includes GCC deposits at CBE
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on intra-government debt holdings

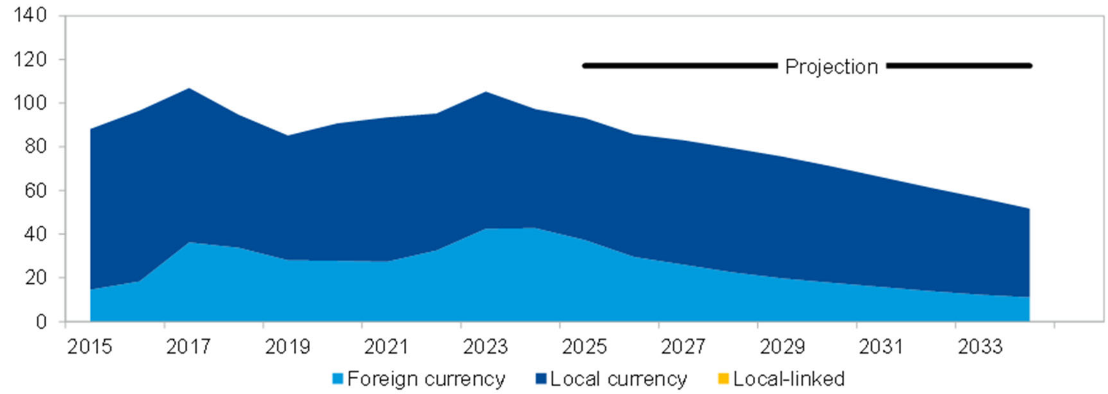
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt		0.4	7.1	0	0	0	0	0	7.5
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds	0		0	0	0	0	0	0	0
CPS / NFPS / GG: expected / CG	3	Social security funds	0	0		0	0	0	0	0	0
CPS / NFPS / GG: expected	4	State govt.	0	0	0		0	0	0	0	0
CPS / NFPS / GG: expected	5	Local govt.	0	0	0	0		0	0	0	0
CPS / NFPS	6	Nonfin pub. corp.	0	0	0	0	0		0	0	0
CPS	7	Central bank	0	0	0	0	0	0		0	0
CPS	8	Oth. pub. fin. corp	0	0	0	0	0	0	0		0
		Total	0	0.4	7.1	0	0	0	0	0	7.5

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this analysis is for the general government, which is comprised of the budget sector, National Investment Bank, and Social Insurance Funds. Official creditor deposits at the central bank are included in the public debt stock for the purposes of this analysis.

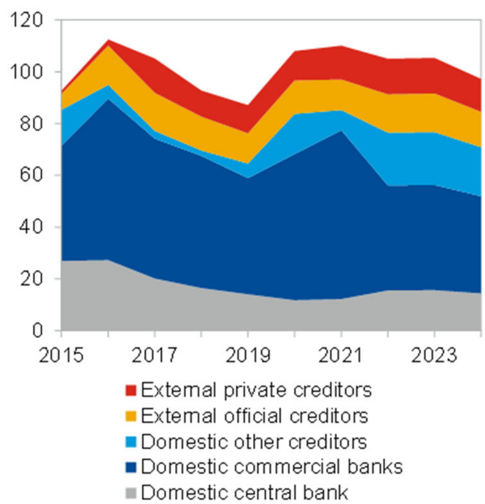
Figure 3. Egypt: Public Debt Structure Indicators

Debt by currency (percent of GDP)



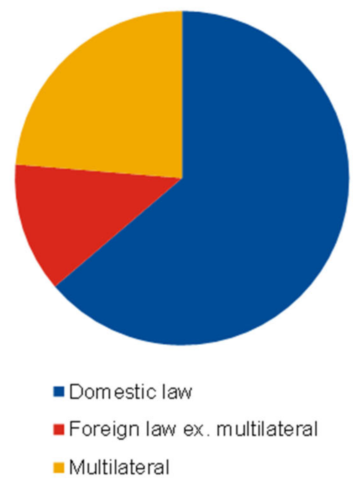
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



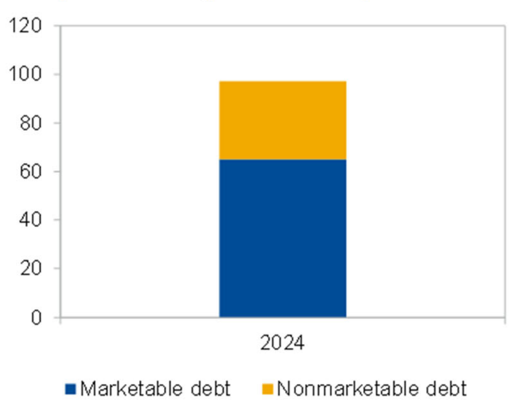
Note: The perimeter shown is public debt.

Public Debt by Governing Law, 2024 (percent)



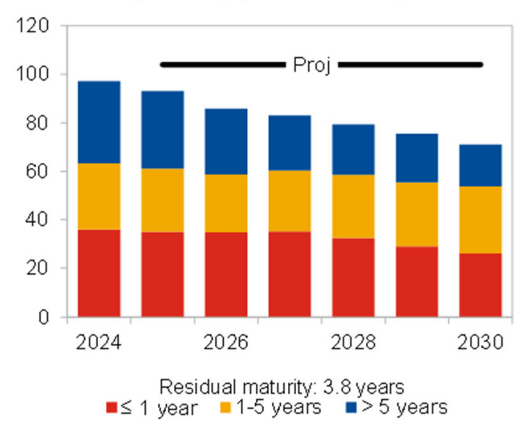
Note: Multilateral includes official creditor deposits at CBE.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

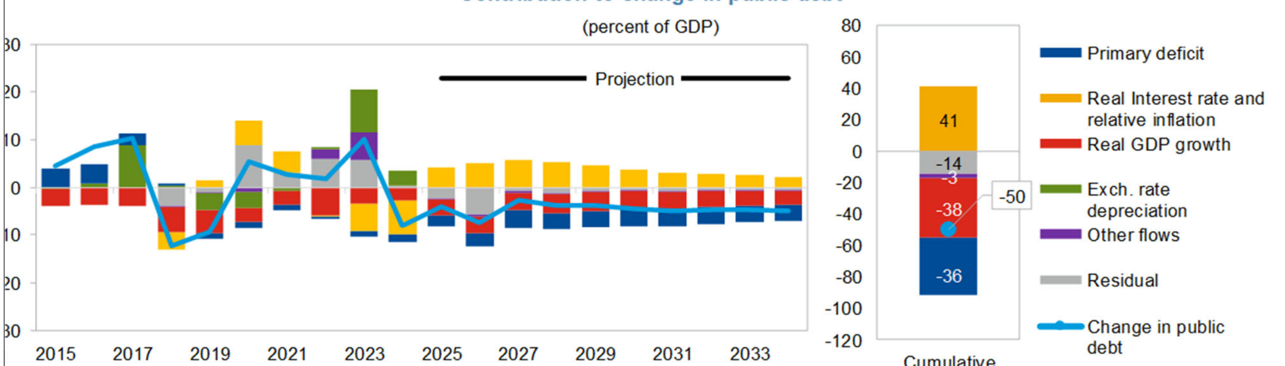
Commentary: Public debt is mainly domestic, held by domestic banks, and in local currency, and it is subject to local law. Debt is primarily in marketable instruments, including a large share of T-bills. This results in a relatively short maturity of public debt.

Figure 4. Egypt: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt 1/	97.2	93.2	85.8	83.0	79.3	75.5	71.1	66.1	61.3	56.6	51.8	47.0
Change in public debt	-8.1	-4.1	-7.4	-2.7	-3.7	-3.8	-4.4	-5.0	-4.8	-4.7	-4.9	-4.8
Contribution of identified flows	-8.5	-1.8	-1.6	-1.9	-2.4	-3.0	-3.9	-4.2	-4.2	-4.2	-4.4	-4.4
Primary deficit (general government) 2/	-1.7	-2.1	-2.7	-3.7	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5
Noninterest revenues	15.5	16.2	17.2	18.5	18.3	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Noninterest expenditures	13.8	14.0	14.5	14.7	14.8	14.5	14.5	14.5	14.5	14.5	14.5	14.5
Automatic debt dynamics	-6.6	0.7	1.4	2.1	1.3	0.7	-0.2	-0.5	-0.5	-0.5	-0.7	-0.7
Real interest rate and relative inflation	-7.2	4.1	5.1	5.8	5.3	4.6	3.7	3.1	2.9	2.7	2.2	2.0
Real interest rate	-16.8	-2.7	0.8	3.5	4.0	3.8	3.0	2.5	2.3	2.2	1.8	1.6
Relative inflation	9.6	6.8	4.2	2.3	1.2	0.8	0.7	0.6	0.5	0.5	0.4	0.4
Real growth rate	-2.5	-3.3	-3.6	-3.7	-4.0	-3.9	-3.9	-3.7	-3.4	-3.2	-2.9	-2.7
Real exchange rate	3.1	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contribution of residual	0.4	-2.3	-5.8	-0.9	-1.3	-0.8	-0.6	-0.8	-0.6	-0.5	-0.5	-0.4
Gross financing needs	33.5	40.9	39.2	37.6	36.8	33.5	29.5	26.2	26.0	23.4	20.5	18.8
of which: debt service	35.6	43.4	42.2	41.6	40.6	37.2	33.2	29.9	29.7	27.1	24.3	22.6
Local currency	29.0	32.9	34.4	35.0	34.7	32.0	28.8	26.0	25.7	23.5	21.3	19.5
Foreign currency	6.6	10.5	7.8	6.6	5.9	5.2	4.4	3.9	4.0	3.6	3.0	3.1
Memo:												
Real GDP growth (percent)	2.4	3.6	4.1	4.6	5.0	5.2	5.4	5.4	5.4	5.4	5.4	5.4
Inflation (GDP deflator; percent)	33.7	22.5	15.8	11.0	7.3	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Nominal GDP growth (percent)	36.9	26.9	20.5	16.0	12.7	11.3	11.4	11.8	11.6	11.6	11.6	11.6
Effective interest rate (percent)	11.9	18.9	16.9	15.8	12.8	11.1	10.3	9.8	9.8	9.8	9.3	9.3

Contribution to change in public debt

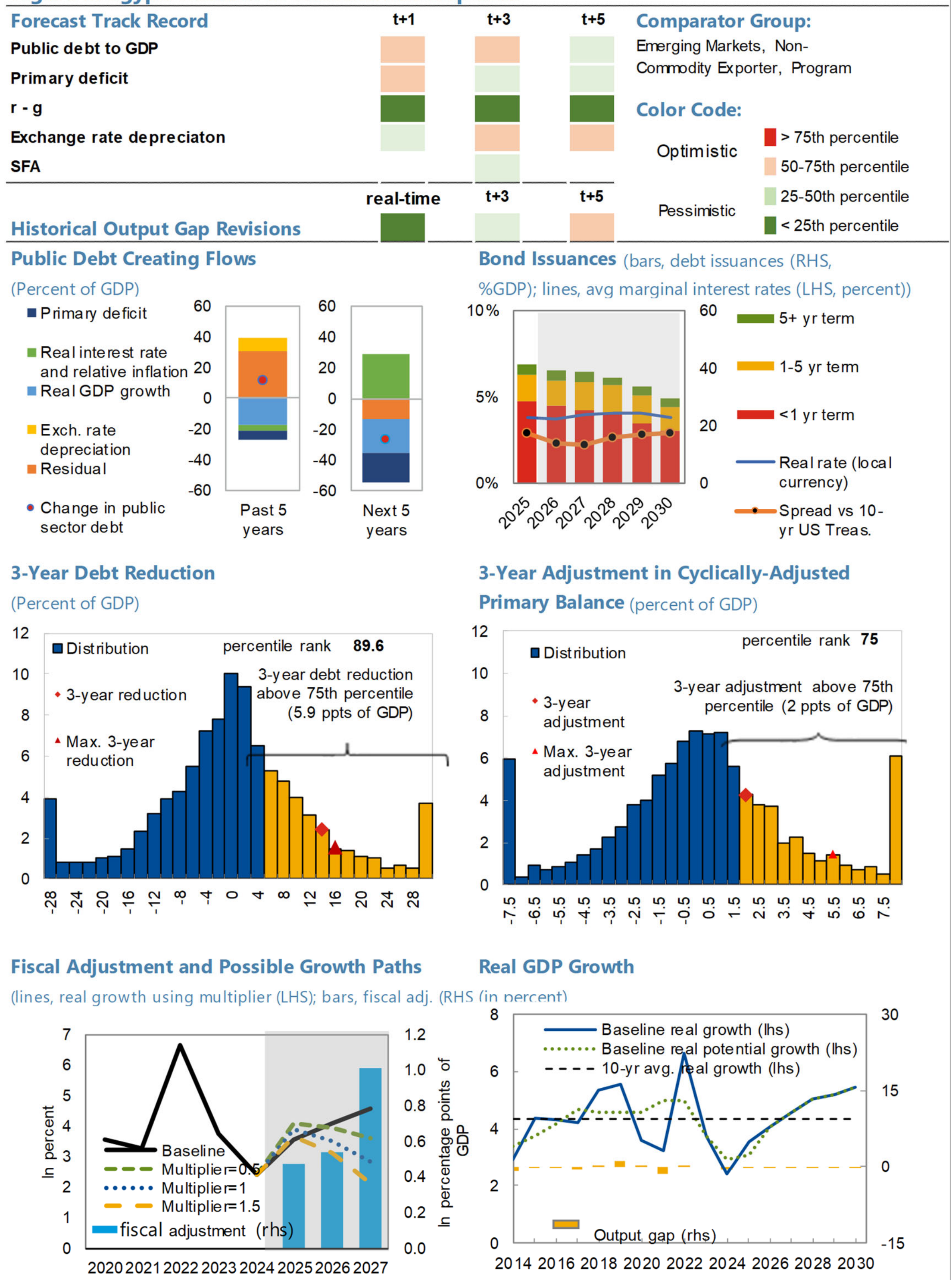


Commentary: After increasing in FY2022/23 and FY2023/24 (2023 and 2024 in the chart) mainly due to exchange rate depreciation (for 2024 this is captured by the residual), public debt is projected to be on a downward trend, with sustained primary surpluses and favorable interest-rate growth differential.

1/ Official creditor deposits at the central bank are included in the public debt stock for the purposes of this analysis.

2/ The primary balance of the general government in this table excludes interest revenues, and it differs from the definition in macroframework tables.

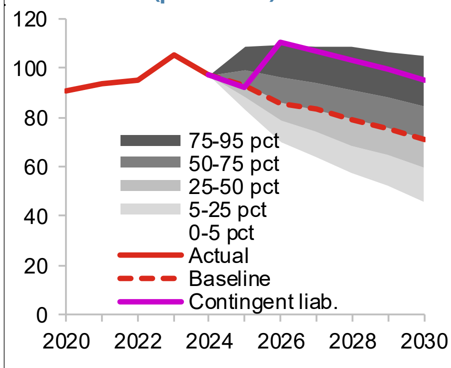
Figure 5. Egypt: Realism of Baseline Assumptions



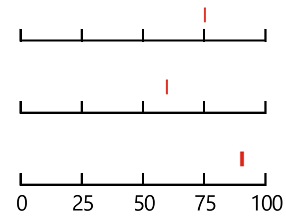
Commentary: Analysis from the realism tools does not signal major concerns. The forecast error track record does not signal a pattern of optimistic forecast errors. Debt drivers are projected to largely follow the past experience. While 3-year debt reduction is above 75th percentile, the primary balance surplus contributes to debt reduction in the next five years by more than the last five years, and the baseline growth projection is higher than that suggested by the multiplier tool, these are due to recovery from the COVID crisis. The growth projection over the medium term is above the past average, but the latter is affected by several country-specific and global shocks during that period.

Figure 6. Egypt: Medium-Term Risk Assessment

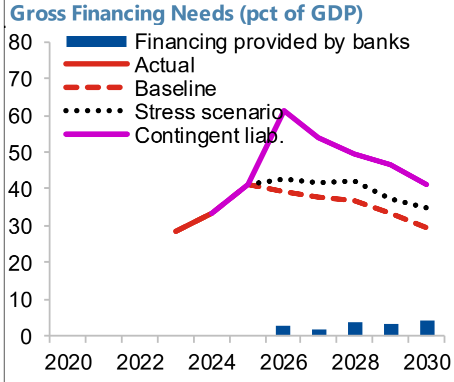
Final Fanchart (pct of GDP)



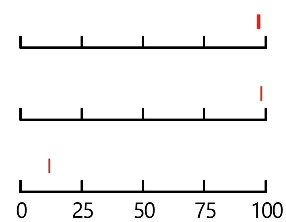
Debt fanchart module	Value	Contrib [1/]	Percentile in peer group [2/]
Fanchart width (*percent of GDP*)	58.7	0.9	
Probability of debt non-stabilizaiton (*percent*)	4.5	0.0	
Terminal debt-to-GDP x institutions index	51.1	1.1	
Debt fanchart index (DFI)		2.0	
Risk signal: [3/]		**Moderate**	



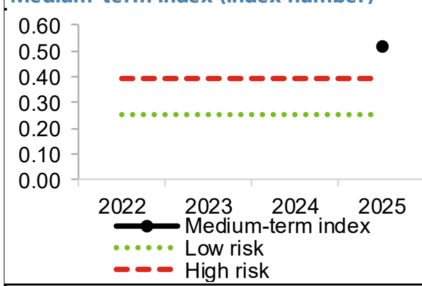
Gross Financing Needs (pct of GDP)



Gross financing needs (GFN) module	Value	Contrib	Percentile in peer group
Average baseline GFN (*percent of GDP*)	36.3	12.4	
Banks' claims on the gen. govt (*pct bank assets*)	51.9	16.8	
Chg. In banks' claims in stress (*pct banks' assets*)	6.8	2.3	
GFN financeability index (GFI)		31.5	
Risk signal: [4/]		**High**	



Medium-term index (index number)



Medium-term risk analysis

	Value	Weight	Contribution
Debt fanchart index (normalized)	0.4	0.5	0.2
GFN finaceability index (normalized)	0.6	0.5	0.3
Medium-term index	0.5		
Risk signal: 5/	**High**		
Final assessment:	**High**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 81.8 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 3.4 pct.

Commentary: Medium-term risks are assessed as high, given the risk signals from the debt fanchart and GFN modules. The high risk signal from the GFN module reflects high average gross financing needs and the large claims of the domestic banking sector on the government. Contingent liability related to publicly-guaranteed debt (EGP4,311 billion as of March 2024) adds to medium-term risks.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging market, non-commodity exporting countries, with Fund-supported programs.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Egypt: Long-Term Risk Analysis

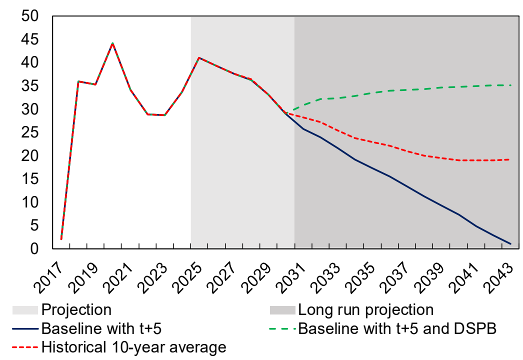
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	

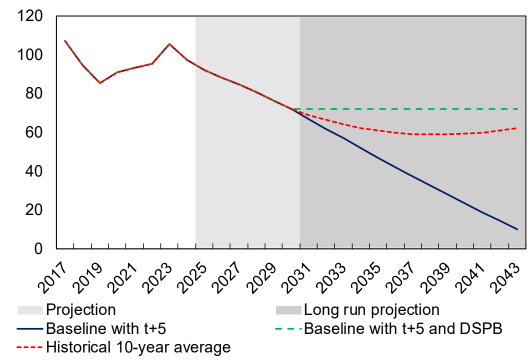
Overall Risk Indication	

Large Amortization

GFN-to-GDP ratio



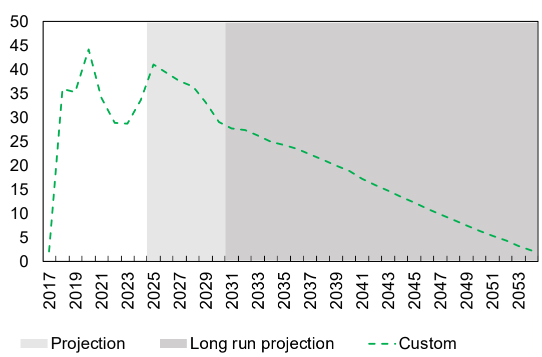
Total public debt-to-GDP ratio



Custom

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	5.4%	5.0%
Primary Balance-to-GDP	3.5%	2.0%
Real depreciation	-5.5%	0.0%
Inflation (GDP deflator)	5.8%	5.0%

GFN-to-GDP ratio



Total public debt-to-GDP ratio

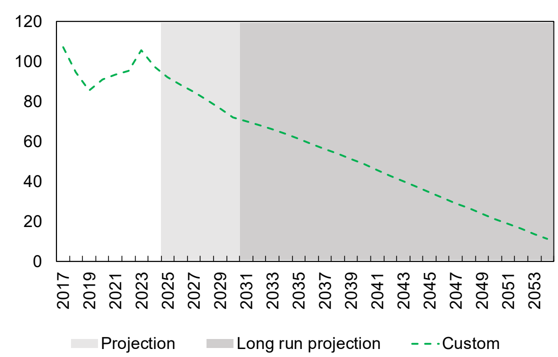
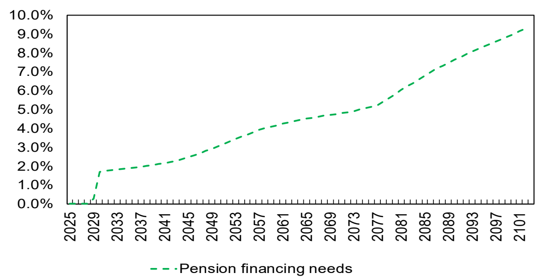


Figure 7. Egypt: Long-Term Risk Analysis (continued)

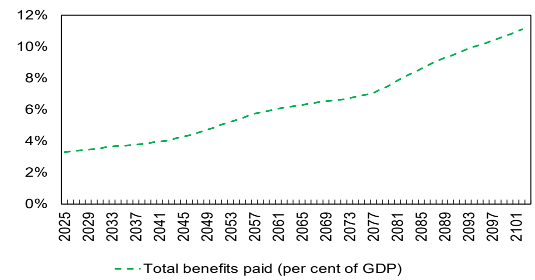
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	2.0%	3.1%	4.7%

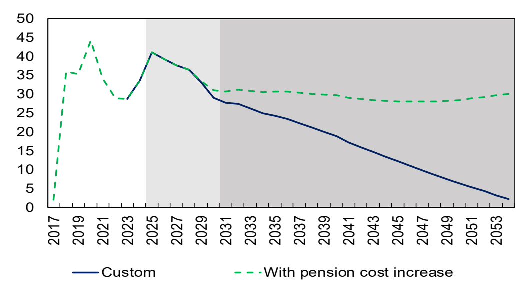
Pension Financing Needs



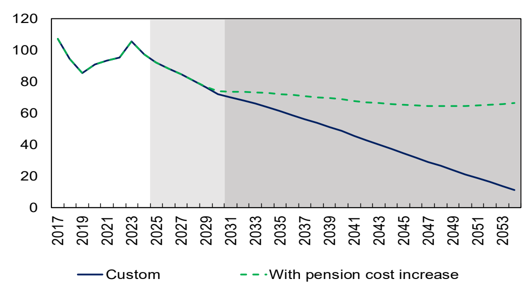
Total benefits paid



GFN-to-GDP ratio

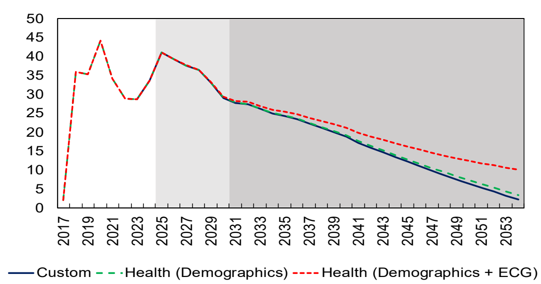


Total public debt-to-GDP ratio

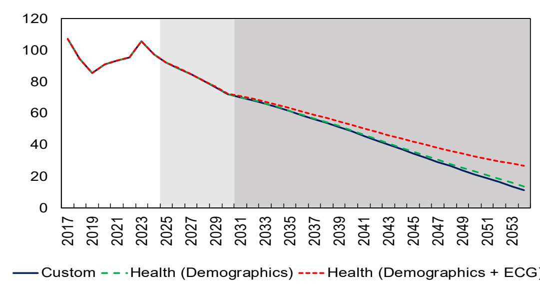


Demographics: Health

GFN-to-GDP ratio

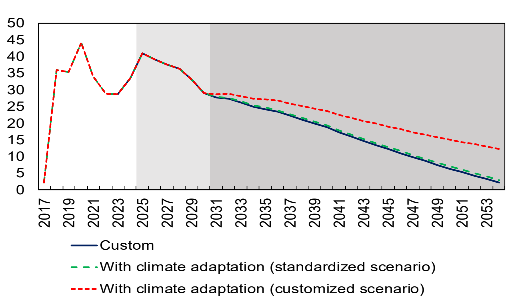


Total public debt-to-GDP ratio



Climate Change: Adaptation

GFN-to-GDP ratio



Total public debt-to-GDP ratio

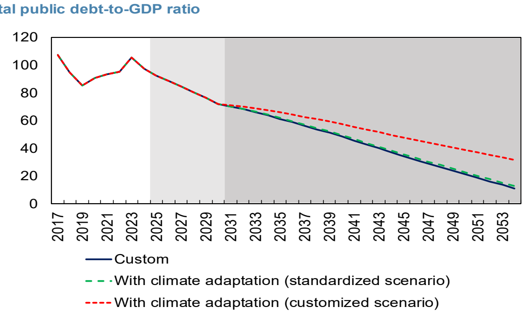
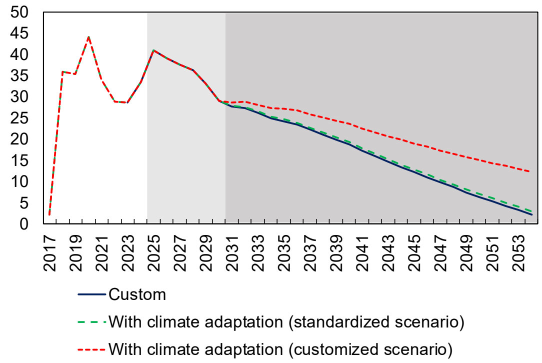


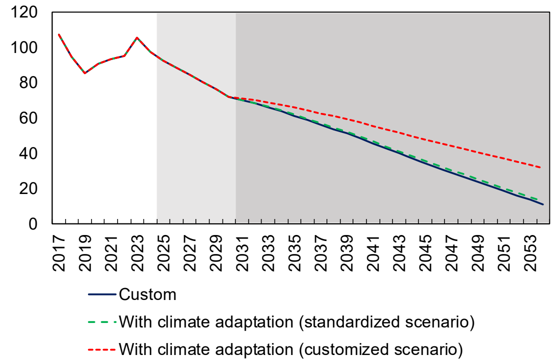
Figure 7. Egypt: Long-Term Risk Analysis (concluded)

Climate Change: Adaptation

GFN-to-GDP ratio

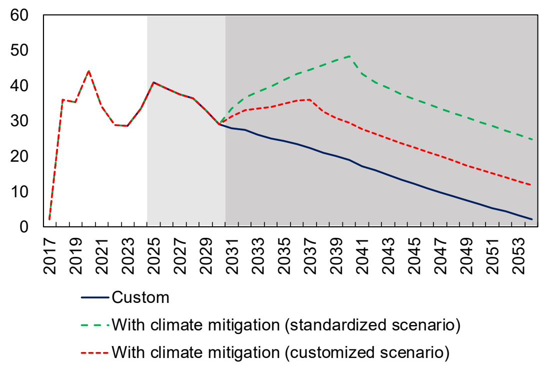


Total public debt-to-GDP ratio

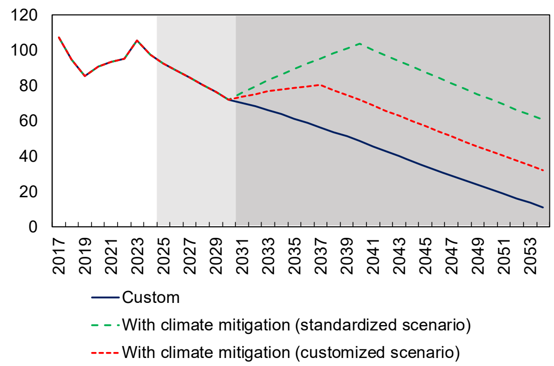


Climate Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: Long-term risks are assessed as moderate, as the debt ratio and gross financing needs are projected to trend downwards with sustained primary surpluses and favorable interest-growth differentials, while there are risks to public debt related to pension cost and climate adaptation and mitigation cost.

Note: The customized scenario for climate adaptation assumes adaptation cost of around 0.9% of GDP in each year until 2050, based on Egypt Climate Change Strategy 2050. The customized scenario for climate mitigation assumes mitigation cost of around 3.5% of GDP in each year until 2035, based on Egypt Climate Change Strategy 2050.

Annex III. External Sector Assessment

Overall Assessment: *The external position of Egypt in FY2023/24 was weaker than the level implied by medium-term fundamentals and desirable policies. The current account deficit widened to 5.4 percent of GDP in FY2023/24. The oil trade balance turned negative amid falling production, Suez Canal receipts collapsed after disruptions in the Red Sea, and remittance inflows were depressed by a widening spread between the official exchange rate and the parallel market rate. In March 2024, Egypt moved to a flexible exchange rate and the nominal exchange rate depreciated by 50 percent. Remittances rebounded strongly in FY24Q4. The Ras El-Hekma investment deal brought USD 24 billion in additional FX inflows and the banking system shored up its NFA position. Portfolio inflows returned in FY24Q3 as nonresident holdings of T bills increased.*

Potential Policy Responses: *Commitment to the flexible exchange rate regime, a revenue-based consolidation, and implementation of the structural reform agenda are essential to further improve competitiveness. Clearance of the remaining arrears with foreign oil companies, the normalization of oil and gas production and additional renewable energy production can shore up the oil trade balance. Leveling the playing field between public and private sector companies will help attract additional FDI inflows.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP declined over the last five years, reaching -73 percent at the end of FY2023/24 compared to –53 percent in FY2018/19. Gross assets increased as banks increased their net foreign asset holdings and due to the substantial inflow of reserve assets following the Ras El-Hekma deal. In parallel, liabilities increased to 97 percent of GDP, reflecting large FDI inflows. FDI accounts for 53 percent of Egypt's external liabilities. External debt fell to 40 percent of GDP in FY2023/24 from 42 percent of GDP the previous year. The share of ST external in total external debt stabilized at 17 percent. 1/

Assessment. The NIIP is projected to narrow in the medium term. External debt is projected to decline gradually. According to the External Sustainability approach, under the current baseline scenario, the NIIP would not deteriorate further in net present value terms and is therefore assessed to be sustainable.

FY2023/24 (% GDP)	NIIP: -73	Gross Assets: 24	Debt Assets: 10	Gross Liab.: 97	Debt Liab.: 45

Current Account

Background. The current account deficit widened to -5.4 percent of GDP in FY2023/24. The oil trade balance turned negative amid falling production, Suez Canal receipts collapsed after disruptions in the Red Sea, and remittances inflows were muted by a widening spread between the exchange rate and the parallel market rate. In March 2024, Egypt moved to a flexible exchange rate and the nominal exchange rate depreciated by 50 percent. Remittances rebounded strongly in FY24-Q4 and tourism continued to grow, somewhat narrowing the deficit towards the end of the FY. High frequency indicators suggest that the oil trade balance has remained negative and import demand continues strong. Adding the ongoing disruptions in the Red Sea and outflows on the primary income balance, the current account deficit is projected to widen further this FY, despite the recovery in remittances.

Egypt: EBA current account model results for 2024
(percent of GDP unless otherwise indicated)

Current account outturn, 2024	-5.4
Cyclical contributions (from model) (-)	0.4
Cyclically adjusted current account	-5.8
Cyclically adjusted norm	-1.8
Current account gap	**-4.0**
Contribution from policies	-1.7
Fiscal	-0.2
Other policy gaps	-1.5
Contribution from residual	-2.3
Semi-elasticity of CA/GDP to REER	0.2
REER gap (in percent)	**20.0**

Assessment. The EBA CA model points to a CA gap of -4.0 percent of GDP, indicating that the external position in FY2023/24 was weaker than the level implied by medium-term fundamentals and desirable policy settings. The cyclically adjusted CA norm (-1.8 percent of GDP) has an error band (with one standard deviation) of -1.3 to -2.3 percent of GDP. Using the country-specific semi-elasticity of 0.2, the model implies a REER overvaluation of

20 percent on average over FY2023/24. The domestic fiscal gap accounts for the largest contribution to policy gaps, highlighting the need for further fiscal consolidation. Over half of the CA gap is due to the unexplained residual which potentially reflects structural impediments and country-specific factors not included in the model, such as the effect of large infrastructure projects on investment and imports, the impact of FX shortages, and structural bottlenecks holding back export competitiveness.

Real Exchange Rate

Background. After gradually appreciating for most of FY2023/24, the REER depreciated sharply along with the nominal rate as the gap with the parallel market rate closed in March 2024. The REER remained broadly stable until Sept 2024 but has returned to an appreciating trend since then.

Assessment. The EBA REER model suggests a REER gap of -42 percent. However, the gap is driven by a large residual. Thus, the assessment is based on the CA model.

Capital and Financial Accounts: Flows and Policy Measures

Background. The FY2023/24 financial account was dominated by the FDI inflows linked to the Ras El-Hekma investment deal. Excl. the Ras El-Hekma deal, net FDI inflows averaged 2 percent of GDP in the last five years. The services sector has surpassed the oil and gas sector as the largest receiver of FDI. Portfolio flows, on the other hand, tend to be volatile. Portfolio inflows reached 3.8 percent of GDP as nonresident holdings of T bills increased after exchange rate unification. The banking system shored up its NFA position, accounting for significant outflows.

Assessment. The financing structure of the external position exposes Egypt to external vulnerabilities. While the steady inflow of FDI supports external stability, portfolio flows, including nonresident holdings of local currency bonds, can swing widely in response to changes in external and domestic financial conditions.

FX Intervention and Reserves Level

Background. Gross international reserves reached US$53.8 billion at the end of FY2023/24, a US$16.7 billion increase compared to FY2022/23 mostly driven by FX inflows from the Ras El-Hekma deal. Net international reserves reached US$39.3 billion. The Central Bank of Egypt (CBE) has not intervened in the FX market since the exchange rate unification. The CBE accumulates reserves through market purchases linked to investment deals and receipts from the Suez Canal Authority.

Assessment. Reserves are assessed as broadly adequate. Gross international reserves amounted to 112 percent of the ARA metric for flexible exchange rate regimes. Gross international reserves are expected to remain broadly constant in FY2024/25 (corresponding to an ARA metric of 112 percent) amid a widening current account deficit and outflows from amortization payments.

1/ External debt is measured on a currency basis and excludes nonresident holdings of local currency debt.

Annex IV. Data Adequacy Assessment for Surveillance

Table 1. Egypt: Data Adequacy Assessment Rating 1/

B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	C	B	C	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	C	B	B		
Granularity 3/	B		B	C	B		
			B		B		
Consistency			B	C		C	
Frequency and Timeliness	B	A	C	B	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided to the Fund has some shortcomings, but is broadly adequate for surveillance. The main areas of concern relate to external sector statistics and government financial statistics. For the fiscal sector, staff find that the general government coverage does not capture all relevant fiscal activity. A recent IMF technical assistance determined that 59 Economic Authorities (EA) should be included in GG. On the frequency of data publication, data on central government outturns are provided on a monthly basis with one month lag on the website of Ministry of Finance, but is not published on the national data dissemination website. Publication of the outturn for general government/central government operations in the national summary data page is on quarterly basis with delays of more than 180 days. On debt, the timeliness of government debt statistics is an issue, particularly domestic debt statistics (public debt) for surveillance purposes. These are only disseminated on an annual basis for 2022 (MoF) and for 2020 (CBE) with limited breakdown and excluding government-guaranteed debt. External sector data has some shortcomings in the granularity and consistency between financial account flows and the IIP. Moreover, Egypt continues to use the BPM5 standard which increasingly complicates international comparability as peers and trading partners have moved to BPM6.

Changes since the last Article IV consultation. On national accounts, there were significant gaps in the level of detail in reporting national accounts data from the expenditure side particularly at the investment front. The authorities have been recently taking active efforts to improve this, including publishing for the first time in January 2025 the breakdown between public and private investments. On fiscal, the authorities plan to consolidate 59 EAs into fiscal reporting beginning in FY2024/25 and have requested to IMF technical assistance regarding proper consolidation methods. It is recommended that a single agency take responsibility for the compilation and dissemination of consolidated general government debt statistics. Data on external and domestic public debt continue to be compiled and disseminated

separately by the CBE and the Ministry of Finance, which leads to differences in compilation and highlights the need for a more unified and streamlined approach. More comprehensive coverage of government and government-guaranteed debt data within a single database could help improve public debt management.
Corrective actions and capacity development priorities. The authorities received TA on the sector classification of EAs and also discussed international standards in consolidation. The authorities will receive TA on proper consolidation in February 2025.
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. For fiscal estimation, we use staff estimation for tax revenue in lieu of official statistics. Staff's estimation is based on staff's projections of key economic indicators, such as nominal GDP, inflation, exchange rate etc.
Other data gaps. SOE's financial statements, details on subsidies, government guarantees and PPPs.

Table 2. Data Standards Initiatives
Egypt subscribes to the Special Data Dissemination Standard (SDDS) since January 2005 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Egypt: Table of Common Indicators Required for Surveillance

(as of January 23, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Egypt[8]	Expected Timeliness[6,7]	Egypt[8]
Exchange Rates	1/23/2025	1/23/2025	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec-24	1/6/2025	M	M	M	30	1W	30
Reserve/Base Money	Nov-24	12/29/2024	M	M	M	30	2W	14
Broad Money	Nov-24	12/29/2024	M	M	M	30	1M	28
Central Bank Balance Sheet	Nov-24	12/29/2024	M	M	M	30	2W	14
Consolidated Balance Sheet of the Banking System	Oct-24	12/24/2024	M	M	M	30	1M	28
Interest Rates[2]	1/23/2025	1/23/2025	D	D	D	...	...	...
Consumer Price Index	Dec-24	1/10/2025	M	M	M	30	1M	10
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Jun-24	11/27/2024	Q	I	Q	90	2Q	45
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Nov-24	12/4/2024	M	M	M	90	1M	45
Stocks of Central Government and Central Government-Guaranteed Debt[5]	end-Jun 2024	24-Nov	Q	Q	Q	90	1Q	45
External Current Account Balance	Sep-24	12/31/2024	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	Sep-24	12/31/2024	Q	Q	M	30	8W	49
GDP/GNP	end-Sep 2024	1/6/2025	Q	Q	Q	90	1Q	90
Gross External Debt	Sep-24	12/31/2024	Q	Q	Q	90	1Q	90
International Investment Position	Jun-24	9/30/2024	Q	Q	Q	90	1Q	90

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

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

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

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

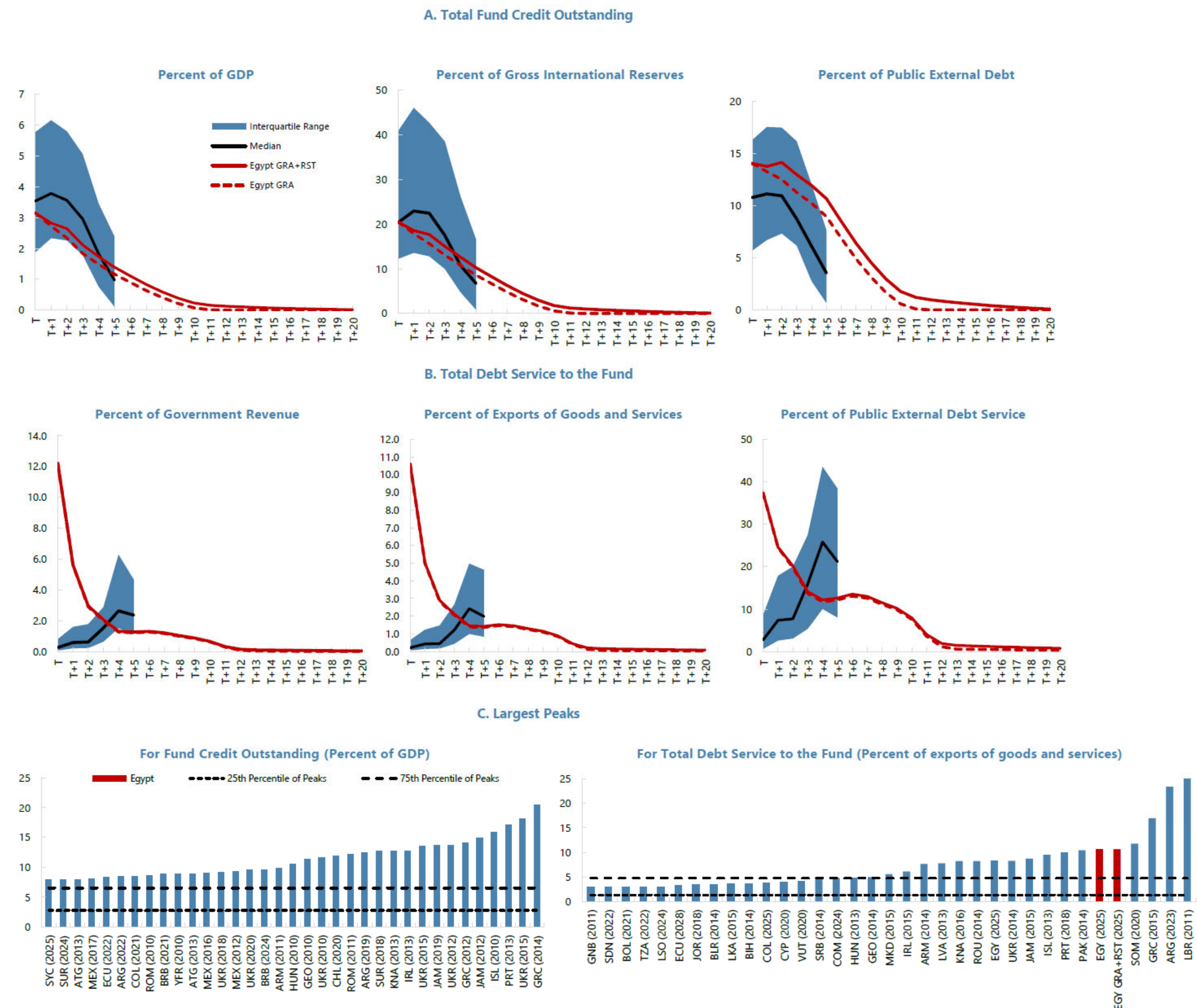
Annex V. Capacity Development Strategy Background

Recent CD Engagement	Recent FAD CD engagement with Egypt has focused on the development and implementation of a Medium-Term Revenue Strategy and, in conjunction with METAC and the World Bank, supporting PFM, PIMA, C-PIMA, PPP, and customs and VAT, and tax incentive reforms. In addition, FAD and LEG have undertaken CD on assessing Egypt's indirect tax system and income tax law, and FAD and STA have jointly engaged with the authorities on strengthening Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS) including recent efforts to assist the authorities in the sectoral classification of economic authorities. METAC has a large CD agenda on statistics to enhance the quality and analytical usefulness. MCM engagements include CD to the Central Bank of Egypt (CBE) on assessing banks' liquidity risk, with METAC, and supporting the operationalization of Egypt's bank resolution framework. MCM also provided a TA to assist the CBE in exploring the feasibility of issuing a central bank digital currency (CBDC).
Effectiveness	The overall effectiveness of CD has been mixed, with encouraging progress in some areas, and less in others. - CD to the CBE on enhancing the assessment of banks' liquidity and operationalizing the resolution framework have had strong traction, although there is limited appetite for establishing a Deposit Guarantee Fund. CD on the feasibility of introducing a central bank digital currency was also well-received. However, a proposed follow up mission failed to materialize because they became more interested in pursuing technical experimentation and developing a CBDC prototype with assistance from the World Bank - Progress in delivering Medium-Term Revenue Strategy reforms has been strong, with positive developments since 2020 including changes in tax policy and revenue administration. The implementation of the 2022 PFM law and reforms to the indirect tax system and plans to put in place a new income tax law are advancing more slowly. - Preliminary CD to the Ministry of Finance highlighting ways to strengthen GFS and PSDS, and sectoral classification of economic authorities was well-received. - Revisions to nominal GDP in 2022, reflecting the latest Economic Census and updates for the informal economy, were introduced following technical assistance. However, CD-supported work to strengthen the national accounts through the integration of supply and use tables has progressed slowly, in part reflecting capacity constraints at the statistical agency CAPMAS.

	- CD on AML/CFT experienced initial difficulties in ensuring traction with the authorities, with challenges involving information sharing and communication, but has gained momentum following a successful TA mission that delivered a week-long workshop on parallel financial investigations, international cooperation, and other issues related to money laundering criminal enforcement.
Traction	Traction with the authorities has been mixed: 3, on a scale from 1– 5. Closely aligning the CD strategy with the authorities' objectives has been key to achieving strong ownership. **Implementation**
Immediate TA Priorities	Immediate priorities include (i) supporting implementation of the MTRS and VAT reform; (ii) evaluating the perimeter of general government fiscal reporting and transitioning fiscal statistics to be in line with GFSM 2014; (iii) supporting FX market development; and (iv) supporting the development of debt management capacity and the local bond markets. For the near-term focus, support on revenue measures beyond those in the MTRS roadmap may be required given the significant fiscal tightening required over the medium-term to safeguard debt sustainability. In addition, authorities expressed interest in technical assistance to support its move towards a fully-fledged inflation targeting regime and strengthening its monetary transmission. Finally, implementing the PIMA and C-PIMA recommendations should also be a near-term focus, particularly in the context of improving the monitoring of investment undertaken by public entities that are outside the budget and Egypt's request for support under the Resilience and Sustainability Facility.
Medium-Term TA Priorities	The immediate priorities listed above are multi-year projects that will carry-over to the medium term. Additional priorities include supporting the implementation of the 2022 PFM law; managing fiscal risks, particularly regarding SOE oversight, PPPs, and implicit contingent liabilities; and continuing the work on operationalizing the resolution framework and strengthening financial supervision and regulation. Work should also continue on AML/CFT, including working closely with the CBE, prosecutors, and other law enforcement. CD to further enhance the quality and credibility of national statistics, including through the introduction of a revisions policy for national accounts statistics, should also be encouraged. No significant constraints to TA absorption are identified.

Annex VI. Capacity to Repay Indicators Compared to GRA-only Countries, All Programs

(In percent of indicated variable)



Sources: IMF Finance Department, World Economic Outlook.

Notes:

1) T = date of GRA arrangement approval.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and February 23, 2024.
4) Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.
5) Comparator series is for GRA arrangements only and runs up to T+5.
6) Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations. Reflects prospective payments, including for the current year.
7) All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations. The peak value for LBR (2011) is 81.7% and is not fully visible in the chart.

Annex VII. The Sovereign-Bank Nexus in Egypt

Egypt's Nexus is one of the highest in the world and has ranked so consistently for the last decade, with potential implications on financial stability, monetary policy transmission, and fiscal policy constraints. Managing the nexus entails a multi-pronged fiscal and structural approach with a focus on improved financial sector and debt management policies and practices.

1. The Nexus can be simply defined as the two-way complex set of relationships between banks and their sovereigns, with these relationships typically manifesting along 3 main channels:

- *The sovereign exposure channel:* Banks demand and hold sovereign debt for liquidity management, credit exposure, market-making, and other purposes.
- *The safety net channel*: The banking system operates against the backdrop of safety net arrangements and backstops provided by central banks and sovereigns that generate spillovers from bank to sovereign risk and vice versa.
- *The macroeconomic channel*: Increases in sovereign risk have contractionary effects on economic activity because of the associated need for fiscal consolidation, higher funding costs throughout the economy, and the impact on policy uncertainty, whereas weaker economic activity will in turn have a negative impact on the banking system's stability.

A simple standardized indicator can be constructed to help quantify and monitor the Nexus, as well as establish peer comparison. The Nexus can be expressed as the ratio of aggregate exposure to the private sector divided by total assets of the banking sector. Public sector exposure includes loans to the Central Bank, loans to (central or general) government and SOEs, and holdings of government or CB securities. Alternatively, the ratio could consider aggregate exposure over capital.

2. Key causes of the Nexus can also act as amplifiers. Those include:

- Large deficits and/or public financing needs, including of state-owned enterprises.
- Tighter global financial conditions, often accompanied by limited access to external financing.
- Declining or volatile foreign participation in local currency bond markets.
- Financial repression amid shallow financial markets.
- Higher (real) interest rates and returns on sovereign debt, which is perceived as safe.
- Excess liquidity in the banking system, and the role of the central bank in managing systemic liquidity.
- Favorable prudential treatment of government securities holdings (e.g. zero risk weighting).

3. Elevated Nexus levels have potentially serious macro implications and risks:

- **Financial stability and debt sustainability**: any doubt about debt sustainability or access to financing can directly affect the perceived stability of the banking sector. On the other hand, any potential concerns about the stability of the banking sector may raise questions about the government's ability to sustain financing.

- **Fiscal policy constraints**. When government borrowing is largely concentrated in banks, fiscal policy may become less effective as a macroeconomic policy tool, particularly during economic downturns as fiscal space may be limited because of funding constraints.
- **Distortions in the intermediary role of the financial system**. When banks are primarily engaged in funding the government channeling available liquidity, their role in supplying funds to the real economy may be hampered (crowding out), with potential dampening of growth in the longer term.
- **Monetary policy challenges**. Where domestic debt is high and mainly financed by banks, the resulting crowding out of private sector credit harms monetary policy transmission as changes in interest rates have little impact on private activity.

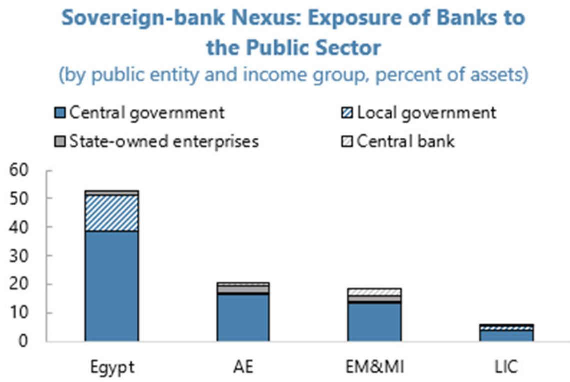
4. Persistently high fiscal deficits and financing needs, coupled with the impact of more recent external shocks, has increased, and subsequently sustained the sovereign-bank nexus in Egypt at high levels. With at times limited or costly access to external funding, the government has increasingly relied on the banking sector for financing and, as a result, banks' holdings of domestic government debt has surged to around fifty percent of their assets (more than thrice the average for Emerging Market Economies, EMEs) (Figure 1). Continued high domestic financing needs had its impact on the balance sheet of banking sector, which constitutes around ninety percent of the financial sector assets. Hence, given an underdeveloped capital market, commercial banks bought government debt, which was now auctioned at an increasing rate. Consequently, Egypt's Nexus is one of the highest in the world and has ranked so consistently for the last decade at least.

5. Several country-specific characteristics – and namely the strong presence of state-owned banks—are compounding factors. The strong presence of majority state-owned systemic banks who lend heavily to government entities and hold high levels of sovereign securities has raised some policy, governance, and risk management questions.[1] These systemic banks exhibit a combination of higher exposure and relatively lower capitalization compared to other banks (albeit still comfortably above regulatory requirements). Additionally, besides questions of exposure levels, there has been an evolving shift in composition of public sector exposure between direct lending and securities holdings, with a tilt towards more direct lending to the general government as of late. As a result, banking credit growth to the private sector has been largely outpaced by growth in public sector credit and investment in government securities. The subdued lending to private sector can be most observed within the balance sheets of the two biggest banks, with private sector credit accounting for only around ten percent of total assets as of March 2024.

[1] On average, around 75 percent of bank holdings of government securities are classified as held to maturity, with the remainder classified as available for trading. There are no prudential limits of government securities holdings.

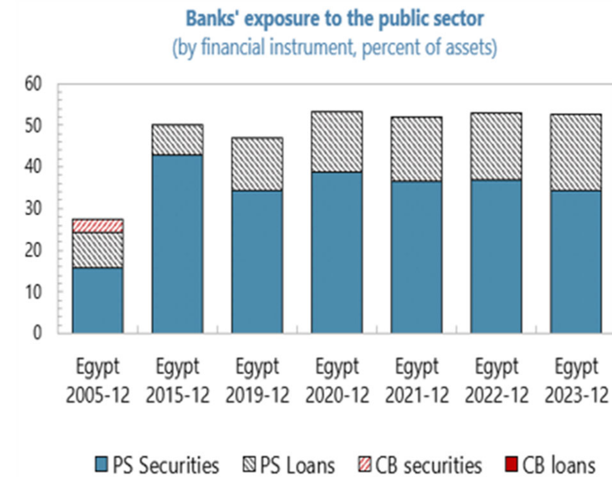
Figure 1. Egypt: The Sovereign-Bank Nexus

Egypt has one of the highest Sovereign-Bank nexuses in the world, with aggregate exposure of banks to the public sector around 50 percent of assets…

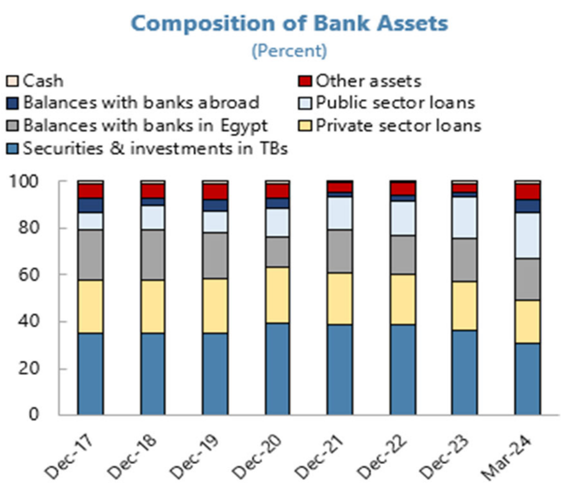


Sources: Egyptian authorities; IMF, World Economic Outlook Database; and IMF staff calculations.
Note: AE = advanced economies; EM&MI = emerging markets and middle-income economies; LIC = low-income countries

…this has consistently been the case for the last decade…

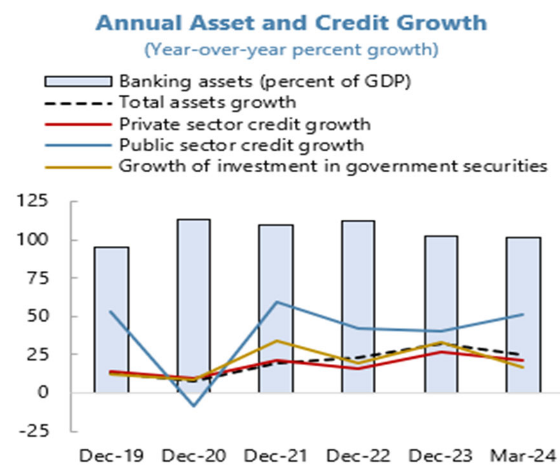


…leading to a composition of bank assets increasingly concentrated in public sector loans and securities …



Sources: Egyptian authorities; and IMF staff calculations.

… and ultimately leading to a relatively sluggish growth of credit to the private sector.



Sources: Egyptian authorities; and IMF staff calculations.

6. **While the Nexus can be weakened or managed, but not fully severed, policy measures could be considered simultaneously and on multiple fronts.**

- Addressing the **fiscal imbalances** is key to first containing and then starting to unwind the complicated interdependencies, with larger fiscal buffers being the preferred tool.
- **Public debt management** could also play a vital role in the development of financial markets by consistently following a robust medium-term strategy, geared towards diversifying the

investor base, also carefully managing the cost-risk profile of public debt. Improving cash management is also key.

- Addressing the **structural impediments** to financial sector development, like competition, the role of the informal economy, and financial inclusion.
- **Capital market development** and the growth of domestic institutional investors will deepen the market for risk-free assets, leaving the banks to concentrate on financing the private sector.
- In the interim, it is critical to closely **monitor the health of the banking sector**. Prudential measures could also be considered to address the high degree of concentration of assets.

7. The CBE has actively been tackling the challenge with a multi-pronged approach, with mixed results. Some elements of the approach, like enhancing the prudential limits on asset concentration and introducing SME lending initiatives, are actively deployed by the CBE. More broadly, financial inclusion, as measured by the number of adults with access to traditional and mobile banking services according to the CBE, has steadily improved over the years, taking advantage of mobile banking technology. This would help broaden the deposit base to keep pace with growth in certain asset classes. On the debt markets side, the continued deepening of the investor base and stabilization of funding conditions would help remove price distortions and incentives for holding excessive levels of government securities.

Annex VIII. State-Owned Enterprises and the State Ownership Policy

State-owned enterprises (SOEs) play a central role in the Egyptian economy and implementation of government policy. In December 2022, the Egyptian government adopted a State Ownership Policy (SOP) to guide ownership of state assets, including SOEs, and reforms to stimulate private sector activity over the medium term. However, the SOE landscape in Egypt is complex, opaque, favored, and encumbered by vested interests. These characteristics complicate implementation of the SOP and possibly temper private sector enthusiasm for investing in Egypt. This annex provides an overview of the existing SOE landscape and reviews progress in implementing the SOP, particularly as it relates to SOE's and divestment.

A. Introduction

1. Egypt has pursued a state-led economic model for decades. The current economic landscape is dominated by public-driven investments, an uneven playing field, and state-owned entities, including military ones, that operate directly in product markets. State control of the economy in Egypt is perceived to be among the highest and private share of investment and credit among the lowest, in Emerging Markets. In 2022/23, the share of public investment reached 74 percent of total investment. State-owned entities have enjoyed preferential financing and tax treatments and hold a commanding presence in some commercial sectors of the economy such as banking and telecommunications and are present in several non-strategic sectors such as accommodations. SOEs have always played a central role in the state-led strategy, despite potential inefficiencies.[1]

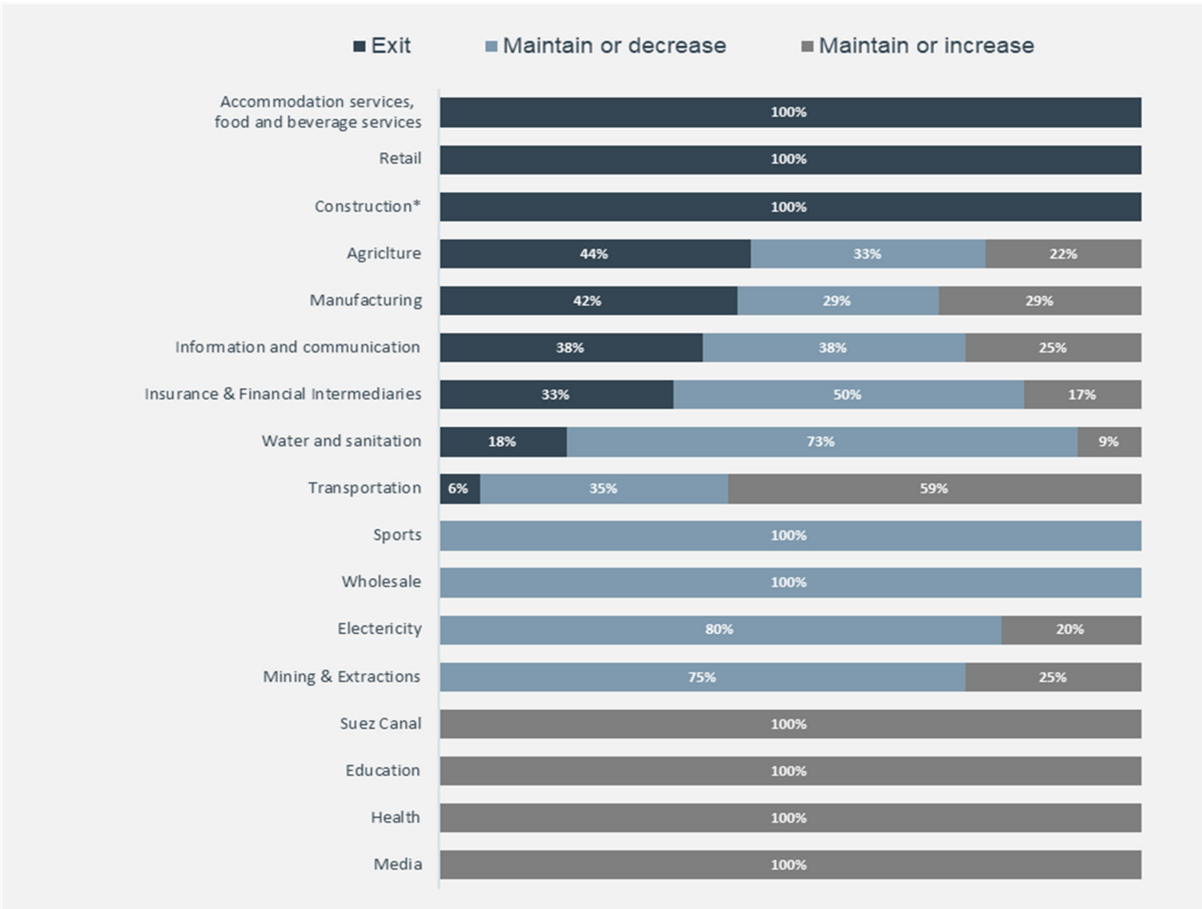
2. The State-Ownership Policy (SOP) is designed to improve monitoring of the state assets and promote private sector activity in part by divesting from SOEs.19F[2] The SOP is the first of its kind in the Middle East and North Africa region. The SOP provides a framework for reforms to support the private sector by enhancing the attractiveness and competitiveness of the business environment in Egypt. In addition, the government plans as part of the SOP to divest from state-owned assets in non-strategic sectors within 3–5 years and enhance the governance of state-owned assets according to the best international practices (Box 1)

[1] The government estimates the cost of idle capacity in the public business sector, a subset of all SOEs, amounted to about LE 208 billion in FY 2020–21.

[2] For the purpose of this note, SOEs are defined as in the State-Ownership Policy. Specifically, SOEs include public business sector companies, public sector companies, Economic authorities, joint venture companies, and companies in which the military has an ownership stake.

Box 1. State Ownership Policy Strategy by Main Sector

The following chart has been constructed based on information in the State Ownership Policy (SOP). The policy categorizes diffetent economic activities (subsectors) into 3 main policy strategies/directions ("Exit", "Maintain or decrease", "Maintain or Increase"). The percentage share shown in the chart below is calcaulated based on the number economic activities listed under each category as a share of the total number of activies per sector.



Source: State- Ownership Policy Document – percentages calculated based on number of subsectors outlaid in the document under each category (Exit, Maintain or decrease, Maintain or Increase).

B. SOEs Landscape: Portfolio, Governance & Financial Performance

3. **The current legal and ownership framework for government owned entities is complicated and decentralized**. Publicly available information suggests that the government has an equity interest in at least 950 companies (state-owned enterprises or SOEs). SOEs can be grouped into four broad categories based on the laws or decrees under which the SOEs and their affiliates are established and governed (See Text Table 1).[3] The Egyptian government also has stakes in about 645

[3] For the purpose of this note, SOEs are defined as in the State-Ownership Policy. Specifically, SOEs include public business sector companies, public sector companies, Economic authorities, joint venture companies, and companies in which the military has an ownership stake.

joint ventures with private companies through holding companies or subsidiaries of directly owned public companies, one of the highest in the MENA region (World Bank, 2024). Many public companies, economic authorities, and the entities governed under special laws have established joint ventures and partnerships with other non-state actors (domestic or foreign investors) under the Companies Law (Law 159 of 1981). Of the 645 joint ventures, the Ministry of Public Business Sector, through the holding companies accountable to it, has a stake in 300 of them, the majority of which are investees of Misr Insurance Holding Company. For example, Misr Insurance Holding Company through its affiliates holds equity stakes in four commercial banks. The remaining stakes in JVs are spread across numerous other state entities, including public sector banks and EAs.

Table 1. Egypt: Classification of State's Entities

Category	Governing law	# of Entities
Public Sector (PS) companies	Law of Public Sector Authorities and Companies (Law 97 of 1983), which does not allow for privatization.	43 companies operate under this law and are generally considered strategic entities (e.g., utilities).
Public Business Sector (PBS) companies	Law of Companies of the Public Business Sector (Law 203 of 1991); amended by law 185/2020 to bring corporate governance principles closer to the Companies law.[1]	207 companies operate under this law and are former PS companies that were corporatized.
Economic Authorities (EAs)	Each Authority is established pursuant to a Presidential Decree, following Law No. 61 (1963)	59 EAs are non-corporatized service providers that operate off-budget but usually take direction from line ministries
Entities governed by Special Laws[2]	Public Banks (4 commercial and special banks - each bank has its own establishment decree and follow banking sector law 194 of 2020)	Own shares in public and private companies
	National Investment Bank (NIB) – Law 119 of 1980	Owns shares in public and private companies
	National Service Projects Organization (NSPO) – President Decree No. 32 of 1979	Owns approximately 62 companies
	Arab Organization for Industrialization (AOI) - International Agreement under Law 12 of 1975	Owns approximately 14 companies

Source: World Bank (2022) and authors' estimates.

[1]Notably, the amendments require: (i) separating the positions of a chairman and a CEO; (ii) limiting labor seats on boards of directors of subsidiary companies to two members only, down from a current 50 percent share of labor representatives on boards; (iii) requiring SOEs that are not listed in the Egyptian stock exchanges to publish semi-annual performance reports; and (iv) subjecting SOEs with 25 percent or more of their shares offered on the Egyptian stock exchanges to Law No. 159 of 1981, governing private sector corporations.

[2] In 2018, the government established The Sovereign Fund of Egypt (TSFE) by a special law (Law 177 of 2018, amended by Law 197 of 2020). TSFE was established to facilitate the state's exit from state-owned assets as TSFE's governing law allows it to change the governing law of companies under its control to the Companies Law 159 of 1981, which can ease the divestment process. In 2024, the government passed a law placing TSFE under the Prime Minister, who through a decree, has appointed the Minister of the newly created Ministry of Investment and Trade, as the chairperson of TSFE, replacing the Minister of Planning & Economic Development. The board appoints the CEO. So far, only one SOE "Misr Insurance Holding Company MIHC" has been fully transferred to the Fund. The Fund also holds a stake in the company that owns 7 historic hotels along with EGOTH (SOE) and a majority shareholder from the private sector (51 percent).

4. Under the SOP, the government has created a database of SOEs. The annual aggregate SOE report published in September 2024, reports that there are 709 companies distributed among 18 sectors and owned by 33 different government entities, including some governorates. A quarter of the SOEs included in the database are in the manufacturing sector while another third are in the administrative and support services, financial, insurance, and real estate sector. Relatedly, a 2024 World Bank study notes that 72 percent of the SOEs in Egypt operate in competitive sectors, which is the highest percentage among the other countries mentioned in the report (Morocco, Oman, Jordan, Djibouti, Tunisia), indicating overlap with the private sector (World Bank 2024). Three ministries (Ministry of Public Business Sector, Ministry of Planning, Economic Development and International Cooperation, through the NIB, and Ministry of Supply and Internal Trade) oversee almost 70 percent of all SOEs in the database. The report notes that the state's ownership interest in the SOEs in the database is more than 75 percent in 158 companies (22 percent of total number of companies) and a little over half of SOEs are profitable (Figures 1 and 2).

Figure 1. Egypt: State's Share of SOE Equity
(Percent of number of SOEs)

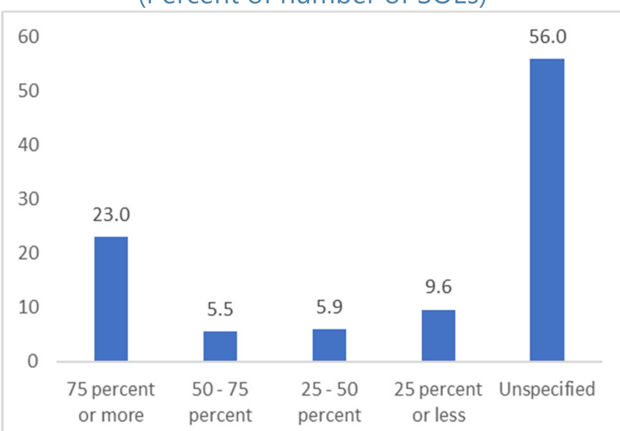
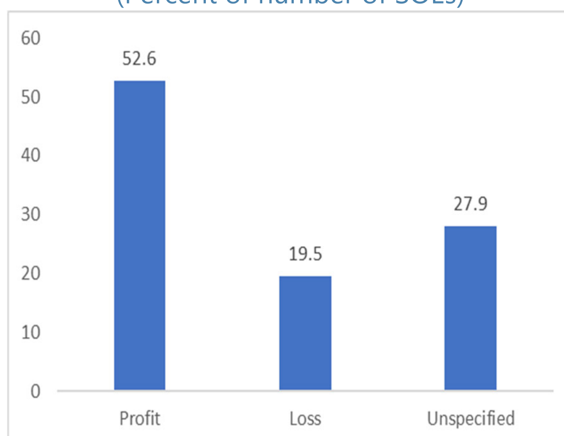


Figure 2. Egypt: SOE Profitability
(Percent of number of SOEs)



Source for all figures: Status of State-Owned Companies, Egyptian Cabinet, September 2024.

C. Military-owned Companies

5. Military-owned companies are not included in the SOE database.[4] There are roughly 80 military-owned companies, accountable to three umbrella government entities as shown below.[5] In competing with private entities, military-owned companies have benefited from special tax exemptions, access to prime land locations, an ability to cut through cumbersome licensing and regulatory procedures, and low-cost labor. As with most other SOEs, there is very limited transparency about their financial condition even though the state's audit agency "Accountability State Authority (ASA)" by law receives and audits the financial statements of any entity in which the state owns a 25 percent stake or more.

[4] This may explain some of the difference between the total of 950 SOEs identified through other publicly available information and the total of 709 in the database.

[5] Number of companies may vary from one source to another. This is a count of companies listed on each entity's website; however, the status of their operations is not known or any interrelations (hence double counting) is not clear.

- **Ministry of Defense (MoD)** MOD has two main entities affiliated to it that are currently considered to be the most dominating on a commercial basis, namely, the National Service Projects Organization (NSPO) and Armed Forces Land Projects Agency (AFLPA). NSPO was established in 1979 and currently owns 62 companies in various sectors.[6] NSPO's main mandate as per its establishment decree is to achieve financial independence for the armed forces, to reduce the fiscal burden on the state's budget, while also providing surplus goods to local markets that exceed the military's needs. NSPO's activities have expanded since 2014—25 percent of its 62 companies were established during the past decade. AFLPA was established in 1982 by virtue of a presidential decree that gives it the power to manage the sale of military-owned lands, as well as the returns from building alternative military facilities. In 2015, a presidential decree gave AFLPA the right to establish joint ventures with domestic and foreign companies, allowing AFPLA to increase its direct involvement in construction and service projects. For example, AFPLA is the majority owner of the Administrative Capital for Urban Development (ACUD) company, which is the entity responsible for developing the New Administrative Capital.[7]

- **Ministry of Military Production (MoMP)** through the National Authority for Military Production manages/ supervises 20 companies that mainly operate in the industries and chemicals fields with a focus on military products. MoMP's companies are registered as public business sector companies (Law 197 of 1983). Financial information published by Ministry of Finance in 2019/2020, shows that 25 percent of these companies are profit making (EGP 329 million), 25 percent are loss making (EGP 102.6 million) and the remaining 50 percent break even.

- **Arab Organization for Industrialization (AOI)** AOI was established in 1975 by Egypt, the Kingdom of Saudi Arabia, the United Arab Emirates, and Qatar to develop the Arab defense industry. However, in 1993, Egypt became the sole owner. Besides fulfilling the needs of the Egyptian military, AOI has expanded its operations into production of civilian products. The best-known category of civilian/ commercial products in which the AOI competes is home appliances. AOI currently owns 14 factories/ companies that are mainly focused in the industry sector, e.g., manufacturing elevator components.

6. Military-owned companies compete against private entities across a wide array of sectors and products. Military-owned companies produce consumer goods ranging from dairy and wheat products to cement, fertilizers, cars, and fuel distribution (Figure 3). The market share of military-owned companies in selected civilian products reaches up to 36 percent with the highest shares in the marble and granite, cement, and steel industries (Figure 4), and their commercial reach has continued to expand even in the last two years, with notable acquisitions in the hospitality, energy and utility, and steel sectors in 2024. While military-owned companies might not hold a dominating share of a sector, competing with the armed forces may deter private investors given the privileges military-companies enjoy as previously mentioned.

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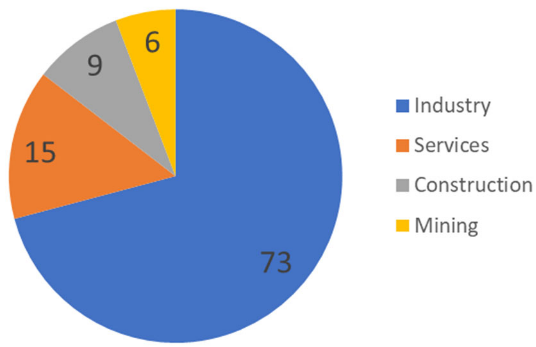
[6] 62 companies are listed on the website of NSPO. Not all these companies are fully owned by NSPO, however, information on ownership structure is not available.

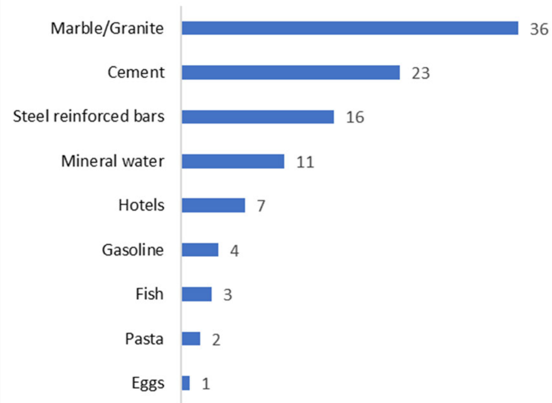
[7] ACUD is a joint-stock company established in April 2016. The Ministry of Defense—specifically by the National Service Projects Organization and the Armed Forces Land Projects Agency— owns 51 percent of the company and the Ministry of Housing, through the New Urban Communities Authority (an Economic Authority) owns the remaining 49 percent.

Figure 3. Egypt: Military Companies' Sector Distribution
(Percent of number of SOEs)



Source: Author's classification of companies listed on MoMP, MoD, NSPO & AOI official websites

Figure 4. Egypt: Military Market Share for Selected Civilian Products (Percent)



Source: Sayigh. 2019. "Owners of the Republic"

D. State Ownership Policy (SOP)

7. **The State Ownership Policy (SOP) is an integrated package of objectives and policies to guide state ownership of assets**. The policy encompasses companies owned by the public sector, public business sector companies, economic authorities, public holding companies, companies affiliated with the armed forces and operating in the economic field, and assets owned by other public entities. The policy defines the criteria to be used for determining whether a sector is strategic, explains how each sector is assessed against these criteria, and lists the sectors from which the public sector will divest or partially divest or increase its presence. The policy states the government will be guided by the OECD "Guidelines on Corporate Governance of State-Owned Enterprises" in governing assets retained by the state. The policy also includes a commitment to competitive neutrality to encourage investment and innovation, following best practices and principles.

8. **The government has initiated institutional reforms that underpin implementation of the SOP.** The government has enacted laws to provide the Egyptian Competition Authority (ECA) with greater control over mergers and acquisitions, including those potentially involving SOEs, and to remove special tax privileges for SOEs. The cabinet has also submitted to parliament draft legislation to create a framework for moving toward a more centralized oversight function of SOEs and improving their governance.

9. **The authorities have also taken strides to improve the transparency of policy implementation, the SOE portfolio, and SOE procurement activities.** The Information Decision Support Center (IDSC) in the Prime Minister's office has published two annual implementation monitoring reports in August 2023 and August 2024 and an annual aggregate SOE report in September 2024. The annual implementation reports provide a summary of the institution set up for implementing the SOP, efforts to improve competitive neutrality particularly by the Egyptian

Competition Authorities, and reforms to improve the business environment, including through some efforts to level the playing field. They also point to ongoing efforts to implement the SOP. The aggregate SOE report provides summary level details on the SOEs captured in IDSC's SOE database and is a good base upon which to expand future reports with even more granular detail on SOE's sector presence and financial performance. To complement the aggregate SOE report, the Ministry of Finance (MoF) published on its website basic financial statements of the public sector business companies for FY2022/23. In addition, the General Authority for Government Services and the MoF published on their respective websites an inaugural monthly report in September 2024 of the procurement activity of 31 of the largest EAs and SOEs. For procurement awards from June - August 2024, the report lists the deals, mode of transaction (direct order/ limited tender, etc.), number of offers submitted, date of checking tenders, award date, selected company, value of tender, duration of contract. This contributes to enhancing transparency of SOEs operations and promoting fair procurement practices especially that this report is be published monthly. Moreover, in line with recent legislated changes, the government submitted to parliament a consolidated general government reporting budget that includes all 59 Economic Authorities (EAs), along with separate budget proposals for the budget sector and each of the 59 EAs. Importantly, the EAs will now be subject to binding ceilings on their debt, adjustment of which will require parliamentary approval.

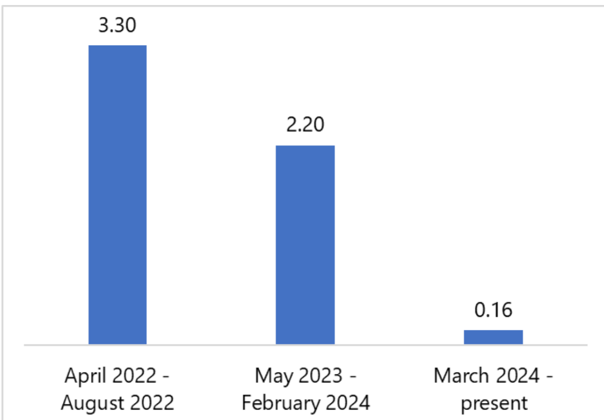
10. However, progress in divesting from SOEs, an important element which would signal the government's commitment to private sector-led growth, has been limited. The total value of proceeds from partial or full divestment of SOEs from all sector buckets is about USD 5.7 billion since March 2022. The transactions were concentrated in two distinct time frames. The first phase covers transactions that occurred before the issuance of SOP document (March to August 2022), and the second phase covered transactions since the SOP was endorsed by President El Sisi (May 2023 to December 2024). With the exception of two small transaction, there have been no newly announced sales since October 2023 (Figure 11).[8]

11. Government equity stakes in only 9 companies have been divested from the 35 announced list of companies since adoption of the SOP. Under the SOP, the authorities committed to divest from non-strategic sectors by 2027. In February 2023, the prime minister announced the state's plan to sell its stake (fully or partially) in 32 companies. Subsequently, three more companies were added to the list for a total of 35 companies (Figure 6). Selling shares in only 9 out of the 35 companies over the last 2 years is a significant slowdown relative to the pace in 2022 (Figure 5). In addition, the government continues to send mixed signals regarding its desire to sell military-owned companies. The two NSPO's owned companies "Watanya", a gas retailer, and "Safi", a water bottler, on the list have not been sold. However, in December 2024, the state renewed its commitment to sell the Watanya and Safi and announced its intention to divest from two more

[8] In September 2024, the authorities announced the sale of a small state-owned microfinance firm for the EGP-equivalent of US$58 million to a consortium of investors including the European Bank for Reconstruction and Development (EBRD) and the British International Investment (BII). Also United Bank was listed on the stock exchange in October, with actual trading started in December 2024.

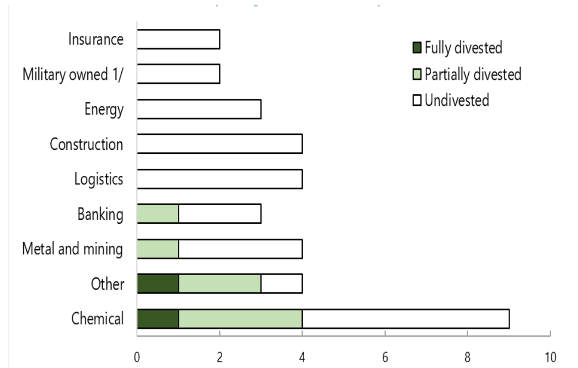
military companies, namely Chillout (a gas retailer) and Silo Foods. The government also put forward an updated set of companies to be listed on the stock exchange or sold to strategic investors during 2025, comprised of 10 companies (including military owned ones)[9] out of which 7 were among the 35 companies previously announced in 2023.[10]

Figure 5. Egypt: Divestments Earnings Since 2022
(US$ - billions)



Sources: Egyptian authorities; IMF calculations.

Figure 6. Egypt: Divestments Since SOP Adoption
(Bar lengths correspond to number of entities in each sector/activity offered for sale by the government in early 2023; total = 35)



Source: Egyptian authorities. Note: SOE=state-owned enterprises.
1/ Composed of two entities: one in retail fuel and the other in bottled water industry.

[9] The announced list in December 2024 included "The United Bank" which was also among the list of 35 companies offered for divestment in 2023. Hence it is not counted here as part of the companies that shall be listed in 2025.

[10] The new addition to the list is only three companies, namely: Chemical Industries Development Company (CID), Chillout, and Silo Foods.

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Annex IX. Implementation of Past Fund Advice

1. The authorities have taken steps, including under the EFF arrangement, to implement policies in line with policy advice from the 2021 Article IV consultation. Specifically, they have (i) shifted to a flexible exchange rate regime; (ii) broadened coverage of fiscal data, with the preliminary consolidated general government budget now including 59 economic authorities for the first time in FY2024/25 (after revision of the PFM law and issuance of the executive regulation); (iii) improved their open market operations framework to ensure that the interbank rate remains within the target corridor, (iv) deepened financial inclusion, and (v) defined a clear state ownership policy, while working to enhance the independence of the competition authority.

Annex X. Climate Change Adaptation and Mitigation

1. Macroeconomic Implications of Climate Change: Climate adaptation, mitigation, and transition all present sizeable economic challenges for Egypt.

- **Adaptation:** Egypt is susceptible to climate hazard, specifically sea level rise, extreme heat, and water uncertainty. These challenges will likely become even more severe in the decades ahead, especially if insufficient adaptation measures are incorporated (Figure 1). The World Bank's CCDR highlights that by the middle of the century, temperatures are expected to rise by between 1.5 and 3 degrees in Egypt. Increased heat stress, combined with rainfall variability, will exacerbate water scarcity and threaten biodiversity and food security. The report states that without additional measures to increase water efficiency in agriculture, water scarcity will increase net virtual water imports by 15 percent by 2030, or increase them by more than 45 percent in drought periods. Sequentially, according to estimates, and subject to high uncertainty, the combined impact of climate change on water resources, tourism revenue, coastal resources, agriculture and human health through air pollution and water stress, represent an 8 percent drop in income per capita drawing on data for Egypt between 1960 and 2014.

- **Mitigation:** Although Egypt's per-capita emissions are relatively low, its large population contributes to it being the third largest emitter in the Middle East and North Africa region.[1] At present, Egypt's emissions are mostly driven by its energy sector (Figure 1). While Egypt has high solar and wind potential and efforts to scale renewables are underway, Egypt's energy supply currently relies largely on natural gas (58 percent) and oil (34 percent). Rapidly increasing the supply of renewable energy will require considerable investment and a well-sequenced strategy to integrate renewables into the grid and retire more emissions-intensive power plants. Ensuring that fossil-fuel energy is priced appropriately will also help support mitigation goals. Estimates by the IMF show that Egypt's explicit and implicit fossil fuel subsidies are the largest compared to emerging economies in the region and worldwide (Figure 1). Progress has been made in limiting energy subsidies over the past decade and reforms under the EFF seek to improve upon this through the removal of (explicit) fuel subsidies.

- **Transition:** Egypt's reliance on natural gas presents transition challenges. Domestic efforts to scale-up renewables will need to carefully consider the future role of Egypt's current excess thermal capacity, and how the transition can be achieved by minimizing economic disruptions, distributional effects, and stranded assets. The large contribution of natural gas revenues to exports also mean that Egypt is vulnerable to global mitigation efforts and a broader decline in demand for fossil fuels. Egypt's carbon-intensive export sectors, for example electricity transmission, oil, and fertilizers would also be hard-hit by a border carbon adjustment mechanism, such as the EU's CBAM (see related Climate SIP, Panel 1- Figure 6, and World Bank

[1] See Timilsina and Sebsibie (2024):
https://documents1.worldbank.org/curated/en/099430006042429299/pdf/IDU13edd46ce13af614f4a1a76e193fcc82b1034.pdf

CCDR (2022)). As such a just transition plan ought to be in place to protect the vulnerable and help workers during the transition.

2. Egypt's Reform Agenda: After hosting COP27 in 2022, momentum has increased on Egypt's domestic climate change agenda:

- The National Climate Change Strategy 2050 (NCCS) was launched in June 2022, with five broad goals: (i) Achieving sustainable growth and low-emission development; (ii) Enhancing resilience and adaptive capacity to climate change; (iii) Enhancing climate change action governance and management; (iv) Enhancing climate financing infrastructure; and (v) Enhancing research, technology transfer and knowledge sharing to combat climate change.

- Egypt updated its Nationally Determined Contributions (NDCs) in June 2023, outlining its revised adaptation and mitigation pledges. Egypt's NDC is conditional on international support and lacks unconditional targets. On adaptation, Egypt focuses on reducing vulnerability to climate shocks in eight key areas: water resources and irrigation, agriculture, coastal zones, urban development and tourism, disaster risk management, health, biodiversity, and education. On mitigation, Egypt's goals are still modest and lack a nation-wide emission reduction target and instead focus on emission reduction targets in three sectors. It will target GHG emission reductions relative to business-as-usual (BAU) levels in three sectors by 2030: electricity (37 percent), associated gases from the oil and gas sector (65 percent), and transport (7 percent). Egypt also joined the global methane pledge in 2022, with a global goal of reducing methane emissions by 30 percent by 2030 and committed to producing around 30 percent of its power from renewable energy sources by 2030. For Egypt to implement its revised adaptation and mitigation targets up to 2030, Egypt's required financial resources are estimated at a minimum of US$246 billion (US$196 billion for mitigation, and US$50 billion for adaptation).

- To enable the implementation of the NCCS and NDCs, the government launched the Nexus of Water, Food and Energy (NWFE) scheme. NWFE serves as a platform for Egypt to catalyze partnerships, adopt interdisciplinary solutions that can have cross-sectoral benefits, and mobilize finance to support specific projects identified in these three key sectors. NWFE consists of nine projects: three projects related to irrigation and water worth US$1.4 billion, five projects on food and agriculture worth US$3.3 billion, and one energy project worth US$10 billion. The flagship energy project seeks to install 10 GW of renewable energy capacity at an investment cost of about US$10 billion to be implemented through the private sector. The project also seeks to retire 5 GW of inefficient fossil-fuel capacity and strengthen the electricity transmission network.

- Egypt has been mobilizing national and international green finance through multiple initiatives. Egypt's Ministry of Finance launched the first sovereign green bonds in the MENA region in September 2020 at a value of US$750 million to improve Egypt's environmental standing and attract foreign investments particularly in projects covering pollution reduction and control, sustainable water and wastewater management, clean transportation, and renewable energy. In addition, the CBE issued regulations relating to sustainable finance. They include requirements for banks to incorporate sustainable finance policies into lending and investment practices, establish an independent unit for sustainability by April 2023, hire an environmental consultant to assess environmental risks starting July 2023, and submit quarterly reports on sustainable finance activities and a yearly sustainability report to the CBE by 2024.

3. International Partners: As well as the IMF, Egypt is engaged with several IFIs and partners on its climate change agenda, and staff has coordinated with these partners.

- The IMF has provided technical assistance on ensuring investment practices are suited to climate change challenges through a climate-public investment management assessment (C-PIMA) in 2022. The C-PIMA, which is an extension of the general PIMA framework, assessed five key public investment management practices from a climate change perspective and recommends that the government of Egypt integrates strategies and objectives for climate change adaptation and mitigation in all relevant planning processes, reflect climate change considerations in budgeting and portfolio management decisions, and strengthen management of climate-related fiscal risks. Representatives of the World Bank participated in the assessment.

- Also in 2022, the World Bank completed a Country Climate and Development Report (CCDR) for Egypt, laying out the key challenges and opportunities associated with Egypt's climate ambition. Following on from the CCDR, the World Bank is supporting NWFE projects relating to electricity and irrigation.

- NWFE has three main pillars: energy, water, and food. The European Bank for Reconstruction and Development (EBRD) is NWFE's lead partner for the energy pillar, the African Development Bank (AfDB) is the lead partner for the water pillar, while the International Fund for Agricultural Development (IFAD) is the lead partner for the food security pillar.

- The EBRD is Egypt's lead partner on the energy pillar, and at COP27 the EU, Germany, and the United States pledged financial support of US$500 million to support this pillar and the green energy transition. The EBRD has also been supporting through the Green Economy Financing Facility and the Green Value Chain Egypt programs whereby they provide funding to financial institutions for on-lending to green projects which leads to the overall greening of the value chain.

- AfDB is the lead partner on the water pillar. There is a pressing need to safeguard Egypt's water resources. Given increased water demand (Egypt's agriculture sector alone demands 80 percent of the country's water), there is a growing need to conserve and manage water resources though nonconventional measures such as desalination, among others. In May 2023, AfDB announced mobilizing US$2.2 billion to fund Egypt's water desalination and treatment projects for agriculture. One of its key projects is the "Integrated Rural Sanitation in Upper Egypt in Luxor" (IRSUE-Luxor) which aims to treat wastewater generated in rural areas in Upper Egypt for reuse for agricultural and other purposes. Its goal is to expand access to improved sanitation services in rural areas from 34 percent in 2019 to 98 percent in 2030.

- IFAD is the lead partner on the food pillar. IFAD's loans aim to improve agricultural productivity in the Nile Valley, reduce rural poverty, and enhance national food security.

- The European Investment Bank (EIB) is also working closely with Egypt on all aspects of the NWFE scheme, with projects in the energy, transport, agriculture, and water sectors. More recently, the EIB in coordination with the Ministry of Housing, is exploring a results-based loan for the water sector in Egypt. The loan could potentially finance investments contributing to, but not limited to: (i) non-revenue water reduction (which is particularly relevant as desalination capacities come on stream), (ii) an increase in conventional water supply, and (iii) an improvement in operational performances of water utilities. Overall, the objective of these investments is to contribute significantly to: climate adaptation given increasing water deficit in Egypt, the financial sustainability of the sector, and the availability of vital resource for households and economy.

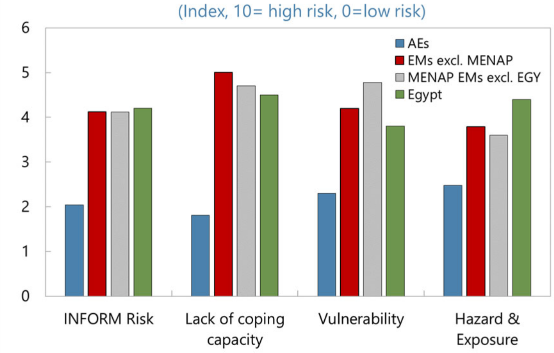
- The European Commission provided EUR 1 billion macro-financial assistance (MFA) in December 2024. The loan involved structural benchmarks spanning three pillars: macroeconomic stability, business environment, and green transition. The European Commission has been involved with Egypt's green agenda particularly by supporting the adoption of a revised strategy of sustainable energy.

Figure 1. Egypt: Climate Change Diagnostics

Egypt has a higher overall climate risk relative to other EMs in MENA and the world, and relative to AEs, especially when it comes to climate hazard and exposure…

INFORM Risk

(Index, 10= high risk, 0=low risk)

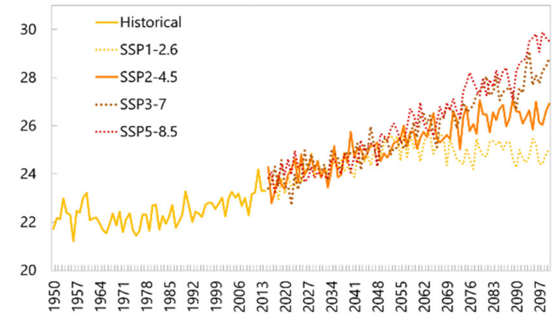


Sources: Disaster Risk Management Knowledge Centre European Commission, IMF staff calculations.

…temperature has been rising in Egypt, and is expected to rise even further under all scenarios, with significantly higher rises projected under weak/no adaptation scenarios…

Average Annual Temperature

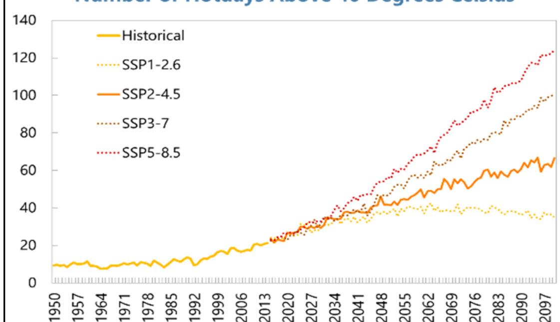
(Degrees Celsius)



Sources: Climate Change Knowledge Portal, IMF Staff Calculations

…this is reflected with an increase in the number of hot days exceeding 40 degrees Celsius…

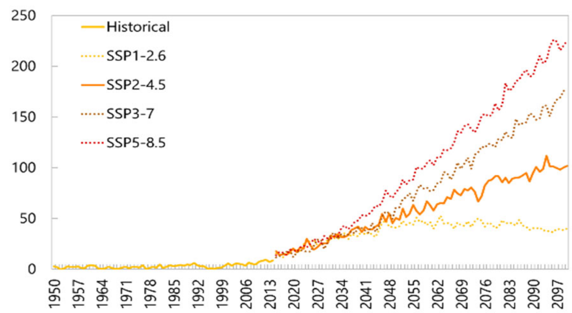
Number of Hotdays Above 40 Degrees Celsius



Sources: Climate Change Knowledge Portal, IMF Staff Calculations

… as well as an increase in heat spells (a sequence of six consecutive days with extreme temperatures).

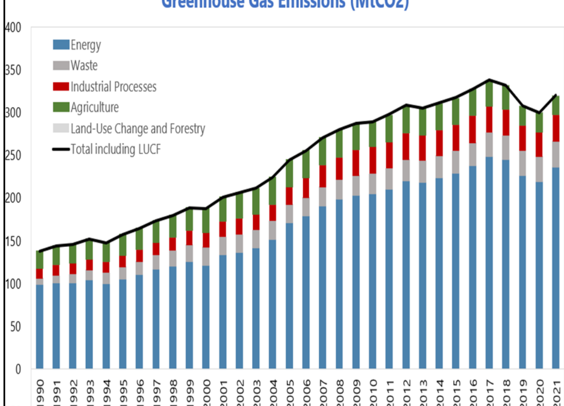
Warm Spell Duration Index



Sources: Climate Change Knowledge Portal, IMF Staff Calculations

Greenhouse gas emissions have grown rapidly in Egypt, despite a recent pullback, mostly driven by the energy sector…

Greenhouse Gas Emissions (MtCO2)

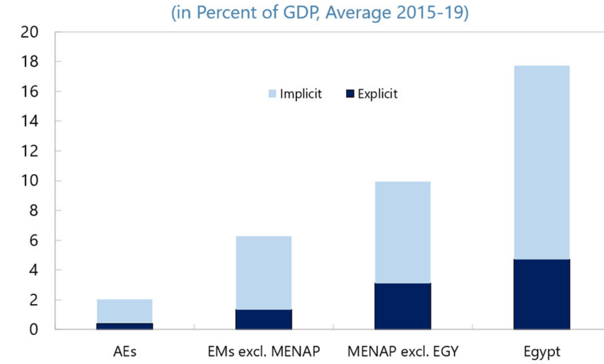


Sources: Climate Watch Data and IMF staff calculations.

… partly due to large explicit and implicit fossil fuel subsidies in Egypt, which are higher than in comparator EMs.

Fossil Fuel Subsidies - Total

(in Percent of GDP, Average 2015-19)



Source: Parry et al. 2021 and IMF Staff Calculations

Note: Explicit subsidy reflects explicit undercharging for the opportunity cost of consuming the fuel domestic (i.e., international price if the product can be traded, cost recovery level for electricity). Implicit subsidy reflects undercharging for the environmental costs associated with consuming the fossil fuel, mainly global warming damages, local air pollution, congestion, and road accidents.

Appendix I. Letter of Intent

February 7, 2025

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431

Dear Ms. Georgieva:

Our economic program under the Extended Fund Facility (EFF) remains on track. We have sustained the shift to a flexible exchange rate regime and a liberalized foreign exchange (FX) system, maintained an appropriately tight monetary policy stance aimed at reducing inflation, continued with fiscal consolidation, and have begun implementing the framework for slowing down overall public investment. These measures, combined with the augmentation of our EFF program at the conclusion of the 3rd review and the investment deal in the Ras El-Hekma region, have bolstered foreign reserves and investor confidence in domestic economic policy.

However, risks surrounding our economic outlook remain significant. These include negative spillovers from regional conflicts—posing challenges for growth and fiscal and external balances—elevated inflation despite the recent slowdown, high levels of government debt and debt service despite fiscal consolidation, and subdued private sector activity despite early signs of improvement. While primary balance targets and the composition of the tax package have been recalibrated to allow more support to economic recovery and to vulnerable and middle-income groups, we remain fully committed to continue our fiscal consolidation to sustainably realize adequate primary surpluses, boost the revenue base, maintain a downward debt trajectory, and reduce gross financing needs, supported by a more robust debt management strategy as outlined in the attached Memorandum of Economic and Financial Policies (MEFP).

Looking forward, to durably improve our fiscal position and create space for high-quality expenditure, we remain committed to mobilizing revenues and reducing untargeted subsidies. We met the prior action to submit tax-related legislation to Parliament to generate an expected improvement in tax revenue of close to 1.0 percent of GDP in FY2025/26 and commit to legislate another tax package of high-quality tax measures to be delivered in the context of the FY26/27 budget to meet our objective to raise the tax revenue to GDP by 2 percentage points over the program horizon. We remain firmly committed to reducing fuel subsidies by restoring fuel prices to their cost recovery levels by December 2025. We will take additional steps to protect vulnerable groups of the population. To reduce our financing needs, we will complement fiscal consolidation efforts with a stronger debt management strategy and a commitment to publish debt statistical bulletins.

Bringing down inflation is a key policy priority, and we will not hesitate to utilize all tools at our disposal to ensure that the policy stance allows for a sustained decrease in underlying inflation and safeguards price stability over the medium term.

To ensure better management of macroeconomic pressures, we are implementing a comprehensive monitoring framework for the overall public investment portfolio. We have expanded substantially the perimeter of general government fiscal reporting to track broader fiscal activities and to better manage fiscal risks. We also have taken steps to improve the financial standing of the Egyptian General Petroleum Corporation (EGPC) and have begun repaying its arrears to international oil companies. We plan to reduce outstanding government guarantees for EGPC and remain committed to reducing the stock of government guarantees as a ratio of GDP.

The financial sector has shown resilience to macroeconomic shocks. To safeguard financial stability, we conducted near-term stress test of the banking sector in consultation with the IMF staff. Also, to support stronger governance practices, we met the prior action to complete the tendering process to commission an independent assessment of state banks' policies, procedures, and controls by an internationally recognized firm.

To improve our medium-term growth prospects, on the structural reform front, we are committed to reaching the divestment objective we established at the beginning of the program and significantly advancing implementation of the overall state-ownership policy. We plan to enhance the set of proposed indicators to track more granularly implementation of the state-ownership policy, particularly as it pertains to reducing the state's footprint in non-strategic sectors. We also continue to improve trade procedures to enhance the business climate and continue with efforts to further strengthen the Egyptian Competition Authority.

Based on the strength of the policies that are described above and set forth in the attached MEFP (Attachment I), we request completion of the fourth review of the arrangement, with the purchase of SDR 922.87 million. The program remains fully financed. We request Executive Board approval of: (i) a waiver of non-observance of end-December 2024 program target on the balance on central bank lending to public agencies on the basis that the deviation was temporary - the central bank received sufficient repayments in January and February to bring the stock of outstanding loans within the end-December 2024 target; and (ii) a waiver of non-observance of the end-December QPC on the primary fiscal balance including divestment on the basis of our proposed corrective action to apply 100 percent of the proceeds from an anticipated sale of land for US$3 billion in the current fiscal year toward debt reduction, which would significantly exceed the shortfall in the primary balance surplus relative to the end-December 2024 target. We met the end-December 2024 target for the government's balance on the overdraft account. We also request approval of modifications to the quantitative performance criteria for future program reviews in light of developments and new information since the previous review. The requested modifications reflect the strengthened commitment to a revenue-based fiscal consolidation and larger NIR balances to ensure reserve buffers remain adequate at close to 120 percent of the ARA metric going forward. We met eight out of seventeen structural benchmarks for the review and have proposed new timeframes to meet most of the outstanding commitments.

While we are confident that the policies that underpin our program ensure macroeconomic stability and achievement of our program objectives, we stand ready to take additional measures, as necessary. In accordance with the Fund's policies, we will consult with the IMF on adoption of such measures and in advance of revisions to policies contained in the MEFP. We will refrain from any policy that would not be consistent with program objectives and commitments.

The EFF program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks, as described in the MEFP and Technical Memorandum of Understanding (TMU). The fifth review is expected to be completed on or after March 15, 2025, and the sixth review will be completed on or after September 15, 2025. We will continue our efforts to provide timely and accurate data that are needed for program monitoring. We will provide any information that has material impact on economic conditions and program objectives. We will maintain a close regular dialogue with IMF staff to ensure timely implementation of our economic program. We will consult IMF staff before making any policy changes that impact our economic program with the IMF.

Further, Egypt is subject to the impact of climate change. We request an arrangement under the Resilience and Sustainability Facility (RSF), which would run concurrent to the underlying Extended Fund Facility (EFF) arrangement, and with access of SDR 1 billion (49 percent of quota). An RSF arrangement would support embedding climate goals into macroeconomic policymaking – such as energy pricing policies and investment planning—to help sustain our broader mitigation and adaptation efforts. We plan to use RSF resources for budget support and will put in place the appropriate arrangements between the Central Bank and the Ministry of Finance. The RSF program will be monitored through implementation of reform measures, as described in the MEFP.

We consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

/s/
Hassan Abdalla
Governor of the Central Bank of Egypt
Arab Republic of Egypt

/s/
Ahmed Kouchouk
Minister of Finance
Arab Republic of Egypt

Attachment I. Memorandum of Economic and Financial Policies

Introduction

1. **We have made good progress in stabilizing the economy under our economic program supported by an EFF arrangement.** The monetary policy rate hikes earlier this year are gradually bringing inflation down towards our target range and we stand ready to take further action as necessary to secure this goal. Continued fiscal tightening and slowed implementation of public investment have further dampened demand pressures and support preserving debt sustainability. The unification of the exchange rate in March and substantial foreign exchange inflows, in particular from the Ras El Hekma investment deal of which half were used for debt reduction in FY2023/24, as well as the augmentation of the EFF arrangement bolstered foreign reserves and investor confidence in domestic economic policy. Successive and notable fuel and electricity price hikes have begun to restore the finances of the Egyptian General Petroleum Corporation (EGPC) and lay the foundation for price incentives to motivate more efficient consumption behavior and a shift toward a greener economy. Government debt, while still elevated, has declined as a percent of GDP and is trending down. The recent upgrades to Egypt's credit ratings by Fitch and recent positive outlooks by Moody's and S&P reflect a stronger outlook.

2. **We have undertaken these stability measures amid a very challenging regional security environment and the installation of a new government.** Disruptions in the Red Sea have notably reduced FX revenues from the Suez Canal by 62 percent from January to November 2024 relative to the same period last year, depriving Egypt from a major source of foreign currency. The shortfall is even more pronounced relative to our expectations and has substantially reduced foreign exchange flows and fiscal revenues. At the same time, Egypt continues to receive refugees and asylum seekers from neighboring countries, who are putting some upward pressure on rents and prices in many geographic areas. Following presidential elections in December 2023 and the start of President El-Sisi's third term in April 2024, a new government was formed in July 2024.

3. **We remain committed to instituting a paradigm shift towards more reliance on the private sector as the driver of growth rather than on public sector activity.** The State Ownership Policy, endorsed by President El-Sisi in late 2022, lays out the core policies for achieving this shift. These policies include enhancing and streamlining the management of state-owned assets, including through divestment, leveling the playing field between public and private sector actors, and improving the overall business environment. The immediate focus of the new government formed in July 2024 is to make a concerted effort to enhance the business environment and build trust and better relations with the private sector, initially through measures that reduce the administrative burden, improve trade facilitation, and simplify, streamline and improve the tax system. These efforts complement earlier actions to level the playing field through removing any preferential tax treatment for state-owned enterprises, empowering the Egyptian Competition Authority to better monitor and control mergers and acquisitions, and some initial divestments such as the sale of equity in seven

marquee hotels, several petrochemical companies, and the state-owned tobacco company. Most recently, we completed the initial public offering (IPO) of 30 percent of United Bank. Looking forward, we will accelerate the divestment program, and have committed publicly to offer 4 companies owned by the armed forces on the Egyptian Stock Exchange in the first half of 2025.

4. We seek to strike the right balance between ensuring sustainability and supporting the ongoing recovery, so as to foster broader support for Egypt's reform program. We are committed to maintaining a flexible exchange rate regime and fostering a fully liberalized foreign exchange system that allows market forces to determine access and allocation of foreign exchange. We will maintain a tight monetary policy stance until we have firm evidence of a sustained slowdown in inflation and will adjust the stance in a data-dependent manner to achieve our inflation target and further anchor inflation expectations. While primary balance targets have been recalibrated to allow more support to economic recovery and to vulnerable and middle-income groups, we remain fully committed to continue our fiscal consolidation to sustainably realize adequate primary surpluses, boost the revenue base, maintain a downward debt trajectory, and reduce gross financing needs, supported by a more robust debt management strategy. Along with a continued reduction in untargeted energy subsidies and significantly curtailed use of tax incentives schemes, our fiscal policies will create space to increase social and human capital spending. To lay the foundation for an acceleration of medium-term growth, we will more forcefully implement our structural reform agenda, including the divestment program, in accordance with the state ownership policy, and advance ongoing efforts to improve relations with the private sector through tax administration and customs reforms.

5. To support our efforts to implement macro-critical climate reforms, we request an arrangement under the Resilience and Sustainability Facility (RSF). The requested arrangement focuses four broad challenges: (i) accelerating decarbonization, (ii) strengthening the management of climate-related risks and building resilience, (iii) increasing the capacity of the financial sector to identify climate-related risks and support green finance opportunities and (iv) identify the effects of investment plans, programs, and projects on national climate change targets.

Recent Developments and Outlook

6. Growth weakened last fiscal year partially due to external shocks and tighter monetary and fiscal policies. Growth slowed to an average of 2.3 percent in the second half of FY2023/24 and 2.4 percent for the full year. Foreign exchange shortages, geopolitical tensions in the region, prolonged maritime trade disruptions in the Red Sea, and policy tightening, particularly in the second half of the fiscal year, all played a role in the outturn. Inflation has trended downwards since a peak of 38 percent in September 2023 to 24.1 percent year-on-year in December 2024 as monetary tightening takes hold, following a hike in the policy rate by 800 basis points early in calendar year 2024. Growth picked up in the first quarter of FY2024/25 reaching 3.5 percent versus 2.7 percent during the same period in FY2023/24. Manufacturing was a bright spot growing 7.1 percent in the quarter compared to a contraction of 8.1 percent in the prior year. Conversely, extractive industries contracted by 4.7 percent in FY2023/24, and the sector's weak performance persisted through the first quarter of FY2024/25 with activity in the oil sector declining by 6.2 percent and natural gas production contracting by 18.7 percent both compared to the first quarter in FY2023/24.

7. The unification of the exchange rate, external inflows, and monetary policy tightening early in the second half of last fiscal year improved the external financing situation. Gaps with the parallel rate remain closed, foreign exchange demand backlogs at banks continue to be zero, and trading volumes in the foreign exchange market suggest that market liquidity has improved, specifically on the back of the sharp rebound in remittances. Inflows of foreign exchange from the Ras El Hekma deal, the augmentation of the EFF arrangement, and nonresident purchases of local currency Treasury securities early in the year significantly added to net international reserves, which have continued to accumulate, reaching US$39.3 billion in October 2024. Since hiking the policy rate by 800 basis points early in calendar year 2024, we have left the policy rate unchanged. The exchange rate has shown two-way movement in response to capital inflows and outflows, appreciating to a post-unification low of EGP46.5 to the dollar in late March and depreciating to EGP50.8 to the dollar in mid-December.

8. We achieved our primary surplus budget target for FY2023/24 through expenditure control. Broad-based primary expenditure control more than offset lower Suez Canal tax payments, and shortfalls in some excise taxes to generate an increase in the primary surplus, excluding divestment proceeds, by 1 percentage point of GDP compared to the previous year. Budget sector debt, based on our definition, fell to 89.6 percent of GDP in FY2023/24 from 96.4 percent of GDP in FY2022/23 aided by transferring half of the proceeds from the Ras El Hekma deal to the MoF for debt reduction. Furthermore, we successfully decreased the debt service burden on a cash basis to GDP from 3.4 percent of GDP during the first quarter in FY2023/24 to 2.6 percent of GDP in the same period of FY2024/25 despite elevated market interest rates. The fiscal outturn in the first quarter of FY2024/25 was consistent with meeting the FY2024/25 budgeted primary surplus of 3.5 percent of GDP, exclusive of divestment inflows. Higher tax receipts, including from taxes on treasury securities' interest earnings, and the VAT on imports relative to a year earlier underly the first quarter revenue outturn. At the same time, we increased social spending by EGP 13 billion to EGP 56 billion during the same period. This includes increases in funding for the Takaful and Karama programs, which support low-income families, and other social welfare initiatives.

9. The banking system remains stable. Banks on average are increasingly profitable, liquid, and have adequate yet marginally eroding capital adequacy levels (compared to 2021) that today exceed prudential minimums by a comfortable buffer, reaching around 19 percent as of end-September 2024—the highest level since 2022. Average return on assets improved markedly in FY2023/24 to around 2 percent, driven mainly by net interest income on lending and investments in government securities. Asset quality improved gradually, with gross non-performing loans below 2.5 percent as of end-September 2024 and provisioning coverage around 87 percent. Banks remain compliant with regulatory limits on net foreign exchange open positions. Following a sharp rebound on the heels of the Ras El-Hekma deal and portfolio inflows, commercial banks' net foreign assets (NFA) position began to witness pressures in June and turned negative in August in part due to the partial repayment of arrears owed to international oil companies.

10. Over the medium term, we expect growth to accelerate with a stronger contribution from the private sector, inflation to continue slowing, reserve buffers to increase, and debt to maintain a downward trajectory. For 2024/25, we expect growth to rebound to around 4 percent driven by continued strengthening in investor confidence and improvements in the performance of specific sectors such as the manufacturing and banking sectors. We also project both the tourism and telecommunication sectors to continue to record solid performance across the fiscal year. Moreover, the recent upgrade to Egypt's credit ratings by Fitch and recent positive outlooks by Moody's and S&P Ratings reflect a stronger outlook. We aim to secure the medium-term outlook through continued implementation of our program commitments. At the same time, we are mindful of significant risks and uncertainty for this outlook, including from geopolitical tensions, potential portfolio outflows, implications of high inflation and cost of borrowing, and the size and pace of FDI inflows.

Program Performance

11. We remain strongly committed to the EFF program. We met four out of five of the quantitative performance criteria (QPCs) for the 4th review, four of which were already assessed at the time of the 3rd review as data became available, with a waiver granted on the missed QPC on the overdraft facility, based on corrective actions taken to improve cash management. Subsequently, we met the end-June 2024 primary balance floor, as underperformance in tax partially due to the difficult economic environment was offset by a broad cut in spending. We also met the continuous performance criteria on non-accumulation of external arrears by the general government.

- **For the end-June 2024 indicative targets (ITs),** we met the ITs on social spending, guarantees, and the budget sector debt. We missed the tax revenue target due to the steeper-than-expected decline in the contribution from the Suez Canal Authority and the underperformance of excise revenue from tobacco and cigarettes and the IT on investment in the second half of FY2023/24, but kept the annual investment below budget levels. As reported at the 3rd review, the end-June 2024 IT on extending domestic maturities in primary auctions was not met. We met the ITs on the CBE's FX intervention rule and budget, as we continue to refrain from intervening in the foreign exchange market.

- **For the end-September 2024 indicative targets (ITs),** we met the ITs on NIR, government balance in the CBE's overdraft account, tax revenue, social spending, and guarantees. We also met the ITs on the CBE's FX intervention rule and budget. We missed the IT on the primary fiscal balance mainly due to a shortfall in divestment proceeds, which are included in the primary balance as defined under the program. Nevertheless, fiscal consolidation efforts increased the primary surplus (excluding divestment) from 0.2 percent of GDP in the first quarter of FY2023/24 to 0.5 percent of GDP in the first quarter of FY2024/25. We also slightly missed the IT on the maturity of new domestic debt issuances from target 0.87 to actual 0.84, noting that we successfully increased the maturity from primary auctions in the previous quarter from 0.56 to 0.84, through shifting to floating and fixed 3-year bonds. The IT on the balance of CBE lending to government agencies was missed but a substantial payment the central bank received in mid-January 2025 brought the balance below the September IT. For the MPCC, we exceeded the upper inner band for end-September 2024 mainly due to the impact of successive rounds of administered price increases. Data on budget sector debt as of end-September 2024 is not available yet.

12. We also met eight of the seventeen structural benchmarks (SBs) accumulated for the fourth review.

- We met the SBs on the monthly publication of all public procurement contracts that exceed EGP 20 million (recurring SB), the publication of CAO's annual audit for FY2022/23, conducting stress tests of the banking sector, the classification of Economic Authorities (with the support of IMF TA), the assessment of the economic benefits of free zones, the recapitalization plan for the CBE, development of a package of indicators to track implementation of the SOP, and sustaining a flexible exchange rate regime and a liberalized FX system (recurring SB). On the recapitalization plan, while the accounting treatment of the bond issued in July 2024 to recapitalize the CBE for prior losses departs from EAS/IFRS, the financial impact on the CBE was found to be immaterial.

- With respect to the unmet SBs: (i) We published the latest household income survey (end-July SB) in November; (ii) We published a basic aggregate report on state-owned enterprises, but the report did not cover all entities under the State Ownership Policy (SOP) as required by the recurring SB because we do not have coverage of all stated-owned companies in the IDSC database; (iii) While we published procurement awards made by about 30 state-owned enterprises and Economic Authorities following significant strides in establishing an institutional process to do so, we recognize that the recurring SB required publication of procurement awards by the 50 largest SOEs and we intend to broaden the coverage by the next program review; (iv) We also made substantial efforts to submit a report on government payment arrears, but as the report didn't cover payment arrears to and from MOF with major economic authorities as committed under the recurring SB, we are redoubling our efforts to prepare the arrears reports in accordance with program reporting requirements for end-December 2024 by end-May 2025; and (v) despite good progress in automating risk-based selection of control channels and increased the numbers of whitelisted companies, the SB on the expansion of customs "Green Lane" with a percentage of the cargo released immediately without any controls was not met because allocation of cargo to the "green lane" still requires a manual documentary check. We will discuss modification and rephasing of this SB at the next review to ensure that all steps required to achieve the international definition of a green lane are adequately captured in the future SB. The submission to parliament of (vi) amendments to the competition law and a (vii) new CAO law that requires annual publication of CAO audits within six months after the end of the fiscal year were delayed by the change in government and the SBs were modified to end-February 2025. The SB on submitting to parliament amendments to the VAT law was modified and converted to a *prior action* for this review. The SB on tendering and selecting a firm to undertake an independent assessment of policies, procedures, and controls of state-owned banks was also modified and converted to a prior action for this review.

Economic Program

13. **The key objectives of the program remain securing macroeconomic stability and fostering private sector led growth.** In particular, the objectives include maintaining a flexible exchange rate regime and a liberalized FX system; reducing inflation towards our target levels; maintaining fiscal sustainability through a sustained increase in tax revenues that can support priority expenditure on health and education; and boosting high-quality inclusive growth. These broad objectives are supported by a number of policy actions aimed at reducing risks, such as continuing strong efforts to reduce untargeted energy subsidies to improve the financial standing of the national petroleum company and boost domestic production in the oil and gas sector; containing broader public investment; further strengthening our debt management strategy to contain gross financing needs and debt; and strengthening the governance of state banks (MEFP ¶31).

Exchange Rate and Monetary Policies

14. **We are committed to pursuing a liberalized exchange system in the context of a flexible exchange rate.** We use a set of indicators under the program to monitor this, including the spread between the official exchange rate and measures of the market-clearing rate, foreign exchange demand backlogs at monitored banks, and increased FX turnover in the interbank market relative to the period before the exchange rate unification (structural benchmark). Going forward, to monitor the functioning of the interbank market, we will instruct banks to provide detailed daily data on individual transactions in the interbank market as part of a new reporting requirement under the program. We have not introduced nor intensified exchange restrictions since program inception. Looking forward, we will not introduce or intensify exchange restrictions or multiple currency practices, impose or intensify import restrictions for balance of payments purposes, or conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF's articles of agreement (*continuous performance criterion*). The CBE does not and will not provide direct or indirect oral or written instructions or guidance to commercial banks related to the level of the exchange rate or the prioritization and allocation of foreign exchange. Interventions by the CBE in the FX market, if necessary, will continue to be guided by a volatility-based intervention framework and reserve accumulation goals.

15. **We will continue our efforts to build adequate foreign reserve buffers.** The CBE will continue to accumulate official reserves to support external sustainability, based on the agreed definition of reserves that include both Tier 1 and Tier 2 assets of the CBE as well as any other foreign currency assets held by the CBE that could be used for reserve management purposes (*performance criterion*). To limit the potential for foreign currency mismatches on banks' balance sheets when external pressures emerge, the CBE will not grant exemptions for commercial banks that breach net foreign exchange open position limits and will apply sanctions to any banks that violate the limits, in accordance with the regulations. Moreover, aggregate banks' NFAs declined cumulatively by more than US$2 billion over a three-month period from end-May to end-August 2024, we consulted with staff as required under the program (*consultation clause*), and explained that the decrease in commercial banks' NFAs over this period was due in part to the repayment of dollar arrears accumulated by the national oil company (EGPC) to international oil companies. We will continue to

consult on commercial banks' NFA balances, in line with our program commitments. We will not accumulate any general government external debt payment arrears (continuous performance criterion).

16. Our priority for monetary policy is to reduce inflation towards our inflation target. Following the increase in the policy rate in early 2024 to the current level of 27.25 percent, the CBE's Monetary Policy Committee has left policy rates unchanged at successive meetings, judging the current monetary stance remains appropriate to place inflation on a declining path. Going forward, we will continue conducting monetary policy decisions in a data-dependent manner, and we will not hesitate to take actions if data outturns signal deviations from our projected inflation path towards achieving our target. In this context, we will adhere to the MPCC, which will trigger consultation with the IMF when the headline urban CPI inflation rate (year on year) falls outside the range agreed with IMF staff. Over time, the CBE will enhance its capacity to monitor inflation expectations and its communication of monetary policy intentions and commitment to a flexible exchange rate to support the CBE's successful transition to a fully-fledged, flexible inflation targeting regime.

17. We are taking steps to reduce the CBE's claims on public entities. We are committed to keeping the government's use of the overdraft facility at the CBE below the ceiling agreed under the program (performance criterion), which caps CBE lending to the government based on a "net" concept of the overdraft facility where deposits of economic authorities (EAs) and budgetary units at the CBE are netted against gross borrowing by the budget sector from the overdraft facility. However, to support our efforts to enhance public debt management and to comply with the CBE law, we plan to build a reporting structure that will allow redefining the ceiling based on "gross" CBE lending to the budget sector through overdraft facility. The CBE has not increased, and remains committed to not increase, its lending to public sector agencies excluding the Ministry of Finance (*performance criterion*). While we did not meet the end-September indicative target nor the end-December QPC, we received sufficient repayments in January and early February to reduce the stock of loans to below the end-December 2024 target and plan to reduce the loans by another EGP 50 billion by end-June 2025. We will thereafter reduce the remainder of the stock by EGP 100 billion per year to zero by end-June 2029 based on a detailed repayment strategy (*new structural benchmark*) that may rely on the use of operational surpluses obtained by the agencies that had benefited from the loans, or other mechanisms (including use of part of the divestiture receipts) that should not affect regular budgetary operations. The CBE will continue to refrain from extending, renewing, or introducing any subsidized lending schemes.

Fiscal Policy and Debt Management

18. Early efforts of the new Cabinet have focused on rebuilding the relationship and trust between the private sector and fiscal institutions. To provide a more business-friendly fiscal environment and regain the trust of the private sector, enhance policy predictability, and adopt client centric policies the Ministry of Finance recently announced a new tax reform package encompassing 20 measures (on both policy and administrative aspects) that aim to simplify, streamline and improve the tax system to build a new partnership with taxpayers and the business community. This tax reform package will also enable us to widen the tax base considerably through two main channels: (i) increasing the number of active taxpayers, and (ii) enabling voluntary settlement of numerous disputes and collection of a large part of the associated disputed taxes. In addition, the reform package will reduce the administrative burden, accelerate use of digitalized services, protect taxpayers' rights, and speed up process of tax refunds. Three of these reforms require legal amendments. Those have already been approved by the Cabinet and sent to Parliament and ratified in January 2025.

19. Our fiscal consolidation effort continues with the objective of striking the right balance between ensuring fiscal and debt sustainability while providing adequate support to the economy and to health and education spending and targeted social protection to vulnerable groups.

- **For FY2024/25, we target a primary surplus of 3.5 percent of GDP excluding divestment proceeds, despite notable decline in Suez Canal fiscal revenues and deteriorated net relation with EGPC,** and an additional 0.9 percent of GDP of proceeds from asset sales to be used to reduce gross financing needs (*performance criterion*). In the event that the sales proceeds do not materialize, we will take offsetting measures to reach the primary balance target of 4.4 percent as defined under the program The reforms launched in the fall (¶17 above) will help to achieve the budgeted primary surplus. We also put in place revenue measures that generate an expected structural improvement in tax and non-tax revenue of about 0.7 percent of GDP in FY2024/25 versus outturns for FY2023/24. In this regard, tax measures of 0.7 percent of GDP have been mostly implemented with few reform measures in advanced stages of being effective including an increase in the administered price and the excise tax rate on tobacco and cigarettes products, anti-fraud measures, further automation of the payroll tax system, expedited settlement of tax disputes, eliminating preferential tax treatments for SOEs, and facilitating customs clearance. These efforts should outweigh the negative impact of the notable decline in Suez Canal fiscal revenues. We expect non-tax revenues to increase by 0.15 percent of GDP from various sources such as higher revenues from mines, dividends from public sector companies, interest collected from re-lending, and the sale of 5G license. We will not introduce additional corporate income tax (CIT) exemptions and will significantly limit CIT incentives. To underline our commitment to improving tax revenues, for the fifth and subsequent reviews, we will elevate the IT on tax revenues to a quantitative performance criterion.

- **We have adjusted the fiscal path for FY2025/26 and plan to legislate tax revenue increases to allow more room for social spending**. Specifically, we plan to deliver additional consolidation of 0.5 percent of GDP in FY25/26 and another 1 percent of GDP in FY26/27, for a terminal primary surplus (excluding divestment) of 5 percent of GDP as previously committed under the program, while maintaining tight control over the investment spending of the public sector under the established ceiling (¶22 below). We also plan to raise the tax revenue to GDP by 2 percentage points over the program horizon. We have identified new structural revenue measures that generate an expected improvement in tax revenue of close to 1.0 percent of GDP in FY2025/26 versus projected outturns for FY2024/25. The tax package includes 3 measures: (i) removal of exemptions under the VAT regime (0.62 percent of GDP), namely the removal of exemptions on construction, sale of non-residential property, crude oil, services of news agencies and advertisements and changes in schedule tax on cigarettes; (ii) a withholding tax on free zone sales to the domestic market (0.10 percent of GDP), building on the detailed assessment of the economic and financial benefits of the current free zones we undertook ,and (iii) establishing a special tax regime for SMEs intended to reduce informality (0.15 percent of GDP). The submission to Parliament of the required legislation to enact these measures is a prior action for completion of the fourth review. In addition, we also committed to (i) ratification of the revision of the disability law before end-June 2025 and fully implement it in FY2025/26 to close existing loopholes with expected higher tax revenue on imported cars at 0.1 percent of GDP, and (ii) revise the property tax law to be submitted to parliament by April 2025 to allow for voluntary closure of outdated disputes, simplify tax calculation and payment through digital platforms and allow for a partial rollout of updated valuations, which will yield tax revenue around 0.05 percent of GDP for FY2025/26. We also commit to legislate another tax package of high-quality tax measures to be delivered in the context of the FY2026/27 budget to meet the program's tax revenue objective (*new structural benchmark*).

20. We are adjusting in a notable and sustained manner domestic fuel prices to create space for better targeted social assistance, support the decarbonization efforts, and improve the financial position of the national petroleum firm. Following price increases in July that ranged from 8 to 21 percent, we raised retail fuel prices further in October by 11 to 17 percent. The fuel price increase in October was sufficiently large to allow us to pause further increases in retail fuel prices for six months and achieve our firm commitment to gradually restore fuel prices for gasoline, diesel, and fuel oil used by industry to their cost recovery level by December 2025. We also increased prices of all other fuel products such as butane gas and natural gas for electricity and vehicles. In addition, we increased electricity tariffs by almost 45 percent, resulting in 80 percent of annual revenues realized directly to EGPC. The fuel price increases will allow us to boost support for more vulnerable households by reallocating some of the untargeted fuel subsidies toward them, help us progress on our decarbonization efforts outlined in the updated Nationally Determined Contribution published in 2023 and support efforts to restore the national petroleum company (EGPC) to financial health (¶25 below).

21. We also plan to broaden the size of targeted cash transfers to shield poor households from the high cost of living. We are committed to providing support for those most in need, with a minimum level of social spending consistent with these objectives. We added 73,000 families to the Takaful and Karama cash transfer program in July 2024 to bring its coverage to 5.2 million households encompassing 21 million citizens and have increased the monthly payments by 55 percent since 2022/23. We are also taking steps to gradually consolidate in-kind subsidy programs into cash transfer programs to improve program targeting and efficiency. We will complement these efforts by expanding the financial envelope for the Takaful and Karama program to 0.4 percent of GDP in FY2025/26 budget. The nature of future expansion—an increase in coverage or payment adequacy (*new structural benchmark)* —will be decided and announced by March 2025 based on analysis of the recently released household income survey (HIECS). Relatedly, we have sharpened the definition of social spending under the program by excluding the allocation of interest expense to social spending to better track spending on the most vulnerable *(indicative target*). Moreover, we plan to increase overall social spending from 1.6 percent of GDP in FY2023/24 to 2.2-2.5 percent of GDP FY2026/27 using the fiscal space created by an easing in the projected primary surplus in those years. On health, we will continue the rollout of our universal health insurance scheme.

22. We are implementing structural measures to support our fiscal goals. In particular:

- We continue to undertake significant measures to improve public financial management and fiscal planning in line with the PFM law passed in 2022. Beginning from FY2025/26, we will publish a medium-term budget. To this end, we issued budget circulars to all budget sector entities in December 2024 with guidelines for preparation of the medium-term budget and the cabinet will approve the medium-term budget strategy by February 2025.

- We are currently amending the law governing the Central Auditing Organization (CAO) to require annual publication of CAO audits of general government fiscal account within six months after end-fiscal year to parliament. However, the installation of a new government in July led to a delay in submitting the new law to parliament. We now plan to submit it to parliament by end-February 2025 (*modified structural benchmark*). In the interim, to achieve the same transparency objectives, we published the CAO's annual audit on the budget sector FY2022/23 (*structural benchmark*).

23. We will continue to slow down the implementation of public investment projects, including national projects, to ensure domestic and external stability. We monitor and control overall public investment in accordance with Prime Ministerial decree number 739 of 2024, which requires all public entities to report annual projected investment, including investments/projects contracted or undertaken by the Administrative Capital Urban Development (ACUD), National Urban Community Authority (NUCA), and the National Service Projects Organization, the National Agency for Military Production, and the Arab Organization for Industrialization and their subsidiaries to a cabinet level committee chaired by the CAO. The first submission outlining projected investment for FY2024/25 has been done as planned by April 30, 2024, and submission will be done annually by April 30 thereafter. The decree also requires all public agencies to report to the committee each September and March the implementation amounts and percentages compared to the targets for the periods January–June and July–December, respectively. The reports shall be submitted to the Public Economic Governance Committee. For the 6-month period ending June 30, 2024, we did not meet the indicative target of a ceiling on public investment of EGP 350 billion as actual investment was EGP 531.23 billion; however, we kept overall investment for the fiscal year below budget. The target ceiling on the value of total public investment for FY2024/25 is EGP 1,000 billion (*indicative target*). For FY2025/26, the tentative ceiling is EGP 1,158 billion to maintain public investment spending constant in real terms. The annual ceiling will be fine-tuned once the budgetary capex allocation is decided, and we have greater clarity on priority investment outside of the budget. Under the ceiling, we plan to prioritize projects financed by concessional lending.

24. With the FY2024/25 budget, we expanded the perimeter of general government fiscal reporting to include Economic Authorities (EAs). Subsequently, we completed a sector classification of EAs in accordance with the concepts and principles in the Government Finance Statistics Manual (GFSM) 2014 (*structural benchmark*), supported by technical assistance from the IMF. The reclassification exercise indicated that some of the EAs may meet the criteria to be a public corporation. However, these EAs play significant roles in executing government functions and we intend to keep them within the general government reporting framework for the time being. We have requested further technical assistance to ensure the consolidation of the EAs into the general government fiscal reporting, aligned with best practices. To further improve transparency over potential fiscal risks emanating from EAs, we will publish a fiscal risk statement in conjunction with the Annual Budget statement for FY2025/26 including analysis of macroeconomic risks, with specific effort to provide quantified estimates. We will also include in the risk statement the total amount of government guarantees and breakdown the total by entities that benefit materially from guarantees (*new structural benchmark*). We have requested IMF technical assistance to help with the risk analysis.

25. Egypt's energy sector faced significant challenges through 2023 and 2024. The emergence of large payment arrears, currently about US$3-4 billion, to international oil companies operating in Egypt have led to significant declines in oil and gas production and requiring large imports of LNG over the summer to meet domestic needs. In response, the newly appointed cabinet in July 2024 is working on developing a comprehensive energy reform strategy aimed at addressing the production shortfall and revitalizing the sector to meet growing demand, achieve energy security, and ensure sustainable production levels.

26. In that context, we are committed to addressing the fiscal risk posed by the national petroleum company (EGPC), to the budget sector. Government guarantees issued on behalf of EGPC are about 18 percent of GDP and domestic banks now require government guarantees on all loans to EGPC. A key EGPC customer, the national electricity company, also faces financial difficulties. To address the deterioration in EGPC's financial situation and support a gradual improvement in EGPC's operating cashflows, we have undertaken a series of actions, including gradually and notably raising retail fuel prices, excluding fuel oil sold to the bread bakeries, cost recovery levels by December 2025. In addition, we increased prices of butane and natural gas for the electricity and industrial sectors in August 2024. These measures are estimated to bring annualized additional revenues to the energy sector – mainly EGPC – of about 1.4 -1.5 percent of GDP. Under current plans EGPC will see a gradual enhancement of its liquidity after implementing previous fuel adjustments, over the medium term. To address the situation, we are developing a comprehensive and detailed plan to restore EGPC's financial health (e.g., consistent positive cash flow from operations; significant reduction in debt/equity and interest coverage ratios; clearance of all arrears; reducing reliance on government guarantees) within a specified time period that is supported by required retail fuel price increases to restore cost recovery. We intend to have the cabinet approve the plan by end-March 2025 (*new structural benchmark*). The plan will allow us to establish a new QPC under the program that will guide the phasing out of guarantees to EGPC.

27. To complement fiscal consolidation efforts, we will continue strengthening the public debt management function with envisioned comprehensive reforms along key structural and

operational pillars. The main reforms would target in the medium-term: (i) the completion of the institutional setup of debt management (reorganization of the Debt Management Unit (DMU), capacity development, and additional resourcing of this function); (ii) the regulatory setup; (iii) domestic debt market development (broadening the investor base, enhancing competition and introducing new instruments like retail bonds/local currency Sukuk/local currency green issuance and a revamped primary dealership system); and (iv) further debt transparency and reporting efforts, and enhanced investor relations. As a priority, we will be drafting and publishing by December 2025 our medium-term debt management strategy which will articulate a multi-year borrowing plan updated annually and anchored by a portfolio cost and risk management framework. The first step toward which would be preparing and publishing general government debt statistical bulletins and/or reports in a recurring (quarterly), timely, comprehensive basis covering all aspects of debt and borrowing starting with a first publication focused on central government debt in April 2025, with expanded scope in November 2025 onwards (*new recurring structural benchmark*). The strategy document will include debt portfolio risk tolerance thresholds and operational targets, and will cover foreign and domestic debt, cutting across key and potential instruments and sources of financing. The annual implementation of the multi-year strategy will be anchored through the Annual Borrowing Plan, which will be prepared on an annual basis and updated quarterly. We commit to reducing the time lag in producing and publishing the quarterly issuance plan for domestic securities. The revised Primary Dealership setup is now operational and is starting to show tentative positive results in terms of a broader participation of primary dealers in government securities auctions. We will assess the recommendations presented by the recently concluded IMF/WB technical assistance mission on diagnosing the Local Currency Bond Markets (LCBM) and will seek further technical assistance from international institutions where appropriate to help with designing, sequencing, and implementing these reforms, starting with the Medium-term Debt Management Strategy (MTDS).

28. From a borrowing strategy perspective, and to help contain gross financing needs, we will continue to gradually lengthen the maturity of new domestic issuances (*indicative target*). We have gradually improved the yearly cumulative average time to maturity at issuance of government securities from 0.56 years in June 2024 to 0.84 years in September 2024. We commit to continue prioritizing domestic financing via market mechanisms (auctions) and effectively phasing out in the short-term access to private placements and any CBE financing above the regulatory ceiling as market structure further allows and without undue pressure on cost of financing. To further accelerate our debt reduction and improve sustainability indicators, we have issued EGP 400 billion of 3 year-bonds (with fixed and/or variable rates) in December 2024 to replace short-term deposits and treasury bills through private placements, which helped reduce re-financing risk and increase the local currency tradable debt maturity profile by 0.22 years to reach 1.34 years. In addition, the projected concessional financing this fiscal year along with capital market issuances will contribute to the extension of our debt maturity. These efforts could contribute to extending our overall ATM of domestic debt by 0.3-0.4 years. Moreover, the cabinet has issued a decree instructing NUCA to freeze its short-term deposits held in the TSA worth about EGP 500 billion, which offset government borrowing through the TSA, for 3 years including FY2024/25 or until instructed by the cabinet to treat otherwise. We will improve on the short-term reporting on government financing from the domestic market by including information on key domestic financing instruments in the current debt reporting framework (including auction results, private placements, and overdraft borrowing).

29. We have addressed the recapitalization needs of the CBE, considering both the government's debt management strategy and the need to safeguard the CBE balance sheet and its price stability mandate. We developed a plan to recapitalize the CBE based on a comprehensive assessment of CBE's recapitalization needs over the next five years, considering the planned reduction in the stock of CBE's credit to public agencies as well as the CBE's baseline plan to reduce the CBE's subordinated debt issued to state-owned banks (*structural benchmark*). To cover FY22/23 CBE losses, a 2-tranche 10-year EGP 142.2 billion recapitalization bond has been issued in favor of the CBE, with each tranche worth EGP 71.1 billion. The bond tranches are effective on the 30th of July 2024 and 30th of July 2025, respectively. This recapitalization plan, agreed upon by the MOF and the CBE, protects the ability of the CBE to achieve its price stability mandate and effectively considers the government's debt management strategy and associated target to put debt to GDP on a firmly downward path.

30. We will continue to strengthen fiscal risk management. We issued an inaugural report on the arrears of the budget sector, including to critical SOEs and EAs (*recurrent structural benchmark)*. Looking ahead, we plan to enhance the content of subsequent reports to be in line with program commitments and will redouble our efforts to report the same data on a semi-annual basis. To strengthen oversight of the guarantee portfolio, in addition to establishing an overall ceiling set by the cabinet for each fiscal year, every new request for a guarantee is presented to the cabinet for consideration. More generally, we will ensure that the stock of government guarantees relative to GDP declines annually from its value of about 34 percent of GDP at end-June 2024 (*indicative target*).

Financial Sector Policy

31. Strengthening financial sector resilience continues to be a key priority. The banking system remains adequately capitalized and liquid. While banks have remained in compliance with their net open position limits, we will closely monitor the maturity and composition of banks' foreign currency assets and liabilities, including their exposure to public sector agencies. The CBE will maintain vigilance on the level, adequacy, and composition of banks capital, including the distribution of capital across tiers and the mechanism of capital support from shareholders and/or others, including via subordinated debt, as allowed by CBE regulation. The CBE will also strengthen transparency and communication of financial sector issues, including ensuring all public reporting and annual financial stability reports are done on a predictable schedule and without excessive lags. To test the resilience of banks, the CBE has completed stress tests of the banking sector and shared detailed results with IMF staff by end-September 2024 using end-March 2024 data; these tests were prepared in consultation with IMF staff (*structural benchmark*).

32. We are committed to strengthening governance practices and competition in the banking sector. To support stronger governance practices, we commit that the CBE will not issue any new subordinated debt to state-owned banks. To enhance the governance of state-owned banks. We finalized a terms of reference (TOR) of "Assessing the Corporate and Risk Governance Policies, Procedures, and Controls of State-Owned banks", and also, we have finalized an exercise to shortlist internationally recognized firms that fit the criteria stated in the TOR. To maintain progress on this SB, the completion of the tendering process will be a *prior action* for this review and the SB will be modified and modified to complete the selection process by end-February 2025.

Structural Reforms

33. The state ownership policy guides our efforts to increase private sector-led growth and level the playing field. Passage of draft legislation sent to parliament to establish key elements of the state-ownership policy into law, in part through legislating the creation of a unit in the Prime Minister's office with the powers to establish guidelines for the governance of state-owned enterprises and to facilitate divestment remains a key priority this fiscal year. In addition, we plan to expand our initial proposal to develop a package of indicators to track implementation of the state-ownership policy by including an indicator of the reduction of the state-owned enterprises by end-March 2025 (*new structural benchmark*). Moreover, we have instructed state-owned enterprises to pay taxes due that resulted from the removal of special tax treatment for them by Prime Minister Decree No. 242 of 2024 on the Implementing Regulations of Law No. 159 of 2023. We anticipate related tax collections from the removal of tax treatment to pick up in the fourth quarter of FY2024/25 and will publish a report by end-September 2025 that indicates the institutional changes and procedures established to secure collection of these taxes, the sectoral distribution of state-owned enterprises that complied with the law, the amount collected by for each type of special tax privilege (CIT, VAT, other) that was removed, and projected collections on these taxes in FY2025/26 (*new structural benchmark*). Supporting our transparent implementation of the overall state ownership policy, we have published two updates on its implementation and reinstated regular publication of annual aggregate report on Egypt's SOE portfolio. We plan to expand the coverage and analytical depth of our state-owned enterprise portfolio in subsequent iterations of the report (*recurring structural benchmark at end-September each year*).

34. Divestment of state-owned assets is key to reducing the state's footprint, strengthening external resilience, and reducing government debt. In FY2023/24, despite the challenging regional environment, we finalized divestment deals worth US$2.2 billion—excluding proceeds from the Ras El-Hekma deal—of which 15.7 percent was transferred to the MoF for debt reduction. Following the establishment of a new government in July 2024, we reassessed our divestment plans for the sale of state-owned enterprises in FY2024/25 and adjusted our divestment target for the year downwards to the equivalent of US$0.6 billion, of which about EGP 15 billion (0.2 percent of GDP, roughly 50 percent of the total), will be transferred to the MoF. While this represents a material reduction from the US$3.6 billion denominated in U.S. dollars of divestment as well as additional divestment of 0.5 percent of GDP denominated in either U.S. dollar or Egyptian pound that we initially planned for this fiscal year, it reflects in part the difficult external environment that Egypt faces. We plan to partially offset the overall shortfall with proceeds from the sale of development rights or direct real estate sales to external partners of at least US$3 billion in the remainder of FY 2024/25. All the proceeds will accrue to the Treasury (and not to Economic

Authorities) and we will apply 100 percent of the proceeds of this transaction to debt reduction. To rebuild the CBE's foreign exchange reserves, we will keep foreign exchange proceeds generated by sales of all state-owned assets at the CBE and have reprogrammed the US$3 billion anticipated from the sale of state-owned enterprises in FY2024/25 to the next two fiscal years. Moreover, to demonstrate our strong commitment to the divestment plan of the SOP, we have announced plans to offer stakes in ten state-owned companies in 2025 through direct sales to strategic investors or listing on the Egyptian stock exchange and plan to hire and announce investment and legal advisors for at least two proposed transactions worth an estimated combined US$1 – 1.5 billion with the tendering and selection process to be completed by end-April 2025 (*new structural benchmark*).

35. We will continue our efforts to level the playing field and strengthen the business climate and governance.

- On July 1, 2024, the Egyptian Competition Authority (ECA) began implementing the amendments to the Competition Law that were introduced in December 2022. The amendments grant the ECA ex-ante powers to control mergers that would limit, restrict, or harm competition. Separately, a cabinet committee is reviewing further amendments to the Competition Law to align the independence of the ECA with the independence of other regulators with comparable mandates, including the CBE and the Financial Regulatory Authority (FRA). The amendments would also empower the ECA to issue direct administrative sanctions similar to the CBE. The amendments were reviewed under the United Nations Conference on Trade and Development peer review process. While the review by the cabinet committee has taken longer than expected, in part due to the installation of a new government in July, we remain committed to submitting the amendments to parliament by end-February 2025 (*modified structural benchmark*). Further, the ECA is developing a competitive neutrality index based on de jure considerations to identify necessary reforms to the competitive neutrality framework. This supersedes a previously planned index based on surveys of private sector stakeholders, given the difficulty in designing a survey that secures meaningful private sector participation and the inherent subjectivity of surveys.

- To improve the ease of doing business, customs procedures are transitioning towards a risk-based approach that helps reduce import clearance times. We moved forward towards a broader use of a "green lane" and have made firm progress in automating risk-based selection of control channels and increased the numbers of whitelisted companies. However, we did not meet the *structural benchmark* on the expansion of customs "green lane" with a percentage of the cargo released immediately without any controls, because cargo in the "green lane" still requires a documentary check. We will monitor flows through the green lane relative to overall cargo flows with the objective of increasing the relative value of cargo passing through green lane.

- We met the SB on posting reports that comprise monthly government procurement awards greater than EGP 20 million. Looking ahead, with the assistance from the Korea International Cooperation Agency (KOICA), we are upgrading the public e-procurement system to bring it in line with the existing public procurement law (Law No. 182 of 2018 Regulating Contracts Entered by Public Entitles) and to allow for posting of final awards. The new system is to be operational on a pilot basis by the third quarter of 2025. Turning to SOE procurement, as the line ministries and SOEs become more familiar with the procedures instituted to gather information on SOE procurement activity, we plan to expand the monthly SOE procurement report, first published in September, to eventually capture most SOEs (*recurring structural benchmark*). In addition, a circular was also issued by the cabinet to SOEs instructing them to work with the OECD, under the governance pillar of the OECD's country program with Egypt, to gradually bring the procurement practices of SOEs closer to international standards.

Financing and Program Monitoring

36. We have secured financing to ensure that the program remains fully financed. The total financing needed to reach the revised net international reserve targets is US$11.4 billion in FY2024/25 and US$5.8 billion in FY2025/26, excluding IMF purchases. We have secured firm financing commitments for the next 12 months from international partners to fully close the financing gap including financing related to the sale of development rights or real estate. We have assurances from Arab countries to keep their official deposits at the CBE for US$18.3 billion until the end of the EFF arrangement in October 2026 unless they are used for the purchase of equities. We have good prospects for meeting the financing needs in the remainder of the program, with multilateral and official bilateral support, as well as external market financing, and we will adjust policies if needed. The changes to the IMF's surcharges policy in October 2024 will also ease our external financing situation over the medium term.

37. The program will be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. All quantitative performance criteria and indicative targets are listed in Table 1. Prior actions and structural benchmarks are listed in Table 2. The Technical Memorandum of Understanding (TMU) indicates definitions of quantitative performance criteria, indicative targets, structural benchmarks, consultation clauses, and data provision requirements. While we currently commit to report the CBE's net international reserves and their components with a submission lag of no more than 15 calendar days after the end of each month, we will work to shorten the submission lag in order to allow for timely monitoring of the CBE's net international reserves.

Request for an Arrangement under the Resilience and Sustainability Facility (RSF)

38. To support our climate adaptation and mitigation efforts, we request an arrangement under the Resilience and Sustainability Facility (RSF), with access of SDR1 billion (49 percent of quota). We accelerated our work on national climate change strategies in the run up to COP27 in 2022 and we launched the Egypt National Climate Change Strategy (NCCS) 2050 in 2022. Since then, we have sustained efforts in this area, as evident from our updates to NDC and the first progress report on Nexus of Water, Food and Energy (NWFE), both in November 2023, in addition to the pipeline of climate-related work by line ministries. We see the RSF as a vehicle to further accelerate implementation of our plans. We have developed ambitious reform measures in four areas—climate criteria for public investment, adaptation, mitigation, and climate finance—reflecting our holistic and dedicated approach to addressing climate change and building resilience.

Climate Adaptation and Mitigation Policies and RSF

39. We have laid out our climate agenda in the National Climate Change Strategy 2050 (NCCS) and updated Egypt's Nationally Determined Contributions (NDC) in June 2023. These set out our adaptation and mitigation goals and financing need to support them. For adaptation, we focus on building resilience against climate shocks in eight areas: water resources and irrigation, agriculture, coastal zones, urban development and tourism, disaster risk management, health, biodiversity, and education. For mitigation, our updated NDC indicates significant emission reduction goals relative to the business-as-usual scenario by 2030, in the electricity, oil and gas, and transport sectors (by 37 percent, 65 percent, and 7 percent, respectively), but these require external support. To make early progress towards these goals, we have adopted a country-led, pragmatic, bottom-up approach through Egypt's Country Platform for Nexus of Water, Food and Energy (NWFE). Building on the insights from the WB's CCDR, the IMF's climate-related analytics, and the countries' own climate ambitions, the platform identifies policy reforms to address climate challenges and supports the design, structure and preparation of concrete and implementable climate action projects. Since its inception in 2022, the NWFE platform has been instrumental in unlocking previously untapped sources of climate finance and investment funds, catalyzing private investments worth USD 3.9 billion for mitigation efforts and feasibility studies focused on adaptation and resilience. The platform's success was recognized in the MDB joint statement during COP29[1], highlighting NWFE as an effective country platform for mobilizing innovative climate finance, concessional financing, debt swaps, while driving impactful investments. In addition, we have joined the global methane pledge and committed to producing around 30 percent of electricity from renewable energy sources by 2030. To support financing for climate goals, the Ministry of Finance issued sovereign green bonds in September 2020 for US$750 million. The CBE issued sustainable finance regulations to banks, including requirements on ESG reporting, following a decree from the Financial Regulatory Authority (FRA) in 2021 that laid out disclosure requirements for companies listed in Egyptian stock exchange and non-bank financial sector companies.

40. Embedding our climate goals into macroeconomic policymaking will be critical. The C-PIMA and CCDR diagnostics in 2022 provided useful guidance to our reform efforts. In particular, the C-PIMA clarified the importance of integrating climate adaptation and mitigation objectives in our investment planning as well as budgeting and portfolio management decisions, while recognizing climate-related fiscal risks. The CCDR indicated that aligning public investment and expenditures with climate goals, leveraging additional resources, and comprehensively assessing climate risks will be key to climate adaptation. It also suggested that a well-sequenced approach for reforms in the power and oil and gas sectors, including pricing reforms and efforts to ensure a just transition, is instrumental for mitigation.

41. Catalyzing private finance is also crucial to support our climate change agenda. Egypt's NCCS and updated NDC targets underscore the large financing needs to support its climate goals,

[1] https://moic.gov.eg/news/1822

which the public sector and international support will be unable to meet alone. Policies including strengthening climate information, correctly pricing climate risks, and efforts to expand the investor base can help encourage greater private-sector involvement. In addition, innovative financing solutions which help de-risk climate investments, for example through blending public and private finance, could play an important supporting role.

42. In this context, we request access through the RSF to support our climate agenda. The RSF will provide an organizing framework that ensures progress towards our climate objectives and supports efforts to mobilize climate finance. We focus on four reform areas under the RSF:

- **Reform area 1:** **Accelerating Egypt's decarbonization.** While Egypt's greenhouse gas emissions only constitute 0.73 percent of global emissions in 2022,[2] its greenhouse gas emissions more than doubled since 1990. As such, a solid decarbonization plan is needed to achieve the government's emission reduction plan as detailed in the updated NDC and other decarbonization pledges. For example, we committed to producing around 30 percent of power from renewable energy sources by 2030. To achieve this goal, we commit to increasing the uptake of renewable energy especially by helping level the playing field and encouraging private sector companies to engage in renewable energy generation and transmission in Egypt.[3] In addition, Egypt's mitigation agenda also includes reducing methane emissions as the country joined the global methane pledge in 2022, with a global goal of reducing methane emissions by 30 percent by 2030, and targets a 65 percent reduction in overall oil and gas production emissions as stated in the NDC. To this end, we are committed to two reform measures in this area:

  - ***RM1:*** *Consistent with the 30 percent target for wind, solar, and hydropower electricity generation capacity by 2030, the Cabinet to adopt and publish a schedule for the implementation of renewable energy until 2030.*

    - The schedule for the targeted implementation plan will include information on the timing and location of investment in the power sector, disaggregated by the type of generation technology, segment of the value chain (e.g., generation, transmission, distribution), and expected funding allocation between public and private sources. This level of detail will provide certainty to the private sector about the authorities' commitment to their mitigation targets, alongside authorities' plan for the transmission grid infrastructure needed to connect future RE generation investment. In all, this will improve the investment environment by reinforcing the government's commitment to the energy

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[2] Country Data | Climate Change Indicators Dashboard, Greenhouse Gas Emissions | Climate Change Indicators Dashboard

[3] Recent research by IMF staff shows that countries that attract foreign direct investment (FDI) in the renewable energy sector typically have a broad and varied range of domestic climate policies aimed at the electricity sector. Critical policies include mechanisms that guarantee investors a stable revenue in the early stages, such as power purchase agreements, feed-in tariffs, renewable energy targets, and complementary infrastructure investments (see Jaumotte and others, 2024).

transition, reducing grid connection risks, and allowing investors to feel more confident that fixed costs can be spread over several investments.

- The schedule for transmission and distribution investment and split between public and private sources will be informed by an ongoing study that is assessing the stability of the grid and transmission needs. All investment in generation technology is expected to come from the private sector, taking into consideration that, the plan will be flexible (with regard to financing mechanism) and the sector will choose the optimal mechanism that will achieve high quality and low cost in accordance with the Egyptian laws and regulations.[4]

- The Ministry of Electricity will issue annual reports to track progress towards renewable energy targets, including an evaluation of realized vs. scheduled investment.

o ***RM8:*** *To reduce GHG emissions from hydrocarbons production, the Ministry of Petroleum will (i) implement an MRV system to track flaring, fugitive methane, and vented methane emissions at the operator or project level on a quarterly or annual level basis, and (ii) issue a decree mandating operating companies to submit and approve targets for reduction of oil and gas sector emissions in line with Egypt's NDCs and with fines for noncompliance after a grace period of 2 years.*

- The MRV system is a first step in addressing greenhouse emissions from the oil and gas extraction sector in Egypt. Technical assistance is needed to develop and implement the MRV system across companies as agreed with the IMF in the discussions. This will be completed by August 2026, supported by technical assistance, and provide knowledge on baseline emissions at the operator/project level. Operators will then approve annual emissions reduction targets based on their baseline emissions, with the sector's aggregate target in line with Egypt's goal of a 65 percent reduction relative to baseline levels inclusive of all greenhouse gases (e.g., methane and carbon dioxide) and with the baseline taking into account prior investments and policies that have already reduced emissions since 2015 (in line with Egypt's NDC). Operator level targets will be approved by each company's board of directors and require annual reviews and, if the operator is underperforming, a plan to take corrective action. The Ministry of Petroleum will be responsible for ensuring that aggregate targets align with the sector-wide NDC target. Emissions reductions will also be included in the KPIs of public companies—these KPIs promote emissions reductions based on the technical assistance provided for the MRV system.

- Additionally, there will be a grace period of two years after which companies will be fined for underperforming on their targets, with the fines potentially in proportion to the level

[4] Mechanisms in accordance with the Egyptian laws and regulations such as: (EPC + F - BOO - Feed-in Tariff (FiT) - Public-Private Partnerships (PPP) - Net Metering System - self-consumption system- private to private system).

of emissions above the target. These reforms will reinforce the Ministry of Petroleum's plan to prepare an oil and gas sector emissions reduction road map and regulations. In the end, the magnitude of emission reduction will depend on the enforcement mechanism, particularly the value of the fine.

- **Reform area 2: Analyzing and reporting climate-related fiscal risks, strengthening the management of climate-related data and risks, and building resilience.** Egypt's susceptibility to climate hazards puts a premium on identifying the key risks and vulnerabilities and developing strategies to respond to hazards when they materialize. We commit to two reform measures in this area:

    - ***RM5:** MoF to publish a quantitative analysis of long-term climate-related fiscal risks and climate-sensitive contingent liabilities and describe how the government will manage these risks in the Fiscal Risk Statement starting with the 2026/27 Budget.*

        - **Long-term climate related fiscal risks:** The slow but persistent increase in temperature, shifts in precipitation patterns, rising sea levels, and more volatile weather events can have long term macroeconomic effects by slowing productivity growth, depleting capital stock, and adversely affecting human capital. These macroeconomic effects of climate change will add to fiscal pressures, which could accumulate over time if left unaddressed. To better understand these long-term risks, we will draw on IMF assistance and the IMF Q-CRAFT tool to prepare and publish scenarios of long-term fiscal sustainability under different climate pathways.

        - **Contingent Liabilities:** Specific risks arise from the direct exposure of the government's contingent liabilities to the impacts of climate change, and they can be categorized into two general types: direct physical risks and transition risks. Direct physical risks include increasing temperatures, reduced precipitation, and water flow, which can affect the viability and functionality of government assets and contracts. For example, key public-private partnerships (PPPs), state-owned enterprises (SOEs), and government projects may be vulnerable to these physical changes. Transition risks, on the other hand, relate to policy changes, technological advancements, and international commitments that can impact the viability of assets and contracts. To begin this work, the portfolio of PPPs and SOEs will be broadly assessed for their vulnerability to higher temperatures, changing precipitation patterns, and sea-level rises in the coming years and the total exposure will be estimated.[5] Total exposure provides a broader understanding of potential vulnerabilities by capturing the maximum possible loss, even if the likelihood is low. This is especially important in assessing climate-related risks, as their occurrence can be both highly unpredictable and catastrophic.

[5] See, for instance, Table 3 in Rwanda's 2024/25 Fiscal Risk Statement, or the IMF Capacity Development report from Armenia (https://www.imf.org/en/Publications/CR/Issues/2022/10/25/Armenia-Technical-Assistance-Report-Quantifying-Fiscal-Risks-from-Climate-Change-525059)

- **Policy Responses and Government Action:** In this context of climate-related fiscal risks, we will prioritize the identification of comprehensive strategies to assess, mitigate, and adapt to climate-related fiscal risks, rather than demonstrating immediate implementation. We will draw on our analysis of the asset register (RA4) to identify critical assets exposed to climate-related risks and outline measures to reduce their exposure. Building on this analysis, we will prioritize mitigation actions to address risks across the portfolio of SOEs and PPPs. Additionally, our evaluation of the long-term macroeconomic risks related to climate change will inform the design of policy reforms that could be implemented now to minimize long-run costs. This risk-based approach allows us to establish robust, actionable frameworks that effectively address the unique challenges posed by climate change. Strategies could include measures to strengthen infrastructure resilience against extreme weather events, develop regulatory frameworks that incorporate climate risk considerations, and develop measures to manage financial losses from climate impacts.

- ***RM7:** MoF to strengthen disaster risk management capacity through adopting a national disaster risk financing strategy while integrating social assistance measures in collaboration with the Ministry of Social Solidarity.*

  - Egypt, despite significant exposure to climate-extreme risks, currently does not have a nation-wide disaster risk financing strategy that outlines the strategic priorities of the government regarding the mobilization and delivery of resources in response to disasters. This lack of strategic oversight leads to ad-hoc and slow post-disaster response with inefficient use of public and private resources.

  - The disaster risk financing strategy will cover aspects including international support in addition to fiscal mechanisms to respond to disasters, development of financial sector instruments to manage disaster risk, and any other relevant topic such as linking of disaster risk financing with social protection.

  - Regarding the social protection component: the WB is currently supporting the project on "Takaful and Karama Cash Transfer Extension and Systems Building". The project is helping Takaful registry application to include questions that can help identify applicants in climate vulnerable communities and database allows for the identification of beneficiaries and applicants in climate vulnerable communities. Based on this information, and in case of a climate shock, we will – upon completion of necessary technical assistance – use these tools to expand adaptive social protection measures either horizontally (by increasing coverage of beneficiaries), or vertically by topping up existing transfers for registered beneficiaries.

- ***RM10:** Authorities to establish the National Water Council through a Prime Ministerial decree, chaired by the Prime Minister and including key ministers and stakeholders from MALR, MWRI, MHUUC, MoE, MoPEDIC, which will: (1) oversee the generation, sharing, and publication of* *data on water demand and supply by sector/subsector/region and analysis to support informed decisions on water allocation by June 2026; (2) introduce a formal process to be defined in first review for water allocation among sectors/regions to manage conflicting demands on water resources at the policy and project planning stage, in line with best international practices, by August 2026.*

- In times of a growing water supply-demand gap, the question around water allocation becomes crucial. Egypt has no system for water allocation in place. According to the World Bank CCDR, if Egypt's water resources remain constant while population growth continues along its current trajectory, the country is projected to reach extreme water scarcity by 2033. Climate change-induced water shortages will exacerbate this crisis, significantly impacting key productive sectors like agriculture. For instance, a reduction in Nile River inflows from 55 BCM to 45 BCM—expected during increasingly frequent droughts—could shrink irrigated land by 22 percent, lower productivity per hectare by 11 percent, and reduce agricultural employment by 9 percent. These changes threaten food security, with Egypt's overall food production projected to decline by 5.7 percent by 2050, exceeding the global average decline of 4.4 percent. Addressing this challenge requires a transition to a sustainable development model that prioritizes reducing water waste, minimizing losses, and improving resource management to ensure long-term resilience.

- Institutional reforms are essential to harmonize cross-sectoral priorities and actions affecting water use and allocation. The presence of multiple institutions within the water sector, combined with limited coordination between water and agriculture agencies, often leads to inefficiencies, including redundant efforts and missed opportunities. Currently, eight different agencies[6] are responsible for implementing water-related climate adaptation measures, each operating according to its own priorities and timelines. A more coordinated approach, guided by a common set of development and adaptation objectives, could help minimize the risks of over- or under-investment, reduce duplication, and lower transaction costs. As such, setting up inter-ministerial data sharing measures is critical to align water security objectives across institutions.

- **Reform area 3: Enhancing the resilience of the financial sector to climate shocks and supporting climate finance.** Given Egypt's multiple climate challenges and the need to implement ambitious adaptation and mitigation reforms as per our NDC, we plan to continue our efforts to mobilize domestic and international climate finance. Meanwhile, the CBE will focus on strengthening the ability of the banking sector to analyze and manage climate-related financial risks, including through improving banks' data collection and reporting efforts. Going forward, it will be important that we maintain a clear separation between better managing climate-related financial risks and supporting the development of green

[6] The NWRP 2037 defined the following ministries as coordinating public entities for different outcomes: Ministry of Water Resources and Irrigation; Ministry of Environment; Ministry of Housing, Utilities and Urban Communities; Ministry of Local Development; Ministry of Agriculture and Land Reclamation; Ministry of Trade and Industry; Ministry of Foreign Affairs; and Ministry of International Cooperation.

finance, which require different policies and should involve different stakeholders. To this end, we commit to three reform measures in this area:

- ***RM6:*** *CBE to issue a binding regulatory framework to mandate Banks to adopt environmental and social risk management system (ESRMS) which will include a climate pillar, along with timeline for implementation. The binding regulations will include guidelines to the banks on the implementation of ESRMS.*

    - This measure will complement our sustainable finance regulations and enhance the banking sector's ability to manage climate-related financial risks and support the acceleration of climate finance. We will issue the binding regulations by end of June 2026 and banks will be mandated to adopt and implement ESRMS under the new regulation by end of June 2027. The regulations will help banks measure and monitor climate-related financial risks and incorporate them into their risk management frameworks. Ultimately, the ESRMS will help CBE monitor climate-related financial risks, and integrate them in its supervision and macroprudential policy formulation, reinforcing the resilience of the banking system.

- ***RM9:*** *In accordance with Egypt's Country Platform for the Nexus of Water, Food, and Energy (NWFE), which is aligned with the National Climate Change Strategy 2050, we will add two new sub-projects, one on adaptation and one on mitigation. For each of the projects, pre-feasibility studies will be developed to attract private sector interest and funding; we will also build on the experience gathered so far to identify by end-2025 and adopt by June-2026 further measures to facilitate private investments in mitigation and adaptation projects.*

    - We will commit to 2 sub-projects, one adaptation tackling water and one mitigation tackling energy. The new sub-projects will be a mixture of PPP and privately financed projects. The energy sub-project will be privately financed while the water desalination project will be a Public-Private Partnership. The threshold of each subproject differs according to the scope of the project, but it will be a minimum of US$200million.

      The additional subprojects to be added are the following:

        - For the Energy pillar: Wind farm – 900 MW with an investment cost of US$1 billion. The project is the first phase of "5 GW Wind farm project", which will be identified within NWFE, with a capacity of 900 MW.

        - For the Water Pillar: A water desalination plant located in the Sczone, with a capacity of 250 thousand cubic meter/day, and an investment cost of US$350 million. The project is desalination, a storage system and 15 kilometers of pipeline.

    - In addition to adding the two subprojects, we will build on the experience gathered so far in our climate projects to first identify, and then adopt, reforms that will help enhance Egypt's business environment to attract private investments in climate projects. We will analyze areas where improvement can be made, such as addressing policy uncertainty, limited access to finance, regulatory barriers, and infrastructure deficiencies (World Bank CCDR (2022), and will propose measures that will aim to alleviate constraints to mobilizing sufficient climate financing for our adaptation and mitigation needs.

- *<u>**RM2:** CBE to issue a directive mandating the banking sector to monitor and report data on their exposures to firms that may have material transition risks related to CBAM adoption.</u>*

  - To better identify climate change-related transition risks for the banking sector, we will start collecting data on the possible impact of CBAM on Egypt's exports. Specifically, CBE will issue a directive mandating the banking sector to monitor and report data to CBE. This measure will help the banking sector's ability to monitor its exposures to emissions intensive exporters and support their clients' decarbonization efforts and will enhance CBE's ability to assess systemic transition risks due to CBAM adoption.

- **<u>Reform area 4:</u> Identifying, measuring, and disclosing the effects of investment plans, programs, and projects on national climate change targets**. In order to achieve this objective, it is critical for Egypt to address gaps in the framework for climate-sensitive public investment described in the PIMA and C-PIMA diagnostic reports, including gaps in appraisal and selection processes and in asset management. Adopting a planned monitoring, reporting, and verification (MRV) system will provide a platform for assessing whether projects are meeting their stated appraisal criteria, climate ambitions and objectives, and for drawing out lessons for the design of the next round of climate-sensitive projects. We are committing to two reform measures in this area:

  - *<u>**RM3:** MoPEDIC to publish climate-change related criteria and processes for project selection and update and publish the project appraisal procedures with standardized climate mitigation and adaptation assumptions, and demonstrate that these criteria and processes have been applied to all new projects exceeding 500 million EGP.</u>*

    - A systematic approach to the application of a climate change assessment is critical for effective project appraisal and selection. Taking climate change into account in a meaningful and systematic way requires that all government entities apply a common methodology regarding what the implications of climate change are for the country and use a consistent baseline for assessing climate impact in the project appraisal. While the Guidance on Sustainability Analysis provides an initial approach to assessing climate aspects in public investment projects, more detailed methodologies are needed to objectively incorporate climate in the appraisal and selection processes.

    - Ensuring both the impact of projects on emissions and the vulnerability of projects to climate change impacts are known is important for making the appraisal and selection processes climate-sensitive. It is also important to assess the potential impact of the project on the broader climate risk profile for the country. The impact of projects on the country's GHG emissions can be taken into account in various ways, including by applying a shadow-price in the estimates of the benefits and costs of a project, or by using a scoring approach to reflect the GHG emissions profile of the project and the infrastructure asset over its lifetime. Shadow pricing assigns a monetary value to the cost of carbon emissions that are not usually reflected in market prices. Climate risk assessments should also be undertaken to assess the vulnerability of projects to climate change. These assessments could draw on the location data in the Integrated System for Investment Plan Preparation and Monitoring (ISIPPM) to map climate risks to those projects (such as sea level rises and precipitation and temperature changes) and assess the potential impact of the project on climate risks for the surrounding area and country more generally.

- The criteria for selecting projects for inclusion in the budget will be transparent and will include climate related parameters. The selection of projects is a distinct step in the project management cycle and builds on reliable project planning and appraisal. To ensure that resources are used efficiently, the prioritization will be done in a consistent and transparent manner, according to objective selection criteria and in line with best international practices. Objective technical criteria for project prioritization together with a defined process for policy related considerations will create transparency, improve coordination, reduce inefficiencies, and create accountability.

- With the development and publication of these appraisal methodologies and selection criteria, Egypt would establish itself at the forefront of climate-sensitive public investment. We will further demonstrate this through the application of these new methods in the preparation of project appraisals for all new projects exceeding 500 million EGP.

o ***RM4:*** *MoPEDIC to expand the existing asset registry pilot to include the Ministries of Transportation, Housing, Utilities and Urban Communities, focusing on large, fixed government assets; conduct internal analyses of location-specific climate risks on these assets within the registry; and prepare and publish a consolidated overview of climate risks across the asset portfolio, including a summary of the government's mitigation measures.*

- An asset registry is a structured database that records information on government-owned assets, including critical infrastructure, buildings, and other physical investments. By tracking the condition, value, and location of public assets, these registries enable governments to make informed decisions on maintenance, budgeting, and risk management. For security and privacy reasons, asset registers are typically not fully accessible to the public, particularly when they contain sensitive data on critical infrastructure. However, aggregated data—such as asset types, general conditions, and broad regional distributions—can be shared publicly to enhance transparency without compromising security.

- We are piloting an asset registry for the Ministries of Local Development, Higher Education, Health, and Electricity as part of its 2024/2025 investment plan. This registry is anticipated to expand to all ministries by the 2025/2026 cycle, establishing a comprehensive system to monitor large public assets.

- Integrating geospatial and climate-related data into the asset registry allows for climate risk assessment of the asset portfolio. Geospatial data provides precise asset locations, supporting the mapping of climate risk indicators such as:

  - **Sea Level Rise:** Mapping assets in coastal and low-lying areas to predict impacts from rising sea levels and identify assets at risk of future inundation.
  - **Precipitation Patterns:** Analyzing assets in regions susceptible to extreme rainfall and flooding to determine potential risk levels based on changing precipitation patterns.
  - **Temperature Variations:** Assessing the vulnerability of heat-sensitive infrastructure to extreme temperature events, which can affect everything from road durability to the efficiency of energy systems.

- Drawing on climate risk mapping overlays, including our forthcoming interactive map of climate risks in Egypt" or other options, we will evaluate the degree of exposure to climate change of the critical assets and prioritize mitigation actions. This will directly assist with our efforts to make existing infrastructure more climate resilient.

- An important element of this reform measure would be the preparation and publication of a consolidated report detailing the assessed climate risks across the portfolio of large public assets. This would provide the public with an overview of climate-related risks to the asset portfolio, along with a summary of the government's mitigation strategies. This overview would be included as a section of Egypt's Fiscal Risk Statement to promote accountability and demonstrate the government's commitment to proactively managing climate-related fiscal risks.

43. We request an arrangement under the RSF that runs concurrently with the remaining time under the EFF arrangement, with access of SDR 1 billion (49 percent of quota). Each of the 10 proposed reform measures will be associated with a disbursement of 10 percent of the total RSF loan (SDR100 million). We view that this access is warranted by the strength of reforms, the BOP impact, and our capacity to repay the Fund. The package of reform measures will accelerate Egypt's progress in addressing key adaptation, mitigation, and transition risks and opportunities. The proposed access would bolster Egypt's reserve buffers, thereby increasing its ability to confront prospective climate-related BOP pressures.

Table 1. Egypt: Quantitative Performance Criteria and Indicative Targets

(In billions of Egyptian pounds, unless otherwise indicated, end of period)

	End June 2024					End September 2024				End December 2024				End March 2025		End June 2025		End September 2025	End December 2025
						Indicative								Indicative		Proposed		Indicative	Proposed
	1st/2nd reviews	Prog.	Adj.	Actual	Status	3rd review	Adj.	Actual	Status	3rd review	Adj.	Actual	Status	3rd review	Prog.	3rd review	Prog.	Prog.	Prog.
I. Quantitative Performance Criteria 1/																			
Net international reserves ($ million at program exchange rates; floor) 2/	30,329	36,821	37,603	38,194	Met	35,364	34,475	37,429	Met	34,039	33,331	35,317	Met	32,918	37,213	36,132	39,275	38,715	39,838
Primary fiscal balance of the budget sector plus divestment proceeds (cumulative, floor) 3/ 6/	978	856		860	Met	141		90	Not met	425		230	Not met	566	487	791	782	148	381
Balance of the government's overdraft account at the CBE (weekly ceiling on the balance) 7/	131	131		-46	Not met	165		141	Met	165		127	Met	165	165	165	165	238	238
Balance of central bank lending to public agencies excluding the Ministry of Finance (continuous ceiling on the balance)	661	661		658	Met	508		612	Not met	458		612	Not met	458	458	408	408	383	358
Tax revenues (cumulative floor) 3/ 9/	…	…		…	…	…		…	…	…		…	…	1,342	1,312	2,237	2,184	566	1,132
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
II. Indicative Targets																			
Tax revenues (cumulative floor) 3/ 9/	1,740	1,690		1,630	Not met	388		413	Met	895		912	Met	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Social spending of the budget sector (floor) 3/	189	189		218	Met	26		56	Met	105		123	Met	158	167	211	235	79	158
Public investment (semi-annual ceiling) 3/ 4/	350	350		531	Not met	n.a.		n.a.	n.a.	500		n.a.	n.a.	n.a.	n.a.	1,000	1,000	n.a.	611
Net change in the stock of government guarantees 3/ 5/	183	1,890		1,859	Met	200		191	Met	400		n.a.	n.a.	525	525	650	650	200	400
Average maturity of gross local currency debt issuance (years; floor) 3/	0.65	0.57		0.56	Not met	0.87		0.84	Not met	0.90		0.82	Not met	0.92	0.92	0.94	0.94	0.94	0.94
Gross debt of the budget sector (at program exchange rates; ceiling)	11,198	12,954		12,802	Met	13,602		n.a.	n.a.	14,065		n.a.	n.a.	14,527	14,707	14,805	15,023	15,023	15,023
III. Monetary Policy Consultation																			
(12-month change in consumer prices)																			
Upper outer band	32.5	32.5				27				25				16	18	13	17	17	16
Upper inner band	9	9				9				9				9	9	9	9	9	9
Actual/Center target	7	7		27.5	Exceeds upper inner band	7		26.4	Exceeds upper inner band	7		24.1	Exceeds upper inner band	7	7	7	7	7	7
Lower inner band	5	5				5				5				5	5	5	5	5	5
Lower outer band	3	3				3				3				3	3	3	3	3	3
Memorandum items:																			
Program disbursements at completion of review (cumulative change, $ million) 3/	7,850	7,850	…	7,792		3,507		1,197		5,449		4,591		8,740	8,485	10,103	14,650	2,024	6,499
External program financing assumed under the program excluding IMF (cumulative change, $ million) 3/	6,204	6,204	…	6,973		1,456		377		3,399		3,772		5,462	6,442	6,825	11,382	800	4,051
Of which:																			
Sales of state-owned assets	2,793	2,794	…	2,030		894		0		2,194		0		2,884	300	3,575	3,600	750	1,500
Net issuance of FX T-Bills	0	-115	…	-115		0		-18		0		-90		0	-90	0	-90	0	0
Foreign Curency Deposits at CBE	0	0	…	0		0		0		0		0		0	0	0	0	0	0
IMF financing assumed under the program (cumulative, $ million) 3/	1,646	1,646	…	818		2,051		820		2,051		820		3,278	2,044	3,278	3,268	0	1,222
Net external loans from private creditors in FX assumed in BOP baseline (cumulative change, $ million) 3/	110	-110		-1,605		1,000		-86		2,500		-1,086		3,500	414	3,639	1,062	1,000	2,000
Net nonresidents' holdings of local-currency T-bills and T-bonds ($ million) 3/ 8/	1,850	1,850	…	16,533		750		-1,502		1,500		-2,155		2,250	-1,505	3,000	-905	500	1,000
Divestment proceeds flowing to the budget (EGP billion, cumulative) 3/ 6/	698	698	…	510		59		0		88		0		133	55	177	165	21	41

N/A = not applicable

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

1/ The targets for March 2023 and September 2024 are indicative.

2/ Reserves include the CBE's official reserves and the CBE's foreign currency deposits with local banks.

3/ Quarterly from the beginning of each fiscal quarter.

4/ IT is assessed semi-annually on the end-June and end-December dates. For end-June 2024, the cumulative target is set on public investment from January 1, 2024, to June 30, 2024.

5/ For the test dates of end-March 2024 and end-June 2024, the cumulative values cover the period from October 1, 2023 until the test date. The reported issuance for end-March is gross issuance rather than net issuance.

6/ For 2024, it also includes $12bn from the Ras El-Hekma transactions.

7/ Observing this periodic quantitative performance criterion for each semi-annual period would require that each end-week balance does not exceed the respective ceiling for each week during this semi-annual period.

8/ As of February 28, 2024, as per TMU definition (with one month lag relative to the test date).

9/ IT elevated to QPC starting with end-June 2025.

Table 2. Egypt: Structural Benchmarks		
Policy Measure	**Timing**	**Status**
The authorities will submit to Parliament a tax package of structural measures that would yield about 0.9 percent of GDP on an annual basis. The tax package relies on 3 measures: (i) removal of exemptions and reduced rates under the VAT regime (0.62 percent of GDP), namely the removal of exemptions and reduced rates on construction, sale of non-residential property, crude oil, changes in schedule tax on cigarettes, and services of news agencies and advertisements; (ii) a withholding tax on freezone sales to the domestic market (0.10 percent of GDP), (iii) establishing a special tax regime for SMEs intended to reduce informality (0.15 percent of GDP). The following legislation will be submitted to parliament: Amendment of Value Added Tax Law No. (67) of 2016; Amendment to Investment Law No. 72 of 2017; Amendment to Law No. 152 of 2020 on the development of micro, small and medium enterprises; and a new law regarding tax incentives and facilitations for projects with annual turnover not exceeding 15 million pounds.	Prior action	**Met**
Complete the tendering process to commission an independent assessment of policies, procedures, and controls of state-owned banks (with CBE and IMF input and agreement on terms of reference) by an internationally recognized firm.	Prior action	**Met**
Publication monthly of all public procurement contracts that exceed EGP 20 million on the E-tenders government procurement portal website (See TMU). Ensure that everyone can access this information without the need to set up an electronic account.	Recurring SB 30 days after month end	**Met**
The Ministry of Finance will monitor and report payment arrears, including to critical SOEs and EAs, 90 days after fiscal year end as defined in the TMU.	Recurring SB 90 days after each fiscal year end	**Not Met** Report content did not meet TMU requirements
Re-instate regular publication of annual aggregate reports on Egypt’s SOE portfolio, initially instituted under the 2016 EFF supported program, with broader coverage to all companies covered by our state-ownership policy.	Recurring SB End-September 2024 and then end-September each subsequent year	**Not Met** Report published on September 30 does not cover all companies under SOP

Table 2. Egypt: Structural Benchmarks (continued)		
Policy Measure	**Timing**	**Status**
Publish monthly on the general governments e-tenders site of all material procurement contracts and awards made by the largest 50 state-owned enterprises	Recurring SB End-September 2024	**Not met** Report covered less than 50 entities
Sustain the flexible exchange rate regime. This structural benchmark is assessed in a comprehensive manner, based on monitoring of FX system functioning, using the information and indicators including FX demand backlogs at banks, the spread between the official exchange rate and measures of market-clearing rate, and interbank FX turnover.	To be assessed once for each program review, based on the information over a period of time between program reviews	**Met**
Publish the full results of the latest household income survey	End-July 2024	**Not met** Published in November
Implement a plan for the recapitalization of the CBE, based on an assessment of the CBE's recapitalization needs in consultation with IMF staff, and considering CBE's full compliance with	End-August 2024	**Met**
Publish CAO's annual audit for FY2022/23.	End-August 2024	**Met**
Indicator to track implementation of the state-ownership policy.	End-September 2024	**Met**
The CBE will complete stress tests of the banking sector and share detailed results with IMF staff by end-September 2024. These tests will be prepared in consultation with IMF staff.	End-September 2024	**Met**
Conduct a sector classification exercise of all 59 economic authorities, in accordance with the concepts and principles in the GFSM 2014 and document clearly the rationale for each classification decision.	End-September 2024	**Met**
Undertake a detailed assessment of the economic benefits of the current freezones.	End-September 2024	**Met**

Table 2. Egypt: Structural Benchmarks (continued)

Policy Measure	Timing	Status
Submit to parliament amendments to the competition law that align the independence of the ECA with the level of independence enjoyed by the CBE and FRA and providing the power to issue direct administrative sanctions similar to the CBE.	End-October 2024	**Not Met** Modified
Commission an independent assessment of policies, procedures, and controls of state-owned banks (with CBE and IMF input and agreement on terms of reference) by an internationally recognized firm, with the tendering and selection process completed by end-October 2024	End-October 2024	**Not Met** Modified with the tendering process converted to a prior action and the selection process modified
Submit a new CAO law to parliament that requires annual publication of CAO audits of general government fiscal account within six months after end-fiscal year.	End-November 2024	**Not met** Modified
Submit to parliament amendments to the VAT law that simplify the VAT, reduce exemptions, and enhance its efficiency and progressivity.	End-November 2024	**Not Met** Modified and converted to a prior action
Introduce a "Green Lane" where a percentage of the cargo associated with low risk and compliant companies will be released immediately without any controls.	December -2024	**Not Met**
Integrate risk-based control between Customs Authority, Export and Import Control Authority, National Food Safety Authority, Agricultural and Veterinary Quarantines to reduce the number of containers needed to be inspected and thus, reduce the clearance procedures and time of goods in ports.	April-2025	Not applicable for 4^{th} review
Select an internationally recognized firm to conduct an independent assessment of policies, procedures, and controls of state-owned banks	End-February 2025	Modified
Submit to parliament amendments to the competition law that align the independence of the ECA with the level of independence enjoyed by the CBE and FRA and providing the power to issue direct administrative sanctions similar to the CBE.	End-February 2025	Modified

Table 2. Egypt: Structural Benchmarks (continued)

Policy Measure	Timing	Status
CBE issues a plan approved by the CBE Board to reduce its existing claims on public sector agencies excluding the Ministry of Finance. The plan will specify the timing for reducing the claims to zero by end-FY2028/29 and how the claims would be repaid or transferred off the balance sheet of the CBE.	End-February 2025	New
Prepare and publish general government debt statistical bulletins and/or reports in a recurring (quarterly), timely, comprehensive basis covering all aspects of debt and borrowing starting with a first publication focused on central government debt in April 2025, with expanded scope in November 2025 onwards.	End-April 2025	New Recurring
Submit a cabinet approved detailed plan to restore EGPC's financial health based on proforma financial statements (e.g., consistent positive cash flow from operations; significant reduction in debt/equity and interest coverage ratios; clearance of all arrears) within a specific period.	End-March 2025	New
Expand coverage or adequacy of payments of Takaful and Karama program in FY25/26 budget to ensure the total spending will be increased to 0.4 percent of GDP in FY25/26.	End-March 2025	New
Establish a package of indicators that draws on previously proposed indicators, including share of private investment to total investment and employment, to enhance tracking of implementation of the SOP and all its pillars, including an indicator that tracks divestment from state-owned entities.	End-March 2025	New
Complete the tendering and selection process and hire investment and legal advisors for at least two proposed divestment transactions worth an estimated combined US$1 – 1.3 billion.	End-April 2025	New
Publish a fiscal risk statement in conjunction with the Annual Budget statement for FY2025/26 including analysis of macroeconomic risks, with specific effort to provide quantified estimates, and the total amount of government guarantees and breakdown the total by entities that benefit materially from guarantees	End-June 2025	New

Table 2. Egypt: Structural Benchmarks (concluded)

Policy Measure	Timing	Status
Publish a report that indicates the institutional changes and procedures established to secure collection of taxes from SOEs following the removal of tax privileges through Prime Minister Decree No. 242 of 2024 on the Implementing Regulations of Law No. 159 of 2023. The report will also include the amount collected for each type of special tax privilege (CIT, VAT, other) that was removed, and projected collections on these taxes in FY2025/26	End-September 2025	New
Undertake necessary legal and regulatory actions to deliver a tax package of high-quality measures in the context of the FY2026/27 budget such that the objective to raise the tax to GDP ratio by at least 2 percentage points over the program horizon is met.	End-November 2025	New
Submit a new CAO law to parliament that requires annual publication of CAO audits of general government fiscal account within six months after end-fiscal year.	End-February 2025	Modified

Table 3. Egypt: RSF Matrix of Reform Measures							
Key Challenge(s)	**Reform Measure**	**Tentative Date**	**Diagnostic Reference**	**IMF CD Input**	**Implementing Agency**	**TA provision**	**RM Expected Outcome**
Reform Area 1. Need to scale up mitigation efforts.	**RM1.** Consistent with the 30 percent target for wind, solar, and hydropower generation capacity by 2030, the Cabinet to adopt and publish a schedule for the implementation of renewable energy until 2030.	Jun-25	World Bank Electricity Sector TA	FAD	Ministry of Electricity	IMF, World Bank, EBRD	Assisting Egypt in achieving its NDC targets and accelerating its decarbonization plan.
	RM8. To reduce GHG emissions from hydrocarbons production, the Ministry of Petroleum will (i) implement an MRV system to track flaring, fugitive methane, and vented methane emissions at the operator or project level on a quarterly or annual level basis, and (ii) issue a decree mandating operating companies to submit and approve targets for reduction of oil and gas sector emissions in line with Egypt's NDCs and with fines for noncompliance after a grace period of 2 years.	Aug-26	GFMR report: Decarbonization of the O&G Value Chain in Egypt.	FAD	Ministry of Petroleum	IMF, World Bank, EBRD	
Reform Area 2. (i) No disaster risk financing plan, and (ii) fiscal risk statement does not include climate impacts on infrastructure, but budget contingency can be used for natural disasters.	**RM5.** MoF to publish a quantitative analysis of long-term climate-related fiscal risks and climate-sensitive contingent liabilities and describe how the government will manage these risks in the Fiscal Risk Statement starting with the 2026/27 Budget.	Jun-26	C-PIMA	FAD	Ministry of Finance	IMF	Adopting a disaster risk financing plan, and strengthening the management of climate-related risks and building resilience.
	RM7. MoF to strengthen disaster risk management capacity through adopting a national disaster risk financing strategy while integrating social assistance measures in collaboration with the Ministry of Social Solidarity.	Aug-26	World Bank CCDR, World Bank hydro-met modernization roadmap	FAD	Ministry of Finance, Ministry of Social Solidarity	World Bank	
	RM10. Authorities to establish the National Water Council through a Prime Ministerial decree, chaired by the Prime Minister and including key ministers and stakeholders from MALR, MWRI, MHUUC, MoE, MPEDoIC, which will: (1) oversee the generation, sharing, and publication of data on water demand and supply by sector/subsector/region and analysis to support informed decisions on water allocation by June 2026; (2) introduce a formal process to be defined in first review for water allocation among sectors/regions	Aug-26	tbd	FAD	Minister of Water Resources and Irrigation		

Table 3. Egypt: RSF Matrix of Reform Measures (continued)

Key Challenge(s)	Reform Measure	Tentative Date	Diagnostic Reference	IMF CD Input	Implementing Agency	TA provision	RM Expected Outcome
	to manage conflicting demands on water resources at the policy and project planning stage, in line with best international practices, by August 2026.						
	RM2. CBE to issue a directive mandating the banking sector to monitor and report data on their exposures to firms that may have material transition risks related to CBAM adoption.	Jun-25	World Bank CCDR	MCM	CBE		
	RM6. CBE to issue a binding regulatory framework to mandate Banks to adopt environmental and social risk management system (ESRMS) which include climate pillar along with timeline for implementation. The binding regulations will include guidelines to the banks on the implementation of ESRMS.	Jun-26	World Bank CCDR	MCM	CBE		
Reform Area 3. Increasing the resilience of the financial sector to climate shocks.	**RM9.** In accordance with Egypt's Country Platform for the Nexus of Water, Food, and Energy (NWFE), which is aligned with the National Climate Change Strategy 2050, authorities will add two new sub-projects, one on adaptation and one on mitigation. For each of the projects, pre-feasibility studies will be developed to attract private sector interest and funding; authorities will also build on the experience gathered so far to identify by end-2025 and adopt by June-2026 further measures to facilitate private investments in mitigation and adaptation projects.	Jun-26	National Climate Change Strategy, World Bank CCDR	FAD, MCM	MoPEDIC		Increasing the capacity of the financial sector to manage climate-related risks, and enhancing climate information architecture supporting private climate finance decisions.
	RM4. MoPEDIC to expand the existing asset registry pilot to include the Ministries of Transportation, Housing, Utilities and Urban Communities, focusing on large, fixed government assets; conduct internal analyses of location-specific climate risks on these assets within the registry; and prepare and publish a consolidated overview of climate risks across the asset portfolio, including a summary of the government's mitigation measures.	Jun-26	C-PIMA	FAD	MoPEDIC	IMF	

Table 3. Egypt: RSF Matrix of Reform Measures (concluded)

Key Challenge(s)	Reform Measure	Tentative Date	Diagnostic Reference	IMF CD Input	Implementing Agency	TA provision	RM Expected Outcome
Reform Area 4. Addressing gaps in the framework for climate-sensitive public investment described in the PIMA and C-PIMA diagnostic reports, including gaps in appraisal and selection processes and in asset management.	**RM3.** MoPEDIC to publish climate-change related criteria and processes for project selection and update and publish the project appraisal procedures with standardized climate mitigation and adaptation assumptions, and demonstrate that these criteria and processes have been applied to all new projects exceeding 500 million EGP.	Dec-25	C-PIMA	FAD	MoPEDIC	IMF	Building the capacity for climate-sensitive public investment management via identifying, measuring, and disclosing the effects of investment plans, programs, and projects on national climate change targets.
	RM4. MoPEDIC to expand the existing asset registry pilot to include the Ministries of Transportation, Housing, Utilities and Urban Communities, focusing on large, fixed government assets; conduct internal analyses of location-specific climate risks on these assets within the registry; and prepare and publish a consolidated overview of climate risks across the asset portfolio, including a summary of the government's mitigation measures.	Jun-26	C-PIMA	FAD	MoPEDIC	IMF	

Attachment II. Technical Memorandum of Understanding

February 2025

1. This technical memorandum of understanding (TMU) sets out the understandings regarding the definitions of quantitative performance criteria (PC), indicative targets (IT), and consultation clauses, as well as the data reporting requirements under the IMF's extended arrangement under the Extended Fund Facility (EFF). It also sets out the definition of key terms related to the structural benchmarks (SB) under the EFF.

2. Program exchange rates for the assessment of quantitative targets in FY2022/23 are those prevailing on September 30, 2022.

	Currency Unit per U.S. dollar
SDR	0.781323
Euro	1.0293
U.K. Pound	0.9213
Japanese Yen	144.7094
Saudi Arabian Riyal	3.7576
Chinese Yuan	7.1305

The program exchange rate of the Egyptian pound against the U.S. dollar for FY2022/23 is 19.4970 (the CBE's official buy rate on September 30, 2022). Monetary gold is valued at US$1,654.80 per troy ounce (the rate on September 30, 2022). For other foreign currencies, the current exchange rates to the U.S. dollar will be used.

3. Program exchange rates for the assessment of quantitative targets for end-March 2024 test date are those prevailing on January 31, 2024, as indicated in the IMF's Representative Exchange Rates for Selected Currencies published on IMF website.

	Currency Unit per U.S. dollar
SDR	0.751945
Euro	0.9228
U.K. Pound	0.7883
Japanese Yen	147.5000
Saudi Arabian Riyal	3.7500
Chinese Yuan	7.1807
U.A.E. Dirham	3.6725

The program exchange rate of the Egyptian pound against the U.S. dollar for end-March 2024 test date is 30.8272 (the CBE's official buy rate on January 31, 2024). Monetary gold is valued at US$2,053.25 per troy ounce (the rate on January 31, 2024). For other foreign currencies, the current exchange rates to the U.S. dollar will be used.

4. Program exchange rates for the assessment of quantitative targets for end-June 2024, end-Sept 2024 and end-Dec 2024 test dates are those prevailing at end-April 2024 as indicated in the IMF's Representative Exchange Rates for Selected Currencies published on IMF website.

	Currency Unit per U.S. dollar
SDR	0.7588
Euro	0.9330
U.K. Pound	0.7974
Japanese Yen	156.8200
Saudi Arabian Riyal	3.7500
Chinese Yuan	7.2420
U.A.E. Dirham	3.6725

The program exchange rate of the Egyptian pound against the U.S. dollar for end-June 2024 test date and test dates in FY2024/25 is 47.7860 (the CBE's official buy rate on April 30, 2024). Monetary gold is valued at US$2,307 per troy ounce (the rate at end-April 2024). For other foreign currencies, the current exchange rates to the U.S. dollar will be used.

5. Program exchange rates for the assessment of quantitative targets for test dates in calendar year 2025 are those prevailing at end-October 2024 as indicated in the IMF's Representative Exchange Rates for Selected Currencies published on IMF website.

	Currency Unit per U.S. dollar
SDR	0.7510
Euro	0.91892
U.K. Pound	0.7706
Japanese Yen	153.50
Saudi Arabian Riyal	3.7500
Chinese Yuan	7.1196
U.A.E. Dirham	3.6725

The program exchange rate of the Egyptian pound against the U.S. dollar for test dates in calendar 2025 is 48.8908 (the CBE's official buy rate on October 31, 2024). Monetary gold is valued at US$2,734.15 per troy ounce (the rate at end-October 2024). For other foreign currencies, the current exchange rates to the U.S. dollar will be used.

A. Floor on Net International Reserves (PC)

6. Net international reserves (NIR) of the Central Bank of Egypt (CBE) under the program are defined as the difference between foreign reserve assets and foreign reserve-related liabilities. For the program monitoring purposes, assets and liabilities in currencies other than the U.S. dollar are converted into U.S. dollar equivalents using the program exchange rates indicated in this TMU.

7. **Foreign reserve assets** are defined as readily available claims on nonresidents denominated in convertible foreign currencies, including the Chinese Yuan and U.A.E. Dirham. They include the CBE's holdings of monetary gold, SDRs, foreign currency cash, and foreign currency securities, the CBE's deposits abroad (irrespective of maturity), the country's reserve position at the Fund, the CBE's foreign currency deposits at local banks, and the CBE's other foreign currency assets that could be used for reserve management purposes. 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 other than the CBE's foreign currency deposits at local banks, precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of end-October 2024, foreign reserve assets thus defined amounted to US$54,369 million.

8. **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, except for deposits at the CBE with original maturity of less than 360 days that are owed to official GCC member creditors. They include government foreign currency deposits with an original maturity of less than 360 days. They include banks' required reserves in foreign currency, and all credit outstanding from the Fund that is on the balance sheet of the CBE. It excludes liabilities under currency swaps with original maturities of 360 days or more. As of end-October 2024, foreign reserve-related liabilities thus defined amounted to US$15,095 million.

9. **Adjustors.** The floor on the NIR will be adjusted for: (i) deviation in program disbursements (defined below) relative to projections; (ii) deviation in external commercial borrowings (including Eurobonds and syndicated loans) relative to baseline assumptions; (iii) deviation in the stock of government T-bills and T-bonds denominated in local currency and held by nonresidents relative to program assumptions; (iv) repo margin calls, (v) use of reserves according to a FX intervention framework, and (vi) disbursements under the RSF. These adjustors are clarified below. Related information is reported in Attachment I, Table 1 of the staff report.

10. **Program disbursements** are defined as disbursements of (i) loans denominated in foreign currency (excluding external borrowings from private creditors such as Eurobonds, Sukuk, Panda bond, and Samurai bond that are part of baseline BOP projections, but including T-bonds and other government securities denominated in foreign currency), grants, and deposits for budget support purposes denominated in foreign currency. Loans denominated in foreign currency that qualify as program disbursements are those that constitute new financing; thus they do not include conversions of deposit liabilities that existed at end-September 2022 at the CBE or conversions of official bilateral loans to the government; (ii) net issuance of T-bills in foreign currency; (iii) purchases under the IMF's Extended Fund Facility; (iv) foreign reserve-related loans and deposits to the CBE with original maturity of more than 360 days except for official creditor deposits at the CBE which are included regardless of maturity; and (v) rollovers by more than 360 days of existing foreign loans and foreign reserve-related liabilities, from official multilateral creditors, official bilateral creditors, and private creditors, including external bond placements denominated in foreign currency; and (vi) foreign currency resources generated by sales of state-owned assets, including the sale of equity

stakes in SOEs as defined below, and the sale of stakes in other assets such as land, excluding the investment deal for the development of Ras El-Hekma. All FX proceeds received by public entities involved in these sales would be captured by the CBE and would be reported as FX inflows to the CBE and go towards increasing the NIR. State-owned asset sales that qualify as program disbursements are those that constitute new financing; thus, they do not include conversions of deposit liabilities that existed at end-September 2022 at the CBE or conversions of official bilateral loans to the government. Program disbursements do not include project loans and project grants.

11. The adjustors for NIR will be applied in the following way:

- *Adjustor for deviations in program disbursements relative to projections.* The NIR floor will be adjusted up by the full amount of any excess in cumulative program disbursements relative to the projections of cumulative program disbursements. The NIR floor will be adjusted down by the full amount of the shortfall in cumulative program disbursements relative to the projections of cumulative program disbursements. The projections for cumulative external program disbursements (excluding the IMF) as of January 2025 are US$6,442 million as of end-March 2025, US$11,382 million as of end-June 2025, US$800 as of end-September 2025, and 4,051 million as of end-December 2025.

- *Adjustor for deviations in external commercial borrowings relative to baseline assumptions.* The NIR floor will be adjusted up by the full amount of any excess in net external borrowings from private creditors in foreign currency (including Eurobonds, Sukuk, Panda bond, Samurai bond, and syndicated loans) relative to the baseline projections in the BOP. The projections for cumulative net external borrowing from private creditors (from the beginning of the fiscal year) as of November 2024 are, US$414 million as of end-March 2025, US$1062 as of end-June 2025, US$1,000 million as of end-September 2025, and US$2,000 million as of December 2025.

- *Adjustor for deviations in the flow of government T-bills and T-bonds denominated in local currency and held by nonresidents relative to program assumptions*. The floor on the NIR will be adjusted up by 50 percent of any excess in this flow of local currency government T-bills and Tbonds held by nonresidents relative to program assumptions.[1] This adjustor will use the information on T-bill and T-bond holdings one month before the test date; thus, for the end-December 2022 test date, actual T-bill and T-bond flow holdings by nonresidents for end-November 2022 will be used to calculate the size of adjustor.

- *The* program assumptions for the cumulative flows (from the beginning of each fiscal year) of local currency T-bills and T-bonds held by nonresidents, used for the purposes of this adjustor, are -US$1505 million for end-March 2025, -US$905 million for end-June 2025, US$ 500 million for end-September 2025, and US$1,000 million for end-December 2025.

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[1] For zero-coupon treasury bills/bonds, disbursements refer to the purchase price (issuance proceeds) of those instruments.

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

- *Adjustor for FX intervention*. The NIR floor will be adjusted down by the amount of FX intervention (sales) undertaken by the CBE, provided the intervention is consistent with the intervention framework.

- *Adjustor for RSF disbursements:* The NIR floor will be adjusted up by the cumulative amount of RSF disbursements.

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

12. The budget sector comprises 184 central government (administration) units, including the executive powers (presidency, parliament, senate, and ministers), the legislative powers (judiciary and prosecution), 323 local government units, and 156 entities in the public service authorities, which include universities and hospitals.

13. The primary fiscal balance of the budget sector under the program is defined as the overall balance measured on a cash basis minus total cash interest payments of the budget sector. The overall balance under the program is defined as total revenue and grants minus total expenditure plus net acquisition of financial assets. These are measured on a cumulative basis from the beginning of the fiscal year. For FY2023/24, the primary balance of the budget sector thus defined was EGP 860 billion.

14. Off-budget funds. The authorities will immediately inform IMF staff of the creation of any new off-budgetary funds or programs. This includes any new funds and special budgetary and extra-budgetary programs that may be created during the program to carry out operations of fiscal nature as defined in the IMF's Government Finance Statistics Manual 2014.

15. Divestment proceeds flowing to the budget. Divestment proceeds flowing to the budget are part of divestment proceeds raised from the sale of state-owned assets in both FX and Egyptian pounds, including the sale of equity stakes in SOEs as defined below, and the sale of stakes in other assets such as land. Divestment proceeds flowing to the budget are recorded in the net acquisition of financial assets for program purposes. The program assumptions for divestment proceeds flowing to the budget are listed in the QPC table.

16. Adjustor. The floor on the primary balance of the budget sector will be adjusted up by the full amount of the excess of divestment proceeds, including the sale of equity stakes in SOEs as defined below, and the sale of stakes in other assets such as land, relative to the program assumptions for divestment proceeds flowing to the budget as indicated in the QPC table.

C. Floor on Tax Revenues (PC)

17. **Tax revenues** include personal income tax, corporate income tax, capital gain tax, property tax, tax on T-bills/T-bonds, value-added tax, excises, tax on specific services, stamp tax, international trade taxes, tax on use of goods and on permission to use on goods and perform activities and other taxes and development fees. Tax revenues totaled EGP 714.3 billion as of November 2024 since the start of FY2024/25**.**

D. Floor on Health and Social Spending of the Budget Sector (IT)

18. **Health and social spending of the budget sector** includes spending related to the budget of the Ministry of Health and the Ministry of Social Solidarity, excluding interest payments.

E. Ceiling on the Public Investment (IT)

19. **The program target** is defined as cumulative capital investment spending undertaken by all public agencies and entities controlled or owned directly or indirectly by public entities. For FY2023/24, the ceiling for end-June 2024 applied to the period from January 1, 2024, to June 30, 2024. Thereafter the ceiling applies to the investment spending since the beginning of the relevant fiscal year.

F. Ceiling on Balance of Government's Overdraft Account at the CBE (PC)

20. **The program target** is defined as the balance on the government's overdraft account at the CBE and is set as each weekly ceiling on the balance as shown in Table 1 of the MEFP. The target will be monitored based on the data for each end-weekly balance of government overdraft at the CBE to be received following the end of each week. The periodic PC on this target for each semi-annual period would be assessed as met only if each end-week balance does not exceed the respective ceiling for each week during that semi-annual period.

G. Ceiling on CBE lending to Public Agencies Excluding the Ministry of Finance (PC)

21. **The program target** is defined as the balance on lending by the CBE to public agencies excluding the Ministry of Finance. The ceiling on the balance is EGP 661.172 billion, reflecting the stock of outstanding lending as of January 2024 to six entities. This performance criterion will apply continuously. The balance will be reported transparently in the weekly analytical balance sheet of the CBE, with and "Other Items, net" split into a component relating to CBE lending to public agencies excluding the Ministry of Finance and a component reflecting all other items. Loan-by-loan information will also be reported separately (Table 1B).

H. Floor on Average Original Maturity of Newly Issued Local Currency Tradable Debt of the Budget Sector (IT)

22. The program target is defined as the weighted average original maturity of local currency tradable debt of the budget sector that is issued through public placements. The weights used for the calculation are the volumes of issuance under each maturity. The weighted average original maturity is calculated quarterly for each quarter. Local currency tradable debt of the budget sector is defined as local currency tradable securities (tradable T-bills and T-bonds) denominated in Egyptian Pounds, including those issued by the budget sector to the Pension Fund and other public entities.

I. Ceiling for Gross Debt of the Budget Sector (IT)

23. Gross debt of the budget sector is defined as the outstanding stock of debt issued by the budget sector, as defined in the IMF's Government Finance Statistics Manual 2014. It includes debt issued to the pension fund and other public entities. Sukuk issued by the budget sector will be treated as debt of the budget sector. For the program monitoring purposes, the U.S. dollar amounts of foreign currency debt will be converted to Egyptian pound equivalents using the program exchange rates indicated in this TMU.

24. Adjustor. The ceiling for gross debt of the budget sector will be adjusted down by the full amount of the excess of divestment proceeds, including resources raised through the sale of equity stakes in SOEs and the sale of stakes in other assets such as land, relative to program assumptions. For calculating this adjustor, the program assumptions for divestment proceeds flowing to the budget are listed in the QPC table.

J. Ceiling on Government Guarantees (IT)

25. The program target is defined as cumulative change in stock of guarantees issued by the Ministry of Finance with guarantees on foreign currency denominated borrowing converted to Egyptian pound equivalents using the program exchange rates indicated in this TMU. A guarantee is defined as an arrangement whereby the Ministry of Finance has an obligation to pay a third-party beneficiary when another institutional unit fails to perform certain contractual obligations. The Ministry of Finance will report to the IMF the stock of guarantees in billions of Egyptian pounds at both program and actual exchange rates 90 days after the relevant test date. The data will show guarantees on domestic currency and foreign currency borrowing by Economic Authorities (EGPC, GASC, Transport, NUCA, other) and state-owned enterprises (NIB, Electricity, other). The stock of guarantees will also be broken down into domestic and external guarantees by currency denomination of the guaranteed borrowing with the U.S. dollar value of guarantees of foreign currency denominated borrowing reported at actual and program exchange rates. For the cumulative values for end-March and end-June 2024 test dates were the ceiling on the change in nominal value of the stock of guarantees since September 30, 2023. Thereafter the cumulative ceiling applies to the change in the nominal value of the stock of guarantees since the beginning of the relevant fiscal year.

K. Maintain a Flexible Exchange Rate Regime and a Liberalized Foreign Exchange System (SB)

26. The structural benchmark will assess whether a shift to a flexible exchange rate regime and a liberalized FX system is sustained. This SB is assessed in a comprehensive manner, based on monitoring of FX system, using the information and indicators that include FX demand backlogs at banks, the spread between the official rate and measures of market clearing rate, and interbank FX turnover. For FX demand backlogs at banks, the CBE will provide data on FX demand backlogs at banks that cover eight banks identified by the CBE. The sample of banks is fixed throughout the program. For the spread between the official rate and measures of market-clearing rate, measures of market-clearing exchange rate, including the local parallel market rate, and exchange rates implied by transactions in gold, GDR, and ADR markets will be monitored on a daily basis.[2] For interbank FX turnover, the CBE will provide daily data. The SB will be assessed once for each program review, based on the information over a period between program reviews.

L. Commercial Banks' Net Foreign Assets Consultation Clause

27. Net foreign assets (NFA) of commercial banks are defined as the difference between the claims on nonresidents (including foreign currency holdings) and the liabilities to nonresidents of other depository corporations. For monitoring this clause, NFA will be measured in US dollars using the monetary data reported in the standardized report form. The NFA at end-October 2024 was -US$1.4 billion.

28. Consultation with IMF staff will be triggered if banks' NFA at the aggregate level decline by cumulative US$2 billion over any past three-month period. The cumulative change in banks' NFA will be assessed at the end of every month. This consultation will be on the reasons for the decline in banks' NFA and to ascertain whether: (i) there were imbalances in the FX market; and (ii) any corrective actions by the CBE are necessary.

[2] The data sources for the local parallel market rate are https://www.parallelrate.org/ (the data from this source is also available in Haver) and https://sarf-today.com/en/currency/us_dollar/market. The data source for the exchange rate implied by gold transactions in Egypt and internationally is https://egypt.gold-price-today.com/ and Bloomberg. The data source for the exchange rate implied by stock transactions in Egypt and internationally (GDR and ADR markets) is Bloomberg. For GDR and ADR, monitoring will focus on the stock for Commercial International Bank (CIB), given that CIB stock has the largest trading volume in GDR and ADR among Egyptian companies.

M. Monetary Policy Consultation Clause

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

30. Consultation with IMF Board will be triggered if inflation falls outside of the upper outer band or the lower outer band. The upper outer band and the lower outer band are indicated in Table 1 of the MEFP. The consultation with IMF Board will be on the reasons for inflation deviations from the outer band, the stance of monetary policy and the inflation outlook, whether the Fund-supported program remains on track, and the CBE's remedial actions that are deemed necessary before further purchases under the EFF could be requested.

31. Consultation with IMF staff will be triggered if inflation falls outside of the upper inner band or the lower inner band. The upper inner band and the lower inner band are indicated in Table 1 of the MEFP. The consultation with IMF staff will be on the reasons for inflation deviations from the inner band, the stance of monetary policy and the inflation outlook, and the CBE's remedial actions.

N. Other Continuous Performance Criteria

32. Non-accumulation of external debt payments arrears by the general government. The general government comprises the budget sector, the Social Insurance Funds (SIFs), and the National Investment Bank (NIB). External debt payments include principal and interest payments, including payments on long-term leases. New external debt payments arrears cannot be accumulated during the program period. For this performance criterion, an external debt payments arrear is defined as the amount of payment obligation (principal 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. This performance criterion will apply continuously throughout the arrangement.

33. Standard continuous performance criteria include: (i) prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions; (ii) prohibition on the introduction or modification of multiple currency practices; (iii) prohibition on the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and (iv) prohibition on the imposition or intensification of import restrictions for balance of payments reasons.

O. Other Structural Benchmarks

34. State-owned companies (SOEs) for the purpose of the structural benchmarks related to their management and governance, as well as the leveling of the playing field, are defined as all public corporations, regardless of their legal framework and the specific agency in charge of their oversight.

They cover public sector companies, public business sector companies, military-owned companies, economic authorities (EAs), and joint ventures and partnerships.

35. Reoccurring (annual) publication of domestic payment arrears for the purpose of the structural benchmark is defined as publishing within 90 days after fiscal year end the stocks of commitments, overdue payments, and overdue transactions as well as the stock of gross liabilities and due payments to and from MOF with EGPC, GASC, NUCA, National Postal Authority, National Authority for Egyptian Railways, National Investment Bank, Central Bank of Egypt, Egyptian Electricity Holding Company, Holding Company for Drinking Water and Sanitation, and EgyptAir.

36. CBE subsidized lending initiatives for the purpose of the structural benchmark is defined as schemes, both existing and new, where the CBE provides subsidies to financial institutions based on loans those institutions extend to predefined sectors or households at predefined interest rates. Existing schemes include, but are not limited to, the mortgage finance initiative for middle-income class, the industrial, agricultural, and construction private sectors initiative, and the tourism sector initiative and that aimed at substituting cars to work with dual fuel. As of November 30, 2024, the total amount of loans utilized under the subsidized lending schemes was EGP 80.39 billion.

37. CBE lending to public agencies excluding the Ministry of Finance. For the purpose of the structural benchmark, the CBE would issue a strategy, approved by the CBE Board, that details how its claims on public agencies excluding the Ministry of Finance will be reduced to zero. For each outstanding claim, the strategy would detail either i) the timing and entities involved in repaying the claim to the CBE; or ii) transferring the claim off the balance sheet of the CBE.

38. Reoccurring (monthly) publication of public procurement awards. For the purpose of the structural benchmark post within 30-days of the previous month's end reports that comprise procurement awards greater than EGP 20 million made by budget sector units during the previous month and the previous month's findings from General Authority for Government Services (GAGS) on-site post-procurement audits of budget unit procurement awards, which will be selected at random. The monthly reports will be posted on the GAGS website, accessible in Egypt, and the Ministry of Finance website, accessible internationally.

39. Reoccurring (monthly) publication of procurement awards by the largest economic authorities and state-owned enterprises. For the purpose of the structural benchmark post within 30-day of the previous month's end reports that comprise procurement awards made by the largest economic authorities and state-owned enterprises during the previous month and the previous month's findings from General Authority for Government Services (GAGS) on-site post-procurement audits of budget unit procurement awards, which will be selected at random. The monthly reports will be posted on the GAGS website, accessible in Egypt, and the Ministry of Finance website, accessible internationally.

40. Quarterly publication of general government debt bulletins. For the purpose of the structural benchmark, post within 90-days of the previous quarter's end summary central government debt statistical bulletins (and an annual report) covering all aspects of domestic and external debt and borrowing, including borrowing and market issuances (loans, private placements, public auctions, overdraft use), and including information on outstanding stock, instruments used, and terms (tenors, currency, interest rate level and type) starting with a first publication in April 2025 (*new recurring structural benchmark*). Authorities will publish a quarterly bulletin focused on central government debt by April 2025 and plan to gradually augment it by reporting on general government debt starting end of November 2025.

P. Monitoring and Reporting Requirements

41. Performance under the program will be monitored using the data reported by the Ministry of Finance and the CBE to the IMF, with frequency and submission lag indicated in Table 1A and Table 1B. Data are defined consistently with the program definitions above. In addition to the items listed in Table 1A and Table 1B, the CAPMAS will report data on inflation to the IMF, with submission lag of no more than 10 business/working days after each test date. In case of any data revisions, the authorities will transmit to the IMF immediately.

Table 1a. Egypt: Reporting Requirements for Ministry of Finance		
Item	**Frequency**	**Submission Lag**
Overall deficit of the budget sector	M	30 calendar days
Overall deficit of the general government, the NIB, and the SIF before July 2025, afterwards the consolidated general government and 59 EAs	Q	60 calendar days
Summary of budget sector accounts, including revenues, expenditures, and net acquisition of financial assets on a cash basis, consistent with the IMF's Government Financial Statistics Manual 2001	M	30 calendar days
Budget sector expenditures by the ministries of health and social solidarity	M	30 calendar days
Summary accounts of the NIB and the SIF before July 2025 and 59 EAs afterwards, consistent with presentation of general government accounts	Q	60 calendar days
Total divestment proceeds and divestment proceeds flowing into the budget, including sales of equities and land	M	30 calendar days
Domestic debt stock and debt service costs of the general government and the budget sector, including interest payments and amortization. Information on the below the line transactions (non-deficit debt creating flows) of the budget sector and the composition, including accrued interest expense and issuance of T-bonds for recapitalization of the CBE	Q	30 calendar days for the budget sector debt and the below the line transactions (60 days for the general government debt)
Debt of the budget sector by maturity of issuance and by debt holder, including debt to the NIB, the SIFs, and other public entities, at actual and program exchange rates	M	30 calendar days
End-week balance of government overdraft at the CBE, as defined in this TMU. Separately, interest payments including penalty	W	5 working days
Gross and net stock of bonds issued by the budget sector to the NIB and the SIFs	Q	30 calendar days
Gross and net domestic borrowing of the budget sector, including gross and net T-bill and T-bond issuance in local and foreign currency, separately for domestic and foreign investors, and issuance of other government debt instruments	M	30 calendar days
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	5 working days

Table 1a. Egypt: Reporting Requirements for Ministry of Finance (concluded)

Item	Frequency	Submission Lag
Private placements of domestic and external debt (issuance amount, maturity date, currency of issuance, and interest rate). The information on each issuance should be reported	W	5 working days
Recapitalization of the CBE by the government (date of recapitalization, amount, information on instruments used to recapitalize the CBE including maturity and interest rate)	When recapitalization takes place	5 working days
Average original maturity of newly issued local currency tradable debt of the budget sector, issued through public placements, as defined in this TMU in relation to the indicative target on the floor on average original maturity of newly issued local currency tradable debt of the budget sector. Underlying data to calculate the average maturity, including the issuance amount and the maturity date of individual issuances	Q	30 calendar days
Gross issuance of guarantees in billions of Egyptian pounds at program and actual exchange rates broken down into guarantees on domestic currency and foreign currency borrowing by Economic Authorities (EGPC, GASC, Transport, NUCA, other) and state-owned enterprises (NIB, Electricity, other).	Q	60 calendar days
Stock of outstanding domestic arrears by creditor. Stocks of commitments, orders to pay, and overdue payments of the budget sector in aggregate and by following entities (EGPC, GASC, NUCA, National Postal Authority, National Authority for Egyptian Railways, Egyptian Electricity Holding Company, Egyptian Natural Gas Holding Co., Holding Company for Drinking Water and Sanitation, and EgyptAir)	S	30 calendar days
Financial information of the NIB: (i) detailed balance sheet, including interest on assets and liabilities across maturities; (ii) income statement; (iii) cash flow projections for the next 12 months; (iv) list of non-performing loans (overdue for more than 90 days), including loan amounts	Q	60 calendar days
Breakdown of fuel subsidies by product, including volumes, prices, and costs and revenue of EGPC	Q	45 calendar days
EGPC arrears to oil companies on supply contracts denominated in U.S. dollars	Q	30 calendar days
Breakdown of food subsidies by ration card spending and wheat purchase price and quantity	Q	45 calendar days
Submit each October and April all investment spending executed over the periods January – June and July – December, respectively, undertaken by all public agencies and entities controlled or owned directly or indirectly by a public entity. The submission will break out investment spending by the budget sector, Economic Authorities, state-owned enterprises, and other.	S	End April and end October of each year.
Note: S= Semi-annual Q= quarterly; M = Monthly; W = Weekly		

Table 1b. Egypt: Reporting Requirements for Central Bank of Egypt		
Item	**Frequency**	**Submission Lag**
Gross international reserves at the CBE, at market and program exchange rates	M	7 working days
Program net international reserves at the CBE and its components (foreign reserve assets and foreign reserve-related liabilities), at market and program exchange rates	M	15 calendar 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 market and program exchange rates	M	15 calendar days
Program disbursements as defined in this TMU, including purchases of state-owned assets (including sales of equities and land) in foreign currencies by official bilateral partners including sovereign wealth funds and the private sector. Breakdown of program disbursements described in this TMU	M	7 working days
Stock of government T-bills and T-bonds denominated in local currency and held by nonresidents	W	7 working days
Stock of outstanding external debt payment arrears of the general government and the CBE (if any), by creditor	M	30 calendar days
Debt service schedule for external debt payments, with breakdown of interest and amortization. Breakdown by type of creditor and type of debt: bilateral creditors, multilateral institutions (distinguish between public and private), deposits, bonds and notes, and short-term deposits (include GCC deposits in this category)	Q	90 calendar days
Monthly cash flow table based on the agreed template (both past outcomes and projections for 12 months)	M	15 calendar days
Balance of payments, international investment position, and external debt data in electronic format and same presentation format as the CBE's SDDS tables. Values of export and imports of goods, with a breakdown by main categories, including exports of natural resources oil, natural gas, and gold. All items in BOP financing (below-the-line) that reconcile changes in reserves implied by the BOP and changes in the program gross international reserves	Q	90 calendar days
CBE foreign exchange deposits held at commercial banks headquartered in Egypt	W	5 working days

Table 1b. Egypt: Reporting Requirements for Central Bank of Egypt (continued)

Item	Frequency	Submission Lag
Commercial bank deposits (Egyptian pound and foreign currency) by sector (household, corporate, and public)	M	30 calendar days
End-week stock of bank-by-bank FX demand backlogs in U.S. dollar, for the eight banks identified by the CBE (the sample of banks is fixed throughout the program). For each bank, report the total stock and breakdown by type of backlogs, including: (i) backlogs related to pending LCs, (ii) backlogs related to unavailed IDCs (sight), (iii) backlogs related to unavailed IDCs (deferred), (iv) backlogs related to non-trade items (repatriation, dividend, and service invoice), and (v) backlogs related to foreign investors	W	5 working days
End-month bank-by-bank foreign exchange net open position (NOP) as a ratio of bank capital. The underlying components of NOP ratio, including NOP (the numerator of the ratio) and capital (the denominator of the ratio). In addition, information on any breaches by commercial banks of NOP limits and the sanctions applied by the CBE in such cases	M	30 calendar days
Bank-by-bank net foreign assets, as defined in this TMU	M	30 calendar days
Daily interbank turnover in the FX spot market	W	5 working days
Daily central bank purchases and sales of foreign exchange by counterparts (commercial banks, EGPC, GASC, government)	W	2 working days
Information on the FX intervention, including full array of bids, both prices and volumes	When intervention takes place	End of the day of intervention
Daily official exchange rates (EGP per USD)	W	5 working days
Daily average buy and sell exchange rates (EGP per USD) as quoted by foreign exchange bureaus and banks	W	5 working days
Bank-by-bank data: (i) balance sheets by currency (Egyptian pound and foreign currency); (ii) income statements; (iii) breakdown of loan classification, deposits, due from/to, securities holdings, repos, fixed and repossessed assets, net open positions; and (iv) FSI indicators (capital, asset quality, earnings, and liquidity)	Q	75 calendar days
Other depository corporations (commercial banks) balance sheet information in SRF (preliminary)	M	30 calendar days
Central bank balance sheet in SRF (preliminary)	M	15 calendar days

<table>
<tr><th colspan="3">Table 1b. Egypt: Reporting Requirements for Central Bank of Egypt (continued)</th></tr>
<tr><th>Item</th><th>Frequency</th><th>Submission Lag</th></tr>
<tr><td>
Reporting Requirements on Interbank Market Data. Going forward, please submit new daily data on a weekly basis with a one-week lag.
Trade date: the date of the trade.
Transaction time: the time of the transaction (hour, minute, second)
Value date: the settlement date of the trade, in the case of a swap trade, the settlement date of the initial leg of the trade.
Transaction type: the type of transactions reported.

SP: spot conversions concluded by the reporting entity,
FW: forward transactions concluded by the reporting entity,
SW: swap transactions concluded by the reporting entity.

Name of reporting entity
Counterparty ID: a unique ID of the counterparty that includes the following.

the counterparty’s sector

central bank,
banks,
others.

Purchased currency: the ISO code of the purchased currency, in the case of a swap trade, the currency of the initial leg's buy side.
Purchase amount: the amount of the purchased currency, in the case of a swap trade, the purchased amount at the initial leg.
Sold currency: the ISO code of the sold currency, in the case of a swap trade, the currency of the initial leg's sell side.
Sold amount: the amount of the currency sold, in the case of a swap transaction, the amount sold at the initial leg.
Swap forward value date: the settlement date of the forward leg of the swap transaction.
</td><td>W</td><td>5 working days</td></tr>
</table>

Table 1b. Egypt: Reporting Requirements for Central Bank of Egypt (continued)		
Item	**Frequency**	**Submission Lag**
Swap forward purchase amount: the purchase amount of the forward leg of the swap transaction. **Swap forward sale amount:** the sale amount of the forward leg of the swap transaction. **Cancellation / modification:** • C, if the transaction is a cancellation of a previous transaction • M, if the transaction shows modified parameters of a previous transaction		
Central bank's weekly analytical balance sheet. Reporting on "Other Items, net" will be split into a component relating to the stock of outstanding CBE lending to public agencies excluding the Ministry of Finance and a component reflecting all other items	W	7 working days
Monthly CBE financial statements (unaudited)	M	20 calendar days
Quarterly and annual CBE financial statements (audited)	Q	60 calendar days
Recapitalization of the CBE by the government (date of recapitalization, amount, information on instruments used to recapitalize the CBE including maturity and interest rate)	When recapitalization takes place	5 working days
End-week balance of government overdraft at the CBE, as defined in this TMU. Separately, interest payments including penalty	W	5 working days
New CBE lending to public agencies excluding the Ministry of Finance (amount, terms of lending)	When lending takes place	5 working days
Stock of outstanding CBE lending to public agencies excluding the Ministry of Finance, by individual loan (amount, date contracted, terms of lending)	M	5 working days
Daily overnight interbank rate (CONIA) and the daily mid-corridor rate	W	2 working days
Stock of loans under CBE subsidized lending initiative, both utilized and allocated / committed amounts, with the decomposition by initiative	M	30 working days

Table 1b. Egypt: Reporting Requirements for Central Bank of Egypt (concluded)

Item	Frequency	Submission Lag
Bank-by-bank holdings of government securities, with for each security information on: (i) the total issuance amount; (ii) name of issuer; (iii) type of instrument (bills, bonds, other); (iv) accounting treatment (AFS, HTM, HFT); (v) maturity date; (vi) coupon rate and interest payment frequency; (vii) current market price; (viii) yield to maturity. Data for bank-by-bank holdings of government securities at end-March 2024 will be provided by end-June 2024.	Q	60 calendar days
Note: Q= quarterly; M = Monthly; W = Weekly		

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

February 10, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBESERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of December 31, 2024)

A. Financial Relations

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

General Resources Account	SDR Million	Percent Quota
Quota	2,037.10	100.00
IMF's holdings of currency	10,504.94	515.68
Reserve tranche position	273.35	13.42

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	2850.92	100.00
Holdings	23.73	0.83

Outstanding Purchases and Loans	SDR Million	Percent Allocation
	1,809.44	
Stand-by Arrangements		88.82
Emergency Assistance[1/]	509.28	25.00
Extended Arrangements	6422.47	315.27

[1/] Emergency assistance may include ENDA, EPCA, and RFI.

Financial Arrangements (In millions of SDR)

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Dec 16, 2022	Oct 15, 2026	6,111.69	1,497.35
Stand-By	June 26, 2020	June 25, 2021	3,763.64	3,763.64
EFF	Nov 11, 2016	July 29, 2019	8,596.57	8,596.57

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	May 11, 2020	May 13, 2020	2,037.10	2,037.1

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

	Forthcoming				
	2025	**2026**	**2027**	**2028**	**2029**
Principal	3,461.97	1,722.27	1,147.94	692.01	607.75
Charges/interest	418.96	267.50	209.08	170.39	142.48
Total	3,880.93	1,989.77	1,357.02	862.40	750.23

Implementation of HIPC Initiative: Not Applicable

B. Nonfinancial Relations

Exchange Rate Arrangement[1]

Egypt's de jure exchange rate arrangement is floating, and its de facto exchange rate arrangement has been re-classified as floating. On November 3, 2016, the Central Bank of Egypt (CBE) announced its decision to move to a liberalized exchange rate regime to quell any distortions in the domestic foreign currency market. On March 6, 2024, the authorities announced a shift to a flexible exchange rate regime and a liberalized foreign exchange system. Pursuant to the above, banks and other market participants are at liberty to quote and trade at any exchange rate. Bid and ask exchange rates are determined by forces of demand and supply. The CBE uses the prevailing market rate for any transactions it undertakes. The CBE does not publish intervention data.

Egypt has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Staff has not found sufficient evidence that Egypt maintains any exchange restriction or multiple currency practice inconsistent with Article VIII, Section 2(a) and Section 3.

Latest Article IV Consultation

The 2021 Article IV consultation was concluded on June 23, 2021, and the Staff Report (IMF Country Report No. 21/163) was published in July 2021.

Financial Sector Assessment Program

Egypt participated in the FSAP in 2002. The FSAP was updated in 2008.

Senior Resident Representative

Alex Segura-Ubiergo

[1] Based on information available in the IMF's 2023 Annual Report on Exchange Arrangements and Exchange Restrictions: https://www.imf.org/en/Publications/Annual-Report-on-Exchange-Arrangements-and-Exchange-Restrictions/Issues/2024/12/19/Annual-Report-on-Exchange-Arrangements-and-Exchange-Restrictions-2023-541890

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/egypt

European Bank for Reconstruction and Development: https://www.ebrd.com/egypt.html

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

Delivery Department	Core Workstream	Start Date	End Date
FAD	Domestic Revenue Mobilization	5/23/2022	9/22/2022
	Domestic Revenue Mobilization	7/27/2022	4/28/2023
	Domestic Revenue Mobilization	5/1/2022	5/16/2022
	Domestic Revenue Mobilization	5/1/2022	5/16/2022
	Public Financial Management and Expenditure Policy	9/27/2022	10/10/2022
	Macro-Fiscal Policies	9/27/2022	10/10/2022
	Domestic Revenue Mobilization	6/15/2022	6/29/2022
	Domestic Revenue Mobilization	7/24/2022	8/8/2022
	Domestic Revenue Mobilization	9/3/2022	9/18/2022
	Domestic Revenue Mobilization	7/31/2022	8/4/2022
	Domestic Revenue Mobilization	2/12/2023	2/23/2023
	Macro-Fiscal Policies	9/27/2022	10/10/2022
	Domestic Revenue Mobilization	9/3/2022	9/18/2022
	Public Financial Management and Expenditure Policy	3/12/2023	3/16/2023
	Public Financial Management and Expenditure Policy	3/12/2023	3/16/2023
	Domestic Revenue Mobilization	3/12/2023	3/17/2023
	Domestic Revenue Mobilization	3/12/2023	3/17/2023
	Public Financial Management and Expenditure Policy	9/27/2022	10/13/2022
	Domestic Revenue Mobilization	9/3/2022	9/18/2022
	Domestic Revenue Mobilization	12/4/2022	12/8/2022
	Domestic Revenue Mobilization	12/4/2022	12/8/2022
	Domestic Revenue Mobilization	12/19/2022	12/21/2022
	Domestic Revenue Mobilization	12/19/2022	12/21/2022
	Domestic Revenue Mobilization	12/27/2023	1/31/2024
	Public Financial Management and Expenditure Policy	2/11/2024	2/15/2024
	Public Financial Management and Expenditure Policy	7/4/2023	7/6/2023
	Public Financial Management and Expenditure Policy	12/3/2023	12/13/2023
	Public Financial Management and Expenditure Policy	12/3/2023	12/13/2023
	Domestic Revenue Mobilization	2/11/2024	2/20/2024
	Domestic Revenue Mobilization	3/4/2024	3/8/2024
	Domestic Revenue Mobilization	12/17/2023	12/21/2023
	Domestic Revenue Mobilization	7/30/2023	8/10/2023
	Domestic Revenue Mobilization	11/13/2023	11/21/2023
	Domestic Revenue Mobilization	2/4/2024	2/19/2024

	Domestic Revenue Mobilization	3/24/2024	3/28/2024
	Domestic Revenue Mobilization	5/3/2023	8/31/2023
	Public Financial Management and Expenditure Policy	2/11/2024	2/15/2024
	Public Financial Management and Expenditure Policy	12/3/2023	12/13/2023
	Public Financial Management and Expenditure Policy	5/23/2023	6/1/2023
	Public Financial Management and Expenditure Policy	5/23/2023	6/1/2023
	Domestic Revenue Mobilization	5/14/2023	5/25/2023
	Domestic Revenue Mobilization	5/21/2023	5/25/2023
	Domestic Revenue Mobilization	5/14/2023	5/25/2023
	Domestic Revenue Mobilization	7/30/2023	8/10/2023
	Domestic Revenue Mobilization	1/15/2024	1/19/2024
	Domestic Revenue Mobilization	3/4/2024	3/8/2024
	Domestic Revenue Mobilization	11/13/2023	11/21/2023
	Domestic Revenue Mobilization	3/24/2024	3/28/2024
	Domestic Revenue Mobilization	8/21/2024	10/7/2024
	Public Financial Management and Expenditure Policy	6/5/2024	6/12/2024
	Public Financial Management and Expenditure Policy	7/31/2024	8/13/2024
	Domestic Revenue Mobilization	9/16/2024	9/25/2024
	Domestic Revenue Mobilization	9/1/2024	9/9/2024
	Domestic Revenue Mobilization	7/10/2024	7/17/2024
	Domestic Revenue Mobilization	7/17/2024	7/24/2024
LEG	Financial Integrity and Financial/Fiscal Law Reform	5/3/2022	5/6/2022
	Financial Integrity and Financial/Fiscal Law Reform	7/5/2022	7/29/2022
	Financial Integrity and Financial/Fiscal Law Reform	7/5/2022	7/29/2022
	Financial Integrity and Financial/Fiscal Law Reform	6/21/2022	6/27/2022
	Financial Integrity and Financial/Fiscal Law Reform	3/5/2023	3/6/2023
	Financial Integrity and Financial/Fiscal Law Reform	3/5/2023	3/6/2023
	Financial Integrity and Financial/Fiscal Law Reform	8/28/2023	10/31/2023
	Financial Integrity and Financial/Fiscal Law Reform	2/19/2024	2/25/2024
	Financial Integrity and Financial/Fiscal Law Reform	3/28/2024	4/30/2024
	Financial Integrity and Financial/Fiscal Law Reform	6/4/2023	6/13/2023
	Financial Integrity and Financial/Fiscal Law Reform	7/15/2023	7/20/2023
	Financial Integrity and Financial/Fiscal Law Reform	9/17/2023	9/21/2023
	Financial Integrity and Financial/Fiscal Law Reform	9/17/2023	9/21/2023
	Financial Integrity and Financial/Fiscal Law Reform	7/8/2024	7/31/2024
	Financial Integrity and Financial/Fiscal Law Reform	5/19/2024	5/23/2024
MCM	Financial Sector Stability	11/1/2022	12/31/2022
	Central Bank Operations and Market Development	6/1/2022	12/31/2022
	Central Bank Operations and Market Development	6/1/2022	12/31/2022

	Central Bank Operations and Market Development	6/1/2022	12/31/2022
	Central Bank Operations and Market Development	6/1/2022	12/31/2022
	Financial Sector Stability	12/13/2022	12/15/2022
	Financial Sector Stability	2/1/2023	4/30/2023
	Financial Sector Stability	10/23/2022	10/26/2022
	Financial Sector Stability	10/23/2022	10/26/2022
	Financial Sector Stability	3/1/2023	3/9/2023
	Financial Sector Stability	3/1/2023	3/9/2023
	Central Bank Operations and Market Development	7/3/2023	7/28/2023
	Financial Sector Stability	5/1/2023	4/30/2024
	Financial Sector Stability	6/6/2023	6/15/2023
	Financial Sector Stability	12/17/2023	12/21/2023
	Financial Sector Stability	12/17/2023	12/21/2023
	Financial Sector Stability	2/11/2024	2/15/2024
	Financial Sector Stability	2/11/2024	2/15/2024
	Financial Sector Stability	6/9/2024	6/13/2024
	Financial Sector Stability	6/9/2024	6/13/2024
STA	Statistics	5/15/2022	5/19/2022
	Statistics	4/2/2023	4/13/2023
	Statistics	7/24/2022	7/28/2022
	Statistics	7/17/2022	7/21/2022
	Statistics	2/5/2023	2/16/2023
	Statistics	3/26/2023	4/6/2023
	Statistics	3/10/2024	4/25/2024
	Statistics	1/21/2024	2/1/2024
	Statistics	9/17/2023	9/21/2023
	Statistics	7/4/2023	7/17/2023
	Statistics	12/18/2023	12/22/2023
	Statistics	12/18/2023	12/22/2023
	Statistics	7/31/2024	8/13/2024
	Statistics	7/31/2024	8/13/2024
	Statistics	7/28/2024	8/8/2024
	Statistics	8/25/2024	8/29/2024
	Statistics	7/31/2024	8/13/2024
	Statistics	7/31/2024	7/31/2024
	Statistics	7/31/2024	8/13/2024

ARAB REPUBLIC OF EGYPT

February 12, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY FOR ARAB REPUBLIC OF EGYPT

A. Country Vulnerability to Climate Change, Including Human, Social and Economic Costs

1. **Over the past four years, Egypt's macroeconomic landscape has been disrupted by several global crises, including the COVID-19 pandemic, the Russia-Ukraine war, and most recently, the conflict in the Middle East.** These external shocks have exacerbated existing macroeconomic imbalances and caused growth to decline to 2.8 percent in FY2023/24, down from 6.6 percent in FY2021/22. In the near term, persistent supply-chain disruptions and elevated domestic inflation—which peaked at 38 percent in September 2023, and was still 24 percent in January 2025—are expected to constrain both demand and output. In response, the Government of Egypt (GoE) has implemented several macroeconomic stabilization measures, supported by increased investment from the UAE, the World Bank's Development Policy Finance (DPF), the European Union's Macro-Financial Assistance, and successive reviews of a now USD 8 billion Extended Fund Facility (EFF) from the International Monetary Fund (IMF). These interventions have been designed to restore stability, with economic growth projected to rebound to approximately 4.2 percent by FY2024/25.

2. Amid these economic challenges, Egypt's vulnerability to climate change poses an additional risk to its growth and development. The Notre Dame Global Adaptation Initiative (ND-GAIN) ranks Egypt as the 110th most vulnerable to climate change but 127th in readiness, suggesting that while the country's exposure to climate risks is moderate relative to other contexts, its capacity to prepare for and mitigate these challenges remains limited.[1] Yet, climate hazards are expected to worsen, with future projections indicating heightened water resource uncertainty, more frequent and extreme heatwaves, increased desertification affecting biodiversity, and escalating threats to food security.

3. Changing climatic conditions will have a significant impact on a number of sectors. Among many climate-related risks, water scarcity remains Egypt's most urgent challenge. Since the 1970s, water demand has consistently outpaced the supply from the Nile River—which provides more than 97 percent of the country's freshwater—and with the population expected to reach 160 million by 2050, this critical resource faces even greater strain. According to predictive models presented in the Egypt Country Climate Development Report (CCDR), even modest changes in rainfall can significantly impact the volume and timing of water flows. For example, an 18 percent decrease in Nile inflow to the High Aswan Dam could reduce irrigated land by 22 percent, water productivity by 11 percent, agricultural employment by 9 percent, and food production by 6 percent. Densely populated cities and urban areas will also be increasingly vulnerable to the combined effects of rising sea levels, increasing flood events, and challenges related to water availability. Moreover, these threats collectively endanger agriculture, which is central to both food security and the national economy. Strengthening climate resilience in the agri-food sector is of major economic importance as it represents 25 percent of GDP, generates 35 percent of jobs, ensures self-sufficiency for most fruits and vegetables, and contributes 21 percent of exports.[2] Further, with more than 57 percent of Egyptians living in rural areas and 42 percent of the working poor employed in agriculture, the agri-food sector—a sector with considerable but often overlooked female participation—underpins rural livelihoods and resilience. This dependency suggests that climate change will have a disproportionate impact on poor households given their higher exposure and immense vulnerability of their income.

4. While Egypt's share of global greenhouse gas (GHG) emissions is low— contributing just 0.6 percent—its rapidly growing emissions trajectory is not aligned with global low-carbon transition pathways. Egypt's economic and emissions growth remain tightly linked to each other, as reflected in total GHG emissions from 1990 to 2022, which grew 169 percent in absolute terms.[3] Between 2005 and 2015 alone, emissions rose by approximately 31 percent—from 248 Mt CO2eq in 2005 to 325 Mt CO2eq in 2015—with energy, transport, and industry together accounting for roughly 80 percent of total GHG emissions.[4] This upward trend, which observed a brief dip

[1] Notre Dame Global Adaptation Initiative 2022.

[2] FAO 2024.

[3] World Resources Institute 2022.

[4] Egypt Biennial Updated Report 2018.

during the COVID-19 pandemic, continues to pose a threat to Egypt's competitiveness and long term economic stability.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

5. **Over the past decade, the GoE has been taking strides towards evolving its institutions and policies to adapt to the escalating challenges of climate change.** In 2015, Egypt established the National Council for Climate Change (NCCC), a body comprising key representatives from various ministries and institutions. This move ensured that climate-related issues became a central priority in the government’s agenda. COP27, hosted by Egypt in 2022, served as a platform for international leaders to convene to discuss climate action, with a particular focus on improving the country’s adaptive capacity and resilience. Central to these efforts is the National Climate Change Strategy 2050 (NCCS 2050), a comprehensive framework with five primary goals, including: (i) enhancing adaptive capacity and resilience to climate change; (ii) mitigating the associated negative impacts; (iii) developing climate change infrastructure; (iv) advancing scientific research; and (v) facilitating technology transfer, knowledge management and awareness to combat climate change. The NCCS 2050 was developed in line with the Sustainable Development Strategy (SDS): Egypt Vision 2030, launched in 2016, and with the country’s Nationally Determined Contributions (NDCs), initially submitted in 2015 and subsequently updated in 2017, 2022 and 2023. In addition to these efforts, Egypt has also submitted four National Communications (NC), two Biennial Update Reports (BUR) and its first Biennial Transparency Report (BTR) to the UNFCCC. These submissions document the country’s commitments and progress in adaptation related sectors such as water and agriculture. Further, efforts related to adaptation are detailed in the National Adaptation Plan (NAP), which is being developed under the leadership of the Adaptation Taskforce of the NCCC. The NAP is intended to create an integrated capacity development plan and sectoral action plans, to integrate climate tracking into the domestic budget, and develop climate projections under various IPCC scenarios.

6. **Aware of the imminent threats of water scarcity, food insecurity, heat waves and sea-level rise, Egypt is translating its commitments into implementation through the integrated, multi-stakeholder Nexus of Water, Food, and Energy (NWFE) platform.** In its initial phase, NWFE prioritizes projects that align with the NDC commitments and the pathways proposed in the Egypt CCDR to mitigate the impacts of water insecurity, ensure food security, and promote energy sustainability. The platform brings together technical cooperation and financing from over 30 stakeholders, including multilateral and bilateral partners, while leveraging a diverse array of capital sources, such as debt swaps, guarantees, concessional loans, grants, and private investments. Under the food and water pillars, projects include adapting crop production in the Nile Valley and Delta, adaptation of the Northern Delta for a sea-level rise, modernizing agricultural practices and systems and establishing an early warning system. These projects are part of a broader effort to expand Egypt's portfolio of environmentally friendly projects such as “Hayat Karima”, which supports vulnerable and rural communities to adapt to the risks of climate change through several water sustainability projects. While the NWFE platform represents an integrated and coordinated approach

to addressing climate risks, its implementation—particularly regarding the food and water nexus—has been slower than anticipated. This delay is due in part to the challenging macroeconomic environment, which has complicated resource mobilization and stakeholder coordination.

7. **Egypt is setting in motion a pipeline of policies and projects to improve its adaptive capacity and resilience in the face of climate challenges.** Recent amendments to the water and sanitation law have prioritized key elements identified in the CCDR, including improving water use efficiency, strengthening governance of the sector, and rationalizing tariffs. Current projects focus on increased rural sanitation coverage, expanded tertiary treatment to better optimize water resources, and the deployment of efficient drainage systems to improve water availability. The water and sanitation sector strategy seeks to combine demand management with supply-side measures to address long-term water needs in a fiscally sustainable manner. Key initiatives include: (i) revising water supply norms for different consumer categories; (ii) setting a target to reduce non-revenue water (NRW) to 20 percent; (iii) allowing for a better targeted subsidy mechanism by differentiating between economic and social tariffs, with explicit provisions for the state to cover the difference; and (iv) facilitating the setting of tariffs that reflect the true cost of service provision to encourage water use efficiency. In the agricultural sector, Egypt is working to improve climate risk management by increasing access to agricultural production data and climate information, and by developing a national early warning system. Collaborative projects with multilateral and bilateral development partners include initiatives such as "Promoting Climate Smart Agriculture and Agricultural Biodiversity for Enhancing the Adaptive Capacity of Vulnerable Rural Communities in Old and New Lands of Upper and Lower Egypt," the Climate-Resilient On-Farm Water Management Project (CROWN), and "Tackling Climate Change through Sustainable Livestock Management."

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

8. **In the energy sector—covering both electricity and oil and gas—Egypt has made steady progress over the past ten years.** This includes several efforts to reduce energy subsidies, moving from a shortage of generation capacity into a surplus, and setting an ambitious 42 percent target for renewable energy (RE) in its generation mix by 2030, a target previously set for 2035. Further, despite its relatively low share of global emissions, Egypt has set emission reductions targets in its NDCs. These targets are focused on three key GHG emitting sectors: energy (37 percent), oil and gas (65 percent), and transport (7 percent). These emission mitigation actions are further detailed within the country's Low Emissions Development Strategy (LEDS), adopted in 2018, which proposes emission mitigation technologies in energy production, energy efficiency improvements, and energy intensity reductions in industry and transport. Egypt also developed an Integrated Sustainable Energy Strategy (ISES) 2035 that reflects the government's efforts to meet the growing demand for energy with the increasing population through renewable generation.

9. **In line with these efforts, several strategies and projects are in progress aimed to mitigate GHG emissions in Egypt to meet its NDC targets, Egypt is developing a methane reduction roadmap, having officially joined the Global Methane Pledge in June 2022.** Other

mitigation initiatives include (i) the green hydrogen pilot in Suez Commercial Zone, launched at COP27, with further projects underway; (ii) the 2019 solar generation Benban Park project; (iii) the street lighting program under the Egypt Pollution Abatement Project (EPAP); (iv) the decommissioning of 5 GW thermal power and commissioning of 10 GW RE under the NWFE energy pillar implementation; (v) the development of the Dabaa nuclear plant; and (vi) the Greater Cairo Air Pollution and Climate Change project. As for the transport sector, the greening public transport package includes initiatives such as instituting a fare payment system, digitizing sector operations, synchronizing with a greener electrical grid, and strategically developing infrastructure like Bus Rapid Transit (BRT) corridors.

D. Other Challenges and Opportunities

10. While Egypt has demonstrated a strong commitment to addressing climate change, several critical areas of development and transition still require urgent attention and sustained support from national policymakers and the international community. In a country with a long history of fossil fuel reliance, delinking economic growth from emissions remains challenging. The government emergency plan to bridge the energy shortage brought about by a decline in gas supplies includes expediting 4GW of RE in 2025. The gap between energy demand and supply, coupled with uncertainty of freshwater availability necessitates careful long-term planning and sequencing of policy reforms and investments to meet future needs. Establishing diverse, sector-specific pathways to achieve the NCCS and NDCs targets—as well as implementing public policies that provide clear incentives for private sector engagement—will be essential moving forward. Moreover, Egypt's public institutions require further measures to improve their effectiveness to better support climate change mitigation and adaptation. Despite efforts to improve institutional capacity and legislation to strengthen institutional mandates, weak capacity remains a constraint for effective enforcement of regulation. Likewise, the scarcity of timely and accurate data remains a significant barrier for decision-makers.

11. As Egypt advances its climate adaptation and mitigation agenda, particularly through the NWFE platform, the role of effective institutions becomes crucial. Achieving meaningful outcomes requires a unified framework to facilitate policy coordination both horizontally across ministries and vertically among different levels of government. In addition, strong mechanisms for monitoring, evaluating, and enforcing climate-related policies is important to ensure progress. This integrated approach, in line with the recommendations of the CCDR, is key to delivering tangible results.

E. World Bank Engagement in the Area of Climate Change

12. The World Bank has been actively supporting Egypt's climate change efforts through a number of engagements. An important operation is the $500million "Generating Resilience, Opportunities, and Welfare for a Thriving Egypt-GROWTH" Development Policy Operation (DPO), which was approved by the World Bank Board in June 2024. Reforms under Pillar 3 of this program—the Green Transition Pillar—draw on the Bank's extensive analytical work on climate change, including the recently completed Egypt CCDR (2022), the finalized "Supporting Egypt in its green and resilient transition" InfraSAP, the Marginal Abatement Cost Curve (MACC) analysis, and the ongoing technical assistance on carbon credit markets, and water reforms.

Operations Producing More Than Twenty Percent Climate Co-Benefits (CCBs)				
FY	**Project ID**	**Project name**	**Instrument**	**Climate co-benefit**
2020	P172426	Supporting Egypt's Universal Health Insurance System	IPF	30%
2020	P145699	AF Strengthening Social Safety Net (CLOSED)	IPF	30%
2021	P172548	Greater Cairo Air Pollution Management and Climate Change Project	IPF	85%
2021	P175137	Railway Improvement and Safety for Egypt Project	IPF	100%
2022	P166597	AF Egypt Sustainable Rural Sanitation Services Program	P4R	34%
2022	P171311	Egypt Inclusive Growth for Sustainable Recovery (CLOSED)	DPO	20%
2023	P177932	Cairo Alexandria Trade Logistics Development Project	IPF	100%
2024	P504910	Generating Resilience, Opportunities, and Wealth for Thriving and Harmonious Egypt	DPO	41%

13. With respect to specific projects, the World Bank has partnered with the Ministry of Environment (MoE) as well as other international agencies, including AFD, GIZ, and JICA, to develop a comprehensive Monitoring, Reporting and Verification (MRV) system, which covers key sectors such as transport, energy (electricity and oil and gas), waste, industry, and agriculture. Egypt's NDCs and the NCCS 2050 underscored the need to strengthen the national MRV system by addressing data gaps and enhancing capacity to measure and report climate actions over the medium and long-term. The WB is also working with the GoE and the Financial Regulatory Authority (FRA) to advance the development and operationalization of the compliance and voluntary carbon markets (VCM). This initiative involves streamlining the process for authorizing carbon credits in line with NDC targets and identifying priority sectors to create Egypt's positive list and whitelist.

14. The Bank's support also extends to Egypt's green energy transition. Recently, the electricity regulatory framework was revised to allow private-to-private renewable electricity supply via the national transmission and distribution network. Further reforms are underway to improve the financial viability and sustainability of the electricity utilities through efforts to reduce distribution losses for the nine state-owned electricity distribution companies and develop a cost recovery plan for the sector. To adapt to the country's water scarcity risk, the new water and sanitation law would strengthen the Egyptian Water Regulatory Agency (EWRA) to better regulate the service providers, and make use of tariff measures, to improve water efficiency and energy efficiency from reduced losses and system improvements, leading to adaptation and mitigation benefits.

15. It should be noted that the World Bank has recently developed the Carbon Border Adjustment Mechanism (CBAM) Exposure Index to assist developing countries measure their exposure to the European Union's CBAM. Given Egypt's reliance on carbon-intensive exports, the country is particularly vulnerable to the implementation of CBAM. According to CCDR projections, the impact of CBAM is expected to reduce Egypt's real income by 0.6 percent. Specific sectors are expected to face greater impacts, particularly in electricity transmission, oil, and chemicals (including fertilizers), with projected export declines of 8.3 percent, 4.3 percent, and 3.9 percent, respectively.[5] In response to these challenges, the World Bank is actively engaged in decarbonizing Egypt's economy beyond the electricity reforms discussed above. For example, the Cairo-Alexandria Trade Logistics Development Project is designed to shift freight from road to rail, which has lower carbon intensity per ton-km. The project also explores decarbonization scenarios for the national railway sector, identifying potential green businesses opportunities such as the production of low-carbon fuel like green hydrogen. Moreover, given persistent air pollution – driven largely by these carbon-intensive activities – the Greater Cairo Air Pollution Management and Climate Change Project seeks to reduce emissions and improve urban air quality through a series of climate-resilient initiatives. Together, these efforts not only work towards reducing Egypt's overall carbon footprint in line with the stringent environmental standards underpinning CBAM but also strengthen the country's competitiveness in global markets.

16. The proposed RSF for Egypt contributes to the operationalization of the CCDR recommendations, along with other WB engagements. The reform measures envisaged under the RSF program have been identified in close coordination with WB staff. They have been identified in the CCDR as critical reforms to pursue a Resilient and Low Carbon transition. They build on and complement the extensive WB engagement as described above. WB-led TA on greening the financial sector, reforming the water sector, enabling a carbon market ecosystem and mobilizing a robust MRV system will inform the implementation of the RSF program.

[5] It should be noted that the aforementioned CCDR projections are at present being updated.

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

March 3, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY LETTER OF INTENT

Approved By
Taline Koranchelian and Rishi Goyal

Prepared by the Middle East and Central Asia Department.

This supplement provides an update on program performance since the preparation of the staff report. This does not alter the thrust of the staff appraisal nor the baseline projections.

1. **The quantitative performance criteria (QPC) on the primary balance was breached in December 2024.** As anticipated in the staff report issued on February 11, 2025, the end-December 2024 QPC on the primary balance was missed. The breach was by EGP 195 billion (1.1 percent of GDP), against a target of EGP 425 billion (2.4 percent of GDP). The lack of divestment proceeds during the first half of the fiscal year explains EGP 88 billion of that shortfall. Primary expenditure was about EGP 18 billion higher than expected, with revenue underperformance explaining EGP 80 billion of the breach (text table).

Fiscal Outturn Relative to Targets/Projections, 1HFY24/25,
(EGP- billion)

	Target/Proj.	Outturn	Difference
Revenue	1141	1061	-80
Tax revenue	895	912	17
Non-tax revenue	246	149	-97
Dividend- SCA	42	5	-37
Dividend- SOEs	32	14	-18
Service fees	57	43	-14
Misc	115	87	-28
Primary expenditure	804	822	18
Net acquisition of assets 1/	88	-9	-97
Primary Balance	425	230	-195

Source: Egyptian authorities and IMF staff calculations.
1/ Includes divestment revenue and asset purchases.

2. **The indicative target on tax revenue was met—a key positive development in light of past tax revenue shortfalls.** Specifically, cumulative tax revenues from July to December 2024 stood at EGP 912 billion against an indicative target of EGP 895 billion mainly due to higher-than-expected VAT collection on imports.

3. **However, nontax revenues underperformed forecasts by almost EGP 100 billion.** A substantial part of the shortfall was due to lower Suez Canal revenues (EGP 37bn), as continued conflict-related trade diversion has resulted in weaker-than-forecast dividends from the Suez Canal Authority. The authorities expect a pick-up in other nontax revenues in the second half of the year, including through dividends from SOEs and other service fees (text table).

4. **On the expenditure side, the shortfall in the primary balance was primarily driven by frontloading of expenditure on fuel-related settlement payments.** Based on past seasonality, total primary expenditure of EGP 804 billion was expected to be realized in H1 FY2024/25, against an outturn of EGP 822 billion. Higher spending on settlements with the Egyptian General Petroleum Corporation (EGPC) on fuel payments stands out, with payments of EGP 71 billion in July-December FY2024/25 against EGP 27 billion in July-December FY2023/24. The accelerated payments supported EGPC's cash position.

5. **The authorities are taking corrective measures to safeguard the end-June primary balance target.** The corrective action described in the staff report – namely the commitment to apply 100 percent of the proceeds from anticipated US$3 billion FDI toward the shortfall in divestment proceeds—will support meeting the end-June 2025 primary balance target, but is not sufficient. While merely frontloading expenditure would not require specific corrective actions, the observed weakness in nontax revenues suggests that the authorities will need to carefully monitor both revenue and expenditure execution in the second half of the year. Moreover, applying average seasonality to tax revenues, but carrying over the weakness in nontax revenues forward suggests that the authorities may need to cut primary expenditure by about EGP 50 billion to make up for the shortfall. The authorities have decided to implement the second corrective action by holding back spending on subsidies (EGP 10 billion), investment (EGP 30 billion), and other expenditures (EGP 10 billion) in a contingency reserve to ensure that the full year primary surplus target is met. The authorities have taken steps to strengthen expenditure controls and, in the attached updated LOI detail the budget items which can be further contained.

6. **Staff considers the above two corrective actions to be sufficient to support the authorities' request for a waiver**. The additional FDI proceeds that have been identified and that will be applied to reducing gross borrowing needs by end-June 2025 will help compensate for the delays in divestment. Together with the contingency measures being taken to hold back expenditure, these actions are currently sufficient to allow the authorities to meet the end-June 2025 primary balance performance criterion and to ensure the EFF-supported program will be successfully implemented.

7. **Implementation of the structural agenda has been strong in February.** Three measures, which were originally set in the third review under the EFF arrangement as structural benchmarks

for end-October 2024 or end-November 2024 and were proposed to be modified as structural benchmarks for end-February in the staff report for the fourth review under the EFF arrangement have now been delivered:

- Submit to parliament a new **Central Audit Office (CAO) law** that requires annual publication of CAO audits of general government fiscal accounts within six months after fiscal year end. The law, *inter alia*, is intended to improve public finance management, ex-post budget controls and fiscal transparency. This draft law was approved by the Cabinet and submitted to parliament on February 23, 2025.

- Submit to parliament **amendments to the Competition Law** that align the independence of the Egyptian Competition Authority (ECA) with the level of independence enjoyed by the Central Bank of Egypt (CBE) and the Financial Regulatory Authority (FRA). These amendments will allow ECA to issue direct administrative sanctions similar to the CBE and represents a strong step to strengthen the competition framework. The draft amendments were approved by the Cabinet and were submitted to parliament on February 23, 2025.

- Selection of an internationally recognized firm to conduct an independent assessment of policies, procedures, and controls of state-owned banks. This will help identify areas of reforms to enhance financial sector governance.[1] The CBE selected an internationally recognized firm to conduct an independent assessment of policies, procedures, and controls of state-owned banks on February 27, 2025.

8. In addition, the authorities have taken other measures to strengthen governance and transparency around monetary policy. In particular, the CBE Board on February 20, 2025, approved a plan to gradually eliminate claims on public sector agencies by end-FY2028/29, which envisages that the claims will be repaid on an agreed accelerated schedule by the public agencies. This plan represents an important step towards addressing legacy monetary financing that predates the EFF arrangement. The approval by the CBE of this plan was originally proposed as a structural benchmark for end-February 2025 in the staff report for the fourth review under the EFF arrangement. This proposal is dropped as the relevant measure was now fully implemented.

[1] This measure, together with the measure requiring the completion of the tendering process, which was already completed as a prior action for the fourth review under the EFF arrangement, constitutes a structural benchmark for end-October 2024 as originally set in the third review under the EFF arrangement.

Attachment. Supplementary Letter of Intent

February 24, 2025

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431

Dear Ms. Georgieva:

This letter updates the Letter of Intent (LOI) dated February 7, 2025.

The Ministry of Finance reiterates its commitment to achieving the QPC target on the primary balance, which will reach the projected level of 3.5 percent of GDP this fiscal year. Despite the fact that the end-December target was missed, we are confident that there are seasonal factors that will ensure that the end-year target will be met. In particular, the primary surplus target we achieved represents around 39 percent of full-year target, while the three-year average of primary surpluses achieved during the same period was only around 29 percent of the full year target.

End-December 2024 tax revenues have been higher than anticipated, and we have overperformed against our indicative target on tax revenues. We also met the end-December 2024 indicative targets on social spending and confirmed the end-September outturn for net change in the stock of government guarantees, which was also met.

With respect to our request for a waiver of non-observance of the primary balance for end-December 2024, the breach was driven by a shortfall in divestment proceeds as noted in the LOI dated February 7 as well as a shortfall in nontax revenues. Slightly higher expenditures relative to budget also contributed marginally to the shortfall. In particular,

- The shortfall on nontax revenues was largely driven by lower Suez Canal revenues, as well as other nontax items. Cyclical factors suggest performance will strengthen in the second half of the year.
- Payments to EGPC were settled earlier (180 percent increase relative to the same period last year) to improve the financial situation of the company. The total amount of settlement payments for the year is budgeted to be EGP 156 billion.

As noted above, we remain fully committed to achieving our fiscal targets. The primary surplus realized during the first half of FY2024/25 is consistent with that objective. However, to provide assurances that the primary surplus target will be met, we have put in place strict safeguards to ensure expenditure control in the second half of the year. In particular, we have put on hold EGP 50 billion of spending, on subsidies (EGP 10 billion), investment (EGP 30 billion), and other expenditures (EGP 10 billion), through the contingency reserve, to ensure that the full year primary surplus target is met. In addition, we expect the overperformance in tax revenues to continue in the second half of the year. This increases our confidence in our ability to meet the end-June 2025 primary balance target despite the shortfall observed in December 2024.

Finally, we reiterate our strong commitment to the divestment plan guided by our state-ownership policy, as supported by our publicly announced plans to offer stakes in ten state-owned companies in 2025 and the new proposed structural benchmark on hiring investment and legal advisors for at least two pending transactions outlined in the LOI dated February 7, 2025.

We consent to the IMF's publication of this updated letter and the accompanying Executive Board supplement.

/s /
Hassan Abdalla
Governor of the Central Bank of Egypt
Arab Republic of Egypt

/s/
Ahmed Kouchouk
Minister of Finance
Arab Republic of Egypt

Attachment (1)

Table 1. Egypt: Quantitative Performance Criteria and Indicative Targets

(In billions of Egyptian pounds unless otherwise indicated)

	End June 2024					End September 2024				End December 2024				End March 2025		End June 2025		End September 2025	End December 2025
						Indicative								Indicative			Proposed	Indicative	Proposed
	1st/2nd reviews	Prog.	Adj.	Actual	Status	3rd review	Adj.	Actual	Status	3rd review	Adj.	Actual	Status	3rd review	Prog.	3rd review	Prog.	Prog.	Prog.
I. Quantitative Performance Criteria 1/																			
Net international reserves ($ million at program exchange rates; floor) 2/	30,329	36,821	37,603	38,194	Met	35,364	34,475	37,429	Met	34,039	33,331	35,317	Met	32,918	37,213	36,132	39,275	38,715	39,838
Primary fiscal balance of the budget sector plus divestment proceeds (cumulative, floor) 3/ 6/	978	856		860	Met	141		90	Not met	425		230	Not met	566	487	791	782	148	381
Balance of the government's overdraft account at the CBE (weekly ceiling on the balance) 7/	131	131		-46	Not met	165		141	Met	165		127	Met	165	165	165	165	238	238
Balance of central bank lending to public agencies excluding the Ministry of Finance (continuous ceiling on the balance)	661	661		658	Met	508		612	Not met	458		612	Not met	458	458	408	408	383	358
Tax revenues (cumulative floor) 3/ 9/	...	...		...	...	...		...	...	...		...	...	1,342	1,312	2,237	2,184	566	1,132
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0
II. Indicative Targets																			
Tax revenues (cumulative floor) 3/ 9/	1,740	1,690		1,630	Not met	388		413	Met	895		912	Met	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Social spending of the budget sector (floor) 3/	189	189		218	Met	26		56	Met	105		123	Met	158	167	211	235	79	158
Public investment (semi-annual ceiling) 3/ 4/	350	350		531	Not met	n.a.		n.a.	n.a.	500		n.a.	n.a.	n.a.	n.a.	1,000	1,000	n.a.	611
Net change in the stock of government guarantees 3/ 5/	183	1,890		1,859	Met	200		191	Met	400		n.a.	n.a.	525	525	650	650	200	400
Average maturity of gross local currency debt issuance (years; floor) 3/	0.65	0.57		0.56	Not met	0.87		0.84	Not met	0.90		0.82	Not met	0.92	0.92	0.94	0.94	0.94	0.94
Gross debt of the budget sector (at program exchange rates; ceiling)	11,198	12,954		12,802	Met	13,602		n.a.	n.a.	14,065		n.a.	n.a.	14,527	14,707	14,805	15,023	15,023	15,023
III. Monetary Policy Consultation																			
(12-month change in consumer prices)																			
Upper outer band	32.5	32.5				27				25				16	18	13	17	17	16
Upper inner band	9	9				9				9				9	9	9	9	9	9
Actual/Center target	7	7		27.5	Exceeds upper inner band	7		26.4	Exceeds upper inner band	7		24.1	Exceeds upper inner band	7	7	7	7	7	7
Lower inner band	5	5				5				5				5	5	5	5	5	5
Lower outer band	3	3				3				3				3	3	3	3	3	3
Memorandum items:																			
Program disbursements at completion of review (cumulative change, $ million) 3/	7,850	7,850	...	7,792		3,507		1,197		5,449		4,591		8,740	8,485	10,103	14,650	2,024	6,499
External program financing assumed under the program excluding IMF (cumulative change, $ million) 3/	6,204	6,204	...	6,973		1,456		377		3,399		3,772		5,462	6,442	6,825	11,382	800	4,051
Of which:																			
Sales of state-owned assets	2,793	2,794	...	2,030		894		0		2,194		0		2,884	300	3,575	3,600	750	1,500
Net issuance of FX T-Bills	0	-115	...	-115		0		-18		0		-90		0	-90	0	-90	0	0
Foreign Curency Deposits at CBE	0	0	...	0		0		0		0		0		0	0	0	0	0	0
IMF financing assumed under the program (cumulative, $ million) 3/	1,646	1,646	...	818		2,051		820		2,051		820		3,278	2,044	3,278	3,268	0	1,222
Net external loans from private creditors in FX assumed in BOP baseline (cumulative change, $ million) 3/	110	-110		-1,605		1,000		-86		2,500		-1,086		3,500	414	3,639	1,062	1,000	2,000
Net nonresidents' holdings of local-currency T-bills and T-bonds ($ million) 3/ 8/	1,850	1,850	...	16,533		750		-1,502		1,500		-2,155		2,250	-1,505	3,000	-905	500	1,000
Divestment proceeds flowing to the budget (EGP billion, cumulative) 3/ 6/	698	698	...	510		59		0		88		0		133	55	177	165	21	41

N/A = not applicable

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

1/ The targets for March 2023 and September 2024 are indicative.

2/ Reserves include the CBE's official reserves and the CBE's foreign currency deposits with local banks.

3/ Quarterly from the beginning of each fiscal quarter.

4/ IT is assessed semi-annually on the end-June and end-December dates. For end-June 2024, the cumulative target is set on public investment from January 1, 2024, to June 30, 2024.

5/ For the test dates of end-March 2024 and end-June 2024, the cumulative values cover the period from October 1, 2023 until the test date. The reported issuance for end-March is gross issuance rather than net issuance.

6/ For 2024, it also includes $12bn from the Ras El-Hekma transactions.

7/ Observing this periodic quantitative performance criterion for each semi-annual period would require that each end-week balance does not exceed the respective ceiling for each week during this semi-annual period.

8/ As of February 28, 2024, as per TMU definition (with one month lag relative to the test date).

9/ IT elevated to QPC starting with end-June 2025.

Table 2. Egypt: Structural Benchmarks

Policy Measure	Timing	Status
The authorities will submit to Parliament a tax package of structural measures that would yield about 0.9 percent of GDP on an annual basis. The tax package relies on 3 measures: (i) removal of exemptions and reduced rates under the VAT regime (0.62 percent of GDP), namely the removal of exemptions and reduced rates on construction, sale of non-residential property, crude oil, changes in schedule tax on cigarettes, and services of news agencies and advertisements; (ii) a withholding tax on freezone sales to the domestic market (0.10 percent of GDP), (iii) establishing a special tax regime for SMEs intended to reduce informality (0.15 percent of GDP). The following legislation will be submitted to parliament: Amendment of Value Added Tax Law No. (67) of 2016; Amendment to Investment Law No. 72 of 2017; Amendment to Law No. 152 of 2020 on the development of micro, small and medium enterprises; and a new law regarding tax incentives and facilitations for projects with annual turnover not exceeding 15 million pounds.	Prior action	**Met**
Complete the tendering process to commission an independent assessment of policies, procedures, and controls of state-owned banks (with CBE and IMF input and agreement on terms of reference) by an internationally recognized firm.	Prior action	**Met**
Publication monthly of all public procurement contracts that exceed EGP 20 million on the E-tenders government procurement portal website (See TMU). Ensure that everyone can access this information without the need to set up an electronic account.	Recurring SB 30 days after month end	**Met**
The Ministry of Finance will monitor and report payment arrears, including to critical SOEs and EAs, 90 days after fiscal year end as defined in the TMU.	Recurring SB 90 days after each fiscal year end	**Not Met** Report content did not meet TMU requirements
Re-instate regular publication of annual aggregate reports on Egypt's SOE portfolio, initially instituted under the 2016 EFF supported program, with broader coverage to all companies covered by our state-ownership policy.	Recurring SB End-September 2024 and then end-September each subsequent year	**Not Met** Report published on September 30 does not cover all companies under SOP

Table 2. Egypt: Structural Benchmarks (continued)

Policy Measure	Timing	Status
Publish monthly on the general governments e-tenders site of all material procurement contracts and awards made by the largest 50 state-owned enterprises	Recurring SB End-September 2024	**Not met** Report covered less than 50 entities
Sustain the flexible exchange rate regime. This structural benchmark is assessed in a comprehensive manner, based on monitoring of FX system functioning, using the information and indicators including FX demand backlogs at banks, the spread between the official exchange rate and measures of market-clearing rate, and interbank FX turnover.	To be assessed once for each program review, based on the information over a period of time between program reviews	**Met**
Publish the full results of the latest household income survey	End-July 2024	**Not met** Published in November
Implement a plan for the recapitalization of the CBE, based on an assessment of the CBE's recapitalization needs in consultation with IMF staff, and considering CBE's full compliance with	End-August 2024	**Met**
Publish CAO's annual audit for FY2022/23.	End-August 2024	**Met**
Indicator to track implementation of the state-ownership policy.	End-September 2024	**Met**
The CBE will complete stress tests of the banking sector and share detailed results with IMF staff by end-September 2024. These tests will be prepared in consultation with IMF staff.	End-September 2024	**Met**
Conduct a sector classification exercise of all 59 economic authorities, in accordance with the concepts and principles in the GFSM 2014 and document clearly the rationale for each classification decision.	End-September 2024	**Met**
Undertake a detailed assessment of the economic benefits of the current freezones.	End-September 2024	**Met**

Table 2. Egypt: Structural Benchmarks (continued)		
Policy Measure	**Timing**	**Status**
Submit to parliament amendments to the competition law that align the independence of the ECA with the level of independence enjoyed by the CBE and FRA and providing the power to issue direct administrative sanctions similar to the CBE.	End-October 2024	**Not Met** Amendments submitted to parliament in February 2025.
Commission an independent assessment of policies, procedures, and controls of state-owned banks (with CBE and IMF input and agreement on terms of reference) by an internationally recognized firm, with the tendering and selection process completed by end-October 2024	End-October 2024	**Not Met** Modified with the tendering process converted to a prior action. Firm selected in February 2025.
Submit a new CAO law to parliament that requires annual publication of CAO audits of general government fiscal account within six months after end-fiscal year.	End-November 2024	**Not met** Amendments submitted to parliament in February 2025.
Submit to parliament amendments to the VAT law that simplify the VAT, reduce exemptions, and enhance its efficiency and progressivity.	End-November 2024	**Not Met** Modified and converted to a prior action
Introduce a "Green Lane" where a percentage of the cargo associated with low risk and compliant companies will be released immediately without any controls.	December -2024	**Not Met**
Integrate risk-based control between Customs Authority, Export and Import Control Authority, National Food Safety Authority, Agricultural and Veterinary Quarantines to reduce the number of containers needed to be inspected and thus, reduce the clearance procedures and time of goods in ports.	April-2025	Not applicable for 4th review
Prepare and publish general government debt statistical bulletins and/or reports in a recurring (quarterly), timely, comprehensive basis covering all aspects of debt and borrowing starting with a first publication focused on central government debt in April 2025, with expanded scope in November 2025 onwards.	End-April 2025	New Recurring
Submit a cabinet approved detailed plan to restore EGPC's financial health based on proforma financial statements (e.g., consistent positive cash flow from operations; significant reduction in debt/equity and interest coverage ratios; clearance of all arrears) within a specific period.	End-March 2025	New

Table 2. Egypt: Structural Benchmarks (concluded)

Policy Measure	Timing	Status
Expand coverage or adequacy of payments of Takaful and Karama program in FY25/26 budget to ensure the total spending will be increased to 0.4 percent of GDP in FY25/26.	End-March 2025	New
Establish a package of indicators that draws on previously proposed indicators, including share of private investment to total investment and employment, to enhance tracking of implementation of the SOP and all its pillars, including an indicator that tracks divestment from state-owned entities.	End-March 2025	New
Complete the tendering and selection process and hire investment and legal advisors for at least two proposed divestment transactions worth an estimated combined US$1 – 1.3 billion.	End-April 2025	New
Publish a fiscal risk statement in conjunction with the Annual Budget statement for FY2025/26 including analysis of macroeconomic risks, with specific effort to provide quantified estimates, and the total amount of government guarantees and breakdown the total by entities that benefit materially from guarantees	End-June 2025	New
Publish a report that indicates the institutional changes and procedures established to secure collection of taxes from SOEs following the removal of tax privileges through Prime Minister Decree No. 242 of 2024 on the Implementing Regulations of Law No. 159 of 2023. The report will also include the amount collected for each type of special tax privilege (CIT, VAT, other) that was removed, and projected collections on these taxes in FY2025/26	End-September 2025	New
Undertake necessary legal and regulatory actions to deliver a tax package of high-quality measures in the context of the FY2026/27 budget such that the objective to raise the tax to GDP ratio by at least 2 percentage points over the program horizon is met.	End-November 2025	New

RSF Table 3. Egypt RSF Matrix of Reform Measures[1]

Key Challenge(s)	Reform Measure	Target Date	Diagnostic Reference	IMF CD Input	Implementing Agency	TA provision	RM Expected Outcome
Reform Area 1. Need to scale up mitigation efforts.	**RM1.** Consistent with the 30 percent target for wind, solar, and hydropower generation capacity by 2030, the Cabinet to adopt and publish a schedule for the implementation of renewable energy until 2030.	end-June 2025	World Bank Electricity Sector TA	FAD	Ministry of Electricity	IMF, World Bank, EBRD	Assisting Egypt in achieving its NDC targets and accelerating its decarbonization plan.
	RM8. To reduce GHG emissions from hydrocarbons production, the Ministry of Petroleum will (i) implement an MRV system to track flaring, fugitive methane, and vented methane emissions at the operator or project level on a quarterly or annual level basis, and (ii) issue a decree mandating operating companies to submit and approve targets for reduction of oil and gas sector emissions in line with Egypt's NDCs and with fines for noncompliance after a grace period of 2 years.	end-August 2026	GFMR report: Decarbonization of the O&G Value Chain in Egypt.	FAD	Ministry of Petroleum	IMF, World Bank, EBRD	
Reform Area 2. (i) No disaster risk financing plan, and (ii) fiscal risk statement does not include climate impacts on infrastructure, but budget contingency can be used for natural disasters.	**RM5.** MoF to publish a quantitative analysis of long-term climate-related fiscal risks and climate-sensitive contingent liabilities and describe how the government will manage these risks in the Fiscal Risk Statement starting with the 2026/27 Budget.	end-June 2026	C-PIMA	FAD	Ministry of Finance	IMF	Adopting a disaster risk financing plan, and strengthening the management of climate-related risks and building resilience.
	RM7. MoF to strengthen disaster risk management capacity through adopting a national disaster risk financing strategy while integrating social assistance measures in collaboration with the Ministry of Social Solidarity.	end-August 2026	World Bank CCDR, World Bank hydro-met modernization roadmap	FAD	Ministry of Finance, Ministry of Social Solidarity	World Bank	

[1] Table updated to clarify targeted date is the end of each respective month.

RSF Table 3. Egypt RSF Matrix of Reform Measures (continued)

Key Challenge(s)	Reform Measure	Target Date	Diagnostic Reference	IMF CD Input	Implementing Agency	TA provision	RM Expected Outcome
	RM10. Authorities to establish the National Water Council through a Prime Ministerial decree, chaired by the Prime Minister and including key ministers and stakeholders from MALR, MWRI, MHUUC, MoE, MPEDoIC, which will: (1) oversee the generation, sharing, and publication of data on water demand and supply by sector/subsector/region and analysis to support informed decisions on water allocation by June 2026; (2) introduce a formal process to be defined in first review for water allocation among sectors/regions to manage conflicting demands on water resources at the policy and project planning stage, in line with best international practices, by August 2026.	end-August 2026	tbd	FAD	Minister of Water Resources and Irrigation		
Reform Area 3. Increasing the resilience of the financial sector to climate shocks.	**RM2.** CBE to issue a directive mandating the banking sector to monitor and report data on their exposures to firms that may have material transition risks related to CBAM adoption.	end-June 2025	World Bank CCDR	MCM	CBE		Increasing the capacity of the financial sector to manage climate-related risks, and enhancing climate information architecture supporting private climate finance decisions.
	RM6. CBE to issue a binding regulatory framework to mandate Banks to adopt environmental and social risk management system (ESRMS) which include climate pillar along with timeline for implementation. The binding regulations will include guidelines to the banks on the implementation of ESRMS.	end-June 2026	World Bank CCDR	MCM	CBE		

RSF Table 3. Egypt RSF Matrix of Reform Measures (concluded)

Key Challenge(s)	Reform Measure	Target Date	Diagnostic Reference	IMF CD Input	Implementing Agency	TA provision	RM Expected Outcome
	RM9. In accordance with Egypt's Country Platform for the Nexus of Water, Food, and Energy (NWFE), which is aligned with the National Climate Change Strategy 2050, authorities will add two new sub-projects, one on adaptation and one on mitigation. For each of the projects, pre-feasibility studies will be developed to attract private sector interest and funding; authorities will also build on the experience gathered so far to identify by end-2025 and adopt by June-2026 further measures to facilitate private investments in mitigation and adaptation projects.	end-June 2026	National Climate Change Strategy, World Bank CCDR	MCM, FAD	MoPEDIC		
Reform Area 4. Addressing gaps in the framework for climate-sensitive public investment described in the PIMA and C-PIMA diagnostic reports, including gaps in appraisal and selection processes and in asset management.	**RM3.** MoPEDIC to publish climate-change related criteria and processes for project selection and update and publish the project appraisal procedures with standardized climate mitigation and adaptation assumptions, and demonstrate that these criteria and processes have been applied to all new projects exceeding 500 million EGP.	end-December 2025	C-PIMA	FAD	MoPEDIC	IMF	Building the capacity for climate-sensitive public investment management via identifying, measuring, and disclosing the effects of investment plans, programs, and projects on national climate change targets.
	RM4. MoPEDIC to expand the existing asset registry pilot to include the Ministries of Transportation, Housing, Utilities and Urban Communities, focusing on large, fixed government assets; conduct internal analyses of location-specific climate risks on these assets within the registry; and prepare and publish a consolidated overview of climate risks across the asset portfolio, including a summary of the government's mitigation measures.	end-June 2026	C-PIMA	FAD	MoPEDIC	IMF	

**Statement by Mr. Mohamed Maait, Executive Director for Egypt, Ms. Maya Choueiri, Senior Advisor to Executive Director, and Ms. Habiba El-Kharbotly, Advisor to Executive Director
February 28, 2025**

On behalf of the Egyptian authorities, we thank the Board, management, and staff for their continued support to Egypt. The authorities are particularly appreciative of the mission team's excellent engagement on the three major topics before us: the Article IV consultation, the Fourth review under the Extended Fund Facility (EFF), and the Resilience and Sustainability Facility (RSF). The authorities are also grateful for the extensive and high-quality capacity development support provided by the Fund.

Despite the very challenging regional and international environments and the transition to a new government, Egypt has made good progress in stabilizing the economy under its economic reform program, and has maintained the EFF arrangement on track. The Central Bank of Egypt (CBE) has sustained the shift to a flexible exchange rate regime and a liberalized foreign exchange system. It has also maintained a tight monetary policy stance that is gradually but steadily bringing inflation down towards the CBE's target range. At the same time, the government continued its fiscal consolidation effort, mindful of the needs of the most vulnerable groups. Together with contained public investment expenditure, this has further reduced demand pressures and contributed to preserving debt sustainability.

The difficult reforms undertaken in the past year are starting to yield positive results. The unification of the exchange rate in March 2024 and substantial foreign exchange inflows, in particular from the Ras El-Hekma investment deal, as well as the augmentation of the EFF arrangement, bolstered foreign reserves. They have also bolstered investor confidence in domestic economic policy. Successive and considerable fuel and electricity price hikes have begun to restore the finances of the Egyptian General Petroleum Corporation (EGPC) and lay the foundation for price incentives to motivate more efficient consumption behavior and a shift toward a greener economy. The government and the total public external debt have declined as a percent of GDP and are trending down. Growth also picked up in Q3 2024 and accelerated in Q4 2024, while private investment increased in Q3 2024. Remittances from Egyptians working abroad surged, showing confidence in the economic reforms carried out since March 2024. Remittances rose by 77.0% from July to November 2024, to about USD 13.8 billion, and by 47.1% from January to November 2024, to about USD 26.3 billion, compared to about USD 17.9 billion in the same period in 2023. The recent upgrades to Egypt's credit ratings by Fitch and positive outlooks by Moody's and S&P reflect these positive trends. On February 19, 2025, Moody's affirmed Egypt's ratings and maintained the positive outlook.

Notwithstanding this progress, risks to the economic outlook remains elevated, continuously reflecting external regional and international factors. The risks include, mainly, regional conflicts, trade disruption in the Red Sea, shifts in trade patterns, including from the EU's Carbon Border Adjustment Mechanism, and climate risks. Trade disruption in the Red Sea alone has reduced foreign exchange inflows from the Suez Canal by more than U.S.$6 billion in 2024, while transit trade volumes remain at about a third of pre-conflict levels. On the domestic front, fiscal risks, notably from the energy sector and EGPC, remain.

Against this background, the authorities remain strongly committed to the EFF program, and more broadly, agree with staff on the need for transformational structural reforms, a key theme underlying the Article IV discussions. The authorities met four out of five of the quantitative performance criteria

(QPCs) for the Fourth review as well as the continuous performance criteria on non-accumulation of external arrears by the general government. In light of the difficult external and domestic conditions, the authorities requested a calibration of their near-term fiscal commitments. Accordingly, the primary balance surplus is expected to reach 4% of GDP next fiscal year, in FY 2025/26, half a percent of GDP less than earlier envisaged, and then increase to 5% of GDP in FY 2026/27, in line with earlier commitments. This short-term recalibration seeks to ensure that fiscal consolidation provides some space to increase critical social programs in support of vulnerable groups while ensuring debt sustainability. The authorities also met eight of the seventeen structural benchmarks (SBs) for the Fourth review. As noted in the Staff Supplement, implementation of the structural agenda accelerated in February 2025. Measures pertaining to fiscal transparency, the amendment of the competition framework, the governance of state-owned banks, and strengthening of the CBE balance sheet were implemented. The authorities made significant progress towards delivering on the objectives of the remaining SBs, as noted in the staff report. They remain committed to the program objectives of securing macroeconomic stability, protecting the most vulnerable groups, and ensuring strong, sustainable, and private sector-led growth. The latter aspect ranks high on the authorities' agenda. Indeed, the authorities have now succeeded in stabilizing the economy with policies implemented since last March and are committed not only to pursuing their stabilization policies, but also to transitioning Egypt to a more transformative phase. As part of this effort, the authorities reiterate their strong commitment to the divestment plan, as detailed below.

Fiscal Policy and Reforms

The authorities are fully committed to pursuing their fiscal consolidation efforts. The Ministry of Finance (MOF) shares staff's assessment that low tax revenue as well as elevated debt and financing needs constrain the government's ability to smooth the impact of economic shocks. Accordingly, fiscal consolidation efforts continue with the objective of striking the right balance between ensuring fiscal and debt sustainability. At the same time, fiscal consolidation efforts also aim to provide adequate support to the economy, health, education, as well as targeted social protection spending. The MOF is targeting a primary surplus of 3.5 percent of GDP excluding divestment proceeds for FY2024/25, despite a substantial fall in Suez Canal fiscal revenues and the difficult financial situation of EGPC. The MOF also plans to deliver additional consolidation of 0.5 percent of GDP in FY25/26 and another 1 percent of GDP in FY26/27, for a total primary surplus (excluding divestment) of 5 percent of GDP, while maintaining public investment spending contained. The MOF also plans to raise tax revenue-to-GDP by 2 percentage points over the program horizon and has identified new structural revenue measures that generate an improvement in tax revenue of about 1.0 percent of GDP in FY2025/26. The tax package includes 3 measures: (i) removal of exemptions under the VAT regime; (ii) a withholding tax on free zone sales to the domestic market, and (iii) establishing a special tax regime for SMEs intended to reduce informality.

The early efforts of the new government focused on rebuilding the relationship and trust between the private sector and fiscal institutions. The new government launched concerted initiatives to improve the business environment facing taxpayers. This was made possible through the adoption of a reform package aimed at reducing the administrative burden, accelerating the use of digitalized services, protecting taxpayers' rights, and speeding up tax refund processes. The private sector reaction to the government initiatives has been favorable.

Partly reflecting these efforts, fiscal performance during the first seven months of FY 2024/25 has been strong. Tax revenue increased on a year-on-year basis by 0.7 percent of GDP, growing by 37 percent, despite headwinds, notably from the Suez Canal substantial fall in fiscal revenues and still lower-than-potential economic growth. The increase in tax revenue was broad-based, with the annual growth rate reaching levels unseen for more than a decade. This growth was driven by digitalization, enhanced trust, and administrative reforms that significantly boosted tax collection. The recently introduced and adopted tax facilitation measures, along with improved economic activities, are projected to support resilient and robust tax collection and performance through the end of the year. Total spending has been so far contained within budget estimates. During the same period, total expenditures decreased year-on-year by 0.6 percentage points of GDP, due to contained and restrained public investments. This balanced out efforts to front-load spending in education, health, social services, and the energy sector. In light of these developments Egypt's primary surplus increased year-on-year by EGP 100 billion, or 59 percent, achieving 39 percent of the full year target for FY24/25. This is a significant improvement compared to the three-year average of only 29 percent of the full-year target. Such robust fiscal performance instills confidence among the authorities in their ability to achieve the targeted primary surplus of 3.5 of GDP by the end of FY 2024/2025. To provide further assurance that the full year primary surplus target will be met, the authorities have put on hold EGP 50 billion of spending, including on subsidies and investment.

The authorities remain committed to gradually restoring agreed fuel prices to their cost recovery level by December 2025. The gap between fuel prices and cost recovery had grown significantly since March 2024, mainly due to elevated oil prices, the large foreign exchange adjustments that led to a depreciated local currency, and elevated costs of domestic borrowing for EGPC in light of monetary tightening. The authorities are pursuing their continued efforts to reduce energy subsidies, to create space for better targeted social support, support the decarbonization efforts, and improve EGPC's financial position. In this connection, the authorities are developing a comprehensive and detailed plan to address fiscal risk posed by EGPC with the aim to restore EGPC's financial health, including by increasing retail fuel prices. The plan will be approved by Cabinet by end-March 2025. Following increases in local prices in July that ranged from 8 to 21 percent, the authorities raised retail fuel prices further in October by 11 to 17 percent. The fuel price increase in October, given the decline in international oil prices, was sufficiently large to allow for a six-month pause in retail fuel prices hikes. On the positive side, concerns regarding step foreign exchange adjustments have diminished since the implementation of the flotation in March 2024. The authorities, nonetheless, remain committed to gradually restoring fuel prices for gasoline, diesel, and fuel oil used by industry to their cost recovery level by December 2025. They also increased prices of all other fuel products, including butane gas and natural gas for electricity and vehicles. They also increased electricity tariffs by about 45 percent, leading to 80% of the annual revenues being directly allocated to EGPC.

In support of its fiscal efforts, the MOF continues to carry out wide-ranging fiscal reforms. The MOF appreciates staff's recognition of the notable improvements in tax administration and public financial management (PFM) since 2021. This progress was made possible by the adoption of the Medium-Term Revenue Strategy and the PFM law. In addition, the PFM law was amended in 2024 to expand the perimeter of general government fiscal reporting to include 59 public economic authorities and establish an annual debt ceiling for the general government. In February, the government delivered on its commitment to submit a new Central Auditing Organization (CAO) law to parliament that requires annual publication of CAO audits of general government fiscal account within six months after the end of the fiscal year.

Important fiscal reforms initiatives are planned for the period ahead. Beginning from FY2025/26, the MOF will publish a medium-term budget that will be approved by Cabinet imminently. To this end, the

MOF issued circulars to all budget sector entities in December 2024 with guidelines for preparation of the medium-term budget. Important efforts have also been made in enhancing the transparency of the state budget, which were met by an improvement in Egypt's ranking under the International Budget Partnership transparency assessments. The government will continue to strengthen fiscal risk management, particularly regarding public guarantees. To strengthen oversight of the guarantees' portfolio, in addition to establishing an overall ceiling set by the cabinet for each fiscal year, every new request for a guarantee has to be presented to the Cabinet for consideration and approval. Moreover, the government is ensuring a reduction in the stock of government guarantees relative to GDP. The government will continue to keep public investment spending contained, including national projects, to ensure domestic and external stability.

The MOF is taking several steps to reduce gross financing needs. Public debt poses a high risk of sovereign stress, as outlined in the Selected Issues paper. The MOF agrees that fiscal consolidation alone is not sufficient to reduce debt vulnerabilities. A strong asset and liability management strategy, including accelerated divestment and increased earmarking of proceeds towards debt reduction, will support the fiscal consolidation effort in lowering gross financing needs. Strengthening the public debt management function is also essential to complement fiscal consolidation efforts. As a priority, the MOF will be drafting and publishing by December 2025 a medium-term debt management strategy which will articulate a multi-year borrowing plan updated annually and anchored by a portfolio cost and risk management framework. From a borrowing strategy perspective, and to help contain gross financing needs, the MOF will continue to gradually lengthen the maturity of new domestic issuances. The MOF had made important progress in improving the composition of budget financing by increasing financing from multilateral and official bilateral creditors, while reducing the use of the overdraft at the CBE. The MOF also used part of the proceeds from the Ras El-Hekma US$35 billion deal to reduce government borrowing needs and government domestic debt. The decline in the debt ratio indeed started in FY2023/24 as a share of the US$35 billion proceeds from the Ras El-Hekma deal (US$11billion of deposit conversion and US$24 billion of new inflows) were applied to debt reduction. Building on this progress, the government plans to apply 100 percent of the proceeds from the FDI US$3 billion that is anticipated during this fiscal year toward debt reduction.

The authorities are taking additional steps to protect vulnerable groups from the high cost of living, and its impact on poverty, which was adversely affected in the past two years. The government is sensitive to the hardship endured by the most vulnerable households, following successive devaluations of the currency before the float, still high inflation, and wide-ranging cuts in subsidies, including fuel and electricity. The government added 73,000 families to the Takaful and Karama cash transfer program in July 2024 to bring its coverage to 5.2 million households encompassing 21 million citizens. It has also increased the monthly payments by 55 percent since FY 2022/23 to protect the most vulnerable groups against high inflation in addition to the in-kind subsidy already provided. The government is now considering and taking steps to gradually consolidate in-kind subsidy programs into cash transfer programs to improve program targeting. It will complement these efforts by expanding the financial envelope for the Takaful and Karama program to 0.4 percent of GDP in FY2025/26 budget, based on analysis of the recently released household income survey. More broadly, the government plans to increase overall social spending from 1.6 percent of GDP in FY2023/24 to 2.2-2.5 percent of GDP FY2026/27 using the fiscal space created by an easing in the projected primary surplus in those years, as well as the reduction in fuel subsidies. To that effect, on February 26, 2025, the government announced a social package of targeted measures aimed at supporting the most vulnerable groups, in line with the EFF objectives, and fully consistent with Egypt's fiscal targets under the program. On health, it will continue the rollout of the universal health insurance scheme that was recently introduced to cover the whole population and increase spending on health. It has also increased spending on targeted heath programs by about EGP 5 billion to accelerate treatments of critical cases at the expense of the state. The government is committed to providing support for those most in need, with setting a minimum level floor of social spending consistent with these objectives (indicative target under the program).

Exchange Rate and Monetary Policies

The CBE is committed to continuing to pursue a liberalized exchange system in the context of a flexible exchange rate, building on the successful unification in March 2024. The CBE is sustaining the shift to a flexible exchange rate regime, with performance assessed using a set of indicators. These include the spread between the official exchange rate and measures of the market-clearing rate, foreign exchange demand backlogs at banks, and increased FX turnover in the interbank market relative to the period before the exchange rate unification. Going forward, interventions by the CBE in the FX market, if necessary, will continue to be guided by a volatility-based intervention framework and reserve accumulation goals. The CBE has a different view than staff on the perceived stability of the exchange rate. The EGP has indeed been fluctuating since March 2024 between 46.5 and 51.1 as of end-December 2024, indicating a volatility range of approximately 10 percent. It is noteworthy that the currency has never experienced such continuous exchange rate volatility historically. This indicates a significant improvement in the exchange rate market dynamics. The exchange rate is currently much more reflective of the FX supply and demand dynamics and hence, acting as a shock absorbing tool for the Egyptian economy. The CBE will pursue its efforts to build adequate foreign reserve buffers. The CBE had used part of the proceeds from the US$35 billion Ras El-Hekma deal to boost reserves to lock in the improvement in fundamentals; it will continue to accumulate official reserves to support external sustainability. As a result, gross international reserves reached US$53.8 billion at the end of FY 2023/24, a US$16.7 billion increase compared to FY 2022/23, mostly driven by FX inflows from Ras El-Hekma deal.

The CBE's priority for monetary policy remains to bring down inflation towards its target. To send a strong signal of its commitment to price stability in light of the shift to a flexible exchange rate regime, the CBE raised the rate of main operation by 600 basis points in March 2024, to the current level of 27.75 percent, following a 200 basis points hike in February 2024. These decisions follow a cumulative 1100 basis points tightening since March 2022, with the aim to fast-track the disinflation path and ensure a decline in underlying inflation. As a result, the annual inflation rate declined from 32.7% in March 2024 to 23.2% in January 2025. At its February 20, 2025 meeting, the Monetary Policy Committee (MPC) decided to maintain the CBE's interest rates at their current levels given the prevailing global uncertainty and recent developments. This will ensure the realization of the projected disinflation path and firmly anchor inflation expectations. The MPC's decision represents a positive structural break in the monetary policy regime. The CBE remains fully committed to its main mandate of maintaining price stability over the medium term and to safeguarding the conditions for sustainable economic development. It will continue conducting monetary policy decisions in a data-dependent manner and will not hesitate to take actions if data outturns signal deviations from its projected inflation path towards achieving its target.

The CBE is committed to continuing the transition to an inflation targeting regime, while ensuring that inflation is its nominal anchor and allowing the exchange rate to be determined by market forces. In this regard, the CBE appreciates staff's recognition of the good progress that was achieved as outlined in the inflation targeting Selected Issues paper. The transition to an inflation targeting regime is already underway and the CBE recently announced an extension to the inflation target horizons to Q4 2026 and Q4 2028 at 7% (±2 percentage points) and 5% (±2 percentage points), on average, respectively. Furthermore, the CBE has taken various steps to improve its communication and to anchor inflation expectations by increasing transparency in the targeted path for inflation in its Monetary Policy Committee press release. The CBE also intends to resume the publication of the quarterly monetary policy report starting H1-2025. On the technical side, the CBE team has received various technical assistance support including from the Central Bank of Brazil to enhance its modeling capacity, as well as from the World Bank to launch an Inflation Expectation Survey for Egypt.

The CBE has also further reduced its claims on public entities. This includes the Ministry of Finance taking measures to reduce its overdraft at the Central bank back to its statutory limit and not increasing Central bank lending to public agencies excluding the Ministry of Finance, while reducing this stock by EGP200 billion (about 1 percent of GDP) from end-June 2024 to early February 2025, and intends to reduce it by another EGP50 billion by end-June 2025. Moreover, on February 23, 2025, the CBE Board has approved a government-supported schedule of reduction of CBE claims on public sector agencies, reducing the claims to zero by end-FY2028/29. The CBE is confident that these measures will contain inflationary pressures as well as help strengthen the monetary policy transmission, which will play an important role in helping to bring inflation back towards its target over the medium term.

The CBE has a different view than staff on the assessment of the external position and has numerous concerns about the External Balance Assessment Current Account (EBA CA) modeling framework. The CBE's view is based on the following: First, the model's coefficients have not been updated since 2019. As a result, many recent economic crises are not reflected in the estimations. Second, the EBA model has a large residual term, which suggests that the CA model does not accurately fit the Egypt's actual CA. As of June 2024, the model's residual contributes -2.3% to the current account gap, whereas the policy gap contributes only -1.7% to the total CA gap. Third, the authorities' own assessment of the external position shows an undervaluation of the EGP as of June 2024 and highlights that substantial adjustment has occurred following the unification of the exchange rate in March 2024.

Financial Sector Policies

Strengthening financial sector resilience continues to be a key priority. Egypt's banking system remains liquid and well capitalized. Banks have remained in compliance with their net open position limits. Nonetheless, the CBE will continue to monitor the maturity and composition of banks' foreign currency assets and liabilities, including their exposure to public sector agencies. The CBE will remain vigilant about the level, adequacy, and composition of banks capital. The CBE will also strengthen transparency and communication of financial sector issues, including through timely and regular publication of semi-annual financial stability reports. To test the resilience of banks, the CBE has completed stress tests of the banking sector and shared detailed results with the Fund. The CBE takes notes of staff's analysis of the sovereign-bank nexus, which they see as reflecting the structure of the economy. They disagree with staff's assessment that the sovereign-bank nexus has led to crowding out of lending to the private sector. Indeed, banks have maintained ample liquidity and have expanded their lending to the private sector with special focus given to SMEs, including through targeted initiatives.

The CBE is committed to strengthening governance practices and competition in the banking sector. To support stronger governance practices, the CBE will not issue any new subordinated debt to state-owned banks. Additionally, to enhance the governance of state-owned banks, the CBE finalized the terms of reference of an independent assessment of policies, procedures, and controls of state-owned banks to be conducted by an internationally recognized firm. On February 27, 2025, the CBE has selected two international firms to conduct the assessment, after having finalized the shortlisting of firms that fit the criteria stated in the terms of reference.

Structural Reforms

The state-ownership policy remains the anchor of the structural reform agenda, and the authorities are continuing its rollout with the aim of levelling the playing field and boosting private sector-led growth. The state-ownership policy, which was published in late-2022, details the principles, processes, and governance framework through which the state will reduce its role in the economy's non-strategic sectors. The objective for this fiscal year is to enshrine key elements of the state-ownership policy into law, including legislating the creation of a unit in the Prime Minister's office with the powers to establish guidelines for the governance of state-owned enterprises and to facilitate the implementation of the divestment program. As part of its commitment to transparency and monitoring of the overall state ownership policy, the government has published two updates on its implementation and reinstated regular publication of annual aggregate report on Egypt's SOE portfolio. The government plans to expand the coverage and analytical depth of the state-owned enterprise portfolio in subsequent iterations of the report. The government will continue to pursue its efforts to strengthen the business climate and governance. It has recently submitted to parliament amendments to the competition law that align the independence of the Egyptian Competition Authority (ECA) with the level of independence enjoyed by the CBE and Financial Supervisory Authority and providing the power to issue direct administrative sanctions similar to the CBE. The authorities welcome the staff's recognition of the effort to enhance governance and improve the business environment. These include reforms to liberalize access to foreign exchange, improve fiscal transparency, increase the role of digitalization in revenue administration and in customs to facilitate trade, expand coverage of entities that are outside the budget, and enhance governance of state-owned banks. Building on these initiatives, the authorities agree that there is room to further improve governance.

Despite facing challenges in both regional and international environments that had a negative impact on the pace of the government's divestment program, the authorities continue to make progress and remain fully committed to its complete implementation. They see the divestment program as crucial for reducing the state's footprint, generating foreign exchange inflows, and aiding debt reduction efforts. The government continues to work with the International Finance Corporation (IFC) in implementing its divestment program. In FY2023/24, despite the challenging regional environment, Egypt finalized divestment deals worth US$2.2 billion—excluding proceeds from the Ras El-Hekma deal—of which 15.7 percent was transferred to the MOF for debt reduction. The new government revised the divestment plans for the sale of state-owned enterprises in FY2024/25 to US$0.6 billion—from the US$3.6 billion denominated in U.S. dollars of divestment in addition to 0.5 percent of GDP that were initially planned—given the difficult external environment, notably the regional tensions, facing Egypt. However, the government is fully committed to offset the overall shortfall with FDIs amounting to US$3 billion in the remainder of FY 2024/25. All proceeds will go directly to the Treasury and will be used to reduce the budget debt. Moreover, as part of its strong commitment to the divestment plan of the state-ownership policy, the government has announced plans to offer up stakes in ten state-owned companies in 2025 through direct sales to strategic investors or listing on the Egyptian stock exchange. The government plans to hire and announce investment and legal advisors for at least two proposed transactions worth an estimated combined US$1–1.5 billion with the tendering and selection process to be completed by end-April 2025.

Resilience and Sustainability Facility (RSF)

Egypt faces climate-related structural vulnerabilities stemming from droughts, rising sea levels, and water scarcity, and it relies on traditional energy sources. The proposed RSF measures aim to address those vulnerabilities while at the same time complementing risk management at the level of the EFF and supporting its macro-stabilization objectives. This is the case of the RSF measures aimed at enhancing fiscal risk management and financial sector stability as well as security energy supply in the context of scaling-up green and renewable energy.

The authorities have been carrying out comprehensive climate mitigation and adaptation efforts. The authorities accelerated their work on national climate change strategies in the run up to COP27 in 2022 and launched the Egypt National Climate Change Strategy (NCCS) 2050 in 2022. Since then, they have sustained efforts in this area, as evident from their updates to Nationally Determined Contributions (NDCs) and the first progress report on Nexus of Water, Food and Energy (NWFE), both in November 2023, in addition to the pipeline of climate-related work by line ministries. The authorities are on track to achieve the climate action goals outlined in the NCCS 2050 and the updated 2030 NDCs. Over the last decade, the authorities have made notable progress in reducing energy subsidies in line with EFF reforms and have prioritized the transition towards renewable energy sources. By 2030, the authorities are committed to reduce emissions by 37 percent in electricity, 65 percent in oil and gas, and 7 percent in transport, conditional on external financing. Furthermore, the authorities have committed to increase the share of renewable energy in power generation to 30 percent by 2030 and around 60 percent by 2040. In addition, Egypt is taking part in the global voluntary methane pledge and the authorities remain committed to other climate adaptation and mitigation reforms. The authorities appreciate the work in the Selected Issues on the macroeconomic and environmental effects of climate mitigation in the country. In reference to the recommendation of complementary external financing to ramp up renewable energy investments, the authorities emphasize the importance of considering the associated costs to avoid increasing debt servicing pressures. In this connection, financing for climate adaptation and mitigation should be concessional, and the model should account for this.

To support Egypt's climate adaptation and mitigation efforts, the authorities request an arrangement under the RSF, with access of SDR 1 billion (49 percent of quota). The authorities see the RSF as a vehicle to support their efforts to implement macro-critical climate reforms, which benefited from close collaboration with the IMF, World bank, EBRD, EU, AIIB, and EIB. To that effect, the authorities have developed ambitious reform measures in four areas: (i) accelerating decarbonization; (ii) strengthening the management of climate-related risks and building resilience; (iii) increasing the capacity of the financial sector to identify climate-related risks and support green finance opportunities; and (iv) identify the effects of investment plans, programs, and projects on national climate change targets. This is translated into ten proposed reform measures under a possible RSF. Each reform measure will be associated with a disbursement of 10 percent of the total RSF loan. The authorities view that this access is warranted by the strength of reforms, the balance of payments impact, and their capacity to repay the Fund. The package of reform measures will accelerate Egypt's progress in addressing key adaptation, mitigation, and transition risks and opportunities. The proposed access would also bolster Egypt's reserve buffers, thereby increasing its ability to confront prospective climate-related balance of payments pressures.

Conclusion

The Egyptian authorities reiterate their full commitment to economic stabilization and reforms despite extremely challenging regional and international circumstances. Their strong policy actions have started to show positive results. Their strong ownership of their economic reform program and track record of implementing bold reforms and policy measures under the 2016-19 EFF and 2020-21 SBA arrangement confirm the authorities' ability in restoring confidence. The challenging regional and international environment may have focused the immediate attention on macroeconomic stabilization. Nonetheless, now that macroeconomic stability is taking hold, all government institutions and the CBE are committed to taking the economy from stabilization to transformational reforms, to support sustainable job-rich private-sector-led growth. The authorities are confident that the IMF-supported EFF and RSF would effectively underpin their efforts in this direction. Based on the strength of their policies under the program and commitment to its objectives, the authorities request completion of the Fourth review of the arrangement, and Board consideration of the related decisions, as well as support to their request for an RSF arrangement.