



ARAB REPUBLIC OF EGYPT

January 2017

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the Request for Extended Arrangement Under the Extended Fund 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 November 11, 2016, following discussions that ended on August 12, 2016, with the officials of the Arab Republic of Egypt on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 7, 2016.
- A **Statement by the Executive Director** for the Arab Republic of Egypt.

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

Letter of Intent sent to the IMF by the authorities of the Arab Republic of Egypt*
Memorandum of Economic and Financial Policies by the authorities of the Arab Republic of Egypt*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND



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November 11, 2016

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IMF Executive Board Approves US\$12 billion Extended Arrangement Under the Extended Fund Facility for Egypt

On November 11, 2016, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility (EFF) for the Arab Republic of Egypt for an amount equivalent to SDR 8.597 billion (about US\$12 billion, or 422 percent of quota) to support the authorities' economic reform program.

The EFF-supported program will help Egypt restore macroeconomic stability and promote inclusive growth. Policies supported by the program aim to correct external imbalances and restore competitiveness, place the budget deficit and public debt on a declining path, boost growth and create jobs while protecting vulnerable groups.

The Executive Board's approval allows for an immediate purchase of SDR 1.970 billion (or about US\$2.75 billion). The remaining amount will be phased over the duration of the program, subject to five reviews.

Following the Executive Board discussion, Ms Christine Lagarde, Managing Director and Chair, said:

“The Egyptian authorities have developed a homegrown economic program, which will be supported under the IMF’s Extended Fund Facility, to address longstanding challenges in the Egyptian economy. These include: a balance of payments problem manifested in an overvalued exchange rate, and foreign exchange shortages; large budget deficits that led to rising public debt; and low growth with high unemployment. The authorities recognize that resolute implementation of the policy package under the economic program is essential to restore investor confidence, reduce inflation to single digits, rebuild international reserves, strengthen public finances, and encourage private sector-led growth.

“The liberalization of the exchange rate regime and the devaluation of the Egyptian pound were critical steps toward restoring confidence in the economy and eliminating foreign

exchange shortages. The new exchange rate regime will be supported by prudently tight monetary policy to anchor inflation expectations, contain domestic and external demand pressures, and allow accumulation of foreign exchange reserves.

“Reducing fiscal deficits considerably and thereby placing public debt on a clearly declining path is an important objective of the authorities’ program. To this end, the key policy measures are the introduction of a VAT, a reduction of energy subsidies, and the optimization of the public sector wage bill. To mitigate the impact of the reforms on the poor, the authorities intend to use part of the fiscal savings to strengthen the social safety nets. The planned fiscal consolidation is projected to reduce public debt by almost 10 percentage points of GDP by the end of the program.

“Structural reforms are critical for the success of the program. The aim is to address deep-seated structural impediments to growth and job creation, and create an enabling environment for private sector development. The main areas of reforms include business licensing and insolvency frameworks; public financial management, including state-owned enterprises; energy sector and subsidy reforms; and labor market reform to create jobs and increase labor market participation, especially among women and young people.

“Risks to program implementation are significant, but are mitigated by the strength of the policy package, frontloading of major measures implemented as prior actions, and broad political support for the objectives of the program and ambitious policy efforts.”

ANNEX

Recent Developments

Since 2011, political and regional developments have taken a significant toll on the Egyptian economy. Underlying structural challenges and the prolonged political transition led to the build-up of macroeconomic imbalances. A significantly overvalued exchange rate undermined competitiveness and depleted reserves. Weak revenue combined with poorly targeted subsidies and a growing public sector wage bill resulted in large deficits and high level of public debt.

The authorities initiated policy adjustment measures in 2014/15. The Central Bank of Egypt (CBE) devalued the Egyptian pound by 5 percent and increased interest rates to contain inflationary pressures. Fuel and electricity prices were raised, and a plan for gradual phasing out of these subsidies was developed. As a result, the subsidy bill fell by nearly 3 percent of GDP in fiscal year (FY) 2014/15. In addition, a new Civil Service law was drafted and a decision was taken to replace the General Sales Tax with VAT. In 2015/16, however, the momentum of reform slowed. Planned fuel price increases were deferred, income taxes were

cut, the capital gains tax was postponed and parliamentary consideration of VAT was delayed to 2016/17.

Growth slowed in 2015/16, while inflation increased and external vulnerabilities became more acute. The economy is estimated to have grown by 3.8 percent in 2015/16. Foreign exchange shortages and the overvalued currency hampered the manufacturing sector, while tourism was hard hit by security concerns. Inflationary pressures intensified in the second half of the year. The current account deficit widened further, and in June 2016 reserves stood at about 3 months of prospective imports. The devaluation of the official exchange rate by 13 percent in March 2016 did not restore market equilibrium, and strong pressures on the exchange rate and reserves remained. By the end of September, the parallel market premium widened to more than 30 percent, and the official exchange rate was estimated to be overvalued by about 25 percent in real effective terms.

Program Summary

The authorities' home-grown program, supported by the EFF arrangement, will address macroeconomic vulnerabilities and promote inclusive growth and job creation.

The program focuses on four key pillars:

- (i) a significant policy adjustment including (1) liberalization of the foreign exchange system to eliminate forex exchange shortages and encourage investment and exports; (2) monetary policy aimed at containing inflation; (3) strong fiscal consolidation to ensure public debt sustainability;
- (ii) strengthening social safety nets by increasing spending on food subsidies and cash transfers;
- (iii) far-reaching structural reforms to promote higher and inclusive growth, increasing employment opportunities for youth and women;
- (iv) Fresh external financing to close the financing gaps.

The **main elements of the program** are as follows:

Exchange rate, monetary and financial sector policies: On November 3 the CBE liberalized the foreign exchange system and adopted a flexible exchange rate regime. Maintaining the flexible exchange rate regime, where the exchange rate is determined by market forces, will improve Egypt's external competitiveness, support exports and tourism and attract foreign investment. This will also allow the CBE to rebuild its international reserves. Monetary policy will focus on containing inflation and bringing it down to mid-single digits over the medium term. This will be achieved by controlling credit to government and banks as well as by strengthening the CBE's capacity to forecast and manage liquidity, improving transparency and communication. To further enhance banking sector soundness and promote

competition, the CBE will review its supervisory model in line with international best practice, including Basel III principles.

Fiscal policy, social protection and public financial management:

- Fiscal policy will be anchored to setting public debt on a clearly declining path and restoring debt sustainability. Tax revenues are projected to increase by 2.5 percent of GDP over the program, in large part due to the implementation of the value added tax (VAT) approved by parliament in August. At the same time, primary expenditures will be reduced by 3.5 percent owing to reduction of subsidies and containing the wage bill. The fuel price increase announced on November 3 were an important step in that direction.
- Social protection programs will be strengthened to ease the adjustment process. About 1 percent of GDP out of the achieved fiscal savings will be directed to additional food subsidies, cash transfers to the elderly and low-income families, and other targeted social programs, including more free school meals. The aim is to replace poorly targeted energy subsidies with programs that directly support poor households.
- The program also emphasizes strengthening public financial management (PFM) and fiscal transparency. Planned reforms in this area include regularly reviewing the operational performance of the economic authorities; improving oversight of state issued guarantees through the preparation of reports; developing a road map for pension reforms; and preparing a budget statement on economic and public finance developments will be presented to the parliament with every budget.

Structural reforms and inclusive growth. The program will help address the long-standing challenges of low growth and high unemployment. Measures will include streamlined industrial licensing for all businesses, greater access to finance to SMEs, and new insolvency and bankruptcy procedures. Job intermediation schemes and specialized training programs for youth will be encouraged. To support women's labor force participation, availability of public nurseries will be increased and safety of public transportation improved.

Arab Republic of Egypt: Selected Economic Indicators, 2011/12–2016/17 ^{1/}						
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
					Prel.	Proj.
Output and prices	2.2	2.1	2.2	4.2	3.8	4.0
Real GDP (market prices)	7.3	9.8	8.2	11.4	14.0	16.6
Consumer prices (end of period)	8.6	6.9	10.1	11.0	10.2	18.2
Consumer prices (period average)						
Public finances						
General Government ^{2/}						
Revenue and grants	21.1	21.9	23.7	21.9	20.3	25.5
Expenditures (incl. net acquisition of financial assets)	31.1	35.3	36.7	33.5	32.0	33.1
<i>Of which: Interest</i>	5.6	7.3	7.6	7.3	8.1	8.7
Overall balance	-10.0	-13.4	-12.9	-11.5	-12.0	-10.0
Overall balance excl. grants	-10.6	-13.7	-16.5	-12.6	-12.2	-10.1
Primary balance	-4.9	-6.3	-5.8	-4.8	-4.4	-1.8
Gross Debt	74.6	84.8	86.3	89.0	94.6	93.8
External	9.3	10.8	9.9	8.0	7.7	10.1
Domestic	65.3	74.0	76.4	81.0	86.8	83.7
Budget sector ^{3/}						
Revenue and grants	18.3	19.0	20.8	19.1	17.6	22.9
Expenditures (incl. net acquisition of financial assets)	28.4	32.0	33.9	30.6	29.4	30.5
<i>Of which: Fuel subsidies</i>	5.8	7.0	6.6	4.0	3.0	2.6
<i>Of which: Food subsidies</i>	1.8	1.8	1.7	1.7	1.5	1.4
Overall balance	-10.1	-13.0	-13.1	-11.5	-12.1	-10.0
Overall balance excl. grants	-10.7	-13.3	-16.7	-12.5	-12.3	-10.1
Primary balance	-3.8	-5.1	-4.9	-3.7	-3.5	-0.9
Monetary sector						
Credit to the private sector	7.1	9.8	7.4	16.7	14.2	8.3
Reserve money ^{6/}	5.1	20.4	14.8	33.3	-1.6	16.1
Broad money (M2)	8.3	18.4	17.1	16.4	18.6	16.7
Treasury bill rate, 3 month (average, in percent)	13.4	13.4	10.9	11.4	11.8	19.7
External sector						
Exports of goods (in U.S. dollars percentage change)	-7.1	7.6	-3.2	-15.5	-15.2	12.8
Imports of goods (in U.S. dollars)	2.7	2.4	3.7	1.7	-7.4	1.7
Merchandise trade balance	-11.3	-10.8	-11.2	-11.7	-11.0	-12.5
Current account	-3.7	-2.2	-0.8	-3.7	-5.5	-5.2
Capital and financial account (incl. errors and omissions)	-3.7	1.1	0.9	5.5	4.6	1.7
Foreign direct investment (net. In billions of US\$)	-3.7	3.6	3.8	6.1	6.7	9.4
External debt ^{4/}	12.5	15.1	15.3	14.3	14.0	22.9
Gross international reserves 9in billions of US\$)	15.2	14.5	16.3	19.5	17.1	22.0
In months of next year's imports of goods and services	2.7	2.5	2.7	3.6	3.1	3.7
In percent of short-term external debt ^{5/}	308.8	138.1	191.9	280.6	267.8	283.1
Financing gap (in billions of US\$)	...	...	...	...	0.0	16.3
Memorandum items:						
Nominal GDP (in billions of Egyptian pounds)	1,656.6	1,843.8	2,101.9	2,429.8	2,777.8	3,434.1
Nominal GDP (in billions of US\$)	275.8	285.4	301.5	330.2	...	...
GDP per capita (in US\$)	3,347	3,370	3,478	3,710	...	...
Unemployment rate (period average, percent)	12.4	13.0	13.4	12.9	12.7	12.3
Poverty rate (percent)	n.a.	26.3	...	...	...	...
Populations (in millions)	82.4	84.7	86.7	89.0	90.2	92.3

Sources: Egyptian authorities; and IMF estimates and projections.

^{1/} Fiscal year ends June 30.

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

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

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

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



ARAB REPUBLIC OF EGYPT

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

November 7, 2016

KEY ISSUES

Egypt's underlying structural weaknesses and the prolonged political transition have led to the build-up of macroeconomic imbalances. A significantly overvalued exchange rate has undermined competitiveness and depleted international reserves. Weak revenue combined with poorly targeted subsidies and a growing public sector wage bill have resulted in persistent large fiscal deficits and a high level of public debt. Real and potential growth have slowed since 2011 as foreign exchange shortages and the weak business climate deterred investment and impeded productivity improvement and job creation. Regional instability and security concerns have also taken a toll on the economy, especially on tourism. Risks of economic distress increased.

Given the largely structural nature of Egypt's macroeconomic imbalances, the authorities are requesting Fund support under the three-year Extended Fund Facility (EFF) arrangement. They have developed a comprehensive program of adjustment and reforms to restore macroeconomic stability and pave the way for sustainable long-term growth. Their homegrown policy package envisages:

- Adoption of a flexible exchange rate to remove overvaluation, rebuild reserves, and provide buffers for external shocks;
- Monetary tightening to contain inflation;
- Fiscal consolidation to ensure medium-term sustainability of public debt;
- Strengthening social safety nets and increasing pro-poor spending to offset the impacts of reforms on the vulnerable; and
- Structural reforms to promote inclusive growth, create jobs, increase and diversify exports, improve the business environment, and strengthen public finance management.

Program financing needs are significant. The financing gap for the program is about \$35 billion, with about half of the gap resulting from the need to replenish reserves. The authorities request SDR8.59657 billion (about \$12 billion, or 422 percent of quota), to be evenly distributed over the three-year period with some frontloading within the first year to boost credibility and instill market confidence in the program. The authorities have already secured the full financing for the first year.

The risks to the program mainly arise from the difficulties inherent in implementing a strong and wide-ranging reform program. Fiscal slippages could undermine the program's debt sustainability objective. Failure to tighten monetary policy sufficiently could lead to exchange rate and inflationary pressures and loss of reserves. Structural reforms are vulnerable to opposition by vested interests. There is a risk that regional conflicts could intensify and domestic security conditions deteriorate, which could affect confidence, investment, and tourism. These risks are mitigated by the authorities' commitment to the program as demonstrated by the implementation of the prior actions, the strength of the policies under the program, including the buffers provided by a move to a flexible exchange rate regime, by frontloading of major measures, and by the program's backing at the highest political level.

Staff supports the authorities' request for the EFF arrangement. Staff also supports the authorities request for temporary approval for a multiple currency practice maintained by Egypt.

Approved By
**Juha Kähkönen and
 Sanjaya Panth**

Discussions were held in Washington DC in May, in London in June, and in Cairo in August. The mission team comprised Chris Jarvis (head), Nikoloz Gigineishvili, Gohar Minasyan, Bénédicte Baduel (MCD), Matthew Simmonds (FAD), Frantisek Ricka (SPR), Carlos de Barros Serrao (MCM), and Randa Elnagar (COM). Masood Ahmed (Director, MCD) participated in discussions in London.

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ECONOMIC AND POLITICAL CONTEXT

1. **Egypt has long struggled with problems of low and non-inclusive growth, high fiscal deficits, and external vulnerability.** The country suffers from high unemployment and has 700,000 young people entering the workforce every year. Persistently low tax revenue and excessive public spending, including on subsidies, have led during a period of turbulence to high deficits and now uncomfortably high public debt. Low non-oil exports and lack of private foreign capital have contributed to recurrent balance of payments problems, while high inflation and a fixed exchange rate led to a significant overvaluation of the Egyptian pound and the erosion of international reserves. Foreign exchange and energy shortages, and the unfavorable business climate caused growth to slow. Security concerns and occasional terrorist attacks have seriously damaged tourism.
2. **The political transition has now been completed.** A newly elected Parliament convened in January 2016, completing the authorities' political roadmap following the adoption of a new constitution in January 2014 and the inauguration of President Sisi in June 2014. The economic team in the executive branch has seen appointments of a new central bank Governor in November 2015 and a new Minister of Finance in March 2016.
3. **The authorities are requesting Fund support under a three-year EFF arrangement to help them overcome the immediate policy challenges and the long-standing structural problems.** In addition to achieving macroeconomic stabilization, the program envisages a package of reforms aimed at strengthening the environment for private sector development, and promoting inclusive growth and employment in the medium term. The authorities also appreciate the credibility that a Fund-supported program offers, as well as its catalytic effect in mobilizing external financing. The proposed policies are expected to address Egypt's problems durably, but they also seek to find a balance between ambition and feasibility.

RECENT DEVELOPMENTS

4. **Political instability and regional security concerns have taken a significant toll on the Egyptian economy.** The growth slowdown, which started in 2008/09, accelerated after the 2011 revolution, with GDP declining well below its potential. Investment and exports fell, while consumption, supported by remittances from abroad and the government's current spending, has gained ground. The overall fiscal deficit widened from 7–8 percent of GDP prior to the revolution to 10–13 percent thereafter. Public debt increased from 70 percent of GDP in 2009/10 to 89 percent in 2014/15 (fiscal years end in June), and interest payments reached almost one third of total budget spending (nearly 9 percent of GDP). The deficit was primarily financed through borrowing from the banking system, about one third of which was direct financing from the central bank. Accommodative monetary policy kept inflation elevated and with a fixed exchange rate led to significant overvaluation of the pound and growing balance of payment pressures. The current account deficit rose while private capital inflows including FDI fell, and foreign exchange reserves declined from nearly 7 months of imports in 2009/10 to 3½ months in 2014/15.

5. **Faced with the mounting macro imbalances the authorities initiated policy adjustment measures in 2014/15.** The Central Bank of Egypt (CBE) devalued the Egyptian pound by 5 percent and raised interest rates to contain inflationary pressures, while fiscal consolidation was pursued through subsidy, tax, and civil service reforms. Taking advantage of the softening global oil market, fuel and electricity prices were raised, and a plan for a gradual phasing out of these subsidies was developed. As a result, the subsidy bill fell by nearly 3 percentage points of GDP and the budget deficit narrowed from over 13 percent of GDP in 2013/14 to 11.5 percent in 2014/15.¹ The decision was also taken to replace the General Sales Tax with fairer and more efficient VAT, and planning began on this. In addition, a new Civil Service Law was drafted to streamline the public employment framework. These actions were welcomed by the private sector and the international community, and Egypt returned successfully to international capital market by issuing a \$1.5 billion Eurobond in June 2015. The construction of the parallel Suez Canal, investment in power generation capacity, and the discovery of major gas fields in Egypt's territorial waters in the Mediterranean also produced a positive growth momentum. Real growth recovered to 4.2 percent in 2014/15.

6. **In 2015/16, however, the momentum of reform slowed.** Income tax rates were cut, the capital gains tax was postponed, and parliamentary consideration of VAT was delayed to 2016/17. On the expenditure side, planned fuel price increases were deferred, but total subsidies still declined by 1.1 percent of GDP, reflecting lower world oil prices. However, interest payments increased by 0.9 percent of GDP due to higher public debt. As a result, the 2015/16 deficit widened to 12.1 percent of GDP, compared to the budgeted 8.9 percent, and general government gross debt reached almost 95 percent of GDP.

7. **Growth in 2015/16 slowed again while inflation increased.** The economy is estimated to have grown by 3.8 percent in 2015/16.² Foreign exchange shortages and the overvalued currency hampered the manufacturing sector. Tourism was hard hit by security concerns and the flight bans following the crash of a passenger plane over Sinai Peninsula in October 2015. Inflationary pressures intensified in the second half of the year, with headline inflation rising from around 9 percent in early 2016 to 14.1 percent in September. Core inflation increased from 9 to 13.9 percent.

8. **External vulnerabilities also increased.** The current account deficit further widened from 3.7 percent of GDP in 2014/15 and to an estimated 5.5 percent of GDP in 2015/16. The balance of goods and services worsened by about 1 percent of GDP. In June 2016, gross international reserves stood at \$17.1 billion, equivalent to 3.1 months of prospective imports and 76 percent of the Fund's reserve adequacy metric (ARA) for floating regimes and 45 percent for fixed regimes. The Saudi Arabian government's agreement to provide oil import financing of about \$4 billion per year for five years eased external pressures, but not sufficiently to fully address the country's foreign exchange needs. External public debt remains relatively low at less than 20 percent of GDP.

¹ Excluding grants, the adjustment was about 4 percentage points of GDP.

² At factor costs, real GDP is estimated to have grown by only 2.5 percent, but larger net indirect taxes due to the reduction in subsidies pushed up growth at market prices.

9. **In March 2016 the official exchange rate of the pound against the U.S. dollar was devalued by 13 percent.** Nevertheless, strong pressures on the exchange rate and reserves remained, and market equilibrium was not restored. By end-September the parallel market premium widened to more than 30 percent, and the official exchange rate was estimated to be overvalued by about 25 percent in real effective terms, while foreign exchange shortages continued.

10. **The aggregate financial soundness indicators through June 2016 point to the resilience of the banking system.** The level of capital appears adequate with the ratio of regulatory capital to risk-weighted assets at 13.7 percent. Nonperforming loans as a share of total loans are reported at 6.8 percent, but loan loss provisioning is close to 100 percent. Deposits have continued to grow but at a slower pace than before. Banks' large exposure to government securities is a potential vulnerability, and banks reportedly also have a small net open foreign exchange position.

PROGRAM OBJECTIVES AND POLICIES

11. **The authorities' new program, supported by the proposed EFF arrangement, aims at addressing macroeconomic vulnerabilities and promoting inclusive growth and job creation.** The program is based on four pillars:

- **A significant policy adjustment** to restore confidence in and credibility of domestic policies. This envisages: 1) unifying the foreign exchange market under the new floating exchange rate regime to eliminate FX shortages and overvaluation of the pound, and to encourage investments and exports; 2) implementing prudently tight monetary policy to keep inflation contained and bring it down to single digits, and to facilitate build-up of international reserves; and 3) pursuing strong fiscal consolidation to ensure public debt sustainability.
- **Strengthening social safety nets** by spending an additional 1 percent of GDP on food subsidies and cash transfers to the poor.
- **Far-reaching structural reforms** to promote higher and inclusive growth, job creation, and exports. The authorities intend to focus on improving public finance management, simplifying business regulations, strengthening governance, including in public enterprises, and reforming the energy sector.
- **Fresh external financing** to close the financing gaps. The substantial policy adjustment under the program will lead Egypt to a position of fiscal and current account sustainability. Nevertheless, there is still a financing gap of about \$35 billion, almost half of which results from the need to rebuild international reserves to the levels that are adequate for preserving macroeconomic stability in the medium term.

A. Macroeconomic Outlook and Risks

12. **Medium-term prospects are favorable provided short-term challenges can be addressed and growth-friendly policies and reforms implemented.** Inherent strengths of the economy include a dynamic and young population, a large market size, a favorable location, and access to important foreign markets. The opening of the parallel Suez Canal last August, large investments in the energy sector, and the discovery of a major gas field also bode well for Egypt's medium-term development. However, realizing this potential depends on overcoming near-term challenges such as foreign currency shortages, low policy buffers, and weakened market confidence as well as implementing wide-ranging structural reforms that support inclusive growth. This is a key objective of the authorities' program

13. **The program's macroeconomic projections are based on the following assumptions:**

- Helped by macroeconomic stabilization, removal of foreign exchange shortages, and the improved business climate, GDP growth is projected to recover to its potential growth of 5–6 percent over the medium term. Depreciation of the pound should make Egyptian goods and services more competitive and the yields on Egyptian assets more attractive. Investment, including FDI, and exports are expected to grow and replace debt-financed consumption as growth engines.
- Prudent monetary policy is projected to bring inflation down to single digits after one-off effects of depreciation, subsidy reforms, and the introduction of VAT dissipate. The pass-through from the exchange rate to inflation is expected to be limited this year given that a significant part of imports is already priced at the parallel market rate.
- Fiscal consolidation will be underpinned by improved revenue mobilization, including through the new VAT law and better tax administration, and expenditure optimization through PFM measures, subsidy reductions, and the civil service reform. This should ease pressure on the external sector and place general government debt on a declining path to reach 85.8 percent of GDP by the end of the program and decline further to 78.3 percent of GDP by 2020/21.
- The current account deficit is expected to narrow to 3 percent of GDP by 2018/19. Export recovery is predicated on exploration of new gas fields and competitiveness gains from real depreciation of the pound and growth-friendly reforms. Import demand will be contained by tighter fiscal and monetary policies, with imports of investment goods financed in part by increasing inflows of FDI. The financial account is projected to benefit from the increased access to international capital markets. The overall BoP surpluses would rebuild international reserves.
- In 2016/17, output is projected to remain well below its potential. Fiscal consolidation coupled with monetary tightening would inevitably constrain growth. The planned structural reforms will take time to bear fruit. However, elimination of foreign exchange shortages—the single most widely cited impediment to business activities and removal of currency overvaluation should provide a significant boost to production and exports. On balance, real GDP growth is expected to be about 4 percent, broadly the same as in the previous year.

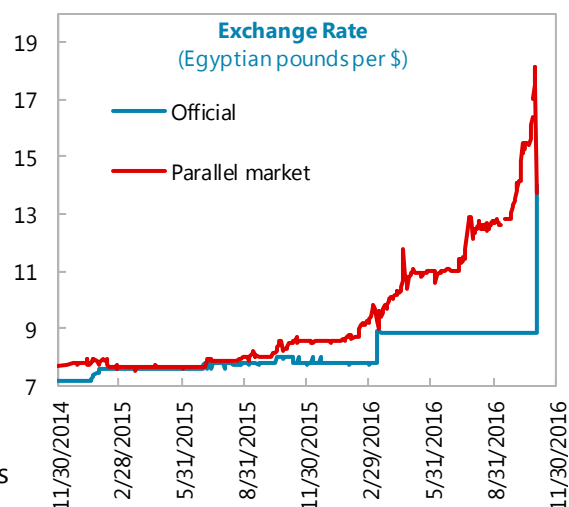
14. **The risks to the program are significant and mainly arise from the difficulties inherent in implementing a strong and wide-ranging reform program.** Potential fiscal slippages due to revenue

shortfalls, higher than programmed wage increases or delays in implementing expenditure measures could undermine the program's debt sustainability objective, especially in light of persistently high fiscal deficits in the previous several years. Attempts to manage the exchange rate could lead to a loss of reserves or reemergence of a large parallel market premium. Failure to tighten monetary policy sufficiently could lead to strong exchange rate and inflationary pressures and loss of reserves. Opposition by vested interests could derail structural reforms and weaken medium-term growth prospects. These risks are mitigated by the strength of the policies under the program, significant frontloading of major measures, and the program's backing at the highest political level. The authorities' commitment to the program was also demonstrated by the implementation of the prior actions.

15. **Egypt is also exposed to external shocks.** Tighter or more volatile global financial conditions may raise borrowing costs. Lower growth in trade partners (Eurozone, Russia) or a worsening of regional security would hurt trade and tourism. Persistently lower energy prices would reduce remittances and financing from the Gulf countries. On the upside, lower energy prices would help trade and fiscal balances. Egypt's new flexible exchange regime and prudent macroeconomic policies under the program provide sufficient buffers against these vulnerabilities.

B. Monetary and Exchange Rate Policies

16. **On November 3, 2016 the CBE devalued the Egyptian pound by 32.5 percent against the US dollar and allowed the exchange rate to float.** In anticipation of the exchange rate move, the parallel market premium exceeded 50 percent at end-October. On November 1 and 2, however, the pound rebounded somewhat in the parallel market, suggesting that the prior rapid depreciation was in part reflective of overshooting. The CBE took advantage of this opportune timing and devalued the official exchange rate to EGP/\$13. At the same time, it removed restrictions on setting own buy and sell rates by banks, eliminated the priority import list, and allowed the exchange rate to be market-determined. The CBE's subsequent foreign exchange auction of \$100 million produced a weighted average exchange rate of EGP/\$ 14.645. On November 6 buy and sell rates were quoted at 15.7/16.3 per U.S. dollar.



17. **In response to mounting inflationary pressures and in conjunction with the float, monetary policy was preemptively tightened.** On November 3 the CBE raised policy rates by 300 basis points, and sterilized part of the large liquidity surplus that had built up in the system due to the prior accommodative stance by introducing deposit auctions with maturities of 118 days. At the first such auction the CBE auctioned EGP50 billion and accepted EGP38.8 billion at an average interest rate of 17.5 percent. The CBE and the MOF signed a protocol on limiting direct CBE financing of the budget through overdrafts to prevent injection of new liquidity.

Box 1. Prospects for Medium-Term Growth

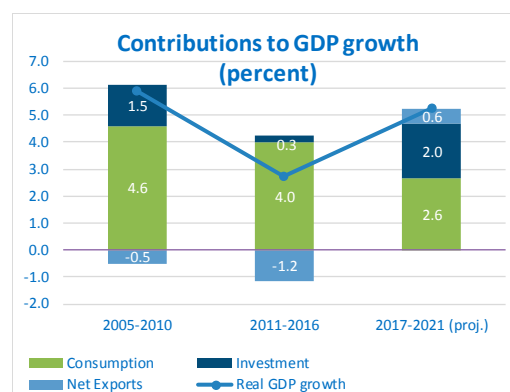
During the last years, Egypt's growth suffered from worsening fiscal and external imbalances which added to the long-term structural constraints of high unemployment, low labor force participation and an unfavorable business environment. Growth fell to 2.7 percent on average in 2011–2016, sustained by domestic consumption, which resulted in a widening fiscal deficit. The external sector deteriorated sharply, in a context of low investment, a less favorable global environment and security concerns.

The authorities' program, supported by the three-year EFF arrangement, addresses macroeconomic and structural constraints. With a sound implementation of planned policies, Egypt's growth could rise to 6 percent over the medium term, which would be comparable to the period 2005–2010 when annual growth averaged 5.9 percent.

On the demand side, growth will be driven by higher investment and improvement of the net external sector. Fiscal consolidation and reforms to improve

business climate will help promote private sector development by crowding in private sector's access to finance and by removing constraints to starting and doing business. Better macro-economic stability will improve market confidence and attract foreign investment, in particular FDI. Greater exchange rate flexibility will strengthen external competitiveness and support exports. The energy subsidy reform will remove the bias towards energy and capital-intensive industries.

It will encourage investment in labor-intensive activities and foster job creation to absorb Egypt's growing labor force. The energy subsidy reform will also allow the authorities to increase growth-enhancing investments and spending in social sectors (notably health and education).



On the supply side, manufacturing is projected to recover, while construction and services will remain buoyant. A unified and better functioning foreign exchange market and a gradual increase in Egypt's electricity production resulting from investments since 2014/15 will remove two major constraints that weighted on manufacturing activity in recent years. Construction and services should continue to expand at dynamic rates while new opportunities such as recently discovered gas fields and the enlarged Suez Canal could also boost medium-term growth.

Lower than projected medium-term growth would have important implications for medium-term public debt sustainability. Under the baseline forecasts, the interest rate-growth differential and improved primary balances will reduce public debt to below 80 percent by 2020/21. Debt projections are particularly sensitive to growth assumptions, and slower GDP growth could weigh significantly on debt sustainability (Annex I). In this context, implementation of the fiscal consolidation plan and the structural reform agenda is important in containing this risk.

18. **In the medium term monetary policy will focus on bringing inflation down to mid-single digits.** The depreciation, VAT, and the energy subsidy reform are estimated to contribute to average

inflation rising to 18 percent in 2016/17. The CBE will accommodate these first-round effects, but will maintain adequately tight monetary policy to contain secondary pressures and reduce inflation to single digits in the next three years. To signal its policy intentions and anchor inflation expectations, the CBE will maintain short-term interest rates at levels that ensure tight liquidity conditions. This will contain domestic demand and allow commercial banks and the CBE rebuild their foreign assets that have been depleted. In 2017/18 and beyond, as inflation declines interest rates will also come down to permit credit recovery. However, the CBE will be prepared to tighten the monetary stance again should demand pressures reemerge.

19. **Monetary policy will rely on money targeting.** The program sets a tight reserve money path for 2016/17, which will be achieved by controlling credit to government and banks. This will require improved liquidity forecasting and management, and strengthening of CBE independence by removal of fiscal dominance. The Ministry of Finance (MoF) and the CBE have agreed to bring budget overdrafts below EGP75 billion in 2016/17 by securitizing about EGP250 billion and minimizing new issuances. The CBE will closely monitor banks' excess reserves and rely primarily on indirect policy tools, such as deposit auctions and repo/reverse repo transactions, to achieve its targets, but if warranted may also change reserve requirements. In the process, it will ensure that solvent and viable banks retain access to liquidity to operate uninterrupted.

20. **The authorities plan to maintain a flexible exchange rate regime and accumulate significant international reserves.** These will serve as buffers against external shocks, strengthen credibility of the CBE, and preserve competitiveness. The program targets the accumulation of about \$5 billion in 2016/17, which would raise reserves to above 100 percent of the ARA metric for floating regimes. By the end of the program, gross international reserves are expected to reach almost \$33 billion, equivalent to 5 months of prospective imports of goods and services. Once the market regains confidence and the supply of foreign exchange increases the CBE will operate mainly on the buy-side, but occasional FX sales might still be needed to prevent excessive short-term exchange rate fluctuations. The CBE is committed to meeting its program objectives, and will consult the Fund on the needed policy adjustments in the event of excessive FX sales (including direct sales to SOEs and the government).

21. **The authorities are committed to eliminate the multiple currency practice (MCP), which has been kept in place not for the BoP purposes.** The multiple price currency auctions, which give rise to the MCP, will help develop a well-functioning FX market. The authorities have requested temporary approval of this measure given that that it does not discriminate against other members, does not harm the interests of other members, does not impede the member's balance of payment adjustment, and is temporary.³ The MCP will be eliminated once the interbank market is well developed. The current limit of \$100,000 on transfers abroad by individuals without an underlying commercial transaction and a cap of \$50,000 on cash deposits for importing non-priority goods will also be lifted by June 30, 2017. With the unification of the exchange rate, the large parallel market premium is expected to disappear. However, it

³ A MCP arises from the multiple price auction system established by the CBE, as the exchange rates for spot transactions in an auction may differ by more than two percent.

will take time to assess whether the policy has succeeded. A full analysis of the exchange system will be conducted by the staff prior to the first review to verify Egypt's compliance with Article VIII.

22. **The CBE will strengthen its operations and transparency.** Specifically, it will bring its investment regulations for reserve management in conformity with best international practices to ensure that reserves are invested in low risk and highly liquid instruments. Reserve allocation to foreign subsidiaries and branches of Egyptian banks will be capped at the current stock of \$5.6 billion. The CBE will develop a new communications strategy to better inform the markets of its policy objectives and to explain its actions. This will include publishing of the financial stability reports (from December 2016) and quarterly reports on monetary policy and inflation (from March 2017), and engaging with media more actively.

C. Fiscal Policy and Public Finance Management

23. **Fiscal policy will be anchored to restoring debt sustainability and setting public debt on a clearly declining path.** Staff and the authorities shared the view that under unchanged policies public debt would have become unsustainable. The program was designed to balance the debt stabilization objective with the political and economic feasibility of fiscal consolidation. Therefore, the program targets a fiscal consolidation path, which the authorities view as politically feasible and aims at reducing general government debt from 95 percent of GDP in 2015/16 to 86 percent of GDP in 2018/19, and further to 78 percent of GDP by 2020/21. The debt sustainability analysis (Annex 3) shows that under the proposed adjustment scenario public debt is sustainable, though not with a high probability.

24. **Consistent with the debt objective, the program targets an adjustment in the primary balance of 5½ percent of GDP over three years.** The mission and the authorities discussed whether more ambitious fiscal consolidation would have been appropriate, but the program adjustment is large compared to peers and significant additional adjustment would not be advisable due to its contractionary impact and potentially negative social implications. The primary balance rather than the overall balance is targeted because it better reflects the government's policy stance by excluding interest payments which are difficult to control given the uncertainty about interest rates during the transition. The overall deficit is also expected to fall during the program from 12.1 percent of GDP to 4.7 percent. Tax revenues are projected to increase by 2.5 percent of GDP during the program mainly because of VAT, which was passed by Parliament in August, and primary expenditure is projected to decline by 3.5 percent of GDP owing to the reductions in wages and subsidies. As public debt declines with the fiscal consolidation, so does the interest bill. This will free up fiscal space for higher spending in the authorities' priority areas of health, education, R&D, investment and social protection.

25. **The 2016/17 budget was approved by Parliament in late June and is consistent with the program objectives.** It targets the primary deficit of 0.8 percent of GDP, which corresponds to fiscal consolidation of 2.6 percent of GDP. The new VAT, which was passed by Parliament on August 29, will be introduced at a rate of 13 percent in 2016/17 (compared to 10 percent for the previous General Sales Tax), to be increased to 14 percent in 2017/18. There are exemptions for most staple foods consumed by the poor. The higher tax rate, combined with base broadening and improved compliance, will yield an

additional 1 percent of GDP in 2016/17 compared to the GST. On the expenditure side, the elimination in the budget law of indexation of public sector employees' bonuses and allowances will contain the wage bill increase to below the projected inflation, and generate 0.9 percent of GDP in fiscal savings. The projected net reduction in public employment through the new strict hiring rules, and the streamlined public employment framework under the new Civil Service Law adopted by Parliament in October, are expected to yield additional medium-term savings. Energy subsidies are budgeted to decline by 0.4 percent of GDP in 2016/17 (see 127).

26. **The authorities' program has a strong social spending component.** To ease the adjustment process, about 1 percent of GDP in fiscal savings will be directed to additional food subsidies, cash transfers to the elderly and the poor families, and other targeted social programs. The aim is to replace poorly targeted energy subsidies with programs that directly support poor households. In addition, resources for programs protecting vulnerable groups, including school meals, subsidies for infant milk and children's medicines, and vocational training for young people will be preserved or increased.

27. **Energy subsidy reforms that begun in 2014 are continuing.** The current subsidy scheme is not well targeted and benefits the well-off disproportionately rather than the poor. The staff considers that significant reductions in fuel subsidies during the program are essential. The authorities raised electricity tariffs by about 40 percent in July 2016. Gasoline and diesel prices have been increased on November 3 by 35 percent on average to achieve a pre-tax cost-recovery ratio of 56 percent and the budgeted reduction in the fuel subsidy bill. The authorities are prepared to further adjust fuel prices or take other measures as needed to offset any additional costs in the event of larger than projected depreciation of the pound or higher global oil prices. They have also committed to periodically increasing the pre-tax cost recovery ratio further on most fuel products to achieve 100 percent in 2018/19 and to eliminate electricity subsidies over the next five years.

28. **The mission and the authorities discussed safeguards against fiscal slippages.** Lower economic growth, higher interest rates, weaker than anticipated VAT performance, wage bill overruns and obligations to non-performing state-owned enterprises were identified as the main risks to the fiscal consolidation. To preserve the fiscal targets, the authorities will consider better targeting of food subsidies by improving the current smart card system; accelerating energy subsidy reforms; revisiting tax exemptions and other tax expenditures; and further cutting non-priority expenditures, as needed.

29. **Egypt's PFM reforms are aimed at strengthening the budgetary framework and improving monitoring of fiscal risks.** As key measures, the authorities will: 1) review the classification of the economic authorities in fiscal accounts to identify those that serve public policy objectives and incorporate them in the state budget; 2) in view of potentially significant exposure to contingent liabilities, strengthen the framework that governs the issuance and monitoring of state guarantees and prepare by January 31, 2017 a report on all outstanding state guarantees; 3) develop by June 2017 a road map for pension reforms, including a plan to address the implicit liabilities of the budget sector to the Social Insurance Fund; 4) introduce a medium-term budgeting framework with multi-year rolling ceilings for major spending categories with greater emphasis on programmatic budgeting; 5) prepare and present to Parliament a pre-budget statement on economic and public finance developments; and

6) develop by March 31, 2017 a fiscal risks statements covering macroeconomic risks, public enterprises, debt management, contingent liabilities, pensions, and resource mobilization.

Egypt: Fiscal Measures*	
	2016/2017
	(in percent of GDP)
Deficit reducing measures	3.9
Revenue	2.2
VAT	1.0
Tobacco and other excise duties	0.5
Tax administration and base broadening reforms	0.1
Dividends from public banks	0.2
Other tax and non tax	0.4
Expenditure	1.8
Electricity subsidy	0.6
Fuel subsidy	0.6
Other spending savings	0.5
Deficit increasing measures	-1.0
Expenditure	-1.0
Health, education, and research and development	-0.3
Food subsidies	-0.2
Takaful and Karama cash transfer programs	-0.1
Social Solidarity Pension	0.0
Social safety nets	-0.3
Net impact of measures on deficit	2.9

*Measures show the difference between the program values and baseline "zero policy change" estimates by the authorities. Measures may exceed savings relative to 2015/16 due to increases in baseline costs.

D. Energy Sector Reforms

30. **In addition to reducing subsidies, the Egyptian authorities are developing a comprehensive reform agenda for the energy sector (petroleum, electricity and gas).** The objective is to modernize the sector, including by improving the regulatory framework for enabling private investments, strengthening its finances, and promoting competition. This is particularly important in light of the ongoing development of new gas fields in the Nile delta and the Mediterranean. To this end the Ministry of Petroleum has retained an external consultant to conduct a diagnostic study. On the basis of this, by March 31, 2017 the authorities will develop a medium-term strategy for the energy sector reform.

31. **An integrated plan for restoring the financial sustainability of the state-owned Egyptian General Petroleum Company (EGPC) will be finalized by March 31, 2017.** EGPC's finances have deteriorated considerably since 2011, partly because of lower revenues but also because of growing operating costs. This has led to accumulation of \$3.6 billion in arrears to international oil companies, who are the main suppliers of fuel, and if left unaddressed could impose significant fiscal burden. The

EGPC modernization plan will incorporate the fuel subsidy reform, measures to improve efficiency, transparency and accountability of its operations, and a strategy to deal with the existing stock of arrears. Meanwhile, the EGPC will gradually reduce existing arrears and not accumulate new net arrears.

E. Financial Stability

32. **The authorities are confident that the banking system can weather the transition to the new exchange regime.** The CBE has conducted extensive stress tests prior to the devaluation to confirm that banks' capital and liquidity buffers were adequate to withstand devaluation and higher interest rates. The results of stress tests indicated that the banking system would remain sound, but also showed that in the event of a severe shock the capital adequacy ratio of a few small banks could fall below the Basel-recommended 10.5 percent. The implication of depreciation on banks' credit risk is expected to be moderate in light of relatively small dollarization of balance sheets of corporates and households. However, in the absence of sufficiently detailed bank data for stress tests, the staff cannot assess fully the risks to banks that could arise from a combination of currency depreciation and higher market interest rates. The CBE will monitor developments in banks carefully during the adjustment process, share banks' financial data with the Fund staff in the coming months and work closely with it to assess health of the banking sector and perform bank-by-bank stress tests as needed to mitigate any risks that may emerge. In this regard, the CBE's recent request for Fund technical assistance on stress testing is encouraging.

33. **The authorities are planning to further strengthen Egypt's regulatory framework and the crisis response capacity.** The CBE is reviewing its supervisory model with the view to implementing best international practices in line with Basel III principles, enhancing transparency, and promoting competition among banks. It is also planning to strengthen its capacity to monitor systemic risks, develop more sophisticated methods for stress-testing and early warning systems, and enhance governance, bank resolution, and emergency liquidity assistance frameworks.

F. Structural Reforms for Growth and Employment

34. **There are long-standing challenges of high unemployment and structural impediments to growth.** Unemployment has declined marginally in 2015/16, but at 12.7 percent remains high and is significantly higher for youth and women. Furthermore, historically labor force participation has been low by international standards and employment intensity of growth has been too weak to absorb Egypt's young and growing population. Egypt ranks 122 out of 190 in the World Bank's Doing Business Indicators, and excessive regulations and licensing requirements, barriers to trade, rigid labor markets, and lack of access to finance are among key structural impediments to growth, exports and employment that have been widely cited by businesses and external observers. They deter investment and depress potential output.

35. **In its program, the government has proposed an ambitious and wide ranging set of measures.** The government is planning a new licensing law, to be adopted by March 2017, which will: streamline industrial licensing for all businesses other than those serving vital public interests; make

factory permitting risk-based and delegate the function to local authorities; and simplify and limit the need for Civil Defense and Fire pre-approvals. This will reduce the complexity and time needed to obtain industrial licenses, which have been identified as key impediments to the development of the sector. The government is also proposing a new insolvency law, to be adopted by June 30, 2017, to simplify the time-consuming bankruptcy procedures and to de-criminalize insolvency. Further, the government will develop: a collateral registry to facilitate access to finance, which is among top complaints of SMEs; an action plan to rationalize the export-promotion regime and minimize non-tariff barriers to trade; and job intermediation schemes and specialized training programs for youth. It will also support women's labor force participation by spending about EGP250 million on improving the availability of public nurseries, and by studying how to improve the safety of public transportation.

PROGRAM ISSUES

36. **The access under the three-year EFF arrangement is proposed at SDR8.59657 billion (about \$12 billion, or 422 percent of quota).** With the policies outlined in the MEFP, staff projects the financing gaps of about \$35 billion for the next three years. Staff proposes that access be evenly distributed over the three fiscal years, but be frontloaded within the first year with a disbursement of SDR 1.97005 billion (about \$2.75 billion) on program approval. The proposed schedule of reviews and the corresponding disbursements are presented in Table 13. Given Egypt's limited access to international capital markets, the authorities request that Fund disbursements be used for budget support, which will help rebalance financing from domestic to foreign sources and thereby reduce fiscal pressure on the private sector. By the end of the program, the overall fiscal deficit is projected to be less than half of its 2015/16 level, and Egypt should be able to meet its financing needs through domestic and external borrowing without resorting to Fund budget support.

37. **Egypt's capacity to repay the Fund is adequate, but there are significant risks (¶¶14–15).** By the end of the arrangement in 2018/19 Fund credit outstanding as a share of gross reserves is projected to peak at 36 percent, after which it is expected to decline. Debt service to the Fund as a ratio of exports of goods and services would reach 0.6 percent in the same year (Table 11). The CBE and MoF have signed a memorandum of understanding on respective responsibilities for servicing the Fund credit to ensure uninterrupted repayments. The safeguards assessment will be completed before the first review.

38. **The program will be monitored through semi-annual reviews.** The first review will be based on the performance at end-December 2016, which is less than two months after the Board approval. Thereafter, as the macroeconomic situation stabilizes, semiannual reviews should become sufficient, especially given frequent reporting requirements. Risks to the program could also be mitigated through frequent staff visits and re-establishment of a resident representative office in Cairo after the start of the program. It sets performance criteria on net international reserves, net domestic assets of the CBE, the primary fiscal balance, fuel subsidies, and accumulation of external debt payment arrears, and indicative targets on average reserve money, tax revenues, and EGPC arrears (MEFP Table 1). The list of structural benchmarks is presented in MEFP Table 2.

39. **The prior actions that were chosen from the authorities' reform program, have been implemented.** The VAT law has been adopted in late August, and pump prices on gasoline and diesel have been raised by 35 percent on average to achieve an average pre-tax price-to-cost ratio of about 56 percent. The CBE devalued the exchange rate by 32.5 percent on November 3, issued a notice to banks allowing them to quote and trade at any exchange rate, raised policy interest rates by 300 basis points and offered EGP50 billion in longer term deposit auctions.

40. **The program is fully financed in 2016/17, but additional financing will need to be secured for 2017/18 and 2018/19.** With the proposed Fund disbursement schedule, the 2016/17 financing gap narrows to \$12.3 billion, for which financing assurances for the first 12-months of the extended arrangement have been secured as follows: \$2 billion from the World Bank's Development Policy Financing (\$1 billion was disbursed in early September upon adoption of the VAT law); \$0.5 billion from the African Development Bank, \$3.2 billion from rolling over loans from Afreximbank, \$1 billion from a UAE deposit, \$1.35 billion from a repo transaction with international commercial banks, \$950 million from the planned issuance of a Eurobond, \$2.7 billion from a currency swap with China, \$250 million from Germany, \$150 million from the U.K. and France each, and \$50 million from Japan. In addition, significant project financing is expected from France and Japan. The financing gaps for 2017/18 and 2018/19 are much smaller, and there are good prospects that they can be covered with multilateral support, rollovers of some maturing liabilities, and little fresh financing.

STAFF APPRAISAL

41. **Egypt is facing three interlinked problems: an urgent balance of payments problem, rising public debt, and the long-standing issue of low growth and high unemployment.** The balance of payments difficulties have been manifested in a high current account deficit, falling reserves, the emergence of a parallel exchange market, and foreign currency shortages. These have affected every aspect of life in Egypt, holding back growth and leading to scarcity of essential items. Rising public debt is a consequence of years of double-digit fiscal deficits, themselves a reasonable response to the post-revolution difficulties of the real economy, but now a luxury that Egypt cannot afford. Both actual and potential growth have fallen in recent years, leading to rising unemployment, which is especially high among women and young people.

42. **The program aims to solve all three problems.** Exchange rate depreciation and greater flexibility will improve the balance of payments, sustaining reserves and reducing vulnerability. It will also promote exports, thus increasing growth. The budget measures will reduce the deficit and put debt on a clearly declining path, while supporting the external adjustment. The key measures are the newly passed VAT and the resumption of fuel subsidies reform. Together these make it possible to reduce the deficit and strengthen social safety nets to protect the poor and vulnerable groups during the adjustment. Monetary policy will be geared to containing and then reducing inflation. Structural reforms that improve the business environment will raise potential growth and create jobs. Reforms designed to improve access to education and women's ability to participate in the work force will make growth more inclusive.

43. **The program is a break with the past in many important respects.** The exchange rate move recognizes that attempting to preserve an overvalued rate is unsustainable. Subsidies reform removes a preference for energy and capital intensive industries to make room for smaller and more labor-intensive businesses to grow. Civil service reform is designed to reverse the upward creep of the wage bill. The program also constitutes a transformation in the relationship between Egypt and the Fund, with the authorities committing to measures that the Fund can fully support, and the Fund supporting a home-grown program.

44. **Risks to the program are significant and much work remains to be done to ensure its successful implementation.** The CBE may come under pressure to limit exchange rate flexibility and it will be crucial to stay committed to program policies and targets. Exchange rate liberalization will take time to bear fruit and there will be volatility and uncertainty along the way. There will be pressures to weaken fiscal policy, which must be resisted if inflation and public debt are to be contained. Subsidies reform is both essential and difficult. The fuel price increases made by the authorities in November 2016 were significant, yet are barely enough to raise the price to cost ratio, given increases in world oil prices and the recent depreciation of the pound. The implemented increase, together with the authorities' commitment, provide a reassurance that the program objectives of increasing efficiency and reducing the fiscal burden can be achieved. Further significant increases in energy prices will be needed to achieve the authorities' goal of eliminating most subsidies in the coming years. Structural reform will take years, and may be at risk of erosion from vested interests. Resolute implementation of the program will be critical to rebuild international reserves, unify the foreign exchange market, and strengthen debt sustainability. Reform efforts will need to be stepped up to restore confidence and fully realize Egypt's growth potential.

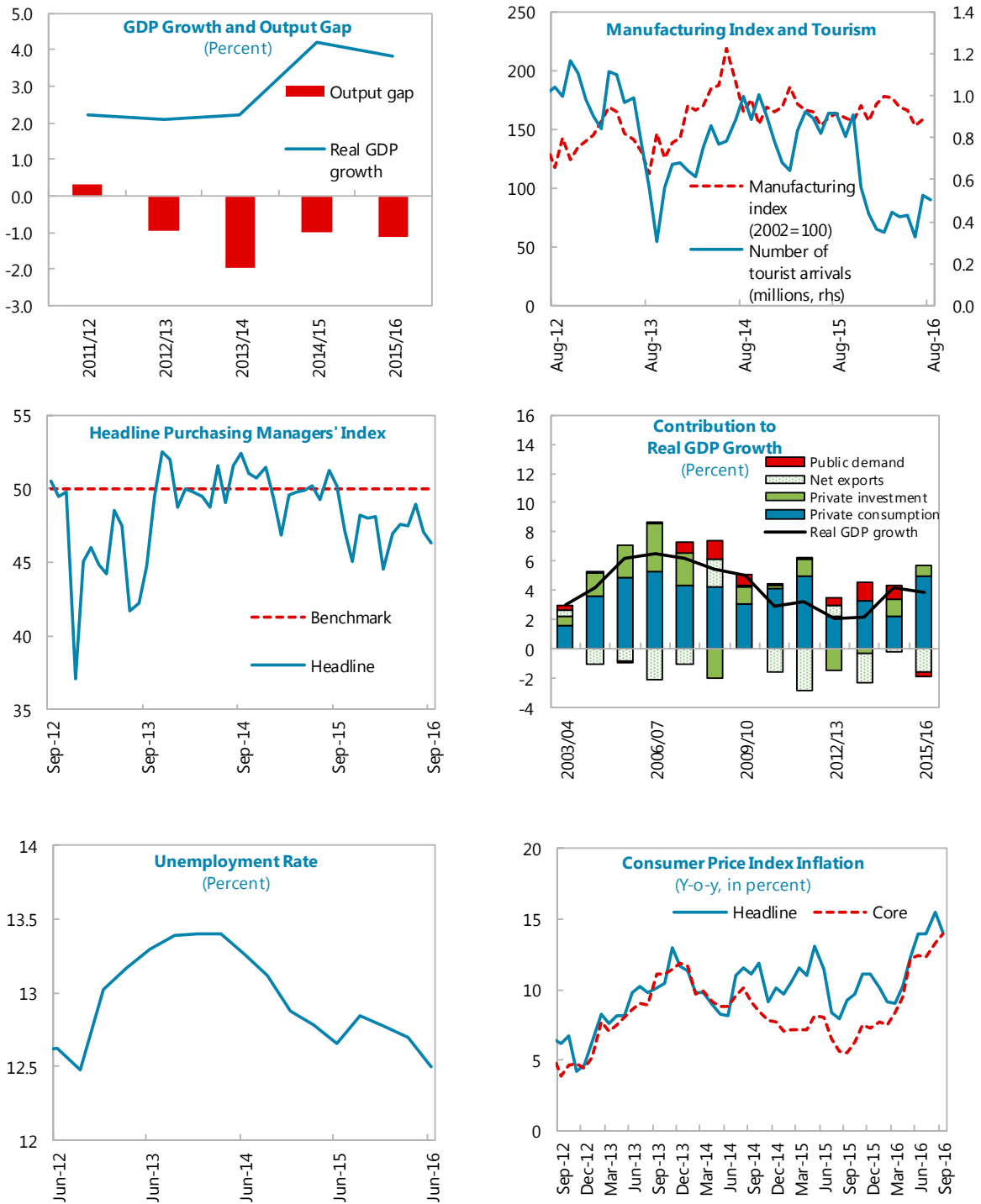
45. **There are also external risks.** Egypt's own security has been vulnerable to terrorism, and it is not immune from the crises of its neighbors. As Egypt re-engages with international financial markets global financial risks will matter more. As trade and tourism pick up, the performance of its trading partners will also be important.

46. **Financial support from Egypt's international partners is a critical element of this program.** The World Bank and the African Development Bank are strong partners in the process. Timely and generous support from China, UAE and the G7 countries have made it possible to close the financing gap and bring this program to the Board. Fresh financing and rollover of debts falling due will be needed in the outer years of the program, though the need for such support will taper off by the end of the program period.

47. **This program is also an opportunity.** With the enactment of the measures in this program, Egypt is moving in a new economic direction consistent with its important role in the Arab world and with the aspirations of a new generation of Egyptians who look outward. The restoration of macroeconomic stability will allow Egypt to put the economic turbulence of the post-revolution period behind it. Undertaking fundamental reforms of the exchange rate policy, fuel subsidies, the business climate, and the blockages which prevent vulnerable groups from engaging in the economy will also allow Egypt to address the problems of non-inclusive growth and economic inclusivity. The staff supports the authorities' request for a three-year EFF arrangement and the authorities' request for temporary

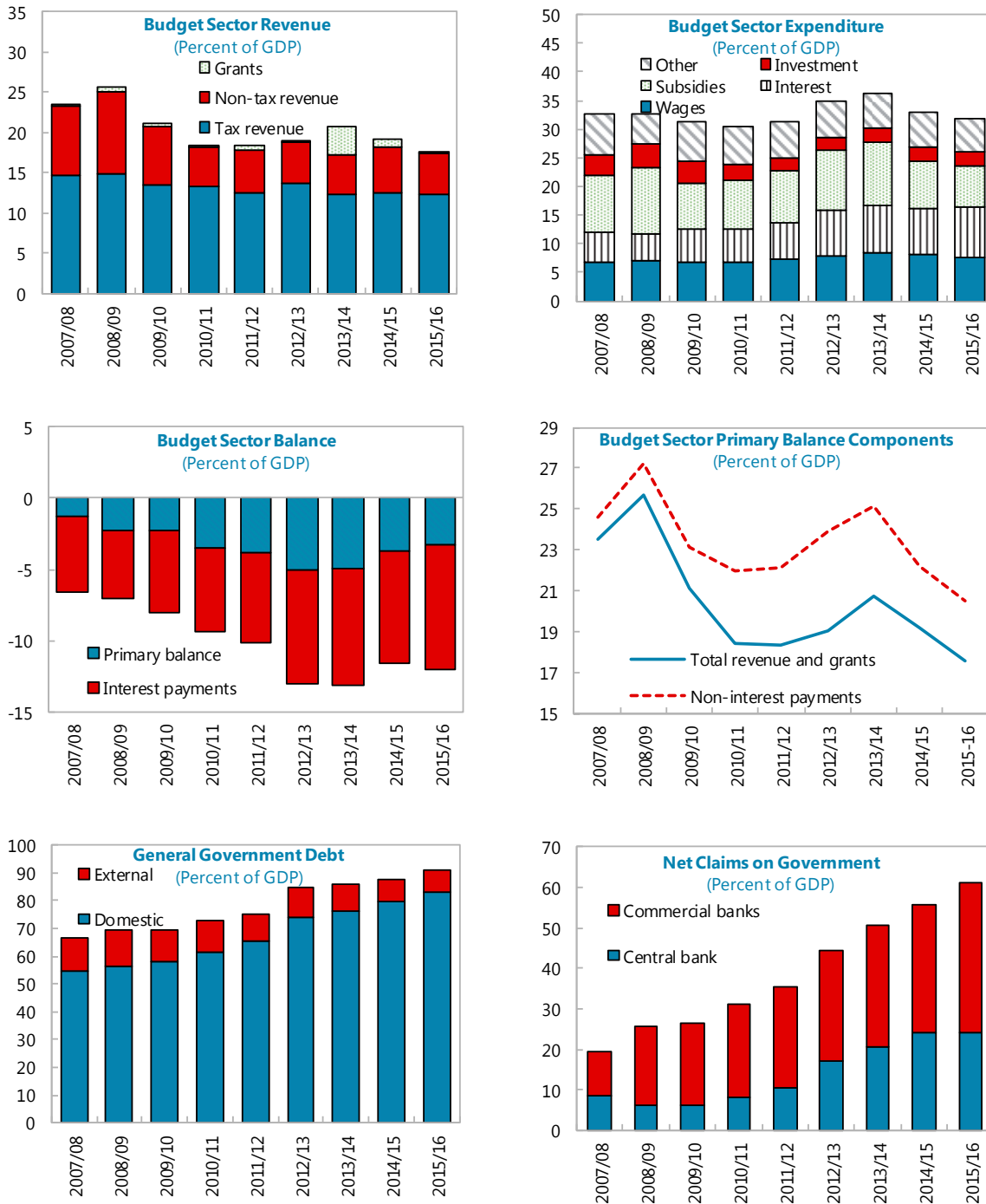
approval of the measure that gives rise to an MCP on the grounds that it does not discriminate against other members, does not harm the interest of other members, does not impede the member's balance of payment adjustment, and is temporary.

Figure 1. Egypt: Real Sector Developments



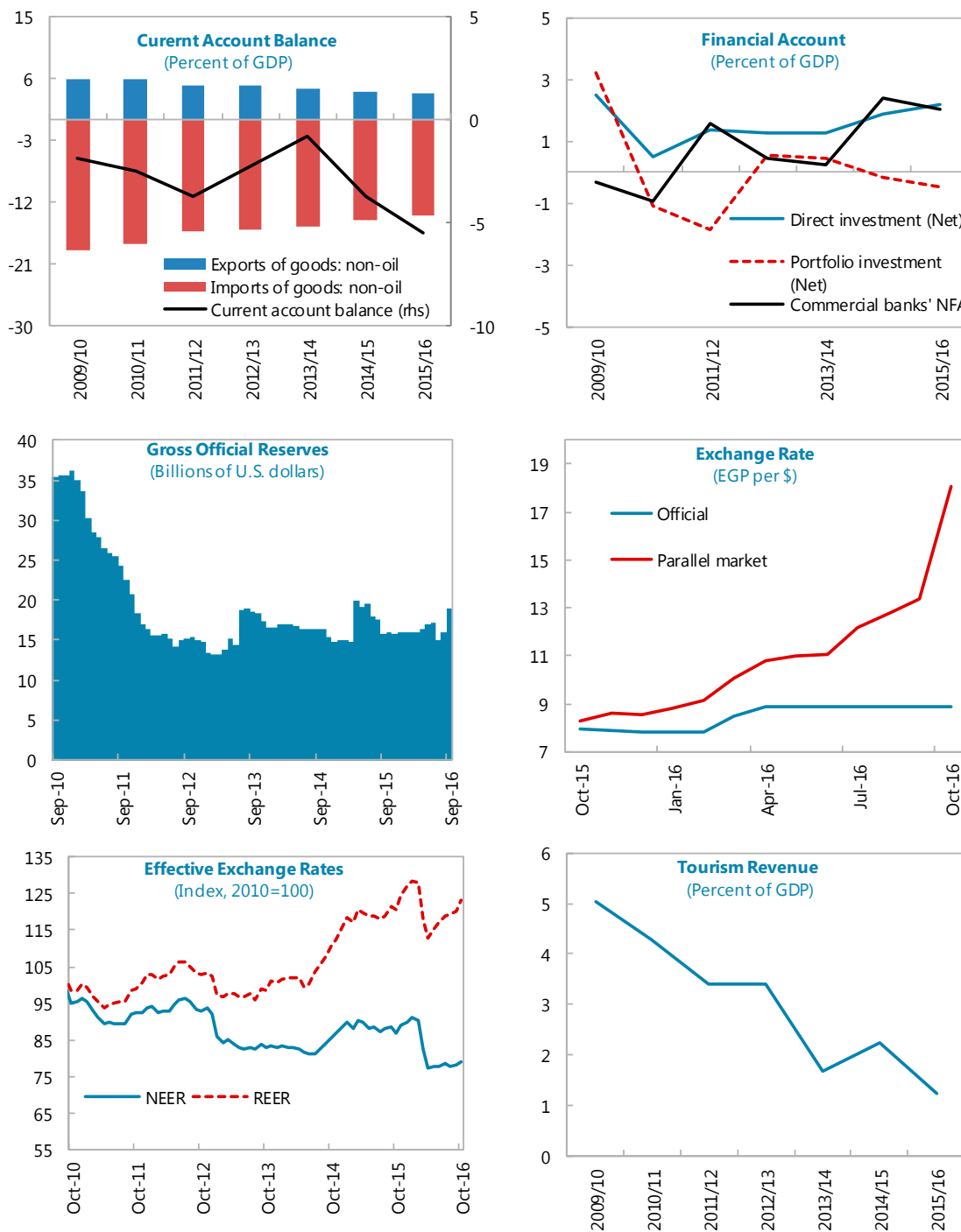
Sources: Egyptian authorities; IMF, *International Financial Statistics*; Bloomberg; Markit Economics; and IMF staff calculations and projections.

Figure 2. Egypt: Fiscal Sector Developments



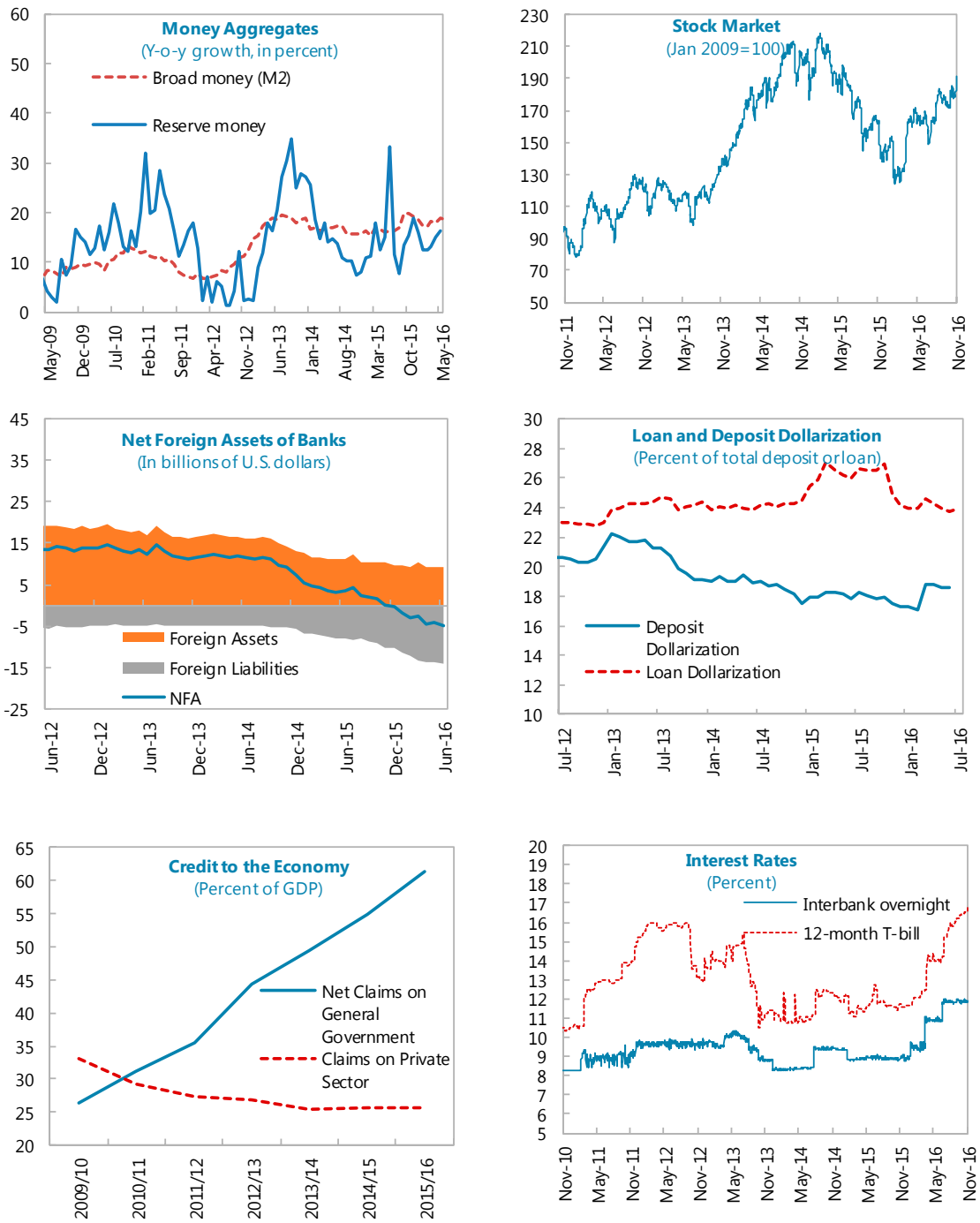
Sources: Egyptian authorities; IMF, *International Financial Statistics*; Bloomberg; and IMF staff calculations and projections.

Figure 3. Egypt: External Sector Developments



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

Figure 4. Egypt: Monetary Sector Developments



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

Table 1. Egypt: Selected Macroeconomic Indicators, 2011/12–2016/17^{1/}

	2011/12	2012/13	2013/14	2014/15	2015/16 Prel.	2016/17 Proj.
Output and prices						
Real GDP (market prices)	2.2	2.1	2.2	4.2	3.8	4.0
Consumer prices (end of period)	7.3	9.8	8.2	11.4	14.0	16.6
Consumer prices (period average)	8.6	6.9	10.1	11.0	10.2	18.2
Public finances						
General government 2/						
Revenue and grants	21.1	21.9	23.7	21.9	20.3	25.5
Expenditure (incl. net acquisition of financial assets)	31.1	35.3	36.7	33.5	32.0	33.1
<i>Of which</i> : Interest	5.6	7.3	7.6	7.3	8.1	8.7
Overall balance	-10.0	-13.4	-12.9	-11.5	-12.0	-10.0
Overall balance, excl. grants	-10.6	-13.7	-16.5	-12.6	-12.2	-10.1
Primary balance	-4.9	-6.3	-5.8	-4.8	-4.4	-1.8
Gross Debt	74.6	84.8	86.3	89.0	94.6	93.8
External	9.3	10.8	9.9	8.0	7.7	10.1
Domestic	65.3	74.0	76.4	81.0	86.8	83.7
Budget sector 3/						
Revenue and grants	18.3	19.0	20.8	19.1	17.6	22.9
Expenditure (incl. net acquisition of financial assets)	28.4	32.0	33.9	30.6	29.4	30.5
<i>Of which</i> : Fuel subsidies	5.8	7.0	6.6	4.0	3.0	2.6
<i>Of which</i> : Food subsidies	1.8	1.8	1.7	1.7	1.5	1.4
Overall balance	-10.1	-13.0	-13.1	-11.5	-12.1	-10.0
Overall balance, excl. grants	-10.7	-13.3	-16.7	-12.5	-12.3	-10.1
Primary balance	-3.8	-5.1	-4.9	-3.7	-3.5	-0.9
Monetary sector						
Credit to the private sector	7.1	9.8	7.4	16.7	14.2	8.3
Reserve money 6/	5.1	20.4	14.8	33.3	-1.6	16.1
Broad money (M2)	8.3	18.4	17.1	16.4	18.6	16.7
Treasury bill rate, 3 month (average, in percent)	13.4	13.4	10.9	11.4	11.8	19.7
External sector						
Exports of goods (in US\$, percentage change)	-7.1	7.6	-3.2	-15.5	-15.2	12.8
Imports of goods (in US\$, percentage change)	2.7	2.4	3.7	1.7	-7.4	1.7
Merchandise trade balance	-11.3	-10.8	-11.2	-11.7	-11.0	-12.5
Current account	-3.7	-2.2	-0.8	-3.7	-5.5	-5.2
Capital and financial account (incl. errors and omissions)	-3.7	1.1	0.9	5.5	4.6	1.7
Foreign direct investment (net, in billions of US\$)	3.7	3.6	3.8	6.1	6.7	9.4
External debt 4/	12.5	15.1	15.3	14.3	14.0	22.9
Gross international reserves (in billions of US\$)	15.2	14.5	16.3	19.5	17.1	22.0
In months of next year's imports of goods and services	2.7	2.5	2.7	3.6	3.1	3.7
In percent of short-term external debt 5/	308.8	138.1	191.9	280.6	267.8	283.1
Financing gap (in billions of US\$)	...	...	...	...	0.0	16.3
Memorandum items:						
Nominal GDP (in billions of Egyptian pounds)	1,656.6	1,843.8	2,101.9	2,429.8	2,777.8	3,434.1
Nominal GDP (in billions of US\$)	275.8	285.4	301.5	330.2	...	...
GDP per capita (in US\$)	3,347	3,370	3,478	3,710	...	...
Unemployment rate (period average, percent)	12.4	13.0	13.4	12.9	12.7	12.3
Poverty rate (percent)	n.a.	26.3	...	...	...	...
Population (in millions)	82.4	84.7	86.7	89.0	90.2	92.3

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

1/ Fiscal year ends June 30.

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

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

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

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

Table 2. Egypt: Balance of Payments, 2011/12–2020/21

(In billions of US\$, unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Prel.			Projections		
Current account	-10.1	-6.4	-2.4	-12.2	-18.7	-14.9	-13.6	-10.1	-10.0	-9.3
Balance on goods and services	-19.2	-18.2	-25.4	-28.0	-31.1	-26.7	-27.0	-24.4	-25.0	-24.5
Exports of goods and services	45.7	49.0	43.6	43.9	34.8	39.5	44.3	49.5	54.5	60.2
Imports of goods and services	-64.9	-67.3	-69.0	-71.9	-65.9	-66.2	-71.2	-73.9	-79.4	-84.6
Trade balance	-31.3	-30.7	-33.7	-38.8	-37.6	-36.2	-38.7	-39.0	-41.5	-43.5
Oil trade balance	-0.5	0.9	-0.8	-3.7	-3.6	-4.6	-5.0	-3.9	-4.1	-4.7
Non-oil trade balance	-30.7	-31.6	-32.9	-35.1	-34.0	-31.6	-33.7	-35.2	-37.4	-38.8
Exports of goods	25.1	27.0	26.1	22.1	18.7	21.1	22.9	24.7	27.0	29.7
Oil	11.2	13.0	12.5	8.7	5.7	6.8	7.3	7.5	7.9	8.2
Other	13.8	14.0	13.7	13.4	13.0	14.3	15.6	17.1	19.1	21.5
Imports of goods	-56.3	-57.7	-59.8	-60.8	-56.3	-57.3	-61.5	-63.7	-68.5	-73.2
Oil	-11.8	-12.1	-13.2	-12.4	-9.3	-11.4	-12.3	-11.4	-12.1	-12.9
Other	-44.5	-45.6	-46.6	-48.5	-47.0	-45.9	-49.2	-52.3	-56.4	-60.4
Services (net)	5.6	5.0	1.0	4.7	2.1	3.8	6.1	8.6	9.9	11.4
Total Receipts	20.9	22.2	17.6	22.0	16.5	18.7	21.8	25.2	27.9	30.9
Of which: Tourism receipts	9.4	9.8	5.1	7.4	3.8	4.6	6.5	8.5	9.7	11.1
Of which: Suez canal receipts	5.2	5.0	5.4	5.4	5.1	5.3	5.8	6.3	6.7	7.2
Total payments	-15.3	-17.2	-16.7	-17.3	-14.4	-14.9	-15.7	-16.6	-18.0	-19.6
Of which: Investment income	-6.7	-7.6	-7.5	-6.2	-4.9	-6.0	-6.0	-6.4	-7.1	-8.2
Transfers	18.4	19.3	30.4	21.9	16.9	17.5	19.0	20.3	21.6	22.9
Official grants	0.6	0.8	11.9	2.7	0.1	0.1	0.1	0.1	0.1	0.1
Of which: Official grants from GCC countries	...	...	9.9	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Private remittances	17.8	18.4	18.4	19.2	16.8	17.4	18.9	20.2	21.5	22.7
Capital and financial account	1.0	9.8	4.9	17.6	19.9	5.0	12.9	7.0	11.1	14.1
Medium- and long-term loans (net)	-0.3	0.7	-1.4	-0.8	0.4	2.8	7.3	4.2	3.6	3.5
Drawings	1.7	2.8	0.8	1.5	3.0	7.3	9.4	6.1	6.2	6.4
Amortization 1/	2.0	2.0	2.2	2.3	2.7	4.5	2.1	1.9	2.6	3.0
FDI (net)	3.7	3.6	3.8	6.1	6.7	9.4	10.4	11.5	11.9	12.9
Portfolio investment (net)	-5.2	1.5	1.3	-0.6	-1.1	0.0	2.0	3.0	1.1	3.0
Commercial banks' NFA	4.3	1.3	0.7	8.0	8.3	-2.0	-3.0	-3.0	-3.0	-5.0
Other (including short-term capital and central bank deposits)	-1.5	2.7	0.3	5.0	5.7	-5.1	-3.8	-8.7	-2.4	-0.2
Of which: Deposits from GCC countries	1.0	5.5	10.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions (net) 2/	-8.5	-3.0	-0.8	0.6	-4.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-17.6	0.4	1.8	6.1	-2.8	-9.9	-0.7	-3.1	1.1	4.8
Financing	17.6	-0.4	-1.8	-6.1	2.8	-6.1	-8.2	-5.1	-0.4	-4.2
Reserves ("-" indicates increase)	11.3	-0.2	-1.8	-3.3	2.5	-4.9	-7.0	-4.0	-0.4	-4.2
Change in arrears ("-" indicates decrease) 3/	6.3	-0.2	-0.3	-2.4	0.0	-1.2	-1.2	-1.1	0.0	0.0
Financing gap	...	...	...	0.0	0.0	16.3	9.4	8.9	0.0	0.0
Net financing gap	0.0	0.0	0.0	0.0	0.0	16.0	8.9	8.2	0.0	0.0
Memorandum items:										
Current account excluding grants	-10.8	-7.2	-14.3	-14.9	-18.8	-15.0	-13.7	-10.2	-10.2	-9.4
Non-energy export volume growth (in percent)	-10.7	2.3	-0.1	1.4	1.8	10.3	7.5	9.5	10.5	12.2
Non-energy import volume growth (in percent)	0.6	-2.1	5.2	9.9	1.7	3.1	2.7	3.4	6.1	5.1
Terms of trade (percent change)	1.7	0.5	0.2	-4.9	-5.9	1.2	2.2	0.5	0.5	0.6
Gross international reserves (end of period)	15.2	14.5	16.3	19.5	17.1	22.0	29.0	33.0	33.4	37.6
In months of next year's imports of goods and services	2.7	2.5	2.7	3.6	3.1	3.7	4.7	5.0	4.7	6.9
External debt 4/	34.4	43.2	46.1	47.2	47.6	66.0	82.3	94.9	98.7	102.4
External debt service	2.6	2.8	2.9	2.9	3.4	5.8	3.5	3.4	3.6	4.0
External debt service (in percent of exports of GNFS)	3.3	2.6	3.3	3.8	5.5	8.0	1.4	0.8	3.0	3.3
Stock of external arrears	6.3	6.2	5.9	3.5	3.5	2.3	1.1	0.0	0.0	0.0
Real effective exchange rate (period average, percentage change)	3.0	-1.2	-0.4	14.1	5.9	...	...	...	...	...

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

1/ Includes the amortization of official external financing from Gulf Cooperation Council (GCC) countries and EGPC arrears.

2/ In 2010/11 to 2012/13, includes accumulation of EGPC arrears.

3/ EGPC arrears.

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

Table 3. Egypt: Balance of Payments, 2011/12–2020/21

(In percent of GDP, unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Prel.	Projections				
Current account	-3.7	-2.2	-0.8	-3.7	-5.5	-5.2	-4.4	-3.0	-2.8	-2.4
Balance on goods and services	-7.0	-6.4	-8.4	-8.5	-9.1	-9.3	-8.8	-7.2	-6.9	-6.2
Exports of goods and services	16.6	17.2	14.4	13.3	10.2	13.7	14.5	14.7	15.0	15.2
Imports of goods and services	-23.5	-23.6	-22.9	-21.8	-19.3	-22.9	-23.3	-21.9	-21.8	-21.4
Trade balance	-11.3	-10.8	-11.2	-11.7	-11.0	-12.5	-12.6	-11.6	-11.4	-11.0
Oil trade balance	-0.2	0.3	-0.3	-1.1	-1.1	-1.6	-1.6	-1.1	-1.1	-1.2
Non oil trade balance	-11.1	-11.1	-10.9	-10.6	-10.0	-10.9	-11.0	-10.4	-10.3	-9.8
Exports	9.1	9.5	8.7	6.7	5.5	7.3	7.5	7.3	7.4	7.5
Oil	4.1	4.6	4.1	2.6	1.7	2.3	2.4	2.2	2.2	2.1
Other	5.0	4.9	4.5	4.0	3.8	5.0	5.1	5.1	5.2	5.5
Imports	-20.4	-20.2	-19.8	-18.4	-16.5	-19.9	-20.1	-18.9	-18.8	-18.6
Oil	-4.3	-4.2	-4.4	-3.7	-2.7	-3.9	-4.0	-3.4	-3.3	-3.3
Other	-16.2	-16.0	-15.4	-14.7	-13.8	-15.9	-16.1	-15.5	-15.5	-15.3
Services (net)	2.0	1.8	0.3	1.4	0.6	1.3	2.0	2.5	2.7	2.9
Total receipts	7.6	7.8	5.8	6.7	4.8	6.5	7.1	7.5	7.7	7.8
<i>Of which:</i> Tourism receipts	3.4	3.4	1.7	2.2	1.1	1.6	2.1	2.5	2.7	2.8
<i>Of which:</i> Suez canal dues	1.9	1.8	1.8	1.6	1.5	1.8	1.9	1.9	1.9	1.8
Total payments	-5.5	-6.0	-5.5	-5.2	-4.2	-5.2	-5.1	-4.9	-4.9	-5.0
<i>Of which:</i> Investment income	-2.4	-2.7	-2.5	-1.9	-1.4	-2.1	-2.0	-1.9	-1.9	-2.1
Transfers	6.7	6.7	10.1	6.6	5.0	6.1	6.2	6.0	5.9	5.8
Official grants	0.2	0.3	4.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
<i>Of which:</i> Official grants from GCC countries	...	...	3.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Private remittances	6.4	6.5	6.1	5.8	4.9	6.0	6.2	6.0	5.9	5.8
Capital and financial account	0.4	3.4	1.6	5.3	5.8	1.7	4.2	2.1	3.1	3.6
Medium- and long-term loans (net)	-0.1	0.3	-0.5	-0.2	0.1	1.0	2.4	1.2	1.0	0.9
Drawings	0.6	1.0	0.3	0.4	0.9	2.5	3.1	1.8	1.7	1.6
Amortization 1/	0.7	0.7	0.7	0.7	0.8	1.5	0.7	0.6	0.7	0.7
FDI (net)	1.4	1.3	1.3	1.9	2.0	3.2	3.4	3.4	3.3	3.3
Portfolio investment (net)	-1.9	0.5	0.4	-0.2	-0.3	0.0	0.7	0.9	0.3	0.8
Commercial banks' NFA	1.6	0.5	0.2	2.4	2.4	-0.7	-1.0	-0.9	-0.8	-1.3
Other (including short-term capital and central bank deposits)	-0.5	1.0	0.1	1.5	1.7	-1.8	-1.2	-2.6	-0.7	-0.1
<i>Of which:</i> Deposits from GCC countries	0.4	1.9	3.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions (net) 2/	-3.1	-1.0	-0.3	0.2	-1.2	0.0	0.0	0.0	0.0	0.0
Overall balance	-6.4	0.1	0.6	1.8	-0.8	-3.4	-0.2	-0.9	0.3	1.2
Financing	6.4	-0.1	-0.6	-1.8	0.8	-2.1	-2.7	-1.5	-0.1	-1.1
Reserves ("-" indicates increase)	4.1	-0.1	-0.6	-1.0	0.7	-1.7	-2.3	-1.2	-0.1	-1.1
Change in arrears ("-" indicates decrease) 3/	2.3	-0.1	-0.1	-0.7	0.0	-0.4	-0.4	-0.3	0.0	0.0
Financing gap	...	...	...	0.0	0.0	5.6	3.1	2.6	0.0	0.0
Net financing gap	0.0	0.0	0.0	0.0	0.0	5.5	2.9	2.4	0.0	0.0
Memorandum items:										
Current account excluding grants	-3.9	-2.5	-4.7	-4.5	-5.5	-5.2	-4.5	-3.0	-2.8	-2.4
Gross international reserves (end of period)	5.5	5.1	5.4	5.9	5.0	7.6	9.5	9.8	9.2	9.5
External debt 4/	12.5	15.1	15.3	14.3	14.0	22.9	26.9	28.2	27.1	25.9
External debt service	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1

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

1/ Includes the amortization of official external financing from Gulf Cooperation Council (GCC) countries and EGPC arrears.

2/ For FY 2010/11 to FY 2012/13, includes EGPC arrears.

3/ EGPC arrears.

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

Table 4. Egypt: Budget Sector Operations, 2011/12–2020/21^{1/}

(In billions of Egyptian pounds, unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Prel.			Projections		
Revenue and grants	303.6	350.3	436.3	465.3	487.9	710.2	769.7	909.4	1023.4	1171.5
Tax revenue	207.4	251.1	260.3	306.0	339.4	473.2	584.4	694.2	793.7	913.5
Income and property	104.3	134.2	139.7	150.9	160.4	202.5	257.1	309.5	349.0	421.1
Personal income tax	21.7	26.2	31.4	38.2	43.9	56.5	73.1	92.2	107.7	130.7
Corporate income tax	69.5	91.5	89.5	91.6	87.9	108.1	135.0	168.5	200.1	248.4
EGPC	34.1	45.8	46.1	36.0	20.2	26.3	30.0	41.7	51.9	57.0
Other	35.5	45.7	43.5	55.6	67.7	81.8	105.0	126.9	148.3	191.4
Property	13.1	16.5	18.8	21.1	28.6	37.9	49.0	48.8	41.1	42.0
Goods and services	84.6	92.9	91.9	122.9	141.3	218.2	273.2	328.4	381.7	428.2
Oil excises	10.6	13.4	5.1	13.4	14.6	11.7	12.6	13.5	14.6	15.5
GST and nonoil excises	74.0	79.6	86.8	109.5	126.7	206.5	260.7	314.9	367.2	412.7
International trade	14.8	16.8	17.7	21.9	26.7	36.7	38.5	40.4	47.0	48.2
Other taxes	3.7	7.2	11.1	10.2	11.0	15.8	15.6	16.0	16.0	16.0
Nontax revenue	86.1	94.0	100.6	133.8	144.3	234.8	183.1	212.9	227.5	255.8
Oil-related nontax revenue	17.8	21.7	23.5	31.4	27.2	18.9	20.3	32.3	42.0	47.7
Other nontax revenues	68.3	72.3	77.1	102.4	117.1	215.9	162.8	180.6	185.5	208.1
Of which: interest income	1.1	0.8	0.7	3.4	1.9	2.4	2.4	2.4	2.4	2.4
Grants	10.1	5.2	75.4	25.5	4.2	2.2	2.2	2.2	2.2	2.2
Expenditure	471.0	588.2	701.5	733.3	810.2	1043.3	1106.5	1180.6	1223.4	1381.1
Wages and other remunerations	122.8	143.0	178.6	198.5	212.0	228.7	255.3	281.4	307.1	334.3
Purchases of goods and services	26.8	26.7	27.2	31.3	33.2	44.2	59.0	73.5	86.2	109.9
Interest	104.4	147.0	173.1	193.0	241.5	315.8	384.5	378.0	340.1	366.4
Domestic	101.0	143.1	168.2	188.3	236.5	290.9	359.7	355.8	314.4	340.7
External	3.4	3.9	5.0	4.7	5.0	24.8	24.9	22.2	25.6	25.7
Subsidies, grants, and social benefits	150.2	197.1	228.6	198.6	201.1	246.4	250.7	266.3	284.0	340.3
Energy subsidies	95.5	128.6	139.5	97.5	84.4	91.0	56.3	29.2	23.3	25.0
Of which: fuel subsidy	95.5	120.0	126.2	73.9	51.0	62.2	36.5	19.0	21.8	25.0
Food subsidies 2/	30.3	32.6	36.1	40.7	41.5	48.5	51.0	53.2	53.4	54.4
Transfer to SIF	6.2	16.4	29.2	33.2	43.9	52.5	71.8	93.2	114.8	144.7
Other	-77.4	-108.9	23.8	27.1	31.3	54.4	71.6	90.8	92.5	116.3
Other current	30.8	35.0	41.1	50.3	54.3	58.3	62.6	68.6	75.2	82.8
Investment	35.9	39.5	52.9	61.7	68.1	149.9	94.4	112.6	130.8	147.4
Cash balance	-167.4	-237.9	-265.2	-268.0	-322.3	-333.1	-336.8	-271.2	-200.0	-209.5
Net acquisition of financial assets	-0.7	1.9	10.7	11.3	14.5	11.7	3.9	7.2	30.0	30.0
Overall balance (IMF staff definition)	-166.7	-239.8	-275.9	-279.3	-336.8	-344.8	-340.7	-278.3	-230.0	-239.5
Overall balance (authorities' definition) 3/	-166.7	-239.8	-255.4	-274.3	-336.8	-344.8	-340.7	-278.3	-230.0	-239.5
Financing	166.7	239.8	275.9	279.3	336.8	256.1	267.3	222.3	230.0	239.5
Net domestic	182.4	270.6	277.3	272.9	341.3	314.7	296.3	250.5	233.2	245.0
Bank	146.4	221.3	244.4	214.8	296.9	259.8	231.0	175.0	147.7	147.9
Nonbank	36.0	49.3	33.0	58.1	44.4	54.9	65.3	75.5	85.5	97.1
Net external	-9.1	20.3	4.0	-0.8	-4.5	-58.6	-29.0	-28.2	-3.2	-5.5
Financing gap	0.0	0.0	0.0	0.0	0.0	88.7	73.4	56.1	0.0	0.0
Memorandum items:										
Total measures included (cumulative, deficit reducing)						101.0	199.7	251.9	240.8	254.5
Revenue measures						74.9	161.2	215.2	195.9	255.2
Energy subsidy reforms						41.5	106.2	152.1	192.9	210.6
Of which: fuel subsidy						17.5	65.2	98.0	136.6	152.4
Other spending						17.3	19.3	21.2	23.2	25.2
Social spending measures ("-" shows increased spending)						-32.6	-87.1	-136.6	-171.1	-236.5
Primary balance	-62.3	-92.8	-102.8	-86.3	-95.3	-29.0	43.9	99.7	110.1	126.9
Oil balance 4/	-33.0	-47.6	-64.8	-16.7	-22.4	-34.2	6.5	58.3	85.1	95.3
Financing gap (in billions of US\$)	0.0	0.0	0.0	0.0	0.0	7.5	5.5	4.0	0.0	0.0
Gross budget sector debt 5/	1,308.4	1,641.5	1,904.8	2,275.8	2,770.4	3,398.2	3,820.5	4,193.7	4,526.3	4,877.4
Gross general government debt	1,235.9	1,563.1	1,813.2	2,161.8	2,628.7	3,219.6	3,640.8	4,056.7	4,419.3	4,755.8
Overall balance net of one-off measures	-166.7	-239.8	-275.9	-279.3	-336.8	-344.8	-340.7	-278.3	-230.0	-239.5
Nominal GDP (in billions of Egyptian pounds)	1,656.6	1,843.8	2,101.9	2,429.8	2,777.8	3,434.1	4,084.7	4,725.7	5,350.2	6,076.1

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Food subsidies include subsidies paid to farmers.

3/ The authorities accounted as grants in 2013/14 and 2014/15 the transfer to the budget of special deposits held at the CBE received from abroad following the 1991 Gulf War. Staff recorded these amounts as central bank financing below the line, consistent with GFSM principles.

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

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

Table 5. Egypt: Budget Sector Operations, 2011/12–2020/21^{1/}

(In percent of GDP)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Prel.			Projections		
Revenue and grants	18.3	19.0	20.8	19.1	17.6	20.7	18.8	19.2	19.1	19.3
Tax revenue	12.5	13.6	12.4	12.6	12.2	13.8	14.3	14.7	14.8	15.0
Income and corporate tax	6.3	7.3	6.6	6.2	5.8	5.9	6.3	6.5	6.5	6.9
Personal income tax	1.3	1.4	1.5	1.6	1.6	1.6	1.8	2.0	2.0	2.2
Corporate income tax	4.2	5.0	4.3	3.8	3.2	3.1	3.3	3.6	3.7	4.1
EGPC	2.1	2.5	2.2	1.5	0.7	0.8	0.7	0.9	1.0	0.9
Other	2.1	2.5	2.1	2.3	2.4	2.4	2.6	2.7	2.8	3.2
Property	0.8	0.9	0.9	0.9	1.0	1.1	1.2	1.0	0.8	0.7
Goods and services	5.1	5.0	4.4	5.1	5.1	6.4	6.7	6.9	7.1	7.0
Oil excises	0.6	0.7	0.2	0.6	0.5	0.3	0.3	0.3	0.3	0.3
GST and nonoil excises	4.5	4.3	4.1	4.5	4.6	6.0	6.4	6.7	6.9	6.8
International trade	0.9	0.9	0.8	0.9	1.0	1.1	0.9	0.9	0.9	0.8
Other taxes	0.2	0.4	0.5	0.4	0.4	0.5	0.4	0.3	0.3	0.3
Nontax revenue	5.2	5.1	4.8	5.5	5.2	6.8	4.5	4.5	4.3	4.2
Oil-related nontax revenue	1.1	1.2	1.1	1.3	1.0	0.5	0.5	0.7	0.8	0.8
Other nontax revenues	4.1	3.9	3.7	4.2	4.2	6.3	4.0	3.8	3.5	3.4
Of which: interest income	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Grants	0.6	0.3	3.6	1.1	0.2	0.1	0.1	0.0	0.0	0.0
Expenditure	28.4	31.9	33.4	30.2	29.2	30.4	27.1	25.0	22.9	22.7
Wages and other remunerations	7.4	7.8	8.5	8.2	7.6	6.7	6.3	6.0	5.7	5.5
Purchases of goods and services	1.6	1.4	1.3	1.3	1.2	1.3	1.4	1.6	1.6	1.8
Interest	6.3	8.0	8.2	7.9	8.7	9.2	9.4	8.0	6.4	6.0
Domestic	6.1	7.8	8.0	7.7	8.5	8.5	8.8	7.5	5.9	5.6
External	0.2	0.2	0.2	0.2	0.2	0.7	0.6	0.5	0.5	0.4
Subsidies, grants and social benefits	9.1	10.7	10.9	8.2	7.2	7.2	6.1	5.6	5.3	5.6
Energy subsidies	5.8	7.0	6.6	4.0	3.0	2.6	1.4	0.6	0.4	0.4
Of which: fuel subsidy	5.8	6.5	6.0	3.0	1.8	1.8	0.9	0.4	0.4	0.4
Food subsidies 2/	1.8	1.8	1.7	1.7	1.5	1.4	1.2	1.1	1.0	0.9
Transfers to SIF	0.4	0.9	1.4	1.4	1.6	1.5	1.8	2.0	2.1	2.4
Other	-4.7	-5.9	1.1	1.1	1.1	1.6	1.8	1.9	1.7	1.9
Other current	1.9	1.9	2.0	2.1	2.0	1.7	1.5	1.5	1.4	1.4
Investment	2.2	2.1	2.5	2.5	2.5	4.4	2.3	2.4	2.4	2.4
Cash balance	-10.1	-12.9	-12.6	-11.0	-11.6	-9.7	-8.2	-5.7	-3.7	-3.4
Net acquisition of financial assets	0.0	0.1	0.5	0.5	0.5	0.3	0.1	0.2	0.6	0.5
Overall balance (IMF staff definition)	-10.1	-13.0	-13.1	-11.5	-12.1	-10.0	-8.3	-5.9	-4.3	-3.9
Overall balance (authorities' definition) 3/	-10.1	-13.0	-12.2	-11.3	-12.1	-10.0	-8.3	-5.9	-4.3	-3.9
Financing	10.1	13.0	13.1	11.5	12.1	7.5	6.5	4.7	4.3	3.9
Net domestic	11.0	14.7	13.2	11.2	12.3	9.2	7.3	5.3	4.4	4.0
Bank	8.8	12.0	11.6	8.8	10.7	7.6	5.7	3.7	2.8	2.4
Nonbank	2.2	2.7	1.6	2.4	1.6	1.6	1.6	1.6	1.6	1.6
Net external	-0.5	1.1	0.2	0.0	-0.2	-1.7	-0.7	-0.6	-0.1	-0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	2.6	1.8	1.2	0.0	0.0
Memorandum items:										
Total measures included (cumulative, deficit reducing)						2.9	4.9	5.3	4.5	4.2
Revenue measures						2.2	3.9	4.6	3.7	4.2
Energy subsidy reforms						1.2	2.6	3.2	3.6	3.5
Of which: fuel subsidies						0.5	1.6	2.1	2.6	2.5
Other spending						0.5	0.5	0.4	0.4	0.4
Social spending measures ("-" shows increased spending)						-1.0	-2.1	-2.9	-3.2	-3.9
Primary balance	-3.8	-5.0	-4.9	-3.6	-3.4	-0.8	1.1	2.1	2.1	2.1
Oil balance 4/	-2.0	-2.6	-3.1	-0.7	-0.8	-1.0	0.2	1.2	1.6	1.6
Gross budget sector debt 5/	79.0	89.0	90.6	93.7	99.7	99.0	93.5	88.7	84.6	80.3
Nominal GDP (in billions of Egyptian pounds)	1,656.6	1,843.8	2,101.9	2,429.8	2,777.8	3,434.1	4,084.7	4,725.7	5,350.2	6,076.1

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Food subsidies include subsidies paid to farmers.

3/ The authorities accounted as grants in 2013/14 and 2014/15 the transfer to the budget of special deposits held at the CBE received from abroad following the 1991 Gulf War. Staff recorded these amounts as central bank financing below the line, consistent with GFSM principles.

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

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

Table 6. Egypt: General Government Operations, 2011/12–2020/21^{1/}

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Prel.		Projections			
(In billions of Egyptian pounds)										
Revenue and grants	348.9	403.6	498.9	533.2	564.8	799.1	877.8	1,024.0	1,138.3	1,300.8
Tax revenue	207.4	251.1	260.3	306.0	339.4	473.2	584.4	694.2	793.7	913.5
Income and property	104.3	134.2	139.7	150.9	160.4	202.5	257.1	309.5	349.0	421.1
Personal income tax	21.7	26.2	31.4	38.2	43.9	56.5	73.1	92.2	107.7	130.7
Corporate income tax	69.5	91.5	89.5	91.6	87.9	108.1	135.0	168.5	200.1	248.4
EGPC	34.1	45.8	46.1	36.0	20.2	26.3	30.0	41.7	51.9	57.0
Other	35.5	45.7	43.5	55.6	67.7	81.8	105.0	126.9	148.3	191.4
Goods and services	84.6	92.9	91.9	122.9	141.3	218.2	273.2	328.4	381.7	428.2
Oil excises	10.6	13.4	5.1	13.4	14.6	11.7	12.6	13.5	14.6	15.5
GST and nonoil excises	74.0	79.6	86.8	109.5	126.7	206.5	260.7	314.9	367.2	412.7
International trade taxes	14.8	16.8	17.7	21.9	26.7	36.7	38.5	40.4	47.0	48.2
Other taxes	3.7	7.2	11.1	10.2	11.0	15.8	15.6	16.0	16.0	16.0
Nontax revenue	131.4	147.3	163.3	201.8	221.2	323.7	291.2	327.6	342.4	385.1
Of which: Interest income	8.6	4.8	9.3	12.5	12.8	15.0	17.6	18.1	17.4	19.0
Grants	10.1	5.2	75.4	25.5	4.2	2.2	2.2	2.2	2.2	2.2
Expenditure	516.4	644.1	759.8	802.4	884.1	1,132.6	1,219.1	1,304.1	1,356.1	1,519.7
Wages and other remunerations	124.5	145.1	180.8	201.0	215.0	232.3	259.6	286.3	312.6	340.6
Purchases of goods and services	27.1	27.2	27.5	31.6	33.4	44.5	59.3	73.9	86.6	110.4
Interest	93.4	135.3	159.3	177.4	224.6	298.1	367.0	360.5	322.6	348.9
Domestic interest	90.0	131.4	154.3	172.7	219.6	273.3	342.2	338.3	296.9	323.2
External interest	3.4	3.9	5.0	4.7	5.0	24.8	24.9	22.2	25.6	25.7
Subsidies, grants, and social benefits	204.5	261.8	298.0	280.0	288.2	349.0	375.6	401.5	427.7	489.2
Other current	31.1	35.1	41.2	50.5	54.6	58.6	63.0	69.0	75.6	83.1
Investment	36.0	39.6	53.0	61.8	68.2	150.0	94.6	112.7	130.9	147.5
Net acquisition of financial assets	-1.9	6.4	10.7	11.3	14.5	11.7	3.9	7.2	30.0	30.0
Overall balance	-165.7	-246.9	-271.6	-280.4	-333.8	-345.1	-345.2	-287.3	-247.8	-248.9
Financing	165.7	246.9	271.6	272.8	333.3	255.8	271.1	230.4	246.9	248.9
Net domestic	184.0	268.7	279.8	277.7	345.5	320.7	304.6	260.1	245.8	255.6
Bank	145.3	213.7	242.1	211.3	291.4	254.8	226.7	172.1	147.8	145.1
Nonbank	38.7	55.0	37.6	66.5	54.0	65.9	77.9	88.0	98.0	110.6
Net external	-9.1	20.3	4.0	-0.8	-4.5	-58.6	-29.0	-28.2	-3.2	-5.5
Other	-9.3	-42.1	-12.2	-4.2	-7.7	-6.3	-4.4	-1.6	4.4	-1.2
Financing gap	0.0	0.0	0.0	7.6	0.5	89.3	74.1	56.9	0.8	0.0
(In percent of GDP, unless otherwise indicated)										
Revenue and grants	21.1	21.9	23.7	21.9	20.3	23.3	21.5	21.7	21.3	21.4
Tax revenue	12.5	13.6	12.4	12.6	12.2	13.8	14.3	14.7	14.8	15.0
Nontax revenue	7.9	8.0	7.8	8.3	8.0	9.4	7.1	6.9	6.4	6.3
Of which: Interest income	0.5	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Grants	0.6	0.3	3.6	1.1	0.2	0.1	0.1	0.0	0.0	0.0
Expenditure	31.2	34.9	36.2	33.0	31.8	33.0	29.8	27.6	25.3	25.0
Wages and other remunerations	7.5	7.9	8.6	8.3	7.7	6.8	6.4	6.1	5.8	5.6
Purchases of goods and services	1.6	1.5	1.3	1.3	1.2	1.3	1.5	1.6	1.6	1.8
Interest	5.6	7.3	7.6	7.3	8.1	8.7	9.0	7.6	6.0	5.7
Subsidies, grants, and social benefits	12.3	14.2	14.2	11.5	10.4	10.2	9.2	8.5	8.0	8.1
Other current	1.9	1.9	2.0	2.1	2.0	1.7	1.5	1.5	1.4	1.4
Investment	2.2	2.1	2.5	2.5	2.5	4.4	2.3	2.4	2.4	2.4
Net acquisition of financial assets	-0.1	0.3	0.5	0.5	0.5	0.3	0.1	0.2	0.6	0.5
Overall balance	-10.0	-13.4	-12.9	-11.5	-12.0	-10.0	-8.5	-6.1	-4.6	-4.1
Financing	10.0	13.4	12.9	11.2	12.0	7.4	6.6	4.9	4.6	4.1
Net domestic	11.1	14.6	13.3	11.4	12.4	9.3	7.5	5.5	4.6	4.2
Bank	8.8	11.6	11.5	8.7	10.5	7.4	5.5	3.6	2.8	2.4
Nonbank	2.3	3.0	1.8	2.7	1.9	1.9	1.9	1.9	1.8	1.8
Net external	-0.5	1.1	0.2	0.0	-0.2	-1.7	-0.7	-0.6	-0.1	-0.1
Other	-0.6	-2.3	-0.6	-0.2	-0.3	-0.2	-0.1	0.0	0.1	0.0
Financing gap	0.0	0.0	0.0	0.3	0.0	2.6	1.8	1.2	0.0	0.0
Memorandum items:										
Primary balance	-4.4	-6.1	-5.3	-4.2	-3.9	-1.4	0.5	1.6	1.4	1.6
Gross debt	74.6	84.8	86.3	89.0	94.6	93.8	89.1	85.8	82.6	78.3
Net debt	64.6	74.3	77.8	78.0	86.2	86.9	83.4	80.9	78.2	74.4
Gross debt (in billions of LE)	1,235.9	1,563.1	1,813.2	2,161.8	2,628.7	3,219.6	3,640.8	4,056.7	4,419.3	4,755.8
Net debt (in billions of LE)	1,069.8	1,369.6	1,635.3	1,895.9	2,393.6	2,984.5	3,405.7	3,821.6	4,184.2	4,520.7
Nominal GDP (in billions of LE)	1,656.6	1,843.8	2,101.9	2,429.8	2,777.8	3,434.1	4,084.7	4,725.7	5,350.2	6,076.1

Sources: Ministry of Finance; and IMF staff estimates.

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

Table 7a. Egypt: Central Bank Accounts, 2011/12–2020/21

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
						Projections				
	(end-period, in billions of Egyptian Pounds, unless otherwise indicated)									
Net foreign assets	76	36	37	25	-45	-59	34	149	201	281
Foreign assets	92	99	116	148	150	286	396	474	503	591
Foreign liabilities	16	64	79	123	195	345	362	325	302	311
Net domestic assets	188	282	327	461	523	614	626	618	656	688
Net credit to central government	176	314	434	585	668	794	785	772	763	772
Net credit to public economic authorities	-11	-12	-14	-61	-39	-29	-30	-31	-32	-32
Credit to banks	58	46	25	25	120	153	184	184	184	184
Banks' deposits in foreign currency	-25	-32	-34	-51	-61	-110	-120	-132	-135	-138
Open market operations	-3	-21	-44.3	0	-150	-119	-171	-159	-109	-82
Other items net	-8	-14	-39	-37	-16	-76	-22	-16	-16	-16
Reserve money 1/	264	318	364	486	478	555	660	767	856	969
Currency in circulation	194	241	271	293	347	401	470	544	605	684
Reserves of banks	70	77	94	193	131	154	190	223	251	285
Cash in vaults	11	20	18	21	22	25	29	34	38	43
Deposits in local currency	59	57	76	172	110	129	160	189	213	242

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

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

Table 7b. Egypt: Monetary Survey, 2011/12–2020/21

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
						Projections				
(End-period, in billions of Egyptian pounds)										
Net foreign assets	157.6	120.7	119.1	51.5	-87.4	-95.4	36.9	194.8	293.8	456.8
Central bank	76.1	35.8	37.4	25.3	-44.9	-58.8	34.4	149.0	200.7	280.7
Commercial banks	81.56	84.96	81.77	26.21	-42.53	-36.63	2.55	45.77	93.08	176.12
Net domestic assets	936.8	1,175.0	1,397.5	1,714.0	2,181.9	2,540.0	2,912.2	3,235.7	3,514.2	3,806.8
Net claims on central and local government	589.4	817.2	1,039.1	1,333.1	1,612.7	1,872.5	2,103.5	2,278.5	2,426.2	2,574.1
Net claims on public economic authorities	-10.6	-12.0	6.3	-41.5	52.2	94.2	98.4	102.9	102.9	102.9
Claims on public sector companies	40.6	42.9	45.4	63.2	93.1	118.5	134.5	152.7	163.6	175.8
Claims on private sector	453.3	497.7	534.5	623.6	712.1	771.2	893.8	1,014.9	1,134.8	1,267.3
Net other items	-135.9	-170.9	-228.0	-264.3	-288.2	-316.3	-318.1	-313.3	-313.3	-313.3
Broad money (M2)	1,094.4	1,295.7	1,516.6	1,765.5	2,094.5	2,444.5	2,949.1	3,430.4	3,808.0	4,263.6
Domestic currency component (M2D)	908.4	1,071.5	1,280.5	1,502.5	1,770.7	1,928.0	2,375.0	2,789.4	3,136.6	3,561.0
Currency outside banks	194.0	240.6	270.9	292.7	346.9	401.4	470.3	543.9	605.4	683.7
Domestic currency deposits	714.3	830.9	1,009.7	1,209.8	1,423.8	1,526.6	1,904.8	2,245.5	2,531.2	2,877.3
Foreign currency deposits	186.0	224.2	236.1	263.0	323.8	516.5	574.1	641.0	671.4	702.6
(Annual percent change, unless otherwise indicated)										
Broad money (M2)	8.3	18.4	17.1	16.4	18.6	16.7	20.6	16.3	11.0	12.0
Domestic currency component (M2D)	9.0	18.0	19.5	17.3	17.8	8.9	23.2	17.4	12.4	13.5
Reserve money 1/	5.1	20.4	14.8	33.3	-1.6	16.1	18.9	16.2	11.6	13.1
Contribution to Broad Money Growth	8.3	18.4	17.1	16.4	18.6	16.7	20.6	16.3	11.0	12.0
Net foreign assets	-9.5	-3.4	-0.1	-4.5	-7.9	-0.4	5.4	5.4	2.9	4.3
Net domestic assets	17.8	21.8	17.2	20.9	26.5	17.1	15.2	11.0	8.1	7.7
Credit to the private sector	7.1	9.8	7.4	16.7	14.2	8.3	15.9	13.5	11.8	11.7
Credit to government and public sector companies	30.4	36.5	26.1	28.7	22.2	16.7	12.4	8.6	6.5	6.2
Memorandum items:										
Velocity										
Velocity GDP/M2D (level)	1.9	1.9	1.8	1.7	1.7	1.9	1.9	1.8	1.8	1.8
Velocity GDP/M2 (level)	1.6	1.5	1.5	1.5	1.4	1.5	1.5	1.5	1.5	1.5
M2 (in percent of GDP)	66.1	70.3	72.2	72.7	75.4	71.2	72.2	72.6	71.2	70.2
Money multiplier (M2D / reserve money)	3.4	3.4	3.5	3.1	3.7	3.5	3.6	3.6	3.7	3.7
Money multiplier (M2 / reserve money)	4.2	4.1	4.2	3.6	4.4	4.4	4.5	4.5	4.4	4.4
M2 (in real terms)	1.0	7.9	8.2	4.5	4.1	0.1	8.6	6.7	3.0	4.7
Domestic currency deposit (in real terms)	0.1	6.0	12.3	7.6	3.3	-8.1	12.3	8.2	4.6	6.3
Claims on private sector (in real terms)	-0.2	0.0	-0.7	4.7	0.2	-7.1	4.3	4.2	3.7	4.4
Foreign currency deposits (in percent of total deposits)	20.7	21.3	19.0	17.9	18.5	25.3	23.2	22.2	21.0	19.6

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

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

Table 8a. Egypt: Summary of National Accounts, 2011/12–2020/21

	2011/12	2012/13	2013/14	2014/15	2015/16 Prel.	2016/17	2017/18	2018/19 Projections	2019/20	2020/21
(Annual change, in percent)										
Real GDP at market price	2.2	2.1	2.2	4.2	3.8	4.0	4.8	5.5	5.8	6.0
Domestic demand (absorption)	5.9	1.2	4.0	4.0	4.5	2.4	4.2	4.3	5.5	5.5
Private	6.8	0.9	3.2	3.6	5.6	1.2	6.9	4.3	5.6	5.5
Public	0.0	3.7	9.4	6.8	-2.5	10.9	-12.4	4.1	4.6	5.4
Consumption	6.1	2.9	4.4	3.3	4.4	0.4	5.1	2.2	3.4	3.7
Private	6.5	2.8	4.1	2.8	5.5	1.2	5.5	2.1	3.3	3.5
Public	3.1	3.9	6.6	7.0	-3.1	-5.7	1.7	3.0	3.6	5.4
Investment	4.8	-8.4	1.7	8.6	5.0	15.0	-0.5	15.8	16.0	13.3
Gross fixed capital formation	7.1	-7.8	1.4	9.8	12.9	15.0	-0.5	15.8	16.0	13.3
Private	11.7	-9.6	-2.9	10.8	15.9	0.8	15.9	17.1	17.2	14.6
Public	-13.6	2.5	23.7	5.5	0.2	85.0	-44.5	8.7	8.6	5.2
Net exports of goods and services 1/	-2.8	0.8	-2.1	-0.2	-1.0	1.3	0.3	1.0	0.0	0.2
Exports of goods and services	-2.3	5.6	-11.9	-0.4	-5.9	8.0	8.7	10.3	8.5	9.0
Imports of goods and services	10.8	0.5	0.2	0.5	0.9	-1.3	4.0	2.2	5.8	5.5
Real GDP at factor cost	2.2	2.1	2.2	3.1	2.5	3.5	4.0	4.5	5.3	5.9
Agriculture	2.9	3.0	3.0	3.0	3.1	3.2	3.2	3.5	3.5	3.5
Construction	3.3	3.7	7.4	9.7	10.8	11.0	8.0	8.0	9.0	9.0
Industry	0.7	0.2	0.8	-0.1	-1.0	1.9	3.3	4.0	5.5	6.2
Services	2.7	3.3	2.0	4.0	3.2	4.1	4.8	5.2	5.8	6.5
General government	2.9	3.4	5.3	7.5	6.0	2.5	2.0	2.0	2.0	3.0
Suez Canal	3.9	-1.9	2.2	6.7	1.9	2.5	3.5	5.5	7.5	6.0
(Contribution to real growth, in percent 2/)										
Real GDP at market price	2.2	2.1	2.2	4.2	3.8	4.0	4.8	5.5	5.8	6.0
Domestic demand (absorption)	6.1	1.3	4.3	4.4	4.9	2.6	4.5	4.6	5.8	5.8
Private	6.1	0.8	3.0	3.4	5.3	1.1	6.4	4.1	5.2	5.1
Public	0.0	0.5	1.3	1.0	-0.4	1.5	-1.9	0.5	0.6	0.7
Consumption	5.4	2.7	4.1	3.1	4.1	0.3	4.6	2.0	3.0	3.2
Private	5.0	2.2	3.3	2.3	4.5	1.0	4.4	1.7	2.6	2.7
Public	0.4	0.4	0.8	0.8	-0.4	-0.7	0.2	0.3	0.4	0.5
Investment	0.8	-1.4	0.2	1.2	0.8	2.3	-0.1	2.5	2.8	2.6
Gross fixed capital formation	1.0	-1.2	0.2	1.3	1.8	2.3	-0.1	2.5	2.8	2.6
Private	1.4	-1.2	-0.3	1.2	1.8	0.1	2.0	2.3	2.6	2.4
Public	-0.3	0.1	0.5	0.1	0.0	2.2	-2.0	0.2	0.2	0.1
Net exports of goods and services	-2.8	0.8	-2.1	-0.2	-1.0	1.3	0.3	1.0	0.0	0.2
Exports of goods and services	-0.4	0.9	-2.0	-0.1	-0.8	1.0	1.2	1.4	1.2	1.3
Imports of goods and services	-2.4	-0.1	0.0	-0.1	-0.2	0.3	-0.8	-0.5	-1.2	-1.1
Real GDP at factor cost	2.2	2.1	2.2	3.1	2.5	3.5	4.0	4.5	5.3	5.9
Agriculture	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Construction	0.1	0.2	0.3	0.4	0.5	0.6	0.4	0.5	0.5	0.6
Industry	0.3	0.1	0.3	0.0	-0.3	0.6	1.0	1.2	1.7	1.9
Services	1.1	1.3	0.8	1.6	1.3	1.6	1.9	2.1	2.4	2.7
General government	0.3	0.3	0.5	0.7	0.6	0.3	0.2	0.2	0.2	0.3
Suez Canal	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1

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

Table 8b. Egypt: Summary of National Accounts, 2011/12–2020/21

(In percent of GDP)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Prel.	Projections				
	(In percent of nominal GDP)									
GDP at market price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand (absorption)	108.0	106.4	108.5	108.4	108.8	109.2	108.7	107.2	106.8	106.3
Private	94.5	92.8	94.0	94.1	95.3	94.9	96.7	95.4	95.2	94.7
Public	13.5	13.6	14.5	14.4	13.5	14.3	12.0	11.8	11.7	11.6
Consumption	91.8	92.1	94.7	94.1	94.2	93.2	93.4	90.4	88.5	86.7
Private	80.5	80.6	82.7	82.2	83.2	83.2	83.7	81.0	79.2	77.5
Public	11.3	11.5	12.0	11.8	11.0	10.0	9.6	9.4	9.2	9.2
Investment	16.2	14.3	13.8	14.4	14.5	16.1	15.3	16.7	18.4	19.6
Gross fixed capital formation	14.9	13.1	12.6	13.7	14.5	16.1	15.3	16.7	18.4	19.6
Private	12.7	11.0	10.1	11.2	12.1	11.7	12.9	14.4	15.9	17.2
Public	2.2	2.1	2.5	2.5	2.5	4.4	2.3	2.4	2.4	2.4
Net exports of goods and services	-8.0	-6.4	-8.5	-8.4	-8.8	-9.2	-8.7	-7.2	-6.8	-6.3
Exports of goods and services	16.6	17.2	14.4	13.2	10.2	13.7	14.4	14.6	14.9	15.2
Imports of goods and services	-24.6	-23.6	-23.0	-21.6	-19.0	-22.9	-23.1	-21.8	-21.7	-21.5
Net factor income	-2.3	-2.6	-2.4	-1.8	-1.3	-2.0	-1.8	-1.8	-1.8	-2.0
Net remittances inflows	6.4	6.5	6.1	5.8	4.9	6.0	6.2	6.0	5.9	5.8
Net official transfers	0.2	0.3	4.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Gross National Disposable Income	104.3	104.2	107.7	104.8	103.6	104.1	104.4	104.2	104.1	103.8
Investment	16.2	14.3	13.8	14.4	14.5	16.1	15.3	16.7	18.4	19.6
Private (incl. change in inventories)	14.0	12.2	11.3	11.8	12.1	11.7	12.9	14.4	15.9	17.2
Public	2.2	2.1	2.5	2.5	2.5	4.4	2.3	2.4	2.4	2.4
National savings	12.5	12.1	13.0	10.7	9.1	10.9	10.8	13.7	15.6	17.3
Private	20.5	23.0	22.9	19.2	18.1	16.3	16.9	17.3	17.2	18.4
Public	-7.9	-10.9	-9.9	-8.5	-9.0	-5.3	-6.0	-3.5	-1.6	-1.2
Savings-investment balance	-3.7	-2.2	-0.8	-3.7	-5.5	-5.2	-4.4	-3.0	-2.8	-2.4
Private	6.4	10.8	11.6	7.4	6.0	4.6	3.9	2.9	1.3	1.2
Public	-10.1	-13.0	-12.4	-11.1	-11.5	-9.7	-8.4	-5.9	-4.1	-3.6
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.1	11.0	11.0	11.1	11.3	11.4	11.3	11.2	11.0	10.7
Construction	4.2	4.3	4.3	4.8	5.2	5.6	5.9	6.1	6.3	6.4
Industry	34.6	34.6	34.3	31.2	30.5	30.4	30.3	30.1	30.2	30.2
Services	39.3	39.3	39.0	40.2	39.7	39.2	39.4	39.8	40.1	40.4
General government	8.9	9.1	9.7	11.1	11.6	11.6	11.4	11.1	10.8	10.5
Suez Canal	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7

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

Table 9. Egypt: Medium-Term Macroeconomic Framework, 2011/12–2020/21

(In percent of GDP, unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Prel.	Projections				
Growth and prices										
Real GDP (annual change, in percent)	2.2	2.1	2.2	4.2	3.8	4.0	4.8	5.5	5.8	6.0
CPI inflation (end-of-period, in percent)	7.3	9.8	8.2	11.4	14.0	16.6	11.1	9.0	7.8	7.0
CPI inflation (average, in percent)	8.6	6.9	10.1	11.0	10.2	18.2	13.3	9.6	7.0	7.1
Unemployment rate (period average, in percent)	12.4	13.0	13.4	12.9	12.7	12.3	11.3	10.0	8.4	6.7
Savings-investment balance										
Investment	-3.7	-2.2	-0.8	-3.7	-5.5	-5.2	-4.4	-3.0	-2.8	-2.4
Domestic savings	16.2	14.3	13.8	14.4	14.5	16.1	15.3	16.7	18.4	19.6
	12.5	12.1	13.0	10.7	9.1	10.9	10.8	13.7	15.6	17.3
Public finances										
General government										
Revenue and grants	21.1	21.9	23.7	21.9	20.3	23.3	21.5	21.7	21.3	21.4
Expenditure and NAFA	31.1	35.3	36.7	33.5	32.4	33.3	29.9	27.7	25.9	25.5
Overall balance	-10.0	-13.4	-12.9	-11.5	-12.0	-10.0	-8.5	-6.1	-4.6	-4.1
Overall balance, excl. grants	-10.6	-13.7	-16.5	-12.6	-12.2	-10.1	-8.5	-6.1	-4.7	-4.1
Primary balance	-4.4	-6.1	-5.3	-4.2	-3.9	-1.4	0.5	1.6	1.4	1.6
Gross debt	74.6	84.8	86.3	89.0	94.6	93.8	89.1	85.8	82.6	78.3
Domestic	68.2	76.5	78.4	81.5	77.5	72.6	69.3	67.3	65.5	62.6
External	12.5	16.4	15.7	15.0	17.1	21.2	19.8	18.6	17.1	15.7
Budget sector										
Revenue and grants	18.3	19.0	20.8	19.1	17.6	20.7	18.8	19.2	19.1	19.3
Tax revenue	12.5	13.6	12.4	12.6	12.2	13.8	14.3	14.7	14.8	15.0
Non-tax revenue	5.2	5.1	4.8	5.5	5.2	6.8	4.5	4.5	4.3	4.2
Grants	0.6	0.3	3.6	1.1	0.2	0.1	0.1	0.0	0.0	0.0
Expenditure and NAFA	28.4	32.0	33.9	30.6	29.7	30.7	27.2	25.1	23.4	23.2
Of which: Current	26.3	29.8	30.9	27.6	26.7	26.0	24.8	22.6	20.4	20.3
Capital	2.2	2.1	2.5	2.5	2.5	4.4	2.3	2.4	2.4	2.4
Overall budget balance	-10.1	-13.0	-13.1	-11.5	-12.1	-10.0	-8.3	-5.9	-4.3	-3.9
Overall budget balance, excl. grants	-10.7	-13.3	-16.7	-12.5	-12.3	-10.1	-8.4	-5.9	-4.3	-4.0
Primary budget balance	-3.8	-5.0	-4.9	-3.6	-3.4	-0.8	1.1	2.1	2.1	2.1
Balance of payments and external debt										
Current account	-3.7	-2.2	-0.8	-3.7	-5.5	-5.2	-4.4	-3.0	-2.8	-2.4
Trade balance	-11.3	-10.8	-11.2	-11.7	-11.0	-12.5	-12.6	-11.6	-11.4	-11.0
Oil trade balance	-0.2	0.3	-0.3	-1.1	-1.1	-1.6	-1.6	-1.1	-1.1	-1.2
Non-oil trade balance	-11.1	-11.1	-10.9	-10.6	-10.0	-10.9	-11.0	-10.4	-10.3	-9.8
Capital and financial account (incl. errors and omissions)	-3.7	1.1	0.9	5.5	4.6	1.7	4.2	2.1	3.1	3.6
Financing gap	0.0	0.0	0.0	0.0	0.0	5.6	3.1	2.6	0.0	0.0
Official reserves (in billions of US\$)	15.2	14.5	16.3	19.5	17.1	22.0	29.0	33.0	33.4	37.6
(In months of next year's imports of goods and service)	2.7	2.5	2.7	3.6	3.1	3.7	4.7	5.0	4.7	6.9
External debt (in percent of GDP)	12.5	15.1	15.3	14.3	14.0	22.9	26.9	28.2	27.1	25.9

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

Table 10. Egypt: Financial Soundness Indicators of the Banking System*(End-June, unless otherwise indicated)*

	2009	2010	2011	2012	2013	2014	2015	
<i>Capital adequacy</i>								
Regulatory capital to RWA	15.1	16.3	15.9	14.9	13.7	13.9	13.2	Sept
Net worth assets	5.5	6.2	6.2	7.2	7.1	6.7	6.8	
<i>Asset quality</i>								
NPLs to total loans	13.4	13.6	10.9	9.8	9.3	8.5	7.2	Sept
Loan provisions to non-performing loans	100.4	92.5	94.6	97.1	99.8	98.9	99.0	Sept
<i>Profitability</i>								
Return on assets	0.8	1.0	1.0	1.0	1.0	1.3	1.3	Sept
Return on average equity	13	14.3	14.3	13.9	14.5	18.9	18.9	Sept

Source: Central Bank of Egypt.

Table 11. Egypt: Capacity to Repay the Fund, 2013/14–2020/21^{1/2/}

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
				Projections				
Fund repurchases and charges								
Millions of SDRs	0.0	0.0	0.1	26.3	65.0	144.6	193.5	357.0
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	164.2
Charges and fees	0.0	0.0	0.1	26.3	65.0	144.6	193.5	192.8
Millions of US\$	0.0	0.0	0.1	36.8	90.7	201.8	270.1	498.3
Percent of exports of goods and nonfactor services	0.0	0.0	0.0	0.1	0.2	0.4	0.5	0.8
Percent of total debt service 3/	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3
Percent of quota	0.0	0.0	0.0	1.3	3.2	7.1	9.5	17.5
Percent of gross international reserves	0.0	0.0	0.0	0.2	0.3	0.6	0.8	1.3
Fund credit outstanding								
Millions of SDRs	0	0	0	2,866	5,731	8,597	8,597	8,432
Millions of US\$	0	0	0	4,000	8,000	12,000	12,000	11,771
Percent of exports of goods and nonfactor services	0.0	0.0	0.0	10.1	18.1	24.3	22.0	19.6
Percent of quota	0.0	0.0	0.0	140.7	281.3	422.0	422.0	413.9
Percent of gross international reserves	0.0	0.0	0.0	18.2	27.6	36.4	35.9	31.3
Memorandum items:								
Exports of goods and nonfactor services (in millions of US\$)	43,556	43,870	34,784	39,482	44,279	49,471	54,452	60,161
Debt service (in millions of US\$)	141,972	176,897	153,028	125,032	146,090	161,009	173,302	180,502
Quota (in millions of SDRs, end of period) 4/	943.7	943.7	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1
Quota (millions of US\$ at eop exchange rate)	613.9	671.8	1,447.1	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3
Gross international reserves (in millions of US\$)	16,289	19,549	17,097	22,000	29,000	33,000	33,435	37,588

Source: IMF staff calculations.

1/ Fiscal year starts on July 1 and ends on June 30.

2/ Assumes repurchases are made on obligations schedule.

3/ Debt service includes interest on the entire debt stock and amortization of medium- and long-term debt.

4/ Quota changed from 943.7 to 2037.1 millions SDRs effective as of February 2016

**Table 12. Egypt: External Financing Requirement and Sources,
2014/15–2020/21**

(In billions of US\$, unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		Prel.			Projections		
Gross financing requirements	17.0	24.0	21.6	18.1	14.7	15.5	15.4
Current account deficit	12.2	18.7	14.9	13.6	10.1	10.0	9.3
Of which: Net interest payments	0.4	0.4	1.0	1.1	1.1	0.6	0.5
Maturing short-term debt	2.6	2.7	2.3	2.4	2.6	2.8	3.1
Private sector	2.6	2.7	2.3	2.4	2.6	2.8	3.1
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of medium and long-term debt	2.3	2.7	4.5	2.1	1.9	2.6	3.0
Private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector	2.2	2.6	2.4	1.9	1.7	2.4	2.8
MLT to external private creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By domestic private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By domestic public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MLT to external official creditors	2.2	2.6	2.4	1.9	1.7	2.4	2.8
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To other official creditors	2.2	2.6	2.4	1.9	1.7	2.4	2.8
By domestic private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By domestic public sector	2.2	2.6	2.4	1.9	1.7	2.4	2.8
Sources of financing	17.0	27.8	5.6	9.2	6.4	16.2	16.0
Foreign direct investment (net)	6.1	6.7	9.4	10.4	11.5	11.9	12.9
Roll-over of short-term debt	2.7	2.3	2.4	2.6	2.8	3.1	3.1
Private sector	2.7	2.3	2.4	2.6	2.8	3.1	3.1
Bank	1.7	1.4	1.5	1.7	1.8	2.0	2.0
Nonbank	1.3	1.1	1.2	1.3	1.4	1.5	1.5
Public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medium- and long-term borrowing	1.5	3.0	7.3	9.4	6.1	6.2	6.4
Private sector	0.2	0.9	0.0	0.0	0.0	0.0	0.0
Public sector	1.3	2.1	7.3	9.4	6.1	6.2	6.4
From private creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
From official creditors	1.3	2.1	7.3	9.4	6.1	6.2	6.4
Borrowing from IMF (gross)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing from other official creditors	1.3	2.1	7.3	9.4	6.1	6.2	6.4
Other net capital flows	12.3	13.4	-7.3	-5.0	-8.9	-4.6	-2.2
Of which: portfolio investment	-0.6	-1.1	0.0	2.0	3.0	1.1	3.0
Change in reserves (- increase) `	-3.3	2.5	-4.9	-7.0	-4.0	-0.4	-4.2
Change in arrears ("-" indicates decrease)	-2.4	0.0	-1.2	-1.2	-1.1	0.0	0.0
Net financing gap	0.0	0.0	16.0	8.9	8.2	0.0	0.0
Gross financing gap	0.0	0.0	16.3	9.4	8.9	0.0	0.0
Propective financing							
Net use of Fund resources	0.0	0.0	4.0	4.0	4.0	0.0	0.0
Other IFIs	0.0	0.0	5.7	-1.2	0.0	0.0	0.0
World Bank	0.0	0.0	2.0	1.0	0.0	0.0	0.0
African Development Bank	0.0	0.0	0.5	0.5	0.0	0.0	0.0
African Export Import Bank	0.0	0.0	3.2	-2.7	0.0	0.0	0.0
China	0.0	0.0	2.7	0.0	0.0	0.0	0.0
France	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Japan	0.0	0.0	0.1	0.0	0.0	0.0	0.0
United Arab Emirates	0.0	0.0	1.0	0.0	0.0	0.0	0.0
United Kingdom	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Eurobond issuance	0.0	0.0	1.0	0.0	0.0	0.0	0.0
International bank financing	0.0	0.0	1.4	-1.4	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	7.9	4.9	0.0	0.0
Potential sources of financing	0.0	0.0	0.0	5.4	4.9	0.0	0.0
Rollover of African Export Import Bank debt	0.0	0.0	0.0	3.2	0.0	0.0	0.0
Rollover of GCC deposits	0.0	0.0	0.0	2.2	4.9	0.0	0.0
Memorandum items:							
Gross international reserves (GIR)	19.5	17.1	22.0	29.0	33.0	33.4	37.6
External debt	47.2	47.6	66.0	82.3	94.9	98.7	102.4

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

Table 13. Egypt: Proposed Schedule of Purchases Under the Extended Arrangement

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

Source: IMF staff calculations.

Annex I. Public Debt Sustainability Analysis

Egypt's public debt is sustainable, but not with high probability. The baseline scenario assumes a considerable adjustment program, which is projected to result in debt falling from 94 percent of GDP in 2015/16 to 76 percent of GDP in 2020/21. Debt dynamics and financing needs under the stress testing scenarios show significant macro-economic risks, especially in terms of growth and contingent liability shocks. A large captive domestic investor base, and moderate external debt levels represent important mitigating factors. The DSA has been shared with the authorities, and they are broadly in agreement with its findings.

1. **The baseline scenario assumes a considerable adjustment program.** This is underpinned by the following assumptions:

- *Real GDP growth* of 4 percent is expected in 2016/17. Growth is forecast to gradually increase to around 5–6 percent over the medium term as investment and exports replace debt financed consumption as growth engines. The investment boost is based on public investment in social and economic infrastructure, large investments in the energy sector, and the discovery of a major gas field.
- *Inflation* (defined in this annex as the GDP deflator) is estimated to temporarily increase from around 10 percent in 2015/16 to around 19 percent in 2016/17, but is projected to decline to around 7 percent over the medium term.
- *The primary balance* of the general government is projected to switch from deficits to surpluses from 2017/18. These projections are based on the adjustment program that includes considerable revenue and expenditure measures. The following measures on the expenditure side are proposed: (i) controlling the public sector wage bill; (ii) implementing the next phase of energy subsidy reform; and (iii) improving the targeting of social transfers. Revenue measures include: (i) introduction of a VAT at a higher rate than the current GST; (ii) improvements in tax administration; and (iii) ensuring that appropriate dividends are paid to government by profitable public agencies. The Staff Report provides more detailed discussion of the fiscal program.

2. **The baseline projections are ambitious, with risks on downside.** Egypt's forecasts for growth, primary balance, and inflation tend to be systematically optimistic, but the projection errors are not very different from the benchmark. The projected fiscal adjustment in the (cyclically-adjusted) primary balance is larger compared to the benchmark countries, but plausible given a higher starting primary deficit. The challenge of measuring the output gap for a country like Egypt that is undergoing a very rapid transition is significant and so the estimates of the (cyclically-adjusted) primary balance should be treated with caution.

3. **The improving debt outlook reflects the projected path of fiscal adjustment and favorable interest rate-growth differential.** The public debt-to-GDP ratio is forecast to decrease from 94 percent in 2015/16 to 76 percent in 2020/21. The fiscal consolidation strategy, measured by

changes in the primary balance, is relatively ambitious, with significant front-loading in 2016/17. Economic growth, accompanied by favorable interest rate dynamics, will be the main factor contributing to debt reduction over time. The gross financing needs-to-GDP ratio is forecast to gradually decline over the projection period.

4. Projections of debt and financing needs are particularly sensitive to growth and contingent liability shocks:

- *Growth shock.* Slower growth is the principal risk to debt sustainability. Assuming a decline in growth by one standard deviation for 2016/17 and 2017/18, the debt-to-GDP ratio is forecast to reach 96.4 percent in 2017/18 and to fall to 83 percent in 2020/21. Extending the growth shock to 2020/21 yields a debt forecast of 90 percent of GDP.
- *Macro-fiscal shock.* Considering a stress scenario in which shocks to growth, interest rate, and primary balance occurred simultaneously, the debt-to-GDP ratio would reach 101 percent by 2017/18, with subsequent decline to around 90 percent.
- *Contingent liability shock.* In the absence of concrete estimates of contingent liabilities, a standardized shock of 10 percent of banking assets is used to represent a hypothetical realization of such contingent liabilities. In such a scenario, the debt-to-GDP ratio would exceed 100 percent in 2017/18 and decline to 86 percent in 2020/21.

5. The fan charts show significant uncertainty around the baseline. The width of the symmetric fan chart (around 25 percent of GDP) illustrates the uncertainty for equal-probability upside and downside shocks. However, in light of the downside risks associated with the adjustment program implementation challenges, the asymmetric fan chart constrains upside shocks to growth and primary balance to zero, resulting in a less downward-sloping debt path. This reflects a balance of risks skewed to the downside.

6. Egypt's debt profile is relatively benign, although external market pressures have increased. Public debt in foreign currency and held by non-residents is below the lower risk-assessment benchmark. External financing needs are slightly above the lower risk-assessment benchmark. The sovereign spreads are however now slightly above the upper risk-assessment benchmark, indicating that the risk perception of the international capital market participants has increased.

7. Risks to debt sustainability need to be weighed against mitigating factors.

- *Investor base.* Debt is held largely by domestic financial institutions, with an external component of about 8 percent of total debt. This factor, coupled with relatively low demand for private sector credit and limited regional investment opportunities, has resulted in a captive investor base. In addition, a significant share of domestic debt is held by the CBE.
- *Buffers.* There are also significant cash cushions in the form of deposits accumulated by the general government, mostly in local authorities. The average figure for government deposits is

around 10 percent of GDP, implying a markedly lower public debt-to-GDP ratio on a net basis and some liquidity cushion in terms of coverage of financing needs for few months.

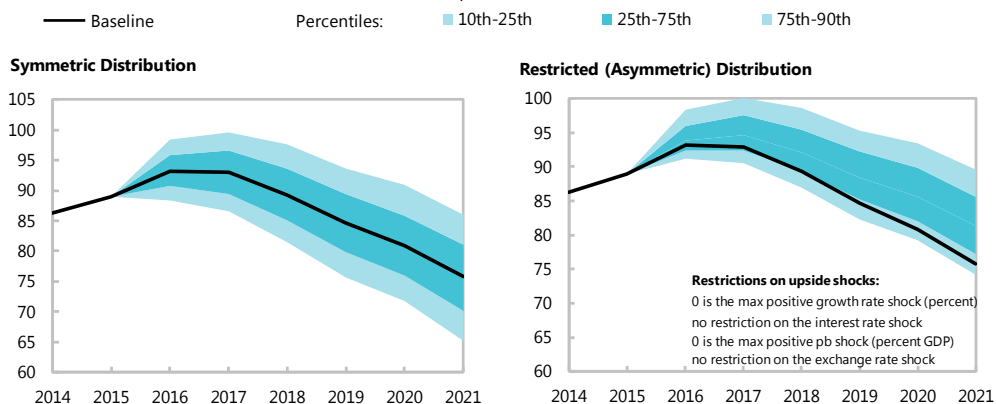
Egypt Public DSA Risk Assessment

Heat Map

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

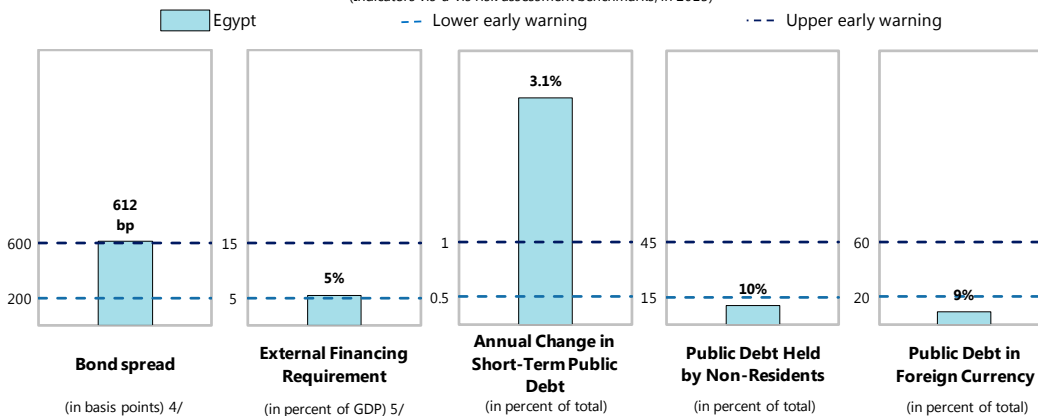
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

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

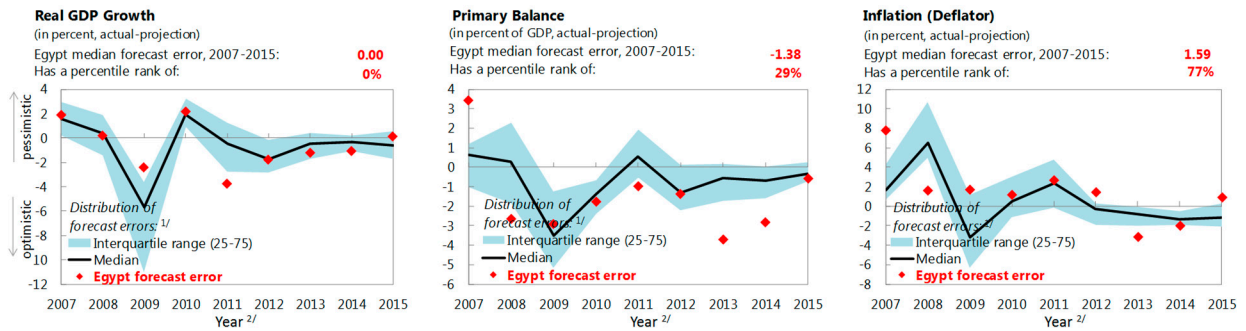
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 30-Dec-15 through 29-Mar-16.

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

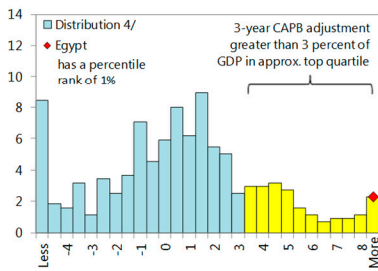
Egypt Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus program countries

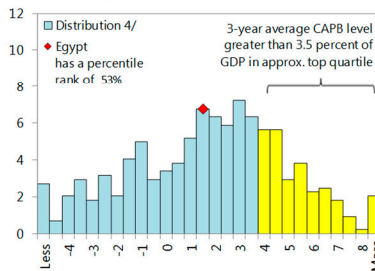


Assessing the Realism of Projected Fiscal Adjustment

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

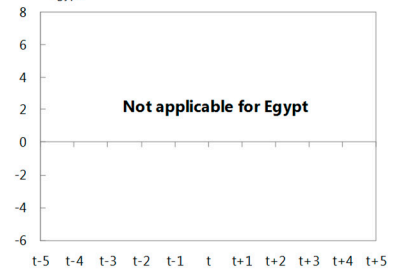


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth
(in percent)



Source : IMF Staff.

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

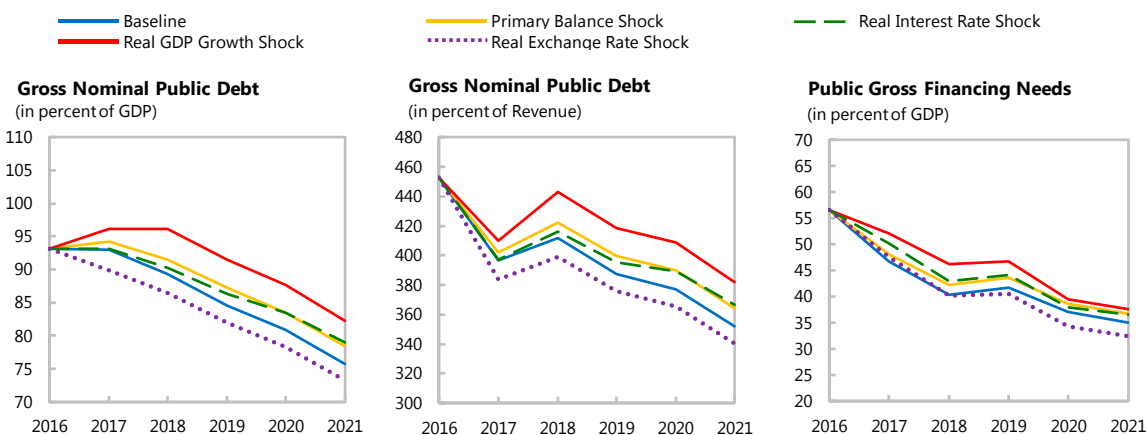
2/ Projections made in the spring WEO vintage of the preceding year.

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

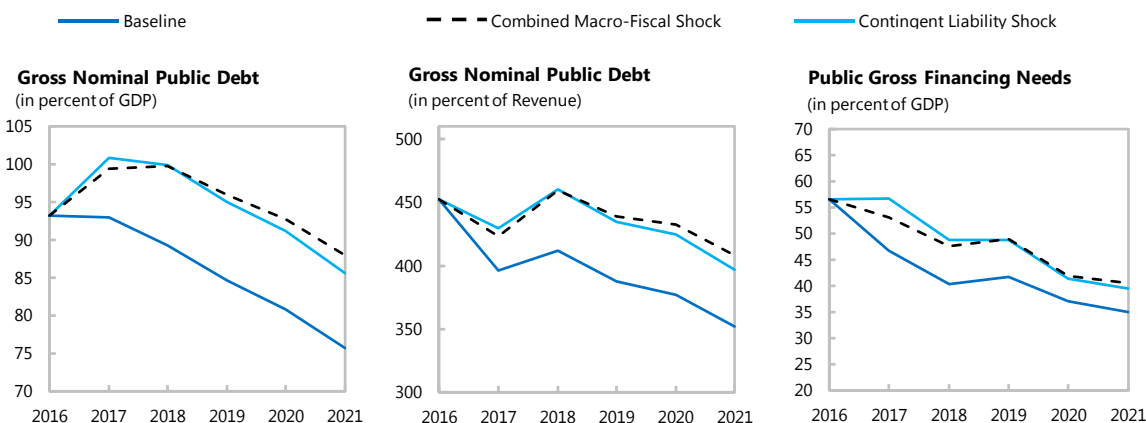
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Egypt Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions (in percent)

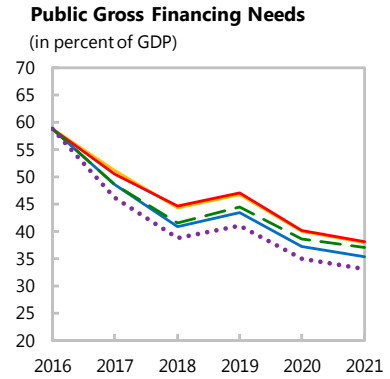
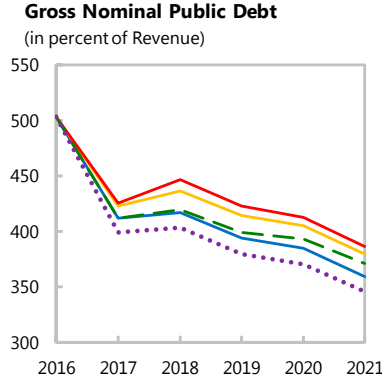
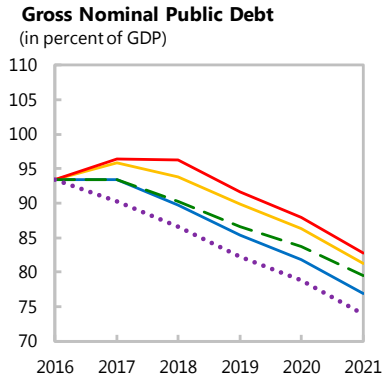
	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	19.0	13.3	9.6	7.0	7.1
Primary balance	-3.9	-2.6	-0.5	1.0	1.4	1.5
Effective interest rate	10.3	16.5	14.7	11.4	9.9	8.5
Real Interest Rate Shock						
Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	19.0	13.3	9.6	7.0	7.1
Primary balance	-3.9	-1.4	0.5	1.5	1.4	1.6
Effective interest rate	10.3	16.5	15.7	12.4	11.0	9.5
Combined Shock						
Real GDP growth	3.8	1.8	2.6	5.5	5.8	6.0
Inflation	10.1	18.5	12.8	9.6	7.0	7.1
Primary balance	-3.9	-2.6	-0.6	1.0	1.4	1.5
Effective interest rate	10.3	16.5	15.3	12.1	10.7	9.3
Real GDP Growth Shock						
Real GDP growth	3.8	1.8	2.6	5.5	5.8	6.0
Inflation	10.1	18.5	12.8	9.6	7.0	7.1
Primary balance	-3.9	-2.0	-0.6	1.5	1.4	1.6
Effective interest rate	10.3	16.5	15.0	11.6	9.9	8.5
Real Exchange Rate Shock						
Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	26.7	13.3	9.6	7.0	7.1
Primary balance	-3.9	-1.4	0.5	1.5	1.4	1.6
Effective interest rate	10.3	16.5	14.6	11.3	9.7	8.3
Contingent Liability Shock						
Real GDP growth	3.8	1.8	2.6	5.5	5.8	6.0
Inflation	10.1	18.5	12.8	9.6	7.0	7.1
Primary balance	-3.9	-5.7	0.5	1.5	1.4	1.6
Effective interest rate	10.3	17.5	15.1	11.6	10.0	8.5

Source: IMF staff.

Egypt Public DSA - Stress Tests

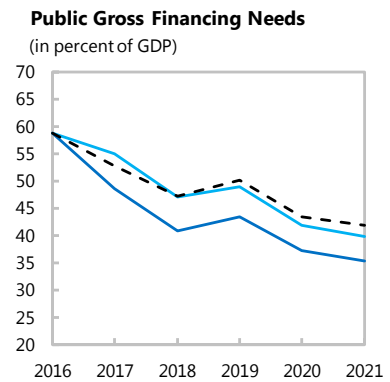
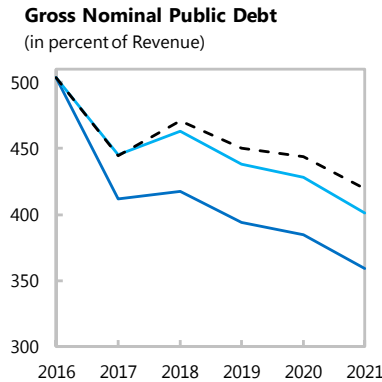
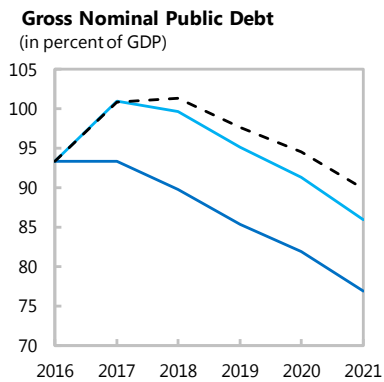
Macro-Fiscal Stress Tests

— Baseline
— Real GDP Growth Shock
— Primary Balance Shock
— Real Exchange Rate Shock
— Real Interest Rate Shock



Additional Stress Tests

— Baseline
- - - Combined Macro-Fiscal Shock
— Contingent Liability Shock



Underlying Assumptions (in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	19.0	13.3	9.6	7.0	7.1
Primary balance	-8.0	-5.5	-1.4	0.6	1.1	1.2
Effective interest rate	10.3	16.7	15.0	11.5	9.8	8.4
Real Interest Rate Shock						
Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	19.0	13.3	9.6	7.0	7.1
Primary balance	-8.0	-3.0	0.1	1.2	1.1	1.3
Effective interest rate	10.3	16.7	15.5	12.2	10.8	9.4
Combined Shock						
Real GDP growth	3.8	1.8	2.6	5.5	5.8	6.0
Inflation	10.1	18.5	12.8	9.6	7.0	7.1
Primary balance	-8.0	-5.5	-1.4	0.6	1.1	1.2
Effective interest rate	10.3	16.7	15.1	11.9	10.5	9.2

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	3.8	1.8	2.6	5.5	5.8	6.0
Inflation	10.1	18.5	12.8	9.6	7.0	7.1
Primary balance	-8.0	-3.6	-1.0	1.2	1.1	1.3
Effective interest rate	10.3	16.7	14.9	11.5	9.8	8.4
Real Exchange Rate Shock						
Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	26.7	13.3	9.6	7.0	7.1
Primary balance	-8.0	-3.0	0.1	1.2	1.1	1.3
Effective interest rate	10.3	16.7	14.5	11.2	9.6	8.2
Contingent Liability Shock						
Real GDP growth	3.8	1.8	2.6	5.5	5.8	6.0
Inflation	10.1	18.5	12.8	9.6	7.0	7.1
Primary balance	-8.0	-7.3	0.1	1.2	1.1	1.3
Effective interest rate	10.3	17.8	15.0	11.5	9.8	8.4

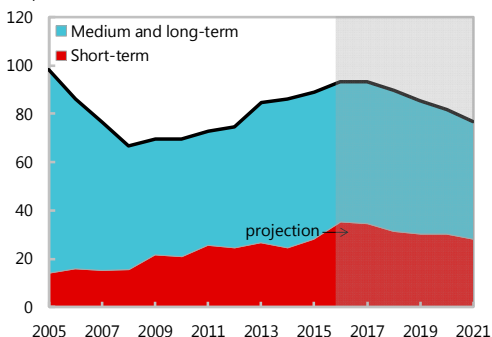
Source: IMF staff.

Egypt Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

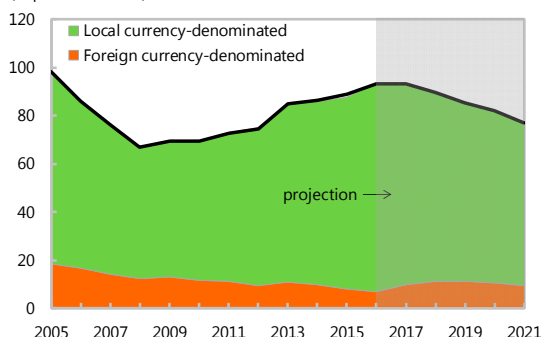
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

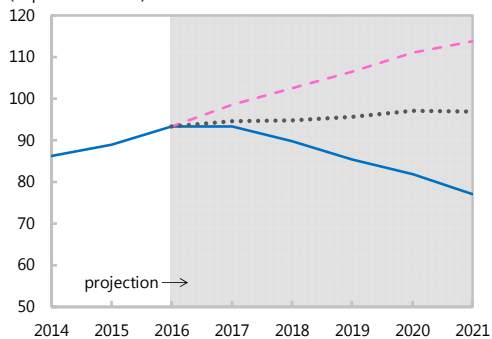
— Baseline

..... Historical

- - - Constant Primary Balance

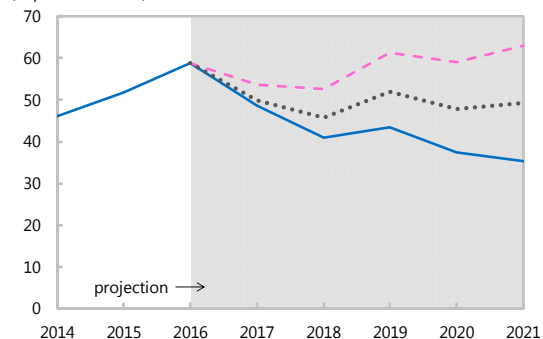
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario

	2016	2017	2018	2019	2020	2021
Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	19.0	13.3	9.6	7.0	7.1
Primary Balance	-8.0	-3.0	0.1	1.2	1.1	1.3
Effective interest rate	10.3	16.7	14.9	11.4	9.8	8.4

Constant Primary Balance Scenario

Real GDP growth	3.8	4.0	4.8	5.5	5.8	6.0
Inflation	10.1	19.0	13.3	9.6	7.0	7.1
Primary Balance	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
Effective interest rate	10.3	16.7	14.6	11.1	9.4	8.0

Historical Scenario

	2016	2017	2018	2019	2020	2021
Real GDP growth	3.8	4.3	4.3	4.3	4.3	4.3
Inflation	10.1	19.0	13.3	9.6	7.0	7.1
Primary Balance	-8.0	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	10.3	16.7	13.7	10.0	7.9	6.5

Source: IMF staff.

Annex II. External Debt Sustainability

Egypt: External Debt Sustainability Framework, 2011–2021

(In percent of GDP, otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -5.8	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
1 Baseline: External debt	14.1	12.5	15.1	15.3	14.3	14.0	23.1	27.1	28.3	27.3	26.1		
2 Change in external debt	-0.6	-1.6	2.7	0.1	-1.0	-0.3	9.1	4.0	1.2	-1.0	-1.2		
3 Identified external debt-creating flows (4+8+9)	1.9	2.7	0.0	-1.7	0.7	3.4	1.3	-0.7	-2.7	-2.3	-3.2		
4 Current account deficit, excluding interest payments	2.2	3.5	2.0	0.5	3.5	5.3	4.7	4.0	2.6	2.5	2.1		
5 Deficit in balance of goods and services	5.3	8.0	6.4	8.4	8.5	9.1	9.3	8.8	7.2	6.9	6.2		
6 Exports	19.6	16.6	17.2	14.5	13.3	10.2	13.7	14.5	14.7	15.0	15.2		
7 Imports	24.9	24.6	23.6	22.9	21.7	19.3	22.9	23.3	21.9	21.8	21.4		
8 Net non-debt creating capital inflows (negative)	0.5	0.5	-1.8	-1.7	-1.7	-1.6	-3.2	-4.1	-4.3	-3.6	-4.0		
9 Automatic debt dynamics 1/	-0.8	-1.2	-0.2	-0.6	-1.2	-0.3	-0.2	-0.6	-0.9	-1.3	-1.3		
10 Contribution from nominal interest rate	0.2	0.2	0.3	0.2	0.2	0.2	0.5	0.5	0.4	0.3	0.3		
11 Contribution from real GDP growth	-0.2	-0.3	-0.3	-0.3	-0.6	-0.5	-0.7	-1.1	-1.4	-1.5	-1.5		
12 Contribution from price and exchange rate changes 2/	-0.8	-1.2	-0.2	-0.5	-0.8	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	-2.5	-4.3	2.6	1.8	-1.7	-3.7	7.9	4.7	3.9	1.3	2.0		
External debt-to-exports ratio (in percent)	72.0	75.3	88.2	105.7	107.6	137.0	169.0	187.4	193.3	182.6	171.4		
Gross external financing need (in billions of US dollars) 4	11.2	14.9	11.3	11.6	18.1								
in percent of GDP	4.5	5.4	4.0	3.8	5.5	10-Year	10-Year	7.0	7.6	5.9	4.3	4.2	3.8
Scenario with key variables at their historical averages 5/						14.0	13.7	13.3	13.0	10.4	8.6	-4.3	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Real GDP growth (in percent)	1.8	2.2	2.1	2.2	4.2	4.3	2.2	3.8	4.0	4.8	5.5	5.8	6.0
GDP deflator in US dollars (change in percent)	5.8	8.9	1.4	3.3	5.3	8.8	4.7	-0.7	-18.6	1.2	4.4	2.0	2.3
Nominal external interest rate (in percent)	1.6	1.5	2.2	1.7	1.4	1.8	0.3	1.6	2.8	2.2	1.8	1.0	1.0
Growth of exports (US dollar terms, in percent)	3.9	-5.7	7.3	-11.1	0.7	5.5	15.0	-20.7	13.5	12.1	11.7	10.1	10.5
Growth of imports (US dollar terms, in percent)	8.1	10.0	-0.8	2.6	4.2	9.9	14.6	-8.4	0.5	7.6	3.8	7.5	6.6
Current account balance, excluding interest payments	-2.2	-3.5	-2.0	-0.5	-3.5	-1.0	2.1	-5.3	-4.7	-4.0	-2.6	-2.5	-2.1
Net non-debt creating capital inflows	-0.5	-0.5	1.8	1.7	1.7	3.4	4.1	1.6	3.2	4.1	4.3	3.6	4.0

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

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

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

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

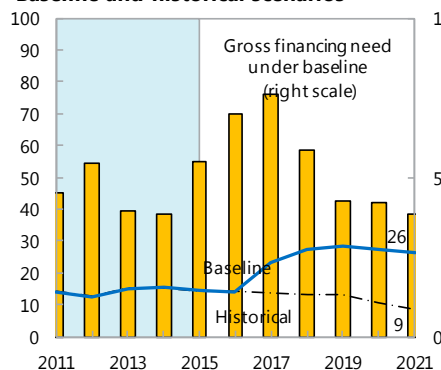
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

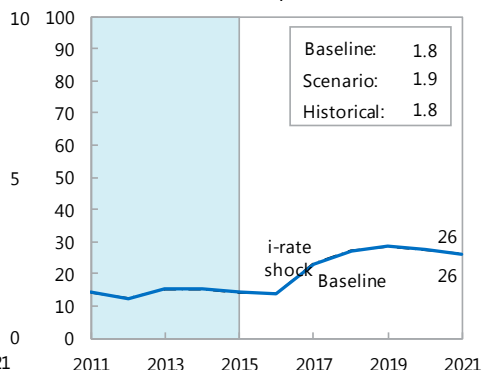
Egypt: External Debt Sustainability: Bound Tests ^{1/ 2/}

(External debt in percent of GDP)

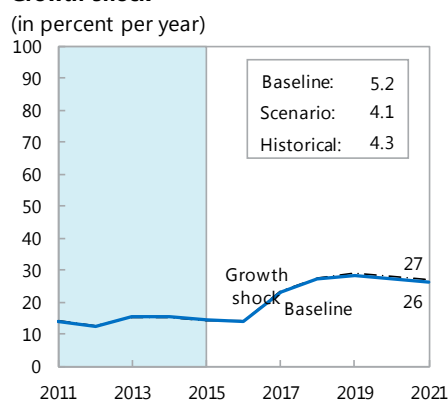
Baseline and historical scenarios



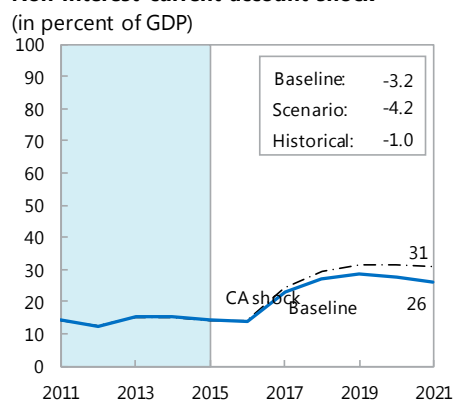
Interest rate shock (in percent)



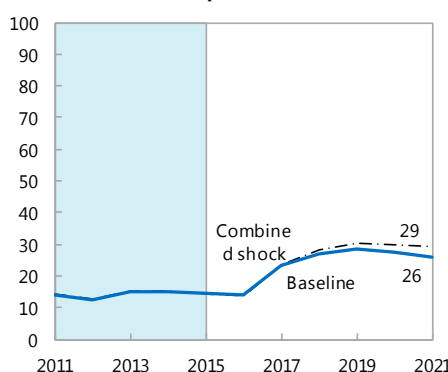
Growth shock



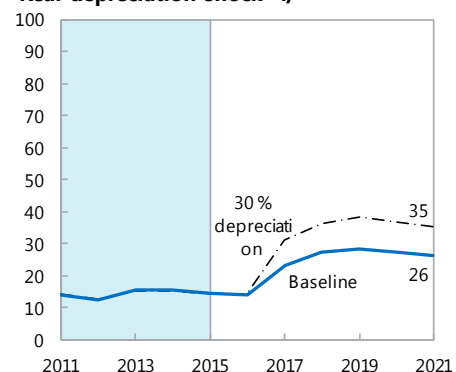
Non-interest current account shock



Combined shock 3/



Real depreciation shock 4/



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

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

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

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

4/ One-time real depreciation of 30 percent occurs in 2010.

Appendix I. Letter of Intent

November 7, 2016

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

Dear Ms. Lagarde:

Egypt is in the midst of a historic transition. The political process has advanced steadily, with the adoption of a new constitution and a presidential election in 2014 and the election of a new parliament in December 2015. However, the long political transition after the revolution of 2011, made worse by heightened security concerns in the region, have taken a toll on confidence and investment, and led to acute balance of payments challenges. While Egypt's medium and long term economic prospects are favorable supported by its strategic location, tourism potential, natural gas reserves, abundant investment opportunities, and young and growing labor force, short-term vulnerabilities have increased. The multiple shocks and prolonged uncertainty triggered capital outflows while investment and tourism declined. The difficult global financial and economic environment and volatile commodity prices have further complicated the situation. As a consequence, growth and job creation remained below potential, the government's budget came under significant pressure, exports declined, inflation picked up, and foreign exchange shortages emerged.

To address the policy challenges facing the Egyptian economy, we have developed a comprehensive macroeconomic program as laid out in the attached Memorandum of Economic and Financial Policies (MEFP). Most of the pillars and measures of our program were announced by the government and were presented and endorsed by the parliament ahead of discussions held with the IMF. To support our efforts, we request a three-year extended arrangement under the IMF's Extended Fund Facility in the amount equivalent to SDR 8.59657 billion (422 percent of quota and about \$12 billion). Our international partners have committed adequate additional funds to help ensure that the proposed program is fully financed.

Our program consists of front-loaded policy adjustment and structural reforms aimed at achieving and maintaining macroeconomic stability, promoting inclusive growth and employment creation, supporting private sector development, and protecting vulnerable groups. It seeks to bolster market confidence by reducing the fiscal and external imbalances, addressing structural impediments to growth, and fostering human and infrastructure development. To this end, we have already adopted the flexible exchange rate regime as a buffer against external shocks that ensures a market clearing level. To support smooth transition to a more flexible exchange rate regime over the coming

months, we request temporary approval of the identified multiple currency practice. Fiscal policy will focus on narrowing the budget deficit to set the public debt on a clearly downward path over the medium-term, while creating space for priority spending on public infrastructure, poverty alleviation, health, education, and social transfers. Monetary policy will seek to control and gradually reduce inflation, support credit growth, maintain an orderly foreign exchange market, and increase in international reserves. Financial sector policies will be geared toward safeguarding the strength and stability of the banking system, and structural reforms will aim at improving the business environment, supporting the export sector, deepening labor markets, simplifying regulations and promoting competition including through IPO sales for some public enterprises. Public financial management and fiscal transparency will be strengthened to improve governance and delivery of public services, and enhance accountability in policymaking.

In line with Fund's policy, a safeguards assessment is expected to be completed by the time of the first program review. IMF resources that will be used for budget support will be maintained in government accounts at the Central Bank of Egypt (CBE). The CBE and the Ministry of Finance will sign a memorandum of understanding that clarifies the responsibilities related to this agreement.

We believe that the policies described in the attached MEFP are adequate to achieve the objectives of our program over the medium-term. We will monitor economic developments and performance and we stand ready to take additional measures that may become necessary to achieve our program objectives. In accordance with the Fund's policies, we will consult with the IMF on adoption of these measures and in advance of revisions to policies contained in the MEFP. We will supply the Fund with timely and accurate data that are needed for program monitoring. Program reviews will be semi-annual. The first review is expected to be completed on or after March 15, 2017 and the second review will be completed on or after November 11, 2017. We consent to the publication of this letter, the MEFP including Tables 1 and 2, the TMU and the related staff report.

Sincerely yours,

/s/

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

/s/

Amr El-Garhy
Minister of Finance
Arab Republic of Egypt

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

A. Introduction

1. **Egypt is facing significant economic and financial challenges.** Political instability during 2011-14 and elevated security concerns in the region have taken significant toll on the Egyptian economy and intensified the long-standing issues of inadequate growth and high unemployment. The uncertainty has hurt business confidence, reduced investments inflows into the country, raised risks, and led to a considerable slowdown in leading economic sectors. Unemployment remains high, while uneven and low to moderate growth has been insufficient to absorb rapidly growing labor force.
2. **The current economic situation calls for resolute measures to maintain macroeconomic stability and remove distortions.** The past five years have demonstrated that the exchange rate regime, foreign currency restrictions, high budget deficits, and administered pricing, especially in the energy sector, constrain competitiveness of the Egyptian economy. A challenging business climate, weak public finances, and structural obstacles further limit growth potential and reduce room for policy maneuver. To address the multiple challenges facing our country, we are putting in place a comprehensive and balanced program of policy adjustment, structural reforms and financing. We intend to fully utilize our internal resources and international support to transform Egypt into a dynamic, productive and fast-growing economy. Inclusive, broad-based growth and job creation will be essential to generate incomes and strengthen wellbeing of all Egyptians.

B. Recent Economic Development

3. **Following a favorable 2014/15, the pace of economic growth slowed in 2015/16 and inflation increased.** Tourism arrivals declined by about 63.9 percent in between October 2015 and June 2016, and improved to negative 41.8 percent in July 2016. The manufacturing sector weakened due to shortages of foreign exchange and to a lesser extent few incidents of irregular energy supply. Although construction, the public sector, retail trade and some services remained buoyant, overall real growth for the fiscal year is estimated to remain below potential mainly due to a contraction in the tourism sector by an estimated 25 percent. While CPI inflation averaged 10.1 percent in 2015/16 compared to 11 percent a year ago, the end-of-period CPI inflation increased to 14.1 percent in September 2016, and core inflation (excluding certain food items and regulated prices) rose from 8 percent in 2014/15 to 13.9 percent in September 2016. Inflationary pressures primarily stemmed from food prices, but supply bottlenecks, strong domestic consumption and pass-through from the exchange rate and adjustments in some regulated prices also played a role.
4. **The external position also weakened in 2015/16.** The current account deficit widened to 5.5 percent of GDP from 3.7 percent in 2014/15. Although imports of goods and services fell by 2.5 percent of GDP, largely because of shortages of foreign exchange and weak growth in addition to the fall in oil and commodity prices, the balance of goods and services worsened as exports contracted even more than imports by 3.1 percent of GDP. Tourism receipts fell by about

\$3.6 billion, or 1.1 percent of GDP. At the same time, official grants and private remittances also fell, partly reflecting the unfavorable global environment and deteriorating incomes of the Egyptian migrants in Gulf countries due to low oil prices. Gross international reserves declined by about \$2.5 billion from 3.6 months of prospective imports in 2014/15 to 3.1 months in 2015/16.

5. **The overall fiscal deficit of the budget sector increased from 11.5 percent of GDP in 2014/15 to 12.1 percent in 2015/16, which is significantly larger than the budgeted 8.9 percent of GDP.** Because of the delays in implementing some of the main planned reforms including the VAT, postponement of the capital gains tax, the unification of income tax rates and slowdown in economic activities, revenues fell short of expectations. General government gross debt increased to an estimated 94.6 percent of GDP.

6. **We have taken a number of steps toward liberalizing the exchange rate regime as necessary to address bottlenecks in the foreign exchange market.** On November 3 we have adopted a flexible exchange rate regime as a buffer against external shocks that ensures a market clearing level (prior action). Banks have been allowed to buy and sell FX at their own rates and the priority imports lists have been eliminated. The CBE has also communicated to the market that it will only participate in trading sessions sporadically to minimize disorderly exchange rate movements. The change of the exchange regime was accompanied by a significant tightening of monetary policy by raising policy rates by 300 basis points and removing EGP38.8 billion of the liquidity surplus from the banking system via the newly introduced deposit auctions of 118-day maturities. This was a critical step to minimize overshooting and avoid disorderly adjustment in the foreign exchange market.

C. Economic Program

7. **We have developed a comprehensive reform program that will address the current macro imbalances and the deep seated problems that hold back the Egyptian economy.** The key objectives of the program are to restore macroeconomic stability, strengthen fiscal and external sustainability, and lay solid foundation for inclusive and robust growth, and employment creation. We are implementing strong and front-loaded adjustment of fiscal and monetary policies to stabilize the economy and place public debt on a clearly declining path. We have also launched broad-ranging structural reforms to support private sector development, strengthen the financial sector, promote exports, and improve governance and the business climate. We believe our efforts will help restore confidence, attract investments, and continue to catalyze international financial support that is essential to ensure adequate financing of the program.

Monetary and Exchange Policies

8. **Monetary policy will seek to control and gradually reduce inflation to single digits over the medium term.** This will support real incomes and enhance external competitiveness. In 2016/17 average inflation is projected to increase, primarily due to the supply-side factors such as the recent adjustment of the pound, introduction of the VAT, and the increase in energy prices. While the first-round impact on inflation will be accommodated, the monetary stance will be geared

toward containing the second-round effects and preventing demand pressures. We have preemptively tightened the monetary stance before moving to the flexible exchange rate regime and sterilized excess liquidity. Specifically, the CBE raised the policy rate and introduced deposit auctions with longer maturities to lock banks' excess reserves. As inflation starts to moderate, the CBE envisages a measured easing of the monetary stance to allow a reduction in interest rates and a resumption of credit growth. However, should demand pressures continue to persist, the CBE will stand ready to delay the loosening or even tighten monetary policy as needed.

9. **The monetary policy framework during the program period will be based on money targeting.** Reserve money will be an indicative target and reflect our projections of market liquidity consistent with the chosen inflation path. We will strengthen our liquidity management and forecasting framework to encompass all segments of the money market, the government securities market, and the foreign exchange market. We will strengthen collaboration between the CBE and the MoF to incorporate public sector flows in the monetary program, and develop capacity for analyzing and forecasting high frequency patterns for fiscal revenues, expenditures, external financing and domestic financing needs. Monetary operations will primarily rely on indirect policy instruments building in particular on the existing deposit auctions and standing facilities, which will enable the CBE to achieve its monetary targets and redistribute liquidity among banks. However, it may also resort to changing reserve requirements as needed whenever liquidity surpluses or shortages are viewed to be structural. To minimize liquidity injection through direct credit to government, by December 31, 2016 we will reduce the current stock of government overdrafts at the CBE by converting EGP250 billion into government securities (structural benchmark) and cap overdrafts thereafter to EGP 75 billion in 2016/17. Any additional holdings of government securities by the CBE will be determined by considerations of monetary policy or to capitalize the central bank should such a need arise. Short-term direct lending to the government will be used only in exceptional situations to bridge to financing from other sources with strict observance of the overdraft limits.

10. **We are committed to maintaining a flexible exchange rate regime, while aiming at rebuilding official reserves.** With the exchange rate adjustment behind us, the new regime will play a critical role in preserving competitiveness and serve as an important buffer against external shocks. Our goal for gross international reserves is to accumulate about \$4.9 billion between June 2016 and June 2017, \$7 billion in 2017/18 and an additional \$4 billion in 2018/19 to reach 136 percent of the Fund's reserve adequacy metric for flexible exchange rate regimes. The CBE will continue to supply foreign exchange at market rates to the government for servicing foreign debt and, for a transitional period, to facilitate government payments for critical imports. Supported by coherent policies and renewed confidence in Egypt, we expect private capital inflows to increase, which will allow the CBE to replenish reserves. The CBE will also stand ready to make occasional sales if unusually large short-term flows pose stability risks to the market. These interventions will be done transparently and the objectives will clearly be communicated to the market. Otherwise, the exchange rate will be market-determined in open and transparent trading, for which an adequate infrastructure is already in place. If FX sales in auctions or the interbank market are excessive, we will tighten monetary policy by raising policy rates or increasing the volume of deposit auctions, or

raising reserve requirement (structural benchmark). We will consult the Fund on the needed policy response if FX sales (including direct sales to SOEs and the government) are excessive.

11. The CBE will strengthen its reserve management practices in line with best international practices. We will develop new investment guidelines for reserve management according to which the CBE will only allocate its reserves in reputable foreign banks and financial instruments. The allocations in banks headquartered in Egypt and located abroad will be limited to \$5.6 billion. They will also provide guidance on the currency distribution and exposure limits. The guidelines will encompass a) clear objectives for reserve management; b) a framework for accountability and transparency of reserve management activities and their outcomes; c) sound institutional and governance structures; and d) a prudent risk management framework. The investment guidelines will be approved by the CBE board by December 31, 2016 (structural benchmark).

12. To enhance the effectiveness of monetary and exchange rate policies, the CBE has strengthened its communication strategy. We believe that transparent and frequent communication of monetary policy objectives, the reasons behind policy decisions and the central banks' assessment of economic developments would help steer market expectations in the right direction and minimize surprises. This strengthens perceptions of stability and contributes to policy credibility. From March 2017 the CBE will regularly publish financial stability reports and will also start publishing quarterly monetary policy and/or inflation reports which will discuss monetary, exchange rate and interest rate developments, the causes of inflation and the measures taken to control it, and will offer the CBE's views of the outlook, risks to that projection and the policy direction (structural benchmark). When buying or selling foreign exchange in the market, the CBE will also clearly communicate the reasons for its interventions.

13. The CBE will gradually remove the multiple currency practice (MCP) identified by the Fund. An MCP arises from the multiple price auction system established by the CBE, as the exchange rates for spot transactions in an auction may differ by more than two percent. We are requesting temporary approval for this measure. Earlier this year the CBE lifted most of the limits on FX deposits but the restriction on resident individuals to transfer abroad no more than \$100,000 annually without an underlying commercial transaction remains in place. Transfers by resident corporations for bona fide current transactions, and by non-residents, are not restricted. Conditional on continued FX market stability, sustained build-up of net international reserves and no pressure in FX cash market, we will remove the \$50,000 cash deposit cap for non-priority goods as well as eliminate the restriction on resident individuals to transfer abroad no more than \$100,000 without an underlying commercial transaction. We would welcome an assessment of the reformed exchange system by the time of the first program review, and will work closely with Fund staff to eliminate the remaining controls

Fiscal Policy

14. Our fiscal policy is anchored to placing public debt on a clearly declining path toward more sustainable levels. To achieve our goal of strong and inclusive economic growth and to

contain inflationary pressures, we are implementing fiscal reforms aimed at balancing between the need to sustainably finance our social programs while also contributing to economic growth and development. Ambitious fiscal consolidation is considered necessary and is planned to reduce debt service costs and free up public funds for high-priority spending, such as infrastructure, health and education, and social protection. This will support lower inflation and higher growth in private sector credit, and allow rebuilding of fiscal buffers to deal with future shocks. Our objective is to reduce general government gross debt from the 94.6 percent of GDP in 2015/16 to about 85.8 percent of GDP by 2018/19 and to 78.2 percent by 2020/21. To this end, we intend to move from the budget sector primary fiscal deficit of 3.4 percent of GDP in 2015/16 to a surplus of 2.1 percent of GDP in 2018/19, and broadly maintain those surpluses through 2020/21. For credibility and faster results, we are frontloading the adjustment—our 2016/17 budget which was approved by Parliament in late June targets a primary deficit of 0.8 percent of GDP. Should external budget support (program disbursements) exceed the programmed levels, we will consider using part of the excess for public investment projects with high rates of social and/or economic returns. In such cases, we will seek modification to the performance criteria on the primary fiscal deficit and net international reserves, consistent with the objectives of the program, in the context of the next program review. As required by the budget law, we will request approval from Parliament of any increases in expenditure under specific headings that are required to implement the program budget.

15. The fiscal consolidation is solidly grounded on number of revenue enhancing and expenditure optimization measures. Specifically,

Revenue measures:

- **VAT reform:** In August the Parliament approved the new VAT law (prior action), which became effective as of September 8, 2016 to replace the pre-existing General Sales Tax. The new VAT regime is fairer and more efficient, and considerably expands the taxable base. The new endorsed law stipulates a standard rate of 13 percent in FY 2016/2017 before increasing to 14 percent starting in FY 2017/2018. At 14 percent VAT rate, this reform will generate 1.1-1.3 percent of GDP in additional revenues in 2016/17–2018/19.
- **Small business tax regime:** The Parliament also approved by end of August a new simplified tax dispute settlement law. This law will introduce a new simplified and transparent mechanism that should bring an end to many existing disputes with tax payers. This should generate additional revenues in 2016/2017 as well as contribute to improving confidence between the tax authority and tax payers. This will be supplemented before end-March 2017, by the introduction of an effective and simplified tax regime for SMEs where small tax payers will pay a reduced flat tax rate on annual recorded turnover levels.
- **Tax base expansion and administrative reforms:** Over the next year, we will closely study the redistributive incidence of tax exemptions with a view to expanding the tax base, improving tax efficiency, and reducing economic distortions. Our aim is to increase revenue by 0.4–0.6 percent of GDP in 2018/19.

- **Capital gains tax or stamp tax:** Capital gains tax was introduced in 2014 but was temporarily suspended for listed companies, to be reinstated from May 2017 (structural benchmark). Revenue is likely to be relatively small initially (around 0.1 percent of GDP), but has the potential to grow strongly over the long-term.
- **Tobacco excise:** The excise rates on tobacco products were increased. This is projected to generate 0.2 percent of GDP in 2016/17.
- **Other revenue measures:** A number of other revenue measures will boost government revenue by an additional 0.3 percent of GDP in 2016/17, increasing to 0.5 percent in 2018/19. These other measures include the sale of telecom licenses and land, fees and licensing, and the return of positive cash balances in government agencies.

Expenditure measures

- **Wage bill:** The total wage bill declined from 8.5 percent of GDP in 2013/2014 to 7.6 percent of GDP in 2015/16 and is projected to further decline to 6.7 percent in 2016/17. This projected path is expected to materialize from several sources: a) the new budget law eliminates indexation of bonuses and allowances of public employees and defines them in nominal terms as opposed to percentage of the base salary before; b) the current practice of scrutinizing new hiring and not automatically filling vacant positions; c) the new civil service law, passed by Parliament in August, will modernize the entire public employment framework.
- **Energy subsidies:** The third consecutive phase of electricity tariff increases had been announced early in August 2015. Electricity tariffs were increased by an average of 40 percent effective July 2016, and will be increased further, as planned and announced back in 2014, in 2017/18 and 2018/19, with a view to achieving cost recovery in the coming years. We will resume the fuel subsidy reform program that begun in 2014. Our plan is to gradually eliminate electricity and most fuel subsidies. We raised the retail prices for gasoline and diesel by an average of 35 percent in early November. We will continue the subsidy reform for these products with the objective of achieving average pre-tax price to cost ratios of about 56 percent in 2016/17 (prior action), and in steps to reach 100 percent in 2018/19. In addition, we also increased LPG prices by 87.5 percent. Moreover, in the event of major changes in the oil price or the exchange rate from the projected levels the government will be prepared to adjust fuel prices periodically, or take other measures as needed to keep subsidies at levels consistent with the fiscal targets and to achieve the targeted price to cost ratios. Progress toward achieving these targets will be assessed at each program review.

16. **To alleviate the impact of these measures on the poor, about 1 percent of GDP of the savings in 2016/17 have been set aside to be spent on social protection in addition to the amounts allocated in the budget last year (structural benchmark).** These include food subsidies and targeted social cash transfers. In addition, within the overall budget envelope, we will preserve or increase other key programs such as social solidarity pensions, children pension, low-cost housing provisions, health insurance and free medicine for the poor, school meals, subsidies for

infant milk and medicine for children, transportation subsidies for students and low-income areas, health insurance for young children and female primary providers, and vocational training for the youth. The priority will also be given to the constitutionally mandated health, education and R&D, and also to much-needed investment in public infrastructure. We plan to improve female labor force participation by enhancing the availability and quality of pre-school childcare and will study how to improve the safety of public transport.

17. **We will take additional measures, as needed, during the program to achieve our primary balance targets.** These may include: better targeting of food subsidies by improving the current smart card system; accelerating energy subsidy reforms; revisiting tax exemptions and other tax expenditures; and further cutting non-priority expenditures.

Public Financial Management and Transparency

18. **We will further strengthen public financial management and increase transparency and dissemination of budgetary information.** In July 2016, we established a unit within the Ministry of Finance in charge of modernizing public finance management. The new unit has clear mandate and has been staffed with the right and adequate caliber. This will help achieve the fiscal targets, support good governance and accountability in both the public and the private sectors, and promote the efficient and transparent use of fiscal resources. Measures in this area include:

- **Economic authorities.** The operational performance and finances of economic authorities will be reviewed to ensure that they are correctly classified in accordance with international standards. Where the economic authorities are found to be providing public functions, proposals will be made to rationalize and incorporate them in the state budget.
- **State guarantees.** We will improve our oversight of state issued guarantees to ensure that they are justified and do not expose the public finances to excessive or unnecessary risk. A report on all outstanding guarantees as at end-June 2016 will be prepared by end-January 2017 (structural benchmark), and will serve as the basis for an explicit guarantee ceiling, which will be set for end-June 2017. Concurrently, we will establish a committee of senior Ministry of Finance officials to evaluate all guarantee requests, and advise the Minister on the motivation and risks associated with the request. The terms of reference for the committee will provide guidance on the criteria by which guarantees should be evaluated. We intend to request technical assistance to assist in our capacity in this regard.
- **Social Insurance Fund (SIF).** The SIF will benefit from a comprehensive reform to ensure its long-term financial sustainability and preserve its ability to pay adequate and equitable pensions to the retired Egyptians. We will seek technical assistance from development partners and will develop a clear road map of pension reform by June 2017.
- **Medium-term budgeting.** We will strengthen our fiscal planning by introducing the medium-term expenditure framework, which will set multi-year expenditure ceilings by major spending categories. Greater prominence will be given to a functional classification of spending plans in

budget discussions and budget documentation. We also commit to presenting a pre-budget statement to Parliament with every budget. This statement will brief Parliament on economic and public finance developments. We will also update, if needed, the state budget's chart of accounts in line with the Government Finance Statistics Manual.

- **Fiscal risks.** A crucial step to strengthen public finance management is to develop capacity for monitoring and managing fiscal risks, including those mentioned above. For this purpose, the Ministry of Finance established the new unit mentioned above and will prepare by March 31, 2017 a comprehensive statement of fiscal risks covering all key areas including macroeconomic risks, public enterprises, debt management, contingent liabilities, pensions, and resource mobilization (structural benchmark). The statement will be in addition to the annual report on the financial performance of public enterprises produced by the Ministry of Public Enterprises.

Energy Sector Policies

19. **We are launching a comprehensive reform program for the energy sector, which comprises petroleum, gas and electricity and aims to improve the financial position of the sector and raise its efficiency.** The current below-the-cost pricing in all three areas (except natural gas) is economically inefficient and not well-targeted. It encourages excessive energy consumption, favors capital-intensive rather than labor-intensive activities, deters private investment in the sector and results in a heavy fiscal burden. The financial performance of the sector is further undermined by weak governance and a high cost structure. Our objective is to modernize the industry and put it on a sound financial footing to ensure uninterrupted and efficient supply of energy products to businesses and households. We intend to gradually remove untargeted subsidies and attract private sector participation. In parallel, the policy making and regulatory functions will be separated, and an independent energy regulator will be formed. The latter will promote competition and establish a transparent pricing mechanism to ensure cost recovery, while also protecting consumers. To help us achieve this objective, we have already contracted a reputable international consultant, which is tasked to perform a diagnostic study and assist us in designing a time-bound road map for our energy sector reforms. The report from the consultant is expected to be delivered by September 30, 2016. Based on the findings of the report, by March 31, 2017 we will develop a medium-term strategy for energy sector reforms (structural benchmark).

20. **One of the main challenges is to restructure the Egyptian General Petroleum Company (EGPC).** The financial condition of the EGPC has deteriorated significantly since the 2011 revolution. Despite the significant decline in international oil prices, EGPC revenues from sale of fuel products continued to fall short of its costs resulting in the need for budget subsidies and expensive borrowing. Because of its difficult financial position EGPC started accumulating arrears to international oil companies. These arrears exceeded \$6 billion in 2014 on the back of exceptionally high global oil prices, but have since declined and at end-September 2016 amounted to \$3.6 billion. Immediate actions are needed to restore financial sustainability of the EGPC and to minimize risks for the budget. To address the problem, drawing on the recommendations of the external consultant, by March 31, 2017 we will develop an action plan that will place the EGPC on a

financially sustainable footing (structural benchmark). In addition to the ongoing fuel subsidy reform, which should improve revenues of EGPC, the plan will propose the ways to strengthen corporate governance and optimize operating costs. As part of the plan, to encourage the private sector participation, we intend to offer minority shares in several state-owned energy companies to investors through the Initial Public Offerings. The plan will also include a strategy to settle the outstanding arrears. Meanwhile, EGPC will ensure that no new arrears are accumulated, and will seek to reach agreements with creditors on the repayment schedule of the current stock to gradually eliminate it by end-June 2019.

21. **Egypt has an enormous potential to become a major producer and a supplier of natural gas. Gas production has declined considerably since the 2011 revolution.** Daily output fell from 7 billion cubic feet (bcf) in 2010 to about 4 bcf now. However, a number of new fields have been developed in the Nile delta and Egypt's territorial waters in the Mediterranean in the recent years, of which the Zohr field is the most promising. During 2016/17, gas production is set to increase from 3.8 bcf to 4.9 bcf by June 2017, which will significantly reduce costs of generating electricity as well as the fuel import bill. Over the next three years the gas production from these fields is projected to increase to 7.7 bcf per day, which exceeds Egypt's domestic need (currently 5.2 bcf per day) and offers an excellent opportunity to save excess quantities for future generations and/or export gas to other countries in the region and elsewhere. Moreover, the ongoing offshore explorations suggest that a presence of even larger deposits of gas is highly likely, which once confirmed will further boost Egypt's gas potential. Negotiations with international gas exploration companies on development these new fields and on favorable to Egypt production sharing agreements are at an advanced stage.

Financial Sector Policies

22. **Egypt's banking system has weathered well the political transition and multiple shocks, including the global financial crisis of 2007–09 and the economic and political repercussions following the 2011 revolution.** Our banks remain well capitalized, liquid and profitable. Asset quality is improving and loan provisioning is adequate. Based on June 2016 data, the average capital adequacy ratio stood at 13.7 percent, well above the Basel-recommended floor of 8.625 percent and the CBE-mandated 10 percent; return on equity is at a healthy 19 percent; the share of non-performing loans in total loans has declined to 6.8 percent from 8.5 percent in 2014 and close to 11 percent in 2011; moreover, loan-loss provisioning is close to 100 percent.

23. **The main objective of the program in this area is to preserve and further strengthen the health and resilience of Egypt's financial system.** Our regulatory and policy framework strives to infuse public confidence in the banking system so that it plays the key role in financial mediation and efficiently channels savings into productive investments. We will monitor continuously the developments in the sector to ensure that financial surveillance, lending policies, and governance practices are adequate. Our efforts will be focused on: a) strengthening the regulatory and supervisory framework; b) improving our banking capitalization strategy, which may call for additional resources in light of the added exchange rate and interest rate risks (see below); c) promoting competition to enhance efficiency in the delivery of financial services; d) strengthening

the crisis management and resolution framework to mitigate potential systemic risks; and e) promoting financial inclusion by encouraging banks to lend to SMEs, while not compromising credit quality.

24. **Exchange rate and interest rate risks are manageable.** The negative net open FX position makes banks susceptible to exchange rate depreciation, while large holdings of government debt exposes them to valuation losses should interest rates increase. The CBE's Banking Supervision department has conducted rigorous bank-by-bank stress tests before moving to the new exchange regime, which found that the banking sector is resilient to exchange rate and interest rate shocks. We will continue monitoring the impact of the exchange rate regime change on banks' and non-banks' balance sheet, and will take all measures necessary to maintain the stability and soundness of the banking system. We will also closely monitor currency mismatches on the balance sheets of large corporations and state-owned enterprises to mitigate possible credit risks.

25. **We are also taking actions to strengthen banking supervision and the regulatory framework.** These will include a) a review of the CBE supervisory model; and b) promoting competition by increasing transparency and reporting requirements.

26. **We will further strengthen our crisis response capacity.** Our current framework proved to be effective and potent in 2006–07, when we successfully restructured and consolidated our banking system. More than 20 banks have been merged with others or restructured without causing systemic panic or deposit runs. Building on this experience we will continue to further modify and improve our crisis management framework by reviewing and updating the current mechanisms for monitoring and coping with risks in the financial sector, enhancing the early warning systems, including more complex stress-testing techniques, improving governance and failing bank resolution tools, and strengthening emergency liquidity provision arrangements

Business Environment and Other Structural Reforms

27. **As part of our development strategy, we are launching a comprehensive program of structural reforms.** Our objective is to unlock Egypt's growth potential, increase exports and industrial production as well create adequate and well-paid jobs to absorb rapidly growing labor force. It is our ambition to significantly improve our ratings in Doing Business and Global Competitiveness, where Egypt's rank has declined in recent years. In this context, the reform measures we are implementing aim at creating a competitive business environment, attracting investment and increasing productivity to provide fertile ground for private sector activity. The following are the key measures:

- Our licensing regime imposes significant cost on businesses. We are introducing a one-stop shop for licenses and have passed a law for single proprietorship companies to facilitate the establishment and registration of small companies. Business surveys particularly point to the excessive burden faced by entrepreneurs when dealing with industrial licensing, construction permits, and acquisition of land. We will abolish industrial licensing in Egypt with the exception of industries that affect vital public interests and retain only factory permitting. These remaining

industrial licenses will be issued by responsible ministries, and factory permits will be issued by local authorities on a risk-management basis to ensure appropriate land use and compliance with construction, fire, and industrial health and safety codes. The industrial register will be used for statistical purposes only and will not be linked to the exercise of industrial activities.

- The reform of the Civil Defense and Fire pre-approval is also crucial in parallel to reforming industrial licensing. Under the new system we will establish a threshold for low risk production facilities, and will review the fire code to ensure consistency, adequacy, appropriateness, and simplicity. This reform will also have a direct impact on reducing the duration for obtaining Construction Permits.
- Similarly, we are simplifying our bankruptcy and liquidation procedures, which currently discourage investment and risk-taking. We have already prepared a revised draft insolvency law in line with best international standards that will be submitted to the Parliament for consideration before end-2016 and is expected to be adopted no later than June 30, 2017.
- Lack of collateral is often cited as an important obstacle to getting credit, especially for small and medium enterprises. To ease the severity of the problem we will develop an efficient collateral registry by end-March 2017.
- Egypt's non-oil exports of goods are only 4 percent of GDP, which is exceptionally low by international standards. To better utilize our export potential, by end-March 2017 we will develop an action plan to improve the focus of the export promotion regime. We will target the reduction of non-tariff barriers.
- Reducing high unemployment is a high priority, especially among women and youth for which both labor participation and employment statistics are particularly poor. While the macroeconomic policies and structural reforms that we are adopting will all support job creation, we also intend to enhance active labor market policies. We are developing specialized training programs for youth and job intermediation schemes. We also commit to spend around EGP 250 million to improve the availability of public nurseries and other facilities that can enhance the ability of women to actively seek jobs (structural benchmark). In addition, we will form a joint committee that includes relevant stakeholders including Ministry of Labor, Ministry of Social Solidarity, Ministry of Finance, Ministry of Trade and Industry as well as representatives of the Women's council, academia and business community. The committee will be tasked to come up with clear intervention measures that can improve women participation rate in the labor force, for example improvements to transportation safety.
- The announced five-year IPO program is part of the government's agenda to unleash potential of Egypt's public assets, widen ownership base, enhance transparency and corporate governance in state owned companies, diversify investment sources, and attract investments worth \$5bn over three years. Consultations are underway with several investment banks and legal consulting firms to put together a list of potential companies along with a detailed plan, including timing and valuation. The initial focus is on viable successful companies in the following sectors:

banking and financial services, oil and gas, petrochemicals, building materials, and real estate development. The first offering is expected to take place in the first quarter of 2017.

D. FINANCING AND PROGRAM MONITORING

28. **In support of this program, we will continue to mobilize funds from international partners to cushion the adjustment and help us close the remaining financing gap.** The current projections suggest that with the policies outlined in this memorandum the remaining financing gap for the next three years (the program period) will amount to about \$35 billion, of which \$16.3 billion is for 2016/17. To close the 2016/17 gap, we have secured \$1 billion from the UAE, \$2.7 billion from China as part of a currency swap, \$1 billion from the World Bank, rolled over the \$3.2 billion loan from Afreximbank, \$1.35 billion from a repo transaction with foreign commercial banks, \$950 million from the Eurobond, \$250 million from Germany, \$150 million from the U.K., \$150 million from France, and \$50 million from Japan. We expect \$4 billion from the IMF under the EFF arrangement, and \$1 billion from the second tranche of the World Bank's Development Policy Financing, and \$0.5 billion from the African Development Bank.

29. **The program will be monitored through prior actions, quantitative performance criteria, indicative targets and structural benchmarks.** Semi-annual program reviews will be based on December and June test dates. All quantitative performance criteria and indicative targets are listed in Table 1, and prior actions and structural benchmarks are set out in Table 2 below. The Technical Memorandum of Understanding is also attached to describe the definitions of quantitative PCs and, consultation as well as data provision requirements.

**Table 1. Egypt: Quantitative Performance Criteria (PC) and Indicative Targets (IT) Under the EFF Arrangement
July 2016–June 2017**

(In billions of Egyptian pounds unless otherwise indicated)

	Dec.	June
	2016	2017
	Program	Program
Net international reserves of the CBE (\$ million; cumulative change, floor) ¹	1,920	4,175
Net domestic assets of the CBE (at program rates; ceiling)	196	204
Fuel subsidies (cumulative, ceiling) ¹	45.0	62.2
Primary fiscal balance of the budget sector (cumulative, floor) ¹	-52.0	-29.0
Accumulation of external debt payment arrears (\$ million; continuous PC ceiling) ¹	0	0
Average reserve money (ceiling; IT)	531	555
Tax revenues (cumulative floor; IT) ¹	180	473
Accumulation of EGPC Arrears (\$ million; cumulative ceiling, IT) ¹	0	-1,200
<i>Memorandum item:</i>		
Program disbursements (\$ million; cumulative) ¹	10,350	16,300
External budget support loans (\$ million; cumulative) ¹	4,700	7,450
Project loans (\$ million, cumulative) ¹	0	0

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

¹ Cumulative from the beginning of the fiscal year (July 1).

Table 2. Prior Actions and Structural Benchmarks

Measure	Objective	Timing
Hold a foreign exchange auction at a rate which eliminates the estimated real overvaluation; issue a notice to banks that they can quote and trade at any exchange rate; increase CBE policy interest rates by at least 300 basis points; and introduce longer-term deposit auctions to more effectively absorb liquidity during the adjustment process, with an initial auction offer of at least 50 billion pounds	Eliminate misalignment and foreign exchange shortages	Met
Replace the sales tax with a broad-based VAT while providing taxpayers with input tax credits and refunds, including in relation to capital acquisitions	Modernize tax system and improve revenue collection	Met
Increase gasoline and diesel prices at the pump by an average of 35 percent to achieve pre-tax price to-cost ratios of 56 percent and the projected fiscal savings	Continue implementing fuel subsidy reform to increase efficiency and reduce the fiscal burden	Met
Monetary, Exchange Rate and Financial Sector Policies		
If FX sales in auctions or the interbank market are excessive, the CBE will tighten monetary policy. The CBE may decide to conduct such tightening by raising policy rates or increasing the volume of deposit auctions, or raising reserve requirements	Ensure adequate monetary conditions to facilitate accumulation of international reserves	Continuous
Reduce the stock of the government overdrafts to EGP75 billion by converting EGP 250 billion of into securities	Improve liquidity management and remove fiscal dominance	December 31, 2016
The Board of the CBE to approve new investment guidelines for foreign exchange reserve management to clearly define its objectives and the accountability framework, and permit the CBE to allocate its reserves only in reputable international banks and financial instruments with reference to minimum acceptable credit ratings. The allocations in banks headquartered in Egypt and located abroad will be	Strengthen foreign exchange reserves management	December 31, 2016

capped at the current stock of \$5.6 billion		
Start publishing quarterly monetary policy and/or inflation reviews and financial stability reports	Increase transparency of monetary policy	March 31, 2017
Fiscal Policy and Public Financial Management		
Introduce capital gains tax or stamp tax on stock exchange transactions to be effective no later than 2017/18	Improve revenue collection	May 31, 2017
Increase social spending on programs such as cash transfers, social pension, school meals, health insurance and free medicine for the poor, etc. by at least EGP 25 billion	Strengthen social protections	June 30, 2017
Prepare a report on outstanding stock of state guarantees at end June 2016	Improve debt management	January 31, 2017
Prepare a comprehensive statement of fiscal risks covering all key areas including macroeconomic risks, public enterprises, debt management, contingent liabilities, pensions, resource mobilization, etc.	Improve monitoring and management of fiscal risks	March 31, 2017
Energy Sector Reforms		
The government to adopt an energy sector reform strategy based on the report produced by an external consultant	Improve efficiency of the energy sector	March 31, 2017
Develop an action plan that will place the EGPC on a financially sustainable footing	Improve efficiency of EGPC and minimize the related fiscal risks	March 31, 2017
Business Environment and Other Reforms		
Adopt a new licensing law which will 1) abolish industrial licensing with the exception of industries that affect vital public interests and retain only factory permitting; 2) limit Civil Defense and Fire pre-approvals to high-risk facilities	Streamline the licensing regime and reduce the time and effort needed to obtain a license	March 31, 2017
Spend EGP 250 million to improve the availability of public nurseries and other facilities that can enhance the ability of women to actively seek jobs	Improve labor force participation for women	June 30, 2017

Attachment II. Technical Memorandum of Understanding

November 7, 2016

1. This memorandum sets out the understandings regarding the definitions of quantitative performance criteria, indicative targets, and the consultation clause, as well as the data reporting requirements for the extended arrangement under the Fund's Extended Fund Facility (EFF) arrangement. The quantitative performance criteria and indicative targets are reported in Table 1 of the MEFP.
2. Program exchange rates are those prevailing on June 30, 2016.

As of June 30, 2016	Currency Unit per US\$
Egyptian pound	8.77
SDR	0.7056
Euro	0.9019
British Pound	0.7462
Japanese Yen	102.7004
Saudi Riyal	3.7506
Chinese Yuan	6.6480

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

A. Floor on Net International Reserves (PC)

3. **Net international reserves (NIR)** of the Central Bank of Egypt under the program are defined as the difference between foreign reserve assets and reserve-related liabilities. The program targets the change in NIR which is calculated as the cumulative change since the beginning of the fiscal year. NIR is monitored in US\$ and for the program monitoring purposes assets and liabilities in currencies other than US\$ are converted into dollar equivalents using the program exchange rates.
4. **Foreign reserve assets** are defined consistent with SDDS as readily available claims on nonresidents denominated in convertible foreign currencies, including the Chinese Yuan. They include the CBE holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, the country's reserve position at the Fund and other official reserve assets. Excluded from foreign reserve assets are any assets that are frozen, pledged, used as collateral, or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps (with original maturity of less than 360 days), claims on residents, precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of June 30, 2016, foreign reserve assets thus defined amounted to \$17,097 million.

5. **Foreign reserve-related liabilities** are defined as comprising all short-term foreign exchange liabilities of the CBE to residents and nonresidents with original maturity of less than 360 days, including government's foreign currency deposits with original maturity of less than 360 days, banks' required reserves in foreign currency, and all credit outstanding from the Fund, which is on the balance sheet of the CBE. As of June 30, 2016, reserve-related liabilities thus defined amounted to \$9,144 million.

6. **Adjustors.** The NIR floor will be adjusted up (down) by the full amount of the cumulative excess (shortfalls) in program disbursements (as defined in paragraph 7) relative to the baseline projections shown under the memo items in Table 1.

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

B. Ceiling on Average Reserve Money (IT)

8. **Reserve money (RM)** is defined as the sum of currency in circulation outside the CBE, and balances on commercial banks' correspondent accounts and required reserves in local currency at the CBE (this excludes balances in deposit auctions and in term deposits at the CBE). For each semester, average reserve money is calculated from daily balance sheets of the CBE as the average for the last month of the semester. For the second semester of 2015/16, average reserve money amounted to EGP460.67 billion.

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

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

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

10. **Net domestic assets (NDA)** of the CBE under the program are defined as the sum of net credit of the government, net credit to public economic authorities, credit to banks, and open market operations, excluding foreign currency components such as loans and deposits of the government, public economic authorities and banks. As of June 30, 2016, NDA of the CBE amounted to EGP626.37 billion.

Adjustors.

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

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

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

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

12. **The primary balance of the budget sector** under the program is defined as the overall balance of the budget sector plus total interest paid. The overall balance is measured from the financing side and includes the following with the minus sign: (i) net domestic financing of the budget sector; and (ii) net foreign financing of the budget sector. For the fiscal year 2015/16 these variables amounted to EGP341.3 billion and EGP-4.5 billion, respectively.

- i. Net domestic financing consists of:
 - The cumulative change from the beginning of the fiscal year of the outstanding stocks of loans, advances, and overdrafts of the budget sector (as defined in paragraph 12) from the CBE, holdings of government securities and promissory notes by the CBE, and all other CBE accounts receivable due from the budget sector, minus all deposits of the budget sector at the CBE.
 - The cumulative change from the beginning of the fiscal year of the outstanding stock of loans, advances, and overdrafts of the budget sector from domestic commercial banks, holdings of government securities and promissory notes by domestic commercial banks, and all other accounts receivable by commercial banks from the budget sector, minus all deposits of the budget sector at domestic commercial banks.

- The cumulative change from the beginning of the fiscal year of the outstanding stock of domestic debt held outside the central bank and domestic commercial banks including domestically issued government securities held by non-residents. This includes the private sector as well as loans and advances to, and holdings of government securities and promissory notes by public entities not covered by the budget sector accounts, with the exception of bonds issued by the government to the Social Insurance Fund (SIF) to securitize the past arrears.
 - ii. Net external financing is measured on a cumulative basis from the beginning of the fiscal year and is defined as disbursements minus amortization of budget support loans, project loans, Euro-bonds and similar instruments, and any other forms of government external debt, excluding domestically issued government securities held by non-residents. The definition of debt is set out in point 8 of Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board Decision No. 15688-(14/107 adopted on December 5, 2014). Net external financing will be measured in domestic currency at the official exchange rate on the date of the transactions.
 - iii. Interest paid is measured on a cumulative basis from the beginning of the fiscal year and is defined as the total interest bill paid by the budget sector on all its interest bearing liabilities. In FY 2015/16 total interest paid amounted to EGP241.5 billion.
 - iv. For 2015/16 the primary deficit of the budget sector amounted to EGP95.3 billion
13. **Off-budget funds.** The authorities will inform IMF staff of the creation of any new off-budgetary funds or programs immediately. This includes any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001.
14. **Adjustor.** The target for the primary balance of the budget sector will be adjusted up (down) by the full amount of the shortfall (excess) in the disbursement of external project loans, i.e. the disbursement shortfalls will reduce primary deficits and excesses will increase them. The U.S. dollar amounts will be converted into Egyptian pounds using the official EGP/\$ exchange rate on the day of the disbursements.

E. Tax Revenue (IT)

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

F. Fuel Subsidies (PC)

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

G. EGPC Arrears (IT)

17. **EGPC arrears.** This ceiling will apply to accumulation of EGPC arrears to foreign creditors (international oil companies) on a net basis, reflecting the common industry practice of attributing payments to the most overdue receivables. EGPC arrears will be measured in \$. As of September 30, 2016 the stock of EGPC arrears amounted to \$3.6 billion.

H. Continuous Performance Criteria

18. **Non-accumulation of external debt payments (principal and interest) arrears by the general government (as defined in paragraph 12).** No new external debt payments (including on long-term leases) arrears will be accumulated during the program period. For the purposes of this performance criterion, an external debt payment arrear is defined as an amount of payment obligation (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. The performance criterion will apply on a continuous basis throughout the arrangement.

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

I. Consultation Clause

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

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

J. Monitoring and Reporting Requirements

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

K. Data Reporting

Table 1. Ministry of Finance		
Item	Frequency	Submission Lag
Overall deficit of the budget sector	M	30 days
Overall deficit of the general government, NIB and SIFs	M	45 days
Summary of budget sector accounts, including revenues, expenditures and net acquisition of financial assets on a cash basis, consistent with IMF GFS 2001 Manual.	M	30 days
Summary accounts of NIB and SIFs, consistent with presentation of general government accounts	M	45 days
Program disbursements and project loans to the general government	W and M	30 days
Domestic debt stock and debt service costs of the general government and budget sector, including interest payments and amortization	M	30 days (45 days for the general government)
Debt guarantees issued by General Government and the CBE	Q	45 days
Stock of bonds issued by the government to Social Insurance Fund	Q	30 days
Net domestic borrowing of the general government and budget sector, including net t-bill and t-bond issuance in local and foreign currency, separately for domestic and foreign investors, and issuance of other government debt instruments	W and M	30 days (45 days for the general government)
Auctions of t-bills and t-bonds via primary dealers, including the number and value of submitted and accepted bids, minimum, maximum and weighted average interest rates and maturity dates	W	7 days
Gross transfers to EGPC	Q	90 days
Fuel subsidies to EGPC	Q	90 days
Stock of EGPC arrears to foreign creditors	Q	90 days
Use of overdraft facility at the CBE (end of period stock)	W	15 days
Stock of outstanding domestic arrears by creditor	M	30 days
Value and volume of crude oil, oil product, liquid and natural gas, and bunker and jet fuel exports and imports, partner exports and excess cost recovery (separately for liquid and natural gas, and crude oil) (from Ministry of Petroleum)	Q	90 days
Components of foreign direct investment (investments and capital repatriation) to the petroleum sector (from Ministry of Petroleum)	Q	60 days

Note: M = Monthly; W = Weekly

Table 2. Central Bank of Egypt

Item	Frequency	Submission Lag
Program net international reserves and its components (foreign reserve assets and foreign reserve-related liabilities) of the CBE at program and current exchange rates	M	7 working days
Program disbursements and its breakdown by components (as defined in paragraph 7 above)	M	7 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 days
Breakdown of foreign reserve-related liabilities (including foreign currency liabilities to residents) of the CBE by original maturity at actual and program exchange rates	M	15 days
Program NDA of the CBE and its components	M	15 days
Stock of outstanding external debt payment arrears of the general government (if any) by creditor	M	30 days
Projections for external debt payments falling due in the next four quarters, interest and amortization	Q	30 days
Monthly cash flow table based on the agreed template, both past outcomes and projections for 12 months	M	15 days
Balance of payments data in electronic format	Q	90 days
CBE foreign exchange deposits held at commercial banks headquartered in Egypt	W	5 working days
Commercial banks (foreign exchange and Egyptian pound) deposits by sector (household, corporate, public)	M	30 days
Commercial banks core FSI indicators by peer group: i) Net open position and ii) Liquidity ratios: measured in both foreign currency and in Egyptian Pounds	M	30 days
Commercial banks core FSI indicators by peer group: i) Capital adequacy ratio defined as regulatory capital as a share of risk weighted assets; ii) Regulatory capital; iii) Nonperforming loans as a share of total loans; and iv) Provisions as a share of NPLs	Q	75 days
Other depository corporations (commercial banks) balance sheet information in SRF (preliminary)	M	30 days
Central bank balance sheet in SRF (preliminary)	M	15 days
Central bank's weekly analytical balance sheet (preliminary data to be submitted once a week for the previous week)	W	7 business days after the end of the week
Daily official exchange rates EGP/US\$ (data to be submitted once a week for the previous week)	W	5 business days after the end of the week
Central bank daily purchases and sales of foreign exchange by counterparts – commercial banks, EGPC, GASC, government	W	2 business days after the end of the week
Daily average buy and sell exchange rates EGP/US\$ as quoted by foreign exchange bureaus and banks (data to be submitted once a week for the previous week)	W	5 business days after the end of the week

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

Statement by Hazem Beblawi, Executive Director for Arab Republic of Egypt and Wafa Abdelati, Senior Advisor to Executive Director
November 11, 2016

The Egyptian authorities are undertaking momentous reforms. Egypt's economy faced multiple headwinds that led to a significant growth slowdown from previously high levels, rising unemployment, acute balance of payments challenges, and inflated fiscal deficits – all of which coincided with rising public aspirations. The economy was subjected to successive shocks, including the effects of the political transition, a heightened regional security situation that severely impacted investment and tourism, and unfavorable global economic conditions which have taken a toll on confidence and investment and triggered capital outflows. As the situation became untenable, the authorities initiated wide-ranging and bold reforms to restore macroeconomic stability, ensure robust inclusive growth, build confidence, and rebuild reserves.

The government is implementing a comprehensive and well-balanced program for which they have requested a three-year extended arrangement. Specifically, the program aims to restore a healthy foreign exchange market, reduce the fiscal deficit and high debt, remove internal supply bottlenecks to achieve the growth potential, and create jobs as laid out in the MEFP. A paramount objective is to carry out these reforms, which entail short-term pain, while safeguarding social cohesion; which will be difficult to balance and all the more challenging when there are high expectations of immediate results. Some reforms were already initiated in 2014, and the adjustment as agreed with the Fund is significantly front-loaded, which underscores the tremendous resolve for reform at all levels of government.

Monetary and Exchange Rate Policies

An important component of the program is the decisive reform of the foreign exchange system by the Central Bank of Egypt (CBE) on November 3, 2016 with the goal of eliminating persistent foreign currency shortages. A preemptive tightening that includes a 300 bp rate hike, as well the ongoing substantial fiscal tightening, were both considered necessary conditions for successful exchange rate reform. Following an initial devaluation from 8.8 to 13, which CBE has announced as a nonbinding foreign exchange rate to serve as soft guidance to jumpstart the market, banks were free to set buy and sell rates for trading among themselves and with clients; operating hours for banks' foreign exchange units were extended to 12 hours a day including weekends; and the priority import list was abolished. Initial results are encouraging, although there has been a larger devaluation of the Egyptian pound relative to what was initially envisaged or suggested by fundamentals. Banks are competing to attract foreign exchange deposits and this pent up demand is expected to lead to initial over-shooting. The pound traded at an average of 14.65 at the central bank's initial auction on November 3, and traded in the interbank market the following three business days at buy rates of 15.7-17.8 and sell rates of 16.3-18.25 to the U.S. dollar.

The move was widely welcomed domestically and abroad. It is expected to improve Egypt's external competitiveness, support exports and attract foreign investment and rebuild CBE international reserves. The CBE stands ready to adjust monetary policy as needed to stave off excess pound liquidity in order to limit pressure on the pound and contain the inflationary impact of the devaluation. The CBE expects the situation to stabilize as banks gain experience and trading volumes improve, both with clients and on the interbank market. Initial indications suggest that transactions on the parallel market have diminished considerably and are likely to disappear as more dollar liquidity is diverted to banks.

Monetary policy remains focused on reducing inflation back to single digits within two years, especially to contain the second round impact of the energy price increases, VAT introduction, and devaluation. CBE hiked policy rates and introduced longer maturity deposit auctions in early November to tighten the monetary stance and sterilize excess liquidity. Inflation had reached 14 percent prior to the devaluation and is expected to rise further this fiscal year before coming down. In addition to the indirect policy instruments, disinflation will be supported by minimizing liquidity injection through direct credit to government from the overdraft facility by applying strict limits; the overdraft has recently accounted for one third of deficit financing. CBE will begin to publish its quarterly inflation and monetary policy report in 2017.

Fiscal Policy and Public Financial Management

A significant fiscal consolidation is concurrently under way. Financing of the fiscal deficit has contributed to exchange rate pressures, pushed up interest rates, and crowded out the private sector. With deficits averaging 12.5 percent of GDP in the past four years, debt approaching 100 percent of GDP, the interest bill at 30 percent of government expenditure, and gross financing needs exceeding 55 percent of GDP annually (including rollover of domestic debt), action to contain fiscal deficits could no longer be postponed. To address this, the government's 2016/17 budget as approved by the newly- appointed Parliament, reduces the *primary* fiscal deficit by 2½ percentage points of GDP.¹ The budget target ensures that budget sector debt will be on a declining path starting this year.

Fiscal-reducing measures that have already been implemented include a third increase in electricity prices by an average 40 percent; adoption of a long-awaited modern VAT system at an initial rate of 13 percent; a simplified business tax regime; increases in tobacco excises; and an increase in fuel and natural gas prices between 35 to 87 percent on November 4, 2016. The public wage bill is projected to decline by nearly 1 percent of GDP. Thus, the *gross deficit-*

¹ The program targets change in the primary fiscal deficit given the uncertainty surrounding interest rates.

reducing measures undertaken this year are quite substantial and amount to 5½ percent of GDP² on an annualized basis.

In order to mitigate the impact of policy tightening on the vulnerable, the authorities plan to increase budget spending by an additional 1 percent of GDP, over and above normal allocations, to expand social assistance programs. Nevertheless, they remain concerned about the social implications of the adjustment and the potential need for further resources and measures to strengthen the social safety net. In this regard, we call on staff to carry out analysis of the distributional impact of the full package of reforms and to collaborate with the World Bank as needed on this issue. The authorities would greatly appreciate if staff would update and expand the 2013-2014 incidence analysis, by the first review, to better assess the social cost of adjustment and the need for further pro-poor mitigating measures.

Additional fiscal reforms are necessary to sharply reduce debt. Even with these significant measures the fiscal deficit would remain high at 10 percent of GDP. Future consolidation will deliver a primary surplus exceeding 1 percent of GDP next year and 2 percent of GDP in 2018/19—which would deliver a **swing in the primary deficit by 5½ percent of GDP** in three years. Further reducing fuel subsidies, which disproportionately benefit the rich remains a high priority not only to reduce the deficit but also to free up more resources for spending in priority areas such as health, education and public infrastructure. The subsidy bill has already declined from a peak of 6½ percent of GDP in 2012/13 to 1¾ this year; and will be further reduced to below ½ percent of GDP. Public debt is forecast to decline by close to 20 percentage points of GDP within 5 years.

Strengthening institutions and the policy framework is a priority. In July 2016, the Ministry of Finance established a new unit in charge of modernizing public financial management with a mandate to support good governance and accountability and the efficient use of fiscal resources. Medium-term budgeting will be introduced and a pre-budget statement provided to Parliament. Attention will be given to reviewing the operational performance of economic authorities and identifying those that are providing public functions and should be incorporated within the budget. A list of all state guarantees will be compiled, ceilings on future guarantees proposed, and the framework for issuing state guarantees will be reviewed with a view to limit unnecessary fiscal risks. The finances of the Social Insurance Fund will be reviewed with external technical assistance. In addition, a comprehensive statement of fiscal risks will be prepared in the first quarter of 2017 covering all areas including contingent liabilities, pensions and public enterprises.

² This figure is higher than the 3.9 percent of GDP shown in the staff report, as it (i) annualizes the fiscal yield from the VAT and fuel price increase that became effective in September and November, respectively; and (ii) includes 0.9 percent of GDP as the decline in the wage bill this year as described in paragraph 15 of the MEFPP.

Energy Sector Reforms

Egypt has considerable prospects as a supplier of natural gas and substantial scope to improve the supply of electricity and efficiency of the petroleum sector. A comprehensive reform of the energy sector was launched in 2014. The first priority has been to increase capacity to ensure more reliable electricity supply. In the second step, an independent energy regulator will be created to ensure transparent pricing on the basis of an energy sector strategy to be prepared by March 2017. Based on recent discoveries, gas production will exceed Egypt's domestic needs within 2017, while ongoing exploration could further increase Egypt's gas potential. With respect to the petroleum sector, the near term focus is to place the Egyptian General Petroleum Corporation on a financially sound footing by implementing the action plan to be prepared by external consultants, and by the removal of fuel subsidies. The plan will suggest ways to strengthen corporate governance, optimize operating costs and provide avenues to involve the private sector.

Financial Sector

The financial system is strong, well capitalized, liquid and profitable. The CBE's supervision department has conducted rigorous bank-by bank stress tests and found the system resilient to severe exchange rate and interest rate shocks; it continues to monitor the stability of the system. In addition to continued strengthening of the regulatory and supervisory framework, the CBE will promote effective competition, improve access to financial services, and strengthen the crisis management and resolution framework. The CBE will publish its financial stability report starting in December 2016.

Private Sector Growth and Export Potential

To unlock Egypt's growth and export potential, the authorities are launching a wide-ranging structural reform program. Key among the measures is a new licensing regime, which will include a one-stop shop. The bankruptcy and liquidation procedures will be simplified and a new insolvency law adopted. An efficient collateral registry will be developed to facilitate access to finance. To improve export performance, the authorities will develop an action plan to address bottlenecks to the growth of nonoil exports. To address high unemployment, they are developing specialized training programs for youth and intermediation programs, and will increase spending on public nurseries to support higher female labor force participation. To support export growth, an action plan will be developed in early 2017 to look into the current export promotion regime. Moreover, a five-year IPO program aims to diversify investment sources by attracting investments worth \$5 billion over three years. The program will initially focus on a small number of viable public companies in the financial services and banking, oil and gas, petrochemicals, and real estate development.

Growth Outlook and Inclusion

Reviving Egypt's economy is the best way to meet the aspirations of the Egyptian people. Egypt expects a return to higher growth over the medium-term, building on the inherent strength of the economy represented in its human and natural resources. The policy reforms mark a significant turning point to achieve the authorities' ambitious goals. Notwithstanding the potential near-term contractionary effects, the authorities also see a potential for a higher-than-currently-projected investment response to the strong package of reforms and the credibility gains associated with approval of a Fund program. H.E. President el-Sisi repeatedly underscored the importance of protecting low income groups while undertaking necessary reforms. To better support this objective, the authorities will accelerate ongoing work to develop a database of vulnerable groups, enhance social safety net programs, and better target assistance to reach deserving households. It is expected that the macroeconomic and structural reforms will revitalize the economy and be supplemented by measures to improve human capital, including through better health and education, in order to reap benefits for all.

To conclude, the authorities are undertaking an extraordinary effort and appreciate the broad support of the Fund and the international community. They wish to thank the Executive Board for considering this request on such a short notice. They appreciate staff's hard work and management's efforts in bringing this program to fruition.