INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/311

ARAB REPUBLIC OF EGYPT

October 2019

FIFTH REVIEW UNDER THE 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 Fifth Review Under the 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 July 24, 2019, following discussions that ended on May 16, 2019, 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 July 10, 2019.
- 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*
Technical Memorandum of Understanding*

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.

Copies of this report are available to the public from

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

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 19/300
FOR IMMEDIATE RELEASE
July 24, 2019

International Monetary Fund
Washington, D.C. 20431 USA

Egypt-IMF Executive Board Completes Fifth Review under the Arrangement under Extended Fund Facility (EFF)

On July 24, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fifth and final review of Egypt's economic reform program supported by an arrangement under the Extended Fund Facility (EFF). The completion of the review allows the authorities to draw the equivalent of SDR 1,432.76 million (about US$2 billion). This brings total disbursements to SDR 8,596.57 million (about US$11.9 billion or 422 percent of quota), which is the full amount approved by the Executive Board on November 11, 2016 (see Press Release No. 16/501) to support the authorities' economic reform program.

Following the Executive Board discussion on Egypt, Mr. David Lipton, Acting Managing Director and Chairman of the Board, said:

"Egypt has successfully completed the three-year arrangement under the Extended Fund Facility and achieved its main objectives. The macroeconomic situation has improved markedly since 2016, supported by the authorities' strong ownership of their reform program and decisive upfront policy actions. Critical macroeconomic reforms have been successful in correcting large external and domestic imbalances, achieving macroeconomic stabilization and a recovery in growth and employment, and putting public debt on a clearly declining trajectory.

"Monetary policy remains anchored by the medium-term objective of bringing inflation to single digits. Core inflation appears to be well contained, but the central bank should remain cautious until disinflation is firmly entrenched. Exchange rate flexibility remains essential to improve resilience to shocks and preserve competitiveness.

"The 2018/19 primary surplus target of 2 percent of GDP was met, helping to anchor a further decline in the public-debt-to-GDP ratio. It will be important to maintain primary surpluses at this level over the medium term to keep public debt on a downward trajectory. The elimination of most fuel subsidies, which are regressive, will encourage energy efficiency, help protect the budget from unexpected changes in oil prices, and free up fiscal space for social spending. Improved revenue mobilization is also essential to create room for spending in health, education, and social protection.

“The outlook remains favorable and provides an opportune juncture to further advance structural reforms to support more inclusive private-sector led growth and job creation. The authorities have launched important reforms of competition policy, public procurement, industrial land allocation, and state-owned enterprises, and sustained implementation will be essential to ensure that statutory changes achieve meaningful results in the business climate. Deepening and broadening of effective reforms is critical to underpin the positive outlook for growth and unemployment.”

Table 1. Egypt: Selected Macroeconomic Indicators, 2016/17–2020/21 1/

	2016/17	2017/18	2018/19		2019/20		2020/21
			Fourth Review	Revised Proj.	Fourth Review	Revised Proj.	
Output and prices			(percent change)				
Real GDP (market prices)	4.1	5.3	5.5	5.5	5.9	5.9	6.0
Consumer prices (end of period)	29.8	14.4	14.5	12.4	10.7	9.6	7.4
Consumer prices (period average)	23.5	20.9	15.8	14.4	12.8	11.4	7.2
Public finances 2/			(percent of GDP)				
Gross Debt	103.2	92.7	86.0	85.2	83.3	81.9	79.2
External	18.1	19.2	18.0	17.7	17.6	17.4	17.1
Domestic	85.0	73.5	68.0	67.5	65.7	64.4	62.1
Budget sector 3/							
Revenue and grants	19.0	18.5	18.3	18.0	17.8	17.9	18.1
Expenditure (incl. net acquisition of financial assets)	29.9	28.3	26.6	26.1	24.5	24.9	23.7
Of which: Energy subsidies	4.1	3.4	2.1	1.9	1.2	0.9	0.4
Overall balance	-10.9	-9.7	-8.3	-8.2	-6.7	-7.0	-5.6
Overall balance, excl. grants	-11.4	-9.8	-8.3	-8.2	-6.7	-7.0	-5.6
Primary balance 4/	-1.8	0.2	2.0	2.0	2.0	2.0	2.0
Monetary sector			(percent change)				
Credit to the private sector	38.0	10.1	19.2	19.9	18.9	20.0	16.0
Reserve money	-7.8	28.3	34.2	33.5	20.7	19.3	14.3
Broad money (M2)	39.3	18.5	20.8	19.6	20.5	17.5	13.7
Treasury bill rate, 3 month (average, in percent)	17.5	18.8	…	18.6	…	…	…
External sector			(percent of GDP, unless otherwise indicated)				
Exports of goods (in US$, percentage change)	16.2	18.9	14.4	14.6	5.3	15.1	5.5
Imports of goods (in US$, percentage change)	2.8	6.9	6.4	8.1	3.1	11.1	5.6
Merchandise trade balance	-14.5	-14.9	-12.4	-12.8	-11.3	-11.7	-11.5
Current account	-5.6	-2.4	-2.5	-2.6	-1.8	-2.5	-2.1
Capital and financial account (incl. errors and omissions)	4.8	4.0	2.0	2.5	2.0	1.8	2.4
Foreign direct investment (net, in billions of US$)	7.8	7.4	9.5	6.5	11.2	8.1	9.8
External debt 5/	41.3	37.4	34.4	33.3	31.3	30.5	29.2
Gross international reserves (in billions of US$)	30.7	43.5	44.9	43.9	45.4	43.7	44.5
In months of next year's imports of goods and services	5.0	6.6	6.6	5.9	6.3	5.6	5.4
In percent of short-term external debt 6/	124.5	139.1	160.2	214.6	147.7	181.2	165.2
Financing gap (in billions of US$)	…	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Nominal GDP (in billions of Egyptian pounds)	3,470	4,437	5,414	5,351	6,458	6,305	7,157
Nominal GDP (in billions of US$)	256	250	…	…	…	…	…
GDP per capita (in US$)	2,704	2,573	…	…	…	…	…
Unemployment rate (period average, percent)	12.2	10.9	9.6	8.8	8.3	8.0	7.5
Population (in millions)	94.8	97.0	99.2	99.2	101.5	101.5	103.8

Sources: Egyptian authorities; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ General government includes the budget sector, the National Investment Bank (NIB), and social insurance funds.
3/ Budget sector comprises central government, local governments, and some public corporations.
4/ The primary balance for 2017/18 excludes the recapitalization of the CBE for EGP 6 billion.
5/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing.
6/ Debt at remaining maturity and stock of foreign holding of T-bills.

CONFIDENTIAL

ARAB REPUBLIC OF EGYPT

July 10, 2019

FIFTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

KEY ISSUES

Egypt's macroeconomic situation has improved significantly since 2016. Over the last three years, the authorities have carried out an ambitious home-grown reform program that aimed to correct large external and domestic imbalance and promote inclusive growth and job creation. Critical macroeconomic reforms implemented under the program have been successful in achieving macroeconomic stabilization, a recovery in growth and employment, and putting public debt on a clearly declining trajectory. Fiscal savings have been partly utilized to ease the burden of adjustment on the poor.

Macroeconomic performance has remained strong in 2018/19, supported by continued sound policy implementation. Financing conditions have improved despite elevated uncertainty over the global outlook, with resumed portfolio inflows supporting an appreciation of the Egyptian pound and bringing domestic yields on government securities back down toward their levels from early 2018.

The outlook remains favorable, but sustained reform implementation will be needed to maintain strong medium-term growth. Ongoing structural reforms aim at a more inclusive private-sector and export-led growth model to absorb sizable new entrants to the labor force expected over the next decade. Deepening and broadening of effective reforms is critical to underpin the positive outlook for growth and unemployment. In addition, the still-high level of public debt leaves Egypt vulnerable to a weakening in investor confidence or a shift in global financial conditions.

Program performance has been broadly favorable. All end-March 2019 performance criteria and indicative targets were met but progress on structural reforms has been uneven, with a number of missed structural benchmarks. Key measures on fuel subsidy reform were achieved with a delay, and the authorities have strengthened oversight of the National Investment Bank to allow more time for work on a plan to restructure its operations. Sustained efforts are needed to advance reforms in competition, industrial land allocation, and governance of state-owned enterprises.

Staff supports the authorities' request for the completion of the fifth review under the Extended Arrangement under the Extended Fund Facility (the EFF Arrangement).

Approved By
Juha Kähkönen and Sanjaya Panth

Discussions were held in Cairo during May 5–16. The mission team comprised Subir Lall (head), Matthew Gaertner, Nikoloz Gigineishvili, Lahcen Bounader (all MCD), Emine Hanedar (FAD), Melesse Tashu (SPR), Oleksandr Pysaruk (MCM), and Karim Badr (local office). Ms. Abdelati (OED) also participated in the discussions.

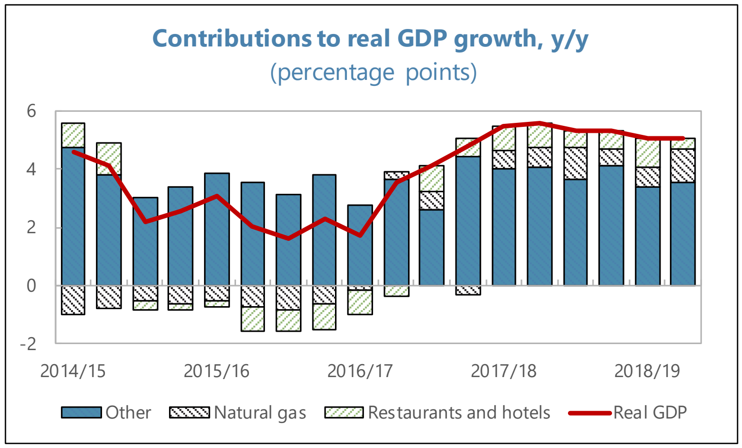
CONTENTS

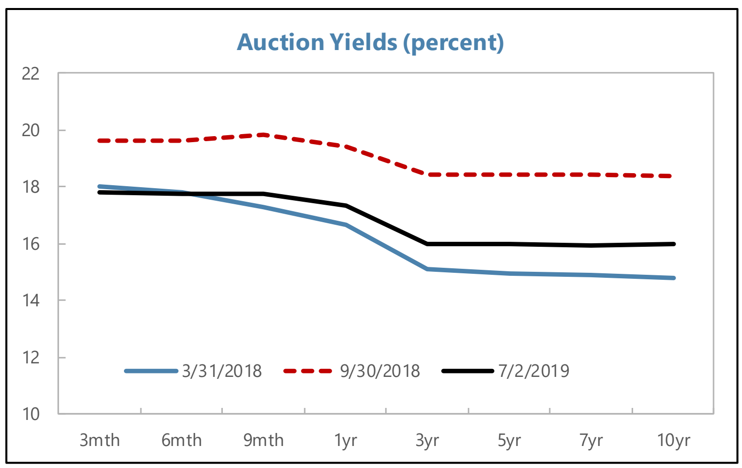
ANNEX

APPENDIX

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **Macroeconomic performance has remained strong in 2018/19, supported by continued sound policy implementation.** Real GDP increased by 5.4 percent in the first half of 2018/19, supported by strong growth in natural gas, tourism, and construction, while unemployment declined to 8.1 percent in the first quarter of 2019, the lowest in over a decade. The current account deficit is expected to remain little changed at 2.6 percent of GDP in 2018/19, with Egypt becoming a net exporter of oil and gas in late 2018 for the first time since 2012/13. Headline inflation picked up slightly from 12 percent in December 2018 to 14 percent in May due to increases in food prices, but core inflation remains stable at around 8 percent. The budget is on track to achieve a primary surplus of 2 percent of GDP in 2018/19, in line with the program target, with gross general government debt projected to decline from 93 percent of GDP in 2017/18 to 85 percent of GDP by end-June.





2. **Financial market conditions have recovered in 2019 despite continued risks to the global outlook from escalating trade tensions.** Portfolio inflows have resumed in 2019 as investor sentiment toward Egypt improved, supporting an appreciation of the Egyptian pound against the U.S. dollar of about 8 percent since the beginning of the year. Treasury bill yields have also declined by about 200 basis points, bringing domestic yields back down toward their levels from early 2018 for maturities of less than one year where demand from nonresidents is focused; the yield curve remains inverted, reflecting expectations of lower inflation over the medium term.

3. **Program performance has remained broadly favorable, but progress on structural reforms has been uneven.** All end-March performance criteria and indicative targets were met, but a number of structural benchmarks were missed due to delays or only partial implementation reflecting in part capacity constraints. Nevertheless, continued progress in key areas has kept the

program broadly on track to meet its objectives. The benchmarks on reaching cost recovery on fuel prices and introducing fuel price indexation were missed but were implemented with delay as prior actions on July 5 and July 6, respectively. The benchmark on development of a plan to restructure the National Investment Bank (NIB) was also missed, to allow a detailed asset review by an international auditor. In the interim, the authorities have introduced measures to strengthen NIB oversight and governance as a prior action. Several other benchmarks were missed: new guidelines for industrial land allocation were approved at end-March but they do not include a market-based allocation mechanism as specified under the benchmark; minority shares were divested through IPOs in one state-owned enterprise by mid-June instead of four; the approval of executive regulations for the new Government Procurement Law was delayed to incorporate comments from the World Bank; and the separation of the regulatory authority for transportation from the Ministry of Transportation (MoT) was delayed due to organizational changes at the MoT. Benchmarks were met on refraining from exemptions for commercial banks to breach net foreign exchange (FX) open position limits; eliminating the FX deposits of the Central Bank of Egypt (CBE) in foreign branches of the Egyptian banks; and launching an e-Procurement portal. The benchmark to approve a plan to align SOE procurement rules with the new law was missed but completed with a slight delay to allow further consultation with the OECD.

OUTLOOK AND RISKS

4. **Continued strong growth will be essential to navigate medium-term demographic challenges.** Egypt will need to accommodate an estimated 3.5 million new entrants to the labor market over the next five years, in the context of already high youth unemployment and low labor force participation. The authorities and staff agreed that the growing labor force presents a tremendous opportunity for faster growth, but only if it encounters a strong and vibrant private sector that can productively employ those workers.

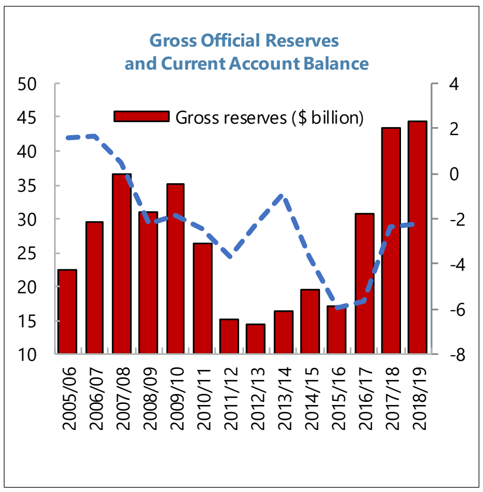
5. **The medium-term outlook hinges on sustained reform implementation to create an enabling environment for private sector-led growth.** In the near term, the increased production of natural gas and ongoing recovery in tourism, as security conditions have stabilized, are expected to support real GDP growth close to 6 percent. As these sectors approach full capacity, increased private investment will be essential to drive productivity improvements and support broad-based growth beyond these areas (Box 1). Staff's baseline scenario assumes that macroeconomic policies remain prudent to preserve macroeconomic stability and that continued progress on structural reforms facilitates a pickup in other sectors, keeping real GDP growth at 6 percent over the medium term. Inflation is expected to decline to mid-single digits from about 14 percent in 2018/19, while a sustained primary surplus at 2 percent of GDP would help reduce general government gross debt to 70 percent of GDP by 2024.

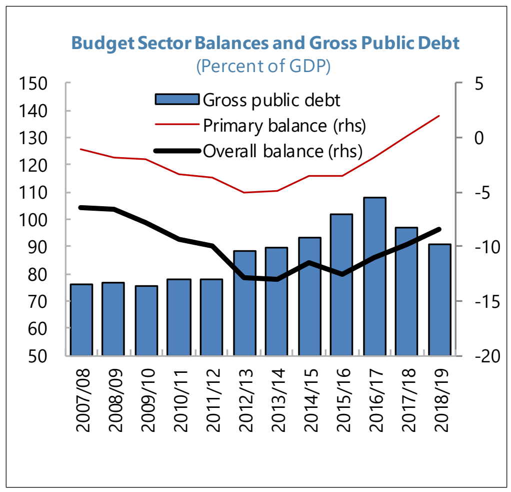
6. **The main risks to the outlook are a shift in global financial conditions or a weakening of reform momentum.** The authorities' prudent policies have been instrumental in strengthening Egypt's resilience to the elevated uncertainty in the external environment. The high level of public debt and large external gross financing needs leave Egypt vulnerable to a shift in global financial

conditions, and a sustained increase in real interest rates could aggravate public debt dynamics. In addition, a loss of momentum on reform implementation due to complacency or opposition from vested interests would weaken the growth outlook. Strong growth in recent years has resulted in a steady decline in unemployment from the peak of 12.9 percent in 2014/15, but should real GDP growth slow toward the 2006–2015 average of 4 percent unemployment would likely return to double digits. Additional risks include materialization of contingent liabilities or a deterioration of the security situation that would disrupt the recovery in tourism. These risks underscore the importance of maintaining sound macroeconomic policies and sustaining reform efforts, particularly as geopolitical competition and rising protectionism increase downside risks to the global outlook.

Box 1. Egypt: Looking Back: Progress Under the EFF Arrangement

Macroeconomic stabilization. By mid-2016, an unsustainable policy mix had left Egypt facing low growth, elevated and rising public debt, and a mounting balance of payments problem with severe shortages of foreign exchange and an overvalued exchange rate. Egypt's reform program, supported by the EFF arrangement, implemented a significant policy adjustment anchored by the liberalization of the foreign exchange market and fiscal consolidation to ensure public debt sustainability while protecting the most vulnerable. The authorities' strong ownership of the program and decisive upfront policy actions were essential in establishing credibility and restoring confidence. These measures were critical in stabilizing the economy: growth has accelerated; current account and fiscal deficits have narrowed; international reserves have risen; and public debt, inflation, and unemployment have declined.





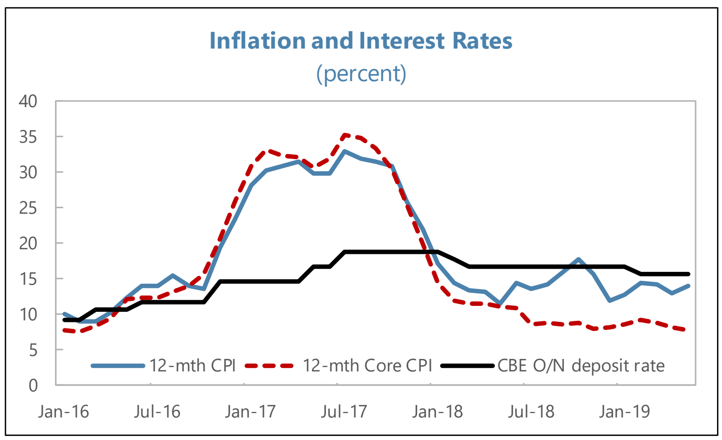
Structural reforms and growth. The acceleration in growth has been driven in part by tourism and natural gas, but the contribution from these sectors is expected to taper as they get closer to capacity. Against this background, as macroeconomic stabilization took hold the authorities appropriately focused increasingly on long-standing structural impediments to growth and resource allocation in other sectors. The structural agenda was expanded to include reforms to industrial land allocation, strengthen competition and public procurement, and improve governance—including of NIB and SOEs. The initiation of these reforms is an important first step, but the transition to a transparent market-based economy will require further broadening and deepening of reforms and their sustained implementation beyond the current program. The medium-term growth outlook depends significantly on creating an enabling environment for private sector development to accommodate Egypt's rising labor force. Continued efforts will be needed to improve the business climate, tackle corruption, reduce the role of the state, and enhance non-oil exports.

POLICY DISCUSSIONS

Policy discussions focused on maintaining a sound policy framework while following through on structural reforms to create space for private sector development and sustain strong growth. Staff and the authorities were closely aligned on monetary and fiscal policy objectives and the importance of sustained structural reform implementation to support medium-term growth prospects. Fiscal consolidation to anchor public debt reduction remains on track, supported by the completion of fuel subsidy reform. Monetary policy continues to focus on bringing inflation down to single digits, underpinned by a flexible exchange rate to improve resilience to external shocks. The favorable near-term outlook provides an opportune juncture to advance structural reforms, and staff emphasized the importance of steadfast execution of the reform agenda beyond the current program.

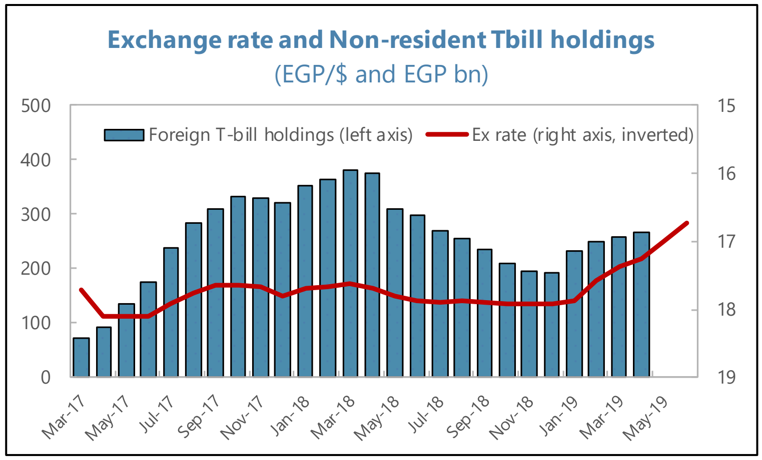
Monetary, Exchange Rate, and Financial Sector Policies

7. **Monetary policy remains anchored to the CBE's medium-term objective of guiding inflation down to single digits.** The CBE lowered its overnight deposit rate by 100 basis points in February to 15.75 percent to reflect softer demand-side pressures, but real interest rates remain positive. The monetary policy stance is expected to remain appropriately restrictive to contain possible second-round effects from increases in fuel prices, but sustained disinflation would provide scope for further reductions in the CBE policy rate. Inflation continues to be driven to a large extent by supply side factors that impact domestic food prices, with core inflation relatively well contained. Structural inefficiencies in the domestic agricultural sector contribute to persistent upward pressure on domestic food prices, reflecting low yields, limited storage capacity, poor transport links from rural to urban areas, and encroachment on agricultural land, in the context of rising demand from a fast-growing population. If inflation pressures reemerge, the CBE should stand ready to tighten monetary policy as needed.



8. **Exchange rate flexibility has increased, and the level of international reserves remains adequate.** The Egyptian pound has appreciated by about 8 percent against the dollar since the beginning of 2019, reflecting in part increased portfolio inflows through the interbank market due to the cancellation of the repatriation mechanism in late 2018 (Box 2).

The increased supply of foreign exchange allowed commercial banks to reduce their open positions below the regulatory limits by end-May, while the CBE has also refrained from granting exemptions for commercial banks to breach net FX open position limits. Gross international reserves remain broadly adequate at about 125 percent of the Fund's Assessing Reserve Adequacy (ARA) metric at end-2018.

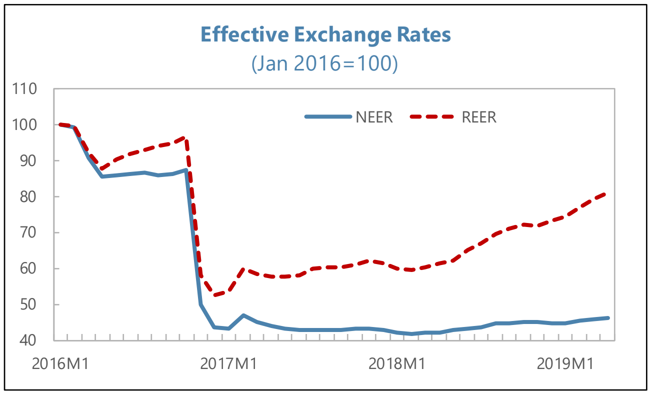


9. The CBE intends to gradually move to an interest rate-based monetary policy framework anchored to inflation in the medium term. The draft Banking Law (to be discussed in Parliament in October) defines price stability as the primary objective of monetary policy and strengthens the CBE's governance, financial structure, operational and institutional autonomy, and the early intervention and resolution framework. To ensure a smooth transition, the CBE will continue to strengthen its analytical and operational capacity, further develop money markets to improve monetary transmission, and continue strengthening its communication strategy (LOI ¶5). This includes regular updates on monetary policy objectives and decisions, and the central bank's assessment of economic and financial developments. The balance in the government's overdraft facility with the CBE has been brought below the statutory limit. The mission welcomed the authorities' decision to issue overdrafts at market interest rates starting from July 1, 2019, but urged them to further reduce its use as it undermines the effectiveness of monetary policy. Staff encouraged the CBE to refrain from any new mortgage lending programs, which extend beyond the central bank's mandate and undermine monetary policy efficiency and credibility.

10. The authorities have initiated a review of the financial position and future operations of the NIB. NIB maintains significant retail deposits in the form of investment certificates and has a large portfolio of SOE loans but is not subject to banking regulations and supervision. A committee comprising representatives of the CBE, the Ministry of Planning, Monitoring, and Administrative Reform, and the Ministry of Finance was created to strengthen NIB oversight and governance and tasked to develop a plan for reforming and improving its financial performance (LOI ¶11). As a first step, the committee hired an international auditor to perform a thorough evaluation of NIB's assets and liabilities, which will inform a subsequent decision on NIB's new financial structure, and its revised mandate and business model. Egypt's banking system overall remains liquid, profitable, and generally well capitalized, and nonperforming loans are contained and well provisioned.

Box 2. Egypt: Assessing External Competitiveness

Real appreciation. An unchanged nominal exchange rate in the context of high domestic inflation has resulted in sustained real appreciation over the past two years. Results under the External Balance Assessment indicated that the external position was broadly in line with fundamentals and desirable policy settings in 2018. However, the REER has continued to appreciate since then.



Improved external position. Egypt has experienced a significant reduction in external imbalances over the past three years, with the current account deficit declining from 6 percent of GDP in 2015/16 to 2.6 percent projected in 2018/19. This has been driven primarily by a strong recovery in tourism as security conditions have improved; a rise in remittances due to the liberalization of the foreign exchange market and high domestic interest rates; and a shift to net exports of oil and gas as domestic gas production increased. At the same time, there has been a large increase in capital inflows as improved macroeconomic conditions and attractive interest differentials have attracted portfolio investors

Non-price factors. Non-oil and gas exports remain relatively small at 6 percent of GDP, with only a modest improvement following the large depreciation of the exchange rate in 2016. This reflects in large part the legacy of inward-oriented economic policies and a prominent role of the state that has constrained efficient resource allocation and weakened the ability of Egyptian firms to compete in external markets. Improved external competitiveness will require a focus on deepening structural reforms to improve non-price competitiveness and re-orient Egypt toward private sector and export-led growth.

Fiscal Policy

11. **Egypt is on track to achieve a primary surplus of 2 percent of GDP in 2018/19, in line with the target under the program.** This will complete the planned three-year cumulative fiscal consolidation of 5.5 percent of GDP during the program. This year's fiscal consolidation has been underpinned by a further reduction in expenditure on fuel subsidies and continued progress on consolidation of the public sector wage bill. The overall deficit is projected to narrow from 9.7 percent of GDP in 2017/18 to 8.2 percent in 2018/19, with general government gross debt projected to decline from 93 percent to 85 percent of GDP at end-June.

12. **The 2019/20 budget passed in June targets a primary surplus of 2 percent of GDP (prior action).** This will help anchor a further reduction in public debt, which remains the key medium-term fiscal objective. The authorities also plan to increase issuance of longer-term debt instruments to extend duration and improve the maturity profile of public debt. The budget incorporates an increase in the public sector wage grid and a onetime wage bonus in addition to the annual statutory public wage increase to help mitigate the impact of cost of living increases on

public employees. The budget also increases the allocation to expand social protection under the Takaful and Karama programs. The authorities are also preparing a pension reform based on a recent actuarial assessment of the current system to ensure its financial viability, including an overhaul of the organizational structure of public pension funds to provide more effective administration and investment of their assets.

13. The reform of fuel subsidies has been completed with the increase of prices to full cost recovery for most products[1] and the introduction of indexation. Retail prices for a range of products were increased by an average of 22 percent on July 5, with the fuel subsidy bill projected to fall to 0.8 percent of GDP in 2019/20 from 1.6 percent in 2018/19 (LOI ¶12). This compares to 3.3 percent in 2016/17. The indexation mechanism is intended to maintain prices at cost-recovery levels and safeguard the budget from unexpected changes in the exchange rate and global oil prices. Price adjustments will take place quarterly, with a cap of 10 percent as a smoothing mechanism. The authorities are also implementing a plan to strengthen corporate governance and optimize operating costs of the Egyptian General Petroleum Corporation (EGPC). As part of the plan, EGPC has cleared an additional $150 million of its outstanding arrears, which at end-December 2018 amounted to $1 billion. The authorities have also continued to implement electricity subsidy reform, with an increase in electricity tariffs of 15 percent at the beginning of July.[2]

14. The authorities are progressing on development of a Medium-Term Revenue Strategy (MTRS) to strengthen revenue mobilization and create space to increase social spending. Strengthening social protection has been a priority since the start of the reform program, and improving revenue mobilization is essential to further increase space for critical spending in health, education, and infrastructure and to continue building a modern and efficient social safety net. This government-led initiative is supported by IMF technical assistance and covers both tax policy and tax administration. The authorities intend to publish the MTRS by end-2019 (LOI ¶8).

15. The authorities plan to broaden the coverage of the report on state-owned enterprises to incorporate entities that were omitted in the initial version and to publish it annually. Based on these reports, they intend to develop a comprehensive reform strategy to streamline and modernize the legal, governance, and operational frameworks for SOEs, and strengthen their financial performance and oversight (LOI ¶10). The PFM law will be also modernized to revamp the entire budget process, including the introduction of a medium-term budget framework.

Structural Reforms

16. The authorities remain committed to advancing structural reforms to attract investment, raise productivity and competitiveness, and create jobs. Achieving strong medium-term growth will require sustained reform implementation beyond the program period to

[1] Excluding LPG and fuel oil used for electricity generation and bakeries. Fuel oil use for electricity generation has declined sharply over the past years as power plants have switched over to natural gas.

[2] This follows an increase in electricity tariffs by an average of 30 percent in July 2016, 40 percent in July 2017, and 36 percent in July 2018.

create the enabling conditions for private-sector and export-led inclusive growth. Exports outside the oil and gas sector have strengthened modestly following the depreciation in 2016 but remain low compared to other emerging market peers at around 6 percent of GDP. To utilize Egypt's full potential, it is critical to improve the efficiency of resource allocation by strengthening competition, improving governance, limiting the scope for corruption, and reducing the role of the state.

17. Improving the efficiency of industrial land allocation through a market-based mechanism is critical for private sector development. New guidelines for industrial land allocation were approved in March to replace the first-come, first-served process used previously with a scoring system based on multiple criteria, including an assessment of business plans, experience, technological expertise, and employment and export potential (LOI ¶14). These guidelines are more complex than before and leave significant discretion in picking successful applicants, with most land prices still set administratively. They do not include an open, transparent and competitive bidding process as specified under the structural benchmark, which was one of the key objectives of the reform. While the authorities believe that the new mechanism is in line with international best practices, the mission noted that technical capacity limitations of domestic institutions would risk large backlogs and create new opportunities for rent seeking. The mission advised the authorities to revisit the guidelines and introduce a market-based land allocation mechanism based on open, transparent, and competitive bidding.

18. The reform of public procurement has been delayed. The new Government Procurement Act was signed into law in October, aligning procurement procedures with international best practices based on the core principles of transparency, fairness, open competition, and sound procedural management (LOI ¶14). The online portal for public procurement also became operational in mid-2019. The authorities have prepared a draft executive regulation for implementation of the new act, which will standardize government procurement procedures across all government entities covered by the law to ensure a transparent and competitive bidding process, and ensure that they apply consistently and uniformly to all government entities' tenders (including budget entities, local authorities, and economic authorities). However, final approval of the regulation was delayed beyond the end-May date specified in the benchmark in order to include input from the World Bank. The approval of a plan to ensure that SOE's procurement rules are consistent with the new law missed the deadline in the structural benchmark, but was completed with a slight delay to allow additional consultation on best practices in this area with the OECD.

19. The new draft law on the Egyptian Competition Authority (ECA) is in Parliament. The new law aims to strengthen the institutional, financial, and operational independence of the ECA, while enhancing its accountability and transparency (LOI ¶14). The draft law was submitted to Parliament in January 2019 and is expected to be approved during the next Parliamentary session. Staff emphasized the importance of passing the amendments to strengthen independence and defining powers of the agency.

20. Reforms continue to progress in a number of other areas, albeit with some delays. The program to divest minority shares in select SOEs has moved more slowly than planned, with the sale of stakes in only one company completed in 2018/19, but the authorities remain committed to their plan to divest stakes in at least 23 SOEs, with an additional four to six planned for 2019/20 (LOI ¶14). A new SME law was sent to Parliament in April, which would introduce a reduced flat tax rate on annual turnover to spur small business development and encourage the formalization of the private sector. The authorities have also launched the Egypt Tourism Reform Program (ETRP), which seeks to build on the recent upturn in tourism by increasing value-added in the sector to help accelerate progress toward the Sustainable Development Goals.

Financing and Program Issues

21. Egypt's capacity to repay is adequate, but risks remain. Fund credit outstanding as a share of gross reserves is projected to peak at 27.5 percent by the end of this year, and debt service to the Fund as a ratio of exports of goods and services would reach 0.9 percent in 2020/21. External risks remain in the context of volatile global financial conditions, but Egypt remains well positioned to manage any increase in capital outflows.[3] The current account deficit is projected to be slightly larger over the medium-term than at the time of the fourth review, reflecting more moderate growth in remittances, but would remain around 2 percent of GDP. In addition, the CBE's reserve position is strong, the fiscal balance is expected to continue to improve, and the memorandum of understanding between the CBE and MoF on respective responsibilities for servicing Fund credit should ensure uninterrupted repayments.

22. The CBE continues to implement the 2017 safeguards recommendations, albeit with some delay. The CBE is initiating an upgrade of its Core Banking System, which will further facilitate revamping its financial reporting practices and alignment with Egyptian Accounting Standards and the IFRS, in particular with request to improved disclosures. The CBE has eliminated its FX deposits in foreign branches of domestic banks. The draft banking law, which strengthens independence and governance of the CBE, will be discussed by Parliament in October.

STAFF APPRAISAL

23. Egypt's macroeconomic situation has improved markedly since the start of the program. Critical macroeconomic reforms implemented by the authorities to correct significant external and domestic imbalances have been successful in achieving macroeconomic stabilization. Growth has accelerated; external and fiscal deficits have narrowed; international reserves have increased; and public debt has been put on a firmly downward trajectory. Unemployment has declined to its lowest level in over a decade, while social protection was strengthened to ease the burden of adjustment on the poor.

24. The near-term outlook remains favorable, but sustained reform implementation will be essential to sustain strong growth and manage external risks. A more inclusive private sector and export-led growth model is needed to absorb the significant new entrants to the labor force expected over the next five years. Strong medium-term growth projected in the baseline assumes

---

[3] An agreement to extend the maturities of several large deposits from nonresidents at the CBE has reduced external financing needs in 2018/19 and 2019/20, with a commensurate increase in 2021/22 and 2022/23.

sustained implementation of structural reforms to support private investment and foster broad-based growth beyond tourism and energy. A loss of reform momentum would reduce growth and potential output and put pressure on unemployment, given the fast-increasing labor force. In addition, while the authorities' sound policies have strengthened Egypt's resilience to external shocks, the still-high level of public debt leaves Egypt vulnerable to a shift in global financial conditions or a weakening of investor confidence in the context of rising uncertainty over the global outlook. This highlights the importance of sustaining sound policies and accelerating structural reforms to raise productivity and further strengthen policy buffers, including by enhancing exchange rate flexibility and reducing public debt.

25. Exchange rate flexibility and a prudent monetary stance are critical to preserve macroeconomic stability. While core inflation appears to be relatively well anchored, staff supports the CBE's intention to maintain a restrictive monetary policy stance to ensure that possible second-round effects from fuel price increases are contained. Volatility in food prices continues to present a challenge to bringing inflation down to single digits. Exchange rate flexibility remains essential to preserve the gains in real competitiveness since 2016. The elimination of the repatriation mechanism and better enforcement of regulatory rules on open FX positions of banks has helped strengthen the responsiveness of the exchange rate to capital flows, as reflected in the currency appreciation since the beginning of the year. It will be important to ensure that the exchange rate also has flexibility to move downward should portfolio flows reverse.

26. This year's budget is on track to achieve a primary surplus of 2 percent of GDP, which would complete the programmed fiscal adjustment of 5.5 percent of GDP in three years. The fiscal consolidation has helped anchor a decline in general government debt from a peak of 103 percent of GDP at end-2016/17 to 85 percent of GDP estimated at the end of 2018/19. General government debt remains high, however, and interest expenditures remain a heavy burden on public finances. The 2019/20 budget targets a primary surplus of 2 percent of GDP; it will be important to maintain primary surpluses at this level over the medium term to keep public debt on a downward trajectory. At the same time, improving revenue mobilization is essential to create space for spending in health and education, and to further expand social protection. To this end, the authorities' plan to complete the design of a Medium-Term Revenue Strategy by end-2019 to review tax policy and modernize tax administration is welcome.

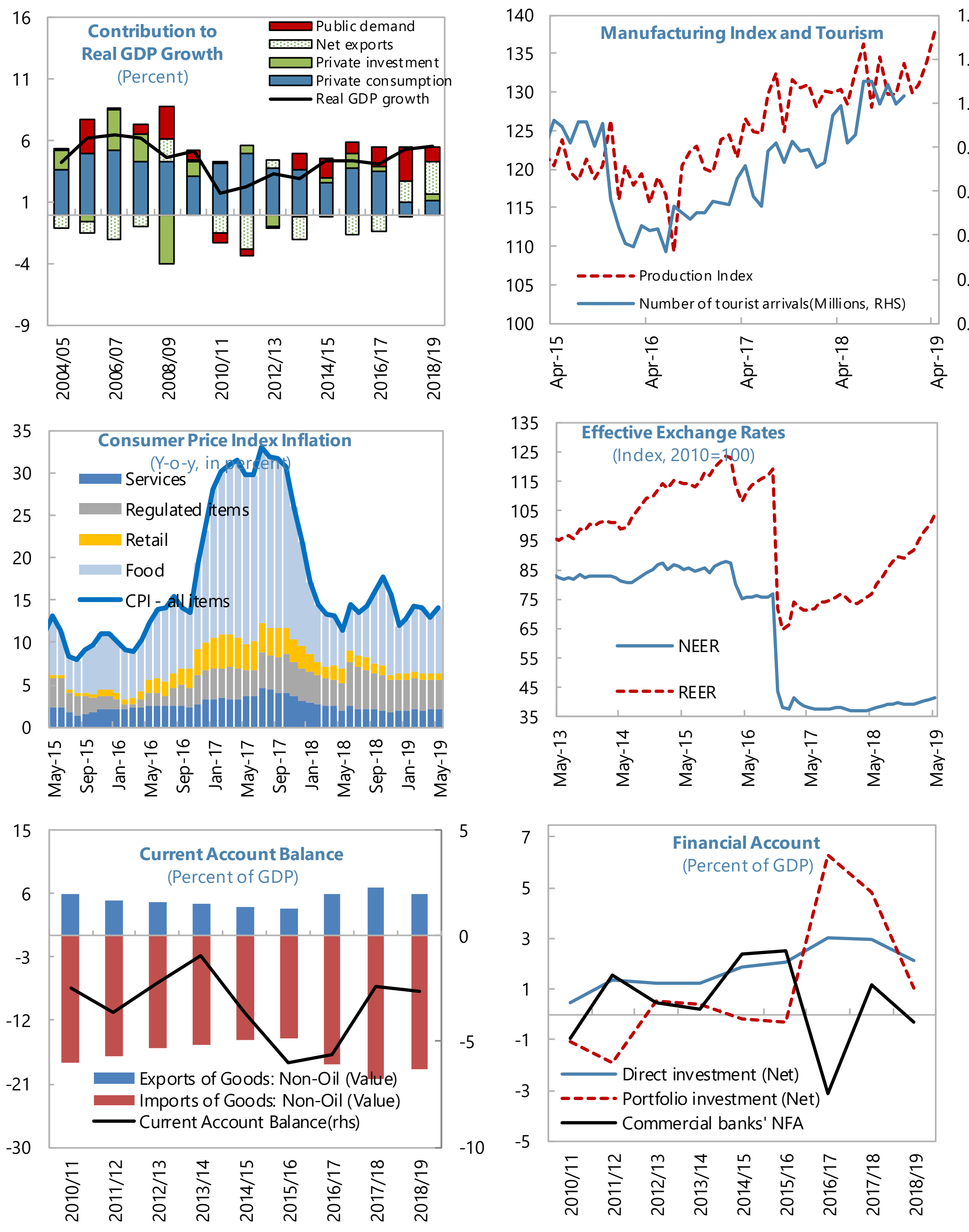
27. The completion of fuel subsidy reform is a significant achievement and will help safeguard fiscal space for high priority social spending. This will encourage energy efficiency, attract investment in more labor-intensive industries, and free up fiscal space for high-priority expenditures, including targeted cash transfers to poor households. The automatic fuel price indexation mechanism is critical to safeguard the budget against the re-emergence of subsidies from future changes in fuel prices, and to signal the continued commitment to fiscal discipline needed to reduce public debt.

28. The authorities have launched an operational and financial review of NIB. The move to improve oversight and engage an international auditor to perform a thorough financial assessment of the bank is a welcome first step. This will need to be followed by the preparation of a comprehensive restructuring plan, including a decision on a new financial structure, revised mandate, and business model.

29. The favorable near-term outlook provides an opportune juncture to advance structural reforms before cyclical conditions become more challenging. The initiation of reforms of competition policy, the public procurement system, industrial land allocation, and SOE governance is an important first step, but greater efforts will be needed to ensure that statutory changes achieve the desired results in practice. Progress on reform implementation has been uneven with delays in several areas, while the new guidelines for industrial land allocation remain excessively complex and not market based. The transition to a transparent market-based economy will require further broadening and deepening of reforms and their sustained implementation beyond the current program, particularly regarding long-standing problems of weak governance, rent seeking, vulnerabilities to corruption, and the heavy presence of the state in the economy.

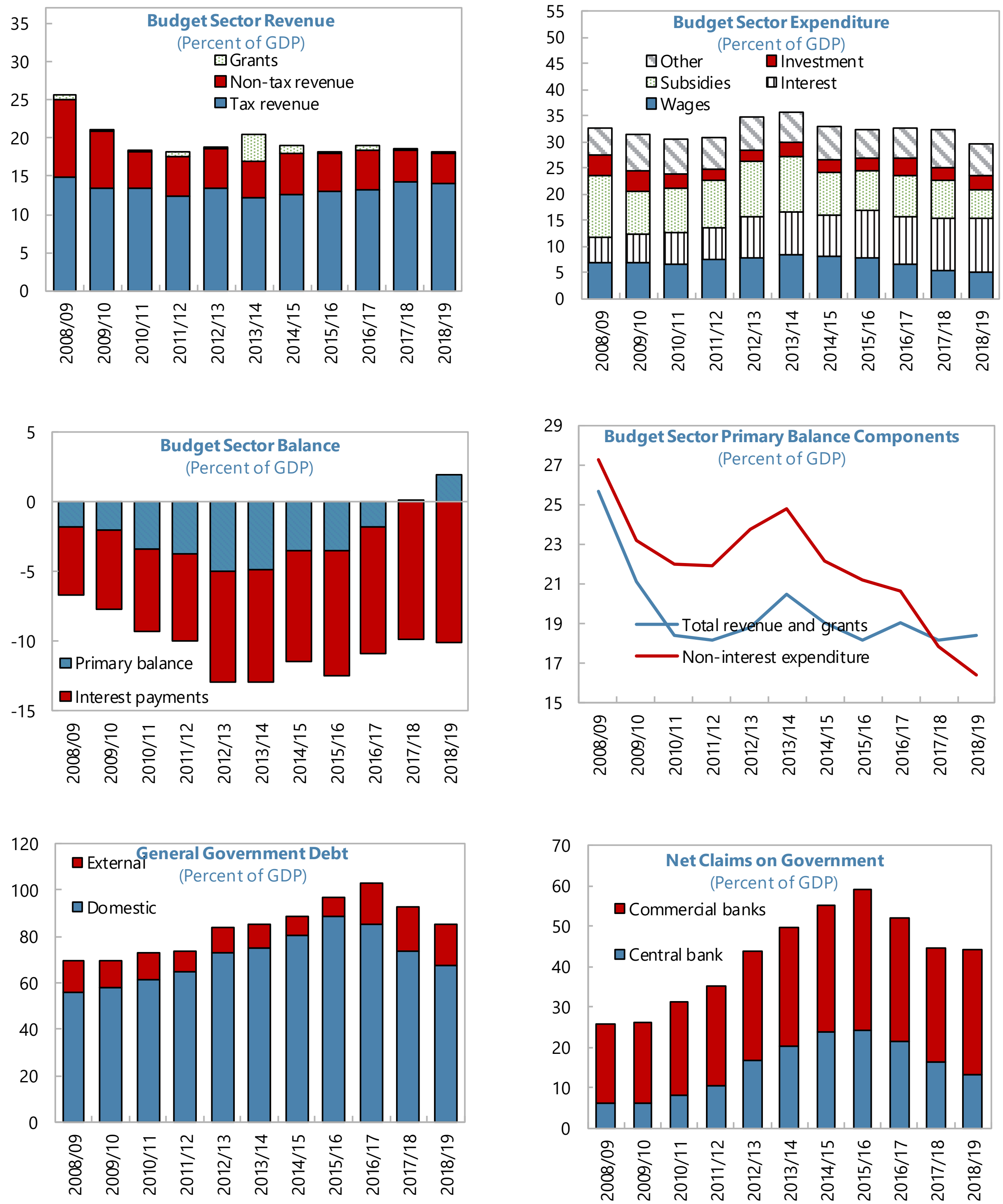
30. Staff supports the authorities' request for the completion of the fifth review under the Extended Arrangement. It is proposed that Article IV consultations with Egypt revert to the 12-month cycle. The next Article IV consultation is expected to be held in early 2020.

Figure 1. Egypt: Real and External Sector Developments



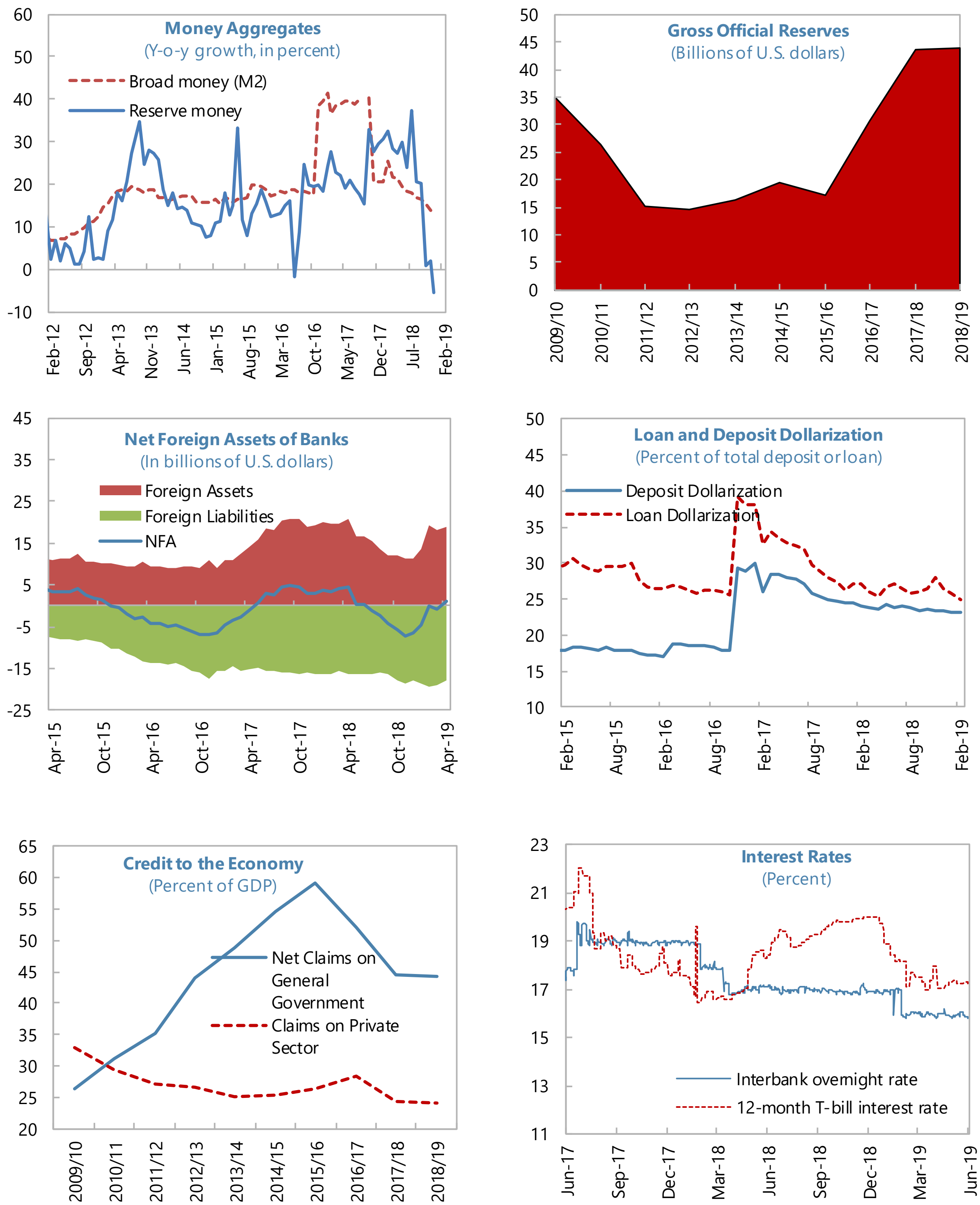
Sources: Egyptian authorities; IMF, *International Financial Statistics*; Bloomberg; Markit Economics; and IMF staff calculations and projections.

Figure 2. Egypt: Fiscal Sector Developments



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

Figure 3. Egypt: Monetary Sector Developments



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

Table 1. Egypt: Selected Macroeconomic Indicators, 2016/17–2020/21 1/

	2016/17	2017/18	2018/19		2019/20		2020/21
			Fourth Review	Revised Proj.	Fourth Review	Revised Proj.	
Output and prices			(percent change)				
Real GDP (market prices)	4.1	5.3	5.5	5.5	5.9	5.9	6.0
Consumer prices (end of period)	29.8	14.4	14.5	12.4	10.7	9.6	7.4
Consumer prices (period average)	23.5	20.9	15.8	14.4	12.8	11.4	7.2
Public finances 2/			(percent of GDP)				
Gross Debt	103.2	92.7	86.0	85.2	83.3	81.9	79.2
External	18.1	19.2	18.0	17.7	17.6	17.4	17.1
Domestic	85.0	73.5	68.0	67.5	65.7	64.4	62.1
Budget sector 3/							
Revenue and grants	19.0	18.5	18.3	18.0	17.8	17.9	18.1
Expenditure (incl. net acquisition of financial assets)	29.9	28.3	26.6	26.1	24.5	24.9	23.7
Of which: Energy subsidies	4.1	3.4	2.1	1.9	1.2	0.9	0.4
Overall balance	-10.9	-9.7	-8.3	-8.2	-6.7	-7.0	-5.6
Overall balance, excl. grants	-11.4	-9.8	-8.3	-8.2	-6.7	-7.0	-5.6
Primary balance 4/	-1.8	0.2	2.0	2.0	2.0	2.0	2.0
Monetary sector			(percent change)				
Credit to the private sector	38.0	10.1	19.2	19.9	18.9	20.0	16.0
Reserve money	-7.8	28.3	34.2	33.5	20.7	19.3	14.3
Broad money (M2)	39.3	18.5	20.8	19.6	20.5	17.5	13.7
Treasury bill rate, 3 month (average, in percent)	17.5	18.8	…	18.6	…	…	…
External sector			(percent of GDP, unless otherwise indicated)				
Exports of goods (in US$, percentage change)	16.2	18.9	14.4	14.6	5.3	15.1	5.5
Imports of goods (in US$, percentage change)	2.8	6.9	6.4	8.1	3.1	11.1	5.6
Merchandise trade balance	-14.5	-14.9	-12.4	-12.8	-11.3	-11.7	-11.5
Current account	-5.6	-2.4	-2.5	-2.6	-1.8	-2.5	-2.1
Capital and financial account (incl. errors and omissions)	4.8	4.0	2.0	2.5	2.0	1.8	2.4
Foreign direct investment (net, in billions of US$)	7.8	7.4	9.5	6.5	11.2	8.1	9.8
External debt 5/	41.3	37.4	34.4	33.3	31.3	30.5	29.2
Gross international reserves (in billions of US$)	30.7	43.5	44.9	43.9	45.4	43.7	44.5
In months of next year's imports of goods and services	5.0	6.6	6.6	5.9	6.3	5.6	5.4
In percent of short-term external debt 6/	124.5	139.1	160.2	214.6	147.7	181.2	165.2
Financing gap (in billions of US$)	…	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Nominal GDP (in billions of Egyptian pounds)	3,470	4,437	5,414	5,351	6,458	6,305	7,157
Nominal GDP (in billions of US$)	256	250	…	…	…	…	…
GDP per capita (in US$)	2,704	2,573	…	…	…	…	…
Unemployment rate (period average, percent)	12.2	10.9	9.6	8.8	8.3	8.0	7.5
Population (in millions)	94.8	97.0	99.2	99.2	101.5	101.5	103.8

Sources: Egyptian authorities; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ General government includes the budget sector, the National Investment Bank (NIB), and social insurance funds.
3/ Budget sector comprises central government, local governments, and some public corporations.
4/ The primary balance for 2017/18 excludes the recapitalization of the CBE for EGP 6 billion.
5/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing.
6/ Debt at remaining maturity and stock of foreign holding of T-bills.

Table 2a. Egypt: Balance of Payments, 2016/17–2023/24
(In billions of U.S. dollars, unless otherwise indicated)

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Fourth Review	Revised Proj.	Fourth Review	Revised Proj.				
Current account	-14.4	-6.0	-7.5	-7.9	-6.2	-8.8	-8.2	-7.8	-7.4	-9.5
Balance on goods and services	-31.7	-26.2	-24.2	-23.5	-23.1	-23.5	-23.6	-24.9	-26.2	-30.0
Exports of goods and services	37.1	47.3	54.8	56.1	58.9	65.3	70.4	73.4	76.8	81.4
Imports of goods and services	-68.8	-73.5	-79.0	-79.6	-82.0	-88.9	-94.1	-98.3	-103.0	-111.3
Trade balance	-37.3	-37.3	-37.6	-38.6	-38.2	-41.7	-44.1	-47.2	-50.7	-56.6
Oil and gas	-5.4	-3.7	-1.2	0.2	-0.5	3.0	2.8	0.4	-1.0	-3.2
Other	-31.8	-33.6	-36.4	-38.8	-37.7	-44.7	-46.8	-47.7	-49.7	-53.4
Exports of goods	21.7	25.8	29.5	29.6	31.1	34.1	35.9	36.2	36.6	37.8
Oil and gas	6.6	8.8	9.1	12.0	8.4	14.4	13.5	10.8	9.2	8.3
Other	15.1	17.1	20.4	17.6	22.7	19.7	22.4	25.4	27.4	29.6
Imports of goods	-59.0	-63.1	-67.2	-68.2	-69.3	-75.8	-80.0	-83.4	-87.3	-94.4
Oil and gas	-12.0	-12.5	-10.3	-11.8	-8.9	-11.4	-10.8	-10.4	-10.2	-11.5
Other	-47.0	-50.6	-56.8	-56.4	-60.4	-64.4	-69.2	-73.0	-77.1	-83.0
Services (net)	5.6	11.1	13.4	15.1	15.1	18.2	20.4	22.4	24.5	26.6
Receipts	15.4	21.5	25.2	26.5	27.8	31.2	34.5	37.2	40.3	43.5
Of which: Tourism receipts	4.4	9.8	12.5	13.4	14.2	16.7	18.7	20.4	22.2	24.1
Of which: Suez canal receipts	4.9	5.7	6.1	5.8	6.3	5.9	6.2	6.5	6.9	7.3
Payments	-9.8	-10.4	-11.8	-11.4	-12.7	-13.1	-14.1	-14.9	-15.7	-16.9
Of which: Transportation	-1.3	-1.5	-1.7	-1.7	-1.8	-2.0	-2.1	-2.3	-2.4	-2.6
Of which: Travel	-2.7	-2.5	-3.0	-2.9	-3.3	-3.4	-3.7	-3.9	-4.1	-4.4
Primary income (net)	-4.6	-6.3	-10.9	-8.7	-12.0	-10.6	-11.2	-10.9	-10.7	-10.4
Receipts	0.5	0.8	1.0	1.0	1.1	1.2	1.3	1.3	1.4	1.5
Payments	-5.1	-7.1	-11.9	-9.7	-13.1	-11.7	-12.5	-12.2	-12.1	-11.9
Transfers	21.8	26.5	27.6	24.4	28.9	25.3	26.6	28.1	29.5	30.9
Official grants	0.1	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.4
Private remittances	21.7	26.3	27.4	24.1	28.7	25.0	26.3	27.7	29.1	30.6
Capital and financial account	15.3	13.1	6.1	7.6	6.7	6.5	9.2	9.1	9.5	13.5
Medium- and long-term loans (net)	2.8	1.0	-0.2	0.8	-0.4	0.6	0.3	0.5	0.2	-0.2
Drawings	5.4	3.3	2.3	3.3	2.3	3.3	3.3	3.3	3.3	3.3
Amortization	2.6	2.3	2.5	2.5	2.7	2.7	3.0	2.8	3.1	3.6
FDI (net)	7.8	7.4	9.5	6.5	11.2	8.1	9.8	11.3	13.0	14.0
Portfolio investment (net)	16.2	12.1	-5.0	3.1	2.4	5.4	6.0	3.9	4.9	6.0
Commercial banks' NFA	-8.0	2.9	5.0	-1.0	6.3	4.2	1.3	3.7	3.7	-0.5
Other (including short-term capital and central bank deposits)	-3.2	-10.1	-3.2	-1.9	-12.8	-11.9	-8.2	-10.4	-12.3	-5.7
Errors and omissions (net)	-3.1	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.1	4.0	-1.4	-0.3	0.5	-2.3	1.0	1.3	2.0	4.1
Financing	2.1	-4.0	1.4	0.4	-0.5	2.3	-1.0	-1.3	-2.0	-4.1
Reserves ("-" indicates increase)	-13.6	-12.8	-1.4	-0.4	-0.5	0.3	-0.8	-0.6	-0.7	-2.7
Change in arrears ("-" indicates decrease) 1/	-1.3	-1.2	-1.2	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	2.7	5.3	4.0	2.0	0.0	2.0	-0.2	-0.7	-1.3	-1.3
Other financing	14.3	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account excluding grants	-14.5	-6.2	-7.7	-8.2	-6.4	-9.1	-8.5	-8.1	-7.8	-9.8
Terms of trade (percent change)	1.7	2.4	-0.3	1.1	-1.4	-0.4	-0.5	-0.5	-0.3	-0.1
Gross international reserves (end of period)	30.7	43.5	44.9	43.9	45.4	43.7	44.5	45.1	45.8	48.5
In months of next year's imports of goods and services	5.0	6.6	6.6	5.9	6.3	5.6	5.4	5.2	4.9	4.8
External debt	79.0	92.6	104.4	103.1	98.1	106.1	109.7	111.0	109.4	112.0
External debt service	7.3	13.2	21.0	17.0	21.9	18.5	15.9	18.2	21.3	16.9
External debt service (in percent of exports of GNFS)	19.7	28.0	38.4	30.2	37.2	28.3	22.6	24.8	27.7	20.8
Stock of external arrears	2.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real effective exchange rate (period average, percentage change)	-26.6	-12.9	…	…	…	…	…	…	…	…

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

1/ EGPC arrears.

Table 2b. Egypt: Balance of Payments, 2016/17–2023/24

(In percent of GDP, unless otherwise indicated)

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Fourth Review	Revised Proj.	Fourth Review	Revised Proj.				
Current account	-5.6	-2.4	-2.5	-2.6	-1.8	-2.5	-2.1	-1.9	-1.7	-2.1
Balance on goods and services	-12.3	-10.5	-8.0	-7.8	-6.9	-6.6	-6.1	-6.1	-6.1	-6.5
Exports of goods and services	14.5	19.0	18.1	18.5	17.5	18.3	18.3	18.1	17.9	17.6
Imports of goods and services	-26.8	-29.4	-26.1	-26.3	-24.4	-25.0	-24.4	-24.2	-24.0	-24.1
Trade balance	-14.5	-14.9	-12.4	-12.8	-11.3	-11.7	-11.5	-11.6	-11.8	-12.3
Oil and gas	-2.1	-1.5	-0.4	0.1	-0.1	0.8	0.7	0.1	-0.2	-0.7
Other	-12.4	-13.4	-12.0	-12.8	-11.2	-12.6	-12.2	-11.7	-11.6	-11.6
Exports	8.5	10.3	9.8	9.8	9.2	9.6	9.3	8.9	8.5	8.2
Oil and gas	2.6	3.5	3.0	4.0	2.5	4.0	3.5	2.7	2.1	1.8
Other	5.9	6.8	6.7	5.8	6.7	5.5	5.8	6.3	6.4	6.4
Imports	-23.0	-25.3	-22.2	-22.6	-20.6	-21.3	-20.8	-20.5	-20.4	-20.5
Oil and gas	-4.7	-5.0	-3.4	-3.9	-2.6	-3.2	-2.8	-2.6	-2.4	-2.5
Other	-18.3	-20.3	-18.8	-18.6	-17.9	-18.1	-18.0	-18.0	-18.0	-18.0
Services (net)	2.2	4.5	4.4	5.0	4.5	5.1	5.3	5.5	5.7	5.8
Receipts	6.0	8.6	8.3	8.8	8.3	8.8	9.0	9.2	9.4	9.4
Of which: Tourism receipts	1.7	3.9	4.1	4.4	4.2	4.7	4.9	5.0	5.2	5.2
Of which: Suez canal dues	1.9	2.3	2.0	1.9	1.9	1.7	1.6	1.6	1.6	1.6
Payments	-3.8	-4.2	-3.9	-3.8	-3.8	-3.7	-3.7	-3.7	-3.7	-3.7
Of which: Transportation	-0.5	-0.6	-0.5	-0.6	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6
Of which: Travel	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Primary income (net)	-1.8	-2.5	-3.6	-2.9	-3.6	-3.0	-2.9	-2.7	-2.5	-2.3
Receipts	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Payments	-2.0	-2.9	-3.9	-3.2	-3.9	-3.3	-3.2	-3.0	-2.8	-2.6
Transfers	8.5	10.6	9.1	8.1	8.6	7.1	6.9	6.9	6.9	6.7
Official grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Private remittances	8.5	10.5	9.0	8.0	8.5	7.0	6.8	6.8	6.8	6.6
Capital and financial account	6.0	5.3	2.0	2.5	2.0	1.8	2.4	2.2	2.2	2.9
Medium- and long-term loans (net)	1.1	0.4	-0.1	0.3	-0.1	0.2	0.1	0.1	0.0	0.0
Drawings	2.1	1.3	0.8	1.1	0.7	0.9	0.9	0.8	0.8	0.7
Amortization	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.8
FDI (net)	3.0	3.0	3.1	2.1	3.3	2.3	2.5	2.8	3.0	3.0
Portfolio investment (net)	6.3	4.8	-1.7	1.0	0.7	1.5	1.6	1.0	1.1	1.3
Commercial banks' NFA	-3.1	1.2	1.7	-0.3	1.9	1.2	0.3	0.9	0.9	-0.1
Other (including short-term capital and central bank deposits)	-1.3	-4.1	-4.0	-0.6	-2.6	-3.3	-2.1	-2.5	-2.9	-1.2
Errors and omissions (net)	-1.2	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	1.6	-0.5	-0.1	0.1	-0.6	0.3	0.3	0.5	0.9
Financing	0.8	-1.6	0.5	0.1	-0.1	0.6	-0.3	-0.3	-0.5	-0.9
Reserves ("-" indicates increase)	-5.3	-5.1	-0.4	-0.1	-0.1	0.1	-0.2	-0.2	-0.2	-0.6
Change in arrears ("-" indicates decrease) 1/	-0.5	-0.5	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund resources	1.1	2.1	1.3	0.7	0.0	0.6	-0.1	-0.2	-0.3	-0.3
Other financing	5.6	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account excluding grants	-5.7	-2.5	-2.6	-2.7	-1.9	-2.6	-2.2	-2.0	-1.8	-2.1
Gross international reserves (end of period)	16.0	17.6	14.8	14.2	14.5	12.6	11.8	11.6	10.9	10.8
External debt	41.3	37.4	34.4	33.3	31.3	30.5	29.2	28.6	26.1	25.0
External debt service	2.9	5.3	6.9	5.6	6.5	5.2	4.1	4.5	5.0	3.7

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

1/ EGPC arrears.

Table 3a. Egypt: Budget Sector Operations, 2016/17–2023/24 1/

(In billions of Egyptian pounds, unless otherwise indicated)

	2016/17	2017/18	2018/19 Fourth Review	2018/19 Revised Proj.	2019/20 Fourth Review	2019/20 Revised Proj.	2020/21	2021/22	2022/23	2023/24
Revenue and grants	659.2	821.1	988.5	962.2	1,147.0	1,127.7	1,298.4	1,467.4	1,664.7	1,882.8
Tax revenue	462.0	629.3	770.2	751.3	904.4	852.5	982.1	1,108.8	1,259.1	1,424.1
Income and property	203.4	258.6	338.2	323.6	384.4	354.3	401.5	452.6	511.9	578.9
Personal income tax	51.0	64.6	84.8	85.7	101.2	101.9	119.7	135.8	153.6	173.7
Corporate income tax	115.9	142.7	180.7	171.3	215.6	183.4	213.2	244.8	278.9	315.4
EGPC	42.5	52.0	57.4	51.1	68.5	41.8	47.5	53.8	60.9	68.8
Other	73.4	90.7	123.3	120.2	147.1	141.6	165.8	191.0	218.0	246.6
Property	36.5	51.4	72.7	66.6	67.6	68.9	68.5	72.0	79.4	89.8
Goods and services	208.6	294.3	358.9	351.8	432.4	418.5	491.5	561.0	639.5	723.3
Oil excises	33.1	40.5	25.2	37.3	25.1	30.9	33.1	30.5	34.5	39.0
VAT and nonoil excises	175.6	253.8	333.6	314.5	407.3	387.6	458.5	530.5	605.0	684.3
International trade	34.3	37.9	42.2	45.0	50.8	50.8	60.4	67.6	76.5	86.5
Other taxes	15.7	38.5	30.9	30.9	36.8	28.9	28.8	27.6	31.2	35.3
Nontax revenue	179.5	188.6	217.1	209.7	241.5	274.0	315.1	357.2	404.1	457.0
Oil-related nontax revenue	13.3	19.8	30.7	21.2	42.1	36.6	45.5	51.6	58.4	66.0
Other nontax revenues	161.9	156.2	186.5	188.5	199.4	237.5	269.6	305.6	345.7	391.0
Of which: interest income	4.3	3.3	3.7	6.2	2.4	2.4	2.4	2.7	3.1	3.5
Grants	17.7	3.2	1.2	1.2	1.2	1.2	1.2	1.3	1.5	1.7
Expenditure	1,031.9	1,244.4	1,435.2	1,394.8	1,567.6	1,565.1	1,678.7	1,818.3	2,021.9	2,297.0
Wages and other remunerations	225.5	240.1	270.1	270.1	317.2	301.1	341.8	387.7	438.4	495.9
Purchases of goods and services	42.5	53.1	60.1	60.1	67.8	74.9	80.3	88.0	99.5	n.a.
Interest	316.6	437.4	558.4	542.0	563.0	566.5	538.9	529.6	561.0	644.0
Domestic	307.0	415.2	523.1	511.3	525.7	526.9	493.7	468.6	491.8	564.5
External	9.6	22.2	35.3	30.7	37.4	39.6	45.1	61.0	69.2	79.5
Subsidies, grants, and social benefits	276.7	329.4	326.9	300.3	348.8	320.9	375.2	423.7	477.5	540.8
Energy subsidies	142.6	149.4	115.6	100.4	75.8	57.0	26.8	29.5	33.3	37.7
Of which: fuel subsidy	115.0	120.8	99.6	84.4	63.4	53.0	26.8	29.5	33.3	37.7
Food subsidies 2/	47.5	81.2	88.3	88.2	87.1	89.6	100.8	107.1	113.5	119.0
Transfer to SIF	45.2	52.5	64.0	56.0	98.0	82.2	128.0	151.5	171.4	193.8
Other	41.4	46.3	58.9	55.6	87.8	92.1	119.6	135.6	159.4	190.3
Other current	61.5	74.8	75.7	75.7	90.3	90.4	102.7	116.4	131.7	148.9
Investment	109.1	109.7	144.0	146.5	180.6	211.2	239.8	273.0	313.7	354.8
Cash balance	-372.8	-423.3	-446.7	-432.5	-420.6	-437.4	-380.3	-350.9	-357.2	-414.2
Net acquisition of financial assets	6.8	9.3	3.8	3.8	13.2	5.0	17.7	20.0	22.6	25.6
Overall balance	-379.6	-432.6	-450.5	-436.3	-433.8	-442.4	-398.0	-370.9	-379.8	-440.0
Financing	379.6	432.6	450.5	436.3	433.8	442.4	398.0	370.9	379.8	439.8
Net domestic	252.7	227.9	327.1	305.5	422.7	343.6	327.6	347.5	349.1	391.3
Bank	276.7	155.1	430.8	409.2	417.7	338.6	319.6	338.4	338.8	379.7
Nonbank	-24.0	72.8	-103.7	-103.7	5.0	5.0	8.0	9.1	10.3	11.6
Net external	126.9	204.7	123.3	130.8	11.1	98.8	70.4	23.4	30.7	48.5
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Memorandum items:										
Primary balance 3/	-63.0	10.9	107.9	105.7	129.2	124.1	140.8	158.7	181.1	204.0
Oil balance 4/	-53.7	-37.2	-2.3	9.2	59.8	52.3	99.3	106.5	120.4	136.2
Financing gap (in billions of US$)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross budget sector debt 5/	3,749	4,315	4,872	4,823	5,627	5,451	6,038	6,702	7,283	8,022
Gross general government debt	3,580	4,111	4,654	4,562	5,378	5,161	5,669	6,238	6,727	7,307
Nominal GDP (in billions of Egyptian pounds)	3,470	4,437	5,414	5,351	6,458	6,305	7,157	8,117	9,180	10,388

Sources: Ministry of Finance; and IMF staff estimates.

1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis.
2/ Food subsidies include subsidies paid to farmers.
3/ The primary balance for 2017/18 excludes the recapitalization of the CBE for EGP 6 billion.
4/ Oil revenue minus fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.
5/ Includes debt issued to the SIF for settlement of past arrears and implied future liabilities.

Table 3b. Egypt: Budget Sector Operations, 2016/17–2023/24 1/
(In percent of GDP)

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Fourth Review	Revised Proj.	Fourth Review	Revised Proj.				
Revenue and grants	19.0	18.5	18.3	18.0	17.8	17.9	18.1	18.1	18.1	18.1
Tax revenue	13.3	14.2	14.2	14.0	14.0	13.5	13.7	13.7	13.7	13.7
Income and corporate tax	5.9	5.8	6.2	6.0	6.0	5.6	5.6	5.6	5.6	5.6
Personal income tax	1.5	1.5	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7
Corporate income tax	3.3	3.2	3.3	3.2	3.3	2.9	3.0	3.0	3.0	3.0
EGPC	1.2	1.2	1.1	1.0	1.1	0.7	0.7	0.7	0.7	0.7
Other	2.1	2.0	2.3	2.2	2.3	2.2	2.3	2.4	2.4	2.4
Property	1.1	1.2	1.3	1.2	1.0	1.1	1.0	0.9	0.9	0.9
Goods and services	6.0	6.6	6.6	6.6	6.7	6.6	6.9	6.9	7.0	7.0
Oil excises	1.0	0.9	0.5	0.7	0.4	0.5	0.5	0.4	0.4	0.4
VAT and nonoil excises	5.1	5.7	6.2	5.9	6.3	6.1	6.4	6.5	6.6	6.6
International trade	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.5	0.9	0.6	0.6	0.6	0.5	0.4	0.3	0.3	0.3
Nontax revenue	5.2	4.3	4.0	3.9	3.7	4.3	4.4	4.4	4.4	4.4
Oil-related nontax revenue	0.4	0.4	0.6	0.4	0.7	0.6	0.6	0.6	0.6	0.6
Other nontax revenues	4.7	3.5	3.4	3.5	3.1	3.8	3.8	3.8	3.8	3.8
Of which: interest income	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	29.7	28.0	26.5	26.1	24.3	24.8	23.5	22.4	22.0	22.1
Wages and other remunerations	6.5	5.4	5.0	5.0	4.9	4.8	4.8	4.8	4.8	4.8
Purchases of goods and services	1.2	1.2	1.1	1.1	1.1	1.2	1.1	1.1	1.1	0.0
Interest	9.1	9.9	10.3	10.1	8.7	9.0	7.5	6.5	6.1	6.2
Domestic	8.8	9.4	9.7	9.6	8.1	8.4	6.9	5.8	5.4	5.4
External	0.3	0.5	0.7	0.6	0.6	0.6	0.6	0.8	0.8	0.8
Subsidies, grants and social benefits	8.0	7.4	6.0	5.6	5.4	5.1	5.2	5.2	5.2	5.2
Energy subsidies	4.1	3.4	2.1	1.9	1.2	0.9	0.4	0.4	0.4	0.4
Of which: fuel subsidy	3.3	2.7	1.8	1.6	1.0	0.8	0.4	0.4	0.4	0.4
Food subsidies 2/	1.4	1.8	1.6	1.6	1.3	1.4	1.4	1.3	1.2	1.1
Transfers to SIF	1.3	1.2	1.2	1.0	1.5	1.3	1.8	1.9	1.9	1.9
Other	1.2	1.0	1.1	1.0	1.4	1.5	1.7	1.7	1.7	1.8
Other current	1.8	1.7	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Investment	3.1	2.5	2.7	2.7	2.8	3.4	3.4	3.4	3.4	3.4
Cash balance	-10.7	-9.5	-8.3	-8.1	-6.5	-6.9	-5.3	-4.3	-3.9	-4.0
Net acquisition of financial assets	0.2	0.2	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Overall balance	-10.9	-9.7	-8.3	-8.2	-6.7	-7.0	-5.6	-4.6	-4.1	-4.2
Financing	10.9	9.7	8.3	8.2	6.7	7.0	5.6	4.6	4.1	4.2
Net domestic	7.3	5.1	6.0	5.7	6.5	5.4	4.6	4.3	3.8	3.8
Bank	8.0	3.5	8.0	7.6	6.5	5.4	4.5	4.2	3.7	3.7
Nonbank	-0.7	1.6	-1.9	-1.9	0.1	0.1	0.1	0.1	0.1	0.1
Net external	3.7	4.6	2.3	2.4	0.2	1.6	1.0	0.3	0.3	0.5
Financing gap	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance 3/	-1.8	0.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Oil balance 4/	-1.5	-0.8	0.0	0.2	0.9	0.8	1.4	1.3	1.3	1.3
Gross budget sector debt 5/	108.0	97.3	90.0	90.1	87.1	86.5	84.4	82.6	79.3	77.2
Nominal GDP (EGP billions)	3,470	4,437	5,414	5,351	6,458	6,305	7,157	8,117	9,180	10,388

Sources: Ministry of Finance; and IMF staff estimates.
1/ Budget sector comprises central and local governments, and some public corporations. Fiscal year ends June 30. Cash basis.
2/ Food subsidies include subsidies paid to farmers.
3/ The primary balance for 2017/18 excludes the recapitalization of the CBE for 6 billion Egyptian pounds.
4/ Oil revenue minus fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.
5/ Includes debt issued to the SIF for settlement of past arrears and implied future liabilities.

Table 4. Egypt: General Government Operations, 2016/17–2023/24 1/

	2016/17	2017/18	2018/19 Fourth Review	2018/19 Revised Proj.	2019/20 Fourth Review	2019/20 Revised Proj.	2020/21	2021/22	2022/23	2023/24
	(In billions of Egyptian pounds)									
Revenue and grants	755.1	918.4	1,086.0	1,091.1	1,267.9	1,269.3	1,452.1	1,636.6	1,846.7	2,088.6
Tax revenue	462.0	629.3	770.2	751.3	904.4	852.5	982.1	1,108.8	1,259.1	1,424.1
Income and property	203.4	258.6	338.2	323.6	384.4	354.3	401.5	452.6	511.9	578.9
Personal income tax	51.0	64.6	84.8	85.7	101.2	101.9	119.7	135.8	153.6	173.7
Corporate income tax	115.9	142.7	180.7	171.3	215.6	183.4	213.2	244.8	278.9	315.4
EGPC	42.5	52.0	57.4	51.1	68.5	41.8	47.5	53.8	60.9	68.8
Other	73.4	90.7	123.3	120.2	147.1	141.6	165.8	191.0	218.0	246.6
Goods and services	208.6	294.3	358.9	351.8	432.4	418.5	491.5	561.0	639.5	723.3
Oil excises	33.1	40.5	25.2	37.3	25.1	30.9	33.1	30.5	34.5	39.0
VAT and nonoil excises	175.6	253.8	333.6	314.5	407.3	387.6	458.5	530.5	605.0	684.3
International trade taxes	34.3	37.9	42.2	45.0	50.8	50.8	60.4	67.6	76.5	86.5
Other taxes	15.7	38.5	30.9	30.9	36.8	28.9	28.8	27.6	31.2	35.3
Nontax revenue	275.4	285.9	314.7	338.6	362.4	415.7	468.8	526.5	586.1	662.8
Of which: Interest income	9.9	15.0	9.4	9.4	9.6	9.6	12.6	15.2	18.0	18.0
Grants	17.7	3.2	1.2	1.2	1.2	1.2	1.2	1.3	1.5	1.7
Expenditure	1,117.0	1,336.0	1,543.3	1,496.1	1,675.5	1,702.1	1,783.7	1,933.5	2,145.3	2,428.3
Wages and other remunerations	227.7	239.1	272.5	272.5	320.0	303.9	345.0	391.3	442.5	500.5
Purchases of goods and services	42.8	48.3	60.9	60.9	68.8	75.9	81.4	89.1	100.7	113.8
Interest	284.7	415.1	521.0	492.2	532.0	547.5	498.1	484.3	506.4	577.9
Domestic interest	274.9	392.9	485.6	461.5	494.6	507.9	452.9	423.4	437.2	498.4
External interest	9.6	22.2	35.3	30.7	37.4	39.6	45.1	61.0	69.2	79.5
Subsidies, grants, and social benefits	386.3	455.5	468.7	447.7	483.4	472.6	516.2	578.8	649.7	731.7
Other current	66.2	72.3	76.0	76.0	90.6	90.8	103.1	116.9	132.1	149.4
Investment	109.2	105.7	144.1	146.7	180.7	211.4	239.9	273.1	313.9	355.0
Net acquisition of financial assets	4.5	5.4	0.6	0.6	10.9	2.7	15.2	17.5	21.5	24.5
Overall balance	-366.4	-423.0	-457.8	-405.5	-418.5	-435.5	-346.8	-314.4	-320.1	-364.2
Financing	366.4	423.0	457.8	405.5	418.5	435.5	346.8	314.4	320.1	364.2
Net domestic	239.5	218.3	334.5	274.7	407.4	336.7	276.3	290.9	289.4	315.7
Bank	263.5	145.5	438.2	378.4	402.4	331.7	268.3	281.9	279.1	304.1
Nonbank	-24.0	72.8	-103.7	-103.7	5.0	5.0	8.0	9.1	10.3	11.6
Net external	126.9	204.7	123.3	130.8	11.1	98.8	70.4	23.4	30.7	48.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP, unless otherwise indicated)									
Revenue and grants	21.8	20.7	20.1	20.4	19.6	20.1	20.3	20.2	20.1	20.1
Tax revenue	13.3	14.2	14.2	14.0	14.0	13.5	13.7	13.7	13.7	13.7
Nontax revenue	7.9	6.4	5.8	6.3	5.6	6.6	6.6	6.5	6.4	6.4
Of which: Interest income	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Grants	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	32.2	30.1	28.5	28.0	25.9	27.0	24.9	23.8	23.4	23.4
Wages and other remunerations	6.6	5.4	5.0	5.1	5.0	4.8	4.8	4.8	4.8	4.8
Purchases of goods and services	1.2	1.1	1.1	1.1	1.1	1.2	1.1	1.1	1.1	1.1
Interest	8.2	9.4	9.6	9.2	8.2	8.7	7.0	6.0	5.5	5.6
Subsidies, grants, and social benefits	11.1	10.3	8.7	8.4	7.5	7.5	7.2	7.1	7.1	7.0
Other current	1.9	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Investment	3.1	2.4	2.7	2.7	2.8	3.4	3.4	3.4	3.4	3.4
Net acquisition of financial assets	0.1	0.1	0.0	0.0	0.2	0.0	0.2	0.2	0.2	0.2
Overall balance	-10.6	-9.5	-8.5	-7.6	-6.5	-6.9	-4.8	-3.9	-3.5	-3.5
Financing	10.6	9.5	8.5	7.6	6.5	6.9	4.8	3.9	3.5	3.5
Net domestic	6.9	4.9	6.2	5.1	6.3	5.3	3.9	3.6	3.2	3.0
Bank	7.6	3.3	8.1	7.1	6.2	5.3	3.7	3.5	3.0	2.9
Nonbank	-0.7	1.6	-1.9	-1.9	0.1	0.1	0.1	0.1	0.1	0.1
Net external	3.7	4.6	2.3	2.4	0.2	1.6	1.0	0.3	0.3	0.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance	-2.4	-0.2	1.2	1.6	1.8	1.8	2.1	2.1	2.0	2.1
Gross debt	103.2	92.7	86.0	85.2	83.3	81.9	79.2	76.9	73.3	70.3
Gross debt (in billions of EGP)	3,580	4,111	4,654	4,562	5,378	5,161	5,669	6,238	6,727	7,307
Nominal GDP (in billions of EGP)	3,470	4,437	5,414	5,351	6,458	6,305	7,157	8,117	9,180	10,388

Sources: Ministry of Finance; and IMF staff estimates.

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

Table 5. Egypt: Central Bank Accounts, 2016/17–2023/24

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Fourth Review	Revised Proj.	Fourth Review	Revised Proj.				
	(end-period, in billions of EGP, unless otherwise indicated)									
Net foreign assets	4	301	369	239	661	398	500	677	888	1045
Foreign assets	552	776	801	759	936	792	847	945	1001	1125
Foreign liabilities	548	474	431	520	275	394	347	267	113	80
Net domestic assets	575	442	628	753	542	785	853	857	861	947
Net domestic credit	400	263	454	572	432	619	706	757	789	892
Net credit to central government	740	731	713	713	710	709	726	743	760	778
Net credit to public economic authorities	-32	-15	-24	-24	-4	-4	-4	-4	-4	-4
Credit to banks	284	326	280	282	165	247	252	213	166	167
Banks' deposits in foreign currency	-130	-125	-128	-125	-136	-131	-141	-154	-154	-159
Open market operations	-464	-653	-386	-275	-303	-203	-127	-41	20	110
Other items net	176	178	174	181	110	167	148	101	72	56
Reserve money	579	743	997	992	1203	1184	1353	1535	1749	1992
Currency in circulation	419	442	596	593	727	714	820	933	1069	1221
Reserves and highly liquid assets of banks	160	301	401	399	476	469	533	602	680	771
Cash in vaults	33	44	39	39	43	43	47	51	55	60
Reserves	126	234	342	340	413	406	466	531	605	691
Deposits on overnight	2	24	20	20	20	20	20	20	20	20

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

Table 6. Egypt: Monetary Survey, 2016/17–2023/24

	2016/17	2017/18	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24
			Fourth Review	Revised Proj.	Fourth Review	Revised Proj.				
	(End-period, in billions of EGP)									
Net foreign assets	61	310	288	263	437	347	421	513	635	788
Central bank	4	301	369	239	661	398	500	677	888	1,045
Commercial banks	57	8	-82	24	-225	-51	-79	-165	-253	-257
Net domestic assets	2,857	3,147	3,888	3,870	4,596	4,509	5,099	5,737	6,410	7,153
Net claims on central and local government	1,809	1,972	2,402	2,371	2,860	2,723	3,056	3,422	3,774	4,249
Net claims on public economic authorities	171	246	305	298	360	329	340	364	375	392
Claims on public sector companies	149	160	210	208	234	226	245	270	293	299
Claims on private sector	983	1,083	1,290	1,297	1,535	1,557	1,807	2,084	2,401	2,763
Net other items	-254	-313	-318	-304	-393	-325	-349	-403	-434	-469
Broad money (M2)	2,918	3,457	4,176	4,134	5,032	4,856	5,520	6,250	7,044	7,942
Domestic currency component (M2D)	2,224	2,740	3,448	3,429	4,173	4,100	4,706	5,355	6,110	6,979
Currency outside banks	419	442	596	593	727	714	820	933	1,069	1,221
Domestic currency deposits	1,805	2,299	2,852	2,836	3,446	3,385	3,886	4,422	5,041	5,758
Foreign currency deposits	694	717	728	705	860	757	813	895	934	962
	(Annual percent change, unless otherwise indicated)									
Broad money (M2)	39.3	18.5	20.8	19.6	20.5	17.5	13.7	13.2	12.7	12.7
Domestic currency component (M2D)	25.6	23.2	25.8	25.1	21.0	19.6	14.8	13.8	14.1	14.2
Reserve money	-7.8	28.3	34.2	33.5	20.7	19.3	14.3	13.4	14.0	13.9
Contribution to broad money growth	39.3	18.5	20.8	19.6	20.5	17.5	13.7	13.2	12.7	12.7
Net foreign assets	7.1	8.5	-0.6	-1.3	3.6	2.0	1.5	1.7	2.0	2.2
Net domestic assets	32.2	9.9	21.4	20.9	16.9	15.5	12.1	11.6	10.8	10.6
Credit to the private sector	38.0	10.1	19.2	19.9	18.9	20.0	16.0	15.4	15.2	15.1
Credit to government and public sector companies	15.4	8.9	22.5	21.0	18.5	14.3	12.0	11.8	10.2	11.8
Memorandum items:										
Velocity										
Velocity GDP/M2D (level)	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Velocity GDP/M2 (level)	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
M2 (in percent of GDP)	84.1	77.9	77.1	77.2	77.9	77.0	77.1	77.0	76.7	76.4
Money multiplier (M2D/reserve money)	3.8	3.7	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Money multiplier (M2/reserve money)	5.0	4.7	4.2	4.2	4.2	4.1	4.1	4.1	4.0	4.0
M2 (in real terms)	7.4	3.6	5.5	6.4	8.8	7.2	5.8	5.9	5.4	5.3
Domestic currency deposits (in real terms)	-2.3	11.3	8.4	9.8	9.1	8.9	6.8	6.4	6.6	6.7
Claims on private sector (in real terms)	6.4	-3.7	4.1	6.7	7.4	9.5	8.0	7.9	7.7	7.5
Foreign currency deposits (in percent of total deposits)	27.8	23.8	20.3	19.9	20.0	18.3	17.3	16.8	15.6	14.3

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

Table 7a. Egypt: Summary of National Accounts, 2016/17–2023/24

(In percent, unless otherwise indicated)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
			Projections					
	(Annual change, in percent)							
Real GDP at market price	4.1	5.3	5.5	5.9	6.0	6.0	6.0	6.0
Domestic demand (absorption)	5.0	3.1	2.6	5.3	5.4	5.9	5.9	6.5
Private	4.9	8.1	2.4	5.4	5.5	6.0	5.9	6.7
Public	5.4	-3.3	4.1	4.5	4.5	5.0	5.4	5.3
Consumption	4.0	1.2	1.3	4.2	5.2	5.7	5.6	6.4
Private	4.2	1.1	1.3	4.5	5.3	5.8	5.6	6.5
Public	2.5	1.7	1.4	2.3	4.7	5.3	5.8	5.8
Investment	11.3	15.7	9.7	10.9	6.4	6.6	7.3	7.1
Gross fixed capital formation	7.7	16.9	11.9	10.9	6.4	6.6	7.3	7.1
Private	5.6	-2.5	8.0	9.0	10.0	10.0	11.0	11.0
Public	10.2	38.5	14.9	12.3	3.9	4.1	4.3	3.7
Net exports of goods and services 1/	-1.3	1.8	2.7	0.1	0.1	-0.3	-0.3	-1.0
Exports of goods and services	86.0	32.2	6.4	15.3	7.9	3.3	3.3	4.0
Imports of goods and services	52.5	11.3	-4.5	10.5	5.4	3.6	3.6	6.6
Real GDP at factor cost	3.6	5.2	5.5	5.9	6.0	6.0	6.0	6.0
Agriculture	3.2	3.1	3.0	3.2	3.2	3.2	3.2	3.2
Construction	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Industry	0.5	6.0	6.8	6.0	5.4	5.5	5.3	5.4
Services	5.4	5.3	5.5	6.7	7.2	7.1	7.1	7.1
General government	3.0	1.5	2.0	2.5	2.5	2.5	2.5	2.5
Suez Canal	1.4	9.6	5.0	3.0	4.0	4.0	4.0	4.0
	(Contribution to real growth, in percent 2/)							
Real GDP at market price	4.1	5.3	5.5	5.9	6.0	6.0	6.0	6.0
Domestic demand (absorption)	5.5	3.5	2.9	5.7	5.8	6.3	6.3	7.0
Private	4.5	0.7	1.3	4.3	5.0	5.4	5.3	6.1
Public	1.0	2.9	1.5	1.4	0.8	0.9	1.0	0.9
Consumption	3.7	1.1	1.2	3.8	4.6	5.1	4.9	5.7
Private	3.4	1.0	1.1	3.6	4.2	4.6	4.4	5.2
Public	0.3	0.2	0.1	0.2	0.4	0.5	0.5	0.5
Investment	1.8	2.4	1.6	1.9	1.2	1.2	1.3	1.3
Gross fixed capital formation	1.2	2.5	1.9	1.9	1.2	1.2	1.3	1.3
Private	0.5	-0.2	0.6	0.7	0.8	0.8	0.9	0.9
Public	0.7	2.7	1.4	1.2	0.4	0.4	0.4	0.4
Net exports of goods and services	-1.3	1.8	2.7	0.1	0.1	-0.3	-0.3	-1.0
Exports of goods and services	9.7	5.1	1.3	3.1	1.7	0.7	0.7	0.8
Imports of goods and services	-11.1	-3.3	1.4	-2.9	-1.6	-1.0	-1.0	-1.8
Real GDP at factor cost	3.6	5.2	5.5	5.9	6.0	6.0	6.0	6.0
Agriculture	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Construction	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7
Industry	0.2	1.8	2.0	1.8	1.7	1.7	1.6	1.6
Services	2.3	2.3	2.4	2.8	3.1	3.1	3.1	3.1
General government	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Suez Canal	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1

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

1/ Contribution to growth.

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

Table 7b. Egypt: Summary of National Accounts, 2016/17–2023/24
(In percent of GDP)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
			Projections					
	(In percent of nominal GDP)							
GDP at market price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand (absorption)	113.5	110.5	107.8	106.6	106.1	106.1	106.1	106.5
Private	96.4	93.0	89.8	88.3	88.1	88.3	88.4	89.0
Public	17.1	17.5	18.0	18.3	18.0	17.8	17.6	17.4
Consumption	98.2	93.8	90.5	88.5	87.9	87.8	87.5	87.7
Private	88.1	85.4	82.4	80.7	80.2	80.1	79.9	80.1
Public	10.1	8.4	8.0	7.8	7.7	7.6	7.6	7.6
Investment	15.3	16.7	17.3	18.1	18.2	18.3	18.6	18.8
Gross fixed capital formation	14.8	16.3	17.3	18.1	18.2	18.3	18.6	18.8
Private	7.8	7.1	7.4	7.6	7.9	8.2	8.6	9.0
Public	7.0	9.1	9.9	10.6	10.4	10.2	10.0	9.8
Net exports of goods and services	-13.5	-10.5	-7.8	-6.6	-6.1	-6.1	-6.1	-6.5
Exports of goods and services	15.8	18.9	18.5	18.3	18.3	18.0	17.9	17.6
Imports of goods and services	-29.3	-29.4	-26.3	-24.9	-24.4	-24.1	-24.0	-24.1
Net factor income	-1.9	-2.5	-2.9	-3.0	-2.9	-2.7	-2.5	-2.3
Net remittances inflows	9.2	10.5	8.0	7.0	6.8	6.8	6.8	6.6
Net official transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gross National Disposable Income	107.3	108.1	105.2	104.1	104.0	104.2	104.4	104.4
National savings	9.7	14.3	14.7	15.7	16.1	16.4	16.8	16.7
Private	16.9	21.3	19.5	19.2	17.4	16.7	16.7	16.6
Public	-7.3	-7.0	-4.8	-3.5	-1.3	-0.3	0.2	0.1
Savings-investment balance	-5.6	-2.4	-2.6	-2.5	-2.1	-1.9	-1.7	-2.1
Private	9.1	14.2	12.2	11.6	9.5	8.5	8.1	7.6
Public	-14.3	-16.1	-14.7	-14.1	-11.7	-10.5	-9.8	-9.7
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.7	11.5	11.3	11.1	10.8	10.4	9.5	8.6
Construction	5.7	5.9	6.2	6.5	6.7	6.9	6.7	6.5
Industry	28.6	30.0	30.6	30.7	30.5	30.3	28.1	26.2
Services	42.9	43.0	42.5	42.7	43.1	43.7	47.8	51.6
General government	8.9	7.4	7.2	7.0	6.7	6.5	5.9	5.3
Suez Canal	2.2	2.2	2.2	2.2	2.1	2.1	1.9	1.8

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

Table 8. Egypt: Medium-Term Macroeconomic Framework, 2016/17–2023/24
(In percent of GDP, unless otherwise indicated)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
			Projections					
Growth and prices								
Real GDP (annual change, in percent)	4.1	5.3	5.5	5.9	6.0	6.0	6.0	6.0
CPI inflation (end-of-period, in percent)	29.8	14.4	12.4	9.6	7.4	7.0	7.0	7.0
CPI inflation (average, in percent)	23.5	20.9	14.4	11.4	7.2	7.0	6.9	6.9
Unemployment rate (period average, in percent)	12.2	10.9	8.8	8.0	7.5	6.8	6.3	5.6
Savings-investment balance	-5.6	-2.4	-2.6	-2.5	-2.1	-1.9	-1.7	-2.1
Investment	15.3	16.7	17.3	18.1	18.2	18.3	18.6	18.8
Domestic savings	9.7	14.3	14.7	15.7	16.1	16.4	16.8	16.7
Public finances								
General government								
Revenue and grants	21.8	20.7	20.4	20.1	20.3	20.2	20.1	20.1
Expenditure and NAFA	32.3	30.2	28.0	27.0	25.1	24.0	23.6	23.6
Overall balance	-10.6	-9.5	-7.6	-6.9	-4.8	-3.9	-3.5	-3.5
Overall balance, excl. grants	-11.1	-9.6	-7.6	-6.9	-4.9	-3.9	-3.5	-3.5
Primary balance	-2.4	-0.2	1.6	1.8	2.1	2.1	2.0	2.1
Gross debt	103.2	92.7	85.2	81.9	79.2	76.9	73.3	70.3
Domestic	85.0	73.5	67.5	64.4	62.1	59.9	57.3	54.8
External	18.1	19.2	17.7	17.4	17.1	16.9	15.9	15.5
Budget sector								
Revenue and grants	19.0	18.5	18.0	17.9	18.1	18.1	18.1	18.1
Tax revenue	13.3	14.2	14.0	13.5	13.7	13.7	13.7	13.7
Non-tax revenue	5.2	4.3	3.9	4.3	4.4	4.4	4.4	4.4
Grants	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and NAFA	29.9	28.3	26.1	24.9	23.7	22.6	22.3	22.4
Of which: Current	26.8	25.9	23.4	21.5	20.3	19.3	18.9	19.0
Capital	3.1	2.4	2.7	3.4	3.4	3.4	3.4	3.4
Overall budget balance	-10.9	-9.7	-8.2	-7.0	-5.6	-4.6	-4.1	-4.2
Overall budget balance, excl. grants	-11.4	-9.8	-8.2	-7.0	-5.6	-4.6	-4.2	-4.3
Primary budget balance	-1.8	0.2	2.0	2.0	2.0	2.0	2.0	0.0
Balance of payments and external debt								
Current account	-5.6	-2.4	-2.6	-2.5	-2.1	-1.9	-1.7	-2.1
Trade balance	-14.5	-14.9	-12.8	-11.7	-11.5	-11.6	-11.8	-12.3
Oil and gas	-2.1	-1.5	0.1	0.8	0.7	0.1	-0.2	-0.7
Other	-12.4	-13.4	-12.8	-12.6	-12.2	-11.7	-11.6	-11.6
Capital and financial account (incl. errors and omissions)	4.8	4.0	2.5	1.8	2.4	2.2	2.2	2.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official reserves (in billions of US$)	30.7	43.5	43.9	43.7	44.5	45.1	45.8	48.5
(In months of next year's imports of goods and services)	5.0	6.6	5.9	5.6	5.4	5.2	4.9	4.8
External debt (in percent of GDP)	41.3	37.4	33.3	30.5	29.2	28.6	26.1	25.0

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

Table 9. Egypt: Financial Soundness Indicators of the Banking System, 2010–2018
(end-June, percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital adequacy									
Regulatory capital to RWA	16.3	15.9	14.9	13.7	13.9	14.5	14.0	15.2	15.6
Common equity to RWA	…	…	…	10.7	11.4	12.1	11.7	8.8	9.4
Asset quality									
NPLs to total loans	13.6	10.5	9.8	9.3	8.5	7.1	6.0	4.9	4.3
Loan provisions to non-performing loans	92.5	94.5	97.1	99.8	98.9	99.0	99.1	98.7	98.1
Profitability									
Return on assets	1.0	0.8	1.0	1.0	1.3	1.5	2.0	2.0	1.5
Return on average equity	14.3	11.7	13.9	14.5	18.9	24.4	30.9	30.9	21.5

Source: Central Bank of Egypt.

Table 10. Egypt: Capacity to Repay the Fund, 2016/17–2023/24 1/ 2/

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
			Projections					
Fund repurchases and charges								
Millions of SDRs	22.6	78.7	171.2	273.7	442.4	794.9	1,235.9	1,539.7
Repurchases	0.0	0.0	0.0	0.0	164.2	522.4	955.2	1,313.4
Charges and fees	22.6	78.7	171.2	273.7	278.2	272.6	280.7	226.3
Millions of US$	31.6	109.8	239.0	382.0	617.5	1,109.6	1,725.2	2,149.2
Percent of exports of goods and nonfactor services	0.1	0.2	0.4	0.6	0.9	1.5	2.2	2.6
Percent of total debt service 3/	0.0	0.1	0.2	0.3	0.5	0.8	1.2	1.4
Percent of quota	1.1	3.9	8.4	13.4	21.7	39.0	60.7	75.6
Percent of gross international reserves	0.1	0.3	0.5	0.9	1.4	2.5	3.8	4.4
Fund credit outstanding								
Millions of SDRs	1,970	5,731	7,164	8,597	8,432	7,910	6,955	5,642
Millions of US$	2,750	8,000	10,000	12,000	11,771	11,042	9,708	7,875
Percent of exports of goods and nonfactor services	7.4	16.9	17.8	18.4	16.7	15.0	12.6	9.7
Percent of quota	96.7	281.3	351.7	422.0	413.9	388.3	341.4	276.9
Percent of gross international reserves	9.0	18.4	22.8	27.5	26.5	24.5	21.2	16.2
Memorandum items:								
Exports of goods and nonfactor services (in millions of US$)	37,128	47,314	56,085	65,317	70,449	73,407	76,839	81,356
Debt service (in millions of US$)	89,099	87,031	112,593	115,086	130,579	135,518	141,460	149,329
Quota (in millions of SDRs, end of period) 4/	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1
Quota (millions of US$ at eop exchange rate)	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3
Gross international reserves (in millions of US$)	30,652	43,497	43,946	43,673	44,455	45,073	45,771	48,499

Source: IMF staff calculations.

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

2/ Assumes repurchases are made on obligations schedule.

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

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

Table 11. Egypt: External Financing Requirements and Sources, 2016/17–2023/24

(In billions of dollars, unless otherwise indicated)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
					Projections			
Gross financing requirements	31.3	22.9	16.9	29.7	28.2	32.0	37.3	32.7
Current account deficit	14.4	6.0	7.9	8.8	8.2	7.8	7.4	9.5
Of which: Net interest payments	1.2	2.2	3.2	4.3	4.7	5.2	5.4	5.2
Maturing short-term debt	12.3	12.3	5.8	9.2	11.7	14.0	16.5	16.5
Private sector	1.4	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Public sector	10.9	10.2	3.8	7.2	9.7	11.9	14.4	14.4
Amortization of medium and long-term debt	4.6	4.7	3.2	11.6	8.2	10.3	13.4	6.7
Private sector	0.1	0.2	0.0	0.0	0.0	0.0	0.2	0.4
Public sector	4.5	4.5	3.2	11.6	8.2	10.3	13.2	6.4
MLT to external private creditors	3.0	2.4	1.0	2.2	3.8	3.6	3.6	1.3
By domestic private sector	0.1	0.2	0.0	0.0	0.0	0.0	0.2	0.4
By domestic public sector	2.9	2.2	1.0	2.2	3.8	3.6	3.4	1.0
MLT to external official creditors	1.6	2.3	2.2	9.4	4.4	6.7	9.8	5.4
IMF	0.0	0.0	0.0	0.0	0.2	0.7	1.3	1.3
To other official creditors	1.6	2.3	2.2	9.4	4.2	5.9	8.4	4.1
By domestic private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By domestic public sector	1.6	2.3	2.2	9.4	4.2	5.9	8.4	4.1
Sources of financing	31.3	22.9	16.9	29.7	28.2	32.0	37.3	32.7
Foreign direct investment (net)	7.8	7.4	6.5	8.1	9.8	11.3	13.0	14.0
Roll-over of short-term debt	12.3	12.3	5.8	9.2	11.7	14.0	16.5	16.5
Medium- and long-term borrowing	26.9	14.5	18.1	11.3	9.3	9.3	9.3	9.3
Private sector	2.9	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Public sector	24.0	13.2	16.8	10.0	8.0	8.0	8.0	8.0
Other net capital flows	-0.4	0.6	-13.9	-1.3	-1.7	-1.3	0.6	-4.0
Of which: portfolio investment	16.2	12.1	3.1	5.4	6.0	3.9	4.9	6.0
Net use of Fund resources	2.7	5.3	2.0	2.0	-0.2	-0.7	-1.3	-1.3
Change in reserves (- increase) `	-13.6	-12.8	-0.4	0.3	-0.8	-0.6	-0.7	-2.7
Change in arrears ("-" indicates decrease)	-1.3	-1.2	-1.2	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-3.1	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves (GIR)	30.7	43.5	43.9	43.7	44.5	45.1	45.8	48.5
External debt	79.0	92.6	103.1	106.1	109.7	111.0	109.4	112.0

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

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

Date	Amount			Condition
	Millions of SDR	Millions of US Dollars	Percent of Quota	
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 [1]
November 11, 2017	1,432.76	2,000	70.3	Second review and end-June 2017 performance criteria [2]
March 15, 2018	1,432.76	2,000	70.3	Third review and end-December 2017 performance criteria [3]
November 11, 2018	1,432.76	2,000	70.3	Fourth review and end-June 2018 performance criteria [4]
June 20, 2019	1,432.76	2,000	70.3	Fifth review and end-March 2019 performance criteria
Total	8,596.57	12,000	422.0	
Memorandum items:				
Quota (SDR, million)	2037.1			
USD/SDR exchange rate	1.3959			

Source: IMF staff calculations.

[1] The Executive Board meeting for the First review took place on July 13, 2017.

[2] The Executive Board meeting for the Second review took place on December 20, 2017.

[3] The Executive Board meeting for the Third review took place on June 29, 2018.

[4] The Executive Board meeting for the Fourth review took place on February 4, 2019.

Annex I. Public/External Debt Sustainability Analysis

Figure 1. Egypt: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

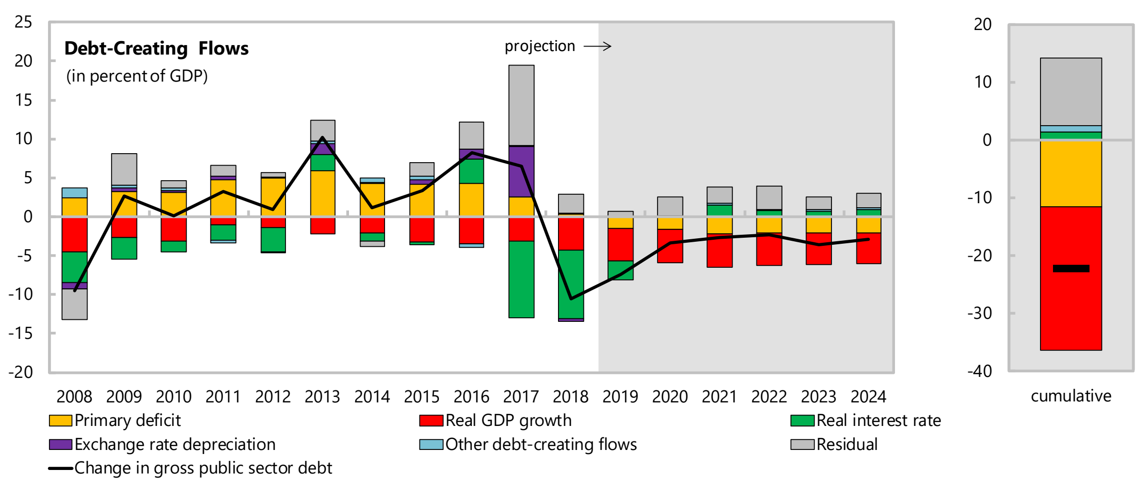
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	78.5	103.2	92.7	85.2	81.9	79.2	76.9	73.3	70.3
Public gross financing needs	25.3	38.2	32.2	35.6	32.0	34.2	34.4	34.6	34.3
Real GDP growth (in percent)	4.0	4.1	5.3	5.5	5.9	6.0	6.0	6.0	6.0
Inflation (GDP deflator, in percent)	10.4	23.1	21.4	14.3	11.3	7.1	7.0	6.8	6.8
Nominal GDP growth (in percent)	14.8	28.1	27.9	20.6	17.8	13.5	13.4	13.1	13.2
Effective interest rate (in percent) [4/]	9.0	10.9	11.6	12.0	12.0	9.6	8.5	8.1	8.6

As of June 13, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		516
5Y CDS (bp)		331
Ratings	Foreign	Local
Moody's	B1	B2
S&Ps	B	B
Fitch	B+	B+

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.3	6.5	-10.5	-7.4	-3.4	-2.6	-2.4	-3.6	-2.9	-22.3	
Identified debt-creating flows	1.1	-3.8	-12.9	-8.1	-5.8	-4.7	-5.3	-5.2	-4.9	-34.0	
Primary deficit	4.1	2.5	0.4	-1.5	-1.7	-2.1	-2.1	-2.1	-2.1	-11.6	-2.7
Primary (noninterest) revenue and grants	22.5	21.5	20.4	20.2	20.0	20.1	20.0	19.9	19.9	120.1	
Primary (noninterest) expenditure	26.6	24.0	20.8	18.8	18.3	18.0	17.9	17.9	17.8	108.5	
Automatic debt dynamics [5/]	-3.3	-6.4	-13.4	-6.6	-4.2	-2.8	-3.4	-3.4	-3.0	-23.4	
Interest rate/growth differential [6/]	-3.7	-13.0	-13.1	-6.6	-4.2	-2.8	-3.4	-3.4	-3.0	-23.4	
Of which: real interest rate	-1.0	-9.9	-8.8	-2.4	0.0	1.5	0.8	0.6	0.9	1.5	
Of which: real GDP growth	-2.6	-3.1	-4.3	-4.2	-4.2	-4.3	-4.2	-4.0	-3.9	-24.9	
Exchange rate depreciation [7/]	0.4	6.5	-0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.3	0.1	0.1	0.0	0.0	0.2	0.2	0.2	0.2	1.0	
Privatization Proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
GG: Net Lending	0.3	0.1	0.1	0.0	0.0	0.2	0.2	0.2	0.2	1.0	
Residual, including asset changes [8/]	1.1	10.3	2.4	0.7	2.4	2.1	3.0	1.7	1.9	11.7	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

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

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

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

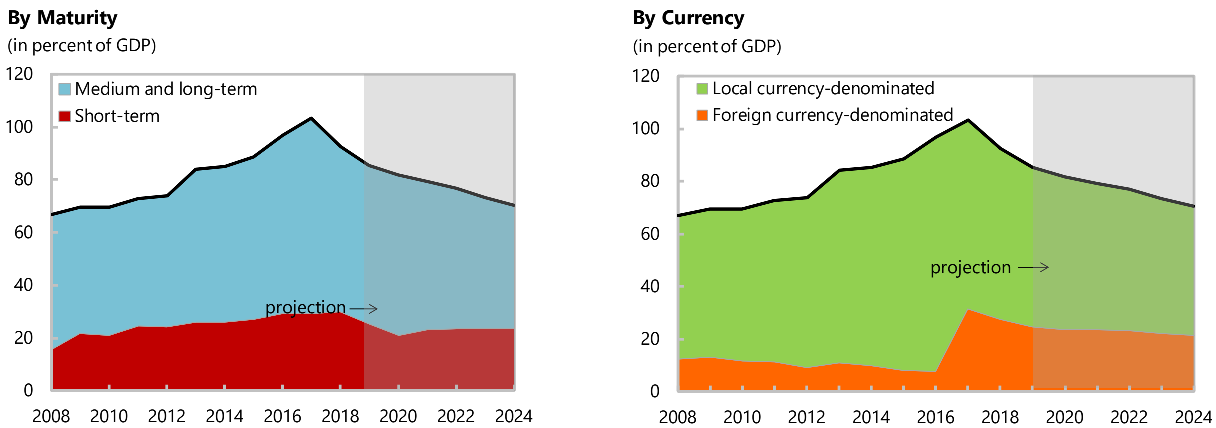
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

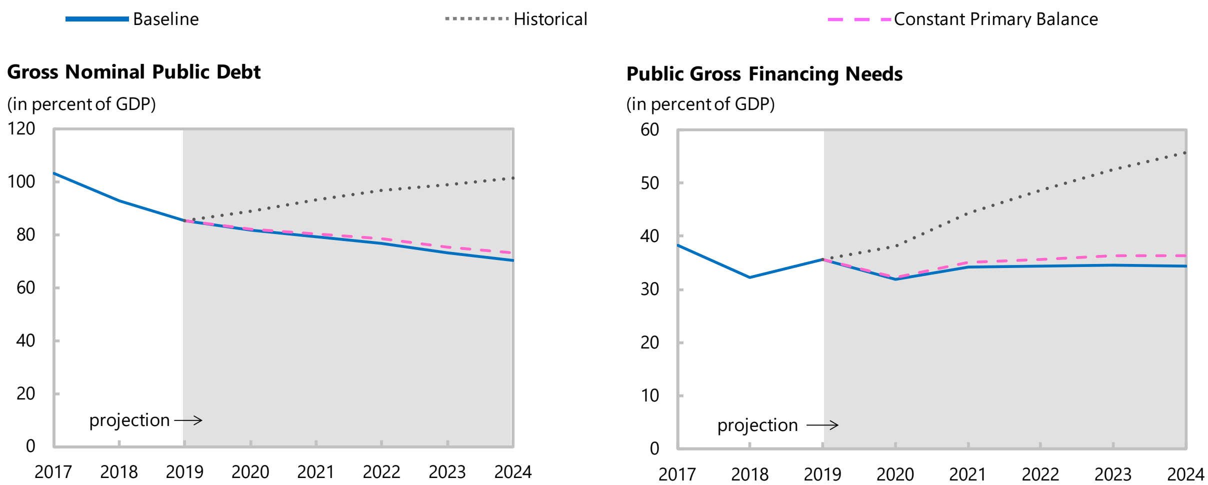
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Egypt: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



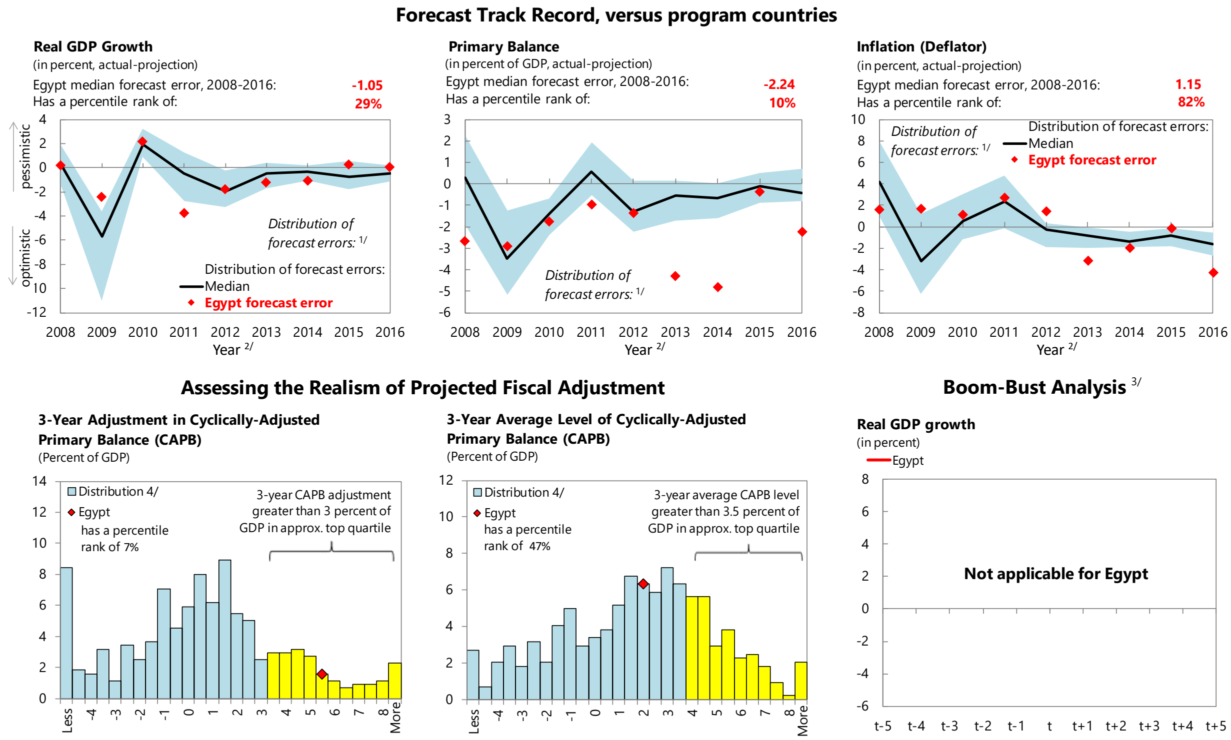
Underlying Assumptions
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	5.5	5.9	6.0	6.0	6.0	6.0
Inflation	14.3	11.3	7.1	7.0	6.8	6.8
Primary Balance	1.5	1.7	2.1	2.1	2.1	2.1
Effective interest rate	12.0	12.0	9.6	8.5	8.1	8.6
Constant Primary Balance Scenario						
Real GDP growth	5.5	5.9	6.0	6.0	6.0	6.0
Inflation	14.3	11.3	7.1	7.0	6.8	6.8
Primary Balance	1.5	1.5	1.5	1.5	1.5	1.5
Effective interest rate	12.0	12.0	9.6	8.5	8.1	8.5

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	5.5	3.8	3.8	3.8	3.8	3.8
Inflation	14.3	11.3	7.1	7.0	6.8	6.8
Primary Balance	1.5	-3.8	-3.8	-3.8	-3.8	-3.8
Effective interest rate	12.0	12.0	8.5	6.9	6.3	6.4

Source: IMF staff.

Figure 3. Egypt: Public DSA - Realism of Baseline Assumptions



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 obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

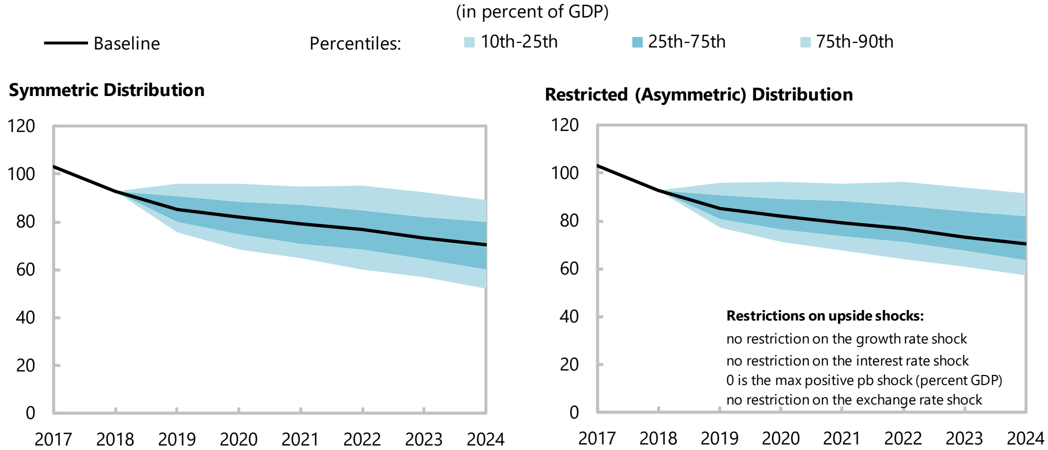
Figure 4. Egypt: Public DSA Risk Assessment

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

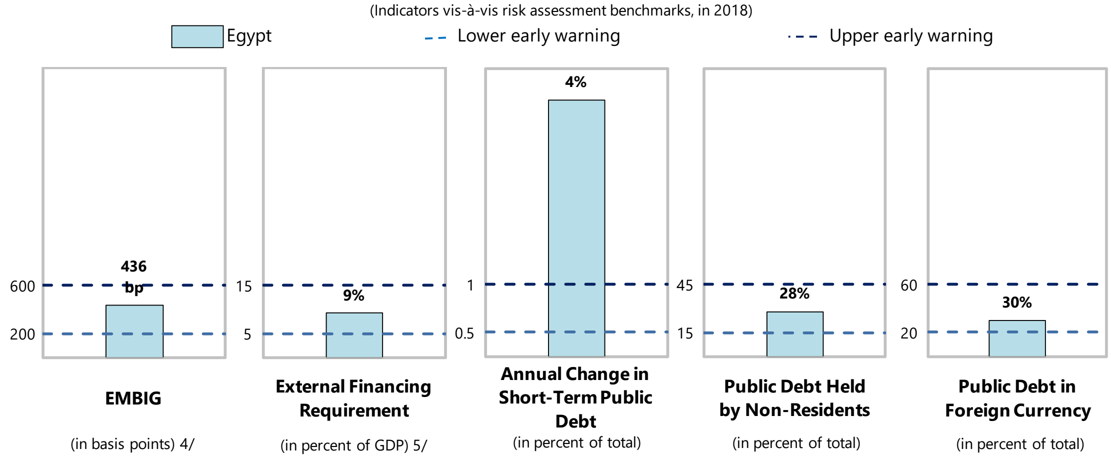
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

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

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

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

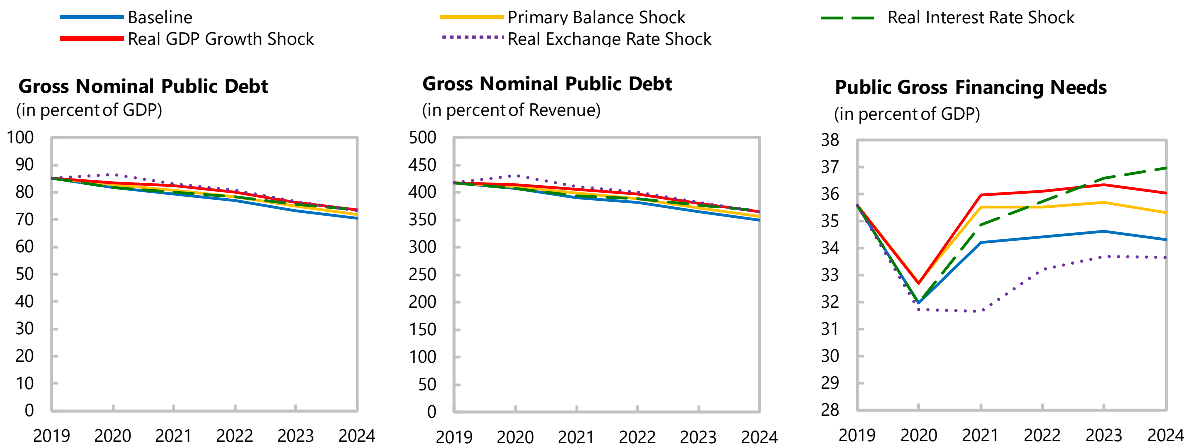
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 05-Jan-19 through 05-Apr-19.

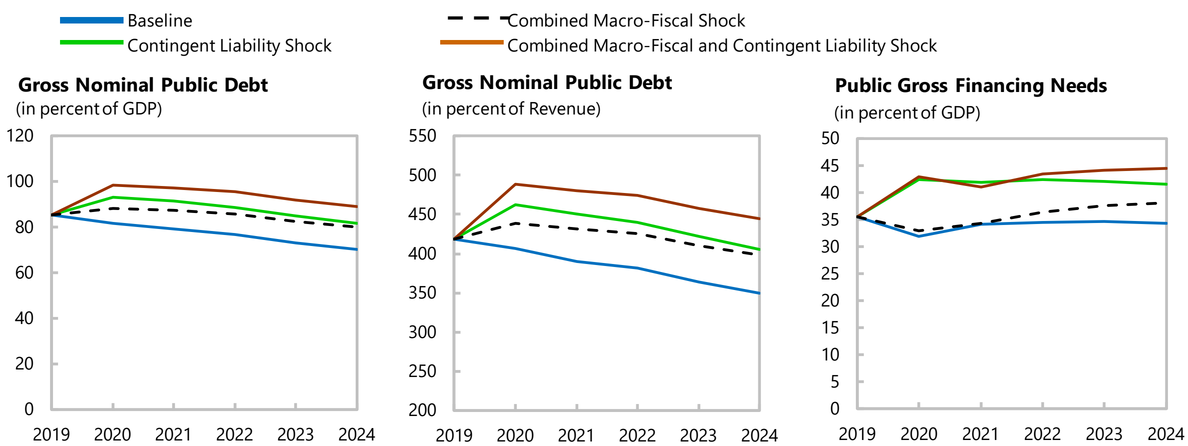
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Egypt: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	5.5	5.9	6.0	6.0	6.0	6.0
Inflation	14.3	11.3	7.1	7.0	6.8	6.8
Primary balance	1.5	0.9	1.4	2.1	2.1	2.1
Effective interest rate	12.0	12.0	9.7	8.6	8.1	8.5
Real Interest Rate Shock						
Real GDP growth	5.5	5.9	6.0	6.0	6.0	6.0
Inflation	14.3	11.3	7.1	7.0	6.8	6.8
Primary balance	1.5	1.7	2.1	2.1	2.1	2.1
Effective interest rate	12.0	12.0	10.6	9.8	9.5	10.0
Combined Shock						
Real GDP growth	5.5	4.7	4.7	6.0	6.0	6.0
Inflation	14.3	46.0	7.1	7.0	6.8	6.8
Primary balance	1.5	0.9	1.4	2.1	2.1	2.1
Effective interest rate	12.0	14.6	9.4	8.9	8.7	9.3
Contingent Liability Shock						
Real GDP growth	5.5	4.7	4.7	6.0	6.0	6.0
Inflation	14.3	11.0	6.8	7.0	6.8	6.8
Primary balance	1.5	-8.3	2.1	2.1	2.1	2.1
Effective interest rate	12.0	12.0	9.5	8.5	8.1	8.5

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	5.5	4.7	4.7	6.0	6.0	6.0
Inflation	14.3	11.0	6.8	7.0	6.8	6.8
Primary balance	1.5	1.4	1.6	2.1	2.1	2.1
Effective interest rate	12.0	12.0	9.7	8.6	8.1	8.5
Real Exchange Rate Shock						
Real GDP growth	5.5	5.9	6.0	6.0	6.0	6.0
Inflation	14.3	46.0	7.1	7.0	6.8	6.8
Primary balance	1.5	1.7	2.1	2.1	2.1	2.1
Effective interest rate	12.0	14.6	8.6	7.8	7.5	7.9
Combined Macro-Fiscal and Contingent Liability Shock						
Real GDP growth	5.5	4.7	4.7	6.0	6.0	6.0
Inflation	14.3	46.0	7.1	7.0	6.8	6.8
Primary balance	1.5	-9.1	1.4	2.1	2.1	2.1
Effective interest rate	12.0	14.6	9.5	9.0	8.7	9.2

Source: IMF staff.

Table 1. Egypt: External Debt Sustainability Framework, 2014–2024

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	**15.5**	**15.0**	**18.3**	**41.3**	**37.4**			**33.3**	**30.5**	**29.2**	**28.6**	**26.1**	**25.0**	**-3.9**
Change in external debt	0.5	-0.5	3.3	23.0	-3.9			-4.1	-2.7	-1.3	-0.6	-2.6	-1.1	
Identified external debt-creating flows (4+8+9)	-1.0	0.4	3.8	8.0	0.6			-1.5	-1.7	-2.3	-2.8	-3.1	-2.6	
Current account deficit, excluding interest payments	0.7	3.5	5.7	5.1	1.5			1.5	1.3	0.9	0.6	0.5	0.9	
Deficit in balance of goods and services	8.5	8.5	9.7	12.3	10.5			7.8	6.6	6.1	6.1	6.1	6.5	
Exports	14.2	13.3	10.5	14.5	19.0			18.5	18.3	18.3	18.1	17.9	17.6	
Imports	22.7	21.8	20.1	26.8	29.4			26.3	25.0	24.4	24.2	24.0	24.1	
Net non-debt creating capital inflows (negative)	-1.0	-2.0	-2.2	-3.1	-3.2			-2.4	-2.5	-2.8	-3.0	-3.3	-3.2	
Automatic debt dynamics 1/	-0.6	-1.0	0.2	5.9	2.3			-0.6	-0.5	-0.4	-0.3	-0.3	-0.3	
Contribution from nominal interest rate	0.2	0.2	0.3	0.5	1.2			1.1	1.2	1.2	1.3	1.3	1.2	
Contribution from real GDP growth	-0.4	-0.6	-0.7	-1.0	-2.3			-1.7	-1.7	-1.7	-1.7	-1.6	-1.5	
Contribution from price and exchange rate changes 2/	-0.5	-0.6	0.6	6.4	3.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.4	-0.9	-0.5	15.0	-4.5			-2.6	-1.0	1.0	2.2	0.5	1.6	
External debt-to-exports ratio (in percent)	108.7	113.1	174.7	285.1	197.3			179.5	166.5	159.5	158.5	145.4	141.7	
Gross external financing need (in billions of US dollars) 4/	12.0	18.1	25.2	24.0	20.5			22.6	17.4	20.5	22.3	24.6	29.1	
in percent of GDP	3.9	5.4	7.6	9.4	8.2			7.5	4.9	5.3	5.5	5.7	6.3	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**33.3**	**35.8**	**37.4**	**39.6**	**39.8**	**41.8**	**-3.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.9	4.4	4.3	4.1	5.3	3.8	1.2	5.5	5.9	6.0	6.0	6.0	6.0	
GDP deflator in US dollars (change in percent)	3.1	4.1	-4.0	-25.9	-7.6	0.7	11.2	14.9	11.2	2.0	-0.4	-0.4	1.5	
Nominal external interest rate (in percent)	1.7	1.4	1.7	2.2	2.7	1.8	0.4	3.4	4.1	4.4	4.7	4.8	4.7	
Growth of exports (US dollar terms, in percent)	-11.3	1.4	-21.0	6.7	27.4	-0.4	13.4	18.5	16.5	7.9	4.2	4.7	5.9	
Growth of imports (US dollar terms, in percent)	3.1	4.4	-7.5	2.8	6.8	1.7	6.0	8.4	11.6	5.9	4.5	4.8	8.0	
Current account balance, excluding interest payments	-0.7	-3.5	-5.7	-5.1	-1.5	-2.8	1.6	-1.5	-1.3	-0.9	-0.6	-0.5	-0.9	
Net non-debt creating capital inflows	1.0	2.0	2.2	3.1	3.2	2.1	1.1	2.4	2.5	2.8	3.0	3.3	3.2	

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

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

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

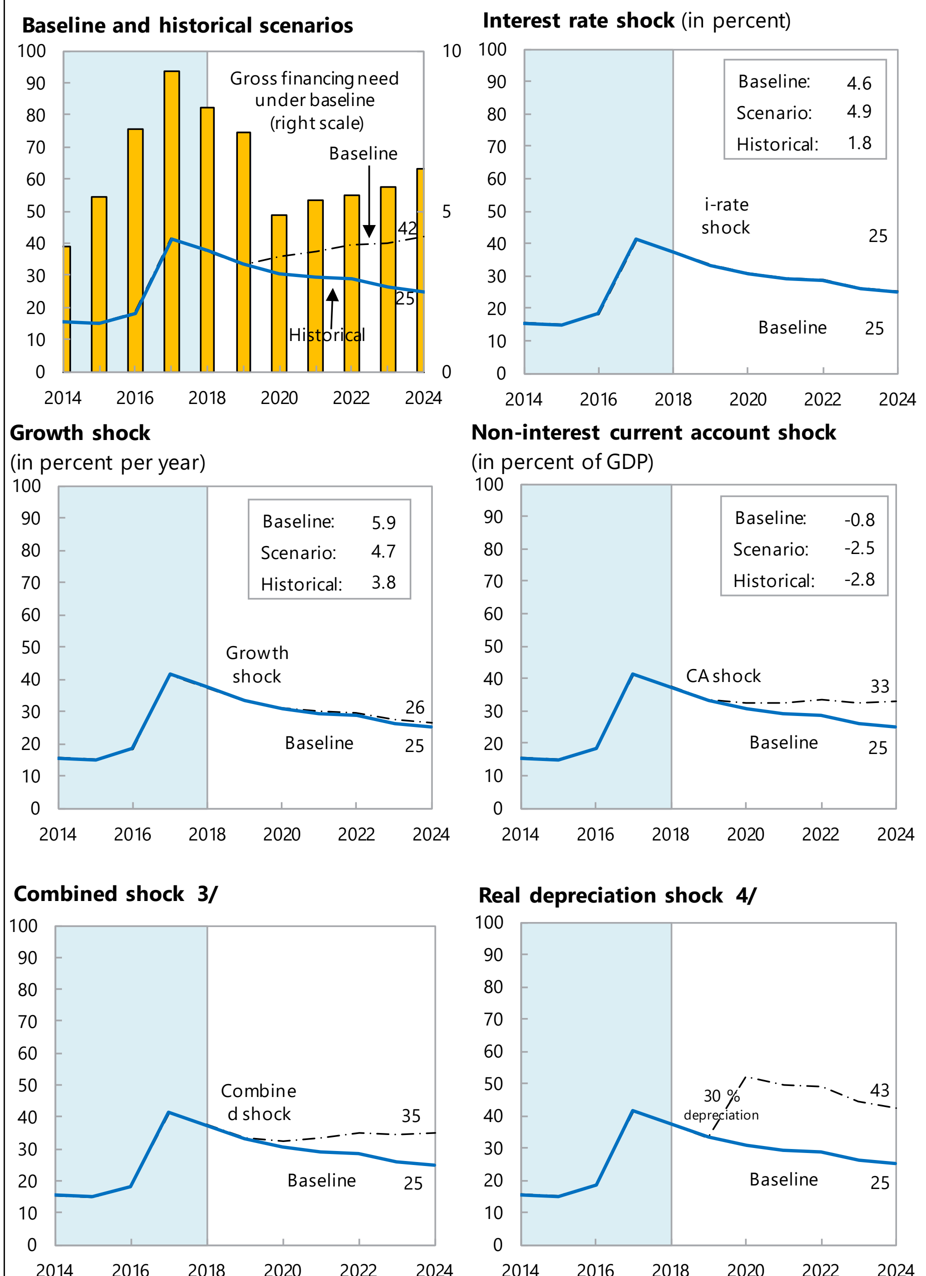
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Figure 6. Egypt: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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

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

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

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

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

Appendix I. Letter of Intent

July 10, 2019

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

Dear Ms. Lagarde:

Our comprehensive economic reform program, initiated in November 2016 and supported by the IMF's Extended Fund Facility arrangement (EFF), has been successful in achieving its objectives. We have managed to resolve severe external and domestic imbalances faced by Egypt before the start of the program and restored macroeconomic stability while protecting the most vulnerable. We have also embarked on an ambitious structural reform agenda aimed at modernizing fiscal and monetary policy frameworks, strengthening the energy sector, improving the business climate, strengthening governance and reducing the role of the state in the economy. These measures are essential building blocks to improve the welfare of all Egyptians by creating a supportive environment for private sector-driven inclusive growth and job creation. As the EFF arrangement draws to its end, our reforms will continue and the achievements realized so far will form a solid foundation for our policies and reforms over the medium term.

The program has remained on track. We request the completion of the fifth review of the EFF arrangement and the disbursement of the sixth and the final tranche in the amount equivalent to SDR 1,432.76 million (70.3 percent of quota and about $2 billion). As before, IMF resources will be used for budget support and will be maintained in government accounts at the CBE. We consent to the publication of this letter, Tables 1 and 2, the TMU and the related staff report.

A. Recent Economic Development and Program Performance

1. **The Egyptian economy has continued to perform well.** Real GDP grew by 5.4 percent in the first half of 2018/19 led by natural gas, tourism, and construction, while unemployment declined to a record low of 8.9 percent in December 2018. CPI inflation picked up slightly from 12 percent in December 2018 to 14 percent in May, while core inflation (excluding volatile food items and regulated prices) continued to decline to record 7.8 percent in May. The current account deficit is expected to remain unchanged at 2.4 percent of GDP in 2018/19, with a decline in imported natural gas offsetting a larger non-oil trade deficit. The budget execution is in line with our projections, and gross general government debt is projected to decline from 93 percent of GDP in 2017/18 to

85 percent of GDP by end-June. Portfolio outflows in the second half of 2018 have reversed early this year and the pound has appreciated by about 7 percent.

2. **Performance under the program was favorable.** All end-March 2018 performance criteria were met (Table 1). With regards to structural benchmarks: fuel prices were increased to full cost-recovery and fuel price indexation was implemented as planned; the FX deposits of the CBE in foreign branches of the Egyptian banks were eliminated by June 15, 2019; development of the NIB plan to review its financial position and future operations is pending a detailed asset review by an international auditor, but meanwhile we have strengthened NIB oversight and governance; the new guidelines for industrial land allocation were finalized and approved by a Prime Ministerial decree as of end March 2019, but allowed only industrial land in high demand and commercial land at industrial zones to be allocated via auctions (end-March SB); the executive regulations for the new Government Procurement Law have been delayed to accommodate further comments received from the World Bank, while the reform plan to make the SOE procurement system consistent with the new Government procurement rules was implemented early in July . The e-Procurement portal was launched in May as planned; minority shares were divested through IPOs in one state-owned enterprise instead of four due to market conditions; and the CBE has not granted exemptions to banks from the NoP limits (continuous SB). The separation of the regulatory authority for public transportation from the Ministry of Transportation has been delayed due to organizational changes at the Ministry of Transport, and the end-March target date was not met.

B. Economic Policies

Monetary, Exchange Rate and Financial Sector Policies

3. **Monetary policy will remain anchored to the CBE's medium-term objective of guiding inflation down to single digits**. The CBE lowered its policy rate by 100 basis points in February to reflect softer demand-side pressures, but real interest rates still remain significantly positive. The monetary policy stance is expected to remain restrictive to contain possible second-round effects. If demand pressures remain contained, the CBE may consider further rate cuts. However, should inflation pressures reemerge, it will stand ready to tighten monetary policy as needed. Simultaneously, the government is developing a series of measures to resolve structural impediments that cause supply shocks to inflation, notably to food prices. These measures include new storage facilities, especially in remote areas, improvements in transportation infrastructure, and the creation of agricultural hubs. Liquidity management has relied primarily on indirect policy instruments such as deposit auctions. The balances in the overdraft account amounted to EGP 2.9 billion at end-March, which is below the statutory limit of EGP 66 billion (PC). We have modified the Memorandum of Understanding between the CBE and MoF to indicate that overdrafts will be issued at market rates starting from July 1, 2019. The CBE social housing program has been discontinued as it has reached the approved limit of EGP20 billion, while CBE's subsidized loans for SMEs will be gradually phased out once the system-wide cumulative flow limits are exhausted. and its lending to banks will be done only for monetary policy (short-term liquidity management) and, if needed, emergency liquidity assistance purposes.

4. The pound strengthened by 7 percent against the US dollar as portfolio inflows resumed. The exchange rate will continue to be market-determined in open and free trading, which is critical as a cushion against external shocks. The CBE will continue not to intervene in the interbank FX market, but will stand ready to make FX sales or purchases in exceptional cases, when unusually large short-term flows pose stability risks to the FX market. Our gross international reserves have reached $44 billion or 140 percent of the Fund's ARA metric for floating regimes in March 2019, which is adequate for macroeconomic stability and market confidence, and we intend to maintain reserves within the Fund's adequacy range.

5. In the medium term, we intend to adopt a forward-looking and interest rate-based monetary policy framework with inflation as the nominal anchor. The new banking law, which was expected to be discussed in Parliament in June, but will now be discussed in the forthcoming October session, was an important step in this direction as it defines price stability as the primary objective of monetary policy and strengthens the CBE's governance, financial structure, operational and institutional autonomy, and the early intervention and resolution framework. To ensure a smooth transition, the CBE will continue to strengthen its analytical and liquidity management capacity, further develop money markets to improve monetary transmission, and continue strengthening its communications strategy. Meanwhile, it will continue to regularly publish reports, which inform markets about the objectives of monetary policy, the central banks' assessment of economic developments, the rationale underlying policy decisions and financial stability. We are revamping our financial reporting practices to comply with the Egyptian Accounting Standards/IFRS for the 2019 audit of CBE accounts.

6. Egypt's banking system remains liquid, profitable and well capitalized. Our regulatory and policy framework strives to entrench public confidence in the banking system so that it plays a key role in financial intermediation and efficiently channels savings into productive investments. We will monitor the developments in the sector to ensure that financial surveillance, lending policies, and governance practices are adequate, will continue to strengthen banking supervision and the regulatory framework, and will implement new emergency liquidity assistance and bank resolution frameworks, in line with international best practices. Commercial banks reduced their open positions within the regulatory limits by end-May, and we will continue to ensure that all banks are in strict compliance with the NOP limits with no exemptions granted and the violators sanctioned as prescribed by the regulations. We will also start publishing quarterly system-wide NOP figures along with other FSIs, starting with the end-June 2019 data.

Fiscal Policy and Public Finance Management

7. Our budget is on track to reach a primary surplus of 2 percent of GDP in 2018/19. This will reduce gross general government debt to 85 percent of GDP by end-June and complete the programmed 3-year consolidation of the primary balance by 5.5 percent of GDP. The overall deficit of the budget sector is expected to reach 8.2 percent of GDP this fiscal year, beating the budget target of 8.4 percent of GDP. The 2019/20 budget, which was sent to the Parliament and passed in June, also targets a primary surplus of 2 percent of GDP (prior action). We intend to maintain primary surpluses at that level in the medium term to reduce gross general government debt to 72 percent of GDP by 2022/23.

8. We will continue to develop and implement the Medium-Term Revenue Strategy (MTRS) to strengthen and modernize revenue mobilization. This is essential to create fiscal space for critical spending in health, education, and infrastructure as well as to continue building modern and efficient social safety nets to support inclusive growth while also keeping public debt on a firmly declining path. This government-led initiative is supported by IMF technical assistance and covers both tax policy and tax administration. We will revise tax policy and related legislation, modernize the Egyptian Tax Administration (ETA), strengthen capacity of the staff and upgrade the IT infrastructure. We intend to publish our MTRS before end of 2019.

9. We will continue to strengthen management of our public finances. Our fiscal strategy paper and the fiscal risks statement will be updated every year, and our comprehensive system to evaluate and decide on new state guarantees will continue to develop and improve. Our medium-term debt management strategy (MTDS) was approved by the Prime Minister and published in May 2019. It aims to ensure an optimal debt profile to allow financing of the budget on the most favorable terms.

10. We will continue to broaden the coverage of SOE report and publish it annually. Based on these reports, we will work on developing a comprehensive reform strategy to streamline and modernize the legal, governance and operational frameworks for SOEs, and strengthen their financial performance and oversight. We will also work on improving financial and operational performance of a number of economic authorities. We are also developing a comprehensive reform plan for the Social Insurance Funds and the pension system to ensure that they are financially sustainable and can provide adequate and equitable pensions. The PFM law will be modernized to revamp the entire budget process and introduce a medium-term budget framework. We have also strengthened fiscal transparency to enhance access to information and increase public trust and confidence in government policies.

11. We are planning to review the financial position and future operations of the National Investment Bank (NIB), and restructure it as needed. NIB is performing some banking functions but is not subject to banking supervision which may lead to a build-up of vulnerabilities. A committee comprising representatives of the CBE, the Ministry of Planning, Monitoring and Administrative Reform and the Ministry of Finance was created and tasked to develop a plan for reforming and improving the financial performance of NIB. As a first step, the committee hired an international auditor to perform a thorough evaluation of NIB's assets and liabilities, which will inform our subsequent decision on NIB's new financial structure, its revised mandate and business model. Meanwhile, we will continue to monitor NIB's banking activities.

Energy Sector Policies

12. We have completed our fuel subsidy reform plan. On July 5, we raised retail prices of all fuel types (excluding LPG and fuel oil used for electricity generation and bakeries) by 22 percent on average to reach full cost-recovery (prior action) and implemented on July 6th fuel price indexation for the same products (prior action). The first price adjustment in accordance with the indexation formula will take place within the following three months. The mechanism is intended to maintain prices at cost-recovery levels and safeguard the budget from unexpected changes in the exchange rate and global oil prices. Price adjustments will initially take place quarterly and will be capped at 10 percent as a smoothing mechanism. We are also implementing a plan to strengthen corporate governance and optimize operating costs of the EGPC. As part of the plan, EGPC further cleared USD 150 million of its outstanding arrears by end June 2019, which at end-December 2018 amounted to $1.043 billion. EGPC is committed to clear remaining outstanding arrears by end December 2019. In parallel, we continue with the electricity subsidy reform. We raised electricity tariffs by an average of 30 percent in July 2016, 40 percent in July 2017, and 36 percent in July 2018. These tariffs were further increased by 20 percent in July 2019.

13. Egypt has an enormous potential to become a major producer and a supplier of natural gas. The development of new fields in the Nile delta and Egypt's territorial waters in the Mediterranean is projected to increase natural gas production to 7.7 bcf by end-2019, eliminating the need for imported natural gas and offering an opportunity to significantly increase export of gas to other countries. Moreover, ongoing offshore exploration suggests the presence of additional gas deposits, which could further boost Egypt's gas potential. The increased domestic production of oil and gas along with more efficient electricity plants and higher reliance on renewables would bring down costs of various fuels.

Business Environment and Other Structural Reforms

14. Our objective is to unlock Egypt's growth potential through market friendly reforms that will attract investments, raise productivity and competitiveness, support exports and create jobs. Towards this end, it is our ambition to significantly improve our rankings in the Doing Business and Global Competitiveness ratings. Egypt has already advanced by 8 and 15 positions, respectively, in the most recent publication of these reports. This reflects successfully implemented reforms such as the new investment law, the industrial licensing law, the companies' law and the insolvency law, which were significant steps toward supporting private sector development. In addition, we established one stop shops that reduced time to start business from 16 to 11 days, strengthened borrowers' and lenders' rights with regard to collateral to facilitate and ease process of getting credit and extended VAT cash refunds to manufactures, when engaged in new capital investments. We have also made significant progress in the following key reform areas:

- **Industrial land allocation**. Land is a critical input of production of goods and services and belongs to all Egyptians. Therefore, our reform of industrial land allocation is aimed to increase the availability of land to the private sector while ensuring that its benefits accrue to all citizens. To this end, we are developing a transparent, competitive, and market-based mechanism for industrial land allocation, which will be based on good governance practices. The new guidelines for industrial land allocation were approved by a Ministerial decree and published by end-March 2019, covering the following specific components: (a) permissible use of land by investors for broad industrial purposes with only limited restrictions; (b) clear eligibility criteria for bidders;

(c) simplified and standardized document requirements; and (d) establishing an online platform and moving the entire process online, including all industrial land tender announcements, document and bidding submissions, and reporting auction results. According to the guidelines, for most allocation and uses, land will be allocated by a special committee based on a scoring system at predetermined fixed prices. Scores will be determined using multiple criteria such as feasibility of business plans, experience, expertise, technological capacity, and export and employment potentials. Land prices will be set a markup to the cost of land development and will be updated every 6 months. Industrial land at prime locations and at industrial zones with occupancy above 90 percent would be allocated through submitting both technical and price offers. All commercial land offered at industrial zones will be allocated via auctions.

- **Public procurement.** To further enhance competition, optimize public spending and reduce rent seeking behavior, we are modifying our public procurement system. The objective is to ensure optimal allocation of public funds to procure best quality of goods, works and services at best prices (achieve value for money objectives). The new Government Procurement Act was approved by Parliament in July 2018 and signed into a law by the President on October 3, 2018. The new executive regulation was drafted to align procurement procedures with best international practices based on the core principles of transparency, fairness, open competition, and sound procedural management. These regulations will standardize government procurement rules, procedures and document requirements to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution. The regulations will apply consistently and uniformly to all government entities' tenders, including to procurement conducted by budget entities, local authorities and economic authorities. The executive regulation will be issued by the Minister of Finance in the coming weeks, once State Council legal review is finalized. We have also launched a single e-Procurement portal, which will gradually replace the paper-based procurement system to manage the entire procurement process (tender announcements, bidding, contract awarding, results reporting) online and where all relevant materials can be publicly accessible (SB). A reform plan to ensure that SOE's procurement rules are consistent with best practices as highlighted in the new Government Procurement law (SB) was approved by the Prime Minister early in July 2019.

- **SMEs.** To support SMEs and entrepreneurship and encourage the formalization of the private sector, we are working on modernizing the tax regime for SMEs, where small taxpayers would pay a reduced flat tax rate on annual recorded turnover levels. The new law was approved by the Cabinet and sent to the parliament for approval.

- **Competition**. To support competition and a vibrant private sector, the Parliament is expected to pass the new ECA law prepared and sent by the Government during the coming Parliamentary session which would strengthen the institutional, financial, and operational independence of the Egyptian Competition Authority (ECA) and the enforcement of its decisions, while also enhancing its accountability through greater transparency. Specifically, the new law will (a) ensure that the ECA reports directly to the Prime Minister and is independent from any Minister to avoid conflict of interest; (b) provide the ECA with administrative fining powers, eliminate the representation of the government and increase the representation of the judiciary and the technical experts in the ECA's board of directors; (c) issue implementing regulations to Article 15 (3) giving the ECA independence in hiring; (d) establish clear criteria for assessing the performance of the ECA and its chairperson; (e) strengthen the transparency of ECA's operations by requiring it to (i) publish motivated decisions together with a non-confidential versions of the case files (including the investigation report and the parties submissions) and market studies, (ii) introduce a referencing system for all board decisions, and (iii) update its web site to include non-confidential versions of all previous and future cases and decisions with supporting analyses; the regulation clarifying procedures and conditions to receive exemptions from the prohibitions of the competition law; the guidelines to calculate fines and settlements; the guidelines to grant leniency on cartel cases; and the methodology to identify and remove barriers to competition in legislation, policies, or decrees which negatively affect competition.

- **Public sector transparency**. To enhance transparency and accountability in the operations of government, improve the performance of public agencies, and reduce perceptions of corruption, we have initiated an open and transparent consultative process with key stakeholders on developing a Right to Information Law and its associated implementing regulations. Building on these consultations we will aim to pass such a law that conforms to international good practices.

- **Female employment**. Reducing unemployment is a high priority, especially among women and youth for which both labor participation and employment statistics are particularly weak. In 2016/17 we budgeted and spent EGP250 million to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs. In 2017/18 we spent EGP500 million on nurseries for 0 to 4-year old children and EGP600 million in 2018/19. We will also work to simplify rules and facilitate registration of home-based nurseries, to expand job opportunities for women and child care for working mothers. This aims to increase coverage of registered nurseries from current low level.

- **Public enterprises**. The announced five-year program to attract private investment in public enterprises is part of the government's agenda to reduce the role of the state in the economy and unleash potential of the private sector. The program is aimed at redeploying Egypt's public assets to their most productive use by widening the ownership base, enhancing transparency and corporate governance, improving financial management, diversifying investment sources, and attracting new investments that can enhance market capitalization. This includes our plan to divest stakes in at least 23 SOEs over the next three years. In 2018/19 we have divested stakes in one SOE due to market conditions, which generated slightly more than EGP 1 billion. Stakes in another four to six companies are intended to be divested in 2019/2020.

C. Conclusion

15. After the successful completion of the EFF arrangement, we remain committed to preserving the reform momentum. We will continue to implement sound policies to further entrench macroeconomic stabilization and create additional fiscal space for investment in human and physical capital, while reducing debt and debt servicing as well as enhancing our social safety nets. We will also continue to deepen and broaden reforms to raise productivity and growth, and better integrate Egypt in global trade. Our ambition is to become a dynamic, well-diversified, and modern economy that acts as a regional trade and energy hub, and a regional leader in creating a market-friendly environment for attracting investment and job creation. We appreciate the fruitful partnership with the Fund over the past three years and look forward to continued close engagement and policy dialogue.

Sincerely yours,

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

/s/
Mohamed Maait
Minister of Finance
Arab Republic of Egypt

Attachments (2)
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Table 1. Egypt: Quantitative Performance Criteria (PC) and Indicative Targets (IT) Under the EFF Arrangement June 2018–June 2019

(In billions of Egyptian pounds unless otherwise indicated)

	June 2018				December 2018				March 2019			
	Program	Adjusted	Actual	Met?	Program	Adjusted	Prel.	Met?		Adjusted	Prel.	Met?
Net international reserves of the CBE ($ million; cumulative change, floor)[1]	-839	11,896	12,482	Yes	-1,500	-1,621	-959	Yes	-2,819	-393	151	Yes
Net domestic assets of the CBE (at program rates; ceiling)[1]	56	-34	-189	Yes	303	330	-37	Yes	177	96	33	Yes
Fuel subsidies (cumulative, ceiling)[1]	121	121	121	Yes	50	50	45	Yes	75	75	51	Yes
Primary fiscal balance of the budget sector (cumulative, floor)[1]	9	9	11	Yes	15	15	21	Yes	35	32	36	Yes
Accumulation of external debt payment arrears ($ million; continuous PC ceiling)[1]	0	0	0	Yes	0	0	0	Yes	0	0	0	Yes
Government overdraft at the CBE (EGP billion, PC, ceiling)	…	…	…	…	…	…	…	…	66	66	3	Yes
Average reserve money (ceiling; IT)	745	745	729	Yes	969	969	696	Yes	850	850	687	Yes
Tax revenues (cumulative floor; IT)[1]	607	607	629	Yes	300	300	304	Yes	450	450	468	Yes
Accumulation of EGPC Arrears ($ million; cumulative ceiling, IT)[1]	-500	-500	-1,200	Yes	-1,000	-1,000	-300	No	0	0	-300	Yes
Accumulation of gross debt of the budget sector (cumulative ceiling, IT)[1]	475	475	578	No	260	260	255	Yes	400	400	379	Yes
Memorandum item:												
Program disbursements ($ million; cumulative)[1]	5,950		18,685		4,000		3,879		5,879		8,305	
Gross foreign reserve assets acquired through the repatriation mechanism ($ million; cumulative)[2]	0		0		0		0		0		0	
External budget support loans ($ million; cumulative)[1]	8,350		13,359		2,000		498		2,498		6,998	
Project loans ($ million, cumulative)[1]	0		0		0		0		0		187	

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

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

[2] For FY2017/18, cumulative flows are from November 1, 2017. For FY2018/19, cumulative flows are from July 1, 2018.

Table 2. Egypt: Prior Actions and Structural Benchmarks 1/			
Measure	Objective	Timing	Status
The draft 2019/20 budget, consistent with the program understandings, to be approved by Parliament.	Strengthen fiscal sustainability	Prior action	Met
Issue and publish in the official gazette a Prime Ministerial decree to implement fuel price indexation mechanism for all fuel products except gasoline Octane 95 (a decree was already issued in December 2018), LPG and fuel oil used in bakeries and electricity generation.	Eliminate fuel subsidies	Prior action	Met
Increase fuel prices to raise price-to-cost ratios to 100 percent. MEFP ¶17	Eliminate fuel subsidies	Prior action	Met
Develop a plan for NIB. The plan will include modalities of: 1. coordination between the MoP, the MoF and the CBE; 2. liquidity and capital provision; 3. information sharing and data monitoring; and 4. one-voice communication.	Strengthen public finances and contain risks to the financial sector	Prior action	Met
CBE will not grant exemptions for commercial banks to breach net FX open position limits and apply sanctions to any banks that violate the limits, in accordance with the regulations. MEFP ¶20	Safeguard financial stability	Continuous structural benchmark	Met
Separate the regulatory authority for public transportation from the Ministry of Transportation by establishing the independent regulatory authority for transport. MEFP ¶25	Improve competition	March 31, 2019	Not met

Table 2. Egypt: Prior Actions and Structural Benchmarks (continued)			
A committee comprising representatives of the ministries of Planning, Monitoring and Administrate Reform and Finance, and the CBE will review NIB's operations and finances, and develop a plan, approved by the Prime Minister, with the revised mandate, the business model and the proposed financial structure of the entity going forward. MEFP ¶15	Strengthen public finances and contain risks to the financial sector	March 31, 2019	Not met. Pending assessment by international auditor.
Approve by Ministerial decree and publish new guidelines for industrial land allocation. The guidelines to include the following components: a) permissible use of land by investors for any industrial purposes with limited restrictions; b) market-based land allocation mechanisms that ensure open, transparent and competitive bidding process; c) clear eligibility criteria for bidders; d) simplified and standardized document requirements; and e) establishing an online platform and moving the entire process online, including all industrial land tender announcements, document and bidding submissions, and reporting auction results. MEFP ¶25	Improve access to land	March 31, 2019	Not met. Implemented by end-March but not all industrial land will be allocated through price auctions
Approve executive regulations for the Government Procurement Law to standardize procurement rules, procedures and document requirements to encourage broad participation by the private sector, with a clear and robust framework for complaint resolution. The procurement regulations to be applied consistently and uniformly to all government entities, including	Strengthen competition, optimize public spending and reduce corruption	May 31, 2019	Not met. To be issued by Minister of Finance in the coming weeks after the State Council legal review.

Table 2. Egypt: Prior Actions and Structural Benchmarks (concluded)			
central and local authorities and economic authorities. MEFP ¶25			
The e-Procurement portal will start operating. MEFP ¶25	Strengthen competition, optimize public spending and reduce corruption	May 31, 2019	Met
Issue and publish in the official gazette a Prime Ministerial decree to implement fuel price indexation mechanism for all fuel products except gasoline Octane 95 (a decree was already issued in December 2018), LPG and fuel oil used in bakeries and electricity generation.	Eliminate fuel subsidies	June 5, 2019	Not met. Implemented with delay on July 6, 2019
Increase fuel prices to raise price-to-cost ratios to 100 percent. MEFP ¶17	Eliminate fuel subsidies	June 15, 2019	Not met. Implemented with delay on July 5, 2019
CBE FX deposits at foreign branches of the Egyptian banks eliminated. MEFP ¶8	Improve foreign exchange reserve management	June 15, 2019	Met
Bring to market shares in at least four SOEs. MEFP ¶25	Develop capital markets and reduce the role of the state	June 15, 2019	Not met. Expected by end 2019
The Prime Minister to approve a reform plan to ensure that SOE's procurement rules are consistent with the new Government Procurement law. MEFP ¶25		June 15, 2019	Not met. Implemented with delay in early July 2019
1/ The references to the MEFP reflect the MEFP from the fourth review.			

Attachment I. Technical Memorandum of Understanding

July 10, 2019

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

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

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

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

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

A. Floor on Net International Reserves (PC)

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

4. Foreign reserve assets are defined consistent with SDDS as readily available claims on nonresidents denominated in convertible foreign currencies, including the Chinese Yuan. They include the CBE holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, the country's reserve position at the Fund and other official reserve assets. Excluded from foreign reserve assets are any assets that are frozen, pledged, used as collateral, or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps (with original maturity of less than 360 days), claims on residents, precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of September 30, 2017, foreign reserve assets thus defined amounted to $35,879 million.

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

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

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

B. Ceiling on Average Reserve Money (IT)

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

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

Revised RM ceiling = Program RM ceiling + banks' correspondent accounts in local currency x (new rr/old rr - 1)

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

June 2018: EGP182 billion

December 2018: EGP 317 billion

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

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

Adjustors.

1) NDA targets will be adjusted down (up) by the full amount of the cumulative excess (shortfall) relative to the baseline projections shown under the memo items in Table 1 in external budget support loans and grants, in U.S. dollars, from official multilateral creditors, official bilateral creditors, private creditors, and external bond placements. Project loans and grants are excluded. The U.S. dollar amounts will be converted in Egyptian pounds using the program EGP/$ exchange rates.

2) In the event of a change in reserve requirement ratio (rr) in local currency, the NDA ceiling will be adjusted according to the formula:

Revised NDA ceiling = Program NDA ceiling + banks' correspondent accounts in local currency x (new rr/old rr -1)

The assumptions about banks' correspondent accounts are the same as in ¶9.

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

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

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

13. Off-budget funds. The authorities will inform IMF staff of the creation of any new off-budgetary funds or programs immediately. This includes any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001.

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

E. Tax Revenue (IT)

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

F. Fuel Subsidies (PC)

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

G. Government overdraft at the CBE (PC)

17. Government overdraft at the CBE is defined as the balance on the government's overdraft account at the CBE minus government's foreign currency deposits at the CBE. As of December 31, 2018, the government overdraft at the CBE amounted to EGP 21.2 billion.

H. EGPC Arrears (IT)

18. 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 December 31, 2018, the stock of EGPC arrears amounted to $1.0 billion.

I. Debt of the Budget Sector (IT)

19. Debt of the budget sector is defined as the outstanding stock of debt issued by the budget sector. The U.S. dollar amounts will be converted in Egyptian pounds using the program EGP/$ exchange rates. The program target is defined as a cumulative change in debt of the budget sector from the beginning of the fiscal year.

J. Continuous Performance Criteria

20. Non-accumulation of external debt payments (principal and interest) arrears by the general government (as defined in paragraph 12). No new external debt payments (including on long-term leases) arrears will be accumulated during the program period. For the purposes of this performance criterion, an external debt payment arrear is defined as an amount of payment obligation (principle and interest) due to nonresidents by the general government and the CBE, which has not been made when due under the contract, including any applicable grace period. The performance criterion will apply on a continuous basis throughout the arrangement.

21. 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.

K. Consultation Clause

22. 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.

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

L. Monitoring and Reporting Requirements

24. 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.

M. Data Reporting

Table 3A. Ministry of Finance		
Item	**Frequency**	**Submission Lag**
Overall deficit of the budget sector	M	30 calendar days
Overall deficit of the general government, NIB and SIFs	M	45 calendar days
Summary of budget sector accounts, including revenues, expenditures and net acquisition of financial assets on a cash basis, consistent with IMF GFS 2001 Manual.	M	30 calendar days
Summary accounts of NIB and SIFs, consistent with presentation of general government accounts	M	45 calendar days
Program disbursements and project loans to the general government	W and M	30 calendar days
Domestic debt stock and debt service costs of the general government and budget sector, including interest payments and amortization	M	30 calendar days (45 days for the general government)
Debt of the budget sector at actual and program exchange rates	M	30 calendar days
Debt guarantees issued by General Government and the CBE	Q	45 calendar days
Stock of bonds issued by the government to Social Insurance Fund	Q	30 calendar days
Net domestic borrowing of the general government and budget sector, including net T-bill and T-bond issuance in local and foreign currency, separately for domestic and foreign investors, and issuance of other government debt instruments	W and M	30 calendar days (45 days for the general government)
Auctions of T-bills and T-bonds via primary dealers, including the number and value of submitted and accepted bids, minimum, maximum and weighted average interest rates and maturity dates	W	7 working days
Gross transfers to EGPC Fuel subsidies to EGPC	Q Q	90 calendar days 90 calendar days
Stock of EGPC arrears to foreign creditors	Q	90 calendar days
Use of overdraft facility at the CBE (end of period stock)	W	15 calendar days
Stock of outstanding domestic arrears by creditor	M	30 calendar days
Value and volume of crude oil, oil product, liquid and natural gas, and bunker and jet fuel exports and imports, partner exports and excess cost recovery (separately for liquid and natural gas, and crude oil) (from Ministry of Petroleum)	Q	90 calendar days
Components of foreign direct investment (investments and capital repatriation) to the petroleum sector (from Ministry of Petroleum)	Q	60 calendar days

Table 3A. Ministry of Finance (concluded)		
Financial information of NIB: i) detailed balance sheet, including interest on assets and liabilities across maturities; ii) income statement; iii) cash flow projections for the next 12 months; iv) list of non-performing loans (overdue for more than 90 days), including loan amounts	Q	60 calendar days
Note: Q= quarterly; M = Monthly; W = Weekly		

Table 3B. 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 working days
Breakdown of gross foreign assets and liabilities (including foreign currency liabilities to residents) of the CBE by currency at actual and program exchange rates	M	15 calendar days
Breakdown of foreign reserve-related liabilities (including foreign currency liabilities to residents) of the CBE by original maturity at actual and program exchange rates	M	15 calendar days
Program NDA of the CBE and its components	M	15 calendar days
Stock of outstanding external debt payment arrears of the general government (if any) by creditor	M	30 calendar days
Projections for external debt payments falling due in the next four quarters, interest and amortization	Q	30 calendar days
Monthly cash flow table based on the agreed template, both past outcomes and projections for 12 months	M	15 calendar days
Balance of payments data in electronic format	Q	90 calendar days
CBE foreign exchange deposits held at commercial banks headquartered in Egypt	W	5 working days
Commercial banks (foreign exchange and Egyptian pound) deposits by sector (household, corporate, public)	M	30 calendar days
Commercial banks core FSI indicators by peer group: i) Net open position and ii) Liquidity ratios: measured in both foreign currency and in Egyptian Pounds	M	30 calendar days
Bank-by-bank foreign exchange net open position	M	30 calendar days
Commercial banks core FSI indicators by peer group: i) Capital adequacy ratio defined as regulatory capital as a share of risk weighted assets; ii) Regulatory capital; iii) Nonperforming loans as a share of total loans; and iv) Provisions as a share of NPLs	Q	75 calendar days
Commercial bank-by-bank data: i) balance sheets by currency (foreign exchange and Egyptian pound); ii) income statements; iii) FSI indicators; and iv) profitability indicators.	Q	75 calendar days
Other depository corporations (commercial banks) balance sheet information in SRF (preliminary)	M	30 calendar days
Central bank balance sheet in SRF (preliminary)	M	15 calendar days

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

Statement by Mr. Beblawi, Executive Director for Egypt and Ms. Abdelati, Senior Advisor to the Executive Director July 24, 2019

The Egyptian authorities appreciate the Fund's support throughout the past three years and are pleased to see this program come to a successful completion. Its macroeconomic targets have been met and, in several cases, over-achieved despite external shocks that had not been anticipated at the start of the program. Virtually all quantitative targets for all reviews were met, and macroeconomic outcomes surpassed initial program objectives. The Egyptian economy is now one of the fastest growing emerging market economies and the fastest in the MENA region and a favorite destination for capital flows. The government's structural reform program showed solid progress, both in areas covered by the IMF program, as well as in other areas underpinning the solid growth performance and improved investor sentiment. Most of the program's structural benchmarks were met, although some with a short delay or partly completed. However, these delays were immaterial to achieving the program objectives and reflect the multiplicity and design of benchmarks, as well as capacity constraints. Egypt is receiving positive reviews from several international institutions for its achievements.[1]

Growth and employment prospects remain strong. The fiscal year 2018/19 (FY19) growth rate of 5.6 percent, which is expected to increase in the coming years (Q1 2019 recorded 5.7 growth, and 6 percent is expected in FY20), will support job creation and further reduce unemployment. This is no small achievement in the context of a large fiscal adjustment and a tight monetary stance. It reflects the increase in business activity associated with the positive domestic and international perceptions of the reforms. The quality and sustainability of Egypt's growth improved substantially, as private and public investment contributed almost 45 percent of growth in FY19 and one third was driven by net exports. Importantly, growth has been job-rich, as reflected in the significant decline of unemployment.

Unemployment, which peaked at 13.2 percent in June 2013, declined to 8.1 percent in Q1 2019. Staff analysis in the 2017 Selected Issues Paper had estimated that growth in the 10-year period of 2007–17 (at 4.3 percent annually) would not be enough to absorb new entrants to the labor force and reduce the rate of unemployment. Staff also estimated that growth rates of 5–6 percent annually would absorb new entrants and reduce unemployment

---

[1] This includes recently released World Bank reports, as well as statements by EBRD, and coverage by Bloomberg and others. EBRD Managing Director for Southern and East Mediterranean Janet Heckman said, "We continue to be quite bullish and optimistic about Egypt … it's a big country, almost 100 million people and at the same time it's greatly positioned in terms of export opportunities, which I think have been highly underdeveloped." The bank has primarily been investing in Egypt's transport sector, but has also made significant investments in local private sector companies looking to expand their operations. EBRD President Sir Suma Chakrabarti had also said that the bank is planning to commit up to EUR 2.5 bn-worth of projects in Egypt over the next two years. The latest Country Results Brief of the African Development Bank states" Egypt has regained its position as the first destination for FDI in Africa.

by about 30 percent by 2022. The anticipated 30 percent decline in unemployment was achieved in less than 2 years, by March 2019. This underscores the economy's growth potential and capacity to create jobs with the appropriate policies.

The planned fiscal adjustment of 5.5 percentage points of GDP was achieved. It is one of the highest adjustments among large IMF programs over the past 25 years, while the program's access was among the lowest of these programs. A primary surplus of 2 percent of GDP was reached in FY19, making Egypt one of few emerging and developing countries to achieve a primary surplus in FY19. The fiscal adjustment was pro-growth, high quality, and is expected to be lasting. Fuel subsidies were eliminated (with the exception of a small quantity of fuel for bakeries and electricity generation), cutting energy subsidies by over 3 percentage points of GDP in the FY20 budget compared with FY17. Meanwhile, the wage bill was reduced by 3½ percentage points of GDP, a policy decision that was not part of the Fund program design, despite wage increases aimed at mitigating the effects of the sharp increase in inflation following the devaluation and fuel subsidy reforms. Indirect taxes increased by over 1½ percentage points of GDP with the introduction of a VAT. Capital spending increased by 1 percentage point of GDP.

Budgetary allocations for social spending were increased, consistent with the constitutional requirements to raise spending on health and education to the average levels of peers and to improve service delivery. The planned improvements under the new Education Reform Law is part of this effort. A universal health bill has been approved by the Parliament and started to be rolled out in FY20. Meanwhile, the authorities have stepped up preventive health care, including with a national screening and immunization campaign for hepatitis C in 2019, one of the biggest screening programs worldwide. The Ministry of Social Solidarity, in coordination with the World Bank, has improved the identification of needy families under the Takaful and Karama program. Coverage of cash transfer programs was extended from 0.5 to 3.2 million households, with more than 10 million Egyptians covered, while the amount of the monthly cash transfer was increased. Additional programs were also introduced, including Fursa, a program to assist employment seekers. Social security pension reforms are also under way, as well as social housing projects.

The decline in public debt is clearly one of the most dramatic for any country (excluding cases of debt restructuring). After reaching 103 percent of GDP in June 2017, government debt-to-GDP declined to 85 percent of GDP by June 2019, a decline of 18 percentage points within two years. Moreover, the authorities' new debt management strategy, based on a continuation of primary surpluses of 2 percent of GDP, aims to extend maturities and further reduce debt to 70 percent of GDP by FY23. The authorities firmly believe that Egypt is well placed to face a shift in global sentiment, due to its track record, declining debt, and contained external financing needs (¶6).

The external adjustment has also been transformative. Following the floating of the currency in November 2016, and the overshooting of the exchange rate considerably beyond Fund expectations, a substantial external adjustment has taken place. The current account narrowed from 6 percent of GDP in FY16 and FY17 to around 2½ percent of GDP in FY18. Export growth has ranged from 15-20 percent a year, considerably higher than had been forecast at the start of the program. Tourism, which employs about 15 percent of the population, has recovered strongly and is contributing to FX receipts. Capital inflows amounted to $10 billion, since the beginning of this year. Gross international reserves tripled from their level at end-2016 and are about one third higher than had been projected at the start of the program and are at 140 percent of the Fund's ARA metric. The Central Bank of Egypt refrained from any intervention throughout the period. Improved investor sentiment and consistent portfolio inflows supported an appreciation of the Egyptian pound by nearly 10 percent, since the beginning of 2019.

Monetary policy successfully contained inflationary pressures following the depreciation and energy subsidy reforms. After surging to over 33 percent in the year ending in July 2017, inflation came down to 9.4 percent in June 2019. The central bank has refrained from lowering policy interest rates since its 100 bps rate cut in February 2019, keeping the overnight deposit rate at 15.75, in spite of declining inflation and rate cuts by other emerging market central banks. Maintaining these rates takes into account the expected price pressures following the June-July 2019 electricity and fuel price increases. Central bank communication has been upscaled, including through regular press statements after each meeting of the Monetary Policy Committee, a monthly inflation report, a quarterly monetary policy report, and an annual financial stability report. The central bank continues to be vigilant and ready to act, keenly aware of potential turbulence in financial markets.

Egypt's banking system remains liquid, profitable, and well capitalized, and the central bank maintains very high standards of regulation and supervision. The regulatory framework and supervisory practices have helped entrench public confidence in the banking system, and trust in the strength of supervisory capacities at the central bank. Nonperforming loans are low and nearly fully provisioned. Modifications to the central bank law are on the Parliament's agenda. Banks are adapting their operations to support new segments of the population and to modernize their systems in line with the needs of the digital economy and payment systems. The staff report had only one sentence on the strength of the banking sector, confirming there are no issues that need to be flagged.

A committee was set up to examine the assets and liabilities of the National Investment Bank (NIB) and to consider its future role and operations following completion of the assessment by an international auditor. The authorities explained to staff that its operating results are part of the general government since it was established in 1980 with a mandate to support investments that meet economic and social development needs. They feel confident that risks are limited and can be addressed by existing frameworks.

While celebrating the success of the government's structural reform efforts so far, the authorities fully recognize that the job is not fully done, there is no room for complacency, and there is a compelling need to proceed with their structural reform agenda. During the last mission, the authorities told staff that the success seen so far has increased the government's appetite to pursue more structural reforms. Public procurement and competition policy reforms have advanced as planned, and as reported in the staff report, and will have an important impact going forward to improve overall economic governance. To promote transparency and citizen engagement, the Ministry of Finance established a dedicated unit mandated for that purpose. A Pre-Budget Statement for FY20 has been published on the Ministry of Finance website for the fourth year in a row. Citizen Budget Statements were also issued and published for the past four years and additional information has been made available to better inform citizens about fiscal and debt developments. Egypt's ranking in the International Budget Partnership has improved substantially in recent years and is expected to continue to further advance with the recent reforms. Egypt's ranking has also improved in the Doing Business indicators, and the authorities are keen to see continued improvements.

Dialogue with Fund staff and their views on structural reforms are always welcome, but differences do arise. As highlighted in our last Buff statement, the Fund's position on the allocation mechanism for industrial land differs from those in published reports of other international organizations. We regret that the difference in views could not be resolved, that staff still considers the structural benchmark not met, and continues to call for price auctions as the only acceptable way to allocate land without providing relevant examples from country experiences.

The authorities shared with staff and management the key objectives and targets of Egypt's second phase of reforms. The primary two objectives are to further boost growth and job creation—with emphasis on increasing productivity and pursuing more private sector-led growth—as well as to improve social protection with better access to quality services.[2] To achieve these objectives, they will focus on (i) maintaining a supportive macroeconomic environment with low inflation, a flexible exchange rate, and a strong and sound banking system, (ii) reducing the fiscal deficit, lowering the debt service cost, and keeping debt on a declining trajectory; (iii) continuing to strengthen spending efficiency, and increase the progressivity and buoyancy of the tax system, and (iv) structural reforms focused on sustained improvements in the business climate and enhanced competitiveness. With respect to priority areas of structural reforms, they wish to pursue initiatives to encourage

[2] Consistent with our priorities, a July 2019 World Bank Report, The Egyptian Economy Observatory is optimistic about the second batch of economic reforms focusing on maintaining macroeconomic stability, enlarging the role of the private sector, creating more jobs, qualifying more labor with the necessary skills and improving the quality of life of citizens.

manufacturing and export-oriented sectors,[3] build on the progress achieved in improving the ease of doing business, including through the automation of all services and transactions with the government, increase support to SMEs and entrepreneurship,[4] enhance financial inclusion and support access to finance for start-ups, support digital financial services,[5] promote innovation and digital applications, and support the expansion of Fintech in Egypt and the region. The authorities have no intention to relax the momentum on structural reforms.

The authorities intend to pursue their structural reform agenda with the same resolve seen over the past 3 years, leveraging IMF expertise while utilizing the expertise of other key IFIs, where more appropriate. They will maintain close engagement with the IMF, regardless of the form of future engagement.

[3] See the July 2019 World Bank *Egypt Economic Monitor: From Floating to Thriving: Taking Egypt's Exports to New Levels*– with focus on promoting exports which is a priority area we have raised with the Fund for a long time. The report focuses on three areas to address: (i) concentration of exports in traditional areas, (ii) significant non-tariff barriers; and (iii) connectivity and infrastructure challenges.

[4] AfDB is working on regional integration, a guarantee investment fund for Africa, education, and to catalyze entrepreneurship in Egypt.

[5] CBE and EBRD are discussing offering new banking products to the local market, in line with the authorities' focus on access to finance and digitalization.