



ARAB REPUBLIC OF EGYPT

January 2021

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT AND MONETARY POLICY CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the First Review Under the Stand-By Arrangement and Monetary Policy Consultation, 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 December 18, 2020 following discussions that ended on November 18, 2020, with the officials of the Arab Republic of Egypt on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 4, 2020.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Arab Republic of Egypt.

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

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IMF Executive Board Completes First Review under the Stand-By Arrangement (SBA) for the Arab Republic of Egypt

FOR IMMEDIATE RELEASE

- *The Executive Board of the International Monetary Fund (IMF) completed today the first review of Egypt's economic reform program supported by a 12-month Stand-By Arrangement (SBA), allowing the authorities to draw SDR 1,158.04 million (about US\$1.67 billion).*
- *Egypt has managed well the COVID-19 pandemic and the related disruption to economic activity by adopting proactive measures to address health and social needs and support the sectors most directly affected by the crisis. However, there are still risks to the outlook, particularly as a second wave of the pandemic increases uncertainty about the pace of the domestic and global recovery.*
- *Sustained progress on structural and governance reforms is essential to foster higher, greener, and more inclusive private-sector-led growth, including continued focus on enhancing the transparency of state-owned enterprises, ensuring a level playing field for all economic agents, and removing bureaucratic obstacles to private sector development.*

Washington, DC – December 18, 2020: The Executive Board of the International Monetary Fund (IMF) completed today the first review of Egypt's economic reform program supported by a 12-month Stand-By Arrangement (SBA). The completion of the review allows the authorities to draw the equivalent of SDR 1,158.04 million (about US\$1.67 billion), bringing total disbursements under the SBA to SDR 2,605.6 million (about US\$3.6 billion).

The 12-month SBA in the amount equivalent to SDR 3,763.64 million (about US\$5.2 billion at the time of approval, or 184.8 percent of quota) was approved by the Executive Board on June 26, 2020 ([Press Release No. 20/248](#)) to support the authorities' economic reform program during the COVID-19 crisis.

Following the Executive Board's discussion on Egypt, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"The Egyptian authorities have managed well the COVID-19 pandemic and the related disruption to economic activity. The proactive measures taken to address health and social needs and to support the sectors most directly affected by the crisis have helped mitigate the economic and human impact. The growth slowdown has so far been less severe than expected with Egypt expected to be among the few countries with positive growth rate this year. External market conditions have also improved with a strong return of portfolio inflows.

"There are still risks to the outlook particularly as a second wave of the pandemic increases uncertainty about the pace of the domestic and global recovery. The high level of public debt and gross financing needs also leave Egypt vulnerable to volatility in global financial conditions. Continued strong policy implementation will further strengthen resilience and help maintain investor confidence.

“Budget execution is on track to achieve the program target for FY2020/21. The existing budget envelope provides sufficient flexibility to accommodate any additional support for vulnerable groups in the event of a second wave of COVID-19, while maintaining the program’s fiscal objectives. The envisaged economic recovery should allow public debt to resume its downward trajectory from FY2021/22, and the continued shift toward longer-term debt issuance could mitigate rollover risks. Continued progress on fiscal structural reforms is critical to ensure additional space for high priority spending on health, education, and social protection.

“The Central Bank of Egypt’s (CBE) data driven approach to monetary policy has been instrumental to anchor inflation expectations and achieve low and stable inflation. Monetary easing in recent months should further support economic activity and ease appreciation pressures from large capital inflows, which has had a dampening effect on inflation. Two-sided exchange rate flexibility is essential to absorb external shocks and maintain competitiveness.

“The banking system has been resilient thus far, having entered the crisis well-capitalized and with ample liquidity. The CBE’s initiatives have helped ensure continued access to credit through the crisis; ongoing financial sector supervision will be critical to maintain the resilience of the banking sector as crisis initiatives begin to expire.

“The government’s structural reform agenda is appropriately ambitious. Sustained progress on structural and governance reforms is essential to foster higher, greener, and more inclusive private-sector-led growth. The government’s ongoing initiatives to support a green recovery are welcome. Continued focus is needed on reforms to enhance the transparency of state-owned enterprises and to facilitate trade. Timely finalization of a restructuring plan for the National Investment Bank is important for reducing fiscal risks. Finally, ensuring a level playing field for all economic agents and removing bureaucratic obstacles to private sector development will lead to durable improvements in the investment climate and governance.”



ARAB REPUBLIC OF EGYPT

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT AND MONETARY POLICY CONSULTATION

December 4, 2020

EXECUTIVE SUMMARY

The growth impact of the COVID-19 crisis has so far been less severe than expected, as strong consumption helped offset weak tourism and investment.

Measures taken to address the health and social needs and support the sectors most directly affected by the crisis appear to have helped mitigate the impact of the shock. External market conditions have improved with a strong return of portfolio inflows since the approval of the Stand-By Arrangement (SBA).

The external environment remains fragile, however, with considerable risks to the outlook. With the growing numbers of countries experiencing a second wave of the pandemic, risks arise from a more prolonged standstill in tourism. The still-high level of public debt and gross financing needs also leave Egypt vulnerable to a reversal of capital flows, which risk triggering again financing and exchange rate pressures. Rebuilding buffers and ensuring investors' continued confidence with timely program implementation are key.

Program performance has been broadly on track. All end-September quantitative performance criteria were met, although a fall in food prices in recent months resulted in a breach of the lower outer band of the end-September monetary policy consultation clause (MPCC). The end-September structural benchmark (SB) on the publication of financial reports of state-owned enterprises (SOEs) and Economic Authorities was met, the law to streamline customs procedures (end-March SB) was ratified in November, and a revised Public Financial Management Law was submitted in October to the Parliament (end-December SB). The authorities have also requested amending the MPCC to take into account recent inflation dynamics.

Staff supports completion of the first review and monetary policy consultation under the SBA, and the proposed modification of the MPCC. Upon completion, an additional SDR 1,158.04 million would be made available, bringing total access to SDR 2,605.6 million.

Approved By
Taline Koranchelian
and Kristina Kostial

The staff team comprised Uma Ramakrishnan (head), Deeksha Kale, Matthew Gaertner, Suchanan Tambunlertchai (all MCD), Randa Elnagar (COM), Geoffrey Keim (SPR), Cristian Alonso (FAD), Peter Lohmus (MCM), Said Bakhache (Senior Resident Representative), and Karim Badr (Resident Representative Office). The team was supported by Marianne Azer, Maria de Mesa, and Alex de Keyserling. Mr. Mahmoud Mohieldin and Ms. Wafa Abdelati (OED) also participated in the meetings. Virtual discussions were held on November 4–18, 2020 with Mohammed Maait, Minister of Finance; Tarek Amer, Governor of the Central Bank of Egypt; and other senior officials.

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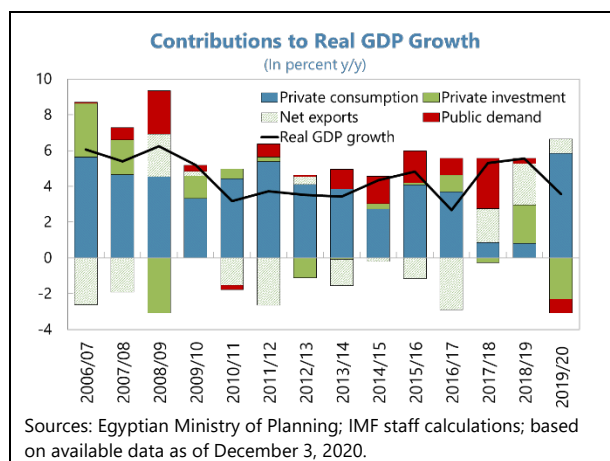
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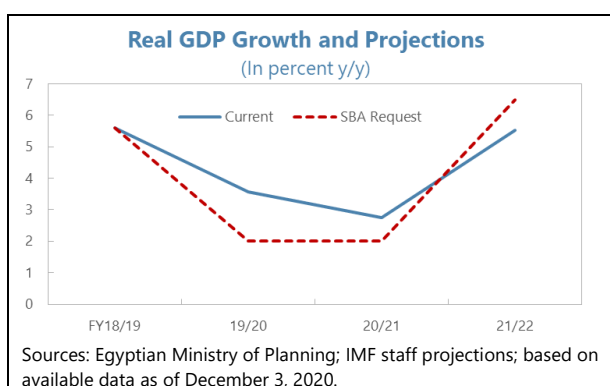
RECENT DEVELOPMENTS

1. The disruption to economic activity in the June quarter was less than expected, with growth, external and fiscal accounts all outperforming projections in FY2019/20.

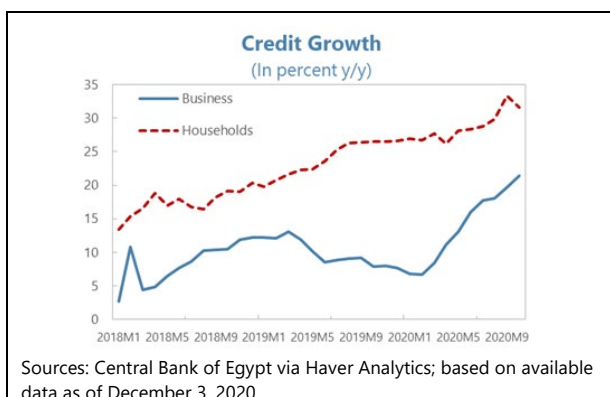
- Real GDP contracted in the June quarter—a first in nine years—by 1.7 percent (y/y). This reflected a significant drop in tourism as well as declines in manufacturing and building construction as investment slowed sharply. Consumption remained relatively robust, however, supporting modest growth in most other sectors. Thus, the decline was much less than projected at SBA approval in June, resulting in growth of 3.6 percent in FY2019/20 compared to the projected 2 percent.



- The unemployment rate declined in Q3 of 2020 to 7.3 percent, accompanied by an increase in labor force, down from 9.6 percent in the previous quarter at the height of the lockdown. Annex I presents recent labor force trends in Egypt and the authorities' key planned actions.



- In FY2019/20, the current account deficit improved to 3.1 percent of GDP, as remittances held up better than expected, helping offset the sharp fall in tourism receipts. The primary fiscal surplus of 1.8 percent of GDP also beat expectations, reflecting savings on energy subsidies from lower oil prices and lower-than-planned transfers to the social insurance fund.



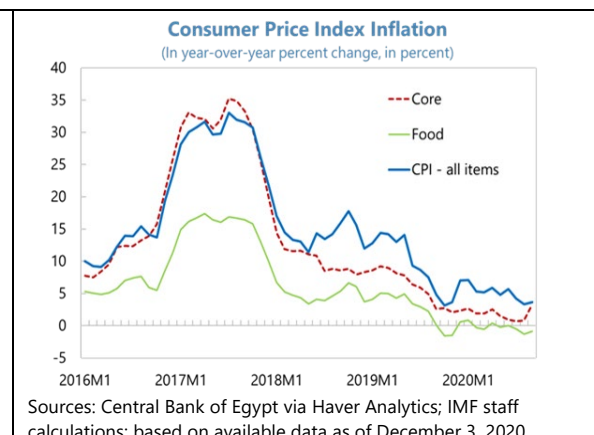
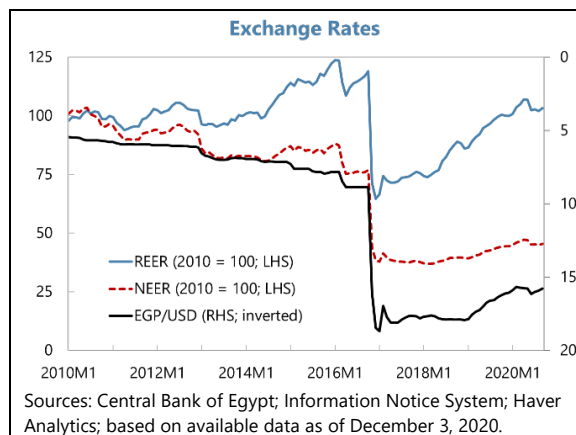
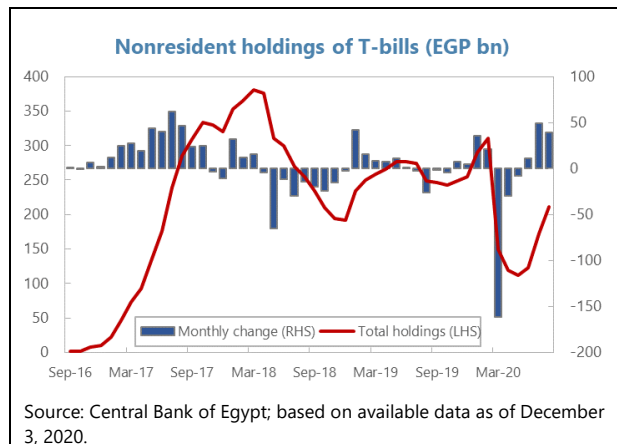
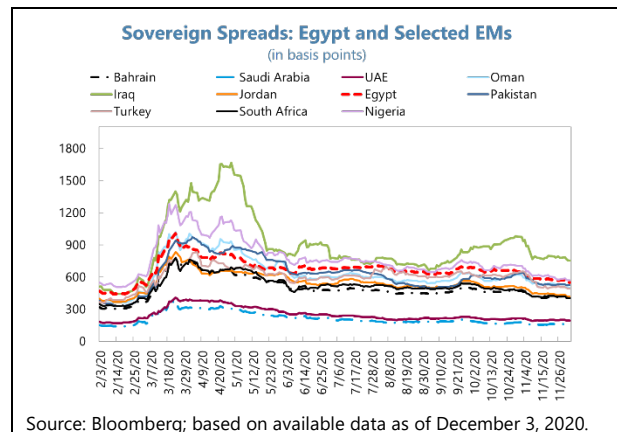
- The various government and Central Bank of Egypt (CBE) initiatives, combined with banks' strong liquidity buffers, supported continued credit and domestic activity through the crisis. The banking sector on aggregate was well capitalized entering the crisis and the latest available financial sector indicators appear sound (Table 9).

2. There are early signs of recovery as the pandemic-related lockdown measures are being gradually eased. As of November 23, Egypt has had 113,027 confirmed cases of COVID-19 with 6,548 deaths. With daily reported new cases significantly down from the June peak, the government has relaxed restrictions on retail activity, hotel operations, and public congregations. Guidance on risk mitigation measures remains in place, including social distancing and mask wearing. International flights have resumed, and tourists are arriving in small numbers.

3. External market conditions have improved but remain fragile. Egypt's sovereign

spreads are below their COVID-19 crisis peaks, albeit higher than some peers. Portfolio flows are recovering, with reported net inflows of more than \$9 billion between June and October—following more than \$15 billion in outflows during March/April—reflecting attractive domestic yields with 90-day T-bills at around 13.5 percent. A syndicated loan for \$2 billion and a 5-year sovereign green bond for \$750 million, both oversubscribed, were issued in September and October, respectively. Official FX reserves rose to \$38.3 billion in October, and the exchange rate has appreciated by some 3 percent between June and November.

4. The CBE lowered the policy rate (overnight deposit) by 50 basis points each in September and November to 8.25 percent in response to declining inflation. This followed a 300 bps cut in March in response to the crisis. Headline inflation fell to 4.5 percent (y/y) in October from 5.7 percent in June as food prices declined, reflecting in part the authorities' efforts to modernize domestic agriculture and improve



supply logistics. The September rate cut was accompanied by the discontinuation of the high-yield (15 percent) local currency certificates of deposit offered by state banks since mid-March.

5. The authorities are making positive strides toward a green recovery (Annex II).

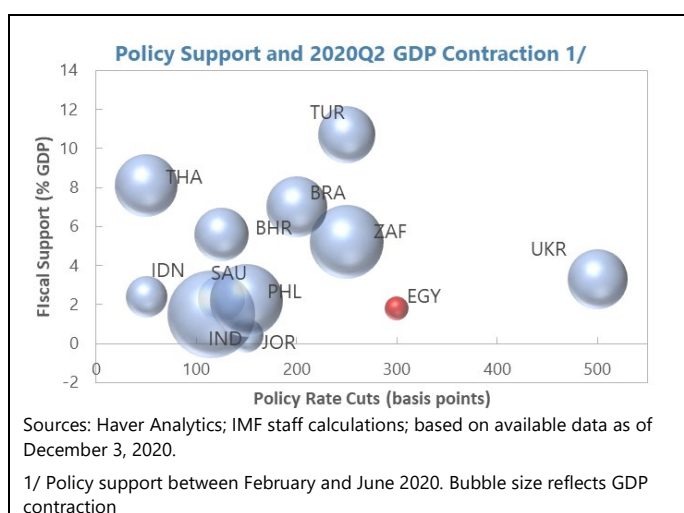
Multi-sectoral adaptation and mitigation plans have been developed to reduce Egypt's vulnerability to climate change effects, including sea level rise and extreme weather conditions. The fuel pricing reform, investment in solar and wind parks, and projects to convert gasoline-powered vehicles to natural gas and shift public transport to electricity are expected to promote a green recovery and create jobs over the medium term.

OUTLOOK AND RISKS

6. The FY2020/21 growth projection has been revised upwards to reflect the milder-than-anticipated contraction.

Real GDP growth is now projected to be 2.8 percent, compared to 2 percent at SBA approval, with modest recovery expected in all sectors except tourism. Under this baseline, Egypt would be one of the few countries to record positive growth (around 1.5 percent) in calendar year 2020. Tourism recovery is likely to be much more protracted, with global travel disruptions expected to linger well into 2021. The stronger base in FY2020/21 implies a less sharp growth for FY2021/22 than previously projected (revised to 5.5 percent from 6.5 percent). The FY2020/21 current

account projection is mostly unchanged from SBA approval, although with higher, and broadly offsetting, levels of remittances and imports than previously projected.



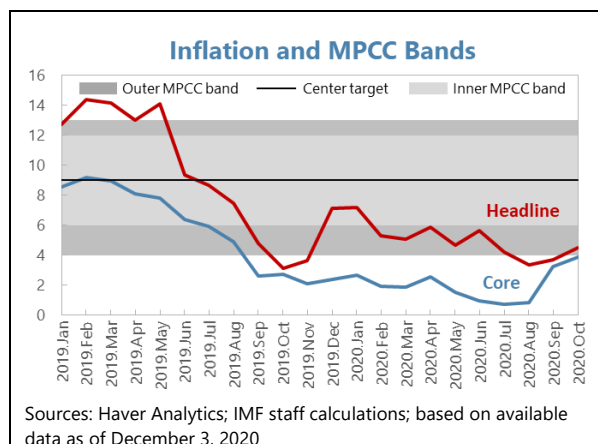
7. Risks to the outlook remain significant, including a second wave of COVID-19, less favorable financing conditions for emerging markets, and a drop in remittances. With the growing numbers of countries experiencing a second wave of the pandemic, and the numbers rising in Egypt as well, uncertainty remains high, particularly around the evenness and pace of global recovery. Recent capital inflows have somewhat offset lower tourism revenues, but the repricing of risk assets by financial markets could produce a new bout of portfolio outflows while stable remittance flows may not prove durable. Sharp increases in unemployment, poverty, and inequality could also undermine public support for the economic program, while materialization of contingent liabilities could adversely affect the debt trajectory.

PROGRAM PERFORMANCE

8. All end-September quantitative performance criteria (QPC) were met, although the Monetary Policy Consultation Clause (MPCC) was marginally breached (Table 13).

- The adjusted net international reserves (NIR) and primary balance outturns overperformed their respective QPCs. NIR exceeded the September floor by \$4.3 billion as financial market conditions stabilized while tax revenues rose 14 percent (y/y) during the first quarter of FY2020/21, reflecting strong growth in corporate income tax receipts that offset weaker VAT collection. The indicative targets (ITs) for health and social spending, the government's overdraft at the CBE, and the share of short-term net domestic issuances have all been met.

- The decline in headline inflation as food prices fell in July, August, and September resulted in a breach of the lower outer band of the end-September MPCC (see also ¶4 and ¶11).



- The law to streamline customs procedures (end-March SB) was passed by Parliament in August, and the FY2018/19 financial reports of SOEs and Economic Authorities were published in end-September (SB). In addition, a revised Public Financial Management (PFM) Law was submitted to the Parliament in October (end-December SB).

POLICY DISCUSSIONS

A tough balancing act lies ahead—while domestic activity shows signs of recovery and financial market conditions have improved considerably, key sectors like tourism remain at a standstill as a second global wave of COVID-19 infections has materialized. Timely program implementation is essential for rebuilding buffers and ensuring investors' continued confidence in the outlook for Egypt. There also remains scope for monetary and fiscal policy to provide additional support for vulnerable groups and sectors. Maintaining social cohesion in these uncertain times requires careful calibration of policy responses.

A. Fiscal Policy: A Balancing Act

9. Fiscal implementation relative to program targets for FY2020/21 remains on track.

- The budget passed in June was primarily based on a pre-COVID-19 primary surplus projection of 2 percent of GDP but set a primary surplus floor of 0.5 percent of GDP. The authorities estimate a primary surplus of 0.6 percent of GDP for FY2020/21, with the main difference relative to the budget reflecting lower tax revenues than the pre-COVID-19

projection. A fiscal stimulus package of 1.9 percent of GDP has been almost fully committed (see also Annex III), and a supplementary budget is unlikely to be needed as the approved expenditure ceilings appear sufficient.

- The authorities noted they have some flexibility to reallocate spending within the existing envelope to provide potential additional fiscal support for vulnerable groups and sectors in the event of a second wave of COVID-19 in Egypt. If needed, there is also room to reduce lower priority

capital expenditure to accommodate immediate spending priorities while maintaining the broader program fiscal objectives. Tax revenue is projected to be higher than anticipated at the time of SBA approval, reflecting the improved growth outlook.

- To protect the most vulnerable, coverage of the main cash transfer program Takaful and Karama has been expanded by 400,000 to reach 3.6 million households. The authorities are leveraging digitalization to improve management of the program and to foster financial inclusion, including through mobile money. They are also working on a further expansion of coverage to 4 million households by June 2021 with financial support from NGOs.

10. The authorities aim to return to the pre-crisis primary surplus of 2 percent of GDP in FY2021/22 under the current baseline of economic recovery. They also reiterated their intention to unwind temporary crisis measures as the recovery takes hold. The higher surplus—once the recovery is well-entrenched—will help put public debt back on a downward trajectory, preserve macroeconomic stability, and ensure medium-term fiscal sustainability. Meanwhile, public debt is projected to rise to 93 percent of GDP in FY2020/21 before falling below 75 percent of GDP in FY2025/26. The authorities have continued to shift toward issuance of longer-term debt instruments to extend the maturity profile of public debt, with the average maturity of tradable debt increasing to 3.9 years in FY2019/20 from 2.8 years in FY2018/19 (see also ¶15).

B. Monetary Policy: Anchoring Inflation Under Uncertainty

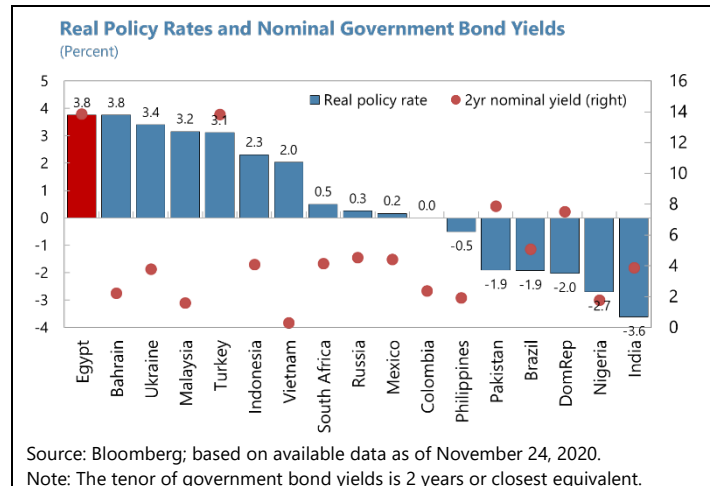
11. Monetary policy should remain data driven to anchor inflation within the CBE's target range, with due consideration of the multiple trade-offs and their price impact.

- The CBE has reduced the policy rate by 50 bps each in September and November in response to the moderation of inflation expectations, with headline inflation expected to remain around the lower bound of the CBE's target for 2020 Q4 (LOI, Attachment III). For the medium term, the CBE is reviewing the inflation target of 9 percent (± 3 percentage points), which will depend, inter alia, on the growth outlook, food price volatility, and other structural

Government of Egypt: Fiscal Response to COVID-19 Pandemic				
<i>(Cost in EGP Millions)</i>				
Measures	Fiscal Package as of Oct 2020			
	2019/20	2020/21	Total	% GDP
1. Additional Health Expenditure	8,223	5,475	13,698	0.2
2. Support to Households	8,200	28,900	37,100	0.6
3. Support to Firms	31,511	27,254	58,765	1.0
Total	47,934	61,629	109,563	1.9
o.w. Health and Social Spending	16,423	34,375	50,798	0.9

Sources: Egypt's Ministry of Finance; IMF staff calculations.

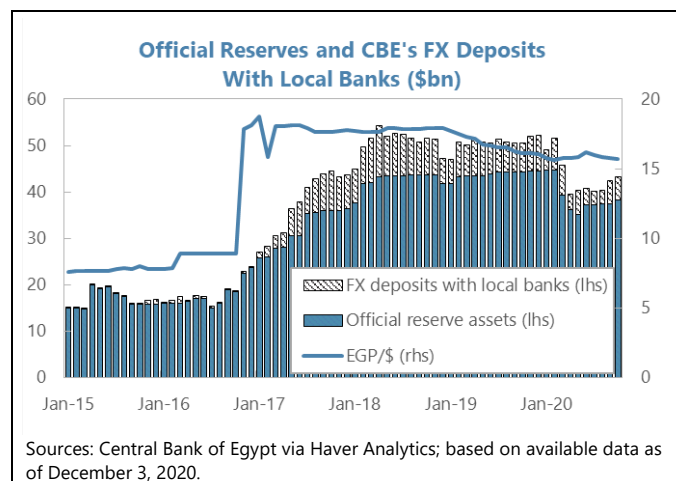
reforms, including the improvements in food supply logistics. In addition, a modification is being proposed for the MPCC midpoint for the rest of the program, including the end-March test date, from 9 to 7 percent to reflect the structural improvements in the food supply logistics and prevailing short-term inflation expectations (see also ¶18).



- Discussions focused on the need for monetary policy to remain data driven to anchor inflation expectations, with consideration of the multiple trade-offs. For example, high real interest rates have contributed to dampening inflation, but have to be weighed against potential vulnerabilities from higher capital flows and pressures on the exchange rate in the still uncertain external environment.
- The authorities noted the rate cuts in the September and November Monetary Policy Committee meetings and that the projected rebound in domestic activity, the monetary easing that has already taken place, and the base effects from the low inflation this year are all likely to contribute to higher inflation in 2021, albeit with large uncertainty in the global environment. They also noted that despite relatively high real interest rates, there has been strong demand for domestic credit supported by the subsidized lending schemes introduced by the CBE in March, which provide loans for targeted sectors at 8 percent, and at 5 percent for certain tourism sector loans guaranteed by the Treasury.

12. The authorities remain committed to exchange rate flexibility and gradually accumulating international reserves.

The large portfolio inflows since June has improved the supply of FX in the local market, offsetting the decline in tourism inflows and resulting in exchange rate appreciation of close to 3 percent between June and November. The increased availability of FX has also facilitated market purchases by public sector entities, helping improve the CBE's FX liquidity — official FX reserves together with the CBE's FX deposits in local banks increased to \$43.2 billion at



end-October from \$40.8 billion in June.¹ The authorities reiterated that the drawdown of FX reserves earlier this year reflected a response to disorderly market conditions and that exchange rate flexibility remains the first line of defense for any potential pressures arising from FX demands through the current or financial account.

C. Maintaining Financial Resilience

13. The authorities need to continue to remain vigilant to the potential impact of the crisis on loan quality as crisis support measures begin to expire.

- The CBE indicated that banks have increased reserves since March to prepare for possible loan losses, with loans to the hard-hit tourism sector substantively provisioned. Loan provisions amounted to 97 percent of total non-performing loans at end-June (Table 9). They noted that many large corporate clients continued servicing bank loans despite the six-month moratorium on loan repayments that ended in September, and that requests from clients to restructure payments following the expiration of the moratorium have so far been limited.
- There has been significant demand for the CBE's subsidized lending schemes, with around EGP 164 billion (about 3 percent of total domestic credit or 10 percent of private credit) of the available EGP 200 billion already committed during March to end-October across industry, agriculture, and tourism sectors. Growth in bank lending to private corporates increased to around 21 percent (y/y) in October from 8 percent in March. The authorities continue to closely monitor lending standards and remain committed to wind down the schemes when fully allocated. Meanwhile, the new Banking Law, which makes price stability the primary monetary policy objective, was ratified by the President in September.

D. Structural Reforms

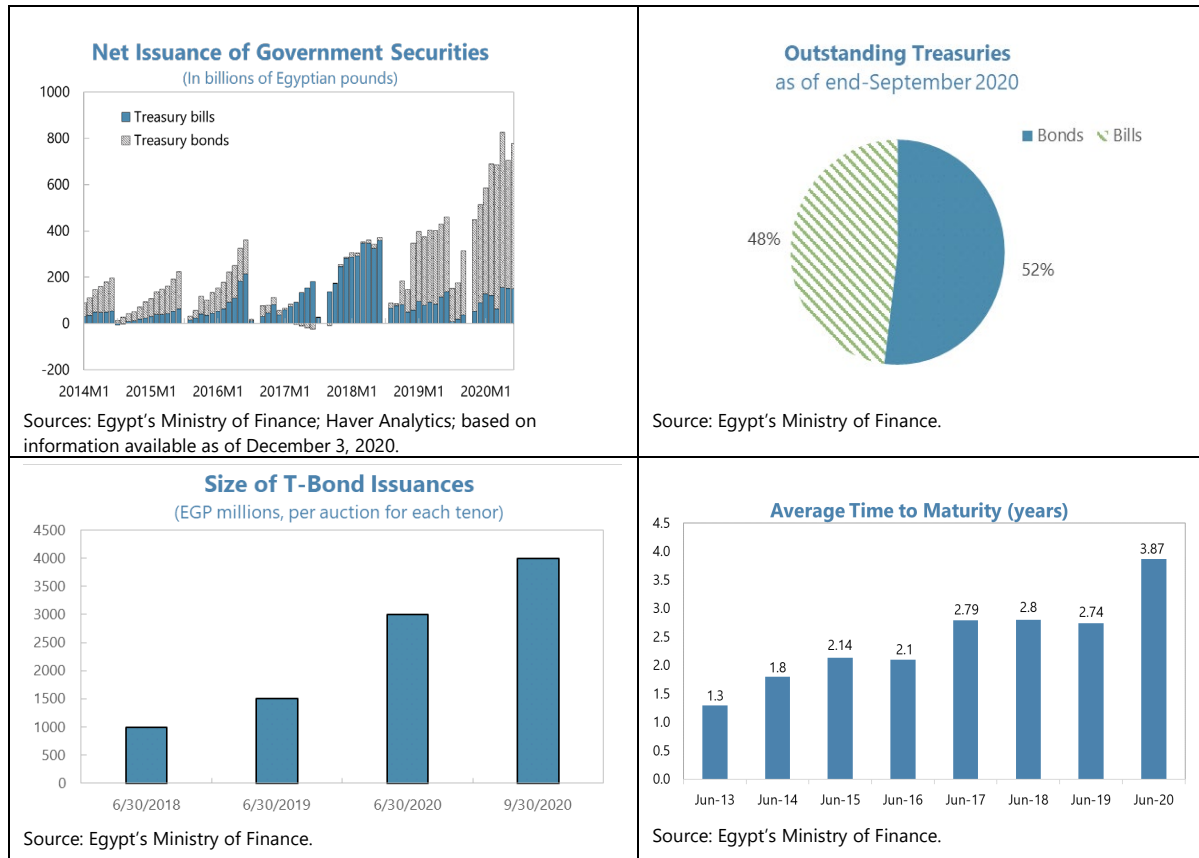
14. Finalizing the reform plan for the National Investment Bank (NIB) continues to be a priority (end-January SB). An evaluation of the NIB's financial position and projections has been completed by the external auditor. The authorities reiterated their intent to take a final decision on restructuring the NIB by end-January; the reform plan is expected to include its revised mandate, business model and financial structure, and a timeline for moving forward. Efforts to restructure the NIB's balance sheet through asset sales and swaps of assets, land, or shares in public companies to settle overdue debts have continued, while the move to lower rates on investment certificates has reduced its reliance on market funding.

15. Progress on all end-December fiscal structural benchmarks is largely on track.

Continued progress on fiscal reforms is important to provide additional space for high priority spending on health and education.

¹ In addition to their official FX reserves, the CBE also maintains FX deposits in domestic commercial banks which are available as a source of FX liquidity. At end-October, official reserves amounted to \$38.3 billion and the FX deposits at local banks totaled \$4.9 billion.

- Progress on the medium-term revenue strategy (MTRS) needs to be accelerated to ensure cabinet approval by end-December. The authorities have retained the ambitious pre-COVID-19 target of increasing tax revenues by 2 ppts of GDP over four years. The MTRS will help improve revenue mobilization and increase fiscal space for spending in health and education while achieving the key medium-term objective of reducing public debt. After having already implemented several tax policy measures in FY2020/21, the authorities plan to focus on strengthening revenue and customs administration in the short term, while preparing the ground for further tax policy measures.
- Progress is being made toward an updated medium-term debt strategy (MTDS) by end-December. The authorities aim to continue increasing the share of longer-term net new issuances in total domestic treasury issuances in order to lengthen the average debt maturity toward their objective of 5 years.
- The revised Public Financial Management (PFM) law has been submitted to the Parliament, in line with the end-December SB, and is likely to be discussed in January.



- The authorities are committed to undertaking a public expenditure review to enhance social protection with a view to achieving the Sustainable Development Goals (SDG) (end-April SB), and have requested assistance with the review from the World Bank.

16. Continuing progress on structural reforms to support private sector development and improve governance is essential to unlock Egypt's higher growth potential.

- In line with the end-September SB, the authorities have published an updated SOE report with financial information from FY2015/16 to FY2018/19 for nearly 300 SOEs, and a separate report with financial information for 47 Economic Authorities (EAs) from FY2016/17 to FY2018/19. In addition, the authorities have also published information related to the institutional structure of these SOEs and EAs, as well as their relationship with the Treasury.
- The revised customs law was ratified by the President in November (SB for end-March 2021). It includes streamlined procedures for inspections, documentation, and valuation in an effort to reduce the time needed for goods to clear customs. The authorities aim to have the executive regulation for implementation of the new law in place by the end of FY2020/21. The revision to the competition law to add a new chapter on mergers and acquisitions remains in progress, but is on track for Parliamentary submission by end-December (SB).

PROGRAM ISSUES

17. **The program remains fully financed.** Since the SBA approval, the authorities have received commitments for additional financing from the European Union. Financing from the

Egypt: External Financing Requirements and Sources			
(billions of US\$)			
	2018/19	2019/20	2020/21
Gross external financing requirements (A)	24.2	22.7	32.4
Current account deficit	10.9	11.2	18.2
Amortization 1/	13.3	11.5	14.2
IMF repurchases	0.0	0.0	0.2
Available financing (B)	22.6	4.5	30.9
Foreign direct investment (net)	7.9	7.1	5.4
External commercial loans assumed under the program	...	5.0	6.5
Syndicated loan facility	...	0.0	2.0
Green Bond	...	0.0	0.8
Other bonds	...	5.0	3.8
Other net portfolio investment 2/	4.1	-8.1	9.6
External program financing assumed under the program	...	0.1	3.6
Multilateral (ex. IMF)	...	0.1	2.8
World Bank	...	0.1	0.9
Arab Monetary Fund	...	0.0	0.7
African Development Bank	...	0.0	0.3
European Union	...	0.0	1.0
Bilateral	...	0.0	0.8
France	...	0.0	0.3
Japan	...	0.0	0.5
Other net capital flows 1/ 3/	10.6	0.4	5.8
Remaining financing needs (C=A-B)	1.6	18.2	1.6
IMF purchases (D)	2.0	11.5	3.2
Reserve assets (- = increase) (E=C-D)	-0.4	6.6	-1.6

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

1/ Excludes maturities (in amortization) and rollovers (in other net capital flows) related to certain CBE deposit liabilities.

2/ Excludes bonds issued as external commercial loans assumed under the program, which are accounted for above.

3/ Includes the BOP errors and omissions.

AfDB and other official creditors (Japan and France) also remain available during the program period. The authorities will remain engaged with donors to ensure adequate financing, and are prepared to issue additional commercial debt, if needed, as market conditions allow. The syndicated loan with international banks finalized in September (\$2 billion) and the green bond issuance in October (\$750 million) have kept commercial financing in line with staff's expectations at the time of the SBA approval.

18. The MPCC is proposed to be modified. In line with the structural improvements in the food supply logistics and prevailing short-term inflation expectations, the midpoint of the MPCC is proposed to be revised from the current 9 percent to 7 percent for the rest of the program period including the March test date. Moreover, with lower food price volatility, the consultation band is also being narrowed by one percentage point from ± 3 inner bands and $+4/-5$ outer bands to ± 2 inner bands and $+3/-4$ outer bands (LOI, Attachment II).

19. The CBE safeguards assessment was completed in August and the interim report on fiscal safeguards review will be available in mid-December.

- The 2020 CBE safeguards assessment found strong governance arrangements and control environment, but continued efforts will be required to fully align the CBE's financial reporting practices with international standards. The authorities have committed to achieve full compliance in the 2020 financial statements (MEFP, ¶122). In addition, a new Banking Law amending the central legal framework was ratified in September, concluding a multi-year legal reform in line with Fund advice (MEFP, ¶116).
- The fiscal safeguards review is ongoing, and a provisional report is expected by mid-December.
- Separately, the CBE and the government signed in October two separate MOUs (for the RFI and the SBA) on their respective responsibilities for timely servicing of the Fund obligations.

20. The authorities have published detailed information on COVID-19-related spending in line with their RFI commitments. The government has published the Citizens Budget and a comprehensive matrix with spending allocations for various crisis measures (Annex III). They have also published awarded contracts for the emergency responses to COVID-19, including the names of awarded companies for the amounts disbursed for COVID-19 spending. The authorities have also committed to amend the procurement law's executive regulation to require legal entities involved in the bidding process of COVID-related spending to submit their beneficial ownership information, with a view to publish online from January 1, 2021. They will also issue an internal instruction to the procurement agency to publish online 3-month ahead procurement plans for such spending from end-January 2021.

21. Staff assesses that Egypt continues to meet all the exceptional access criteria (Box 1). Egypt's debt continues to be sustainable, but not with high probability, reflecting, high GFNs and general government debt that peaks at 93 percent of GDP in FY2020/21 before resuming its downward trajectory under the current macroeconomic framework (Annex IV). Egypt maintains

market access and has since May issued external commercial debt amounting to \$7.75 billion providing adequate safeguards to the Fund.

22. Egypt's capacity to repay the Fund is adequate, but risks remain. The risks assessed at the time of the SBA approval—uncertainty about the global economic and financial conditions and some concentration of repayment obligations to the Fund in FY2023/24 and FY2024/25—remain. But improvements in the fiscal and external positions are expected to ensure Egypt's continued market access and adequate capacity to repay.

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23. The COVID-19 pandemic and the related disruption to growth in FY2019/20 were well-managed by the authorities. Their proactive and comprehensive measures to address health and social needs as well as support vulnerable sectors appear to have helped mitigate the economic and human impact of the shock. Strong consumption has helped partly offset weakness in tourism and investment, while the resumption of portfolio inflows has eased financing pressures and improved FX supply in the local market.

24. Considerable risks remain. Uncertainties surrounding the evenness and the pace of the global recovery could prolong the tourism standstill and disrupt the steady inflow of remittances. High public debt and large gross financing needs leave Egypt vulnerable to changes in financial conditions for emerging markets; another severe bout of capital outflows may create financing and exchange rate pressures. Strengthening resilience to further shocks and maintaining investor confidence in Egypt's economic outlook requires continued timely policy implementation.

25. Budget execution appears on track to achieve the program primary surplus target. Staff welcomes the authorities' plan to accommodate any additional support for vulnerable groups and sectors in the event of a second wave of COVID-19 within the existing envelopes. The envisaged economic recovery should allow resuming the pre-crisis primary surplus of 2 percent of GDP in FY2021/22 to anchor a return to a downward trajectory in public debt and preserve macroeconomic stability. Sustained progress in shifting toward longer-term debt issuance will also help reduce gross financing needs and improve the risk profile of public debt by lowering rollover risks. In addition, to safeguard the budget, the fuel price adjustments should continue to be in accordance with the indexation mechanism introduced in 2019 by ensuring that retail prices adjust to changes in the exchange rate and global oil price.

26. Continued progress on fiscal reforms is important to provide additional space for high priority spending on health and education. This includes timely completion of the MTRS and speeding up the planned public expenditure review to enhance social protection. Staff supports the ongoing exercise to cost tax expenditures on corporate income tax and encourages the authorities to extend the assessment to the rest of the tax system. Staff also welcomes the authorities' intention to set up a tax policy unit within the Ministry of Finance. The new customs law should help reduce lengthy delays in cross-border trade that remain a constraint on investment, but the impact will crucially depend on the fairness and consistency in the implementation. Staff welcomes the publication of the names of awarded companies for the

disbursed COVID-19 spending and the commitment to also publish information on their beneficial ownership. Strong and continued implementation of all these reforms will help improve spending efficiency, enhance revenue mobilization, and support anti-corruption efforts.

27. The CBE's data-driven approach to monetary policy has helped anchor inflation expectations and achieve low and stable inflation. With inflation below the lower outer band of the end-September MPCC, staff supports the CBE's monetary easing in September and November to support economic recovery. In addition to lowering the real rates to support economic activity, monetary easing would also help ease the appreciation pressure on the currency from the large capital inflows, which has had a dampening effect on inflation and potentially exacerbates vulnerability to capital flight. Two-sided exchange rate flexibility is essential to absorb external shocks and maintain competitiveness, and should be the first line of defense for any potential pressures on FX demands. While maintaining exchange rate flexibility, staff also encourages the authorities to take advantage of favorable market conditions to continue to rebuild FX buffers.

28. Staff welcomes the authorities' strong commitment to financial stability. The CBE's ongoing supervision and monitoring of financial sector conditions will be critical to maintain the resilience of the banking sector and quickly identify any potential deterioration in banks' loan portfolios. The recent pickup in bank lending through the CBE's subsidized lending schemes heightens the importance of continued close monitoring of lending standards. It will be important to wind down these schemes as planned, once they are fully allocated, to strengthen the transmission of monetary policy to domestic credit conditions.

29. Timely finalization of the reform strategy for NIB is essential. The strategy should address its envisaged mandate, business model and financial structure, and provide an implementation timetable with clear milestones and timebound actions, while also minimizing public costs. Staff looks forward to the updated analysis on NIB's financial position and remains engaged with the authorities to reach a viable solution. The recent moves to significantly reduce reliance on new funding from retail investment certificates and restructure non-performing assets are welcome steps toward a more comprehensive reform.

30. Unlocking Egypt's growth potential requires continued progress on structural reforms. Staff welcomes the focus on green recovery and Egypt's leading regional role in this regard. Continued focus is also essential on reforms to enhance SOE transparency, improve competition, and facilitate trade to foster higher and more inclusive private-sector-led growth and job creation. Further reforms and sustained efforts are needed to address the bureaucratic obstacles to private sector development to achieve meaningful and durable improvements in the investment climate and governance. The large drop in the workforce during the April-June quarter highlighted Egypt's already low level of labor force participation prior to the crisis. In this regard, staff welcomes the government's plans to close the gender gap, establish more childcare facilities, skills and training programs, advance more women in leadership roles, and prepare the workforce for the post-COVID-19 world of digitized work.

31. Staff supports the authorities' request for the completion of the first review and monetary policy consultation under the SBA, and the proposed modification of the MPCC.

Box 1. Exceptional Access Criteria

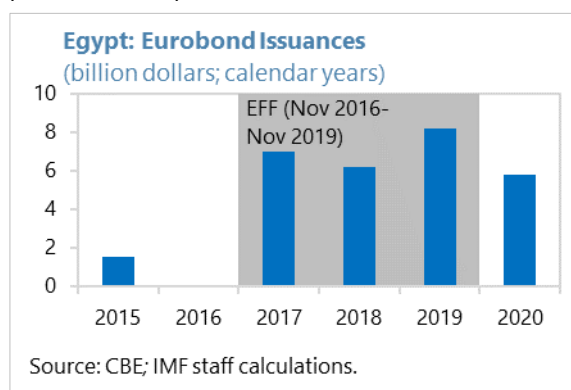
While the environment under which the SBA is being implemented remains subject to considerable uncertainty, staff assesses that Egypt meets all four criteria for exceptional access.

Criterion 1—*The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account resulting in a need for Fund financing that cannot be met within the normal limits.*

Egypt continues to face exceptional balance of payments pressures arising from the unprecedented COVID-19 related disruptions particularly to tourism flows. The need for exceptional access relates to Egypt's prior use of Fund resources under the EFF (422 percent of quota outstanding) and the RFI (100 percent of quota), which has exceeded the cumulative access limit of 435 percent of quota.

Criterion 2—*A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*

Vulnerabilities arise from the elevated level of public debt (90 percent of GDP at the end of FY2019/20), gross financing needs (more than 30 percent of GDP), compounded by the impact on economic activity from the COVID-19 pandemic that temporarily affects growth and fiscal balances. While the COVID-19 shock will result in higher public debt in FY2020/21, the primary surplus under the current baseline is expected to return to 2 percent of GDP from FY2021/22 and public debt is accordingly projected to resume its downward trajectory. The authorities are cognizant of debt risks and have made efforts to lengthen maturities in their treasury issuances. Additionally, several factors—including the high share of local currency debt held by domestic financial institutions, retention of market access, and sizeable buffers coming into the crisis—help mitigate the risks. Overall, staff's assessment is that Egypt's debt is sustainable, but not with high probability. Safeguards, in the form of non-Fund external debt obligations are adequate. These exposures now include the new syndicated loan facility and the stock of Eurobonds (about \$25 billion including the \$5 billion issuance in May 2020 and \$750 million green bond issued in September 2020), with the first maturity on this class of debt in 2022. Safeguards are also provided by deposits at the CBE amounting to more than \$10 billion from GCC bilateral creditors, whose current terms have maturities after the SBA ends. Bilateral loans expected during the program would further strengthen safeguards to the Fund.



Criterion 3—*The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*

Egypt had favorable market access prior to the pandemic and quickly re-established market access with a \$5 billion Eurobond issuance in May following the RFI and public statements regarding SBA discussions, and a \$750 million green bond in September. The country also has a strong track record of maintaining investor confidence during times of temporary stress—market access was regained promptly following the 2016 crisis with total issuances of about \$21 billion during 2017–19. Close engagement with the Fund—including in the context of this SBA—should help ensure the maintenance of a strong policy framework to support a solid

Box 1. Exceptional Access Criteria (concluded)

rebound after the crisis, which should further reinforce investor confidence and ensure continued market access at a level adequate for Egypt to meet its Fund obligations.

Criterion 4—*The policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.*

The authorities' strong program ownership and track record of implementation under the 2016–19 EFF was critical in stabilizing the economy, establishing credibility, and restoring confidence. The authorities' steadfast commitment to policies needed to support macroeconomic stability and more inclusive growth, including further progress on structural reforms, has been reinforced at the highest political level. With Fund support under the SBA, the authorities intend to pursue all necessary policies to alleviate the BOP pressures and maintain economic and financial stability. Institution building to support strong policy frameworks is ongoing, including through capacity development support from the IMF. The government appears to have broad support to implement its policies. Continuing to manage the crisis in a way that minimizes the socio-economic impact will be important to maintain social support for the reforms.

Table 1. Egypt: Selected Macroeconomic Indicators, 2018/19–2024/25 1/

	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24	2024/25
			Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices			(percent change)					
Real GDP (market prices)	5.6	3.6	2.0	2.8	5.5	5.5	5.6	5.8
Consumer prices (end of period)	9.4	5.7	9.0	6.3	7.5	7.5	7.5	7.4
Consumer prices (period average)	13.9	5.7	8.2	4.8	7.3	7.5	7.6	7.5
Public finances 2/			(percent of GDP)					
Gross Debt 3/	84.2	90.2	93.3	93.0	89.6	86.9	83.0	78.7
External	17.8	19.0	23.8	21.1	19.4	18.5	17.1	15.8
Domestic	66.4	71.2	69.5	71.9	70.2	68.4	65.9	62.9
Gross Debt 4/	83.7	88.1	91.4	91.3	88.1	85.6	81.8	77.7
Budget sector 5/								
Revenue and grants	17.7	16.8	17.8	18.2	18.5	18.7	19.0	19.3
Expenditure (incl. net acquisition of financial assets)	25.8	24.7	26.5	26.5	25.0	24.9	24.2	24.1
<i>Of which: Energy subsidies</i>	1.9	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Overall balance	-8.1	-8.0	-8.7	-8.4	-6.6	-6.2	-5.3	-4.9
Overall balance, excl. grants	-8.1	-8.0	-8.7	-8.4	-6.6	-6.2	-5.3	-4.9
Primary balance 6/	1.9	1.8	0.5	0.6	2.0	2.0	2.0	2.0
Monetary sector			(percent change)					
Credit to the private sector	12.4	19.5	13.5	16.0	14.0	14.0	14.0	14.0
Reserve money	-4.5	25.1	13.0	14.6	9.0	8.4	13.2	14.1
Broad money (M2)	11.8	17.5	12.4	15.3	12.1	12.8	12.8	13.6
Treasury bill rate, 3 month (average, in percent)	18.6	14.7	...	...	...	...	...	...
External sector			(percent of GDP, unless otherwise indicated)					
Exports of goods (in US\$, percentage change)	10.3	-7.4	-11.2	-5.2	8.7	8.3	5.3	4.6
Imports of goods (in US\$, percentage change)	5.4	-5.5	-18.6	-6.0	-7.1	21.0	13.7	9.4
Merchandise trade balance	-12.6	-10.1	-6.9	-8.7	-6.7	-8.2	-9.2	-9.6
Current account	-3.6	-3.1	-4.5	-4.2	-2.5	-2.5	-2.5	-2.5
Capital and financial account (incl. errors and omissions)	1.5	-0.3	2.1	2.0	3.1	3.5	4.1	4.5
Foreign direct investment (net, in billions of US\$)	7.9	7.1	5.5	5.4	8.3	11.4	14.6	16.3
External debt 7/	36.0	34.1	38.0	33.9	30.8	27.3	24.7	23.0
Gross international reserves (in billions of US\$)	43.9	37.2	40.1	40.6	42.0	45.0	47.8	52.1
In months of next year's imports of goods and services	7.0	7.8	7.4	7.0	6.1	5.7	5.6	5.6
In percent of short-term external debt 8/	145.5	113.2	114.6	116.1	114.2	125.0	136.7	152.0
Financing gap (in billions of US\$)	0.0	-9.2	-12.2	-12.2	0.0	0.0	0.0	0.0
Rapid Financing Instrument purchase	0.0	-2.8	0.0	0.0	0.0	0.0	0.0	0.0
Stand-By Arrangement purchases	0.0	-2.0	-3.2	-3.2	0.0	0.0	0.0	0.0
Other prospective financing	0.0	-4.5	-8.9	-8.9	0.0	0.0	0.0	0.0
Memorandum items:								
Exchange rate (EGP/\$, ep)	16.7	16.2	...	...	...	...	...	...
Nominal GDP (in billions of Egyptian pounds)	5,322	5,820	6,320	6,298	7,148	8,123	9,242	10,519
Nominal GDP (in billions of US\$)	302	362	...	...	...	...	...	...
GDP per capita (in US\$)	3,057	3,587	...	...	...	...	...	...
Unemployment rate (period average, percent)	8.6	8.3	...	...	...	...	...	...
Population (in millions)	98.9	100.9	103.8	102.9	105.0	107.1	109.2	111.4

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of December 3, 2020.

1/ Fiscal year ends June 30.

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

3/ Program definition based on TMU from SBA approval, EBS/20/118.

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

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

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

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

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

Table 2a. Egypt: Balance of Payments, 2018/19–2024/25
(In billions of US\$, unless otherwise indicated)

	2018/19	2019/20	2020/21		2021/22		2022/23		2023/24		2024/25	
			Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.		
Current account	-10.9	-11.2	-16.2	-16.5	-10.6	-11.4	-12.1	-13.1				
Balance on goods and services	-25.0	-27.5	-20.1	-30.0	-23.0	-25.3	-27.1	-28.2				
Exports of goods and services	52.9	47.7	34.7	38.3	46.2	58.0	67.3	74.9				
Imports of goods and services	-77.9	-75.2	-54.9	-68.3	-69.2	-83.3	-94.4	-103.1				
Trade balance	-38.0	-36.5	-24.5	-34.1	-27.7	-37.0	-44.5	-50.2				
Oil and gas	0.0	-0.4	2.0	0.4	0.0	-1.0	-2.7	-4.4				
Other	-38.0	-36.0	-26.5	-34.4	-27.6	-35.9	-41.8	-45.8				
Exports of goods	28.5	26.4	23.0	25.0	27.2	29.4	31.0	32.4				
Oil and gas	11.6	8.5	8.3	7.3	7.2	6.5	6.2	5.9				
Other	16.9	17.9	14.7	17.7	19.9	22.9	24.8	26.5				
Imports of goods	-66.5	-62.8	-47.5	-59.1	-54.9	-66.4	-75.5	-82.6				
Oil and gas	-11.5	-8.9	-6.3	-6.9	-7.3	-7.5	-8.9	-10.3				
Other	-55.0	-53.9	-41.1	-52.1	-47.6	-58.9	-66.6	-72.3				
Services (net)	13.0	9.0	4.3	4.1	4.7	11.7	17.4	22.0				
Receipts	24.4	21.3	11.7	13.3	19.1	28.6	36.3	42.5				
Of which: Tourism receipts	12.6	9.9	2.7	2.4	6.8	14.6	20.4	25.0				
Of which: Suez canal receipts	5.7	5.8	4.9	5.7	6.2	6.6	7.0	7.4				
Payments	-11.4	-12.3	-7.4	-9.2	-14.4	-16.9	-18.9	-20.5				
Of which: Transportation	-1.8	-2.1	-1.3	-2.0	-1.8	-2.2	-2.5	-2.7				
Of which: Travel	-2.9	-3.2	-0.8	-0.9	-2.5	-2.7	-2.9	-3.2				
Primary income (net)	-11.0	-11.4	-15.1	-10.9	-14.3	-14.2	-14.4	-14.6				
Receipts	1.0	0.9	1.2	1.0	1.0	1.1	1.2	1.3				
Payments	-12.0	-12.3	-16.3	-11.9	-15.4	-15.4	-15.6	-15.9				
Transfers	25.1	27.7	19.1	24.4	26.8	28.1	29.4	29.8				
Official grants	0.4	0.2	0.3	0.2	0.2	0.2	0.2	0.3				
Private remittances	24.8	27.5	18.7	24.2	26.5	27.8	29.2	29.6				
Capital and financial account	4.2	-0.3	7.6	8.0	12.7	15.8	19.9	23.7				
Medium- and long-term loans (net)	1.2	-0.2	0.6	0.2	0.3	2.1	2.1	2.8				
Drawings	3.7	2.5	3.7	4.8	5.7	5.7	5.7	5.7				
Amortization	2.5	2.7	3.1	4.6	5.3	3.5	3.6	2.9				
FDI (net)	7.9	7.1	5.5	5.4	8.3	11.4	14.6	16.3				
Portfolio investment (net)	4.1	-8.1	3.5	9.6	7.0	8.0	6.4	6.4				
Commercial banks' NFA	-1.7	6.7	1.3	-1.5	3.2	3.2	-2.0	-2.0				
Other (including short-term capital and central bank deposits)	-7.1	-5.5	-3.3	-5.8	-6.1	-9.0	-1.2	0.1				
Errors and omissions (net)	0.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0				
Overall balance	-6.3	-12.4	-8.6	-8.5	2.1	4.4	7.7	10.6				
Financing	6.3	12.4	-3.5	-3.6	-2.1	-4.4	-7.7	-10.6				
Reserves ("-" indicates increase)	-0.4	6.6	-3.3	-3.4	-1.4	-3.0	-2.9	-4.3				
Change in arrears ("-" indicates decrease) 1/	-0.2	-1.0	0.0	0.0	0.0	0.0	0.0	0.0				
Net use of IMF resources	2.0	6.8	-0.2	-0.2	-0.7	-1.4	-4.9	-6.3				
Other financing	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Financing gap	0.0	0.0	-12.2	-12.2	0.0	0.0	0.0	0.0				
Stand-By Arrangement purchases	0.0	0.0	-3.2	-3.2	0.0	0.0	0.0	0.0				
Other prospective financing	0.0	0.0	-8.9	-8.9	0.0	0.0	0.0	0.0				
Memorandum items:												
Current account excluding grants	-11.2	-11.4	-16.5	-16.7	-10.8	-11.7	-12.4	-13.3				
Terms of trade (percent change)	-0.1	-2.8	-0.4	0.5	1.7	0.3	0.2	0.0				
Gross international reserves (end of period)	43.9	37.2	40.1	40.6	42.0	45.0	47.8	52.1				
In months of next year's imports of G&S	7.0	6.5	7.4	7.0	6.1	5.7	5.6	5.6				
In percent of ARA metric (floating)	150	120	119	119	113	110	109	111				
External debt	108.7	123.5	126.7	132.7	127.9	122.5	119.8	120.6				
External debt service	13.5	13.7	15.3	18.5	23.8	30.6	27.9	27.0				
External debt service (in percent of exports of GNFS)	25.5	28.8	44.0	48.2	51.5	52.7	41.4	36.1				
Stock of external arrears	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Real effective exchange rate (period average, percentage change)	18.1	16.5	...	...	...	...	...	...

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of December 3, 2020.

1/ EGPC arrears.

Table 2b. Egypt: Balance of Payments, 2018/19–2024/25
(In percent of GDP, unless otherwise indicated)

	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24	2024/25
			Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-3.6	-3.1	-4.5	-4.2	-2.5	-2.5	-2.5	-2.5
Balance on goods and services	-8.3	-7.6	-5.6	-7.7	-5.5	-5.6	-5.6	-5.4
Exports of goods and services	17.5	13.2	9.7	9.8	11.1	12.9	13.9	14.3
Imports of goods and services	-25.8	-20.8	-15.4	-17.4	-16.7	-18.5	-19.5	-19.7
Trade balance	-12.6	-10.1	-6.9	-8.7	-6.7	-8.2	-9.2	-9.6
Oil and gas	0.0	-0.1	0.6	0.1	0.0	-0.2	-0.5	-0.8
Other	-12.6	-10.0	-7.4	-8.8	-6.7	-8.0	-8.6	-8.7
Exports	9.4	7.3	6.4	6.4	6.5	6.5	6.4	6.2
Oil and gas	3.8	2.3	2.3	1.9	1.7	1.4	1.3	1.1
Other	5.6	4.9	4.1	4.5	4.8	5.1	5.1	5.1
Imports	-22.0	-17.4	-13.3	-15.1	-13.2	-14.8	-15.6	-15.8
Oil and gas	-3.8	-2.5	-1.8	-1.8	-1.8	-1.7	-1.8	-2.0
Other	-18.2	-14.9	-11.5	-13.3	-11.5	-13.1	-13.8	-13.8
Services (net)	4.3	2.5	1.2	1.0	1.1	2.6	3.6	4.2
Receipts	8.1	5.9	3.3	3.4	4.6	6.4	7.5	8.1
Of which: Tourism receipts	4.2	2.7	0.8	0.6	1.6	3.2	4.2	4.8
Of which: Suez canal dues	1.9	1.6	1.4	1.5	1.5	1.5	1.4	1.4
Payments	-3.8	-3.4	-2.1	-2.3	-3.5	-3.8	-3.9	-3.9
Of which: Transportation	-0.6	-0.6	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5
Of which: Travel	-1.0	-0.9	-0.2	-0.2	-0.6	-0.6	-0.6	-0.6
Primary income (net)	-3.6	-3.1	-4.2	-2.8	-3.5	-3.2	-3.0	-2.8
Receipts	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Payments	-4.0	-3.4	-4.6	-3.0	-3.7	-3.4	-3.2	-3.0
Transfers	8.3	7.6	5.3	6.2	6.4	6.2	6.1	5.7
Official grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Private remittances	8.2	7.6	5.3	6.2	6.4	6.2	6.0	5.6
Capital and financial account	1.4	-0.1	2.1	2.0	3.1	3.5	4.1	4.5
Medium- and long-term loans (net)	0.4	-0.1	0.2	0.1	0.1	0.5	0.4	0.5
Drawings	1.2	0.7	1.0	1.2	1.4	1.3	1.2	1.1
Amortization	0.8	0.8	0.9	1.2	1.3	0.8	0.7	0.5
FDI (net)	2.6	2.0	1.5	1.4	2.0	2.5	3.0	3.1
Portfolio investment (net)	1.4	-2.2	1.0	2.5	1.7	1.8	1.3	1.2
Commercial banks' NFA	-0.6	1.8	0.4	-0.4	0.8	0.7	-0.4	-0.4
Other (including short-term capital and central bank deposits)	-2.4	-1.5	-0.9	-1.5	-1.5	-2.0	-0.3	0.0
Errors and omissions (net)	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.1	-3.4	-2.4	-2.2	0.5	1.0	1.6	2.0
Financing	2.1	3.4	-1.0	-0.9	-0.5	-1.0	-1.6	-2.0
Reserves ("-" indicates increase)	-0.1	1.8	-0.9	-0.9	-0.3	-0.7	-0.6	-0.8
Change in arrears ("-" indicates decrease) 1/	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund resources	0.7	1.9	-0.1	-0.1	-0.2	-0.3	-1.0	-1.2
Other financing	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	-3.4	-3.1	0.0	0.0	0.0	0.0
Rapid Financing Instrument purchase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stand-By Arrangement Purchaes	0.0	0.0	-0.9	-0.8	0.0	0.0	0.0	0.0
Other prospective financing	0.0	0.0	-2.5	-2.3	0.0	0.0	0.0	0.0
Memorandum items:								
Current account excluding grants	-3.7	-3.1	-4.6	-4.3	-2.6	-2.6	-2.6	-2.5
Gross international reserves (end of period)	13.8	10.3	12.0	10.9	10.3	10.3	10.1	10.2
External debt	34.1	34.3	38.0	35.6	31.4	28.1	25.4	23.6
External debt service	4.5	3.8	4.3	4.7	5.7	6.8	5.8	5.2

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of December 3, 2020.

1/ EGPC arrears.

Table 3a. Egypt: Budget Sector Operations, 2018/19–2024/25 1/
(In billions of Egyptian pounds, unless otherwise indicated)

	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24	2024/25
			Prog.	Proj.				
Revenue and grants	941.9	975.4	1,125.3	1,145.4	1,319.3	1,520.1	1,753.9	2,028.3
Tax revenue	736.1	739.6	807.7	845.7	979.2	1,133.6	1,314.1	1,527.7
Income and property	309.0	346.5	347.9	380.7	440.5	506.7	590.1	688.0
Personal income tax	87.3	98.0	111.8	116.1	139.2	161.2	190.4	226.7
Corporate income tax	162.8	188.9	165.2	196.2	234.6	271.6	319.1	373.2
EGPC	42.5	26.3	41.6	41.6	47.2	53.7	61.0	69.5
Other	120.2	162.5	123.6	154.6	187.4	218.0	258.0	303.7
Property	58.9	59.6	70.9	68.4	66.7	73.9	80.7	88.2
Goods and services	350.6	330.0	398.3	399.2	469.0	543.0	625.8	727.3
Oil excises	41.5	27.6	16.8	23.3	31.4	40.7	49.3	61.1
VAT and nonoil excises	309.1	302.4	381.6	375.9	437.6	502.3	576.5	666.2
International trade	42.0	32.6	33.2	37.6	37.6	47.5	56.8	65.2
Other taxes	34.5	30.6	28.2	28.2	32.0	36.4	41.4	47.1
Nontax revenue	203.2	230.5	315.4	297.5	337.6	383.7	436.6	496.9
Oil-related nontax revenue	15.4	13.3	21.8	21.8	24.7	28.1	32.0	36.4
Other nontax revenues	187.8	217.3	293.6	275.7	312.9	355.6	404.6	460.5
<i>Of which: interest income</i>	6.0	9.8	2.4	9.8	11.1	12.6	14.4	16.4
Grants	2.6	5.3	2.2	2.2	2.5	2.8	3.2	3.7
Expenditure	1,369.9	1,434.7	1,661.7	1,660.9	1,779.3	2,012.2	2,227.2	2,525.3
Wages and other remunerations	266.1	288.8	335.0	330.0	359.5	408.6	469.9	539.8
Purchases of goods and services	62.4	69.9	100.2	91.3	102.9	127.0	149.5	175.1
Interest	533.0	568.4	579.5	564.6	612.9	665.9	671.0	722.1
Domestic	497.8	525.7	540.3	515.8	557.7	604.1	600.5	638.8
External	35.2	42.7	39.2	48.8	55.2	61.8	70.5	83.3
Subsidies, grants, and social benefits	287.5	229.2	326.3	324.0	356.0	400.7	446.1	508.9
Energy subsidies	100.7	18.7	28.2	28.2	29.5	33.5	38.1	43.4
<i>Of which: fuel subsidy</i>	84.7	18.7	28.2	28.2	29.5	33.5	38.1	43.4
Food subsidies 2/	87.6	80.4	85.2	85.2	92.6	97.5	103.0	105.9
Transfer to SIF 3/	48.5	55.0	130.0	130.0	137.3	145.0	153.1	161.7
Other	50.7	75.1	82.9	80.7	96.6	124.7	151.9	197.9
Other current	77.6	86.8	105.0	104.0	118.0	134.1	152.6	173.7
Investment	143.3	191.6	215.7	246.9	229.9	275.9	338.1	405.7
Cash balance	-428.0	-459.3	-536.3	-515.5	-460.0	-492.1	-473.2	-497.0
Net acquisition of financial assets	2.0	3.5	10.7	10.7	10.0	11.4	12.9	14.7
Overall balance	-430.0	-462.8	-547.0	-526.2	-470.0	-503.4	-486.2	-511.7
Financing	430.0	462.8	547.0	526.2	470.0	503.4	486.2	511.7
Net domestic	299.8	272.6	361.8	358.1	465.5	473.4	490.0	503.8
Net external	130.2	190.2	-30.9	-28.1	4.5	30.1	-3.9	7.9
Financing gap	0.0	0.0	216.1	196.2	0.0	0.0	0.0	0.0
<i>of which IMF</i>			56.7	51.5				
<i>of which other</i>			159.4	144.7				
Memorandum items:								
Primary balance 4/	103.1	105.6	32.5	38.4	143.0	162.5	184.8	210.4
Oil balance 5/	-1.3	48.5	52.0	58.5	73.8	88.9	104.2	123.6
Financing gap (in billions of US\$)	0.0	0.0	12.2	12.2	0.0	0.0	0.0	0.0
Gross budget sector debt 6/	4,831	5,353	6,355	6,025	6,623	7,322	7,970	8,608
Gross budget sector debt 7/	4,802	5,094	...	5,766	6,364	7,063	7,711	8,349
Net debt 8/	4,497	4,751	-343	5,400	5,950	6,592	7,175	7,739
Nominal GDP (in billions of Egyptian pounds)	5,322	5,820	6,320	6,298	7,148	8,123	9,242	10,519

Sources: Ministry of Finance; and IMF staff estimates; based on available data as of December 3, 2020.

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

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

5/ Oil revenue less 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.

6/ Program definition based on TMU from SBA approval, EBS/20/118.

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

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

Table 3b. Egypt: Budget Sector Operations, 2018/19–2024/25 1/
(In percent of GDP)

	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24	2024/25
			Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	17.7	16.8	17.8	18.2	18.5	18.7	19.0	19.3
Tax revenue	13.8	12.7	12.8	13.4	13.7	14.0	14.2	14.5
Income and corporate tax	5.8	6.0	5.5	6.0	6.2	6.2	6.4	6.5
Personal income tax	1.6	1.7	1.8	1.8	1.9	2.0	2.1	2.2
Corporate income tax	3.1	3.2	2.6	3.1	3.3	3.3	3.5	3.5
EGPC	0.8	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Other	2.3	2.8	2.0	2.5	2.6	2.7	2.8	2.9
Property	1.1	1.0	1.1	1.1	0.9	0.9	0.9	0.8
Goods and services	6.6	5.7	6.3	6.3	6.6	6.7	6.8	6.9
Oil excises	0.8	0.5	0.3	0.4	0.4	0.5	0.5	0.6
VAT and nonoil excises	5.8	5.2	6.0	6.0	6.1	6.2	6.2	6.3
International trade	0.8	0.6	0.5	0.6	0.5	0.6	0.6	0.6
Other taxes	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	3.8	4.0	5.0	4.7	4.7	4.7	4.7	4.7
Oil-related nontax revenue	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Other nontax revenues	3.5	3.7	4.6	4.4	4.4	4.4	4.4	4.4
Of which: interest income	0.1	0.2	0.0	0.2	0.2	0.2	0.2	0.2
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	25.7	24.7	26.3	26.4	24.9	24.8	24.1	24.0
Wages and other remunerations	5.0	5.0	5.3	5.2	5.0	5.0	5.1	5.1
Purchases of goods and services	1.2	1.2	1.6	1.4	1.4	1.6	1.6	1.7
Interest	10.0	9.8	9.2	9.0	8.6	8.2	7.3	6.9
Domestic	9.4	9.0	8.5	8.2	7.8	7.4	6.5	6.1
External	0.7	0.7	0.6	0.8	0.8	0.8	0.8	0.8
Subsidies, grants and social benefits	5.4	3.9	5.2	5.1	5.0	4.9	4.8	4.8
Energy subsidies	1.9	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Of which: fuel subsidy	1.6	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Food subsidies 2/	1.6	1.4	1.3	1.4	1.3	1.2	1.1	1.0
Transfers to SIF 3/	0.9	0.9	2.1	2.1	1.9	1.8	1.7	1.5
Other	1.0	1.3	1.3	1.3	1.4	1.5	1.6	1.9
Other current	1.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Investment	2.7	3.3	3.4	3.9	3.2	3.4	3.7	3.9
Cash balance	-8.0	-7.9	-8.5	-8.2	-6.4	-6.1	-5.1	-4.7
Net acquisition of financial assets	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Overall balance	-8.1	-8.0	-8.7	-8.4	-6.6	-6.2	-5.3	-4.9
Financing	8.1	8.0	8.7	8.4	6.6	6.2	5.3	4.9
Net domestic	5.6	4.7	5.7	5.7	6.5	5.8	5.3	4.8
Net external	2.4	3.3	-0.5	-0.4	0.1	0.4	0.0	0.1
Financing gap	0.0	0.0	3.4	3.1	0.0	0.0	0.0	0.0
of which IMF			0.9	0.8				
of which other			2.5	2.3				
Memorandum items:								
Primary balance 4/	1.9	1.8	0.5	0.6	2.0	2.0	2.0	2.0
Oil balance 5/	0.0	0.8	0.8	0.9	1.0	1.1	1.1	1.2
Gross budget sector debt 6/	90.8	92.0	100.6	95.7	92.7	90.1	86.2	81.8
Gross budget sector debt 7/	90.2	87.5	...	91.5	89.0	87.0	83.4	79.4
Net debt 8/	84.5	81.6	-5.4	85.7	83.2	81.2	77.6	73.6

Sources: Ministry of Finance; and IMF staff estimates; based on available data as of December 3, 2020.

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

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

5/ Oil revenue less 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.

6/ Program definition based on TMU from SBA approval, EBS/20/118.

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

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

Table 4. Egypt: General Government Operations, 2018/19–2024/25 1/

	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24	2024/25
			Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
(In billions of Egyptian pounds)								
Revenue and grants	1,080.2	1,121.4	1,271.1	1,302.8	1,498.0	1,723.2	1,985.0	2,291.3
Tax revenue	736.1	739.6	807.7	845.7	979.2	1,133.6	1,314.1	1,527.7
Income and property	309.0	346.5	347.9	380.7	440.5	506.7	590.1	688.0
Personal income tax	87.3	98.0	111.8	116.1	139.2	161.2	190.4	226.7
Corporate income tax	162.8	188.9	165.2	196.2	234.6	271.6	319.1	373.2
EGPC	42.5	26.3	41.6	41.6	47.2	53.7	61.0	69.5
Other	120.2	162.5	123.6	154.6	187.4	218.0	258.0	303.7
Goods and services	350.6	330.0	398.3	399.2	469.0	543.0	625.8	727.3
Oil excises	41.5	27.6	16.8	23.3	31.4	40.7	49.3	61.1
VAT and nonoil excises	309.1	302.4	381.6	375.9	437.6	502.3	576.5	666.2
International trade taxes	42.0	32.6	33.2	37.6	37.6	47.5	56.8	65.2
Other taxes	34.5	30.6	28.2	28.2	32.0	36.4	41.4	47.1
Nontax revenue	341.4	376.5	461.1	455.0	516.3	586.8	667.6	759.9
Of which: Interest income	9.4	9.6	12.6	12.6	15.2	18.0	18.0	18.0
Grants	2.6	5.3	2.2	2.2	2.5	2.8	3.2	3.7
Expenditure	1,505.2	1,580.9	1,788.1	1,755.5	1,908.9	2,170.2	2,420.6	2,762.9
Wages and other remunerations	268.4	291.2	338.1	332.2	362.1	411.5	473.1	543.5
Purchases of goods and services	62.7	70.6	101.3	92.1	103.8	127.9	150.4	176.2
Interest	506.5	542.3	557.5	533.9	590.1	639.7	643.1	693.3
Domestic interest	471.3	499.5	518.3	485.1	534.9	577.9	572.6	610.0
External interest	35.2	42.7	39.2	48.8	55.2	61.8	70.5	83.3
Subsidies, grants, and social benefits	446.5	398.2	470.0	446.0	504.6	580.7	662.7	768.0
Other current	77.7	86.9	105.4	104.4	118.5	134.6	153.1	176.2
Investment	143.5	191.6	215.8	246.9	229.9	275.9	338.1	405.7
Net acquisition of financial assets	-2.0	-51.0	8.2	10.7	10.0	11.4	12.9	14.7
Overall balance	-423.0	-408.5	-525.2	-463.3	-420.9	-458.4	-448.6	-486.3
Financing	423.0	408.5	525.2	463.3	420.9	458.4	448.6	486.3
Net domestic	292.9	218.3	340.0	295.2	416.3	428.3	452.4	478.5
Bank	396.6	213.3	332.0	295.2	416.3	428.3	452.4	478.5
Nonbank	-103.7	5.0	8.0	0.0	0.0	0.0	0.0	0.0
Net external	130.2	42.2	105.5	95.7	4.5	30.1	-3.9	7.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	216.1	196.2	0.0	0.0	0.0	0.0
of which IMF			56.7	51.5				
of which other			159.4	144.7				
(In percent of GDP, unless otherwise indicated)								
Revenue and grants	20.3	19.3	20.1	20.7	21.0	21.2	21.5	21.8
Tax revenue	13.8	12.7	12.8	13.4	13.7	14.0	14.2	14.5
Nontax revenue	6.4	6.5	7.3	7.2	7.2	7.2	7.2	7.2
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	28.3	27.2	28.3	27.9	26.7	26.7	26.2	26.3
Wages and other remunerations	5.0	5.0	5.3	5.3	5.1	5.1	5.1	5.2
Purchases of goods and services	1.2	1.2	1.6	1.5	1.5	1.6	1.6	1.7
Interest	9.5	9.3	8.8	8.5	8.3	7.9	7.0	6.6
Subsidies, grants, and social benefits	8.4	6.8	7.4	7.1	7.1	7.1	7.2	7.3
Other current	1.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Investment	2.7	3.3	3.4	3.9	3.2	3.4	3.7	3.9
Net acquisition of financial assets	0.0	-0.9	0.1	0.2	0.1	0.1	0.1	0.1
Financing	7.9	7.0	8.3	7.4	5.9	5.6	4.9	4.6
Net domestic	5.5	3.8	5.4	4.7	5.8	5.3	4.9	4.5
Bank	7.5	3.7	5.3	4.7	5.8	5.3	4.9	4.5
Nonbank	-1.9	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Net external	2.4	0.7	1.7	1.5	0.1	0.4	0.0	0.1
Financing gap	0.0	0.0	3.4	3.1	0.0	0.0	0.0	0.0
of which IMF			0.9	0.8				
of which other			2.5	2.3				
Memorandum items:								
Primary balance	1.6	2.3	0.5	1.1	2.4	2.2	2.1	2.0
Gross general government debt 2/	84.2	90.2	93.3	93.0	89.6	86.9	83.0	78.7
Gross general government debt 3/	83.7	88.1	...	91.3	88.1	85.6	81.8	77.7
Nominal GDP (in billions of EGP)	5,322	5,820	6,320	6,298	7,148	8,123	9,242	10,519

Sources: Ministry of Finance; and IMF staff estimates; based on available data as of December 3, 2020.

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

2/ Program definition based on TMU from SBA approval, EBS/20/118.

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

Table 5. Egypt: Central Bank Accounts, 2018/19–2024/25

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
			Proj.	Proj.	Proj.	Proj.	Proj.
(end-period, in billions of EGP, unless otherwise indicated)							
Net foreign assets	264	157	222	255	325	398	506
Foreign assets	734	604	689	740	840	940	1077
Foreign liabilities	470	447	467	486	515	542	570
Net domestic assets	420	698	758	814	833	913	989
Net domestic credit	143	543	555	652	690	728	749
Net credit to central government	747	813	789	789	789	789	789
Net credit to public economic authorities	-1	-7	-4	-4	-2	-1	-1
Credit to banks	300	274	295	301	316	337	364
Banks' deposits in foreign currency	-121	-112	-118	-123	-130	-137	-144
Open market operations	-782	-424	-408	-311	-283	-260	-260
Other items net	277	155	204	162	143	184	241
Reserve money	684	856	980	1069	1158	1311	1496
Currency in circulation	487	603	639	710	807	918	1053
Reserves and highly liquid assets of banks	197	253	341	359	351	393	443
Cash in vaults	49	48	48	48	48	48	48
Reserves	148	204	292	310	303	344	395

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of December 3, 2020.

Table 6. Egypt: Monetary Survey, 2018/19–2024/25

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
			Proj.	Proj.	Proj.	Proj.	Proj.
	(End-period, in billions of EGP)						
Net foreign assets	300	123	194	225	294	365	472
Central bank	264	157	222	255	325	398	506
Commercial banks	36	-34	-28	-29	-31	-33	-35
Net domestic assets	3,564	4,416	5,042	5,644	6,325	7,098	8,010
Net claims on central and local government	2,217	3,021	3,355	3,821	4,294	4,784	5,288
Net claims on public economic authorities	211	213	258	297	346	399	464
Claims on public sector companies	162	156	176	194	214	238	265
Claims on private sector	1,217	1,455	1,687	1,923	2,192	2,498	2,847
Net other items	-244	-428	-434	-591	-721	-821	-855
Broad money (M2)	3,864	4,539	5,235	5,869	6,620	7,464	8,482
Domestic currency component (M2D)	3,149	3,872	4,539	5,145	5,852	6,656	7,632
Currency outside banks	487	603	639	710	807	918	1,053
Domestic currency deposits	2,662	3,269	3,899	4,435	5,045	5,738	6,579
Foreign currency deposits	715	667	697	724	768	808	850
	(Annual percent change, unless otherwise indicated)						
Broad money (M2)	11.8	17.5	15.3	12.1	12.8	12.8	13.6
Domestic currency component (M2D)	15.0	23.0	17.2	13.4	13.7	13.7	14.7
Reserve money	-4.5	25.1	14.6	9.0	8.4	13.2	14.1
Contribution to broad money growth	11.8	17.5	15.3	12.1	12.8	12.8	13.6
Net foreign assets	-0.3	-4.6	1.4	0.6	1.2	1.1	1.4
Net domestic assets	12.0	22.1	13.9	11.5	11.6	11.7	12.2
Credit to the private sector	12.4	19.5	16.0	14.0	14.0	14.0	14.0
Credit to government, public economic authorities and public sector companies	9.0	30.9	11.7	13.8	12.6	11.7	11.0
Memorandum items:							
Velocity							
Velocity GDP/M2D (level)	1.8	1.7	1.5	1.5	1.5	1.5	1.5
Velocity GDP/M2 (level)	1.5	1.4	1.3	1.3	1.3	1.3	1.3
M2 (in percent of GDP)	72.6	78.0	83.1	82.1	81.5	80.8	80.6
Money multiplier (M2D/reserve money)	4.6	4.5	4.6	4.8	5.1	5.1	5.1
Money multiplier (M2/reserve money)	5.6	5.3	5.3	5.5	5.7	5.7	5.7
M2 (in real terms)	-2.2	7.4	9.1	5.5	4.9	4.8	5.7
Domestic currency deposits (in real terms)	1.2	12.3	12.8	7.0	5.8	5.8	6.6
Claims on private sector (in real terms)	-1.7	9.3	9.7	7.3	6.0	6.0	6.0
Foreign currency deposits (in percent of total deposits)	21.2	16.9	15.2	14.0	13.2	12.3	11.4

Sources: Central Bank of Egypt; and IMF staff estimates and projections.; based on available data as of December 3, 2020.

Table 7a. Egypt: Summary of National Accounts, 2018/19–2024/25

(In percent)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
			Proj.	Proj.	Proj.	Proj.	Proj.
(Annual change, in percent)							
Real GDP at market price	5.6	3.6	2.8	5.5	5.5	5.6	5.8
Domestic demand (absorption)	2.9	2.6	2.3	3.5	6.4	5.7	5.7
Private	3.0	3.1	0.2	3.1	6.2	5.3	5.3
Public	2.3	2.3	11.5	0.9	7.3	7.4	7.5
Consumption	1.1	7.2	-0.6	3.9	5.9	4.8	4.5
Private	1.0	7.2	-2.0	4.1	5.7	4.5	4.0
Public	2.8	6.7	11.9	2.4	7.7	7.5	7.6
Investment	12.9	-20.6	21.5	1.1	9.2	10.4	11.9
Gross fixed capital formation	14.7	-10.4	8.7	1.1	9.2	10.4	11.9
Private	33.4	12.0	8.0	8.0	12.0	13.0	15.0
Public	0.1	-16.0	9.5	-6.9	5.4	6.7	7.2
Net exports of goods and services 1/	2.3	0.8	0.3	1.9	-1.3	-0.4	-0.2
Exports of goods and services	-2.2	-2.8	-18.8	18.3	23.1	13.5	8.7
Imports of goods and services	-8.9	-3.0	-17.7	0.0	24.4	11.7	7.3
Real GDP at factor cost	5.1	2.5	2.8	5.5	5.5	5.6	5.8
Agriculture	3.3	3.3	3.5	2.9	3.0	3.5	4.0
Construction	8.8	4.4	7.7	7.3	8.0	10.0	11.4
Industry	5.1	-0.3	2.6	4.3	4.5	4.8	4.9
Services	5.4	3.1	1.8	7.3	6.6	6.2	6.2
General government	2.7	6.1	3.0	3.0	3.0	3.0	3.0
Suez Canal	7.9	5.0	4.2	6.3	8.0	8.0	8.0
(Contribution to real growth, in percent 2/)							
Real GDP at market price	5.6	3.6	2.8	5.5	5.5	5.6	5.8
Domestic demand (absorption)	3.3	2.8	2.4	3.7	6.7	6.0	6.0
Private	3.0	3.5	0.6	4.0	5.6	4.7	4.7
Public	0.3	-0.8	1.8	-0.3	1.1	1.2	1.3
Consumption	1.1	6.5	-0.6	3.5	5.3	4.3	4.0
Private	0.8	5.9	-1.7	3.3	4.5	3.5	3.2
Public	0.3	0.6	1.2	0.3	0.8	0.8	0.8
Investment	2.2	-3.7	3.0	0.2	1.4	1.7	2.0
Gross fixed capital formation	2.4	-1.9	1.3	0.2	1.4	1.7	2.0
Private	2.4	-0.5	0.7	0.7	1.1	1.2	1.5
Public	0.0	-1.4	0.7	-0.5	0.4	0.4	0.5
Net exports of goods and services	2.3	0.8	0.3	1.9	-1.3	-0.4	-0.2
Exports of goods and services	-0.4	-4.0	-3.4	1.9	2.6	1.8	1.2
Imports of goods and services	2.7	4.8	3.7	0.0	-3.9	-2.2	-1.5
Real GDP at factor cost	5.1	2.5	2.8	5.5	5.5	5.6	5.8
Agriculture	0.4	0.4	0.4	0.3	0.3	0.4	0.4
Construction	0.5	0.3	0.5	0.5	0.5	0.7	0.8
Industry	1.5	-0.1	0.7	1.2	1.2	1.3	1.3
Services	2.3	1.3	0.8	3.2	2.9	2.7	2.8
General government	0.2	0.5	0.3	0.3	0.3	0.2	0.2
Suez Canal	0.2	0.1	0.1	0.2	0.2	0.2	0.2

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of December 3, 2020.

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, 2018/19–2024/25

(In percent of GDP)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
			Proj.	Proj.	Proj.	Proj.	Proj.
(In percent of nominal GDP)							
GDP at market price	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand (absorption)	108.3	107.6	107.6	105.5	105.6	105.6	105.4
Private	91.9	92.5	91.5	90.6	90.5	90.3	89.9
Public	16.4	15.1	16.2	15.0	15.1	15.3	15.5
Consumption	90.3	93.8	91.3	89.9	89.5	88.7	87.5
Private	82.6	85.8	82.7	81.6	81.0	80.1	78.7
Public	7.7	8.0	8.6	8.4	8.5	8.6	8.8
Investment	18.0	13.8	16.3	15.6	16.1	16.9	17.9
Gross fixed capital formation	17.8	15.5	16.3	15.6	16.1	16.9	17.9
Private	9.1	8.4	8.8	9.0	9.5	10.2	11.1
Public	8.7	7.1	7.5	6.6	6.6	6.7	6.7
Net exports of goods and services	-8.3	-7.6	-7.6	-5.5	-5.6	-5.6	-5.4
Exports of goods and services	17.5	13.2	9.8	11.1	12.9	13.9	14.3
Imports of goods and services	-25.8	-20.8	-17.4	-16.7	-18.5	-19.5	-19.7
Net factor income	-3.6	-3.1	-2.8	-3.5	-3.2	-3.0	-2.8
Net remittances inflows	8.2	7.6	6.2	6.4	6.2	6.0	5.6
Net official transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Gross National Disposable Income	104.7	104.5	103.4	103.0	103.1	103.1	102.9
National savings	14.4	10.7	12.1	13.1	13.6	14.4	15.4
Private	19.7	15.3	15.4	15.6	15.7	15.4	16.0
Public	-5.3	-4.6	-3.3	-2.5	-2.1	-1.1	-0.6
Savings-investment balance	-3.6	-3.1	-4.2	-2.5	-2.5	-2.5	-2.5
Private	10.6	7.0	6.6	6.6	6.2	5.2	4.9
Public	-14.0	-11.7	-10.8	-9.2	-8.7	-7.7	-7.4
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.4	12.1	12.0	11.6	11.3	10.2	9.3
Construction	6.2	6.7	6.9	7.0	7.1	6.9	6.7
Industry	30.5	26.8	26.3	25.9	25.5	23.5	21.6
Services	43.2	45.5	45.9	46.9	47.6	51.7	55.4
General government	6.8	7.3	7.2	7.0	6.7	6.1	5.5
Suez Canal	2.0	1.7	1.7	1.7	1.7	1.6	1.5

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of December 3, 2020.

Table 8. Egypt: Medium-Term Macroeconomic Framework, 2018/19–2024/25
(In percent of GDP, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
			Proj.	Proj.	Proj.	Proj.	Proj.
Growth and prices							
Real GDP (annual change, in percent)	5.6	3.6	2.8	5.5	5.5	5.6	5.8
CPI inflation (end-of-period, in percent)	9.4	5.7	6.3	7.5	7.5	7.5	7.4
CPI inflation (average, in percent)	13.9	5.7	4.8	7.3	7.5	7.6	7.5
Unemployment rate (period average, in percent)	8.6	8.3	...	...	...	...	...
Savings-investment balance							
Investment	17.8	15.5	16.3	15.6	16.1	16.9	17.9
Domestic savings	14.2	12.4	12.1	13.1	13.6	14.4	15.4
Public finances							
General government							
Revenue and grants	20.3	19.3	20.7	21.0	21.2	21.5	21.8
Expenditure and NAFA	28.2	26.3	28.0	26.8	26.9	26.3	26.4
Overall balance	-7.9	-7.0	-7.4	-5.9	-5.6	-4.9	-4.6
Overall balance, excl. grants	-8.0	-7.1	-7.4	-5.9	-5.7	-4.9	-4.7
Primary balance	1.6	2.3	1.1	2.4	2.2	2.1	2.0
Gross debt	84.2	90.2	93.0	89.6	86.9	83.0	78.7
Domestic	66.4	71.2	71.9	70.2	68.4	65.9	62.9
External	17.8	19.0	21.1	19.4	18.5	17.1	15.8
Budget sector							
Revenue and grants	17.7	16.8	18.2	18.5	18.7	19.0	19.3
Tax revenue	13.8	12.7	13.4	13.7	14.0	14.2	14.5
Non-tax revenue	3.8	4.0	4.7	4.7	4.7	4.7	4.7
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure and NAFA	25.8	24.7	26.5	25.0	24.9	24.2	24.1
<i>Of which: Current</i>	23.1	21.4	22.6	21.8	21.5	20.6	20.3
Capital	2.7	3.3	3.9	3.2	3.4	3.7	3.9
Overall budget balance	-8.1	-8.0	-8.4	-6.6	-6.2	-5.3	-4.9
Overall budget balance, excl. grants	-8.1	-8.0	-8.4	-6.6	-6.2	-5.3	-4.9
Primary budget balance	1.9	1.8	0.6	2.0	2.0	2.0	2.0
Balance of payments and external debt							
Current account	-3.6	-3.1	-4.2	-2.5	-2.5	-2.5	-2.5
Trade balance	-12.6	-10.1	-8.7	-6.7	-8.2	-9.2	-9.6
Oil and gas	0.0	-0.1	0.1	0.0	-0.2	-0.5	-0.8
Other	-12.6	-10.0	-8.8	-6.7	-8.0	-8.6	-8.7
Capital and financial account (incl. errors and omissions)	1.5	-0.3	2.0	3.1	3.5	4.1	4.5
Financing gap	0.0	0.0	-3.1	0.0	0.0	0.0	0.0
Official reserves (in billions of US\$)	43.9	37.2	40.6	42.0	45.0	47.8	52.1
(In months of next year's imports of goods and services)	7.0	6.5	7.0	6.1	5.7	5.6	5.6
External debt (in percent of GDP)	34.1	34.3	35.6	31.4	28.1	25.4	23.6

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of December 3, 2020.

Table 9. Egypt: Financial Soundness Indicators of the Banking System
(Fiscal year end, unless otherwise indicated) 1/

	2013	2014	2015	2016	2017	2018	2019	end-June 2020
<i>Capital adequacy</i>								
Regulatory capital to RWA	13.7	13.9	14.5	14.0	14.7	15.7	17.7	20.1
Common equity to RWA	10.7	11.4	12.1	11.7	9.2	10.4	12.7	13.1
<i>Asset quality</i>								
NPLs to total loans	9.3	8.5	7.1	6.0	4.9	4.1	4.2	3.9
Loan provisions to non-performing loans	99.8	98.9	99.0	99.1	98.3	98.0	97.6	97.2
<i>Profitability</i>								
Return on assets	1.0	1.3	1.5	2.0	1.5	1.4	1.8	1.8
Return on average equity	14.5	18.9	24.4	30.9	21.5	19.2	23.4	23.4
<i>Liquidity</i>								
Average liquidity ratio								
Local currency	61.8	62.7	59.7	55.4	47.1	40.3	43.4	54.3
Foreign currency	55.2	57.4	52.0	60.2	66.4	67.7	65.7	70.3
Loans to deposits	44.1	40.8	40.9	47.0	46.0	46.2	47.5	47.1

Source: Central Bank of Egypt; based on available data as of December 3, 2020.

1/ Fiscal year ends June 30 for public sector banks and December 31 for the rest of the banks.

Table 10. Egypt: Capacity to Repay the Fund, 2018/19–2029/30 1/ 2/

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Projections											
Fund repurchases and charges												
Millions of SDRs	171.2	263.0	488.8	932.4	1,397.5	3,720.6	4,555.1	2,372.1	1,295.9	924.5	482.8	120.7
Repurchases	0.0	0.0	164.2	522.4	955.2	3,345.2	4,333.1	2,301.3	1,268.6	910.4	477.6	119.4
Charges and fees	171.2	263.0	324.6	410.1	442.3	375.4	222.0	70.8	27.4	14.1	5.2	1.3
Millions of US\$	239.0	367.2	682.3	1,301.6	1,950.7	5,193.6	6,358.5	3,311.1	1,809.0	1,290.5	674.0	168.5
Percent of exports of goods and nonfactor services	0.5	0.8	1.8	2.8	3.4	7.7	8.5	3.9	1.9	1.2	0.5	0.1
Percent of total debt service 3/	0.2	0.2	0.5	0.8	1.2	3.4	3.8	1.8	0.8	0.5	0.2	0.1
Percent of quota	8.4	12.9	24.0	45.8	68.6	182.6	223.6	116.4	63.6	45.4	23.7	5.9
Percent of gross international reserves	0.5	1.0	1.7	3.1	4.3	10.9	12.2	5.6	2.7	1.7	0.8	0.2
Percent of GDP	0.1	0.1	0.2	0.3	0.4	1.1	1.2	0.6	0.3	0.2	0.1	0.0
Percent of general government revenues	0.4	0.5	0.8	1.5	2.0	5.0	5.6	2.5	1.2	0.8	0.4	0.1
Fund credit outstanding												
Millions of SDRs	7,164	12,081	14,233	13,711	12,756	9,410	5,077	2,776	1,507	597	119	0
Millions of US\$	10,000	16,864	19,868	19,139	17,806	13,136	7,087	3,875	2,104	833	167	0
Percent of exports of goods and nonfactor services	18.9	35.4	51.9	41.4	30.7	19.5	9.5	4.5	2.2	0.8	0.1	0.0
Percent of quota	351.7	593.1	698.7	673.1	626.2	462.0	249.2	136.3	74.0	29.3	5.9	0.0
Percent of gross international reserves	22.8	45.3	48.9	45.6	39.6	27.5	13.6	6.5	3.1	1.1	0.2	0.0
Percent of GDP	3.3	4.7	5.1	4.6	4.0	2.7	1.4	0.6	0.3	0.1	0.0	0.0
Percent of general government revenues	16.3	24.2	24.5	22.0	18.7	12.6	6.2	3.0	1.4	0.5	0.1	0.0
Memorandum items:												
Exports of goods and nonfactor services (in millions of US\$)	52,919	47,665	38,292	46,229	57,996	67,284	74,881	85,216	96,991	110,393	125,647	143,009
Total debt service (in millions of US\$)	116,854	173,791	149,417	158,990	165,459	153,764	165,262	188,100	214,092	243,675	277,346	315,669
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	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	1,459.3	1,459.3	1,459.3	1,459.3
Gross international reserves (in millions of US\$)	43,860	37,212	40,625	41,990	44,982	47,843	52,101	59,242	67,428	76,745	87,350	99,420

Source: IMF staff calculations; based on available data as of December 3, 2020.

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, 2018/19–2024/25
(In billions of US\$, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Gross external financing requirements (A)	24.2	22.7	30.7	28.1	26.1	25.1	26.2
Current account deficit	10.9	11.2	16.5	10.6	11.4	12.1	13.1
Amortization 1/	13.3	11.5	14.2	17.5	14.7	12.9	13.1
IMF repurchases	0.0	0.0	0.2	0.7	1.4	4.9	6.3
Available financing (B)	22.6	4.5	30.9	29.5	29.1	27.9	30.4
Foreign direct investment (net)	7.9	7.1	5.4	8.3	11.4	14.6	16.3
External commercial loans assumed under the program	...	5.0	6.5	...	...	...	...
Syndicated loan facility	...	0.0	2.0	...	...	...	...
Green Bond	...	0.0	0.8	...	...	...	...
Other bonds	...	5.0	3.8	...	...	...	...
Other net portfolio investment 2/	4.1	-8.1	9.6	7.0	8.0	6.4	6.4
External program financing assumed under the program	...	0.1	3.6	...	...	...	...
Multilateral (ex. IMF)	...	0.1	2.8	...	...	...	...
World Bank	...	0.1	0.9	...	...	...	...
Arab Monetary Fund	...	0.0	0.7	...	...	...	...
African Development Bank	...	0.0	0.3	...	...	...	...
European Union	...	0.0	1.0	...	...	...	...
Bilateral	...	0.0	0.8	...	...	...	...
France	...	0.0	0.3	...	...	...	...
Japan	...	0.0	0.5	...	...	...	...
Other net capital flows 1/ 3/	10.6	0.4	5.8	14.2	9.7	6.9	7.7
Remaining financing needs (C=A-B)	1.6	18.2	-0.2	-1.4	-3.0	-2.9	-4.3
IMF purchases (D)	2.0	11.5	3.2	0.0	0.0	0.0	0.0
Reserve assets (- = increase) (E=C-D)	-0.4	6.6	-3.4	-1.4	-3.0	-2.9	-4.3

Sources: Central Bank of Egypt; and IMF staff estimates and projections; based on available data as of December 3, 2020.

1/ Excludes maturities (in amortization) and rollovers (in other net capital flows) related to certain CBE deposit liabilities.

2/ Excludes bonds issued as external commercial loans assumed under the program, which are accounted for above.

3/ Includes the BOP errors and omissions.

Table 12. Egypt: Schedule of Reviews and Purchases Under the Stand-By Arrangement

Availability Date	Amount		Condition
	Millions of SDR	Percent of Quota	
June 26, 2020	1,447.56	71.1	Board approval of the SBA
December 1, 2020	1,158.04	56.8	First review and end-September 2020 quantitative targets
June 1, 2021	1,158.04	56.8	Second review and end-March 2021 quantitative targets
Total	3,763.64	184.8	
<i>Memorandum items:</i>			
Quota (SDR, million)	2,037.10		

Source: IMF staff calculations.

Table 13. Egypt: Quantitative Performance Criteria and Indicative Targets for FY2020/2021
(In billions of Egyptian pounds, unless otherwise indicated)

	end-September			end-December	end-March
	2020			2020	2021
	Prog.	Actual	Status	Indicative	Test date
I. Quantitative Performance Criteria 1/					
Net international reserves of the CBE (\$ million; cumulative change, floor) 2/	0	4,316	Met	0	3,000
Primary fiscal balance of the budget sector (cumulative, floor) 3/	0	0.1	Met	7	15
Accumulation of external debt payment arrears by the general government (\$ million; continuous ceiling)	0	0	Met	0	0
II. Indicative Targets 3/					
Government overdraft at the CBE (ceiling)	93	9	Met	93	93
Tax revenues (cumulative floor)	121	150	Met	304	484
Social spending of the budget sector (floor)	23	24	Met	52	81
Share of short-term net new domestic issuance to total domestic treasury issuances (ceiling)	40	21	Met	40	30
Accumulation of gross debt of the budget sector (cumulative ceiling)	226	219	Met	450	679
III. Monetary Policy Consultation					
(12-month change in consumer prices)					
Upper outer band	13	...		10	10
Upper inner band	12	...		9	9
Actual/Center target	9	3.7	Not met	7	7
Lower inner band	6	...		5	5
Lower outer band	4	...		3	3
<i>Memorandum items:</i>					
Program disbursements at completion of review (\$ million; cumulative change) 2/	10,100	4,673		12,315	12,930
External commercial loans (including Eurobonds) assumed under the program (\$ million) 2/	6,500	2,028		6,500	6,500
<i>Of which:</i>					
International bank financing	...	261		...	...
Net issuance of FX T-Bills	...	-211		...	...
External program financing assumed under the program (\$ million) 2/	1,600	659		2,215	2,830
IMF financing assumed under the program (\$ million) 2/	2,000	1,986		3,600	3,600

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

1/ The targets for December 2020 are indicative.

2/ From May 31, 2020.

3/ From the beginning of the fiscal year (July 1, 2020).

Table 14. Egypt: Structural Benchmarks Under the 12-Month SBA

Policy Measure	Objective	Timing	Status
Develop a reform plan for NIB, approved by the Prime Minister in line with SBA Request MEFP ¶29	Strengthen public finances and contain risks to the financial sector	End-January 2021	
Publish an updated SOE report to include detailed financial information for FY2018/19 on all SOEs and a separate one for Economic Authorities that includes detailed financial information for FY2018/19	Fiscal transparency and governance	End-September 2020	Met
Cabinet approval of the updated MTRS	Increase tax revenue	End-December 2020	
Submission to Parliament of the revised PFM law to strengthen the entire budget process, including by (i) fiscal responsibility provisions to guide macro-fiscal policy; (ii) a medium-term budget framework; (iii) main elements of the budget calendar; (iv) minimum contents of the budget documentation; (v) robust provisions on reallocation of resources, contingency reserve and supplementary appropriations; and (vi) accounting rules for all public entities including economic authorities	Strengthen PFM, improve governance/and reduce corruption risks	End-December 2020	Met
Update the debt management strategy with the focus on lengthening maturities	Reduce debt vulnerabilities	End-December 2020	
Submit to Parliament amendments to the competition law to add a new chapter on mergers and acquisitions in line with SBA Request MEFP ¶27	Private Sector	End-December 2020	
Pass the draft customs law that streamlines customs procedures in line with SBA Request MEFP ¶25	Business climate	End-March 2021	Met
Complete Public Expenditure Review to enhance social protection	Social protection	End-April 2021	

Annex I. Trends in the Egyptian Labor Market

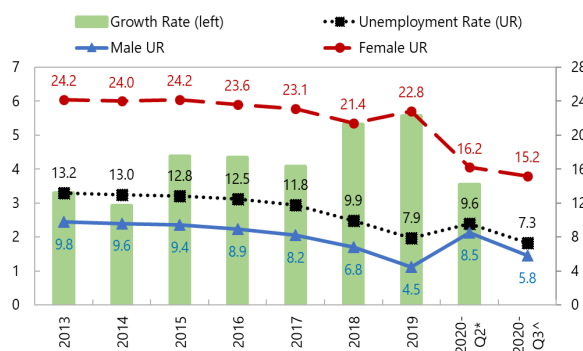
Egypt: Trends in the Labor Market

Rising GDP growth has, until recently, been alongside a falling overall unemployment rate, but the female unemployment rate has remained high.

Youth unemployment—while declining—is still high at close to 23 percent; female youth unemployment is more than double at 48 percent in 2018.

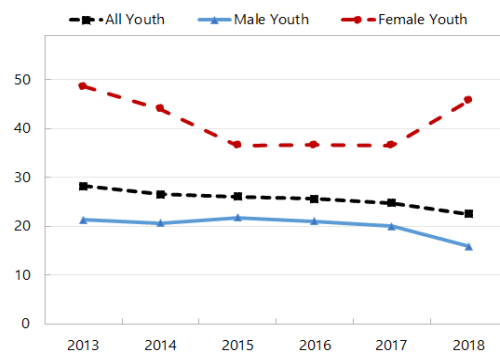
GDP Growth Rate and Unemployment Rate

(in percent Y-o-Y, unemployment for 2020-Q2, 2020-Q3 is q-o-q)



Youth Unemployment Rate in Egypt

(in percent, ages 15-29 years)

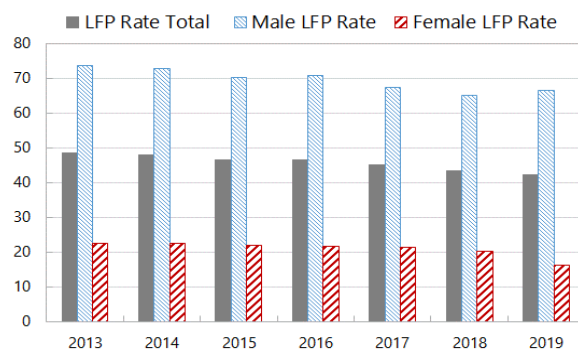


While the working age population has grown in line with the population, the overall LFP rate has been declining with a sharp gender disparity.

Egypt's LFP rates are comparable to the MENA countries, but substantially worse than larger EMs like the BRICs or the G20 countries.

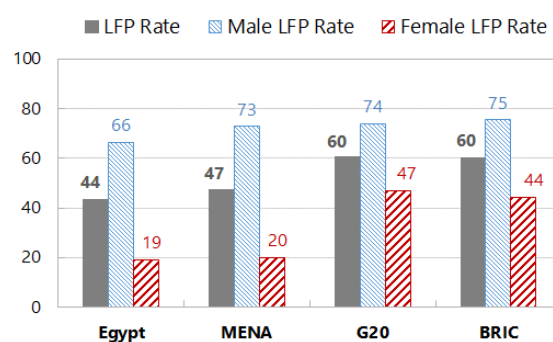
Labor Force Participation Rate (LFP)

(in percent)



Comparison of LFP Rate with Select Countries

(in percent, average for 2017-2019)



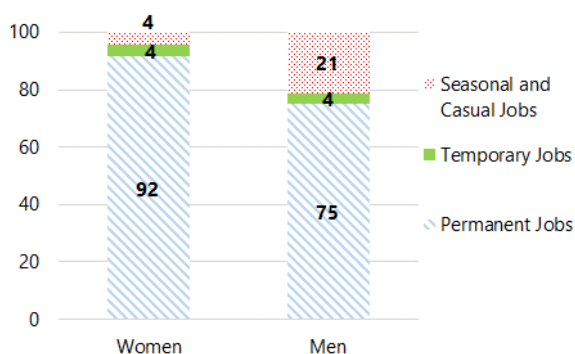
Why Female LFP may be low ...

Women tend to be in more secure/stable/permanent jobs, thus excluding many options in the seasonal or casual job openings.

Women also seem to prefer positions in the public sector for a variety of reasons, possibly reducing private sector employment of high-skilled women.

Employment by Job Security and Gender

(in percent, 2018)



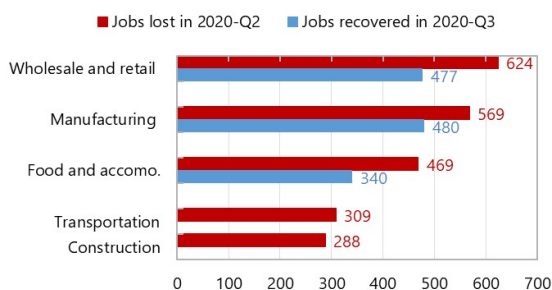
Public sector jobs have been declining with the share of public sector in total employment falling from 29 percent in 2009 to 23 percent in 2019.

Impact of the COVID-19 crisis and recent recovery...

The largest number of job losses in 2020-Q2 were in the wholesale and retail trade sector, followed by manufacturing sector, and food and accommodation sector. In 2020-Q3, the recovery in jobs was driven mainly by these same sectors.

Jobs Lost and Recovered in Select Sectors

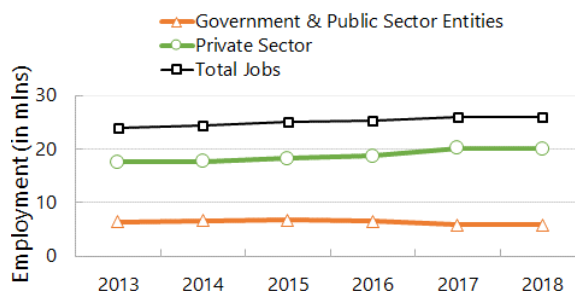
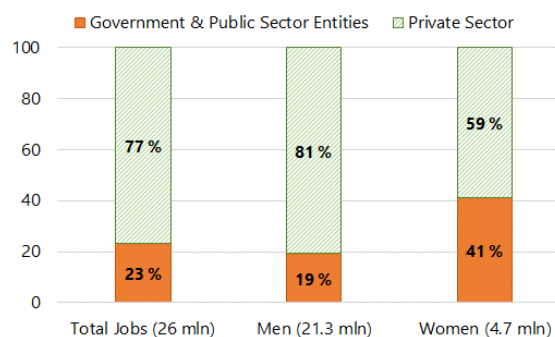
(in thousands)



Sources: CAPMAS, Haver and IMF staff calculations.

Employment by Sector and Gender

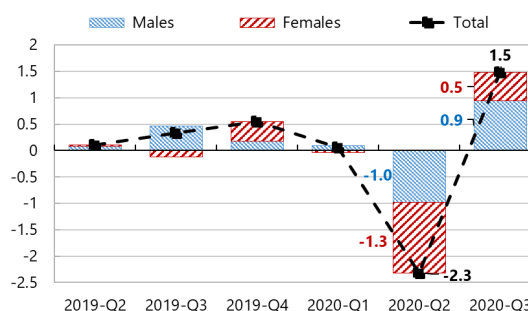
(in percent, 2018)



The pandemic has worsened women's LFP – over 1.3 million women or 25 percent of the female workforce left the in 2020-Q2 (compared to 1 million males or 4 percent for their labor force). In 2020-Q3, around 1.5 million workers returned to the workforce, with the recovery primarily driven by men—96 percent of men who exited the workforce returned, compared to only 40 percent of the women.

Change in Labor Force Participation by Gender

(in mlns, q-o-q)



Authorities' Ongoing Labor Market Reform Plans

The authorities are cognizant of the need to improve labor force participation (LFP), particularly among women. Several policies are under consideration in this effort, also with a view to provide better paying jobs for the growing labor force. Some highlights are noted below:

1) *The government is taking steps to create employment opportunities in high productivity sectors such as manufacturing and information and communication technology (ICT).*

- The government is prioritizing investment in education and training that will help align the skills of the workforce with the needs of the labor market. Technology universities offering vocational training programs have been set up to prepare students for practical work, including ICT.
- Support for new entrepreneurs is being provided via financial [support from the Ministry of Planning](#) for business incubators and innovation centers at universities.

2) *The government is also developing policies to close the gender gap, including preparing women for the post-COVID-19 world of work, closing the pay gap, increasing female LFP, and advancing more women in management and leadership.*

- Targeted initiatives to boost female LFP are underway, focusing on women in poorer governorates, and on women's participation in productive industries. Training programs for girls in the handicrafts industry have been set up. The micro, small and medium-sized enterprises agency has allocated a financing portfolio of EGP 5.4 billion (\$343 million) to finance projects for women entrepreneurs, in particular, in border and upper governorates. The [Ministry of ICT](#) launched a package of educational programs for women to prepare them for the labor market, focusing on high productivity jobs in technology and communications. Training programs for leadership roles are also being developed for women. Child-care nurseries are being established which will relieve women from child-care responsibilities during the day while still offering food and nourishment for babies.
- During the COVID-19 crisis, in particular, the National Council of Women (NCW) established the "[Women policy tracker on Responsive Policies and Programs During COVID-19 Pandemic](#)," to track the policy response to the crisis through a gender lens. Egypt has bolstered leave provisions for women. Pregnant women, or those looking after one or more child younger than 12 years old, were granted exceptional leave and job protection for the duration of the lockdown. Furthermore, women employees looking after their children with disabilities were granted leave, without losing their jobs. The NCW has connected with women across different governorates to produce masks that can be sold to the public.

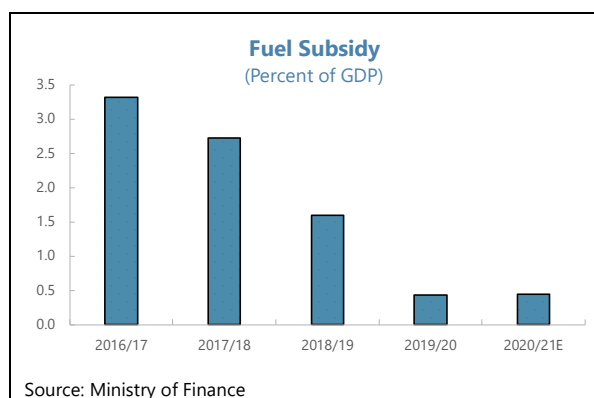
Annex II. Greening the Recovery in Egypt

1. Egypt is highly exposed to climate change. Sea level rise, changes in the Nile flows, and higher frequency of extreme weather events such as heat waves, sand and dust storms, flash floods, and heavy precipitations are expected to affect Egypt substantially. Climate change would thus have severe consequences including food and water insecurity, lower productivity of farms and fisheries, damage to infrastructure, coastal degradation, public health risks, and vulnerability of coral reefs, a major touristic attraction in the Red Sea. While Egypt's per capita CO₂ emissions are relatively low, they have been growing sharply in the last decades. In addition to contributing to climate change, these emissions are partly to blame for Cairo's serious pollution problems.

2. Egypt has developed a long-term, multi-sectoral mitigation and adaptation plan to counter the main environmental risks. The plan aims to mitigate the impact of climate change on coastal zones and public health. Actions to

ensure water security, divert from carbon-based energy source to green and clean energy, enhance waste management, and improve food security are also planned. The plan is constantly being revised and updated as new information becomes available and as the authorities' climate ambitions rise. For example, a national adaptation plan is being developed to refine and update the National Strategy for Adaptation to Climate Change

and Disaster Risk Reduction. To ensure sustainability, Egyptian authorities and ministries are now requested to integrated environmental dimension in their operations.

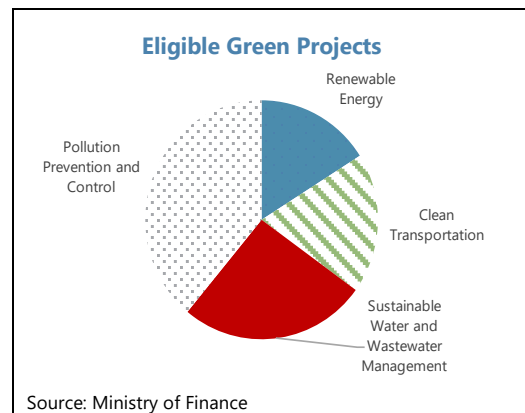


3. Egypt is stepping up its mitigation efforts through fuel pricing reform. Egypt successfully completed a fuel subsidy reform that reduced the fiscal burden of fuel subsidies from 3.3 percent of GDP in FY2016/17 to 0.4 percent in FY2019/20. The reform was successfully completed, with accompanying measures to support vulnerable households. Thanks partly to this reform, consumption of petroleum products declined by 2.1 percent in FY2018/19. Emissions from fuel consumption decreased by 3.3 percent. To contribute to finance the cost of the pandemic, Egypt introduced a development fee on gasoline and diesel fuel that is expected to raise 0.1 percent of GDP. With support from the EBRD, the authorities will also embark on modernizing the Alexandria diesel refinery to improve its energy efficiency.

4. The authorities are committed to switching towards greener energy sources. The Benban solar park and the Gabel El Zeit wind farm have contributed to raise the share of renewables in electricity generation to 11 percent in 2019. The authorities' goal is for this share to rise to 20 percent by 2022 and 42 percent by 2035, with participation by the private sector and the donor community, including the EU, EBRD, and AfDB. There are also ongoing projects to modernize the electric grid to allow for the integration of renewables and to raise efficiency with

support from JICA. For the transport sector, the authorities have launched a 5-year scheme to convert gasoline-powered vehicles to natural gas, which is cheaper and less polluting, and projects to incorporate electric buses and trains to the public transportation system, including with support from the World Bank. Furthermore, Egypt plans to produce around 25,000 electric cars annually starting in 2021. In the longer term, Egypt is building its nuclear power plant to provide the country with a clean and sustainable source of energy. It is expected to become operational by 2026.

5. Egypt is investing in mitigation and adaptation. Green investment projects are expected to account for 14 percent of total public investment this year. New environment sustainability guidelines are to be applied to 30 percent of the projects in FY2020/21. They will be revised and expanded to cover all the public investment projects within 3 years. In addition to investments in renewables and transportation, green projects include desalination and wastewater treatment plants and improvements in irrigation infrastructure to mitigate water insecurity risks. Nineteen desalination plants are already under construction and expected to be completed within 18 months. The Bahr Al Baqar wastewater treatment plant is expected to cost EGP16 billion and is being built with support from the Arab Fund for Economic and Social Development and the Kuwait Fund for Arab Economic Development. Solid waste management projects will contribute to reduced pollution, whereas better air quality management systems will help cope with extreme events.



6. Egypt has recently issued a green bond—the first in the MENA region. The issuance of US\$750 million achieved a rate of 5.25 percent and was 5 times oversubscribed, attracting both new and existing foreign investors. The proceeds are expected to fund some of the US\$1.9 billion green projects deemed eligible (pie chart).¹

7. The way forward requires addressing some bottlenecks. As in most countries, a paradigm shift is needed in the financial sector to correctly price climate risks and facilitate funding of green investments. Building up the skills for green jobs, such as solar and wind technicians, is also critical to ensure the success of those industries. A more enabling environment for public-private collaboration can help accelerate the adoption of clean innovation. Finally, quantification of costs and benefits at a macro level can further inform and strengthen policymaking

¹ Eligibility of green projects is to be determined by a Green Finance Working Group that includes the ministries of finance, planning and economic development, environment, and other relevant government agencies. The use of these proceeds is to be reported annually and reviewed externally. The World Bank will support the authorities in the production of those annual reports.

Annex III. Fiscal Response to COVID-19 Pandemic

Government of Egypt: Fiscal Response to COVID-19 Pandemic <i>(Cost in EGP Millions)</i>			
Measures	Fiscal Package as of Oct 2020		
	2019/20	2020/21	Total
1. Additional Health Expenditure	8,223	5,475	13,698
Increasing infection allowance to all public health sector workers and increasing monthly reward for young doctors	433	2,600	3,033
Exceptional bonus for health workers	200		200
Funding for new appointments of public health workers	67	400	467
Additional funding for medical equipment, supplies, and other operating costs	7,523	2,475	9,998
2. Support to Households	8,200	28,900	37,100
Expansion of Takaful and Karama		500	500
Bonuses and annual raise for pensioners		27,600	27,600
EGP 500 monthly cash subsidy for irregular workers	2,200	800	3,000
Financing to purchase additional quantities of basic commodities	6,000	0	6,000
3. Support to Firms	31,511	27,254	58,765
General	3,000	0	3,000
Options for delayed payment of corporate income taxes in installments	3,000	0	3,000
Industry	7,585	9,000	16,585
Reducing and unifying natural gas price for all industries at USD 4.5 per mbtu	1,125	5,000	6,125
Reducing electricity tariffs for all industries by 9 percent	900	4,000	4,900
Deferral of property tax payments for 3 months	250		250
Forgiveness of petroleum arrears related to fines, late payment fees, and disputed fuel bills	5,310		5,310
Increasing the share of production in duty free zones that can be sold in the domestic market for 6 months			0
Exporters	3,000	5,108	8,108
Higher subsidy pay-outs for exporters	3,000	5,108	8,108
Tourism and Culture	200	3,200	3,400
6-month tax holiday for property taxes	200	200	400
Deferral of fees for up to 6 months			0
Financial support for touristic establishments	0	3,000	3,000
Exemption of payment of fees for tourist visa and reduction in landing fees for charter flights			0
Aviation	2,647	3,149	5,796
Financial support for the aviation sector	2,417	3,149	5,566
Cost of exceptional trips to bring back Egyptians from abroad and related quarantine cost	230	0	230
Contractors	14,000	3,000	17,000
Additional funding for contractors implementing government investment programs	10,000	0	10,000
Additional spending on public works programs (paving inner roads and enhancing irrigation systems)	4,000	3,000	7,000
SMEs	439	292	731
Financial support for SMEs	439	292	731
Other	640	3,505	4,145
Total	47,934	61,629	109,563
o.w. Health and Social Spending	16,423	34,375	50,798

Source: Ministry of Finance

Annex IV. Public and External Debt Sustainability Analysis

The Debt Sustainability Analysis indicates that Egypt's debt remains sustainable, but not with a high probability. Under the baseline scenario, debt is projected to increase further in FY2020/21 before resuming its downward trajectory to 75 percent of GDP by FY2025/26. The main risks are a slower than expected recovery from the COVID-19 pandemic, a sustained increase in interest rates due to tightening of financial conditions for emerging markets, and a less ambitious fiscal consolidation path. The high share of local currency debt and the quick return to the international capital markets following the COVID-19 shock are important risk mitigating factors. Contingent liabilities arising from state-owned enterprises present additional risks. Recognizing the high gross financing needs (GFNs), the authorities are already extending their debt maturities and intend to extend them further. Over the medium term, sustained fiscal consolidation in combination with structural reforms to boost growth is needed to put Egypt's debt on a steadily declining path.

Baseline Scenario

1. The baseline projections have been revised upwards to reflect the milder than anticipated contraction in FY2019/20. Real GDP growth is now projected at 2.8 percent in FY2020/21 (compared with 2 percent at SBA approval), with modest recovery expected in all sectors except tourism as containment measures have been eased. Growth is projected to recover to 5½ percent over the medium term. Average inflation is projected to slow to about 5 percent in FY2020/21 but should stabilize at around 7 percent in the medium term as economic activity normalizes. Effective interest rates on general government debt are projected to decline, reflecting the declining inflation.

2. As discussed in previously published IMF staff reports, Egypt's debt has been assessed to be sustainable but subject to significant risks. Despite the sharp downward trend since FY2016/17, the debt-to-GDP ratio remains above the benchmark of 70 percent of GDP for emerging markets (EMs). The COVID-19 crisis has disrupted the debt trajectory; general government debt is projected to increase from 84 percent of GDP in FY2018/19 to about 93 percent of GDP in FY2020/21 as growth slowed sharply and fiscal balances are projected to be smaller.¹ The shock is expected to be temporary and does not alter the debt sustainability assessment, with primary surpluses and sustained high growth expected to restore the downward trajectory of public debt over the medium-term to reach 75 percent of GDP in FY2025/26.

3. The baseline debt projections are subject to significant risks but also accompanied by a number of mitigating factors. Risks stem from the high level of debt relative to the

¹ Public debt reflects gross general government liabilities measured according to the definition in the Technical Memorandum of Understanding (LOI, Attachment II). The general government includes the budget sector, National Investment Bank, and the Social Insurance Fund. The higher FY2019/20 outturn relative to the projection at SBA approval reflects support provided to several economic authorities (not included in the defined general government), partly in response to the COVID-19 crisis. These operations are not expected to pose a fiscal risk.

benchmark as well as high gross financing needs which stand above 30 percent of GDP compared to the 15 percent of GDP benchmark for EMs. Risks to debt sustainability are mitigated by the large share of participants in the local treasury security market that are domestic financial institutions. The share of debt held by nonresidents and that denominated in foreign currency are 22 and 26 percent, respectively, putting these indicators in the moderate risk category, well below the high-risk benchmark levels of 45 and 60 percent. In addition, the authorities have already begun to extend maturities—as evidenced by the decline in short-term public debt—and are planning to extend maturities further.

Realism of Baseline Assumptions

4. The current forecasts entail higher-than-usual uncertainty. Past forecasts of macro-economic variables have been mixed. The median forecast error was -0.07 percent for growth, 0.78 percent for inflation, and -0.96 percent for the primary balance during 2011–2019, implying a slight optimistic bias. Part of the bias is attributed to the volatility of the sample period, which includes two political transitions (2011 and 2013). While the forecast errors for GDP have narrowed over the last two years, current forecasts are subject to exceptional uncertainty due to the evolving impact of the COVID-19 crisis.

5. Additional risks stem from tighter financial conditions for emerging markets, a slower than expected recovery in economic activity, and materialization of contingent liabilities. There remains significant uncertainty around the pace of global recovery with a growing number of countries experiencing a second wave of the pandemic. A more protracted recovery could result in revenue or spending pressures that would delay the return to the pre-crisis primary surplus of 2 percent of GDP (projected for FY2021/22 under the current baseline of economic recovery) and increase debt compared to the baseline scenario. In addition, increased risk aversion could result in tighter financial conditions for emerging markets, leading to an increase in interest rates and causing debt to deviate from the projected debt path. Sharp increases in unemployment, poverty, and inequality could also undermine public support for the economic program. Contingent liabilities could arise from, inter alia, a call on government guaranteed debt.

Alternative Scenarios and Stress Test

6. Debt sustainability worsens under the historical and primary balance shock scenarios. With growth and the primary balance remaining at their 10-year averages, the debt-to-GDP ratio would increase to 100 percent of GDP by FY2025/26, with gross financing needs rising to about 43 percent of GDP. Alternatively, a scenario with an unchanged growth forecast but a temporary delay of the envisaged primary balance consolidation by about 1 percent of GDP would imply a debt-to-GDP ratio of 77 percent in FY2025/26 compared with 75 percent of GDP in the baseline.

7. The public debt trajectory is vulnerable to macroeconomic shocks and risks from contingent liabilities:

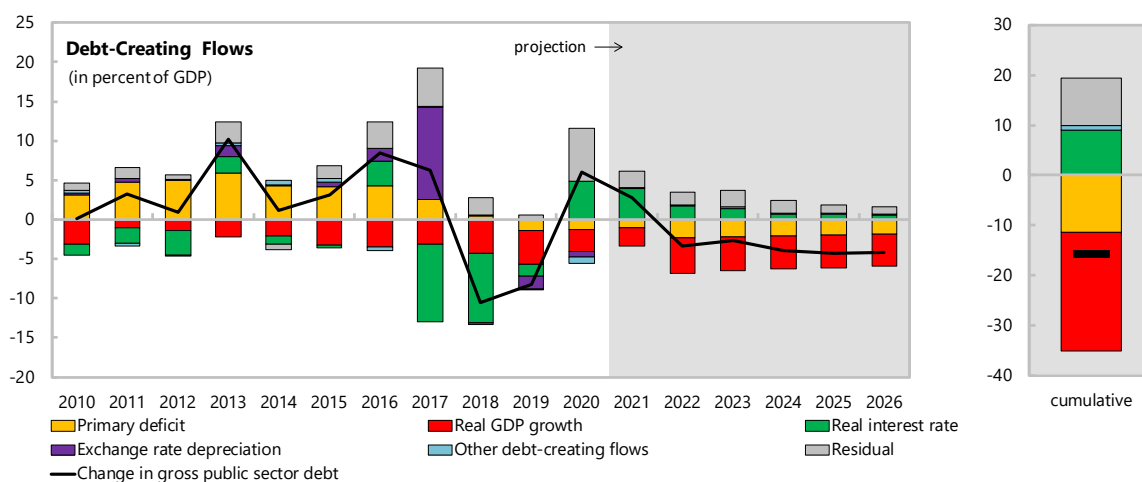
- Under a *growth shock* where GDP growth is 1.2 percentage points lower (one standard deviation) and inflation is 0.3 percentage point lower compared to the baseline in FY2019/20 and FY2020/21, debt would increase to 77 percent of GDP over the medium term compared to 75 percent in the baseline.
- A *real interest rate shock* with an increase in the interest rate by about 350 basis points over the projection period, increases debt to 80 percent of GDP over the medium term.
- A large *real exchange rate shock* with a hundred percent depreciation of the Egyptian pound will increase debt in the next year by 4 percentage points of GDP, reaching 76 percent of GDP over the medium term.
- A *combined macro-fiscal shock* with lower growth and a looser fiscal stance could weaken debt dynamics significantly. A temporary growth shortfall of 1.2 percentage points for two years, a looser fiscal stance by about 1 percentage point over two years, and a 140 percent nominal exchange rate depreciation increase debt to 95 percent of GDP in the following year compared to 90 percent of GDP under the baseline. Over the medium term, debt would remain about 10 percentage points of GDP higher than under the baseline.
- *Materialization of contingent liabilities* or a call on government guarantees on state-owned enterprises are another potential source of vulnerability. A customized shock scenario, in which a contingent liability of 13 percent of GDP materializes, leading to a deterioration of the primary balance, higher interest rates and temporary adverse impacts on other macroeconomic variables, would increase debt-to-GDP ratio to around 104 percent of GDP in FY2021/22 compared to 90 percent in the baseline.
- The *most severe shock* combines the macro-fiscal shock with a materialization of a contingent liability. In this case, debt-to-GDP ratio will increase in the next year to 108 percent of GDP. Over the medium term, debt would decline to around 97 percent of GDP instead of 75 percent of GDP in the baseline and gross financing needs would be around 38 percent of GDP.

8. External debt is expected to decline from about 34 percent of GDP in 2021 through the projection horizon. The standard shock scenarios suggest that external debt would be near or below its current level in the medium term. A significant portion of external debt is scheduled to mature in the next few years, in part reflecting the maturity of large deposits of three Gulf Cooperation Council (GCC) members at the CBE. However, the maturity profile of Eurobonds is relatively smooth and at moderate levels going forward, with the first maturity in 2022. Cognizant of the need to extend maturities on external debt, the authorities have been rolling over deposits owed to GCC member creditors; deposits amounting to \$10.3 billion now mature after the SBA ends. In the medium term, continued rollovers of deposits at the CBE would help contain risks, particularly as large payments to the Fund come due towards the end of the projection horizon. The maturity profile on external private debt is quite favorable in the near term.

Figure 1. Egypt: Public Sector Debt Sustainability Analysis – Baseline Scenario
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}										As of November 17, 2020		
	Actual			Projections						Sovereign Spreads		
	2010-2018 ^{2/}	2019	2020	2021	2022	2023	2024	2025	2026	EMBIG (bp) ^{3/}	5Y CDS (bp)	
Nominal gross public debt	85.1	84.2	90.2	93.0	89.6	86.9	83.0	78.7	74.5	580		
Public gross financing needs	30.6	36.5	38.0	36.9	35.8	34.4	29.5	29.4	28.8	410		
Real GDP growth (in percent)	3.7	5.6	3.6	2.8	5.5	5.5	5.6	5.8	5.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	12.8	13.6	5.6	5.3	7.6	7.8	7.8	7.6	7.5	Moody's	B2	B2
Nominal GDP growth (in percent)	17.0	19.9	9.4	8.2	13.5	13.6	13.8	13.8	13.8	S&Ps	B	B
Effective interest rate (in percent) ^{4/}	10.0	12.3	12.1	10.2	10.1	10.0	9.1	9.0	8.8	Fitch	B+	B+

Contribution to Changes in Public Debt											
	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026		
Change in gross public sector debt	2.6	-8.3	6.0	2.8	-3.4	-2.7	-3.9	-4.2	-4.2	-15.7	
Identified debt-creating flows	0.7	-8.8	-0.7	0.7	-5.0	-4.9	-5.5	-5.3	-5.2	-25.1	
Primary deficit	3.8	-1.4	-1.3	-1.1	-2.3	-2.2	-2.0	-1.9	-1.8	-11.3	-3.3
Primary (noninterest) revenue and grants	21.4	20.1	19.1	20.5	20.7	21.0	21.3	21.6	21.6	126.7	
Primary (noninterest) expenditure	25.2	18.8	17.8	19.4	18.4	18.8	19.2	19.7	19.8	115.3	
Automatic debt dynamics ^{5/}	-3.3	-7.5	1.4	1.6	-2.8	-2.9	-3.6	-3.5	-3.5	-14.6	
Interest rate/growth differential ^{6/}	-5.0	-5.9	2.1	1.6	-2.8	-2.9	-3.6	-3.5	-3.5	-14.6	
Of which: real interest rate	-2.4	-1.6	4.9	3.9	1.7	1.4	0.7	0.7	0.6	9.0	
Of which: real GDP growth	-2.7	-4.3	-2.7	-2.3	-4.5	-4.3	-4.3	-4.2	-4.0	-23.6	
Exchange rate depreciation ^{7/}	1.8	-1.6	-0.7	...	...	...	...	...	...	...
Other identified debt-creating flows	0.1	0.0	-0.9	0.2	0.1	0.1	0.1	0.1	0.1	0.9	
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	0.1	0.0	-0.9	0.2	0.1	0.1	0.1	0.1	0.1	0.9	
Residual, including asset changes ^{8/}	1.9	0.6	6.7	2.1	1.6	2.2	1.5	1.0	1.0	9.4	



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.

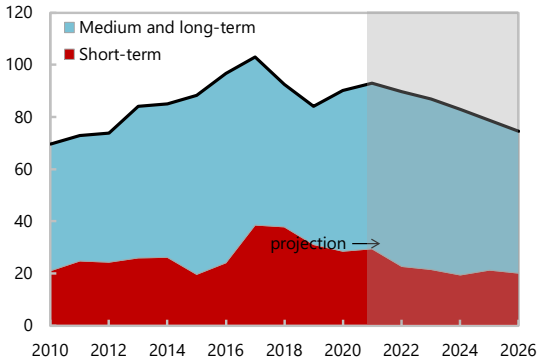
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

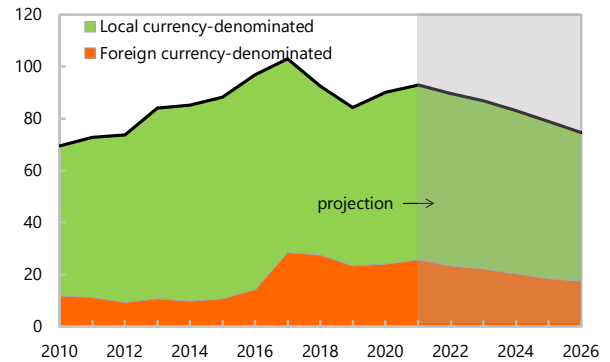
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

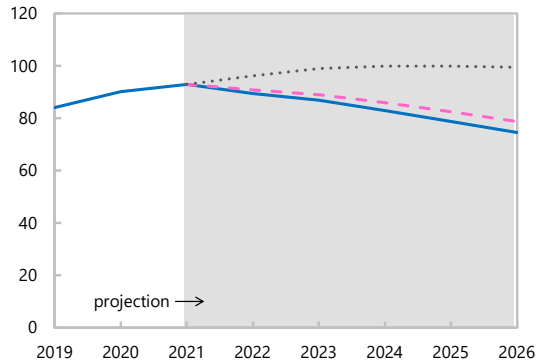


Alternative Scenarios

— Baseline Historical - - - - Constant Primary Balance

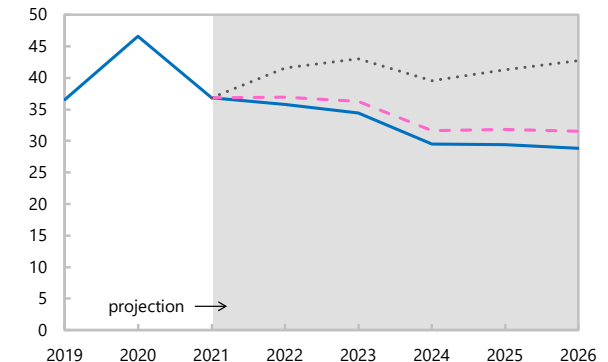
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	5.5	5.5	5.6	6.0	5.8
Inflation	5.3	7.6	7.8	7.8	7.6	7.5
Primary Balance	1.1	2.3	2.2	2.0	1.9	1.8
Effective interest rate	10.2	10.1	10.0	9.1	9.0	8.8
Constant Primary Balance Scenario						
Real GDP growth	2.8	5.5	5.5	5.6	6.0	5.8
Inflation	5.3	7.6	7.8	7.8	7.6	7.5
Primary Balance	1.1	1.1	1.1	1.1	1.1	1.1
Effective interest rate	10.2	10.1	9.9	9.1	9.0	8.7

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	3.7	3.7	3.7	3.7	3.7
Inflation	5.3	7.6	7.8	7.8	7.6	7.5
Primary Balance	1.1	-2.9	-2.9	-2.9	-2.9	-2.9
Effective interest rate	10.2	10.1	8.8	7.4	7.0	6.5

Source: IMF staff.

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

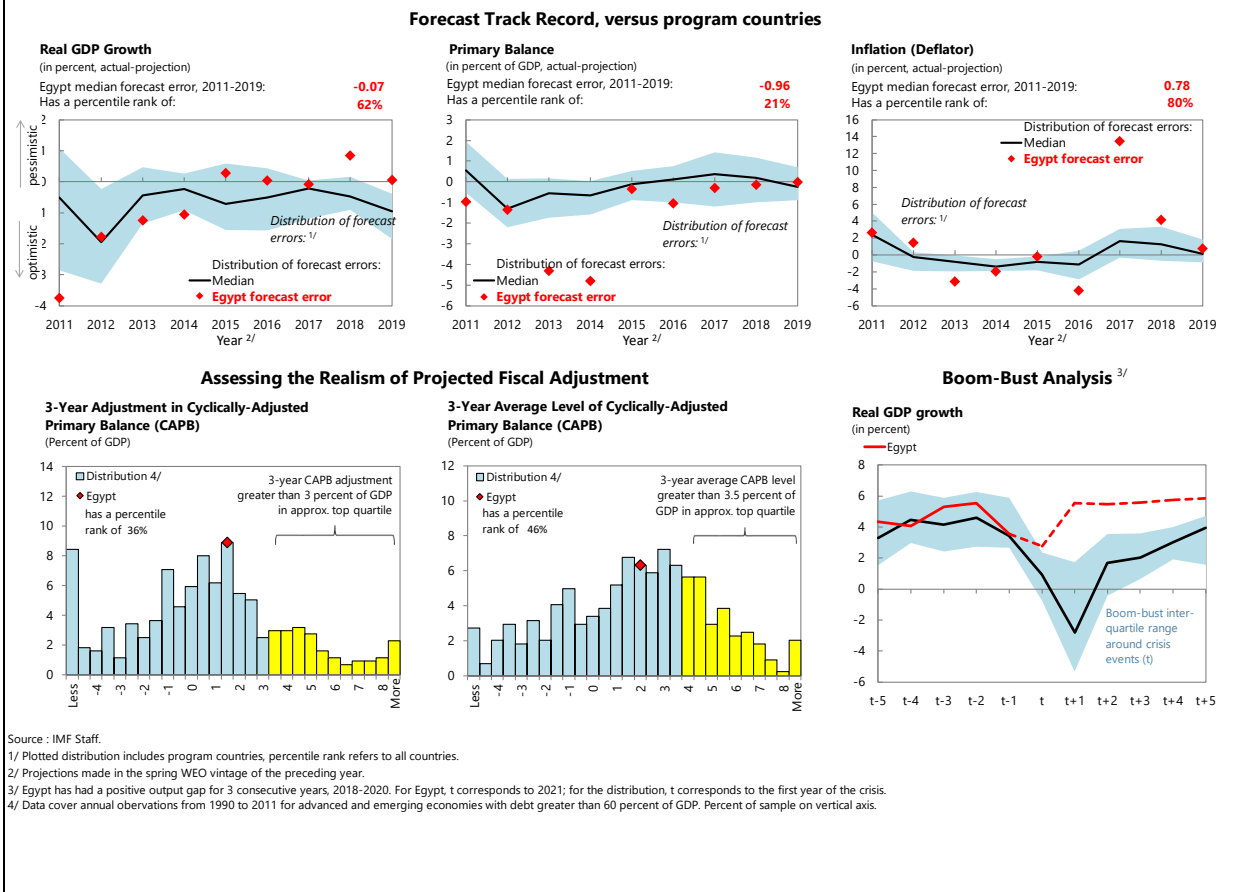
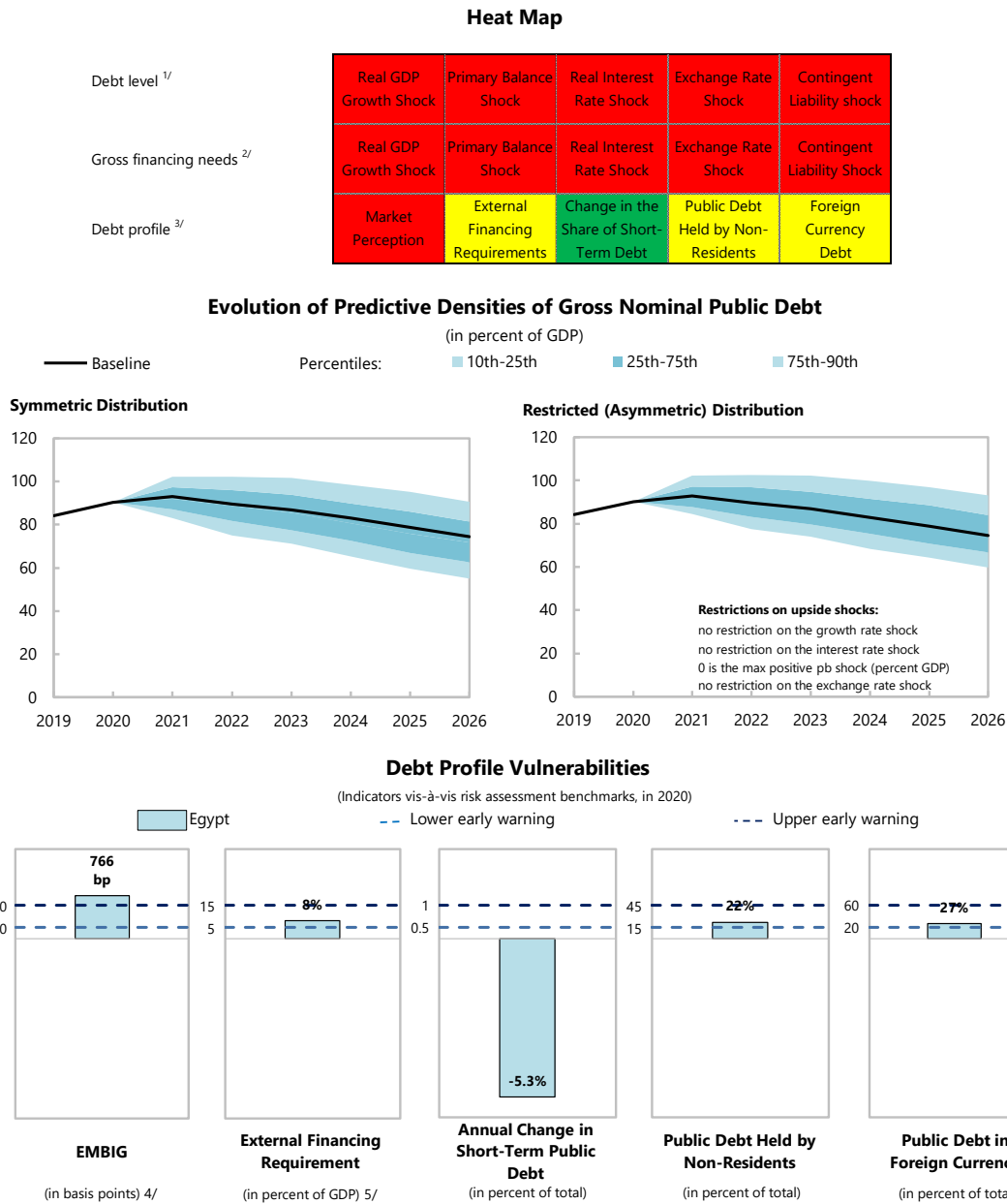


Figure 4. Egypt: Public DSA Risk Assessment



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, March 2 2020 - June 2 2020.

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



Source: IMF staff.

Table 1. Egypt: External Debt Sustainability Framework, 2016–2026
(In percent of GDP, unless otherwise indicated) 1/

	Actual					Projections							Debt-stabilizing non-interest current account 7/ -4.7
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026		
Baseline: External debt	16.8	30.8	37.0	36.0	34.1	33.9	30.8	27.3	24.7	23.0	21.5		
Change in external debt	2.3	14.1	6.2	-1.1	-1.8	-0.2	-3.1	-3.5	-2.5	-1.7	-1.6		
Identified external debt-creating flows (4+8+9)	3.9	7.4	0.0	-5.3	-4.7	2.0	-1.2	-1.6	-1.9	-1.9	-1.8		
Current account deficit, excluding interest payments	5.7	5.1	1.5	2.5	2.2	2.8	1.2	1.3	1.3	1.3	1.4		
Deficit in balance of goods and services	9.7	12.3	10.5	8.3	7.6	7.7	5.5	5.6	5.6	5.4	5.4		
Exports	10.5	14.5	18.9	17.5	13.2	9.8	11.1	12.9	13.9	14.3	14.3		
Imports	20.1	26.8	29.4	25.8	20.8	17.4	16.7	18.5	19.5	19.7	19.7		
Net non-debt creating capital inflows (negative)	-2.1	-3.2	-3.1	-2.6	-1.9	-1.4	-2.0	-2.5	-3.0	-3.1	-3.1		
Automatic debt dynamics 2/	0.2	5.5	1.6	-5.3	-5.0	0.5	-0.4	-0.3	-0.2	-0.1	-0.1		
Contribution from nominal interest rate	0.3	0.5	0.9	1.1	0.9	1.4	1.4	1.3	1.2	1.2	1.1		
Contribution from real GDP growth	-0.6	-0.9	-1.7	-1.7	-1.1	-0.9	-1.8	-1.6	-1.4	-1.3	-1.2		
Contribution from price and exchange rate changes 3/	0.6	5.9	2.4	-4.7	-4.8	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 4/	-1.6	6.7	6.2	4.3	2.9	-2.2	-1.9	-2.0	-0.6	0.2	0.3		
External debt-to-exports ratio (in percent)	160.3	212.9	195.8	205.4	259.1	346.6	276.7	211.3	178.0	161.1	150.3		
Gross external financing need (in billions of US dollars) 5/	25.2	24.0	20.5	25.7	24.9	31.9	29.7	29.7	31.5	30.7	32.5		
in percent of GDP	7.6	9.4	8.2	8.5	6.9	8.1	7.1	6.6	6.5	5.8	5.4		
Scenario with key variables at their historical averages 6/						33.9	32.2	31.0	31.0	31.9	34.2	-2.9	
Key Macroeconomic Assumptions Underlying Baseline						<u>10-Year Historical Average</u>	<u>10-Year Standard Deviation</u>						
Real GDP growth (in percent)	4.3	4.1	5.3	5.6	3.6	3.7	1.2	2.8	5.5	5.5	5.6	6.0	5.8
GDP deflator in US dollars (change in percent)	-4.0	-25.9	-7.3	14.5	15.6	1.6	12.2	5.3	0.5	2.6	2.1	2.3	7.5
Nominal external interest rate (in percent)	1.7	2.2	2.7	3.5	2.9	2.1	0.7	4.4	4.3	4.5	4.9	5.2	5.5
Growth of exports (US dollar terms, in percent)	-21.0	6.7	27.4	11.8	-9.9	1.1	13.7	-19.7	20.7	25.5	16.0	11.3	13.8
Growth of imports (US dollar terms, in percent)	-7.5	2.8	6.8	6.1	-3.5	2.9	5.5	-9.2	1.4	20.2	13.4	9.2	13.8
Current account balance, excluding interest payments	-5.7	-5.1	-1.5	-2.5	-2.2	-2.9	1.6	-2.8	-1.2	-1.3	-1.3	-1.3	-1.4
Net non-debt creating capital inflows	2.1	3.2	3.1	2.6	1.9	1.9	1.0	1.4	2.0	2.5	3.0	3.1	3.1

1/ This update now uses GDP converted to U.S. dollars at the average exchange rate, in contrast to previous versions, which used the end-of-period exchange rate.

2/ 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.

3/ 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).

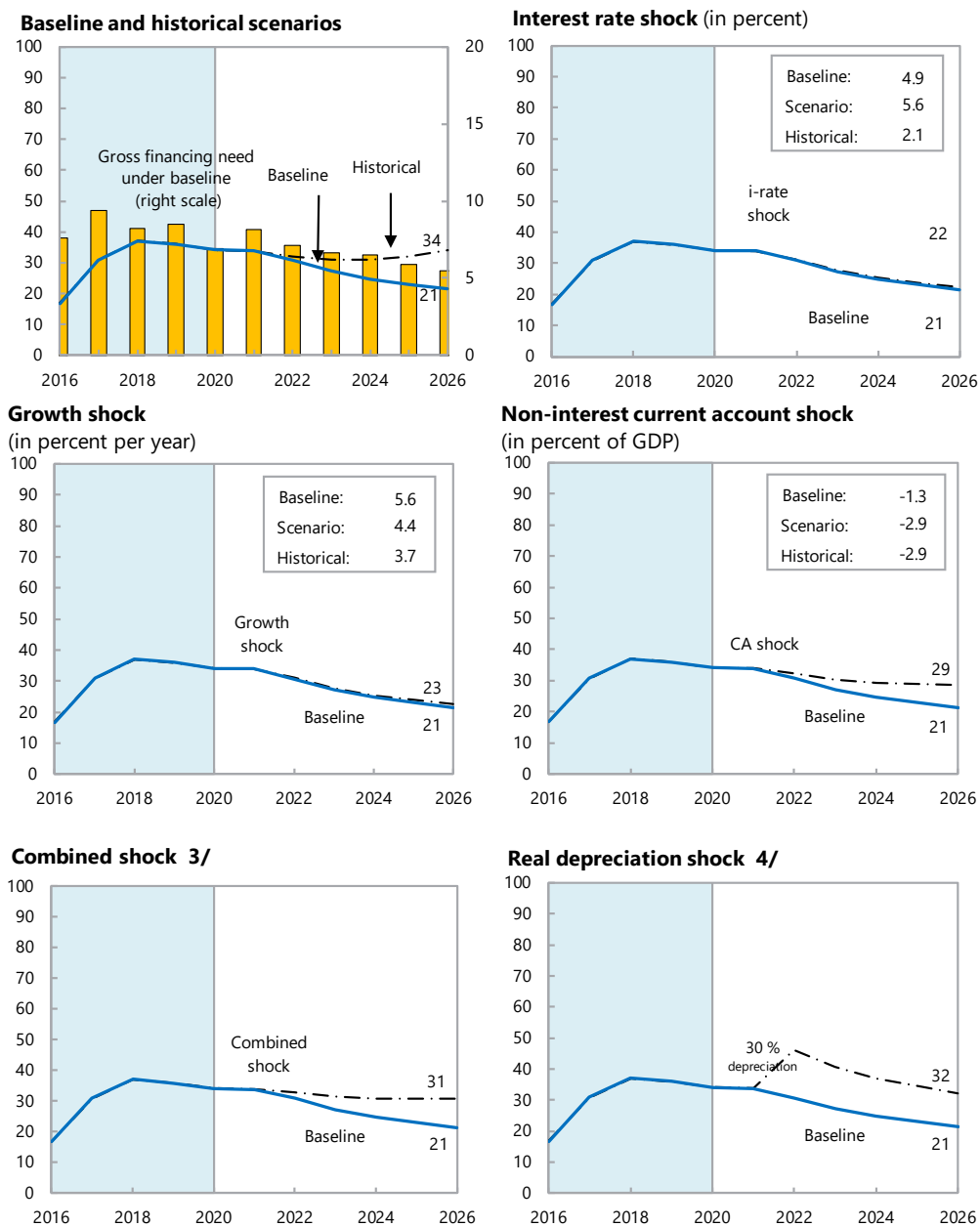
4/ For projection, line includes the impact of price and exchange rate changes.

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

6/ 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.

7/ 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 FY2021/22.

Appendix I. Letter of Intent

December 3, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva,

1. The attached Memorandum of Economic and Financial Policies (MEFP) reports on the recent economic developments and progress in implementing Egypt's economic program and sets out macroeconomic policies and structural reforms that the Government is pursuing during the remaining period of the program. The objective of the program is to support our effort to address the negative economic impact of the COVID-19 crisis, by adopting a comprehensive policy framework to maintain macroeconomic stability and support private sector-led growth.
2. Despite the challenges posed by the COVID-19 pandemic, the Egyptian economy grew at 3.6 percent in FY2019/20, bolstered by a comprehensive fiscal stimulus package, swift monetary policy response, and various supportive financial sector initiatives. We have gradually and cautiously eased pandemic-related restrictions while providing guidance on risk mitigation measures. We are pleased to inform you that all end-September quantitative performance criteria (PC) were met and structural reforms are on track.
3. The inflation outturn for September 2020 was 3.7 percent (y/y), 0.3 percentage point below our target range, thus, triggering the Monetary Policy Consultation Clause (MPCC). As explained in Attachment III to this LOI, this period of lower-than-targeted inflation was driven by pandemic-related, cyclical, as well as structural factors. In response, the Central Bank of Egypt (CBE) decreased the policy interest rate by 50 basis points in September 2020 and another 50 basis points in November 2020; these actions were in addition to the 300 basis points reduction in March. We request a modification of the MPCC to reflect the CBE's current inflation expectation. Amid ongoing global and domestic uncertainty, the CBE will continue to closely monitor economic developments and will stand ready to take any additional steps that may be necessary to restore inflation to the target range. We also remain committed to a market-based flexible exchange rate with interventions limited only to addressing disorderly market conditions.
4. We will continue to implement the strong set of economic and social policies that we put forth in March to address the COVID-19 shock and to safeguard macroeconomic stability. Our economic program remains focused on enhancing health and social programs while ensuring fiscal and debt sustainability, adopting a strong and credible monetary and exchange rate policy framework, and safeguarding the resilience of the financial sector. All crisis-specific measures are temporary and will be rolled back when conditions allow. In addition, we are also increasingly

focused on implementing important structural reforms to enable the private sector to lead economic growth and job creation.

5. We will continue to be transparent and accountable by tracking and reporting all crisis-related spending, including through our various fiscal documents published throughout the budget cycle consistent with international best practices. In line with our existing commitment, we have published our planned crisis-related spending in a consolidated manner on the Ministry of Finance website. We aim to continue updating and publishing details of our stimulus and crisis related spending. We will amend the procurement's executive regulation to require legal entities involved in the bidding process of COVID-19 related spending to submit their beneficial ownership information. Starting on January 1, 2021, we will publish on the Ministry of Finance website COVID-19-related contracts along with the names of the awarded legal entities and information on their beneficial ownership. We will also issue an internal instruction to the procurement agency to publish online, from end-January 2021, 3-month ahead procurement plans for COVID-19-related spending. As is customary, the Accountability State Authority will audit crisis-mitigating inflows and spending including ex-post validation of delivery and publish the results of such COVID-19 spending review after the end of the fiscal year.

6. In line with the SBA, the FY2020/21 budget includes a provision establishing a primary surplus floor of 0.5 percent of GDP, and we currently project a primary surplus of 0.6 percent of GDP for the year. If additional spending needs arise or revenues underperform, especially with the backdrop of escalating risks resulting from a second global wave of COVID-19 infections, we will delay low priority current and capital spending in favor of essential spending (particularly on health and targeted social protection) to ensure that the primary fiscal balance does not fall below 0.5 percent of GDP. Our aim is to return to a primary balance of 2 percent of GDP and resume the downward trajectory of the debt path starting in FY2021/22.

7. The CBE safeguards assessment was completed in August. The assessment found a robust system of checks and balances, but continued efforts will be required to fully align the CBE's financial reporting practices with international standards. The fiscal safeguards review is ongoing, and a provisional report is expected by December.

8. Based on our strong policy implementation under the SBA, and our continued commitment to the reform objectives, we request the completion of the first review of the SBA and the disbursement of the second tranche in the amount equivalent to SDR 1,158.04 million (56.8 percent of quota and about \$1.6 billion), as well as the modification to the MPCC. We continue to have sufficient financing assurances for the program. We are ready to take any additional measures that may be needed to achieve the program objectives including in case the crisis is deeper or longer than expected at this time. In accordance with the Fund's policies, we will consult with the IMF on adoption of these measures and in advance of revisions to policies contained in the MEFP. We will also provide IMF staff with the data and information requested for the purpose of monitoring program implementation.

9. Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, the attached MEFP update including Tables 1 and 2, the Technical Memorandum of Understanding (TMU), the Monetary Policy Consultation, as well as the IMF staff report on the first review of the SBA, subject to Executive Board approval.

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 (3)

Attachment I. Memorandum of Economic and Financial Policies (Update)

A. Introduction

1. The COVID-19 crisis has presented Egypt with multiple challenges. The economic fallout from the pandemic has been felt through a near-standstill in tourism, a decline in domestic demand and exports, and unprecedented volatility in capital flows. The crisis has also stretched the government's budget as the economic slowdown has impacted revenues and spending has increased particularly in health and to support the vulnerable people and businesses. The buffers accumulated in recent years enabled the government to respond decisively and in a timely manner with a comprehensive support package comprising virus containment as well as fiscal, monetary, and financial sectors measures to alleviate the impact of the shock.

B. Recent Developments, Program Performance, and Outlook

2. The Government has gradually and cautiously eased pandemic-related restrictions while actively providing the necessary guidance on risk mitigation measures such as social distancing and mask wearing. As a result, retail activity, hotel operations, and public congregations (with a limit on the number of individuals) have resumed. International flights have also resumed, and tourists are arriving in small numbers. As of November 15, 2020, there are a total of 110,547 confirmed cases in Egypt and 6,442 deaths in Egypt. After reaching a peak with over 1,500 confirmed daily cases in mid-June, there has been a marked decline in the daily infections in recent months, notwithstanding the recent uptick.

3. Despite the economic and social challenges posed by the pandemic, real GDP grew by 3.6 percent in FY2019/20, higher than the IMF's growth projection of 2 percent at SBA approval. The contraction during the last quarter of FY2019/20 was milder than expected. The halt in tourism and decline in manufacturing and construction were partly offset by modest growth in most other sectors, despite pandemic-related restrictions. The government's timely implementation of COVID-19 stimulus measures and Central Bank of Egypt's (CBE) initiatives, combined with banks' strong liquidity buffers, supported credit growth and domestic activity. Meanwhile, inflation has continued to be on a downward trend as food prices have been lower than expected as the government has been working to remove supply-side obstacles. On the fiscal side, the FY2019/20 primary surplus reached 1.8 percent of GDP, exceeding projections. This reflected savings on energy subsidies from lower oil prices and governments precautionary efforts to generate savings on less priority expenditures to mitigate lower revenues. The external current account deficit narrowed to 3.1 percent GDP, thanks to strong remittances even during the peak of the pandemic, which helped partially offset the fall in tourism receipts. The banking sector remains well capitalized and there are no visible signs of deterioration in financial sector stability indicators.

4. External market conditions have improved significantly since the SBA approval.

Following the massive capital outflows during March–April, inflows have resumed to Egypt to the tune of \$9.1 billion (net) during June to October, reflecting high domestic yields. Egypt also continued to have access to external financing, most recently through a syndicated loan with international banks of \$2 billion and an oversubscribed sovereign green bond of \$0.75 billion, a first such bond in the region.

5. Performance under the SBA has been strong. All end-September quantitative performance criteria (QPC) were met, although the persistently lower inflation resulted in a breach of the lower outer band of the end-September Monetary Policy Consultation Clause (MPCC). We request a modification of the MPCC midpoint and consultation bands for the rest of the program to reflect the structural improvements in the food supply logistics and prevailing short-term inflation expectations. As explained in the consultation with the Executive Board (Attachment III), we are confident that our policy responses will restore inflation to the program’s target range. The adjusted NIR and primary balance outturns overperformed their respective QPCs. The indicative targets (ITs) for health and social spending, the government’s overdraft at the CBE, and the share of short-term net domestic issuances have all been met. Tax revenue grew strongly during the first quarter of FY2020/21, partly reflecting impact of recently introduced reform measures by the Government as well as ongoing efforts to widen the tax base and enhance tax collection efficiency. Structural benchmarks (SB) are also being met. The law to streamline customs procedures (end-March SB) was passed by Parliament in August and was ratified by the President early in November. The updated reports of SOEs and Economic Authorities including financial information for FY2018/19 were published by end-September (SB). In early October 2020, the CBE and MOF signed two separate MOUs (for the RFI and the SBA) on their commitment to repay IMF debt.

6. There continues to be some uncertainty surrounding the outlook for the Egyptian economy. In addition to the risk of a spike in the number of new infections in Egypt, the COVID-19 pandemic continues to weigh on the global recovery and the outlook is further clouded by risks to remittances and global financing conditions. Reflecting this uncertainty and the milder-than-anticipated contraction in FY2019/20, growth is projected to be about 2.8 percent in FY2020/21, with modest recovery expected in all sectors except tourism.

C. Economic Program

7. We are implementing a set of strong policies to address the COVID-19 shock and to place the economy on a strong footing to rebound after the crisis. The objective of our economic program is to safeguard macroeconomic stability, provide the necessary support to affected people and the economy while preventing the accumulation of imbalances over the medium term. Policies are therefore focused on enhancing health and social programs while ensuring fiscal and debt sustainability, maintaining a strong and credible monetary and exchange rate policy framework, and safeguarding the resilience of the financial sector. Our COVID-19 stimulus package announced in March prioritizes health and social spending. We will increasingly focus on implementing the structural reforms necessary to improve the business climate, strengthen

governance, and thus improve the ability of the private sector to take a leading role in the economy and create more high-quality jobs. In addition to our commitment to the measures outlined below, we are ready to consider additional policies as needed to safeguard stability in the event the crisis is deeper or more prolonged than anticipated at this time.

FY2020/21 Budget

8. The government has provided relief to the most vulnerable and liquidity constrained individuals and businesses such as irregular workers and SMEs. Such support is especially critical for those in the worst affected sectors such as tourism and manufacturing, which employ a large share of Egypt's labor force, and the hard-hit exporting sectors. Additional resources have been allocated to ensure adequate compensation of public health sector professionals. A draft law that aims to increase the salaries and allowance of teachers is also currently underway that will proportionately benefit more the lower paid segments. Conditional cash transfer programs (Takaful and Karama) have been scaled up to reach over 3.6 million households, and the government is working with non-governmental organizations to ensure support for additional needy people. These programs include providing food and basic needs to quarantined villages and vulnerable groups that are not covered by Takaful and Karama, in addition to supplying medical and sanitation products to vulnerable groups and poor villages. These families also continue to benefit from the government's bread and food subsidies.

9. In line with our existing commitment, we have published planned crisis-related spending in a consolidated manner on the Ministry of Finance website and we aim to update the report regularly with further execution. We have also published government procurement awarded contracts for the emergency responses to COVID-19, including the names of the awarded companies. We will amend the procurement's executive regulation to require legal entities involved in the bidding process of COVID-19-related spending to submit their beneficial ownership information. Starting on January 1, 2021, we will publish on the Ministry of Finance website the COVID-19-related contracts along with the names of the awarded legal entities and information on their beneficial ownership. We will also issue an internal instruction to the procurement agency to publish online, from January 2021, 3-month ahead procurement plans for COVID-19-related spending. As is customary, the Accountability State Authority will audit crisis-mitigating inflows and spending including ex-post validation of delivery and publish the results of such COVID-19 spending review after the end of the fiscal year.

10. To safeguard macroeconomic stability, the budget for FY2020/21 is focused on addressing the crisis with temporary, balanced and targeted measures that will be rolled back as soon as conditions allow. Revised fiscal estimates are in line with program targets. The budget passed in June was based on a pre-COVID-19 primary surplus projection of 2 percent of GDP, with a provision establishing a primary surplus floor of 0.5 percent of GDP, in line with the SBA. Based on the outturn for FY2019/20 and a downward revision to tax revenue collection, we currently project a primary surplus of 0.6 percent of GDP for the year. If additional spending needs arise or revenues underperform, especially with the backdrop of escalating risks resulting from a second global wave of COVID-19 infections, we are prepared to delay low priority current and capital spending in favor

of essential spending (particularly on health and targeted social protection) to ensure that the primary fiscal balance does not fall below the 0.5 percent of GDP floor. This could be done within the envelope of the approved budget. We remain committed to a ceiling on the accumulation of gross debt of the budget sector (IT). In addition, given the government's responsibility to support health and targeted social programs for the most vulnerable people, we remain committed to maintaining at least a minimum amount of social spending during the program.

11. Reflecting the shock to growth and the fiscal pressures, debt is expected to temporarily rise to around 93 percent of GDP in FY2020/21 before resuming a declining path once again. Towards that objective, we are committed to return to a primary balance of 2 percent of GDP in FY2021/22 through spending discipline with prioritization of social sectors, a reduced interest bill through an effective debt management strategy, and vigorous efforts on revenue mobilization.

Fiscal Structural Reforms

12. We are on track to meet all end-December fiscal structural benchmarks. Based on the outlook in the current baseline, during the current fiscal year, we expect to roll back crisis-related measures, delay non-essential spending, and mobilize additional revenue through the enactment of a medium-term revenue strategy (MTRS).

- We will finalize and submit our MTRS for cabinet approval by end-December 2020 (SB) which aims to achieve a higher revenue path over the medium term, with support from the IMF and other partners including the OECD, the World Bank, and the European Commission, to reflect the post-COVID-19 environment. Key elements of the draft MTRS include measures to improve compliance and performance at our tax, customs, and real estate tax administrations such as re-engineering and automating the tax process to ensure higher compliance and higher and more efficient collection. We are also working on strengthening the risk management system and shifting towards a post-clearance audit framework, sharpening the focus on large and medium taxpayers, modernizing property assessments, and improving dispute resolution. We are also exploring options to raise revenue through tax policy reforms, such as addressing the challenges of the digital economy, eliminating profit-based tax incentives and strengthening anti-BEPS provisions. We will undertake an inventory and costing exercise of tax expenditures to assess their sustainability and the need to level the playing field. We estimate that all these reforms and our comprehensive and balanced approach to reform would allow us to raise tax to GDP by 2 percentage points within four years.
- Despite the COVID-19 shock, we have already frontloaded and implemented a number of measures targeted under the draft MTRS. We increased in February 2020 excises on cigarettes and tobacco products and brought new tobacco products to the tax base, such as heated cigarettes. In addition, a new development fee law was approved by parliament that increases the rate of existing fees on several items including raw tobacco, as well as introduces new fees on selected services and products including a green fee on the consumption of gasoline and diesel products. In addition, the personal income tax regime was reformed recently and became effective starting

FY2020/21 so as to become more progressive by increasing the exemption threshold for low-income earners by up to 60 percent, introducing a lower bracket of 2.5 percent and an upper tax bracket of 25 percent for higher-income earners, and abolishing distortionary tax credits. We have enacted a temporary one percent solidarity tax on wages as well as 0.5 percent on earned pension and eliminated tax exemptions on interest income from treasury bonds and bills. We have also submitted to parliament a bill to reform the VAT to improve revenue administration and to tax digital services and e-commerce. Finally, our recently approved Unified Tax Procedure Code is expected to simplify compliance for all taxpayers and foster digitalization of tax procedures, payments and collection.

13. For the medium term, the Government of Egypt remains committed to restoring the downward trend of public debt and reduce public gross financing needs (GFN).

- Continued improvement in debt management is key to the government's ongoing efforts to strengthen debt sustainability. While GFNs are high (about 38 percent of GDP including principle repayments and the overall deficit), the government has a strong track record in meeting these needs, especially given the reliable domestic investor base which significantly reduces rollover risks. We have increased the share of longer-term bonds significantly over the past two years as domestic interest rates started to decline. We are committed to having at least 70 percent of net new issuance in FY2020/21 in long-term maturities. Accordingly, the share of net new short-term domestic debt issuance in total net domestic issuances will be limited to 30 percent by end-March 2021 (IT).
- We are also making progress toward an updated medium-term debt strategy (MTDS) by end-December. The average debt maturity is being lengthened toward the objective of 5 years over the medium term. The government is engaging with the World Bank to provide support to ongoing efforts of updating and publishing its medium-term debt strategy. We are also working to meet the requirements to make domestic-currency debt eligible to be settled through Euroclear in order to attract a larger base of foreign investors and expect to have completed this process by the first quarter of 2021. We are actively working towards inclusion in the JP Morgan emerging market indices with a view to attract a more stable foreign investors' base to the Egyptian debt instruments.
- We are working to further improve public financial management (PFM) and have submitted a revised PFM law to strengthen the budget process to parliament in late October (end-December SB). We will seek IMF feedback on the revised version of the draft law to ensure that the law submitted to and deliberated by the parliament is in line with sound international practices, including (i) a fiscal responsibility provision to guide macro-fiscal policy; (ii) a medium-term budget framework; (iii) main elements of the budget calendar; (iv) minimum contents of the budget documentation; (v) robust provisions on reallocation of resources, contingency reserve and supplementary appropriations; and (vi) accounting rules for all public entities including economic authorities. We will update the fiscal risks statement for the next budget cycle in FY2021/22 or earlier if a supplementary budget becomes necessary.

14. Efforts are underway to introduce new social protection legislation. We aim to merge social pension and cash transfer programs, enhance targeting by redefining conditionality, add grievance redressal mechanisms, include more vulnerable groups, and link social care with social protection. Furthermore, social protection programs aim to expand coverage to various vulnerable groups including offering decent housing to vulnerable groups, social protection for at-risk women, assistance to support micro, small and medium businesses, social protection to the elderly, and school feeding programs. In addition, to meet our Sustainable Development Goals (SDGs) for health and education, we are committed to prioritizing much needed reforms in these sectors too. To ensure sufficient and appropriate reallocation of resources and achieve the maximum efficiency, we have officially requested assistance from the World Bank to undertake a public expenditure review (PER) in all three areas, namely social protection spending, health, and education. We are committed to conclude the PER for social protection by April 2021 (SB), and begin the PER for health and education subsequently, building on the experience of the one on social protection.

15. Fuel price adjustments will be made in accordance with the indexation mechanism that was introduced in 2019. Implementation of the automatic fuel price indexation mechanism is critical to ensure that retail prices adjust to changes in the exchange rate and global oil prices in order to safeguard the budget against the re-emergence of subsidies from future changes in fuel prices. Price adjustments will continue to take place quarterly, strictly based on the indexation formula, which caps the quarterly change in prices from movements in variable cost at 10 percent as a smoothing mechanism.

Monetary and Exchange Policy

16. The new Banking Law was ratified by the President in September. Under the new law, the CBE mandate is financial sector stability and price stability, implying the monetary policy objective is to achieve low and stable inflation over the medium term in line with the targeted disinflation path. This is in the context of a flexible exchange rate, with measured FX intervention limited to countering disorderly market conditions.

17. In March 2020, the CBE took a proactive and frontloaded step to cut the policy interest rate (overnight deposit rate) by 300 basis points to 9.25 percent to support economic activity and alleviate pressures in domestic financial markets against the impact of the COVID-19 shock. Despite the substantial rate cut, headline inflation has persisted below 6 percent and breached the outer lower MPCC band in September, mainly due to a decline in food prices (as explained further in Attachment III). Recent efforts to modernize domestic agriculture and supply logistics have supported a marked decline in food price volatility. In response to the declining inflation, the CBE lowered again the policy rate by 50 bps to 8.75 percent in September and another 50 bps to 8.25 percent in November. The September rate cut was also accompanied by the discontinuation of the high-yield (15 percent) local currency certificates of deposit offered by state banks since mid-March.

18. Looking ahead, in line with the CBE's inflation targeting framework, monetary policy will continue to be data-driven to anchor inflation expectations around the targeted levels

taking into account the monetary, economic, and financial conditions. In the immediate term and for the remainder of the program, the CBE will support the monitoring of inflation with the MPCC. We request a modification of the midpoint of the MPCC bands from the current 9 percent (+/- 3 inner bands and +4/-5 outer bands) to 7 percent (+/-2 inner bands and +3/-4 outer bands), as described in Attachment II (TMU). The revision reflects the CBE's current inflation expectation and the structural improvements in the food supply chain logistics. For the medium term, the CBE is reviewing the medium-term inflation target for 2022, which will depend, inter alia, on the growth outlook, food price volatility, and other structural reforms, keeping in mind the trajectory of inflation in recent months and the structural improvements in food supply logistics. We continue to closely monitor all economic developments and will not hesitate to utilize all available tools, including further monetary easing, to support the recovery of economic activity, within our price stability mandate.

19. The CBE remains committed to not introducing any new subsidized lending schemes and not renewing the existing schemes once the currently allocated resources are fully committed. If uncommitted portions of the facilities remain at end-May 2021, the Government and the CBE will sign a Memorandum of Understanding that all interest subsidies related to these uncommitted portions of the facilities will henceforth be incurred by the Government. Any forms of lending to banks by the CBE will be done only for monetary policy (short-term liquidity management) and, if needed, emergency liquidity assistance purposes and other forms of support to banks to safeguard the stability of the banking system in accordance with the Banking Law.

20. The exchange rate has been generally moving to reflect market forces without undue volatility. Between end-June and mid-November, the exchange rate has modestly appreciated by around 3 percent (reversing the depreciation in June), reflecting the resumption of portfolio flows which have improved the supply of FX in the local market. Official FX reserves were \$38.3 billion at end-October 2020. The increased availability of FX has also facilitated market FX purchases by public entities. Commercial banks' net foreign assets, which dropped in March and April amid capital outflows, are now recovering.

21. We remain committed to a flexible exchange rate in the context of an inflation targeting regime and to maintaining a healthy level of international reserves. The exchange rate will keep reflecting market forces and helping absorb exogenous shocks, while foreign exchange interventions will be limited to addressing disorderly market conditions. We will strictly keep enforcing the regulatory ceilings for commercial banks' net open FX positions. Our goal is to maintain an adequate level of international reserves throughout the program period (keeping gross reserves above 110 percent of the IMF's ARA metric for flexible exchange rate regimes, including through an accumulation of net international reserves (QPC)). We will also continue to engage with official bilateral creditors to roll over their deposits at the CBE for a period after the program. We will take advantage, where feasible, of favorable market conditions to continue to rebuild FX buffers that were depleted during the crisis.

22. The new Banking Law strengthens CBE's governance, financial structure, operational and institutional autonomy, and grants increased oversight over the banking sector, as well as

improves the legal framework for recovery plans, early intervention, and resolution. Also, it introduces new issues such as payment systems and ‘Fintech’ (including the legal framework for Tier II banks and digital banks, in addition to issuing and dealing with digital currencies), competition, and consumer protection. The CBE will continue to further strengthen its analytical and liquidity management capacity, further develop money markets to improve monetary transmission, and continue strengthening its communications strategy. By end-March 2021, CBE will revamp its financial reporting practices to comply with the Egyptian Accounting Standards starting with the FY2019/2020 financial statements.

23. Short-term direct lending to the government—overdrafts—will be used only in exceptional situations to bridge financing from other sources. The stock of overdrafts will not exceed 10 percent of the average revenues of the public budget in the previous three years (IT); with full repayment to be made within twelve months. In addition, the CBE and the MoF will share with staff by mid-December the signed memorandum of understanding on the conditions of overdrafts, including remuneration at prevailing market interest rates.

Financial Sector Policies

24. We are closely monitoring financial sector risks while supporting borrowers most negatively impacted by the economic slowdown. Egypt's banking system entered the COVID-19 crisis well capitalized, with ample liquidity, and sizeable buffers.

- The CBE introduced a 6-month debt moratorium for all existing facilities and expanded subsidized lending to reduce credit constraints for private sector firms in the industrial, agriculture, construction, and tourism sectors. While banks did not experience notable deterioration in loan quality, we continue to encourage commercial banks to work closely with borrowers heavily affected by the crisis to restructure their loans as needed. The CBE issued a circular in September allowing banks to restructure their customers’ credit dues after the end of the moratorium. In light of the banks’ studies of their clients on a case by case basis, the CBE will ensure that the restructured loans will be classified appropriately. Majority of the subsidized lending (around EGP 164 billion of the EGP 200 billion as of October 28, 2020, or about 4 percent of total domestic credit and 14 percent of private credit) has so far been committed.
- To ensure transparency and prevent a potential build-up of hidden vulnerabilities, we will refrain from relaxations in loan classification rules and provisioning requirements, which will be strictly enforced. The lagged impact of the crisis will be also closely monitored. The CBE stands ready to introduce special surveillance regimes to monitor banking sector vulnerabilities were the economic situation to deteriorate again. Banks are closely assessing the creditworthiness of their borrowers—especially those that benefit from temporary concessions. While the loans to the tourism sector are strongly provisioned for, given the ongoing difficulties in the sector, we will assess the expected sectoral impact of the crisis and the adequacy of provisioning to reflect the potential deterioration in banks’ loan portfolios.

25. Exceptional financial sector measures, taken in response to the COVID-19 outbreak (including but not limited to the CBE's stock purchase program) will be rolled back when conditions allow. So far, the CBE has used EGP 500 million out of the EGP 20 billion allocated for stock purchases.

Structural Reforms

26. The Government of Egypt is determined to push ahead the necessary reforms to strengthen the role of the private sector. Our objective is to continue to modernize Egypt's growth model with the private sector as the main engine of growth. In this context, while our immediate focus is addressing the current crisis and safeguarding macroeconomic stability, we also are keen to continue implementation of structural reforms to improve the business and investment environment, strengthening competition and governance, and removing customs and trade barriers.

27. We will continue to enhance the transparency of the operations of state-owned enterprises (SOEs). We have published an updated SOE report to include detailed financial information for FY2018/19 on all SOEs and a separate one for Economic Authorities that includes detailed financial information for FY2018/19. The customs law has also been passed and ratified by the President in November 2020. The new customs law is aimed at reducing non-tariff barriers with respect to shipment inspections, documentation requirements, valuation of goods, and mandatory registration of imported goods manufacturers. We will soon begin drafting its executive regulations and will consult the World Bank, to ensure consistent and efficient implementation of the law.

28. Beyond the above immediate reforms, we are continuing our efforts to redefine the role of the SOE sector in Egypt. For this purpose, we will continue to work towards developing an SOE reform strategy aimed at increasing transparency of SOE operations; modernizing the legal, governance, and operational frameworks for the sector; defining the policy of government ownership of commercial enterprises; and explicitly define rules for the provision of government aid to SOEs, financial and otherwise.

29. We intend to take further steps to strengthen competition by leveling the playing field across all economic agents, private and public.

- We are committed to ensure that the competition law includes provisions to (i) ensure the institutional independence of the Egyptian Competition Authority (ECA) that improves the efficiency of its decision-making by reducing the number of government and business representation in the board of directors, enabling ECA's members to carry out market investigation efficiently, and empowering ECA to enact administrative fines and/or measures subject to judicial review; and (ii) enlarge the scope of exemption afforded to businesses. These provisions are included in the current draft competition law that was submitted to parliament which we will share with IMF staff by end-November 2020.
- In addition, we are committed to submitting by end-December 2020 a new chapter (SB) to supplement the existing draft law currently with parliament to include (i) provisions that

empower ECA to regulate mergers and acquisitions that meet certain thresholds. These transactions shall be subject to prior notification and standstill obligations enabling ECA to review concentrations before their consummation and assess their competitive impact and if necessary, impose the adequate measures to protect the competitive structure of the market; (ii) provisions to ensure protection for SMEs against certain forms of takeover, and that acquisition of minority shareholdings does not adversely affect the competitive structure of the market. These provisions shall apply equally to all market participants including SOEs and ensure smooth disposal of failing assets or the restructuring of existing ones; (iii) measures to ensure a transparent and neutral review that respects the parties' due process rights; and (iv) provisions that will enable businesses to request ECA to issue opinions on the competitive impact of certain public regulations. They shall include the measures and remedies that ECA may recommend in this regard. In addition, ECA will issue guidelines on public procurement processes to ensure competitive neutrality of procurement operations, encourage fair, non-discriminatory procedures and neutral tendering processes, and establish transparent, fair and open tendering procedures.

30. We intend to assess the impact of the recently revised guidelines for industrial land allocation, which were adopted in 2019. Based on this assessment, for which we will seek development partners' assistance, we will consider revisions to the guidelines to ensure efficient and market-based allocation.

31. Reforming the National Investment Bank (NIB)—whose mandate is to finance projects included in the state's national economic and social development plan—continues to be a priority. For this purpose, we hired an international auditor late last year to evaluate NIB's financial position. We have shared the first phase of the external auditor's report on the NIB, including its financial position, with IMF staff in July 2020. We will share with IMF staff by mid-December the additional analyses that were done to fully understand the NIB's current financial position including assessments of COVID-19-related impact on assets and the balance sheet impact of the asset swaps agreed with some public entities to settle their overdue debt. Efforts to restructure NIB's balance sheet through asset sales and swaps of assets, land, or shares in public companies to settle overdue debts have continued, while steps are being taken to reduce its reliance on market funding. The NIB reform plan, which will also include an initial implementation calendar with timebound actions and finalization of its financial structure, will be finalized by end-January 2021 (SB).

D. Financing and Program Monitoring

32. We will continue to mobilize resources from international partners and markets to support our COVID-19 response and economic stabilization and recovery program.

33. The program will be monitored through performance criteria, indicative targets, and structural benchmarks as listed in Tables 1 and 2. The second review of the program will be based on end-March 2021 test dates. The Technical Memorandum of Understanding describes the definitions as well as data provision requirements.

Table 1. Egypt: Quantitative Performance Criteria and Indicative Targets for FY2020/2021
(In billions of Egyptian pounds, unless otherwise indicated)

	end-September		Status	end-December	end-March
	2020			2020	2021
	Prog.	Actual		Indicative	Test date
I. Quantitative Performance Criteria 1/					
Net international reserves of the CBE (\$ million; cumulative change, floor) 2/	0	4,316	Met	0	3,000
Primary fiscal balance of the budget sector (cumulative, floor) 3/	0	0.1	Met	7	15
Accumulation of external debt payment arrears by the general government (\$ million; continuous ceiling)	0	0	Met	0	0
II. Indicative Targets 3/					
Government overdraft at the CBE (ceiling)	93	9	Met	93	93
Tax revenues (cumulative floor)	121	150	Met	304	484
Social spending of the budget sector (floor)	23	24	Met	52	81
Share of short-term net new domestic issuance to total domestic treasury issuances (ceiling)	40	21	Met	40	30
Accumulation of gross debt of the budget sector (cumulative ceiling)	226	219	Met	450	679
III. Monetary Policy Consultation					
(12-month change in consumer prices)					
Upper outer band	13	...		10	10
Upper inner band	12	...		9	9
Actual/Center target	9	3.7	Not met	7	7
Lower inner band	6	...		5	5
Lower outer band	4	...		3	3
<i>Memorandum items:</i>					
Program disbursements at completion of review (\$ million; cumulative change) 2/	10,100	4,673		12,315	12,930
External commercial loans (including Eurobonds) assumed under the program (\$ million) 2/	6,500	2,028		6,500	6,500
<i>Of which:</i>					
International bank financing	...	261		...	...
Net issuance of FX T-Bills	...	-211		...	...
External program financing assumed under the program (\$ million) 2/	1,600	659		2,215	2,830
IMF financing assumed under the program (\$ million) 2/	2,000	1,986		3,600	3,600

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

1/ The targets for December 2020 are indicative.

2/ From May 31, 2020.

3/ From the beginning of the fiscal year (July 1, 2020).

Table 2. Structural Benchmarks Under the 12-Month SBA			
Policy Measure	Objective	Timing	Status
Develop a reform plan for NIB, approved by the Prime Minister in line with SBA Request MEFP ¶29	Strengthen public finances and contain risks to the financial sector	End-January 2021	
Publish an updated SOE report to include detailed financial information for FY2018/19 on all SOEs and a separate one for Economic Authorities that includes detailed financial information for FY2018/19	Fiscal transparency and governance	End-September 2020	Met
Cabinet approval of the updated MTRS	Increase tax revenue	End-December 2020	
Submission to Parliament of the revised PFM law to strengthen the entire budget process, including by (i) fiscal responsibility provisions to guide macro-fiscal policy; (ii) a medium-term budget framework; (iii) main elements of the budget calendar; (iv) minimum contents of the budget documentation; (v) robust provisions on reallocation of resources, contingency reserve and supplementary appropriations; and (vi) accounting rules for all public entities including economic authorities	Strengthen PFM, improve governance/and reduce corruption risks	End-December 2020	Met
Update the debt management strategy with the focus on lengthening maturities	Reduce debt vulnerabilities	End-December 2020	
Submit to Parliament amendments to the competition law to add a new chapter on mergers and acquisitions in line with SBA Request MEFP ¶27	Private Sector	End-December 2020	
Pass the draft customs law that streamlines customs procedures in line with SBA Request MEFP ¶25	Business climate	End-March 2021	Met
Complete Public Expenditure Review to enhance social protection	Social protection	End-April 2021	

Attachment II. Technical Memorandum of Understanding

December 3, 2020

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 IMF Stand-By Arrangement. The quantitative performance criteria and indicative targets are reported in Table 1 of the MEFP.

2. Program exchange rates are those prevailing on May 31, 2020.

As of May 31, 2020	Currency Unit per US\$
SDR	0.7289
Euro	0.8980
British Pound	0.8114
Japanese Yen	107.1400
Saudi Riyal	3.7321
Chinese Yuan	7.1463

For all other foreign currencies, the current exchange rates to the U.S. dollar will be used. Monetary gold is valued at \$1,731.6 per troy ounce (rate as of May 31, 2020).

The program exchange rate of the pound against the US dollar is 15.8270 (the actual exchange rate on May 31, 2020) for FY2020/21.

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 May 31, 2020. 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 end-May 2020, foreign reserve assets thus defined amounted to \$35,238 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 May 31, 2020, foreign reserve-related liabilities thus defined amounted to \$14,519 million.

6. Adjustors. The NIR floor will be adjusted for the following:

- *Deviations in program disbursements relative to projections.* The NIR floor will be adjusted up by the full amount of any excess in program disbursements relative to the cumulative projections below and in Table 1. It will be adjusted down by the full amount of the shortfall in program disbursements (as defined in paragraph 7) relative to the cumulative projections below, except for shortfalls in external commercial loans (including Eurobonds) for which there will be no downward adjustment.
- *Repo margin calls.* The NIR floor will be adjusted down (up) by any margin call payments (receipts) associated with the CBE's repo facilities.
- *Arbitration payments.* The NIR floor will be adjusted down by the amount of arbitration payments agreed before May 31, 2020.

The cumulative projections for program disbursements are \$10,100 million as of September 2020 and \$12,930 as of March 2021.

7. Program disbursements are defined as external disbursements of loans, grants and deposits for the budget support purposes, IMF purchases under the Stand-By arrangement, 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. Floor on Primary Fiscal Balance of the Budget Sector (PC)

8. 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, a number of regulatory authorities, funds, universities and hospitals.

9. The primary fiscal balance of the budget sector under the program is defined as the overall balance minus total interest payments of the budget sector. 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 FY2018/19 the primary balance of the budget sector was EGP103.1 billion.

10. 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.

11. 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 program financing, i.e., the disbursement shortfalls will reduce primary deficits and excesses will increase them, relative to the cumulative projections in Table 1. The U.S. dollar amounts will be converted into Egyptian pounds using the program EGP/\$ exchange. Any impact on the primary balance arising from fiscal operations associated with the restructuring of the National Investment Bank will result in the primary balance target being adjusted down by that amount. Any impact on the primary balance arising from the transfer of the cost of quasi-fiscal lending operations of the CBE to the budget and/or implementation of the new CBE law approved by Parliament will result in the primary balance target being adjusted by that amount.

C. Government overdraft at the CBE (IT)

12. Government overdraft at the CBE is defined as the balance on the government's overdraft account at the CBE including government's foreign currency deposits at the CBE. As of May 31, 2020, the government overdraft at the CBE amounted to EGP 0.0 billion. The ceiling on the overdraft facility is EGP93 billion for FY2020/21.

D. Social Spending Floor (IT)

13. The social spending floor includes spending related to the budget of the Ministry of Solidarity and the Ministry of Health. The total annual budgeted spending for FY2020/21 amounts to EGP 115 billion.

E. Debt of the Budget Sector (IT)

14. 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 to Egyptian pounds using the program EGP/\$ exchange rate. The program target is defined as a cumulative change in debt of the budget sector from the beginning of the fiscal year.

F. Tax Revenue (IT)

15. **Tax revenue** includes both sovereign and non-sovereign taxes such as personal income tax, corporate income tax, GST/VAT, excises, international trade taxes, and other taxes.

G. Short-term domestic issuance (IT)

16. **Domestic debt issuance is defined as EGP-denominated marketable securities issued by the budget sector.** The program target is defined as the net increase in domestic securities with a maturity of less than 12-months as a share of the total net increase in domestic marketable debt from the beginning of the fiscal year.

H. Monetary Policy Consultation Clause

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

18. **Reporting:** Data will be provided to the Fund with a lag of no more than 10 business/working days after the test date.

19. **Consultation with IMF Board would be triggered for the end-March 2021 test date if inflation (year on year) falls below 3 percent or is above 10 percent.** The consultation with the Board will be on the reasons for the deviation and the proposed policy response before further purchases could be requested under the SBA. Specifically, the consultation will explain (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for deviations from the specified band; and (iii) on proposed remedial actions, as deemed necessary. In addition, a staff consultation whereby the CBE will consult with IMF staff on the outlook for inflation and the CBE's proposed remedies will be triggered if inflation (y/y) falls below 5 percent or above 9 percent for the end-March 2021 test date.

I. Continuous Performance Criteria

20. **Non-accumulation of external debt payments (principal and interest) arrears by the general government (as defined in paragraph 8).** 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.

J. Monitoring and Reporting Requirements

22. Performance under the program will be monitored using data supplied to the IMF by the Ministry of Finance and the CBE as outlined in Tables 1A and 1B, consistent with the program definitions above. The authorities will transmit promptly to the IMF staff any data revisions.

K. Data Reporting

Table 1A. 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	Q	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. Expenditures to include data on health and social spending.	M	30 calendar days
Summary accounts of NIB and SIFs, consistent with presentation of general government accounts	Q	60 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	Q	30 calendar days (60 days for the general government)
Debt of the budget sector by maturity of issuance, at actual and program exchange rates	M	30 calendar days
Debt guarantees issued by General Government and the CBE	Q	45 calendar days
Gross and net stock of bonds issued by the government to Social Insurance Fund	Q	30 calendar days
Gross and net domestic borrowing of the budget sector, including gross and net T-bill and T-bond issuance in local and foreign currency, separately for domestic and foreign investors, and issuance of other government debt instruments	W and M	30 calendar days (60 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
Use of overdraft facility at the CBE (end of period stock)	W	15 calendar days

Table 1A. Ministry of Finance (concluded)

Stock of outstanding domestic arrears by creditor	M	30 calendar days
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 1B. 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
Stock of outstanding external debt payment arrears of the general government (if any) by creditor	M	30 calendar days
Amortization schedule for external debt payments, 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, international investment position and external debt 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
Bank-by-bank foreign exchange net open position	M	30 calendar days
Commercial bank-by-bank data: i) balance sheets by currency (foreign exchange and Egyptian pound); ii) income statements; iii) breakdown of loan classification, deposits, due from/to, securities holdings, repos, fixed and repossessed assets, and net open positions; and iv) FSI indicators (capital, asset quality, earnings and liquidity).	Q	75 calendar days
Other depository corporations (commercial banks) balance sheet information in SRF (preliminary)	M	30 calendar days
Central bank balance sheet in SRF (preliminary)	M	15 calendar days

Table 1B. 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 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		

Attachment III. Consultation with the IMF Executive Board on the Missed Inflation Target Under the Monetary Policy Consultation Clause

Central Bank of Egypt

December 3, 2020

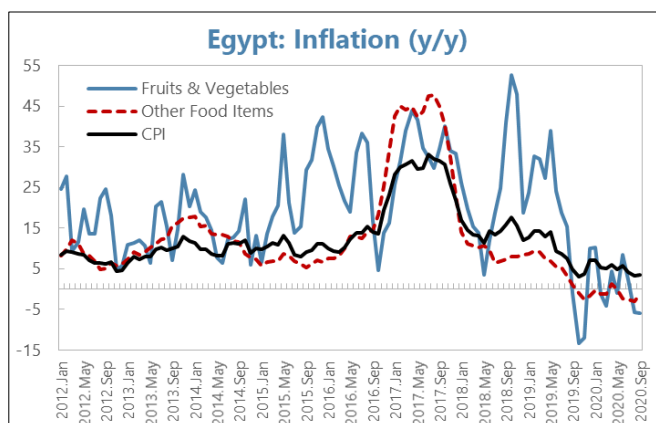
1. In September 2020, CPI inflation in Egypt fell to 3.7 percent, 0.3 percentage point below the lower outer monetary policy consultation band of 4 percent agreed under the SBA.

The deviation from the inflation target was driven by both cyclical and structural factors. This note explains the reasons for the breach and discusses the policy response as well as the inflation outlook.

Pandemic-Related and Cyclical Factors

2. Effects from the global outbreak of the COVID-19 pandemic, measures to ensure against food price volatility, and pass-through from the exchange rate have impacted domestic prices.

- *The COVID-19 outbreak and the associated containment measures significantly weakened economic activity during Q2-2020. Quarterly real GDP contracted in the June quarter—the first time in nine years—by 1.7 percent. While there are early signs of recovery, activity has persisted well below pre-COVID-19 trends.*
- *In addition to the swift fiscal and monetary policy responses to the crisis, the Egyptian government also undertook measures to ensure a steady food supply for the population during the pandemic. Measures included boosting the national strategic reserves to ensure the steady supply of grains, sugars, and cooking oils while the Ministry of Social Solidarity and non-government organizations provided food directly to lower income households.*
- *From a seasonal standpoint, the lower prices of fruit and vegetables during this year contributed to the decline in inflation. The decline in the prices of fruit and vegetable during August and September came against their typical seasonal pattern which may have been due to increased local supply from good weather and a decrease in foreign demand for certain agricultural exports during the pandemic.*
- *Pass-through from exchange rate appreciation has also been a factor in the declining inflation. During the September quarter, the EGP/USD exchange rate appreciated by 3.8 percent (y/y) in part due to renewed significant capital inflows reflecting improving global financial conditions.*



Structural Factors

3. The government's efforts to tackle structural bottlenecks in the food supply chain have led to a sustained decline in inflationary pressures from food. Food is the largest component of the consumer price index with a weight of around 30 percent. During 2017, in addition to the significant exchange rate depreciation, food price volatility played a role in pushing annual headline inflation in Egypt to over 30 percent. Over the last several years, the government has invested in modernizing domestic agriculture and supply chain logistics to improve food security, including through partnerships with bilateral and multilateral stakeholders. These efforts have manifested in more stable and lower food prices, which have been declining since October of 2019.

Policy Response

4. In response to the declining inflation, the CBE decreased the policy interest rate by 50 basis points in September 2020 and another 50 basis points in November 2020.

- The rate cuts came on top of the preemptive reduction in the policy rate of 300 basis points in March as the crisis was unfolding. The recent decisions reflected the CBE's data driven approach that balanced the muted inflationary pressures with the large cumulative monetary stimulus already provided. The gradual approach is also consistent with the ongoing uncertainty about the pace of global and domestic recovery and the resulting inflation response and the durability of the improvement in food supply dynamics.
- Overall, the CBE assesses that the recent decisions provide appropriate support to economic activity while remaining consistent with ensuring price stability over the medium term. This view was clearly reflected in the press releases following the Monetary Policy Committee's (MPC) decisions on September 24 and November 12, 2020. Both statements also communicated that the CBE expects inflation to hover at or below the lower end of its target range of 9 +/-3 percent during Q4-2020. The MPC closely monitors all economic developments and will not hesitate to utilize all available tools to support the recovery of economic activity, within its price stability mandate.

Inflation Outlook

5. While inflation has remained near the lower bound of the CBE's target range in recent months, it is expected to gradually pick up as economic recovery takes hold. The October outturn for inflation was 4.5 percent. Continued improvements in global financial conditions, the recovery in international oil prices, the projected rebound in domestic activity, and the base effects from the low inflation this year are all expected to contribute to higher inflation in the coming months, albeit with large uncertainty. Under the current baseline scenario, inflation is projected to rise to around 6 percent by June 2021. Amid ongoing global and domestic uncertainty, the CBE will continue to closely monitor economic developments and stands ready take the appropriate action if needed to ensure price stability.



ARAB REPUBLIC OF EGYPT

December 16, 2020

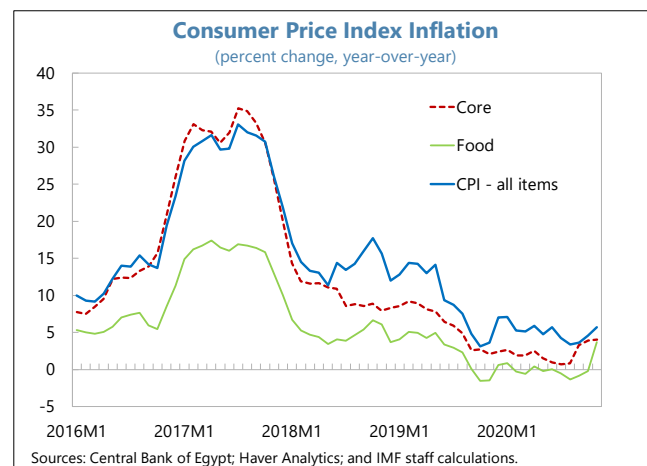
FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT AND MONETARY POLICY CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By

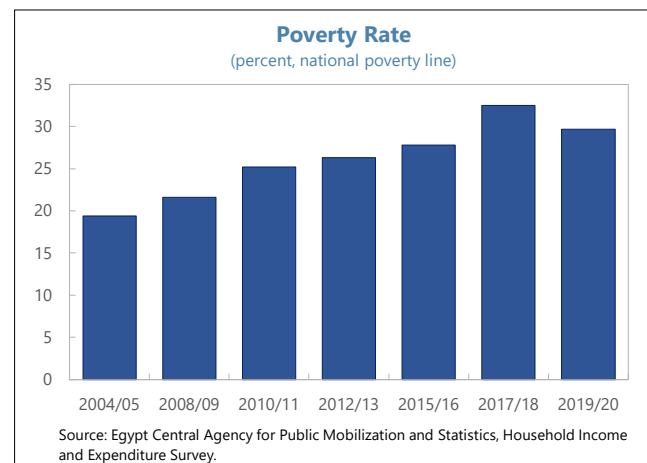
Middle East and Central Asia Department

This statement provides an update on developments since the issuance of the staff report on December 4. This information does not in any way alter staff's appraisal.

1. Twelve-month consumer price inflation rose to 5.7 percent in November from 4.5 percent in October. Higher headline inflation reflected a pickup in food prices, which rose 3.7 percent in November (y/y) after having decreased steadily since April; core inflation was little changed at 4 percent (y/y). The increase puts inflation close to the lower bound of the CBE's target of 9 percent (± 3 percentage points) for 2020 Q4.



2. The poverty rate fell to 29.7 percent for FY19/20 from 32.5 percent in FY17/18. The largest decrease was recorded in rural areas, reflecting in part the continued expansion of the social safety net through the Takaful and Kamara programs. The rate of extreme poverty also decreased to 4.5 percent from 6.2 percent during the two-year period.



3. The fiscal safeguards review (FSR) mission is nearly complete.

- The mission’s preliminary findings suggest that cash management and expenditure control processes are established. Controls on government cash resources are in place, embedded in a treasury single account and centralized payment authorization and execution. The legal framework provides for multiple ex ante controls at each step of the expenditure process, supported by a financial management information system covering all budget units, and frequent and timely fiscal reports are prepared. Internal audit mechanisms are at nascent stages of development within the central government—with the exception of the Ministry of Finance, where an internal audit unit started operation since 2019—and efforts are still needed to build capacity and align with international standards in this area.
- However, given unforeseen delays and constraints associated with a remote mission, the completion of the FSR is expected in January 2021. The main findings will be discussed in the Staff Report for the second review. If a field visit is required to validate some of the mission’s findings, a provisional report will be issued and finalized once travel to Egypt is feasible.

**Statement by Mahmoud Mohieldin, Executive Director for Arab Republic of Egypt,
Wafa Abdelati, Senior Advisor to the Executive Director, and
Perrihan Al-Riffai, Advisor to the Executive Director
December 18, 2020**

Engagement with the Fund is highly appreciated by the authorities, and the work of the team is well regarded. We appreciate the responsiveness of the Fund to Egypt's request for two-step financial support from the Fund that supported the very early policy response to the pandemic and helped restore market confidence. **Midway into the one year SBA program**, Egypt has been able to limit the spread of the virus, provide support to affected households and firms to maintain social cohesion, overperform on program targets with macroeconomic outcomes better than had been anticipated six months ago, and continue to deliver on the government's structural reform agenda in spite of pandemic demands, and in some cases ahead of schedule. Reforms implemented in recent years, including progress achieved in strengthening social protection and institutional reforms, have all boosted Egypt's resilience in the face of the pandemic.

COVID-19 Containment. After peaking at around 1550 infections per day in June, the number of infections steadied around 150 per day during August to October before picking up in a second wave to around 400 a day in the past week. Fatalities had peaked at 85, but since August hovers around 20 per day. The lower-case count from containment efforts has allowed the government to relax restrictions on air travel, schools, hotel operations, and public gatherings, allowing economic activity to pick up compared to Q2–2020. Egypt will rely on a number of sources for its vaccine, is in partnership with GaviAlliance, and remains in discussions for other purchases and manufacturing in Egypt. The President announced that the government will provide the vaccine to all citizens free of charge.

COVID-19 Response. These outcomes reflect bold and rapid policy response starting with the announcement on March 14 of support measures of EGP 100 billion. The Central Bank of Egypt lowered the policy rate by 300 bp in March and by another 50 bp in each of September and November in response to declining inflation. A 6-month loan repayment moratorium was introduced in March and ended in September and subsidized lending schemes to targeted sectors which boosted credit growth. Fiscal response measures spanned support for the health sector, expansion of social transfers including a monthly cash subsidy to irregular workers, tax and fee deferrals, support to industry, aviation and tourism and culture establishments, an increase in funding for public works, and public investments, and support to SMEs.

Macroeconomic outcomes are better than expected: Real GDP grew by 3.6 percent in 2019/2020, much lower than the 5.6 rate anticipated pre-COVID but much higher than 2 percent

projected by staff in June, and despite a contraction of 1.7 percent in 2020Q2. The contraction in that quarter was the first witnessed in 9 years, but much milder than what other EMs experienced, reflecting the relative resilience of the economy despite the hit to tourism. Activity rebounded in the remainder of the year, so the 2020 calendar year is expected to register a positive growth rate of between 1.5 and 2 percent. Unemployment also saw a swift recovery, dropping to 7.3 percent in September after having jumped up to 9.6 in June. Headline inflation is lower than anticipated, and the fiscal balance and external conditions all outperformed expectations. Accordingly, the quantitative performance criteria and indicative targets were met, some with a large margin.

The authorities broadly share **staff's outlook**, recognizing that it remains subject to considerable uncertainty. The government forecasts growth in 2020/21 between 2.8 and 4 percent and local analysts forecast 3.5 percent growth, compared to 2 percent projected by staff in the June report. They agree that there are downside risks, especially from vaccine delay or from a pick-up in cases in the second wave, but see only a remote chance of a sharp increase in unemployment, poverty, or inequality nor a likelihood that contingent liabilities would adversely affect the debt trajectory.

Fiscal policy aims to mitigate the impact of the pandemic through targeted reversible measures and support government priorities to upgrade education, health, and social protection while safeguarding the gains in fiscal sustainability and restoring the downward debt trajectory. The package of fiscal measures amounts to close to 2 percent of GDP, but some of the spending was offset by reduced fuel and energy subsidies due to lower global fuel prices, reallocations of some budget items, and robust revenue growth on the back of recently introduced tax measures. As a result, the primary fiscal balance for 2019/20 amounted to 1.8 percent of GDP, only 0.2 percent of GDP lower than the pre-COVID budget target. The budget for 2020/21 was presented to Parliament pre-COVID with a target of 2 percent, and with a provision establishing a primary surplus floor of 0.5 percent of GDP. To bolster support to health and targeted special programs, the government plans to roll back crisis-related spending and to mobilize additional revenue through the enactment of a medium-term revenue strategy.

The goal is to return to a primary fiscal surplus of 2 percent of GDP from 2021/22, which would allow the debt-to-GDP ratio to shrink. A high priority is to reduce public debt and reduce Gross Financing Needs (GFN), including through an updated Medium-term Debt Management Strategy (DMS). Further improvements to the Public Financial Management Law (PFM) are planned, and a Public Expenditure Review (PER) is planned with the World Bank to support our goals of ensuring sufficient and appropriate resources to health and education and achieve the highest efficiency.

Monetary policies will continue to be data-driven and conducted in line with the recently ratified new Banking Law which formalizes the CBE mandate of financial sector stability and price stability. Despite three rate cuts since March amounting to 400 basis points, September headline inflation persisted below 6 percent and fell below 4 percent, the lower band of the Monetary Policy Consultation Clause (MPCC) , although it increased again in October and November to 4.5 and 5.7 percent respectively, as was anticipated by CBE. As stated in the Consultation note this reflects some seasonal factors related to good weather, COVID-related decrease in exports, and pass-through from exchange rate appreciation. However, CBE assesses the recent rate decisions provide appropriate support, consistent with price stability over the medium-term. The Monetary Policy Committee closely monitors all activity and is ready to utilize all available tools to support recovery and price stability. There is also a structural element; reflecting logistical improvements, we expect food price volatility to continue to be subdued compared to previous years and this supports a lower midpoint and narrower band for the next review. The exchange rate has generally moved in line with market forces, appreciating modestly with the return of capital inflows. Exchange rate flexibility will be preserved while avoiding undue volatility, and rebuilding of FX reserves will continue, where feasible, to take advantage of favorable market conditions.

Financial Policies. The new Banking Law strengthens CBE’s governance and operational autonomy and also improves the legal framework for CBE’s oversight of banks’ governance and operations, and for early intervention and resolution. The central bank is closely monitoring financial sector risks while supporting borrowers most negatively affected by the economic slowdown. Financial sector risks are being closely monitored; banks’ nonperforming loans are close to 100 percent (97.2 percent) provisioned. Loan classification rules and provisioning requirements and credit quality guidelines will continue to be fully enforced.

Structural reforms. The Ministry of Finance will continue with **institutional reforms and upgrading the fiscal framework and improving transparency.** Completion of the COVID-19 updates to the medium-term revenue and debt strategy remains on track. Already, the share of new short-term domestic debt issuances has declined and is on track to meet the annual target, which will reduce Gross Financing Needs. Fiscal risk assessment capabilities are being enhanced. The new Public Finance Law aims to strengthen the budget process and will include a fiscal responsibility provision and accounting rules for all budget entities. Transparency and accountability are being advanced on many fronts, including by publishing budget details throughout the process, and publishing fiscal risks, and contingent liabilities and showing sensitivity analysis around the macroeconomic framework. MoF recently established a unit for fiscal transparency and citizen engagement. Egypt’s scores at the International Budget Partnership, and rank in the Open Budget Index, continue to improve and are expected to

improve further in the next round to be announced in 2021 with more notable progress identified in areas related to citizen engagement.

Reducing the role of the state and leveling the playing field is a priority that is being addressed from many angles. Data recently published on the MoF website provides financial information and analysis for SOEs and 50 economic authorities. Published reports include sections on board members, relevant policies and changes in regulations, reforms implemented, and the net relation with the Treasury. Steps to strengthen their governance and accountability. The new public enterprise law that passed a few months ago after years of discussions requires all SOEs to compile and publish regular performance reports with performance and governance guidelines similar to non-public enterprises. Also, the government recently announced that it is allowing the private sector to manage several SOEs on behalf of the public sector in the transportation, tourism, and housing sectors.

With respect to the **National Investment Bank**, which is part of the general government, the work of the international consulting firm is nearing completion according to the timeline set by the government. Based on this report, the government will formulate a reform plan to contain any macro-fiscal risks posed by the deterioration of its financial position. Before waiting for this plan, the reform committee has since early 2019 resolved some of its nonperforming loans through asset swaps.

Promoting private sector-led growth and encouraging investment and exports are a key pillar of the economic agenda. The establishment and strengthening of the competition agency and amendments to the competition law aim to support a level playing field and ensure competitive neutrality. Efforts are ongoing to further improve Egypt's rank in the Doing Business Report and the Competitiveness report. The Egyptian presidency recently announced an ambitious goal of reaching \$100 bn in exports annually as the government is intensifying efforts to solve problems that hinder productive activities and competitiveness. This would be a game changer for Egypt. Several fiscal initiatives support exporters, including (i) higher allocations to the Export Development Fund for subsidy payment, (ii) clearance of tax rebate arrears due to exporters, (iii) investment incentives of up to 20 percent of taxes due when this amount is reinvested in CAPEX, (iv) a 10 percent tax reduction to exporters (increased to 30 percent under COVID-19), and (v) the provision of land to exporters. To enhance logistics, the new Customs Law and Advance Cargo Information System are set to cut customs clearance time to one day from next July.

Toward a more equitable, inclusive, and sustainable development

Poverty: The latest household income and expenditure survey released in late November by the Central Agency for Public Mobilization and Statistics (CAPMAS), showed a decrease in

Egypt's poverty rate in the FY2019–2020 data. This is particularly notable since a worsening of poverty indicators had been associated with austerity measures and the impact of inflation, depreciation, and structural reforms on vulnerable groups under the 2016–2018 EFF. In this biennial survey, the percent of those living below the poverty line fell to 29.7 percent, having shot up almost five percentage points to 32.5 percent in FY2017–2018. The percentage decline was higher for rural families. It is also worth noting that the rate of extreme poverty decreased to 4.5 percent from 6.2 percent during the two-year period. The survey found the poverty rate is lower by 10 percentage points among families who receive subsidies for food, butane gas, and electricity. Egypt is firmly committed to fight poverty which is the first of the SDG goals and is highlighted in its Sustainable Development Strategy.

Egypt began to overhaul the **social assistance and protection system** in 2013, before the EFF program, including by developing databases of the beneficiaries of different social protection programs and introducing the exemplary Takaful and Karama program that now reaches 3.6 million households providing conditional and unconditional transfers, and is supplemented by other programs that will be the subject of the forthcoming PER.

The pilots to roll out the **Universal Health** initiative speak to the government's commitment to improve social indicators and access to opportunities. Since the Law was issued in 2018, Port Said governorate was the first pilot where contributions were collected and claims submitted. Luxor is the second governorate that has neared completion. In Q1 2021, three more (out of 29) governorates will be added. To ensure sustainability, MoF tries to identify sources of financing for the scheme, including through taxes on tobacco and toll fees. A \$400 million World Bank loan supports efficient implementation. The capacity of the health system was attested by WHO in April in the context of COVID-19 preparedness. Some of the planned further upgrades to the health system were rescheduled over a longer timeframe as the ministry shifted resources towards the urgent pandemic response.

It is essential to upgrade education and health outcomes to improve productivity and access to opportunities. Government spending on education and health nearly doubled to 6 percent and 3 percent of the gross domestic product respectively in 2020 compared to 3.7 and 1.4 percent of GDP in 2009/10.

Gender. The government is developing policies to increase women's participation in the labor force and to close the gender gap. This includes a package of educational programs, including a focus on information technology. The National Council on Women (NCW) introduced a policy tracker on the Responsiveness of Policies and Programs During the Pandemic to track policy responses through a gender lens. Special measures were introduced during COVID-19 lockdowns to help women with young children cope. The MoF is studying gender-based budgeting and financing gender-driven programs and is in an early stage of discussing with UN

Women and the NCW the issuance of the first gender-based bond to finance education and labor programs.

Egypt has a long-term multisectoral plan for climate change related investment for **mitigation and adaptation** and to counter the main environmental risks and their impact on coastal areas and public health, ensure water security, shift to clean energy, and improve food security. The plan is constantly being revised and updated to improve the implementation of the National Strategy for Climate Change and Disaster Risk Reduction. EBRD and the EU launched two programs to support a green stimulus. The first will offer sub-loans for green investments in energy, water, and resource-efficient solutions. The second, the Green Value Chain program will help SMEs to invest in advanced technologies and climate mitigation. Following intensive preparation, Egypt issued a \$750 million green bond, which was the first in the region. Green investment projects account for 14 percent of total public investments this year. New environment sustainability guidelines are to be applied to 30 percent of the projects this year to reach 100 percent in three years. Projects are focused on investment in solar energy and wind parks, shift of public transport to electricity. Egypt hosts one of the largest solar parks in the world, located in Benban, near Aswan which will help achieve Egypt's goal of producing a significant share of its generated energy through renewables.

The authorities recognize that transformational change requires persistent efforts and reform continuity on many fronts to achieve the aspirations of the Egyptian people. They are committed to build on the success achieved and to continue implementing their structural reform priorities despite the additional challenges of addressing the current global crisis. In this regard, they value the partnership with the Fund and look forward to continued close engagement.