INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/163

ARAB REPUBLIC OF EGYPT

July 2021

2021 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ARAB REPUBLIC OF EGYPT

In the context of the Staff Report for the 2021 Article IV Consultation and Second Review Under the Stand-By Arrangement, 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 and summarizing the views of the Executive Board as expressed during its June 23, 2021 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 23, 2021, following discussions that ended on May 24, 2021, with the officials of the Arab Republic of Egypt on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 7, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Arab Republic of Egypt.

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

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/193

IMF Executive Board Completes the Second Review under the Stand-By Arrangement for the Arab Republic of Egypt and Concludes 2021 Article IV Consultation

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) completed the second and final 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$ 1.7billion. This brings total purchases to SDR 3,763.64 million (about US$ 5.4 billion or 184.8 percent of quota).
- Egypt responded to the COVID-19 crisis with timely and prudent fiscal and monetary easing, which helped mitigate the health and social impact while safeguarding economic stability, debt sustainability, and investor confidence. With remaining risks to the outlook stemming from global uncertainty and Egypt's high public debt and gross financing needs, near-term fiscal and monetary policies should continue to support the recovery while continuing to preserve macroeconomic stability.
- Deepening and broadening structural reforms will be essential to address post-pandemic challenges, strengthen buffers and unleash Egypt's enormous growth potential with benefits for all Egyptians.

Washington, DC – June 23, 2021: The Executive Board of the International Monetary Fund (IMF) completed today the second and final 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$1.7 billion), bringing total purchases under the SBA to SDR 3,763.64 million (about US$ 5.4 billion, 184.8 percent of quota). The arrangement 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. The program aimed to address balance of payments needs arising from the pandemic, support the authorities' efforts to maintain macroeconomic stability while preserving achievements made over the prior years, and advance key structural reforms.

The Executive Board also concluded today the 2021 Article IV consultation[1] with Egypt.

Egypt entered the COVID-19 crisis with sizable buffers, thanks to reforms implemented since 2016. Faced with unprecedented domestic and global uncertainty, the authorities' policies struck a balance between ensuring targeted spending to protect necessary health and social expenditures and preserving fiscal sustainability while rebuilding international reserves. Growth is expected to reach 2.8 percent in FY2020/21 and rebound strongly to 5.2 percent in FY2021/22, but the outlook remains clouded by uncertainty while Egypt remains vulnerable to shocks due to its high public debt and gross financing needs.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members on the country's economic developments and policies. Following the mission, the staff prepares a report which forms the basis for discussion by the Executive Board.

In that context, the authorities' near-term fiscal and monetary policies aim to support the recovery while continuing to preserve macroeconomic stability. With the immediate crisis subsidizing, deepening and broadening structural reforms will be essential to help unleash Egypt's enormous growth potential. The authorities' structural reform agenda aims at more inclusive and sustainable private sector-led growth to create durable jobs and improve external resilience. This will require sustained efforts to improve resource allocation by reducing the role of the state and enhancing governance, strengthening social protection, improving the business environment, deepening financial markets, and increasing integration into global trade. The IMF will remain closely engaged with the Egyptian authorities and continue supporting their reform agenda.

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 economic and social impact of the COVID-19 pandemic. Proactive economic policies shielded the economy from the full brunt of the crisis, alleviating the health and social impact of the shock while maintaining macroeconomic stability and investor confidence. The economic recovery is underway, but the outlook is still clouded by uncertainty related to the pandemic. High public debt and large gross financing needs leave Egypt vulnerable to shocks or changes in financial market conditions for emerging markets.

"The budget target for FY2021/22 strikes an appropriate balance between supporting the recovery and keeping public debt on the projected path. The envisaged pickup in growth should allow a return to the pre-crisis primary surplus from FY2022/23 to put public debt back on a firmly downward trajectory. 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 helped anchor inflation expectations. Inflation remains below the CBE's target range, providing scope for monetary policy to further support the recovery as warranted by inflation and economic developments. Continued progress on strengthening the monetary framework will also support monetary transmission. Two-sided exchange rate flexibility is essential to absorb external shocks and maintain competitiveness.

"The banking system remains resilient, having entered the crisis well-capitalized and with ample liquidity. As crisis-related measures are unwound, continued supervisory vigilance will be needed to closely monitor lending standards.

"The authorities' national structural reform plan aims to achieve strong private sector-led growth to create durable employment and improve external resilience. This will require sustained efforts to improve resource allocation by reducing the role of the state in the economy, enhancing governance and transparency, improving the business environment, deepening financial markets, and increasing integration into global trade."

Executive Board Assessment[2]

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

Executive Directors agreed with the thrust of the staff appraisal. They commended Egypt's strong performance under the Stand-by Arrangement, a result of timely policy response to the crisis and steadfast implementation of the program with overperformance in key program targets. At the same time, Directors cautioned that global uncertainty remains high and encouraged continued efforts to safeguard debt sustainability, strengthen transparency and governance, and undertake structural reforms to build a greener, digital, and more inclusive economy.

Directors lauded the satisfactory performance against the fiscal targets, including spending on health and social protection. Noting the still-high uncertainty, they agreed with the more gradual fiscal consolidation to support the economic recovery. However, given significant risks to debt sustainability, they emphasized the importance of returning to the pre-COVID-19 primary surplus from FY2022/23 onwards. Directors welcomed the medium-term revenue strategy and the medium-term debt strategy. They stressed that strong implementation of these strategies, including enhanced revenue mobilization, will be key for lowering the high public debt and gross financing needs while creating space for priority spending. They also underscored the need for continued progress toward greater fiscal transparency, including for state-owned enterprises.

Directors commended the Central Bank of Egypt (CBE) for the monetary policy support to the economy thus far and supported a data-driven approach to monetary policy. Given available policy space and below-target inflation outturns, Directors broadly encouraged the CBE to consider easing if warranted by inflation and economic developments. They emphasized that the monetary policy framework could be further strengthened to support monetary policy transmission. They considered that if subsidized lending facilities were considered necessary for social objectives, they should be defined and supported in the budget rather than implemented through the CBE. Directors noted the strong capital inflows and underscored the importance of exchange rate flexibility as a defense against potential volatility in these flows, and more broadly against external shocks.

Directors noted the resilience of the banking system but observed that continued vigilance was warranted. Noting the system's high exposure to the sovereign, they welcomed efforts to help diversify banks' revenue streams and enhance financial inclusion through digital financial technologies and a focus on underserved groups. Directors also welcomed the completion of the restructuring plan for the National Investment Bank, which will reduce fiscal and financial stability risks.

Directors emphasized the importance of deepening and broadening structural reforms to maintain strong medium-term growth. They urged continued efforts to foster private-sector-led growth—including reducing the role of the state in the economy and leveling the playing field—improving the governance of public institutions, fostering labor market participation of women and youth, and encouraging exports. They also supported ongoing plans to transition to a greener, more digital economy. Directors commended Egypt's commitment to reach the Sustainable Development Goals by 2030.

It is expected that the next Article IV consultation with the Arab Republic of Egypt will be held on the standard 12-month cycle.

Egypt: Selected Macroeconomic Indicators[1]

Population (2019): 98.9 million

Per capita GDP (2019/20, US$): 3,057

Quota (3/31/2018): SDR 2,037.1 million/100 percent of quota

Literacy rate: 71 (2017)

Main exports: Petroleum (crude oil and refined products), gold

Poverty rate: 29.7 (2020)

Key export markets: UAE, Saudi Arabia, Italy

	2018/19	2019/20	2020/21	2021/22	2022/23
Output					
Real GDP growth (%)	5.6	3.6	2.8	5.2	5.6
Employment					
Unemployment (%)	8.6	8.3	--	--	--
Prices					
Inflation (%, end of period)	9.4	5.7	5.7	6.8	6.9
Inflation (%, period average)	13.9	5.7	4.6	6.6	6.8
Budget sector[2]					
Revenue and grants (% GDP)	17.7	16.7	17.9	18.6	18.7
Expenditure (% GDP)	25.8	24.7	26.1	25.6	24.9
Overall balance (% GDP)	-8.1	-7.9	-8.2	-7.0	-6.2
Primary balance (% GDP)	1.9	1.8	0.9	1.5	2.0
Public debt (% GDP)	84.2	90.0	92.0	89.8	87.0
Money and credit					
Broad money (M2, % change)	11.8	17.5	16.5	12.7	12.0
Credit to the private sector (% change)	12.4	19.5	20.1	18.0	16.0
Treasury bill rate, 3 month (average, in percent)	18.6	14.7	--	--	--
Balance of payments					
Current account (% GDP)	-3.6	-3.1	-3.9	-3.6	-2.6
FDI, net (% GDP)	2.6	2.0	1.4	2.0	2.5
Reserves (months imports)	7.0	5.9	6.0	6.0	5.9

External debt (% GDP)	34.1	34.2	36.1	33.0	29.1
Exchange rate					
REER (% change; + means appreciation)	17.9	14.3	--	--	--
Exchange rate (EGP/$, end-period)	16.7	16.2			

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

1/ Fiscal year ends June 30.

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

June 7, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT

EXECUTIVE SUMMARY

The economic and social impact of the COVID-19 pandemic over the past year has been well-managed by the authorities. Timely and prudent fiscal and monetary easing shielded the economy from the full brunt of the crisis, while alleviating the health and social impact of the shock. Sound economic policies helped deliver macroeconomic stabilization, safeguard debt sustainability, and preserve investor confidence.

While growth is expected to rebound in FY2021/22, the outlook is still clouded by uncertainty related to the pandemic and the pace of vaccinations. High public debt and large gross financing needs leave Egypt vulnerable to external shocks or changes in financial market conditions for EMs. Near-term fiscal and monetary policies should thus continue to support the recovery without accumulating undue imbalances.

Deepening and broadening structural reforms will be needed to maintain strong medium-term growth. The authorities' structural reform agenda aims at more inclusive and sustainable private sector-led growth to create durable jobs, especially for women and the youth, and improve external resilience. This will require sustained efforts to improve resource allocation by reducing the role of the state and enhancing governance, strengthening social protection, improving the business environment, deepening financial markets, and increasing integration into global trade.

Program performance remains on track. All end-March quantitative performance criteria (QPC) and all structural benchmarks (SBs) for the review were met, although subdued inflation resulted in a breach of the lower inner band of the end-March Monetary Policy Consultation Clause. All end-December structural benchmarks were met (Cabinet approval of the updated Medium-Term Revenue Strategy, publication of the updated Medium-Term Debt Strategy, and Parliamentary submission of the new chapter in the competition law on mergers and acquisitions), and the National Investment Bank reform plan (end-January SB) and the Public Expenditure Review on social protection (end-April SB) also met their respective deadlines.

Staff supports completion of the second and last review under the SBA. Upon completion, an additional SDR 1,158.04 million would be made available, bringing total access to SDR 3,763.64 million.

Approved By
Taline Koranchelian and Kristina Kostial

Discussions were conducted virtually during May 4–24, 2021 with Tarek Amer, Governor of the Central Bank of Egypt; Mohammed Maait, Minister of Finance; and other senior officials. The staff team comprised Celine Allard (head), Deeksha Kale, Matthew Gaertner, Suchanan Tambunlertchai (all MCD), Cristian Alonso (FAD), Geoffrey Keim (SPR), Dermot Monaghan (MCM), Said Bakhache (Senior Resident Representative), and Karim Badr (local economist). The team was supported by Maria de Mesa, Maha Nasr, and Alexander de Keyserling. Mr. Mahmoud Mohieldin, Ms. Wafa Abdelati, and Ms. Mira Mehri (OED) also participated in the meetings.

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ANNEXES

APPENDIX

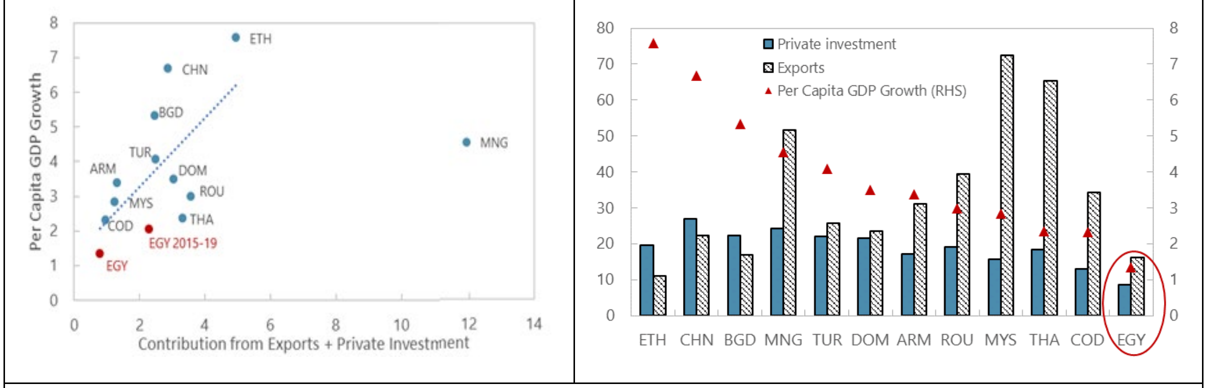
CONTEXT

1. **Egypt entered the COVID-19 crisis with sizable buffers, thanks to the reforms implemented under the 2016–19 Extended Fund Facility (EFF).** As part of the authorities' economic program, Egypt undertook ambitious and difficult reforms to restore macroeconomic balances. The floating of the exchange rate eliminated the currency overvaluation and FX shortages. Reserves were rebuilt to all-time highs. Fiscal consolidation reduced public debt while energy subsidy reform addressed a key fiscal risk and created space for social spending. Other structural reforms were initiated to improve the frameworks for monetary policy and public finance management, the business climate, and the transparency of public enterprises. This provided the room for a timely policy response to mitigate the impact of the pandemic shock. Policy recommendations from the 2017 Article IV consultation were broadly implemented (Annex I).

2. **The Stand-By Arrangement (SBA) has achieved its main objectives of maintaining macroeconomic stability during the pandemic while advancing key structural reforms.** Faced with unprecedented domestic and global uncertainty, the authorities' policies under the program struck a balance between ensuring targeted spending to protect necessary health and social expenditures and preserving fiscal sustainability while rebuilding international reserves. These were also supported by targets to ensure a floor on tax revenue, a cap on debt accumulation and government overdrafts at the Central Bank of Egypt (CBE), and continued lengthening of the average maturity of public debt. Monetary policy was supported by the Monetary Consultation Clause (MPCC) to monitor inflation performance, although cyclical and structural factors during this period of heightened uncertainty led to inflation outturns that have been below the CBE's target range. Structural reforms undertaken during the SBA included measures to strengthen public finances, further fiscal transparency and governance, and advance laws to improve the business climate, as well as steps to enhance social protection (Table 13). However, despite the strong performance under the SBA, vulnerabilities remain high as Egypt's large public debt and gross financing needs leave the country prone to external shocks, calling for continued fiscal prudence and continued progress on structural reforms.

3. **With the immediate crisis subsiding, the need to alleviate social pressures in the post-COVID-19 world while advancing structural reforms is coming into sharper focus.** Egypt's medium-term outlook remains strong despite the temporary interruption to the growth momentum and potential scarring from the pandemic. The authorities' medium-term objective remains focused on achieving not only high but also inclusive growth to create jobs and ensure decent living standards for Egypt's young and rapidly growing population. Post-COVID-19 realities also highlight the need to strengthen healthcare and social safety nets and ensure a resilient economy. However, this will require diversifying from the current private-consumption-led growth and increasing contributions from other sources such as private investment and exports (Text Figure 1).

Text Figure 1. Role of Exports and Private Investment in Growth



Sources: World Economic Outlook; IMF Staff Calculations.
Note: Comparator countries are those with the highest average 10-year per capita GDP growth for which the private investment series are available. Trend line in the LHS chart excludes Mongolia which is an outlier and a commodity exporter.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **Timely and prudent fiscal and monetary loosening helped shield the economy from the full brunt of the COVID-19 shock.** The pandemic resulted in a sudden stop in tourism as well as significant capital outflows, with more than $15 billion of portfolio outflows during March-April 2020 as investors pulled out of emerging markets in a flight to safety. The authorities' proactive and comprehensive measures in response to the crisis helped mitigate the health and social impact while ensuring macroeconomic stabilization, safeguarding debt sustainability, and preserving investor confidence[1].

- As of May 23, Egypt has had 252,690 confirmed cases of COVID-19 and 14,670 deaths. The officially reported number of daily new cases peaked at around 1,700 in mid-June 2020 before slowing significantly by August. Cases have since fluctuated, with new daily confirmed infection numbers reaching around 1,400 in January 2021 and around 1,200 in May 2021 (Text Figure 2).

- As pandemic-related restrictions were eased following the decline in new cases at the end of FY2019/20, growth rebounded to 1.3 percent (y/y) in H1 FY2020/21[2] following a contraction of 1.7 percent (y/y) in the last quarter of FY2019/20, while inflation remained low at 4.1 percent (y/y) in April. The unemployment rate rose in the immediate aftermath of the

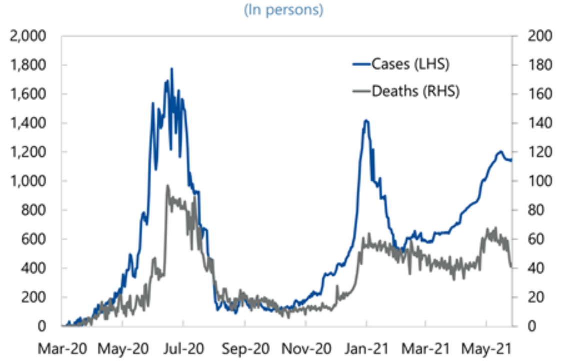
[1] See Box 1, "Egyptian Authorities' Response to the COVID-19 Crisis" in EBS/20/118, Arab Republic of Egypt – Request for a 12-Month Stand-By Arrangement.

[2] Egypt's fiscal year runs from July 1–June 30.

crisis but fell to 7.4 percent during January-March, below pre-COVID-19 levels. Aggregate financial indicators continue to point to a resilient banking system (Table 9).

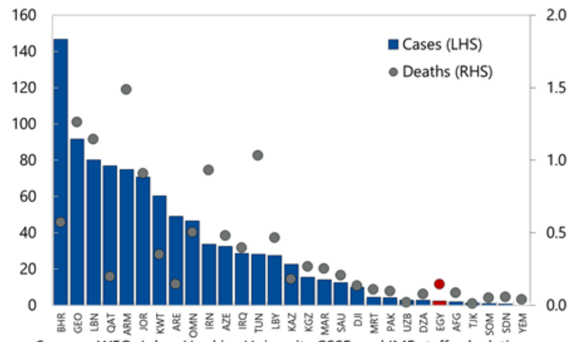
Text Figure 2. COVID-19 Infection Developments

Egypt: Daily Infections and Deaths
(In persons)



Source: Johns Hopkins University CSSE; based on data available as of May 26, 2021.

Cumulative COVID Cases and Deaths
(Per 1,000 people)



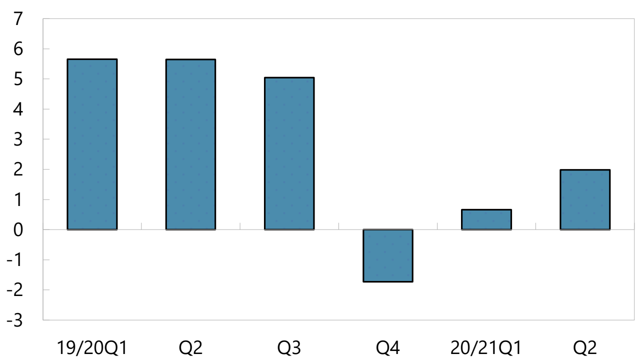
Sources: WEO; Johns Hopkins University CSSE; and IMF staff calculations; based on data available as of May 26, 2021.

- Strong remittances have helped offset the impact of weaker tourism receipts on the current account, while the budget appears on track to overperform the primary surplus target of 0.5 percent of GDP due to some spending under-execution. A modest increase in public debt to 92 percent of GDP is projected in FY2020/21, reflecting slower growth and the fiscal response to the crisis. Regulated fuel prices were increased in April to reflect higher world oil prices, in line with the automatic fuel price mechanism introduced during the EFF.

- External market conditions have also remained favorable in 2021. In February, the authorities accessed international bond markets for the third time since March 2020, with a $3.75 billion Eurobonds at 5-, 10-, and 40-year maturities, while nonresident holdings of local currency debt reached a new peak of $29 billion in April. The Central Bank of Egypt's (CBE) FX buffers have recovered but remain below pre-COVID-19 levels—official FX reserves together with the CBE's FX deposits in local banks amounted to $47.9 billion at end-April compared to $51.7 billion in February 2020.

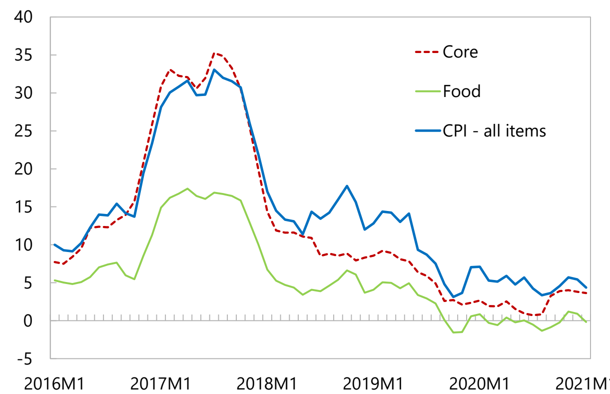
Text Figure 3. Recent Economic Developments

GDP Growth (percent, y/y)



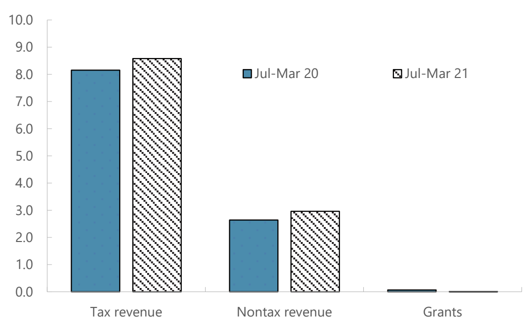
Sources: Egypt's Ministry of Planning; IMF staff calculations.

Consumer Price Index Inflation
(percent change, year-over-year)



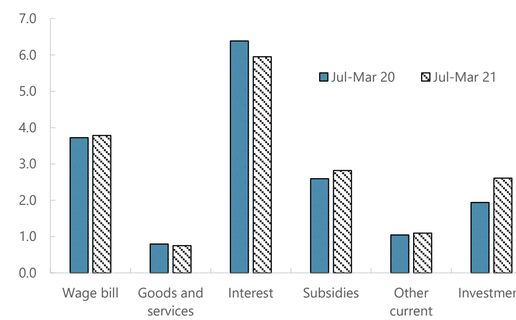
Sources: Central Bank of Egypt; Haver Analytics; IMF staff calculations.

Revenues (% of GDP)



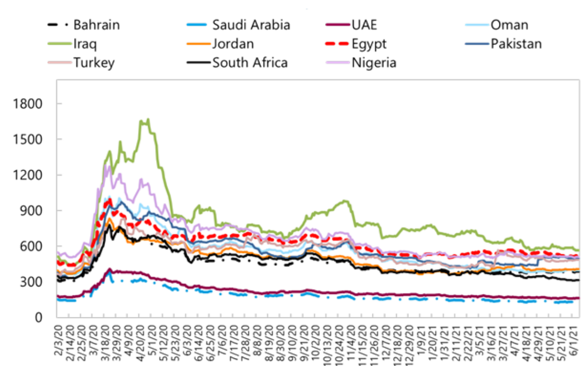
Sources: Egypt's Ministry of Finance; IMF staff calculations.

Expenditures (% of GDP)



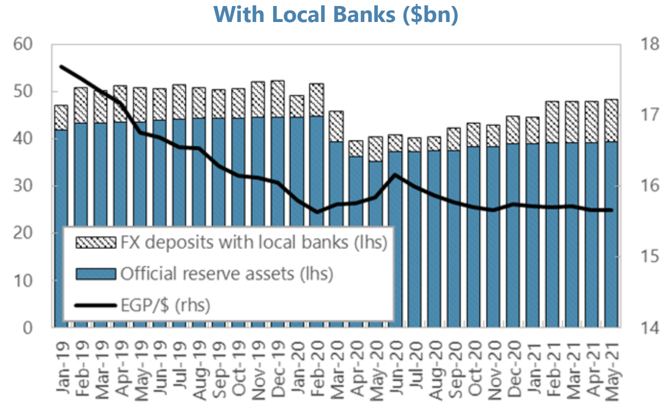
Sources: Egypt's Ministry of Finance; IMF staff calculations.

Sovereign Spreads: Egypt and Selected EMs
(in basis points)



Source: Bloomberg.

Official Reserves and CBE's FX Deposits With Local Banks ($bn)



Source: Central Bank of Egypt via Haver Analytics.

5. **Projected growth for FY2020/21 remains unchanged from the first review, but the near-term outlook is clouded by uncertainty over the pace of economic recovery.** While growth is still expected to rebound strongly in FY2021/22, it has been lowered to 5.2 percent (vs 5.5 percent at the first review), reflecting the uneven pace of global recovery and remaining

uncertainty related to the pandemic and the pace of vaccinations. Although Egypt has started vaccinating front-line health workers, tourism workers, and high-risk groups, the country has continued to experience periodic waves of rising new daily cases. Tourism receipts are expected to remain subdued as travel restrictions in many key tourist markets remain in place, although the expected resumption of direct flights from Russia in the summer to resorts in the Red Sea for the first time since 2015 provides possible upside to the outlook. The FY2021/22 current account balance is projected at -3.6 percent of GDP, lower than the projection at the first review, reflecting less import compression as the economy recovers.

6. **The medium-term outlook hinges on sustained reform implementation to create a supportive environment for private-sector-led growth.** As the temporary interruption to the growth momentum fades, staff's baseline scenario assumes that continued progress on structural policies supports a pickup in growth to close to 6 percent over the medium term. While tourism receipts are expected to recover gradually, reaching the pre-pandemic level of around 4 percent of GDP in FY2023/24, reforms envisaged under the baseline improve external resilience by diversifying sources of foreign income. Inflation is expected to be around 7 percent, while a sustained primary surplus at 2 percent of GDP would help reduce general government debt to 75 percent of GDP by FY2025/26.

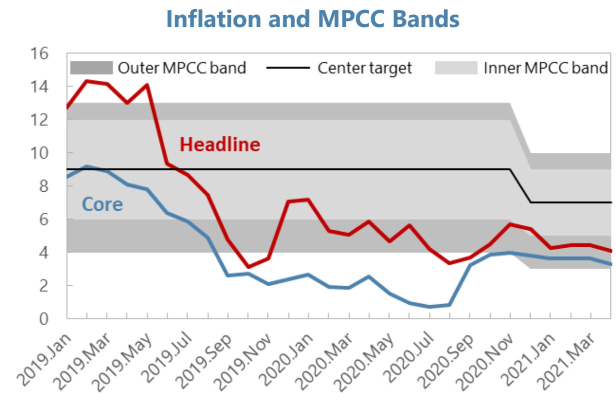
7. **Risks to the outlook stem from high global uncertainty and Egypt's vulnerability to external shocks (Annex II).** In the near term, monetary policy tightening in the U.S. or repricing of risk assets by markets could induce another round of emerging market capital outflows. With a higher stock of nonresident portfolio investment and lower FX reserves compared to pre-COVID-19 levels, Egypt's vulnerability to changes in investor sentiment persists. Lingering effects of the pandemic also cast uncertainty on tourism and remittance flows, while weak implementation of the structural agenda could cause growth to underperform in future years and exacerbate demographic pressures. Conversely, a speedy implementation of structural reforms to encourage private sector activity and an acceleration of the Medium-Term Revenue Strategy (MTRS) implementation, which is the scenario considered by the authorities, would help further raise growth and advance development spending.

PROGRAM PERFORMANCE

8. **All end-March quantitative performance criteria (QPC) and all structural benchmarks (SBs) for the review were met, although the Monetary Policy Consultation Clause (MPCC) was breached (Table 13).**

- Net international reserves and the primary balance (PB) overperformed their QPCs, and all indicative targets (ITs)—health and social spending, government's overdraft at the CBE, and share of short-term net domestic issuances—were also met.

- Headline inflation in March was 4.5 percent, resulting in a breach of the lower inner band of the end-March MPCC and triggering a consultation with staff.



Source: Central Bank of Egypt.

- All end-December structural benchmarks were met (Cabinet approval of the updated MTRS, publication of the updated Medium-Term Debt Strategy (MTDS), and Parliamentary submission of the new chapter in the competition law on mergers and acquisitions). The National Investment Bank (NIB) reform plan (end-January SB) has been developed (see ¶12) while the Public Expenditure Review (PER) on social protection met the end-April deadline.

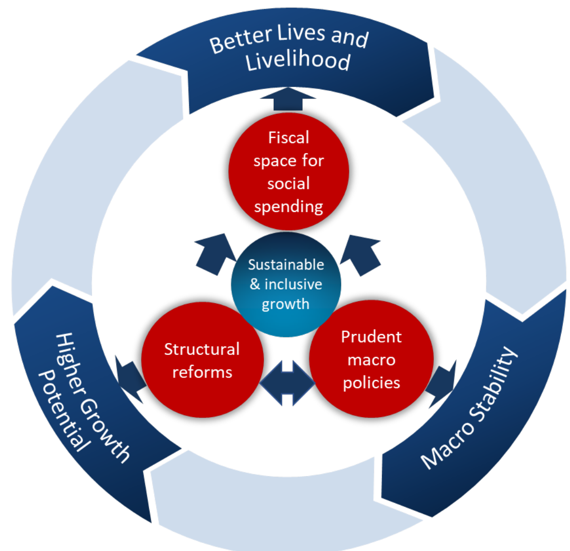
- The authorities indicated that they have published detailed information on COVID-19 crisis-related spending and procurement contracts in line with their RFI commitments, including the names of the awarded companies[3] and information on their legal ownership for contracts awarded after January 2021 until May 2021, which in most cases corresponds to beneficial ownership. They have further adjusted the executive regulation to allow for the collection and publication of beneficial ownership information for all companies going forward. The authorities also indicated that they have started publishing 3-month ahead procurement plans for COVID-19-related spending on a quarterly basis, and published an audit report of COVID-19-related spending, with a special focus on health spending.

POLICY DISCUSSIONS

The authorities' macroeconomic policy rightly aims to balance continued support for the ongoing recovery with the need to reduce debt vulnerabilities and to accelerate structural and governance reforms. The COVID-19 crisis has also brought to the forefront the need to expand and improve the effectiveness of health, education, and social safety net spending. Discussions focused on the scope for monetary and fiscal policy to provide additional support in the near-term, while advancing the authorities' objective of more inclusive private-sector-led growth by reducing the role of the state, improving the business environment, deepening financial markets, and increasing integration into global trade.

[3] Information on contracts awarded from December 2020-February 2021 can be found on the Ministry of Finance website at the following links: here, here, here and here.
Information on contracts awarded prior to December can be found on the Ministry of Finance website at the following links: here, here, here, here, and here.

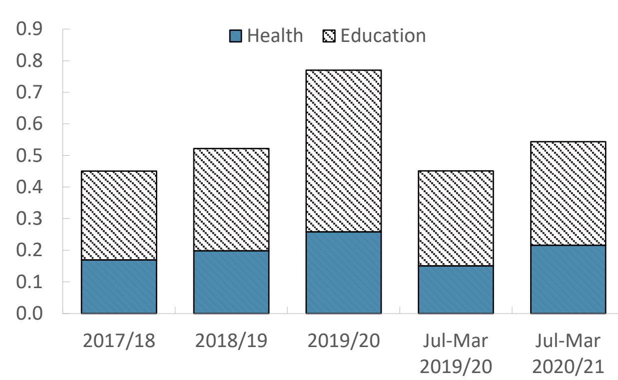
9. There was agreement that structural reforms are critical to prevent the re-emergence of imbalances, make Egypt less prone to shocks and unleash its growth potential. Staff supported the authorities' commitment to balancing near-term policies to support the recovery with deepening and broadening the structural reform agenda. Over the medium term, preserving macroeconomic stability and reducing the high public debt burden will lower fiscal and external vulnerabilities, attenuate the bank-sovereign nexus, and improve monetary policy transmission. These conditions create positive spillovers for other structural policies that are urgently needed to address mounting demographic pressures posed by a young and growing population. Structural reforms will need to boost competitiveness and productivity, increase resilience against external shocks, and level the playing field for the private sector to unleash higher and, importantly, more inclusive growth. Stronger sustainable growth, when complemented by lower debt vulnerabilities, generates the necessary space to finance development spending and expand the social safety net, improving livelihoods and, in turn, helping to safeguard macroeconomic stability.



A. Fiscal Policy: Balancing Support for the Recovery and Debt Vulnerability

10. The budget appears on track to overperform the FY2020/21 primary surplus target, allowing for a more gradual consolidation in FY2021/22 to support the recovery. For FY2020/21, the authorities expect to achieve a primary surplus (PS) of about 0.9 percent of GDP, compared to the floor of 0.5 percent under the SBA. They plan to apply this saving to FY2021/22, with a PS target of 1.5 percent in the draft budget, relative to the 2 percent envisaged at the time of SBA approval. Staff agreed that remaining uncertainty related to the pandemic lends support to a more gradual tightening. The lower surplus next year would allow for higher public investment to help entrench the recovery and support continued poverty reduction through investment in health, education, and rural infrastructure, with largely neutral impact on the projected debt path. In the context of this planned scaling-up of public investment, it will be important to focus on the efficiency of investment spending, and the forthcoming Public Investment

Investment in Health and Education (% of GDP)



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

Management Assessment (PIMA) technical assistance mission will offer an opportunity to identify steps to that effect. The authorities noted that they have some flexibility to reallocate spending within the existing envelope for vaccine procurement and other medical and social spending needs, given lingering uncertainty related to the pandemic.

Selected Budget Sector Operations
(in percent of GDP)

	2018/19	2019/20	2020/21 Proj.	2021/22 Proj.
Revenue and grants	17.7	16.7	17.9	18.6
o.w. Tax revenue	13.8	12.7	13.3	13.8
Expenditure	25.7	24.6	25.9	25.6
o.w. Interest	10.0	9.7	9.1	8.5
o.w. Subsidies (excl. energy)	3.5	3.6	4.6	4.3
o.w. Investment	2.7	3.3	3.7	4.2
Primary Balance	1.9	1.8	0.9	1.5

Note: Subsidies include transfers to the pension funds, food subsidies, and other social protection benefits. The increase in FY2020/21 is largely driven by higher transfers to the pension funds because of the recent pension reform.

11. The authorities aim to return to the pre-crisis primary surplus of 2 percent of GDP starting from FY2022/23 to put public debt back on a firmly downward trajectory. Egypt's high level of debt and elevated gross financing needs leave the country vulnerable to rollover risks and capital flows and the authorities' commitment to returning to the pre-COVID-19 primary surplus remains an important signal of fiscal discipline. Achieving and maintaining primary surpluses of about 2 percent of GDP beyond the program would anchor a reduction in public debt from 92 percent of GDP projected for FY2020/21 to around 75 percent by FY2025/26. This will strengthen market confidence and create fiscal space—including through lower interest payments— for much-needed social and investment spending.

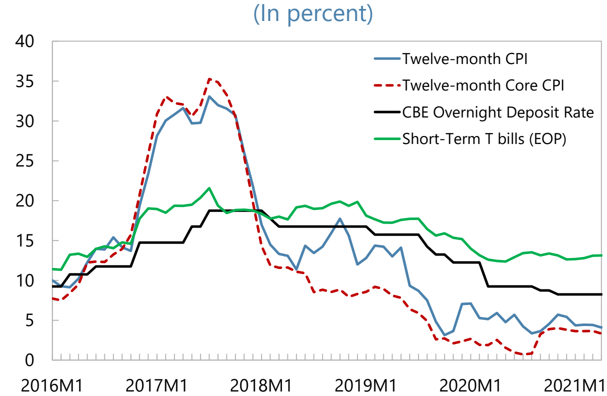
12. Fiscal risks are being reduced by winding down the National Investment Bank (NIB), a publicly owned development bank. The authorities ceased all lending and deposit collection activities at the bank in January 2021 and have begun implementing their reform plan. The plan envisages reducing the NIB's liabilities gradually over time. Efforts in this regard will include the use of cash, performing loans and government securities. They also plan to recoup equity through swapping non-performing loan collateral for higher-quality government assets and issue government bonds to cover any remaining gap. As the full liabilities of the NIB were already included in general government debt, issuance of central government bonds over the medium to long term to finance any remaining gap as NIB's liabilities are being reduced will increase central government debt but will be neutral at the general government level. Fiscal risks should continue to be monitored, including those arising from potential contingent liabilities from state-owned enterprises (see Box 1). Publication of a fiscal risk statement would be a welcome step in that respect.

13. Transparency of fiscal reporting should be further enhanced. Staff encouraged the authorities to continue to regularly publish fiscal documents in a timely manner (including the annual external audit report), to provide more detailed information on budget execution, especially on budget support to public enterprises and other state entities through below-the-line operations (to ensure there is a clear picture of these fiscal operations), and to broaden the coverage of fiscal data beyond the central government. This would not only increase transparency but also create public awareness of the ongoing fiscal support to the economy and provide incentives for improved performance among public entities. The authorities noted their ongoing efforts to improve fiscal transparency, including the publication of a citizen's budget with some information on contingent liabilities, and emphasized that they will continue to enhance fiscal reporting with more detailed, frequent, and timely intra-year budget execution reports and debt information.

B. Monetary Policy: Maintaining Price Stability and Exchange Rate Flexibility

14. Inflation remains below the CBE's target range, providing scope for monetary policy to continue to support the economic recovery. While inflation has been contained between 4 and 4½ percent, below the CBE's target of 7 percent (±2 percentage points) for Q4 2022, the CBE's policy rates have been left unchanged since the 50 basis point cuts in September and November. Discussions focused on the scope to bring down high real interest rates to help support the economic recovery in the context of below-target inflation and the breach of the inner band of the MPCC, and on the appropriateness of adopting a gradual easing bias to reach the 7 percent target. There was broad agreement that monetary policy would remain data dependent and respond if inflation were to remain below target once base effects to food prices had dissipated or if downside risks to growth materialized. The authorities, nonetheless, considered that given the substantial monetary stimulus over the course of 2020, upside risks to inflation from rising international commodity prices and increasing uncertainty over the external environment warranted caution at the current juncture.

Inflation and Interest Rates
(In percent)

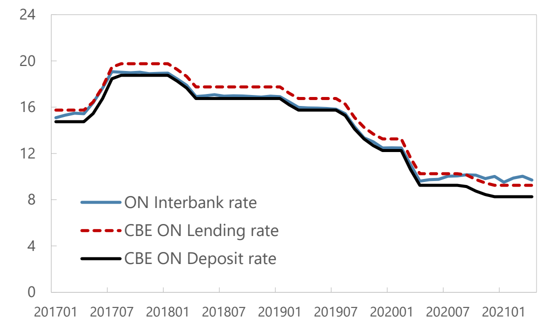


Source: Haver Analytics, and IMF staff calculations.

15. Over the medium term, the CBE should continue to strengthen the monetary policy framework and monetary transmission.

- The cuts in the policy rate in the second half of 2020 have not been reflected in the overnight interbank rate, which has remained outside the corridor between the CBE's overnight lending and overnight deposit facilities since September. This has muted the effect of lower policy rates on financial conditions and limited the impact on the domestic economy. The authorities attributed the recent disparity between the policy rate and market interest rates to greater risk aversion from market participants in the context of the crisis, but indicated they are reviewing their open market operations framework with a view to strengthening liquidity management and ensuring that the interbank rate remains within the target corridor.

CBE Policy Rates and Overnight Interbank Rate
(In percent, monthly average)

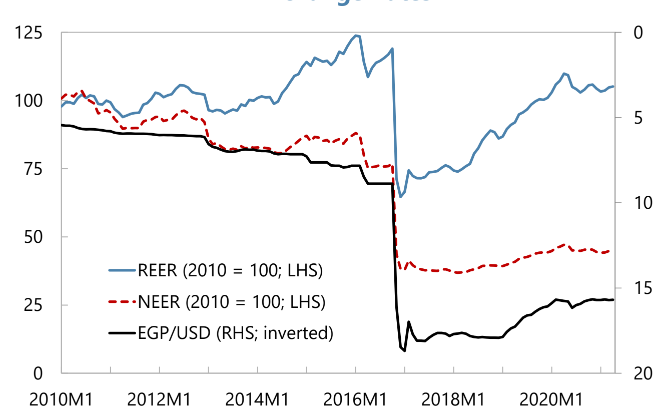


Source: Haver Analytics.

- Staff also noted that the CBE's subsidized lending schemes that provide access to credit at below market rates obscure the monetary policy objective and complicates policy transmission. With the existing schemes nearly fully allocated, staff advised that if subsequent subsidized lending facilities were to be needed for social objectives, those objectives should be clearly defined, and the cost transparently recognized in the budget, as opposed to being carried out by the CBE. While the authorities thought that the divergence in interest rates may limit policy transmission, they felt, however, that given the prevailing uncertainty over the strength of the recovery together with the advanced stage of next year's budget process, they needed to retain the flexibility to rely on such schemes into FY2021/22. Nonetheless, the CBE is committed to not introducing any new subsidized lending schemes or renewing the existing ones beyond FY2021/22.

16. The authorities reiterated their commitment to exchange rate flexibility and emphasized the importance of the exchange rate as an external shock absorber. After an exchange rate appreciation of close to 3 percent in the second half of 2020 following the strong return of portfolio flows, the exchange rate has remained broadly unchanged during the first months of 2021 as the pace of capital inflows has slowed. With external conditions having normalized, the exchange rate flexibility should be the primary defense for any potential capital flow volatility and this commitment should continue to be clearly communicated to the market. The REER has stabilized since the end

Exchange Rates



Sources: Central Bank of Egypt; Information Notice System; and Haver Analytics.

of 2019 as inflation has slowed and the overall external position remains in line with fundamentals (Annex IV), but a resumption of the upward trend in the REER without an underlying improvement in fundamentals would risk eroding Egypt's external price competitiveness over the medium term. The authorities were in broad agreement with the external sector assessment and noted the structural factors that continue to weigh on export competitiveness.

C. Financial Sector: Reinforcing Stability and Advancing Financial Inclusion

17. The banking system has weathered the crisis relatively well so far, but the authorities agreed that continued supervisory vigilance was warranted. In addition to the CBE's effective oversight over the banking sector, banks attributed the continued healthy financial metrics to the relatively short lockdown period experienced in Egypt together with the authorities' measures to support the incomes of affected workers and businesses. Credit growth to the private sector has been boosted by the CBE's subsidized lending schemes (as of end-December 2020, 18 percent of total private sector loans and 3 percent of FY2019/20 GDP), nearly all of which have been allocated. Since the 6-month economy-wide debt moratorium ended in September, banks have so far observed only a modest increase in NPLs from previously low levels. As other temporary relief measures are unwound, the authorities stressed that they will continue to closely monitor lending standards while ensuring that financial sector conditions remain supportive of the economic recovery. The new Central Bank and banking law provides a clearer mandate and stronger safeguards for the CBE and will strengthen financial system oversight once implementing regulations come into force in 2022.

18. The authorities concurred with staff on the need to focus financial sector policies on financial deepening and inclusion. The banking system's exposure to the public sector remains high at over 50 percent of system assets or around 65 percent of domestic credit. Policies to promote financial deepening and financial inclusion will not only help diversify revenue streams but also ensure against the risk of crowding out lending to the private sector during the recovery. The recent initiative to require banks' lending to include at least 25 percent to SMEs will contribute towards this goal and lower credit concentration provided prudential standards are maintained and due attention is paid to avoid introducing rigidities to bank operations. Digital financial technologies and regulatory measures to support digital payments should be complemented by financial services geared towards smaller enterprises, consumers, and the informal sector to further expand the financial reach to underserved and rural customers while increasing the efficiency of bank lending. The authorities' ongoing efforts in this regard are welcome. Improved access to finance for the population would promote stronger and more sustainable growth going forward.

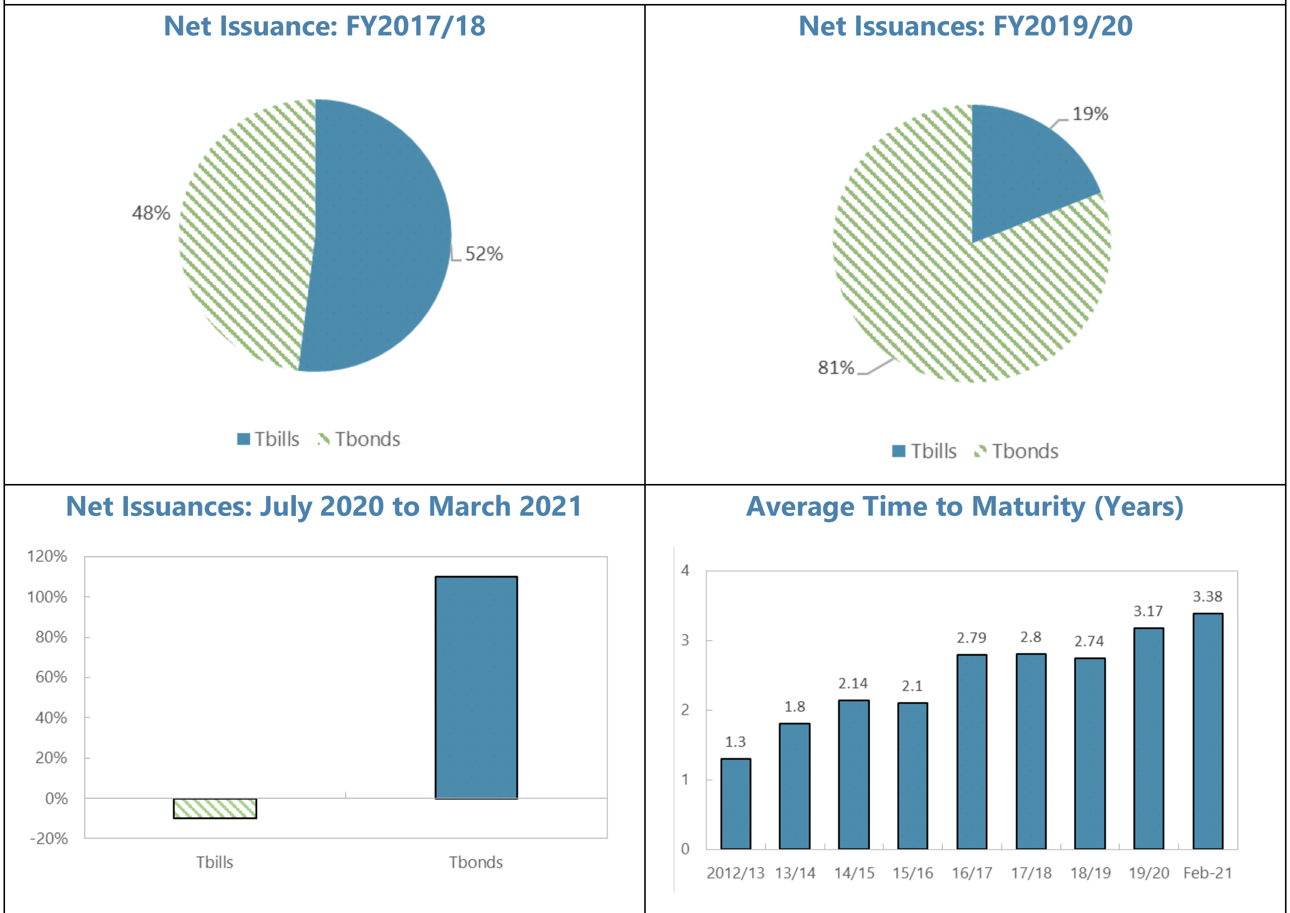
D. Structural Reforms: Unleashing Potential Growth

19. Progress on fiscal structural reforms is a prerequisite for reducing constraints on other policy actions needed to support sustainable and inclusive growth. Egypt's high interest bill and large rollover needs leave the country vulnerable to external and financing pressures and limit space for discretionary policy (see Annex III, Public and External Debt Sustainability Analysis). Reducing these vulnerabilities and increasing fiscal space are critical stepping-stones for the success of other structural policies.

- Revenue mobilization will help create space for priority areas while fiscal consolidation is ongoing. The approved MTRS includes tax policy and revenue administration measures aimed at increasing the tax-to-GDP ratio by around 2 percentage points in 4 years through, inter alia, curbing tax base erosion under the new income tax law, limiting tax exemptions, increasing green and sin taxes, reforming the real-estate tax, and utilizing risk-based tools and digitalization in revenue administration. The authorities noted encouraging results from revenue administration reforms in FY2020/21, including via making progress on digitalization, reducing tax evasion, and bringing self-employed professionals into the tax base.

- Active debt management is critical to reduce vulnerabilities from the still-high gross financing needs. There has been good progress in issuing longer-term domestic debt during FY2020/21, with larger tenor sizes helping to improve liquidity and attract investors at the longer end of the yield curve. The stock of T-bills has consequently decreased, while the authorities have also executed several buybacks to replace higher yielding bonds with lower cost debt. The authorities have been working towards Egypt's inclusion in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) and custody and settlement of Egyptian bonds in Euroclear, with a view to broadening the investor base and deepening secondary markets. They expect that strong investor confidence will allow them to manage increased amortization of external debt obligations during 2022–2024, noting that recent Eurobond issuances have been heavily oversubscribed.

Text Figure 4. Budget Sector Debt



Source: Egypt's Ministry of Finance.

20. Deepening and broadening the structural reform agenda will help unleash Egypt's enormous growth potential. The authorities' stressed their commitment to advancing structural reforms to attract investment, raise productivity and competitiveness and create jobs, underpinned by the recent launch of their National Structural Reform Program (NSRP). The NSRP focuses on complementary reform areas to raise potential growth and living standards: human capital development, increased efficiency and transparency of public institutions, an enabling environment for a more competitive and export-oriented private sector, and a greener economy. The next step will be to support these reform objectives with well-identified policy measures.

- *Improving human capital and ensuring economic inclusion while preserving the social fabric in the post-COVID-19 environment will require higher and more efficient spending*. Public spending should be geared toward better health and education outcomes, gender equality—including increased female labor force participation which has been particularly affected during the pandemic—and poverty reduction. These priority areas are in line with Egypt's plan to reach the Sustainable Development Goals (SDGs) by 2030. While progress is being made with the introduction of universal health care and the expansion of the Takaful and Karama program, substantial work remains to be done. Staff's analysis shows that achieving the SDGs is an attainable goal provided the aforementioned reforms to increase fiscal space are implemented.[4]

- *Better resource allocation is needed to foster private sector development.* The Egyptian government plays a large role in the economy through the presence of state-owned enterprises across almost all sectors—including public business sector companies, military-owned enterprises, and economic authorities—with many registering weak financial performance while some are benefiting from an uneven playing field vis-à-vis their private sector counterparts.

    - To allow the private sector to flourish, the large state footprint should be gradually reduced, such that the state plays an enabling rather than leading role in economic activities. In this vein, an important first step will be for the Egyptian government to develop a comprehensive state ownership strategy to clearly articulate the overall objectives, rationale, and principles of state involvement in commercial enterprises (see Box 1). Doing so would also provide the basis for modernizing the legal, governance, accounting, and operational frameworks for the sector, ultimately strengthening its transparency and performance.

    - On the regulatory and legal front, enhancing the independence of regulatory authorities, reducing the scope for conflict of interest within the regulatory functions and ensuring a level playing field for all economic actors, including in industrial land allocation, access to credit, taxation, and procurement rules for state-owned enterprises would foster a more competitive business environment allowing the private sector to fulfill its job-creating role and contribute more to growth. Meanwhile, the bankruptcy law is being amended in the context of World Bank conditionality.

    The authorities acknowledged the need to allow the footprint of the private sector to increase, including by focusing on the business environment, and noted the importance of continuing to build on the published financial reports of the state-owned enterprises and Economic Authorities.

- *Greater participation in global trade can help increase exports and investment (Annex V).* Egypt's small export volumes and relatively limited export markets suggest significantly underutilized potential. Non-tariff and tariff barriers are an impediment to trade, limiting Egypt's ability to attract FDI or participate in global value chains. These barriers therefore not only constrain Egypt's ability to scale up exports, but also limit technology transfers that would normally lead to productivity gains. Well-sequenced reforms to gradually reduce trade barriers, ensure predictability of customs procedures, and leverage regional trade agreements will allow distortionary export subsidies to be rolled back while exports and private investment increase, ultimately creating jobs and lifting growth. The authorities noted

[4] See Selected Issues Paper, "*Fiscal Policies to Reach the Sustainable Development Goals by 2030*."

the need to move cautiously to allow nascent domestic industries to adjust and flagged non-tariff barriers as the more relevant area of reform.

- *A greener economy will mitigate environmental pressures while providing economic opportunities.* The authorities emphasized their commitment to a greener and more sustainable economy through their National Strategy for Adaptation to Climate Change and Disaster Risk Reduction. In addition to ramping up green investments, the plan calls for integrating environmental dimensions into government policies and actions (e.g., green fees on gasoline products and issuance of first green bond in the MENA region). Greater public-private collaborations can help accelerate green investments and boost the role of the private sector in greening the economy under an adequate legal and oversight framework. Policies to build up skills for green jobs will then ensure that the workforce can fully benefit from the new opportunities.

Box 1. The Role of State-Owned Enterprises (SOEs) in Egypt[1]

Economic footprint. SOEs are present in almost every sector of the economy. Information provided by the authorities indicates that there are over 300 publicly-owned companies, including public business sector companies (PBSC), public sector companies (PSC) and military-owned companies, and close to 645 joint ventures (JVs) and partnerships involving the state. There are also 53 economic authorities (EAs), that operate in various, often strategic sectors including logistics, agriculture, oil and gas, electricity, and energy. According to the FY2017/18 Economic Census, PBSCs and PSCs alone amounted to around 16 percent of the economy in terms of production, 25 percent of capital investment, and 6 percent of employment.

Financial performance. Benchmarked against private Egyptian firms and SOEs in the rest of the world, profitability of Egyptian SOEs appears much weaker. Using the World Bank's Enterprise Survey data, private sector firms' productivity, on average, is estimated to have been almost 400 percent higher than SOEs' productivity in FY2018/19; of the 278 non-bank SOEs in the authorities' published reports, 107 incurred losses (0.2 percent of GDP). Loss-making SOEs are concentrated in textiles, paper, plastics, metal manufacturing, machinery, and food sectors. Profitable SOEs tend to be where the state has a natural monopoly (oil and gas, water transport including the Suez Canal, and air transport); exclusive rights to public assets or licenses (tobacco, real estate, hotels, restaurants); or enjoys a competitive advantage (telecommunications, where a state authority is the regulator and owns the biggest market player). Underperforming SOEs create fiscal risks. In some cases, underperformance may be a result of quasi-fiscal activities pursued by SOEs (e.g., provision of energy subsidies, building of social housing). In addition, government guarantees to the SOE sector, including EAs, amounted to 18.4 percent of GDP at end-FY2019/20.

Governance. Egyptian SOEs operate under multiple laws for incorporation and ownership, and different governance and procurement regulations. Some SOEs are not subject to the same regulatory framework and market conditions as private sector counterparts, and appear to enjoy advantages in taxes, customs, access to finance, land allocation, and navigating the bureaucracy relative to the private sector.

Recent reforms. Several positive reforms have been undertaken in recent years. *First,* the recent amendments to Law No. 203 (1991) aim to foster transparency, improve accountability of boards of directors and management, and enhance governance. *Second*, the Ministry of Public Business is restructuring

Box 1. The Role of State-Owned Enterprises in Egypt (concluded)

some distressed SOEs including in the textiles sector. *Third*, the state invited the private sector to partner with it through the Sovereign Fund of Egypt and to acquire stakes in SOEs through IPOs.

Key recommendations. Key areas of policy reforms that emerge from the analysis include:

(i) Defining a clear state ownership policy. Reforming the SOE sector should start with developing an ownership policy to enhance accountability and transparency, define sectors where public intervention is governed by a public service mandate, and implement performance boosting measures. This would enable the state to withdraw from other sectors and allow for private sector-led productivity gains. Centralizing state ownership in a single entity would help unify and simplify the legal and governance framework, ensure consistent implementation and reporting, and avoid conflicts of interest.

(ii) Strengthening transparency. Expanding financial reporting to include all public sector companies, JVs and partnerships as well as producing aggregate and industry performance metrics will help incentivize good performance. Publishing regular and comprehensive analyses of the relationship between public enterprises (including JVs and EAs) and the Treasury, detailing fiscal revenues (taxes, dividends) and costs (subsidies, equity injections, direct loans from budget, on-lending support and loan guarantees), will further improve transparency.

(iii) Leveling the playing field. Efforts must be made to ensure competitive neutrality between SOEs and private sector firms with regards to business laws, taxation and customs, access to finance, and access to land. Preferential treatment in taxes or customs should be eliminated and the role of direct procurement among public sector parties should be minimized. A clear criterion should be provided for exempting SOEs from anti-trust law. The roles of regulator and market player should be separated to address potential conflicts of interest.

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[1] *See SIP "The Role of State-Owned Enterprises: Economic Footprint, Performance and Governance".* The analysis on the Egyptian SOE sector is based on the reports published on the website of the Ministry of Finance, which include a summary report on SOEs and EAs, detailed financial information on SOEs here and here, and a report on EAs.

PROGRAM ISSUES

21. The program remains fully financed. The authorities have issued market-based debt broadly in line with staff's expectations at the time of SBA approval. Budget support financing from non-Fund multilateral and bilateral creditors has thus far been somewhat lower than expected, but there are still prospects for further disbursements going forward. While the authorities would issue further market-based debt to address shortfalls if necessary, such a need is unlikely to arise given the greater external stability and the return of capital inflows. The authorities will use the purchase under the second review of the SBA for budget support.

22. Staff assesses that Egypt continues to meet all exceptional access criteria (Box 2). Egypt's debt is assessed to be sustainable, but not with high probability. Safeguards for Fund resources in the form of non-Fund exposures remain adequate in part reflecting the stock of Eurobonds and rollover agreements that have been secured with several official GCC bilateral creditors for certain deposits at the CBE originally scheduled to mature before the SBA ends.

23. Egypt's capacity to repay is adequate, but risks remain. Uncertainty about global financial conditions and the concentration of repayment of obligations to the Fund in FY2023/24 and FY2024/25 remain the key risks. Improvements in the fiscal and external positions are expected to ensure Egypt's continued market access and adequate capacity to repay.

Egypt: External Financing Requirements and Sources
(billions of US$)

	2018/19	2019/20	2020/21
Gross external financing requirements (A)	**24.2**	**20.4**	**30.9**
Current account deficit	10.9	11.2	15.4
Amortization 1/	13.3	9.2	15.5
IMF repurchases	0.0	0.0	0.2
Available financing (B)	**22.6**	**2.2**	**31.6**
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	20.2
External program financing assumed under the program	...	0.1	2.4
Multilateral (ex. IMF)	...	0.1	1.8
World Bank	...	0.1	0.9
Arab Monetary Fund	...	0.0	0.7
African Development Bank	...	0.0	0.3
Bilateral	...	0.0	0.6
France	...	0.0	0.3
Japan	...	0.0	0.3
Other net capital flows 1/ 3/	10.6	-1.9	-2.9
Remaining financing needs (C=A-B)	**1.6**	**18.2**	**-0.7**
IMF purchases (D)	**2.0**	**11.5**	**3.2**
Reserve assets (- = increase) (E=C-D)	**-0.4**	**6.6**	**-3.9**

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.

24. The CBE is progressing with implementation of the remaining 2020 CBE safeguards assessment recommendations. Work is underway to expand the CBE's financial risk management and to enhance the framework for its lender of last resort function. While alignment of financial reporting practices with IFRS did not progress as planned (initially intended for end-June 2020), the CBE reiterated its commitment to full compliance starting with the June 2022 financial accounts (LOI, ¶17).

25. The Fiscal Safeguards Review (FSR) assessed the Public Financial Management (PFM) system to provide broadly adequate assurances for the use of Fund resources. The FSR found the PFM system to be generally well-developed, with some advanced features, but flagged areas for further improvements in the PFM framework and audit functions. These included accelerating the development of the internal audit function across the public sector coupled with creating a central oversight body, strengthening provisions regarding the independence and transparency of the external audit (including through the publication of external audit reports) and strengthening the legal framework for PFM.

Box 2. Exceptional Access Criteria

Staff continues to assess that Egypt meets all four criteria for exceptional access.

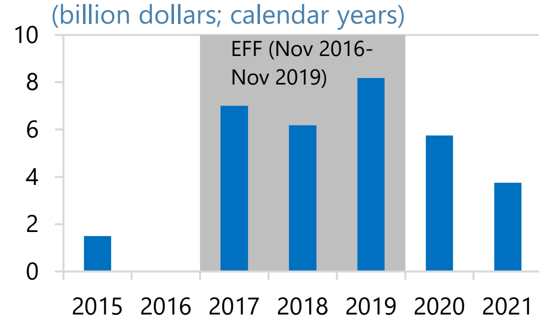
Criterion 1—*The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account resulting in a need for Fund financing that cannot be met within the normal limits.*

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) 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 levels of public debt and gross financing needs, compounded by the impact 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, debt trajectory is projected to resume its downward trend underpinned by a primary surplus of 1½ percent of GDP in FY2021/22 and around 2 percent of GDP from FY2022/23. 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, affirmation of credit ratings and a stable outlook by major ratings agencies since the COVID-19 crisis, 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 include the syndicated loan facility and the stock of Eurobonds (about $29 billion including $750 million green bond issued in September 2020 and $3.75 billion issuance in February 2021), with the first maturity in 2022. Rollover agreements have been secured with several official GCC-area bilateral creditors for their deposits at the CBE originally scheduled to mature before the SBA ends. Bilateral loans expected during the program would further strengthen safeguards to the Fund.

Egypt: Eurobond Issuances
(billion dollars; calendar years)



Note: Includes Green Bond issuance.

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 the Fund.*

Egypt had favorable market access prior to the pandemic and quickly re-established and maintained market access following the RFI and public statements regarding SBA discussions in May 2020. The country also has a strong track record of maintaining investor confidence during times of temporary stress—market

Box 2. Exceptional Access Criteria (concluded)

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 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. Under the SBA, the authorities have pursued 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.

STAFF APPRAISAL

26. The authorities have managed well the economic and social impact of the COVID-19 pandemic over the past year. Timely and prudent fiscal and monetary loosening have shielded the economy from the full brunt of the crisis, while proactive measures to address health needs and support vulnerable sectors alleviated the social impact of the shock. Sound economic policies have helped deliver macroeconomic stabilization, safeguard debt sustainability, and preserve investor confidence.

27. Although the recovery is underway, considerable risks remain. While growth is expected to rebound robustly in FY2021/22, the outlook is still clouded by uncertainty related to the pandemic and the pace of vaccinations. High public debt and large gross financing needs leave Egypt vulnerable to changes in financial market conditions for emerging markets; with a higher stock of nonresident portfolio investment compared to pre-COVID-19 levels, Egypt's vulnerability to changes in investor sentiment persists. Another round of capital outflows may create financing and exchange rate pressures, particularly in the context of still-subdued tourism receipts. The medium-term outlook is contingent on renewed reform momentum to ensure Egypt's ability to sustain high growth and improve external resilience.

28. The budget target for FY2021/22 strikes an appropriate balance between supporting the recovery and putting public debt on a downward trajectory. Staff welcomes the authorities' plan to support continued poverty reduction and inclusive growth through investment in health, education, and rural infrastructure. In the context of this planned scaling-up of public investment, it will be important to focus on the efficiency of investment spending. Staff welcomes the shift in the composition of budget expenditures toward more -growth friendly spending over the past several years, and encourages the authorities to continue strengthening the social safety net by prioritizing and expanding the most effective programs, based on the recent PER.

29. The authorities' plan to return to the pre-COVID-19 primary surplus of 2 percent of GDP in FY2022/23 remains an important signal of fiscal discipline. It should contribute to maintaining market confidence. Sustained progress in shifting toward longer-term debt issuance will also help reduce gross financing needs and vulnerability to shifts in financing conditions by lowering rollover risks.

30. Fiscal risks should continue to be monitored, including those arising from potential contingent liabilities from state-owned enterprises. The implementation of the reform plan for the National Investment Bank is a welcome step to reduce fiscal risks. Staff also encourages the authorities to further improve the transparency of fiscal reporting, including more detailed information on budget execution, and budget support to public enterprises and other state entities through below-the-line operations. This would help create public awareness of the ongoing fiscal support to the economy and provide incentives for improved performance among public entities.

31. Continued progress on fiscal reforms is important to reduce constraints on other policy actions needed to support sustainable and inclusive growth. Egypt's high interest bill and large rollover needs leave the country vulnerable to external and financing pressures and limit space for discretionary policy. Reducing these vulnerabilities and increasing fiscal space for high priority spending are critical stepping-stones for the success of other structural policies. Revenue mobilization, anchored by the authorities' MTRS, will help create space for spending on health, education, and rural infrastructure while high public debt constrains fiscal space. Strong and continued implementation of structural fiscal reforms will help improve spending efficiency, enhance revenue mobilization, and support anti-corruption efforts.

32. The CBE's data-driven approach to monetary policy should continue to anchor inflation expectations around the targeted level of 7 percent. While the pause in monetary policy easing so far in 2021 has been warranted following the substantial cuts in the policy rate in 2020, continued below-target inflation should provide scope to reduce high real interest rates to further support economic activity. Given available policy space, an easing bias appears appropriate at the current juncture. Further rate cuts should be considered if inflation persists below the target band once the base effects currently at play dissipate or if downside risks to growth materialize.

33. Staff encourages the CBE to further strengthen monetary policy transmission. The 100 basis points reduction in the policy rate in the second half of 2020 has not transmitted to the interbank rates, limiting the impact on financial conditions and domestic economic activity. At the same time, the CBE's various subsidized lending schemes—some of which pre-dated the COVID-19 crisis—have provided credit to the market at below policy rates. The divergence in interest rates obscures the monetary policy objective and dampens monetary transmission. If subsequent subsidized lending facilities after June 2022 are considered to be necessary to advance social objectives, those objectives should be clearly defined and the cost transparently recognized in the budget, rather than being implemented through the CBE.

34. Staff welcomes the authorities' continued commitment to a market-determined exchange rate. 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 capital flow volatility. Staff encourages the authorities to take advantage of favorable market conditions to continue to rebuild FX buffers where possible.

35. The financial system appears healthy, but continued supervisory vigilance is warranted. As COVID-19-related relief measures are unwound, financial regulators should continue to closely monitor lending standards while ensuring that financial conditions remain supportive of the economic recovery. Policies to promote financial deepening and expand non-sovereign exposure of the banking system will also help lower credit concentration and safeguard against the risk of crowding out lending to the private sector during the recovery. The recent initiative to expand banks' lending to SMEs will contribute towards this objective, provided appropriate prudential standards are maintained, and due attention is paid to avoid introducing rigidities to bank operations.

36. A comprehensive structural reform agenda is essential to help unleash Egypt's enormous growth potential. Staff welcomes the recent launch of the NSRP as a strong signal of the government's commitment to continue structural reforms to raise potential growth and living standards, with a focus on human capital development, increased efficiency and transparency of public institutions, an enabling environment for a more competitive and export-oriented private sector, and a greener economy. It will be important for the government to support these reform objectives with well-identified policy measures and sustained efforts to achieve meaningful and durable improvements in the investment climate and governance.

37. Better resource allocation is needed to foster private sector development, including through a reassessment of the state footprint in the economy. Egypt's economic development continues to be characterized by a large role for the state, with state-owned enterprises accounting for a sizable share of economic activity and often benefiting from an uneven playing field vis-à-vis their private sector counterparts. The large state footprint should be gradually reduced, such that the state plays an enabling rather than a leading role in economic activities. An important first step toward a transparent market-based economy with limited state intervention will be the development of a comprehensive state ownership strategy to clearly articulate the principles of state involvement in commercial enterprises.

38. Staff supports the authorities' request for completion of the second and last review under the Stand-By Arrangement. Data provision is adequate for surveillance. Staff recommends that the next Article IV consultation with Egypt reverts to the standard 12-month cycle.

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
			1st	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices				(percent change)				
Real GDP (market prices)	5.6	3.6	2.8	2.8	5.2	5.6	5.7	5.8
Consumer prices (end of period)	9.4	5.6	6.3	5.7	6.8	6.9	6.9	6.8
Consumer prices (period average)	13.9	5.7	4.8	4.6	6.6	6.8	6.9	6.9
Public finances 2/				(percent of GDP)				
Gross Debt 3/	84.2	90.0	93.0	92.0	89.8	87.0	83.4	79.9
External	17.8	18.9	21.1	19.6	18.4	17.6	16.4	15.4
Domestic	66.4	71.1	71.9	72.4	71.4	69.4	67.0	64.4
Gross Debt 4/	83.7	88.1	91.3	90.3	88.3	85.7	82.2	78.8
Budget sector 5/								
Revenue and grants	17.7	16.7	18.2	17.9	18.6	18.7	18.9	19.1
Expenditure (incl. net acquisition of financial assets)	25.8	24.7	26.5	26.1	25.6	24.9	24.6	24.4
Of which: Energy subsidies	1.9	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Overall balance	-8.1	-7.9	-8.4	-8.2	-7.0	-6.2	-5.7	-5.3
Overall balance, excl. grants	-8.1	-8.0	-8.4	-8.2	-7.1	-6.2	-5.7	-5.3
Primary balance 6/	1.9	1.8	0.6	0.9	1.5	2.0	2.0	2.0
Monetary sector				(percent change)				
Credit to the private sector	12.4	19.5	16.0	20.1	18.0	16.0	14.0	14.0
Reserve money	-4.5	25.1	14.6	17.0	10.2	3.0	13.3	13.3
Broad money (M2)	11.8	17.5	15.3	16.5	12.7	12.0	12.9	13.0
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$, percentage change)	10.3	-7.4	-5.2	0.5	10.8	5.5	2.1	1.5
Imports of goods (in US$, percentage change)	5.4	-5.5	-6.0	3.7	1.1	7.3	9.7	8.0
Merchandise trade balance	-12.6	-10.1	-8.7	-9.8	-8.3	-8.4	-9.1	-9.5
Current account	-3.6	-3.1	-4.2	-3.9	-3.6	-2.6	-2.4	-2.4
Capital and financial account (incl. errors and omissions)	1.5	-0.3	2.0	2.2	4.5	3.6	4.2	4.2
Foreign direct investment (net, in billions of US$)	7.9	7.1	5.4	5.4	8.6	11.7	14.9	16.5
External debt 7/	36.0	34.1	33.9	36.3	32.3	28.2	25.9	24.2
Gross international reserves (in billions of US$)	43.9	37.2	40.6	41.1	44.1	47.6	51.8	55.1
In months of next year's imports of goods and services	7.0	5.9	7.0	6.0	6.0	5.9	6.0	5.9
In percent of short-term external debt 8/	145.5	175.9	116.1	94.3	93.8	102.9	114.3	123.5
Financing gap (in billions of US$)	0.0	0.0	-12.2	-10.9	0.0	0.0	0.0	0.0
Rapid Financing Instrument purchase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stand-By Arrangement purchases	0.0	0.0	-3.2	-3.2	0.0	0.0	0.0	0.0
Other prospective financing	0.0	0.0	-8.9	-7.7	0.0	0.0	0.0	0.0
Memorandum items:								
Exchange rate (EGP/$, ep)	16.7	16.2	…	…	…	…	…	…
Nominal GDP (in billions of Egyptian pounds)	5,322	5,830	6,298	6,226	7,009	7,933	8,982	10,175
Nominal GDP (in billions of US$)	302	362	…	…	…	…	…	…
GDP per capita (in US$)	3,057	3,593	…	…	…	…	…	…
Unemployment rate (period average, percent)	8.6	8.3	…	…	…	…	…	…
Population (in millions)	98.9	100.9	102.9	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 May 31, 2021.
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
			1st Review	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-10.9	-11.2	-16.5	-15.4	-15.8	-12.3	-12.3	-13.0
Balance on goods and services	-25.0	-27.5	-30.0	-33.6	-31.5	-27.2	-27.4	-28.7
Exports of goods and services	52.9	47.7	38.3	42.3	50.5	60.5	68.9	75.4
Imports of goods and services	-77.9	-75.2	-68.3	-76.0	-82.0	-87.8	-96.3	-104.1
Trade balance	-38.0	-36.5	-34.1	-38.7	-36.5	-39.7	-45.9	-51.7
Oil and gas	0.0	-0.4	0.4	0.3	0.0	-1.0	-1.8	-2.0
Other	-38.0	-36.0	-34.4	-39.0	-36.5	-38.8	-44.2	-49.7
Exports of goods	28.5	26.4	25.0	26.5	29.4	31.0	31.6	32.1
Oil and gas	11.6	8.5	7.3	8.3	8.5	7.2	6.7	6.3
Other	16.9	17.9	17.7	18.2	20.9	23.8	24.9	25.8
Imports of goods	-66.5	-62.8	-59.1	-65.2	-65.9	-70.7	-77.6	-83.8
Oil and gas	-11.5	-8.9	-6.9	-8.0	-8.5	-8.2	-8.5	-8.2
Other	-55.0	-53.9	-52.1	-57.2	-57.4	-62.5	-69.1	-75.5
Services (net)	13.0	9.0	4.1	5.1	5.0	12.5	18.6	22.9
Receipts	24.4	21.3	13.3	15.9	21.2	29.6	37.3	43.3
Of which: Tourism receipts	12.6	9.9	2.4	4.4	8.0	15.0	20.8	25.1
Of which: Suez canal receipts	5.7	5.8	5.7	5.9	6.6	6.9	7.3	7.6
Payments	-11.4	-12.3	-9.2	-10.8	-16.1	-17.1	-18.7	-20.3
Of which : Transportation	-1.8	-2.1	-2.0	-1.9	-1.9	-2.0	-2.3	-2.5
Of which: Travel	-2.9	-3.2	-0.9	-2.8	-4.0	-4.4	-4.7	-5.0
Primary income (net)	-11.0	-11.4	-10.9	-11.0	-14.9	-15.0	-14.8	-14.7
Receipts	1.0	0.9	1.0	0.3	1.1	1.2	1.2	1.3
Payments	-12.0	-12.3	-11.9	-11.4	-16.0	-16.2	-16.1	-16.0
Transfers	25.1	27.7	24.4	29.2	30.6	30.0	29.9	30.4
Official grants	0.4	0.2	0.2	0.0	0.0	0.0	0.1	0.1
Private remittances	24.8	27.5	24.2	29.2	30.6	29.9	29.9	30.3
Capital and financial account	4.2	-0.3	8.0	8.6	19.6	17.1	21.4	22.8
Medium- and long-term loans (net)	1.2	-0.2	0.2	0.2	0.1	1.0	1.9	2.6
Drawings	3.7	2.5	4.8	4.8	5.7	5.7	5.7	5.7
Amortization	2.5	2.7	4.6	4.6	5.5	4.7	3.8	3.1
FDI (net)	7.9	7.1	5.4	5.4	8.6	11.7	14.9	16.5
Portfolio investment (net)	4.1	-8.1	9.6	20.2	7.0	8.0	6.9	6.4
Commercial banks' NFA	-1.7	6.7	-1.5	-7.7	6.8	3.8	-1.0	-2.5
Other (including short-term capital and central bank deposits)	-7.1	-5.5	-5.8	-9.5	-2.9	-7.3	-1.2	-0.2
Errors and omissions (net)	0.4	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-6.3	-12.4	-8.5	-6.8	3.8	4.8	9.1	9.7
Financing	6.3	12.4	-3.6	-4.1	-3.8	-4.8	-9.1	-9.7
Reserves ("-" indicates increase)	-0.4	6.6	-3.4	-3.9	-3.0	-3.4	-4.2	-3.3
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	-0.8	-1.4	-4.9	-6.4
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	-10.9	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	-7.7	0.0	0.0	0.0	0.0
Memorandum items:								
Current account excluding grants	-11.2	-11.4	-16.7	-15.4	-15.8	-12.3	-12.3	-13.1
Terms of trade (percent change)	0.1	-4.3	0.5	-0.3	2.2	-0.1	-0.6	-0.6
Gross international reserves (end of period)	43.9	37.2	40.6	41.1	44.1	47.6	51.8	55.1
In months of next year's imports of G&S	7.0	5.9	7.0	6.0	6.0	5.9	6.0	5.9
In percent of ARA metric (floating)	150	120	119.0	111	109	109	110	110
External debt	108.7	123.5	132.7	143.2	141.6	133.0	131.0	131.3
External debt service	12.8	16.1	18.5	22.6	26.3	33.1	24.0	24.1
External debt service (in percent of exports of GNFS)	24.2	33.8	48.2	53.4	52.0	54.7	34.9	32.0
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)	17.9	14.3	…	…	…	…	…	…

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

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
			1st review	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-3.6	-3.1	-4.2	-3.9	-3.6	-2.6	-2.4	-2.4
Balance on goods and services	-8.3	-7.6	-7.7	-8.5	-7.2	-5.8	-5.4	-5.3
Exports of goods and services	17.5	13.2	9.8	10.7	11.5	12.8	13.6	13.9
Imports of goods and services	-25.8	-20.7	-17.4	-19.3	-18.7	-18.6	-19.0	-19.2
Trade balance	-12.6	-10.1	-8.7	-9.8	-8.3	-8.4	-9.1	-9.5
Oil and gas	0.0	-0.1	0.1	0.1	0.0	-0.2	-0.4	-0.4
Other	-12.6	-9.9	-8.8	-9.9	-8.3	-8.2	-8.7	-9.2
Exports	9.4	7.3	6.4	6.7	6.7	6.6	6.3	5.9
Oil and gas	3.8	2.3	1.9	2.1	1.9	1.5	1.3	1.2
Other	5.6	4.9	4.5	4.6	4.8	5.0	4.9	4.8
Imports	-22.0	-17.3	-15.1	-16.5	-15.0	-15.0	-15.3	-15.4
Oil and gas	-3.8	-2.5	-1.8	-2.0	-1.9	-1.7	-1.7	-1.5
Other	-18.2	-14.9	-13.3	-14.5	-13.1	-13.3	-13.7	-13.9
Services (net)	4.3	2.5	1.0	1.3	1.2	2.6	3.7	4.2
Receipts	8.1	5.9	3.4	4.0	4.8	6.3	7.4	8.0
Of which: Tourism receipts	4.2	2.7	0.6	1.1	1.8	3.2	4.1	4.6
Of which: Suez canal dues	1.9	1.6	1.5	1.5	1.5	1.5	1.4	1.4
Payments	-3.8	-3.4	-2.3	-2.7	-3.7	-3.6	-3.7	-3.7
Of which : Transportation	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4	-0.5
Of which: Travel	-1.0	-0.9	-0.2	-0.7	-0.9	-0.9	-0.9	-0.9
Primary income (net)	-3.6	-3.1	-2.8	-2.8	-3.4	-3.2	-2.9	-2.7
Receipts	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.2
Payments	-4.0	-3.4	-3.0	-2.9	-3.7	-3.4	-3.2	-2.9
Transfers	8.3	7.6	6.2	7.4	7.0	6.4	5.9	5.6
Official grants	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Private remittances	8.2	7.6	6.2	7.4	7.0	6.3	5.9	5.6
Capital and financial account	1.4	-0.1	2.0	2.2	4.5	3.6	4.2	4.2
Medium- and long-term loans (net)	0.4	-0.1	0.1	0.0	0.0	0.2	0.4	0.5
Drawings	1.2	0.7	1.2	1.2	1.3	1.2	1.1	1.0
Amortization	0.8	0.7	1.2	1.2	1.3	1.0	0.8	0.6
FDI (net)	2.6	2.0	1.4	1.4	2.0	2.5	2.9	3.0
Portfolio investment (net)	1.4	-2.2	2.5	5.1	1.6	1.7	1.4	1.2
Commercial banks' NFA	-0.6	1.8	-0.4	-2.0	1.5	0.8	-0.2	-0.5
Other (including short-term capital and central bank deposits)	-2.4	-1.5	-1.5	-2.4	-0.7	-1.5	-0.2	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	-2.2	-1.7	0.9	1.0	1.8	1.8
Financing	2.1	3.4	-0.9	-1.0	-0.9	-1.0	-1.8	-1.8
Reserves ("-" indicates increase)	-0.1	1.8	-0.9	-1.0	-0.7	-0.7	-0.8	-0.6
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	-3.1	-2.8	0.0	0.0	0.0	0.0
Stand-By Arrangement Purchaes	0.0	0.0	-0.8	-0.8	0.0	0.0	0.0	0.0
Other prospective financing	0.0	0.0	-2.3	-1.9	0.0	0.0	0.0	0.0
Memorandum items:								
Current account excluding grants	-3.7	-3.1	-4.3	-3.9	-3.6	-2.6	-2.4	-2.4
Gross international reserves (end of period)	13.8	10.3	10.9	10.4	10.3	10.4	10.5	10.4
External debt	34.1	34.2	35.6	36.1	33.0	29.1	26.5	24.9
External debt service	4.2	4.4	4.7	5.7	6.0	7.0	4.8	4.4

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

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
			1st Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	941.9	975.4	1,145.4	1,115.4	1,301.0	1,486.4	1,698.0	1,945.7
Tax revenue	736.1	739.6	845.7	829.0	968.2	1,109.3	1,271.0	1,461.9
Income and property	309.0	346.5	380.7	394.9	457.9	522.0	596.9	683.0
Personal income tax	87.3	98.0	116.1	126.7	149.6	172.3	202.1	237.0
Corporate income tax	162.8	188.9	196.2	196.4	220.3	254.3	293.0	336.9
EGPC	42.5	26.3	41.6	41.6	41.6	47.0	53.2	60.3
Other	120.2	162.5	154.6	154.8	178.8	207.3	239.7	276.6
Property	58.9	59.6	68.4	71.8	87.9	95.3	101.8	109.2
Goods and services	350.6	330.0	399.2	377.7	435.2	502.6	577.0	668.7
Oil excises	41.5	27.6	23.3	23.3	26.2	34.6	42.2	52.8
VAT and nonoil excises	309.1	302.4	375.9	354.5	409.0	467.9	534.8	615.9
International trade	42.0	32.6	37.6	37.2	42.6	48.0	55.5	63.1
Other taxes	34.5	30.6	28.2	19.2	32.4	36.7	41.6	47.1
Nontax revenue	203.2	230.5	297.5	284.1	331.3	375.4	425.0	481.5
Oil-related nontax revenue	15.4	13.3	21.8	21.8	22.3	25.3	28.6	32.4
Other nontax revenues	187.8	217.3	275.7	262.4	309.0	350.1	396.4	449.1
Of which: interest income	6.0	9.8	9.8	9.8	11.0	12.5	14.1	16.0
Grants	2.6	5.3	2.2	2.2	1.5	1.7	2.0	2.2
Expenditure	1,369.9	1,434.7	1,660.9	1,615.3	1,792.2	1,972.5	2,203.9	2,478.6
Wages and other remunerations	266.1	288.8	330.0	324.0	361.0	408.6	467.6	534.8
Purchases of goods and services	62.4	69.9	91.3	84.3	103.9	127.6	149.4	174.3
Interest	533.0	568.4	564.6	567.0	598.2	648.0	689.3	740.7
Domestic	497.8	525.7	515.8	518.2	543.0	586.2	618.8	657.4
External	35.2	42.7	48.8	48.8	55.2	61.8	70.5	83.3
Subsidies, grants, and social benefits	287.5	229.2	324.0	305.3	321.3	362.0	401.6	458.0
Energy subsidies	100.7	18.7	28.2	18.7	18.4	20.8	23.6	26.7
Of which: fuel subsidy	84.7	18.7	28.2	18.7	18.4	20.8	23.6	26.7
Food subsidies 2/	87.6	80.4	85.2	80.4	87.2	92.4	97.2	99.6
Transfer to SIF 3/	48.5	55.0	130.0	123.2	135.0	142.6	150.5	159.0
Other	50.7	75.1	80.7	83.1	80.7	106.3	130.4	172.7
Other current	77.6	86.8	104.0	102.9	113.8	125.3	141.9	160.7
Investment	143.3	191.6	246.9	231.8	294.0	300.9	353.9	410.1
Cash balance	-428.0	-459.3	-515.5	-499.9	-491.2	-486.0	-505.9	-532.9
Net acquisition of financial assets	2.0	3.5	10.7	9.2	2.9	3.3	3.8	4.3
Overall balance	-430.0	-462.8	-526.2	-509.1	-494.1	-489.4	-509.7	-537.2
Financing	430.0	462.8	526.2	509.1	494.1	489.4	509.7	537.2
Net domestic	299.8	272.6	358.1	359.4	473.9	461.4	504.4	529.4
Net external	130.2	190.2	-28.1	-42.9	20.2	28.0	5.3	7.8
Financing gap	0.0	0.0	196.2	192.6	0.0	0.0	0.0	0.0
of which IMF			51.5	50.5				
of which other			144.7	142.1				
Memorandum items:								
Primary balance 4/	103.1	105.6	38.4	57.9	104.1	158.7	179.6	203.5
Oil balance 5/	-1.3	48.5	58.5	68.0	71.7	86.1	100.5	118.9
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	6,025	5,870	6,481	7,134	7,759	8,418
Gross budget sector debt 7/	4,802	5,094	5,766	5,611	6,222	6,875	7,500	8,159
Net debt 8/	4,497	4,751	5,400	5,250	5,815	6,415	6,979	7,569
Nominal GDP (in billions of Egyptian pounds)	5,322	5,830	6,298	6,226	7,009	7,933	8,982	10,175

Sources: Ministry of Finance; and IMF staff estimates; based on available data as of May 31, 2021.

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
			1st Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	17.7	16.7	18.2	17.9	18.6	18.7	18.9	19.1
Tax revenue	13.8	12.7	13.4	13.3	13.8	14.0	14.2	14.4
Income and corporate tax	5.8	5.9	6.0	6.3	6.5	6.6	6.6	6.7
Personal income tax	1.6	1.7	1.8	2.0	2.1	2.2	2.3	2.3
Corporate income tax	3.1	3.2	3.1	3.2	3.1	3.2	3.3	3.3
EGPC	0.8	0.5	0.7	0.7	0.6	0.6	0.6	0.6
Other	2.3	2.8	2.5	2.5	2.6	2.6	2.7	2.7
Property	1.1	1.0	1.1	1.2	1.3	1.2	1.1	1.1
Goods and services	6.6	5.7	6.3	6.1	6.2	6.3	6.4	6.6
Oil excises	0.8	0.5	0.4	0.4	0.4	0.4	0.5	0.5
VAT and nonoil excises	5.8	5.2	6.0	5.7	5.8	5.9	6.0	6.1
International trade	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other taxes	0.6	0.5	0.4	0.3	0.5	0.5	0.5	0.5
Nontax revenue	3.8	4.0	4.7	4.6	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	4.4	4.2	4.4	4.4	4.4	4.4
Of which: interest income	0.1	0.2	0.2	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	24.6	26.4	25.9	25.6	24.9	24.5	24.4
Wages and other remunerations	5.0	5.0	5.2	5.2	5.2	5.2	5.2	5.3
Purchases of goods and services	1.2	1.2	1.4	1.4	1.5	1.6	1.7	1.7
Interest	10.0	9.7	9.0	9.1	8.5	8.2	7.7	7.3
Domestic	9.4	9.0	8.2	8.3	7.7	7.4	6.9	6.5
External	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Subsidies, grants and social benefits	5.4	3.9	5.1	4.9	4.6	4.6	4.5	4.5
Energy subsidies	1.9	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Of which: fuel subsidy	1.6	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Food subsidies 2/	1.6	1.4	1.4	1.3	1.2	1.2	1.1	1.0
Transfers to SIF 3/	0.9	0.9	2.1	2.0	1.9	1.8	1.7	1.6
Other	1.0	1.3	1.3	1.3	1.2	1.3	1.5	1.7
Other current	1.5	1.5	1.7	1.7	1.6	1.6	1.6	1.6
Investment	2.7	3.3	3.9	3.7	4.2	3.8	3.9	4.0
Cash balance	-8.0	-7.9	-8.2	-8.0	-7.0	-6.1	-5.6	-5.2
Net acquisition of financial assets	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Overall balance	-8.1	-7.9	-8.4	-8.2	-7.0	-6.2	-5.7	-5.3
Financing	8.1	7.9	8.4	8.2	7.0	6.2	5.7	5.3
Net domestic	5.6	4.7	5.7	5.8	6.8	5.8	5.6	5.2
Net external	2.4	3.3	-0.4	-0.7	0.3	0.4	0.1	0.1
Financing gap	0.0	0.0	3.1	3.1	0.0	0.0	0.0	0.0
of which IMF			0.8	0.8				
of which other			2.3	2.3				
Memorandum items:								
Primary balance 4/	1.9	1.8	0.6	0.9	1.5	2.0	2.0	2.0
Oil balance 5/	0.0	0.8	0.9	1.1	1.0	1.1	1.1	1.2
Gross budget sector debt 6/	90.8	91.8	95.7	94.3	92.5	89.9	86.4	82.7
Gross budget sector debt 7/	90.2	87.4	91.5	90.1	88.8	86.7	83.5	80.2
Net debt 8/	84.5	81.5	85.7	84.3	83.0	80.9	77.7	74.4

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Food subsidies include subsidies paid to farmers.

3/ 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
			1st Review	Proj.	Proj.	Proj.	Proj.	Proj.
	(In billions of Egyptian pounds)							
Revenue and grants	1,080.2	1,121.4	1,302.8	1,271.0	1,476.3	1,684.8	1,922.5	2,200.1
Tax revenue	736.1	739.6	845.7	829.0	968.2	1,109.3	1,271.0	1,461.9
Income and property	309.0	346.5	380.7	394.9	457.9	522.0	596.9	683.0
Personal income tax	87.3	98.0	116.1	126.7	149.6	172.3	202.1	237.0
Corporate income tax	162.8	188.9	196.2	196.4	220.3	254.3	293.0	336.9
EGPC	42.5	26.3	41.6	41.6	41.6	47.0	53.2	60.3
Other	120.2	162.5	154.6	154.8	178.8	207.3	239.7	276.6
Goods and services	350.6	330.0	399.2	377.7	435.2	502.6	577.0	668.7
Oil excises	41.5	27.6	23.3	23.3	26.2	34.6	42.2	52.8
VAT and nonoil excises	309.1	302.4	375.9	354.5	409.0	467.9	534.8	615.9
International trade taxes	42.0	32.6	37.6	37.2	42.6	48.0	55.5	63.1
Other taxes	34.5	30.6	28.2	19.2	32.4	36.7	41.6	47.1
Nontax revenue	341.4	376.5	455.0	439.8	506.6	573.7	649.6	735.9
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	1.5	1.7	2.0	2.2
Expenditure	1,505.2	1,580.9	1,755.5	1,733.1	1,921.6	2,128.5	2,392.5	2,708.0
Wages and other remunerations	268.4	291.2	332.2	326.2	363.5	411.4	470.8	538.4
Purchases of goods and services	62.7	70.6	92.1	85.0	104.7	128.5	150.4	175.3
Interest	506.5	542.3	533.9	555.5	578.5	625.1	664.6	714.9
Domestic interest	471.3	499.5	485.1	506.7	523.3	563.3	594.1	631.6
External interest	35.2	42.7	48.8	48.8	55.2	61.8	70.5	83.3
Subsidies, grants, and social benefits	446.5	398.2	446.0	431.2	466.7	536.8	610.4	706.0
Other current	77.7	86.9	104.4	103.3	114.2	125.8	142.4	163.2
Investment	143.5	191.6	246.9	231.8	294.0	300.9	353.9	410.1
Net acquisition of financial assets	-2.0	-51.0	10.7	9.2	2.9	3.3	3.8	4.3
Overall balance	-423.0	-408.5	-463.3	-471.2	-448.3	-447.0	-473.8	-512.2
Financing	423.0	408.5	463.3	471.2	448.3	447.0	473.8	512.2
Net domestic	292.9	218.3	295.2	321.6	428.1	419.1	468.5	504.4
Bank	396.6	213.3	295.2	321.6	428.1	419.1	468.5	504.4
Nonbank	-103.7	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external	130.2	42.2	95.7	78.6	20.2	28.0	5.3	7.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	196.2	192.6	0.0	0.0	0.0	0.0
of which IMF			51.5	50.5				
of which other			144.7	142.1				
	(In percent of GDP, unless otherwise indicated)							
Revenue and grants	20.3	19.2	20.7	20.4	21.1	21.2	21.4	21.6
Tax revenue	13.8	12.7	13.4	13.3	13.8	14.0	14.2	14.4
Nontax revenue	6.4	6.5	7.2	7.1	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	27.1	27.9	27.8	27.4	26.8	26.6	26.6
Wages and other remunerations	5.0	5.0	5.3	5.2	5.2	5.2	5.2	5.3
Purchases of goods and services	1.2	1.2	1.5	1.4	1.5	1.6	1.7	1.7
Interest	9.5	9.3	8.5	8.9	8.3	7.9	7.4	7.0
Subsidies, grants, and social benefits	8.4	6.8	7.1	6.9	6.7	6.8	6.8	6.9
Other current	1.5	1.5	1.7	1.7	1.6	1.6	1.6	1.6
Investment	2.7	3.3	3.9	3.7	4.2	3.8	3.9	4.0
Net acquisition of financial assets	0.0	-0.9	0.2	0.1	0.0	0.0	0.0	0.0
Financing	7.9	7.0	7.4	7.6	6.4	5.6	5.3	5.0
Net domestic	5.5	3.7	4.7	5.2	6.1	5.3	5.2	5.0
Bank	7.5	3.7	4.7	5.2	6.1	5.3	5.2	5.0
Nonbank	-1.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net external	2.4	0.7	1.5	1.3	0.3	0.4	0.1	0.1
Financing gap	0.0	0.0	3.1	3.1	0.0	0.0	0.0	0.0
of which IMF		0.0	0.8	0.8				
of which other		0.0	2.3	2.3				
Memorandum items:								
Primary balance	1.6	2.3	1.1	1.4	1.9	2.2	2.1	2.0
Gross general government debt 2/	84.2	90.0	93.0	92.0	89.8	87.0	83.4	79.9
Gross general government debt 3/	83.7	88.1	91.3	90.3	88.3	85.7	82.2	78.8
Nominal GDP (in billions of EGP)	5,322	5,830	6,298	6,226	7,009	7,933	8,982	10,175

Sources: Ministry of Finance; and IMF staff estimates.

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

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	214	272	348	442	532
Foreign assets	734	604	648	723	828	946	1066
Foreign liabilities	470	447	434	451	480	504	534
Net domestic assets	420	698	787	832	788	845	926
Net domestic credit	143	543	507	632	723	796	889
Net credit to central government	747	813	710	710	710	710	710
Net credit to public economic authorities	-1	-7	-3	-6	-6	-6	-7
Credit to banks	300	274	311	276	281	296	313
Banks' deposits in foreign currency	-121	-112	-109	-114	-121	-127	-135
Open market operations	-782	-424	-402	-235	-141	-77	7
Other items net	277	155	280	200	66	49	37
Reserve money	684	856	1001	1103	1136	1287	1458
Currency in circulation	487	603	654	736	777	885	1007
Reserves and highly liquid assets of banks	197	253	347	367	359	402	451
Cash in vaults	49	48	48	48	48	48	48
Reserves	148	204	299	318	311	354	403

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

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	181	237	311	403	491
Central bank	264	157	214	272	348	442	532
Commercial banks	36	-34	-33	-35	-37	-39	-41
Net domestic assets	3,564	4,416	5,106	5,719	6,362	7,132	8,026
Net claims on central and local government	2,217	3,022	3,367	3,977	4,467	5,003	5,566
Net claims on public economic authorities	211	213	262	299	346	399	459
Claims on public sector companies	162	156	177	195	216	239	266
Claims on private sector	1,217	1,455	1,746	2,060	2,389	2,723	3,104
Net other items	-244	-429	-446	-811	-1,056	-1,232	-1,368
Broad money (M2)	3,864	4,539	5,286	5,956	6,673	7,535	8,516
Domestic currency component (M2D)	3,149	3,872	4,639	5,283	5,958	6,784	7,720
Currency outside banks	487	603	654	736	777	885	1,007
Domestic currency deposits	2,662	3,269	3,985	4,546	5,181	5,899	6,713
Foreign currency deposits	715	667	647	673	715	751	796
			(Annual percent change, unless otherwise indicated)				
Broad money (M2)	11.8	17.5	16.5	12.7	12.0	12.9	13.0
Domestic currency component (M2D)	15.0	23.0	19.8	13.9	12.8	13.9	13.8
Reserve money	-4.5	25.1	17.0	10.2	3.0	13.3	13.3
Contribution to broad money growth	11.8	17.5	16.5	12.7	12.0	12.9	13.0
Net foreign assets	-0.3	-4.6	1.3	1.1	1.2	1.4	1.2
Net domestic assets	12.1	22.1	15.2	11.6	10.8	11.5	11.9
Credit to the private sector	12.4	19.5	20.1	18.0	16.0	14.0	14.0
Credit to government, public economic authorities and public se	9.0	30.9	12.2	17.5	12.5	12.2	11.5
Memorandum items:							
Velocity							
Velocity GDP/M2D (level)	1.8	1.7	1.5	1.4	1.4	1.4	1.4
Velocity GDP/M2 (level)	1.5	1.4	1.3	1.2	1.3	1.3	1.3
M2 (in percent of GDP)	72.6	77.9	84.9	85.0	84.1	83.9	83.7
Money multiplier (M2D/reserve money)	4.6	4.5	4.6	4.8	5.2	5.3	5.3
Money multiplier (M2/reserve money)	5.6	5.3	5.3	5.4	5.9	5.9	5.8
M2 (in real terms)	-2.2	7.4	10.2	6.6	4.9	5.7	5.8
Domestic currency deposits (in real terms)	1.2	12.3	15.3	7.9	6.7	6.6	6.5
Claims on private sector (in real terms)	-1.7	9.3	13.6	11.6	8.6	6.7	6.7
Foreign currency deposits (in percent of total deposits)	21.2	16.9	14.0	12.9	12.1	11.3	10.6

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

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

	2018/19	2019/20	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.
			(Annual change, in percent)				
Real GDP at market price	5.6	3.6	2.8	5.2	5.6	5.7	5.8
Domestic demand (absorption)	2.9	2.6	1.0	4.2	5.2	5.4	5.8
Private	3.3	2.0	0.1	4.3	5.1	5.2	5.6
Public	-0.5	7.0	7.9	3.4	6.3	7.3	7.4
Consumption	1.1	7.2	-1.4	3.3	5.4	4.8	5.1
Private	1.0	7.3	-2.6	3.4	5.1	4.5	4.7
Public	2.8	6.7	8.7	2.2	8.0	7.7	7.8
Investment	12.9	-20.9	17.6	9.7	4.0	8.7	9.8
Gross fixed capital formation	14.7	-14.8	10.1	9.7	4.0	8.7	9.8
Private	68.4	-37.3	20.0	10.0	12.0	13.0	15.0
Public	-13.9	8.7	4.2	9.5	-1.6	5.3	5.4
Net exports of goods and services 1/	2.3	0.8	1.7	0.8	0.2	0.1	-0.3
Exports of goods and services	-2.2	-21.7	-13.5	14.8	19.8	12.1	7.2
Imports of goods and services	-8.9	-17.9	-17.0	5.6	13.7	9.1	7.2
Real GDP at factor cost	5.1	2.5	1.9	5.2	5.6	5.7	5.8
Agriculture	3.3	3.3	4.0	3.0	3.5	3.6	3.6
Construction	8.8	4.4	7.8	7.9	11.9	13.0	13.2
Industry	5.1	-0.3	-3.8	2.5	3.3	3.9	4.0
Services	5.4	3.1	3.8	7.5	7.2	6.7	6.6
General government	2.7	6.1	4.8	3.0	3.0	3.0	3.0
Suez Canal	7.9	5.0	-1.8	4.0	4.0	4.1	4.2
			(Contribution to real growth, in percent 2/)				
Real GDP at market price	5.6	3.6	2.8	5.2	5.6	5.7	5.8
Domestic demand (absorption)	3.3	2.8	1.1	4.5	5.4	5.7	6.0
Private	4.5	1.4	-0.1	3.3	4.8	4.4	4.7
Public	-1.2	1.4	1.2	1.1	0.7	1.3	1.3
Consumption	1.1	6.5	-1.3	2.9	4.8	4.3	4.4
Private	0.8	5.9	-2.2	2.7	4.0	3.5	3.6
Public	0.3	0.6	0.8	0.2	0.8	0.8	0.8
Investment	2.2	-3.8	2.4	1.5	0.7	1.4	1.6
Gross fixed capital formation	2.4	-2.6	1.5	1.5	0.7	1.4	1.6
Private	3.9	-3.4	1.1	0.6	0.8	0.9	1.1
Public	-1.5	0.8	0.4	0.9	-0.2	0.5	0.5
Net exports of goods and services	2.3	0.8	1.7	0.8	0.2	0.1	-0.3
Exports of goods and services	-0.4	-4.0	-1.9	1.7	2.5	1.7	1.1
Imports of goods and services	2.7	4.8	3.6	-1.0	-2.3	-1.7	-1.4
Real GDP at factor cost	5.1	2.5	1.9	5.2	5.6	5.7	5.8
Agriculture	0.4	0.4	0.5	0.3	0.4	0.4	0.4
Construction	0.5	0.3	0.5	0.5	0.8	0.9	1.0
Industry	1.5	-0.1	-1.1	0.7	0.8	1.0	1.0
Services	2.3	1.3	1.7	3.4	3.2	3.1	3.0
General government	0.2	0.5	0.4	0.3	0.3	0.3	0.2
Suez Canal	0.2	0.1	0.0	0.1	0.1	0.1	0.1

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

1/ Contribution to growth.

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

Table 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	108.5	107.2	105.8	105.4	105.3
Private	91.9	90.4	90.6	89.2	88.4	87.9	87.7
Public	16.4	17.2	17.9	17.9	17.4	17.5	17.6
Consumption	90.3	93.8	92.7	90.7	89.5	88.7	88.0
Private	82.6	85.8	84.2	82.5	81.2	80.3	79.4
Public	7.7	8.0	8.5	8.2	8.4	8.5	8.6
Investment	18.0	13.8	15.9	16.5	16.2	16.7	17.3
Gross fixed capital formation	17.8	14.8	15.9	16.5	16.2	16.7	17.3
Private	9.1	5.5	6.5	6.8	7.2	7.7	8.3
Public	8.7	9.2	9.4	9.8	9.1	9.0	9.0
Net exports of goods and services	-8.3	-7.6	-8.5	-7.2	-5.8	-5.4	-5.3
Exports of goods and services	17.5	13.2	10.7	11.5	12.8	13.6	13.9
Imports of goods and services	-25.8	-20.7	-19.3	-18.7	-18.6	-19.0	-19.2
Net factor income	-3.6	-3.1	-2.8	-3.4	-3.2	-2.9	-2.7
Net remittances inflows	8.2	7.6	7.4	7.0	6.3	5.9	5.6
Net official transfers	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Gross National Disposable Income	104.7	104.5	104.6	103.6	103.2	103.0	102.9
National savings	14.4	10.7	12.0	12.9	13.6	14.2	14.9
Private	19.7	15.3	15.7	15.0	15.4	15.5	15.8
Public	-5.3	-4.6	-3.7	-2.1	-1.8	-1.3	-0.9
Savings-investment balance	-3.6	-3.1	-3.9	-3.6	-2.6	-2.4	-2.4
Private	10.6	9.8	9.2	8.2	8.2	7.9	7.5
Public	-14.0	-13.8	-13.2	-11.8	-10.8	-10.3	-9.9
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.4	12.1	12.1	11.8	11.5	10.5	9.5
Construction	6.2	6.7	6.9	7.1	7.4	7.4	7.4
Industry	30.5	26.8	24.6	23.8	23.1	21.1	19.4
Services	43.2	45.4	47.6	48.8	49.6	53.4	56.8
General government	6.8	7.3	7.3	7.1	6.9	6.2	5.6
Suez Canal	2.0	1.7	1.6	1.5	1.5	1.4	1.3

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

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	5.2	5.6	5.7	5.8
CPI inflation (end-of-period, in percent)	9.4	5.6	5.7	6.8	6.9	6.9	6.8
CPI inflation (average, in percent)	13.9	5.7	4.6	6.6	6.8	6.9	6.9
Unemployment rate (period average, in percent)	8.6	8.3	...	...	...	...	...
Savings-investment balance	-3.6	-3.1	-3.9	-3.6	-2.6	-2.4	-2.4
Investment	17.8	14.8	15.9	16.5	16.2	16.7	17.3
Domestic savings	14.2	11.7	12.0	12.9	13.6	14.2	14.9
Public finances							
General government							
Revenue and grants	20.3	19.2	20.4	21.1	21.2	21.4	21.6
Expenditure and NAFA	28.2	26.2	28.0	27.5	26.9	26.7	26.7
Overall balance	-7.9	-7.0	-7.6	-6.4	-5.6	-5.3	-5.0
Overall balance, excl. grants	-8.0	-7.1	-7.6	-6.4	-5.7	-5.3	-5.1
Primary balance	1.6	2.3	1.4	1.9	2.2	2.1	2.0
Gross debt	84.2	90.0	92.0	89.8	87.0	83.4	79.9
Domestic	66.4	71.1	72.4	71.4	69.4	67.0	64.4
External	17.8	18.9	19.6	18.4	17.6	16.4	15.4
Budget sector							
Revenue and grants	17.7	16.7	17.9	18.6	18.7	18.9	19.1
Tax revenue	13.8	12.7	13.3	13.8	14.0	14.2	14.4
Non-tax revenue	3.8	4.0	4.6	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	26.1	25.6	24.9	24.6	24.4
Of which: Current	23.1	21.4	22.4	21.4	21.1	20.6	20.4
Capital	2.7	3.3	3.7	4.2	3.8	3.9	4.0
Overall budget balance	-8.1	-7.9	-8.2	-7.0	-6.2	-5.7	-5.3
Overall budget balance, excl. grants	-8.1	-8.0	-8.2	-7.1	-6.2	-5.7	-5.3
Primary budget balance	1.9	1.8	0.9	1.5	2.0	2.0	2.0
Balance of payments and external debt							
Current account	-3.6	-3.1	-3.9	-3.6	-2.6	-2.4	-2.4
Trade balance	-12.6	-10.1	-9.8	-8.3	-8.4	-9.1	-9.5
Oil and gas	0.0	-0.1	0.1	0.0	-0.2	-0.4	-0.4
Other	-12.6	-9.9	-9.9	-8.3	-8.2	-8.7	-9.2
Capital and financial account (incl. errors and omissions)	1.5	-0.3	2.2	4.5	3.6	4.2	4.2
Financing gap	0.0	0.0	-2.8	0.0	0.0	0.0	0.0
Official reserves (in billions of US$)	43.9	37.2	41.1	44.1	47.6	51.8	55.1
(In months of next year's imports of goods and services)	7.0	5.9	6.0	6.0	5.9	6.0	5.9
External debt (in percent of GDP)	34.1	34.2	36.1	33.0	29.1	26.5	24.9

Sources: Egyptian authorities; and IMF staff estimates and projections; based on available data as of May 31, 2021.

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

(Fiscal year end, unless otherwise indicated) 1/

	2014	2015	2016	2017	2018	2019	end-Jun 2020	end-Dec 2020
Capital adequacy								
Regulatory capital to RWA	13.9	14.5	14.0	14.7	15.7	17.7	20.1	19.5
Common equity to RWA	11.4	12.1	11.7	9.2	10.4	12.7	13.1	12.6
Asset quality								
NPLs to total loans	8.5	7.1	6.0	4.9	4.1	4.2	3.9	3.6
Loan provisions to non-performing loans	98.9	99.0	99.1	98.3	98.0	97.6	97.2	96.0
Profitability								
Return on assets	1.3	1.5	2.0	1.5	1.4	1.8	1.8	1.8
Return on average equity	18.9	24.4	30.9	21.5	19.2	23.4	23.4	23.4
Liquidity								
Average liquidity ratio								
Local currency	62.7	59.7	55.4	47.1	40.3	44.4	54.3	49.9
Foreign currency	57.4	52.0	60.2	66.4	67.7	67.7	70.3	77.6
Loans to deposits	40.8	40.9	47.0	46.0	46.2	46.7	47.1	48.2

Source: Central Bank of Egypt; based on available data as of May 31, 2021.

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	485.7	919.4	1,387.5	3,711.8	4,549.9	2,369.7	1,293.9	923.1	482.0	120.2
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	321.6	397.0	432.3	366.6	216.8	68.4	25.3	12.7	4.4	0.8
Millions of US$	239.0	367.2	678.0	1,283.3	1,936.8	5,181.3	6,351.2	3,307.9	1,806.1	1,288.6	672.9	167.7
Percent of exports of goods and nonfactor services	0.5	0.8	1.6	2.5	3.2	7.5	8.4	3.9	1.9	1.2	0.5	0.1
Percent of total debt service 3/	0.2	0.2	0.4	0.8	1.1	3.4	3.9	1.9	0.9	0.6	0.3	0.1
Percent of quota	8.4	12.9	23.8	45.1	68.1	182.2	223.4	116.3	63.5	45.3	23.7	5.9
Percent of gross international reserves	0.5	1.0	1.6	2.9	4.1	10.0	11.5	5.6	2.7	1.7	0.8	0.2
Percent of GDP	0.1	0.1	0.2	0.3	0.4	1.0	1.2	0.6	0.3	0.2	0.1	0.0
Percent of general government revenues	0.4	0.5	0.8	1.4	1.9	4.8	5.4	2.4	1.1	0.7	0.3	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	46.9	37.9	29.4	19.1	9.4	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	48.3	43.4	37.4	25.4	12.9	6.5	3.1	1.1	0.2	0.0
Percent of GDP	3.3	4.7	5.0	4.4	3.8	2.6	1.3	0.6	0.3	0.1	0.0	0.0
Percent of general government revenues	16.3	24.2	24.7	20.7	17.8	12.1	6.0	2.8	1.3	0.5	0.1	0.0
Memorandum items:												
Exports of goods and nonfactor services (in millions of US$)	52,919	47,665	42,350	50,515	60,544	68,901	75,380	85,216	96,991	110,393	125,647	143,009
Total debt service (in millions of US$)	116,854	173,791	153,316	160,974	170,852	152,336	162,334	178,226	202,853	230,884	262,787	299,099
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	37,218	41,126	44,133	47,581	51,785	55,084	59,242	67,428	76,745	87,350	99,420

Source: IMF staff calculations.

1/ Fiscal year starts on July 1 and ends on June 30.
2/ Assumes repurchases are made on obligations schedule.
3/ Debt service includes interest on the entire debt stock and amortization of medium- and long-term debt.
4/ Quota changed from 943.7 to 2037.1 millions SDRs effective as of February 2016.

Table 11. Egypt: External Financing Requirements and Sources, 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**	**20.4**	**30.9**	**32.8**	**27.4**	**25.3**	**25.8**
Current account deficit	10.9	11.2	15.4	15.8	12.3	12.3	13.0
Amortization 1/	13.3	9.2	15.5	17.0	15.1	13.1	12.7
IMF repurchases	0.0	0.0	0.2	0.8	1.4	4.9	6.4
Available financing (B)	**22.6**	**2.2**	**31.6**	**35.8**	**30.9**	**29.5**	**29.1**
Foreign direct investment (net)	7.9	7.1	5.4	8.6	11.7	14.9	16.5
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	20.2	7.0	8.0	6.9	6.4
External program financing assumed under the program	...	0.1	2.4	...	...	...	...
Multilateral (ex. IMF)	...	0.1	1.8	...	...	...	...
World Bank	...	0.1	0.9	...	...	...	...
Arab Monetary Fund	...	0.0	0.7	...	...	...	...
African Development Bank	...	0.0	0.3	...	...	...	...
Bilateral	...	0.0	0.6	...	...	...	...
France	...	0.0	0.3	...	...	...	...
Japan	...	0.0	0.3	...	...	...	...
Other net capital flows 1/ 3/	10.6	-1.9	-2.9	20.2	11.2	7.8	6.2
Remaining financing needs (C=A-B)	**1.6**	**18.2**	**-0.7**	**-3.0**	**-3.4**	**-4.2**	**-3.3**
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**	**-3.9**	**-3.0**	**-3.4**	**-4.2**	**-3.3**

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.

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	
Memorandum items:			
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 2020			end-December 2020			end-March 2021		
	Prog.	Actual	Status	Indicative	Actual	Status	Prog.	Actual	Status
I. Quantitative Performance Criteria 1/									
Net international reserves of the CBE ($ million; cumulative change, floor) 2/	0	4,316	Met	0	7,229	Met	3,000	6,366	Met
Primary fiscal balance of the budget sector (cumulative, floor) 3/	0	0.1	Met	7	14	Met	15	25	Met
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0	Met	0	0	Met	0	0	Met
II. Indicative Targets 3/									
Government overdraft at the CBE (ceiling)	93	9	Met	93	0	Met	93	29	Met
Tax revenues (cumulative floor)	121	150	Met	304	334	Met	484	539	Met
Social spending of the budget sector (floor)	23	24	Met	52	53	Met	81	83	Met
Share of short-term net new domestic issuance to total domestic treasury issuances (ceiling)	40	21	Met	40	11	Met	30	-1	Met
Accumulation of gross debt of the budget sector (cumulative ceiling)	226	219	Met	450	377	Met	679	531	Met
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	5.4	Met	7	4.5	Not met
Lower inner band	6	…		5	…		5	…	
Lower outer band	4	…		3	…		3	…	
Memorandum items:									
Program disbursements at completion of review ($ million; cumulative change) 2/	10,100	4,673		12,315	7,283		12,930	11,443	
External commercial loans (including Eurobonds) assumed under the program ($ million) 2/	6,500	2,028		6,500	2,728		6,500	6,623	
Of which:									
International bank financing	…	261		…	261		…	261	
Net issuance of FX T-Bills	…	-211		…	-182		…	-116	
External program financing assumed under the program ($ million) 2/	1,600	659		2,215	907		2,830	1,172	
IMF financing assumed under the program ($ million) 2/	2,000	1,986		3,600	3,648		3,600	3,648	

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 MEFP ¶29	Strengthen public finances and contain risks to the financial sector	End-January 2021	Met
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	Met
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	Met
Submit to Parliament amendments to the competition law to add a new chapter on mergers and acquisitions in line with MEFP ¶27	Private Sector	End-December 2020	Met
Pass the draft customs law that streamlines customs procedures in line with MEFP ¶25	Business climate	End-March 2021	Met
Complete Public Expenditure Review to enhance social protection	Social protection	End-April 2021	Met

Annex I. Status of the 2017 Article IV Main Recommendations

	2017 Article IV Consultation Recommendations	Key Actions Since 2017 Article IV Consultation
Fiscal policies	Implementation of fuel subsidy reform to support fiscal consolidation.	The fuel subsidy reform was completed in 2019, with prices increased to cost recovery and implementation of a fuel price indexation mechanism.
	Maintain a primary surplus (PS)of 2 percent of GDP to put public debt on a firmly downward trajectory.	The PS was close to 2 percent in FY18/19 and 19/20, before falling to 1 percent in 20/21 due to the pandemic.
	Create fiscal space for spending needs on infrastructure, health, education, and social protections.	The authorities have developed an MTRS with support from Fund TA, that was approved by Cabinet in December 2020.
Monetary and fiscal policies	Maintain a restrictive monetary stance to bring inflation to single digits.	Prudent monetary policy has anchored a decline in inflation from 22 percent (y/y) at end-2017 to 5 percent in early 2021.
	Further enhance exchange rate flexibility by winding down the repatriation mechanism.	The repatriation mechanism was eliminated in 2018, with CBE FX intervention limited to smoothing disorderly market conditions in mid-2020.
	Bring the Banking Law in line with international best practice.	The new Banking Law was approved in 2020.
Structural policies	Reform regulatory frameworks to, enhance competition; remove non-tariff barriers; and improve access to finance and land.	In progress. Amendments to the competition law aim to strengthen the independence of the Egyptian Competition Authority (ECA), and Parliamentary submission of the new chapter in the competition law on mergers and acquisitions. New guidelines for industrial land allocation were introduced in 2019. A new customs law was approved in 2020 that aims to streamline customs procedures and reduce non-tariff barriers.
	Strengthen governance, transparency, and accountability of SOEs.	In progress. Financial reports on SOEs and Economic Authorities were published in 2020 to improve transparency.

	2017 Article IV Consultation Recommendations	Key Actions Since 2017 Article IV Consultation
	Strengthen the social safety net by moving away from fuel and food subsidies to a better-targeted cash transfer program.	Fuel subsidy reform has provided fiscal space to expand coverage of the Takaful and Karama cash transfer programs, and support workers affected by the pandemic.
	Address labor market bottlenecks, including better integrating women.	In progress. Increased public investment in education and training aims to align the skills of the workforce with employers' needs, including technology universities with vocational training programs. Increases in spending on public nurseries aim to childcare options for working mothers.

Annex II. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Global Risks			
Unexpected shift in the COVID-19 pandemic (asynchronous progress, prolonged pandemic, or faster containment).	**Medium**	**High** A renewed surge in cases and limited access to vaccines would necessitate containment measures, negatively impacting growth, the external and fiscal positions, debt vulnerabilities, and poverty.	Reintroduce containment and mitigation measures; improve support to affected sectors and households; step up efforts to acquire the vaccine.
Sharp rise in risk premia	**Medium**	**Medium/High** Sharp increases in risk premia could lead to capital outflows, jeopardize market access, increase funding and debt service costs, and lead to crowd-out of private sector credit via increased government reliance on domestic financing.	Implement the MTDS and MTRS to reduce debt vulnerabilities and build fiscal buffers. Reprioritize spending to reduce financing pressure. Allow exchange rate flexibility to be the first line of defense against capital outflows.
Intensified geopolitical tensions and security risks	**High**	**Medium/High** Rising security risks in the region could threaten macroeconomic stability, put pressure on fiscal expenditure, and have adverse socio-economic impact.	Maintain prudent macroeconomic policies. Promote inclusive growth and strengthen social safety nets. Facilitate job creation in the private sector.
Domestic Risks			
Slower-than-expected structural reform implementation	**Medium**	**Medium/High** Lack of reform leads to re-accumulation of imbalances, lowering growth potential and leaving country vulnerable to shocks.	Re-invigorate the structural reform agenda focusing on priority areas such as SOE reform, competition and the investment climate, trade facilitation, and health and education reform to address key constraints to growth.

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

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Drop in remittances and limited resumption in tourism revenue post-COVID-19	**Medium**	**Medium/High** Lower remittance and tourism inflows impact economic activity and dampen the growth outlook, while reduced FX revenue puts pressure on the exchange rate.	Allow the exchange rate to act as a shock absorber. Implement structural reforms to diversify economy and increase exports to add sources of FX revenue.
Materialization of fiscal contingent liabilities	**Low/ Medium**	**Medium/High** Loss-making SOEs require government's recapitalization or repayment of government-guaranteed debt, putting pressure on public expenditure while increasing public debt.	Improve transparency, governance, and financial reporting of SOEs. Develop SOE ownership and reform strategy. Clearly define and separate commercial and non-commercial activities of SOEs.
Social pushback on government policies.	**Low**	**Medium/High** Social discontent and political instability could weaken support for structural reforms, reduce investment and negatively impact growth.	Implement economic plans in a transparent manner. Improve inclusiveness of government policies and the social safety net.

Annex III. Public and External Debt Sustainability Analysis

Staff assesses Egypt's debt to remain 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 domestically held, 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 are little changed from the time of the first review under the SBA, but the outlook is clouded by uncertainty over the pace of economic recovery.** Projected growth for FY2020/21 remains at 2.8 percent but has been lowered slightly to 5.2 percent for FY2021/22 (vs 5.5 percent at the first review), reflecting the uneven pace of global recovery and remaining uncertainty related to the pandemic. Growth is projected to recover to 5½–6 percent over the medium term. Average inflation is projected to slow to about 4½ percent in FY2020/21 but should stabilize at around 7 percent in the medium term as base effects fade and economic activity normalizes. Effective interest rates on general government debt are projected to decline over the medium term as the country risk premium declines and higher yielding debt is rolled over at lower interest rates.

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 92 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 several mitigating factors.** Risks stem from the high level of debt relative to the MAC-DSA

[1] Public debt reflects gross general government liabilities measured according to the definition in the Technical Memorandum of Understanding from the staff report of the first review under the SBA. The general government includes the budget sector, National Investment Bank, and the Social Insurance Fund.

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 29 and 27 percent, respectively, putting these indicators in the moderate risk category, well below the high-risk benchmark levels of 45 and 60 percent. Gross financing needs are projected to decline over the medium term as the authorities have already begun to extend the duration of domestic issuance—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 average forecast errors for GDP have been limited over the last decade, 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 as vaccinations continue to move slowly in many countries. A more protracted recovery could result in revenue or spending pressures that would increase debt compared to the baseline scenario. In addition, increased risk aversion or a more rapid normalization of monetary policy in advanced economies 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. Non-resident holdings of local currency debt would be particularly sensitive to global financing conditions. 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. Government guaranteed debt amounted to 18.4 percent of GDP at end-FY2019/20, down from 26.8 percent of GDP at end-FY2016/17. The largest borrowers with government guarantees are the Egyptian General Petroleum Corporation (accounting for 40 percent of the outstanding stock of guarantees), the New Urban Communities Authorities (22 percent), and the Egyptian Electricity Holding Company (15 percent).

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 98 percent of GDP by FY2025/26, with gross financing needs rising to about 39 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 (also one standard deviation) compared to the baseline in FY2019/20 and FY2020/21, debt would increase to 78 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 79 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 75 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 10 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 102 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 105 percent of GDP. Over the medium term, debt would decline to around 93 percent of GDP instead of 75 percent of GDP in the baseline and gross financing needs would be around 35 percent of GDP as opposed to 27 percent in the baseline.

8. External debt is expected to decline from about 36 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 years, in part reflecting the maturity of large deposits of three Gulf Cooperation Council (GCC) members at the CBE. Cognizant of the need to extend maturities on external debt, the authorities have reached agreements to roll over certain deposits that were originally scheduled to mature before the end of the SBA. The authorities should continue to maintain FX buffers to help contain risks, including through continued rollovers of deposits at the CBE, 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, with the next Eurobond maturing in 2022.

Figure 1. Egypt: Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

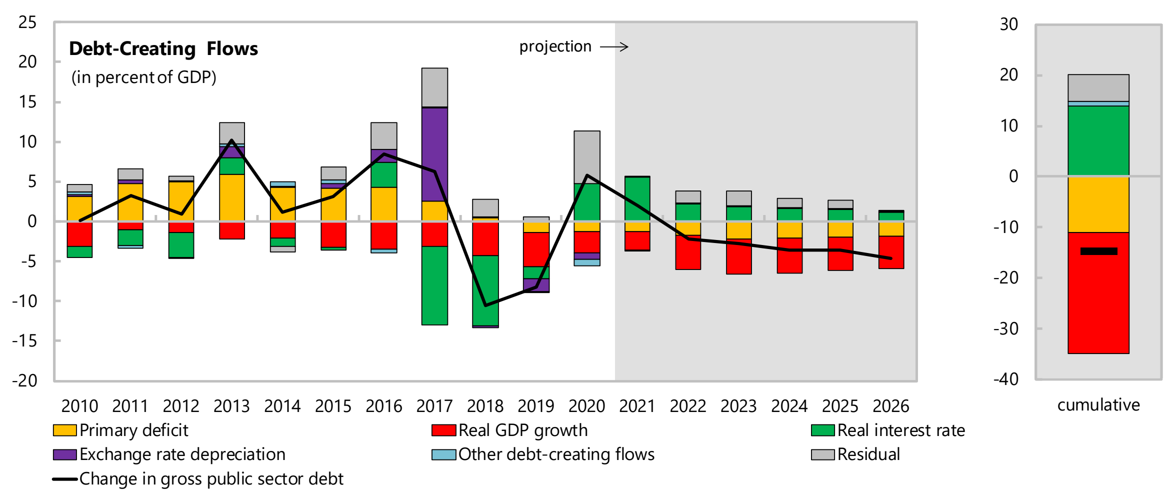
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	85.1	84.2	90.0	92.0	89.8	87.0	83.4	79.9	75.3
Public gross financing needs	30.6	36.5	38.0	37.4	34.8	33.9	27.9	27.8	27.7
Real GDP growth (in percent)	3.7	5.6	3.6	2.8	5.2	5.6	5.7	5.8	5.8
Inflation (GDP deflator, in percent)	12.8	13.6	5.8	3.9	7.0	7.1	7.1	7.1	7.0
Nominal GDP growth (in percent)	17.0	19.9	9.5	6.8	12.6	13.2	13.2	13.3	13.2
Effective interest rate (in percent) [4/]	10.0	12.3	12.1	10.6	10.1	9.9	9.6	9.5	9.1

As of June 7, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		517
5Y CDS (bp)		331
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	B	B
Fitch	B+	B+

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.6	-8.3	5.8	2.0	-2.2	-2.8	-3.6	-3.6	-4.6	-14.7	
Identified debt-creating flows	0.7	-8.8	-0.9	2.0	-3.6	-4.6	-4.7	-4.6	-4.6	-20.1	
Primary deficit	3.8	-1.4	-1.3	-1.3	-1.7	-2.1	-2.1	-1.9	-1.8	-11.0	-2.8
Primary (noninterest) revenue and grants	21.4	20.1	19.1	20.2	20.9	21.1	21.3	21.5	21.6	126.5	
Primary (noninterest) expenditure	25.2	18.8	17.8	18.9	19.1	18.9	19.2	19.6	19.8	115.4	
Automatic debt dynamics [5/]	-3.3	-7.5	1.2	3.2	-2.0	-2.6	-2.8	-2.8	-2.9	-9.8	
Interest rate/growth differential [6/]	-5.0	-5.9	2.0	3.2	-2.0	-2.6	-2.8	-2.8	-2.9	-9.8	
Of which: real interest rate	-2.4	-1.6	4.7	5.5	2.2	1.9	1.6	1.5	1.2	14.0	
Of which: real GDP growth	-2.7	-4.3	-2.7	-2.3	-4.3	-4.5	-4.4	-4.3	-4.1	-23.8	
Exchange rate depreciation [7/]	1.8	-1.6	-0.7	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	0.0	-0.9	0.1	0.1	0.1	0.1	0.1	0.1	0.8	
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	0.1	0.1	0.1	0.1	0.1	0.1	0.8	
Residual, including asset changes [8/]	1.9	0.6	6.7	-0.1	1.4	1.8	1.1	1.0	0.0	5.3	



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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (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.

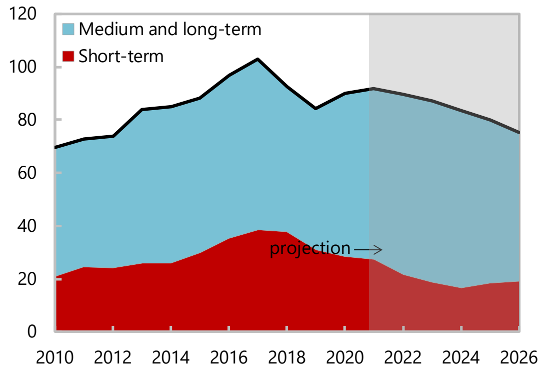
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

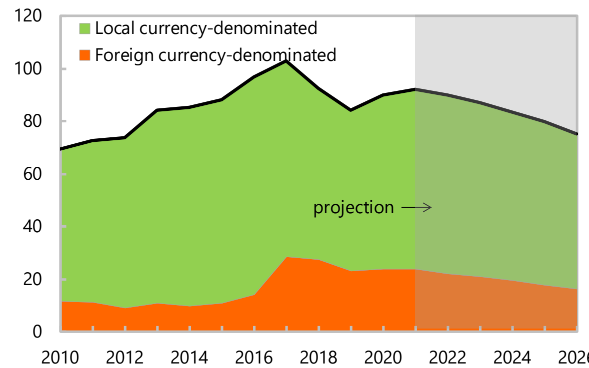
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

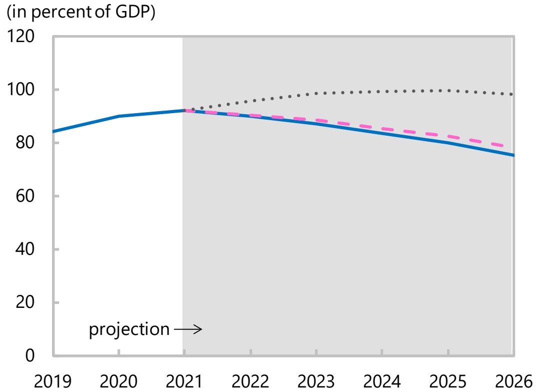


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

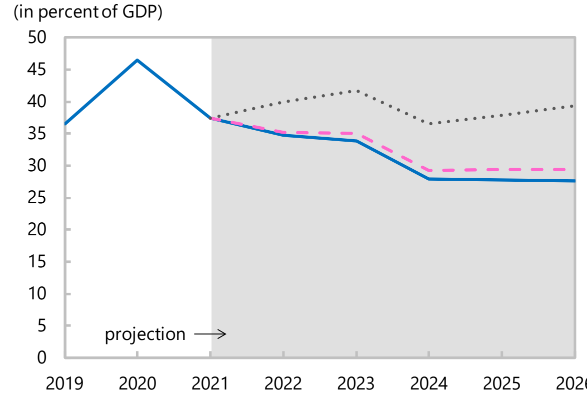
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



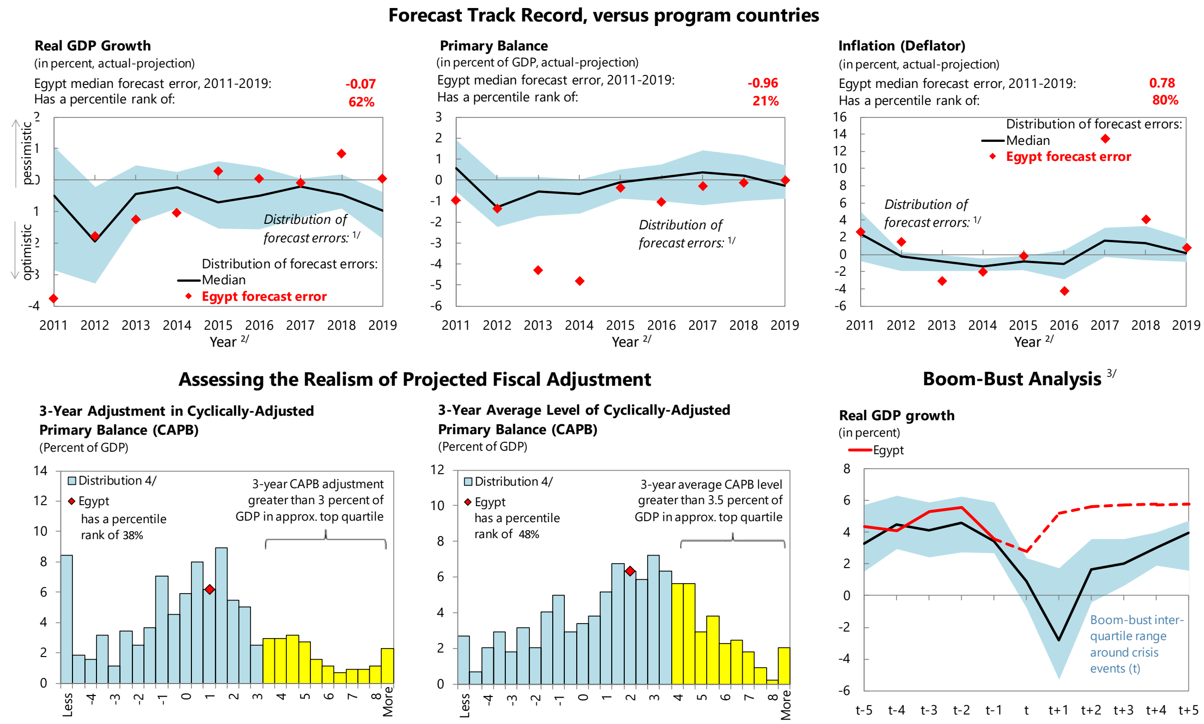
Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	5.2	5.6	5.7	5.8	5.8
Inflation	3.9	7.0	7.1	7.1	7.1	7.0
Primary Balance	1.3	1.7	2.1	2.1	1.9	1.8
Effective interest rate	10.6	10.1	9.9	9.6	9.5	9.1
Constant Primary Balance Scenario						
Real GDP growth	2.8	5.2	5.6	5.7	5.8	5.8
Inflation	3.9	7.0	7.1	7.1	7.1	7.0
Primary Balance	1.3	1.3	1.3	1.3	1.3	1.3
Effective interest rate	10.6	10.1	9.9	9.6	9.5	9.0

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	3.7	3.7	3.7	3.7	3.7
Inflation	3.9	7.0	7.1	7.1	7.1	7.0
Primary Balance	1.3	-2.9	-2.9	-2.9	-2.9	-2.9
Effective interest rate	10.6	10.1	8.5	7.3	6.8	6.1

Source: IMF staff.

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



Source : IMF Staff.

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

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

3/ Egypt has had a positive output gap for 3 consecutive years, 2018-2020. For Egypt, t corresponds to 2021; for the distribution, t corresponds to the first year of the crisis.

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

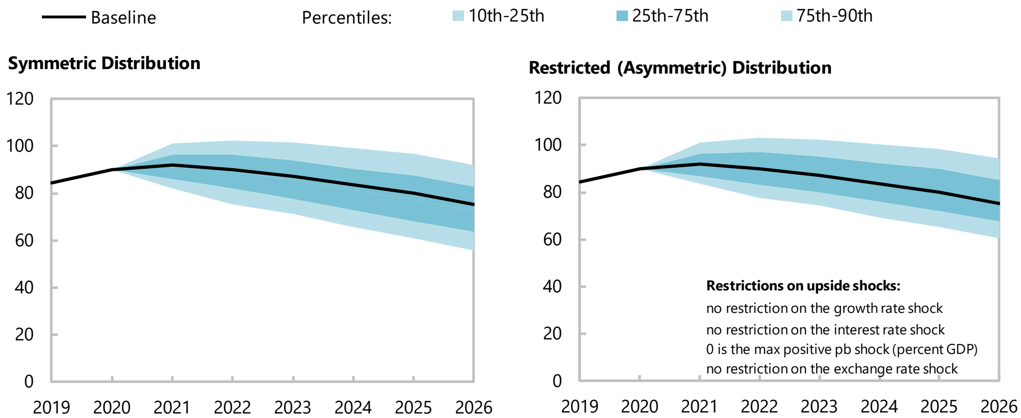
Figure 4. Egypt: Public DSA Risk Assessment

Heat Map

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

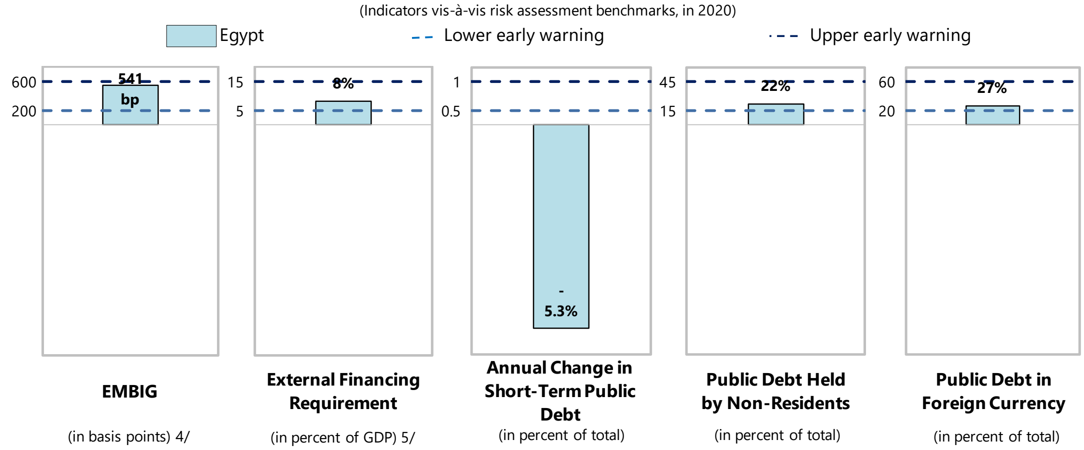
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



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:

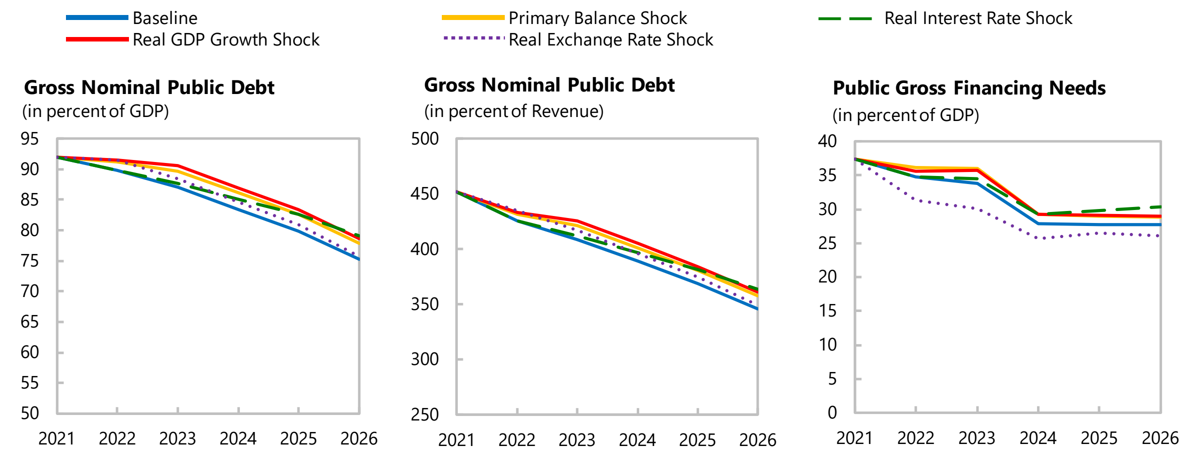
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, March 7 2021 - June 7 2021.

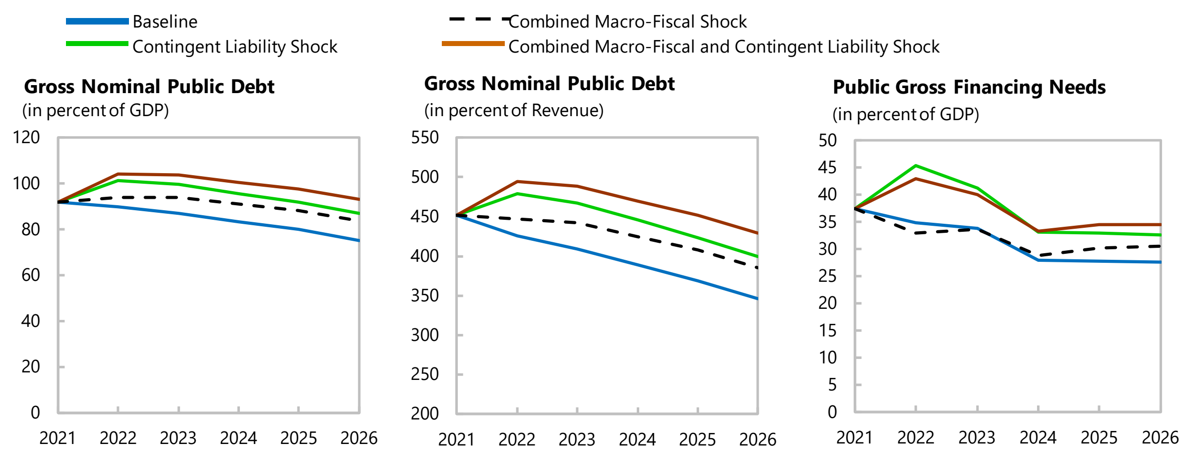
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Egypt: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	5.2	5.6	5.7	5.8	5.8
Inflation	3.9	7.0	7.1	7.1	7.1	7.0
Primary balance	1.3	0.4	0.8	2.1	1.9	1.8
Effective interest rate	10.6	10.1	10.0	9.7	9.6	9.1
Real Interest Rate Shock						
Real GDP growth	2.8	5.2	5.6	5.7	5.8	5.8
Inflation	3.9	7.0	7.1	7.1	7.1	7.0
Primary balance	1.3	1.7	2.1	2.1	1.9	1.8
Effective interest rate	10.6	10.1	10.7	10.9	11.1	10.7
Combined Shock						
Real GDP growth	2.8	4.0	4.4	5.7	5.8	5.8
Inflation	3.9	41.7	7.1	7.1	7.1	7.0
Primary balance	1.3	0.4	0.8	2.1	1.9	1.8
Effective interest rate	10.6	12.0	9.6	10.0	10.2	9.8
Contingent Liability Shock						
Real GDP growth	2.8	4.0	4.4	5.7	5.8	5.8
Inflation	3.9	6.7	6.8	7.1	7.1	7.0
Primary balance	1.3	-8.3	2.1	2.1	1.9	1.8
Effective interest rate	10.6	10.1	9.7	9.7	9.6	9.1

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	4.0	4.4	5.7	5.8	5.8
Inflation	3.9	6.7	6.8	7.1	7.1	7.0
Primary balance	1.3	1.5	1.6	2.1	1.9	1.8
Effective interest rate	10.6	10.1	9.9	9.7	9.6	9.1
Real Exchange Rate Shock						
Real GDP growth	2.8	5.2	5.6	5.7	5.8	5.8
Inflation	3.9	41.7	7.1	7.1	7.1	7.0
Primary balance	1.3	1.7	2.1	2.1	1.9	1.8
Effective interest rate	10.6	12.0	8.9	8.8	8.8	8.3
Combined Macro-Fiscal and Contingent Liability Shock						
Real GDP growth	2.8	4.0	4.4	5.7	5.8	5.8
Inflation	3.9	41.7	7.1	7.1	7.1	7.0
Primary balance	1.3	-9.6	0.8	2.1	1.9	1.8
Effective interest rate	10.6	12.0	9.6	10.1	10.3	9.9

Source: IMF staff.

Table 1. Egypt: External Debt Sustainability Framework, 2016–2026

(In percent of GDP, unless otherwise indicated) 1/

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 7/
Baseline: External debt	**16.8**	**30.8**	**37.0**	**36.0**	**34.1**			**36.3**	**32.3**	**28.2**	**25.9**	**24.2**	**21.7**	**-4.6**
Change in external debt	2.3	14.1	6.2	-1.1	-1.9			2.2	-4.0	-4.1	-2.3	-1.7	-2.5	
Identified external debt-creating flows (4+8+9)	3.9	7.4	0.0	-5.3	-4.5			1.7	-0.1	-1.6	-2.0	-2.0	-1.9	
Current account deficit, excluding interest payments	5.7	5.1	1.7	2.8	2.3			2.5	2.3	1.4	1.2	1.2	1.3	
Deficit in balance of goods and services	9.7	12.3	10.5	8.3	7.6			8.5	7.2	5.8	5.4	5.3	5.1	
Exports	10.5	14.5	18.9	17.5	13.2			10.7	11.5	12.8	13.6	13.9	12.8	
Imports	20.1	26.8	29.4	25.8	20.7			19.3	18.7	18.6	19.0	19.2	17.9	
Net non-debt creating capital inflows (negative)	-2.1	-3.2	-3.1	-2.6	-1.6			-1.4	-2.0	-2.5	-2.9	-3.0	-2.9	
Automatic debt dynamics 2/	0.2	5.5	1.4	-5.5	-5.2			0.5	-0.4	-0.4	-0.3	-0.2	-0.2	
Contribution from nominal interest rate	0.2	0.5	0.6	0.9	0.8			1.4	1.3	1.2	1.2	1.2	1.0	
Contribution from real GDP growth	-0.6	-0.9	-1.7	-1.7	-1.1			-0.9	-1.7	-1.7	-1.5	-1.4	-1.2	
Contribution from price and exchange rate changes 3/	0.6	5.9	2.4	-4.7	-4.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	-1.6	6.7	6.2	4.3	2.6			0.6	-3.9	-2.5	-0.3	0.3	-0.7	
External debt-to-exports ratio (in percent)	160.3	212.9	195.8	205.4	259.1			338.1	280.3	219.7	190.2	174.2	168.9	
Gross external financing need (in billions of US dollars) 5/	25.2	24.0	20.5	25.7	24.9			30.9	33.0	31.2	30.3	30.3	31.6	
in percent of GDP	7.6	9.4	8.2	8.5	6.9			7.8	7.5	6.6	6.0	5.6	5.1	
Scenario with key variables at their historical averages 6/						10-Year Historical Average	10-Year Standard Deviation	**36.3**	**34.1**	**32.1**	**32.3**	**33.2**	**34.3**	**-2.9**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.3	4.1	5.3	5.6	3.6	3.7	1.2	2.8	5.2	5.6	5.7	6.0	5.8	
GDP deflator in US dollars (change in percent)	-4.0	-25.9	-7.3	14.5	15.8	1.6	12.2	5.9	5.6	1.9	1.4	1.5	7.0	
Nominal external interest rate (in percent)	1.6	2.2	2.0	2.8	2.7	2.0	0.5	4.5	4.0	4.1	4.5	4.8	4.7	
Growth of exports (US dollar terms, in percent)	-21.0	6.7	27.4	11.8	-9.9	1.1	13.7	-11.2	19.3	19.9	13.8	9.4	4.6	
Growth of imports (US dollar terms, in percent)	-7.5	2.8	6.8	6.1	-3.5	2.9	5.5	1.1	8.0	7.0	9.7	8.1	5.6	
Current account balance, excluding interest payments	-5.7	-5.1	-1.7	-2.8	-2.3	-2.9	1.6	-2.5	-2.3	-1.4	-1.2	-1.2	-1.3	
Net non-debt creating capital inflows	2.1	3.2	3.1	2.6	1.6	1.8	1.0	1.4	2.0	2.5	2.9	3.0	2.9	

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.

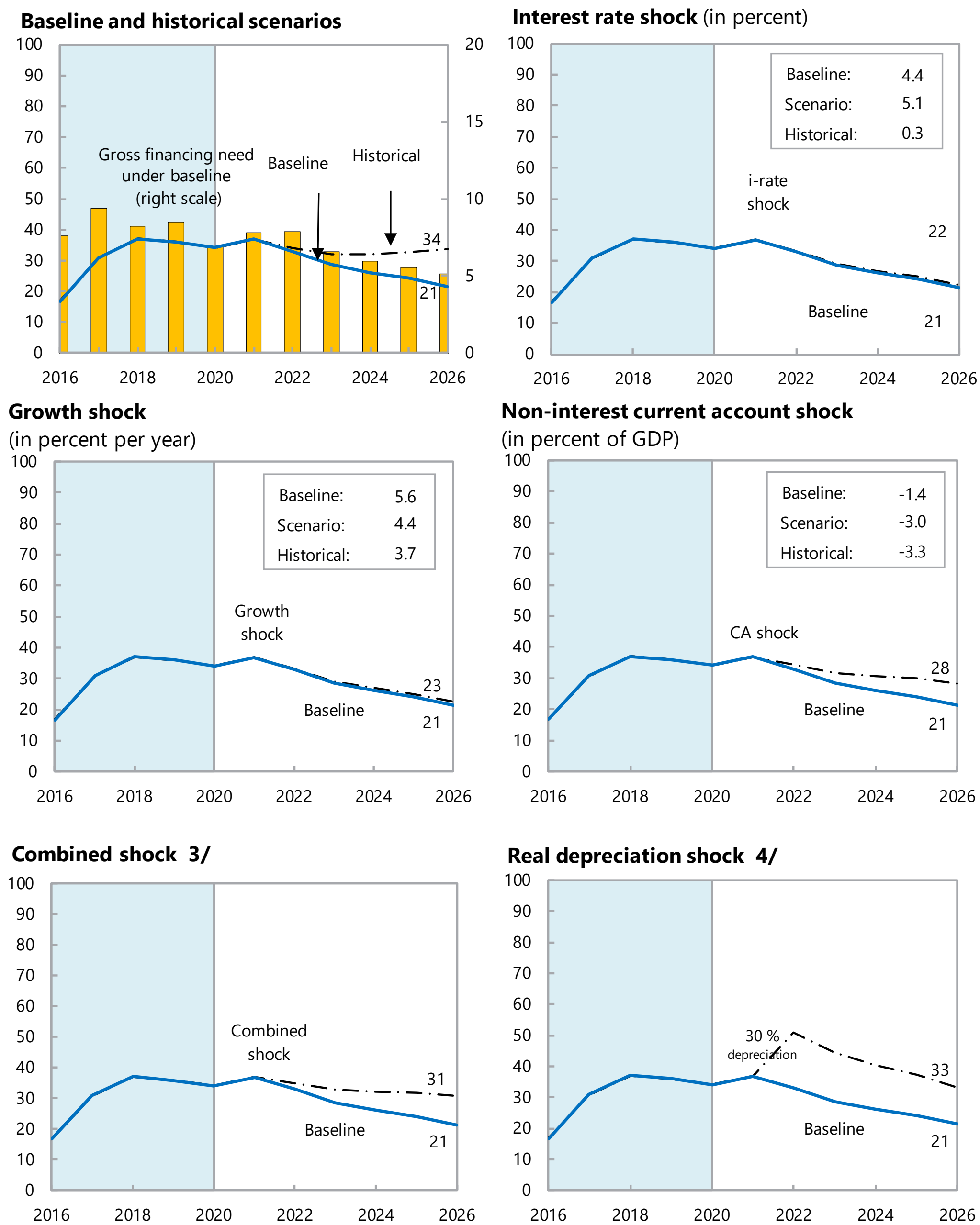
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

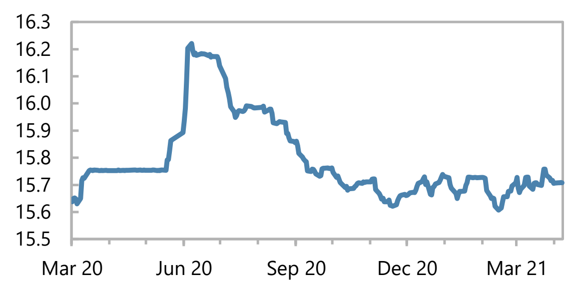
Annex IV. External Sector Assessment

The COVID-19 pandemic has severely impacted Egypt's external sector. However, various considerations of Egypt's overall external position yield diverging results. Standard EBA-based approaches suggest that the overall external position was moderately stronger than implied by fundamentals and desirable policy settings in FY2019/20. However, these results are at odds with the substantial intervention in FX markets as the crisis emerged, which affected the IIP position in FY2019/20. In addition. the recent modest REER depreciation and wider current account deficit in 2020/21 do not indicate misalignment. Considering these various indications and the continued uncertainty around the pandemic, this assessment finds that the overall external position is in line with fundamentals and desirable policy settings. Continued adherence to the flexible exchange rate regime and further structural reforms to improve non-price competitiveness will be critical to ensuring stability going forward.

Nominal and real exchange rate evolution

1. **The bilateral U.S. dollar exchange rate has remained relatively stable.** Early in the COVID-19 crisis, the CBE supported the exchange rate, which remained unchanged from mid-March until mid-May 2020. While the exchange rate depreciated a bit during June, it has been appreciating since then, in part reflecting a substantial renewal of portfolio inflows. At about EGP 15.7 per dollar, it is roughly equal to levels prevailing in early March 2020, before the COVID-19 crisis intensified.

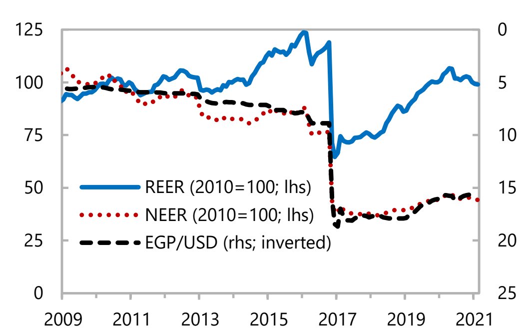
Nominal Bilateral Exchange Rate
(Egyptian pounds per dollar)



Source: Central Bank of Egypt.

2. **Nevertheless, as inflation has come down in Egypt, the real effective exchange rate (REER) has begun to level off.** Over the course of FY2019/20, REER appreciation slowed substantially to 6.9 percent in June (y/y). The REER reached a peak in October 2020 but has since started to depreciate. As of February 2021, it had depreciated by about 4½ percent y/y. Despite the appreciation over the past several years, the REER remains almost 17 percent below its October 2015 (pre-devaluation) level.

Exchange Rates

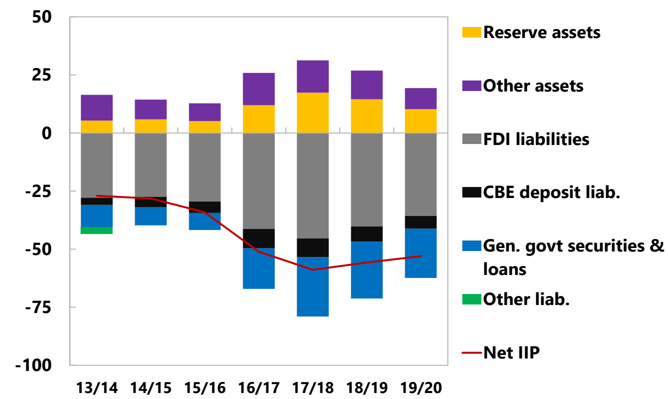


Sources: Central Bank of Egypt; Information Notice System; and Haver Analytics.

International investment position, international reserves, and intervention

3. The consistent improvement in Egypt's net international investment position since FY2015/16 stalled in FY2019/20. The reduction in external indebtedness over the past several years mainly reflects a reduction in the stock of foreign direct investment-to-GDP, as FDI has grown less quickly than nominal GDP. Continued structural reforms will be essential to continue attracting FDI and in greater amounts going forward. As for FY2019/20, the net IIP improved slightly to -53 percent of GDP reflecting: (i) a reduction in external assets to 19 percent of GDP, owing to a sharp reduction in international reserves; and (ii) external liabilities that amounted to 72 percent of GDP which was partly attributable to overall trends in the external obligations of both the CBE and the general government. For the latter, fluctuations in foreign holdings of T-bills were largely offset by longer-term bonds and loans. Moreover, since end-June, sizable foreign inflows into the domestic T-bill market have resumed and the government has successfully undertaken several major international debt issuances suggesting that this component is likely to have risen in FY2020/21.

Net International Investment Position
(percent of GDP)



Sources: Central Bank of Egypt, CAPMAS; IFS; Haver Analytics; and Fund staff calculations

4. The EBA external sustainability approach suggests a strong overall external position. This methodology aims to stabilize Egypt's NFA at its 2019 level and finds that such a result could have been achieved with a current account deficit of 4.6 percent of GDP. However, the cyclically adjusted current account deficit was narrower at 1.6 percent of GDP in FY2019/20, yielding a gap of 3 percent of GDP. Thus, the standardized result from this approach finds that Egypt's overall external position was stronger than implied by fundamentals and desirable policy settings. However, as in previous years, assuring debt sustainability requires continued reductions in public debt—including external obligations—making this approach less relevant.

Egypt: External Sustainability Approach for 2020

(percent of GDP unless otherwise indicated)	
Current account gap	
Actual current account	-3.1
Cyclically adjusted current account	-1.5
Cyclically adjusted norm	-4.6
CA Gap	3.1
Implied overvaluation	-24.5%
Memo: semi-elasticity of CA/GDP to REER	0.13

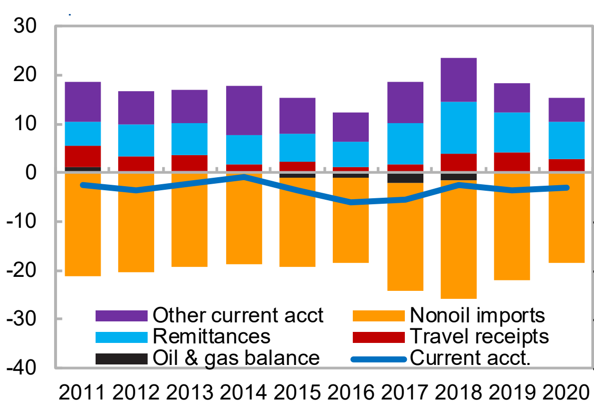
5. Notwithstanding the large interventions in March–May 2020, international reserves remain adequate relative to the ARA metric. In response to the unprecedented COVID-19 shock and the prospects of disruptions in market conditions caused by crisis-related capital flows, the CBE took significant actions to avoid disorderly exchange rate movements. During the

Spring of 2020, the CBE used foreign currency buffers that included both international reserves and non-reserve FX deposits held at commercial banks. Headline international reserves dropped by about $10 billion from their February peak to a trough of $35 billion in May 2020. Conditions have been stabilizing, with the exchange rate fluctuating with market conditions. Thus, reserves have started to recover, rising to $37 billion at end-2019/20 or about 120 percent of the ARA metric for countries with flexible exchange rate regimes, well within the adequacy range of 100–150 percent. As of March, reserves have risen a to almost $39.2 billion, or about 107 percent of the projected ARA metric for FY2020/21.

Current account balance

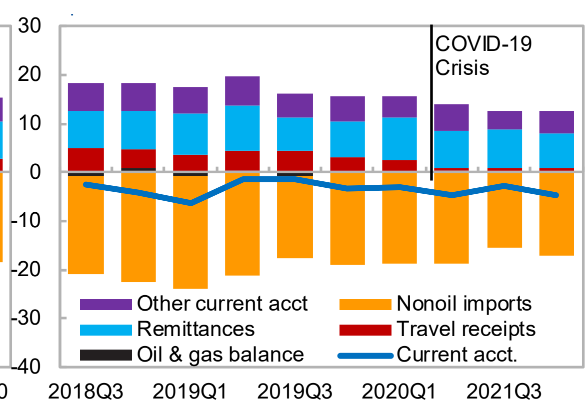
6. **Egypt's current account balance, which had been strong before COVID-19, has been profoundly affected by the current crisis starting from last Spring.** Egypt's current account balances had been narrowing since the pre-2016 crisis, driven largely by growth in oil and gas exports and a recovery in tourism. Reflecting these trends, the first three quarters of FY2019/20 were relatively strong, with modest current account deficits in the range of 2–3 percent of GDP each quarter. Lockdowns and the crash in global petroleum prices in April–June 2020 had major implications on Egypt's current account and were not fully offset by still-buoyant remittances and import compression. As a result, the current account deficit widened substantially to 5 percent of GDP in the final quarter of FY2019/20, bringing the full-year deficit to 3.1 percent of GDP.

Annual Current Account
(percent of GDP)



Sources: CBE and Ministry of Planning via Haver Analytics.

Quarterly Current Account
(percent of GDP)



Sources: CBE and Ministry of Planning via Haver Analytics.

7. **The standard EBA current account approach finds an external position that is stronger than implied by fundamentals and desirable policy settings, albeit with substantial uncertainty.** The cyclically adjusted current account norm derived from the model stands at -2.8 percent of GDP. In FY2019/20, the cyclically adjusted current account (with COVID-19 related adjustments) was -1.6 percent of GDP, pointing to a gap of about 1.3 percent of GDP. Decomposing this gap shows that policies—particularly tight fiscal policies—contributed about

2.4 pp, leaving an unexplained residual of -1.1 pp. As a result, this methodology finds that Egypt's overall external position was stronger than implied by fundamentals and desirable policy settings. However, these findings should be interpreted with caution. A substantial portion of FY2019/20 did not coincide with the COVID-19 shock, making the interpretation of full-year results less straightforward as the current account position continued to be affected by the COVID-19 crisis during the remainder of the 2020 calendar year.

Egypt: EBA Current Account Model Results for 2020

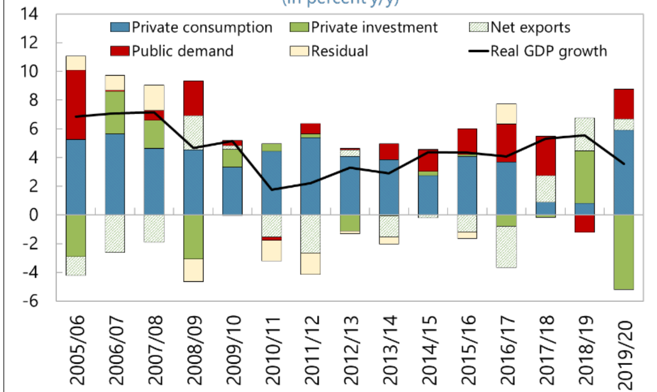
(percent of GDP unless otherwise indicated)	
Current account	-3.1
Cyclically adjusted current account	-1.5
Cyclically adjusted norm	-2.9
Current account gap	1.4
Contribution from policies	2.1
Fiscal	1.7
Other policy gaps	0.4
Contribution from residual	-0.6
Implied overvaluation	-11%
Memo: semi-elasticity of CA/GDP to REER	0.13

Annex V. Role of Exports in Egypt's Long-Term Growth[1]

1. **Egypt's young and rapidly growing population has fueled high rates of consumption-led GDP growth.** Contributions from net exports and private investments, however, have been low. While private consumption will continue to play a large role in Egypt's growth given the demographic dynamics, without other sources of growth, this economic model will perpetuate low saving and investment, preventing productivity gains and limiting Egypt's potential growth. The low saving rates would also imply persistent current account deficits financed with external borrowings, which cannot be sustained without eventually running into balance of payments challenges. The tourism sector can be an important source of growth and FX income, but as exhibited by the COVID-19 crisis, it can be volatile. With 35 million people projected to enter the labor market over the next two decades, the urgency with which Egypt needs to diversify its sources of growth cannot be overstated. Growth drivers that will also enhance the productivity of the workforce will ensure that Egypt continues to grow sustainably while creating jobs for the incoming cohorts of workers.

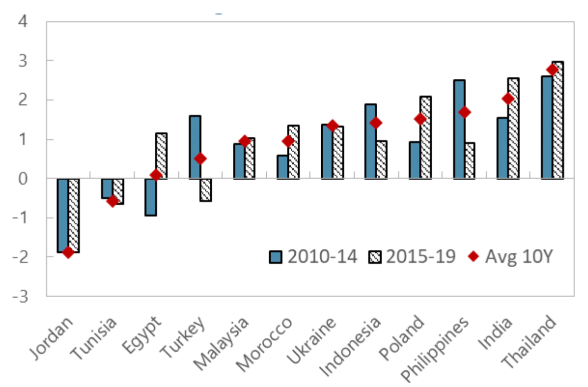
Contributions to Real GDP Growth

(In percent y/y)

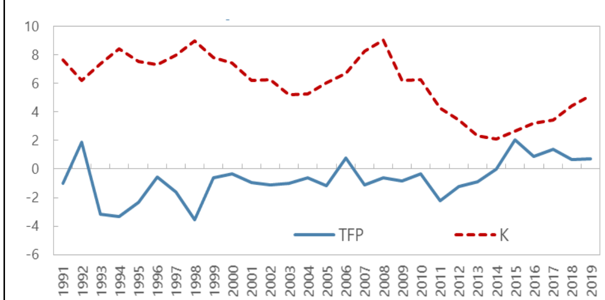


Source: Egyptian Ministry of Planning; and IMF staff calculations.

Average Annual TFP Growth



Capital and TFP Growth



Sources: Egypt's Ministry of Planning; Penn World Table 10.0; IMF Staff calculations.

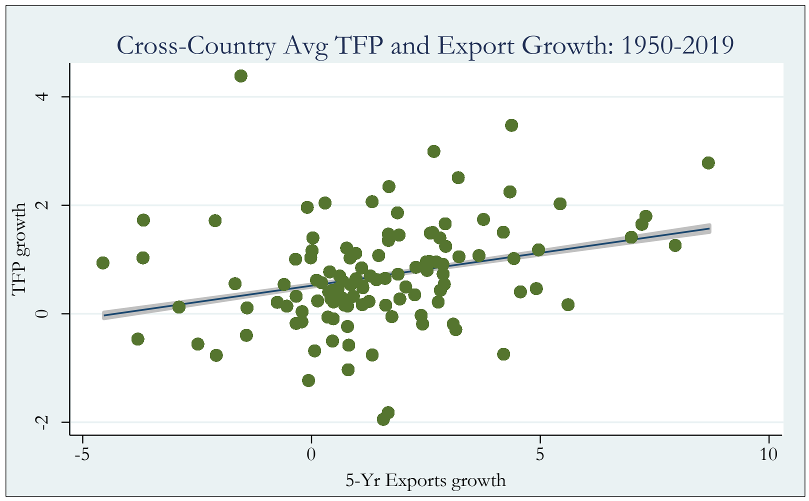
2. **The first wave of structural reforms appears to have contributed to higher productivity growth in recent years, with scope for more gains.** Higher TFP growth is necessary to offset the diminishing returns of capital and labor, ensuring that the benefits of

[1] Authored by Suchanan Tambunlertchai.

capital accumulation and population growth fully accrue to higher GDP growth. Although Egypt largely saw negative TFP growth during the 1990s and 2000s, recent improvements have put the country ahead of some regional peers. However, it still lags behind some Asian and Eastern European emerging market peers. A next wave of structural reforms focused on further raising productivity and removing constraints to growth has the potential to further narrow that gap.

3. Export-driven growth can help deliver higher productivity growth, ensuring that long-term growth can be sustained. Exporting firms benefit from access to larger markets, technology transfer from trade partners, and improved efficiency via competition. These benefits can have positive spillovers on the rest of the economy through higher investment, knowledge transfer, better allocation of resources, and job creation. The positive relationship between export growth and TFP growth is supported by cross-country evidence. A simple panel regression of TFP growth on export growth and country fixed effects show that on average a 10-pp increase in export to GDP over 5 years is associated with a 0.4 percent increase in annual TFP growth. In this approximation, raising Egypt's exports to the emerging market average of 37 percent of GDP could be associated with an additional annual TFP growth of 0.8 percent.

Average TFP vs. Export Growth

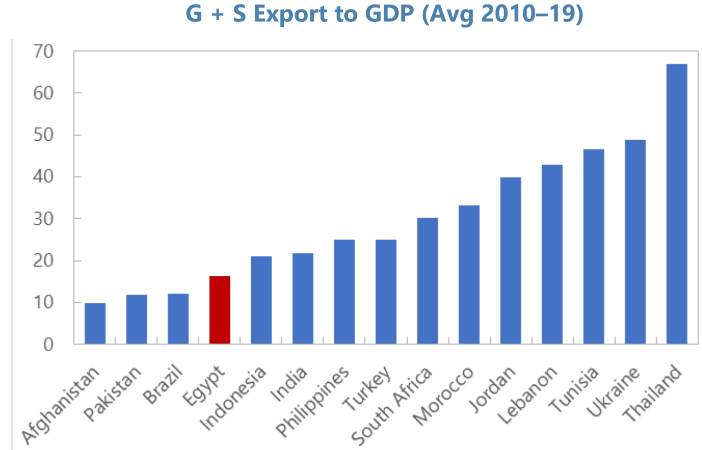


Sources: World Economic Outlook; Penn World Table 10.0; IMF staff calculation.

4. Egypt's currently small export sector has enormous untapped potential. Goods and service exports accounted for about $50 billion or 17.5 percent of GDP in FY2018/19.

- The relatively small share compared to many peers with similar population size or per capita income reflect the fact that Egypt exports fewer products to fewer destinations. As an exporter, Egypt's geographical location—at the cross-roads of Europe, Asia, and

G + S Export to GDP (Avg 2010–19)



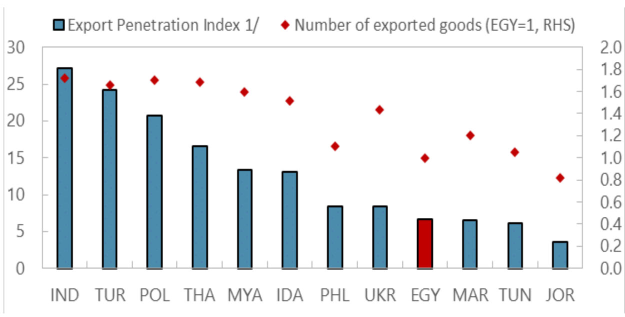
Sources: World Economic Outlook; IMF staff calculations.

Africa—provides a key advantage that has thus far remained largely untapped. Egypt's export market is highly concentrated, with 54 percent of exports going to just nine countries (UAE, USA, UK, Italy, India, Saudi Arabia, Switzerland, Turkey, and Germany) in FY2019/20 (CBE, 2020). Egypt saw rapid export growth after joining the Greater Arab Free Trade Area (GAFTA) in 1997 and the Agadir Agreement (with Jordan, Morocco, and Tunisia) in 2004, but with only around 11 percent of trade being conducted within GAFTA and only 3 percent with Agadir countries, there is scope to increase regional integration. Using a gravity model, Youssef and Zaki (2019) show that compared to model predictions Egypt is under-trading with around 63 percent of export destinations, half of which are on the African continent.

- Egypt's export complexity is currently low as main exports are resource-based or low-technology products. Although the share of medium- to high-technology exports has gradually increased over time, there remains significant scope to diversify into more complex products.

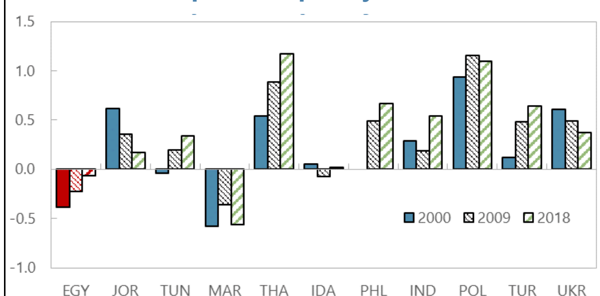
In this context, the government's recently announced aim of reaching $100 billion in exports can only be accomplished by accelerating the export sophistication process and tapping into new export destinations.

Export Performance, 2018



1/ Number of countries a product reaches divided by the number of countries importing that product in that year.

Export Complexity Index



Note: The ECI considers the diversity and ubiquity of export products. The index varies between about -2.5 to 2.5. A low ECI indicates that a country exports few products that are also exported by many other countries.

Sources: World Economic Outlook; World Bank's WITS database; Harvard Growth Lab's Atlas of Economic Complexity.

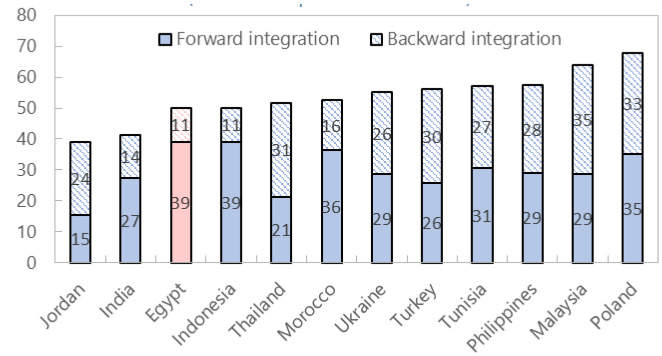
5. Greater participation in global value chains (GVCs) can increase export volume, diversify export destinations, and improve export sophistication.

- Global trade is increasingly organized around GVCs, where the production process is unbundled into specific tasks that are performed at different locations based on their comparative advantages (Feenstra and Hanson 1997; Grossman and Rossi-Hansberg 2008). The fragmentation of the production chain means that goods and service components cross international borders several times along the chains, increasing and changing the nature of global trade. Importantly, GVCs also mean that emerging economies can join existing production processes rather than having to develop all production stages domestically

(Baldwin, 2011). Criscuolo and Timmis (2017) argue that GVC participation also brings the benefit of stimulating productivity growth through firms' specialization in core tasks, knowledge spillovers from foreign firms, and absorption of technology embedded in imported inputs. GVC participation was a key driver of high growth in Southeast Asia, China, and Eastern Europe (IMF, 2013 and 2015).

- Egypt's GVC participation has increased since the mid-2000s. But the country's GVC participation has largely been through "forward integration," whereby its exports serve as inputs for other countries' export value-added, reflecting Egypt's high share of primary export products (this is captured by the fact that out of Egypt's total export value-added, in 2018, 39 percent served as inputs for other countries' exports, one of the highest levels among peers). "Backward integration," or the extent to which Egypt's exports rely on imported intermediate inputs, has been more limited, reflecting the country's low export complexity and limited role in the downstream segments of the global or regional value chains (only 11 percent of Egypt's total export value-added in 2018 came from imported inputs that entered the production process in Egypt, one of the smallest levels among peers).

GVC Participation, 2018
(share of export value-added)



Source: UNCTAD Eora Database.

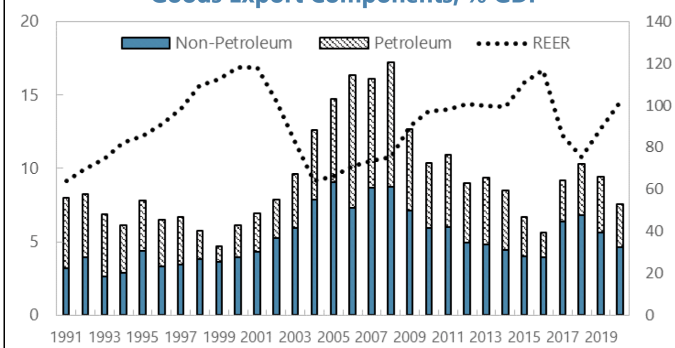
- Growth in exports with higher value added will happen with higher backward integration and the development of non-commodity sectors that will allow Egypt to move into the manufacturing GVCs.

6. **Beyond the limited integration in value gains, greater regional integration is a potential source of export growth, investment, and job creation.** In addition to GAFTA and the Agadir Agreement, Egypt is also part of the Common Market for Eastern and Southern Africa (COMESA), the African Continental Free Trade Agreement (AfCFTA), and many bilateral trade and investment agreements. Most trade agreements have thus far largely targeted tariff reductions without deeper efforts to leverage regional economies of scale or develop regional production platforms. To some extent, these less-complex agreements have helped avoid the "spaghetti bowl" effect whereby the proliferation of free trade agreements and the process of complying with overlapping agreement procedures end up being counterproductive for trade (Bhagwati, 1995). At the same time, the shallow integration efforts have also curbed the benefits of the regional agreements. In particular, an important opportunity created by the Agadir Agreement is the cumulation of origin among member states for the purposes of exporting to the EU. The rule allows for regional contents in exports from Agadir countries to be considered as having come from a single source, making it easier for products from the region to meet the

threshold for reduced customs duties. In principle, this rule should encourage the development of a regional value chain which in turn promotes investments in and exports from the region. In practice, however, none of the Agadir countries have taken advantage of the cumulation of origin, which may point to structural constraints holding back regional trade and integration.

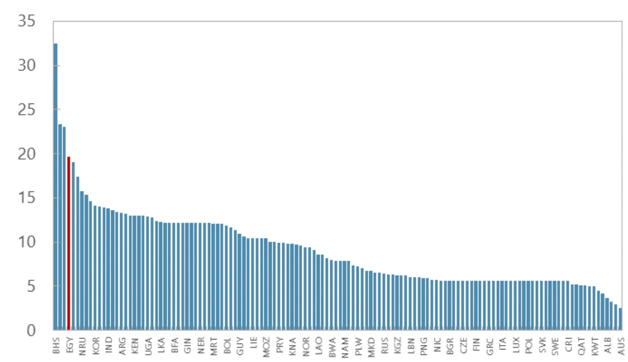
7. While price competitiveness will help support Egypt's exports, key impediments relate to constraints on private sector growth, as in many countries in the region. Price competitiveness remains an important driver of export competitiveness—exchage rate misalignments historically have affected Egypt's export volumes. However, the sensitivity of Egyptian exports to the exchage rate has generally been lower than in other countries (Youssef and Zaki, 2019). This lower price elasticity indicates the significance of non-price constraints on exports, which include, prevalent non-tariff barriers, and obstacles to doing business that limit private sector growth.

Goods Export Components, % GDP



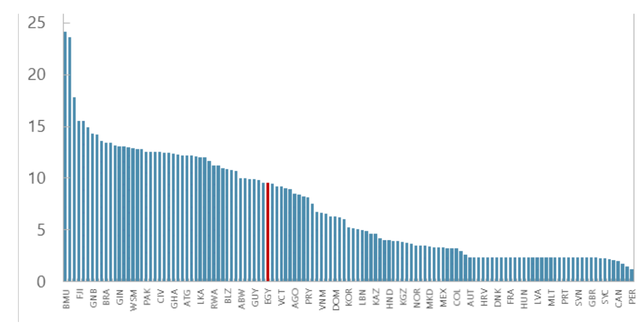
Sources: World Economic Outlook; IMF staff calculations.

Average Most Favored Nation Tariff Rate



Note: MFN tariff is what a WTO member promises to impose on imports from other WTO members unless the countries are part of a preferential trade agreement. In other words, MFN tariff is the upper bound tariff rate imposed by a country. Average is across products.

Average Effectively Applied Tariff Rate



Note: The applied tariff is the lowest available tariff between MFN and various preferential tariffs. Average is across products.

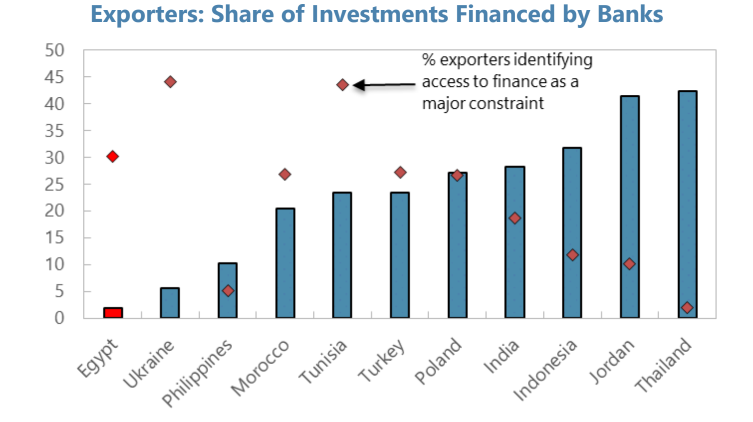
Source: World Development Indicators (data as of 2018 or latest available).

- *Non-tariff barriers reduce both imports and exports.* Extensive non-tariff barriers (NTBs) appear to be at play in Egypt, many of which have increased even as tariff barriers have been lowered. These NTBs include, inter alia, technical requirements countries use to regulate products (e.g., size, color, sourcing origins, label or packaging requirements), documentation for domestic importers and foreign exporters, bans on certain imports or exports, and inspection requirements. Egypt's cumbersome customs clearance procedures have also been noted as a key barrier (World Bank, 2020; U.S. Department of State, 2020) that creates delays and uncertainty in trade activities. While many NTBs address consumer protection or environmental concerns, some can be excessively cumbersome while others are intentionally used to discriminate against imports to protect domestic industries.[2] NTBs may also be more harmful than tariffs as they are by nature less transparent and therefore incentivize rent-seeking behaviors. Finally, because they increase administrative costs and the end price of the imported goods, they also limit smaller firms' ability to participate in trade and GVC. In this regard, the recently enacted 2020 Customs Law is a welcome step aimed at addressing some of these NTBs by streamlining aspects of import and export procedures, including the implementation of a single-window system, electronic payments, and expedited clearances for authorized companies.

- *Egypt's average tariffs, based on publicly available data, are high by international standards.* While intended to protect domestic industries and jobs, tariff barriers can also contribute to limit those industries' ability to develop, diversify, and become more competitive. Importing is an effective way of increasing the variety of inputs and accessing technologies that are not domestically available. Limiting these channels has been shown to slow TFP growth while reducing export capacity (Barro and Sala-i-Martin, 1992; Wacziarg and Welch, 2008). Previous studies have shown that countries that successfully adopted export-led growth strategies did so while also liberalizing imports (see, for example, Lawrence and Weinstein, 2001, on Japan and South Korea; and Krishna and Mitra, 1998, on India). Moreover, if high tariffs increase input prices, they can contribute to deterring both domestic and foreign direct investments as well as hampering GVC participation.

- *Low export participation by private firms reflect specific additional constraints on the dynamism of the private sector.* The largest export sectors in Egypt (oil/gas, food, textiles, and chemicals) are dominated by state-owned enterprises (see the Selected Issues Paper, "The role of SOEs: Economic Footprint, Performance, and Governance.") Relatedly, according to the World Bank's 2020 Enterprise Survey, less than 10 percent of private firms in Egypt participate in exports (directly or through sales to exporting companies). Among exporters whose direct exports are at least 10 percent of sales, about 27 percent identify corruption as the biggest obstacle to doing business. As many as 30 percent also report that access to finance is a major constraint. This is supported by the evidence that only about 2 percent of investment by export firms is financed by banks. In addition to these constraints, businesses in Egypt often contend on an uneven playing field, with SOEs enjoying benefits that are not available to the

Exporters: Share of Investments Financed by Banks



[2] For a summary of non-tariff barriers in Egypt, see https://www.trade.gov/knowledge-product/egypt-trade-barriers.

private sector.[3] These factors contribute to businesses' inability to compete domestically or internationally.

8. To increase Egypt's exports in a sustainable and inclusive way, deep and well-sequenced structural reforms are vital.

- As a prerequisite, preserving macroeconomic stability and safeguarding against exchange rate misalignment will ensure that uninterrupted focus can be afforded to a comprehensive reform towards a more vibrant export sector.
- In the near term, efforts to pursue "low-hanging fruits," including more efficient VAT refunds for exporters and use of technology and digitalization in customs processes, should begin immediately to ease any constraints on exports.
- The implementation of the new Customs Law will be key. The law promises to streamline import and export procedures and, critically, improve the transparency and predictability of customs enforcement. It is critical, therefore, that the implementation of the law preserves these spirits to reduce NTBs and help limit corruption—the key obstacle to doing business identified by exporters.
- As constraints on exporters are lifted, distortionary export subsidies, guarantees, and tax exemptions should be eliminated. Instead, the government can support exporters by providing technical assistance such as market research, training programs on the export process, meeting international standards, and setting up trade offices in key export markets to provide logistical support for exporters.
- Over the medium term, tariff rates should be gradually reduced—including through the regular customs tariff review and where there is scope to bring down tariffs to further promote productivity-enhancing trade flows—and the use of customs duties as a policy tool to restrict imports should be minimized. This should be done in a systematic and measured way, with public communications to allow domestic industries to adjust.
- The development of a regional trade strategy and trade connectivity in conjunction with trade agreement partners will also allow exporters to more easily access regional markets to leverage regional advantages.

In parallel to the above, the government should adopt complementary reforms to reduce the role of the state in business activities, improve private sector competitiveness—including through investment in infrastructure and services to create an enabling business environment. In addition, investments in education and training and better tailoring of curricula to reflect industries' skillset needs would over time facilitate the reallocation of workers towards more productive and more competitive sectors. These policies will ensure that export growth is sustainably supported by a vibrant private sector and a skilled workforce, while providing the Egyptian population with appropriate job opportunities.

[3] For a detailed analysis of SOEs in Egypt, see the Selected Issues Paper, "Role of the State: Economic Footprint, Performance, and Governance."

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Appendix I. Letter of Intent

June 7, 2021

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

Dear Ms. Georgieva,

The set of strong and balanced policies put in place in the wake of the COVID-19 pandemic and supported by the IMF's 12-month Stand-By Arrangement (SBA), has been successful in mitigating the negative impact of the crisis and safeguarding the hard-won macroeconomic gains achieved since 2016 and supported by the EFF program. Our economic policies agreed and adopted before and under the SBA have helped preserve macroeconomic stability, protect the most vulnerable, safeguard fiscal sustainability, enhance credibility of balanced fiscal policies, bolster credibility in the conduct of monetary and exchange rate policy, and maintain financial sector soundness. We were also able to achieve progress on the structural reforms front to improve fiscal transparency and governance and continue the effort to encourage private sector-led inclusive growth.

Policies agreed under the SBA program have been on track. Based on our strong policy implementation under the SBA, we request the completion of the second review of the SBA and the disbursement of the third and final tranche in the amount equivalent to SDR 1,158.04 million (56.8 percent of quota and about $1.7 billion). As before, IMF resources will be used for budget support. Reaffirming our commitment to transparency, we consent to the publication of this letter, including Tables 1 and 2, the Technical Memorandum of Understanding (TMU) as well as the IMF staff report on the second review under the SBA and 2021 Article IV Consultation.

A. Recent Developments, Program Performance and Outlook

1. The Egyptian economy has continued to perform well despite the challenges presented by the COVID-19 crisis. Alongside the gradual and cautious easing of the pandemic related restrictions, the economy grew by 1.3 percent (y/y) in H1 FY2020/21 while inflation remained below 5 percent. The primary balance during July-April was 0.8 percent of GDP, putting it on track to considerably exceed the budget target for the year in spite of pressing spending demands related to COVID pandemic. Strong remittances have helped partially offset the weakness in tourism revenue while the resumption of capital inflows since June 2020 have fully reversed the outflows during the height of the crisis and the exchange rate appreciated by about 3 percent since June. In February 2021, we successfully accessed the bond market for the third time since the crisis and issued $3.75 billion Eurobonds at favorable rates (with 5-, 10-, and 40-year maturities). Reserves stood at $39.2 billion at end-April. Aggregate financial indicators continue to point to a resilient banking system. Meanwhile, the vaccination of front-line health workers, tourism workers, and high-risk groups is underway. A total of 2.7 million people have registered to receive the vaccine, and around 1.2 million people have been inoculated. As of May 16, 2021, there were 244,520 confirmed COVID-19 cases and 14,269 reported deaths in Egypt. After reaching a second peak with around 1,400 confirmed daily cases in January 2021, daily cases have increased to over 1,200 in the first half of May, after briefly declining during February and March.

2. Performance under the program was strong. All end-March 2021 quantitative performance criteria (QPC) were met, while the lower inner band of the end-March monetary policy consultation clause (MPCC) was breached due to sustained fall in food prices in recent months (Table 1). The NIR and primary balance (PB) overperformed the QPCs. All Indicative targets (ITs) were met including the ones on government's overdraft at the CBE, share of short-term net domestic issuances and health and social spending. All structural benchmarks (SBs) were also met: By end-December Cabinet approved the updated MTRS, the updated MTDS was published, and the new chapter in the competition law on mergers and acquisitions was submitted to Parliament. The NIB reform plan (end-January SB) has been developed and the Public Expenditure Review (PER) on social protection (end-April SB) is complete.

B. Economic Program

3. We continue to focus our immediate policy response on safeguarding macroeconomic stability and providing the necessary support to affected people, firms, and sectors, as well as the economy at large. Policies continue to be focused on enhancing health and social programs, providing adequate resources to vaccinate the population, and supporting the economic recovery. We remain ready to consider additional policies and targeted measures, as needed, to safeguard stability in the event the crisis deepens or is more prolonged than anticipated.

4. Reinvigorating the structural reform agenda to support the recovery in the post-pandemic world is also critical. As the negative impact of the pandemic subsides, our efforts will increasingly focus on accelerating the implementation of structural reforms aimed at improving the business climate, strengthening governance, and thus allowing the private sector to take a leading role in the economy and creating more high-quality jobs. These reforms, complemented by investments in infrastructure, health, and human capital and continued strengthening of the social safety nets, will help us achieve sustainable and inclusive growth to ensure decent living standards for Egypt's growing and young population.

FY2021/22 and Medium-Term Budget

5. The primary balance is on track to overperform the target in FY2020/21, allowing for gradual consolidation in FY2021/22 to support the recovery and ensure its inclusiveness. We expect to achieve a primary surplus of 0.9 percent of GDP this year, compared to the target of 0.5 percent of GDP, thanks to resilient revenue including tax performance and savings in wages, subsidies, and purchase of goods and services. For the coming fiscal year, we are targeting a primary balance (PB) of 1.5 percent of GDP relative to the 2 percent previously envisaged, as savings from FY2020/21 would be applied towards supporting the inclusive economic recovery, improving people's living standards and continued poverty reduction efforts through higher investments in infrastructure, health, and education. As a result of this year's overperformance, the impact on the projected debt path is expected to be neutral. Should the impact of the COVID-19 crisis require larger outlays, we intend to use the reserves already included in the budget, and as a contingency, to delay lower priority current and capital spending in favor of essential spending (particularly on health and targeted social protection).

6. We remain committed to a return to pre-COVID-19 primary balance target to resume and entrench a firm downward debt trajectory in the medium-term. Reflecting the effects of the shock on growth and the fiscal pressures, debt is expected to slightly rise in FY2020/21 before resuming its declining path. Towards that objective, we are committed to achieve and maintain a primary balance of 2 percent of GDP starting in FY2022/23 through spending discipline with prioritization of human capital, social sectors and development spending, continue adoption of effective debt management strategy and measures to support the reduction in the interest bill while extending debt maturity, and continue our vigorous efforts on revenue mobilization in line with our recently-approved MTRS. This will allow us to balance near-term fiscal needs with the need to reduce general government debt to below 80 percent of GDP by FY2024/25.

7. We will continue efforts to improve fiscal reporting and enhancing debt transparency.

- We have delivered on our commitment under the SBA. We have published government procurement awarded contracts and the names of the awarded companies for the emergency responses to COVID-19 and have included information on legal ownership for contracts awarded after January 2021 until May 2021, which in most of the cases corresponds to the beneficial ownership. Going forward, we have further adjusted the executive regulation to allow for the collection and publication of beneficial ownership information for all companies and will start publication on a regular basis. We have started publishing 3-month ahead procurement plans for COVID-19-related spending for March-June 2021 and are committed to continue doing so on a quarterly basis for COVID-19 related health spending. The audit report prepared for the COVID-19 related spending up to early May 2021 has been published.

- More broadly, we will continue to enhance fiscal reporting to align with international best practice including more detailed, frequent, and timely intra-year budget execution reports and debt information.

Fiscal Structural Reforms

8. Revenue mobilization is at the core of our agenda to generate fiscal space for development spending and safeguarding fiscal and debt sustainability. We approved our Medium-Term Revenue Strategy (MTRS) in December 2020 (SB) and are working on its implementation. Our strategy aims to raise tax to GDP by around 2 percentage points in 4 years through tax policy and revenue administration reforms.

9. We are working to further improve public financial management (PFM). We submitted a revised PFM law to strengthen the budget process to parliament in late October (end-December SB). We will seek the IMF support on the drafting of executive regulation and implementation of the new law as soon as it is approved by Parliament to ensure they are in line with sound principles as stated in the law as well as guided by international best practices. We are also implementing a restructuring of the Ministry of Finance to further enhance policy and strategy functions as well as explore ways to enhance efficiency and effectiveness of government spending. We will conduct a Public Investment Management Assessment to maximize the impact of our ambitious investment program.

10. Fuel price adjustments will continue to be made in accordance with the indexation mechanism that was introduced in 2019. Fuel prices were increased in April 2021 to reflect higher world oil prices, in line with the indexation formula. Continued implementation of the automatic fuel price mechanism will ensure that retail prices adjust to changes in the exchange rate and global oil prices, which safeguards the budget against the re-emergence of subsidies from future changes in the cost of availing fuel products. In addition, the hedging mechanism would help protect the budget from fluctuations in oil prices. Energy costs are expected to continue to decline over the medium-term as further expansion of the natural gas distribution grid enables more users to switch over to natural gas, which is cheaper and results in lower greenhouse gas emissions.

11. We will continue to improve debt management to strengthen debt sustainability. While gross financing needs remain high (projected at about 35 percent of GDP in FY2021/22), the government has a strong track record of meeting these needs, especially given the large and stable domestic investor base which alleviates rollover risks as well as Egypt's robust access to international capital markets. We will continue to increase reliance on longer-term bonds to extend average debt maturity and avoid repayment bunching. We have been working towards Egypt's inclusion in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM), which is expected during 2021, and are taking steps to allow settling of Egyptian securities transactions through Euroclear. This will help broaden the investor base, deepen secondary markets and facilitate more reliance on long term bond issuance.

12. We will remain vigilant on the management of fiscal risks, including those emerging from SOEs and we are committed to implement the National Investment Bank (NIB) reform plan.

- We will continue to strengthen our monitoring, management and transparent reporting of fiscal risks including those emerging from below-the-line operations with SOEs, economic authorities, and other government entities, so as to provide a clear picture of those operations. We are also working on the fiscal risks statement to be included as part of the documentation for the budget of FY2021/22.

- The approved reform plan to restructure the NIB has contained the fiscal and financial stability risks arising from the NIB, which ceased lending and funding operations in January 2021. The plan envisages reducing the NIB's liability gradually over time. Efforts in this regard will include the use of cash, performing loans and government securities. We also plan to recoup equity through swapping NPL collateral for higher-quality government assets and issue government bonds to cover any remaining gap.

Monetary and Exchange Rate Policy

13. **Monetary policy will continue to be data-driven to anchor inflation expectations around the targeted level of 7 percent.** Since March 2020, the CBE has cut the policy interest rate by 400 basis points (to 8.25 percent in November 2020) to support economic activity and alleviate pressures in domestic financial markets against the impact of the COVID-19 shock. Despite the substantial rate cuts, headline inflation in March was 4.5 percent and breached the lower inner MPCC band, mainly due to sustained fall in food prices in recent months. While the CBE left the policy rate unchanged in the last two Monetary Committee meetings, moving forward, it will be ready to further ease monetary policy if inflation continues to surprise on the downside. It will also stand ready to take the necessary action to counter any inflationary pressures.

14. **The CBE will continue its efforts to improve monetary policy transmission.**

- The CBE is committed to not introduce any new subsidized lending schemes and not renew the existing schemes as soon as conditions allow or by the end of FY2021/22 whichever is earlier. As of March 2021, almost all the resources (198 out of the 200 billion EGP) allocated for subsidized lending have been used. Any new subsidized lending scheme after June 2022 that would be deemed necessary for social or green policy objectives will be further managed by the government and integrated within the budget on par with the other related actions of the government.

- Further, the CBE will continue to strengthen its analytical and liquidity management capacity for the purpose of conducting open market operations. This will ensure that, going forward, the overnight interbank rate remains within the corridor provided by the CBE's overnight lending and deposit rates, in order to ensure full passthrough of policy rate changes to the interbank market.

- Finally, we will continue to work to further develop the money markets and financial markets at large to further enhance the transmission of monetary policy to market rates.

15. **The exchange rate continues to reflect market forces, with limited volatility in recent months.** The exchange rate appreciated about 3¾ percent between June and November 2020, but the exchange rate has been more stable recently, appreciating by around 0.4 percent between end-December and early May. Liquidity in the FX market has been helped by continued portfolio inflows in recent months. Official FX reserves were $39.2 billion at end-April 2021, up from $35.2 billion at end-May 2020, just before the beginning of the SBA program in June 2020. Commercial banks' net foreign assets, which dropped in March and April 2020 amid capital outflows, have now recovered as inflows have been channeled through the interbank market.

16. We remain committed to maintaining a flexible exchange rate in the context of an inflation targeting regime and a healthy level of international reserves. As market conditions have normalized since the inception of the SBA program, the exchange rate will keep reflecting market forces and help absorb exogenous shocks, while foreign exchange interventions will be limited to addressing disorderly market conditions. We will continue to strictly enforce the regulatory ceilings for commercial banks' net open FX positions. Our goal is to maintain an adequate level of international reserves during and beyond 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. 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.

17. The regulations that will be issued for the implementation of the new Banking Law are expected to be finalized by the end of Q1 2022. The new law establishes the CBE's mandate to maintain financial sector stability and to achieve low and stable inflation over the medium term in line with its inflation target. The law expands the CBE's responsibilities including on bank resolution, 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 is building capacity and deploying implementing regulation to support these new responsibilities, with IMF technical assistance along with other experts. Reflecting the recommendations of the 2020 Safeguard Assessment, the CBE will move to full compliance with Egyptian Accounting Standards/IFRS for its FY2021/22 financial accounts.

Financial Sector Policies

18. We will continue to closely monitor financial sector risks while supporting borrowers' access to needed finance. Despite the initial measures introduced to respond to the pandemic, banks have thus far remained liquid, profitable, and well capitalized. This is in large part because Egypt's banking system entered the COVID-19 crisis with sizeable buffers.

- Lending to the private sector has remained robust and above pre-pandemic levels. Lending to the private sector since March 2020 has been boosted by the CBE's subsidized lending schemes (as of end-December 2020, 18 percent of total private sector loans and 3 percent of FY2019/20 GDP). Since the 6-month economy-wide debt moratorium ended in September 2020, banks' asset quality remains healthy, with only a small increase in non-performing loans. We are implementing amendments to the bankruptcy laws to improve pre-insolvency restructuring processes and financing.

- The CBE has recently required banks to increase their lending to SMEs from the current floor of 20 percent to 25 percent of their portfolio by December 2022. It will enforce this requirement to enhance financial inclusion and support banks' portfolio diversification, while keeping tight supervision on banks to avoid a deterioration in the quality of assets.

- The CBE will continue to strictly enforce appropriate classification of any restructured loans and closely monitor the lagged impact of the crisis. 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.

Structural Reforms

19. With the formulation of the second phase of our structural reform agenda, we are determined to push ahead with necessary reforms to support balanced, sustainable, and inclusive growth in a post-COVID-19 world. The objective of the National Structural Reforms Program (NSRP) is to enhance economic resilience, promote employment by creating more high-quality jobs, and raise the productive capacity and competitiveness of the economy, especially of export-oriented industries.

20. While the NSRP provides the broad outline of the reform program, in the coming months the government will further define the specific policies that are needed to achieve the stated objectives. These policies will aim to improve resource allocation, preserve the social fabric and ensure economic inclusion, further integrate Egypt into the global economy through higher private investment and exports, and make Egypt a greener economy. In particular, we will build on the recent introduction and rollout of the universal health plan, phased implementation of our new modern education system, and expansion of Takaful and Krama program, modernization of water and irrigation system, along with recently launched rural development initiatives to further gear public spending to achieve better health and education outcomes, gender equality, and poverty reduction in line with the government's plan to reach the Sustainable Development Goals (SDGs) by 2030. We will also continue the reforms started with the new customs law to reduce tariff and non-tariff barriers to imports which we believe are necessary to encourage exports and attract high quality FDIs that allow the transfer of know-how. The government will leverage, in collaboration with the private sector, the recently developed National Strategy for Adaptation to Climate Change and Disaster Risk Reduction to increase green investments and continue the integration of environmental dimensions into government policies and actions.

21. Given the large role of the public sector in the Egyptian economy, we will devote particular attention to give more footprint and space to the private sector to operate within a competitive environment. Our aim is to have the state play an enabling and supportive rather than a leading role in economic activities. The government will build on the recent amendments to Law 203 concerning the SOEs owned by the ministry of public business sector, to deal with the broader role of the state in the economy. A key step in this regard will be to define the role of the state in the economy through articulating a state ownership strategy that states the overall objectives, rationale, and principles of state involvement in commercial enterprises. This would provide the basis for strengthening its transparency and performance. To help foster a more competitive environment for the private sector, we will aim to enhance the independence of regulatory authorities and reduce the scope for conflict of interest within the regulatory functions, and ensure a level playing field for all economic actors, including in land allocation, access to credit, and procurement rules for SOEs. On the transparency front, we have published financial statements for an increasing number of SOEs that reached about 300 enterprises from FY2015/16 to FY2018/19 and for Economic Authorities from FY2015/16 to FY2019/20. We will continue to publish and enhance annual reports on SOE's and economic authorities' financial performance by expanding the set of available financial variables included in the reports and ensuring wide coverage of operating public entities subject to reporting

22. We will make efforts to monitor the performance and evaluation of the structural reforms program. In addition to forming steering committees which will regularly monitor performance with the participation of the private sector and civil society, a higher committee headed by the Prime Minister and relevant authorities (led by the Ministry of Planning and Economic Development) will follow up on the implementation of the NSRP.

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

Table 1. Egypt: Quantitative Performance Criteria and Indicative Targets Under the 12-month SBA June 2020-June 2021

(In billions of Egyptian pounds, unless otherwise indicated)

	end-September 2020			end-December 2020			end-March 2021		
	Prog.	Actual	Status	Indicative	Actual	Status	Prog.	Actual	Status
I. Quantitative Performance Criteria 1/									
Net international reserves of the CBE ($ million; cumulative change, floor) 2/	0	4,316	Met	0	7,229	Met	3,000	6,366	Met
Primary fiscal balance of the budget sector (cumulative, floor) 3/	0	0.1	Met	7	14	Met	15	25	Met
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0	Met	0	0	Met	0	0	Met
II. Indicative Targets 3/									
Government overdraft at the CBE (ceiling)	93	9	Met	93	0	Met	93	29	Met
Tax revenues (cumulative floor)	121	150	Met	304	334	Met	484	539	Met
Social spending of the budget sector (floor)	23	24	Met	52	53	Met	81	83	Met
Share of short-term net new domestic issuance to total domestic treasury issuances (ceiling)	40	21	Met	40	11	Met	30	-1	Met
Accumulation of gross debt of the budget sector (cumulative ceiling)	226	219	Met	450	377	Met	679	531	Met
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	5.4	Met	7	4.5	Not met
Lower inner band	6	...		5	...		5	...	
Lower outer band	4	...		3	...		3	...	
Memorandum items:									
Program disbursements at completion of review ($ million; cumulative change) 2/	10,100	4,673		12,315	7,283		12,930	11,443	
External commercial loans (including Eurobonds) assumed under the program ($ million) 2/	6,500	2,028		6,500	2,728		6,500	6,623	
Of which:									
International bank financing	...	261		...	261		...	261	
Net issuance of FX T-Bills	...	-211		...	-182		...	-116	
External program financing assumed under the program ($ million) 2/	1,600	659		2,215	907		2,830	1,172	
IMF financing assumed under the program ($ million) 2/	2,000	1,986		3,600	3,648		3,600	3,648	

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. Egypt: Structural Benchmarks Under the 12-Month SBA 1/			
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	Met
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	Met
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	Met
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	Met
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	Met
1/ The references to the MEFP reflect the MEFP from the first review.			

Attachment I. Technical Memorandum of Understanding

June 7, 2021

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 3A. Ministry of Finance

Item	Frequency	Submission Lag
Overall deficit of the budget sector	M	30 calendar days
Overall deficit of the general government, NIB and SIFs	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 3A. 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 3B. Central Bank of Egypt		
Item	**Frequency**	**Submission Lag**
Program net international reserves and its components (foreign reserve assets and foreign reserve-related liabilities) of the CBE at program and current exchange rates	M	7 working days
Program disbursements and its breakdown by components (as defined in paragraph 7 above)	M	7 working days
Breakdown of gross foreign assets and liabilities (including foreign currency liabilities to residents) of the CBE by currency at actual and program exchange rates	M	15 calendar days
Breakdown of foreign reserve-related liabilities (including foreign currency liabilities to residents) of the CBE by original maturity at actual and program exchange rates	M	15 calendar days
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 3B. Central Bank of Egypt (concluded)		
Central bank's weekly analytical balance sheet (preliminary data to be submitted once a week for the previous week)	W	7 working days after the end of the week
Daily 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		

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT—INFORMATIONAL ANNEX

June 7, 2021

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2021)

A. Financial Relations

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

General Resources Account	SDR Million	Percent Quota
Quota	2,037.10	100.00
IMF's holdings of currency	15,003.03	736.49
Reserve tranche position	275.35	13.42

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	898.45	100.00
Holdings	111.25	12.38

Outstanding Purchases and Loans	SDR Million	Percent Allocation
Stand-by Arrangements	2,605.60	127.91
Emergency Assistance[1/]	2,037.10	100.00
Extended Arrangements	8,596.57	422.00

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

Financial Arrangements (In millions of SDR)

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	June 26, 2020	June 25, 2021	3,763.64	2,605.60
EFF	Nov 11, 2016	July 29, 2019	8,596.57	8,596.57
Stand-By	Oct 11, 1996	Sep 30, 1998	271.40	0.00

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

	Forthcoming				
	2021	2022	2023	2024	2025
Principal	328.34	835.78	1,945.74	3,754.11	2,882.95
Charges/interest	267.74	377.65	362.51	251.39	102.80
Total	**596.08**	**1,213.43**	**2,308.25**	**4,005.50**	**2,985.75**

Implementation of HIPC Initiative: Not Applicable

B. Nonfinancial Relations

Exchange Rate Arrangement[1]

Egypt has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

The de jure exchange rate arrangement is floating. On November 3, 2016, the CBE announced its decision to move, with immediate effect, to a liberalized exchange rate regime to quell any distortions in the domestic foreign currency market. Pursuant to the above, banks and other market participants are at liberty to quote and trade at any exchange rate. Bid and ask exchange rates are determined by forces of demand and supply. The CBE uses the prevailing market rate for any transactions it undertakes. While the exchange rate appears to have increased its flexibility from January 2019, more observations are necessary to determine its new trend. Until then, the de facto exchange rate arrangement remains classified as stabilized. The CBE does not publish intervention data.

The exchange restriction arising from a net debtor position under the inoperative bilateral payment arrangement (BPA) with Bulgaria was eliminated in January 2018 when the Egypt authorities settled the outstanding balances under the BPA with Bulgaria.

Latest Article IV Consultation

The 2017 Article IV consultation was concluded on December 20, 2017 and the Staff Report (IMF Country Report No. 18/14) was published in January 2018.

Financial Sector Assessment Program

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

Senior Resident Representative

Said Bakhache

[1] Based on information available in the IMF's 2019 Annual Report on Exchange Arrangements and Exchange Restrictions: https://www.imf.org/-/media/Files/Publications/AREAER/AEIEA2019001-Overview.ashx

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

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

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

Department	Technical Assistance	Dates	Counterpart
FAD	Tax Administration	Jul 21–28, 2017	Ministry of Finance
	Budget Preparation	Oct 3–10, 2017	Ministry of Finance
	Budget Preparation	Nov 28–Dec 11, 2017	Ministry of Finance
	Tax Administration	Apr 1–12, 2018	Ministry of Finance
	(METAC) Public Corporations & Fiscal Risk Management	Sep 2–12, 2018	Ministry of Finance
	Prepare a Medium-Term Revenue Strategy (MTRS)	Sep 30–Oct 2, 2018	Ministry of Finance
	(METAC) Improve Filing and Payment Compliance Management	Dec 9–20, 2018	Ministry of Finance
	Tax expenditures accounts	Mar 5–19, 2019	Ministry of Finance
	MTRS	Mar 26–Apr 8, 2019	Ministry of Finance
	MTRS Formulation	Sep 25–Oct 9, 2019	Ministry of Finance
	(METAC) Fiscal Risk Statement Update	Nov 17–21, 2019	Ministry of Finance
	PFM Law, Budget Process Reforms, and Program and Performance Budgeting	Dec 4–18, 2019	Ministry of Finance
	Disputed Tax Debt	Sep 6–Oct 13, 2020 (Virtual Mission)	Ministry of Finance
	MTRS	Oct 30–Nov 22, 2020 (Virtual Mission)	Ministry of Finance
	Fiscal Cost and Risks from PPPs	Dec 17–23, 2020 (Virtual Mission)	Ministry of Finance
	Review of the Draft PFM Law	Feb 8 –17, 2021 (Virtual Mission)	Ministry of Finance
	Fiscal Cost and Risks from PPPs	Apr 14–16, 2021 (Virtual Mission)	Ministry of Finance
MCM	Liquidity Management and Forecasting	Sep 24–Oct 6, 2017	Central Bank of Egypt
	(METAC) Mission to Enhance IFRS Knowledge	Jun 24–28, 2018	Central Bank of Egypt
	(METAC) Mission on Market Risk	Jul 29–Aug 2, 2018	Central Bank of Egypt
	(METAC) Training on Credit Risk	Nov 5–8, 2018	Central Bank of Egypt
	Implementation of Basel II & III Standards	Jul 7–11, 2019	Central Bank of Egypt
	Implementation of Basel II & III Standards	Dec 8–12, 2019	Central Bank of Egypt

	Implementation of Basel II & III Standards	Oct 25–Nov 1, 2020 (Virtual Mission)	Central Bank of Egypt
	Implementation of Basel II & III Standards	Jan 8–15, 2021 (Virtual Mission)	Central Bank of Egypt
	Implementation of Basel II & III Standards	Feb 4–11, 2021 (Virtual Mission)	Central Bank of Egypt
	Implementation of Basel I & II Standards	Mar 9–16, 2021 (Virtual Mission)	Central Bank of Egypt
	Implementation of Basel II & III Standards	Mar 23–30, 2021 (Virtual Mission)	Central Bank of Egypt
STA	(METAC) National Accounts - Supply and Use	Oct 29–Nov 9, 2017	Ministry of Planning
	(METAC) National Accounts	Jul 9–20, 2017	Ministry of Planning
	(METAC) Producer Prices - Strengthen Compilation and Dissemination of Data	Dec 18–22, 2017	CAPMAS
	(METAC) National Accounts	Feb 4–8, 2018	Ministry of Planning
	(METAC) Producer Price Index	Mar 4–15, 2018	CAPMAS
	(METAC) National Accounts	Dec 9–20, 2018	Ministry of Planning
	(METAC) Consumer Prices/Producer Price	Jan 13–22, 2019	CAPMAS
	(METAC) National Accounts	Jul 28–Aug 8, 2019	Ministry of Planning
	(METAC) National Accounts - Financial accounts	Oct 27–31, 2019	Ministry of Planning
	(METAC) Price Statistics (CPI and PPI)	Nov 17–28, 2019	CAPMAS
	(METAC) National Accounts-- Supply and use tables	Jan 27–Feb 6, 2020	Ministry of Planning
	(METAC) Compilation of Financial Accumulation Accounts and Balance Sheets	Mar 16–25, 2021 (Virtual Mission)	Ministry of Planning
	Measurement of non-observed economy	Apr 4–8, 2021 (Virtual Mission)	Ministry of Planning
LEG	Art. VIII Assessment	May 14–21, 2017	Central Bank of Egypt
	Central Bank Law	Feb 26–Mar 8, 2018	Central Bank of Egypt
	Central Bank Law - Follow Up	Apr 22–26, 2018	Central Bank of Egypt
	Income Tax Law and Customs Law	Jan 19-23, 2020	Ministry of Finance
	PFM Fiscal Safeguards Review	Nov 2–21, 2020 (Virtual Mission)	Ministry of Finance
	Strengthen the Draft PFM Law	Feb 8–15, 2021 (Virtual Mission)	Ministry of Finance

STATISTICAL ISSUES

(As of May 31, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, but quality, timeliness, and overall transparency could be improved. Government finance, monetary, and external sector statistics are adequate and recent efforts have improved transparency and dissemination. However, fiscal data are published irregularly and available only with a lag. Reporting of finances of state-owned enterprises and economic authorities and their relations to the budget could be made more comprehensive and detailed.
National accounts: The National Accounts Department within the Ministry of Planning compiles annual and quarterly national accounts data based on the *System of National Accounts 1993* and partly on the *System of National Accounts 2008*. Shortcomings include: inconsistency over time (the base year is sometimes changed without an overlap with the preceding base); some weakness in investment data and deflators for net indirect taxes; and lack of export and import price deflators. The estimates of GDP are compiled using both the production and expenditure approaches, with the latter yielding a lower GDP estimate as the household final consumption expenditure is not accurately measured. The integration of the supply and use tables, which are compiled by the Central Agency for Public Mobilization and Statistics (CAPMAS), in the National Accounts compilation process could enhance the coverage and quality of the GDP estimates. Efforts are also being made to improve the coverage of non-observed activities.
Price statistics: The Central Agency for Public Mobilization and Statistics (CAPMAS) disseminates a monthly producer price index, as well as monthly consumer price index (CPI) data for eight geographic areas (Cairo, Alexandria, Canal cities, Frontier governorates, urban Lower Egypt, urban Upper Egypt, rural Lower Egypt, and rural Upper Egypt) as well as aggregate indices for all urban, all rural, and all Egypt. The CPI is compiled using expenditure weights derived from the 2008–09 household expenditure survey. In October 2009, the Central Bank of Egypt (CBE) began releasing its measure of core inflation, which excludes prices for the most volatile food items and regulated prices, and issuing a monthly Inflation Note.
Government finance statistics: While revenue and expense transactions are compiled largely in accordance with the *Government Finance Statistics Manual 2001 (GSFM 2001)*, lending and repayments are presented based on the GFSM1986 classification. The lack of a *GFSM 2001* compliant presentation of transactions in assets and liabilities, other economic flows, and stock positions limits fiscal analysis. In addition, a proper sectorization of state-owned enterprises and economic authorities would expand the coverage of general government. Currently, data on external and domestic public debt are compiled and disseminated separately by the CBE and Ministry of Finance. More comprehensive coverage of government and government-guaranteed debt data within a single database could help improve public debt management.

I. Assessment of Data Adequacy for Surveillance (concluded)	
Monetary and financial statistics: The CBE reports the monetary and financial statistics based on the IMF's standardized report forms for the central bank and other depository corporations on a regular basis. In order to enhance data analysis, the coverage of data should be expanded to include other financial corporations. Egypt also reports data on several series indicators of the Financial Access Survey (FAS) including two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). **Financial sector surveillance**: The CBE regularly publishes the financial soundness indicators on its website, but the only aggregate banking sector data is publicly available. The banks' exposure to the large state-owned enterprises remains non-transparent.	
External sector statistics (ESS): The CBE still compiles balance of payments statistics based on the Balance of Payments Manual, Fifth Edition (BPM5), and has published Egypt's Reserve Template on the IMF's website since 2009. Issues that could be addressed to improve the ESS compilation include deficiencies in source data for merchandise trade; limitations in data collection via banking system; shortcomings in recording of transaction related to oil concessions, and compilation of stock data.	
II. Data Standards and Quality	
Egypt began participation in the Special Data Dissemination Standard in 2005.	The data ROSC was published on July 2005.

Egypt: Table of Common Indicators Required for Surveillance
(As of end-May 2021)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items: Data Quality–Methodological Soundness[7]	Memo Items: Data Quality–Accuracy and Reliability[7]
Exchange Rates	Real time	Real time	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April-2021	May-2021	M	M	M		
Reserve/Base Money	Apr- 2021	May- 2021	M	M	M	O,O,LO,LO	O,O,O,O,O
Broad Money	March-2021	April- 2021	M	M	M		
Central Bank Balance Sheet	March-2021	April- 2021	M	M	M		
Consolidated Balance Sheet of the Banking System	March-2021	April- 2021	Q	Q	Q		
Interest Rates[2]	Real time	Real time	D	D	D/I		
Consumer Price Index	April- 2021	May- 2021	M	M	M	O,O,O,O	LNO,LNO,LN, LO,LO
Revenue, Expenditure and Balance — General Government[3]	June-2020	Sep-2020	I	I	Q/I	LO,LO,O,O	LO,O,O,O,O
Revenue, Expenditure, and Balance— Central Government	Apr-2021	May-2021	I	I	M/I		
Stocks of Central Government and Central Government-Guaranteed Debt[4]	Mar-2021	May-2021	I	I	A/Q		
External Current Account Balance	Dec-2020	Mar-2021	Q	Q	Q	O,LO,LO,LO	LNO,O,O,O,O
Exports and Imports of Goods and Services	Dec-2020	Mar-2021	Q	Q	Q		
GDP/GNP	2020/21 Q2	May-2021	Q	Q	Q	O,O,O,LO	LO,LO,LO,O, LO
Gross External Debt	Dec-2020	Mar-2021	Q	Q	Q		
International Investment Position[5]	Dec-2020	Mar-2021	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

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

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

[4] Including currency and maturity composition.

[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); and Not Available (NA)

[7] Reflects the assessment provided in the data ROSC (published on July 21, 2005, and based on the findings of the mission that took place during October 7–20, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

ARAB REPUBLIC OF EGYPT

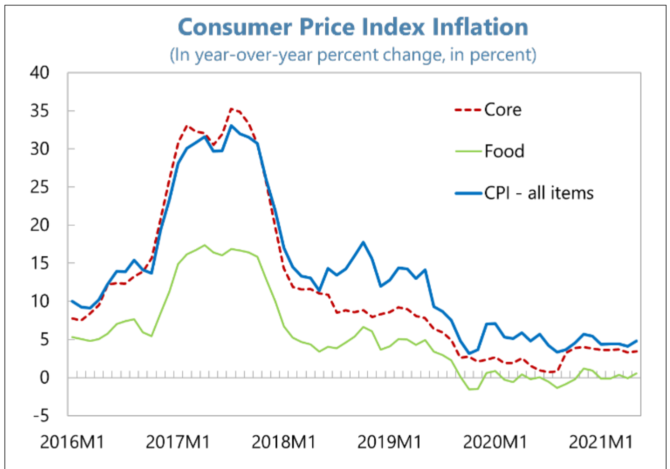
June 18, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT—SUPPLEMENTARY INFORMATION

Prepared By | Middle East and Central Asia Department

This staff statement provides an update on developments since the issuance of the staff report (EBS/21/51) on June 7. This supplementary information does not alter staff's appraisal.

1. **Consumer prices in May grew by 4.8 percent (y/y), up from April's outturn of 4.1 percent, bringing it closer but still below the CBE's medium-term target range.** In line with staff's projection, the acceleration in inflation was driven by base effects reflecting the early impact of the outbreak of COVID-19, including on food prices. In particular, prices of volatile food items such as fruits and vegetables, which had previously contributed negatively to headline inflation, rose by 6.9 percent (y/y) in May. Annual core inflation, which has been below 4 percent since December, inched up slightly to 3.4 percent from 3.3 percent in the prior month.



Sources: Central Bank of Egypt via Haver Analytics; IMF staff calculations.

2. **On Thursday June 17, 2021 the Monetary Policy Committee (MPC) decided to keep rates on hold on signs of economic recovery and rising inflation.** Citing global and domestic economic recovery (particularly in private consumption), continued accommodative financial conditions, and rising international prices in food and commodities, the MPC stated that keeping policy rates unchanged remains consistent with achieving the CBE's inflation target of 7 percent (±2 percentage points)

on average in 2022 Q4. The MPC noted that it closely monitors economic developments and will utilize all available tools as necessary to support economic recovery and carry out the CBE's price stability mandate.

3. Egypt was among the thirteen countries included in the new FTSE Russell Frontier Emerging Markets Government Bond Index launched on June 8, 2021. The index is the first to track frontier markets' local currency bonds, a sign of growing investor appetite for this asset class. As of early June, the index was valued at $415 billion. Eighty Egyptian bonds are represented in the index, accounting for the maximum 10 percent weight allowed for each country. Other countries included in the new index are Bangladesh, Costa Rica, Dominican Republic, Ghana, Kenya, Nigeria, Pakistan, Serbia, Sri Lanka, Ukraine, and Vietnam.

Statement by Mr. Mohieldin, Executive Director
Mr. Alhosani, Alternate Executive Director, Ms. Abdelati, Senior Advisor,
and Ms. Merhi, Advisor for Arab Republic of Egypt
June 23, 2021

On behalf of the Egyptian team, we thank staff for the relevant coverage of topics in the report and appreciate the constructive discussions in the context of the Article IV consultation. They welcome the positive assessment in the staff report, as was reflected in the end-of-mission's Press Release, which commended the strong policy response to the pandemic and considered it well-managed. The proactive and timely measures by the Government addressed the health and social needs and supported the most affected sectors, helping to shield the economy from a deeper shock.

COVID-19 response Egypt is coming to the end of its 12-month Standby, the last part of the Fund's pandemic-related emergency financing. As planned, policies struck the right balance between ensuring targeted spending to protect necessary health and social expenditures and preserving macroeconomic stability including rebuilding international reserves as well as fiscal and debt sustainability. The Fund's financial assistance, in combination with strong and coordinated policies, was very instrumental in helping to protect lives and livelihoods and safeguard confidence. The continued fruitful partnership with the Fund is very much appreciated.

COVID-19 cases appear to be coming down from a third peak, with total reported cases and reported deaths relatively low as a percent of the population. Egypt's vaccination level is at 6.2 percent of the population and has been picking up over past week and this is expected to continue with Sinovac-Vacsera vaccine starting to be manufactured locally, with the government aiming to vaccinate 40 percent of the population in 2021. The vaccination of front-line health workers, high risk groups, and those working in the tourism sector is under way. For the first five months of this calendar year, tourist arrivals stood at about 40 percent of pre-pandemic levels. The sector's full recovery will depend greatly on the global end to the pandemic, and the tourism ministry believes it could return to pre-crisis levels sometime in 2022.

Economic performance continues to be favorable due to continuation of reforms and strong policies. The economy contracted in only one quarter and remained in positive territory on an annual basis for 2019/20 and 2020/21 despite the disruptions from the pandemic—reflecting the relative resilience and diversification of the economy. Growth is expected to pick up in the second half of 2020/21, from 1.3 percent in the first half, and to reach an annual rate of close to 3 percent, and to pick up further thereafter. Unemployment recovered from a peak in June 2020. Inflation has remained below the mid-range of the inflation target band. The fiscal outcomes continue to outperform versus staff expectations, registering a primary surplus in both years. The program's quantitative performance criteria and targets were met by a wide margin, but inflation breached the inner lower bound of the monetary policy consultation clause in March. Headline inflation stood at 4.9 percent for May 2021. All structural benchmarks for the Second Review were met on time and policy recommendations from the 2017 Article IV consultation were implemented.

Access to international markets has remained favorable and Egypt is enjoying continued foreign investor interest in portfolio inflows, which have more than recovered from the outflows of March-April 2020. Egypt was among the first EMs to access the bond market in May 2020. In February '21, Egypt successfully accessed the bond market for the third time since the crisis in addition to the milestone issuance of the green bond and issued US$ 3.75 billion Eurobonds at favorable rates with 5-, 10-, and 40- year maturities.

Supporting the Recovery The authorities share staff's outlook, recognizing that it remains subject to considerable uncertainty and potential risks. They agree that there are downside risks from global and domestic vaccine administration delays, or a surge in variants, but see only a remote chance of a sharp increase in unemployment nor a high likelihood that contingent liabilities would adversely affect the debt trajectory especially considering their prudent and proactive response. They agree that near-term fiscal and monetary policies should continue to support the recovery, without generating undue imbalances.

Prudent fiscal policy is continuing to overperform, allowing for a partial relaxation of the 2021/22 targets to support the recovery. The budget is on track to overperform the budget's primary surplus target of 0.5 percent of GDP to reach 1 percent of GDP, continuing the overperformance last year from a target of 1.5 of GDP to an outturn of 1.8 percent of GDP. With the recovery path still uncertain, the 2021/22 budget now targets a primary surplus of 1.5 percent of GDP, which will delay the return to a primary surplus of 2 percent of GDP until 2022/23, one year later than previously planned. Tax revenue is rebounding from the drop in 2019/20, and nontax revenue collection continues to increase despite the pandemic, benefiting from a broadened tax base, digital collections, continuous implementation of fiscal reforms and policies, and administrative improvements. Higher investments are planned in infrastructure especially for rural areas and villages, health, and education. Going forward, the plan is to continue to raise revenue by another 2 percent of GDP over four years, by implementing the Medium-Term Revenue Strategy, and to further raise social spending while continuing to roll out programs to strengthen social outcomes.

Improving debt dynamics after the recent setback due to the Pandemic Pre-pandemic, general government debt was expected to decline to 82 percent of GDP in 2019/20 and to 70 percent by 2023/24 (Staff Report June 2020) —a very promising trajectory that would have significantly improved the debt sustainability assessment. With the pandemic, this staff report places debt at 90 percent of GDP in 2019/20 and projects it to rise to 93 percent in 2020/21 before it declines more gradually to 80 percent by 2024/25—an ambitious but realistic sizable adjustment given authorities' previous exceptional performance in that regard—conditional on adhering to primary surpluses of 2 percent of GDP, with growth continuing at close to 6 percent, real interest rate remains positive but shrinks from its peak levels, and no contingent liabilities or valuation adjustments materialize. With continued reliance on longer term bonds, the average maturity of debt has been markedly extended and this helps reduce gross financing needs as well as avoids repayment bunching. Debt vulnerabilities will diminish in the next couple of years and are mitigated by active liability management, broadening the investor base through issuing new instruments and by the inclusion of Egypt in the J.P Morgan Government Bond Index (GBI-EM), and with the recent increase in the average maturity of debt from 1.2 to 3.6 years, and continued investor confidence in Egypt's debt servicing capacity, growth prospects, and low inflation.

Monetary and exchange rate policies Monetary policy will continue to be data driven, focusing on price stability, and maintaining exchange rate flexibility. After reducing policy rates by 400 basis points to alleviate pressures since the COVID-19 shock, headline inflation has remained subdued, partly reflecting a sustained fall in food prices in recent months. The Monetary Policy Committee closely monitors all developments, domestic and global, and is ready to utilize all available tools to support the recovery and price stability. The CBE considers the targeted credit initiatives as critical to maintain support to affected sectors during the crisis, especially tourism and small and medium-sized firms—and the central bank's support is all the more necessary given the high degree of uncertainty. Besides limiting scarring from the pandemic, these temporary initiatives help to kickstart credit extension to broader under-served segment and to support financial deepening. The CBE also considers the deviation of the interbank rate from the policy rate to be a temporary development that will correct itself. Nevertheless, CBE continues to further strengthen analytical and liquidity management for open market operations, including through capacity development.

The exchange rate continues to reflect market forces and exchange rate flexibility will be preserved while avoiding undue volatility and maintaining a healthy level of reserves. The exchange rate has generally moved in line with market forces, depreciating with the sudden outflows and appreciating modestly with the return of capital inflows. Rebuilding of FX reserves will take place, taking advantage of the recovery of balance of payments' components and favorable market conditions. The goal is to maintain a comfortable level of reserves well above 110 percent of the IMF's ARA metric. As noted by staff, reserve levels are expected to remain comfortable and Egypt does not have an external financing gap.

The new Banking Law expands CBE's responsibilities including on the payments system, Fintech (including the legal framework for Tier II banks and digital banks, and dealing with digital currencies) competition, consumer protection, and bank resolution. The regulations for implementation of the new Banking Law are expected to be finalized by the end of Q12022. Meanwhile, the CBE is building capacity to support the new responsibilities, with technical assistance from the IMF, where feasible, and others.

Financial sector policies the banking system has demonstrated its resilience in the challenging environment. The CBE will continue to support borrowers' access to needed finance and closely monitor financial sector risks. Banks have remained liquid, profitable, and well capitalized, as the banking system entered COVID with sizable buffers, well over Basel guidelines. Asset quality remains healthy with only a slight increase in the level of NPLs from a pre-pandemic low level. The CBE strictly enforces appropriate classification of any restructured loans and will closely assess the possible deterioration of loan portfolios to the tourism sector, which so far is heavily provisioned.

The authorities are advancing structural reforms to accelerate economic transformation. Egypt aims to reach pre-pandemic growth rates of 5.4 percent in 2021/2022 and further close to 6 percent thereafter, and this appears to be achievable. The focus is increasingly on achieving more inclusive growth with more jobs for youth and women, and on promoting private investments and exports. The authorities recognize that intensive efforts are needed for economic transformation and to fulfill the aspirations and potential of the private sector and youth. Expanding partnerships with development partners, and with the private sector, is all the more critical to bring resources and know how to meet the SDGs and Vision 2030.

Encouraging investment and exports is a high priority and a main feature of the recently launched National Structural Reform program. The Program was developed following broad consultation with stakeholders and its implementation is to be carefully monitored with performance indicators. Staff's analytical work in this area is welcomed as it touches on an area of high and immediate priority. The authorities agree with staff that greater participation in Global Value Chains (GVC) can increase export volume and further improve export sophistication. As discussed during the mission, ongoing efforts aim to support exporters through information on product markets, marketing tools, leveraging regional integration and developing regional production platforms. Trade connectivity is also being enhanced to facilitate trade within Africa. The authorities do not consider tariffs on intermediate goods to be high nor be a key impediment with all machinery and capital equipment excepted or paying a max tariff rate of 5 percent that can be refunded, but they are focusing on facilitating trade through application of the new Customs law and advanced clearance system which will significantly reduce clearance time and cost, as will improvements in the mechanism to expedite VAT refunds for exporters and manufacturers at large.

The contribution of exports and private investment to per capita growth is indeed below potential and below Egypt's peers in the period from 2010-2019, as shown in Text Figure 1. This period includes two revolutions in 2011 and 2013, and a currency crisis in 2015–16, all of which have slowed down private investment. Nevertheless, there are many cases of successful private investments and exports, despite the challenging environment. It would be useful for future staff work to dig deeper into the elements underlying the successful private investments, including Egypt topping the African continent in terms of size of gross and net FDI inflows over the past years and successful and growing exporter cases and export sectors. This would be a valuable compliment to the cross-country analysis, as the authorities continue to identify key impediments that need to be addressed and specific measures to encourage more successful ventures.

Significantly enhancing the role of the private sector and leveling the playing field remains a high priority that is being addressed from many angles. This is a gradual process given the historical legacy of nationalizations of the last century, which brought many activities under state ownership, some in response to political crises and to secure provision of necessities during times of social turmoil or at times of private investor risk aversion. There has been continued efforts to enhance transparency with data recently published on the MoF website providing detailed financial information and analysis for SOEs and economic authorities. The new public enterprise law 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 partner and manage several SOEs on behalf of the public sector in transportation, tourism, and housing sectors. As is reflected in various OECD reports, there is no uniform universal framework for guiding public ownership. Ongoing efforts to level the playing field and encourage private investment partnerships will gradually further increase the role of the private sector, promote more competition, and reduce the need for public sector involvement.

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 2019/2020 compared to 3.7 and 1.4 percent of GDP in 2009/10. An overhaul of the educational curriculum and pedagogy (teaching approach) aims to modernize the system within the coming [4-5] years and is showing initial improvements in scores. The gradual roll out of the **Universal Health** initiative speaks to the government's commitment to improve social indicators and access to opportunities, despite limited resources, and is supported by a US$ 400 million World Bank loan. To ensure financial sustainability of the system, the GoE identified additional sources of financing for the scheme, including through additional taxes on tobacco and toll fees besides budget appropriations directed to cover expenses of the vulnerable and the poor. The social assistance Takaful and Karama program has now exceeded 3.6 million households, providing conditional and unconditional transfers in an efficient way as was endorsed by the recent Public Expenditure Review. It is supplemented by programs to assist individuals to graduate from the program through skill-building and microfinance opportunities. The CBE is also working with the National Council for Women to target an increase in access to financial services and promote savings and microfinance among rural women.

Gender The government is developing policies to increase women participation in the labor force and to close the gender gap. This includes a package of educational programs, including with a focus on information technology. The MoF is studying new developments and measures regarding gender-based budgeting and financing gender-driven programs and is in an early stage of discussing with UN Women and the National Council on Women the issuance of the first gender-based bond to finance education and labor programs.

The National Strategy for Climate Change and Disaster Risk Reduction Egypt has a long-term multisectoral plan for **mitigation and adaptation** and for countering the main environmental risks and their impact on coastal areas and public health, ensuring water security, accelerating, and sustaining the shift to clean energy, and improving food security. The further expansion of the natural gas distribution grid enables more users to switch over to natural gas, which is cheaper and results in lower greenhouse emissions. Green investment projects account for 14 percent of total public investments in FY 2020/21. New environment sustainability guidelines are to be applied to 30 percent of public projects this year to reach 100 percent in three years.

Projects are focused on investment in solar energy and wind parks, and a shift of public transport to electricity. Egypt hosts one of the largest solar parks in the world that is run by many private players, located in Benban, near Aswan, which will help in achieving Egypt's goal of producing a significant share of its generated energy through renewables. Following intensive preparation, Egypt issued a milestone US$ 750 million green bond, which was the first sovereign issuance in the region.

The banking and non-bank financial sector is also adapting lending practices to incorporate green guidelines and finance green projects. A Regional Center for Sustainable Finance (RCSF) was established in February 2021 to address climate related risk, ESG disclosure, green finance instruments, and trends in sustainable finance in general. It aims to redirect private capital flows toward filling financing gaps for sustainable investments in the Middle East and Africa.

Financial inclusion is another priority area of reform with the objective of ensuring access to quality affordable formal financial services and products that contribute to sustainable growth. The percent of the population of over-16-year-olds with a bank account has increased from 19 percent in 2014 to 53 percent in 2021. The CBE works with other entities on several initiatives that aim to reach underserved groups and to provide financial literacy and consumer protection; access to diverse financial services compatible with different client needs; expand digital payments; improve the ecosystem for micro and small and medium enterprises and venture capital; and a variety of digital financial services. For example, an initiative with the National Council for Women targets increasing access to financial services and promoting savings and microfinance among rural women.

Encouraging Fintech and innovation is ongoing by supporting enabling digital infrastructure. A regulatory sandbox was launched in 2019. A Fintech and Innovation Hub is to be open in 2022 to serve as a one-stop shop for startups. A Fintech Academy has been in operation since 2020 to empower aspiring entrepreneurs and finance professionals in the Fintech field to develop innovative, customer-centric Fintech solutions. The number of Fintech start-ups in Egypt grew from 11 in 2018 to 52 in 2020 and funding amounts and deals are growing.

Digital transformation in alignment with Egypt Vision 2030, and Egypt's digital transformation strategy, the Ministry of Communications, and Information Technology (MCIT) developed Digital Egypt strategy. This is an all-encompassing vision and plan, laying the foundations for the transformation of Egypt into a digital society, which includes infrastructure, skill building, and job creation pillars.

Building forward better The authorities recognize that persistent efforts and reform continuity on many fronts are needed to achieve transformational change aspired by the Egyptian people, and to unlock Egypt's huge potential. The authorities intend to build on the success achieved so far, and their track record of implementing complex reforms, to broaden and deepen reforms as laid out in the NSRP in close collaboration with many development partners. They value the successful partnership with the Fund and look forward to continuing close engagement. The Fund's policy advice and capacity building support are much appreciated.